EDISON

Doctor Care Anywhere

Delivering on another IPO commitment

Acquisition of GP2U

Software & comp services

Doctor Care Anywhere (DOC) has delivered on another IPO commitment, entering the Australian telehealth market with its acquisition of GP2U Telehealth for A$11m. The COVID-19 pandemic has created permanent structural changes in Australian healthcare, which has accelerated the adoption of telehealth, particularly for its large rural population where access to quality healthcare has historically been limited. This acquisition gives DOC a foothold in the market, where management's experience could allow operations to scale quickly to meet high levels of unmet demand. DOC believes it can do this with only moderate short-term investment, limiting cash burn while boosting mid- to long-term revenue and profitability.

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	18.6	N/A
12/20	11.6	(13.5)	(7.8)	0.0	9.2	N/A
12/21e	23.6	(18.1)	(5.6)	0.0	4.5	N/A
12/22e	38.4	(9.1)	(2.8)	0.0	2.8	N/A

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

Establishing itself in target geographies

Despite limited financial resources, GP2U generated FY21 (ending 30 June 2021) year-on-year gross revenue growth of 54.8% (to A$4.4m) and an 84.8% reduction in EBITDA loss (to A$0.1m). There are clear synergies between the two companies, with GP2U providing both tele-mental health services (78% of net revenue) and virtual GP services (22% of net revenue). Additionally, GP2U has an existing relationship with HCF, Australia's largest non-for-profit health insurer, which could be enhanced by DOC's track record of corporate relationship experience with major insurers. DOC is building on its existing B2B operations in the Republic of Ireland, expanding its service to self-pay patients and partnering with Boots Ireland. DOC has also expanded its service to self-pay patients in the Republic of Ireland. This new service builds on DOC's existing operations in the Irish market, which includes partnerships with one of the UK's largest banking groups and Allianz.

Upgrading our estimates

We have upgraded our revenue forecasts for FY21 and FY22 by 1% and 3% respectively. DOC still expects to reach at least 100% y-o-y revenue growth in FY21 without the contribution from GP2U. The deal is immediately accretive to gross margin given that GP2U's revenue will be included on a net basis, that is, after payments have been made to clinicians. While GP2U is broadly break-even at the EBITDA level and only modest investment is planned, we have increased our EBITDA loss in FY21 to reflect cost pressures relating to DOC's recruitment drive.

Valuation: Discount remains unchanged

In our H121 update, we stated our belief that DOC's performance is now following a secular trend, underpinned by an growing number of consultations after its H121 results. Additionally, GP2U provides scope for DOC to grow substantially in Australia. However, DOC continues to trade at a significant discount to peers on EV/sales, at an average of 63% across FY20–22.

15 September 2021

Price	**A$0.78**
Market cap	**A$257m**
	A$1.87/£
Net cash (A$m) at 30 June 2021	31.5
Shares in issue	329.6m
Free float	53.3%
Code	DOC
Primary exchange	ASX
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	4.0	(17.0)	N/A
Rel (local)	6.1	(18.8)	N/A
52-week high/low		A$1.5	A$0.7

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

Q321 update	October 2021

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Acquisition of GP2U

The entry into a new geography via the acquisition of GP2U marks the delivery of another IPO commitment, following the expansion of DOC's platform to include mental health services earlier in 2021. Australia presents a significant opportunity given demand for telehealth services far outweighs supply. DOC's knowhow in scaling operations and experience with large corporate insurers provides the potential to accelerate GP2U's revenues and profitability.

Terms of the deal

DOC has acquired 100% of GP2U for a total consideration of A$11m/£5.9m, implying a transaction multiple of 2.5x unaudited gross revenue for the year ending 30 June 2021 (which equates to 8.5x net revenue). The total consideration is made up of:

- **A$3.3m/£1.8m cash**, funded by existing cash reserves.
- **A$7.7m/£4.1m in shares,** subject to 12 months escrow and equating to a total of 10.6m shares issued at a price of A$0.73/share, based on the 20-trading day volume-weighted average price before completion.

The acquisition has no deferred or earn-out consideration and GP2U has no material liabilities on its balance sheet.

DOC believes that only a modest initial investment is needed to scale up GP2U's services to help meet the current high levels of demand for telehealth services in Australia, with no additional fundraising needed. GP2U's broadly breakeven EBITDA and cashflow levels support this belief.

Background on GP2U

GP2U is an Australian-based telehealth business, providing tele-mental health services under the brand Psych2U (78% of net revenue) and virtual GP services under the brand GP2U (22% of net revenue). Payers for both services come from either channel partner relationships, including insurers and corporates that pay on behalf of their employees, or from bulk billing – a payment option under the Australian Medicare system of universal health insurance. Notably, GP2U has an existing relationship with HCF, Australia's largest non-for-profit private health insurer. Customer volume is driven either by partners promoting GP2U's service or from relationships with GPs who refer patients to GP2U's platform.

As illustrated by Exhibit 2, Psych2U offers the highest revenue per patient, particularly when services are delivered through channel partner relationships. For example, an initial consultation costs the payer c A$90 and a further treatment plan of 10–19 consultations costs between c A$90 and A$250 per session, equating to a potential value of A$4,800 for one patient journey.

A limiting factor for GP2U has been its relatively small size (see Exhibit 1), with the company reporting A$4.4m gross revenue and a total of 35,000 consultations in FY21 – DOC achieved the equivalent number of consultations in its record month of July. Despite this, the company has been growing strongly, reporting year-on-year gross revenue growth of 54.8% in FY21 (year-ended 30 June 2021) and an 84.8% reduction in EBITDA loss to A$0.1m in the same period. DOC's investment in its own platform and its experience with large corporate insurers could provide the synergies needed for GP2U to significantly scale operations.

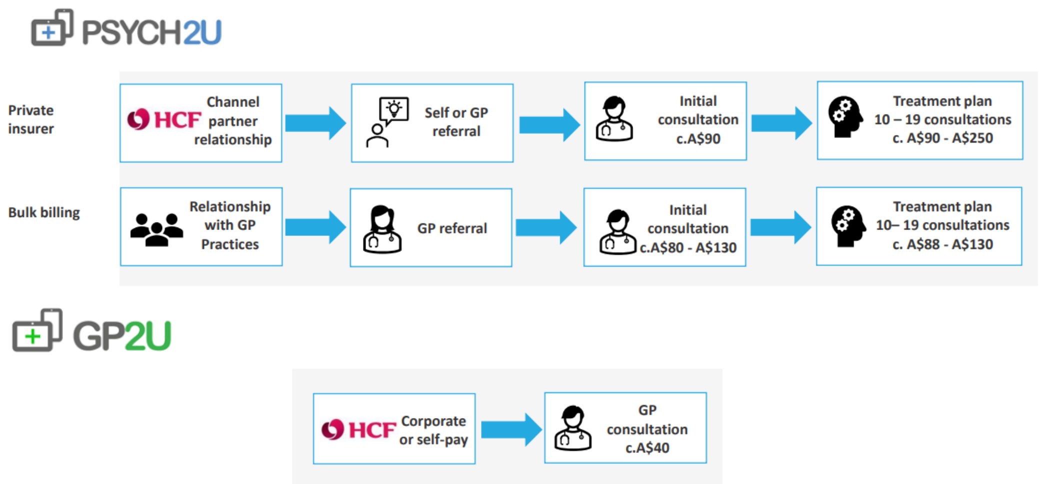
Exhibit 1: GP2U historic financials

A$m	FY20	FY21	Change (%)
Gross revenue	2.8	4.4	54.8
Payments to clinicians	(2.0)	(3.1)	55.9
Net revenue	0.8	1.3	52.2
Net revenue margin (%)	29	28.5	0.5ppt
Cost of sales	0.0	0.0	0.0
Gross profit	0.8	1.3	52.2
Operating expenses	(1.2)	(1.3)	52.2
EBITDA	(0.4)	(0.1)	84.8

Source: Company accounts. Note: GP2U has a June year-end.

GP2U has access to 10 GPs, 28 psychiatrists and 22 psychologists; to meet existing pent-up demand and grow the business, DOC plans to invest a modest amount to attract more practitioners, of which management believes there is sufficient supply for the foreseeable future.

Exhibit 2: GP2U and Psych2U revenue drivers and patient journey



Source: Company presentation

Market opportunity

COVID-19 and related lockdowns have accelerated the adoption of telehealth globally and we believe that the recent robust performances of telehealth providers give the strongest indication yet that the sector is following a secular trend that is set to remain strong as even once the pandemic subsides. In Australia, incentives designed to promote telehealth to minimise the spread of COVID-19, as well as telehealth's inclusion within Medicare (Australia's universal national insurance system) have provided robust structural tailwinds. Australia's health minister Greg Hunt confirmed this in November 2020, when he stated that the country had 'jumped from 2030 to 2020 for the delivery of telehealth for all Australians'.

Mental health is an area particularly affected by COVID-19, where planned Australian government spending in 2021 increased to A$6.3bn to tackle the issue, including a significant expansion of telehealth services. DOC believes the greatest impact on mental health from the pandemic is yet to come, with CEO Dr Bayju Thakar, a former psychiatrist, stating he expects this to occur two to three years after the pandemic. The market opportunity for DOC is strengthened by Australia's large rural population, which includes seven million people or 28% of the total population, where access to quality healthcare is limited as over 80% of psychiatrists and psychologists live in metropolitan areas.

Strategic rationale

The acquisition of GP2U expands DOC's presence to one of its target geographies and into the market in which it is listed, highlighting the delivery of another key IPO commitment. DOC believes Australia is a largely underpenetrated and fragmented market, which offers opportunity for consolidation, where demand for telehealth services far outweighs supply. As illustrated above, a significant proportion of this is from mental health, where management believes the gap will widen unless supply rises.

GP2U, with its focus on tele-mental health services and its relationship with HCF, gives DOC a foothold within the market. DOC's corporate relationship experience with major insurers such as Axa Health, Allianz and Nuffield Health, could help GP2U to extend and build on its own current corporate relationships. DOC's experience with running telehealth services at scale provides a competitive advantage and the high levels of unmet demand in Australia could allow it to capture significant market share. In the future there may be cross-selling opportunities for mental health support software packages but this is not an immediate focus.

Changes to estimates

We have incorporated GP2U financials and estimates in our model. Our forecasts are based on GP2U's net revenue figure, rather than gross figure due to the revenue recognition standards of Australian businesses. Given the timing of the deal in the year, the acquisition should only marginally increase FY21 revenues, with management still expecting to reach at least 100% y-o-y revenue growth without the contribution from GP2U. GP2U's FY22 revenue contribution should be greater, but still marginal given its relatively small size compared to DOC. That said, GP2U should be immediately accretive to DOC's gross margin. Unlike DOC's business model, payments to clinicians are deducted from gross revenue to give a net revenue figure and this means GP2U reports 100% gross margins. Given GP2U's FY21 EBITDA was broadly breakeven and opex is expected to rise slightly given the planned modest investment in GP2U's platform, we do not anticipate the acquisition will materially affect DOC's profitability in either FY21 or FY22 (excluding any exceptional items).

However, we have increased DOC's FY21 underlying cost of sales to reflect heightened cost pressures resulting from its GP recruitment drive following the vaccine rollout in the first half of the year. Subsequently, we have lowered our gross profit forecast for the year. We expect costs to reduce towards more normalised levels in FY22, resulting in no material changes to our FY22 profit forecasts. EPS loss will reduce in both years reflecting the higher share count.

Exhibit 3: Changes to estimates

(£'000)	Current estimates		Prior estimates		Change	
	2021e	2022e	2021e	2022e	2021 chg.	2022 chg.
Revenues	23,643	38,384	23,411	37,118	1%	3%
Gross profit	9,722	16,298	11,123	15,032	-13%	8%
Gross margin	41.1%	42.5%	47.5%	40.5%	-639bp	196bp
Reported EBITDA	(17,518)	(11,519)	(15,839)	(11,376)	11%	1%
Operating profit (EBIT)	(18,623)	(12,715)	(16,943)	(12,572)	10%	1%
Share of JV gain/(loss)	221	3,573	221	3,573	0%	0%
Adj net profit	(17,934)	(9,125)	(16,258)	(8,982)	10%	2%
Adj basic EPS (pence)	(5.58)	(2.77)	(5.20)	(2.81)	7%	-2%
Net cash	19,062	3,850	21,060	7,826	-9%	-51%

Source: Edison Investment Research

DOC's cash position should remain robust, reducing by the A$3.3m spent on the acquisition. We believe that DOC will remain in a net cash position in FY21 and FY22.

Separately, we have not yet adjusted our forecasts to reflect DOC's new arrangement with Boots Ireland as it is too early to see what material impact this will have. That said, it does highlight management's commitment to continue DOC's international expansion and the potential to enhance its direct-to-consumer model across Boots' 89 stores across the country and Irish website. DOC's existing operations in the Irish market include providing virtual GP services to the headquarters of one of the UK's largest banking groups and a partnership with Allianz.

Exhibit 4: Financial summary

£'m	2018	2019	2020	2021e	2022e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Total Revenue	2.0	5.7	11.6	23.6	38.4
Underlying Revenue	2.0	5.7	11.6	21.6	38.4
Cost of Sales	(0.8)	(1.4)	(5.9)	(13.9)	(22.1)
Gross Profit	1.2	4.4	5.7	9.7	16.3
Normalised EBITDA	(4.2)	(3.7)	(11.6)	(17.2)	(11.5)
Normalised operating profit	(5.1)	(4.4)	(12.6)	(18.3)	(12.7)
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	6.0	0.3	0.0
Share-based payments	0.0	(0.1)	(2.2)	(0.6)	0.0
Reported EBITDA	(4.1)	(3.8)	(7.8)	(17.5)	(11.5)
Reported operating profit	(5.1)	(4.5)	(8.7)	(18.6)	(12.7)
Net Interest	(0.0)	(0.0)	(0.1)	0.0	0.0
Joint ventures & associates (post tax)	0.0	0.0	(0.8)	0.2	3.6
Exceptionals	0.0	(1.3)	(21.7)	0.0	0.0
Profit Before Tax (norm)	(5.2)	(4.4)	(13.5)	(18.1)	(9.1)
Profit Before Tax (reported)	(5.1)	(5.8)	(31.4)	(18.4)	(9.1)
Reported tax	0.1	0.1	0.0	0.1	0.0
Profit After Tax (norm)	(5.0)	(4.3)	(13.3)	(17.9)	(9.1)
Profit After Tax (reported)	(5.0)	(5.7)	(31.3)	(18.3)	(9.1)
Basic average number of shares outstanding (m)	116.0	117.0	171.9	321.5	329.6
EPS - basic normalised (p)	(4.31)	(3.69)	(7.76)	(5.58)	(2.77)
EPS - diluted normalised (p)	(4.31)	(3.69)	(7.76)	(5.58)	(2.77)
EPS - basic reported (p)	(4.30)	(4.85)	(18.23)	(5.69)	(2.77)
Revenue growth (%)	0.0	184.2	102.1	104.3	62.3
Gross Margin (%)	58.0	76.1	49.2	41.1	42.5
EBITDA Margin (%)	(204.7)	(66.0)	(67.3)	(74.1)	(30.0)
Normalised Operating Margin	(255.3)	(76.9)	(108.5)	(77.3)	(33.1)
BALANCE SHEET					
Fixed Assets	3.0	3.8	7.5	14.7	19.2
Intangible Assets	2.8	3.6	3.6	4.6	5.5
Tangible Assets	0.1	0.3	1.7	1.8	1.8
Investments & other	0.0	0.0	2.2	8.3	11.9
Current Assets	2.3	1.2	42.0	25.9	15.9
Stocks	0.0	0.0	0.0	0.0	0.0
Debtors	0.6	0.6	3.6	6.8	12.0
Cash & cash equivalents	1.7	0.6	38.4	19.1	3.8
Other	0.0	0.0	0.0	0.0	0.0
Current Liabilities	(2.0)	(2.1)	(3.8)	(8.4)	(12.1)
Creditors	(2.0)	(2.1)	(3.8)	(8.4)	(12.1)
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)	(1.1)
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)	(1.1)
Net Assets	0.4	(5.4)	44.5	31.0	21.9
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	0.4	(5.4)	44.5	31.0	21.9
CASH FLOW					
EBITDA	(4.1)	(3.8)	(7.8)	(17.5)	(11.5)
Working capital	1.0	0.3	(1.2)	1.4	(1.5)
Exceptional & other	0.1	0.3	(1.6)	0.6	0.0
Tax	0.1	(0.1)	(0.0)	0.1	0.0
Net operating cash flow	(2.8)	(3.3)	(10.7)	(15.4)	(13.0)
Capex	(0.0)	(0.1)	(0.4)	(0.5)	(0.5)
Acquisitions/disposals	0.0	0.0	3.0	(1.8)	0.0
Net interest	0.0	(0.3)	(0.3)	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	1.8	2.3	14.9	(1.7)	(1.7)
Net Cash Flow	(1.1)	(1.1)	37.8	(19.3)	(15.2)
Opening net debt/(cash)	(2.8)	(1.7)	(0.6)	(38.4)	(19.1)
FX	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)	(1.7)	(0.6)	(38.4)	(19.1)	(3.8)

Source: Company accounts, Edison Investment Research

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