

Doctor Care Anywhere Group

Q321 results

Seizing the market opportunity

Doctor Care Anywhere Group's (DOC) Q321 results highlight that revenue has continued to grow throughout the year, with performance in Q3 driven by a return to q-o-q growth in consultations. Following positive momentum, management has reiterated guidance for FY21 of at least 100% y-o-y organic revenue growth. Through its continuing GP recruitment drive over the period, management has positioned itself for scalable growth, which should allow it to capture the time-limited opportunity from growing demand. Additionally, through its acquisition of GP2U Telehealth and by extending its offering in Ireland, DOC has increased in addressable market.

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	15.7	N/A
12/20	11.6	(13.5)	(7.8)	0.0	7.8	N/A
12/21e	23.6	(18.5)	(5.7)	0.0	3.8	N/A
12/22e	38.4	(9.1)	(2.8)	0.0	2.3	N/A

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

Growth re-accelerating

Revenues were up 22% q-o-q and 83% y-o-y to £5.8m in Q321, driven primarily by a return to growth in consultations following a flat Q221. Consultations increased to 117k (+31% q-o-q and +87% y-o-y), with over 65% from returning patients and the remaining 35% from a record number of first-time appointments (41k). The increase in demand highlights the popularity of telehealth as an alternative to in-person GP appointments, supported by record-high NHS waiting lists, which are only expected to worsen. DOC's high repeat user base of 65% illustrates the attractiveness of its platform. As anticipated in our Q221 update, secondary care diagnostic pathways continue to grow as COVID-19 restrictions ease, indicated by a 55% q-o-q increase in referrals to 5.1k patients. Our revenue forecasts remain unchanged.

Investing in the opportunity

DOC's Q3 results show continuing operating margin pressure due to investment in its portfolio of GPs, with underlying gross profit down 6.4% q-o-q to £1.8m. Management continued its GP recruitment drive in the quarter, resulting in a temporary rise in costs, but ensuring that DOC has the capacity to capture rapidly increasing demand for telehealth services. Each month in Q3, record numbers of consultations were delivered and, notably, during September 45.8k consultations were delivered, exceeding its Q221 goal of being able to deliver 45k consultations by the end of Q321. Management remains confident that margin pressures will ease as the demand for the UK's clinical workforce eases. Subsequently, we have lowered our FY21 profit forecasts but maintain our FY22 forecasts.

Valuation: Discount slowly closing

DOC currently trades on 3.8x and 2.3x EV/Sales in FY21e and FY22e, respectively, at an average discount of 60% across FY21–22e relative to peers. The discount has remained at this level throughout the year.

Software & comp services

3 November 2021

Price **A\$0.63**
Market cap **A\$208m**

A\$1.84/£

Net cash (£m) at 30 September 2021 23.5

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 (8.2) (16.3) N/A

Rel (local) (10.1) (15.0) N/A

52-week high/low A\$1.48 A\$0.66

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

FY21 update January 2021

Analysts

Max Hayes +44 (0)20 3077 5700

Katherine Thompson +44 (0)20 3077 5730

Dr Jonas Peculis +44 (0)20 3077 5728

Dr Sean Conroy +44 (0)20 3077 5700

tech@edisongroup.com
[Edison profile page](#)

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Review of Q321 trading update

Financial performance

Group revenue increased by 22% q-o-q and 83% y-o-y to £5.8m in Q321, driven primarily by a return to growth in consultations following a flat Q221. Revenue also benefited from a 54.5% increase in diagnostic referrals to 5,100, indicating that DOC's Internet Hospital has seen continued growth throughout the year and this is in line with our [Q221 update](#). On an underlying basis, y-o-y revenue growth ytd was slightly lower than the reported figure due to £2m in incentive payments and payments for technology development received in Q1. That said, on both a reported and underlying basis, ytd growth was significantly above 100%, providing a strong indication that management is on track to achieve its FY21 revenue growth target of at least 100%, excluding any contribution attributable to the acquisition of GP2U. That said, the impact of the acquisition, as well as the extension of its services to self-paying clients, should be minimal due to the late timing in Q3.

Gross profit for the period was £1.8m, a fall of 6.4% q-o-q but an increase of 27.5% y-o-y, which resulted in a gross margin reduction of 9.1pp q-o-q and of 13.1 pp y-o-y. Margin pressure was a result of management's continued GP drive during Q321, in which DOC onboarded 120 GPs to reach a total exceeding 400 on its platform. Due to the demand on the UK's clinical workforce and competition from other, mainly private telehealth companies, many of these GPs were onboarded at higher-than-normal rates and with additional incentives. However, management's strategy of broadening capacity has been critical in meeting month-on-month (m-o-m) increases in consultations in Q321. The elevated costs of onboarding new GPs due to higher fees and incentives could be temporary if demand for the UK's clinical workforce eases in FY22, as expected by management.

DOC's **balance sheet** remains robust, ending the period with net cash of £23.5m. That said, its net cash position was £8m lower than at the half year due to net operating cash outflows of £5.5m, net investing cash outflows of £2.3m (mainly comprising the GP2U acquisition) and net financing cash outflows of £0.1m. We have revised our forecasts to reflect Q3 performance and reduced our end-FY21 estimate to £18.4m. Our forecasts still show net cash of £2.6m by the end of FY22.

Exhibit 1: DOC Q3 results summary

£m	Q321	Q221	q-o-q change	Q320	y-o-y change	ytd 2021	ytd 2020	y-o-y change
Revenue	5.8	4.8	21.6%	3.2	82.6%	17.1	7.8	119.8%
Gross profit	1.8	1.9	(6.4%)	1.4	27.5%	7.6	3.9	93.9%
Gross margin	30.3%	39.4%	(9.1 pp)	44.1%	(13.1 pp)	44.4%	38.5%	5.9 pp
Contribution	0.2	0.5	(67.1%)	0.5	(60.4%)	3.6	1.7	106.8%
Contribution margin	3.1%	11.3%	(8.3 pp)	14.4%	(11.0 pp)	21.1%	19.8%	1.3 pp
Underlying basis*								
Revenue	5.8	4.8	21.7%	3.0	91.6%	15.1	7.0	116.2%
Gross profit	1.8	1.9	(6.4%)	1.3	42.9%	5.6	3.1	79.1%
Gross margin	30.3%	39.4%	(9.1 pp)	41.3%	(10.3 pp)	37.0%	29.4%	7.7 pp
Contribution	0.2	0.5	(67.3%)	0.3	(40.9%)	1.6	0.9	69.2%
Contribution margin	3.0%	11.3%	(8.3 pp)	10.2%	(6.8 pp)	10.6%	7.6%	3.0 pp

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

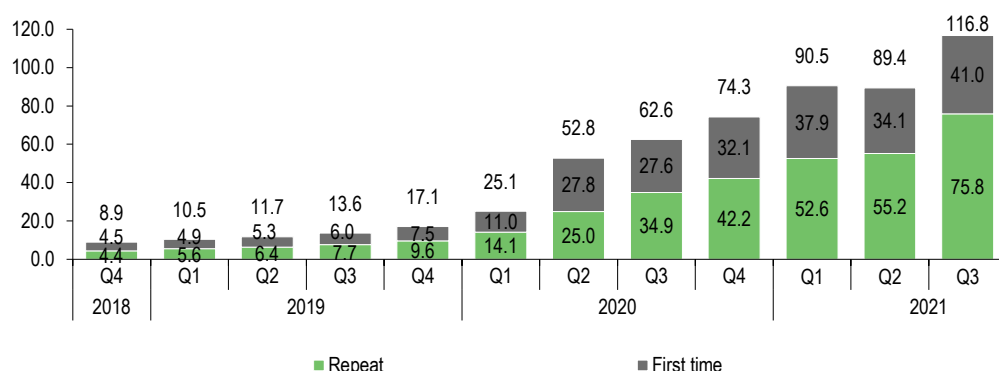
Operating performance

Eligible lives refers to the number of people that can use DOC's platform across all its channel partners at the end of a given period and this figure remained flat q-o-q at 2.4 million. **Activated lives** refers to the number of eligible lives that are signed up to DOC's platform in a given period. During Q321, activated lives were up 8% to 603k, showing that management is successfully activating a greater share of eligible lives.

Consultations refers to the number of virtual GP (VGP) appointments that are delivered over DOC's platform during the period. Consultations increased to 117k, up 31% q-o-q and 87% y-o-y, with more than 65% from returning patients and the remaining 35% from a record number of first-time appointments (41k). Notably, DOC reached record numbers of monthly consultations in Q321, reaching 45.8k in September, which was ahead of management's Q221 goal of being able to deliver 45k monthly consultations by the end of Q321.

Over the year, management has focused on onboarding GPs on fixed-hour contracts, which has been key to DOC's ability to handle the growing number of consultations it delivers reliably. Previously, DOC used flexible-hour contracts when there was greater uncertainty around demand.

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

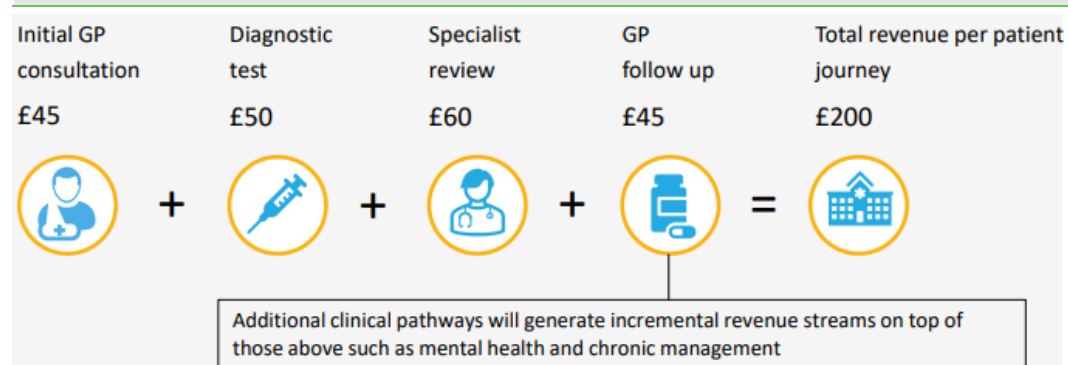


Source: Doctor Care Anywhere Group

Internet Hospital is a differentiator

DOC's Internet Hospital, which connects secondary care diagnostic pathways to initial GP consultations, is unique and provides the company with first-mover advantage. Financially, DOC benefits from an extended patient journey, where an initial consultation of £45 could grow into a total revenue per patient journey of £200 through additional diagnostic tests, specialist reviews and GP follow-ups. DOC collects a 100% gross margin on those steps of the patient journey that do not include a GP consultation, as none of the secondary care is provided on its platform and so it only collects a rebate for referrals for the amounts shown in Exhibit 3. For the patient, the Internet Hospital offers myriad benefits compared to traditional UK patient journeys, including shorter wait times and lower total costs. It is also attractive for channel partners, reflected in estimated claims savings of 25%, a net promoter score of over 80 (a type of customer satisfaction score, considered leading class) and retention rates of more than 95%.

Exhibit 3: Internet Hospital revenue drivers



Source: Doctor Care Anywhere Group

Over the period, diagnostic journeys grew by 54.5% q-o-q to 5,100. Growth throughout the year benefited from the relaxation of COVID-19-related restrictions, as lockdowns had curtailed growth.

Additionally, management added new diagnostic specialities and pathways over the period, including neurology, urology and gynaecology, which diversifies and adds to potential revenue streams.

Significant market opportunity

Management estimates that there are 10 million potential patients in its current UK addressable market, encompassing the private health sector alone. DOC has access to four million of these patients through its existing large channel partners, such as AXA Health, Allianz and Nuffield Health, which equates to eight million potential GP consultations a year based on an average of two patient visits per year. At an initial consultation fee of £45, this could generate potential annual revenue of £360m.

The opportunity could increase by another £88m to £448m when considering DOC's Internet Hospital. This is based on management's estimate that 20% of the four million potential patients (0.8 million) will be referred to diagnostic referrals and specialist reviews, which could generate referral fees of £110 per patient. Based on our FY21 revenue forecast of £23.6m and the estimated market opportunity of £448m, this implies that DOC will only have penetrated 5% of the UK market this year.

DOC's entry into Australia, where there is significant latent demand for telehealth, and its extended offering to self-pay customers in Ireland, should further increase market potential (more detail can be found in our [GP2U acquisition note](#)).

Changes to estimates

We have left our revenue estimates for FY21 and FY22 unchanged. Our FY21 forecast of £23.6m is in line with management's 100% growth expectation for the year, which excludes any contribution from GP2U. We believe DOC would only need to deliver a small q-o-q increase in Q421 consultations to achieve this, far below the 31% growth in Q321. In FY22, DOC should see a greater contribution from its acquisition of GP2U, as well as from its agreement with Nuffield Health, which is expected to launch in Q421.

We have slightly decreased our gross profit forecast for the year, following a decrease in our H221 gross margin forecast from 31.5% to 28.2%, to reflect expected margin pressures for the rest of 2021. Subsequently, our EBITDA loss forecast has increased from £17.5m to £18.0m and our operating loss has risen from £18.6m to £19.1m. We have left our P&L forecasts for FY22 unchanged, in line with management's belief that margins could improve as the impact of COVID-19 on increasing demand for the UK's clinical workforce eases. That said, there is still uncertainty around how long and to what extent competition for GPs will remain high, resulting in continued incentives and high GP fees. We have reduced our estimated net cash position at end FY21 and end FY22 by 3% and 32% respectively, reflecting the reduced profitability in FY21. This highlights that if gross margins do not improve in FY22 as management expects, there may be a need for additional fund-raising; our current net cash forecast of £2.6m at end FY22 is significantly below our estimate for end FY21 (£18.4m).

Exhibit 4: Summary of forecast changes

£'000s	Current estimates		Prior estimates		Change	
	2021e	2022e	2021e	2022e	2021 chg.	2022 chg.
Revenues	23,609	38,407	23,643	38,384	0%	0%
Gross profit	9,279	16,321	9,722	16,298	-5%	0%
Gross margin	39.3%	42.5%	41.1%	42.5%	(182bp)	3bp
Normalised EBITDA loss	(17,967)	(11,521)	(17,518)	(11,519)	3%	0%
Normalised Operating loss (EBIT)	(19,071)	(12,718)	(18,623)	(12,715)	2%	0%
Share of JV gain/(loss)	221	3,573	221	3,573	0%	0%
Normalised net profit	(18,382)	(9,127)	(17,934)	(9,125)	2%	0%
Basic EPS (p)	(5.72)	(2.77)	(5.58)	(2.77)	2%	0%
Diluted shares outstanding (000s)	321,451	329,645	321,451	329,645	0%	0%
Diluted EPS (p)	(5.72)	(2.77)	(5.58)	(2.77)	2%	0%
Net cash	18,430	2,630	19,062	3,850	(3%)	(32%)

Source: Edison Investment Research

Exhibit 5: 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)	(14.3)	(22.1)
Gross Profit		1.2	4.4	5.7	9.3	16.3
Normalised EBITDA		(4.2)	(3.7)	(11.6)	(17.6)	(11.5)
Normalised operating profit		(5.1)	(4.4)	(12.6)	(18.7)	(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)	(18.0)	(11.5)
Reported operating profit		(5.1)	(4.5)	(8.7)	(19.1)	(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)	(18.5)	(9.1)
Profit Before Tax (reported)		(5.1)	(5.8)	(31.4)	(18.8)	(9.1)
Reported tax		0.1	0.1	0.0	0.1	0.0
Profit After Tax (norm)		(5.0)	(4.3)	(13.3)	(18.4)	(9.1)
Profit After Tax (reported)		(5.0)	(5.7)	(31.3)	(18.7)	(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)	(5.72)	(2.77)
EPS - diluted normalised (p)		(4.31)	(3.69)	(7.76)	(5.72)	(2.77)
EPS - basic reported (p)		(4.30)	(4.85)	(18.23)	(5.83)	(2.77)
Revenue growth (%)		0.0	184.2	102.1	104.0	62.7
Gross Margin (%)		58.0	76.1	49.2	39.3	42.5
EBITDA Margin (%)		(204.7)	(66.0)	(67.3)	(76.1)	(30.0)
Normalised Operating Margin		(255.3)	(76.9)	(108.5)	(79.3)	(33.1)
BALANCE SHEET						
Fixed Assets		3.0	3.8	7.5	14.8	19.3
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	8.4	12.0
Current Assets		2.3	1.2	42.0	25.4	14.9
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		0.6	0.6	3.6	6.8	12.1
Cash & cash equivalents		1.7	0.6	38.4	18.4	2.6
Other		0.0	0.0	0.0	0.2	0.2
Current Liabilities		(2.0)	(2.1)	(3.8)	(8.8)	(12.1)
Creditors		(2.0)	(2.1)	(3.8)	(8.8)	(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)	(1.0)	(1.0)
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Other long-term liabilities		(2.9)	(8.2)	(1.2)	(1.0)	(1.0)
Net Assets		0.4	(5.4)	44.5	30.5	21.2
Minority interests		14.6	14.7	45.9	50.1	50.1
Shareholders' equity		14.9	9.4	90.4	80.6	71.3
CASH FLOW						
EBITDA		(4.1)	(3.8)	(7.8)	(18.0)	(11.5)
Working capital		1.0	0.3	(1.2)	1.8	(1.9)
Exceptional & other		0.1	0.3	(1.6)	0.5	0.0
Tax		0.1	(0.1)	(0.0)	0.1	0.0
Net operating cash flow		(2.8)	(3.3)	(10.7)	(15.5)	(13.4)
Capex		(0.0)	(0.1)	(0.4)	(0.6)	(0.6)
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	(0.1)	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		1.8	2.3	14.9	(2.0)	(1.7)
Net Cash Flow		(1.1)	(1.1)	37.8	(19.9)	(15.8)
Opening net debt/(cash)		0.0	(1.7)	(0.6)	(38.4)	(18.4)
FX		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(1.7)	(0.6)	(38.4)	(18.4)	(2.6)

Source: Company data, Edison Investment Research

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