Teladoc Health Inc TDOC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★	224.53 USD	130.00 USD	1.73	—	0.00	18.55	Health Information Services	Standard
08 Jul 2020 21:42, UTC	08 Jul 2020	30 Apr 2020 02:49, UTC		08 Jul 2020	08 Jul 2020	08 Jul 2020		

Morningstar Pillars	Analyst	Quantitative
Economic Moat	None	None
Valuation	★	Overvalued
Uncertainty	High	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Important Disclosure:
The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, please visit http://global.morningstar.com/equitydisclosures

Healthcare IT Outlook: Looking Past the COVID-19 Pandemic

Quantitative Valuation

USA TDOC

Undervalued | Fairly Valued | Overvalued

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.61	1.05	0.82	0.83
Price/Earnings	—	—	26.5	20.1
Forward P/E	-0.5	—	11.3	13.9
Price/Cash Flow	517.3	—	18.4	13.1
Price/Free Cash Flow	843.4	—	27.3	19.5
Trailing Dividend Yield%	—	—	1.50	2.35

Source: Morningstar

Bulls Say

- Teladoc is one of the most mature competitors within telehealth, leveraging its national scale and nimbleness to take advantage of the blind spot between cost-conscious payors and sluggish providers.
- Teladoc's user base and company's revenues have grown rapidly and are expected to do so over the next several years through multiple channels.
- The company's robust platform efficiently matches patients with providers to avoid costly visits and assists employers and payors with analytics to analyze cost benefits.

Bears Say

- Teladoc trades at high multiples and while the company is expected to produce strong revenue growth, higher absolute valuation levels offer less room for missteps and therefore carry greater inherent risks, in our opinion.
- Revenue concentration may become an issue as the company sells to existing customers.
- The company may face challenges growing its customer base or cross-selling incremental services to scale its business.

Business Strategy and Outlook

Soo Romanoff, Eq. Analyst, 19 February 2020

Teladoc Health is the oldest telemedicine company in the United States, founded in 2002 in Dallas, Texas by Byron Brooks, NASA flight surgeon, and Michael Gorton, serial entrepreneur. The initial concept was likely borne from a NASA physician's concern in monitoring astronauts during space travel (1960), which translates to the current trends in accommodating patients virtually to avoid unnecessary healthcare expenditures.

The company's business-to-business strategy targeting payers and self-funded employers incentivized to reduce healthcare expenditures has supported the company's rapid growth. Teladoc provides healthcare access to more than 54 million members, and blended utilization has an upward bias from current levels, below 10%, with increasing engagement of new members and continual addition of new services. We believe the company's core telehealth services covering all healthcare entry points is a basis to create cross-selling opportunities to expand its role into a comprehensive virtual provider.

The company's scale is a key differentiator, as competing companies are significantly smaller and incapable of offering physician visits on demand. Conversely, Teladoc's global infrastructure leveraging 50,000 credentialed providers is equipped to match patients within 10 minutes. This rapid response time is the crux in avoiding costly visits to the emergency room. Historically, payers have been slower to adopt telehealth relative to self-funded employers, but recent payer pilots have started to realize advertised cost saving, which will likely improve traction and the ability to further sell into existing customers (75 million lives). This growth will also be supplemented by the addition of new clients and government payer patients (190 million lives). Member additions leverage operating expenses, and incremental visits will further boost operating profits, as each visit generates positive gross margins.

Analyst Note

Soo Romanoff, Eq. Analyst, 09 July 2020

We view the COVID-19 pandemic as supporting the rotation into healthcare information technology companies that (1) benefit from shelter-in-place orders (Teladoc); (2) have quality technology (Veeva); or (3) have recurring revenue (Veeva and Cerner). Other healthcare IT companies we cover, such as Change Healthcare, have been adversely affected with lower volume. While Veeva remains the best positioned, we anticipate a bifurcation of trajectories for Change and Teladoc as we recover from the pandemic.

We recently picked up coverage of Change Healthcare. We expect revenue to recover following the pandemic as the firm drives processing efficiency for providers and payers through increased utilization in more normal operating environments. The shares have been under pressure recently as the result of a 40% decline in claims volume at the trough of healthcare utilization in mid-April with lower hospital and practice utilization, but we expect increased healthcare utilization as the pandemic pressures ease over the next 12 months, when COVID-19 vaccines and treatments will likely emerge. To further complicate the situation, Change has a heavy debt load and needs significant integration, in our opinion, as it is a spin-off of processing acquisitions that McKesson collected over the years. Against this backdrop, we maintain our $12 fair value estimate and no-moat rating.

Conversely, Teladoc shares have increased nearly 90% from the market peak amid the S&P 500's 10% decline. Investor enthusiasm is a reflection of the rapid adoption of telemedicine while physician offices are closed. Post-pandemic, we anticipate the company will benefit from user familiarity but anticipate virtual visits to contract as states open up and temporary payer reimbursement waivers expire. We believe telehealth will be needed in select situations post-pandemic, but we do not expect a significant displacement of traditional care and maintain our no-moat rating and $130 fair value estimate.

Economic Moat

Soo Romanoff, Eq. Analyst, 29 April 2020

We do not believe Teladoc possess an economic moat. Although Teladoc has established itself as the national telehealth leader with global reach, the virtual care

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
M3 Inc MTHRF	USD	30,717	1,204	26.30	136.99
M3 Inc MTHRY	USD	30,717	1,204	26.30	0.00
Schrodinger Inc SDGR	USD	5,626	91	-49.36	0.00
1Life Healthcare Inc ONEM	USD	4,857	292	-25.68	0.00

delivery market remains fragmented and the current offering and infrastructure are not mature enough to support economic profits. While we assign a no-moat rating, we see some characteristics that could make Teladoc a moatworthy business as it matures. Notably, we believe the foundation for intangible assets arising from the knowledge base necessary to navigate complex healthcare-related regulations and secure healthcare approvals in all 50 states is not a small hurdle for a potential competitor. We also think scale matters in healthcare, and Teladoc is already the largest provider in a market where health insurers and self-funded employers have a vested interest in the company succeeding.

There are many facets to the budding virtual health market supported by Teladoc and thousands of small privately owned companies offering various niche services that primarily compete with department extensions of hospitals and healthcare systems, and local home health companies. Telehealth is likely one of the most developed subsegments within the virtual market as it is a natural extension of the reliable communication infrastructure available, rising and notable social media engagement across all age groups, and the overall migration toward outpatient care. Teladoc has tapped into these trends with a focus on addressing the strong interest of payors to contain costs.

The largest telehealth barrier to entry is likely the diverse (and continually changing) regulations across each of the 50 states and DC in addition to tenets of traditional healthcare compliance and reimbursement legislation. Despite the cost benefits of remote telehealth, regulators and states have been slow to ease regulation/compliance and reimburse these services due to concerns of fraud/privacy breach and quality. Currently 29 states and DC support the reimbursement of virtual visits, and 40 states and DC provide some form of reimbursement with significant variation in reporting requirements. One notable requirement is the ability to update electronic medical records in real time, reconfirming the need for an efficient platform and scale to comply with the complex regulations.

Teladoc is one of the most mature competitors within telehealth, leveraging its national scale and nimbleness to take advantage of the blind spot between cost-conscious payors and sluggish providers. Since the company's incorporation in 2002, Teladoc has accumulated assets and customers organically and through acquisition to establish scale to navigate through the complex regulatory environment. The company is largely led by insurance and marketing professionals who have convinced self-funded employers and commercial payors of its ability to drive cost efficiencies. Although the company markets improved wellness and outcomes, the core service is predominantly focused on guiding members away from costly emergency or urgent care visits with passable (low acuity) primary care that either provide a quick fix or triage to corresponding plan recommendations. More recently, the company offers mental health services, which are ideal for the virtual platform as it provides some anonymity. This core patient service is offered over a robust communication platform (geo redundant) with modules matching patients to providers (real time) and integrating with healthcare records in compliance with each patient's plan. This communication platform, technology and physician network serve as the core building block with the opportunity to expand into more complex virtual care offerings and are on trend with the migration of care toward the patient. Further, the company's scale and relative size is a key differentiator that should prevent material competition from arising.

Teladoc's reporting is unduly complex and has evolved over time with various acquisitions but its core offering is simplistic. Over 80% of revenues are generated by U.S. membership fees, which are revenues collected from payors and self-funded employers for member access to the company's virtual physician network (contractual rate per member per month). This access fees vary across clients depending on the contractually negotiated effort to drive member engagement. On average, the access fee approximates $1.00 per member per month and primarily covers the onboarding of new members and direct/indirect marketing efforts to increase awareness of available services. Additionally, each virtual member visit to Teladoc's provider base incurs a separate fee, which on average is $45 per typical primary care visit. We understand that each visit generates positive gross margins, suggesting the reported operating losses are largely attributable to scaling infrastructure and marketing

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investments to address incremental services and anticipated volume growth. Continued traction of behavioral health visits will continue to supplement primary care visits and overall fee averages. The third component of Teladoc's revenues is generated from international visits, which are reported without comparable metrics as this platform is in its infancy and fees per visit vary wildly across countries. Lastly, the smallest component of revenues is a significant driver of current investments and focuses on the company's ability to leverage algorithms and analytics to provide second opinions to redirect payor resources for small populations that drive significant portions of expenses. We expect the company's analytics offering, focus on low acuity care, and ability to provide behavioral health in virtual settings (more anonymity) will drive revenues growth and economic profits.

Fair Value & Profit Drivers

Soo Romanoff, Eq. Analyst, 29 April 2020

Our fair value estimate is $130 per share and implies a fiscal 2020 EV/sales multiple of 12 times. Given negative operating margins, other common valuation metrics are not yet meaningful. Our forecast includes continued strong adoption of teleheatlh and incremental value-added services. We believe there are two related controversies surrounding the stock: how rapidly the user base will grow and how long robust growth can continue. Although we do not believe the company possesses an economic moat, we anticipate the company to cross-sell new services to existing customers and generally benefit from the increased urgency in managing healthcare costs. Given Teladoc's early post-IPO trading in the $15-$20 range, we believe the market is embedding stronger growth for a longer time than our no-moat assessment allows. We model total revenue growth of 48% in fiscal 2020, decelerating to 24% in fiscal 2022, representing a five-year compound annual growth rate of 26%. We expect growth to be fueled by the significant increase in members, increasing visit fees and cross-selling of multiple services, which should increase the stickiness of its offering.

The company's addressable market likely exceeds our estimates of cores telehealth services, but we have excluded significant cross selling opportunities due to the nascent size of the virtual health market. For the core teleheatlh services, we believe the company is likely to retain its first-mover advantage and scale by penetrating members of existing customers (incremental 75 million) in addition to adding members of new clients under new logos (roughly 190 million). These market estimates do not include the potential to add U.S. government payors under the recent government approval to employ telehealth services. International visits will also exceed domestic growth as the market is largely untapped and in earlier stages of development. Because Teladoc already generates GAAP gross margins, we anticipate that GAAP gross margins will remain stable at approximately 60%-65% throughout our discrete forecast. Based on relatively high gross margins and a relatively small direct salesforce (largely business-to-business), we expect operating margins to skew positive as the company leverages its infrastructure and operating expenses. We model operating losses shrinking from 18% in fiscal 2019 to 2% in fiscal 2021, followed by operating profits, thereafter, rising to 14% in fiscal 2028.

Risk & Uncertainty

Soo Romanoff, Eq. Analyst, 29 April 2020

We assign Teladoc a high uncertainty rating. Teladoc trades at high multiples relative to peers. While the company is expected to produce revenue growth above the high end of peers and the premium may be justified, higher absolute valuation levels offer less room for missteps and therefore carry greater inherent risks, in our opinion. At high valuation levels, companies can often become momentum stocks and be punished severely if they do not deliver against expectations, which are regularly higher than consensus figures indicate. Teladoc's business-to-business relationships caters to large subscription bases from payor and self-funded employers, which means revenue is concentrated among the largest customers. There is no revenue concentration from a risk standpoint; as there are no 10% customers but this may become a concern as management continues to sell more memberships to existing customers. Teladoc has not reached profitability on a GAAP basis, nor do we contemplate a positive GAAP operating margin in our model until fiscal 2022. Teladoc faces competition from a variety of private companies and potentially from national healthcare systems.

As a healthcare company, Teladoc is heavily regulated and is governed by numerous federal and state/local entities with evolving standards. Teladoc benefits from its ability to operate as a legal structure, sequestering its provider network in a VIE (Teladoc Physicians, PA) which allows it

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to operate nationally without staffing full time. The key challenge of this legal structure is the inability to staff enough physician hours to match rising demand while maintaining quality. Lastly, the company's international operations are relatively small but are anticipated to be a larger contributor to growth and may pose operating risks, including currency risk, regulations of a different set of laws, and standards.

Stewardship

Soo Romanoff, Eq. Analyst, 19 February 2020

We assign Teladoc a Standard stewardship rating. Overall, we find no material governance issues. Given that the company completed its IPO in June 2015, we do not have extensive experience with management.

Teladoc has one common share class and senior convertible notes ($562.5 million). All early stage investments (series A-F) have been extinguished or converted to common shares and executives represent roughly 1% ownership. As CEO and member of the board of directors, Jason Gorevic, owns the lion share of insider shares. The company has made significant acquisitions that have opportunistic-added incremental capabilities and services. We suspect the company will not be making any material acquisitions in the near term as it will need time to integrate InTouch Health, the largest acquisition made to date. The company does not pay dividends on its common stock, nor would we expect a company at this stage of its lifecycle to do so. We also do not anticipate Teladoc to buy back shares anytime soon.

Since joining in 2009, Jason Gorevic has a leveraged his payor background in shaping the company's messaging, addressing the needs of the two-sided market: 1) cost-conscious payors and self-funded employers footing the bill and 2) patients needing immediate assistance in navigating care. The execution of this simplified strategy has enabled him to grow revenue and membership at a rapid clip both organically and through acquisitions. He started his career at Oxford Health, and has also held executive leadership roles at WellPoint, Inc. (now Anthem, Inc.) and Empire BlueCross BlueShield. Gorevic is also a member of the board of directors of Doximity, a professional medical network for physicians. He holds a Bachelor of Arts in International Relations from the University of Pennsylvania.

In addition to Jason, there is notable payor representation from leaders across the executive team and board of directors, and many have been added through acquisitions. The clinical leadership provided by Lewis Levy, MD FACP (CMO), Alan Roga, MD FACEP (President of Hospital & Health System), Mark Smith, MD (Board of Directors) and William Frist, MD (Board of Directors and former U.S. senator) round out the team and provides some clinical credibility.

Mala Murthy, the most recent executive addition, joined last year to replace Mark Hirschhorn after his departure, stemming from allegations of misconduct. The timing of this change was beneficial for the company, in our opinion, as Mala is a seasoned financial leader with large public company experience. Mark Hirschhorn, former CFO and COO, served from 2012 until his resignation on Jan. 1, 2019, was likely a key contributor in taking the company public. Most recently, Murthy was CFO of the global commercial services segment of American Express, with responsibility for all aspects of financial management, including financial planning and analysis (FP&A), mergers and acquisitions, and investment and operating expense management, inclusive of integration of legacy business units. Prior to that, she held various leadership positions with PepsiCo, most notably leading high-growth business units with oversight of financial planning and analysis, corporate and international treasury, and corporate strategy. She has supported multibillion-dollar acquisitions and helped develop capital structure and liquidity strategies.

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Analyst Notes Archive

Teladoc Offers a Practical Approach to Improving Healthcare Access and Cost Burden

Soo Romanoff, Eq. Analyst, 19 February 2020

Teladoc Health is the oldest telemedicine provider, offering virtual-care options to avoid unnecessary healthcare expenditures. The company's business-to-business strategy targeting payers and self-funded employers incentivized to reduce healthcare expenditures has supported the company's rapid growth. Teladoc provides healthcare access to more than 54 million members, and blended utilization has an upward bias from current levels, below 10%, with increasing engagement of new members and continual addition of new services. We believe the company's core telehealth services covering all healthcare entry points is a basis to create cross-selling opportunities to expand its role into a comprehensive virtual provider.

The company's scale is a key differentiator, as competing companies are significantly smaller and incapable of offering physician visits on demand. Conversely, Teladoc's global infrastructure leveraging 50,000 credentialed providers is equipped to match patients within 10 minutes. This rapid response time is the crux in avoiding costly visits to the emergency room. Historically, payers have been slower to adopt telehealth relative to self-funded employers, but recent payer pilots have started to realize advertised cost saving, which will likely improve traction and the ability to further sell into existing customers (75 million lives). This growth will also be supplemented by the addition of new clients and government payer patients (190 million lives). Member additions leverage operating expenses, and incremental visits will further boost operating profits, as each visit generates positive gross margins.

Although we believe Teladoc's practical approach will be impactful in curbing healthcare expenditures as it is rolled out, shares trade slightly ahead of our fair value estimate of $110.

Teladoc Plows Ahead With Strong Quarter; All Eyes on Utilization and Integration of InTouch

Soo Romanoff, Eq. Analyst, 27 February 2020

For the fourth quarter, Teladoc reported upside compared with its outlook, with slight visit slippage as the onboarding of its most recent large customer addition has been slower than expected. Management also offered fiscal 2020 guidance that was slightly above CapIQ consensus (at the midpoint), with lower utilization than our internal estimates. The company continues to expand product offerings to improve member engagement and provide a foundation for future growth. We continue to believe Teladoc's practical approach will be impactful in curbing healthcare expenditures as it is rolled out, but shares trade ahead of our fair value estimate of $110.

Revenue grew 27% year over year to $156.5 million, a hair shy of our estimate of $156.7 million but slightly higher than the $152 million CapIQ consensus. Subscriber growth and visit-only access topped our estimates with 61% and 103% year-over-year growth, respectively, but the slower onboarding of UnitedHealth has taken longer than anticipated. As a result, utilization was 9.5%, roughly 125 basis points lower than last year. Overall growth was largely as expected, but the focus has shifted to improved engagement, with the continued expansion of services and integration of InTouch, which is anticipated to close at the end of the second quarter.

Operating margins of negative 10% was better than the anticipated negative 14% because of the lower-than-expected advertising and marketing expenditures, likely due to the slower-than-anticipated rollout of its largest customer addition from the prior quarter. Typically, advertising expenditure appears to be lower in the fourth quarter, with the higher instances of flu providing a boost to visits. We anticipate these expenditures to remain meaningful as the company continues to invest in driving member engagement and utilization.

COVID-19 Provides Free Advertising for Teladoc, but Valuation Is Unsustainable; Maintaining $110 FVE

Soo Romanoff, Eq. Analyst, 08 April 2020

Teladoc remains the largest telemedicine concern as a rollup of over a dozen companies valued at over $1.6 billion. The company boasts the largest telehealth subscriber base through a monthly subscription or per-visit charge, generating 4 million annual calls. The initial success pivots around the ability to offer cheap triage alternatives that potentially avoid expensive emergency and urgent care visits for self-funded employer plans and commercial segments of health plans. Teladoc's challenges are similar to those of retail clinics that cannot generate profits to support required overhead to address

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low-acuity services. The current COVID-19 pandemic is within Teladoc's sweet spot and has translated to a 30% share appreciation, or nearly $11 billion in market cap. Despite the recent positive trend, we doubt that Teladoc's losses can sustain the current valuation of 500 times fiscal 2020 free cash flow and 16 times price/sales.

Teladoc's platform was essentially built for the COVID-19 pandemic and has benefited from free federal government advertising that has allowed the company to temporarily forgo customer acquisition costs. In 2019, the company spent nearly 20% of 2019 revenue on advertising and will continue to ramp advertising and marketing expenses to seek direct users to supplement its core payer customer base. The volume surge will likely provide a short-term benefit and possibly trim operating losses, although we anticipate the company will remain in the red. The company's business model heavily relies on utilization per member, which would require the current influx of users to regularly return to Teladoc and relinquish their physician preference, as that consistency would deteriorate the company's ability to scale. We continue to support the company's novel solution-leveraging technology with our positive moat trend and anticipate a benefit in areas such as behavioral health and referral consulting, but we do not deem the company moatworthy.

Teladoc Benefits From COVID-19, but We Remain Skeptical on Future Utilization; Maintaining $110 FVE

Soo Romanoff, Eq. Analyst, 14 April 2020

After the close, Teladoc shared preliminary first quarter results due to unprecedented COVID-19 volumes. Total visits are anticipated to be 1.8 million, roughly 20% higher than the midpoint of previous visit guidance of $1.4-1.6 million. Despite the higher-than-anticipated visits, average revenue per visit is expected to decline by 11% and adjusted operating margins are anticipated to be lower than prior guidance due to the unexpected on-boarding and physician compensation costs, or roughly $4 million. In our perspective, we are surprised that the company was not able to scale its operating expenses to manage the surge. Despite the increased awareness driven by government agencies to offer captive audiences arising from the shelter in place orders (60% of the visits in the quarter were from individuals new to virtual care), we are skeptical that these new users will return as local orders are loosened. We maintain a no-moat rating and fair value estimate of $110 on Teladoc shares. The company remains unprofitable and is trading at 16 times revenue.

Preliminary first-quarter revenue is anticipated at $180-181 million, roughly 5.8% higher than the midpoint of guidance provided at the end of fiscal 2019. Non-GAAP EBITDA of $10-11 million, implies margins of 5.8%, slightly lower than expected and reported net income will remain in the red. Although growth in dermatology and mental health could potentially prove to be relatively stickier, we are uncertain the incremental investments in the quarter will drive improved utilization or yield material returns.

Teladoc Is Here to Stay; Raising FVE to $130 With Robust Guidance Update

Soo Romanoff, Eq. Analyst, 29 April 2020

Teladoc reported first quarter results largely in line with the preliminary management update shared two weeks prior. Results highlighted the surge in visit volumes brought on by the captive audience with the COVID-19 pandemic and shelter-in-place orders. In conjunction with the quarterly release, management provided full-year guidance that was notably higher. We continue to believe Teladoc's practical approach will be impactful in curbing healthcare expenditures as it is rolled out, and shares trade ahead of our updated fair value estimate of $130.

Revenue grew 40% year over year to $181 million, driven by unprecedented visit growth with the COVID-19 pandemic and shelter-in-place orders. Visits nearly doubled to 2 million, boosted by visit-only access with suspension of telehealth co-pays, shelter-in-place orders, and onboarding of large health populations to a lesser degree. We are most encouraged by the robust behavioral and dermatology volumes as we believe these non-medical visits are likely to repeat post-pandemic. Utilization, a key indicator of engagement, increased to 13%, up from high single digits in the prior quarter. Operating losses re-accelerated largely due to the rapid credentialing of providers that roughly doubled the company's physician network.

In anticipation of continued strength in the second quarter, management increased revenues by nearly 16% (from the midpoint) driven by the notable surge in visits and roughly 15% increase in U.S. memberships. Management guidance included full-year revenues of $800 million-$825 million and adjusted EBITDA of $70 million-$80 million with net losses per share of $1.27-$1.13. Guidance will

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be revisited with the integration of the recent InTouch acquisition in the second quarter. The company continues to expand product offerings to improve member engagement and provide a foundation for future growth.

Healthcare IT Outlook: Looking Past the COVID-19 Pandemic

Soo Romanoff, Eq. Analyst, 09 July 2020

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Conversely, Teladoc shares have increased nearly 90% from the market peak amid the S&P 500's 10% decline. Investor enthusiasm is a reflection of the rapid adoption of telemedicine while physician offices are closed. Post-pandemic, we anticipate the company will benefit from user familiarity but anticipate virtual visits to contract as states open up and temporary payer reimbursement waivers expire. We believe telehealth will be needed in select situations post-pandemic, but we do not expect a significant displacement of traditional care and maintain our no-moat rating and $130 fair value estimate.

Quantitative Equity Report | Release: 09 Jul 2020, 16:04 UTC | Reporting Currency: USD | Trading Currency: USD | Exchange:XNYS Page 8 of 15

Teladoc Health Inc TDOC ★Q 09 Jul 2020 02:00 UTC

Last Close	Fair Value Q	Market Cap	Sector	Industry	Country of Domicile
08 Jul 2020	09 Jul 2020 02:00 UTC	08 Jul 2020			
224.53	139.69	18,549.1 Mil	Healthcare	Health Information Services	USA United States

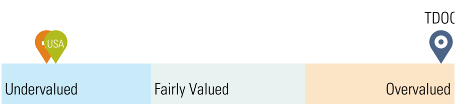
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Teladoc Health Inc is virtual health provider with a telehealth platform delivering 24-hour, on-demand healthcare via mobile devices, the Internet, video, and phone. Its platform connects members with a network of physicians and behavioral health professionals. Most of the company's revenues are generated on a subscription basis (per-member-per-month) and the balance comes from visit fees. Since inception, Teladoc has primarily partnered with employers, health plans, and health systems to offer network access to their members, however,

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	None	12	13	12
Valuation	Overvalued	1	1	1
Quantitative Uncertainty	Medium	100	100	99
Financial Health	Moderate	73	44	73



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
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Price/Free Cash Flow	843.4	—	27.3	19.5
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Price/Book	18.5	—	3.4	2.4
Price/Sales	26.9	—	4.2	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	-9.8	-37.5	12.4	12.9
Return on Assets %	-6.2	-19.5	6.2	5.2
Revenue/Employee (K)	234.0	188.4	309.2	325.9

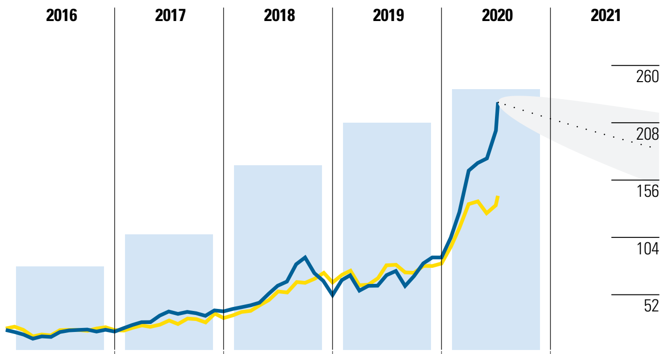
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	601.5	—	494.6	552.4
Assets/Equity	1.6	1.4	1.4	1.7
Long-Term Debt/Equity	0.4	0.3	0.1	0.4

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	32.4	65.0	66.3	—
Operating Income %	—	—	—	—
Earnings %	—	—	—	—
Dividends %	—	—	—	—
Book Value %	-3.0	40.8	—	—
Stock Total Return %	224.7	85.5	53.6	—

Price vs. Quantitative Fair Value

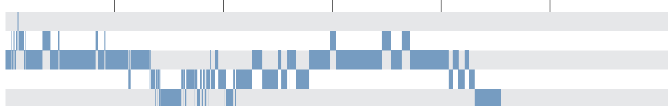


Momentum:	Positive
Standard Deviation:	43.39
Liquidity:	High

54.58	52-Wk	225.19
9.08	5-Yr	225.19

2016	2017	2018	2019	2020	
-8.1	111.2	42.2	68.9	168.2	Total Return %
-20.6	89.7	47.3	37.7	169.1	+/– Market (Morningstar US Index)
—	—	—	—	—	Trailing Dividend Yield %
—	—	—	—	—	Forward Dividend Yield %
-13.5	-24.2	-26.1	-57.5	-166.7	Price/Earnings
6.2	9.4	8.4	11.5	26.9	Price/Revenue

Morningstar Rating Q



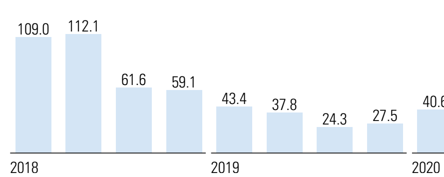
2015	2016	2017	2018	2019	TTM	Financials (Fiscal Year in K)
77,384	123,157	233,279	417,907	553,307	605,533	Revenue
77.8	59.2	89.4	79.1	32.4	9.4	% Change
-55,785	-55,705	-62,198	-65,963	-73,822	-69,294	Operating Income
—	—	—	—	—	—	% Change
-58,020	-74,216	-106,782	-97,084	-98,864	-98,317	Net Income
-47,181	-51,795	-34,441	-4,860	29,869	31,441	Operating Cash Flow
-7,817	-3,412	-5,515	-8,407	-10,900	-12,158	Capital Spending
-54,998	-55,207	-39,956	-13,267	18,969	19,283	Free Cash Flow
-71.1	-44.8	-17.1	-3.2	3.4	3.2	% Sales
-2.91	-1.75	-1.93	-1.47	-1.38	-1.35	EPS
—	—	—	—	—	—	% Change
-1.19	-1.47	-0.76	-0.35	0.05	0.27	Free Cash Flow/Share
—	—	—	—	—	—	Dividends/Share
5.00	5.24	7.26	14.58	13.66	12.77	Book Value/Share
38,525	46,202	61,534	70,516	72,762	82,613	Shares Outstanding (K)

2015	2016	2017	2018	2019	TTM	Profitability
-50.1	-36.3	-27.0	-12.4	-9.8	-9.8	Return on Equity %
-36.1	-27.8	-18.9	-8.3	-6.3	-6.2	Return on Assets %
-75.0	-60.3	-45.8	-23.2	-17.9	-16.2	Net Margin %
0.48	0.46	0.41	0.36	0.35	0.38	Asset Turnover
1.3	1.3	1.5	1.5	1.6	1.6	Financial Leverage
72.8	74.0	73.6	69.2	66.7	65.0	Gross Margin %
-72.1	-45.2	-26.7	-15.8	-13.3	-11.4	Operating Margin %
25,227	42,424	207,370	414,683	440,410	447,221	Long-Term Debt
178,564	230,870	558,903	1,013,119	1,014,025	1,000,177	Total Equity
21.1	17.9	28.4	43.7	23.6	15.3	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2020	180.8	—	—	—	—
2019	128.6	130.3	138.0	156.5	553.3
2018	89.6	94.6	111.0	122.7	417.9
2017	42.9	44.6	68.7	77.1	233.3
Earnings Per Share ()					
2020	-0.40	—	—	—	—
2019	-0.43	-0.41	-0.28	-0.26	-1.38
2018	-0.39	-0.40	-0.34	-0.35	-1.47
2017	-0.30	-0.28	-0.55	-0.76	-1.93

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

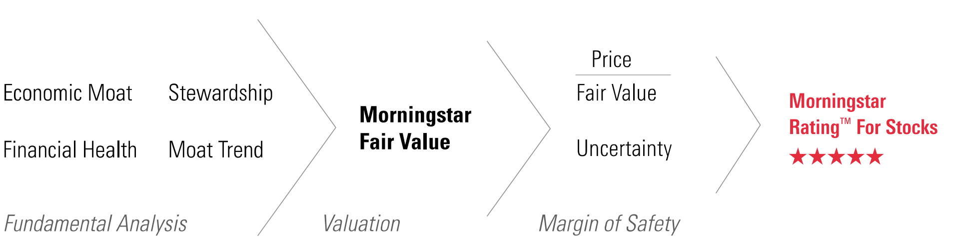
Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

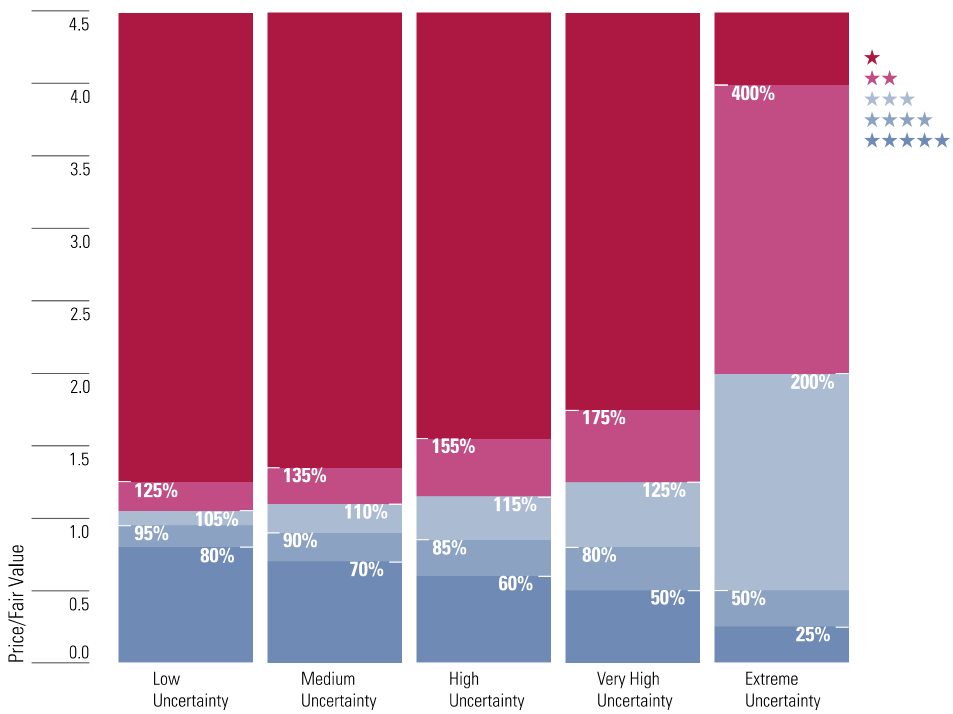
Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.
Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("“Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- ► Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- ► Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- ► None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- ► Low: the interquartile range for possible fair values is less than 10%.
- ► Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- ► High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- ► Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- ► Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- ► Weak: assigned when Quantitative Financial Health <0.2
- ► Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- ► Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

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- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

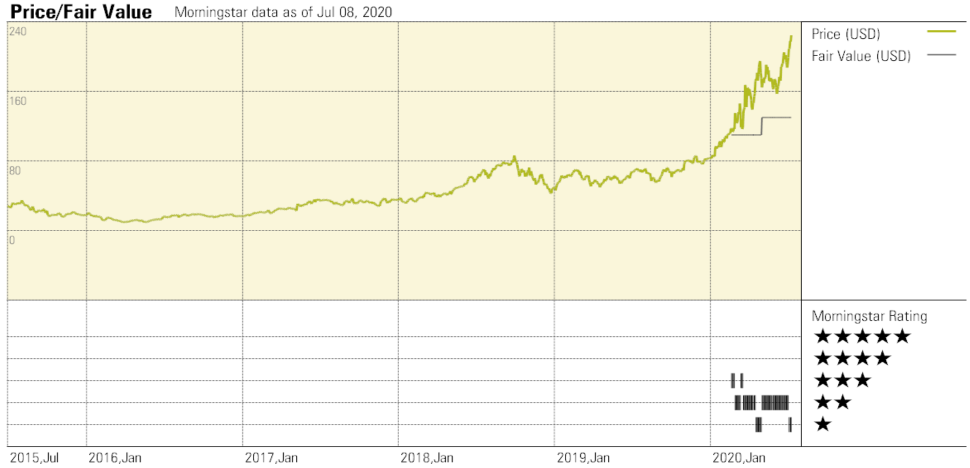
A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

Teladoc Health Inc TDOC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★	224.53 USD	130.00 USD	1.73	—	0.00	18.55	Health Information Services	Standard
08 Jul 2020 21:42, UTC	08 Jul 2020	30 Apr 2020 02:49, UTC		08 Jul 2020	08 Jul 2020	08 Jul 2020		

Price/Fair Value Morningstar data as of Jul 08, 2020



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The quantitative equity ratings are not a market call, and do not replace the User or User's clients from conducting their own due-diligence on the security. The quantitative equity rating is not a suitability assessment; such assessments take into account may factors including a person's investment objective, personal and financial situation, and risk tolerance all of which are factors the quantitative equity rating statistical model does not and did not consider.

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Teladoc Health Inc TDOC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
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08 Jul 2020 21:42, UTC	08 Jul 2020	30 Apr 2020 02:49, UTC		08 Jul 2020	08 Jul 2020	08 Jul 2020		

investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

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Conflicts of Interest:

• No interests are held by the analyst with respect to the security subject of this investment research report.
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★	224.53 USD	130.00 USD	1.73	—	0.00	18.55	Health Information Services	Standard
08 Jul 2020 21:42, UTC	08 Jul 2020	30 Apr 2020 02:49, UTC		08 Jul 2020	08 Jul 2020	08 Jul 2020		

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