

Doctor Care Anywhere Group

Q122 results

Making progress towards profitability

Doctor Care Anywhere Group's (DOC) Q122 results showed continuing revenue momentum from FY21, as well as a significant expansion in its gross margin as the costs of delivering consultations reverted to more normalised levels. Over the quarter, DOC significantly reduced its overheads and believes the platform's operating leverage will allow it to scale and reach its goal of EBITDA run-rate profitability by H123.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/Sales (x)	P/E (x)
12/20	11.6	(13.5)	(7.8)	0.0	5.8	N/A
12/21	25.0	(19.3)	(5.9)	0.0	2.7	N/A
12/22e	36.2	(14.7)	(4.1)	0.0	1.9	N/A
12/23e	50.4	(1.9)	(0.5)	0.0	1.3	N/A

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

Sustained positive momentum

In Q122, DOC achieved underlying revenue growth of 95% y-o-y (+9% q-o-q) to £8.6m. The annualised revenue run rate was £34.4m, providing visibility for management's reaffirmed guidance of FY22 revenue of at least £35–38m (>40% year-on-year). Consultation volumes, its primary revenue driver, were up 68% y-o-y and 6% q-o-q to 151.9k, with the group delivering a record 54.7k primary care consultations in March. More patients used its Internet Hospital for secondary care diagnostics, up 227% y-o-y to 7.2k (+20% q-o-q). Continued growth should result in a positive step change in revenues, as well as the timing of cash flows, from Q222, following the change in the way it collects rebates (analysis in our [latest outlook](#)). However, management believes the concentration of public holidays in Q222 may affect both patient demand and clinician supply, creating short-term headwinds.

Margin pressure easing as expected

Costs per consultation reduced from £38.54 to £32.46, returning to more normalised levels following the temporary impact on the UK's clinical workforce of COVID-19. This resulted in a 9.8pp q-o-q increase in gross margin to 45.5%, in line with management's expectations and progressing towards our forecast margin of 47.% for FY22. We believe that consultation costs should continue to decline as the group rolls-out its [new operating model](#) from Q222 onwards, expanding its more costly GP service to also include advanced nurse practitioners or a 'QuickConsult' questionnaire. Operating leverage could further strengthen after the launch of its 'health navigator' automated triage system in Q222 and from a £3.3m reduction in annual headcount costs. Our forecasts for FY22 and FY23 remain materially unchanged, which are in line with management's guidance, and include gross margins of 47.4% and 53.5% respectively (guidance – FY23: 50–60%) and run-rate EBITDA profitability by H123.

Valuation: Discount to peers

On EV/Sales across FY22e and FY23e, DOC trades at an average 77% and 79% discount to peers, which is at a similar level to the discounts seen across FY21.

Software & comp services

25 April 2022

Price **A\$0.27**

Market cap **A\$89m**

A\$1.75/£

Net cash (£m) at 31 March 2021 17.0

Shares in issue 329.8m

Free float 53.3%

Code DOC

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (6.9) (44.9) (74.4)

Rel (local) (8.7) (46.9) (75.9)

52-week high/low A\$1.04 A\$0.26

Business description

Doctor Care Anywhere Group 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

Q222 trading update July 2022

H122 results August 2022

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Building towards profitable growth

Underlying group revenue increased by 95% y-o-y and by 9% q-o-q to £8.6m, driven by 68% y-o-y growth (+6% q-o-q) in consultations to 151.9k. Consultation volumes expanded month-on-month in the first quarter, reaching a record 54,700 in March. We believe that [record-high waiting lists](#) and potentially higher costs for payors due to medical cost inflation using traditional consultation routes should support ongoing growth.

Annualised revenue on a run-rate basis was £34.4m, notable given management's reiterated guidance for FY22 revenue of at least £35–38m. This provides an early indication that its guidance, as well as our £36.2m forecast for the year, looks achievable given that the company expects to deliver another three quarters of growth. Performance during the year will be supported by the roll-out of its new operating model, and updated partnerships with AXA and Nuffield Health. These provide new revenue opportunities, as well as allowing DOC to scale more rapidly and efficiently by providing patients with broader access to the UK's clinical workforce. More detail can be found in our [latest outlook note](#).

However, DOC sounded a note of caution, as the concentration of UK public holidays in Q222 may lead to a short-term reduction in patient demand and clinician supply.

Exhibit 1: DOC Q122 summary

£m	Q122	Q421	q-o-q change	Q121	y-o-y change
Revenue	8.6	7.9	8.9%	6.4	34.4%
Underlying revenue*	8.6	7.9	8.9%	4.4	95.5%
Gross profit	3.9	2.8	39.3%	3.9	0.0%
Gross margin	45.5%	35.7%	9.8pp	61.0%	(15.5pp)
Underlying gross profit*	3.9	2.8	39.3%	1.9	105.3%
Underlying gross profit margin*	45.5%	35.7%	9.8pp	43.2%	2.3pp
Contribution	2.4	1.4	71.4%	2.9	(17.2%)
Contribution margin	27.8%	17.4%	10.4pp	45.0%	(17.2pp)
Underlying contribution*	2.4	1.4	71.4%	0.9	1.7pp
Underlying contribution margin*	45.5%	35.7%	9.8pp	20.0%	25.5pp

Source: Doctor Care Anywhere. Note: *Excludes one-off revenue such as underwritten volume top-up payments, tech platform licensing fees and digital design service fees.

The company saw a 9.8pp q-o-q and 2.3pp y-o-y increase in underlying gross margin in Q122, driven by a £6.08 reduction in the cost of sales per consultation to £32.46. Throughout 2021, management had to invest significantly in onboarding GPs due to supply constraints relating to COVID-19, but remained confident that margins would revert to normal levels once restrictions were lifted. An expected further reduction in consultation costs and the roll-out of its new operating model should further expand its gross margin towards our forecast of 47.4% for FY22 and 53.5% for FY23 (management's FY23 guidance is 50–60%). Investment in automating technologies, such as its 'health navigator' triage tool, could help strengthen its operating leverage as it continues to scale.

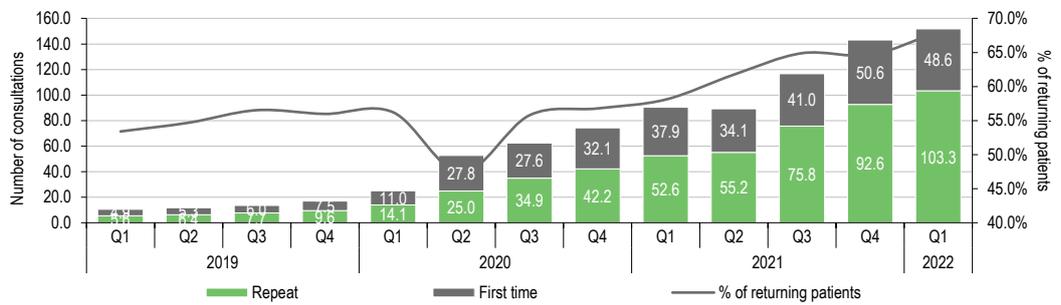
Operating cash burn remained high during the period at £5.5m (+£0.1m q-o-q), but included £0.4m in one-off payments relating to headcount reduction. We believe cash burn will reduce as the group continues to scale and benefits from its expected gross margin expansion. Its balance sheet was strengthened by its February fund-raise of A\$11.2m (£6.1m), which will help fund the group's ambition of reaching EBITDA run-rate profitability by the end of H123. Our estimates are unchanged and we forecast an adjusted EBITDA loss of £0.8m for FY23.

Operational highlights

Eligible lives, the number of people that can use DOC’s platform across all its channel partners at the end of a given period, saw notable q-o-q growth for the first time since Q121, increasing by 5% to 2.6m. **Activated lives**, the number of eligible lives that are signed up to DOC’s platform in a given period, grew by 9% q-o-q to 735,000, with its share of eligible lives remaining flat q-o-q at 21%. This also indicates the scope for growth in its existing UK market, with management providing the example that it would only need activated lives to reach one million and for those patients to receive two consultations per year for annual revenues to exceed £100m.

Consultations, the number of virtual GP (VGP) appointments that are delivered over DOC’s platform during the period, increased to 151.9k, up 6% q-o-q and 68% y-o-y, with more than 68% from returning patients showing robust patient satisfaction. Demand continued to grow linearly in the quarter, with DOC delivering a record 54,700 consultations in March.

Exhibit 2: Consultation q-o-q growth, split between repeat and new customers



Source: Doctor Care Anywhere

Exhibit 2: Financial summary

	£m	2019	2020	2021	2022e	2023e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Total Revenue		5.7	11.6	25.0	36.2	50.4
Underlying Revenue		5.7	11.6	23.0	36.2	50.4
Cost of Sales		(1.4)	(5.9)	(14.6)	(19.0)	(23.4)
Gross Profit		4.4	5.7	10.4	17.2	27.0
Normalised EBITDA		(3.7)	(11.6)	(18.0)	(13.7)	(0.8)
Normalised operating profit		(4.4)	(12.6)	(19.1)	(14.7)	(1.9)
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	6.0	0.6	0.6	0.6
Share-based payments		(0.1)	(2.2)	(1.0)	(1.0)	(1.0)
Reported EBITDA		(3.8)	(13.8)	(19.0)	(14.7)	(1.2)
Reported operating profit		(4.5)	(14.7)	(20.1)	(15.7)	(2.3)
Net Interest		(0.0)	(0.1)	(0.1)	0.0	0.0
Joint ventures & associates (post tax)		0.0	(0.8)	(0.0)	0.0	0.0
Exceptionals		(1.3)	(21.7)	0.0	0.0	0.0
Profit Before Tax (norm)		(4.4)	(13.5)	(19.3)	(14.7)	(1.9)
Profit Before Tax (reported)		(5.8)	(31.4)	(20.3)	(15.7)	(2.9)
Reported tax		0.1	0.0	0.3	0.0	0.0
Profit After Tax (norm)		(4.3)	(13.3)	(19.0)	(14.7)	(1.9)
Profit After Tax (reported)		(5.7)	(31.3)	(20.0)	(15.7)	(2.9)
Basic average number of shares outstanding (m)		117.0	171.9	321.5	359.7	366
EPS - basic normalised (p)		(3.69)	(7.76)	(5.90)	(4.08)	(0.53)
EPS - diluted normalised (p)		(3.69)	(7.76)	(5.90)	(4.08)	(0.53)
EPS - basic reported (p)		(4.85)	(18.23)	(6.21)	(4.36)	(0.80)
Revenue growth (%)		184.2	102.1	115.7	45.0	39.3
Gross Margin (%)		76.1	49.2	41.6	47.4	53.5
EBITDA Margin (%)		(66.0)	(119.5)	(76.0)	(40.6)	(1.6)
Normalised Operating Margin		(76.9)	(108.5)	(76.7)	(40.6)	(3.8)
BALANCE SHEET						
Fixed Assets		3.8	7.5	15.0	16.3	17.5
Intangible Assets		3.6	3.6	5.8	6.9	8.0
Tangible Assets		0.3	1.7	1.9	2.0	2.2
Investments & other		0.0	2.2	7.3	7.3	7.3
Current Assets		0.9	42.0	21.8	13.8	12.5
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		0.6	3.6	4.1	6.0	8.3
Cash & cash equivalents		0.3	38.4	17.2	7.4	3.7
Other		0.0	0.0	0.5	0.5	0.5
Current Liabilities		(2.1)	(3.8)	(5.9)	(7.8)	9.6
Creditors		(2.1)	(3.8)	(5.9)	(7.8)	9.6
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		(8.2)	(1.2)	(1.3)	(1.2)	1.3
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Other long-term liabilities		(8.2)	(1.2)	(1.3)	(1.2)	1.3
Net Assets		(5.6)	44.5	29.6	21.0	40.9
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		(5.6)	44.5	29.6	21.0	40.9
CASH FLOW						
EBITDA		(3.8)	(7.8)	(19.0)	(14.7)	(1.8)
Working capital		0.3	(1.2)	1.6	0.1	(0.5)
Exceptional & other		0.3	(1.6)	1.1	1.0	1.0
Tax		(0.1)	(0.0)	0.3	0.0	0.0
Net operating cash flow		(3.3)	(10.7)	(15.9)	(13.5)	(1.3)
Capex		(1.7)	(1.8)	(2.7)	(2.3)	(2.3)
Acquisitions/disposals		0.0	3.0	(1.8)	0.0	0.0
Net interest		(0.3)	(0.3)	0.0	0.0	0.0
Equity financing		0.2	31.2	(0.1)	6.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		4.0	16.4	(0.5)	0.0	0.0
Net Cash Flow		(1.1)	37.8	(21.1)	(9.8)	(3.6)
Opening net debt/(cash)		(1.7)	(0.3)	(38.4)	(17.2)	(7.4)
FX		0.0	0.0	(0.1)	0.0	0.0
Closing net debt/(cash)		(0.3)	(38.4)	(17.2)	(7.4)	(3.7)

Source: Doctor Care Anywhere Group, Edison Investment Research

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