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SOC Telemed (TLMD)
Business Plan Evaluation

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I. Industry Analysis:

Market Size

The telehealth industry is currently estimated to grow from a $55.9B market to approximately $298.9B by 2028, at a compound annual growth rate (CAGR) of 22.4%. The North American market for the telehealth industry is the largest share of the global market with 34.4% of overall revenue in 2020. According to GrandViewResearch[1], the telemedicine market is composed of tele-home (45% share) and the tele-hospital (55% share) segments. SOC Telemed (TLMD) is focused primarily on tele-hospital opportunities, working closely with hospital networks to increase access to urgent acute care needs. Further, the overall acute care telemedicine market is about $6.7Billion[2]. Very little, if any, of its current business interacts directly with the patients. Most services involve consults with practicing physicians in critical and specialized care. TLMD plans to continue expanding in this segment specifically by bringing in additional specialties over time.

While the total global market for the telehealth industry has an attractive growth rate and can accommodate a multitude of large firms, individual regions may have very different operational requirements. For example, health care is predominantly privatized in the United States, whereas in some other traditionally similar segments like Canada and the UK, health care is government-run. These differences could make it somewhat difficult for TLMD to expand into other regions.

Customers

In the United States the telemedicine industry's customers, particularly for acute hospital

[1] https://www.grandviewresearch.com/industry-analysis/telemedicine-industry
[2] https://investors.soctelemed.com/download/TLMD_June+Investor+Presentation_060121.pdf

segments, range from Health Insurance Groups (payers), hospital networks, and physicians in both specialized and generalized practices. Approximately two thirds of U.S. hospitals are non-profit. The remaining third consists of a mix of government-run hospital networks (i.e. Defense Health Agency, Veterans Health Administration, Indian Health Service, etc) or for-profit operated hospitals like Community Health Systems' network of 85 hospitals.

The scale for each of these customer segments range in operational size, from large organizations in high density regions to small networks that span across hundreds of miles of rural regions with small population density.

The propensity of care for trauma injuries versus routine overuse injuries can vary widely, which makes the level of training and experience between regions disproportionate. For example, the R Adams Cowley Shock Trauma Center in Baltimore, MD took in over 7,000 trauma patients in 2018 as the primary trauma center for the state. By contrast, Suburban Hospital in Montgomery County, MD covered only 1,500 patients. The remaining hospitals in Montgomery County are not qualified to provide trauma care. This disparity in care and capabilities normally makes it difficult to adequately provide similar services across the region, with some operations relying on transportation to facilities that are further than the closest available hospital.

This issue is compounded in "rural America", where there are often only small clinics in many towns, and patients are forced to travel hundreds, if not thousands, of miles to travel to a qualified trauma center. For example, the entire state of Alaska does not have a single Level I trauma center. When this level of care is required, patients must travel to Seattle for care which is a three to four-hour flight from much of Alaska.

In addition, according to the Association of American Medical Colleges (AAMC), there is anticipated supply shortage of 37,800 to 124,000 physicians across the United States.[3] This shortage will exacerbate the demand for treatments for an aging population and potentially lead to increased lapsed detection of diseases such as heart failure, diabetes, and pulmonary diseases.

Technology

With the increase in computational capabilities, growth in internet network capacity, cloud services, and ubiquity of technology use by both physicians and patients, the providers of acute care and medical consultation services have accelerated the adoption of digital platforms to reach demand in both urban and rural regions. As an industry focused on remote "tele-X" services, the expectation by commercial and business oriented customers for firms to deliver well-integrated, reliable, easy to use, and cost effective solutions are high. For example, radiology has been performed in-house for years, but advancements in analysis have put it at risk of consolidation or automation. The integration of information technology into modern healthcare has simultaneously increased scrutiny and regulatory actions and accountability; the Health Insurance Portability and Accountability Act of 1996 (HIPAA) levies heavy fines for violations that result in loss or exposure of medical data. Many hospital networks have to account for information assurance as an additional expense.

Competitors

There are numerous players in the U.S. telemedicine industry with market capitalizations (Mkt Cap) and valuations ranging from small (< $1B) to large (> $1B). The largest providers within the North American market include American Well ($AMWL, $2.75B Mkt Cap), MDLIVE Inc ($1B valuation) [4], Teladoc Health ($TDOC, $23.4B Mkt Cap), Doctor on Demand ($875M

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[3]https://www.aamc.org/news-insights/press-releases/aamc-report-reinforces-mounting-physician-shortage)

[4] https://www.mobihealthnews.com/news/mdlive-be-acquired-cignas-evernorth

valuation) [5], Grand Rounds Inc. ($1.3B valuation).[6] It is notable that TLMD has no direct and comparable competitors, making it difficult to determine the effectiveness of TLMD compared to others in the industry. Having a similar competitor would make it easier to determine whether TLMD is operating in a successful manner given its specific size, market, and earnings.

Healthcare Policy Considerations

The United States promotes and incentivizes the market to facilitate local hospital patient care by permitting the use of technologies that allow specialists outside of hospital networks to provide services. Since the implementation of the Patient Protection and Affordable Care Act (PPACA), fee and pricing structures in the medical industry introduced legal incentives where medical care and reimbursements favor “value of care” services rather than the number of services provided. This adjustment in patient-care practice entices hospital groups and physicians to treat patients as dollar signs with hands and feet. With the theoretical cost-efficient nature of telehealth, where expenses related to retaining specialist physicians and consulting services are disbursed, telehealth services should strongly reduce SG&A costs among hospitals. Further, as a result of the Coronavirus 19 pandemic, the United States Federal government has invested heavily in the expansion of telehealth services - including expanding the use and reimbursement of telehealth care in government-sponsored health care plans such as Medicare and Medicaid. This investment will dramatically expand the reach and scope of telehealth services, especially across rural America.

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[5]https://www.healthcaredive.com/news/doctor-on-demand-grand-rounds-merge-to-create-multibillion-dollar-digital/596786/#:~:text=Doctor%20on%20Demand%20says%20its,market%20cap%20of%20%245.1%20billion.

[6] https://www.cnbc.com/2021/03/16/grand-rounds-doctor-on-demand-merge-in-multibillion-dollar-deal.html#:~:text=Grand%20Rounds%20was%20last%20valued,the%20valuation%20was%20%24875%20million

II. Internal Business Analysis:

Company Description

TLMD describes itself as "a leader … in the ever-emerging field of acute telemedicine."[7] It covers about a dozen medical specialties including psychiatry, cardiology, pulmonology, and nephrology. It contracts these services remotely as telemedicine, i.e. providing access to consulting doctors through phones and web conferencing to provide additional expertise to improve patient outcomes. TLMD also offers its Telemed IQ platform, designed to allow hospital systems to leverage telehealth services in a more efficient and integrated fashion. TLMD operates on a contract basis with hospitals in a subscription-based model, with additional surge pricing if the hospital exceeds its usage limits.

The SOC Telemed Team

The TLMD's Board of Directors and senior company leadership have the abilities to help TLMD continue to grow. Its board primarily consists of leaders in the healthcare arena, to include the CEO of Magellan Health, the Chief Information Officer of Advocate Aurora Health, and several others with extensive experience in all areas of the healthcare industry. It also includes two members from private equity firm Warburg Pincus, likely secured through Warburg Pincus' investment in TLMD.[8] The Board's knowledge and extensive experience in the healthcare arena, combined with the private enterprise experience of the PE firm representatives, should provide them with a strong ability to oversee TLMD's executive team, and help guide them as they continue to grow.

TLMD also has a strong leadership team. Its CEO, John Kalix, has nearly three decades of experience in healthcare, including serving as the EVP & COO of North American Partners in

[7] https://investors.soctelemed.com/home
[8] https://www.soctelemed.com/board-of-directors/

Anesthesia - the nation's largest anesthesia and pain management company. He also spent over a decade at GE Healthcare (a global leader in health care technologies, digital infrastructure, and data analytics) and Cardinal Health (NYSE: CAH), one of the largest healthcare supply chain companies in North America. This broad life sciences sector experience is an asset as TLMD looks to emerge as the predominant enabler of acute care telemedicine.

This extensive life science and tech sector experience is prevalent throughout the leadership team. TLMD's President and Chief Operating Officer (COO) has decades of experience in healthcare, including time at BioScrip - a leading provider of home care management solutions. This experience in the home health field should provide great value for TLMD's operations in the telehealth industry. The company's Chief Technology Officer, Sean Banerjee, is also a critical team member given TLMD's focus on its Telemed IQ, its award winning telemedicine platform. Banerjee's considerable experience in healthcare technology, including leadership of the development of a data-focused service as a software (SaaS) platform for Evolent Health[9], is essential as the company utilizes this nimble platform to lock-in customers and scale its offering nationwide. Other members of the executive team possess decades of technology legal experience, extensive medical-specific marketing and sales experience, and a robust medical background. The Chief Medical Officer Dr. Jason Hallock and Executive Vice President Mauricio Sirvent provide the practitioner perspective, guiding the business as it bolsters its core services of neurology, psychiatry, critical care and pulmonology while expanding into other acute business services like cardiology and nephrology.

Considering the experience of TLMD's team of executive and diverse Board of Directors, TLMD has a leadership team well positioned to foster growth. It has the expertise needed to

[9] https://www.soctelemed.com/leadership/

build out its core business units while possessing the capacity to grow its services and customer base.

Innovation/Market Differentiation

Unlike most other telemedicine services, TLMD focuses heavily on acute telemedicine, that is, specialized or critical care medicine that focuses on physicians with a very specific set of training. These types of doctors are typically employed in clinics dedicated towards specific specializations, compared to generalized private practice family medicine or broader emergency medicine. TLMD has been continually acquiring additional companies with adjacent specialties to expand its offerings in acute services, with very little offerings in general care or at-home clinical health. For example, the April 2021 acquisition Access Physicians expanded the company's clinical service lines from neurology, psychiatry, critical care and pulmonology into infectious disease, cardiology, maternal-fetal medicine and nephrology. It is important to note that all of its services are physician-facing. These consults may never have to interact directly with patients.

Resources Required

According to TLMD, the firm's target total addressable market (TAM) for acute telehealth is $6.7B[10]. Because the firm's practice and offerings are available in 47 states, TLMD needs doctors with multiple state licenses. TLMD has a rigorous credentialing process that guides doctors through licensing in twelve states and then onboards them to hospitals. This is a time and resource-intensive process that may take up to two years to perform.[11] Currently, TLMD has more than 750 physicians on staff, along with all the licensing, salaries, and regulatory support

[10] https://investors.soctelemed.com/download/TLMD_June+Investor+Presentation_060121.pdf
[11] https://www.soctelemed.com/blog/telemedicine-credentialing-licensing-privileging/

staff required to maintain the rigorous staffing requirement.[12] While doctors can be licensed in multiple states with relative ease, they are less likely to be cross-trained in another specialty, so there is only some supported redundancy in the maintenance of this level of staffing. TLMD also has an internally developed software infrastructure, which reduces its dependence on external inputs to only hardware infrastructure.

Core Competencies

SOC Telemed's core competencies are its ability to gather specialist physicians into a single operational unit to provide critical specialized care services across the United States. Telemed helps its own physicians to obtain licenses in multiple states, making it possible for one physician to provide consulting services across an entire region. By partnering with hospitals to share their licensing capabilities, the individual physician does not have to directly qualify with each individual hospital. This provides SOC Telemed with the ability to onboard a doctor to fill addressable needs dynamically and progressively as it moves towards national operational capacity. The large number of physician specialists currently on staff provide SOC Telemed the flexibility to support a variety of critical specialties and limit interruptions in service if staff choose to leave or onboard.

III. SOC Telemed Business Fit in Healthcare Market

SOC Telemed's value proposition addresses a serious need in the current healthcare environment. The United States faces a shortage of doctors in the coming decades as older doctors start to retire, and the current medical school system is unable to keep up. With the overall capacity of physicians stretched thin, it will become harder for individual hospitals to maintain the staffing they need. The scaling difficulty the healthcare industry faces from

[12] https://www.soctelemed.com/client-success/

personnel shortages cannot be adequately addressed without major changes to the health education system. Virtualization of physician resources is a viable solution for addressing these shortages, potentially allowing for coverage even with doctor shortages.

While SOC Telemed's physicians may potentially make the shortage worse by pulling frontline physicians out of hospitals and into telework operations in the short term, SOC Telemed should be able to reach a national operational capacity much quicker than training hundreds of more doctors to fill in for the needed positions across the country. Until the need is adequately addressed, SOC Telemed's services should be able to consistently meet the needs of the healthcare system and continue to grow as technological advances bolster the efficiency of telemedicine and make it easier to collaborate between states.

The adoption of SOC Telemed services may also help reduce the burden on hospitals attempting to hire and maintain specialists. Because of the disparity of income and lifestyles, certain regional hospitals may be unable to secure the talent and specialists required to provide an adequate level of care. By subsidizing the cost of specializations through a subscription system, these hospitals may be able to provide better care on an as-needed basis, as opposed to maintaining a full staff of specialists that may not necessarily get the experience and continued practice they need.

IV. Funding Opportunities

Given that the Company is currently in high growth mode, there is ample need for cash to be invested in the organization to continue the growth as the Company is currently not at a scale where it is generating positive unlevered free cash flow to fund or sustain the growth. As such, there are several growth opportunities available, which include expanding the sales and marketing campaigns to continue to build market share, and identifying smaller companies in the space to acquire to continue to grow market share and expand current service offerings. Moreover, there are multiple opportunities to develop the platform further. With only 750 physicians on the platform, there is immense "white space" to capitalize on the telemedicine wave and develop considerable organic and inorganic "moats" with increase in market share. As a case in point, the recent Access Physicians acquisition in March 2021 was a step in the right direction, where SOC Telemed acquired rights to 600+ physicians, and access to 180 facilities in over 24 states[13]. Part of the strategic rationale for this acquisition was that it would help drive the thesis of SOC Telemed to become "the leading and largest provider of acute care telemedicine for health systems."[14] Moreover, SOC Telemed sees untapped potential in cross-sell and up-sell opportunities for sharing increased acute care specialties, which it estimates to be a $2.7bn market. As hospital systems increasingly adopt telemedicine solutions, it will become increasingly difficult to "unwind" them from core operations. With little supply of specialized doctors coupled with higher demand, the reduced friction of telemedicine has immense growth potential.

From a funding perspective, given the company is not generating recurring positive cash flow, there is a definite need for growth capital to fund organic or inorganic opportunities. The growth capital source would be a mezzanine instrument, probably structured as a convertible preferred note. To provide additional capital flexibility, the note would accrue "paid-in-kind" (PIK) dividend on an annual basis, or the company could include a PIK/cash toggle to mitigate the accrual of non-cash dividend. Below is an indicative term sheet for the convertible preferred notes. The dividend rate is estimated to be 8-10% given how cheap capital is currently.

[13] https://investors.soctelemed.com/download/TLMD_June+Investor+Presentation_060121.pdf. (pp. 5-6)
[14] https://investors.soctelemed.com/download/TLMD_June+Investor+Presentation_060121.pdf (p. 6)

Moreover, there are triggers in place that can potentially amplify the convertible preferred note return if a “conversion feature” is triggered, as mentioned below. Another benefit to the convertible preferred equity is that there are conversion features that can give preferred shareholders more potential common shares (i.e., post conversion) that can serve as an anti-dilutive element. Existing common shareholders, however, would get further diluted. Given SOC Telemed just raised common equity in June, it may be beneficial for the new round of capital to get some preference in the capital structure, and an additional “kicker” if the conversion to common equity is triggered.

Illustrative Term Sheet

Security Feature	**Description**
Size ($mm)	$50 - $100
Collateral / Security Interest / Seniority	Unsecured - convertible preferred equity (“Convertible Preferred Notes”)
Term	5 years with no call provisions for the first two years; take out at 105 and 102.5 in years 3 and 4; par at year 5.
Dividend Rate	8-10% PIK cumulative dividends, with PIK/cash toggle component, at the election of the Issuer
Principal Repayment	100% bullet at maturity, or at take out premiums if security is paid in full in years 3 or 4

Conversion Features	Price Per Preferred Share: $100 Conversion Price: $4.64 Conversion Ratio: 21.6 common share equivalents **Conversion Event Triggers:** 1) Qualifying subsequent round of financing 2) Change of control (i.e., an acquisition or merger) 3) Maturity of Notes

V. Business Model Analysis

Target Market

TLMD has defined the target customer as hospitals that cannot sufficiently provide access to specialty care. A wide variety of hospitals may need this additional support with different financial and location issues. Rural hospitals may have cost issues, or not be capable of attracting doctors to their remote locations. Private hospitals in suburbs may have sufficient money and prestige to be able to attract the necessary doctors, but want to reduce costs. Large public teaching hospitals may want to hire consults to provide extra coverage for attending physicians. These differing target segments make it very difficult for TLMD to provide the services that all of these hospitals need. For example, TLMD offers ICU and pulmonology specialties; as the doctor shortage issue continues to escalate, this will eventually address the target market's growing needs.

In effect, TLMD is offering multiple products to multiple target segments without sufficient plans to address the actual needs of all of these individual entities and operations. Many of the potential customers for TLMD may be non-profit hospitals. TLMD may not be able to competitively price services to maximize profit. However, there are high barriers to entry that prevent additional competitors from easily encroaching on lower prices or more competitive salaries. It may be difficult to maximize earnings, and TLMD may have to leave some profits on the table in order to keep customers, as it has done in the past.

Value Proposition

Consistent access to high-quality critical care components is relatively difficult for hospitals and patients due the scarcity of specialized medical doctors. The ability to provide access to remote doctors through the phone and internet allows for hospitals facing doctor shortages to be able to address their critical needs on an as-needed basis without having to hire a full-time critical care doctor for limited use. This is especially applicable in hospitals in rural areas serving larger regions or smaller populations that cannot secure a full-time specialist, either due to difficulty securing the costs, or lack of interest by doctors in the position.

As indicated in the study conducted by the AAMC the shortage of physicians will increase the demand for hospitals to be able to readily and reliably access specialists and clinical consultants in a cost efficient manner. With a fully integrated and in-house developed product called Telemed iQ, TLMD is well-positioned to help resource-constrained hospitals gain access to specialized physicians. By incorporating telehealth services, hospitals can securely transmit medical data and provide physicians the ability to conference with specialists through videoconferencing technology that can compensate for physician shortages.

Competitive Advantage

First and foremost, TLMD has differentiated itself within the sector by focusing specifically on acute care rather than consumer telehealth, tackling different challenges and offering a different value proposition. In the ladder, providers are looking to more broadly provide remote services for visits often scheduled well in advance (i.e. direct-to-patient or direct-to-consumer remote visits). By focusing on acute care, TLMD is aiming to provide hospitals rapid connectivity to specialized remote experts needed at a moment's notice in their facilities. Additionally, rather than opening up patient options (a primary motivation of consumer telemedicine), the TLMD product is addressing urgent medical needs, expanding patient access to scant medical resources, and ultimately fostering physician talent in specialties that are increasingly in high demand. The different value propositions allows TLMD to tailor an offering in a burgeoning market where its position to consume a significant market share.

Furthering this value proposition, TLMD is focusing its expansions to address interstate needs and streamlining the licensing process for participating physicians. The April 2021 acquisition of Access Physician, which made TLMD the largest pure-play provider of acute telemedicine in the nation, the company is now capable of delivering services to nearly 1,000 facilities across 47 states. That includes partnerships with 19 of the 25 largest health systems in the United States. As previously mentioned, the company has a telemedicine credentialing team to help onboard new physicians, garner their licensing (and keep it up-to-date, typically states requiring renewal every two years), and ultimately ensure physicians are privileged at the individual hospitals/partner facilities. This streamlined process opens up immense opportunities for physicians where their services are in high demand but regulatory barriers can be superfluous. It is important to note that the initial scale and infrastructure to expand positions the company well to grow while also bolstering a barrier of entry for competitors.

It is also worth noting that TLMD's technology platform, Telemed IQ, is one of the enterprise-wide technology solutions available for telemedicine. Concurrently, the relatively seamless acquisition of Access Physicians, which included both adding physicians, hospital systems, and additional clinical services lines, showcased the platform's ability to take on additional capacity, a positive proofpoint for prospective acquisitions. The expansion into infectious disease, cardiology, maternal-fetal medicine and nephrology in addition to its core services of neurology, psychiatry, critical care and pulmonology, instills confidence that service growth could present additional investment opportunities in the future.

Durability of Advantage

With the highly competitive environment of the healthcare technology industry, TLMD's current market share can be easily encroached upon. Similar telemedicine operations exist, meaning the competitive space is already fighting over existing market share. Additional entrants would have relatively low technological barriers to entry, but very high financial barriers to entry. For example, new innovations or IP's from established competitors to compete against the primary Telemed IQ platform, new market entrants from non-traditional competitors such as Amazon that could offer more attractive or cost efficient services, and roll-up M&A strategies by firms to consolidate the fragmented market are threats to TLMD. Furthermore, other medical entities, such as HMOs like Kaiser Permanente, are already able to perform these types of consultation arrangements without a third-party vendor. Unless the firm continues to innovate remote tele-health services, improves operational efficiencies in management and product services, then TLMD services can lose durability with the introduction of alternative offerings.

Potential Risk: Profit-based entity in a non-profit environment

Only 20% of hospitals in the US are for-profit.[15] The remainder are non-profit or government-funded hospitals. Targeting an industry where the majority of hospitals are not driving for a profit reduces the ability to capitalize on earnings. Compare this to pharmaceuticals, who do not target the hospitals themselves for reimbursement, but insurance companies. Focus should potentially be made to work with insurance companies to help reduce costs of doctor's fees through using consults, if necessary.

Potential Risk: Capital-intensive operations and Expensive Staffing

While telemedicine is virtualized, the equipment and staff required for TLMD are relatively expensive. Doctors have a very high salary and are competitively compensated at physical positions. It may be very difficult to convince doctors to work in a remote telemedicine operation, as it may impact their ability to see patients and maintain medical licenses. In addition, the relatively high cost of consultancy in critical care and specialist fields increases the premium that is required to maintain TLMD's staffing, and there is risk that turnover or changes in the medical field can dramatically change the effectiveness of TLMD service. Assuming one physician costs $200K in salaries and benefits, TLMD's current staffing for its 200 physicians alone is a staggering $40M in yearly expenses.

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[15] https://www.aha.org/statistics/fast-facts-us-hospitals

Potential Risk: Timing of Business Within The Market

Unlike most other health and pharma-based companies, TLMD has lost over 40% of its stock price throughout the COVID-19 pandemic due to lack of confidence and inability to drive a profit, even during a health crisis. In its 10-K, it admits that the pandemic may negatively affect its performance, even though a pandemic is actually the ideal situation for telemedicine implementation, as it would have reduced risk of exposure to Telemed consultants and have allowed for easier management of COVID evaluations during the health Crisis.

VI. Valuation/Financial Analysis[16]

Over the past few years the firm has been able to double its amount of bookings (which represents the minimum fixed consultation revenue to be received over the next 12-month period) from about $6 million to $12 million and has continued to grow its overall revenue. Revenues are generated from service contracts with client hospitals or physician practice groups which are either covered by a fixed monthly fee or on a variable fee basis. The fact that the majority of revenues are related to long-term contracts that pay on a fixed monthly fee provides the Company some stability in terms of cash inflows that it is able to rely on.

From a cost perspective, cost of revenues primarily consists of fees paid to physicians, costs incurred in connection with licensing physicians, equipment leasing, maintenance, depreciation, amortization of capitalized software development costs (internal-use software), and costs related to medical malpractice insurance. While the Company will continue to invest in new physicians and purchase additional machinery, there is a large amount of scalability with the existing assets and physician network that should allow the Company to rapidly grow its revenue, with a relatively low increase to costs of revenue.

[16] https://sec.report/Document/0001213900-21-018724

Over the past few years a significant amount of money has been spent on sales, general, and administrative expenses which were largely attributable to sales and marketing campaigns and stock-based compensation expenses. Given that the Company is in high growth mode, TLMD is spending a significant amount of money on sales and marketing to expand its market share and on executive compensation to ensure that the Management team is highly motivated to perform well. As the Company continues to grow and scale, these expenses can be significantly reduced which will have a significant positive impact on the Company's bottom line. Moreover, the company is acquiring other operating platforms - case in point, Access Physicians. This combined "organic and inorganic growth" platform, as strategically positioned within the SPAC structure, is fueled by the growth potential, and success on not only "cross-sell / up-sell" opportunities, but post-merger integration. If the company is successful with integrating doctors and telehealth capabilities across its multiple platforms, this is a big opportunity. Moreover, given the company's recent stock price performance, investors are seeing this as a cheap investment opportunity with some upside. As recently as June 16, the company raised another round of common equity ($55 million and 1.2 million shares) at an average price of $5.56 per share.

Because the Company is in high growth mode, the Company is intentionally over investing in growth which as a result is leading to year-over-year net losses. However the efforts have continued to pay off in terms of building market share and revenue growth. Over the last few years, the Company has paid off all of its existing debt and is currently under leverage. As a result, when a significant expansion opportunity presents itself (such as roll-up opportunities or a large acquisition) or should the Company need additional capital to expand its current operations, TLMD will have the ability to source funds through a loan, debt issuance, or an additional equity issuance. This puts the Company in a great position to fund future growth.

Based on current market conditions and valuation of TLMD (Appendix 3), there is an opportunity to invest in TLMD and make a profitable return. Since the reverse recapitalization with Healthcare Merger Corp, the Company's stock price has fallen from about $10.00 per share to about $4.50 per share. Additionally, since that time the Company has paid down all of its outstanding debt and has continued to grow its revenue. Based on our analysis in Appendix 4, we estimate that the current value of the Company is ~$450 million, assuming a 12.0x steady state exit EBITDA multiple approach, and a WACC of ~11% estimated using a beta of 2 and the current mix of debt and equity as 18% and 82% of the capital structure, respectively . However, with improvements to operations and continued growth, we believe that within a 5-year timeframe the value of the Company could increase significantly. The return potential of this investment is demonstrated in our convertible preferred case.

VII. Exit/Deal Structure

Based on the valuation discussed above, we recommend that the investment committee invest in TLMD and take a minority interest in the Company. Therefore we recommend investing $50-100 million through a private placement in a convertible preferred note (Appendix 1). The money that TLMD would raise through this private placement could then be used to continue to fund the organic growth via sales and marketing or for continued growth via acquisitions in an effort to diversify current service offerings into additional acute care specialties. As seen in the figures below (Appendix 1), at a 5-year exit and cumulative PIK dividends are earned, the convertible preferred investors can convert their preferred shares into ~35 million common shares. Moreover, if the common share price upon conversion is greater than the conversion price of $4.64, there is immense return potential for the convertible preferred note holders, as demonstrated in appendix 2. The return potential hinges on the amount of time the investors are in the structure and have not been paid back, as well as the average CAGR of TLMD's stock price over time. The higher the CAGR, the better the conversion potential, and higher returns.

Appendix 1:

Convertible Preferred Economics	At Entry	At Exit (assumed 5-year Maturity)
Size ($mm)	$100	$161
Current Common Share Price	$4.64	$4.64
Price / Preferred Shares	$100.00	$100.00
Conversion Ratio (Common Share Equivalents	21.6x	21.6x
Total Preferred Shares Outstanding (mm)	1.00	1.61
Common Share Equivalants	21.55	34.71
Dividend Type (PIK / Cash)?	PIK or PIK Toggle	
PIK Dividend Accrual	10.0%	NA

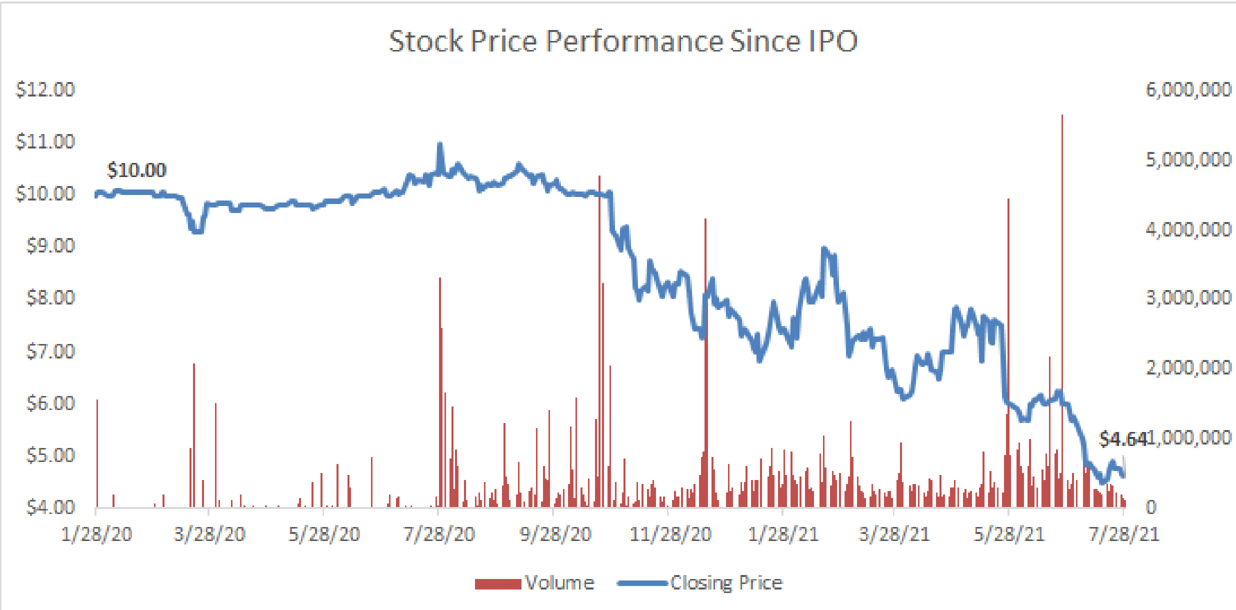
Appendix 2:

Years in Structure	0	1	2	3	4	5
Conv. Pref. Beginning Balance		$100	$110	$121	$133	$146
Plus: PIK Dividend		$10	$11	$12	$13	$15
Less: Repayment		–	–	–	–	–
Conv. Pref. Ending Balance		**$110**	**$121**	**$133**	**$146**	**$161**
Common Share Price	$4.64	$ 5.10	$ 5.61	$ 6.18	$ 6.79	$ 7.47
Assumed Annual Share Price CAGR (%)		10.0%	10.0%	10.0%	10.0%	10.0%
Common Share Equivalents		23.71	26.08	28.69	31.55	34.71
Total Value of Common Shares ($mm)		$ 121.0	$ 146.4	$ 177.2	$ 214.4	$ 259.4
Implied IRR		21.0%	21.0%	21.0%	21.0%	21.0%
Implied MOIC		1.21x	1.46x	1.77x	2.14x	2.59x
Pro Forma Shares Outstanding						
Beginning Common Shares		99.74	99.74	99.74	99.74	99.74
Plus: Converted Shares		23.71	26.08	28.69	31.55	34.71
Equals: Total Shares Outstanding		**123.45**	**125.82**	**128.42**	**131.29**	**134.45**
Implied Equity Ownership of Conv. Pref. Holders (%)		*19.2%*	*20.7%*	*22.3%*	*24.0%*	*25.8%*
Dilution of Existing Shareholders (%)		*23.8%*	*26.1%*	*28.8%*	*31.6%*	*34.8%*

	IRR/MOIC Sensitivity at Various Share Price 5-year CAGRs w/Implied Share Prices at Exit				
	$ 7.47	$ 8.36	$ 9.33	$ 10.39	$ 11.55
	10.0%	12.5%	15.0%	17.5%	20.0%
IRR	21.0%	21.5%	22.1%	22.6%	23.1%
MOIC	2.59x	2.65x	2.71x	2.77x	2.83x

Appendix 3

Stock Performance Since IPO:



<u>**SOC Telemed Current Valuation (as of 7/29/2021**</u>	
($ millions)	
Share Price	$4.55
Shares Outstanding	99.74
Market Capitalization	**$453.8**
<u>Debt and Equivalents</u>	
Term Loan	$89.2
Related Party Promissory Note	$11.5
Total Debt	**$100.7**
Less: Cash	(83.9)
Total Enterprise Value	**$470.7**

Note: The above analysis was conducted with the latest market data available as of 7/29/2021.

Appendix 4: DCF Analysis

SOC Telemed DCF Analysis	Actuals			Projections				
($ millions)				1	2	3	4	5
	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	53.7	66.2	58.0	110.0	158.4	198.0	247.5	309.4
COGS	28.8	37.3	34.6	62.2	87.1	105.9	128.7	156.2
Gross Profit	***24.9***	***28.9***	***23.4***	***47.9***	***71.3***	***92.1***	***118.8***	***153.1***
Revenue Growth (%)		*23.3%*	*(12.4%)*	*89.7%*	*44.0%*	*25.0%*	*25.0%*	*25.0%*
Gross Profit Margin (%)	*46.4%*	*43.7%*	*40.3%*	*43.5%*	*45.0%*	*46.5%*	*48.0%*	*49.5%*
Operating Expenses								
Sales and Marketing	6.2	5.9	8.3	15.7	19.5	20.4	20.6	19.5
R&D	1.7	1.2	1.4	2.7	3.8	4.8	6.0	7.5
Operations	7.3	7.7	9.0	17.1	21.4	22.8	23.6	23.3
G&A	14.7	15.1	15.6	29.6	36.3	37.4	36.9	33.7
Adjusted EBITDA	**(5.0)**	**(1.0)**	**(10.9)**	**(17.2)**	**(9.7)**	**6.7**	**31.8**	**69.2**
EBITDA Margin	*(20.1%)*	*(3.5%)*	*(46.6%)*	*(35.9%)*	*(13.6%)*	*7.2%*	*26.8%*	*45.2%*
Less: Taxes				–	–	(1.7)	(8.0)	(17.3)
Plus: Changes in NWC				1.6	2.7	3.1	3.9	4.9
Less: CapEx				(5.4)	(6.9)	(9.2)	(11.5)	(14.3)
Equals: Unlevered Free Cash Flows				**(21.0)**	**(13.9)**	**(1.1)**	**16.3**	**42.4**

Annual Increases (%) - 2022 - 2025
1.5%

Ratios	2018	2019	2020	2021	2022	2023	2024	2025
Sales and Marketing as a % of Sales	11.5%	8.9%	14.3%	14.3%	12.3%	10.3%	8.3%	6.3%
R&D as a % of Sales	3.2%	1.8%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Operations as a % of Sales	13.6%	11.6%	15.5%	15.5%	13.5%	11.5%	9.5%	7.5%
G&A as a % of Sales	27.4%	22.8%	26.9%	26.9%	22.9%	18.9%	14.9%	10.9%
Tax Rate (%)	NA	NA	NA	25.0%	25.0%	25.0%	25.0%	25.0%
Change in NWC as a % of Sales	NA	NA	NA	1.5%	1.7%	1.6%	1.6%	1.6%
CapEx as a % of Sales	NA	NA	NA	4.9%	4.4%	4.6%	4.6%	4.6%
Terminal Value								761.0
Cash Flows				(21.0)	(13.9)	(1.1)	16.3	803.5
PV of Cash Flows				(18.9)	(11.3)	(0.8)	10.7	475.8

Annual Reductions (%) - 2022 - 2025
2.0%
–
2.0%
4.0%

Total Enterprise Value	**$455.5**

WACC Chase

Risky Beta	11.05%
Steady State EV / EBITDA Multiple	11.0x

WACC Cases

Industry Beta	5.05%
Risky Beta	11.05%
VC Method	25.00%

Illustrative Valuation Sensitivity at Various WACCs and Exit Multiples

		Exit EBITDA Multiple				
	455.5	**11.0x**	**12.0x**	**13.0x**	**14.0x**	**15.0x**
	11.0%	$456.6	$497.6	$538.7	$579.7	$620.8
WACC	**13.5%**	$406.4	$443.1	$479.8	$516.6	$553.3
Range	**16.0%**	$362.4	$395.4	$428.3	$461.2	$494.2
	18.5%	$323.9	$353.5	$383.1	$412.7	$442.3
	21.0%	$289.9	$316.6	$343.3	$369.9	$396.6

Appendix 4 (Cont.) WACC - Normal Case:

Capital Structure of TLMD in 2021	
%Debt	18%
%Equity	82%
Note: Capital Structure Source is from https://simplywall.st/stocks/us/healthcare/nasdaq-tlmd/soc-telemed#health	
Telemed Equity Beta (Re-Levered)	
Equity Beta (Re-levered)	
Telemed %Equity in 2021	82%
Industry Beta (Ba): Note	0.73
Be = (V/E)*Ba	**0.89199684**
Note: Used current unlevered Healthcare IT beta from Prof Damodaran Data set http://www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls	
CAPM Calculation	
Re = Rf + MRP *Be (Re-levering)	
Be (Re-Levered)	0.89
Rf (Note 1)	1.3%
MRP (Note 2)	4.72%
Re	**5.5%**
Notes: 1. 10-yr treasury rate based on 23 July 2021: https://ycharts.com/indicators/10_year_treasury_rate 2. MRP based on Prof Damodaran Data http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histimpl.html	
WACC Calculation	
WACC = %E *Re + %D*Rate Debt *(1-Tax)	
%E	0.82
Re	0.06
%D	0.18
Debt Rate (Health IT Rate)	0.04
1- Tax Rate	0.73
WACC	**5.05%**
Note 1: Debt Rate chosen based Healthcare IT Book interest rate using Damodaran Data Set: http://www.stern.nyu.edu/~adamodar/pc/datasets/debtdetails.xls Note 3: Marginal Tax Rate based on Damodaran Data Set: http://www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls	

<u>**Appendix 4 (Cont.) WACC - Risky Case**</u>

Capital Structure of TLMD in 2021	
%Debt	18%
%Equity	82%
Note: Capital Structure Source is from https://simplywall.st/stocks/us/healthcare/nasdaq-tlmd/soc-telemed#health	

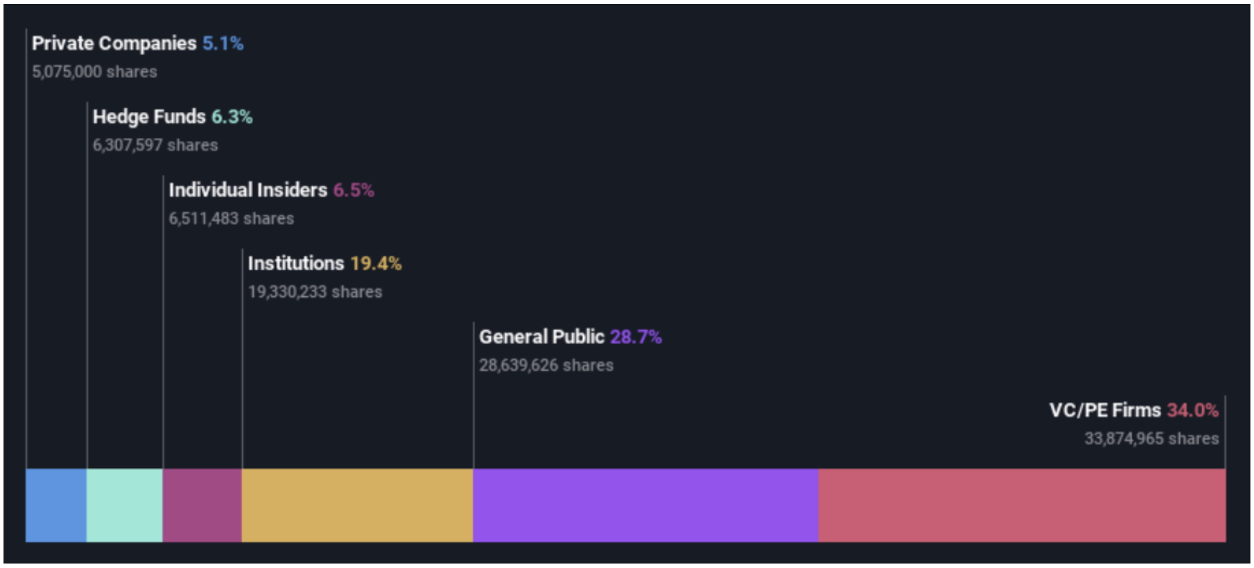
Telemed Equity Beta (Re-Levered)	
Equity Beta (Re-levered)	
Telemed %Equity in 2021	82%
High-Risk Beta	2.0
Be = (V/E)*Ba	2.44
Note: Used current unlevered Healthcare IT beta from Prof Damodaran Data set http://www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls	

<= given TLMD's short trading history, it is safe to attribute a high beta to the stock.

CAPM Calculation	
Re = Rf+ MRP *Be (Re-levering)	
Be (Re-Levered)	2.44
Rf (Note 1)	1.3%
MRP (Note 2)	4.72%
Re	12.8%
Notes: 1. 10-yr treasury rate based on 23 July 2021: https://ycharts.com/indicators/10_year_treasury_rate 2. MRP based on Prof Damodaran Data http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histimpl.html	

WACC Calculation	
WACC = %E *Re + %D*Rate Debt *(1-Tax)	
%E	0.82
Re	0.13
%D	0.18
Debt Rate (Health IT Rate)	0.04
1- Tax Rate	0.73
WACC	11.05%
Note 1: Debt Rate chosen based Healthcare IT Book interest rate using Damodaran Data Set: http://www.stern.nyu.edu/~adamodar/pc/datasets/debtdetails.xls Note 3: Marginal Tax Rate based on Damodaran Data Set: http://www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls	

<u>**Appendix 5: Ownership Breakdown:**</u> [17]



NasdaqGS:TLMD Ownership Breakdown July 7th 2021

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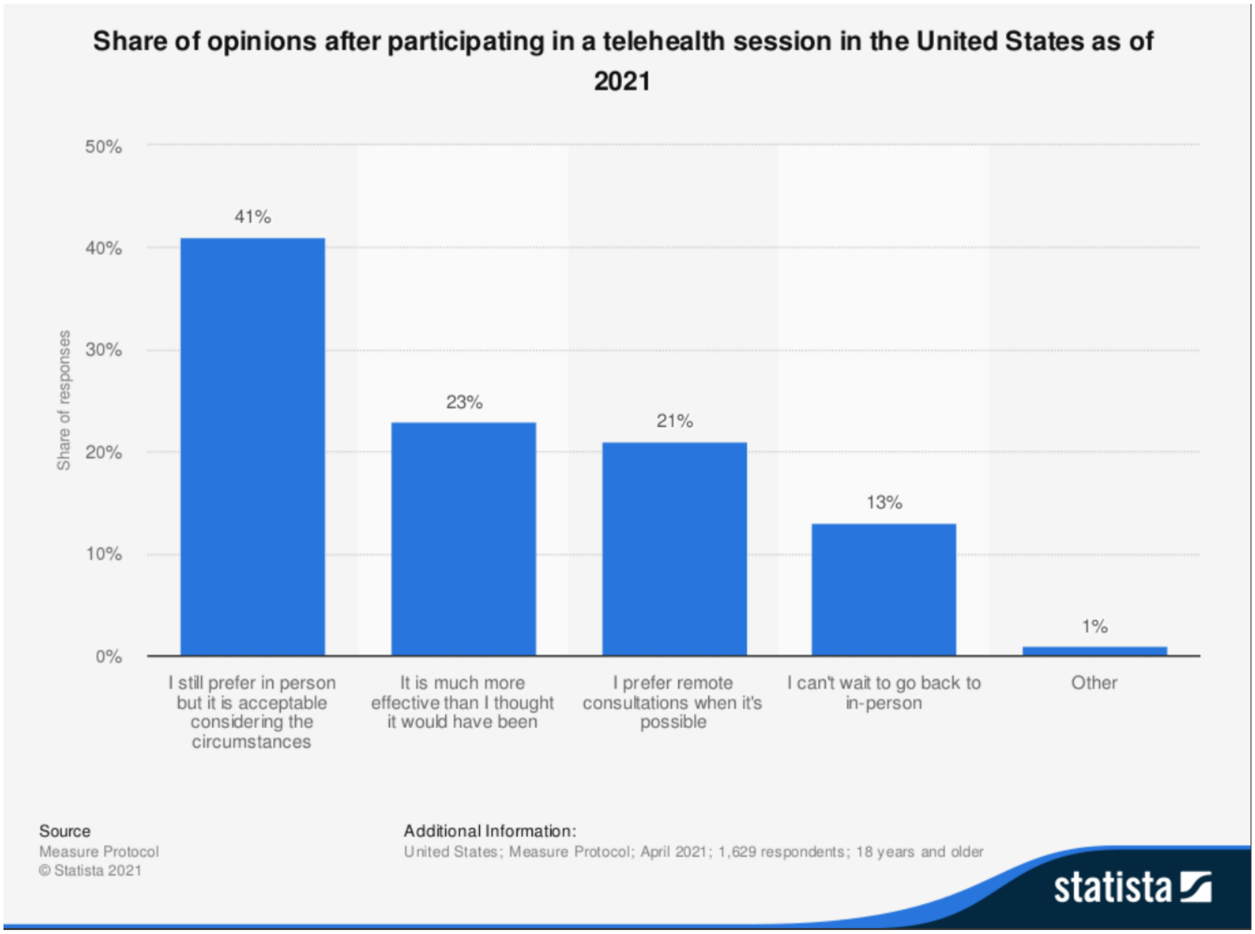
17 https://simplywall.st/stocks/us/healthcare/nasdaq-tlmd/soc-telemed/news/could-the-soc-telemed-inc-nasdaqtlmd-ownership-structure-tel

Appendix 6:


Share of opinions after participating in a telehealth session in the United States as of 2021
50%
40%
30%
20%
10%
0%
Share of responses
41%
23%
21%
13%
1%
I still prefer in person but it is acceptable considering the circumstances
It is much more effective than I thought it would have been
I prefer remote consultations when it's possible
I can't wait to go back to in-person
Other
Source
Measure Protocol
© Statista 2021
Additional Information:
United States; Measure Protocol; April 2021; 1,629 respondents; 18 years and older
statista

ZACKS | Our Research. Your Success. July 24, 2021

SOC Telemed, Inc. (NASDAQ:TLMD)

$4.76 USD (As of 07/23/2021)

Zacks Rank: 3-Hold

Style Value: F | Growth: F | Momentum: F | VGM: F

52 Week High-Low	$12.08 - $4.31
20 Day Average Volume	643,619
Beta	0.08
Market Cap	430.97 M
Dividend / Div Yld	$0.00 / 0.00%
Industry	Medical Info Sy..
Industry Rank	240 / 252 (Bottom 5%)
Proj. EPS Growth (Q1)	NA
Proj. EPS Growth (F1)	83.94%
P/E (F1)	NA
Last EPS Surprise	-57.14%
Avg. Last 4 Surprises	-828.57%
Next Report Date	8/12/2021
Earnings ESP	0.00%

Price, Consensus & Surprise

Agreement Estimate Revisions (60 Days)

	Q1	Q2	F1	F2
# of Analysts	1	1	1	1
# of Revisions	0	0	0	0
# Up	0	0	0	0
# Down	0	0	0	0
% Revision Agreement:	No Revisions	No Revisions	No Revisions	No Revisions

Magnitude Consensus Estimate Trend (60 Days)

	Q1	Q2	F1	F2
Current	-0.14	-0.13	-0.57	-0.35
7 Days Ago	-0.14	-0.13	-0.57	-0.35
30 Days Ago	-0.14	-0.13	-0.57	-0.35
60 Days Ago	-0.14	-0.13	-0.57	-0.35
Trend of Estimate Revisions:	0%	0%	0%	0%

Industry Comparison Medical Info Sy.. | Position in Industry: 3 of 40 — Industry Peers

	TLMD 3	X Industry	S&P 500	OLK 4	OM 4	BFLY 3
Hist. EPS Growth (3-5 yrs)	NA	3.10%	9.41%	NA	NA	NA
Proj. Sales Growth (F1/F0)	74.50%	20.62%	10.18%	70.00%	96.01%	0.00%
Net Margin	NA	-24.40%	12.00%	NA	NA	NA
Return on Equity	-96.38%	-22.62%	16.73%	NA	NA	-4,677.16%
Debt/Capital	36.35%	3.42%	41.24%	0.39%	8.83%	0.00%
P/E (F1)	NA	23.04	21.23	NA	NA	NA
Price/Sales (P/S)	NA	4.31	3.45	NA	NA	NA
Price/Book (P/B)	2.90	4.74	4.06	8.62	6.21	4,659.33
Price/Cash Flow (P/CF)	NA	16.32	17.92	NA	NA	NA
YTD % Price Change	-39.29%	-0.62%	17.46%	NA	-21.99%	-46.34%

Description

Medical > Medical Products > Medical Info Systems

Specialists On Call Inc. is a provider of telemedicine technology and solutions to hospitals, health systems, post-acute providers, physician networks, and value-based care organizations. Specialists On Call Inc., formerly known as Healthcare Merger Corp., is based in NEW YORK.

Learn More about Zacks Rank and Style Scores