



eHealth

Analyst Highlights

Recommendation:	BUY
Current Price:	\$21.58
Target Price:	\$26.00
Forecast Stock Return:	20.5%
2-yr Est. CAGR:	35.5%

Street Estimates

	<u>2006A</u>	<u>2007E</u>	<u>2008E</u>
EPS	\$0.44	\$0.47	\$0.64
P/E	49.0	45.9	33.7
Revenue	\$61	\$87	\$113
P/S	7.9	5.6	4.3

Price History



Company Information

Ticker:	EHTH
Industry:	Insurance Broker
Insider Ownership:	0%
Cash & Equiv (000's):	\$94
Debt (000's):	\$0

Key Stock Statistics

Average Volume (000's):	205
52-Week High:	\$28.88
52-Week Low:	\$17.67
Market Capitalization:	\$486
Shares Outstanding:	22.53

Contents	page
Company Overview	3
Investment Thesis	4
Valuation Analysis	4
Peer Group	5
Price-Earnings Valuation	6
Price-Sales Valuation	7
Disclosures	8

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 initiating research coverage of eHealth, Inc. (EHTH) with a BUY rating and a \$26 price target. Our \$26 price target is based on a 40.6x P/E multiple on the consensus 2008 EPS estimates. This is comparable to eHealth's peer group which currently trades at a 41.7x P/E multiple for 2008. This is a conservative valuation that builds in no premium which we feel eHealth deserves for being the dominant player in the online market.

Sector - E-Commerce

Peer Group

Ticker	Company	Current Price	P/E Valuation			P/S Valuation		
			2006	2007	2008	2006	2007	2008
EHTH	eHealth	\$21.58	49.0	45.9	33.7	7.9	5.6	4.3
NILE	Blue Nile	\$78.09	102.8	85.8	70.4	4.9	4.0	3.4
WBMD	WebMD	\$49.95	N/A	89.2	60.9	11.2	8.1	6.3
HGRD	Health Grades	\$5.73	63.7	40.9	24.9	6.1	4.8	3.5
STMP	Stamps.com	\$11.70	17.0	19.8	18.6	3.0	2.9	2.7

<i>Average</i>	<i>58.1</i>	<i>56.3</i>	<i>41.7</i>	<i>6.6</i>	<i>5.1</i>	<i>4.0</i>
<i>Median</i>	<i>56.4</i>	<i>45.9</i>	<i>33.7</i>	<i>6.1</i>	<i>4.8</i>	<i>3.5</i>
<i>Average excl High & Low</i>	<i>37.6</i>	<i>57.6</i>	<i>39.8</i>	<i>6.3</i>	<i>4.8</i>	<i>3.8</i>

Consensus Estimates

Ticker	EPS			Revenue			Shares Outstanding
	2006A	2007E	2008E	2006A	2007E	2008E	
EHTH	\$0.44	\$0.47	\$0.64	\$61	\$87	\$113	22.53
NILE	\$0.76	\$0.91	\$1.11	\$252	\$306	\$361	15.72
WBMD	\$0.08	\$0.56	\$0.82	\$254	\$353	\$451	57.06
HGRD	\$0.09	\$0.14	\$0.23	\$28	\$36	\$48	29.79
STMP	\$0.69	\$0.59	\$0.63	\$85	\$88	\$96	21.92

Price-Earnings Valuation

2006

		Price Multiple						
		55.1	56.1	57.1	58.1	59.1	60.1	61.1
E P S	\$ 0.41	\$22.59	\$23.00	\$23.41	\$23.82	\$24.23	\$24.64	\$25.05
	\$ 0.42	\$23.14	\$23.56	\$23.98	\$24.40	\$24.82	\$25.24	\$25.66
	\$ 0.43	\$23.70	\$24.13	\$24.56	\$24.99	\$25.42	\$25.85	\$26.28
	\$ 0.44	\$24.25	\$24.69	\$25.13	\$25.57	\$26.01	\$26.45	\$26.89
	\$ 0.45	\$24.80	\$25.25	\$25.70	\$26.15	\$26.60	\$27.05	\$27.50
	\$ 0.46	\$25.35	\$25.81	\$26.27	\$26.73	\$27.19	\$27.65	\$28.11
	\$ 0.47	\$25.90	\$26.37	\$26.84	\$27.31	\$27.78	\$28.25	\$28.72

2007

		Price Multiple						
		53.3	54.3	55.3	56.3	57.3	58.3	59.3
E P S	\$ 0.44	\$23.47	\$23.91	\$24.35	\$24.79	\$25.23	\$25.67	\$26.11
	\$ 0.45	\$24.00	\$24.45	\$24.90	\$25.35	\$25.80	\$26.25	\$26.70
	\$ 0.46	\$24.53	\$24.99	\$25.45	\$25.91	\$26.37	\$26.83	\$27.29
	\$ 0.47	\$25.07	\$25.54	\$26.01	\$26.48	\$26.95	\$27.42	\$27.89
	\$ 0.48	\$25.60	\$26.08	\$26.56	\$27.04	\$27.52	\$28.00	\$28.48
	\$ 0.49	\$26.13	\$26.62	\$27.11	\$27.60	\$28.09	\$28.58	\$29.07
	\$ 0.50	\$26.67	\$27.17	\$27.67	\$28.17	\$28.67	\$29.17	\$29.67

2008

		Price Multiple						
		38.7	39.7	40.7	41.7	42.7	43.7	44.7
E P S	\$ 0.61	\$23.60	\$24.21	\$24.82	\$25.43	\$26.04	\$26.65	\$27.26
	\$ 0.62	\$23.99	\$24.61	\$25.23	\$25.85	\$26.47	\$27.09	\$27.71
	\$ 0.63	\$24.38	\$25.01	\$25.64	\$26.27	\$26.90	\$27.53	\$28.16
	\$ 0.64	\$24.76	\$25.40	\$26.04	\$26.68	\$27.32	\$27.96	\$28.60
	\$ 0.65	\$25.15	\$25.80	\$26.45	\$27.10	\$27.75	\$28.40	\$29.05
	\$ 0.66	\$25.54	\$26.20	\$26.86	\$27.52	\$28.18	\$28.84	\$29.50
	\$ 0.67	\$25.92	\$26.59	\$27.26	\$27.93	\$28.60	\$29.27	\$29.94

Price-Sales Valuation

2006

		Price Multiple						
		3.6	4.6	5.6	6.6	7.6	8.6	9.6
E P S	\$ 2.69	\$9.80	\$12.49	\$15.18	\$17.87	\$20.56	\$23.25	\$25.94
	\$ 2.70	\$9.84	\$12.54	\$15.24	\$17.94	\$20.64	\$23.34	\$26.04
	\$ 2.71	\$9.87	\$12.58	\$15.29	\$18.00	\$20.71	\$23.43	\$26.14
	\$ 2.72	\$9.91	\$12.63	\$15.35	\$18.07	\$20.79	\$23.51	\$26.23
	\$ 2.73	\$9.94	\$12.68	\$15.41	\$18.14	\$20.87	\$23.60	\$26.33
	\$ 2.74	\$9.98	\$12.72	\$15.46	\$18.20	\$20.94	\$23.68	\$26.43
	\$ 2.75	\$10.02	\$12.77	\$15.52	\$18.27	\$21.02	\$23.77	\$26.52

2007

		Price Multiple						
		2.1	3.1	4.1	5.1	6.1	7.1	8.1
E P S	\$ 3.83	\$7.94	\$11.77	\$15.60	\$19.43	\$23.26	\$27.09	\$30.92
	\$ 3.84	\$7.96	\$11.80	\$15.64	\$19.48	\$23.32	\$27.16	\$31.01
	\$ 3.85	\$7.98	\$11.83	\$15.69	\$19.54	\$23.39	\$27.24	\$31.09
	\$ 3.86	\$8.01	\$11.87	\$15.73	\$19.59	\$23.45	\$27.31	\$31.17
	\$ 3.87	\$8.03	\$11.90	\$15.77	\$19.64	\$23.51	\$27.38	\$31.25
	\$ 3.88	\$8.05	\$11.93	\$15.81	\$19.69	\$23.57	\$27.45	\$31.33
	\$ 3.89	\$8.07	\$11.96	\$15.85	\$19.74	\$23.63	\$27.52	\$31.41

2008

		Price Multiple						
		1.0	2.0	3.0	4.0	5.0	6.0	7.0
E P S	\$ 4.97	\$5.20	\$10.17	\$15.13	\$20.10	\$25.06	\$30.03	\$35.00
	\$ 4.98	\$5.21	\$10.19	\$15.16	\$20.14	\$25.12	\$30.09	\$35.07
	\$ 4.99	\$5.22	\$10.21	\$15.19	\$20.18	\$25.17	\$30.15	\$35.14
	\$ 5.00	\$5.23	\$10.23	\$15.23	\$20.22	\$25.22	\$30.21	\$35.21
	\$ 5.01	\$5.24	\$10.25	\$15.26	\$20.26	\$25.27	\$30.27	\$35.28
	\$ 5.02	\$5.25	\$10.27	\$15.29	\$20.30	\$25.32	\$30.33	\$35.35
	\$ 5.03	\$5.27	\$10.29	\$15.32	\$20.34	\$25.37	\$30.39	\$35.42

Analyst Certification

I, Josh Goodwin, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Rating Methodology

Our investment rating system is three tiered, defined as follows:

- Buy** We expect this stock to outperform the S&P 500 by more than 10% over the next 12-18 months.
- Hold** We expect this stock's total return will be in line with the average total return of the S&P 500 over the next 12-18 months.
- Sell** We expect this stock to underperform the S&P 500 by more than 10% of the S&P 500 over the next 12-18 months and believe the stock could decline in value.

Disclosures

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