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Short Ideas | Healthcare

Teladoc: Significant Near-Term Contract Risk After NCQA Corrective Action Debacle

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by: The Friendly Bear

Summary

- On May 15, NCQA placed Teladoc on “Corrective Action Status” - yet another blow to the company’s already tarnished credibility.
- Industry sources familiar with NCQA told us that "corrective actions" are highly unusual and only issued in serious situations given the reputational repercussions for the target company.
- Teladoc clearly once believed its NCQA score mattered - it has touted its NCQA "perfect score" in marketing materials but has already begun to roll back this claim (see article).
- Can investors trust the CEO who claimed Teladoc’s relationship with Aetna is strong when just two weeks ago he claimed that NCQA’s delay was “much ado about nothing”?
- Why would naturally risk-averse insurers want to do business with Teladoc when it is the only major telehealth company on a NCQA “Corrective Action Status”?

Intro

Recent developments at Teladoc (TDOC) relating to its credentialing status lead us to believe that the company is likely to see significant contract losses in upcoming months. We believe the market does not understand the weight of recent NCQA developments, in part because the sell side a) only started analyzing Teladoc's NCQA issues after our first report, and b) has largely relied on management's representations as it pertains to NCQA. While the market took yesterday's Corrective Action announcement in stride, we note that Teladoc is now significantly disadvantaged versus its competitors. **Teladoc once proudly stated that it was "first telehealth company to receive NCQA Certification". Today, Teladoc is the only major telehealth company that has been placed on NCQA Corrective Action Status.**

Teladoc's 2013 NCQA Certification was a pivotal moment in telehealth history because it moved telehealth into the mainstream by providing a stamp of quality approval. Times have certainly changed. How does the first ever NCQA Certified telehealth company fall so far from grace? What happened to quality standards at the company since its first accreditation in 2013? It is worth remembering that NCQA is a 501(c)(3) that collects dues from Teladoc. NCQA's 2013 decision to certify Teladoc was significant. At the time, NCQA stuck its neck out and "blessed" telehealth through Teladoc's certification. All of these factors suggest that going into this year's exam, NCQA was likely predisposed positively on Teladoc. **Its decision to place a Corrective Action Status on Teladoc is therefore highly noteworthy and begs the question of what NCQA found.**

Quality and reputation are paramount for a healthcare company. We think Teladoc's valuation has not appropriately discounted the damage that the NCQA outcome will have on Teladoc's reputation. We believe that the company is likely facing significant contract risk with existing and new clients. We also believe that management is being less than forthcoming about these risks as they have provided absolutely no color to the market on their NCQA status and its basis.

Much Ado About Nothing?

We previously highlighted that Teladoc has been playing games with its disclosure language around its NCQA status in an article from last month showing that for the first time ever, Teladoc removed all mentions of NCQA from its SEC filings. At the time, the company attributed the change to the "global" nature of its business and shot down any concerns relating to NCQA.

In fact, on the April 30 earnings call, Teladoc's CEO Jason Gorevic shot down any notion that there may be problems with Teladoc's NCQA credential, stating that the delayed examination was "**much ado about nothing**". He also claimed that the delay was only 2-weeks when our own Wayback Machine analysis shows that Teladoc was due for renewal at the end of March 2019 – suggesting a 6-week delay. The market took comfort from Gorevic's position that there were no problems with Teladoc's NCQA credential.

Teladoc has now been placed "Under Corrective Action" with another review set for 11/18/19.

EVALUATION PRODUCT ⓘ	STATUS ⓘ	STATUS MODIFIER ⓘ	EXPIRATION ⓘ	DATE OF NEXT REVIEW ⓘ
Accreditation in Credentialing	Accredited - 2 years	Under Corrective Action	05/14/21	11/18/19

Source: Teladoc's NCQA Report Card

NCQA defines “under corrective action” as the NCQA “*confirming if performance is at the level required for accreditation*” (you can see this by hitting the information button adjacent to the status modifier).

The NCQA “seal of approval” is also now notably missing from Teladoc’s report card. That fact, combined with the language above, suggests that Teladoc is not fully “accredited”.

By that standard, it appears Gorevic’s claim on the earnings call that Teladoc would be accredited is at the very least a challengeable statement subject to significant scrutiny.

Why does this all matter?

Based on yesterday’s trading, it appears that Teladoc bulls have jumped for joy at the company being placed on probation by the NCQA, viewing probation as a positive. We wonder how bulls could even view Teladoc as “investible” at this stage after the company’s demonstrated history of significant disclosure problems. **We have spoken with industry sources who are familiar with NCQA processes and procedures who have indicated that the NCQA’s decision to put Teladoc on a corrective plan is not taken lightly – and that the NCQA is well aware of the optics issues that the corrective action creates for Teladoc.** Teladoc will now have to compete against players that are all fully and appropriately NCQA Certified. Teladoc will also likely have to explain to customers why they were put on probation. We suspect that as these bulls do work and make calls – and recognize that the NCQA almost never places organizations on probation, let alone \$4B publicly traded companies – they will come to realize that Teladoc is likely having very painful conversations with existing and new customers relating to exactly why they – unlike their competitors – could not reach full NCQA accreditation status.

Even bulls should know that there is nothing proprietary or special about Teladoc’s network of doctors – competitors can all offer similar services. So why would insurers want to partner with Teladoc when it is effectively the only large scale Telehealth company with NCQA problems?

Through FOIA, we have also seen riders like the one below for Teladoc contracts that demonstrate the company must adhere to NCQA standards:

**ATTACHMENT V
ADMINISTRATIVE AGREEMENT**

I. General Representations and Obligations of Teladoc.

- 1.1 Teladoc warrants and represents that all administrative functions will be performed in compliance with applicable DHCS Managed Care Medi-Cal Program requirements, DMHC requirements, NCQA standards, and all State and federal laws and regulations.
- 1.2 If Health Plan determines a corrective action plan is needed, Teladoc warrants that Teladoc will create and implement a corrective action plan approved by Health Plan.
- 1.3 If Teladoc does not meet the timeline to implement the corrective action plan agreed to by Teladoc and Health Plan, Health Plan reserves the right to exercise any and all remedies available to Health Plan under the Agreement.

Source: San Francisco Health Plan Teladoc Contract (retrieved via FOIA)

Given that the NCQA has now publicly indicated it is still determining whether Teladoc meets NCQA certification requirements, the clause above requiring adherence to NCQA standards could create significant problems for Teladoc from a payor perspective. The clause above is significant because it demonstrates that actual contracts Teladoc enters into value the NCQA. Teladoc's inability to get a clean NCQA accreditation is therefore a real risk for Teladoc, and one that Teladoc provided no risk factor disclosure around in its SEC filings. We therefore believe that customers will want answers from Teladoc as to what is going on with their NCQA accreditation and why – after having it dating back to 2013 – they were not able to get through this exam without ending up on a corrective action status.

And for the Teladoc bulls who somehow view this probationary period as a positive, we note that every one of Teladoc's major competitors is fully accredited (meaning, unlike Teladoc, competitors such as Doctors on Demand, MDLive, and American Well are all accredited without any corrective action stipulations). A report card search on the NCQA website demonstrates this point – in fact, Teladoc's report card page does not even include the "NCQA Certification" logo as is apparent on all of the competitor report cards.

Teladoc is already going through the process of making changes to their marketing materials to dial back claims around doctor quality. When you are in the business of providing doctor consulting services, isn't doctor quality the single most important variable?

Retrieved 5/15/19 Morning

https://www.teladoc.com/who-are-our-doctors/

TELADOC. OVERVIEW MEMBERS BUSINESSSES

MEMBER LOGIN CLIENT LOGIN


Talk to a doctor or call 1-800-835-2362.

Meet the doctors that make Teladoc great.

GET STARTED

- How does it work?
- What can I use it for?
- Can I get a prescription?
- Who are the doctors?**
- FAQ

Teladoc has a national network of over 3,100 experienced healthcare professionals. They joined Teladoc as a way to provide more patients with an affordable, convenient way to access medical care. Our emphasis on quality has resulted in a perfect score from the National Committee for Quality Assurance (NCQA) for two consecutive certifications.



Source: Teladoc

Retrieved 5/15/19 Early Afternoon:

Meet the doctors that make Teladoc great.

Teladoc has a national network of over 3,100 experienced healthcare professionals. They joined Teladoc as a way to provide more patients with an affordable, convenient way to access medical care.



Source: Teladoc

The process of unwinding prior marketing claims will not be easy, however. The website below still claims that the company earned a “perfect score from the NCQA for two consecutive certifications” and still has a 5-star rating below the NCQA decal:

The screenshot shows the Teladoc website's 'Clinical Quality' section. At the top, there are navigation links for 'OVERVIEW', 'MEMBERS', and 'BUSINESSES'. Below this, there are several health conditions listed with green checkmarks: Blood Pressure, Pain, Arthritis, and Allergies. The main content area features a large 'ACCREDITED' badge from the NCQA (National Committee for Quality Assurance) for 'CREDENTIALING/RE-CREDENTIALING'. The badge includes five stars and a quote: "Teladoc was the first telehealth company to receive NCQA certification." To the right of the badge, the text states: "Teladoc's stringent clinical quality management standards and processes have resulted in a perfect score from the National Committee for Quality Assurance (NCQA) for two consecutive certifications." Below this, it mentions: "Teladoc has a network of 3,100+ U.S. board-certified physicians with 20 years' experience on average." At the bottom of the section, two key metrics are displayed: '24 / 7 access to doctors' and '92% issues resolved after first visit'.

Source: Teladoc, retrieved 5/15/19

Conclusion

We reiterate the same point we have made in the past. Teladoc is highly vulnerable. The company still has no full-time CFO, and even sell side analysts were confused by the bizarre numerical earnings guidance that the company's CEO provided on the call. The CEO also claimed he saw no problems with Teladoc's doctor credentialing just two weeks ago. Flash forward, and Teladoc has gone from being the first telehealth company with an NCQA Certification to the only major telehealth company with an NCQA Corrective Action problem. This is all happening in public and competitors are not clueless – they are likely to aggressively target Teladoc contracts that are up for rebid or even existing Teladoc business. Furthermore, Teladoc has provided no color or clarity to the market as to *why* they ended up on a Corrective Action Status. Nor has the company provided any color on the representations it has made to insurers and other client payors. Again, why would customers want to partner with Teladoc when it is **the only major telehealth player with publicly apparent NCQA credentialing problems?**

And to be clear, Teladoc historically very proudly touted its NCQA "perfect scores" as a clear selling point with customers as can be seen in examples such as here, here, here. These claims will now have to be dialed back. The company will have to go through a costly and painful process of revising marketing documents and disclaimers.

We raise these examples to drive home the point - clearly Teladoc's marketing messaging centered around its NCQA Certification. The company owes investors

far more disclosure on what is going on at the company and what caused the company to end up on the highly unusual and irregular Corrective Action Status.

Disclosure: I am/we are short TDOC. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Additional disclosure: I am/we are short TDOC. All information for this article was derived from publicly available information. Investors are encouraged to conduct their own due diligence into these factors. This article represents the opinion of the author as of the date of this article. The information set forth in this article does not constitute a recommendation to buy or sell any security. This article contains certain "forward-looking statements," which may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," "potential," "outlook," "forecast," "plan" and other similar terms. All are subject to various factors, any or all of which could cause actual events to differ materially from projected events. This article is based upon information reasonably available to the author and obtained from sources the author believes to be reliable; however, such information and sources cannot be guaranteed as to their accuracy or completeness. This article reflects the author's opinion at the time of publication. The author makes no representation as to the accuracy or completeness of the information set forth in this article and undertakes no duty to update its contents. The author may also cover his/her short position at any point in time without providing notice. The author encourages all readers to do their own due diligence.

Comments (8)

Bubbachubbs

Believe TDOC is up \$2.34 a share on the news.....

16 May 2019, 12:22 PM

Cgiterator8

Don't criticize what you don't understand !

16 May 2019, 11:03 AM

Bikeboatski

Pie in the sky! Its a "tulip bulb" type idea. Practicing medicine over the phone is fraught with problems. Sounds good on paper to laymen though! Reminds me of all the phony hype going on over the pot stocks. You can get marijuana just as inexpensive, or less, from your neighborhood pot dealer then from a certified legal pot vendor.

16 May 2019, 11:00 AM

perilous43

Two days in a row they just can't get people to pay attention to their whining.

16 May 2019, 10:44 AM

genoa93

they just are losing big Money shorting TDOC...

16 May 2019, 10:48 AM

genoa93

Poor teddybear, you must be desperate...LOL

This is the real thing:

Teladoc recertified "with an asterisk," says Wells Fargo Wells Fargo analyst Jamie Stockton notes that anyone refreshing the Teledoc page on the NCQA website Wednesday morning would have seen the company's certification date go from 5/14/19 to 5/14/21, indicating it got another two-year certification. While they are now recertified, there is a disclosure on the NCQA website that Teledoc's certification is "under corrective action" and apparently that corrective action will be reviewed again in 6 months. Teledoc and NCQA are not giving details on the corrective action, but it seems like NCQA found some issues with the workflow the company was using for credentialing providers that they would like to see fixed, he notes. Stockton points out that the company does not expect extra expenses to stem from the corrective action, and expects to be able to satisfy NCQA's concerns when the matter is reviewed in 6 months. The analyst has an Outperform rating on the shares.

16 May 2019, 10:40 AM

11512591

Thanks for sharing your work. I couldn't find the AmWell and DocOnDemand certifications on the NCQA websites. Can you link to them?

16 May 2019, 10:25 AM

The Friendly Bear, Contributor

Author's reply » [For amwell reportcards.ncqa.org/...](https://reportcards.ncqa.org/)

[For doc on demand reportcards.ncqa.org/...](https://reportcards.ncqa.org/)

16 May 2019, 12:09 PM