

Doximity Inc

3Q24 Preview: Survey feedback, the quarter, thoughts on FY25

Reiterate Rating: NEUTRAL | PO: 29.00 USD | Price: 27.45 USD

Model upside, but some increasing investor concerns

Doximity will report its FY3Q24 earnings this Thursday after market close. We view the set-up into the print as relatively balanced with near-term upside to FY24 guidance offsetting incremental investor concerns about the competitive landscape and budget growth. Following the release of our survey last month, investors are incrementally cautious on the competitive landscape and some large customer budget changes into 2024 (ex: Pfizer's Paxlovid spend). Overall, our most recent survey ([link to our survey here](#)) points to a stable macro environment with some questions around Doximity specific growth, particularly from new modules. More importantly, with Doximity's FY24 guidance appearing conservative, there will likely be a greater focus on forward looking commentary, however it may be too early for management to provide clear guidance on FY25 on this quarter's call. Based on our conversations, we estimate the bar for FY25 revenue growth is in the high-single digit range. Doximity is also likely to exceed 50% EBITDA margins this quarter following its workforce reduction this summer. We reiterate our Neutral rating ahead of Thursday's earnings, but lower our PO from \$32 to \$29 on c22.5x CY24 EV/EBITDA (c.25.5x prior) to reflect peer multiple contraction.

FY25 commentary in focus

It is unclear how much Doximity will comment around FY25. In this quarter last year, the company did provide preliminary FY24 revenue guidance, but macro headwinds and slower growth of new products hampered growth/visibility over the course of the year. On last quarter's earnings call, DOCS indicated the market growth rate for digital is likely to be similar to this year's growth rate. This suggests DOCS' revenue growth rate next year could mirror FY24's exit rate of very high single digits to very low double digits assuming no material changes to budgets, and DOCS' competitive positioning. This growth rate would represent what DOCS could actually report, not necessarily where an initial guide would come in. Given where DOCS is in its current FY, we anticipate high level commentary about next year's revenue growth, but note it is incredibly early to provide guidance for next year. For example, in early Feb. there is limited visibility into mid-year upsells and less visibility into the size/scope of next year's budget flush.

More commentary on 3Q/4Q metrics in the note body

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.85	0.73	0.87	0.86	0.94
GAAP EPS	0.69	0.52	0.74	0.75	0.82
EPS Change (YoY)	10.4%	-14.1%	19.2%	-1.1%	9.3%
Consensus EPS (Bloomberg)			0.81	0.87	0.99
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	32.3x	37.6x	31.6x	31.9x	29.2x
GAAP P/E	39.8x	52.8x	37.1x	36.6x	33.5x
EV / EBITDA*	34.1x	27.9x	24.0x	21.9x	19.4x
Free Cash Flow Yield*	2.1%	3.0%	3.4%	3.9%	4.6%

* For full definitions of *IQmethod*SM measures, see page 5.

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	32.00	29.00

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Stock Data

Price	27.45 USD
Price Objective	29.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-2-9
52-Week Range	19.71 USD - 39.39 USD
Mrkt Val (mn) / Shares Out (mn)	5,940 USD / 216.4
Free Float	86.2%
Average Daily Value (mn)	47.24 USD
BofA Ticker / Exchange	DOCS / NYS
Bloomberg / Reuters	DOCS US / DOCS.N
ROE (2024E)	18.7%
Net Dbt to Eqty (Mar-2023A)	-87.0%
ESGMeter™	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

KPI: key performance indicator

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Timestamp: 07 February 2024 05:11AM EST

iQprofileSM Doximity Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	25.6%	16.1%	16.3%	14.9%	13.8%
Return on Equity	34.5%	16.8%	18.7%	16.9%	15.4%
Operating Margin	42.5%	42.6%	43.9%	43.3%	44.3%
Free Cash Flow	125	178	204	231	274

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.2x	1.1x	1.3x	1.3x
Asset Replacement Ratio	0.2x	0.1x	0.1x	0.1x	0.1x
Tax Rate	NM	16.9%	20.3%	25.0%	25.0%
Net Debt-to-Equity Ratio	-90.8%	-87.0%	-86.2%	-89.0%	-91.6%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	344	419	468	514	565
% Change	66.0%	22.0%	11.7%	9.8%	10.0%
Gross Profit	309	376	423	460	506
% Change	75.1%	21.7%	12.7%	8.7%	10.0%
EBITDA	151	184	214	235	264
% Change	132.6%	22.2%	16.2%	9.7%	12.4%
Net Interest & Other Income	1	8	23	23	23
Net Income (Adjusted)	163	155	182	184	205
% Change	120.4%	-5.0%	17.3%	1.3%	11.4%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	163	155	182	184	205
Depreciation & Amortization	5	10	11	12	13
Change in Working Capital	(22)	(26)	6	5	13
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(19)	41	7	32	45
Capital Expenditure	(2)	(2)	(2)	(2)	(2)
Free Cash Flow	125	178	204	231	274
% Change	50.7%	42.7%	14.4%	13.5%	18.5%
Share / Issue Repurchase	565	(71)	(200)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	798	841	842	1,068	1,336
Trade Receivables	81	107	109	113	116
Other Current Assets	25	27	30	33	30
Property, Plant & Equipment	8	11	11	11	10
Other Non-Current Assets	79	150	166	168	171
Total Assets	991	1,137	1,159	1,393	1,664
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	111	140	150	162	175
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1	31	31	31	31
Total Liabilities	113	171	181	193	206
Total Equity	879	966	978	1,200	1,458
Total Equity & Liabilities	991	1,137	1,159	1,393	1,664

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Healthcare Technology & Distribution

Company Description

Doximity is a social platform for physicians. Doctors can stay up to date on medical news, manage their career, and utilize free solutions. These free tools include a voice dialer, secure messaging, digital faxing, video visits, and on-call scheduling. Doximity provides these free tools to physicians to drive platform use. The company generates revenue by allowing pharma manufacturers and health systems to advertise on the platform. Doximity also provides Hiring Solutions for health systems.

Investment Rationale

Doximity is an industry leader in the digital transformation of healthcare marketing, changing how pharmaceutical manufacturers and health systems connect with doctors. While growth has slowed, the company exhibits a uniquely high margin profile amongst HCIT peers in a still nascent market. This is offset by a challenging macro that may further pressure growth/margins and concerns about contributions from new modules.

Stock Data

Average Daily Volume 1,720,881

Quarterly Earnings Estimates

	2023	2024
Q1	0.14A	0.19A
Q2	0.17A	0.22A
Q3	0.22A	0.25E
Q4	0.20A	0.21E

3Q/4Q KPIs will be important to monitor

There will be several important datapoints from this Thursday's earnings release. Doximity's 2Q24 revenue was strong relative to reset expectations, but did include some notable changes in deferred revenue and accounts receivable. Deferred revenue contracted by ~\$6.9MM q/q versus \$4.3MM in the year ago quarter and grew just 2% y/y. Accounts receivable growth was also 22.7% year over year versus 11.2% revenue growth. For 3Q, if reported revenue beats Doximity's guidance by the typical amount in prior quarters, it would imply revenue growth accelerates sequentially, which would help mitigate these concerns (Exhibit 1). Separately, DOCS will see a full quarter of its reduction in force that the company estimated would save \$20MM on an annualized basis. Based on the timing of the RIF, the incremental opex savings could be \$3-\$4MM q/q and \$5MM y/y, representing nearly 400bps to the EBITDA margin y/y. It seems likely that FY3Q will be a 50%+ EBITDA margin quarter.

Exhibit 1: Doximity's historical guidance and reported quarterly revenue, 2Q22-3Q24

A smaller than normal 1% beat on the top-line would indicate revenue growth is stable to slightly inflecting

Report Date	Quarter	Guidance range	Reported or Estimated(MM)	% Beat (from midpoint)	\$ Beat (from midpoint, MM)	Y/Y Growth %	Comment
2/8/2024	Q3 24	\$127.0-\$128.0MM	\$128.8	1.0%	\$1.3	11.7%	A 1% revenue beat would indicate revenue growth is inflecting
11/09/2023	Q2 24	\$108.5-\$109.5MM	113.6	4.2%	4.6	11.2%	
08/08/2023	Q1 24	\$106.5-\$107.5MM	108.5	1.4%	1.5	19.7%	
05/16/2023	Q4 23	\$109.6-\$110.6MM	111.0	0.8%	0.9	18.5%	
02/09/2023	Q3 23	\$110.7-\$111.7MM	115.3	3.7%	4.1	17.8%	
11/10/2022	Q2 23	\$99.5-\$100.5MM	102.2	2.2%	2.2	28.8%	
08/04/2022	Q1 23	\$88.6-\$89.6MM	90.6	1.7%	1.5	24.7%	
05/17/2022	Q4 22	\$89.0-\$90.0MM	93.7	4.6%	4.2		
02/08/2022	Q3 22	\$85.8-\$86.8MM	97.9	13.4%	11.6		
11/09/2021	Q2 22	\$73.0-\$74.0MM	79.4	8.0%	5.8		
08/10/2021	Q1 22	N/A	72.7				
Average				4.1%			

Source: Bloomberg, company reports, BofA Global Research estimates

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Price objective basis & risk

Doximity Inc (DOCS)

Our \$29 price objective is based on c22.5x CY24E EV/EBITDA, ahead of profitable health IT peers (group average of 17x) and below Software/Internet peers (group average 31x). We believe that DOCS should trade at a premium to HCIT peers on a EBITDA multiple basis given a peer topping margin profile and at a discount to Software/Internet peers with more sustainable revenue profiles. We believe our target multiple of c22.5x is warranted when considering DOCS low double-digit growth and high margin profile.

Downside risks are slower-than-expected revenue growth through the remainder of FY24 and into FY25. According to our survey, Doximity remains a share gainer in the space, but if programmatic peers take more share, it could hinder revenue growth. Additionally, EBITDA margins could decline in FY25 if pricing pressure persists as our survey indicates an increase in pricing incentives offered across market. Physicians may also choose to engage less with Doximity's platform or leave it altogether, which would weaken engagement rates with Doximity's core customer base and reduce the utility of the platform for advertisers. Lastly, valuation could contract if revenue growth slows further or margins contract.

Upside risks are faster reacceleration of revenue growth if macro pressure on large pharma abates quickly, and margins expand beyond current expectations driven by better revenue growth and incremental margin pull through.

Analyst Certification

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US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omniceil Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
	R1 RCM	RCM	RCM US	Allen Lutz, CFA
NEUTRAL				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA
UNDERPERFORM				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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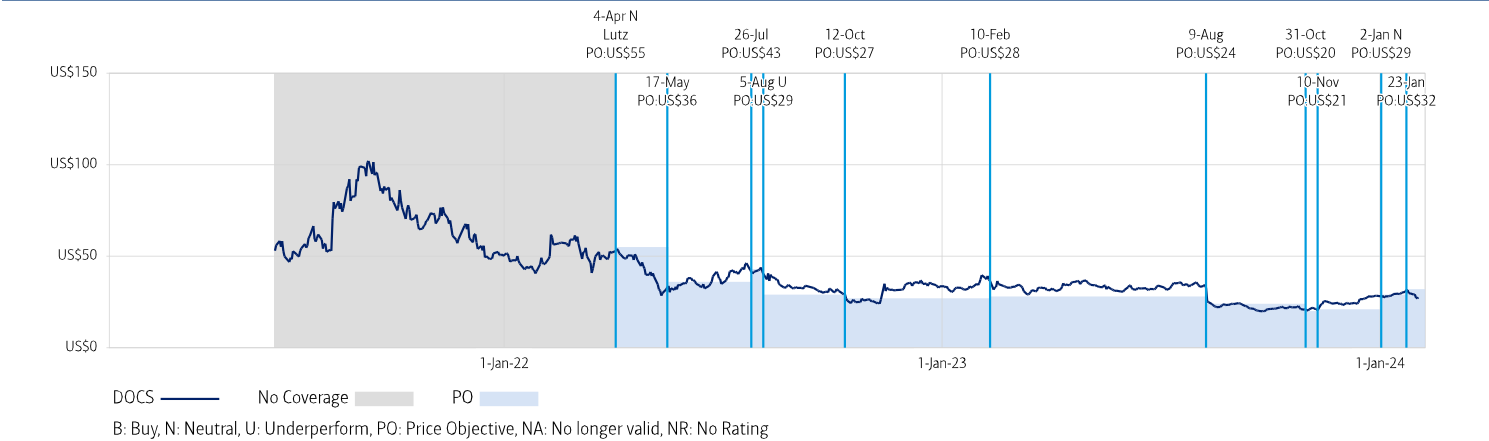
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Doximity (DOCS) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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