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Oscar Health: Down 34% and Still Not a "Buy"

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Introduction

Let me preface this article by noting that I hate being a naysayer. I spent a career being an advocate for improving patient care and the healthcare system through the use of new technologies and techniques. But, as a career healthcare worker, I feel obligated to call out a bad operating model when I see one.

Oscar Health calls itself a "technology enabled health insurance company." It serves 402,044 members in 15 states. On March 3, 2021, the company went public at $39 per share, yielding a valuation in excess of $7 billion.

It is also the epitome of a poor investment the healthcare sector.

Why?

High Member Growth-Declining Net Revenue = Poor Operating Model: The chart below compares the components of net revenues. Several observations: (i) from 2019 to 2020, its membership grew 74.9% from 229,818 to 402,004. But during that same period, Allowances increased 115% and Gross Revenues increased by only 60.6 %. The increase in Allowances is most likely due to greater write-offs of premium receivables, meaning that the company is taking on members who cannot afford the premium; and (ii) Net Revenues after Reinsurance declined 2.8%. Why? Because the reinsurance company demanded a greater portion of premium revenues. The prospectus provides no explanation for this decline, but it is easy to assume that the reinsurance company observed that Oscar was providing insurance to high risk members. I can only conclude that the company was taking on high risk business to increase the membership base, clearly an unsustainable model.

($ in Millions, except Member Data)					
		2019		2020	% Chg
# of Members		229,818		402,004	74.9%
Direct Policy Premium		1,325.8		2,287.0	72.5%
Allowances		(284.8)		(615.0)	115.9%
GAAP Gross Revs		1,041.0		1,672.0	60.6%
Reinsurance		(572.0)		(1,217.0)	112.8%
GAAP Net Revs		468.0		455.0	(2.8%)
Reinsurance/Gross Revs		54.9%		72.8%	17.8%
Premium/Member	$	5,769	$	5,689	(1.4%)
Gross Rev/Member	$	4,530	$	4,159	(8.2%)
Net Rev/Member	$	2,036	$	1,132	(44.4%)

No Healthcare Expertise in Management or on the Board: All of management and board members come to the company with either real estate or technology experience. There is no healthcare expertise. While I am a big believer that technology is an important asset to improving the healthcare delivery system, such technology must be properly fused with healthcare experience. (I have seen great application of AI in radiology driven by the sector leader, RadNet.) I am always skeptical when non-healthcare teams use over-simplified rationales to convince themselves that they can heal the woes of the healthcare systems. The last company that had this egregious lack of experience was Theranos.

The emperor has no clothes: “Full stack technology platform?” I think I am pretty tech savvy. I read the description of this technology seven times and still have no idea what they are talking about. They claim that this “break-through” was instrumental in reducing Oscar’s medical loss ratio (“MLR”) in 2020. No, its MLR, like all that of all the rest of the payers’, went down due to COVID. During the pandemic, provider volumes declined dramatically, in turn, so did cost. It had nothing to do with the technology.

Financial reporting concerns: In the prospectus, the company disclosed that: (i) it has had three auditors in 18 months; and (ii) its long time CFO is leaving the company a month after the IPO closes. This is a major red flag. Am I the only one concerned about that? While they may be a reasonable explanation for this situation, I am willing to bet that the company will be restating earnings at some point in the future. If I had to guess, it would have to do with premium receivables, allowances, claims payables and/or risk adjustment.

In sum, I am a big believer that the healthcare system needs change and that there are several informed companies attempting to do so. But, Oscar is not one of those companies.