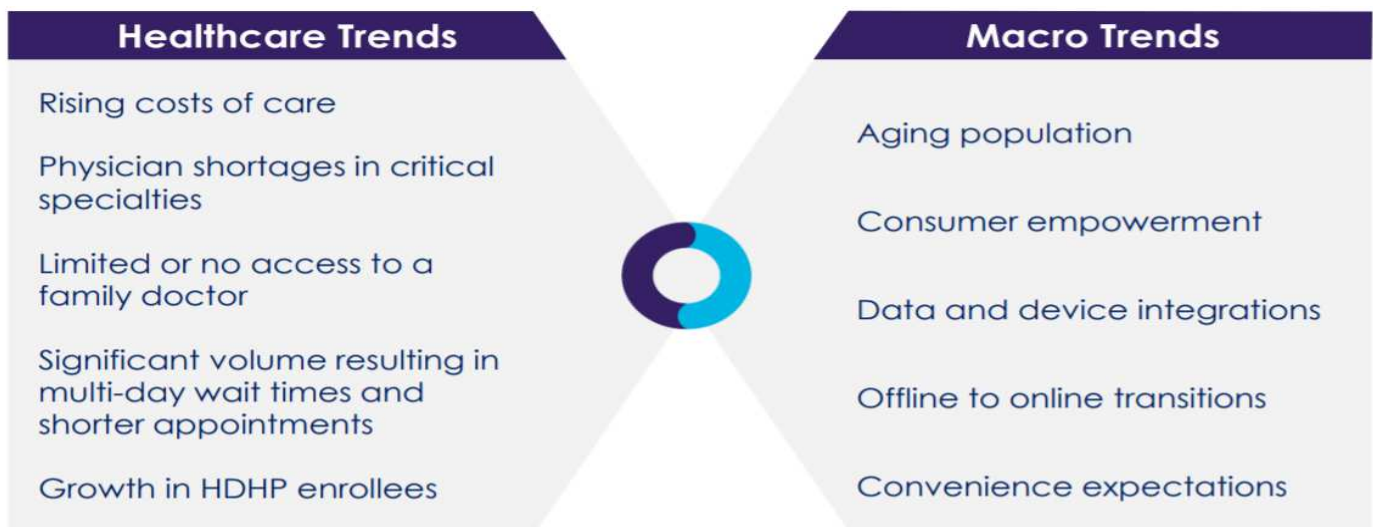


Telehealth: Invest in the Future of Healthcare

Staying ahead of megatrends is a crucial part of being a good investor and one emerging theme to focus on in the massive Healthcare sector is Telehealth (Telemedicine). Telehealth is defined as the distribution of health-related services and information via electronic information and telecommunication technologies. It allows for clinicians to contact, care, monitor and provide advice to patients. Technology is improving lives in many ways and there have been a number of innovations in medical technology as it applies to devices but the service side is relatively untapped. Examples of telehealth include utilizing mobile devices for food logs or medication notes, online patient portals, appointments and more with the goal of more accessibility, cost efficiency, and convenience. Forecasts are showing an increased shortage of doctors as well as increasingly long waiting times for visits, two areas Telehealth can help address. According to a Cisco global survey, 74% of patients prefer easy access to healthcare services over in-person interactions with providers – convenience is the key. Telehealth has the potential to improve engagement between patients and providers, improve health care maintenance, and, in some instances, avoid unnecessary and costly acute care settings, with estimated savings of more than \$6 billion annually according to a Tower Watson report in 2014.

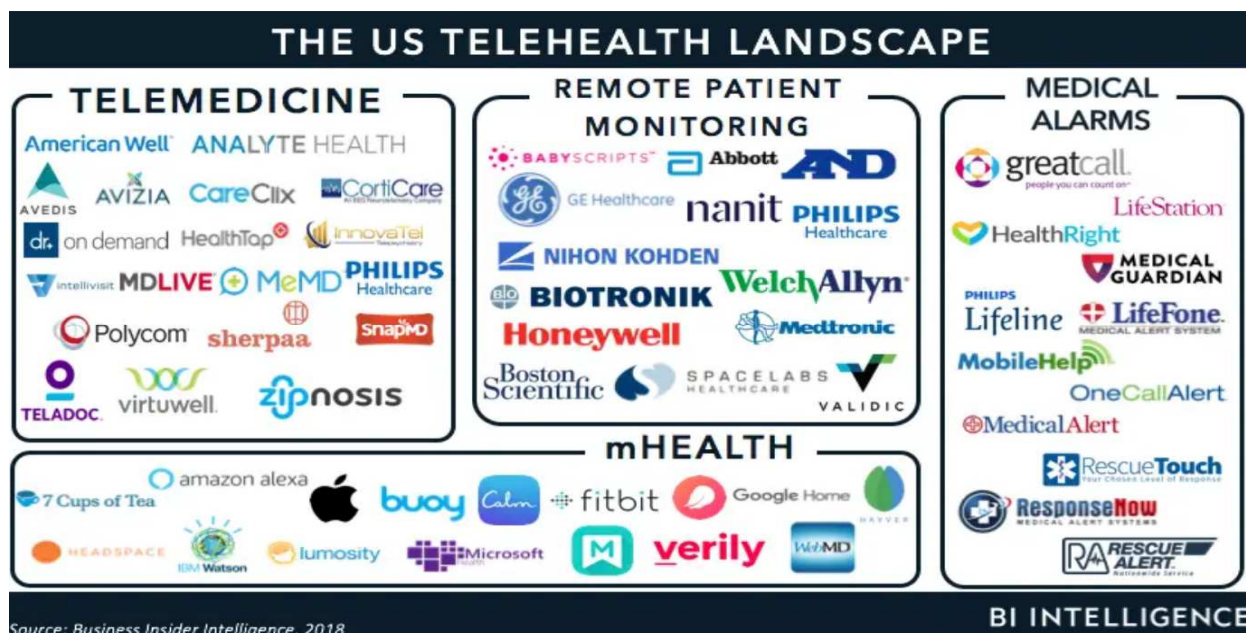


The Telehealth market has started to surge in growth the last two years and the current \$50B market is expected to reach \$265B by 2026 according to Fortune Business (other estimates say \$130B by 2025). It is an industry seeing a lot of new start-ups as adoption is increasing mainly in fields such as online consultation. The market is anticipated to grow around a 25% CAGR with 40% of the growth coming from the Americas and a key driver for the market is the increasing prevalence of chronic illnesses. The combination of expanded penetration, expanded services and an overall growing need for services makes it one of the most compelling areas to invest for the next 5-10 years. A recent PricewaterhouseCoopers survey

found 51% of U.S. physicians have adopted telemedicine technology just to stay competitive. Telehealth also had a demographic tailwind with more millennials turning to it as a more convenient and cost-effective means of care. Telemedicine has faced reimbursement hurdles, although Medicare is starting to expand coverage and private insurers are being forced to follow suit. There is also a major opportunity in Behavioral Health with the rising cases of mental illness including anxiety that can be better addressed with virtual care. According to the Centers for Disease Control and Prevention, or the CDC, there are approximately 1.25 billion ambulatory care visits in the United States per year, including those at primary care offices, hospital emergency rooms, outpatient clinics and other settings. TelaDoc estimates that approximately 417 million, or 33%, of these visits could be treated through telehealth.



Below is a useful view of the Telehealth Landscape with companies involved across the industry and various segments though the trouble is most of the pure-play companies remain private at this point, though I expect to see plenty of IPO's in the space the next few years.



TelaDoc (TDOC) is the most notable pure-play that is publically traded, the \$5.8B provider of virtual healthcare services has seen shares rise to \$80 this year from \$10 in 2016. TDOC trades 10X EV/Sales with revenues growing 77.8%, 59.2%, 89.4%, and 79.1% the last four years with 2019/2020 estimates for growth at 31.2% and 25% respectively. Profitability is a few years away. It is also a name with plenty of doubters as can be seen with 37.8% of its float short, a figure that is hitting new highs along with the share price.

There are a number of intriguing private companies to be aware of including American Well, GlobalMed, Dictum Health, InTouch Health, Doctor on Demand, MDLIVE, Encounter Telehealth, HelloMD, iCliniq and SnapMD. Cigna (CI), a managed care provider, invested \$50M in MDLive back in 2018 and Anthem (ANTM) has invested in American Well. Seeing investments like this as well as CVS Health (CVS) teaming up with American Well, TelaDoc, and Doctor on Demand validates the sustainability of this megatrend. I expect there to be plenty of more companies in the Telehealth space to come public in the next few years and anxiously await more investment opportunities, and this is something that could detract from the scarcity value that TelaDoc (TDOC) currently has which sustains its premium valuation multiple as one of the few avenues to invest in an emerging megatrend.

Zoom Tech (ZM) is an ancillary way to play this theme as a provider of high quality video conferencing equipment that clinicians and patients can use with Telehealth. Zoom is trading at an extreme high valuation of 31.5X EV/Sales with rapid revenue growth. It is far from a pure-play and needs to come down to a cheaper valuation but Telehealth can be an important driver of growth in the coming years.

Catasys (CATS) is a \$250M provider of big data predictive analytics with a connection to telehealth. CATS trades just 7.3X EV/Sales with revenues growing 96.7% in 2018 and estimated growth of 129.6% in 2019 and 146% in 2020. It is targeting behavioral health and estimates its total available market (TAM) at \$33.7B. It uses machine intelligence to deliver analytics to managed care companies to identify and recommend care to individuals whom are candidates for medical or behavioral intervention.

In closing, although there are not a lot of current ways to invest purely in the Telehealth theme, it is an important megatrend seeing rapid growth and an expanding market. There are likely to be more companies public in coming years to allow for better participation in the theme, but for now TelaDoc (TDOC) is the single best way to participate.