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Hims & Hers Health, Inc. (HIMS.N)

Tip-Toeing Over the Precipice of Consumer Driven Healthcare

CITI'S TAKE

We are initiating on Hims and Hers Healthcare (HIMS) with a Neutral/High Risk rating and a \$23 PT. As we wrote in our sector initiation ([LINK](#)), we firmly believe the healthcare sector is on the verge of its “Netflix Moment,” with consumer-driven companies like HIMS disrupting traditional modalities of care (particularly for low acuity conditions). We think HIMS’ growth strategy is smart, effecting what we deem “stigma arbitrage,” as it expands its markets from ED and hair loss to larger markets with significant unmet needs. We think that HIMS will be able to conservatively achieve 30% revenue growth for the foreseeable future while maintaining best-in-class gross margins of ~75%, eventually turning EBITDA positive in 2023. Our Neutral rating is largely predicated on valuation given low barriers to entry and the deluge of well-financed competitors likely to come to market in the near future.

Defining the Netflix Moment — We have begun to see the decoupling of healthcare from impersonal and confusing B2B2C modalities to consumer-driven models with a relentless focus on personalization and member experience. The near ubiquity of high-deductible health plans, coupled with an evermore confusing and fragmented healthcare system, has created a void which will be filled by direct-to-consumer (DTC) virtual health solutions like HIMS (particularly for stigmatized low acuity conditions). We see a long growth runway ahead for HIMS as it supplements its core markets of ED and hair loss with mental health, dermatology, primary care and (over a longer time horizon) sleep, fertility, diabetes and cholesterol.

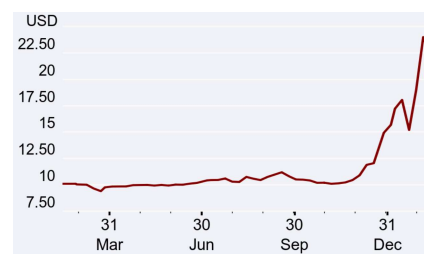
Valuation and Low Barriers to Entry Keeps us on the Sidelines — In our view, the DTC virtual health market suffers from relatively low barriers to entry, and HIMS must increasingly rely on its brand to fend off competition. Given HIMS is priced for perfection currently in our view, we await a better entry point. Our \$23 PT contemplates a 17.5x revenue multiple on our FY22 estimates.

Neutral / High Risk

Price (12 Feb 21 16:00)	US\$22.46
Target price	US\$23.00
Expected share price return	2.4%
Expected dividend yield	0.0%
Expected total return	2.4%
Market Cap	US\$4,076M

Price Performance

(RIC: HIMS.N, BB: HIMS US)



EPS (US\$)	Q1	Q2	Q3	Q4	FY	FC Cons
2019A	-0.20A	-0.30A	-0.19A	-0.14A	-0.84A	na
2020E	-0.06A	0.01A	-0.06A	-0.08E	-0.18E	-0.53E
Previous	na	na	na	na	na	na
2021E	-0.04E	-0.03E	-0.04E	-0.04E	-0.15E	-0.31E
Previous	na	na	na	na	na	na
2022E	-0.02E	-0.01E	-0.01E	-0.01E	-0.06E	-0.23E
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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HIMS.N: Fiscal year end 31-Dec						Price: US\$22.46; TP: US\$23.00; Market Cap: US\$4,076m; Recomm: Neutral/High Risk					
Profit & Loss (US\$m)	2018	2019	2020E	2021E	2022E	Valuation ratios	2018	2019	2020E	2021E	2022E
Sales revenue	26.7	82.6	149.6	198.7	261.7	PE (x)	-22.3	-26.9	na	na	na
Cost of sales	-18.9	-38.0	-40.1	-49.7	-62.8	PB (x)	66.3	33.4	18.3	13.2	14.9
Gross profit	7.8	44.6	109.5	149.0	198.9	EV/EBITDA (x)	na	-61.0	na	na	na
Gross Margin (%)	29.2	54.0	73.2	75.0	76.0	FCF yield (%)	-3.8	-4.4	-0.6	-0.7	-0.3
EBITDA (Adj)	-68.4	-66.1	-10.8	-24.6	-9.8	Dividend yield (%)	na	na	na	na	na
EBITDA Margin (Adj) (%)	na	-80.1	-7.2	-12.4	-3.7	Payout ratio (%)	0	0	0	0	0
Depreciation	0	-0.3	-1.0	-1.4	-1.8	ROE (%)	na	-194.0	-31.7	-22.9	-12.6
Amortisation	0	0	0	0	0	Cashflow (US\$m)	2018	2019	2020E	2021E	2022E
EBIT (Adj)	-68.5	-66.4	-11.9	-26.0	-11.6	EBITDA	-75.8	-74.1	-19.9	-44.5	-36.0
EBIT Margin (Adj) (%)	na	-80.4	-8.0	-13.1	-4.4	Working capital	10.6	-9.9	-0.2	0.1	-0.6
Net interest	-0.2	-0.4	0.0	0.0	-0.2	Other	7.8	9.1	11.1	19.6	25.9
Associates	0	0	0	0	0	Operating cashflow	-57.3	-74.9	-9.0	-24.8	-10.7
Non-Op/Except/Other Adj	-6.6	-5.2	-11.3	-20.0	-26.2	Capex	0.0	-0.3	-1.8	-2.1	-2.6
Pre-tax profit	-75.2	-71.9	-23.2	-46.0	-38.0	Net acq/disposals	0	-37.5	-28.7	0	0
Tax	0.0	-0.1	-0.1	-0.1	-0.1	Other	0	-1.5	-2.3	-2.5	-2.6
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow	0.0	-39.3	-32.8	-4.5	-5.2
Reported net profit	-75.2	-72.0	-23.3	-46.1	-38.1	Dividends paid	0	0	0	0	0
Net Margin (%)	na	-87.2	-15.6	-23.2	-14.6	Financing cashflow	78.2	95.3	48.4	238.9	0
Core NPAT	-67.9	-64.0	-14.3	-26.3	-11.9	Net change in cash	20.8	-18.8	6.7	209.6	-16.0
Per share data	2018	2019	2020E	2021E	2022E	Free cashflow to s/holders	-57.3	-75.2	-10.8	-26.9	-13.3
Reported EPS (\$)	-1.12	-0.94	-0.30	-0.25	-0.19						
Core EPS (\$)	-1.01	-0.84	-0.18	-0.15	-0.06						
DPS (\$)	0	0	0	0	0						
CFPS (\$)	-0.85	-0.98	-0.12	-0.14	-0.05						
FCFPS (\$)	-0.85	-0.98	-0.14	-0.15	-0.07						
BVPS (\$)	0.34	0.67	1.23	1.70	1.51						
Wtd avg ord shares (m)	67.3	76.5	78.0	181.0	196.0						
Wtd avg diluted shares (m)	67.3	76.5	78.0	181.0	196.0						
Growth rates	2018	2019	2020E	2021E	2022E						
Sales revenue (%)	na	209.4	81.2	32.8	31.7						
EBIT (Adj) (%)	na	3.1	82.0	-118.0	55.2						
Core NPAT (%)	na	5.8	77.6	-83.1	54.6						
Core EPS (%)	na	17.2	78.0	21.1	58.0						
Balance Sheet (US\$m)	2018	2019	2020E	2021E	2022E						
Cash & cash equiv.	41.5	60.4	87.6	297.2	281.3						
Accounts receivables	0	0	0	0	0						
Inventory	3.7	4.2	5.1	6.6	8.5						
Net fixed & other tangibles	0.2	2.5	12.9	16.1	19.5						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	2.1	5.0	5.2	7.0	9.2						
Total assets	47.5	72.1	110.9	326.9	318.4						
Accounts payable	13.3	7.2	6.8	8.8	11.3						
Short-term debt	7.8	1.5	0	0	0						
Long-term debt	0	0	0	0	0						
Provisions & other liab	3.6	11.9	8.5	9.7	10.7						
Total liabilities	24.7	20.6	15.2	18.6	22.0						
Shareholders' equity	22.8	51.4	95.6	308.3	296.4						
Minority interests	0	0	0	0	0						
Total equity	22.8	51.4	95.6	308.3	296.4						
Net debt (Adj)	-33.7	-58.9	-87.6	-297.2	-281.3						
Net debt to equity (Adj) (%)	-147.9	-114.4	-91.7	-96.4	-94.9						

For definitions of the items in this table, please click [here](#).

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Executive Summary

We are initiating on Hims and Hers Healthcare (HIMS) with a Neutral/High Risk rating and a \$23 PT. As we wrote in our HCIT sector initiation ([LINK](#)), we firmly believe the healthcare sector is on the verge of its “Netflix Moment,” with consumer-driven companies like HIMS disrupting traditional modalities of care (particularly for low acuity conditions). We think HIMS’ growth strategy is disciplined and smart, effecting what we deem “stigma arbitrage,” as it expands its markets from ED and hair loss to larger markets with significant unmet needs. We think that HIMS will be able to conservatively achieve 30% revenue growth for the foreseeable future while maintaining best-in-class gross margins of ~75%, eventually turning EBITDA positive in 2023. Our Neutral rating is largely predicated on valuation given low barriers to entry and the deluge of well-financed competitors likely to come to market in the near future

The Consumerization of Healthcare

We have begun to see the decoupling of healthcare from impersonal and confusing B2B2C modalities to consumer-driven models with a relentless focus on personalization and member experience. The near ubiquity of high-deductible health plans, coupled with an evermore confusing and fragmented healthcare system, has created a void which will be filled by direct-to-consumer (DTC) virtual health solutions like HIMS. COVID-19 will act as an adoption accelerant for these models as the pandemic forced patients/consumers to seek out virtual care and more consumer-oriented care access points.

Capitalizing on Stigma Arbitrage

HIMS is particularly adept at capitalizing on what we deem “stigma arbitrage.” There are certain conditions where stigma is high, acuity is low and treatment is inexpensive (e.g. erectile dysfunction and hair loss). For these conditions, there is a large shadow patient population who may suffer silently, unwilling to see an in-person doctor due to embarrassment and/or a lack of urgency. The privacy and convenience that asynchronous virtual health affords can tap into this shadow population in a price inelastic manner. It is very telling that ~80% of HIMS’ customers indicate they are seeking treatment for their particular condition for the first time.

By bundling a text-based doctors’ visit with a subscription-based prescription, HIMS is able to charge relatively high prices and still maintain ~90% recurring revenue. For example, HIMS sells a 12 month supply of 60mg Sildenafil (generic Viagra) for \$312 (assuming 6 doses per month). This equates to \$4.33 per dose. A price-savvy patient using GoodRx can get the same prescription for \$20.25 or \$0.28 per dose at a local pharmacy. Of course with GoodRx the patient will need to add on the cost of a doctor’s visit to get the prescription in the first place, but if the patient were to use GoodRx’s HeyDoctor service, that would only add \$39 to the cost (and presumably for ED this is just a onetime cost). It is important to note that HIMS members can send the prescription to any pharmacy and, if available, use a coupon via GoodRx to lower the price of the prescription. However, 95%+ of HIMS members choose not to do this according to the company

We see no lack of conditions that HIMS can apply this Stigma Arbitrage to and can even expand to conditions with relatively low levels of stigmatization. For example, HIMS can expand beyond its core markets of ED and hair loss to mental health, dermatology, and primary care and (over a longer time horizon) sleep, fertility, diabetes and cholesterol control.

Virtual Health is Here to Stay

As we have been very vocal about [LINK](#), we firmly believe that the growth in virtual health seen during the pandemic is durable. We have long been bullish on virtual health, as it seems best suited to capitalize on many of the key trends impacting the delivery of care, namely (1) increasing healthcare consumerism, with a focus on cost and convenience; (2) steerage of patients to lower-cost modalities of care; (3) a shortage of primary care physicians (particularly in rural areas); and (4) increasing consumer comfort with digital interactions.

We are convinced that the pandemic has fundamentally shift how care is delivered in the U.S., with virtual health becoming an important treatment modality across the care continuum. While utilization will certainly drop as COVID-19 concerns wane and as payers offer less generous reimbursement, we think that the shift to virtual care will be durable as the pandemic has fundamentally changed payer, patient, and provider preferences. We currently size the virtual health market at more than \$100B and estimate HIMS can access \$40B of this market.

Building a Better Brand

In our view, brand is the biggest competitive moat for DTC virtual healthcare companies. We think HIMS branding and marketing campaigns have been innovative and differentiated, which has led to lower customer acquisition costs (CAC) and high levels of satisfaction (as measured by Net Promoter Score (NPS)). Customer growth is largely driven by word of mouth, billboards and social media which has led to a 32% reduction in CAC from 2H 2018 to current. Additionally, HIMS has an NPS of +65 (vs +9 NPS for traditional health providers), which will lead to further marketing efficiency as members effectively become brand ambassadors.

Multiple Avenues for Growth

We are conservatively projecting a 30% revenue CAGR from FY20-FY23 driven largely by new member acquisition and, to a lesser extent, average order value (AOV) increases. We see most near term upside to our estimates on faster than anticipated membership growth. In the medium term, we think AOV expansion is likely as HIMS continues to bundle multiple products and grows into recently launched markets (mental health, dermatology and primary care). Longer term we see most upside from (1) product expansion (Sleep, Fertility, Diabetes, Cholesterol); (2) international expansion; (3) enterprise expansion; and (4) acquisitions of similar DTC platforms.

Vertical Integration and Scalability

HIMS has built a digital-native, vertically-integrated virtual health offering, handling all steps of the patient journey. After landing on HIMS' website, the patient searches for the correct medicine and inputs their health data into HIMS internally developed electronic health record (EHR). The health data are then validated and programmatically routed to the correct physician for a text-based consult (*for mental health, the first consult will be telephonic). The physician, using HIMS software and clinical guidelines, makes a diagnosis and sends the prescription to a HIMS-affiliated pharmacy (the consumer has a choice which pharmacy to send the prescription to, but as noted above, 95%+ default to a HIMS-affiliated pharmacy). Currently, HIMS has pharmacy partnership with TruePill and Curexa, and recently opened a 300K square foot facility in Columbus, Ohio. After the diagnosis/prescription, HIMS marketing tools continually follow-up with the patient to ensure continuity of care.

Given HIMS owns the whole patient journey, and is largely providing diagnosis via text, it has been able to scale efficiently. In 2018, HIMS conducted 431K telehealth consultations. In just the first half of 2020, HIMS conducted nearly 1M with only ~266 licensed providers. This has led to best-in-class gross margins of ~75%, which allows HIMS to invest heavily in marketing/growth.

Key Debate 1: Where's the Moat?

In our view, the biggest moats in traditional virtual health are scale and channel partnerships. These moats are greatly eroded in the DTC channel, where companies can bypass traditional healthcare gate-keepers (managed care organizations, employers, health systems). The moat, then, becomes two-fold and more tenuous: (1) brand recognition and (2) user experience.

Additionally, the cost of starting a DTC virtual health company has fallen dramatically as a slew of "picks-and-shovels" companies have come to market to efficiently provide the technology and distribution backbone necessary to build a DTC virtual health platform at scale. As noted by Chris Hogg (former Propeller Health COO and CCO) in a recent article ([LINK](#)), one could start a company very similar to HIMS by partnering with Wheel for physician access, Truepill for prescription delivery, Ribbon for referral flow and Eligible for reimbursement and payment.

The DTC virtual health space is already very competitive with Ro, Lemonade, and GoodRx/HeyDoctor presenting formidable threats to HIMS. Additionally, there are a multitude of specialty DTC virtual health companies like Keeps (hair loss), Nurx (birth control), and Cove (migraine) which may have better branding/loyalty for a specific condition. We expect to see increased competition and funding for these types of companies which will likely keep marketing costs high.

In addition to the DTC competitors, HIMS faces threats from the enterprise-focused diversified virtual health companies (TDOC, AmWell, Dr. on Demand) as well as new tech entrants (notably Amazon). We think Amazon's launch of Amazon Pharmacy (which has solutions for insurance and cash pay) will make it a potential competitor (however, we do not think they will build a clinical network of providers to write prescriptions).

Key Debate 2: Is HIMS Just a Millennial Pill Mill?

A skeptical investor may write HIMS off as a pill mill dressed up in fancy code capitalizing on the over-medication of Millennials (see a recent Bloomberg article on this point [here](#)). We fundamentally disagree with this assertion. In our view, HIMS' value comes from simplifying a confusing and fragmented healthcare system. This is all the more important given, in a recent survey conducted by Alight ([LINK](#)), nearly 1/3 of respondents noted the healthcare system and benefits are so difficult and confusing they just "give up and hope for the best."

I tested out HIMS for an acne medication prescription and found the experience to be very easy (and even enjoyable). I spent 10 minutes filling out forms (including medical history) and sent in pictures via HIMS' website. Within 30 minutes, a board certified physician messaged me on HIMS' messaging service. After a couple of messages, I was prescribed an acne medication which was delivered directly to my home in 3 days. The acne medication costs \$45/month a slight premium to the \$30 I would pay for a similar clindamycin topical cream (using GoodRx) or \$46 using my insurance. Note, without HIMS (or another telehealth service), I would also have to pay \$100 to see an in-network dermatologist and wait 2 weeks to see the doctor.

I appreciated the back-and-forth with the physician which indicates that they are not just there as a rubber stamp. HIMS notes that all of its physicians are board certified and in good standing with the American Medical Association (AMA). HIMS performs 9K+ quality control provider chart reviews making sure the providers are following clinical guidelines (clinical guidelines are built directly into HIMS' home-grown EHR).

Valuation

We derive our \$23 PT by applying a 17.5x multiple to our FY22 estimates. This is a slight discount to what other virtual health peers trade at (namely TDOC, AMWL and GDRX) and other consumer-driven companies digitizing traditionally analog industries (MTCH, FVRR, ETSY, DKNG, LMND) which we think is justified given lower barriers to entry and the increasingly competitive environment.

Company Overview

Founded in December 2013, HIMS is a vertically integrated, direct-to-consumer virtual health platform. HIMS provides end-to-end health solutions (from diagnosis, to prescription fulfillment) through its telehealth platform. HIMS' 266 providers can prescribe dozens of medications with a 50-state delivery network. As of September 30, 2020, HIMS had over 280K customer subscriptions and had conducted 2M cumulative telehealth consultations since inception. According to the company, a majority of HIMS' customers are millennials looking for a convenient, digitally-native and mobile-first product.

Currently HIMS offers treatment in four categories: (1) sexual health, (2) hair loss & dermatology, (3) primary care, (4) and behavioral health (HIMS' first offerings were for erectile dysfunction and hair loss). HIMS offers doctor consults, prescription drugs and over-the-counter (OTC) products in each of these categories.

Popular Prescription Drugs include:

- **Sexual Health:** Viagra and its generic equivalent (Sildenafil), Cialis and its generic equivalent (Tadalafil), Stendra, Sertraline for Premature Ejaculation, Birth Control, Valacyclovir
- **Skincare:** A proprietary tretinoin-based formula for acne and wrinkles
- **Hair:** Finasteride (generic Propecia), Latisse
- **Mental Health:** Bupropion (generic Wellbutrin), Citalopram (generic Celexa), Duloxetine (generic Cymbalta), Escitalopram (generic Lexapro), Fluoxetine (generic Prozac), Paroxetine (generic Paxil), Sertraline (generic Zoloft), Venlafaxine (generic Effexor), Propranolol.

Popular OTC products include (largely white-labeled):

- **Sexual Health:** condoms and lubricants
- **Skincare:** moisturizer, fragrances, face wash and anti-wrinkle cream
- **Hair:** Shampoos, conditioners, scalp scrubs and Minoxidil (Rogaine)
- **Wellness Products:** Vitamin C, melatonin, biotin, collagen protein and teas

More recently, HIMS expanded into primary care (entered in March 2020) and behavioral health (entered in June 2020). HIMS' primary care solutions cost \$39/visit and cover 20 of the most common conditions (e.g. sinus infections,

migraines, urinary tract infections, and at-home COVID-19 testing). HIMS' behavioral health (BH) solution costs \$59/visit and includes access to psychiatric evaluations and medications, anonymous support groups, and individualized talk therapy (coming soon).

Like many telehealth providers, HIMS does not employ physicians, but contracts with an affiliated physician group (Bailey Health). Currently HIMS has 266 physicians in its affiliated primary-care physician group. These providers are paid on an hourly basis (not a per-visit basis) incentivizing care quality over visit churn. We estimate providers are paid \$100/hour and on average work 14 hours per week. As previously noted, except in BH, the delivery of care is provided via text (asynchronous) which allows for more efficient network scaling (we estimate 266 providers conducted 1M visits in 2020). In BH, HIMS is building a separate physician group and is conducting care via live video.

HIMS has also formed partnerships with leading health systems and physician organizations including Privia Health, Ochsner Health and Mount Sinai Health System. These partnerships provide customers with deeper integration with in-person care when necessary (there is no monetary value exchanged).

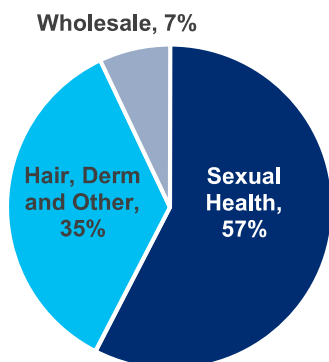
How HIMS Makes Money

HIMS' business model is relatively simple and is more akin to a consumer products subscription service than a healthcare provider. As detailed above, HIMS offerings generally focus on conditions where treatment involves ongoing use of prescription medication. Most of these offerings are sold to customers on a subscription basis (referred to as Online Revenue). For subscriptions, customers can select a cadence (every month to every 2-12 months depending on the product). The customer is billed on a recurring basis depending on the cadence and quantity of product.

Except for primary care and BH, the cost of obtaining the prescription is included in the cost of the subscription. For primary care and BH the cost of the visit and any resultant prescription drug are billed separately (as noted above, each primary care visit costs \$39 and each BH visit costs \$59 for an initial consult and \$49 for a check in). All services provided on HIMS' platform are cash pay (not reimbursed by insurance). While customers do have the option to send their prescriptions to a local pharmacy (which may be reimbursed by insurance depending on the customer's benefit design/formulary) most decide to fulfill their prescription through HIMS.

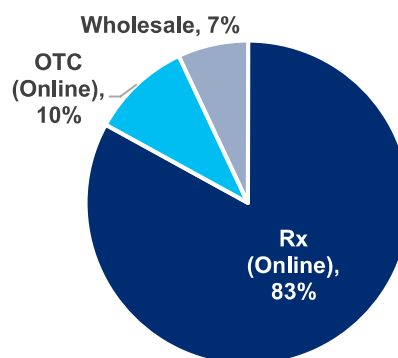
As of Q220, 57% of HIMS revenue was derived from sexual health and 35% was derived from hair, dermatology and other products. Apart from Online Revenue, HIMS sells non-prescription products through retailers (the biggest being Target). Wholesale revenue is a relatively small portion of the business representing ~7% of revenue.

Figure 1. Revenue By Product



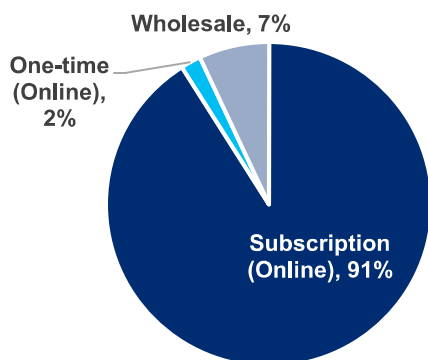
Source: Citi Research, Company Reports

Figure 2. Prescription vs OTC



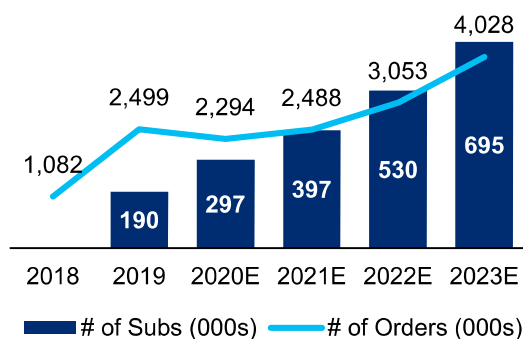
Source: Citi Research, Company Reports

Figure 3. Subscription vs Non-Subscription



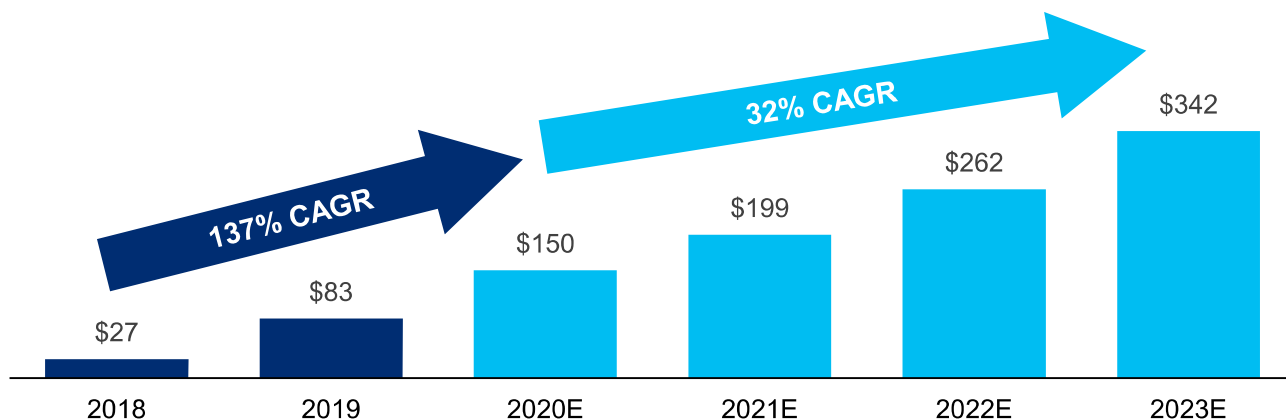
Source: Citi Research, Company Reports

Figure 4. Subscribers and Orders



Source: Citi Research, Company Reports

Figure 5. We Estimate HIMS Will Grow Revenue at a ~30% CAGR from 2020 - 2023 (Revenue in Millions)

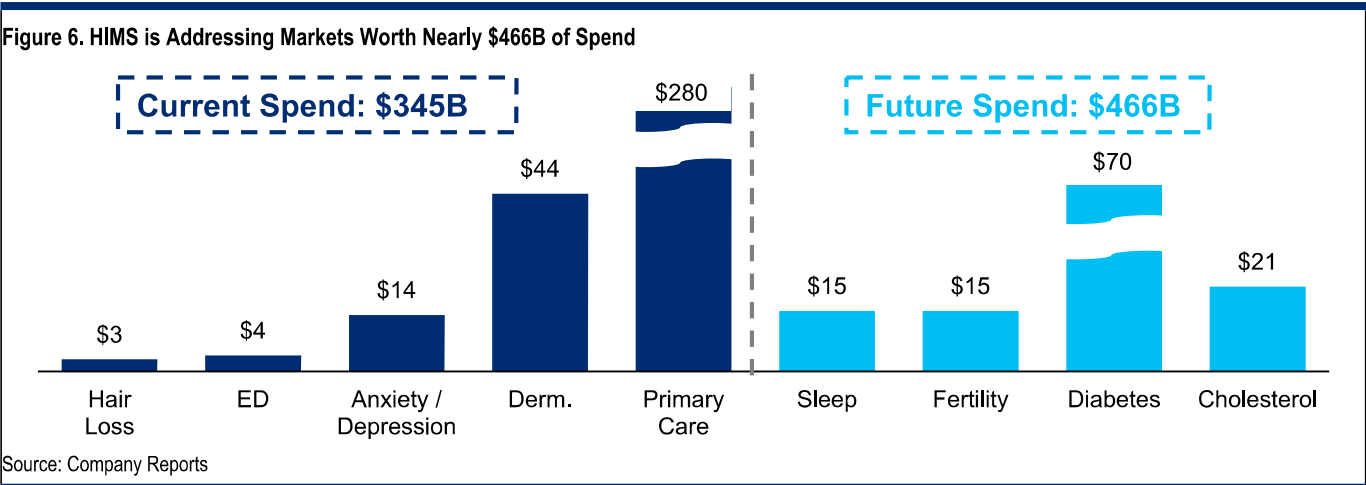


Source: Citi Research, Citi Estimates

Investment Positives

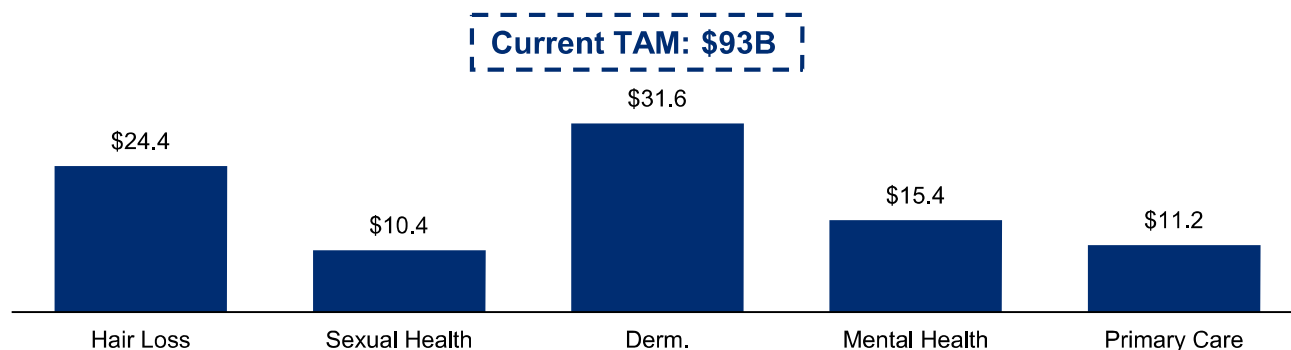
Large and Undertreated Markets

As previously noted, HIMS is currently focusing on conditions with low acuity, high social stigma and low costs of treatment. Broadly, this segments into 5 main categories representing \$345B of spend according to the company: Hair Loss (\$3B of spend), Erectile Dysfunction (\$4B of spend), Anxiety/Depression (\$14B of spend), Dermatology (\$44B of spend) and primary care (\$280B of spend). Further out, HIMS has indicated it is interested in expanding into 4 new categories representing an additional \$121B of spend: Sleep (\$15B of spend), Fertility (\$15B of spend), Diabetes (\$70B of spend) and Cholesterol (\$21B of spend).



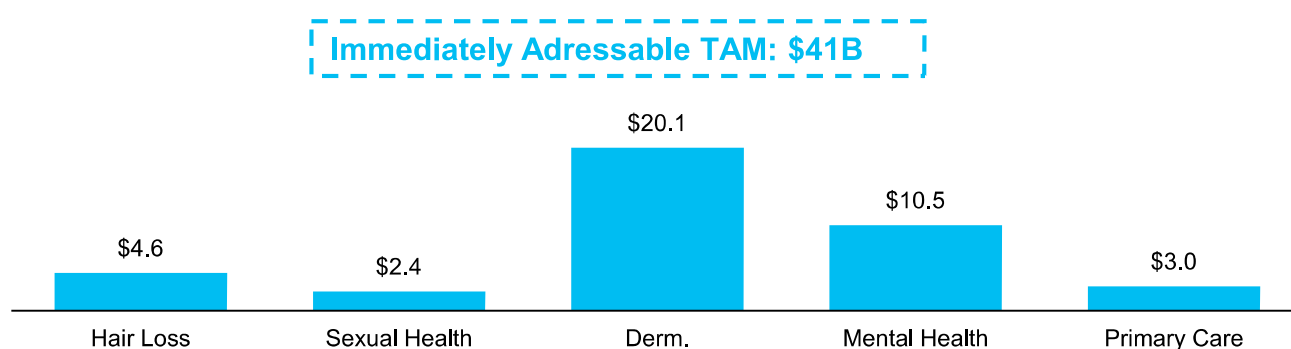
While it is important to look at aggregate spend in these categories, in our view, it is not the best way to size the market because (1) not all conditions in these categories can be treated virtually and (2) low treatment rates of high stigma conditions understates potential market size. We fundamentally believe that the ease of use and relative anonymity that asynchronous care brings will increase the patient population seeking care (as noted above ~80% of HIMS' customers indicate they are seeking treatment for their particular condition for the first time). We size HIMS' current TAM at \$93B, \$41B of which is immediately addressable. Our immediately addressable market estimate consists largely of Millennial and Gen Z patients with these conditions (a majority of HIMS' customers are Millennials according to the company).

Figure 7. We Size HIMS' Current TAM at \$93B



Source: Citi Research

Figure 8. We Size HIMS' Immediately Addressable Market at \$41B



Source: Citi Research

A Closer Look at Sexual Health: A \$10B Potential Market

While HIMS sells a variety of sexual health products (including ED medications, premature ejaculation products, birth control pills, herpes medications, condoms and lubricants) we focus on two of its largest products—ED prescriptions and birth control pills.

To calculate the ED market (\$9B), we take the prevalence of ED by age cohort and multiply that by the monthly cost of HIMS' most popular treatment: a 12 month supply of 60mg Sildenafil (generic Viagra) assuming 6 doses / month (monthly cost = \$26).

Figure 9. Sizing the ED Market

Age Group	Target				Total
	<40	40-49	50-59	>60	
U.S. Male Population (M)	49.7	20.0	20.7	33.9	124.3
% with Erectile Dysfunction (ED)	8.2%	16.0%	27.7%	47.8%	23.5%
U.S. Population with ED (M)	4.1	3.2	5.7	16.2	29.2
Monthly Cost of Treatment	\$26	\$26	\$26	\$26	\$26
ED TAM (M)	\$1,271.4	\$998.0	\$1,791.5	\$5,060.3	\$9,121.3

Source: Citi Research, UW Health, Boston University School of Medicine, U.S. Census Bureau

We note, the above analysis assumes 100% of men with ED are treated (a poor assumption). We also note the estimates of ED prevalence vary widely, with some sources indicating up to 1/3 of men in their 30s have experienced ED. We therefore sensitize our ED market sizing to (1) % seeking treatment (which we estimate is between 20-30% currently) and (2) % of men that have experienced ED. We confine our analysis to men under the age of 40 (HIMS' current target market).

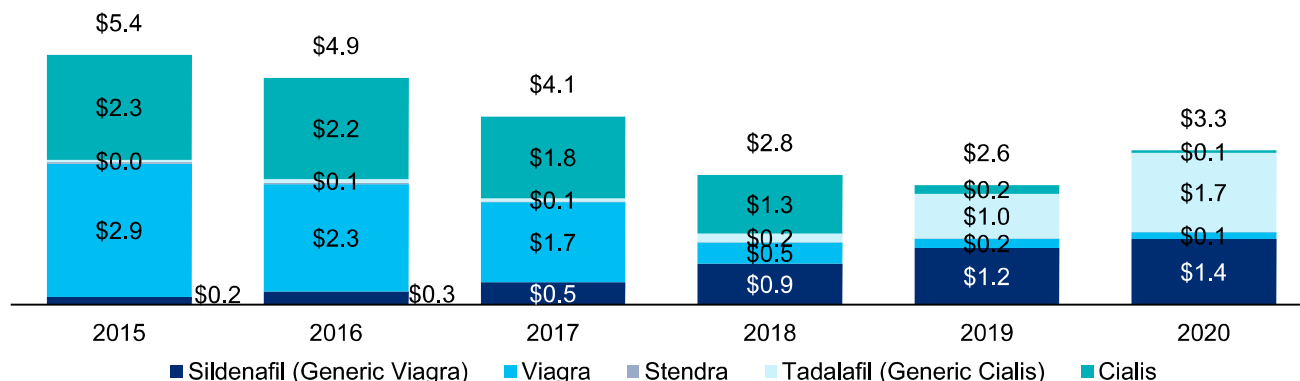
Figure 10. ED Market Sizing Sensitivity Analysis: Men <40 Years Old (\$M)

		% of Men Who Have Experienced ED					
		5%	10%	15%	20%	25%	30%
% of Men Seeking Treatment	20%	\$155	\$310	\$465	\$620	\$775	\$930
	30%	\$233	\$465	\$698	\$930	\$1,163	\$1,395
	40%	\$310	\$620	\$930	\$1,240	\$1,551	\$1,861
	50%	\$388	\$775	\$1,163	\$1,551	\$1,938	\$2,326
	60%	\$465	\$930	\$1,395	\$1,861	\$2,326	\$2,791
	70%	\$543	\$1,085	\$1,628	\$2,171	\$2,713	\$3,256
	80%	\$620	\$1,240	\$1,861	\$2,481	\$3,101	\$3,721
	90%	\$698	\$1,395	\$2,093	\$2,791	\$3,489	\$4,186
	100%	\$775	\$1,551	\$2,326	\$3,101	\$3,876	\$4,652
		Light Blue = Current Market					
		Dark Blue = Potential Market					

Source: Citi Research

To also assist with market sizing, we look at the number of prescription ED medications prescribed each year (via IQVIA) and apply HIMS' pricing to these prescriptions. Using this methodology, we arrive at a \$3.3B TAM (again this understates the market because, in our view, there is a large percentage of men who have experienced ED but have not sought treatment due to social stigma).

Figure 11. Using HIMS' Pricing, \$3.3B of ED Medication was Prescribed in 2020



Source: Citi Research, IQVIA, Company Reports

Turning to the Oral Contraceptive market (which we size at \$1.2B), we take the percent of women in the U.S. on oral contraceptives by age cohort and multiply that by the monthly cost of HIMS' most popular treatment: a monthly supply of oral contraceptives for \$12/month. Our target market is in the 18-39 age range which equates to a \$1B market.

Figure 12. Sizing the Oral Contraceptive Market (\$M)

Age Group	Target		40-49	Total
	18-29	30-39		
U.S. Female Population (M)	26.3	21.9	20.3	68.5
% on Birth Control Pills (BC)	19.5%	11.0%	5.1%	12.5%
U.S. Population on BC (M)	5.1	2.4	1.0	8.6
Monthly Cost of Treatment	\$12	\$12	\$12	\$12
BC TAM (M)	\$737.7	\$347.4	\$149.3	\$1,234.4

Source: Citi Research, CDC, U.S. Census Bureau, Company Reports

A Closer Look at Hair Care: A \$25B Potential Market

In the hair care market, we focus our attention on hair loss medications Minoxidil (generic Rogaine) and Finasteride (generic Propecia) to derive a \$24B TAM, \$4.6B of which is immediately addressable. Again, we look at prevalence of hair loss by age cohort and apply HIMS' monthly pricing to this population. Similar to E.D., this analysis assumes 100% of people with hair loss seek treatment (once again overstating market potential) so we provide a sensitivity analysis for a more realistic look at the current market.

Figure 13. Sizing the Male Hair Loss Market

Age Group	Target		40-49	>50	Total
	18-29	30-39			
U.S. Male Population (M)	27.5	22.2	20.0	54.7	124.3
% with Hair Loss	16.0%	38.0%	53.0%	85.0%	56.2%
U.S. Male Population with Loss (M)	4.4	8.5	10.6	46.5	69.9
Monthly Cost of Treatment	\$22	\$22	\$22	\$22	\$22
Male Hair Loss TAM (M)	\$1,159.8	\$2,231.1	\$2,797.3	\$12,265.7	\$18,453.9

Source: Citi Research, U.S. Census Bureau, PubMed, Company Reports

Figure 14. Sizing the Female Hair Loss Market

Age Group	Target		40-49	>50	Total
	18-29	30-39			
U.S. Female Population (M)	26.3	21.9	20.3	62.3	130.9
% with Hair Loss	12.3%	17.0%	25.4%	33.9%	25.4%
U.S. Female Population with Loss (M)	3.2	3.7	5.2	21.2	33.3
Monthly Cost of Treatment	\$15	\$15	\$15	\$15	\$15
Female Hair Loss TAM (M)	\$581.7	\$671.0	\$929.3	\$3,808.4	\$5,990.5

Source: Citi Research, U.S. Census Bureau, PubMed, Company Reports

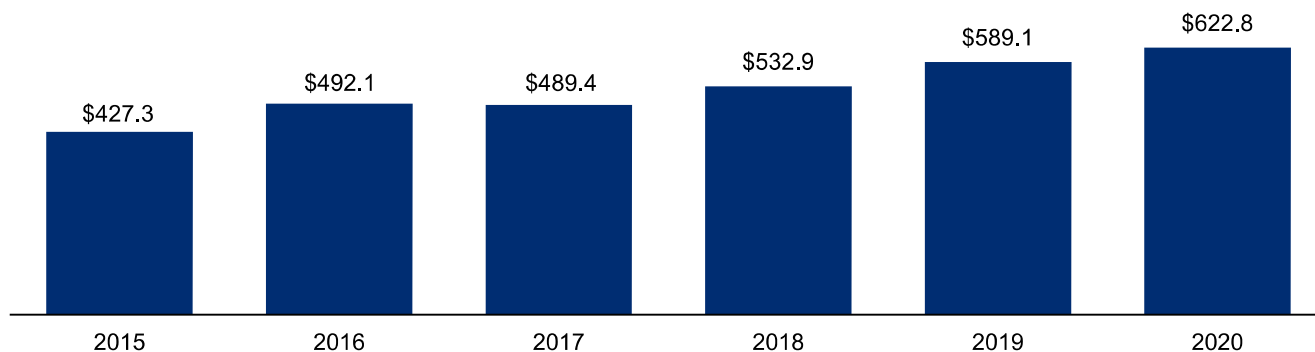
Figure 15. Sensitizing the Hair Loss Market: <40 Years Old (\$ M)

% Treated	Men	Women	Total
10%	\$339	\$125	\$464
20%	\$678	\$251	\$929
30%	\$1,017	\$376	\$1,393
40%	\$1,356	\$501	\$1,857
50%	\$1,695	\$626	\$2,322
60%	\$2,035	\$752	\$2,786
70%	\$2,374	\$877	\$3,250
80%	\$2,713	\$1,002	\$3,715
90%	\$3,052	\$1,127	\$4,179
100%	\$3,391	\$1,253	\$4,644

Source: Citi Research

Again, to assist with market sizing, we look at the number of Propecia prescriptions written each year (branded and generic via IQVIA) and apply HIMS' pricing to these prescriptions. Using this methodology, we arrive at a \$600M TAM (again this understates the market because, in our view, there is a large percentage of men who have hair loss but have not sought treatment).

Figure 16. Sizing the Current Propecia TAM (\$ M)



Source: Citi Research, IQVIA, Company Reports

A Closer Look at Dermatology: A \$32B Potential Market

In the dermatology market, we focus our attention on acne medications to derive a \$32B TAM, \$30B of which is immediately addressable. Again, we look at prevalence of acne by age cohort and apply HIMS' monthly pricing to this population. This analysis once again assumes 100% of people with acne seek treatment, so we provide another sensitivity analysis for those <40 years old.

Figure 17. Sizing the Male Acne Market (\$ M)

Age Group	Target				Total
	18-29	30-39	40-49	>50	
U.S. Male Population (M)	27.5	22.2	20.0	54.7	124.3
% with Acne	42.5%	20.1%	12.0%	7.3%	18.1%
U.S. Male Population with Acne (M)	11.7	4.5	2.4	4.0	22.5
Monthly Cost of Treatment	\$45	\$45	\$45	\$45	\$45
Acne TAM (M)	\$6,301.3	\$2,413.9	\$1,295.5	\$2,154.7	\$12,165.4

Source: Citi Research, U.S. Census Bureau, PubMed, Company Reports

Figure 18. Sizing the Female Acne Market (\$M)

Age Group	Target				Total
	18-29	30-39	40-49	>50	
U.S. Female Population (M)	26.3	21.9	20.3	62.3	130.9
% with Acne	50.9%	35.2%	26.3%	15.3%	27.5%
U.S. Female Population with Acne (M)	13.4	7.7	5.3	9.5	36.0
Monthly Cost of Treatment	\$45	\$45	\$45	\$45	\$45
Acne TAM (M)	\$7,221.0	\$4,168.3	\$2,886.8	\$5,149.2	\$19,425.4

Source: Citi Research, U.S. Census Bureau, PubMed, Company Reports

Figure 19. Sensitizing the Acne Market: <40 Years Old (\$ M)

% Treated	Men	Women	Total
10%	\$872	\$1,139	\$2,010
20%	\$1,743	\$2,278	\$4,021
30%	\$2,615	\$3,417	\$6,031
40%	\$3,486	\$4,556	\$8,042
50%	\$4,358	\$5,695	\$10,052
60%	\$5,229	\$6,834	\$12,063
70%	\$6,101	\$7,973	\$14,073
80%	\$6,972	\$9,111	\$16,084
90%	\$7,844	\$10,250	\$18,094
100%	\$8,715	\$11,389	\$20,105

Source: Citi Research

A Closer Look at Primary Care: An \$11B Potential Market

For primary care, we think HIMS is currently best suited for sub-acute episodic conditions (more akin to a retail clinic or urgent care). We assume 40% of all primary care visits, emergency room visits, urgent care visits, and retail clinics fall into this category and can be treated via telehealth. We divide these visits into age cohorts and multiply by the cost of a primary care visit using HIMS (\$39/visit).

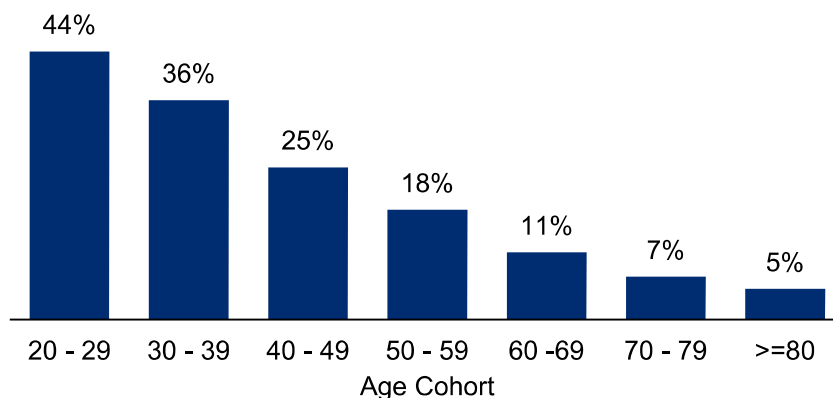
Figure 20. Sizing the Virtual Primary Care Market (\$ M)

Age Group	<15	Target		45-64	>65	Total
		15-24	25-44			
Primary Care Visits (M)	127.4	53.3	138.9	205.2	194.4	719.9
% Treatable with Virtual Care	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Potential Virtual Primary Care Visits (M)	51.0	21.3	55.6	82.1	77.8	287.7
Cost / Visit	\$39	\$39	\$39	\$39	\$39	\$39
Primary Care TAM (M)	\$1,987.9	\$831.1	\$2,167.6	\$3,200.9	\$3,032.4	\$11,219.8

Source: Citi Research, CDC, Company Reports

In our view, HIMS' primary care solution will be particularly impactful given, according to a recent article in JAMA, 44% of people in their 20s do not have a primary care physician (PCP) and 36% of people in their 30s do not have a PCP.

Figure 21. Percent of U.S. Population Without a PCP



Source: Citi Research, JAMA

A Closer Look at Mental Health: A \$15B Potential Market

For mental health, we look to the prevalence of mental illness in the United States by age cohort (according to the National Institute of Mental Health). We assume half of the population with mental health can be treated via telehealth and visit a doctor once a month. We multiply the number of visits by the cost of a mental health check-in using HIMS (\$49/visit).

Figure 22. Sizing the Virtual Mental Health Market (\$M)

Age Group	Target			Total
	18-24	25-49	>50	
U.S. Population (M)	30.2	108.0	117.0	255.2
% with Mental Illness	29.4%	25.0%	14.0%	20.5%
U.S. Population with Mental Illness (M)	8.9	27.0	16.4	52.3
% Treatable with Virtual Care	50.0%	50.0%	50.0%	50.0%
Potential Visits Per Month (M)	4.4	13.5	8.2	26.1
Monthly Cost of Treatment	\$49	\$49	\$49	\$49
Mental Health TAM (M)	\$2,612	\$7,938	\$4,815	\$15,365

Source: Citi Research, U.S. Census Bureau, NIMH, Company Reports

The Benefits of Stigma Arbitrage

As previously noted, HIMS is able to charge premium prices for generic prescriptions by capitalizing on what we deem “stigma arbitrage.” That is, there is relatively price inelastic demand for treatment of conditions where stigma is high acuity is low and mediations are inexpensive. For these conditions, we believe there is a large shadow patient population who may suffer silently, unwilling to see an in-person doctor due to embarrassment and/or a lack of urgency. The privacy and convenience that asynchronous virtual health affords can tap into this shadow population.

By bundling a text-based doctors’ visit with a subscription-based prescription and providing a seamless, consumer-friendly shopping experience HIMS is able to charge relatively high prices and still maintain ~90% recurring revenue. It is important to note that HIMS members can send the prescription to any pharmacy

and, if available, use a coupon via GoodRx to lower the price of the prescription. However, 95%+ of HIMS members choose not to do this according to the company.

I tested out HIMS for an acne medication prescription and found the experience to be very easy (and even enjoyable). I spent 10 minutes filling out forms (including medical history) and sent in pictures via HIMS' website. Within 30 minutes, a board certified physician messaged me on HIMS' messaging service. After a couple of messages, I was prescribed an acne medication which was delivered directly to my home in 3 days. The acne medication costs \$45/month a slight premium to the \$30 I would pay for a similar clindamycin topical cream (using GoodRx) or \$46 using my insurance. Note, without HIMS (or another telehealth service), I would also have to pay \$100 to see an in-network dermatologist and wait 2 weeks to see the doctor.

Figure 23. HIMS Can Charge a Premium Price by Bundling a Text-Based Doctor's Visit and a Subscription-Based Rx

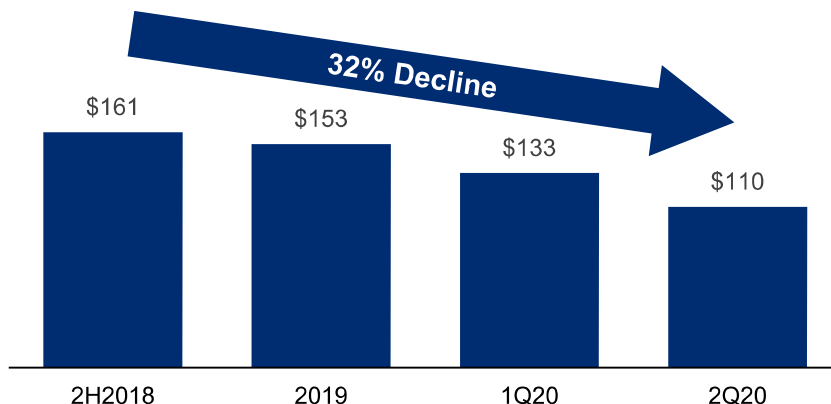
	HIMS	GoodRx	Amazon	Insurance
Common Prescription Medications				
Finasteride (Generic Propecia): 3 Month Supply	\$78.0	\$12.89	\$39.30	\$6.26
Sildenafil (Generic Viagra): 60mg. Per Dose Pricing	\$5.2	\$0.81	\$0.80	\$8.6
Tadalafil (Generic Cialis). 3 Month Supply	\$235.00	\$16.45	\$70.8	\$201.2
Common OTC Medications / Supplements				
Minoxidil (Generic Rogaine): 2 fl oz	\$20.0	\$13.8	\$5.3	
Melatonin: 1 Month Supply	\$32.0		\$12.5	
Collagen Protein (30 servings)	\$24.0		\$26.6	
Biotin: 1 Month Supply	\$21.0		\$3.3	

Source: Citi Research, GoodRx, Amazon, CVS Caremark

Driving Consumer Awareness

As we previously noted, in our view, brand is the biggest competitive moat for DTC virtual healthcare companies. We think HIMS branding and marketing campaigns have been innovative and differentiated, which has led to lower customer acquisition costs (CAC) and high levels of satisfaction (as measured by Net Promoter Score (NPS)). Customer growth is largely driven by word of mouth, billboards and social media which has led to a 32% reduction in CAC from 2H 2018 to current.

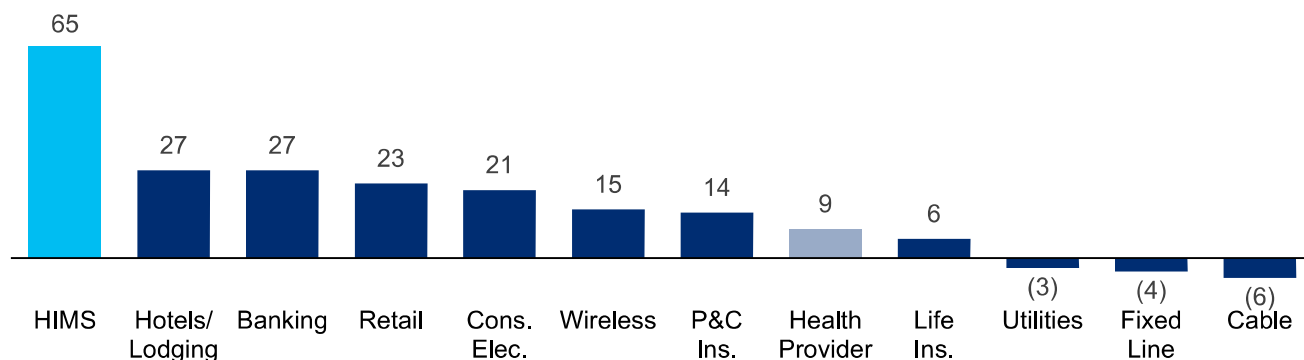
Figure 24. Efficient Marketing Campaigns Have Led to CAC Reduction



Source: Company Reports

Additionally, HIMS has an NPS of +65 (vs +9 NPS for traditional health providers), which will lead to further marketing efficiency as members effectively become brand ambassadors.

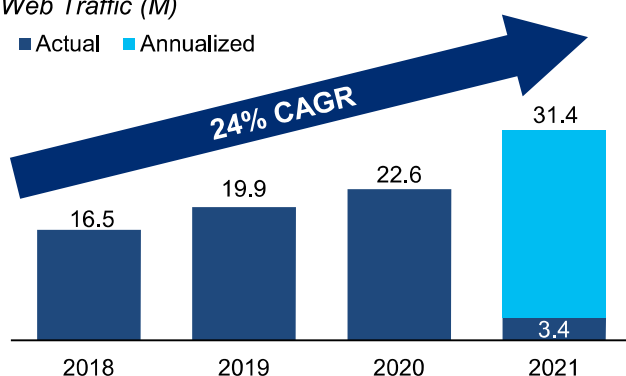
Figure 25. NPS Scores by Industry



Source: Company Reports

Figure 26. HIMS Has Grown Web Traffic at a 24% CAGR Since 2018...

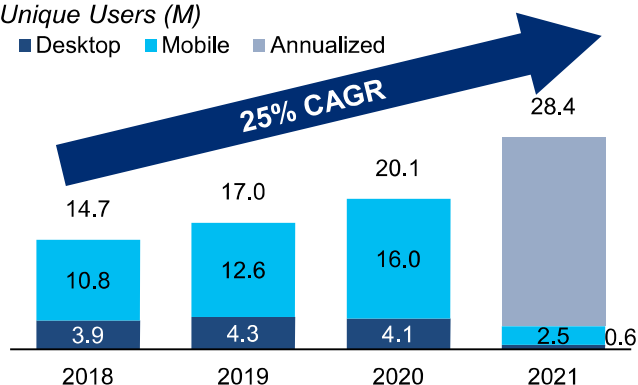
Web Traffic (M)
■ Actual ■ Annualized



Source: Citi Research, SimilarWeb

Figure 27. ...And Unique Users at a 25% CAGR

Unique Users (M)
■ Desktop ■ Mobile ■ Annualized

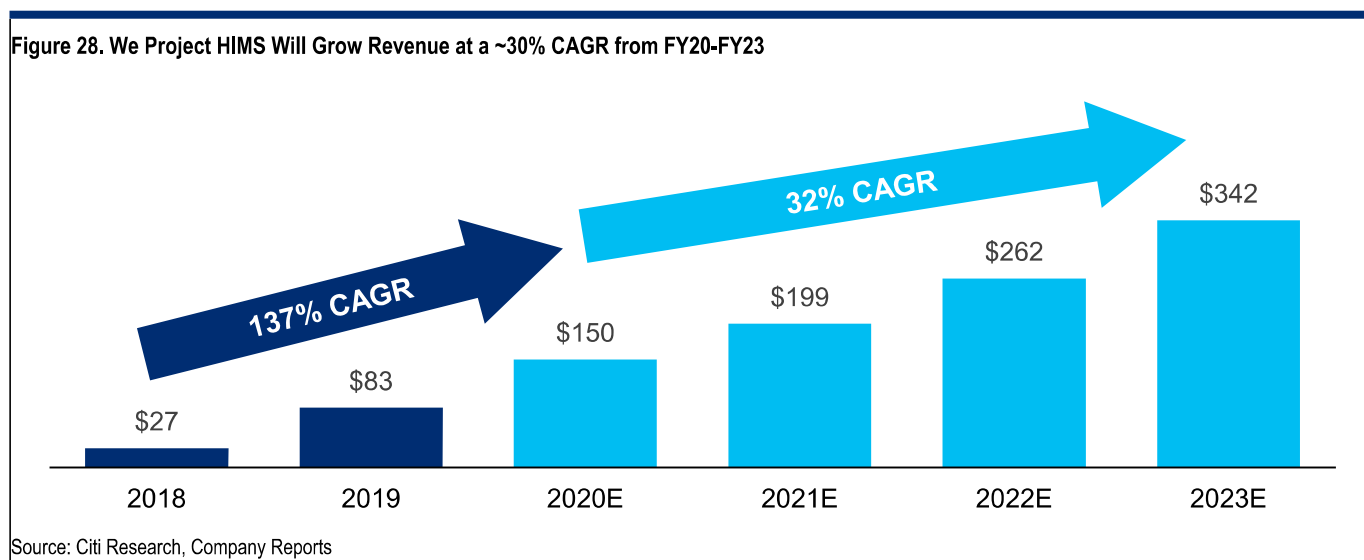


Source: Citi Research, SimilarWeb

A Long Growth Runway

We are conservatively projecting a 32% revenue CAGR from FY20-FY23 driven largely by new member acquisition and, to a lesser extent, average order value (AOV) increases. We see most near term upside to our estimates on faster than anticipated membership growth. In the medium term, we think AOV expansion is likely as HIMS continues to bundle multiple products and grows into recently launched markets (mental health, dermatology and primary care). Longer term we see most upside from (1) product expansion (Sleep, Fertility, Diabetes, Cholesterol); (2) international expansion; (3) enterprise expansion; and (4) acquisitions of similar DTC platforms.

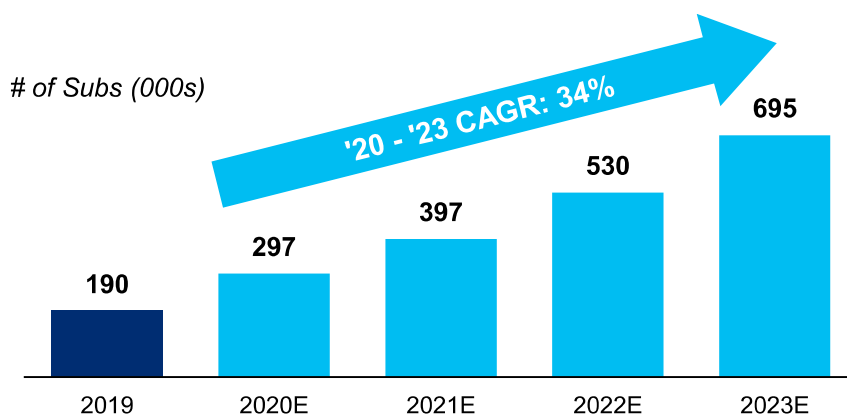
Figure 28. We Project HIMS Will Grow Revenue at a ~30% CAGR from FY20-FY23



Customer Acquisition

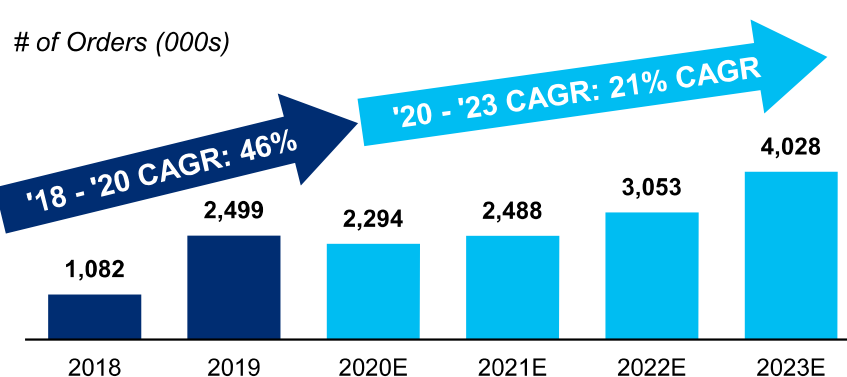
As noted above, the biggest driver of our revenue growth assumptions is customer acquisition. We project the number of subscribers on HIMS' platform will increase at a 34% CAGR (net of single-digit annual churn). Even with this rather rapid growth, HIMS will remain relatively underpenetrated in its core markets (ED, hair loss and acne). We note that the expansion of subscribers will not lead to a 1-for-1 expansion of orders as the company has focused on increasing the number of multi-month orders. We expect the number of net orders to fall throughout 2021 as HIMS reaches 50% of the subscriber base ordering on a multi-month basis and remain steady thereafter. As seen below, even though we expect the number of subscribers to increase by 56% in 2020E, we expect the number of orders to drop 8% as subscribers switch to multi-month orders. As explored further, this will more than be made up for in increasing average order value (AOV).

Figure 29. We Project The Number of HIMS Subscribers will Increase at a 34% CAGR from FY20-FY23



Source: Citi Research

Figure 30. Net Orders Will Not Grow as Fast as Subscribers as More Customers Purchase Multi-Month Orders



Source: Citi Research, Company Reports

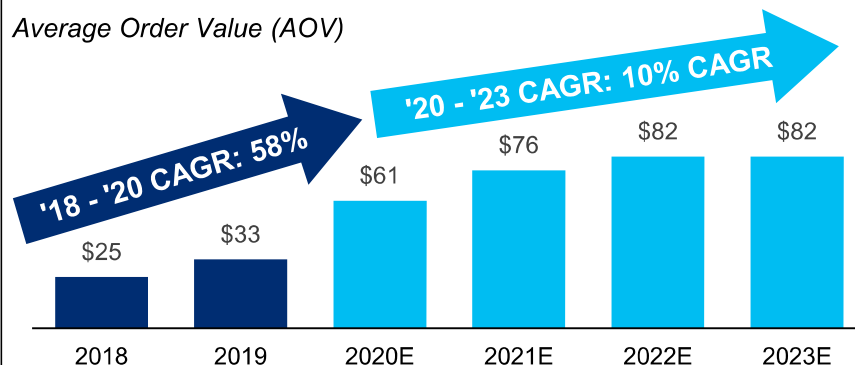
Expand Within Customer Base

While membership and order growth will be the largest growth driver of HIMS for FY20-FY23, we also expect to see growth in the average order value (AOV). As noted above, AOV increased dramatically in 2020 (increasing 84% from 2019) as subscribers switched from monthly orders to multi-month orders. We expect this dynamic to play out until the end of 2022 at which point we do not expect to see much switching and we expect multi-month orders to account for ~50% of subscribers (in 2Q20 17% of orders were multi-month). To a lesser extent, we expect bundling and new product categories (namely mental health and women's health) to driver AOV growth.

Bundling can be particularly effective for hair loss as there are many products (OTC and prescription) that can be used simultaneously. For example, HIMS sells a "Hair Power Pack" that consists of Finasteride (generic Propecia), Biotin Gummy Vitamins, Minoxidil (generic Rogaine), Shampoo and Conditioner for \$65/month.

Figure 31. AOV Increases Will Be Driven by Multi-Month Orders

Average Order Value (AOV)



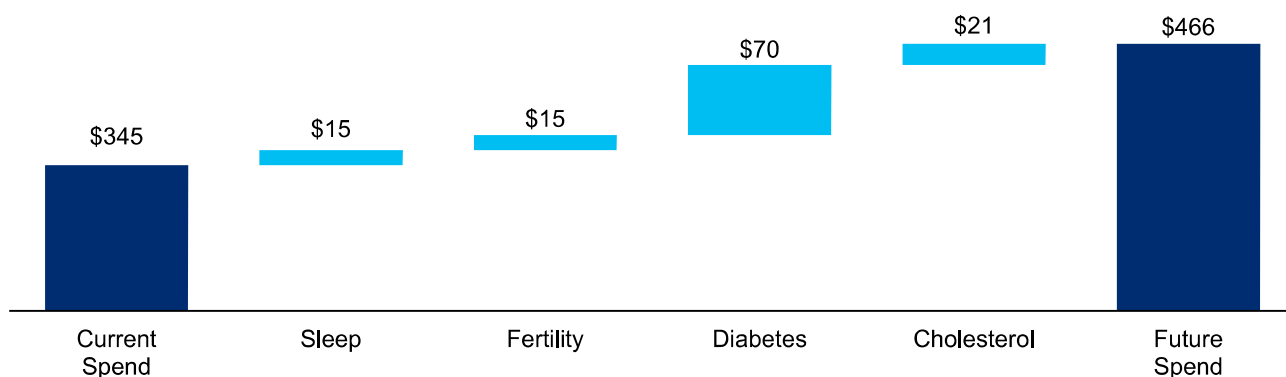
Source: Citi Research, Company Reports

A strategic focus on multi-month orders and bundling has led to dramatic increase in customer lifetime value (LTV) over the past 18 months. According to the company, in 1H19, it took over a year to generate \$200 per customer. In the latest customer cohort (2Q20), this contracted to < 5 months. For 2Q20, the company expects a 1-year LTV of \$205 and a 3-year LTV of \$325 (nearly ~3x higher than the CAC as noted above).

Growing Into New Categories

As noted above, HIMS has indicated it is interested in expanding into 4 new categories representing an additional \$121B of spend: Sleep (\$15B of spend), Fertility (\$15B of spend), Diabetes (\$70B of spend) and Cholesterol (\$21B of spend).

Figure 32. HIMS Intends to Grow into Markets Worth an Additional \$121B in Spend



Source: Company Reports

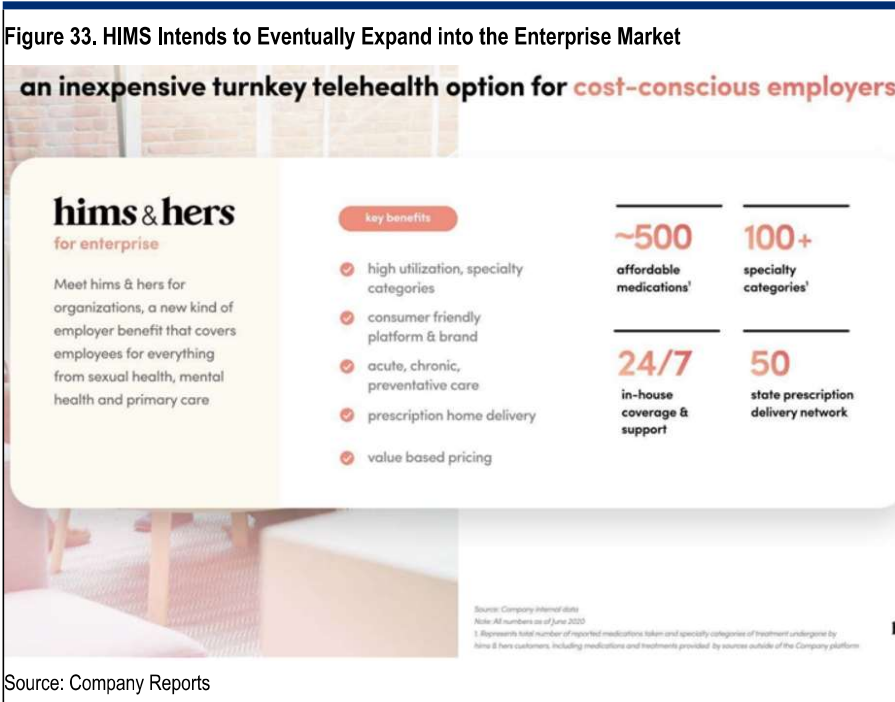
We are not currently modeling any revenues from these markets, however, as we are skeptical that the DTC model can work for these conditions. If HIMS is to grow into markets, in our view, they will have to start fostering deeper enterprise relationships (e.g. managed care organizations and self-insured employers) and deeper in-person provider integration. Additionally, many of these new markets may require expensive specialty medications (particularly Fertility) and are not

stigmatized (e.g. diabetes and cholesterol) lessening the value of “Stigma Arbitrage.”

Entering New Sales Channels

We vastly prefer virtual health companies with omni-channel distribution as we think that leads to a more sustainable competitive moat. And while we understand why HIMS has taken the DTC route to begin with (particularly for the more stigmatized conditions), we do think an eventual expansion into the enterprise market makes sense.

HIMS has begun to explore the enterprise channel and its partnerships with in-person providers (Privia Health, Ochsner Health and Mount Sinai Health System) and build-out of its own 300K square foot pharmacy will greatly help to that end. Additionally, entrance into the enterprise market will make it much easier to penetrate the new categories outlined above.



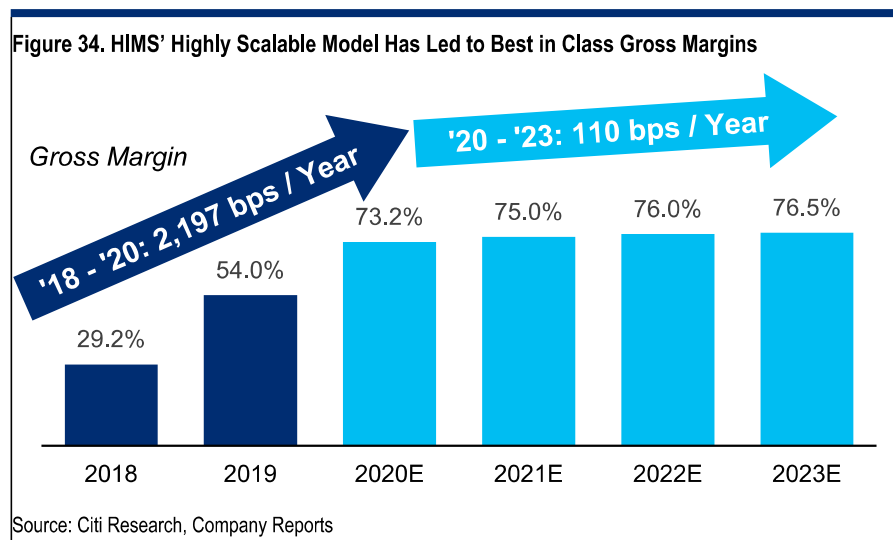
Additionally, HIMS has noted it can expand into international markets representing \$12T of total healthcare spend. HIMS has identified 6 international markets which it considers “telehealth friendly” that could potential increase its TAM by 260%: the UK (66M population), the EU (446M population), Canada (38M population), Australia (25M) population, Indonesia (268M population) and Singapore (6M population).

A Scalable Business Model

HIMS has built a digital-native, vertically-integrated virtual health offering, handling all steps of the patient journey. After landing on HIMS’ website, the patient searches for the correct medicine and inputs their health data into HIMS internally developed electronic health record (EHR). The health data are then validated and programmatically routed to the correct physician for a text-based consult (*for mental health, the first consult will be telephonic). The physician, using HIMS

software and clinical guidelines, makes a diagnosis and sends the prescription to a HIMS-affiliated pharmacy (the consumer has a choice which pharmacy to send the prescription to, but as noted above, 95%+ default to a HIMS-affiliated pharmacy). Currently, HIMS has pharmacy partnership with TruePill and Curexa, and recently opened a 300K square foot facility in Columbus, Ohio. After the diagnosis/prescription, HIMS marketing tools continually follow-up with the patient to ensure continuity of care.

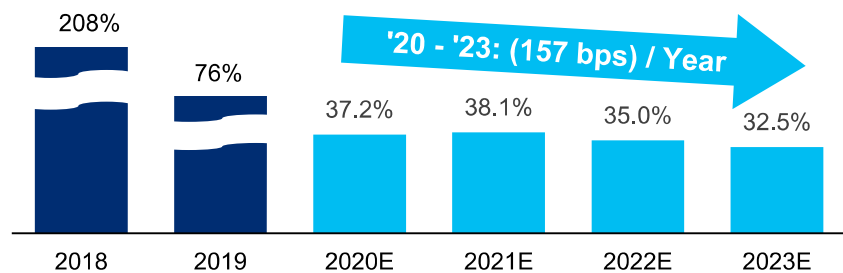
Given HIMS owns the whole patient journey, and is largely providing diagnosis via text, it has been able to scale efficiently. In 2018, HIMS conducted 431K telehealth consultations. In just the first half of 2020, HIMS conducted nearly 1M with only ~266 licensed providers. This has led to best-in-class gross margins of 75%, which allows HIMS to invest heavily in marketing/growth. We do not expect much gross margin improvement over the next 3 years, however, operating leverage in the model (particularly due to expanding LTVs and improved marketing efficiency) should lead to adj. EBITDA breakeven by 2023.



We do expect to see an increase in marketing in the near term as HIMS expands into more nascent conditions (namely mental health and women's health). We also expect to see increased competition with other DTC companies, which will likely keep marketing costs high relative to other enterprise-focused virtual health companies. We do expect to see increased marketing efficiencies in 2022 and beyond.

Figure 35. We Expect Marketing Expenses to Remain Relatively High on Increased Competition and Entrance into New Markets

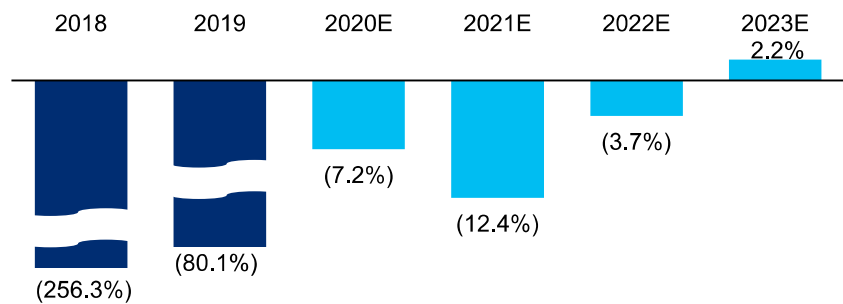
Marketing (% of Rev)



Source: Citi Research, Company Reports

Figure 36. We Expect HIMS to Reach Adj. EBITDA Breakeven by 2023

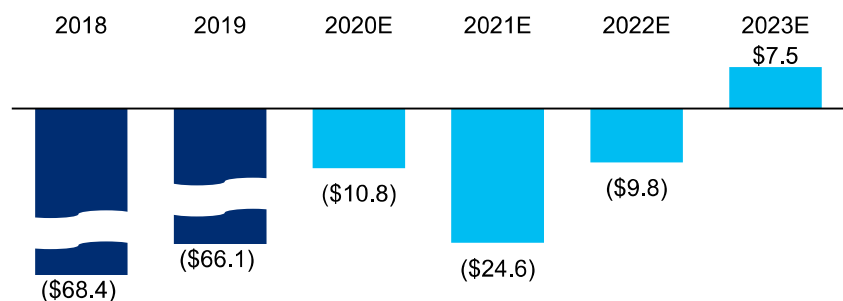
Adj. EBITDA Margin



Source: Citi Research, Company Reports

Figure 37. Adjusted EBITDA by Year

Adj. EBITDA



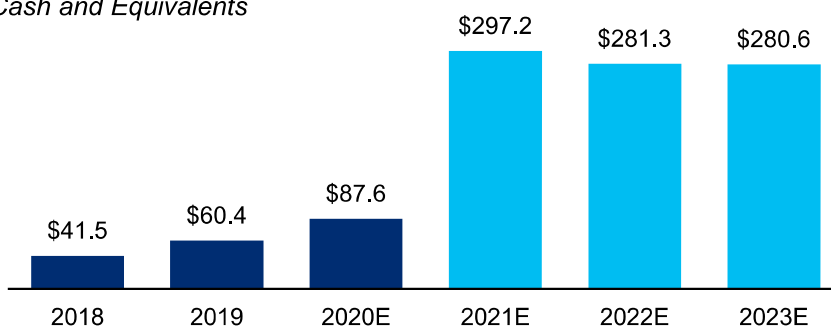
Source: Citi Research, Company Reports

Balance Sheet and Cash Flow

HIMS raised \$233.8M (net) via a de-SPACing transaction consisting of \$204.5M from Oaktree Acquisition Corp (OAC) and a \$75M PIPE. Given relatively low CapEx and working capital needs, we estimate HIMS will have ample cash to last the company through FCF-breakeven in early 2024 without raising additional equity. The company currently has \$331M of cash equivalents on its balance sheet and no debt.

Figure 38. HIMS is Well Capitalized Post the De-SPACing

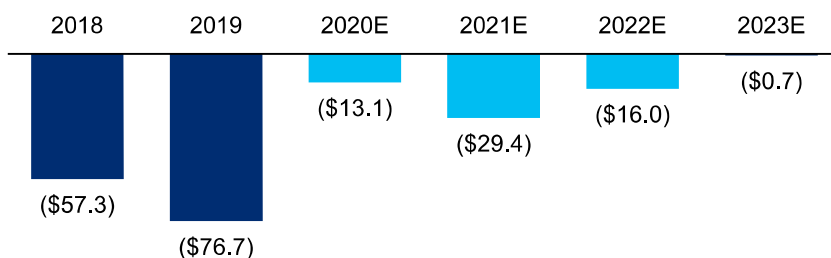
Cash and Equivalents



Source: Citi Research, Company Reports

Figure 39. We Expect HIMS' Cash Balance to Last Well Beyond FCF Breakeven in Early 2024

FCF

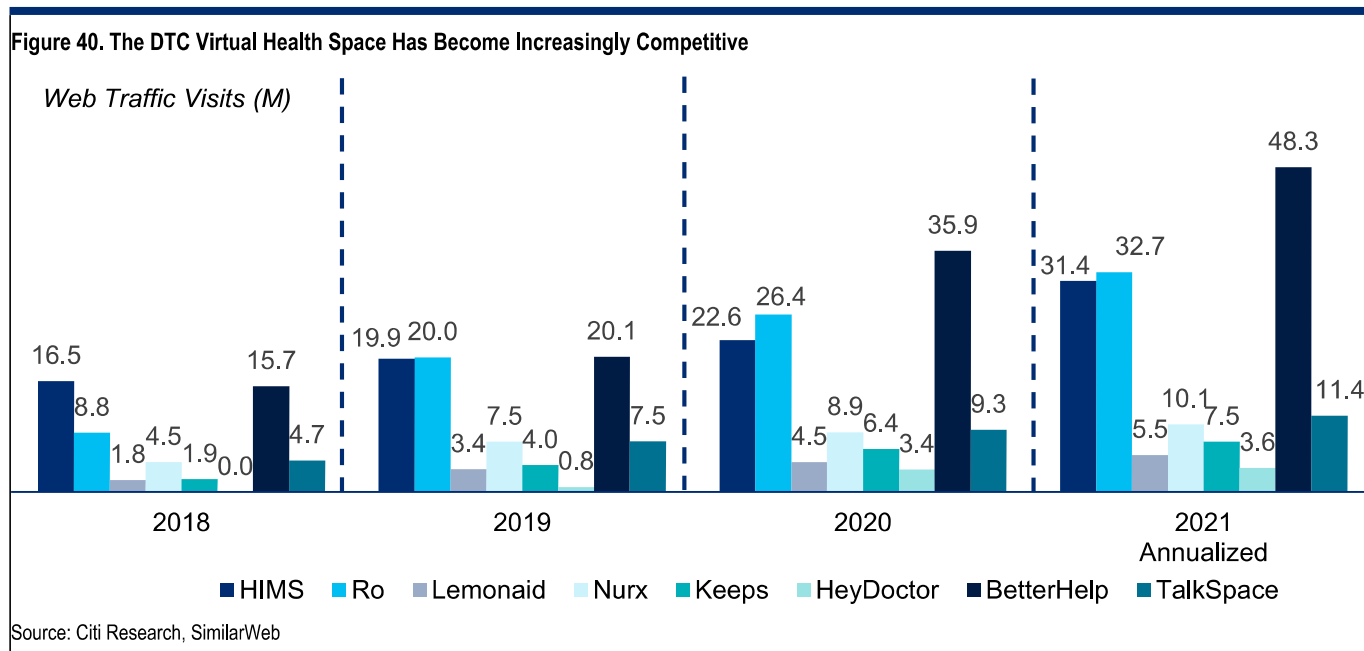


Source: Citi Research, Company Reports

Competition

The DTC virtual health space is already very competitive with Ro, Lemonade, and GoodRx/HeyDoctor presenting formidable threats to HIMS. Additionally, there are a multitude of specialty DTC virtual health companies like Keeps (hair loss), Nurx (birth control), and Cove (migraine) which may have better branding/loyalty for a specific condition. We expect to see increased competition and funding for these types of companies which will likely keep marketing costs high. There does not seem to be much differentiation between these companies (pricing and user experience is very similar), in our view, other than branding. We think Ro presents

the biggest competitive threat, and our analysis of third-party web traffic data indicates they have gained share recently. We continue to think HIMS will have to aggressively spend on marketing to differentiate itself from the pack.



In addition to the DTC competitors, HIMS faces threats from the enterprise-focused diversified virtual health companies (TDOC, AmWell, Dr. on Demand) as well as new tech entrants (notably Amazon). We think Amazon's launch of Amazon Pharmacy (which has solutions for insurance and cash pay) will make it a formidable competitor (however, we do not think they will build a clinical network of providers to write prescriptions).

Stock Price Performance and Valuation

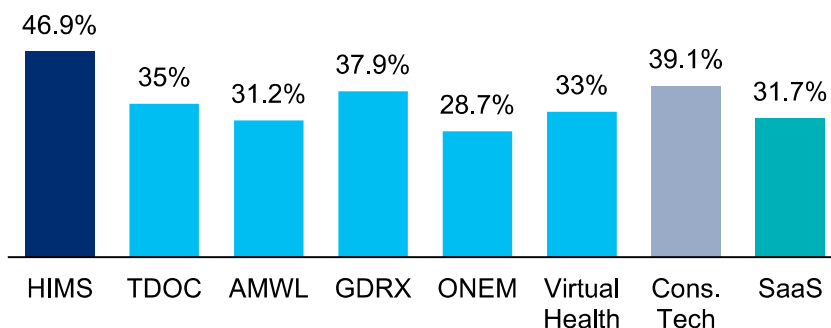
HIMS' stock price has appreciated 126% from its SPAC price making valuation at these levels tricky. A strong retail bid and ETF buying further complicates valuation, in our view. While we are generally positive on HIMS' business model and growth prospects, our Neutral rating and \$23 PT is largely predicated on valuation given low barriers to entry and the deluge of well-financed competitors likely to come to market in the near future.

We derive our \$23 PT by applying a 17.5x multiple to our FY22 estimates. This is a slight discount to what other virtual health peers trade at (namely TDOC, AMWL and GDRX) and consumer-driven companies digitizing traditionally analog industries (MTCH, FVRR, ETSY, DKNG, LMND) which we think is justified given lower barriers to entry and the increasingly competitive environment.

HIMS does screen well compared to other virtual health peers with regards to organic growth and gross margin. However, given the more competitive nature of the DTC healthcare market, we expect marketing expenses to remain high capping adj. EBITDA margins and free cash flow in the near term.

Figure 41. HIMS is Growing Faster than Peers

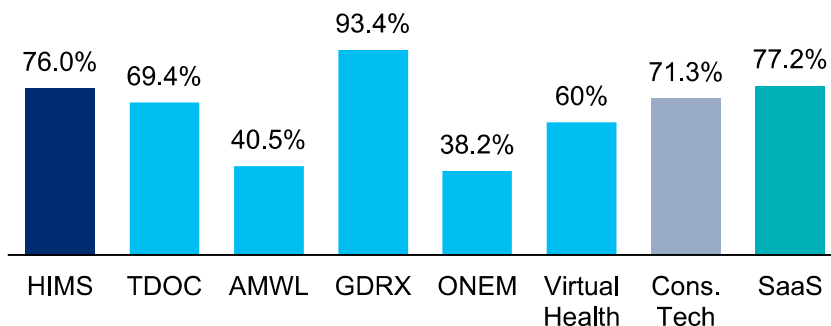
19-'22 Organic Sales Growth CAGR



Source: Citi Research, Company Reports, FactSet, Visible Alpha. HIMS based on Citi Research estimates. Peers based on consensus estimates.

Figure 42. HIMS' Gross Margins are Near Best in Class

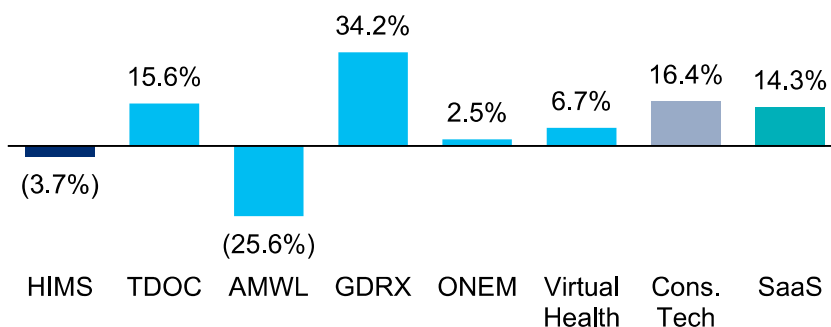
2022 Gross Margin



Source: Citi Research, Company Reports, FactSet, Visible Alpha. HIMS based on Citi Research estimates. Peers based on consensus estimates.

Figure 43. High Marketing Expenses Will Put a Cap on Adj. EBITDA

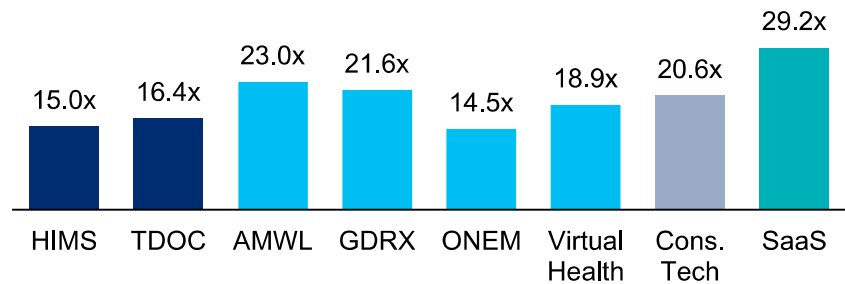
2022 Adj. EBITDA Margin



Source: Citi Research, Company Reports, FactSet, Visible Alpha. HIMS based on Citi Research estimates. Peers based on consensus estimates.

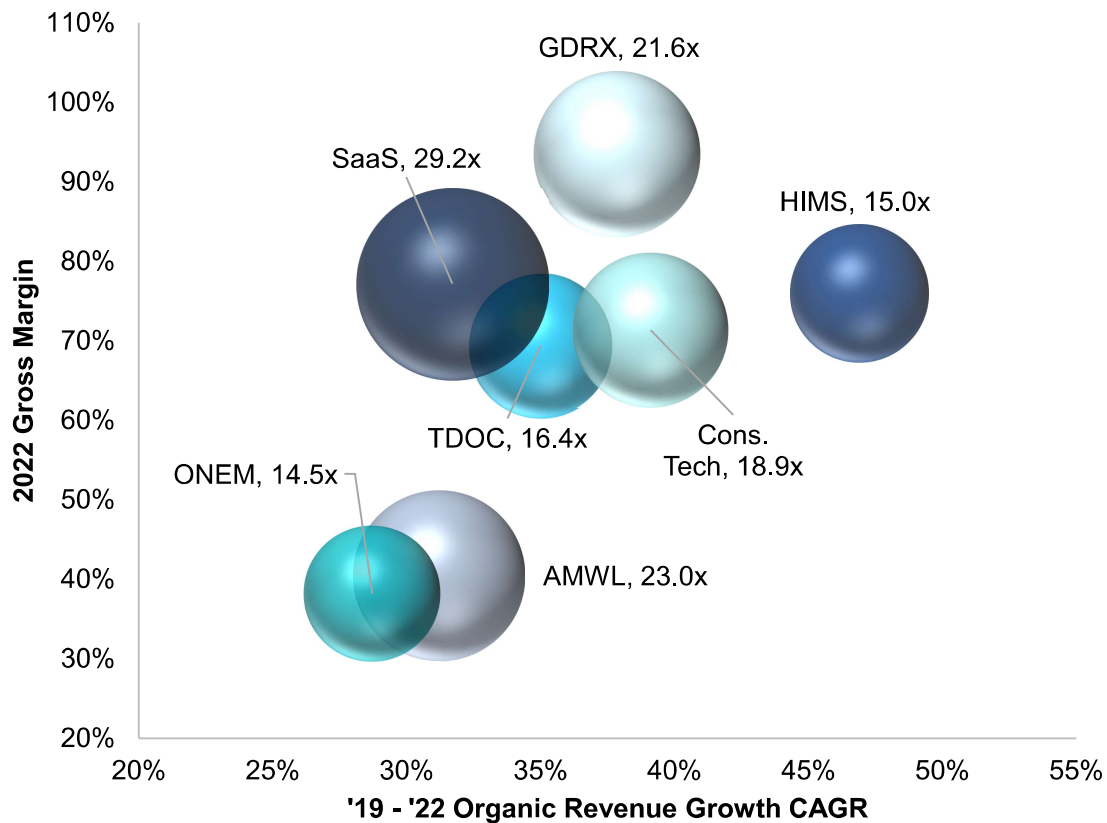
Figure 44. HIMS Should Trade at a Slight Discount to Peers Given the Increasingly Competitive Environment

2022 EV/Sales



Source: Citi Research, Company Reports, FactSet, Visible Alpha. HIMS based on Citi Research estimates. Peers based on consensus estimates.

Figure 45. Valuation Universe



Source: Citi Research, Company Reports, FactSet, Visible Alpha. HIMS based on Citi Research estimates. Peers based on consensus estimates.

Figure 46. Comp Sheet

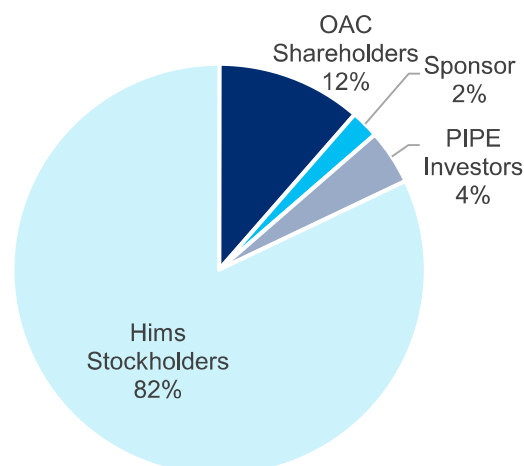
Ticker	Company	Enterprise Value	Market Cap	Stock Price	Sales	Gross	EBITDA	EV/Sales		EV/GP		EV/S/G
				Perf	Growth	Margin	Margin	2021	2022	2021	2022	2022
				YTD	'19-'22	2022	2022					
HIMS	Hims and Hers	\$3,928.35	\$4,259.10	56.0%	46.9%	76.0%	(3.7%)	19.8x	15.0x	26.4x	19.7x	0.3x
Telehealth												
TDOC	Teladoc Health	\$43,724.74	\$44,272.42	46.4%	68.8%	69.4%	15.6%	22.2x	16.4x	32.2x	23.7x	0.2x
AMWL	American Well	\$7,744.54	\$8,810.52	27.7%	31.2%	40.5%	(25.6%)	29.2x	23.0x	78.8x	56.9x	0.7x
GDRX	GoodRx	\$21,935.26	\$22,317.26	38.3%	37.9%	93.4%	34.2%	29.7x	21.6x	31.8x	23.1x	0.6x
ONEM	One Medical	\$8,562.13	\$9,006.57	35.5%	28.7%	38.2%	2.5%	18.0x	14.5x	49.3x	38.1x	0.5x
Average		\$24,468.18	\$25,133.40	37.5%	45.9%	67.8%	8.1%	27.0x	20.3x	47.6x	34.6x	0.5x
Median		\$21,935.26	\$22,317.26	38.3%	37.9%	69.4%	15.6%	29.2x	21.6x	32.2x	23.7x	0.6x
Consumer-Driven Companies Digitizing Industries (Sub \$50B Market Cap)												
MTCH	Match Group	\$48,209.44	\$45,412.21	12.1%	16.8%	71.3%	41.0%	14.5x	12.5x	19.9x	17.5x	0.7x
FVRR	Fiverr Int.	\$11,666.98	\$11,877.04	64.0%	47.8%	83.9%	16.4%	45.0x	33.8x	53.9x	40.2x	0.7x
ETSY	Etsy	\$31,244.85	\$32,408.70	30.7%	39.1%	71.9%	29.9%	17.1x	14.2x	24.0x	19.7x	0.4x
DKNG	Draft Kings	\$25,708.82	\$27,109.30	29.9%	50.7%	48.3%	(17.8%)	29.7x	20.6x	67.2x	42.5x	0.4x
LMND	Lemonade	\$9,736.09	\$10,311.79	33.8%	38.2%	46.1%	(91.1%)	87.3x	54.8x	221.0x	118.9x	1.4x
Average		\$25,313.24	\$25,423.81	34.1%	38.5%	64.3%	(4.3%)	38.7x	27.2x	77.2x	47.8x	0.7x
Median		\$25,708.82	\$27,109.30	30.7%	39.1%	71.3%	16.4%	29.7x	20.6x	53.9x	40.2x	0.7x
SaaS												
AYX	Alteryx, Inc.	\$8,272.15	\$8,383.11	(3.0%)	28.3%	92.7%	21.1%	12.2x	9.4x	13.3x	10.1x	0.3x
COUP	Coupa Software	\$28,771.89	\$28,656.27	8.4%	29.7%	72.4%	16.4%	44.1x	34.9x	63.2x	48.3x	1.2x
CRWD	CrowdStrike	\$54,885.49	\$55,944.11	13.5%	50.1%	76.3%	11.7%	46.6x	35.5x	61.5x	46.5x	0.7x
DDOG	Datadog	\$38,655.11	\$39,596.70	14.3%	55.9%	79.0%	13.7%	35.2x	28.1x	44.8x	35.6x	0.5x
ESTC	Elastic	\$16,121.41	\$16,472.73	13.8%	30.7%	76.4%	(1.9%)	24.1x	19.5x	31.6x	25.5x	0.6x
MDB	MongoDB	\$28,930.65	\$29,039.30	16.8%	30.8%	76.9%	(2.8%)	40.1x	31.6x	50.6x	41.1x	1.0x
OKTA	Okta	\$40,906.40	\$41,699.29	15.1%	33.2%	78.9%	6.5%	39.0x	30.4x	50.0x	38.5x	0.9x
SHOP	Shopify	\$180,159.79	\$185,530.49	27.6%	49.1%	50.5%	14.1%	47.1x	34.4x	91.0x	68.1x	0.7x
SMAR	Smartsheet	\$10,335.93	\$10,756.37	21.9%	32.9%	84.3%	(1.8%)	21.6x	16.8x	25.9x	19.9x	0.5x
TEAM	Atlassian	\$64,130.32	\$65,018.18	8.4%	21.7%	84.4%	25.0%	30.4x	25.1x	35.8x	29.8x	1.2x
WORK	Slack Technologies	\$26,605.84	\$27,518.58	3.2%	32.6%	87.8%	6.1%	23.7x	18.7x	27.1x	21.3x	0.6x
ZM	Zoom Video	\$130,535.44	\$132,716.81	27.9%	92.9%	71.9%	30.2%	38.1x	30.6x	55.0x	42.5x	0.3x
ZS	Zscaler	\$32,223.85	\$32,765.44	12.8%	36.8%	80.6%	17.7%	46.5x	35.8x	58.2x	44.4x	1.0x
TTD	Trade Desk	\$43,091.80	\$43,577.08	7.3%	29.6%	74.4%	32.9%	39.5x	30.0x	51.4x	40.3x	1.0x
PAYC	Paycom	\$22,340.00	\$23,894.38	(9.7%)	27.2%	85.6%	41.5%	17.7x	14.7x	20.8x	17.2x	0.5x
NCNO	nCino	\$7,513.74	\$7,888.16	10.5%	29.7%	61.5%	(2.0%)	30.9x	25.7x	46.8x	41.8x	0.9x
NET	Cloudflare	\$29,845.59	\$30,497.00	10.8%	51.2%	77.4%	14.5%	38.9x	30.1x	50.1x	38.9x	0.6x
BIGC	BigCommerce	\$6,061.73	\$6,219.81	18.0%	23.9%	76.8%	(2.9%)	34.5x	28.5x	44.9x	37.1x	1.2x
VEEV	Veeva	\$49,047.15	\$50,637.58	16.3%	23.0%	74.2%	39.0%	29.0x	24.5x	39.2x	33.0x	1.1x
ZI	ZoomInfo	\$23,343.32	\$22,905.02	19.8%	37.4%	88.6%	50.6%	38.7x	30.7x	43.9x	34.6x	0.8x
Average		\$42,088.88	\$42,985.82	12.7%	37.3%	77.5%	16.5%	33.9x	26.7x	45.3x	35.7x	0.8x
Median		\$29,388.12	\$29,768.15	13.7%	31.7%	77.2%	14.3%	36.6x	29.2x	45.9x	37.8x	0.8x

Source: Citi Research, Company Reports, FactSet, Visible Alpha. HIMS based on Citi Research estimates. Peers based on consensus estimates.

Ownership and Management Team

HIMS went public via a de-SPACing process with Oaktree Acquisition Corp. (OAC) which closed in January 2021. Post the de-SPACing HIMS previous owners hold 82%, OAC shareholders hold 11%, PIPE investors hold 4% and Oaktree (the SPAC sponsor) owns 2%. Andrew Dudum (CEO and Co-Founder) holds a 14% economic stake and a 90% voting stake in the company (via a dual class structure).

Figure 47. HIMS Ownership



Source: Citi Research, Company Reports

Management Team

Andrew Dudum (Co-Founder and CEO). Andrew is a co-founder of Hims and has been the CEO and a director of Hims since September 2016. Andrew is a Co-Founder and General Partner Atomic Labs (a startup incubator and investment fund) where he co-founded multiple companies including Bungalow, Homebound, TalkIQ, and Terminal, since 2013.

Spencer Lee (CFO). Spencer has served as Hims' CFO and Treasurer since March 2019. From March 2015 to March 2019, Spencer was CFO of Minted. From 2013 to 2015, he served as CFO of Julep Beauty.

Dr. Patrick Carroll, M.D. (Chief Medical Officer): Dr. Carroll oversees all of the clinical aspects of HIMS (provision of care, clinical outcomes, patient safety, healthcare information systems) as well as strategic initiatives. Prior to joining HIMS in June 2019, Dr. Carroll was the Group Vice President and Chief Medical Officer of Walgreens Company from May 2014 to June 2019. Prior to joining Walgreen's in May 2014, Dr. Carroll served as the Chief Medical Officer of Integrated Care Partners, Hartford HealthCare's clinical integration organization. He was also the Medical Director for Hartford HealthCare's Medicare Shared Savings Program. From 2010 to 2012, Dr. Carroll served as the Chief Medical Officer for the Granite Medical Group, a 40-provider Multispecialty/Primary Care Group that is part of Atrius Health.

Melissa Baird (COO). Melissa has served as HIMS' COO since February 2018. Prior to HIMS, Melissa was Vice President of Systems and Procedures for Draper James from July 2016 to January 2018. From December 2015 to July 2016, Melissa served as the General Manager of Onefinestay. Prior to that, Melissa was with Bonobos from September 2013 to November 2015 serving as the Vice President of Operations and Product Management. From May 2011 to September 2013, Melissa served as the Product Manager of Supply Chain Operations for Zulily, holding responsibility for internalizing Zulily's fulfillment operations and scaling operations through technology programs. From January 2001 to May 2011, Melissa served in a variety of scientific research roles.

Figure 48. HIMS Income Statement

	FY 2018	FY 2019	1Q20	2Q20	3Q20	4Q20E	FY 2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY 2021E	FY 2022E	FY 2023E
Online Revenue	\$26.5	\$82.3	\$28.5	\$33.3	\$38.8	\$39.8	\$140.5	\$42.7	\$45.7	\$48.7	\$51.7	\$188.7	\$251.7	\$332.2
Wholesale Revenue	\$0.1	\$0.3	\$1.5	\$2.6	\$2.5	\$2.5	\$9.1	\$2.5	\$2.5	\$2.5	\$2.5	\$10.0	\$10.0	\$10.0
Revenue	\$26.7	\$82.6	\$30.1	\$35.9	\$41.3	\$42.3	\$149.6	\$45.2	\$48.2	\$51.2	\$54.2	\$198.7	\$261.7	\$342.1
% change (y/y)	209.4%		90.8%	76.4%	90.6%	70.8%	81.2%	50.3%	34.1%	23.8%	28.1%	32.8%	31.7%	30.7%
% change (q/q)			21.4%	19.4%	15.1%	2.4%		6.8%	6.6%	6.3%	5.9%			
Total Cost of Sales	\$18.9	\$38.0	\$9.4	\$10.2	\$10.0	\$10.4	\$40.1	\$11.3	\$12.0	\$12.8	\$13.6	\$49.7	\$62.8	\$80.4
YoY Growth	101.1%		1.8%	6.7%	6.5%	7.6%	5.7%	19.6%	17.5%	27.3%	30.7%	23.9%	26.4%	28.0%
Gross Profit	\$7.8	\$44.6	\$20.6	\$25.7	\$31.3	\$31.9	\$109.5	\$33.9	\$36.1	\$38.4	\$40.7	\$149.0	\$198.9	\$261.7
Gross Margin	29.2%	54.0%	68.6%	71.5%	75.7%	75.5%	73.2%	75.0%	75.0%	75.0%	75.0%	75.0%	76.0%	76.5%
y/y change (bps)	2,478 bps		1,864 bps	1,920 bps	1,920 bps	1,441 bps	1,917 bps	641 bps	353 bps	(69 bps)	(50 bps)	180 bps	100 bps	50 bps
% change (y/y)	471.6%		218.6%	138.7%	155.3%	111.1%	145.5%	64.4%	40.7%	22.7%	27.3%	36.1%	33.5%	31.6%
Marketing (Adj.)	\$55.1	\$62.8	\$12.4	\$11.3	\$14.8	\$16.9	\$55.5	\$18.1	\$18.1	\$19.2	\$20.3	\$75.6	\$91.6	\$111.2
% of Rev	206.5%	76.1%	41.3%	31.5%	35.9%	40.0%	37.1%	40.0%	37.5%	37.5%	37.5%	38.1%	35.0%	32.5%
% change (y/y)		14.0%	(8.1%)	(49.0%)	5.9%	29.5%	(11.6%)	45.5%	59.4%	29.3%	20.1%	36.3%	21.1%	21.4%
SG&A (Adj.)	\$21.2	\$48.2	\$13.0	\$13.4	\$18.4	\$21.2	\$65.9	\$22.6	\$24.1	\$25.6	\$27.1	\$99.4	\$119.0	\$145.4
% of Rev	79.3%	58.3%	43.3%	37.2%	44.5%	50.0%	44.0%	50.0%	50.0%	50.0%	50.0%	50.0%	45.4%	42.5%
% change (y/y)		127.5%	55.0%	10.4%	35.6%	49.8%	36.8%	73.7%	80.2%	39.2%	28.1%	50.8%	19.7%	22.2%
Operating Expenses (Adj.)	\$76.3	\$111.0	\$25.4	\$33.2	\$33.2	\$38.1	\$121.4	\$40.7	\$42.1	\$44.8	\$47.4	\$175.0	\$210.6	\$256.6
% of Rev	285.8%	134.4%	84.6%	88.8%	80.4%	90.0%	81.2%	90.0%	87.5%	87.5%	87.5%	88.1%	80.4%	75.0%
y/y change (bps)	(15,142 bps)		(5,452 bps)	(9,975 bps)	(4,672 bps)	(1,978 bps)	(5,324 bps)	540 bps	1,875 bps	712 bps	(250 bps)	691 bps	(762 bps)	(545 bps)
% change (y/y)	45.5%		16.1%	(28.0%)	20.5%	40.1%	9.4%	59.9%	70.7%	34.8%	24.5%	44.1%	20.3%	21.9%
EBIT (Adj.)	(\$68.5)	(\$66.4)	(\$4.8)	\$1.0	(\$1.9)	(\$6.1)	(\$11.9)	(\$6.8)	(\$6.0)	(\$6.4)	(\$6.8)	(\$26.0)	(\$11.6)	\$5.1
% of Rev	(256.6%)	(80.4%)	(16.0%)	2.7%	(4.7%)	(14.5%)	(8.0%)	(15.0%)	(12.5%)	(12.5%)	(12.5%)	(13.1%)	(4.4%)	1.5%
y/y change (bps)	17,620 bps		8,201 bps	11,839 bps	6,591 bps	3,419 bps	7,241 bps	101 bps	(1,522 bps)	(781 bps)	200 bps	(511 bps)	862 bps	595 bps
% change (y/y)	(3.1%)		(68.8%)	(104.1%)	(87.3%)	(49.1%)	(82.0%)	40.8%	(716.2%)	229.9%	10.4%	118.0%	(55.2%)	(144.1%)
Interest expense	(\$0.2)	(\$0.4)	(\$0.0)	(\$0.0)	\$0.0	\$0.0	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.2)	(\$0.6)
Other	\$0.7	\$2.8	\$0.2	\$0.0	(\$2.5)	(\$0.0)	(\$2.3)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.1)	(\$0.1)	\$0.0
EBT (Adj.)	(\$67.9)	(\$63.9)	(\$4.6)	\$1.0	(\$4.4)	(\$6.2)	(\$14.2)	(\$6.8)	(\$6.1)	(\$6.4)	(\$6.8)	(\$26.1)	(\$11.9)	\$4.5
Income taxes	(\$0.0)	(\$0.1)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.1)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.1)	(\$0.1)	\$0.0
Tax Rate	0.1%	0.1%	0.8%	(3.7%)	0.7%	0.5%	0.9%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Adj. Net Income	(\$67.9)	(\$64.0)	(\$4.6)	\$0.9	(\$4.5)	(\$6.2)	(\$14.3)	(\$6.9)	(\$6.1)	(\$11.6)	(\$6.8)	(\$26.3)	(\$11.9)	\$4.5
GAAP Net Income	(\$75.2)	(\$72.0)	(\$6.0)	(\$1.0)	(\$5.9)	(\$10.4)	(\$23.3)	(\$11.4)	(\$10.9)	(\$11.6)	(\$12.3)	(\$46.1)	(\$38.1)	(\$29.7)
Basic Shares Outstanding	67,293	76,546	77,197	77,197	78,030	79,590	78,004	175,700	179,214	182,798	186,454	181,042	195,965	212,119
Diluted Shares Outstanding	67,293	76,546	77,197	77,197	78,030	79,590	78,004	175,700	179,214	182,798	186,454	181,042	195,965	212,119
Adj. EPS	(\$1.01)	(\$0.84)	(\$0.06)	\$0.01	(\$0.06)	(\$0.08)	(\$0.18)	(\$0.04)	(\$0.03)	(\$0.06)	(\$0.04)	(\$0.15)	(\$0.06)	\$0.02
GAAP EPS	(\$1.01)	(\$0.94)	(\$0.08)	(\$0.01)	(\$0.08)	(\$0.13)	(\$0.30)	(\$0.06)	(\$0.06)	(\$0.06)	(\$0.07)	(\$0.25)	(\$0.19)	(\$0.14)

Source: Citi Research, Company Reports

Figure 49. HIMS Balance Sheet

	FY 2018	FY 2019	FY 2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY 2021E	FY 2022E	FY 2023E
Assets										
Current assets:										
Cash and cash equivalents	\$41.5	\$22.6	\$28.5	\$259.9	\$253.1	\$245.8	\$238.1	\$238.1	\$222.1	\$221.4
Available-for-sale securities	-	\$37.7	\$59.1	\$59.1	\$59.1	\$59.1	\$59.1	\$59.1	\$59.1	\$59.1
Inventories	\$3.7	\$4.2	\$5.1	\$5.6	\$6.0	\$6.3	\$6.6	\$6.6	\$8.5	\$10.8
Prepaid expenses and other current assets	\$2.1	\$5.0	\$5.2	\$5.8	\$6.2	\$6.5	\$7.0	\$7.0	\$9.2	\$12.0
Total current assets	\$47.3	\$69.6	\$97.9	\$330.4	\$324.4	\$317.8	\$310.8	\$310.8	\$298.9	\$303.4
Restricted cash, noncurrent	\$0.2	\$0.2	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
Other long-term assets	\$0.0	\$2.3	\$11.9	\$12.7	\$13.4	\$14.2	\$15.0	\$15.0	\$18.4	\$22.9
Total assets	\$47.5	\$72.1	\$110.9	\$344.1	\$338.8	\$333.0	\$326.9	\$326.9	\$318.4	\$327.3
Liabilities, redeemable convertible preferred stock, and stockholders' deficit / equity										
Current liabilities										
Accounts payable	\$13.3	\$7.2	\$6.8	\$7.5	\$7.9	\$8.3	\$8.8	\$8.8	\$11.3	\$14.4
Deferred revenue, current	\$2.5	\$0.8	\$0.6	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$1.0	\$1.4
Accrued expenses and other current liabilities	\$0.5	\$2.0	\$2.4	\$2.7	\$3.1	\$3.3	\$3.5	\$3.5	\$4.2	\$5.1
Term Loan	\$7.8	\$1.5	-	-	-	-	-	-	-	-
Warrant Liabilities	-	\$9.1	\$5.1	\$5.1	\$5.1	\$5.1	\$5.1	\$5.1	\$5.1	\$5.1
Total current liabilities	\$24.1	\$20.6	\$14.9	\$16.0	\$16.8	\$17.5	\$18.2	\$18.2	\$21.7	\$26.0
Deferred rent, noncurrent	-	-	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4
Other noncurrent liabilities	\$0.6	-	-	-	-	-	-	-	-	-
Total liabilities	\$24.7	\$20.6	\$15.2	\$16.4	\$17.2	\$17.8	\$18.6	\$18.6	\$22.0	\$26.4
Total stockholders' deficit / equity	\$22.8	\$51.4	\$95.6	\$327.7	\$321.6	\$315.1	\$308.3	\$308.3	\$296.4	\$300.9
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit / equity	\$47.5	\$72.1	\$110.9	\$344.1	\$338.8	\$333.0	\$326.9	\$326.9	\$318.4	\$327.3

Source: Citi Research, Company Reports

Figure 50. HIMS Statement of Cash Flow

	FY 2018	FY 2019	2H20	3Q20	4Q20E	FY 2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY 2021E	FY 2022E	FY 2023E
OPERATING ACTIVITIES													
Net Income (Excl. Accretion of Preferred Stock)	(\$75.2)	(\$72.1)	(\$7.0)	(\$5.9)	(\$10.4)	(\$23.3)	(\$11.4)	(\$10.9)	(\$11.6)	(\$12.3)	(\$46.1)	(\$38.1)	(\$29.7)
Adjustments to reconcile net income to net cash provided by operating activities													
Depreciation and amortization	\$0.0	\$0.3	\$0.4	\$0.3	\$0.3	\$1.0	\$0.3	\$0.3	\$0.4	\$0.4	\$1.4	\$1.8	\$2.4
SBC	\$7.3	\$8.0	\$3.3	\$1.4	\$4.2	\$9.0	\$4.5	\$4.8	\$5.1	\$5.4	\$19.9	\$26.2	\$34.2
Noncash warrant (income) loss, net	\$0.0	(\$1.0)	(\$0.1)	\$2.5	\$0.0	\$2.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Noncash other loss (income), net	(\$0.0)	(\$0.3)	\$0.1	\$2.0	\$0.0	\$2.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total non-cash adjustments	\$7.3	\$7.0	\$3.8	\$6.2	\$4.5	\$14.6	\$4.8	\$5.2	\$5.5	\$5.8	\$21.3	\$28.0	\$36.6
Changes in assets and liabilities													
Inventory	(\$3.0)	(\$0.5)	(\$2.0)	\$1.3	(\$0.1)	(\$0.9)	(\$0.6)	(\$0.3)	(\$0.3)	(\$0.4)	(\$1.6)	(\$1.9)	(\$2.3)
Prepaid expenses and other assets	(\$1.1)	(\$2.4)	(\$1.0)	\$1.4	\$1.4	\$1.4	(\$0.5)	(\$0.4)	(\$0.3)	(\$0.4)	(\$1.7)	(\$2.2)	(\$2.8)
Other long-term assets	\$0.0	(\$0.8)	\$0.7	\$0.0	\$0.0	\$0.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Accounts payable	\$12.8	(\$6.1)	(\$1.1)	\$0.2	\$0.1	(\$0.8)	\$0.8	\$0.4	\$0.4	\$0.5	\$2.1	\$2.5	\$3.1
Accrued liabilities	\$1.4	(\$0.3)	\$0.7	\$0.4	(\$2.1)	(\$0.9)	\$0.3	\$0.3	\$0.2	\$0.2	\$1.1	\$0.7	\$0.9
Deferred revenue	\$0.5	\$0.2	\$0.1	(\$0.2)	(\$0.1)	(\$0.2)	\$0.1	\$0.0	\$0.0	\$0.0	\$0.2	\$0.3	\$0.3
Deferred rent	\$0.0	\$0.0	\$0.3	\$0.1	\$0.0	\$0.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Change in working capital	\$10.6	(\$9.9)	(\$2.2)	\$2.8	(\$0.8)	(\$0.2)	\$0.0	\$0.1	\$0.0	(\$0.1)	\$0.1	(\$0.6)	(\$0.8)
Cash Flow From Operating Activities	(\$57.3)	(\$74.9)	(\$5.3)	\$3.1	(\$6.8)	(\$9.0)	(\$6.5)	(\$5.7)	(\$6.1)	(\$6.5)	(\$24.8)	(\$10.7)	\$6.1
INVESTING ACTIVITIES													
Purchase of short-term investment	\$0.0	(\$42.0)	(\$48.9)	(\$35.1)	\$0.0	(\$84.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Maturities of short-term investment	\$0.0	\$4.5	\$34.1	\$9.7	\$0.0	\$43.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Sale of short-term investment	\$0.0	\$0.0	\$9.8	\$1.8	\$0.0	\$11.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Investment in website development and internal-use software	\$0.0	(\$1.5)	(\$1.1)	(\$0.6)	(\$0.6)	(\$2.3)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.7)	(\$2.5)	(\$2.6)	(\$3.4)
Purchases of property and equipment	(\$0.0)	(\$0.3)	(\$0.8)	(\$0.5)	(\$0.5)	(\$1.8)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$2.1)	(\$2.6)	(\$3.4)
Cash Flow From Investing Activities	(\$0.0)	(\$39.3)	(\$6.9)	(\$24.8)	(\$1.1)	(\$32.8)	(\$1.1)	(\$1.1)	(\$1.2)	(\$1.2)	(\$4.5)	(\$5.2)	(\$6.8)
FINANCING ACTIVITIES													
Proceeds from issuance of convertible preferred stock and warrants	\$69.9	\$102.6	\$37.6	\$12.3	\$0.0	\$49.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Proceeds from issuance of common stock and warrants	\$0.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$238.9	\$0.0	\$0.0	\$0.0	\$238.9	\$0.0	\$0.0
Proceeds from exercise of vested and unvested stock options	\$0.4	\$0.0	\$0.0	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Borrowings of principal term loan	\$9.4	\$2.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Repayments of principal term loan	(\$1.9)	(\$9.4)	(\$1.5)	\$0.0	\$0.0	(\$1.5)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash Flow From Financing Activities	\$78.2	\$95.3	\$36.1	\$12.4	\$0.0	\$48.4	\$238.9	\$0.0	\$0.0	\$0.0	\$238.9	\$0.0	\$0.0
Net Change In Cash & Equivalents	\$20.8	(\$18.8)	\$23.9	(\$9.2)	(\$7.9)	\$6.7	\$231.3	(\$6.8)	(\$7.2)	(\$7.7)	\$209.6	(\$16.0)	(\$0.7)
Cash & Equivalents At Beg. of Period	\$20.8	\$41.7	\$22.8	\$46.7	\$37.4	\$22.8	\$29.5	\$260.9	\$254.1	\$246.9	\$29.5	\$239.1	\$223.1
Cash & Equivalents At End of Period	\$41.7	\$22.8	\$46.7	\$37.4	\$29.5	\$29.5	\$260.9	\$254.1	\$246.9	\$239.1	\$239.1	\$223.1	\$222.4

Source: Citi Research, Company Reports

Figure 51. HIMS Adj. EBITDA Reconciliation

	FY 2018	FY 2019	1Q20	2Q20	3Q20	4Q20E	FY 2020E	1Q21E	2Q21E	3Q21E	4Q21E	FY 2021E	FY 2022E	FY 2023E
GAAP Net Income														
D&A	(\$75.2)	(\$72.1)	(\$6.0)	(\$1.0)	(\$5.9)	(\$10.4)	(\$23.3)	(\$11.4)	(\$10.9)	(\$11.6)	(\$12.3)	(\$46.1)	(\$38.1)	(\$29.7)
Income Tax Expense (Benefit)	\$0.0	\$0.3	\$0.2	\$0.2	\$0.3	\$0.3	\$1.0	\$0.3	\$0.3	\$0.4	\$0.4	\$1.4	\$1.8	\$2.4
Interest income	\$0.037	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.0
Interest expense	(\$0.6)	(\$1.9)	(\$0.2)	(\$0.1)	(\$0.0)	(\$0.0)	(\$0.4)	(\$0.0)	(\$0.0)	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.3)	(\$0.3)
Non-cash debt issuance expense	\$0.0	\$0.4	\$0.0	\$0.0	(\$0.0)	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.2	\$0.6
Equity Compensation	\$0.083	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.3	\$0.1	\$0.1	\$0.1	\$0.1	\$0.3	\$0.3	\$0.3
Warrant mark-to-market (income) expense	\$7.318	\$8.0	\$1.4	\$1.9	\$1.4	\$4.2	\$9.0	\$4.5	\$4.8	\$5.1	\$5.4	\$19.9	\$26.2	\$34.2
Adjusted EBITDA	\$0.0	(\$1.0)	(\$0.1)	\$0.0	\$2.5	\$5.8	\$2.5	\$6.5	\$5.7	\$6.0	\$6.4	\$0.0	\$0.0	\$0.0
Adjusted EBITDA Margin	(\$68.4)	(\$66.1)	(\$4.6)	\$1.2	(\$1.6)	(13.8%)	(7.2%)	(14.3%)	(11.8%)	(11.8%)	(11.8%)	(12.4%)	(9.8)	\$7.5
y/y change (bps)	(256.3%)	(80.1%)	(15.4%)	3.3%	(3.8%)	3,428 bps	7,281 bps	111 bps	(1,511 bps)	(802 bps)	200 bps	(512 bps)	862 bps	595 bps
% change (y/y)		(3.3%)	(70.0%)	(105.1%)	(89.7%)	(51.0%)	(83.6%)	39.5%	(578.1%)	286.4%	9.5%	126.6%	(60.1%)	(176.7%)

Source: Citi Research, Company Reports

Hims & Hers Health, Inc.

Company description

Founded in December 2013, HIMS is a vertically integrated, direct-to-consumer virtual health platform. HIMS provides end-to-end health solutions (from diagnosis, to prescription fulfillment) through its telehealth platform. HIMS' 266 providers can prescribe dozens of medications with a 50-state delivery network. As of September 30, 2020, HIMS had over 280K customer subscriptions and had conducted 2M cumulative telehealth consultations since inception. According to the company, a majority of HIMS' customers are millennials looking for a convenient, digitally-native and mobile-first product.

Currently HIMS offers treatment in four categories: (1) sexual health, (2) hair loss & dermatology, (3) primary care, (4) and behavioral health (HIMS' first offerings were for erectile dysfunction and hair loss). HIMS offers doctor consults, prescription drugs and over-the-counter (OTC) products in each of these categories.

Investment strategy

We rate HIMS Neutral/High risk. As we wrote in our sector initiation, we firmly believe the healthcare sector is on the verge of its "Netflix Moment," with consumer-driven companies like HIMS disrupting traditional modalities of care (particularly for low acuity conditions). We think HIMS' growth strategy is smart, effecting what we deem "stigma arbitrage," as it expands its markets from ED and hair loss to larger markets with significant unmet needs. We think that HIMS will be able to conservatively achieve 30% revenue growth for the foreseeable future while maintaining best-in-class gross margins of ~75% eventually turning EBITDA positive in 2023. Our neutral rating is largely predicated on valuation given low barriers to entry and the deluge of well-financed competitors likely to come to market in the near future.

Valuation

We derive our \$23 PT by applying an 17.5x revenue multiple to our FY22 estimates. This is a slight discount to other virtual health peers and consumer-driven companies digitizing traditionally analog industries which we think is justified given lower barriers to entry and the increasingly competitive environment.

HIMS does screen well compared to other virtual health peers with regards to organic growth and gross margin. However, given the more competitive nature of the DTC healthcare market, we expect marketing expenses to remain high capping adj. EBITDA margins and free cash flow in the near term.

Risks

We rate HIMS High Risk given the recent run-up in the stock leaves valuation stretched and we are likely to see increased competitive intensity in the near term.

Downside risks to our target price include:

- Increased competitive intensity
- Lawsuits and regulatory action due to potential over-prescribing of medication and/or privacy concerns
- Increased regulatory burden on direct-to-consumer healthcare and marketing
- Difficulties adding physicians to the network, particularly in mental health
- Slow adoption of newer verticals, particularly primary care, mental health and women's health
- A recession may reduce the amount of consumer spend on discretionary healthcare
- Interest in telehealth falls after the COVID-19 pandemic wanes
- Difficulties scaling

Upside risks to our target price include:

- Faster than anticipated growth in the subscription base
- Faster than anticipated adoption of new solutions and product bundles
- HIMS may be acquired by another virtual health company or a technology company

Appendix A-1

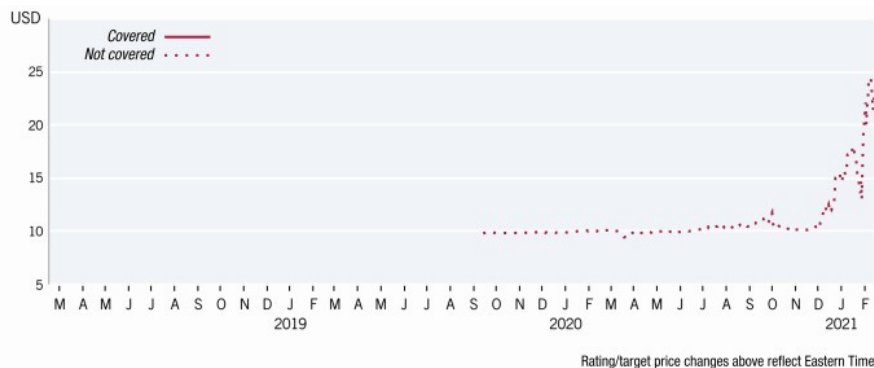
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Ratings and Target Price History
Fundamental Research



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