

Doctor Care Anywhere Group

Q1 trading update

Forecast upgrade following solid Q1 performance

Doctor Care Anywhere Group's (DOC's) Q121 update showed that it continues to grow robustly in 2021, with revenue and consultations up c 260% y-o-y, ending the period with a solid balance sheet (net cash of £35.1m). Management remains confident of the growth potential for the rest of the year and expects revenue in 2021 to grow by at least 100% above 2020 levels. We have upgraded our FY21 forecasts following a robust Q1 and the company's upbeat outlook for 2021.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/Sales (x)	P/E (x)
12/19	5.7	(4.4)	(3.7)	0.0	24.6	N/A
12/20	11.6	(13.5)	(7.8)	0.0	12.1	N/A
12/21e	23.4	(16.3)	(5.1)	0.0	6.0	N/A
12/22e	37.4	(9.0)	(2.8)	0.0	3.8	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Solid Q1 revenue and KPI growth

Underlying revenue (excluding £2m one-off revenue) was up 260% y-o-y to £4.4m in Q121, resulting from 261% y-o-y growth in consultations. Eligible lives increased 39% y-o-y to 2.38m at the end of Q121, already beating our H121 2.25m forecast and underlying the pace at which DOC has grown in Q1. Activated lives at the end of Q121 increased by 183% y-o-y to 495.9k, with DOC remaining comfortably on track to meet our 505.3k forecast for H121. DOC ended Q121 with a robust net cash position of £35.1m (£38.4m at the end of 2020).

Robust growth to continue in 2021

Management is confident of DOC's growth potential for the rest of 2021 and expects group revenue to grow by at least 100% above 2020 levels, implying at least £23.2m in group revenue in 2021. With pressure on an already embattled UK healthcare system expected to continue, the company anticipates demand for its GP consultations (primary care) to remain high. Additionally, it expects the easing of lockdown in the UK to accelerate growth for its secondary care services.

2021 forecast updated, 2022 largely unchanged

Our updated 2021 revenue forecast now stands 9% higher at £23.4m (£21.4m previously), as we factor in £2m in one-off revenue in Q121. The higher revenue forecast results in gross profitability increasing by 22% to £11.2m (£9.2m previously), which translates into a 9% decline in net loss to £16.2m (£17.8m previously) and our net cash forecast being boosted by 8% to £20.9m (£19.4m previously). The only change to our 2022 forecast is that our net cash position now stands 25% higher at £7.8m (versus £6.3m previously) due to a higher forecast net cash position at the start of the year.

Valuation: Significant discount to peer group

DOC trades at 6x our updated 2021 revenue forecast on an EV/Sales multiple, a 65% discount to the 17.2x average of its peer group of global telehealth companies. We believe this valuation discount to peers will reduce over the next 12–18 months, as DOC builds up a track record on the market and executes on its growth strategy.

Healthcare equipment & services

29 April 2021

Price **A\$1.01**
Market cap **A\$322m**

A\$1.7992/£

Net cash (£m) at end Q121	35.1
Shares in issue	318.7m
Free float	55.5%
Code	DOC
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	6.1	(24.6)	N/A
Rel (local)	2.7	(27.1)	N/A
52-week high/low	A\$1.48	A\$0.77	

Business description

Doctor Care Anywhere is a fast-growing telehealth company focused on delivering high-quality care to its patients, while reducing the cost of providing healthcare for health insurers and healthcare providers.

Next events

AGM	12 May 2021
Q2 results	23 July 2021

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Robust growth continued in Q121

DOC's Q121 activity report showed that it continued to grow solidly, with revenue and KPIs increasing robustly.

Financial performance

Group revenue increased 69% q-o-q and 242% y-o-y to £6.4m in Q121, resulting from 22% quarter-on-quarter and 261% y-o-y growth in the number of consultations during the period. We do not forecast quarterly numbers. Underlying revenue at £4.4m in Q121 was up 17% q-o-q and 260% y-o-y. The £2m difference in underlying revenue versus group revenue is due to one-off revenue earned by DOC, related to incentive payments and payments for technology development. Underlying revenue of £4.4m for Q121 equates to 48% of our £9.1m H121 group revenue forecast for DOC.

Gross profit in Q121 was up 120% q-o-q and 215% y-o-y to £3.9m, benefiting from solid consultation-led revenue growth in the period. However, gross margin declined by 14.2pp q-o-q and 5.3pp y-o-y to 61%, as a result of higher than expected demand for DOC's services and increased demand on GPs to deliver the national vaccine roll-out in the UK. The company expects this dip in gross margins to be temporary. Underlying gross profit was up 8% q-o-q and 222% y-o-y to £1.9m, equating to 49% of our H121 gross profit forecast of £3.9m. This resulted in an underlying gross margin of 43.2%, down 3.6pp q-o-q and 5.2pp y-o-y, but in line with our gross margin forecast at 43.3% for H121.

DOC ended Q121 with a solid net cash position of £35.1m versus £38.4m net cash at the end of 2020. The net cash burn of £3.3m resulted from net operating cash outflow of £2.4m in Q121, net investing cash outflow of £0.7m and net cash outflow from financing of £0.2m. DOC's £35.1m net cash position at the end of Q121 puts it comfortably ahead of our £29.2m forecast for H121 period end, implying that DOC could spend another £5.9m in Q221 and be in line with our forecast.

Exhibit 1: DOC Q1 results summary

£m	Q121	Q420	Q-o-q chg.	Q120	Y-o-y chg.
Revenue	6.4	3.8	69%	1.9	242%
Gross profit	3.9	1.8	120%	1.2	215%
Gross margin	61.0%	46.8%	14pp	66.3%	-5pp
Contribution	2.9	0.9	236%	0.9	223%
Contribution margin	45.0%	22.7%	22pp	22.7%	22pp
Underlying basis*					
Revenue	4.4	3.8	17%	1.2	260%
Gross profit	1.9	1.8	8%	0.6	222%
Gross margin	43.2%	46.8%	-4pp	48.4%	-5pp
Contribution	2.9	0.9	236%	0.9	223%
Contribution margin	20.0%	22.6%	-3pp	20.0%	-

Source: Company data; *Excludes one-off revenue such as underwritten volume top-up payments, tech platform licensing fees and digital design service fees.

Operational performance

Eligible Lives (2.38m at Q121 end; +7% q-o-q and +39% y-o-y)

Eligible Lives refers to the total number of customers across all its partners, who are entitled to use DOC's services at the end of a given period. The partners need to onboard their customers onto the platform once.

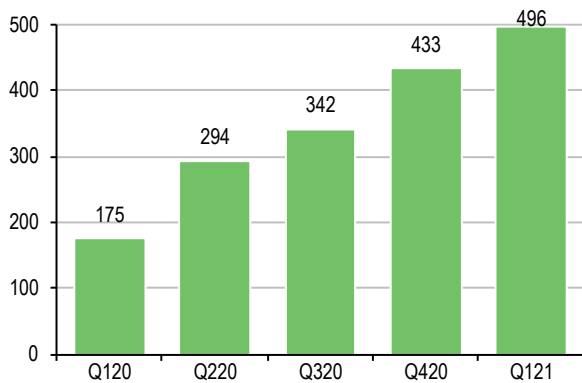
Eligible lives increased 7% q-o-q and 39% y-o-y to 2.38m at the end of Q121, benefiting from growth across both established channel partners and new partner Allianz. We note that eligible lives at 2.38m at the end of Q121 are already 6% ahead of our H121 2.25m forecast, underlying the pace at which DOC has grown in the first quarter of the year.

Activated Lives (495.9k at Q1 21 end; +15% q-o-q and +183% y-o-y)

Activated Lives refers to the total number of eligible lives who have signed up for DOC's service at the end of a given period.

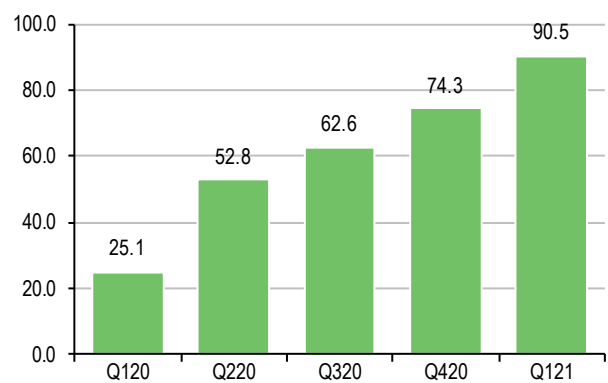
Activated lives at the end of Q121 increased 15% q-o-q and 183% y-o-y to 495.9k, resulting from growth across both eligible lives and previously eligible customers signing up during the period. DOC remains comfortably on track to meet our H121 activated lives forecast of 505.3k.

Exhibit 2: Activated lives (000s) at period end



Source: Company data

Exhibit 3: Consultations (000s)



Source: Company data

Consultations (90.5k, +22% q-o-q and +261% y-o-y)

Consultations are the number of Video GP (VGP) consultations delivered to patients during a given period.

Consultations in Q121 grew solidly to 90.5k, an increase of 22% q-o-q and 261% y-o-y. The key drivers for a robust increase in consultations during the period were growth in activated lives and growth in annualised utilisation (consultations divided by average activated lives during the period). In March 2021 alone, DOC delivered 34k consultations (38% of total consultations in Q121), which was 32% higher than the best month in Q420. DOC's Q121 consultations at 90.5k are equivalent to 49% of our consultations forecast for H121.

Robust outlook: 2021 revenue to increase by at least 100% y-o-y

After a solid Q1, management is confident of the group's growth potential for the rest of 2021. DOC expects 2021 revenue to grow by at least 100% above 2020 levels (£11.6m), driven by eligible lives, activations and consultations, along with areas like secondary care, whose growth was curtailed by COVID-19-related lockdowns. This implies that 2021 revenue would be at least at £23.2m, 8% ahead of our prior forecast of £21.4m.

With pressure on an already embattled UK healthcare system expected to continue, DOC anticipates demand for its GP consultations (primary care) to remain high. According to data provided by the company, waiting times to see a GP in the UK can be as much as three weeks versus a mere four to eight hours for DOC's VGP service. Additionally, the company expects the easing of lockdown measures in the UK to accelerate growth for its Internet Hospital secondary care services.

2021 forecast tweaked, 2022 largely unchanged

We have updated our forecasts for DOC to factor in the £2m one-off revenue earned in Q121. Our updated 2021 group revenue forecast is now 9% higher at £23.4m (versus £21.4m previously). The upgraded group revenue forecast results in gross profitability increasing by 22% to £11.2m (£9.2m previously), which leads to a 4.9pp higher gross margin at 47.7% (versus 42.9% previously). This translates into a 9% lower EBITDA loss in 2021 at £15.5m (£17.1m previously) and a 9% decline in net loss to £16.2m (£17.8m previously). The lower net loss in 2021 leads to our net cash forecast being boosted by 8% to £20.9m (£19.4m prior).

Exhibit 4: DOC forecast change summary

£000s	Current estimates		Prior estimates		Change	
	2021e	2022e	2021e	2022e	2021 chg.	2022 chg.
Revenues	23,405	37,432	21,405	37,432	9%	0%
Gross Profit	11,175	15,564	9,175	15,564	22%	0%
Gross Margin	47.7%	41.6%	42.9%	41.6%	488bp	0bp
EBITDA	(15,512)	(11,386)	(17,062)	(11,386)	-9%	0%
Operating profit (EBIT)	(16,581)	(12,616)	(18,131)	(12,616)	-9%	0%
Share of JV gain/ (loss)	319	3,660	319	3,660	0%	0%
Net profit	(16,235)	(8,938)	(17,783)	(8,938)	-9%	0%
Basic EPS (pence)	(5.09)	(2.80)	(5.58)	(2.80)	-9%	0%
Diluted shares outstanding ('000)	318,720	318,720	318,720	318,720	0%	0%
Diluted EPS (pence)	(5.09)	(2.80)	(5.58)	(2.80)	-9%	0%
Net cash	20,898	7,845	19,350	6,297	8%	25%
Operational data						
Eligible lives at period end ('000)	2,384.7	2,635.3	2,384.7	2,635.3	0%	0%
Activated lives at period end ('000)	596.2	724.7	596.2	724.7	0%	0%
Consultations ('000)	431.8	757.0	431.8	757.0	0%	0%

Source: Edison Investment Research

We make no changes to our revenue forecast for 2022 and, as a result, our 2022 profitability forecast remains unchanged. The only change to our 2022 forecast is our net cash forecast for DOC now stands 25% higher at £7.8m (versus £6.3m previously) due to a higher net cash position at the start of the year, resulting from our 2021 revenue forecast upgrade.

Valuation unchanged

We continue to value DOC against a peer group of global telehealth companies. In our 8 April 2021 [initiation note](#), we valued DOC on an EV/sales multiple of 13.8x, a 20% discount to the peer multiple of 17.2x to account for 1) a smaller company valuation discount and 2) a lack of track record on the market compared to the peer group.

Applying this 13.8x EV/sales multiple and excluding the £2m in one-off revenue the company earned in Q121 results in our valuation for DOC remaining unchanged at an EV of £277m/A\$499m,¹ which equates to A\$1.73 (£0.96) per share, 71% above the current share price of A\$1.01.

¹ A\$1.7992/£

Exhibit 5: Financial summary

	£m	2018	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		2.0	5.7	11.6	23.4	37.4
Cost of Sales		(0.8)	(1.4)	(5.9)	(12.2)	(21.9)
Gross Profit		1.2	4.4	5.7	11.2	15.6
EBITDA		(4.1)	(3.8)	(7.8)	(15.5)	(11.4)
Normalised operating profit		(5.1)	(4.5)	(4.9)	(16.6)	(12.6)
Amortisation of acquired intangibles		-	-	-	-	-
Exceptionals		0.0	0.0	6.0	-	-
Share-based payments		0.0	(0.1)	(2.2)	-	-
Reported operating profit		(5.1)	(4.5)	(8.7)	(16.6)	(12.6)
Net Interest		(0.0)	(0.0)	(0.1)	-	-
Joint ventures & associates (post tax)		-	0.0	(0.8)	0.3	3.7
Exceptionals		-	(1.3)	(21.7)	-	-
Profit Before Tax (norm)		(5.2)	(4.4)	(13.5)	(16.3)	(9.0)
Profit Before Tax (reported)		(5.1)	(5.8)	(31.4)	(16.3)	(9.0)
Reported tax		0.1	0.1	0.1	0.0	0.0
Profit After Tax (norm)		(5.0)	(4.4)	(13.4)	(16.2)	(8.9)
Profit After Tax (reported)		(5.0)	(5.7)	(31.3)	(16.2)	(8.9)
Minority interests		-	-	-	-	-
Discontinued operations		-	-	-	-	-
Net income (normalised)		(5.0)	(4.4)	(13.4)	(16.2)	(8.9)
Net income (reported)		(5.0)	(5.7)	(31.3)	(16.2)	(8.9)
Basic average number of shares outstanding (m)		116.4	117.4	171.9	318.7	318.7
EPS - basic normalised (p)		(4.31)	(3.71)	(7.81)	(5.09)	(2.80)
EPS - diluted normalised (p)		(4.31)	(3.71)	(7.81)	(5.09)	(2.80)
EPS - basic reported (p)		(4.28)	(4.83)	(18.20)	(5.09)	(2.80)
Dividend (p)		-	-	-	-	-
Revenue growth (%)		N/A	184.2	102.1	102.2	59.9
Gross Margin (%)		58.0	76.1	49.2	47.7	41.6
EBITDA Margin (%)		-204.7	-66.0	-67.3	-66.3	-30.4
Normalised Operating Margin		-252.5	-78.8	-41.9	-70.8	-33.7
BALANCE SHEET						
Fixed Assets		3.0	3.8	7.5	8.8	13.3
Intangible Assets		2.8	3.6	3.6	4.5	5.3
Tangible Assets		0.1	0.3	1.7	1.8	1.8
Investments & other		0.0	0.0	2.2	2.5	6.2
Current Assets		2.3	1.2	42.0	27.6	19.6
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		0.6	0.6	3.6	6.7	11.7
Cash & cash equivalents		1.7	0.6	38.4	20.9	7.8
Other		0.0	0.0	0.0	0.0	0.0
Current Liabilities		(2.0)	(2.1)	(3.8)	(7.0)	(12.4)
Creditors		(2.0)	(2.1)	(3.8)	(7.0)	(12.4)
Tax and social security		0.0	0.0	0.0	0.0	0.0
Short term borrowings		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(2.9)	(8.2)	(1.2)	(1.2)	(1.2)
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Other long-term liabilities		(2.9)	(8.2)	(1.2)	(1.2)	(1.2)
Net Assets		0.4	(5.4)	44.5	28.2	19.3
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		0.4	(5.4)	44.5	28.2	19.3
CASH FLOW						
Op Cash Flow before WC and tax		(5.1)	(4.4)	(12.5)	(16.6)	(12.6)
Working capital		1.0	0.3	(1.2)	0.1	0.4
Exceptional & other		1.1	0.9	3.2	1.1	1.2
Tax		0.1	(0.1)	(0.0)	0.0	0.0
Net operating cash flow		(2.8)	(3.3)	(10.7)	(15.4)	(11.0)
Capex		(1.0)	(1.7)	(1.8)	(2.1)	(2.1)
Acquisitions/disposals		0.0	0.0	3.0	0.0	0.0
Net interest		0.0	0.0	0.0	0.0	0.0
Equity financing		0.0	0.2	31.2	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		2.7	3.8	16.0	0.0	0.0
Net Cash Flow		(1.1)	(1.1)	37.8	(17.5)	(13.1)
Opening net debt/(cash)		(2.8)	(1.7)	(0.6)	(38.4)	(20.9)
FX		0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(1.7)	(0.6)	(38.4)	(20.9)	(7.8)

Source: Company data, Edison Investment Research

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