J.P.Morgan

Progyny

Another Blow to the Story; Lowering Our Model & PT for Significant Client Termination

PGNY faced another blow to the model today, as they announced that a large client plans to terminate its services agreement with the company. The client represented roughly 13% of 2023 revenue (\$130M), and 670k lives, and the termination will become a detriment to the model beginning in January 2025. Removing this client from our model reduces our 2025 revenue estimate by \$120M and our EBITDA by \$21M, resulting in a 2025 growth profile of MSD revenue and EBITDA growth for 2025, well below the LT targeted range of 20% revenue growth and 25% EBITDA growth. It's worth noting that while we doubt they will be able to find a client as large as 670K lives again, our model had only been embedding 1M incremental lives prior to today's announcement vs. the LT targeted 1.2M per year. While PGNY did not disclose the client, due to the magnitude of lives lost, we believe it is potentially Amazon, which comprised ~15% of PGNY's revenue in 2019 (the last time it was broken out in public filings). It is also worth noting that we believe this is likely a competitive loss versus the client exiting fertility benefits, an important distinction when discussing the health of the fertility market (both negative in the NT for PGNY). This bad news follows a series of difficult quarterly results for PGNY and likely compounds the strained investor perception of some of the unexplained utilization issues. As a result of our lowered model, we are reducing our Dec 2025 price target to \$22 from \$31, based on a 7x EV/EBITDA multiple, a 50% discount to PGNY's forward growth profile to account for the lack of visibility on utilization issues. Where do we go from here? The next significant datapoint we are awaiting for our thesis will be the results of the current selling season which we expect PGNY to report on the 3Q print in the coming weeks.

- We are lowering our 2025 revenue estimate by ~\$120M to account for the lost client. Removing 670K lives from our model results in ~330M incremental new lives added in 2025. This is the net of our original estimate for 1M lives added in the 2024 selling season less the significant client loss. Keeping utilization assumptions the same, this equates to 5.6% revenue growth in 2025 to \$1,231M vs. our 2024 revenue estimate of \$1,165M which remains unchanged given the timing.
- We are lowering our 2025 EBITDA estimate by ~\$21M. Applying a high teens margin (in line with current profile) to the \$120M of lost revenue results in a \$21M EBITDA reduction in our model to \$212M in 2025. This reduction is <12% as mgmt noted that the EBITDA contribution from this client was smaller than the revenue contribution. Our revised estimates imply 5.7% EBITDA growth in 2025 over our 2024 estimate of \$200M.

Overweight

PGNY, PGNY US Price (18 Sep 24):\$24.44

▼ Price Target (Dec-25):\$22.00 Prior (Dec-25):\$31.00

Healthcare Technology & Distribution

Anne E. Samuel AC

(1-212) 622-4163 anne.e.samuel@jpmorgan.com

Kyle Aikman

(1-212) 622-0522 kyle.aikman@jpmchase.com

Destiny Jackson

(1-212) 622-4360 destiny.jackson@jpmorgan.com J.P. Morgan Securities LLC

Key Changes (FYE Dec) Prev Cur Revenue - 25E (\$ mn) 1,352 1,231 Adj. EBITDA - 25E (\$ mn) 233 212

Quarterly Forecasts (FYE Dec) Adj. EBITDA (\$ mn) 2024E 2025E 2023A Q1 50A 46 Q2 47 54A Q3 50 49 Q4 43 46 FY 212

Style Exposure

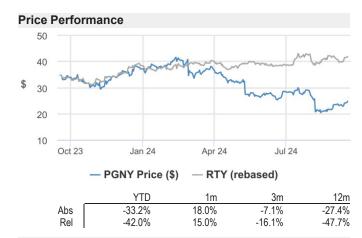
Quant	Current	Hist %Rank (1=Top)					
Factors	%Rank	6M	1Y	3Y	5Y		
Value	26	35	46	65			
Growth	6	7	2	38			
Momentum	88	73	16	11			
Quality	3	9	9	4	63		
Low Vol	27	30	42	49			

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 5 for analyst certification and important disclosures.

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Company Data	
Shares O/S (mn)	95
52-week range (\$)	42.08-19.60
Market cap (\$ mn)	2,327.20
Exchange rate	1.00
Free float(%)	84.9%
3M - Avg daily vol (mn)	1.38
3M - Avg daily val (\$ mn)	33.8
Volatility (90 Day)	51
Index	RUSSELL 2000
BBG BUY HOLD SELL	7 4 0

Key Metrics (FYE Dec)				
\$ in millions	FY23A	FY24E	FY25E	FY26E
Financial Estimates				
Revenue	1,089	1,165	1,231	1,468
Adj. EBITDA	187	200	212	261
Adj. EBIT	62	67	78	139
Adj. net income	141	154	149	176
Adj. EPS	1.40	1.57	1.49	1.71
BBG EPS	0.60	1.47	1.66	1.97
Cashflow from operations	189	155	177	194
FCFF	185	152	173	189
Margins and Growth				
Revenue Growth Y/Y (%)	38.3%	7.0%	5.6%	19.3%
EBITDA margin	17.2%	17.2%	17.2%	17.7%
EBITDA Growth Y/Y (%)	48.8%	7.0%	5.7%	23.1%
EBIT margin	5.7%	5.7%	6.3%	9.5%
Net margin	12.9%	13.2%	12.1%	12.0%
Adj. EPS growth	57.2%	12.1%	(5.3%)	15.3%
Ratios				
Adj. tax rate	12.2%	30.5%	22.0%	22.0%
Interest cover	NM	NM	-	-
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROCE	11.7%	7.1%	7.3%	10.4%
ROE	30.3%	23.7%	17.8%	16.8%
Valuation				
FCFF yield	7.5%	6.3%	7.1%	7.5%
Dividend yield	-	-	-	-
EV/Revenue	2.1	1.8	1.6	1.2
EV/EBITDA	12.1	10.6	9.2	6.7
Adj. P/E	17.4	15.6	16.4	14.3

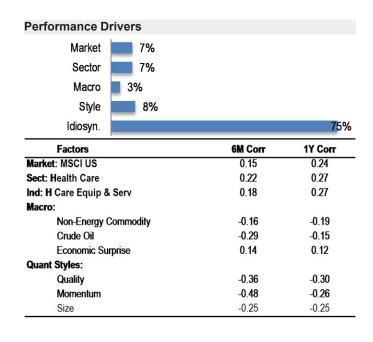
Summary Investment Thesis and Valuation

Investment Thesis

Progyny is a data-driven fertility benefits provider with a differentiated model in a large and growing fertility market. With expectations for 460 clients by 2024 year end, the company is minimally penetrated relative to the 8,000 self-insured employers it views as addressable, leaving significant runway ahead. PGNY has a rapid growth profile, and we model a ~13% revenue CAGR over the next three years, with scale driving EBITDA margin expansion to high teens over that time.

Valuation

We are lowering our December 2025 PT to \$22 (Dec PT of \$31 prior) based on a 7x multiple on our updated CY2026 EBITDA estimate. This equates to a 0.50x EV/EBITDA/Growth multiple, a discount to the Healthcare IT average given uncertainty in the near term.





Investment Thesis, Valuation and Risks

Progyny (Overweight; Price Target: \$22.00)

Investment Thesis

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Risks to Rating and Price Target

Economic environment and employment. Progyny sells its product to self-insured employers as a component of overall medical benefits. In the event of a weaker economic environment, or higher unemployment, Progyny could see reduced penetration of the market and potentially reduced utilization of the product.

Competitive environment. Progyny has many competitors in the fertility benefits space, including large national insurance carriers. Increased competition as the demand for fertility benefits grows could make it difficult to capture share.

Customer concentration. Progyny has ~460 clients, and its top two largest clients have contributed a combined 26% of revenue in 2023. While we expect the diversity of its revenue base to increase as the company grows, the loss of one of these large clients could meaningfully reduce current and projected revenues and profitability.

Ability to integrate with insurance carriers. Progyny is able to integrate its benefits solution with all of the large national health insurance carriers with which it competes. If this ability to integrate were to change, or if there are changes to the regulatory environment for the private health insurance industry, it could negatively impact the business.

New client wins may not materialize as expected. Should PGNY not grow its client base as we are modeling, revenue and EBITDA margin expansion may differ from our projections.

Pharmacy benefit plan has separate regulatory and distribution risks. Progyny manages medications related to the fertility pharmacy solution to offer an integrated treatment and medication experience. Risks to this business include weaker than expected underlying prescription drug utilization growth, competitive pricing pressure, and an adverse legal/regulatory ruling around rebates.



Progyny: Summary of Financials

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Income Statement - Annual	FY22A	FY23A	FY24E	FY25E	FY26E	Income Statement - Quarterly		1Q24A	2Q24A	3Q24E	4Q24E
Revenue	787	1,089	1,165	1,231	1,468	Revenue		278A	304A	290	292
COGS	(620)	(850)	(909)	(953)	(1,119)	COGS	_	(216)A	(236)A	(227)	(231)
Gross profit	167	239	256	277	349	Gross profit		62A	68A	64	62
SG&A	(144)	(177)	(189)	(199)	(210)	SG&A	_	(44)A	(48)A	(48)	(49)
Adj. EBITDA	126	187	200	212	261	Adj. EBITDA		50A	54A	49	46
D&A	(2)	(2)	(3)	(3)	(4)	D&A	_	(1)A	(1)A	(1)	(1)
Adj. EBIT	23	62	67	78	139	Adj. EBIT		19A	21A	15	12
Net Interest	1	5	4	0	0	Net Interest	_	3A	1A	0	0
Adj. PBT	24	71	85	78	139	Adj. PBT		23A	25A	17	20
Tax	6	(9)	(26)	(17)	(31)	Tax		(6)A	(9)A	(6)	(6)
Minority Interest		-				Minority Interest	_	-	-	-	-
Adj. Net Income	89	141	154	149	176	Adj. Net Income		39A	43A	34	38
Reported EPS	0.30	0.62	0.60	0.61	1.06	Reported EPS		0.17A	0.17A	0.12	0.15
Adj. EPS	0.89	1.40	1.57	1.49	1.71	Adj. EPS		0.39A	0.43A	0.35	0.39
DPS	-	-	-	-	-	DPS		-	-	-	-
Payout ratio	-			-	-	Payout ratio		-	-	-	-
Shares outstanding	100	101	98	100	103	Shares outstanding		101A	98A	96	97
Balance Sheet & Cash Flow Statement	FY22A	FY23A	FY24E	FY25E	FY26E	Ratio Analysis	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalents	120	97	249	422	612	Gross margin	21.3%	21.9%	22.0%	22.5%	23.8%
Accounts receivable	240	242	280	308	382	EBITDA margin	16.0%	17.2%	17.2%	17.2%	17.7%
Inventories	-	-	-	-	-	EBIT margin	3.0%	5.7%	5.7%	6.3%	9.5%
Other current assets	74	301	301	301	301	Net profit margin	11.3%	12.9%	13.2%	12.1%	12.0%
Current assets	434	640	830	1,031	1,295	DOE	00.00/	20.20/	00.70/	47.00/	40.00/
PP&E	8	10	11	11	12	ROE	28.3%	30.3%	23.7%	17.8%	16.8%
LT investments	-	-	-	-	-	ROA ROCE	19.8% 5.6%	21.7% 11.7%	18.1% 7.1%	14.3% 7.3%	13.8% 10.4%
Other non current assets	101	106	106	106	106	SG&A/Sales	18.3%	16.2%	16.2%	16.2%	14.3%
Total assets	543	757	947	1,149	1,413	Net debt/equity	NM	NM	10.2 / ₀	10.2 /6 NM	14.3 % NM
0	•	0	•	0	0	Net debuequity	INIVI	INIVI	INIVI	INIVI	INIVI
Short term borrowings	0	0	0	0	0	P/E (x)	27.4	17.4	15.6	16.4	14.3
Payables	109	125	128	135	162	P/BV (x)	6.5	4.4	3.2	2.6	2.2
Other short term liabilities	50	61	58	62	73	EV/EBITDA (x)	17.8	12.1	10.6	9.2	6.7
Current liabilities	160	186	186	197	235	Dividend Yield	-		-	-	-
Long-term debt	0	0	0	0	0	Bividona Hola					
Other long term liabilities	6	17	17	17	17	Sales/Assets (x)	1.7	1.7	1.4	1.2	1.1
Total liabilities	166	203	204	214	252	Interest cover (x)	NM	NM	NM	-	-
Shareholders' equity	377	553	743	934	1,161	Operating leverage	(48.7%)	434.1%	102.9%	300.7%	406.6%
Minority interests				4 4 4 4 0	4 442	operating to relage	(, . ,				
Total liabilities & equity	543	757	947	1,149	1,413	Revenue y/y Growth	57.2%	38.3%	7.0%	5.6%	19.3%
BVPS	3.77	5.50	7.58	9.30	11.27	EBITDA y/y Growth	86.6%	48.8%	7.0%	5.7%	23.1%
y/y Growth	50.1%	45.8%	37.9%	22.7%	21.2%	Tax rate	24.2%	12.2%	30.5%	22.0%	22.0%
Net debt/(cash)	(120)	(97)	(249)	(422)	(612)	Adj. Net Income y/y Growth	(10.5%)	58.3%	9.2%	(2.9%)	18.1%
0.10.6		400	455	477	404	EPS y/y Growth	(10.3%)	57.2%	12.1%	(5.3%)	15.3%
Cash flow from operating activities	80	189	155	177	194	DPS y/y Growth	-	-	_	-	-
o/w Depreciation & amortization	2	2	3	3	(20)	,,					
o/w Changes in working capital	(59)	(17)	(37)	(18)	(36)						
Cash flow from investing activities	(44)	(201)	(3)	(4)	(4)						
o/w Capital expenditure	(3)	(4)	(3)	(4)	(4)						
as % of sales	0.4%	0.3%	0.3%	0.3%	0.3%						
Cash flow from financing activities o/w Dividends paid	(8)	(11)	0	0	0						
o/w Net debt issued/(repaid)	0	0	0	0	0						
Net change in cash	29	(23)	152	173	189						
Adj. Free cash flow to firm	77	185	152	173	189						
y/y Growth	222.7%	140.0%	(18.0%)	14.1%	9.3%						
Source: Company reports and J.P. Morgan esti-	mates										

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Note: \$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which



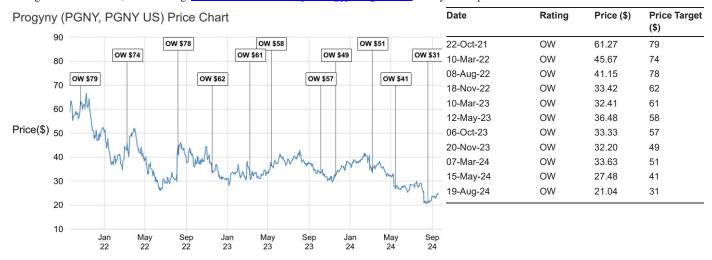
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