

October 28, 2009

## eHealth, Inc.

The third quarter proved successful for eHealth as both revenue and earnings met expectations for the September Quarter. Health care reform developments may be delaying some consumer decisions on insurance coverage, impacting new application growth.

Price (10/27/09)

**\$13.80**

Exchange/Ticker

**Nasdaq: EHTH**

Update

**Buy**

(Changed from Hold)

Price Target

**\$20.00**

(Unchanged)

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### Highlights:

- **In-line Quarter.** eHealth reported \$35.1 million in total sales composed of \$31.1 million from commissions and \$4.0 million from sponsorship, licensing and other fees. This compares to our estimate of \$35.1 million in total sales and the consensus estimate of \$34.4 million.
- **Business Pace.** Individual and Family Policy (IFP) applications rose to 131,200 in 3Q09 compared to 117,300 in the same quarter last year, representing 11.9% increase year-over-year. Submitted IFP applications also increased sequentially by 8.3% compared to the June 2009 quarter.
- **Guidance and Estimates.** Our revenue estimate for the year 2009 is slightly more aggressive than suggested by the Company's guided range for sales of \$134.0 million to \$136.0 million. However, our new EPS estimate of \$0.58 is well within the guided range of \$0.53 to \$0.61.
- **Rating and Valuation.** We formally upgraded our rating of eHealth shares to Buy (from Hold) based on the retreat in price since the beginning of September and concomitant reduction in valuation metrics. Our price target remains \$20.00, implying a 34.5 multiple times our 2009 EPS estimate of \$0.58. In our view, eHealth has established defensible competitive position in the health insurance sector as the leading provider of proprietary and turn-key e-commerce solutions for health insurance marketing and sales.
- **Outlook.** In our view, current negative investor sentiment vis-à-vis the health care industry has stranded EHTH, but that presents a compelling price point for contrarian investors. We suggest investors accumulate shares during the present period of price weakness. Our trading guide is unchanged in terms of buy and hold price ranges, although we have updated the valuation metrics following the update of our earnings model to reflect the third quarter 2009 results and the reduction in shares outstanding.

## Health Insurance / EHTH: Nasdaq

### DESCRIPTION

eHealth is an on-line health insurance broker licensed in all fifty U.S. states and the District of Columbia. The Company has agreements with over 170 carriers and offers over 7,000 health insurance products to individuals and small business. Membership surpassed 620,000 in 2008. Consumers can access the ecommerce platform at [www.EHEALTHINSURANCE.com](http://www.EHEALTHINSURANCE.com) or [www.EHEALTH.com](http://www.EHEALTH.com). Corporate headquarters are located at Mountain View, CA.

### INVESTMENT SUMMARY

Key investment points include the following:

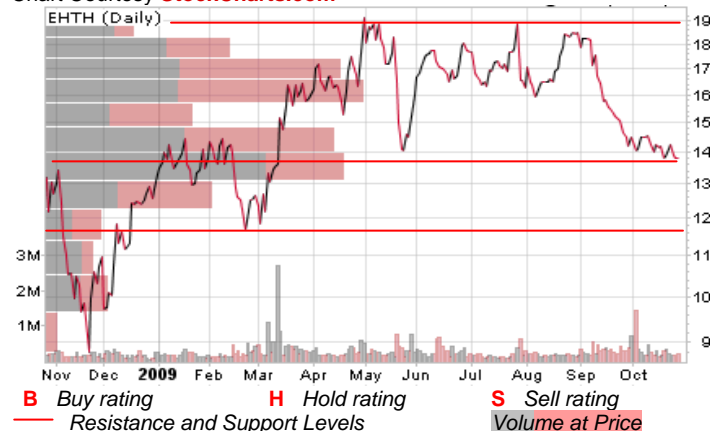
- First mover status with disruptive distribution strategy
- Protected technology underlying service offering
- Top-line momentum; 30.0% four-year CAGR
- Reliable recurring revenue base
- Strong operating leverage off fixed costs of ecommerce platform
- Strong cash flow generation with a cash conversation ratio of 27% in 2008
- Debt-free balance sheet with building equity
- Returns on assets and equity above industry averages
- Low-beta stock

### OPERATING PROJECTIONS

	2008A	1QA	2QA	3QA	4QE	2009E	2010E
Sales	\$111.7	\$31.9	\$33.5	\$35.1	\$36.5	\$137.0	\$164.4
Net Inc	\$ 14.2	\$ 3.1	\$ 4.0	\$ 3.5	\$ 4.0	\$ 14.6	\$ 20.4
CFO	\$ 30.2	\$ 4.7	\$ 8.3	\$ 7.6		\$ 26.0	\$ 30.0
EPS	\$0.55	\$0.12	\$0.16	\$0.14	\$0.16	\$0.58	\$0.78

Dollars in millions except per share earnings. Fiscal year end December.

Chart Courtesy [StockCharts.com](http://StockCharts.com)



### CAPITALIZATION

Shares Outstanding	23.3 ml.
Recent Price	\$13.80
Market Capitalization	\$321.5 ml.
+ Debt	-0- ml.
- Cash	143.4 ml.
Enterprise Value	\$178.1 ml.
Book Value	\$144.1 ml.
Working Capital	\$138.7 ml.
Dividend	Nil

Balance sheet figures as of 9/30/09

### INVESTMENT RETURNS

	EHTH	Industry
Return on Equity	10.4%	15.0%
Return on Assets	8.4%	7.0%
Return on Capital	10.0%	7.5%

### VALUATION

Price/Sales	2.5 X
Price/Cash Flow	11.4 X
Price/EPS	24.6 X
Price/Book Value	2.2 X

Consensus EPS 2009	\$0.57
Forward PE	24.2 X
Consensus EPS 2010	\$0.66
Forward PE	20.9 X

Per share figures trailing twelve months.

### MARKET DATA

Recent Price:	\$13.80
52 week High / Low:	\$19.60-\$8.38

Shares Outstanding:	23.3 M
Inside Ownership:	<1%
Institutional Ownership:	50%
Estimated Flotation:	23.2 M

Average Daily Volume:	257 K
Short Interest (% of float):	3.2%
Beta:	1.00

Source: Bloomberg, LP

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## ANALYST

Debra Fiakas, CFA is a seasoned, credentialed investment professional with a diversified and successful track record as a research analyst and as an investment banker. Her decade-plus career includes solid experience in all aspects of the equity capital markets with particular emphasis on emerging growth companies operating in the technology sectors. Ms. Fiakas is also the principal member of Crystal Equity Research, LLC.

## ANALYST CERTIFICATION

The analyst who is primarily responsible for this research and whose name is listed first on this front cover certifies that: 1) all of the views expressed in this research accurately reflect his or her professional views about any and all of the subject securities or issuers, and 2) no part of any of the analyst's compensation was, is or will be directly or indirectly related to the specific rating expressed by analyst in this research.

## RATING SYSTEM

Buy	Price appreciation expected 10% or more over a 12-month period.
Hold	Price appreciation/depreciation expected between 10% and –10% over 12 months.
Sell	Price depreciation expected 10% or more over a 12-month period.

## CRYSTAL RESEARCH UNIVERSE

Buys	10	77%
Holds	2	15%
Sells	1	8%
Total	13	100%

## HISTORICAL RECOMMENDATIONS AND TARGET PRICE: eHealth, Inc. / EHTH

<u>Report</u>	<u>Date</u>	<u>Price</u>	<u>Rating</u>	<u>Target Price</u>
Initial	3/31/08	\$21.95	Buy	\$32.00
Update	5/2/08	\$28.31	Buy	\$32.00
Update	8/1/08	\$14.52	Buy	\$29.00
Update	10/31/08	\$13.05	Buy	\$20.00
Update	2/13/09	\$14.25	Buy	\$20.00
Update	4/29/09	\$16.34	Buy	\$20.00
Update	7/29/09	\$18.90	Hold	\$20.00
Update	10/28/09	\$13.80	Buy	\$20.00

**DISCLOSURES**

<u>Name</u>	<u>Symbol: Exchange</u>	<u>Disclosures</u>
eHealth, Inc.	EHTH	F, G

**Disclosure Key**

- A A member or employee of Crystal Equity Research, LLC serves on the board of directors of the company.
- B A controlling member of Crystal Equity Research, LLC has a beneficial interest in the common stock of the company.
- C A person or persons preparing this report or an immediate family member of the preparer has a beneficial interest in the common stock of the company.
- D Crystal Equity Research, LLC received compensation for research coverage from the company or one of its agents. The fees are paid in advance in cash.
- E The company has a convertible issue outstanding.
- F The securities covered in this report can be optioned.
- G The securities covered in this report can be margined.

**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

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