



Mossberg's Investor Digest

Best Idea Profile

eHealth (Nasdaq: EHTH)

DESCRIPTION:

eHealth offers health insurance agency services to individuals, families and small businesses via its e-commerce platform, which is accessible via the internet sites www.ehealth.com and www.ehealthinsurance.com. These sites allow users to compare and purchase over 10,000 health insurance products from 180 of eHealth's carrier relationships. Approximately 90% of the company's revenue stream comes from commissions the company earns on selling health insurance policies. The remaining 10% of revenue comes from sponsors placing adds on EHTH's sites and licensing EHTH's e-commerce platform to insurance carriers.

KEY INVESTMENT CONSIDERATION:

Highly scaleable business with limited capital requirement. EHTH currently has 600,000 members (individuals covered by health insurance), which represents only one half of one percent of the company's addressable market and leaves lots of room for growth. Supporting this growth requires very little capital because this is an internet-based business. EHTH has already made the investments in e-commerce and the support infrastructure and has reached critical mass to more than cover the fixed costs of its operations. The company has a call center, but 80% of the business is generated with no human interaction. The largest variable cost is customer acquisition, representing approximately 40% of sales, (\$65 per submitted member). The payback on this investment is just 6 ½ months.

Strong Recurring Revenue Streams – Just like other insurance brokers, eHealth is paid 15% to 25% of the monthly insurance premium for the first year of the policy and about half of that rate as long as the customer continues to pay on the policy. With an average life of 2 years, this represents an attractive recurring revenue stream.

Counter-cyclical trends may support continued growth - While the pace of growth has slowed, the top line still grew an impressive 24% in the most recent quarter. In addition, it appears some counter-cyclical trends may actually spur growth in individual policies, including 1) **layoffs** force people to look at individual policies. 2) **cost cutting by small employers** – the cost of health insurance continues to be the #1 issue that small businesses face (National Federation of Independent Business). In a tough economy, it's likely that small business will cut back on providing insurance, leaving employees to find individual policies.

Strong Balance sheet and aggressive share repurchase plan provide downside support for the stock – With \$143 million in cash (\$5.72 per share), no debt, and significant cash flow generation (\$30 million in the trailing twelve month period), EHTH has a strong balance sheet. Last month, EHTH put in place a share repurchase program that authorizes the repurchase up to 10% of EHTH stock, or \$30 million, whichever is less.

POTENTIAL CATALYST:

Tax deductibility for individual health insurance – Why shouldn't individuals receive a tax deduction for health insurance, much like business does? Deductibility, or other tax incentives, could be a major motivating factor for the 46 million uninsured in the U.S., a significant target market for eHealth.

VALUATION:

With an enterprise value to EBITA multiple of 6.4x, shares are attractive, but not overly cheap relative to the current market. However, with the level of uncertainty at unprecedented levels, companies, like eHealth, that have recession resistant businesses offer investors some level of security. Combined with a strong growth rate and a solid balance sheet, these shares could command much higher multiples over the next 12-18 months.

(Nasdaq: EHTH)	
Investment Data (as of 12/14/08)	
Recent Price	\$11.19
52-Week Range	8.38 - 36.44
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	25 MM
Average Trading Volume (3 mos)	180,000
Market Capitalization	281 MM
Cash	143 MM
Long Term Debt	0
Enterprise Value (EV)	138 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	5.99
TTM Revenue	106 MM
P/ Revenue	2.7x
TTM EPS (non-GAAP)	1.27
P/ EPS	8.8x
TTM EBITDA	21.6 MM
EV/ TTM EBITDA	6.4x

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