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COMPANY: Teladoc Health, Inc. | NYSE: TDOC
INDUSTRY: Health Care Technology

PRICE (AS OF CLOSE
2/18/2025)

USD 13.11

MARKET CAP

USD 2.3 BN

We are short Teladoc Health, Inc. (“Teladoc” or the “Company”) because evidence shows that even though patients on the BetterHelp platform pay for mental health therapy from licensed therapists, with meaningful frequency, patients unknowingly receive “therapy” from AI. We think this is rotten and potentially harmful. BetterHelp knows this is wrong, because it warns on its website that therapy by AI dehumanizes patients and “*may harm the mental health of clients who use it for therapy.*” Yet, **in our opinion, BetterHelp gives its therapists perverse incentives to cut corners by using AI.**

We spoke with whistleblower patients who experienced this firsthand within just the last several weeks. Incredibly, when these patients confronted their therapists, the therapists confessed to using AI! These patients were understandably shocked, hurt and outraged. We do not think these are isolated incidents. Social media overflows with patients on Trustpilot, Reddit, the Better Business Bureau and other platforms alleging that instead of real therapy, their BetterHelp therapist instead used AI. And when we asked a senior executive at a BetterHelp competitor about this practice, the executive did not mince words: “***I’m absolutely sure that it’s happening. They [BetterHelp] don’t care.***”

We think that BetterHelp perversely incentivizes this practice by paying therapists **lucrative bonuses that are tied to the quantity of words that the therapist types when responding to the patient.** Long generic messages (of the type that ChatGPT, for example, can quickly deliver) pay therapists more than shorter thoughtful messages. Adding to the powerful incentives, interviews with former therapists indicate that BetterHelp incentivizes therapists to overload their schedules, then it expects therapists to also field 24/7 patient messages. We find it hardly surprising that an overworked and underpaid therapist would be tempted to reach for AI just to stay afloat.

As more patients take to social media and other online platforms to allege that their BetterHelp therapist used AI or a chatbot, we think that this will only accelerate falling BetterHelp profits and plummeting user growth. However, in our opinion, investors should have concerns beyond just BetterHelp.

We believe Teladoc is engaging in questionable accounting maneuvers to inflate its reported profitability and cash flows just as its business faces an existential crisis. We believe that the Company changed its accounting treatment of R&D, dubiously shifting about half of its R&D expense off the income statement and into investing cash flows; thereby inflating Adj. EBITDA by as much as 32% and its operating cash flows by 127% in FY 2023. This all comes at a precarious time for the Company: annual sales growth has been in consistent decline and has dropped below zero for the last two quarters, and the Company warns that customer acquisition costs will be elevated through the foreseeable future. Executives seem to be voting with their feet and their wallets. Teladoc not only experiences suspiciously frequent turnover at key medical and accounting positions, but insiders have been consistently selling stock, even as Teladoc’s stock has steadily declined.

Ultimately, we think that Teladoc is far less profitable and generates far less cash than investors are led to believe, and that accounting maneuvers have concealed that the business is failing to scale. Against this backdrop, we expect the BetterHelp business to continue its downward trajectory as more patients come forward with evidence that their therapists secretly used AI. After all, why would a patient who needs help keep paying \$400 a month to talk to ChatGPT?

- I. **BetterHelp Patients Pay For Licensed Therapists, But a Meaningful Number Secretly get ChatGPT.** Patients pay BetterHelp up to \$400 per month to receive therapy from a licensed therapist. Our investigation indicates, however, that **a meaningful number of BetterHelp therapists secretly give patients “therapy” using AI, such as ChatGPT.** This happens during live chat sessions and also when therapists message patients outside of live sessions.
 - a. **The Secret Use of AI for Therapy is Worse Than a Financial Scam, It Harmfully Preys On A Vulnerable Population.** BetterHelp’s official policy is that its therapists are prohibited from using AI because it is dehumanizing and dangerous.

Yet, in our opinion, BetterHelp’s compensation scheme effectively gives therapists strong financial incentives to copy and paste from AI models, such as ChatGPT, instead of providing “real” therapy. BetterHelp knows it’s wrong because even BetterHelp’s own website warns that “AI may harm the mental health of clients who use it for therapy” and that “using AI in the place of a clinical psychologist may dehumanize health care and patient outcomes.” Despite such warnings, AI therapy on BetterHelp appears to be a systemic problem. Former BetterHelp patients are flocking to the Better Business Bureau, Reddit, TrustPilot, blogs and other social media, alleging that their BetterHelp therapist was either an AI chatbot, or that their human therapist was answering the patient’s mental health related questions and concerns **by copy and pasting from an AI model, such as ChatGPT.**

- b. Whistleblowers Patients Give Firsthand Accounts and Corroborating Evidence Showing Therapists Using AI.** We spoke to separate BetterHelp whistleblower patients who gave us firsthand accounts of their therapists using AI during both live chats and also when messaging. Both events occurred in just the last several weeks. Both of the patients’ therapists **even confessed to using AI**, and both patients provided us with the corroborating screenshots or documents. Moreover, social media overflows with patients recounting similar experiences. And when we asked a senior executive at a BetterHelp competitor about this practice, the executive did not mince words: **“I’m absolutely sure that it’s happening. They [BetterHelp] don’t care.”**
- i. Whistleblower Patient #1** joined BetterHelp because he was struggling after losing his job. He messaged his therapist with his *“heartfelt thoughts”* and, in response, his therapist sent him a message that Whistleblower Patient #1 suspected was AI-generated. He confronted his therapist, and she admitted to using AI. Whistleblower #1 was hurt and outraged. He wrote to his therapist expressing that it was *“dehumanizing and a violation of my trust.”* He also (rightfully) expressed concerns to his therapist that she had violated his privacy by sharing his private information with a third-party AI model.
- ii. Whistleblower Patient #2** joined BetterHelp because he was having anxiety issues – so much so that he opted to have therapy by live chat instead of by video conference, underscoring the vulnerability of patients who turn to BetterHelp for therapy. Whistleblower Patient #2 had two live chat sessions with his therapist, and he suspected that his therapist had used AI during both of their live chat sessions. Despite his anxiety, he eventually confronted his therapist. She admitted to using AI but promised that she wouldn’t use AI again without his knowledge. Remarkably, not long after, the therapist sent Whistleblower Patient #2 a message that he once again suspected was AI-generated. Blue Orca tested the therapist’s message using a well-regarded AI detection program and the program detected with 100% confidence that the message was AI-generated. Whistleblower Patient #2 posted online about his experience in an attempt to blow the whistle on this dehumanizing and harmful practice.
- c. Perverse Incentives Push Therapists to Cut Corners Using AI.** In our opinion, BetterHelp’s compensation scheme effectively gives therapists strong yet perverse financial incentives to copy and paste from AI models, such as ChatGPT, instead of providing “real” therapy. In interviews, former therapists offer different variations of the same theme: *“BetterHelp is setting up the therapist to be unethical”* and *“You would need to cut corners to make a living on BetterHelp”* and *“BH sets you up to either overwork or cut corners.”* The therapists are not to blame. As one former therapist lamented: *“the clients and therapists are both being exploited.”*
- i. BetterHelp pays lucrative bonuses that are tied to the quantity of words that the therapist types to the patient.** Long generic messages (of the type that ChatGPT, for example, can quickly deliver) pay therapists more than shorter thoughtful messages. The longer the better, up to a point. BetterHelp won’t pay therapists for messages with word counts that are “imbalanced” to the word count of the patient’s original message. This word count metric is divorced from, and antagonistic to, quality of care. Yet ideal for ChatGPT.
- ii. BetterHelp incentivizes therapists to overload their schedules to capacity, then expects them to also field 24/7 patient messages.** BetterHelp pays therapists huge wage increases to incentivize them to overload their schedules. Then, when many therapists are already drowning, BetterHelp throws them a heavy anchor by requiring them to also respond to patients’ incoming 24/7 messages. It is hardly surprising that such overworked, overscheduled and underpaid therapists saddled with the obligation to engage patients 24/7 reach for an AI chatbot—especially when BetterHelp pays them by the word.
- d. Patient Revulsion about AI in Therapy Will Only Accelerate Falling BetterHelp Profits and Further Accelerate Already Declining User Growth.** BetterHelp is critical to Teladoc’s business, accounting for 40% of the Company’s revenues and adjusted EBITDA since FY21. Yet BetterHelp’s business is already showing strains. Sales growth has fallen from 9% in Q3 FY23 to 2% in Q3 FY24, and EBITDA margins have shrunk from 21% in Q4 FY23 to 6% in the last quarter.

Further underscoring the problems, Teladoc took a large write-down of goodwill associated with BetterHelp. Most worryingly for investors, BetterHelp user growth continues to plummet. We suspect that this observable downturn is likely due to a chorus of online allegations and reviews from patients alleging that their BetterHelp therapist was using AI – a trend which we believe will only proliferate as more and more former patients come forward to blow the whistle on this unethical and harmful practice. This is deadly for BetterHelp’s business: after all, why would patients pay \$400 per month if there a chance of therapy from an AI chatbot?

- II. Aggressive Capitalization of R&D Inflates Adj. EBITDA and Operating Cash Flow.** We believe that Teladoc is aggressively shifting R&D expenses from its income statement into “capitalized software” in its cash flow statement, thereby, in our opinion, inappropriately inflating both Adj. EBITDA and operating cash flow. As a result, we believe that Teladoc is far less profitable and generates far less cash than investors are led to believe.

In Q2 FY22, the Company’s reported capitalized software as a percentage of revenue jumped from its ~2% historical average to above 7%. In the same quarter, Q1 FY22 R&D was oddly revised down by ~50% after the Company changed its R&D disclosure, and R&D has remained at similarly depressed levels from Q2 FY22 through today. We believe that, just as Teladoc was preparing to increase its R&D spend, management arbitrarily changed its R&D accounting so as to give itself the latitude to shift R&D expenses out of the income statement and into investing cash flows, thereby inflating Adj. EBITDA and operating cash flow. These changes were visible only deep within the footnotes and, in our view, likely not detected by most investors. Yet their impact was huge. We estimate that Teladoc’s apparent capitalization of R&D inflated Adj. EBITDA by a massive 64% in FY22 and 32% in FY23, and by 21% over the last four quarters. We estimate that Operating cash flow was inflated by 127% in FY23 and by 81% over the last four quarters.

- a. Teladoc’s Business is Clearly Not Scaling, and Potentially Headed towards Crisis as Growth Stalls.** We think that Teladoc’s accounting maneuvers are concealing that its business is clearly not scaling. **Sales growth has been negative for the last two quarters**, and its revenue growth rate has consistently lagged behind the growth in its sales and marketing expense spend. Management has told investors to continue to expect elevated customer acquisition costs through the foreseeable future, meaning Teladoc is unlikely to be able to revive **falling sales growth** without assuming massive sales and advertising costs and thereby cratering its Adj. EBITDA margins, putting management in a seemingly impossible position. We believe that Teladoc was able to show reasonably steady margins in the preceding quarters only by sneaking half of its R&D expenses out of the income statement, but this questionable maneuver is unlikely to provide much relief going forward. With sales growth below zero, CAC rising, and Adj. EBITDA margins already sitting in the low teens, we think Teladoc is hurtling towards a future of negative growth and cratering profitability.

- III. Executive Departures and Insider Selling Show Insiders Voting with their Feet and Wallet.** Teladoc has witnessed an exceptional degree of turnover among its executive team, including in some of its most critical accounting and medical roles. Teladoc has had **three Chief Accounting Officers since May 2024**, one of whom lasted only 5 months in the role. Oddly, two of the last four Chief Accounting Officers, one of which served on an interim basis, only lasted 5 months in the role. Such dramatic turnover in the critical accounting role only compounds our suspicion regarding the Company’s questionable maneuvers regarding software capitalization and R&D expenses. Further, given our findings regarding the poor standard of patient care, and perverse incentives pushing therapists to cut corners, it is no surprise that since just 2020, the Company has already had three Chief Medical Officers and three Presidents of Hospital & Health Systems. Executive turnaround at such key roles is often synonymous with dysfunction or worse. Insiders have also consistently sold shares in significant quantities. We believe that executives are voting with their feet and their checkbooks, suggesting skepticism towards Teladoc’s long-term prospects, both as an investment and a business, among those who know the Company best.

I. BetterHelp Patients Pay For Licensed Therapists, But a Meaningful Number Secretly Get ChatGPT.

BetterHelp connects patients to licensed mental health therapists and provides an online platform for therapy sessions conducted by videoconference, telephone, or live chat. Patients also enjoy the perk of 24/7 messaging with their personal licensed therapists outside of live session times. For these services, patients pay BetterHelp a monthly subscription fee as high as \$400 per month. Our investigation indicates, however, that **a meaningful number of BetterHelp therapists secretly give patients “therapy” using AI, such as ChatGPT.**

In our opinion, this secret practice is worse than just a financial scam. It preys on a vulnerable population who are in need of real mental health treatment yet who instead, in the words of one angry patient, receive an unethical and dehumanizing response from a “robot.” All the worse, BetterHelp knows it’s wrong because even BetterHelp’s own website warns that *“AI may harm the mental health of clients who use it for therapy”* and that *“using AI in the place of a clinical psychologist may dehumanize health care and patient outcomes.”*

BetterHelp’s official policy is that its therapists are prohibited from using AI because it is dehumanizing and dangerous. Yet, in our opinion, BetterHelp’s compensation program gives therapists strong financial incentives to copy and paste from AI models, such as ChatGPT, instead of providing “real” therapy. In other words, when a patient writes to his or her trusted mental health therapist with highly personal mental health concerns, we think that BetterHelp incentivizes overworked and underpaid therapists to use AI to generate a response, copy and paste the response, and then respond to the unwitting patient with whatever content the AI model spits out to the therapist. We believe that this happens during live chat sessions and also when therapists message patients outside of live sessions.

We spoke to two separate BetterHelp whistleblower patients who gave us first-hand accounts of their therapists using AI during both live chats and also when messaging. Both events occurred in just the last several weeks. **Both of the patients’ therapists even confessed to using AI**, and both patients provided us with the corroborating evidence, including screenshots. Moreover, social media overflows with patients recounting similar experiences. And when we asked a senior executive at a BetterHelp competitor about this practice, the executive did not mince words: ***“I’m absolutely sure that it’s happening. They [BetterHelp] don’t care.”***

Importantly, we do not believe that this is an isolated practice to be blamed on a few rogue therapists. Only BetterHelp knows how rampant the use of AI in therapy is on its platform - but we think that **BetterHelp so strongly incentivizes the practice that we believe it occurs with meaningful frequency.** Yet, the therapists are not to blame. As one former therapist stated, *“the clients and therapists are both being exploited.”* In one form or another we heard it repeated over and over again that BetterHelp incentivizes its therapists to cut corners and act unethically:

- *“BetterHelp is setting up the therapist to be unethical.” (Former BetterHelp therapist #2)*
- *“You would need to cut corners to make a living on BetterHelp.” (Former BetterHelp therapist #1)*
- *“BH sets you up to either overwork or cut corners.” (Former BetterHelp therapist #3)*

Here’s how it works. BetterHelp offers therapists two sets of financial incentives. The first set of incentives pay therapists huge wage increases to get them to overload their schedules. Then, when many therapists are already drowning, BetterHelp throws them a heavy anchor by requiring them to also respond to patients’ incoming 24/7 messages. It is hardly surprising that such overworked, overscheduled and underpaid therapists saddled with the obligation to engage patients 24/7 would reach for an AI chatbot.

Most notably, we learned that BetterHelp pays therapists lucrative bonuses that are tied only to the **quantity of words that the therapist types to the patient.** Long generic messages (of the type that ChatGPT, for example, can quickly deliver) pay more than shorter thoughtful messages. Adding to the charade, BetterHelp won’t pay therapists for messages with word counts that are “imbalanced” to the word count of the patient’s original message. And after BetterHelp creates an incentive and opportunity for therapists to use AI, we see little evidence that BetterHelp does anything to police for it. To the contrary, BetterHelp’s Terms and Conditions for therapists disclaims any responsibility for the quality of patient care.

We suspect that many BetterHelp patients are unknowingly paying for AI theater, not therapy.

A. A Meaningful Number of BetterHelp Patients Unknowingly Receive Therapy From AI.

BetterHelp charges patients up to \$400 per month for a platform that connects patients with qualified licensed mental health therapists. BetterHelp patients can choose to have therapy sessions by live video conference, live chat, or telephone. As part of their subscription, patients also enjoy the perk that they can message their therapists 24/7 and receive a timely response. Regardless of which format a patient chooses, BetterHelp promises to connect patients with *qualified licensed* therapists.


Who are the therapists? ^

We require every Therapist providing Therapist Services on the Platform to be trained and experienced licensed U.S. Psychologist (PhD / PsyD), Licensed Marriage and Family Therapist (LMFT), Licensed Clinical Social Worker (LCSW), Licensed Professional Counselor (LPC), Licensed Mental Health Counselor (LMHC) or similar applicable recognized professional license based on their state and/or jurisdiction. Therapists must have a relevant academic degree in their field, at least 3 years of experience, at least 1,000 hours of hands-on experience, and have to be qualified and licensed by their respective state board after successfully completing the necessary education, exams, training and practice requirements as applicable. [Learn more about the therapists](#)

Source: [BetterHelp website](#)

BetterHelp unambiguously promises patients that they will not receive therapy from AI.¹ To the contrary, BetterHelp's website warns that **“AI may harm the mental health of clients who use it for therapy”** and that **“using AI in the place of a clinical psychologist may dehumanize health care and patient outcomes.”**

However, studies show that [using AI in the place of a clinical psychologist may dehumanize health care](#) and patient outcomes, potentially taking away the power of the therapist-patient relationship.


Business About

Part of the success of therapy is often the secure bond formed between client and therapist. In addition, some clients may come to therapy to cope with not having social support or struggling with being alone. In general, AI cannot replace empathy and other human experiences, although it can replicate it.

For this reason, AI may harm the mental health of clients who use it for therapy. AI may also fail to offer effective services for a mental health crisis, as people in crisis often require quick action, human empathy, and compassion.

Source: [BetterHelp website](#)

Furthermore, BetterHelp's Terms and Conditions strictly prohibit therapists from disclosing “any member personal or health information to ChatGPT” or other similar AI platforms.

2. As further prescribed in the Data Processing Terms agreed by the Contractor, the Contractor shall not disclose any member personal or health information to “ChatGPT” or another third party AI or Machine Learning algorithm (“AI”). To the extent a Contractor uses AI for purposes not prohibited by these terms or the Data Processing Terms, the Contractor does so entirely at their own risk.

Source: [BetterHelp website](#)

¹ BetterHelp's Privacy Policy contains a full section titled “How do we use Artificial Intelligence?” but it contains no mention whatsoever that therapists may be responding to patients' messages by copy and pasting from AI models, such as ChatGPT. Nor does it suggest in its privacy policies or anywhere else that it uses AI to attempt to monitor and detect for therapists who may be using AI to generate messages to the patient.

Yet, our investigation uncovered evidence strongly suggesting that a meaningful number of BetterHelp therapists secretly use AI in patient therapy when responding to patients' messages and even during live chat sessions. We spoke to two separate BetterHelp patients who—just in the last several weeks alone—confronted their BetterHelp therapists for using AI instead of “real” therapy. **Incredibly, both patients' therapists even confessed to using AI during therapy!**

Whistleblower Patient #1

We spoke with a former BetterHelp patient who recently directly confronted his therapist for using AI. Upon confrontation, the therapist admitted to using AI to provide therapy to the patient and (kind of) apologized. Outraged by the breach of trust, this patient was willing to provide his therapy messages to blow the whistle on this dangerous conduct.

In this message string, Whistleblower Patient #1 asks his therapist if she had read the book “*The Courage to Be Disliked*,” a book that he describes as positing that behavior is motivated by goals instead of past experience. He shares sensitive personal information in the message, such as “*I definitely recognize some things about myself in reading it.*”

7:45pm

January 7, 2025

By any chance, have you read the book "The Courage to Be Disliked"? It was recommended to me by Oskar (my Polish friend / "brother"), and I just got around to reading it. The English publication jacket suggests a self-help book to solve life's problems, but the actual content is a debate between a Japanese philosopher and a skeptic regarding Adlerian psychology

The crux is that it's a rebuttal of trauma / Freudian psychotherapy, instead positing that behavior is motivated by goals instead of past experience. A lot of it is counterintuitive at first (possibly why it's presented as a debate), but I definitely recognize some things about myself in reading it.

There's also a lot about intervention vs encouragement, horizontal interpersonal relationships vs hierarchical ones, etc. A lot of it seems good in theory, though likely hard to live by. I'd be curious to know what you'd think of it!

Source: Excerpts from Therapy Session of Whistleblower Patient #1

The therapist's response to the message the next morning appears unnatural and shows hallmarks of ChatGPT, as it seems to generically regurgitate the patient's question into the form of an awkward non-answer answer.

6:44am

[REDACTED]

Hi [REDACTED] holidays were very relaxing, which was great! I am glad that you had a good time too.

I have not read this book but would love to get a hold of it to get different perspective. It seems like a thought-provoking book with some pretty radical ideas about how we approach our behaviors and relationships. From what you described, it seems to challenge conventional beliefs about trauma and psychology by focusing more on the idea that our behaviors are driven by goals, not just past experiences. This perspective could really shift how we view personal struggles and growth-focusing more on what we can achieve or aim for, rather than constantly being influenced by our past.

The idea of encouragement and intervention sounds compelling too! Wonder why do you think its good in theory but hard to live by. Can discuss more in session on Thursday.

Source: Excerpts from Therapy Session of Whistleblower Patient #1

At this point, the patient suspected that the therapist's response was AI-generated so he ran it through two AI detectors, and both detected that the therapist's message was indeed generated by AI. The patient then confronted the therapist whether she used AI to generate all or part of her response (e.g., "I wrote my heartfelt thoughts, and you used a robot instead of engaging with me properly."). Confronted with her misconduct, the **BetterHelp therapist admitted that she used AI and apologized**. The full message string is shown below.

11:51am

May I ask, was AI used to write all or part of that response? It struck me as odd, so I ran it through a couple AI checkers. I am concerned if my privileged communications were shared with an AI model.

12:05pm

Hi [REDACTED] thank you for asking. I do refer to AI at times **without** revealing any client information,. Sometimes it helps me form my thoughts in ways I would like to express to my clients. If this is a concern please let me know so I can handle it accordingly and not refer to Ai any more. Thank you!

1:00pm

January 8, 2025

Video live session cancelled
Thu, Jan 9, 2025 at 12:00pm EST

1:37am

Source: Excerpts from Therapy Session of Whistleblower Patient #1

BetterHelp warns patients and therapists that the use of AI in therapy in place of a clinical psychologist dehumanizes healthcare and patient outcomes, taking the power away of the therapist-patient relationship.

This proved to be the case, as the patient was hurt and outraged by the use of AI in therapy. After the patient cancelled a subsequent therapy session, the therapist apologized (kind of) for the "AI incident" and acknowledged that this breach of trust likely discouraged the patient from seeking further counseling. Yet incredibly, the therapist did not promise never to use AI again, but merely stated that she would be happy to "have transparent communication in regards to it if needed."

In response, the patient justifiably confronted the therapist of how dehumanizing it was to write "heartfelt thoughts" and instead of engaging with him (which is what he paid for), the therapist used a "robot to take a shortcut."

Good afternoon [REDACTED] Sorry that the Jan 9 session was cancelled. I am assuming that the AI incident may have discouraged you to the upcoming session. i will be happy to have transparent communication in regards to it if needed. I hope I can support you towards your goals set in therapy and be able to see you in sessions. Take care!

2:02pm

January 9, 2025

Respectfully, the portion of your response that is verifiably AI is a rephrasing of what I wrote - meaning my communications had to be fed to an AI platform to generate that text.

I don't see how this isn't a violation of Better Help's Privacy Policy, which explicitly states that communications with a therapist will not be shared with any "third party".

Using AI in this fashion, particularly without prior disclosure, strikes me as an ethical violation, as well as violating the confidentiality rules as you described them to me.

That aside, I find the situation to be dehumanizing and a violation of my trust. I wrote my heartfelt thoughts, and you used a robot to take a shortcut instead of engaging with me properly. The point of talk therapy is largely to have an empathetic, human ear-how can you justify trying to pass off a machine as yourself?

I am, at least, thankful that this occurred after only one session and regarding something relatively trivial. Imagine how your actions would've affected someone with whom you'd built a significant relationship with, or who was discussing something serious?

Source: Excerpts from Therapy Session of Whistleblower Patient #1

This is rotten on several levels. Mental health patients are a highly vulnerable population. Whistleblower Patient #1 had recently lost his job and reached out for help because he was struggling. But instead of therapy, he received a dehumanizing and unethical cut and paste from a robot, which he characterized rightly as a “violation of my trust.”

Whistleblower Patient #1 was also justifiably upset that privileged, confidential patient information was shared with an AI model. In our opinion, Whistleblower #1’s concern for the privacy of his personal information is particularly notable after regulatory allegations by the FTC [accusing](#) BetterHelp of sharing sensitive patient mental health data with third parties for advertising. 19 months ago, BetterHelp paid a \$8 million penalty to the FTC after the Company caused public outrage for allegedly secretly selling patients’ personal mental health related information to third-party advertisers.

BetterHelp knows that all of this is wrong. It warns on its website that AI in therapy is dehumanizing and leads to negative patient outcomes, yet Whistleblower Patient #1 is an example of a vulnerable individual who sought help, but instead got an AI chatbot. This is not the only example.

Whistleblower Patient #2

We spoke with another whistleblower, Whistleblower Patient #2, whose therapist used AI in lieu of real therapy *both* during live chat sessions *and* when she messaged the patient outside of regular sessions. When Whistleblower Patient #2 confronted the therapist for using AI, **the therapist admitted to it**, but promised to not use AI anymore without telling him first. **Unbelievably, however, there is evidence that the therapist nevertheless continued to secretly use AI with Whistleblower Patient #2, despite promising not to do so.**

Whistleblower Patient #2 explained that in November 2024, he had his first live chat therapy session. Whistleblower Patient #2 opted for a live chat because his anxiety was too high for video conference, underscoring the vulnerability of patients who turn to BetterHelp for therapy.

However, Whistleblower Patient #2 soon began to suspect that his therapist used AI during the live chat session. Whistleblower Patient #2 noticed that the chat box typing indicator wouldn’t show any typing, but then all of the sudden lengthy paragraphs would pop-up containing language that appeared to be AI generated. He suspected that large paragraphs would appear without the typing indicator because the responses were being copied and pasted from AI. Whistleblower Patient #2 brushed it off at that time.

Then, in late January 2025, he had a second live chat session with the therapist. Again, he had the same experience as his first live chat session and became convinced that the therapist was responding by using AI-generated text. After that second experience, he decided to confront the therapist.

January 22, 2025

I was rereading the live chat we had last week and wondered: were you, by any chance, using AI at some point in our conversation? I read an article about AI therapy chatbots and how they can be helpful for some people, but it's a bit new to me when therapists use AI during the session (that is, of course, if you were using AI).

4:51am

Source: Excerpts from Therapy Session Whistleblower Patient #2

The therapist did not directly respond to the allegation in her reply message, but instead wrote: “We will catch-up in our next session.”

Hey [REDACTED] we will catch up in our next session. Can't see any sessions booked for this week. Let me know if you can't find a suitable slot available and I will try to find a suitable slot for you.

5:55am

Source: Excerpts from Therapy Session Whistleblower Patient #2

The next session was conducted by telephone. During that call, **the therapist admitted** that she was using a program that her husband built for her. She reassured Whistleblower Patient #2 that the next time she used this kind of program she would tell him first. There is no recording of the telephone conversation, but Whistleblower Patient #2 recounts the telephone conversation as follows:

*“She was very quick in addressing what I asked her. She said that she was using a program that her husband built for her because she claimed that her husband is an IT guy. She said she was using the program to understand emotions in messages. I didn't dig deeper, didn't ask her more questions **because I felt really uncomfortable with the situation.** . . . She just reassured me that the next time she used this kind of program that she will tell me first.”*

Source: Whistleblower Patient #2

Remarkably, even then the therapist continued to secretly use AI instead of giving “real” therapy to Whistleblower Patient #2. Whistleblower Patient #2 explained that even after the therapist's admission and promise to not use AI again without telling him first, he received messages from the therapist that he suspected were obviously AI generated.

She was also using AI in our messaging platform. . . I have a copy of that and it's very telling actually if she gave me a message [that] was AI-generated or not because both of us are not native English speakers and in some messages, she would commit some grammatical errors, small things, like capitalization and punctuation. And then in some messages the diction, the grammar, the punctuation are all very precise [like ChatGPT does]."

Source: Whistleblower Patient #2

Whistleblower Patient #2 provided us with one example of a message that he believed that the therapist created by copying from an AI model. In the message, Whistleblower Patient #2 first writes a personal comment to the therapist ("I'm a bit hard on myself") and, in response, the therapist sent the patient an *overly-lengthy* generic message that, to say the least, has all the hallmarks of ChatGPT. To be sure, we put the therapist's message into a highly-regarded (for pay) AI detection program, Originality.ai. The program detected *with 100% confidence* that the therapist's message to the patient was AI-generated.

Whistleblower Patient #2's message to therapist and therapist's response

And also wholeheartedness, because as you have also observed in our past sessions that I'm a bit hard on myself

Building Confidence Confidence often stems from consistent actions that align with your beliefs and a compassionate view of yourself. Try these steps: Celebrate small wins: Start by acknowledging even the smallest achievements. Confidence grows when you recognize what you've done well. Action step: At the end of each day, write down three things you're proud of, no matter how small. Learn to reframe failure: Instead of viewing mistakes as shortcomings, see them as opportunities for growth. Action step: When things don't go as planned, reflect and ask: "What did I learn from this experience?" Step outside your comfort zone: Confidence develops by facing new challenges. Start small and progressively take on bigger risks. Action step: Identify one small challenge that makes you slightly uncomfortable but is safe to attempt, like speaking up in a meeting or striking up a conversation. Body language and affirmations: Your physical posture and self-talk can influence how confident you feel. Action step: Practice standing tall, smiling, and saying affirmations like, "I am capable," or "I trust in my abilities."

lets go one by one

Source: Excerpts from Therapy Session Whistleblower Patient #2

Results of AI Detection Program, Originality.ai

Building Confidence

Confidence often stems from consistent actions that align with your beliefs and a compassionate view of yourself. Try these steps:

Celebrate small wins

Start by acknowledging even the smallest achievements. Confidence grows when you recognize what you've done well.

Action step: At the end of each day, write down three things you're proud of, no matter how small.

Learn to reframe failure

Instead of viewing mistakes as shortcomings, see them as opportunities for growth.

Action step: When things don't go as planned, reflect and ask: "What did I learn from this experience?"

Step outside your comfort zone

Confidence develops by facing new challenges. Start small and progressively take on bigger risks.

Action step: Identify one small challenge that makes you slightly uncomfortable but is safe to attempt, like speaking up in a meeting or striking up a conversation.

Body language and affirmations

Your physical posture and self-talk can influence how confident you feel.

Action step: Practice standing tall, smiling, and saying affirmations like, "I am capable," or "I trust in my abilities."

AI Detection

Likely AI

100% Confidence

Lite 1.0.0 • Feb 7, 2025

This score reflects our AI's confidence that the content scanned was produced by an AI tool. A score of 90% Original should be thought of as "We are 90% confident that this content was created by a human" and NOT that 90% of the article is Human and 10% AI.

[Learn more](#) about the score.

Highlighting Dark Red = Likely AI
Highlighting Dark Green = Likely Original

Source: Originality.ai

Much like the first example, Whistleblower Patient #2 posted online about his experience in an attempt to blow the whistle on a practice that he considers harmful to patients.

Both patients show incredible courage to come forward and blow the whistle on this incredibly harmful practice, but they are far from the only ones.

Indeed, AI therapy on BetterHelp appears to be a large-scale systemic problem. Former BetterHelp patients are flocking to the Better Business Bureau, Reddit, TrustPilot, blogs and other social media, alleging that their BetterHelp therapist was either an AI chatbot, or that their human therapist was answering the patient's mental health related questions and concerns **by copy and pasting from an AI model, such as ChatGPT.**

Many of these former patients suspect that they experienced AI use when they messaged with their therapists outside of their scheduled sessions but, as noted above, some of these former patients believe that they also experienced this during live chat therapy sessions.

Artificial Empathy: My BetterHelp Therapist Took an AI Shortcut

The ethical and legal implications of undisclosed AI use in therapy.


Source: [Medium article](#), (January 20, 2025)

asd s

★☆☆☆☆ 04/29/2024


i cant believe they are 4/5 if you are going to improve your mental health dont use betterhelp it will make it even worse my Therapist was using chatgpt, he forgot to remove the ai response "as an ai"

Source: [Better Business Bureau](#)

 r/TalkTherapy · 9 days ago
BarnacleSimple9760


I think my therapist is using AI

Source: [Reddit r/Talk Therapy](#), (January 15, 2025)

 r/therapy · 1 yr. ago
Cool_Eggplant7036


My BetterHelp therapist has been messaging me using AI and then lied about it.

Source: [Reddit r/Therapy](#)

 r/conspiracytheories · 1 yr. ago
RedRumSocialClub

Better Help. The therapy subscription app. Is partially just AI.

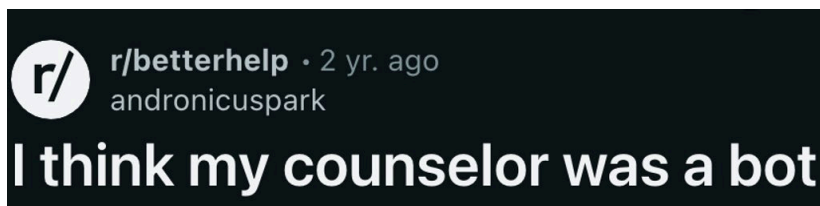
Source: [Reddit r/conspiracytheories](#)

 r/betterhelp · 8 mo. ago
ThePositivityFlower

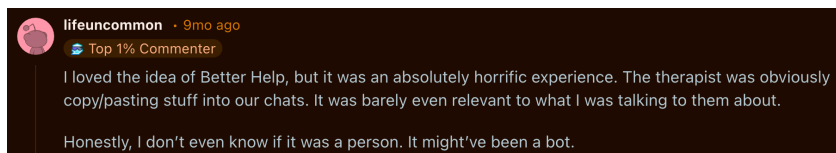
"Better help" app is a scam.

The "better help" app has been a scam. My first therapist never responded and when she finally did it was ai responses? My second match INSTANTANEOUSLY responded back to my "tell alittle bit about yourself" first

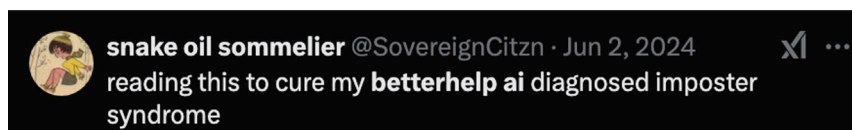
Source: [Reddit r/Betterhelp](#)



Source: [Reddit r/Betterhelp](#)

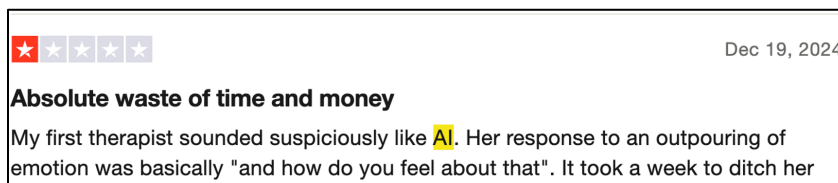


Source: [Reddit: r/Anxiety](#)

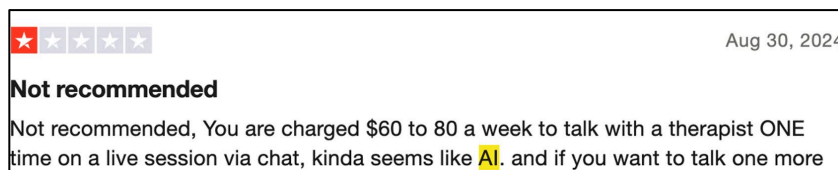


Source: [X](#)

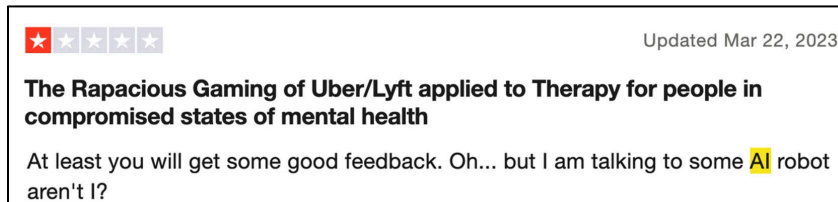
Patients are justifiably furious about the use of AI in therapy, which is unethical and harmful to a vulnerable group. But its also terrible business: many who accuse BetterHelp of this practice label it a “scam” and “an absolute waste of time and money.”



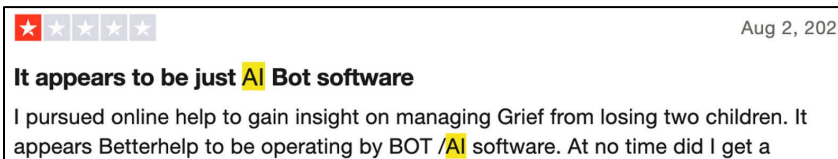
Source: [TrustPilot](#)



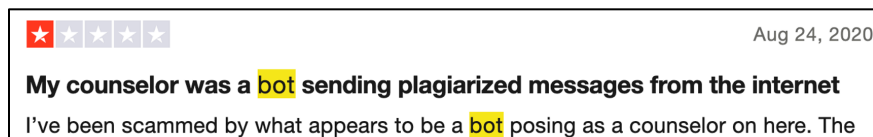
Source: [TrustPilot](#)



Source: [TrustPilot](#)



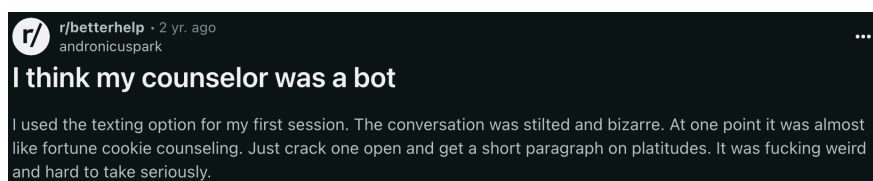
Source: [TrustPilot](#)



Source: [TrustPilot](#)

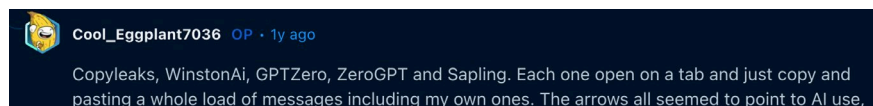
Not every therapist on BetterHelp unethically uses AI. We suspect that, and only BetterHelp knows the prevalence of AI use by therapists on its platform. Or perhaps BetterHelp has no idea how prevalent it is and does not want to know. But based on the firsthand accounts of patients we spoke with, both of whom documented the use of AI in therapy in the last few weeks, and the significant number of online comments from former patients making similar allegations, we believe that this unethical practice is meaningfully frequent. Especially considering, as we discuss in the next section, the series of perverse financial incentives which we think could push therapists to cut corners using AI.

One common theme running through many of these claims is that the syntax of the therapist's responses seemed similar to ChatGPT, robotic, strangely generic, unnatural, or the like. In the words of one former patient: *"The conversation was stilted and bizarre...It was fucking weird and hard to take seriously."*



Source: [Reddit r/Betterhelp](#)

In one example, a patient states that he ran the therapist's messages through *five* AI detection programs and *"the arrows all seemed to point to AI use."*



Source: [Reddit r/Therapy](#)

As more former patients publicly post that BetterHelp is a "scam" because therapists on the platform use AI instead of providing real therapy, we suspect that customers will defect, and the Company's revenues will plummet. After all, why would anyone pay \$400 per month if there is a chance that they would be speaking to an AI chatbot? We think we are already seeing the beginning of this trend, as profits have begun falling and customer acquisition costs have risen sharply in the last year.

As we detail below, our investigation strongly suggests that this trove of online allegations does not reflect isolated incidents by rogue and uncaring therapists. Far from it. Our investigation suggests that, in our opinion, these deceptive and harmful AI practices may be a meaningfully frequent occurrence. We believe that BetterHelp gives many therapists an incentive and opportunity to secretly use AI to cut corners. Then, after giving these financial incentives, we do not see any evidence that BetterHelp does anything to police the use of AI in therapy, even though BetterHelp acknowledges on its website that AI is harmful to patients. To the contrary, in its Terms and Conditions for therapists it disclaims all responsibility for the quality of patient care on its platform.

B. Perverse Incentives Push Therapists to Cut Corners Using AI.

We spoke to BetterHelp patients, therapists, executives and BetterHelp competitors. Most of them were not the least bit surprised that BetterHelp therapists would secretly copy and paste from AI models instead of giving real human therapy to patients. They explained that, despite BetterHelp's policies against therapists using AI, BetterHelp strongly

incentivizes the practice. As stated by one former Teladoc Senior Manager: “*there are perverse incentives out there on the provider side that don't really make sense.*” We agree.

BetterHelp pays its therapists using a convoluted pay structure with a basket of incentives. Taken together, we think that these incentives give therapists strong motive and opportunity to secretly copy and paste from AI instead of providing real human therapy when writing to patients. The incentives are especially pernicious because they cascade in a manner that could be tempting to even the most well-meaning therapists, not just the bad apples of the bunch. Indeed, one former therapist seems to have hit the nail on the head when she stated: “*BetterHelp is setting up the therapist to be unethical.*” (Former Therapist #2).

Specifically, BetterHelp promotes that patients can message their therapists 24/7 and expect a response “*often within 24 hours.*” Yet, therapists’ *base* pay package does not compensate them for messaging patients. Instead, BetterHelp incentivizes therapists to message patients by paying bonuses. Remarkably, BetterHelp ties these messaging bonuses to the quantity of words that the therapist types to the patient. In other words, if a therapist writes a thoughtful 30-word response to the patient, the therapist will earn less money than had the therapist written 75-words of whatever gobbledygook the therapist could type (or paste) into a response. The more words, the more pay. Up to a point. A therapist has to be careful to not write *too many* words because BetterHelp does not pay for messages with word counts that are “imbalanced” to the word count of the patient’s original message. AI models, such as ChatGPT, are the perfect tool.

Therapists complain that they are set up on BetterHelp to cut corners or be “unethical.” BetterHelp gives therapists huge pay incentives to get therapists to fill their patient schedules to the brim. The result of this pay incentive is that it leaves therapists with little “extra” capacity in their work week to field unlimited 24/7 patient messages. We suspect that many hardworking therapists would be tempted to use AI just to stay afloat.

Then, after BetterHelp incentivizes therapists to sacrifice patient care by using AI, we do not see any evidence that BetterHelp polices for it. To the contrary, it unabashedly insists that it is merely a technology platform and disclaims all responsibility for patient care, including any obligation to supervise therapists.

1. BetterHelp pays lucrative bonuses that are tied to the quantity of words that the therapist types to the patient.

We initially found it difficult to believe that BetterHelp tied therapists’ bonuses to the mere quantity of words typed to a patient – a metric that seems divorced from, and antagonistic to, any metric of quality of patient care. However, former therapists provided us with the details of BetterHelp’s pay program for therapists. Sure enough, according to former therapists, the Company incentivizes therapists based on the quantity of words that the therapist types to the patient.²

Therapists can earn a bonus hour of pay by accruing “minutes” towards a 60-minute bonus hour. For every 60 words that the therapist types to the patient, the therapist accrues two minutes towards earning the bonus hour of pay. It is impossible to know exactly how much extra pay a typical therapist earns simply by typing lots of words to the patient, but former therapists state that BetterHelp tells therapists that “*messaging your clients is a key contributor of therapist earnings*” and that messaging “*generates additional compensation*” for the therapist.

However, no matter how desperately in need a patient may be, a therapist has to be careful to not write *too many* words in response to the patient. That is because BetterHelp does not pay for messages with word counts that are “imbalanced” to the word count of the patient’s original message. We believe that AI models, such as ChatGPT, are the perfect tool, because therapists can ask for a tailored response which is just long enough to satisfy their financial incentive, but not too long to be considered “imbalanced.” In our opinion, this creates a system of financial incentives to use AI in which messaging patients is not real patient care, but rather the *theater* of patient care.

² We spoke to a former BetterHelp therapist who provided the specifics of the bonus incentive that BetterHelp offers to therapists for messaging. A therapist can earn an extra hour of bonus pay by accruing 60 “minutes” towards that extra bonus hour. A therapist accrues 2 bonus minutes for every 60 words the therapist types and 1 bonus minute for every 60 words that the therapist reads. This is consistent with statements that other former therapists have posted to social media.

It goes without saying that the quantity of words a therapist writes to the patient is irrelevant to the quality of patient care. To the contrary, we think this is a perverse incentive that works to actively undermine quality patient care. As one former frustrated therapist complained on Reddit: if a patient messages “*I feel like giving up,*” the therapist has to respond in 10 words or less or else the therapist will not be paid for the work.

"For messaging, any communication that is imbalanced will not be compensated:

* Generally, any words that you write over 2x what the client writes, or any words that that client writes over 2x what you write, are considered imbalanced."

Okay. This includes assessments, post session summary notes, termination notes, psychoeducation notes and notes from a patient that may say "I feel like giving up" I have 10 words with which to respond to that or I will be out of compliance and I will not be paid for my work.

Source: [Reddit r/therapy](#)

In all events, a therapist has more incentive to write a long, generic and possibly drivel-filled message than a shorter, more thoughtful or helpful message. We spoke to one former therapist who denied using AI herself, but stated that by incentivizing word counts, “[*BetterHelp*] is setting up the therapist to be unethical by doing that.”

Q: When you responded, did you feel like you had to respond with a certain number of words because they had this incentive for writing more words?

*A: **They did have that incentive. . . [BetterHelp] is setting up the therapist to be unethical by doing that.***

--Former Therapist #2

We spoke to a former Senior Manager at Teladoc who expressed a similar sentiment. We asked him about patients’ and therapists’ claims that BetterHelp therapists use AI for patient therapy. The former Senior Manager explained that BetterHelp used some “*perverse incentives around productivity tracking*” that he stated “*don’t really make sense.*” He stated that “*maybe they’re getting paid by how many messages they send out to patients, kind of a perverse thing, right?*” He stated that “*you’re always gonna game the system to try and meet the incentives.*”

Q: “I see some patients saying [on social media]: ‘I think my therapist was a chatbot.’ And then I see some therapists saying ‘we’re overworked, we’re required to answer messages from patients 24/7. We don’t get paid a lot and we get paid by the word.’”

*A: “They have a very hard time providing quality care in a 30-minute window. And from other experience, **there are some perverse incentives around productivity tracking**, right? I don’t know if it’s true, maybe they’re **getting paid by how many messages they send out to patients, kind of a perverse thing, right?** Like because you’re always gonna **game the system** to try and meet the incentives. And I can’t speak to what exactly they do, but what I can say is **there are perverse incentives out there on the provider side that don’t really make sense.**”*

--Former Teladoc Senior Manager

We suspect that this this may explain why, as shown in Section 1.A above, Whistleblower Patient #2’s therapist responded to the patient’s 20-word message with 176-words of AI-generated gibberish.

2. BetterHelp incentivizes therapists to overload their schedules to capacity, then expects them to also field 24/7 patient messages.

Therapists appear set up to cut corners. BetterHelp gives therapists massive pay incentives for therapists to overflow their daily and weekly patient schedules. As a consequence, BetterHelp’s financial incentives leave many therapists with no extra capacity in their work week to also field unlimited 24/7 messaging with any or all of their patients. Consequently, it is easy to see how even well-meaning therapists would be tempted to use AI to cut corners—even if just to keep afloat.

Indeed, we spoke to several former therapists who explained that therapists' overstuffed patient schedules and obligation to field 24/7 patient messages, combined with BetterHelp's "word count" bonus, may cause therapists to cut corners.

"One thing that I hated about BetterHelp is the pay is super low. So the therapists are encouraged to type back huge responses to clients due to being paid by the word."

"So therapists themselves might be using AI to manage their excessive workloads with copy and paste."

-- Former Therapist #1

"The horrible pay could certainly be a factor in why counselors would use AI. BH advertises that you can message your therapist anytime. That's true but they set an expectation that can be reached almost 24/7 which is not realistic. . . .BH sets you up to either overwork or cut corners."

--Former Therapist #3

Q: I've read that if therapists want to make a reasonable salary, they end up overflowing their schedules and then, apparently on top of that, BetterHelp promises patients that their therapist will be available 24/7 to field messages. It seems like part of the problem is after schedules get completely filled up because therapists are taking all those incentives to make a reasonable wage, then there's just no more time left to start messaging.

A: That's absolutely true.

--Former Therapist #2

Indeed, a former therapist detailed to us the specific pay incentive figures that, in our opinion, show the tremendous strength of a therapist's incentive to overflow their patient schedules. BetterHelp pays therapists a base wage of \$30 per hour, but therapists can earn a lot more *per hour* by working more *total hours* during the week. For example, a therapist who works less than five hours in a specific week earns \$30 *per hour*. Conversely, a therapist who works more than 35 hours in a specific week earns up to \$70 *per hour*.

Hours Worked	Wage per Hour
For the first 5 hours in the week	\$30 per hour
Between 5-10 hours in the week, for those hours	\$35 per hour
Between 10-15 hours in the week, for those hours	\$40 per hour
Between 15-20 hours in the week, for those hours	\$45 per hour
Between 20-25 hours in the week, for those hours	\$50 per hour
Between 25-30 hours in the week, for those hours	\$55 per hour
Between 30-35 hours in the week, for those hours	\$60 per hour
Beyond 35 hours in the week, for those hours	\$70 per hour

Source: Therapist Interviews

The workload incentives don't stop there. Industry standard is that mental health therapy sessions range somewhere between 45 minutes and 53 minutes. However, BetterHelp allows its therapists to schedule sessions that are *an abnormally short 30-minutes*. Therapists are incentivized to schedule short *30-minute* sessions because that allows the therapist to accrue 8 hours in an 8-hour day, whereas a therapist who schedules 45-minute sessions would only accrue 6 hours for the same workday. Those extra two hours per day spread across a five-day work week would all by itself bump the therapist up by two full brackets on the *per hour* pay scale above.

We suspect that it would not be too uncommon for a therapist to see up to 16 patients a day, or 60 patients a week. Regardless of what the number is, former therapists state that *"it is impossible to make a living wage without seeing an unethical number of clients"* and that *"the pay incentive structure in itself is designed to get therapists to overwork themselves which is unethical within itself."*

The pay incentive structure in itself is designed to get therapists to overwork themselves which is unethical within itself.

Source: Former Therapist #1

to work full time. It is impossible to make a living wage without seeing an unethical number of clients.

Source: Facebook, BetterHelp Employees

Then, on top of that workload, BetterHelp asks therapists to make time that they don't have to also field 24/7 incoming messages from any or all of their patients. Again, it is easy to see how even a well-meaning therapist would be tempted to cut corners by using AI models if, for nothing else, just to stay afloat.

Finally, we do not see any evidence that BetterHelp does anything to police the conduct. To the contrary, it unabashedly [disclaims any obligation](#) related to the quality of care between the therapist and the patient, including any obligation to supervise therapists. Unlike its main competitor, BetterHelp hires mostly 1099 contractors and distances itself from any obligation for whatever happens on its platform.

To be sure, we asked a senior executive of a BetterHelp competitor about patient claims that their BetterHelp therapist used ChatGPT to copy and paste messages to the patient. The executive didn't mince words, stating *"I'm absolutely sure it's happening at BetterHelp and they're not going to police it. They don't care."*

Q: Is there any way that a therapist just puts the patient's question into ChatGPT and copies and pastes it and puts it back into the response to patient?

A: I'm absolutely sure it's happening at BetterHelp and they're not going to police it. They don't care.

---Senior executive of competitor

In the same vein, the senior executive expressed **anger** at how BetterHelp uses its business model to deny all responsibility for the quality of patient care. The executive explained how **"it's tough to watch."**

Q: Is part of the benefit of having a purely contractor network that BetterHelp can distance itself from the actual quality of care of treatment and say that's between the therapist and the patient and we have nothing to do with that because we're just a platform?

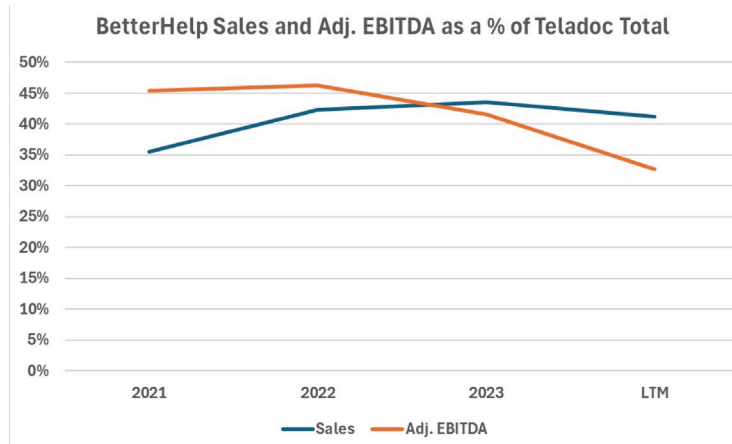
*A: Yes, exactly. But unfortunately, as you're seeing in the reviews, consumers don't see it that way. And, and I think it's easy for people to forget, **and it gets me angry, these are vulnerable people with mental health issues that are asking for help, and you're like, oh, sorry. . . . So it's kind of a crappy play.** They're trying to really just say we're facilitating getting you two together. That's, that's all our role is. . . . **they don't really manage quality. . . It's always been tough to watch. They are not taking ownership for the quality of care that they deliver and nobody's requiring it of them so they don't proactively do it.***

--Senior executive of competitor

In sum, we believe that BetterHelp's failure to police for the unethical use of AI in therapy is a feature, not a bug, of BetterHelp's business model. Ultimately, BetterHelp's website expressly warns that *"AI may harm the mental health of clients who use it for therapy"* and that *"using AI in the place of a clinical psychologist may dehumanize health care and patient outcomes."* Yet, we believe that BetterHelp perversely incentivizes overworked and underpaid therapists to reach for AI. In our opinion, not only is this rotten, unethical and potentially harmful to patients, but as more patients speak it out, it is devastating for BetterHelp's business.

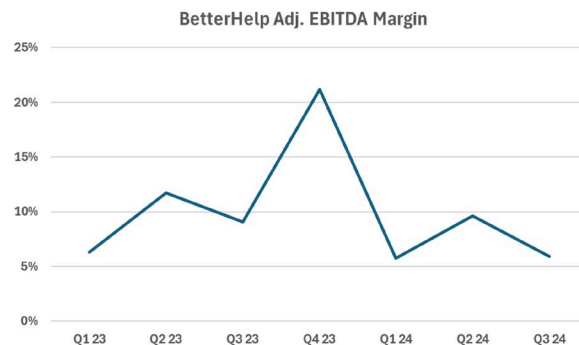
C. Patient Revulsion about AI in Therapy Will Only Accelerate Falling BetterHelp Profits and Further Accelerate Already Declining User Growth.

BetterHelp is a critical part of Teladoc’s business. Between FY2021 and Q3 2024, BetterHelp accounted for 40% of Teladoc’s total revenues and adjusted EBITDA.



Source: Company filings, Blue Orca analysis

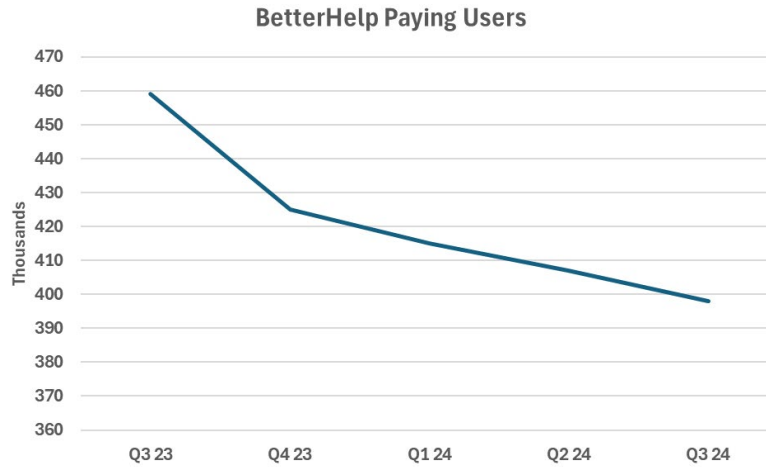
Yet BetterHelp’s business has begun to disintegrate, we believe, because patients are likely defecting over the quality of therapy and, at least in part, suspicion that their therapists might be an AI chatbot. Year-over-year sales growth has fallen from 9% in Q3 FY23 to 2% in the last quarter. EBITDA margins have shrunk from 21% in Q4 FY23 to 6% in Q3 2024.



Source: Company filings, Blue Orca analysis

In 2Q FY2024 Teladoc reported a \$790 million impairment of goodwill associated with BetterHelp, a sure sign of mounting struggles in the business.

Meanwhile, BetterHelp has reported a decline in paying users in each of the last five quarters.



Source: Company filings, Blue Orca analysis

We expect that the freefall will only accelerate as more patients come forward and allege that instead of therapy, they received AI. We think that BetterHelp's existing and future customers will have serious reservations about paying \$400 per month to potentially receive therapy from ChatGPT.

II. Aggressive Capitalization of R&D Inflates Adj. EBITDA and Operating Cash Flow

We believe that Teladoc is aggressively shifting R&D expenses from its income statement into “capitalized software” in its cash flow statement, thereby inflating both Adj. EBITDA and operating cash flow. As a result, we think that the Company is far less profitable and generates far less cash than investors are led to believe.

Through the beginning of FY22, Teladoc reported capitalized software at modest levels of ~2% of sales. In Q2 FY22, however, that number suddenly exploded to 7.1%, eventually ballooning to 7.5% just two quarters later. We believe that this explosion of capitalized software can be traced to an accounting change buried deep in the footnotes of its financial statements. Beginning in that same quarter, the Company’s R&D expenditures inexplicably dropped by half just as Teladoc changed its disclosures around R&D and software capitalization, and similar adjustments to prior R&D figures were made retroactively. These changes were subtle and, in our view, likely not detected by most investors. Yet their impact was huge. When we reverse this accounting maneuver, we estimate that Teladoc’s apparent capitalization of R&D inflated Adj. EBITDA by a massive 64% in FY22 and 32% in FY23, and by 21% over the last four quarters. Operating cash flow was inflated even more in FY23 and over the last four quarters by 127% and 81%, respectively.

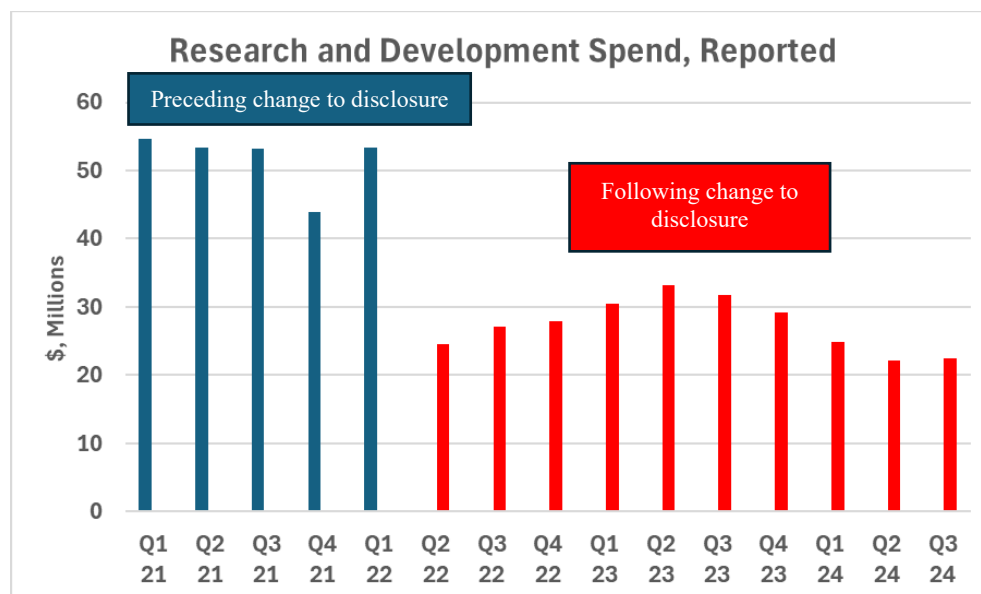
We believe that this questionable and aggressive accounting maneuver has obfuscated the ugly reality of Teladoc’s underlying economics: the business is failing to scale. Teladoc has consistently struggled to grow revenues faster than its sales and marketing spend, and management warned investors that customer acquisition cost is expected to remain elevated into the foreseeable future. At the same time, sales growth has been negative for the last two quarters. We believe that management was able to maintain positive sales growth alongside steady Adj. EBITDA margins throughout FY22 and FY23 only by surreptitiously removing R&D expenses from its income statement. With this accounting lever already exhausted, we believe the Company’s poor underlying economics will become increasingly visible in the form of suppressed Adj. EBITDA margins. And without cratering margins even further by increasing its marketing spend, we think that Teladoc’s sales growth will only continue to stagnate. Ultimately, we believe that Teladoc’s business is clearly not scaling, and any attempt by management to revive growth with increased advertising spend will make this instantly clear to investors by way of collapsing margins.

Accounting Maneuver Artificially Inflates Reported Adj. EBITDA and OCF

Between FY19 and FY21, Teladoc’s capitalized software spend was just 2% of sales on average. In FY22, however, the Company appeared to make a subtle change to its accounting for R&D. While the traces of this change are buried deep in the notes to the Company’s financial statements, it nonetheless had a dramatic effect on reported Adj. EBITDA and operating cash flow, allowing the company to report dramatically higher earnings and elevated free cash flows.

In Q1 FY22, Teladoc reported \$54.7 million in R&D spending, which is expensed via its “Technology and Development Expenses” line item. In Q2 FY22, however, the Company reported that R&D spending for the trailing *two* quarters was just \$49.7 million, \$5 million *lower* than the previously reported Q1 R&D spend.

With R&D spend for Q2 coming in at \$23 million, this implies that Q1 R&D had been retroactively adjusted down by more than half, from \$54.7 million to \$26.7 million. Reported R&D spend has remained at just ~50% of previously reported levels in all subsequent quarters, despite the Company’s growth in sales since FY22.



Source: Company filings, Blue Orca analysis

This seemingly inexplicable decline in cumulative R&D in Q2 FY22 appears to be attributable to a subtle change in the Company's accounting. In Q2 FY22, for the first time, Teladoc introduced language to its quarterly statements expressing that R&D costs exclude capitalized software spending.

BEFORE

TDOC Q1 FY22 10-Q

Technology and Development Expenses. Technology and development expenses were \$87.4 million for the quarter ended March 31, 2022 compared to \$78.0 million for the quarter ended March 31, 2021, an increase of \$9.4 million, or 12%. The increase primarily reflects additional personnel and staff augmentation costs; higher professional, recruiting and consulting fees; and higher infrastructure, hosting and software license costs. These increases were associated with ongoing projects and services to continuously improve and optimize our technology portfolio. Partially offsetting this increase was lower stock-based compensation. For the quarters ended March 31, 2022 and 2021, research and development costs were \$54.7 million and \$53.4 million, respectively.

AFTER

TDOC Q2 FY22 10-Q

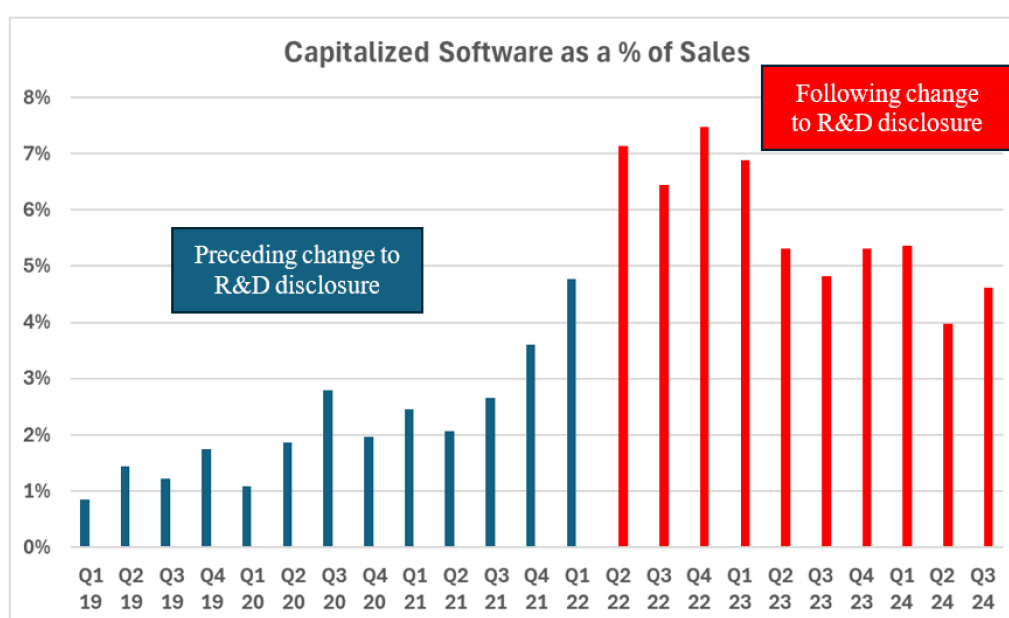
Technology and Development Expenses. Technology and development expenses were \$80.8 million for both the quarters ended June 30, 2022 and 2021. The quarter reflects higher personnel and staff augmentation costs and higher infrastructure, hosting and software license costs offset by lower stock-based compensation. On a year-to-date basis, technology and development expenses increased by \$9.5 million, or 6%. The increase on a year-to-date basis primarily reflects additional personnel and staff augmentation costs; higher professional, recruiting and consulting fees; and higher infrastructure, hosting and software license costs. These increases were associated with ongoing projects and services to continuously improve and optimize our technology portfolio. Partially offsetting this increase was lower stock-based compensation. For the quarters ended June 30, 2022 and 2021, research and development costs, which excludes amounts reflected as capitalized software, were \$23.0 million and \$53.4 million, respectively. For the six months ended June 30, 2022 and 2021, research and development costs were \$49.7 million and \$106.8 million, respectively.

Source: Company filings

On its face, this disclosure appears superfluous: this was not the first quarter in which Teladoc reported capitalized software expenses on its cash flow statement, and it goes without saying that such capitalized expenses are not included within R&D on the income statement. But it is notable that the disclosure appears at all, and that it was first introduced into the statements in the same quarter in which Q1 R&D was retroactively adjusted downwards.

We believe that the subtle change in language reflects that, in Q2, management changed the way in which it accounted for certain R&D expenses, choosing to capitalize them via “capitalized software” rather than expense them through the income statement as it previously had.

Our suspicion is further supported by the fact that Teladoc’s capitalized software spend skyrocketed in the same quarter. Again, between FY19 and FY21, the Company’s reported capitalized software of just 2% of sales on average. While this figure had been on a steady but gradual climb in the quarters leading up to that point, the figure exploded to 7.1% in Q2 FY22, and topped out at 7.5% in Q4 that year.



Source: Company filings, Blue Orca analysis

In its FY22 10-K, the Company’s R&D expense for FY21 was similarly retroactively adjusted downwards by more than half, from \$205.3 million to \$99.5 million. We note that capitalized software was not adjusted upwards in the prior periods, so the reduction in R&D was not reflected on the cash flow statement, but instead translated into higher expenses elsewhere within Teladoc’s Technology and Development account. However, we believe the change in disclosures around R&D accounting that specifically reference the exclusion of capitalized software, combined with the observed spike in capitalized software expenses, confirm that the change in accounting was made to permit the Company to shift R&D expenses into capitalized software going forward. By not reflecting this change in backwards-looking capitalized software, the Company allowed itself to be more subtle about the accounting change: because R&D is not broken out in the financial statements but is disclosed only in the footnotes as a component of Technology and Development,³ the apparent accounting change did not require any restatement or amendments to its previous financials. But undeniably, the change in R&D disclosures coincided with a demonstrable spike in capitalized software.

³ Interestingly, in December 2021, the SEC also questioned Teladoc’s decision not to disclose R&D only within the footnotes to its financial statements, rather than directly on the income statement itself.

Accordingly, we believe that the spike in capitalized software was not necessarily a consequence of accelerated investments in software, but rather a decision on management's part to capitalize R&D, thereby reducing expenses on its income statement and inflating Adj. EBITDA.

Management's own statements regarding this spending only makes the accounting maneuvers appear more suspect. On its earnings call for Q2 FY22 – the same quarter in which the new R&D language was introduced, and in which capitalized software spiked – management spoke to its plans to expand its investments into its suite of products. Ironically, it referred to this spending not as “software” but explicitly as R&D:

*The other thing that we have been steadily saying all along is that **this is an important year for us in terms of our R&D investments**. We talked about it in Investor Day. We've talked about investing in our integrated platform in new capabilities in new products, such as my strength of fleet, Primary360, Chronic Care Complete, continued integration of our data that underpins bringing together all of our suite of products. That still continues.*

- Teladoc CFO, Q2 FY22 Earnings Call

How do investors reconcile management's emphasis on the importance of its R&D investments going forward in the same quarter and year in which its reported R&D spend was cut in half?

This further corroborates our belief that management treats elements of its R&D expenses and capitalized software as effectively interchangeable. We believe the simultaneous decline in R&D and increase in capitalized software did not represent a shift in its capital allocation strategy, but an entirely superficial accounting change that allowed it to remove R&D expenses from its income statement, thus inflating Adj. EBITDA.

Notably, analysts have also questioned management on the accounting mechanics of its spending. In Q1 FY23, just three quarters after the apparent accounting change, an analyst challenged management on its underlying operating leverage. He noted that, looking beyond the income statement, the Company's operating leverage was underwhelming, because increased capitalized software spending was weighing on free cash flow. The CFO's response once again conflated R&D with capitalized software, further suggesting that, internally, the Company sees little difference between capitalized software and R&D.

Analyst:** Mala, probably just a financial question here. Appreciate the reiteration of the free cash flow guidance this year. But looking at **the capitalized software that was greater in the first quarter**, when I think about that, because you're obviously for free cash flow, **it doesn't matter if it's on the income statement or the cash flow statement**, does that mean you're going to end up spending less on R&D? And I'm thinking maybe that's coming from you've gotten the integrated platform. **I'm just trying to think about the mechanics of what's going on operationally that's going to allow the R&D dollars to come back to start generating that leverage.

***CFO:** Sandy, thank you for the question. What we have been talking about for the past few quarters is that **we have been at an elevated level of spend on R&D. We have highlighted some of the important investments in R&D.** Jason talked last time about the launch of one app, which is the integrated app that brings together all of our programs so that the consumer can actually see all of the services that they have access to.*

*And I would say we are very pleased with the early read on one app. But it's -- what I would say to you is, as **I look at our overall R&D spend and, therefore, CapEx spend for the year**, we have said last time, Sandy, that we would expect to see absolute levels going down year-over-year this year. And the other thing I would point to is as we think about our efficiency programs, we are being judicious about our hiring, both onshore and offshore. That is also something that is contributing to the efficiency of **not just our R&D spend, our overall people spend, including R&D. So those are the drivers of the dynamics of CapEx within our free cash flow.***

- Teladoc Q1 FY23 Earnings Call

The logic in the CFO's response is, in our opinion, evasive and difficult to follow precisely because she appears to use "R&D" to refer to both R&D on its income statement and capitalized software on its cash flow statement, whereas the analyst questioned her about how the Company intended to allocate its spending between the two line items. To us, the Company appears to be happy to reap the earnings benefit of slashing reported R&D while simply shifting R&D spend into capitalized software on its cash flow statement, artificially inflating Adj. EBITDA without any improvement to the underlying business.

Teladoc's accounting maneuvers around R&D and capitalized software have a significant effect on its reported Adj. EBITDA. Immediately prior to its accounting change in FY22, capitalized software had never been higher than 2.7% of sales, as it was in FY21, and had averaged 2.0% over the preceding three years. Taking 2.5% of sales as an appropriate benchmark for capitalized software, we believe that Teladoc's aggressive capitalization of R&D expenses inflated the Company's Adj. EBITDA by 64% in FY22 and 32% in FY23, and by 21% over the last four quarters.

\$, m, except percentages	FY22	FY23	LTM
Capitalized Software, Reported	156.3	144.9	124.9
As a % of Sales	6.5%	5.6%	4.8%
Capitalized Software, if 2.5% of Sales	60.2	65.1	64.7
Implied Reallocated R&D	96.1	79.8	60.2
Adj. EBITDA, Reported	246.5	328.1	350.3
Adj. EBITDA, less Reallocated R&D	150.4	248.3	290.2
Adj. EBITDA Inflation %	63.9%	32.2%	20.7%

Source: Company filings and Blue Orca analysis

Because capitalized software is reported as a line item in the investing section of Teladoc's cash flow statement, the Company's apparent shifting of R&D into capitalized software also inflates reported operating cash flow. We believe that this accounting maneuver inflated OCF in FY23 and over the last four quarters by an astonishing 127% and 81%, respectively.

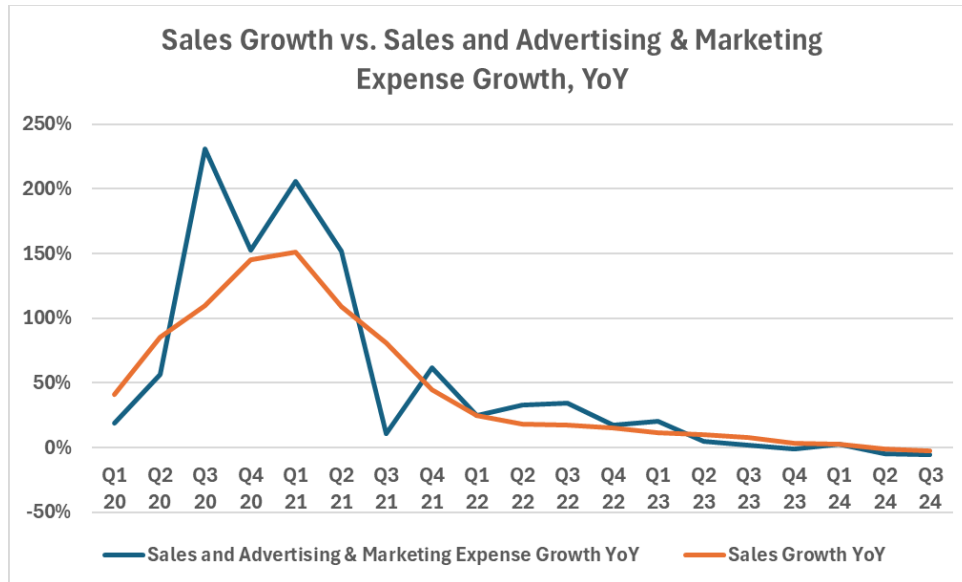
\$, m, except percentages	FY22	FY23	LTM
OCF, Reported	(11.6)	142.6	134.4
OCF, less Reallocated R&D	(107.7)	62.8	74.2
OCF Inflation %	-	127.2%	81.0%

Source: Company filings and Blue Orca analysis

Ultimately, we believe that Teladoc is far less profitable and generates far less cash than investors are led to believe. Moreover, we think that Teladoc's accounting maneuvers are concealing that its business is clearly not scaling.

- **Teladoc's Business is Clearly Not Scaling, and Potentially Headed towards Crisis**

Teladoc's accounting maneuvers around R&D and capitalized software come just as its underlying economics appear to be cracking. Sales growth has consistently trailed growth in sales and advertising spend since 2020, making scalability a concern among analysts. At the same time, the Company's annual sales growth has been in steady decline since FY21, even falling below zero for each of the past two quarters. Acquiring new customers also appears to pose a challenge: while the Company does not quantify churn or customer acquisition cost, management admitted that CAC was elevated throughout 2024 and has warned investors to expect more of the same through 2025.



Source: Company filings and Blue Orca analysis

This does not bode well for Teladoc: with investors waiting for earnings to scale, it appears that the Company is struggling to grow organically without increasing its sales advertising spend at an even faster rate. Bringing its organic sales growth back into positive territory without sacrificing margins is likely to be extraordinarily difficult as it digs deeper into its TAM and churns existing customers, all while CAC already sits at elevated levels.

By shifting R&D from the income statement and onto the cash flow statement in FY22, Teladoc was able to give the false impression of reasonably steady Adj. EBITDA margins even as it struggled to add customers in an earnings-accretive manner. Even as sales and marketing expenses continued to rise faster than revenue growth, the Company was able to show reasonably stable margins simply by erasing R&D expenses from its income statement. But this is simply not sustainable. We think that the appearance of steady profitability was ultimately a product of aggressive and questionable accounting that swept its underlying economic problems under the rug and merely delayed its inevitable reckoning.

We believe that, as management runs out of accounting levers to pull, it is inevitable that the Company's poor underlying economics will become increasingly visible in the form of suppressed Adj. EBITDA margins. With sales growth already negative, this puts the Company in the difficult position of having to choose between preserving margins or growing sales – but it appears that it cannot have both. Neither option will not be a welcome outcome among investors.

Particularly on the BetterHelp side of the business, the Company has already churned through the lowest-hanging fruit from among its TAM, and even then has struggled to grow revenue faster than marketing and sales expenses. Future costs to acquire and retain new customers are likely only to go up from here. But Teladoc's sales growth has *already* fallen below zero, and its low-teens Adj. EBITDA margins are modest at best. It will only grow more difficult and more expensive to grow into the rest of its market, meaning that both sales growth and Adj. EBITDA margins are likely to decline. We believe it will not be long before Teladoc is operating on razor-thin margins at best while struggling to grow at all. With both sales growth and margins potentially converging below zero, Teladoc, as it currently exists, may simply not have much of a future in front of it.

III. Executive Departures and Insider Selling Show Insiders Voting with their Feet and Wallet

We believe that Teladoc executives are revealing a dramatic lack of confidence in the Company's future. Key executives have been departing the Company at a breakneck pace, creating managerial instability and suggesting that senior employees see better long-term opportunities elsewhere. Insiders have also consistently sold shares in significant quantities in recent history. We believe that executives are voting with their feet and their checkbooks, suggesting skepticism towards Teladoc's long-term prospects, both as an investment and a business, among those who know the Company best.

Teladoc has witnessed an exceptional degree of turnover among its executive team, including in some of its most critical roles. In particular, turnover among its clinical and medical executives reinforces our concerns around the Company's commitment to patient well-being. Since just 2020, the Company has already had three Chief Medical Officers and three Presidents of Hospital & Health Systems. Furthermore, the new President of BetterHelp was most recently President and CEO of Walmart.com and President of a cosmetics ecommerce business. He appears to have no prior experience in medicine or mental health, at the executive level or otherwise. In light of our concerns around the quality of care at BetterHelp, it comes as no surprise to us that the Company has lacked steady leadership in its key clinical roles for nearly half a decade.

Executive Turnover since 2020				
Chief Medical Officer	Lewis Levy	Bimal Shah	Vidya Raman-Tangella	
Tenure	5 yr 7 mo	1 yr 3 mo	Pres	
President, Hospital & Health Systems	Alan Roga	Joseph DeVivo	Andy Puterbaugh	
Tenure	5 yr*	1 yr 9 mo*	Pres	
Head of R&D / Chief Innovation Officer	Yulun Wang	Claus Jensen		
Tenure	3-5 mo**	2 yr ~8 mo		
Chief Accounting Officer	Christopher Caridi	Richard Napolitano	James Cave (interim)	Roseph Catapano
Tenure	5 mo	3 yr 5 mo	5 mo*	Pres

Source: Teladoc website, LinkedIn

(* denotes individual served in more than one role with Teladoc (not included in tenure)

(** denotes individual also served in non-full-time role with Teladoc (not included in tenure)

Teladoc has seen similar turbulence among its R&D leadership. The Company had a short-lived "Head of R&D" from late 2020 through early 2021, but archived versions of its website show no evidence of this role existing beyond February 2021.⁴ Shortly thereafter, Teladoc hired another individual to serve as Chief Innovation Officer. But archived versions of its website show that this individual held this role for only around two years.⁵ We believe this raises further questions around Teladoc's commitment to R&D, particularly given our observations around its questionable R&D accounting.

Teladoc's accounting leadership has also been highly unstable. Since just 2020, the Company has had three full-time Chief Accounting Officers, one of whom lasted only five months in the role. Our concerns regarding Teladoc's accounting, discussed previously in this report, are only compounded by the frequent resignations or departures of successive Chief Accounting Officers.

Others within the Company also report a lack of executive direction. In July 2024, a self-described former Teladoc employee reported a "mass exodus of employees," "no advancements in AI," and "insane marketing overspend for BetterHelp" in a Reddit post.⁶

⁴ This individual, formerly CEO of a company acquired by Teladoc, still claims to be a "Fellow" at Teladoc on his personal LinkedIn page.

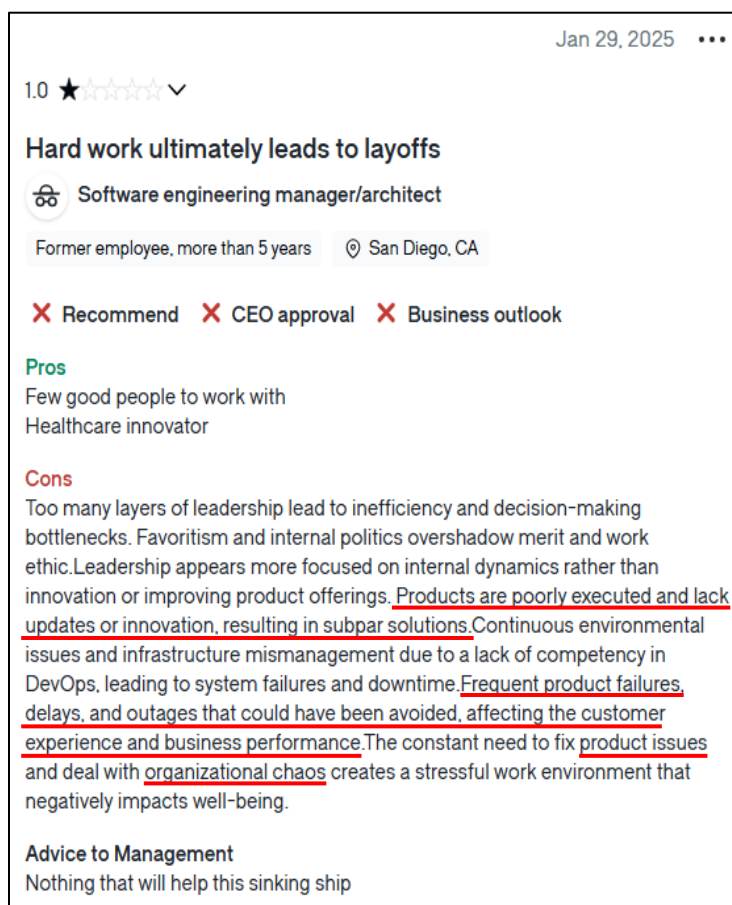
⁵ His LinkedIn indicates that he remained in this role through December 2023, but there is no record of him on Teladoc's website as of December 1, 2023. He appears to have left sometime between April and December 2023.

⁶ The post has since been deleted from Reddit, but it is still visible using [PullPush's Unddit archive](#).



Source: [Reddit \(deleted post viewed using Unddit\)](#)

Glasdoor reviews posted by former employees frequently offer similarly critical remarks towards management, pointing to organizational chaos, poor execution and frequent product failures.



Source: [Glassdoor Reviews](#)

We believe that all of this points to serious instability among Teladoc leadership, threatening the Company's ability to revive itself from its current financial tailspin while also addressing BetterHelp's existential problems. Moreover, we believe that executives are voting with their feet, revealing a stark lack of confidence in the future of the Company.

Insiders also appear to be dumping shares of Teladoc at a breakneck pace. On approximately March 1, June 1, September 1, and December 1 of each year, a portion of the RSUs of executives and senior employees vest. On each date, the Company experiences a new flurry of insider sales amounting to tens of thousands of shares, as employees sell a significant quantity – in some cases, all – of the RSUs that vest on that date. This, in addition to frequent insider sales on other dates in between, results in a steady stream of significant insider selling throughout the year.



Source: Bloomberg. Red triangle represents insider sale.

Insiders with the most intimate knowledge of the Company's outlook appear to show little desire to maintain significant exposure to Teladoc shares. We question why outside investors should behave any differently.

Ultimately, we believe that investors in Teladoc are embracing a mistaken bull thesis. There is a narrative among investors that Teladoc is an attractive AI stock with growing Adj. EBITDA and continued opportunities for M&A. We believe, in reality, Teladoc is merely another telehealth company with little to no substantive AI. The primary use of AI that we observe at Teladoc is among BetterHelp therapists without the knowledge or permission of their vulnerable mental health patients, despite the Company's claim that it "may harm the mental health of clients who use it for therapy." We think the Company's Adj. EBITDA performance has been inflated by its aggressive shifting of R&D expenses into "capitalized software" in its cash flow statement. And investors who are bullish on Teladoc's recent purchase of Catapult Health forget the Company's disappointing history of M&A. After acquiring Livongo Health for \$18.5 billion in October 2020, after which its goodwill rose from \$746 million to \$14.6 billion, the Company took goodwill impairment charges of \$6.6 billion, \$3.0 billion, and \$3.8 billion in Q1, Q2, and Q4 FY22, respectively. It also took an impairment charge of \$790 million related to BetterHelp in Q2 FY24, as discussed above. We believe that, in light of our findings regarding BetterHelp and Teladoc's financials, the bull thesis is ultimately mistaken.

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