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Doctor Care Anywhere (DOC)

Record Revenues For 1Q21

Recommendation
Buy (unchanged)
Price
$1.03
Target (12 months)
$1.95 (unchanged)

GICS Sector

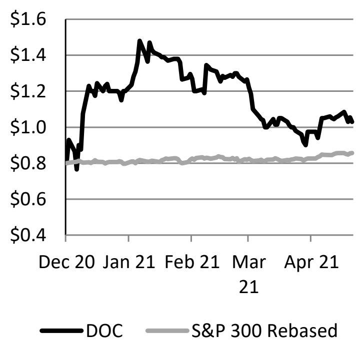
Healthcare Equipment and Services

Expected Return	
Capital growth	89.3%
Dividend yield	0.0%
Total expected return	89.3%
Company Data & Ratios	
Enterprise value	$263.1m
Market cap	$328.1m
Issued capital	318.6m
Free float	82%
Avg. daily val. (52wk)	$614,000
12 month price range	$0.75 - $1.52

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.03	1.40	
Absolute (%)	0.00	-26.43	
Rel market (%)	-4.65	-32.52	

Absolute Price



SOURCE: IRESS

Demand For Virtual GP Services Increasing

DOC reported its 1Q21 cash flows and quarterly activity report today. Sequential quarter revenue growth excluding one off income items was 16.5%, driven by a large (22%) increase in virtual GP consultations. Actual revenues for the period were £6.4m inclusive of £2.0m in non-recurring income. The company delivered in excess of 34,000 consultations in the month of March representing a 32% increase over the previous monthly record (for GP consults). Despite the strong demand for services, underlying gross profit margin declined by 3.6 percentage points to 43.2%. The demand for GP's in the UK remains at an all-time high and has been exacerbated the requirement of the UK's roll out of COVID19 vaccines. This was a contributing factor to the margin decline and is likely to have caused capacity constraints in GP hours. Going forward we expect margins to return to the historical run rate as additional GP providers are added to the DOC service.

DOC provided revenue guidance in respect of FY21. It now expects revenues (inclusive of one off income) to increase by at least 100% implying revenues of £23.2m. Our previous forecast was for 86% revenue growth, hence the guidance represents an 8% increase to the previous forecast. In our view the guidance is realistic particularly as demand for DOC services is expected to increase as the UK economy re-opens after a long period of lockdown.

Investment View: Maintain Buy, PT$1.95

There is no change to our long term view of continued growth in demand of virtual GP services. Revenues and demand for services were in line with the forecast for the March quarter, albeit margins weaker than expected. FY21 loss at EBIT is increased by 27% (£3.4m) to £16.1m mainly due to an adjustment in the margin assumption and higher operating expenses. We continue to expect the company will be profitable by FY23. All of the key drivers for the business remains in place and we maintain our Buy recommendation and price target of $1.95.

Earnings Forecast

December Year End	FY20	FY21e	FY22e	FY23e
Revenues £m	11.6	23.3	30.1	45.2
EBIT £m	-9.6	-16.1	-10.6	0.2
NPAT (underlying) £m	-14.6	-16.1	-10.6	0.2
NPAT (reported) £m	-31.3	-16.1	-10.6	0.2
EPS underlying (cps)	-4.6	-5.1	-3.3	0.1
EPS growth %	nm	nm	nm	nm
PER (x)	nm	nm	nm	1,332
FCF yield (%)	-3%	-4%	-3%	1%
EV/EBITDA (x)	na	na	na	554
Dividend (cps)	-	-	-	-
Franking	0%	0%	0%	0%
Yield %	0%	0%	0%	0%
ROE %	-33%	-53%	-49%	1%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Record GP Consults

The KPI's for 1Q21 were as follows:

Figure 1 - 1Q21 Reporting Highlights

	Actual 4Q20	Actual 1Q21	% change	F'cast 1Q21	F'cast % diff
Eligible lives ('000)	2,222	2,378	7%	2,222	7%
Activated lives ('000)	433	496	15%	475	4%
% activations (of eligible lives)	19%	21%		21%	
Consultations ('000)	74.3	90.5	22%	89.0	2%
Revenues - virtual GP consultations	3.8	4.4	16%	4.4	0%
Gross Profit (underlying)	1.8	1.9	6%	2.3	-17%
GP Margin (underlying)	46.8%	43.2%		52%	na
Contribution	0.9	0.9	0%	1.1	-21%
Contribution Margin (underlying)	22.6%	20.5%		26%	na

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The highlights of the result were:

- 22% increase in consultations leading to a 16% increase in fees from GP services. Revenues increased at a slower rate than consultations and this was attributed to increased time demands on GP's. The growth in demand for services is likely beyond what could have reasonably been forecast by the company. In addition GP consulting hours have apparently been limited by demands placed upon them (the GP's) by the NHS for the roll out of the UK's vaccination program. It appears this led to lower than expected revenue generation.

  There is no shortage of general practitioners available and willing to join the company as providers, however, each of these is required to undergo an 'on-boarding' process, hence there is a lead time to increase capacity.

  These factors are reflected in the both the gross profit margin and the contribution margin – both of which were lower than forecast. In 2Q21 we expect the capacity issues can be addressed with margins most likely to resume the long term average.

- Another new record for consultations in a single calendar month – 34,000 in March relative to ~25,600 being the previous record month;
- 7% increase in eligible lives is noteworthy and is attributable to increases associated with the previously announced Alliance ex-pat contract and as well as AXA insured lives;
- 63,000 individuals activated their accounts during the period, increasing the activation rate to ~21% from 19% at 31 December.
- Other income of £2.0m is excluded from the underlying margin calculations shown above, however, it is included in the total revenues in the detailed financials page. We do not regard this item as an abnormal as it related to a contracted volume incentives and payment for technology development.

CASH FLOW

Net cash burn for the period was £3.3m including £2.4m from operating activities. The operating cash burn declined from £3.5m in the December quarter. The company had not received the £2.0m in cash from other income before the end of March so the decline in operating cash outflow for the quarter is a genuine period on period comparison.

Total receipts from customers were £5.7m relative to £6.4m of total income (including other income).

Closing cash at 31 March was £31.5m.

GUIDANCE

Guidance is for FY21 revenue growth of at least 100%. (i.e. £23.2m).

Our previous forecast was £21.6m hence there is a small upgrade. The company is confident regarding of its growth prospects in a post COVID environment within the UK and in our view this confidence is well founded. The growth achieved over the last 12 months could not have been sustained without the technology platform to support the average of approximately one thousand patients seen on a daily basis. In addition, the backlog of NHS patient's awaiting elective surgery is now estimated to exceed 4.7m – the highest level since NHS records began in 2007. By all accounts the NHS service continues to be overwhelmed with demand, hence the private sector is likely to provide a significant capacity extension.

In our view it is inevitable that eligible patients will continue to use the DOC service (at no out of pocket cost for the GP visit) rather than the NHS.

Figure 2 - Summary of earnings changes

		2021			2022			2023	
	New	Old	% change	New	Old	% change	New	Old	% change
Revenues	23.3	21.6	8%	30.1	29.3	3%	45.2	44.0	3%
EBIT	-16.1	-12.7	-27%	-10.6	-7.4	-45%	0.2	3.7	-93%
NPAT	-16.1	-12.7	-27%	-10.6	-7.4	-45%	0.2	3.7	-93%
EPS	-5.1	-4.0	-27%	-3.3	-2.3	-45%	0.1	1.1	-93%

SOURCE: BELL POTTER SECURITIES ESTIMATES

The 8% increase in revenues for FY21 brings the forecast in line with guidance. The 27% increase in loss at the EBIT line reflects a small unfavourable adjustment to margin and increased operating expenses. As the business matures we expect the company will improve its demand management leading to shorter waiting times and margin improvement.

There is no change to our long term view of continued growth in demand of virtual GP services. Revenues and demand for services were in line with the forecast for the March quarter, albeit margins were weaker than expected. All of the key drivers for the business remains in place. We maintain our Buy recommendation and price target of $1.95.

Doctor Care Anywhere

DOC is a UK-based telehealth company established to provide high quality, timely and efficient primary and secondary care to patients, whilst reducing the overall cost of providing clinical services. The company was founded in 2013 by Dr Bayju Thaker following his years of working within the NHS as a GP.

DOC is in the midst of an exponential growth period driven equally by the COVID pandemic and the recent expansion of its agreement with AXA PPP in the United Kingdom. These events have seen the DOC's average monthly volume of GP consults quadruple in 2020 to more than 25,000 per month.

There are several feature of the DOC business model which distinguish this virtual GP service from its numerous competitors.

Blending primary and secondary care – most virtual GP services offer a straight forward GP consultation where the practitioners interaction with the patient ends with the consultation. Conversely, the DOC model is focussed on the higher end corporate employee market. DOC offers an end to end service where the company participates in the entire revenue cascade. This begins with the initial consultation and extends to specialists consults, follow up GP consults and diagnostic services as required. This revenue cascade is captured in the pay per visit fees and via the Internet Hospital.

Service Quality – being a virtual service there are some inherent limits on the doctors ability to gather a complete patient medical record. DOC circumvents many of these via numerous methods available for patients and GP's to gather data. The DOC electronic medical record allows for patient data to be directly copied from other medical records and remote monitoring devices. The completeness of the patient medical record is a key factor in providing a high quality service, encouraging patients to become repeat users.

Repeat revenues – DOC analysis indicates that once eligible person activate their account, 85% become users of the service within 12 months, with a majority using the service again within a 12 month period.

Medical Record Platform – DOC's electronic medical record platform represents its key piece of intellectual property. This custom built software is unique to DOC and continues to evolve. This cloud based system is built on the Microsft.NET platform and will be the platform for the company's long term growth both domestically and in new markets.

Scope for growth within existing market – DOC has 2.2m eligible lives within the UK of which only 19% have activated their service. The near term opportunity for the company to drive revenues is to increase the activation rate in addition to increasing the referral rate to the Internet Hospital.

The COVID-19 pandemic began to influence global events in January 2020 at about the same time that the largest channel partner AXA committed its 2m insured lives to the DOC platform. The first vaccine to COVID commenced distribution in the UK over recent weeks, however, we believe it will be many months and as long as two years before a significant level of herd immunity begins to develop across the UK let alone globally (much longer). Consequently it is our firm view that telemedicine is here to stay.

For these reasons we believe the company will continue to experience rapid growth in revenues over the next 2 years. Our forecast is for revenues to double in FY21. Further growth opportunities are available to the company via an expansion of the Internet Hospital into other specialisations and additional channel partners.

Doctor Care Anywhere
as at 26 April 2021

Recommendation	Buy
Price	$1.03
Target (12 months)	$1.95

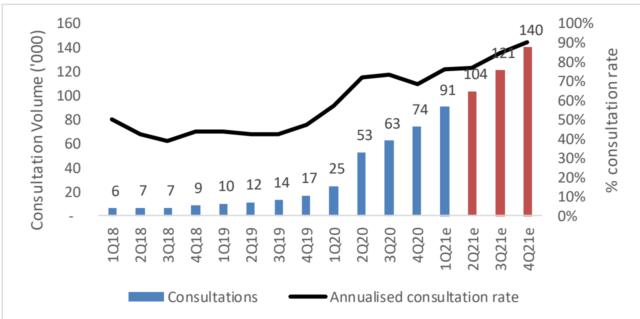
Table 1 - Financial summary

UK £m	FY19	FY20	FY21e	FY22e	FY23e
Year Ending 31 December					
Total Revenue	**5.7**	**11.6**	**23.3**	**30.1**	**45.2**
Revenue growth	185.0%	103.5%	100.7%	29.2%	50.2%
Gross profit	**4.3**	**5.7**	**12.6**	**15.6**	**23.5**
GP Margin	**75%**	**49%**	**54%**	**52%**	**52%**
Operating costs	-0.9	-3.1	-5.0	-7.2	-10.4
Contribution profit	3.4	2.6	5.6	8.4	13.1
Contribution margin	60%	22%	24%	28%	29%
Other income	-	6.0	-	-	-
Sales & marketing	-0.8	-1.6	-4.5	-5.0	-5.9
R&D	-1.3	-2.2	-3.5	-3.9	-3.9
General and admin	-6.9	-10.5	-12.5	-13.1	-13.8
JV income	0.0	-0.8	1.8	5.9	13.7
EBITDA & Equity based remuneration	-5.6	-6.5	-13.1	-7.6	3.3
D&A	-0.9	-0.9	-1.0	-1.0	-1.0
Equity based remuneration	-0.1	-2.2	-2.0	-2.0	-2.0
EBIT - reported	-6.6	-9.6	-16.1	-10.6	0.2
Net interest	0.0	-21.8	0.0	0.0	0.0
Pre tax profit	-6.6	-31.4	-16.1	-10.6	0.2
Tax expense	0.2	0.1	0.0	0.0	0.0
NPAT- reported	**(6.4)**	**(31.3)**	**(16.1)**	**(10.6)**	**0.2**
Add back					
Interest charge - non cash	0.0	21.7	0.0	0.0	0.0
Other one off items	0.0	-5.0	0.0	0.0	0.0
Normalised NPAT	(6.4)	(14.6)	(16.1)	(10.6)	0.2

Valuation Ratios	FY19	FY20	FY21e	FY22e	FY23e
Reported EPS (cps)		-9.8	-5.1	-3.3	0.1
Normalised EPS (cps)		-4.6	-5.1	-3.3	0.1
EPS growth (%)		nm	nm	nm	nm
Free cash flow per share		-3.4	-4.4	-2.8	0.5
Growth		na	nm	nm	nm
PE(x)		**nm**	**nm**	**nm**	**1,332**
EV/EBIT (x)		na	na	na	554
P/NTA (x)		8	13	21	18
Book Value Per Share (cps)		14	9	7	7
Price/Book (x)		7	11	15	14
DPS (cps)		-	-	-	-
Payout ratio %		0%	0%	0%	0%
Dividend Yield %		0.0%	0.0%	0.0%	0.0%
Franking %		0%	0%	0%	0%
FCF yield %		-3%	-4%	-3%	1%
Net debt/Equity		0%	0%	0%	0%
Net debt/Assets		0%	0%	0%	0%
Gearing		net cash	net cash	net cash	net cash
Net debt/EBITDA (x)		net cash	net cash	net cash	net cash
Interest cover (x)		na	na	na	na

UK £m	FY19	FY20	FY21e	FY22e	FY23e
Gross cashflow	-5.2	-10.6	-13.1	-8.1	2.7
Net interest	0.0	0.0	0.0	0.0	0.0
Income tax paid	0.0	0.0	0.0	0.0	0.0
Operating cash flow	-5.2	-10.6	-13.1	-8.1	2.7
Maintenance capex	-0.1	-0.3	0.0	0.0	0.0
Capitalised R&D	0.0	0.0	-1.0	-1.0	-1.0
Purchase of intangibles	-1.7	-1.5	0.0	0.0	0.0
Free cash flow	-7.0	-12.4	-14.1	-9.1	1.7
Proceeds from issuance	0.0	31.3	0.0	0.0	0.0
Movement in borrowings	0.0	-0.4	0.0	0.0	0.0
Convertible note proceeds	0.0	15.9	0.0	0.0	0.0
Change in cash held	-7.0	34.4	-14.1	-9.1	1.7
Cash at beginning of period	0.0	0.6	38.4	24.3	15.2
FX adjustment	0.0	0.4	0.0	0.0	0.0
Cash at year end	**0.0**	**38.4**	**24.3**	**15.2**	**17.0**

Growth in patient consultations



Interim Results	1H20	2H20	1H21e	2H21e
Revenues	4.6	7.1	12.0	13.2
EBIT	-5.5	-4.1	-6.8	-7.3
NPAT	-5.4	-25.9	-6.8	-7.3

Balance Sheet UK £m	FY20	FY21e	FY22e	FY23e
Cash	38.4	24.3	15.2	17.0
Other current assets	3.6	4.1	5.1	6.1
Property, Plant and Equipment	1.7	1.7	1.7	1.7
Intangibles	5.8	5.8	5.8	5.8
Other non current assets	-	-	-	-
Total assets	49.5	35.9	27.8	30.6
Payables and provisions	5.0	5.5	6.0	6.5
Debt	-	-	-	-
Total Liabilities	5.0	5.5	6.0	6.5
Net Assets	44.5	30.4	21.8	24.1
Share capital	0.1	0.1	0.1	0.1
Share premium reserve	45.9	47.9	49.9	51.9
Retained earnings	(3.8)	(19.9)	(30.5)	(30.3)
Other reserves	2.3	2.3	2.3	2.3
Shareholders Equity	44.5	30.4	21.8	24.0

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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