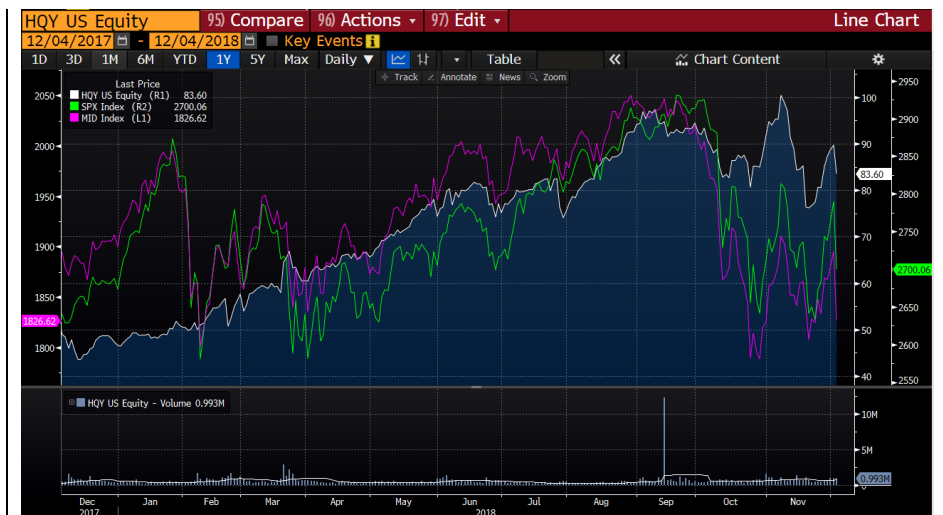


HealthEquity is a cloud based solution for tax-advantaged HSAs, comparing treatment options and pricing, evaluating and paying healthcare bills, receiving personalized benefit and clinical information, earning wellness incentives, and making educated investment choices to grow tax-advantaged healthcare savings.

## BUY

|                |          |
|----------------|----------|
| Current Price: | \$83.60  |
| Target Price:  | \$119.15 |
| Market Cap:    | 5B       |
| NI Margin:     | 19.5%    |
| ROE:           | 16.86    |
| Kd:            | 3%       |
| WACC:          | 8.74     |
| SI Ratio:      | 4.99     |
| Avg. Volume:   | 641k     |



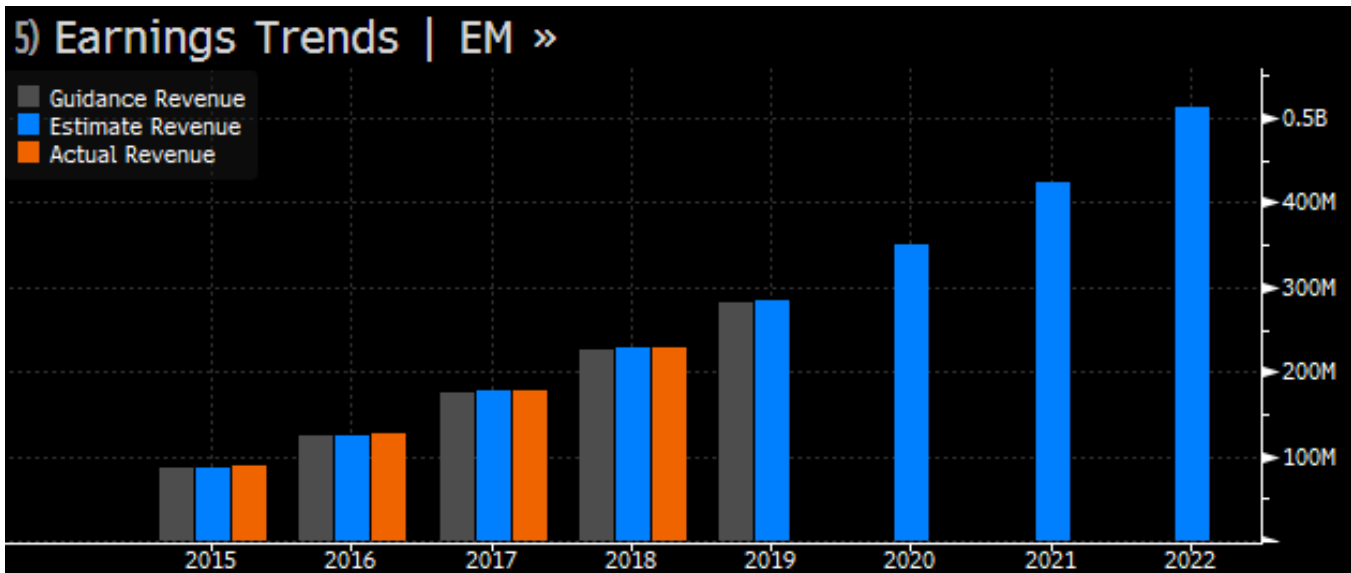
**Thesis:** HQY was a victim of the recent sell off and has already started to rebound. The HSA market will continue to grow at a rapid pace, and HQY is poised to take advantage. Recent legislation that will expand HAS use, have passed through the house and should pass through the senate. Recent and future interest rate hikes will have a positive long-term effect on custodial revenue streams.

## Catalysts:

- Short Term: **Market Correction Rebound**
- Mid Term: **Changes in Legislation**
- Long Term: **Interest Rate Hikes**

## Earnings Performance:

HealthEquity has proven its capacity to generate revenue and in the past, with continual increases in margin. The growth should continue, based on the factors discussed below.



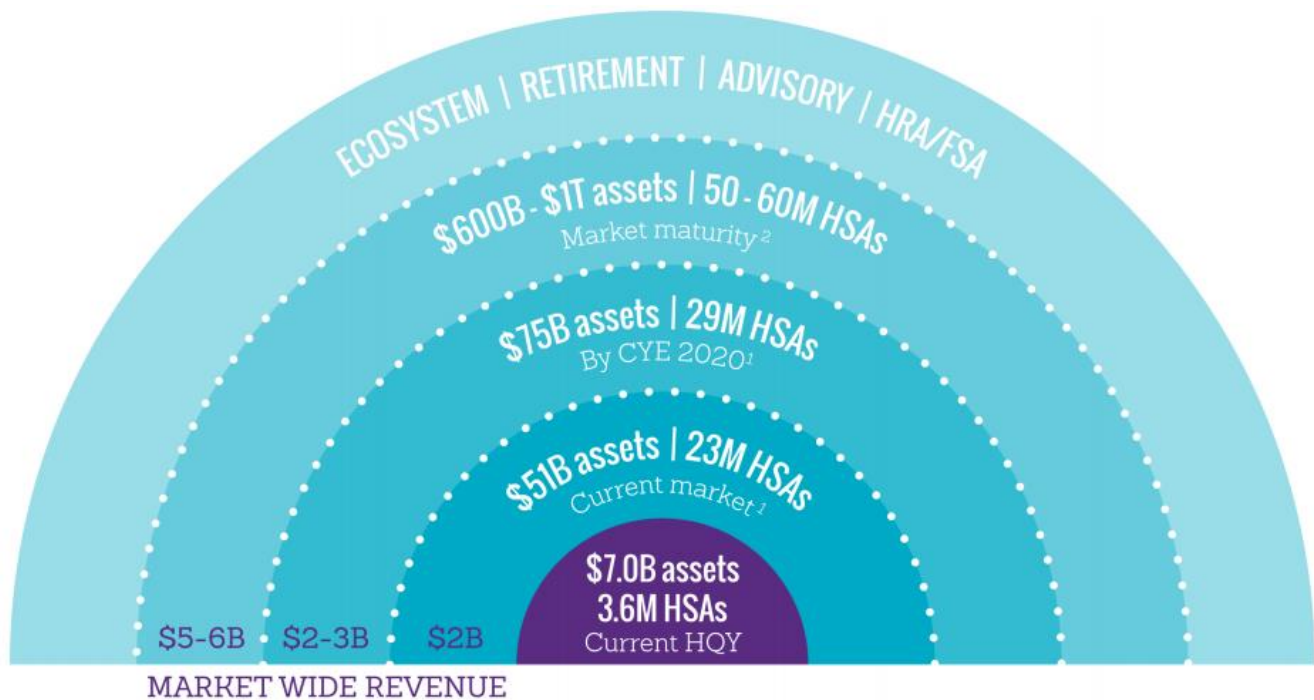
| 1) Key Stats          | 2) I/S              | 3) B/S       | 4) C/F               | 5) Ratios     | 6) Segments   | 7) Addl    | 8) ESG      | 9) Custom  |            |
|-----------------------|---------------------|--------------|----------------------|---------------|---------------|------------|-------------|------------|------------|
| 11) Adj Highlights    | 12) GAAP Highlights | 13) Earnings | 14) Enterprise Value | 15) Multiples | 16) Per Share | 17) Stock  |             |            |            |
| In Millions of USD    | 2013 Y              | 2014 Y       | 2015 Y               | 2016 Y        | 2017 Y        | 2018 Y     | Current/LTM | 2019 Y Est | 2020 Y Est |
| 12 Months Ending      | 01/31/2013          | 01/31/2014   | 01/31/2015           | 01/31/2016    | 01/31/2017    | 01/31/2018 | 10/31/2018  | 01/31/2019 | 01/31/2020 |
| Market Capitalization | —                   | —            | 1,138.2              | 1,244.0       | 2,753.6       | 3,079.0    | 5,215.0     |            |            |
| - Cash & Equivalents  | 5.9                 | 13.9         | 111.0                | 123.8         | 180.4         | 240.3      | 330.3       |            |            |
| + Preferred & Other   | 55.5                | 55.9         | 0.0                  | 0.0           | 0.0           | 0.0        | 0.0         |            |            |
| + Total Debt          | 2.1                 | 0.0          | 0.0                  | 0.0           | 0.0           | 0.0        | 0.0         |            |            |
| Enterprise Value      | —                   | —            | 1,027.2              | 1,120.2       | 2,573.3       | 2,838.7    | 4,884.7     |            |            |
| Revenue, Adj          | 46.1                | 62.0         | 87.9                 | 126.8         | 178.4         | 229.5      | 271.9       | 283.9      | 349.4      |
| Growth %, YoY         | —                   | 34.6         | 41.7                 | 44.3          | 40.7          | 28.7       | 25.9        | 23.7       | 23.1       |
| Gross Profit, Adj     | 24.1                | 32.8         | 48.0                 | 72.6          | 106.4         | 134.9      | 168.4       | 174.2      | 219.6      |
| Margin %              | 52.3                | 52.9         | 54.6                 | 57.3          | 59.6          | 58.8       | 61.9        | 61.4       | 62.9       |
| EBITDA, Adj           | 10.5                | 15.8         | 22.8                 | 35.2          | 55.0          | 72.6       | 91.0        | 112.2      | 143.5      |
| Margin %              | 22.7                | 25.5         | 25.9                 | 27.8          | 30.9          | 31.6       | 33.5        | 39.5       | 41.1       |
| Net Income, Adj       | 4.0                 | -7.1         | 12.1                 | 16.9          | 26.8          | 34.8       | 53.0        | 71.0       | 93.9       |
| Margin %              | 8.7                 | -11.5        | 13.7                 | 13.3          | 15.0          | 15.2       | 19.5        | 25.0       | 26.9       |
| EPS, Adj              | 0.25                | -1.26        | 0.21                 | 0.29          | 0.45          | 0.57       | 0.84        | 1.12       | 1.38       |
| Growth %, YoY         | —                   | —            | —                    | 35.8          | 56.7          | 26.9       | 37.0        | 96.8       | 23.9       |
|                       |                     |              |                      |               |               |            |             |            |            |
| Cash from Operations  | 11.8                | 18.0         | 15.0                 | 26.5          | 45.6          | 81.7       | 100.6       |            |            |
| Capital Expenditures  | -0.8                | -1.6         | -1.7                 | -2.4          | -3.6          | -5.5       | -5.5        | -15.5      | -19.0      |
| Free Cash Flow        | 10.9                | 16.4         | 13.3                 | 24.2          | 41.9          | 76.2       | 95.1        | 72.1       | 92.5       |

## HSA Growth:

According to the CMS Nation Health Expenditure Projections 2017-2016, “Under current law, national health spending is projected to grow at an average rate of 5.5 percent per year for 2017-26 and to reach \$5.7 trillion by 2026. The need for out-of-pocket expenses will grow along with it. HSA assets exceed 50B. Assets will likely grow to around 75B by 2020.

HealthEquity is poised to continue to take advantage of the expanding potential consumers with their focus on innovative and full service capabilities in the HSA space. They have successfully defended their leadership position in the market as third largest HSA custodian. According to the 2017 Devenir HSA research report, their market share has nearly tripled from 4% in December of 2010 to 13% as of December 2017.

They believe the healthcare cost shift to consumers will cause the 190 million under-65 consumers that have private health insurance to use products like theirs. This is evidence by the YoY increases in HSA members we keep seeing.



### HSA Members (unaudited)

| (in thousands, except percentages)    | October 31, 2018 | October 31, 2017 | % Change | January 31, 2018 |
|---------------------------------------|------------------|------------------|----------|------------------|
| HSA Members                           | 3,677            | 3,013            | 22 %     | 3,403            |
| Average HSA Members - Year-to-date    | 3,540            | 2,873            | 23 %     | 2,952            |
| Average HSA Members - Quarter-to-date | 3,642            | 2,977            | 22 %     | 3,189            |
| New HSA Members - Year-to-date        | 338              | 339              | — %      | 723              |
| New HSA Members - Quarter-to-date     | 119              | 123              | (3)%     | 404              |
| Active HSA Members                    | 2,972            | 2,536            | 17 %     | 2,863            |
| HSA Members with investments          | 153              | 98               | 56 %     | 122              |

### How they Make Money:

- % of Revenue as of 2Q
- Services: 35%
- Custodial/Record Keeping: 43%
- Interchange: 22%
- Monthly service revenue through contracts with network partners and custodial agreements with individual members.
- Custodial Revenue from cash assets in banks or invested in annuity contracts with insurance company partners.

- Recordkeeping fees for assets held with investment partner and investment advisory services through registered investment advisor subsidiary.
- Interchange revenue, which is primarily interchange fees charged to merchants on payments made with our cards via payment networks

## Change in Focus:

Management outlined progress in their five-year strategy to shift their revenue streams in the Q2 Earnings call. The Q2 YoY percent of service revenue decreased from 40% to 35%. 1H 2018 Margins on service, custodial, and Interchange are 29%, 86% and 76%, respectively. The company is targeting increases in custodial assets, as their highest margin business. Q2 saw a 31% increase in AUM, which reflects the strategy, and the growing demand for HSAs in the U.S.

Custodial AUM (Million) Change:

### Custodial assets (unaudited)

| (in millions, except percentages)              | October 31, 2018 | October 31, 2017 | % Change | January 31, 2018 |
|--|------------------|------------------|----------|------------------|
| Custodial cash                                 | \$ 5,583         | \$ 4,593         | 22%      | \$ 5,490         |
| Custodial investments                          | 1,507            | 987              | 53%      | 1,289            |
| Total custodial assets                         | \$ 7,090         | \$ 5,580         | 27%      | \$ 6,779         |
| Average daily custodial cash - Year-to-date    | \$ 5,503         | \$ 4,470         | 23%      | \$ 4,571         |
| Average daily custodial cash - Quarter-to-date | \$ 5,551         | \$ 4,550         | 22%      | \$ 4,876         |

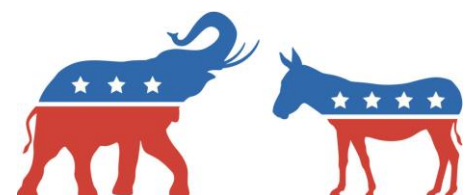
Revenue and Costs (Thousands) Change:

| (in thousands, except percentages) | Three months ended July 31, |           |           |          | Six months ended July 31, |            |           |          |
|------------------------------------|-----------------------------|-----------|-----------|----------|---------------------------|------------|-----------|----------|
|                                    | 2018                        | 2017      | \$ Change | % Change | 2018                      | 2017       | \$ Change | % Change |
| Service revenue                    | \$ 24,935                   | \$ 22,809 | \$ 2,126  | 9%       | \$ 49,756                 | \$ 45,298  | \$ 4,458  | 10%      |
| Custodial revenue                  | 30,715                      | 21,285    | 9,430     | 44%      | 59,149                    | 40,604     | 18,545    | 46%      |
| Interchange revenue                | 15,417                      | 12,785    | 2,632     | 21%      | 32,066                    | 26,400     | 5,666     | 21%      |
| Total revenue                      | \$ 71,067                   | \$ 56,879 | \$ 14,188 | 25%      | \$ 140,971                | \$ 112,300 | \$ 28,671 | 26%      |

| (in thousands, except percentages) | Three months ended July 31, |           |           |          | Six months ended July 31, |           |           |          |
|------------------------------------|-----------------------------|-----------|-----------|----------|---------------------------|-----------|-----------|----------|
|                                    | 2018                        | 2017      | \$ Change | % Change | 2018                      | 2017      | \$ Change | % Change |
| Service costs                      | \$ 17,199                   | \$ 14,998 | \$ 2,201  | 15%      | \$ 35,246                 | \$ 30,573 | \$ 4,673  | 15%      |
| Custodial costs                    | 3,502                       | 2,785     | 717       | 26%      | 6,941                     | 5,588     | 1,355     | 24%      |
| Interchange costs                  | 3,791                       | 3,294     | 497       | 15%      | 7,853                     | 6,598     | 1,255     | 19%      |
| Total cost of revenue              | \$ 24,492                   | \$ 21,077 | \$ 3,415  | 16%      | \$ 50,040                 | \$ 42,757 | \$ 7,283  | 17%      |

## Favorable Legislation:

The average American couple will need \$265,000 to cover out-of-pocket health care costs in retirement. One of President Trump's initiatives in



healthcare reform is to expand HSA use and leverage its tax shelter to reduce health-care costs. On July 25, 2018, the house passed two health care bills that, if passed through the senate, could raise HSA contributions to \$6,650 for individuals and \$13,000, which are nearly double the current limits, and eliminate multiple disqualifying laws on potential HSA users. These bills will likely create new accounts and let existing members contribute more to their accounts, which will increase revenue by a substantial amount.

Current Limits:

| Tax year | HSA contribution limit |         |
|----------|------------------------|---------|
|          | Individual             | Family  |
| 2018     | \$3,450                | \$6,900 |
| 2019     | \$3,500                | \$7,000 |

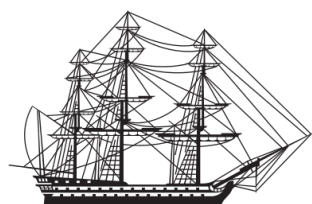
## Interest Rate Benefit:

The long-term outlook is that interest rates will continue to rise as the economy grows. HealthEquity is poised to benefit from these hikes. A significant amount of their custodial revenue comes from interest rates offered by their FDIC-insured custodial depository bank partners. They have contracts with fixed or variable interest rates that range from three to five years. As re-enrollment occurs as contracts expire, yields will increase, which will lead to revenue. The recent increase will not have an immediate effect, but will be highly beneficial over time.



## Competition Initiative: Partnership with Vanguard:

Large retail mutual fund companies have yet to engage heavily with the HSA market. Their brand recognition and wealth of experience could create major competition for HealthEquity. Management proactively entered into a partnership with Vanguard, which has approximately 5.1 trillion AUM. According to the Vanguard press release, "Vanguard will offer plan sponsors the ability to provide an HSA solution to their employees that features low-cost Vanguard funds or the same investment options as their DC plan line-up." The partnership serves to mitigate the risks of major player like Vanguard entering the market independently.



**Vanguard®**



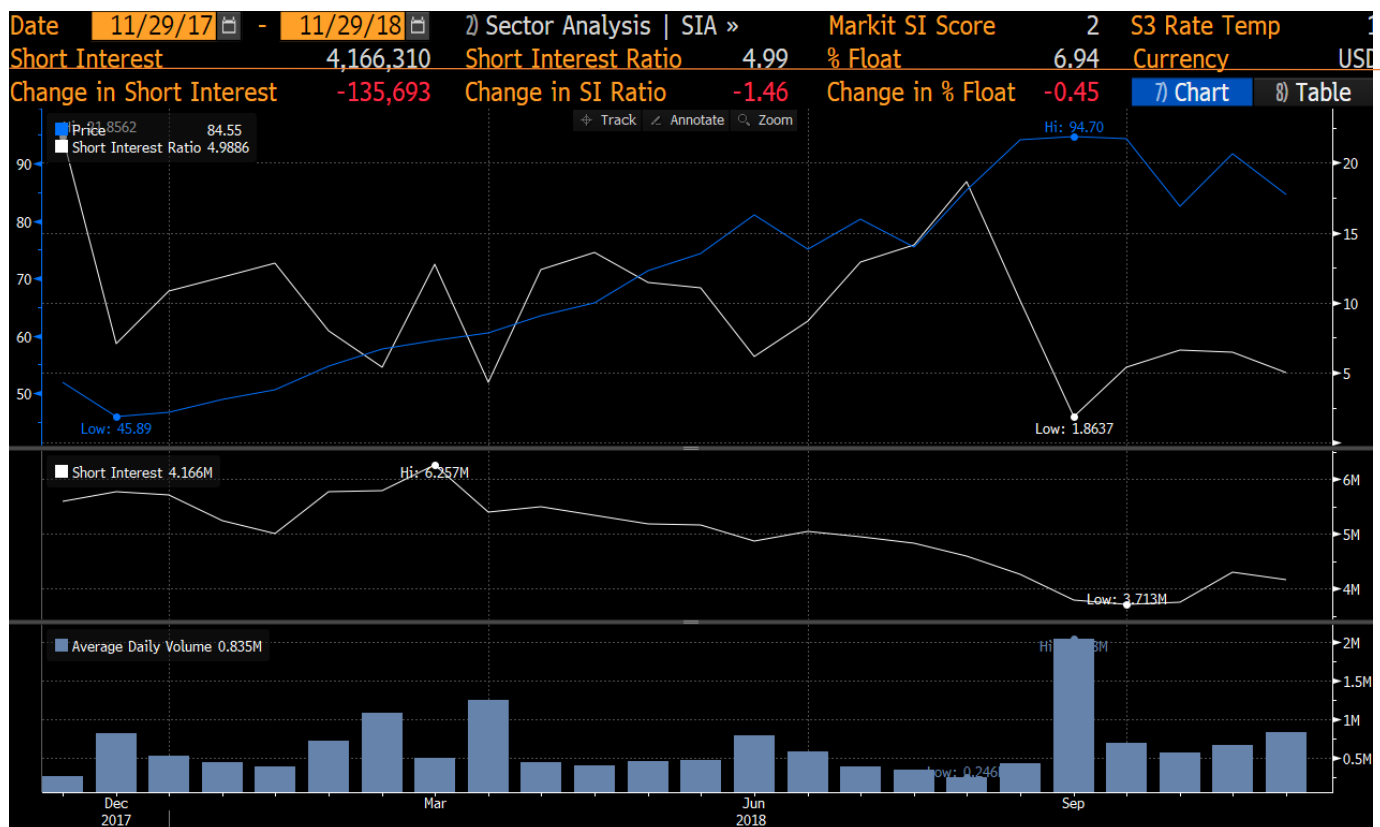
## Ownership:

Hedge Funds have remained consistent over the last three quarters. Investment advisors have increased their stake, as HealthEquity's prospects have remained bullish.



## Short Interest:

The Short interest dropped significantly around the high in price as losses realized. It is safe to say that investors are long on HQY.



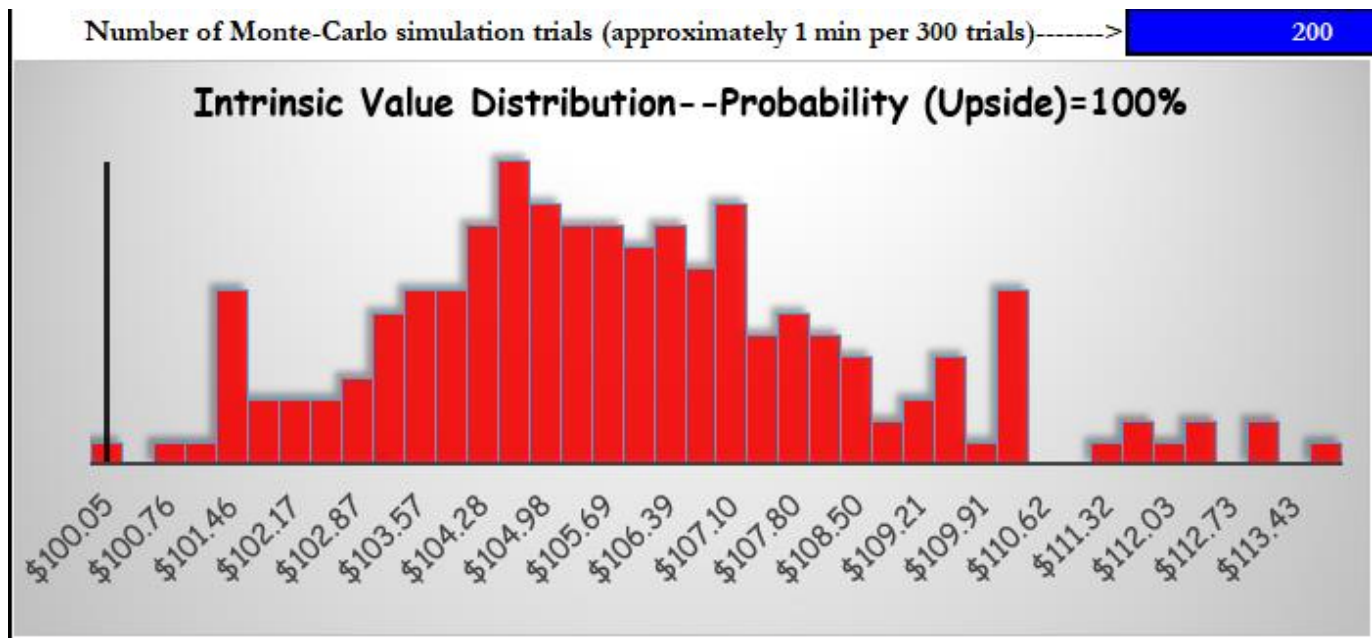
## Conclusion:

HealthEquity continues to use its platform to attract new customers and to increase their contributions to their HSAs. Favorable legislation could potentially open the floodgates in terms of these factors. Management is pushing to create new partnerships that mitigate risk, while increase the reach of HQY. Interest rate hikes have the potential to bolster the custodial revenue stream in the long-run. HSAs are a highly useful investment vehicle for health expenses. The founder, Stephen D. Neeleman, MD, foresaw the major growth in out-of-pocket expenses. HealthEquity is poised to expand as the market for HSAs sees major growth.

Base Case:

Target 1yr Value: 119.15

Based off the belief in legislation changes in the coming year.



# HealthEquity, Inc. (HQY)

## CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Al Capone  
12/4/2018

Current Price:  
Dividend Yield:

\$83.60  
0.0%

Intrinsic Value  
Target Price:

\$105.19  
\$118.59

Target 1 year Return: 41.85%  
Probability of Price Increase: 100%



| Description  |                                    |
|--|------------------------------------|
| HealthEquity, Inc. provides various solutions for managing health care accounts, health reimbursement arrangements, and flexible spending accounts for health plans, insurance companies, and third-party administrators in the United States. |                                    |
| General Information  |                                    |
| Sector   | Health Care                        |
| Industry   | Health Care Providers and Services |
| Last Guidance  | May 8, 2018                        |
| Next earnings date   | December 4, 2018                   |
| Market Assumptions   |                                    |
| Estimated Equity Risk Premium  | 5.08%                              |
| Effective Tax rate   | 21%                                |

| Market Data                          |            |
|--------------------------------------|------------|
| Market Capitalization                | \$5,585.45 |
| Daily volume (mil)                   | 0.99       |
| Shares outstanding (mil)             | 62.26      |
| Diluted shares outstanding (mil)     | 62.58      |
| % shares held by institutions        | 95%        |
| % shares held by investment managers | 87%        |
| % shares held by hedge funds         | 4%         |
| % shares held by insiders            | 2.60%      |
| Short interest                       | 6.69%      |
| Days to cover short interest         | 4.73       |
| 52-week high                         | \$101.58   |
| 52-week low                          | \$42.92    |
| Volatility                           | 0.00%      |

| Quarter ending | Part Earning Surprise |
|----------------|-----------------------|
| Revenue        | EBITDA                |
| 7/31/2017      | 2.07%                 |
| 10/31/2017     | 2.46%                 |
| 1/31/2018      | 3.66%                 |
| 4/30/2018      | 1.46%                 |
| 7/31/2018      | 1.82%                 |
| Mean           | 2.30%                 |
| Standard error | 1.0%                  |

| Market and Credit Scores                                   |  |
|--|--|
| Recommendation (STARS) Value--0                            |  |
| Recommendation (STARS) Description--0                      |  |
| Quality Ranking Value--NR                                  |  |
| Quality Ranking Description--Not Ranked                    |  |
| Short Score--2   |  |
| Market Signal Probability of Default % (Non-Rating)--0.01% |  |
| Credit Model Score (Non-Rating)--N/A                       |  |

| Industry and Segment Information  |                                 |
|-----------------------------------|---------------------------------|
| LTM Revenue by Geographic Segment | LTM Revenue by Business Segment |
| United States of America--100%    | Pharmacy Services--100%         |
| --                                | --                              |
| --                                | --                              |
| --                                | --                              |
| --                                | --                              |

| Management        | Positions                                     |
|-------------------|---|
| Kozler, Jan       | President, CEO & Director                     |
| Matt, Darcy       | Executive VP & CFO                            |
| Dreier, Ashley    | Executive VP, CTO & Chief Information Officer |
| Otten, William    | Executive Vice President of Sales             |
| Bloomberg, Edward | Executive VP & COO                            |
| Putnam, Richard   | Vice President of Investor Relations          |

| Total Compensation Growth | Stock Price Growth During Tenure |
|---------------------------|----------------------------------|
| 55.04% per annum over 5y  | 39.97% per annum over 3y         |
| 31.25% per annum over 3y  | 27.77% per annum over 2y         |
| 7.14% per annum over 2y   | 49.15% per annum over 1y         |

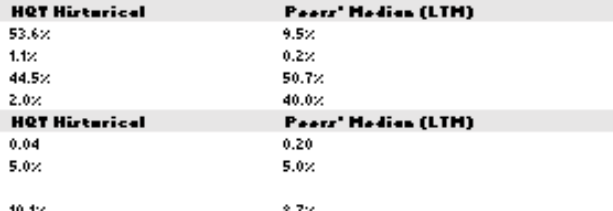
| Peers                                 |                    |
|---------------------------------------|--------------------|
| Computer Programs and Systems, Inc.   | athenahealth, Inc. |
| Teladoc Health, Inc.                  | Corner Corporation |
| Evalant Health, Inc.                  | --                 |
| NextGen Healthcare, Inc.              | --                 |
| Allscripts Healthcare Solutions, Inc. | --                 |

| Profitability             | HQY (LTM)   | HQY Historical | Peers' Median (LTM) |
|---------------------------|-------------|----------------|---------------------|
| Return on Capital (GAAP)  | 54.1%       | 34.98%         | 9.16%               |
| Operating Margin          | 40%         | 28.54%         | 18.42%              |
| Revenue/Capital (GAAP)    | 1.35        | 1.23           | 0.50                |
| ROE (GAAP)                | 17.3%       | 12.4%          | 13.0%               |
| Net margin                | 21.6%       | 13.4%          | 12.1%               |
| Revenue/Book Value (GAAP) | 0.801917397 | 0.92           | 1.07                |

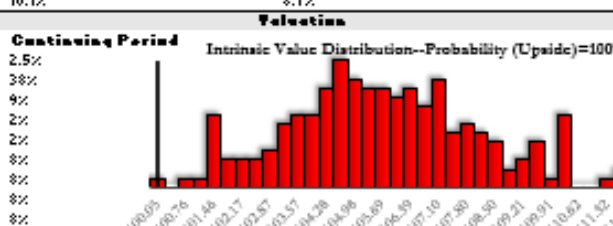
| Capital Structure        | HQY (LTM) | HQY Historical | Peers' Median (LTM) |
|--------------------------|-----------|----------------|---------------------|
| Debt/Capital             | 63.5%     | 53.6%          | 9.5%                |
| NWC/Capital              | 1.8%      | 1.1%           | 0.2%                |
| Operating Assets/Capital | 33.8%     | 44.5%          | 50.7%               |
| Goodwill/Capital         | 1.0%      | 2.0%           | 40.0%               |



| Capital Structure  | HQY (LTM) | HQY Historical | Peers' Median (LTM) |
|--|-----------|----------------|---------------------|
| Total Debt/Market Capitalization                         | 0.04      | 0.04           | 0.20                |
| Cost of Debt   | 5.0%      | 5.0%           | 5.0%                |
| CGFS Rating (F+care, Z+care, and default Probability: AA |           |                |                     |
| WACC   | 14.6%     | 10.1%          | 8.7%                |



| Forecast Assumptions      | Explicit Period (14 years) | Continuing Period |
|---------------------------|----------------------------|-------------------|
| Revenue Growth CAGR       | 15%                        | 2.5%              |
| Average Operating Margin  | 38%                        | 38%               |
| Average Net Margin        | 13%                        | 9%                |
| Growth in Capital CAGR    | 15%                        | 2%                |
| Growth in Claims CAGR     | 15%                        | 2%                |
| Average Return on Capital | 16%                        | 8%                |
| Average Return on Equity  | 15%                        | 8%                |
| Average Cost of Capital   | 8%                         | 8%                |
| Average Cost of Equity    | 8%                         | 8%                |



| Sensitivity Attribution Analysis |       |
|----------------------------------|-------|
| Revenue                          | 31.5% |
| Operating costs                  | 31.5% |
| Capital expenditures             | 1.5%  |
| Discount Rate                    | 31.5% |