Progyny Inc. Short: 9-month Price Target of $21

(NASDAQ: PGNY)

(IRR: 64% / 48% downside)

Applied Security Analysis

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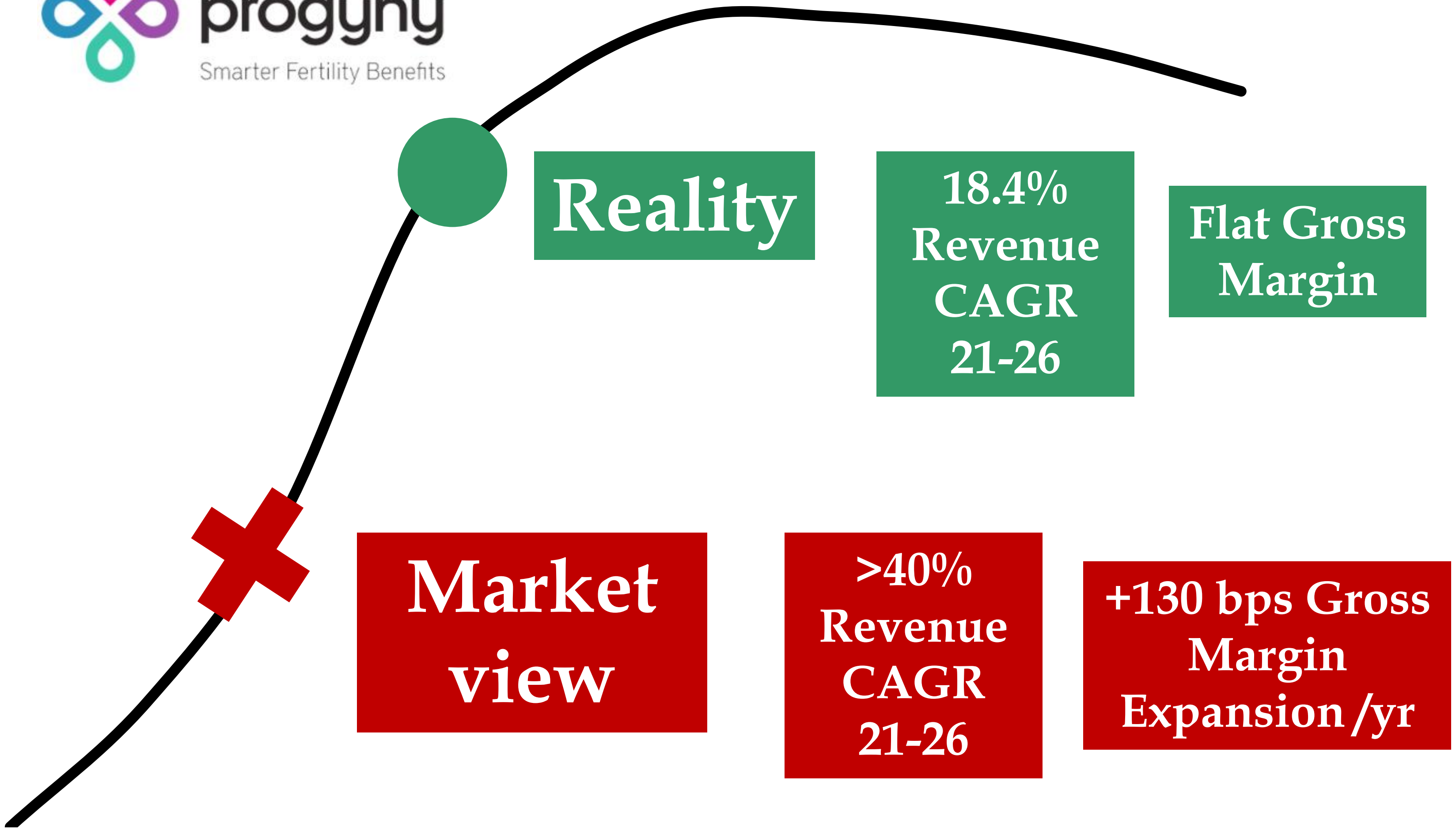
Unsustainable growth story:
A mediocre business model shoots to the moon

progyny
Smarter Fertility Benefits

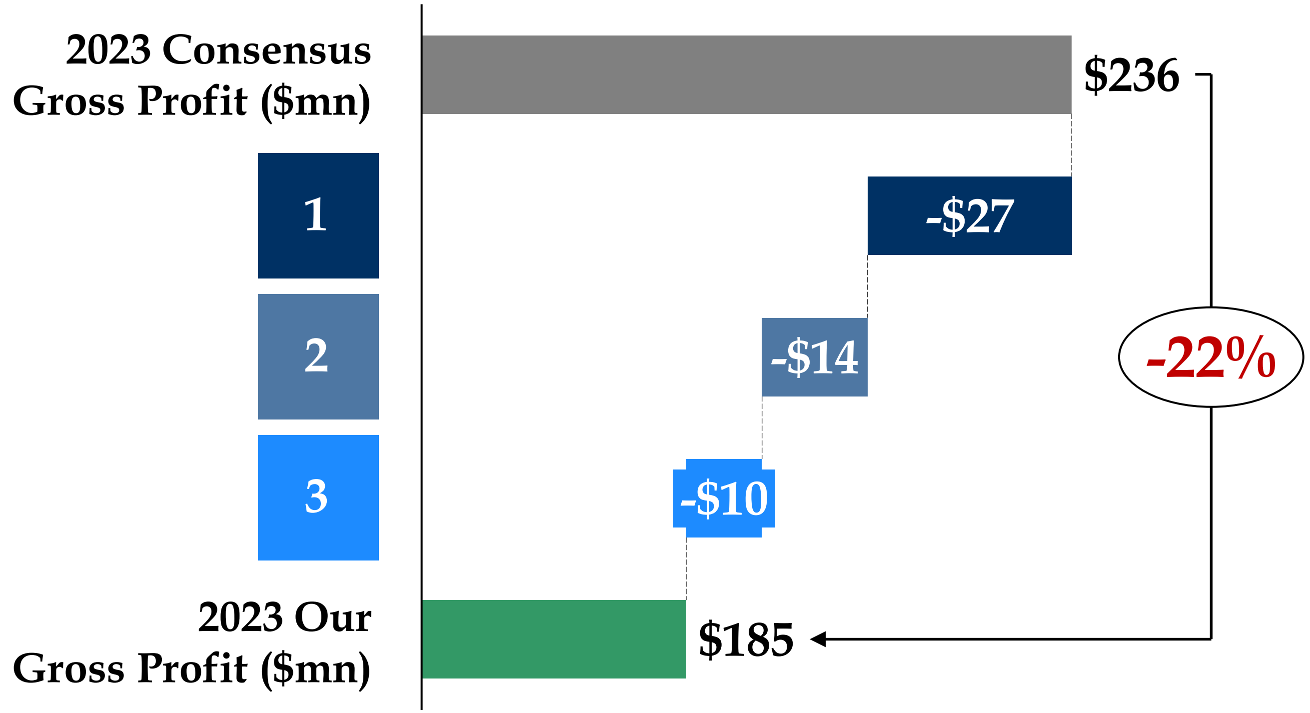


Executive Summary

Key Short Selling Thesis

1	New client acquisition deceleration (-12% GP vs market)
2	Existing client contribution deterioration (-6% GP vs market)
3	Unsustainable gross margin expansion (-4% GP vs market)

2023 Gross Profit Estimate Key Drivers



So what?

Unsustainable growth stock with deterioration of fundamentals 22% miss in 9-month gross profit will trigger 48% melt down in stock price

Market and Financial Data

Current Capitalization ($ mn, except per share)		
Stock Price (04/26/2022)	$	40.2
Shares Outstanding		91.2
Market Capitalization	**$**	**3,665.8**
Debt	$	-
Cash	$	91.4
Enterprise Value	**$**	**3,574.4**

Trading Statistics	
Float (num/%)	71 mn/77%
52 Week L/H	$32.9 / $68.3
Trading Volume	603,843
Borrow Cost	3 bps/yr
Short Interest	7.3%

Financials 2021		
Revenue	$	500.6
Revenue CAGR (17-21)		69.0%
Gross Profit Margin		22.4%

Valuation

	2021A	2022E	2023E	2024E
P/E	66.7x	299.9x	95.2x	48.8x
EV/Gross Profit	34.5x	22.0x	15.2x	9.9x
EV/EBITDA	57.4x	31.9x	31.5x	18.8x
EV/Revenue	7.7x	4.8x	3.4x	2.5x

Shares Ownership

- **TPG: 11.0% (PE Sponsor)**
- BlackRock: 8.7%
- Macquarie Group: 8.2%
- **Kleiner Perkins: 7.1% (VC Sponsor)**
- Fred Alger: 5.0%
- ClearBridge: 3.4%
- **David Schlanger: 0.1% (Executive Chairman):**
- **Peter Anevski: 0.5% (CEO)**
- **Mark Livingston: 0.1% (CFO)**

Executives have no skin in the game

Cheap to short

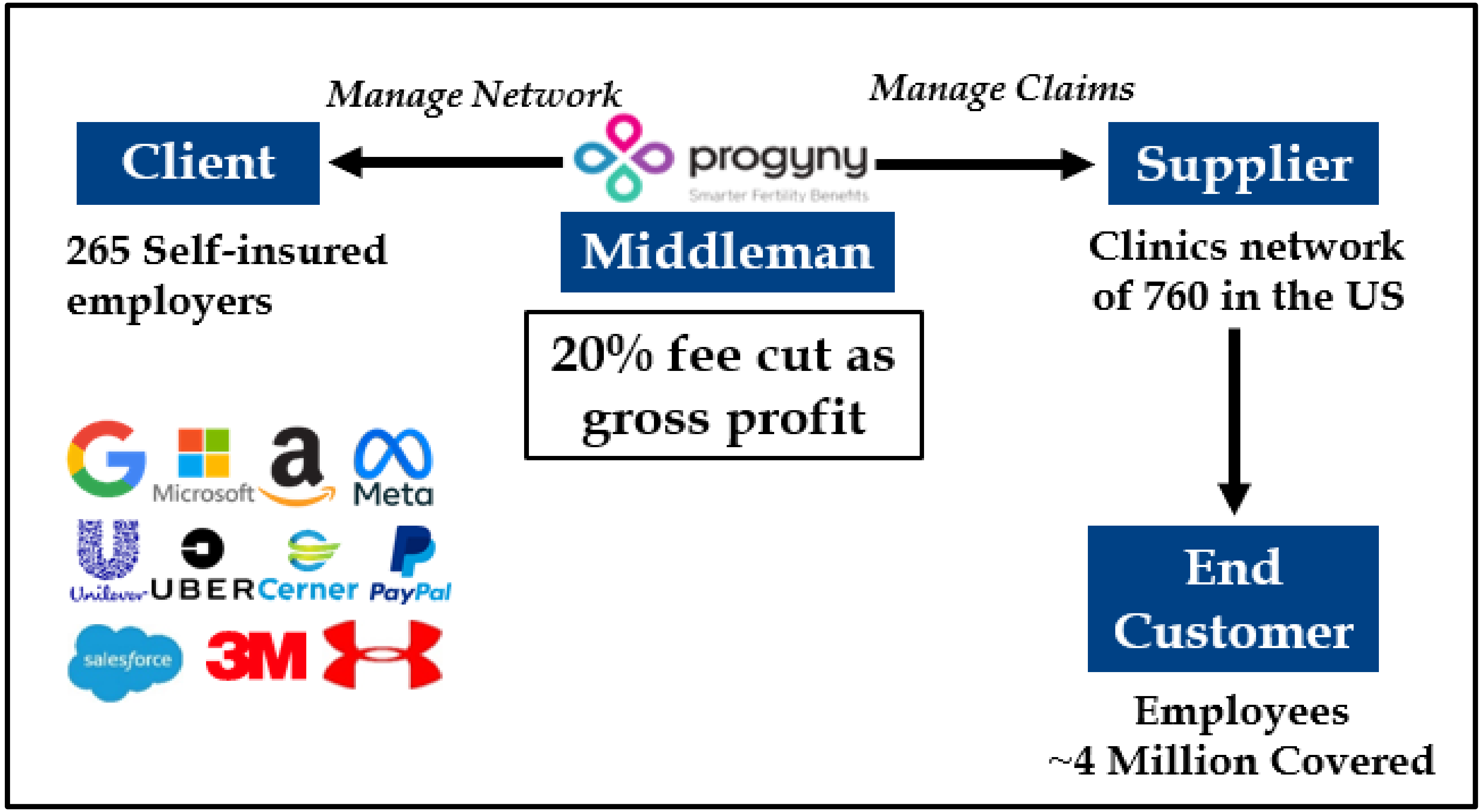
High historical growth
Lower gross margin to reflect middleman nature

Crazy multiples, overhyped growth, about to crash

Source: Company fillings, Bloomberg, VP of IR, Former Director of Boards

Business Overview

- PGNY manages clinical network to **provide fertility benefits** for large, self-insured employers, and takes a **20% fee cut.**
- Business took off in 2017, PE/VC backed (went public in 2019), **69% revenue CAGR 2017-2021**, 300x Forward P/E.
- Historical success from offering a **premium service** and took market share from carriers like BCBS, Aetna, etc.



US vs Consensus

	Our Differentiate View		Consensus	
New client acquisition deceleration / **Existing client contribution deterioration**	**18.4% Revenue CAGR 21-26**	• **TAM overestimated by 81%** • New entrants took clients (2x PGNY's) with identical products and network • Suppliers attempt to **eliminate PGNY's business model**	**~40% Revenue CAGR 21-26**	• ~3% penetration, **long runway to growth** • **Moat in relationships with clinical networks** and high customer satisfaction
		• **82% still in the 1st contract,** will face contract renewal pressure • **Fixed lifetime** end client value • Most lucrative client's revenue will peak in 2023		• Achieved nearly **100% client retention rate** • Employees use the services repetitively ➔ **exponential revenue growth** from a client
Unsustainable gross margin expansion	**Flat Gross Margin**	• **Delay in sales commission** • **Upselling products approaching max penetration** • **Demand > Supply:** 6-month clinics backlog deteriorates PGNY's purchasing power	**+130 bps Gross Margin/yr**	• Follow the historical trend • Scale economics • Accelerating bargaining power over clinics

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TAM overestimated by 80% and narrow moat in an increasingly competitive market

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due to growth deceleration, top client revenue approaching peak, and contract renewal pressure from lack of switching cost

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Unsustainable gross margin expansion
due to supply demand asymmetry and limited Rx penetration potential

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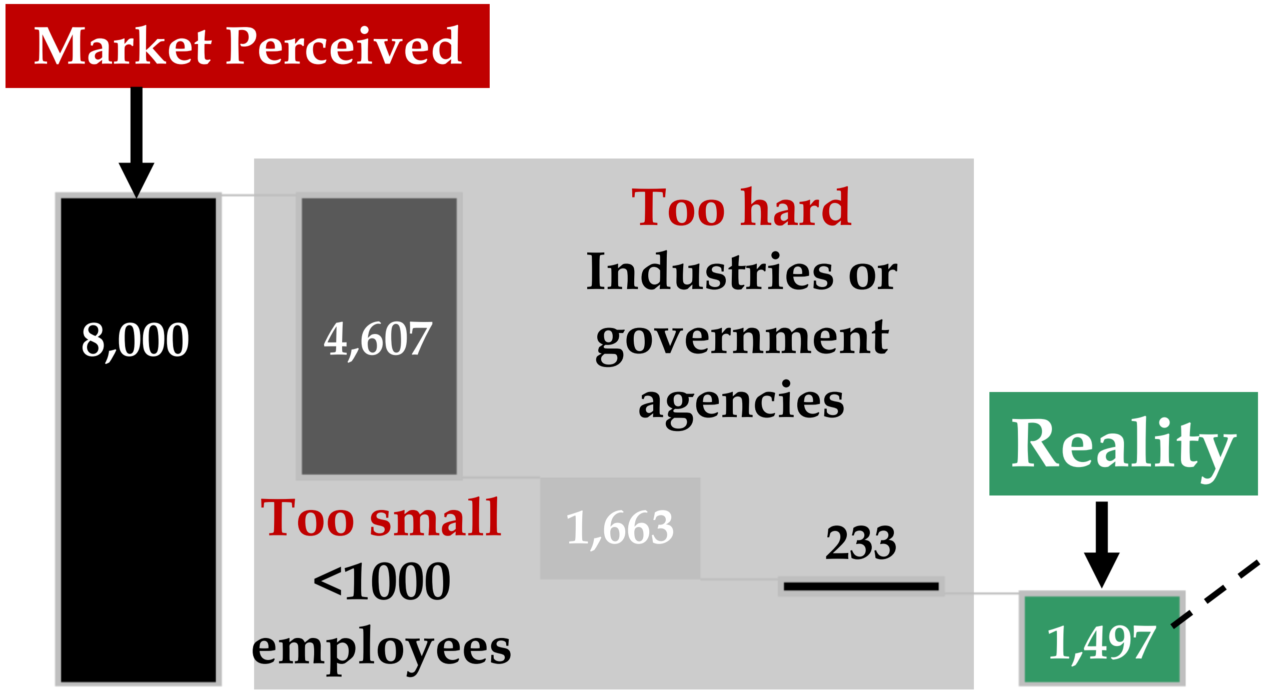
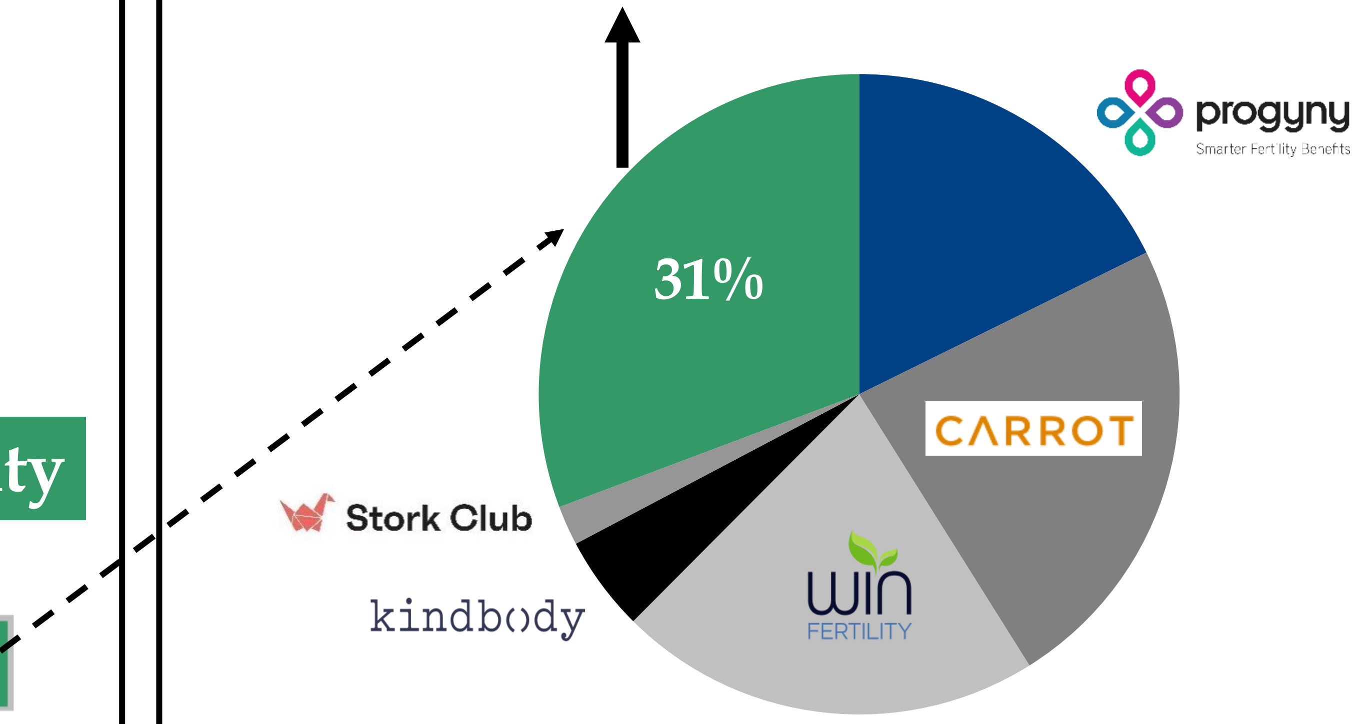
Mismanagement misalignment
unreasonable bonus structure change, continuous insider selling

1 TAM overestimated by 80%: 70% of low hanging fruits have been already captured by PGNY and direct competitors (vs. market's 3% perceived)

80% of 8000 is either too small or too hard to penetrate



Only 465 easier clients left (<6% of PGNY's claimed TAM)

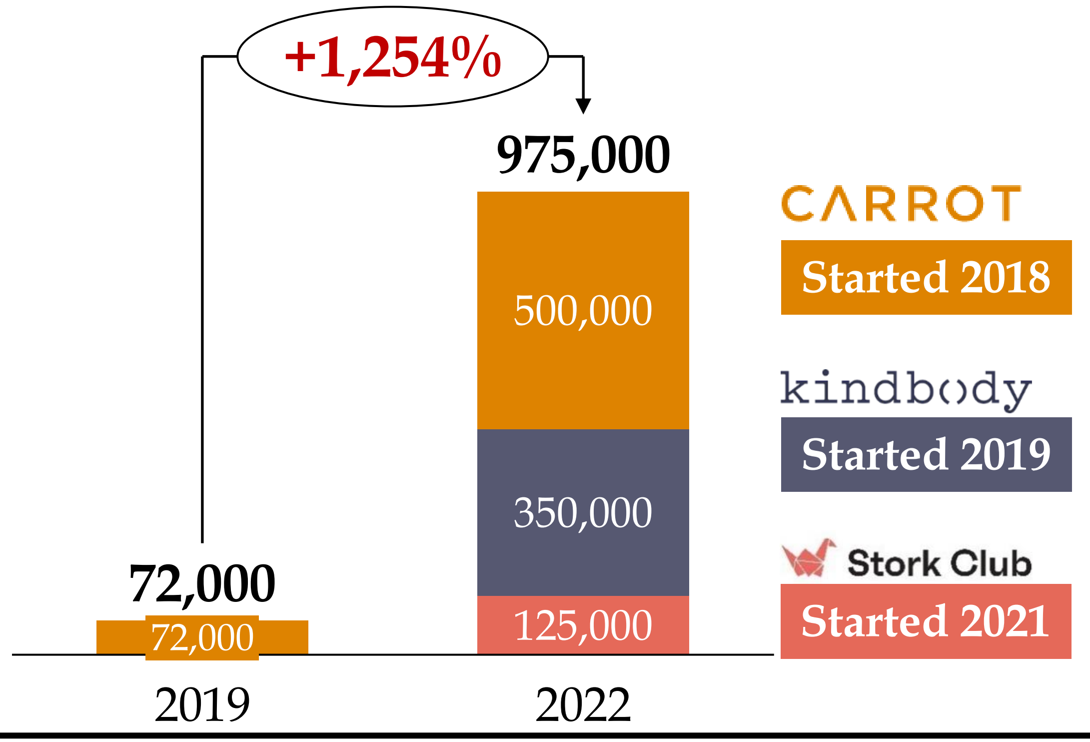


We forecast client acquisition to be flat yoy at 85 clients/year, which translates into ~6% top-line miss vs 2023 consensus

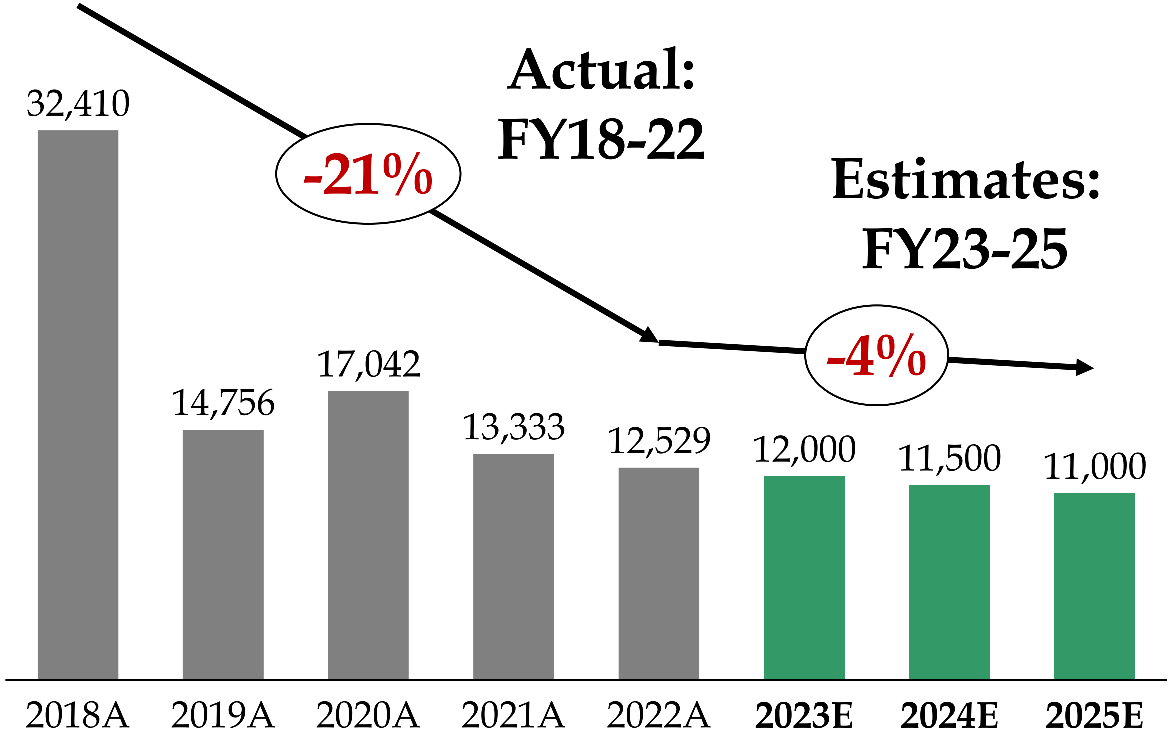
Source: Company fillings; Director of Sales, Carrot Fertility, Former Director, PGNY Board of Directors; US Employee counts; Former Director of Sales, WinFertility

1 PGNY's narrow moat in an increasingly competitive environment results in lower quality client acquisition over time

3 competitors replicated the business and achieved fast growth



Lower scale of clients: 20k decline in incremental client average covered lives

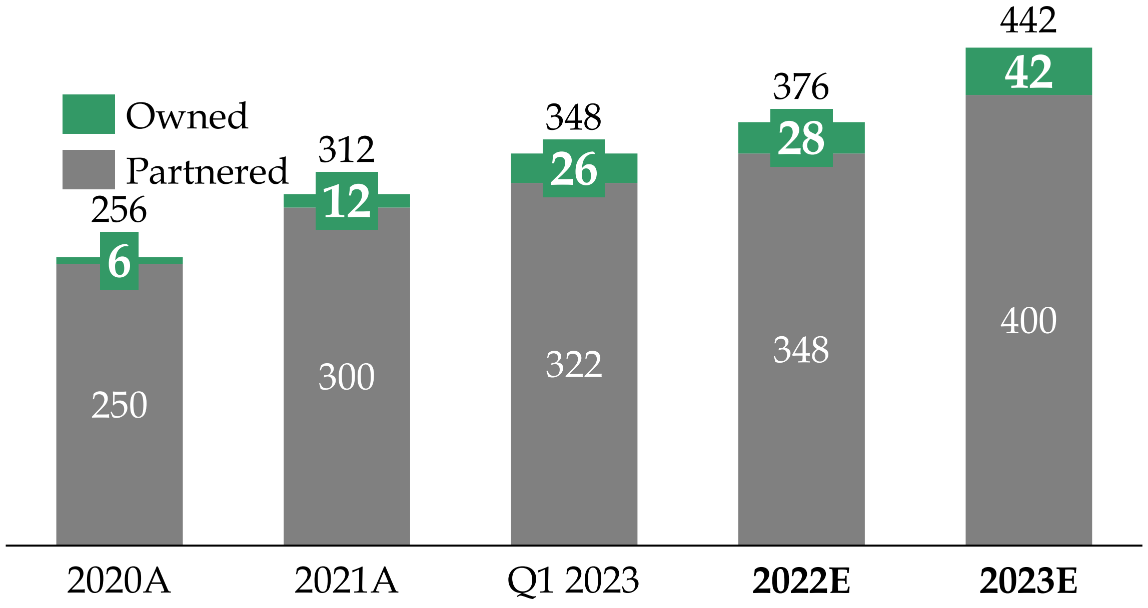


We forecast -4% CAGR 2023-2026 for incremental average covered lives, which translates into 5% top-line miss vs 2023 consensus

Source: Company fillings; Director of Sales,Carrot Fertility; CMO, Kindbody; Vios Fertility acquisition materials; Google Trends; Cbinsight; Pitchbook;and team analysis

1 Optimistic Case: Direct-to-customer (DTC) business model (Kindbody) shows potential to eliminate the middleman

Clinics DTC with accessibility, quality and price advantage



Clients

50% clinics owned by chains, can imitate Kindbody to wipe PGNY out

Largest: **Performed 20+% of nation's IVFs in 2020.**

If PGNY is replaced by DTC players, investment returns will exceed our optimistic case forecast.

Source: Company fillings; CMO, Kindbody; Vios Fertility acquisition materials; Shady Gooves Primary; Practitionaer,Kofinas Fertility; Pitchbook;and team analysis

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2 PGNY's claim of ~100% retention rate is misleading, and lack of switching cost will increase future contract renewal pressure

Of those 180 clients in FY2021

3-year contract

Has option to switch

Switcher: Activision Blizzard → kindbody

Why?

Pricing transparency problems
Lack of cost control (~10% yoy growth)
Kindbody owns clinics (better clinical outcome+ experience)

Switching cost?

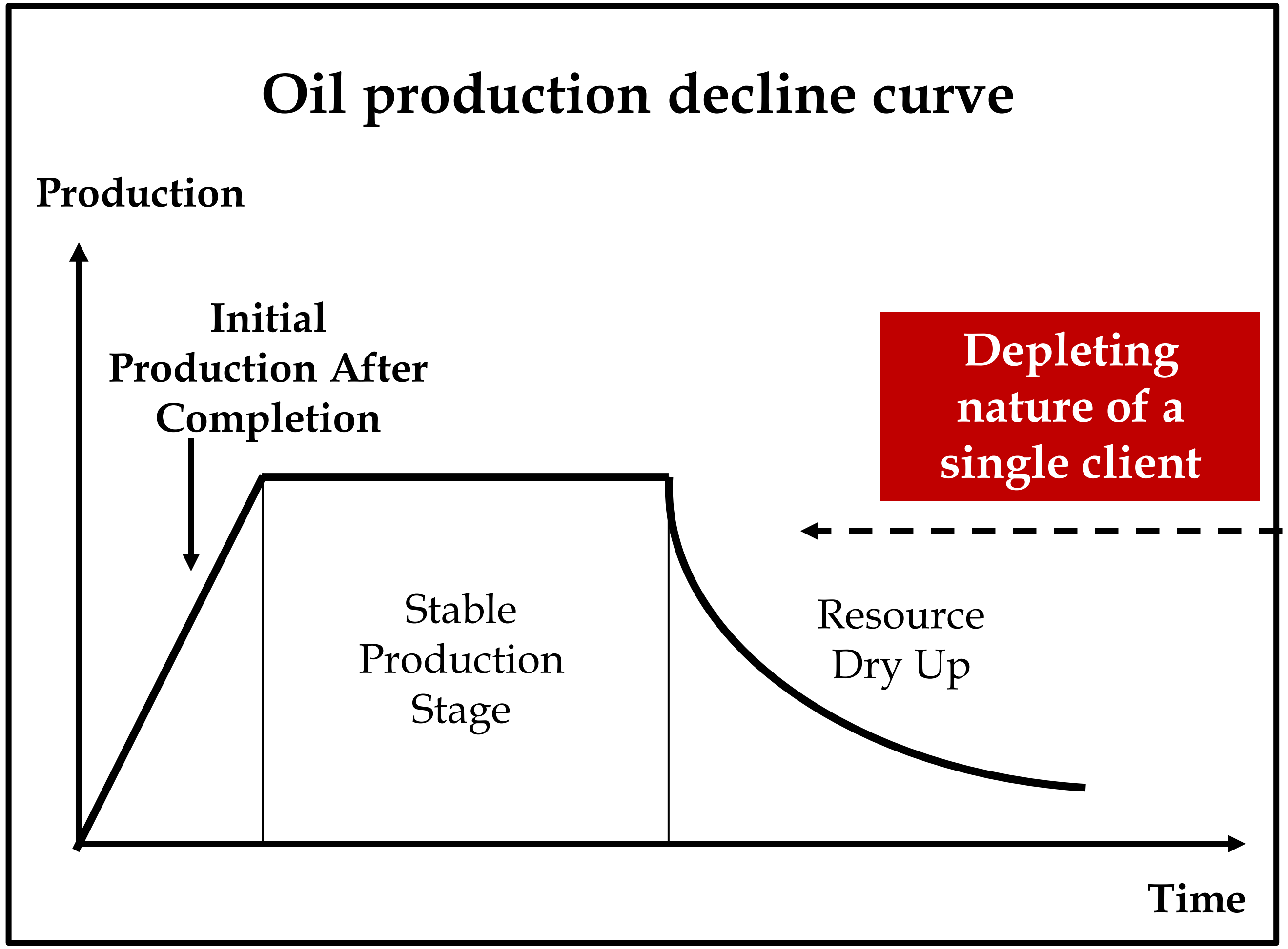
Easy! 3 on a scale of 10
No retention issues
No cancellation fees

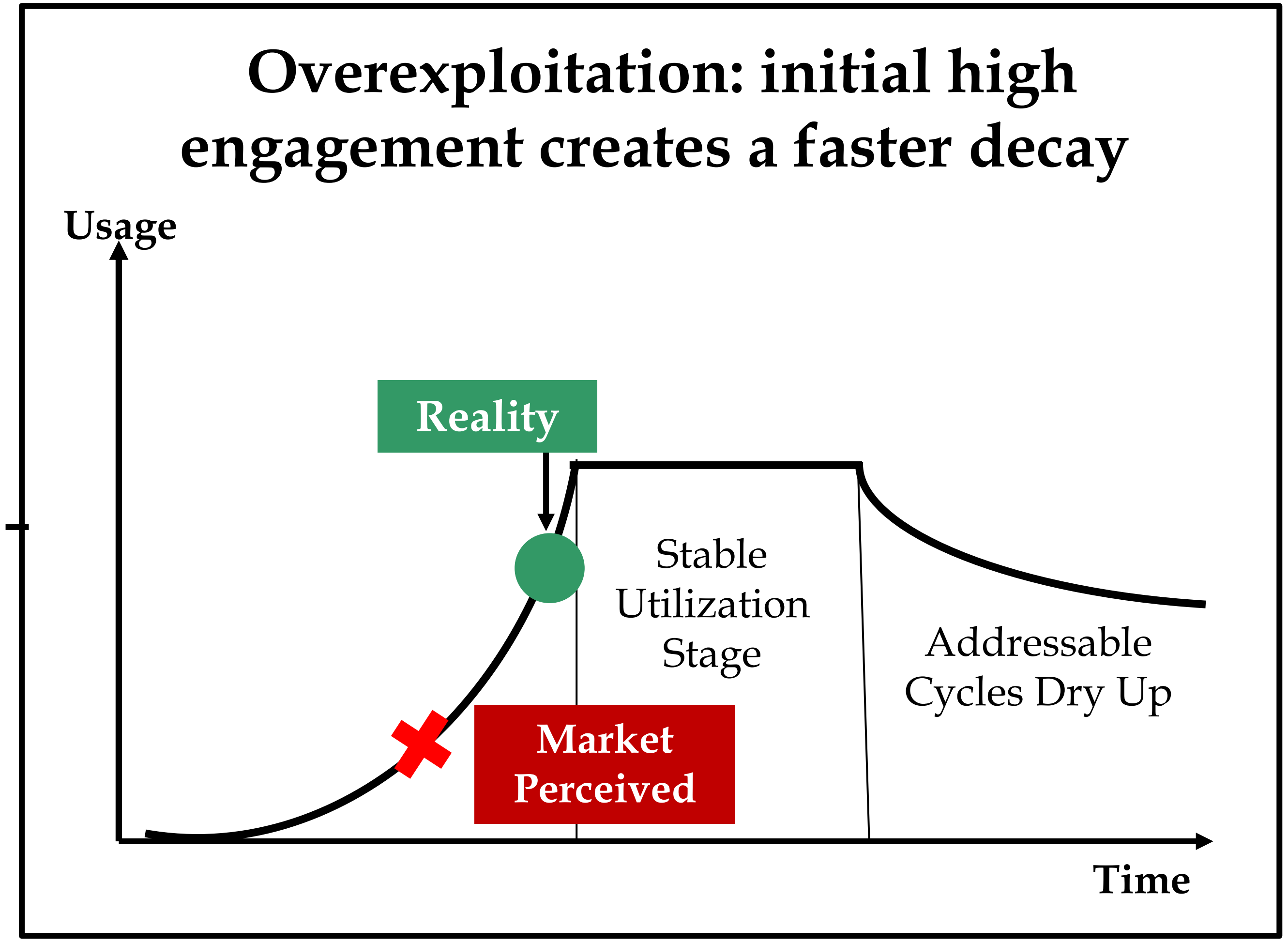
> **[Progyny]…is unable to manage cost**, and they **did not deliver the quality** they promised. **Kindbody** offered to **reduce costs by 20% for the same services.**
>
> **- VP of Benefits, Activision Blizzard**

We forecast a conservative client churn rate of 6% 2022-2026

Source: Company fillings, Carrot Director of Sales; Former Director, PGNY Board of Directors; VP of Benefits Activision Blizzard, Chief Medical Officer, Kindbody.

2 Fertility is a one-time, limited lifetime spending cap benefit, and clients will reach peak utilization and start to see usage decline eventually





Depletable client resources = PGNY must constantly acquire new clients to make up for the decline

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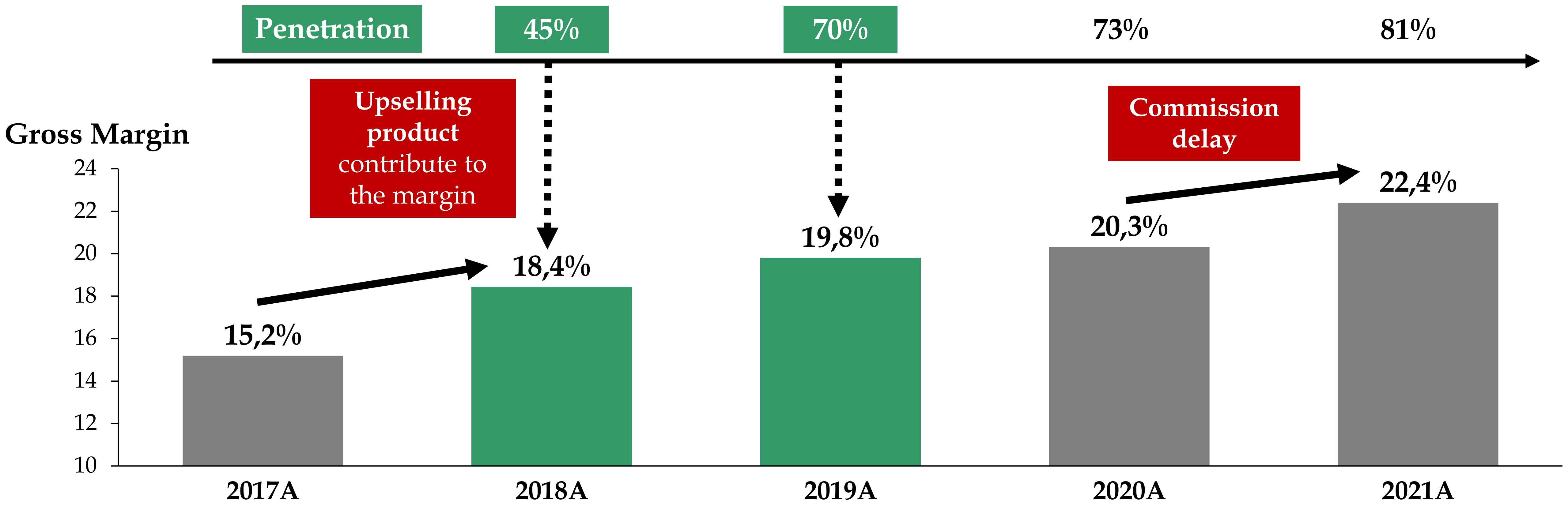
   due to supply demand asymmetry and limited Rx penetration potential

4. **Mismanagement misalignment**
   unreasonable bonus structure change, continuous insider selling

3 Historical margin expansion is not sustainable: upselling product Rx is at penetration limit and sales commission delay is a one-time boost

progyny | Rx by Schraft's Introduced in Q1 2018, added another $3,000 - $5,000 medication reimbursement

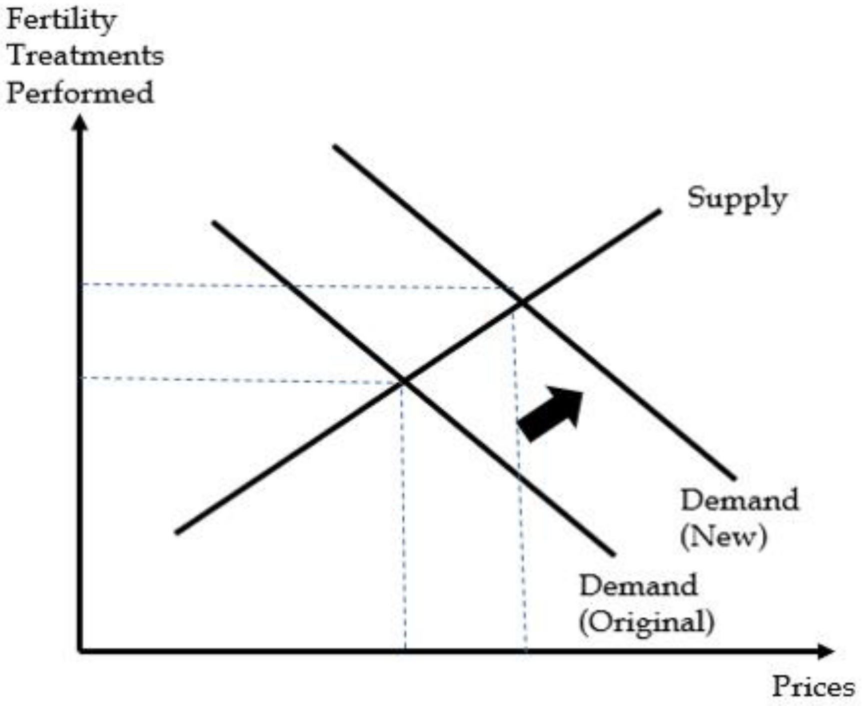


We assume no margin expansion, which translates into 8% decrease from 2023 consensus gross profit

Source: Company fillings, Barclays 50+ Larger Corporation HR survey

Due to supply demand asymmetry, PGNY has no pricing power over suppliers and can even get squeezed in the future

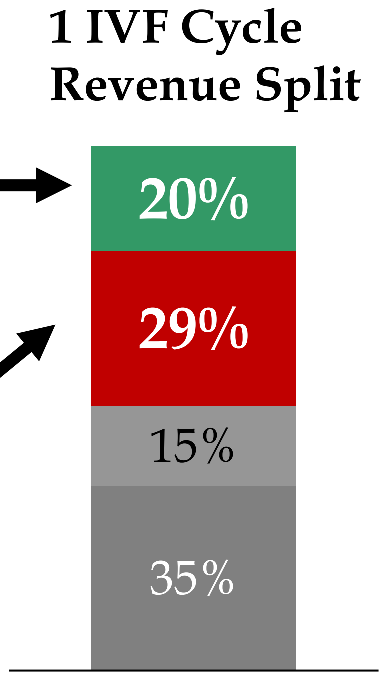
High demand growth: 6-month backlog + no supply expansion



PGNY failed to squeeze suppliers in the past and cannot in the future

Industry consolidation will enhance clinics' bargaining power

PGNY failed to erode the high margin of the clinics (non-exclusive contracts)



We forecast PGNY's profit cut to stay flat 2022-2026 to reflect its lack of pricing power

Source: Company fillings, Co-Founder & Chief Executive Officer and Board Director at Ovation Fertility; Former Regional Chief Operating Officer at Inception Fertility; Former Medical Director, Assisted Reproductive Services at Sincera Reproductive Medicine

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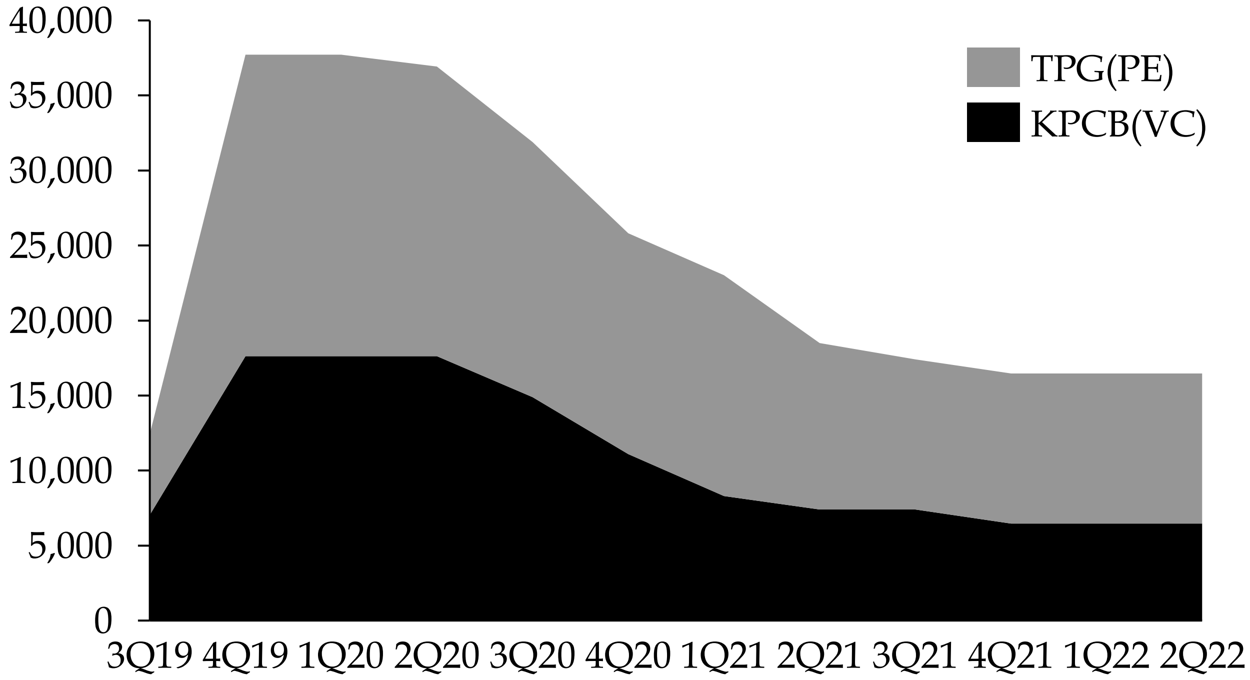
Action speaks louder than words: top insiders are fleeing

Knowing PGNY's issues, executives have changed bonus criteria to ones unrelated to financial performance

2020 Original Bonus Criteria		2021 New Bonus Criteria
Revenue target: ~$ 415 Million	? →	**Collaborative culture**
EBITDA target: $45 Million		**Provider relationship management**
Incremental EBITDA margin: 14.5%		**Client acquisition** (regardless of quality)
		Clinical outcomes (they don't own clinics)

Key PE/VC holders sold down >50% of holding in 2 years



Top insiders each sold down over 60% of stock ownership in 2 years – we believe their actions demonstrate that they have no confidence in the business.

Catalysts to trigger 22% gross profit miss in 2023

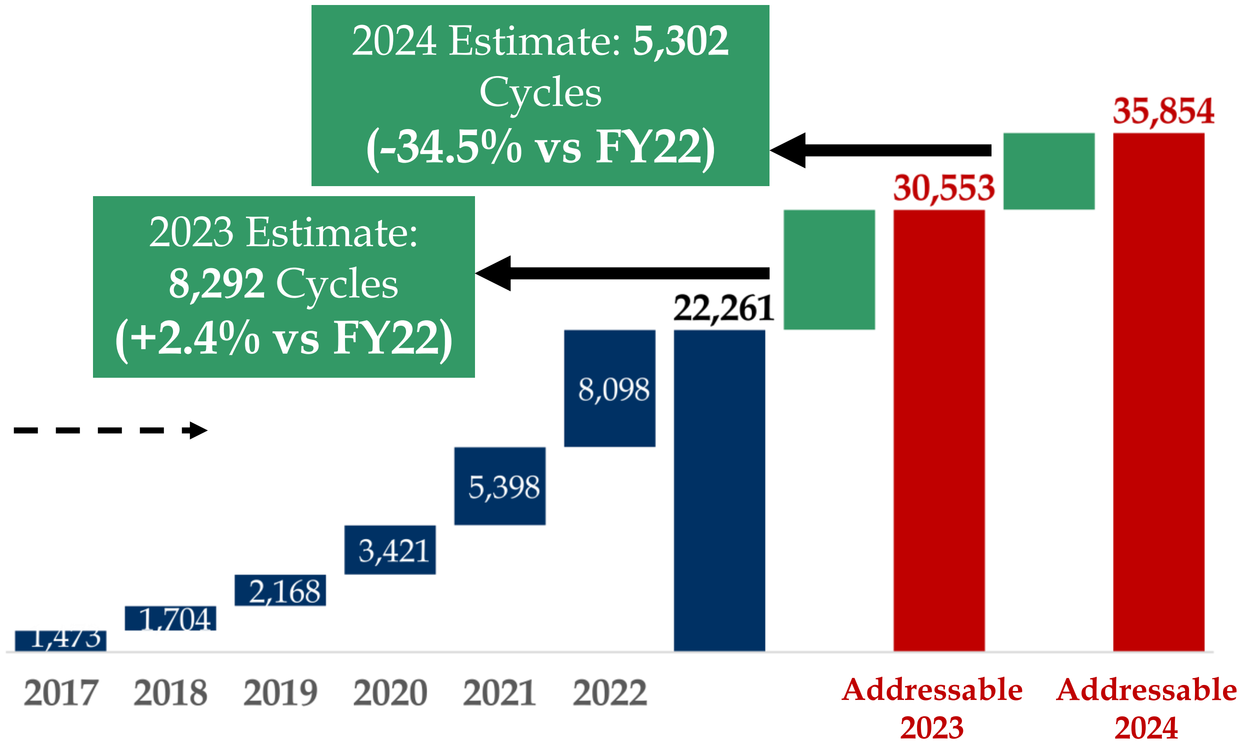
Catalyst 1: Top client Google will reach revenue contribution peak in 1Q23

19% revenue contribution in 2021

Most eligible employees have already used, and new hiring + turnover cannot sustain the growth

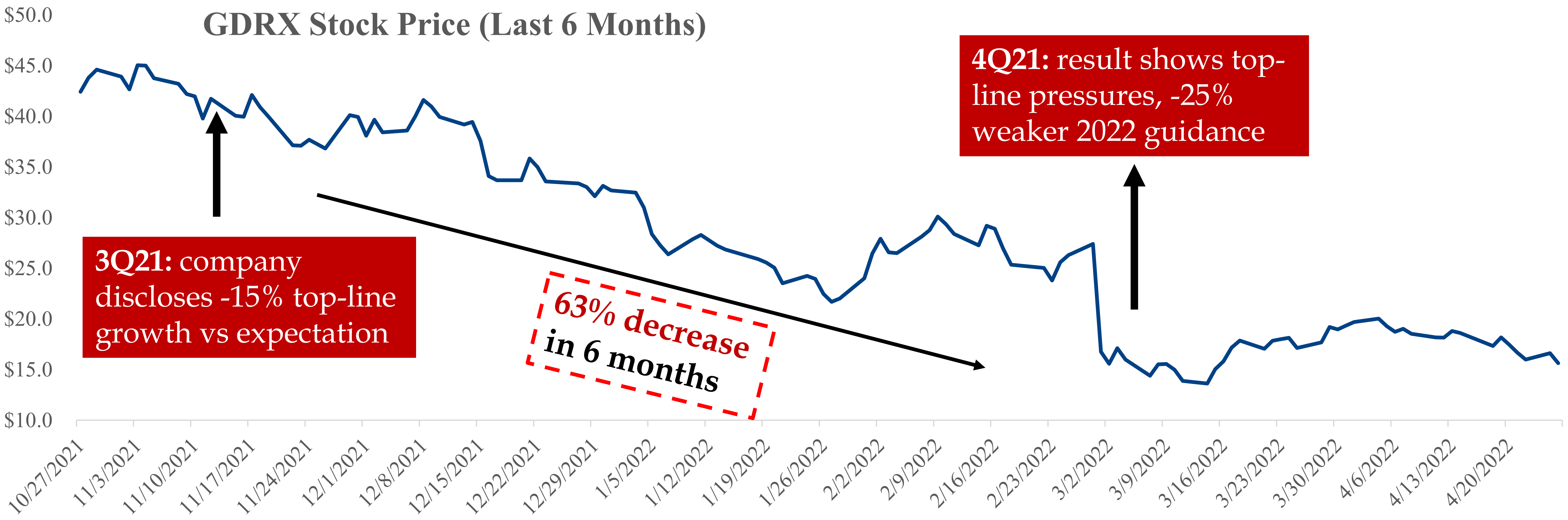
2023 Addressable Cycles	17-23	*Calculations*
Starting Covered Lives	72,053	*(a) GOOGL fillings*
New Hiring	84,970	*(b) GOOGL fillings*
Turnover	179,755	*(c) GOOGL research*
Total unique covered	**283,163**	***(d)=(a)+(b)+(c)***
% Eligible	50.4%	*(e)=GOOGL research*
% Infertility	6%	*(f)=National Average*
Addressable lives	**8,563**	***(g)=(d)*(e)*(f)***
Life-maximum Cycles	3	*(h)=purchased*
Maximum Addressable	**30,553**	*(i)=(g)*(h)*

Top client revenue contribution declines with no replacement



Source: Company fillings, GOOGL fillings, Google HR primary research, Google employee survey, CDC fertility statistics 2020, and team analysis

Catalyst 2: Comparable business GDRX has melted down



- **GoodRx Holdings Inc** (NASDAQ: GDRX) saw stock price meltdown after reporting 23% 2022 expected growth vs. market's 39% expectation
- **Stock price down 63% in last 6 months, destroying $10.8 bn** of shareholder value
- **We expect PGNY to follow a similar trend**

Valuation: 9-month Price Target of $21

(64% IRR / 48% downside)

Key assumptions and revenue estimation

Base Case

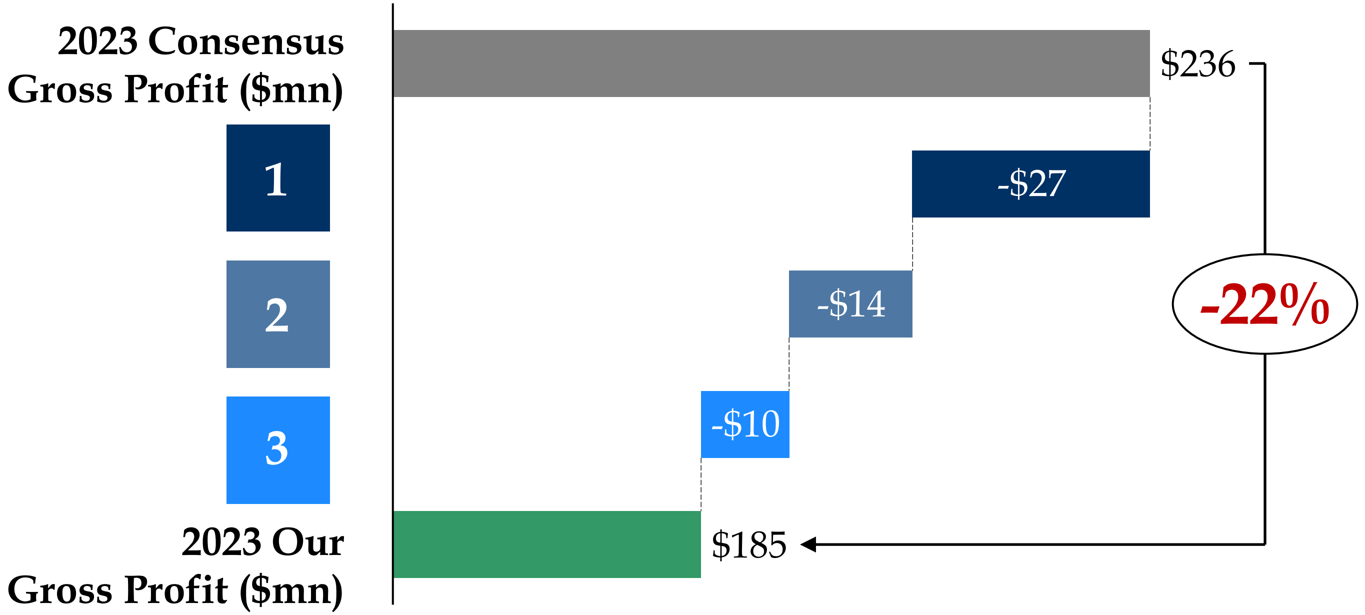
1. **New Clients:** stay as current level 85 Clients/year
   Incremental client covered lives decrease
2. **Churn rate: 6%** of the renewals
   Female Utilization: constant at **1.05**%
   Top Client Google revenue estimate separately
3. **Flat Gross Margin**

Pessimistic Case

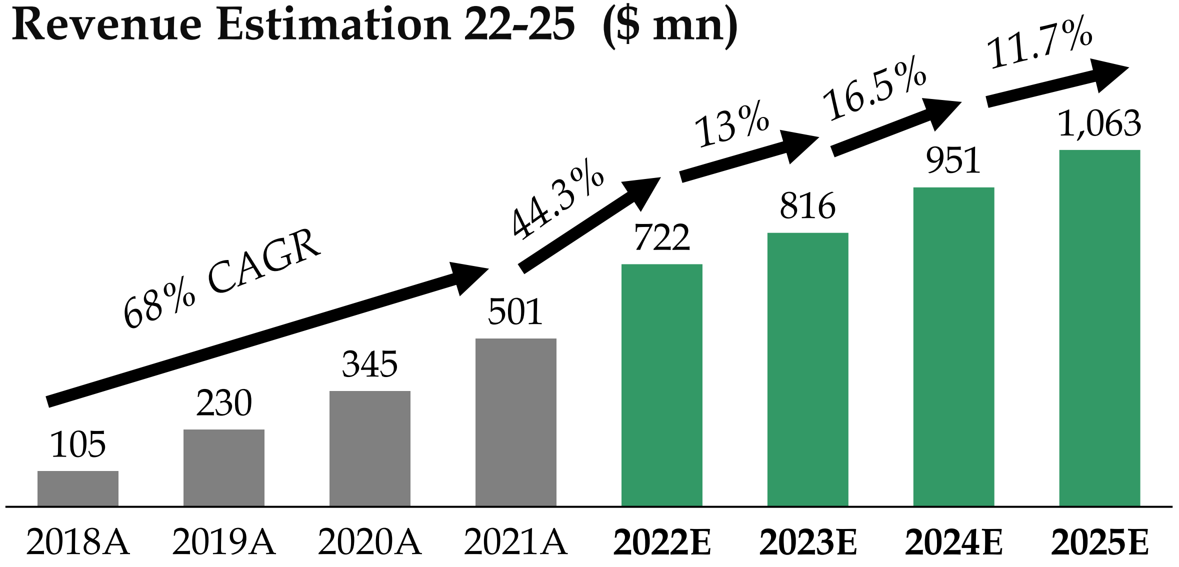
New Clients: annual +20 from 2022A 85 new clients
Incremental client covered lives decreases at **300 annually**
Female Utilization: annual expansion of 3bps
Growth Margin: 100 bps yoy expansion

Optimistic Case

New Clients: return to historical average of 60
Incremental client covered lives decreases at **800 annually**
Churn rate: 12% of the renewals
Gross Margin: 50 bps yoy contraction

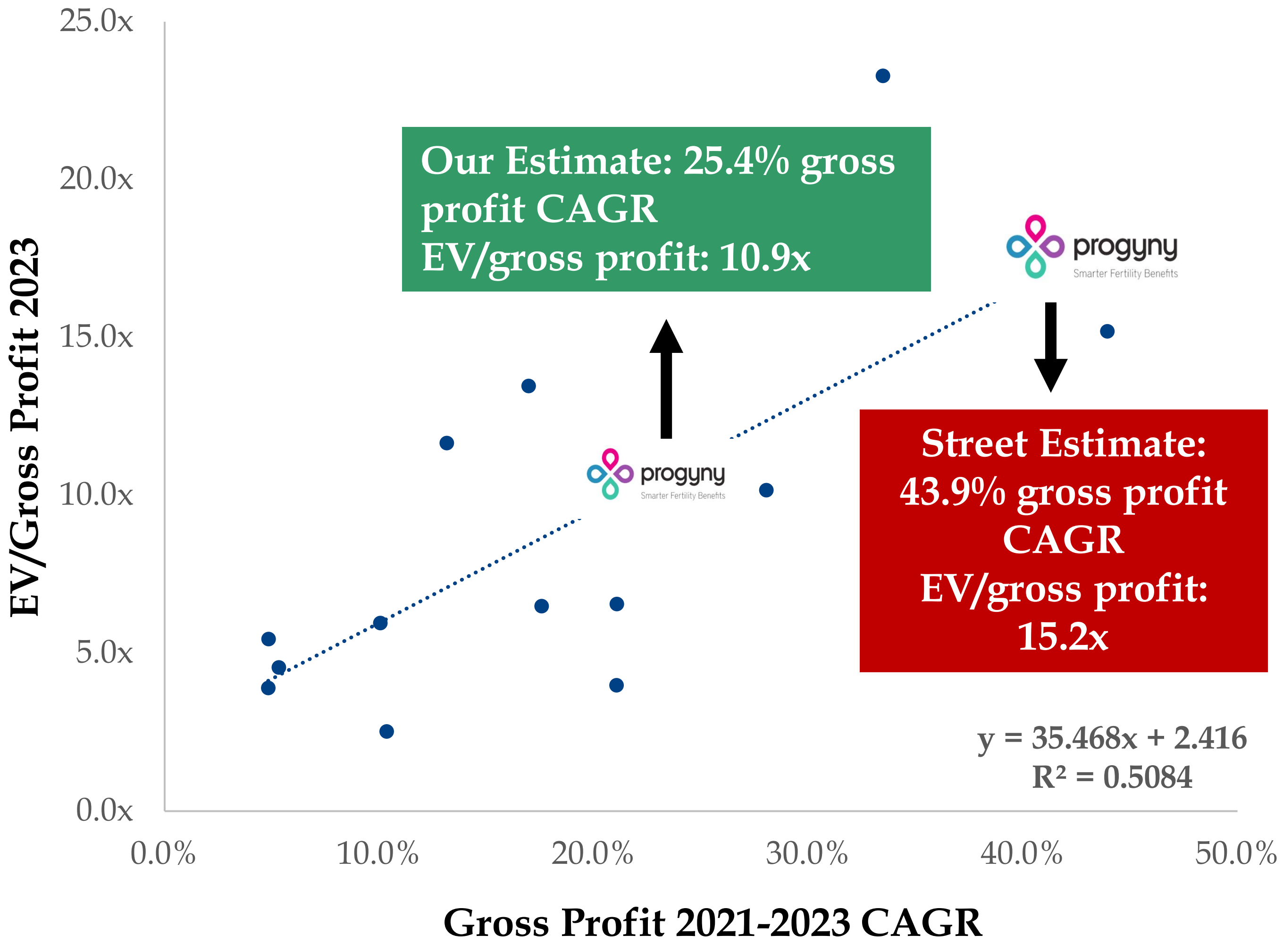


Revenue Estimation 22-25 ($ mn)



Attractive risk reward profile with 48% 9-month downside in the base case, 68% downside in the optimistic case

We use EV/Gross Profit multiple to capture PGNY's unique business model. We use 10.9x 2023 EV/gross profit to reflect slower growth trends.



Valuation

PGNY has a differentiated gross margin compared to healthcare IT or managed care comps. (gross margin ~20% vs others' 80%). We use EV/gross profit to reflect PGNY's middleman nature of business.

	Pessimistic	Base	Optimistic
Gross Profit 2023	$261.0	$183.0	$158.6
EV/Gross Profit	16.5x	10.9x	7.5x
TEV	**$4,307**	**$1,995**	**$1,194**
Less: Debt	--	--	--
Plus: Cash	91	91	91
Equity Value	**$4,398**	**$2,086**	**$1,285**
Shares	100	100	100
Value/Share	**$44.0**	**$20.8**	**$12.8**
Borrowing Cost@ 3bps	$0.01	$0.01	$0.01
Adj Value Per Share	**$44.0**	**$20.8**	**$12.8**
Downside to Current Price	***(9.5%)***	***48.2%***	***68.1%***
IRR	***(12.6%)***	***64.3%***	***90.8%***
Downside/Upside Ratio		***5.1x***	***7.2x***

We sanity checked our comps valuation with $19.5 DCF intrinsic value

8.6% WACC, 3% PGR, 21.5% Tax after depletion of DTA

DCF Valuation	
Firm Value	**$1,862**
% Terminal Value	**77.4%**
Plus: Excess Cash	91
Less: Total Debt	-
WACC	**8.6%**
Equity Value	**$1,953**
Shares Outstanding	100
Adj. Value Per Share	$19.5
Price Upside	-58%

Financial Summary

$ mn	Historical				Projected					CAGR	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	18-21	21-24
Revenue	$ 105	$ 230	$ 345	$ 501	$ 722	$ 816	$ 951	$ 1,063	$ 1,165	68.1%	23.9%
YoY%		*117.9%*	*50.1%*	*45.2%*	*44.3%*	*13.0%*	*16.5%*	*11.7%*	*9.6%*		
Gross Profit	$ 19	$ 46	$ 70	$ 112	$ 162	$ 183	$ 213	$ 238	$ 261	79.4%	23.9%
Margin%	*18.4%*	*19.8%*	*20.3%*	*22.4%*	*22.4%*	*22.4%*	*22.4%*	*22.4%*	*22.4%*		
EBIT	$ (3)	$ 10	$ 8	$ 32	$ 52	$ 66	$ 84	$ 103	$ 122	NM	37.6%
YoY%			*-13.7%*	*287.4%*	*62.2%*	*25.4%*	*28.1%*	*21.8%*	*18.7%*		
Margin%	*-3.3%*	*4.2%*	*2.4%*	*6.5%*	*7.3%*	*8.1%*	*8.9%*	*9.7%*	*10.5%*		
EPS	$ 0.04	$ (0.41)	$ 0.47	$ 0.66	$ 0.41	$ 0.52	$ 0.66	$ 0.81	$ 0.96		
YoY%			***-213.5%***	***39.7%***	***-37.0%***	***25.4%***	***28.1%***	***21.8%***	***18.7%***		
Consensus	$ 0.05	$ (0.41)	$ 0.47	$ 0.66	$ 0.53	$ 0.88	$ 1.41	$ 2.49			
Variance	-14.8%	0.8%	-0.2%	-0.7%	-21.8%	-40.8%	-52.9%	-67.5%			
FCF Conversion		*147%*	*111%*	*20%*	*21%*	*73%*	*54%*	*80%*	*73%*		

Risk and Mitigants

Risk	Mitigants
Unexpected acquisition of large quality clients	• It is unlikely given the saturated nature of Fortune 100 client market. • We have seen steady decline of average covered lives per client in the last 5 years, and it's unlikely for the trend to revert back.
Industry growth at faster CAGR than expected	• Industry growth doesn't translate directly into PGNY's growth. • PGNY will likely lose more market share to existing competitors with better business model and future new entrants.
Companies spend more on fertility to retain talents	• Largest existing customers (big tech) have stayed constant at 3 cycles over the last 5 years, which covers. • Smaller companies cannot afford to increase cycle count due to budget limits.
Introduction of a new upselling product that quickly penetrates	• Possible solutions like adoption and surrogacy, post-childbirth care and mental health care during pregnancy have already been offered by other players • In our sensitivity analysis, adding a surrogacy program with 20% first year penetration yields only 8% gross profit increase in 2023

Unlike PGNY management, we eat our own cooking: we have shorted $11k worth of PGNY stock with our own money.