This is the 19th Annual Sohn Investment Conference.

The first time I spoke here was in 2002. It is amazing how this great event has grown, and I am honored to be here.
Disclaimer

THESE MATERIALS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY INTERESTS IN ANY FUND MANAGED BY GREENLIGHT OR ANY OF ITS AFFILIATES. SUCH AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY INTERESTS MAY ONLY BE MADE PURSUANT TO DEFINITIVE SUBSCRIPTION DOCUMENTS BETWEEN A FUND AND AN INVESTOR.

The information contained herein reflects the opinions and projections of Greenlight Capital, Inc.® and its affiliates (collectively “Greenlight”) as of the date of publication, which is subject to change without notice at any time subsequent to the date of issue, and serves as a limited supplement to a verbal presentation. Greenlight does not represent that any opinion or projection will be realized. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. All information provided in this presentation is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. Greenlight has an economic interest in the price movement of the securities discussed in this presentation, but Greenlight’s economic interest is subject to change without notice. GREENLIGHT® and GREENLIGHT CAPITAL, INC. with the star logo are registered trademarks of Greenlight Capital, Inc. or affiliated companies in the United States, European Union and other countries worldwide. All other trade names, trademarks, service marks, and logos herein are the property of their respective owners who retain all proprietary rights over their use. This presentation may not be reproduced without prior written permission from Greenlight.

The information contained within the body of this presentation is supplemented by footnotes which identify Greenlight’s sources, assumptions, estimates, and calculations. This information contained herein should be reviewed in conjunction with the footnotes.
A couple weeks ago, we wrote in our quarterly letter that we believe that a narrow group of cool kid stocks have disconnected from traditional valuations and formed a bubble. This got a lot of criticism. Half the critics thought we were talking our book, even though we didn’t name names. The other half were upset that we didn’t tell them which stocks we were short.

Since we can’t seem to please anybody, I’ve decided to validate both criticisms. Today, I’m going to illustrate the bubble basket doing a deep dive into one of the companies, while not disclosing the others.

This company is an excellent company with an excellent product, run by a well-meaning and honest, though occasionally promotional CEO. The world may be a better place if it succeeds, and even though we are short, I am in no way rooting for it to fail.

Its main problem is that it isn’t positioned to succeed the way the bulls hope, as the assumptions the bulls are making are not plausible. The stock is simply at the wrong price. It’s caught up in a bubble and could easily fall 80% or more from its recent peak.

Let me introduce you to athenahealth.
I think athena deserves a smaller capitalization, and I’m not just referring to how it fails to capitalize the first letter of its name. Let’s start with ‘what does athena do’?

Athena provides software and services primarily to what is called the ‘Ambulatory’ healthcare market, which consists mostly of non-hospital based physician practices.

Its services include bill collection and claims processing, electronic health records, patient communication, and care coordination.

__________________________
Source: athenahealth website at http://landing.athenahealth.com/g/improvecare
AthenaClinicals is a service enabled by software that manages patient health records electronically.

AthenaCollector is practice management software combined with outsourced revenue cycle management, or RCM, where athena streamlines a practice’s collection process.

These two products generate the vast majority of athena’s revenues, but there is also athenaCoordinator and athenaCommunicator, which enable care coordination among providers and communication with patients.

For these services athena charges based on a percentage of collections, usually between 4 and 7 percent.

Athena is also trying to enter the inpatient or hospital market, through a new service called Enterprise Coordinator.

This offers small hospitals a range of care coordination functions including patient admissions, insurance pre-certification, referral management, post-care follow-up, and preventative care outreach.

Athena just announced its first two trial customers last month. This is very much a work-in-progress, and it is unclear whether athena will succeed in this segment.

Let’s get to the most eye-catching thing about all the bubble stocks – the stock chart. This one is from the 2007 IPO through the end of February. You can see that this was a nice stock that was doing well until November of 2012, when it went ballistic and more than tripled, from $60 to $204, in just 16 months.

Source: Bloomberg L.P.
What has been driving this exceptional share performance? The chart suggests enormous financial progress to justify the explosive re-rating of the shares.

You’d expect results in excess of the “targets” of 30% annual revenue growth, and improving gross and operating margins. But you’d be wrong.

Source: athenahealth 5th Annual Investor Summit on December 6, 2012 (http://investors.athenahealth.com/events.cfm)
Athena missed its organic revenue growth target for 2013, and analysts have cut revenue expectations for both 2014 and 2015.

Source: Revenue estimates for fiscal years 2013, 2014, and 2015 are historical Bloomberg consensus estimates for noted time periods as retrieved from Bloomberg in May 2014. Revenue estimates from April 2013 (for 2013, 2014, and 2015) have been adjusted by Greenlight for the impact of acquisitions whose results were incorporated into athenahealth’s guidance in May 2013. Actual results for fiscal year 2013 are from athenahealth’s Form 10-K.
And what happened to the intended margin leverage? The blue line is the historical margin and forward-looking analyst estimates as of early 2013. The red line is what the company delivered in 2013 and shows the now lowered analyst estimates from here.

As is fashionable with bubble stocks these days, margins that include stock compensation as an expense are very low and are now expected to remain there for at least the next couple of years.

Source: Adjusted EBIT margin estimates for 2013, 2014, and 2015 are historical Bloomberg consensus estimates for noted time periods as retrieved from Bloomberg in May 2014 which were then adjusted for Greenlight’s estimate of stock-based compensation in 2013, 2014, and 2015. Actual EBIT margins for 2010, 2011, 2012, and 2013 are Greenlight’s calculations based on athenahealth’s Form 10-K for each respective period.
Earnings estimates have followed the same path. It’s noteworthy that in 2009, when the stock was less than $50, analysts thought the company would be earning more than $3.00 per share by now. 2015 estimates have also fallen dramatically.

Source: Adjusted and GAAP EPS estimates are historical Bloomberg consensus estimates for noted time periods as retrieved from Bloomberg in May 2014.
A history of disappointments

“As has become an annual ritual, athena issued disappointing guidance ahead of its analyst day. [...] The company historically gets a pass for guiding below consensus.”

Oppenheimer, Dec. 11, 2013

Not that it seems to matter...

So, athena missed its top and bottom line estimates, and the stock almost quintupled in the three years through early March of this year. What might explain the move?
This is the athenahealth’s CEO, Jonathan Bush...yes, he is part of that Bush family.

Let’s see if he can explain the excitement.

[video clip]

How do analysts look at athenahealth?

“ATHN is not an Electronic Health Records company. It is a fusion of SaaS, mobile, social, and crowdsourcing rolled into one, with an underlying platform that is able to monetize each.”

Piper Jaffray, October 21, 2013

Of course, sell-side analysts are happy to fuel the fire. Here is one, using pretty much every hot buzzword he can think of.

Actually, athena is none of those things, but it’s a great way to promote the stock.

And then there’s this guy...

[video clip]

Source: CNBC on January 10, 2013 (http://video.cnbc.com/gallery/?play=1&video=3000140380)
Sure, Jim. And Al Gore invented the internet...
There are many stocks that can’t be valued as a multiple of profits or cash flows because they have little or none. So analysts are left with relative valuations.

Here is how athena seems reasonable next to its peers. But the implication is that its peers are properly valued.

---

Source: Bloomberg consensus estimates for noted time periods as retrieved from Bloomberg in May 2014.
It’s all a matter of perspective. Depending on which stock you are thinking about, all these stocks seem reasonable compared to the others.

This is what happens in a bubble.
As stocks rise in the face of deteriorating fundamentals, shares disconnect from conventional valuations.

Jonathan Bush understands bubble dynamics perfectly.

[video clip]

Source: The Indus Entrepreneurs, TiECON East, on May 22, 2009 (https://www.youtube.com/watch?v=mJpE27wL4RA)
I believe when investors attempt to value the disconnected stocks using conventional methods, they typically can’t come close to current values.

However, on April 23rd, Morgan Stanley issued a 22-page report about athena that put my theory to the test. In it, the analyst uses a discounted cash flow to arrive at values that arguably justify the current share price. And, I will stipulate that the DCF model uses a proper and standard technique. It even incorporates non-cash stock comp as an expense so that long-term dilution is taken into account.

Source: Morgan Stanley & Co. report dated April 23, 2014
By trying to bridge the gap between the bubble prices and conventional valuations, the report does a great service to those of us who can’t fathom the prices of bubble stocks.

It answers the question of “What do you have to believe will happen in order to justify the stock price?”

The DCF shows the revenue buildup by product category.

The existing business will grow from $743 million this year to about $5.7 billion in 2030.

On top of that, the hospital service offering that athena just launched will add another $1.2 billion.

This is expected to be followed by an as-of-yet undeveloped hospital collections service that Morgan Stanley is hoping the company will launch in 2017, and a patient records software offering expected in 2018. Together these will grow to be a $3.1 billion business by 2030.

If all goes according to forecast, revenues will compound at 18% for the next 15 years and athena will become a $10 billion revenue company.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014.
According to Morgan Stanley, athena is worth $192 per share in a base case DCF. This is broken down into $120 for Ambulatory and $72 for Inpatient.

____________________________
Source: Morgan Stanley & Co. report dated April 23, 2014
Let’s test Morgan Stanley’s assumptions. Today athena serves 37,000 doctors and earns $16,000 per doctor. In 2030, Morgan Stanley estimates athena will have 86,000 doctors and get $63,000 per doctor.

We believe that these assumptions are quite aggressive and likely to prove too optimistic.

For the moment, let’s assume Morgan Stanley is right about the number of doctors and challenge only the revenue per doctor.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014.
Morgan Stanley says the average doctor currently collects $636,000 annually, on the way to $1.3 million in 2030.

Currently, athena’s doctors collect only $370,000 of which athena keeps about 4.4% or $16,000. Athena’s doctors get much less than the national average because athena has a concentration in low-earning primary care physicians.

Even if athena were to win higher-billing physicians, athena would adjust its billing rate downward because it prices its business to earn a certain amount per physician, and uses a sliding scale so higher-billing doctors pay a lower percentage.

Without explaining why or how, Morgan Stanley assumes that the average athena doctor will catch up to the national average, and that athena won’t offer sliding scale discounts to higher-billing doctors. This appears to be a modelling error.

Morgan Stanley assumes athena will recognize $63,000 in revenues per doctor by 2030 from $16,000 today.

We think it is more reasonable to assume that revenue per doctor grows with Ambulatory spending. On that basis, Athena’s revenue per doctor would still more than double to $36,600 in 2030.

Source: athenahealth’s collection per doctor and revenues per doctor are based upon Morgan Stanley & Co. estimates as provided to Greenlight in April 2014. Inflation adjusted revenues per doctor and industry average collections per doctor are Greenlight calculations based on CMS estimates.
If we cut Morgan Stanley’s revenue per doctor assumption from $63,000 to $36,600, it reduces the DCF value by $44. This reduces Morgan Stanley’s base case DCF value for athena’s Ambulatory business from $120 to $76 per share.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014 and Greenlight calculated adjustments to Morgan Stanley & Co. estimates. Greenlight’s adjustments to Morgan Stanley’s methods, factors, and calculations were in the sole discretion of Greenlight.
Now, let's talk about Morgan Stanley's EBIT before stock-based compensation margin assumption. Morgan Stanley's report goes for 22 pages detailing its analysis of the addressable market, and athena's revenue opportunity.

And then without a word of explanation it plugs in a 30% EBIT margin assumption in 2030. Morgan Stanley’s predicted near-term EBIT ramp from about 10% today to 13% at the end of the decade is possible. 30% margins are not. And it is this assumption that drives the bulk of the DCF-derived value.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014.
To test the margin question we have to ask whether the business has a lot of operating leverage so that incremental revenues can flow through to the bottom line with few incremental expenses.

Historically, software businesses have sometimes been able to do that because developing software has a fixed investment, and incremental licensees can come with low marginal costs.

A service business, by definition, doesn’t have that leverage.

And athena is a service business. Just listen to the CEO.

[video clip]

Jonathan Bush likes to compare athena to Amazon.

And he believes that because athena’s customers access the software through a web-based portal, athena is a cloud company “just like amazon.”

When a store adds a website, it does not magically become a “cloud-based retailer”.

Likewise, when my bank allows me to check my account balance online, it does not suddenly become a “cloud-based financial institution”.

His use of the word ‘cloud’ is somewhat nebulous.

Here he describes some of the services behind the software:

[video clip]

When other industries take mundane or not-so-mundane tasks off a company’s hands, we call that “business process outsourcing” or BPO.

When the company gets better at it because it has more customers, more data, and a web-based interface, it doesn’t make them a “fusion of SaaS, mobile, social, and crowdsourcing.”

It makes them a more efficient BPO.

Before everybody got lost in the clouds, athena was grouped with other financial and transaction processing companies. These are good businesses, but they don’t merit triple digit P/Es.

Currently, BPO companies mostly have high teens P/Es.

Source: KPMG Corporate Finance, February 28, 2011
We believe the most direct comps for athena are Accretive Health, MedAssets, and Tenet Hospital’s Conifer division. These businesses have, on average, a 10% operating margin before stock-based compensation.

The CEO of Accretive Health – a company focused purely on outsourced hospital RCM – stated that the company’s target operating margins were in the mid-teens shortly, before the company ran into regulatory trouble.

Source: Service providers presented for comparison were selected by Greenlight in its sole discretion. Greenlight estimates based upon the average of the three most recently filed Forms 10-K for each service provider. In its sole discretion, Greenlight made adjustments to reported segment results for stock based compensation and to allocate corporate expenses to segments, among other adjustments.
So, now let’s go back to Morgan Stanley’s margin estimates.

The low operating leverage makes the EBIT ramp to 13% by the end of the decade plausible. But, the proposed ramp to 30% by the end of 2030 is not.

By the way, in the Morgan Stanley “bear” case that yields an $82 valuation, they assume EBIT margin ramps to only 27.5%. That is what passes for conservatism during a bubble.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014 and Greenlight calculated adjustments to Morgan Stanley & Co. estimates. Greenlight’s adjustments to Morgan Stanley’s methods, factors, and calculations were in the sole discretion of Greenlight.
If we change the revenue per doctor to $36,600 and assume a peak margin of 15%, rather than Morgan Stanley’s 30%, this reduces Morgan Stanley’s base case DCF value for the Ambulatory business by an additional $33.

Our adjusted DCF value for the established ambulatory business is therefore $43 per share. This represents a good, optimistic value for athena’s established business.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014 and Greenlight calculated adjustments to Morgan Stanley & Co. estimates. Greenlight’s adjustments to Morgan Stanley’s methods, factors, and calculations were in the sole discretion of Greenlight.
So what about the inpatient or hospital market?

Here are Morgan Stanley’s assumptions.

As you can see, the hospital segment is forecast to grow from zero to more than 40% of athena’s revenues...

How likely is that?

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014.
Instead of waiting until it has a full suite of software to offer hospitals, athena has developed a new BPO offering called “Enterprise Coordinator”, in which it will take over a hospital’s admissions, referrals, pre-billings, and patient communication functions.

Athena’s first alpha customers for this new service are long-time athena clients, Steward Health Care and Griffin Hospital.

When asked on the April earnings call about athena having to cut its already negative-margin pricing structure for this new offering, Jonathan Bush was his ever-candid self.

Source: athenahealth First Quarter 2014 Earnings Conference Call, April 18, 2014
And what about the future products?

Morgan Stanley’s Inpatient forecast assumes athena launches a new revenue cycle management service in 2017 that will reach $2.5 billion of revenues by 2030.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014.
That $2.5 billion implies that athena wins 6% of the hospital industry. This is 200% of the current market because less than 3% of hospitals outsource their revenue collection today. Hospitals don’t outsource because they have customized contracts with larger payers so there is little benefit from the standardization of collection methods that outsourcers offer.

Morgan Stanley assumes that hospitals will embrace outsourcing, and that athena will launch a viable service that wins significant market share at 30% EBIT margins.

Source: RCM inpatient market penetration represents a future 15% annual growth rate to the Healthcare Information Management Systems Society’s estimate for current RCM inpatient penetration. Market share for athenahealth reflects Morgan Stanley & Co. estimates as provided to Greenlight in April 2014.
“When you think of a large inpatient system [...] that solution has to do a lot of things. You have to build the claims. You need the patient record, well, we have those two things.

Now they have a nurse rounding station. They have lab interfaces. They have bed management modules, there's 30 other modules out there. We don't have those.”

-- Timothy Adams, CFO, athenahealth, March 6, 2014

Morgan Stanley's assumptions are not just optimistic, they seem to ignore the reality that even athena's current solution is half-baked.
This is what a fully integrated hospital software package looks like. It involves every part of the hospital, from billing to patient monitoring to supply chain management.

They take years to design and a fortune to build.

The company that dominates this space is Epic Systems.

Source: http://healthit.ahrq.gov/key-topics/architecture-health-it
Epic makes complete software solutions for hospitals, large medical groups, and integrated healthcare organizations, and has emerged as the undisputed winner from the fragmented IT market.

It costs anywhere from tens to even hundreds of millions of dollars to install Epic, but this hasn’t deterred the most well-respected hospital CIOs.

In fact, there are cities in this country where every major hospital is on Epic, or moving in that direction because of the ease of sharing data.

Epic's client retention rate is near 100%. Wall Street analysts don't promote the EPIC perspective on healthcare IT because it is a private company.

Oh, and they are from Wisconsin. Go Packers...

As far as cloud-based IT goes, Epic’s continued success shows that hospitals aren’t looking for a cobbled together best-in-breed solution.

Just as hospitals impose structure from the top down, the hospitals themselves seem comfortable having a proprietary solution imposed upon them, provided it is integrated, efficient, and interoperable.

Epic is all of these things.

And it’s not just hospitals...

_____________________

Source: http://cartoonsy.com/cartoons/may-clinic-cartoon-cartoons-cartoon-drawings-914
Epic is now expanding into other markets.

CVS’s MinuteClinic has been a long time athena client in practice management and revenue collection.

In February, when CVS decided to stop using its own proprietary electronic health records product, it should have been an easy win for athenaClinicals.

Instead, CVS went with Epic, further cementing Epic’s place as the go-to application.

Yet Jonathan Bush continues to believe that of course cloud-based solutions will be the standard for healthcare IT.

It doesn’t work that way.

The standards have been decided in the last five years, and the winners aren’t the single-digit-share cloud companies.

The standard is the 2000 lb. gorilla from Wisconsin that has the biggest hospitals, the 275,000 doctors, and now even the local clinics.

And as these large institutions keep acquiring smaller hospitals and doctors' practices, and pushing Epic IT systems down the chain, Epic's dominance will only grow.

And what about athena being the healthcare internet backbone?

[video clip]

Source: Compilation comprised of excerpts from the following: 1) BYU Rollins Center for Business on September 24, 2008 (https://www.youtube.com/watch?v=CSqS_HRoBLo); 2) EHRtv interview Ann and Eric Fishman at MGMA on October 23, 2011 (http://www.ehrtv.com/athena-health-jonathan-bush/); 3) Venture Atlanta 2012 on October 18, 2012 (https://www.youtube.com/watch?v=S_RDcp0jK-Y); 4) MIT EmTech on October 9, 2013 (http://www2.technologyreview.com/emtech/13/video/day1/); and 5) FOX News Network interview at Forbes Healthcare Summit on October 10, 2013 (http://www.foxbusiness.com/government/2013/10/10/fbn-at-forbes-healthcare-summit/).
Jonathan knows he has some problems there, too.

[video clip]

Like many other people, Jonathan Bush wants to fix healthcare.

The fix he has in mind is "a healthy, sustainable market for health information exchange" but, as he notes, regulations and cultural resistance have kept this from happening.

Nonetheless, athena has continued down this path in the hopes that the regulations will change.

In 2011, athena lobbied for and received a small exemption from the anti-kickback laws, granted by the Office of the Inspector General. The company believed that this would be the crack in the dam that would eventually lead to an open market.

Instead, the OIG reversed its decision last month, signaling that any change in these laws is not likely without an act of Congress.

We believe that if the laws around this do change, a small player like athena is unlikely to be in a central position where it can extract monopoly profits. In the meantime, athena hasn’t demonstrated a viable business model for continuing to build the backbone.

Source: EHRtv interview with Ann and Eric Fishman at MGMA on October 23, 2011 (http://www.ehrtv.com/athena-health-jonathan-bush/)
So where does that leave us?

While athena may be able to create an Inpatient software offering, it will be an expensive and risky undertaking. Cerner, another large healthcare IT company, has spent $2.7 billion in the last decade on R&D, while Epic reportedly will spend more than $300 million in R&D this year.

Morgan Stanley’s 30% margin assumption for Inpatient is even less realistic than it is in Ambulatory. It will be even harder for athena to generate attractive margins from large enterprise customers than from small physician practices. We think we are being quite generous by adjusting to a 15% margin. It would be easy to argue for something even lower.

Though we are inclined to value Inpatient at zero, we cannot disprove that which does not exist. And investors like to dream. However, we think it is appropriate to discount this potential at a rate reflective of a venture investment. A 15% margin and a 20% discount rate still seem rather forgiving. You can see these adjustments have a lot of impact on the Inpatient opportunity. $7 per share seems much more realistic than $72 for a product that for the most part is years away from commercial introduction, let alone success.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014 and Greenlight calculated adjustments to Morgan Stanley & Co. estimates. Greenlight’s adjustments to Morgan Stanley’s methods, factors, and calculations were in the sole discretion of Greenlight.
Putting it together: We started with Morgan Stanley’s base case DCF value of $192 per share and took it out of the clouds by adjusting various implausible assumptions in the model. This leads to a still optimistic, but at least conceivable $50 value.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014 and Greenlight calculated adjustments to Morgan Stanley & Co. estimates. Greenlight’s adjustments to Morgan Stanley’s methods, factors, and calculations were in the sole discretion of Greenlight.
Of course, there is a bear case, which is worse...

Source: http://www.cartoonstock.com/cartoonview.asp?catref=mba0046
There has been a great deal of consolidation in healthcare, with hospitals buying up physician practices and directly employing doctors in order to collect higher fees and better control the cost of care.

And it’s happened faster than some people expected. Certainly faster than Jonathan Bush anticipated.

[video clip]

As hospitals acquire physicians, the hospitals will choose the IT systems and athena will lose doctors that will be moved to a system like Epic.

Source: Meaningful HIT News interview in February 2011 at HIMSS 2011
We have identified these six customers that we believe athena may lose in the coming years.

Source: Greenlight opinion based upon public statements, news articles, announcements for open employment positions, and discussions with industry participants.
This vertical integration isn’t the only thing shrinking the market. Another big part of the puzzle is that doctors were given huge subsidies to adopt electronic health records as part of the 2009 schtimulus bill.

Jonathan explains:

[video clip]

________________________

A few years ago, doctors were paid $44,000 to implement and use an EHR. Late last year this dropped to $24,000, and in a few months the incentive will disappear altogether. Accordingly, most doctors who are going to adopt EHRs have already done so, and the greenfield opportunity has been penetrated.

As for the remaining doctors who are still shopping for EHRs, athena’s success in the lower end of the ambulatory market has led to competition there, too.

Companies like kareo, eClinicalWorks, and CareCloud have all introduced competing packages of RCM and EHR at lower prices. It may be hard for athena to achieve much margin growth in such a competitive market.
And then there’s capitation, where providers are paid a flat rate for taking care of a defined patient population.

This is an existential threat to athena’s collection business, as there is no reason to pay a bill collector when the bill is paid before the service is delivered.

Jonathan seems to agree:

[video clip]

Jonathan Bush's sincere, well-intentioned desire to "make healthcare work as it should" is a major threat to athena's shareholders.

There will always be high-risk, low-margin things to do that will make healthcare better. It is a seemingly intractable problem.

[video clip]

I said at the top of this presentation that the world may be a better place if athena succeeds. But shareholders might want to consider the ramifications of the likely misallocation of capital if Jonathan Bush continues to use athena's profits as, quoting Jonathan, "a huge can of fix it“.

Source: Venture Atlanta 2012 on October 18, 2012 (https://www.youtube.com/watch?v=S_RDCp0jK-Y)
We believe that there are serious risks to this business model that are being mostly ignored by bullish investors and sell-side analysts.
A less optimistic scenario that may be even more likely than the $50 DCF case would have the number of doctors capping out at 74,000 rather than 86,000, with revenues per doctor increasing roughly at the rate of inflation until the end of decade, at which point capitation and/or competition slows the growth to 1% per year.

EBIT margins expand to 13%, in line with athena’s best comparables, but don’t improve further. The inpatient segment does not become a profitable business, but does not become a cash sinkhole either.

On that basis, the DCF falls to $14 per share or about a market multiple on current non-GAAP earnings. With the stock at $127, I don’t think it is worthwhile to further parse the assumptions.

Source: Morgan Stanley & Co. estimates as provided to Greenlight in April 2014 and Greenlight calculated adjustments to Morgan Stanley & Co. estimates. Greenlight’s adjustments to Morgan Stanley’s methods, factors, and calculations were in the sole discretion of Greenlight.
Now here’s the complete stock chart. In recent weeks the shares have fallen sharply. Perhaps the bubble is deflating.

The thing about bubble stocks is that the best reason to own them is that they are going up. When they stop going up, there is no reason to own them.

The gap between the top of the bubble price and the price where a disciplined growth investor will become interested is very large. When they stop going up, these stocks become falling knives. I think this one has much further to fall.

But you don’t have to listen to me.

Source: Bloomberg L.P.
Here’s Jonathan Bush one last time in November, when the stock was trading at 142, proving that he gets the joke, and that he understands Wall Street even better than he understands healthcare.

[play clip]

Source: The Fuqua School of Business, November 5, 2013
(https://www.youtube.com/watch?v=SwuQ2QFs73s)
Appendix
Fill in the blanks

Our goal at _____ is really to transform healthcare, as I said, and to reduce administrative cost and to increase clinical efficiency. We believe, we are well positioned with leadership in each of our divisions.

Today _____ is the leading provider of integrated claims management services to payers and revenue cycle management services to providers. We are also at _____ the leading provider of practice management and now electronic health record software and services for the provider community. And at _____ we are the leader in providing consumers and providers with healthcare information and education.

Here is a snippet from another company that tried to change healthcare.
This comes from WebMD about a decade ago. It turns out it is harder to transform healthcare than some might think.