



eHealth

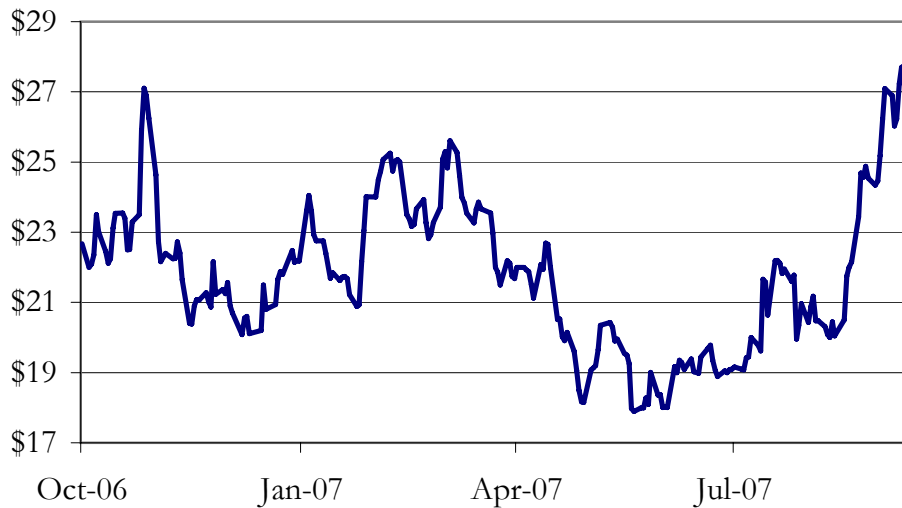
Analyst Highlights

| | |
|-------------------------------|------------|
| Recommendation: | BUY |
| Current Price: | \$27.22 |
| Target Price: | \$30.00 |
| Forecast Stock Return: | 10.2% |
| 2-yr Est. CAGR: | 35.1% |

Street Estimates

| | <u>2006A</u> | <u>2007E</u> | <u>2008E</u> |
|----------------|--------------|--------------|--------------|
| EPS | \$0.44 | \$0.48 | \$0.65 |
| P/E | 61.9 | 56.7 | 41.9 |
| Revenue | \$61 | \$87 | \$112 |
| P/S | 10.3 | 7.3 | 5.7 |

Price History



Company Information

| | |
|----------------------------------|------------------|
| Ticker: | EHTH |
| Industry: | Insurance Broker |
| Insider Ownership: | 0% |
| Cash & Equiv (000's): | \$103 |
| Debt (000's): | \$0 |

Key Stock Statistics

| | |
|--------------------------------|---------|
| Average Volume (000's): | 303 |
| 52-Week High: | \$28.88 |
| 52-Week Low: | \$17.67 |
| Market Capitalization: | \$633 |
| Shares Outstanding: | 23.26 |

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Company Overview

eHealth, Inc. and its subsidiaries provide an Internet-based insurance agency services for individuals, families, and small businesses primarily in the United States. The company's services enable individuals, families, and small businesses to research, analyze, compare, and purchase health insurance products from health insurance carriers across the nation. Its proprietary ecommerce platform, which can be accessed directly through Website addresses www.ehealth.com and www.ehealthinsurance.com, offers approximately 7,000 health insurance products. The product offerings include medical health insurance coverage, such as preferred provider organization; health maintenance organization and indemnity plans; short-term medical insurance; student health insurance; and ancillary products, such as dental, vision, and life insurance. The company is licensed to market and sell health insurance products in the United States and the District of Columbia. eHealth, Inc., formerly known as eHealthInsurance Services, Inc., was founded in 1997. The company is headquartered in Mountain View, California.

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Investment Thesis

1. Leadership position in the online health insurance market.

Currently there is almost no competition for selling health insurance online. Most other sites that do offer this service are currently powered by eHealth's technology.

2. Large market opportunity!

The market for those individuals who purchase insurance coverage direct is conservatively estimated at \$5-6 billion! So even with their leadership position, eHealth only has less than 2% of the potential market leaving tremendous opportunity for growth in the near future.

3. Rising healthcare costs.

Healthcare costs for individuals and families have risen quite dramatically over the last several years and show no signs of letting up. This works to eHealth's benefit as higher premiums generate higher commissions.

4. Recurring revenue stream.

Average member stays with eHealth for over two years and since the premiums are paid up front, the vast majority of the revenues they recognize in any given quarter were actually booked in prior periods.

5. Shift from offline to online.

The secular shift in online advertising to the internet is expected to be one of the primary drivers of eHealth's growth in the near term.

6. Barriers to entry.

eHealth has established a considerable moat around its business due to the fact that they are licensed in all 50 states and the District of Columbia. For any potential competitor to try and enter the market would require a significant investment in time and money as well as having good political connections in order to get licensed throughout the U.S.

Valuation

We are increasing our price target for eHealth, Inc. (EHTH) to \$30 and maintaining our Buy rating. Our \$30 price target is based on a 46x P/E multiple on the consensus 2008 EPS estimates. This is inline with eHealth's peer group which also currently trades at a 46x P/E multiple for 2008. This valuation may prove to be conservative since it builds in no premium which we feel eHealth deserves for being the dominant player in the online market.

We also expect eHealth to meet or beat consensus estimates when they report 3rd quarter earnings later this month. This could provide a catalyst for boosting the share price above our new \$30 price target.

Sector - E-Commerce

Peer Group

| Ticker | Company | Current Price | P/E Valuation | | | P/S Valuation | | |
|--------|---------------|---------------|---------------|------|------|---------------|------|------|
| | | | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| EHTH | eHealth | \$27.22 | 61.9 | 56.7 | 41.9 | 10.3 | 7.3 | 5.7 |
| NILE | Blue Nile | \$97.25 | 128.0 | 95.3 | 75.4 | 6.1 | 4.8 | 4.0 |
| WBMD | WebMD | \$55.05 | N/A | 98.3 | 67.1 | 12.4 | 8.9 | 7.0 |
| HGRD | Health Grades | \$5.78 | 64.2 | 28.9 | 26.3 | 6.3 | 4.7 | 3.8 |
| STMP | Stamps.com | \$12.36 | 17.9 | 20.9 | 19.9 | 3.0 | 2.9 | 2.7 |

| | | | | | | |
|------------------------------------|-------------|-------------|-------------|------------|------------|------------|
| <i>Average</i> | <i>68.0</i> | <i>60.0</i> | <i>46.1</i> | <i>7.6</i> | <i>5.7</i> | <i>4.6</i> |
| <i>Median</i> | <i>63.0</i> | <i>56.7</i> | <i>41.9</i> | <i>6.3</i> | <i>4.8</i> | <i>4.0</i> |
| <i>Average excl High & Low</i> | <i>42.0</i> | <i>60.3</i> | <i>45.1</i> | <i>7.6</i> | <i>5.6</i> | <i>4.5</i> |

Consensus Estimates

| Ticker | EPS | | | Revenue | | | Shares Outstanding |
|--------|--------|--------|--------|---------|-------|-------|--------------------|
| | 2006A | 2007E | 2008E | 2006A | 2007E | 2008E | |
| EHTH | \$0.44 | \$0.48 | \$0.65 | \$61 | \$87 | \$112 | 23.26 |
| NILE | \$0.76 | \$1.02 | \$1.29 | \$252 | \$322 | \$390 | 15.89 |
| WBMD | \$0.08 | \$0.56 | \$0.82 | \$254 | \$353 | \$451 | 57.06 |
| HGRD | \$0.09 | \$0.20 | \$0.22 | \$28 | \$37 | \$46 | 30.2 |
| STMP | \$0.69 | \$0.59 | \$0.62 | \$85 | \$88 | \$96 | 20.76 |

Price-Earnings Valuation

2006

| | | Price Multiple | | | | | | |
|-------------|---------|----------------|---------|---------|---------|---------|---------|---------|
| | | 65.0 | 66.0 | 67.0 | 68.0 | 69.0 | 70.0 | 71.0 |
| E P S | \$ 0.41 | \$26.65 | \$27.06 | \$27.47 | \$27.88 | \$28.29 | \$28.70 | \$29.11 |
| | \$ 0.42 | \$27.30 | \$27.72 | \$28.14 | \$28.56 | \$28.98 | \$29.40 | \$29.82 |
| | \$ 0.43 | \$27.95 | \$28.38 | \$28.81 | \$29.24 | \$29.67 | \$30.10 | \$30.53 |
| | \$ 0.44 | \$28.60 | \$29.04 | \$29.48 | \$29.92 | \$30.36 | \$30.80 | \$31.24 |
| | \$ 0.45 | \$29.25 | \$29.70 | \$30.15 | \$30.60 | \$31.05 | \$31.50 | \$31.95 |
| | \$ 0.46 | \$29.90 | \$30.36 | \$30.82 | \$31.28 | \$31.74 | \$32.20 | \$32.66 |
| | \$ 0.47 | \$30.55 | \$31.02 | \$31.49 | \$31.96 | \$32.43 | \$32.90 | \$33.37 |

2007

| | | Price Multiple | | | | | | |
|-------------|---------|----------------|---------|---------|---------|---------|---------|---------|
| | | 57.0 | 58.0 | 59.0 | 60.0 | 61.0 | 62.0 | 63.0 |
| E P S | \$ 0.45 | \$25.67 | \$26.12 | \$26.57 | \$27.02 | \$27.47 | \$27.92 | \$28.37 |
| | \$ 0.46 | \$26.24 | \$26.70 | \$27.16 | \$27.62 | \$28.08 | \$28.54 | \$29.00 |
| | \$ 0.47 | \$26.81 | \$27.28 | \$27.75 | \$28.22 | \$28.69 | \$29.16 | \$29.63 |
| | \$ 0.48 | \$27.38 | \$27.86 | \$28.34 | \$28.82 | \$29.30 | \$29.78 | \$30.26 |
| | \$ 0.49 | \$27.95 | \$28.44 | \$28.93 | \$29.42 | \$29.91 | \$30.40 | \$30.89 |
| | \$ 0.50 | \$28.52 | \$29.02 | \$29.52 | \$30.02 | \$30.52 | \$31.02 | \$31.52 |
| | \$ 0.51 | \$29.09 | \$29.60 | \$30.11 | \$30.62 | \$31.13 | \$31.64 | \$32.15 |

2008

| | | Price Multiple | | | | | | |
|-------------|---------|----------------|---------|---------|---------|---------|---------|---------|
| | | 43.1 | 44.1 | 45.1 | 46.1 | 47.1 | 48.1 | 49.1 |
| E P S | \$ 0.62 | \$26.74 | \$27.36 | \$27.98 | \$28.60 | \$29.22 | \$29.84 | \$30.46 |
| | \$ 0.63 | \$27.17 | \$27.80 | \$28.43 | \$29.06 | \$29.69 | \$30.32 | \$30.95 |
| | \$ 0.64 | \$27.60 | \$28.24 | \$28.88 | \$29.52 | \$30.16 | \$30.80 | \$31.44 |
| | \$ 0.65 | \$28.03 | \$28.68 | \$29.33 | \$29.98 | \$30.63 | \$31.28 | \$31.93 |
| | \$ 0.66 | \$28.46 | \$29.12 | \$29.78 | \$30.44 | \$31.10 | \$31.76 | \$32.42 |
| | \$ 0.67 | \$28.89 | \$29.56 | \$30.23 | \$30.90 | \$31.57 | \$32.24 | \$32.91 |
| | \$ 0.68 | \$29.32 | \$30.00 | \$30.68 | \$31.36 | \$32.04 | \$32.72 | \$33.40 |

Price-Sales Valuation

2006

| | | Price Multiple | | | | | | |
|-------------|---------|----------------|---------|---------|---------|---------|---------|---------|
| | | 4.6 | 5.6 | 6.6 | 7.6 | 8.6 | 9.6 | 10.6 |
| E P S | \$ 2.61 | \$12.07 | \$14.67 | \$17.28 | \$19.88 | \$22.49 | \$25.09 | \$27.70 |
| | \$ 2.62 | \$12.11 | \$14.73 | \$17.34 | \$19.96 | \$22.57 | \$25.19 | \$27.80 |
| | \$ 2.63 | \$12.16 | \$14.78 | \$17.41 | \$20.03 | \$22.66 | \$25.28 | \$27.91 |
| | \$ 2.64 | \$12.20 | \$14.84 | \$17.47 | \$20.11 | \$22.75 | \$25.38 | \$28.02 |
| | \$ 2.65 | \$12.25 | \$14.90 | \$17.54 | \$20.19 | \$22.83 | \$25.48 | \$28.12 |
| | \$ 2.66 | \$12.30 | \$14.95 | \$17.61 | \$20.26 | \$22.92 | \$25.57 | \$28.23 |
| | \$ 2.67 | \$12.34 | \$15.01 | \$17.67 | \$20.34 | \$23.00 | \$25.67 | \$28.34 |

2007

| | | Price Multiple | | | | | | |
|-------------|---------|----------------|---------|---------|---------|---------|---------|---------|
| | | 2.7 | 3.7 | 4.7 | 5.7 | 6.7 | 7.7 | 8.7 |
| E P S | \$ 3.70 | \$10.10 | \$13.80 | \$17.51 | \$21.21 | \$24.91 | \$28.61 | \$32.31 |
| | \$ 3.71 | \$10.13 | \$13.84 | \$17.55 | \$21.26 | \$24.98 | \$28.69 | \$32.40 |
| | \$ 3.72 | \$10.16 | \$13.88 | \$17.60 | \$21.32 | \$25.04 | \$28.77 | \$32.49 |
| | \$ 3.73 | \$10.18 | \$13.92 | \$17.65 | \$21.38 | \$25.11 | \$28.84 | \$32.57 |
| | \$ 3.74 | \$10.21 | \$13.95 | \$17.69 | \$21.44 | \$25.18 | \$28.92 | \$32.66 |
| | \$ 3.75 | \$10.24 | \$13.99 | \$17.74 | \$21.49 | \$25.25 | \$29.00 | \$32.75 |
| | \$ 3.76 | \$10.27 | \$14.03 | \$17.79 | \$21.55 | \$25.31 | \$29.07 | \$32.84 |

2008

| | | Price Multiple | | | | | | |
|-------------|---------|----------------|---------|---------|---------|---------|---------|---------|
| | | 1.6 | 2.6 | 3.6 | 4.6 | 5.6 | 6.6 | 7.6 |
| E P S | \$ 4.78 | \$7.73 | \$12.51 | \$17.28 | \$22.06 | \$26.84 | \$31.62 | \$36.40 |
| | \$ 4.79 | \$7.74 | \$12.53 | \$17.32 | \$22.11 | \$26.90 | \$31.68 | \$36.47 |
| | \$ 4.80 | \$7.76 | \$12.56 | \$17.36 | \$22.15 | \$26.95 | \$31.75 | \$36.55 |
| | \$ 4.81 | \$7.78 | \$12.58 | \$17.39 | \$22.20 | \$27.01 | \$31.82 | \$36.62 |
| | \$ 4.82 | \$7.79 | \$12.61 | \$17.43 | \$22.25 | \$27.06 | \$31.88 | \$36.70 |
| | \$ 4.83 | \$7.81 | \$12.64 | \$17.46 | \$22.29 | \$27.12 | \$31.95 | \$36.78 |
| | \$ 4.84 | \$7.83 | \$12.66 | \$17.50 | \$22.34 | \$27.18 | \$32.01 | \$36.85 |

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