Progyny

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

Overweight

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

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

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.

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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)

	2023A	2024E	2025E
Q1	46	50A	
Q2	47	54A	
Q3	50	49	
Q4	43	46	
FY	187	200	212

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 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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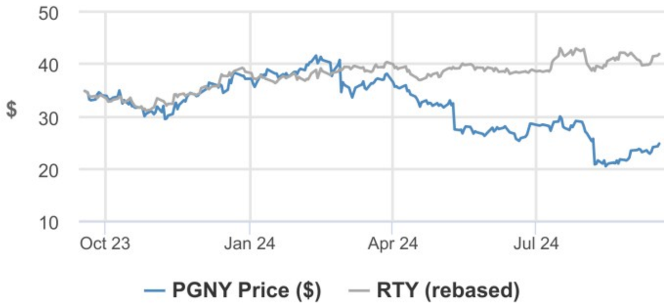
Price Performance



	YTD	1m	3m	12m
Abs	-33.2%	18.0%	-7.1%	-27.4%
Rel	-42.0%	15.0%	-16.1%	-47.7%

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.

Performance Drivers

Factors	6M Corr	1Y Corr
Market: MSCI US	0.15	0.24
Sect: Health Care	0.22	0.27
Ind: H Care Equip & Serv	0.18	0.27
Macro:		
Non-Energy Commodity	-0.16	-0.19
Crude Oil	-0.29	-0.15
Economic Surprise	0.14	0.12
Quant Styles:		
Quality	-0.36	-0.30
Momentum	-0.48	-0.26
Size	-0.25	-0.25

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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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.

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Progyny: Summary of Financials

Income Statement - Annual	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	**787**	**1,089**	**1,165**	**1,231**	**1,468**
COGS	(620)	(850)	(909)	(953)	(1,119)
Gross profit	**167**	**239**	**256**	**277**	**349**
SG&A	(144)	(177)	(189)	(199)	(210)
Adj. EBITDA	**126**	**187**	**200**	**212**	**261**
D&A	(2)	(2)	(3)	(3)	(4)
Adj. EBIT	**23**	**62**	**67**	**78**	**139**
Net Interest	1	5	4	0	0
Adj. PBT	**24**	**71**	**85**	**78**	**139**
Tax	6	(9)	(26)	(17)	(31)
Minority Interest	-	-	-	-	-
Adj. Net Income	**89**	**141**	**154**	**149**	**176**
Reported EPS	0.30	0.62	0.60	0.61	1.06
Adj. EPS	**0.89**	**1.40**	**1.57**	**1.49**	**1.71**
DPS	**-**	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-	-
Shares outstanding	100	101	98	100	103

Income Statement - Quarterly	1Q24A	2Q24A	3Q24E	4Q24E
Revenue	**278A**	**304A**	**290**	**292**
COGS	(216)A	(236)A	(227)	(231)
Gross profit	**62A**	**68A**	**64**	**62**
SG&A	(44)A	(48)A	(48)	(49)
Adj. EBITDA	**50A**	**54A**	**49**	**46**
D&A	(1)A	(1)A	(1)	(1)
Adj. EBIT	**19A**	**21A**	**15**	**12**
Net Interest	3A	1A	0	0
Adj. PBT	**23A**	**25A**	**17**	**20**
Tax	(6)A	(9)A	(6)	(6)
Minority Interest	-	-	-	-
Adj. Net Income	**39A**	**43A**	**34**	**38**
Reported EPS	0.17A	0.17A	0.12	0.15
Adj. EPS	**0.39A**	**0.43A**	**0.35**	**0.39**
DPS	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-
Shares outstanding	101A	98A	96	97

Balance Sheet & Cash Flow Statement	FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalents	120	97	249	422	612
Accounts receivable	240	242	280	308	382
Inventories	-	-	-	-	-
Other current assets	74	301	301	301	301
Current assets	**434**	**640**	**830**	**1,031**	**1,295**
PP&E	8	10	11	11	12
LT investments	-	-	-	-	-
Other non current assets	101	106	106	106	106
Total assets	**543**	**757**	**947**	**1,149**	**1,413**
Short term borrowings	0	0	0	0	0
Payables	109	125	128	135	162
Other short term liabilities	50	61	58	62	73
Current liabilities	**160**	**186**	**186**	**197**	**235**
Long-term debt	0	0	0	0	0
Other long term liabilities	6	17	17	17	17
Total liabilities	**166**	**203**	**204**	**214**	**252**
Shareholders' equity	377	553	743	934	1,161
Minority interests	-	-	-	-	-
Total liabilities & equity	**543**	**757**	**947**	**1,149**	**1,413**
BVPS	**3.77**	**5.50**	**7.58**	**9.30**	**11.27**
y/y Growth	*50.1%*	*45.8%*	*37.9%*	*22.7%*	*21.2%*
Net debt/(cash)	(120)	(97)	(249)	(422)	(612)
Cash flow from operating activities	**80**	**189**	**155**	**177**	**194**
o/w Depreciation & amortization	2	2	3	3	4
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	**(8)**	**(11)**	**0**	**0**	**0**
o/w Dividends paid	-	-	-	-	-
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%*

Ratio Analysis	FY22A	FY23A	FY24E	FY25E	FY26E
Gross margin	21.3%	21.9%	22.0%	22.5%	23.8%
EBITDA margin	16.0%	17.2%	17.2%	17.2%	17.7%
EBIT margin	3.0%	5.7%	5.7%	6.3%	9.5%
Net profit margin	11.3%	12.9%	13.2%	12.1%	12.0%
ROE	28.3%	30.3%	23.7%	17.8%	16.8%
ROA	19.8%	21.7%	18.1%	14.3%	13.8%
ROCE	5.6%	11.7%	7.1%	7.3%	10.4%
SG&A/Sales	18.3%	16.2%	16.2%	16.2%	14.3%
Net debt/equity	NM	NM	NM	NM	NM
P/E (x)	27.4	17.4	15.6	16.4	14.3
P/BV (x)	6.5	4.4	3.2	2.6	2.2
EV/EBITDA (x)	17.8	12.1	10.6	9.2	6.7
Dividend Yield	-	-	-	-	-
Sales/Assets (x)	1.7	1.7	1.4	1.2	1.1
Interest cover (x)	NM	NM	NM	-	-
Operating leverage	(48.7%)	434.1%	102.9%	300.7%	406.6%
Revenue y/y Growth	57.2%	38.3%	7.0%	5.6%	19.3%
EBITDA y/y Growth	86.6%	48.8%	7.0%	5.7%	23.1%
Tax rate	24.2%	12.2%	30.5%	22.0%	22.0%
Adj. Net Income y/y Growth	(10.5%)	58.3%	9.2%	(2.9%)	18.1%
EPS y/y Growth	(10.3%)	57.2%	12.1%	(5.3%)	15.3%
DPS y/y Growth	-	-	-	-	-

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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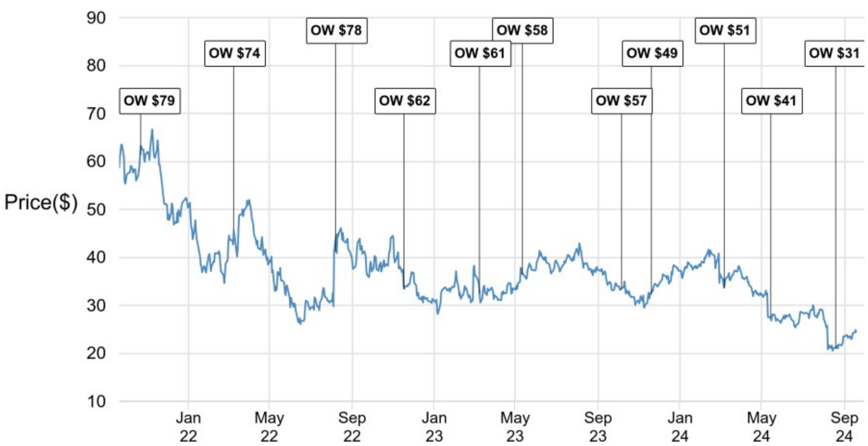
Progyny (PGNY, PGNY US) Price Chart



Date	Rating	Price ($)	Price Target ($)
22-Oct-21	OW	61.27	79
10-Mar-22	OW	45.67	74
08-Aug-22	OW	41.15	78
18-Nov-22	OW	33.42	62
10-Mar-23	OW	32.41	61
12-May-23	OW	36.48	58
06-Oct-23	OW	33.33	57
20-Nov-23	OW	32.20	49
07-Mar-24	OW	33.63	51
15-May-24	OW	27.48	41
19-Aug-24	OW	21.04	31

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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IB clients**	69%	66%	50%

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