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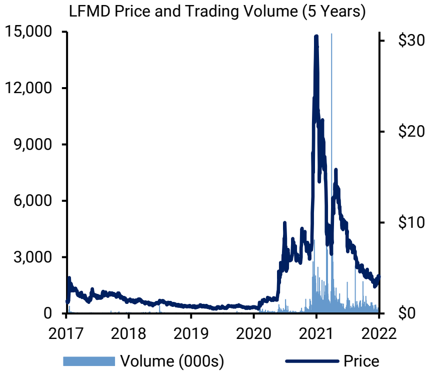
LifeMD, Inc. (NYSE: LFMD)

Company Brief
February 18, 2022

Stock Information	
Current Price:	$4.00
52-Week Range:	$2.72 - $32.40
Avg Daily Volume:	332,434
Dividend Yield:	-
Shares Out (MM):	30.6
Market Cap (MM):	$122.4
Float %:	71.6%

Financial Metrics	
TTM Revenue (MM):	$78.4
TTM EBITDA (MM):	($72.4)
EV/EBITDA:	N/A

LFMD Price and Trading Volume (5 Years)



LifeMD, Inc. (NASDAQ: LFMD) is a direct-to-patient telehealth company operating in all 50 states through a portfolio of brands that offer virtual primary care, diagnostics, and specialized treatment for men's health, allergy and asthma, hair loss, and dermatological conditions.

$ millions, except EPS	2019	2020	2021E	2022E	2023E
Revenue	$12.5	$37.3	$92.9	$145.0	$189.7
EBITDA	($2.6)	($57.4)	($36.9)	($16.8)	$8.5
EPS	($0.32)	($4.44)	($1.70)	($0.78)	$0.04

2019 and 2020 financial metrics are as reported by the issuer. 2021, 2022, and 2023 estimates represent consensus as presented by FactSet Research Systems. 2021 revenue is as reported by the issuer.

- Telehealth came into its own during the COVID-19 pandemic and is well-positioned for continued growth in the post-pandemic consumer landscape.
- LFMD's revenues have grown from $12.5 million in FY 2019 to $37.3 million in FY 2020 and $92.9 million in FY 2021. FactSet consensus revenue estimates are $145.0 million and $189.7 million for FY 2022 and FY 2023, respectively.
- The company's strategy involves developing niche offerings to address patients' healthcare needs, acquiring new customers, and growing recurring revenue (currently, 90%+ of the company's revenue is attributable to recurring subscriptions).
- The company is rapidly growing revenue while maintaining gross margins of around 80%.
- LFMD's balance sheet appears strong, and we believe liquidity is adequate. While the cash burn rate has risen substantially in the last two years, management has guided to profitability (as measured by adjusted EBITDA) by FQ4 2022. We estimate a FQ4 2021 period-end cash balance of about $40 million and an FY 2022 year-end cash balance of $15 million to $25 million, absent acquisitions or divestitures.
- The sale of WorkSimpli could provide an additional $50 million of capital to fund the growth of telehealth brands.
- Breakeven unit economics are compelling, which we estimate to be three to five months for LifeMD's telehealth brands and two months for WorkSimpli. The one-year ratio of lifetime value to customer acquisition cost is 1.5x to 2.0x for the telehealth brands and 3.5x to 4.0x for WorkSimpli.
- Insider buying is notable: management and certain directors have purchased several hundred thousand shares in open-market transactions over the past six months, with no reported sales.
- LFMD may be undervalued relative to peers. The company currently trades at an EV/sales ratio of 1.27x versus 3.72x for HIMS and 6.26x for TDOC.

Telehealth came into its own during the COVID-19 pandemic and is well-positioned for continued growth in the post-pandemic consumer landscape. According to McKinsey, 76% of the global population has used some form of telehealth, up from 11% prior to the COVID-19 pandemic. Telehealth has become mainstream and continues to grow despite the easing of pandemic restrictions as it offers patients significant time savings, competitively priced prescription medications, ease of access, and a consolidated platform to access clinicians and pharmacy needs. LifeMD reports more than 427,000 patients and customers (as of FQ3 2021) via its telehealth services and product lines, and the company's telehealth orders have increased from 112,000 in FY 2019 to 320,000 in FY 2020 and 808,000 in FY 2021. We believe recent order growth demonstrates the company's staying power as consumer behaviors begin to normalize after the COVID-19 pandemic. LifeMD's proprietary technology platform, 50-state provider network, and digital pharmacy enable the company to provide various service and product offerings such as virtual primary care, diagnostics, and specialized treatment for various health issues.

LifeMD's digital pharmacy product mix has shifted from 100% over the counter ("OTC") products in FY 2016 to 25-30% OTC and 70-75% prescriptions at present. Over the same period, revenue increased substantially, from $5.2 million in FY 2016 to $92.9 million in FY 2021. The shift in product mix while growing overall revenue highlights the company's patient acquisition and retention strategy.

Brands: Shapiro MD (hair loss) and RexMD (men's health) are the company's most mature brands, although management expects continued growth at double-digit rates. NavaMD (dermatology and skincare for women) was launched in FY 2021, and management sees significant growth in FY 2022 as the product line expands further into proprietary OTC products paired with traditional prescriptions. Cleared Technologies PBC ("Cleared") (allergy, asthma, and immunology) was recently acquired and is an early-stage, revenue-generating brand with both direct-to-patient and business-to-business revenue streams. LifeMD (a virtual primary care interface), the company's newest brand, launched in FQ1 2022 following an FQ4 2021 beta launch.

Management believes its core competency lies in efficiently acquiring and retaining patients. The company's brands have produced strong growth and unit economics, with each product line operating in highly competitive markets. We view management's success as a template for future product lines and brands and note that management believes the company's telehealth technology platform and 50-state pharmacy and clinician network can support rapid expansion.

The company's strategy involves developing niche offerings to address patients' healthcare needs, acquiring new customers, and growing recurring revenue (currently, 90%+ of the company's revenue is attributable to recurring subscriptions). In 1994, the company was founded under the name Immudyne, which was changed to Conversion Labs in FY 2018 and LifeMD in February 2021. In October 2020, the stock underwent a 1-for-5 reverse stock split and, in December 2020, uplisted to the Nasdaq. Current CEO Justin Schreiber, backed by a group of investors, joined Immudyne in FY 2016 when the company primarily sold one legacy product with a revenue base of $3.0 to $4.0 million annually. In FY 2017, Mr. Schreiber led a team that launched ShapiroMD.com with a direct-to-consumer ("DTC") path to market for a lifestyle, OTC product line designed to address male and female hair loss. The business was funded with minimal investment and scaled from zero to approximately $10 million in annual run-rate revenue within the first twelve months. In FY 2017, Mr. Schreiber was appointed to (then) Immudyne's board of directors, and in early FY 2018, became the company's president and CEO.

RexMD launched in FY 2019 to address men's health issues. A July 2021 study by Verizon Media identified RexMD as one of the top three most popular ePharmacy service providers, behind Amazon (29%), Capsule (14%), and on par with Hims & Hers Health, Inc. (11%), Roman (11%), and The Pill Club (11%).

In 2021, the company launched NavaMD, a female-oriented tele-dermatology brand. Management slowly scaled NavaMD in the second half of the year at the same time as it built out the company's pharmacy infrastructure to support the specific needs of this brand. We believe both are now positioned for additional growth in FY 2022.

On January 18, 2022, LifeMD closed on the acquisition of Cleared, a telehealth service that provides personalized care for allergy, asthma, and immunology. Consideration consisted of a $460,000 upfront cash payment, non-contingent milestone payments totaling $3.5 million, and potential earnouts for Cleared's key executives if specific goals are achieved over the coming four years. In addition to DTC revenues, Cleared generates business-to-business revenues from adherence and digital marketing agreements with a small number of pharmaceutical companies.

Finally, in FQ1 2022, the company launched a personalized, subscription-based virtual primary care platform branded LifeMD.

Management believes LifeMD's offerings provide convenient and accessible healthcare solutions. We believe many telehealth solutions focus on services that fit within the confines of the existing providers' offerings. LifeMD's brands have been built around specific conditions, and the company's customer acquisition strategy reflects this targeted approach. LifeMD's provider network includes physicians in all 50 states. Its digital pharmacy and distribution network delivers prescription and OTC products directly to patients' homes in a convenient and affordable manner without the need to visit a physical office. In addition, LifeMD sells proprietary branded OTC solutions, many of which are patented; we believe this offers a natural moat and may buoy long-term margins. Under the company's operating model, we believe there are potentially hundreds of verticals that could be addressed.

LifeMD's partnerships allow the company to offer valuable nationwide services in a HIPPA-compliant and secure manner while avoiding costly infrastructure spending. LifeMD has entered several notable partnerships. Quest Diagnostics provides preferred pricing and access to a convenient nationwide lab network for LifeMD patients. Axle Health supplies a network of nurses to perform in-home diagnostic services. A partnership with Prescryptive Health improves pharmacy fulfillment. Particle Health streamlines access to complex medical records and converts them into a user-friendly format. We view such partnerships as a logical and capital-lite approach to offering comprehensive telehealth services to a broader patient base and believe LifeMD may seek similar partnerships in the future.

LFMD's balance sheet appears strong, and we believe liquidity is adequate. In September 2021, LifeMD entered into underwriting agreements for the issuance of 3,833,334 shares of common stock at $6.00 per share and 1,400,000 shares of 8.875% Series A cumulative perpetual preferred stock at $25.00 per share. Management reported that the common stock issuance was three times oversubscribed. After issuance fees and discounts, net proceeds were $55.3 million, which partially funded the retirement of a $15.0 million senior secured redeemable debenture issued in June 2021 (with the remainder for general corporate purposes).

Management has guided to profitability (as measured by adjusted EBITDA) by FQ4 2022. The company is rapidly growing revenue while maintaining gross margins of around 80% (79% and 76% in FY 2019 and FY 2020, respectively, and management forecasts a gross margin of 82% in FY 2021). While the cash burn rate has risen substantially over the past two years, management has guided to profitability (as measured by adjusted EBITDA) by FQ4 2022. Taking into account the company's recent issuance of common and preferred stock, underwriting fees and discounts, repayment of the debt, and expected FQ4 2021 uses of cash, we estimate a FQ4 2021 period-end cash balance of about $40 million. Management has guided to FY 2022 revenue of $142 million to $148 million and adjusted EBITDA of -$14 million to -$20 million. We expect the company's FY 2022 year-end cash balance to be in the range of $15 million to $25 million, absent acquisitions or divestitures. As such, we do not foresee an immediate need for additional capital.

The sale of WorkSimpli could provide additional capital to fund the growth of telehealth brands. In FY 2018, the company acquired 51% of WorkSimpli Software, LLC (formerly LegalSimpli), a consumer-facing PDF editing software solution. LifeMD has since increased its ownership to 85.6%. While revenue has grown from less than $300,000 in FY 2018 to $24.7 million in FY 2021, the product does not fit with LifeMD's core telehealth business. Management intends to explore the sale of WorkSimpli in FY 2022 and believes a valuation range of 2.0x to 5.0x revenue is reasonable, which implies a valuation of $50 million or more.

Breakeven unit economics are compelling, which we estimate to be three to five months for LifeMD's telehealth brands and two months for WorkSimpli. LifeMD's subscription model provides revenue predictability and forward visibility. Subscriptions as a percentage of total revenue have grown from 45% in FY 2019 to 69% in FY 2020 and 93% in FY 2021. The one-year average revenue per user for LifeMD's telehealth brands is $350 to $400, and for WorkSimpli is $130 to $140. The one-year ratio of lifetime value to customer acquisition cost is 1.5x to 2.0x for the telehealth brands and 3.5x to 4.0x for WorkSimpli.

Insider buying is notable: management and certain directors have purchased several hundred thousand shares in open-market transactions over the past six months, with no reported sales. We view such insider activity favorably.

LFMD may be undervalued relative to its peers. Based on our rough estimates of LFMD's FY 2021 year-end balance sheet accounts and the current price of the common stock, we estimate an enterprise value of about $118.2 million.

Pro-Forma Enterprise Value	
Price of Common Stock	$4.00
Shares Outstanding	30.6 million
Market Capitalization	$122.4 million
Preferred Stock (at Redemption Value)	$35.0 million
Debt	$0.8 million
Cash	$40.0 million
Enterprise Value	**$118.2 million**

Based on FY 2021 revenue of $92.9 million (announced on January 19, 2022), LFMD trades at an EV/sales of 1.27x. Based on management's FY 2022 revenue forecast of $142 million to $148 million, LFMD trades at an EV/sales ratio of 0.80x to 0.83x (we do not include adjustments for the contemplated sale of WorkSimpli).

Comparatively, Hims & Hers Health, Inc. (NYSE: HIMS) trades at 3.72x EV/TTM sales, and Teladoc Health, Inc. (NYSE: TDOC) trades at 6.26x EV/TTM sales. While key differences between these competitors warrant consideration, it appears that LFMD may be undervalued relative to its peer group. Additionally, digital pharmacy startup Capsule raised capital in April 2021 at an implied valuation of more than $1 billion, and virtual care and mail-order prescription company Ro was valued at $5 billion during a capital raise in March 2021.

Risks: The DTC telehealth industry is highly competitive. If competitors were to cut prices to gain market share or customer acquisition costs were to rise, LifeMD's growth could slow or reverse. Historically, we have noted several related-party transactions; none appear inappropriate, and management has told us that the board of directors has adopted a policy to evaluate any such transactions in the future. There is key-executive risk should one of LFMD's critical employees depart the company or otherwise be rendered incapable of performing their duties, though recent additions to the management team have diminished this risk somewhat. Finally, as the company has a history of net losses, there is no assurance that management's strategic objectives will be achieved, which could lead to liquidity issues and shareholders' equity could further erode.

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Analyst Biographies

Rob McGuire

Mr. McGuire is a generalist responsible for analytical coverage of companies across all sectors for Granite Research. He is a 25+ year Wall Street veteran and has established himself as an analyst-salesman, working with institutional investors covering industrials, materials, technology, consumer, healthcare, REITs, energy, and utilities. Nineteen years of Mr. McGuire's tenure was spent at Keybanc Equity Capital Markets, a division of Keybank, a top-20 bank in the United States based in Cleveland, OH. While at Keybanc, Mr. McGuire was a member of the Equity Capital Markets management team, ran a team of six people, and led the buildout of the firm's West Coast institutional sales effort. He developed the Morning Call Summary for the firm, which he and his team produced daily for use by salespeople throughout the country. Mr. McGuire also has a strong history of authoring in-depth investment theses and delivering idea flow to equity fund managers. His experience also includes working for Vertical Research Partners, LLC, the premier boutique independent research firm focusing on industrials and basic materials. Prior to working on Wall Street, Mr. McGuire worked for Emery Worldwide, the nation's largest heavyweight air freight carrier. Mr. McGuire received a Masters in Business Administration in finance and a Bachelor of Arts in international business from Loyola Marymount University.

JP Geygan

Mr. Geygan is a generalist responsible for analytical coverage of companies across all sectors for Granite Research. In addition, Mr. Geygan is COO and Senior Vice President Global Value Investment Corp., where he serves on the Investment Committee and oversees all investment research, ensuring quality and rigor of analysis. Mr. Geygan joined Global Value Investment Corp., the parent company of Granite Research predecessor firm Global Value Research Company, in 2017. He was instrumental in establishing Global Value Research Company's company-sponsored research and served as its first research analyst. Prior to joining Global Value Investment Corp., Mr. Geygan was employed by Wells Fargo Bank, N.A. in both banking and investment product sales roles. Mr. Geygan received a Bachelor of Science in political science from the University of Wisconsin-Madison.

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