Doximity Inc

Brand remains highly relevant, shares fairly valued

Reiterate Rating: NEUTRAL | PO: 29.00 USD | Price: 28.24 USD

09 February 2024

Equity

Largest customers growing, Subscriptions +20% y/y

We upgraded Doximity earlier this year driven by stabilizing macro trends, reset Street expectations, and support from recent surveys. Doximity's impressive growth in FY3Q (20%+ Subscription segment growth) supports our view that Doximity's brand remains highly relevant and continues to take market share. Brands spending at least $1MM (representing 75 brands) grew 30% y/y, and net revenue retention among the largest customers was 122%. We suspect the slower growth implied in FY4Q is partially driven by product launch timing, conservatism, and limited visibility. We estimate Doximity can grow ~10% in FY25. One of the biggest challenges to becoming more constructive at these levels, however, is the visibility into new product growth, mid-year upsells, and budget flushes. We note revenue growth over the past few quarters has been volatile and difficult to model at (20%, 11%, 17%). We reiterate our Neutral rating as we believe shares are fairly valued at ~21x EBITDA.

Increasing our estimates following FY3Q

We are increasing our FY24E revenue estimates from $468.1MM to $474.1MM and our FY25E revenue from $514.0MM to $519.0MM, with the increase reflecting better than anticipated momentum in mid-year/year-end upsells. We are also increasing our EBITDA estimates for FY24E from $213.9MM to $225.2MM and increasing our FY25E EBITDA estimates from $234.7MM to $251.9MM. The increase in FY24/FY25E EBITDA is driven by incrementally better operating leverage on higher revenues.

Key themes post FY3Q'24

We look for any potential inflections in pharma marketing budgets that can translate to higher growth given our recent survey suggests that Doximity remains a preferred partner for health care professional (HCP) targeting, with potential to benefit from budget improvements. We also look for changes in the competitive landscape, given recent concerns on this front. Moreover, monitoring changes in purchasing behavior will be important, especially heading into the launch of the self-serve option which could syphon spend away from longer duration contracts and degrade visibility. Lastly, we continue to track user metrics which provide directional insight into return on investment (ROI) and the viability of the platform.

Estimates (Mar) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS	0.85	0.73	0.91	0.95	1.02
GAAP EPS	0.69	0.52	0.73	0.83	0.89
EPS Change (YoY)	10.4%	-14.1%	24.7%	4.4%	7.4%
Consensus EPS (Bloomberg)			0.81	0.87	0.99
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	33.2x	38.7x	31.0x	29.7x	27.7x
GAAP P/E	40.9x	54.3x	38.7x	34.0x	31.7x
EV / EBITDA*	35.2x	28.8x	23.5x	21.0x	19.4x
Free Cash Flow Yield*	2.0%	2.9%	3.4%	4.0%	4.6%

* For full definitions of *iQmethod*[SM] measures, see page 10.

Key Changes

(US$)	Previous	Current
2024E EPS	0.87	0.91
2025E EPS	0.86	0.95
2026E EPS	0.94	1.02
2024E EBITDA (m)	213.9	225.2
2025E EBITDA (m)	234.7	251.9
2026E EBITDA (m)	263.8	272.9

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Stock Data

Price	28.24 USD
Price Objective	29.00 USD
Date Established	7-Feb-2024
Investment Opinion	C-2-9
52-Week Range	19.71 USD - 38.10 USD
Mrkt Val (mn) / Shares Out (mn)	6,111 USD / 216.4
Free Float	86.6%
Average Daily Value (mn)	49.32 USD
BofA Ticker / Exchange	DOCS / NYS
Bloomberg / Reuters	DOCS US / DOCS.N
ROE (2024E)	19.1%
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".

Refer to important disclosures on page 11 to 13. Analyst Certification on page 9. Price Objective Basis/Risk on page 9. 12657600

*iQprofile*SM Doximity Inc

iQ*methodSM – Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	25.6%	16.1%	17.0%	16.7%	15.9%
Return on Equity	34.5%	16.8%	19.1%	18.6%	17.6%
Operating Margin	42.5%	42.6%	46.1%	46.4%	46.1%
Free Cash Flow	125	178	206	242	279

iQ*methodSM – Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.2x	1.1x	1.2x	1.3x
Asset Replacement Ratio	0.2x	0.1x	0.1x	0.1x	0.1x
Tax Rate	NM	16.9%	22.1%	25.0%	25.0%
Net Debt-to-Equity Ratio	-90.8%	-87.0%	-86.0%	-87.8%	-90.2%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Mar)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	344	419	474	519	566
% Change	66.0%	22.0%	13.1%	9.5%	9.0%
Gross Profit	309	376	432	471	512
% Change	75.1%	21.7%	14.9%	9.1%	8.7%
EBITDA	151	184	225	252	273
% Change	132.6%	22.2%	22.4%	11.8%	8.4%
Net Interest & Other Income	1	8	20	20	20
Net Income (Adjusted)	**163**	**155**	**186**	**196**	**211**
% Change	**120.4%**	**-5.0%**	**20.0%**	**5.2%**	**7.7%**

Free Cash Flow Data (Mar)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	163	155	186	196	211
Depreciation & Amortization	5	10	10	11	12
Change in Working Capital	(22)	(26)	5	5	13
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(19)	41	6	32	46
Capital Expenditure	(2)	(2)	(2)	(2)	(2)
Free Cash Flow	**125**	**178**	**206**	**242**	**279**
% Change	**50.7%**	**42.7%**	**15.5%**	**17.6%**	**15.4%**
Share / Issue Repurchase	565	(71)	(200)	(100)	(100)
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	844	981	1,154
Trade Receivables	81	107	110	114	116
Other Current Assets	25	27	31	34	30
Property, Plant & Equipment	8	11	11	11	11
Other Non-Current Assets	79	150	168	171	174
Total Assets	**991**	**1,137**	**1,164**	**1,310**	**1,485**
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	111	140	152	163	175
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1	31	31	31	31
Total Liabilities	**113**	**171**	**183**	**194**	**206**
Total Equity	**879**	**966**	**982**	**1,116**	**1,279**
Total Equity & Liabilities	**991**	**1,137**	**1,164**	**1,310**	**1,485**

* For full definitions of *iQmethod*SM measures, see page 10.

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	1,850,307

Quarterly Earnings Estimates

	2023	2024
Q1	0.14A	0.19A
Q2	0.17A	0.22A
Q3	0.22A	0.29A
Q4	0.20A	0.21E

Quick Pros and cons from FY3Q

Pros

- Subscription segment revenue grew 20.4% y/y. This represents growth of the core business and it accelerated from 11.9% last quarter
- Doximity's 75 brands spending at least $1MM grew 30% y/y
- Net revenue retention accelerated to 115% from 114% last quarter

Cons

- Deferred revenue declined to just 57% of next quarter's revenue, the lowest ever. The prior low was 3Q23 when it was 62.8%
- 4Q's revenue guidance implies mid-single digit growth
- Other segment revenue declined 25% y/y

Neutral

- Doximity believes pharma marketing budgets are relatively stable y/y

FY3Q’24 call takeaways

Prepared Remarks

- 3Q revenue was 6% above the high-end of DOC’s guidance
- 3Q EBITDA margin was 54%
- DOCS is raising FY24 annual revenue guidance by 2% at the midpoint and raising EBITDA guidance by 6% at the midpoint
- 3Q engagement reached a new high-water mark with unique active users up double digits y/y on a quarterly, monthly, weekly, and daily basis
- Added several major new hospital clients in 3Q
    - Go-lives at these hospital systems contributed to 560K unique prescribers in 3Q
    - Now counts 17 of the top 22 US hospitals as enterprise software clients and all as marketing clients
- Physician newsfeed hit new highs in 3Q on reach and usage
- Next phase of growth to be fueled by artificial intelligence
- Will unveil a new client portal in early May
    - Opened the portal to ~10% of brand partners with good early reviews
    - Currently, clients cannot purchase on the portal yet

Financials

- 3Q revenue of $135.3MM, up 17% y/y
    - Existing customers continued to lead growth
    - Net revenue retention rate of 115% on a trailing twelve-month basis
    - For top 20 customers, net revenue retention was higher at 122%
- Ended 3Q with 289 customers contributing at least $100K each in subscription-based revenue on a trailing twelve-month basis (up 2% y/y_
    - Customers accounted for 89% of total revenue
- 3Q adj. gross margin was 93% vs. 91% in prior year
- 3Q adj. EBITDA of $73.3MM, up 32% y/y, representing ad. EBITDA margins of 54.2% (vs. 48.2% in the prior year)
- These represent new highs for adj. gross and adj. EBITDA margins
    - Margin strength driven by 3Q revenue outperformance, continued optimization of infrastructure costs, customer support engines, and strategic application of artificial intelligence across teams
- 3Q adj. EPS was $0.29 vs. $0.22

- Operating cash flow of $50.1MM vs. $48.7MM, up 3% y/y
- Free cash flow of $48.7MM up 3% y/y
- Repurchased $262MM of shares at an average price of $22.89
    - Share repurchased efforts decreased diluted shares outstanding by 6%
    - Still have $60MM of share repurchase authorization remaining
- December quarter represents largest sales quarter
    - Pharma customers sign on for next year's programs, committing the majority of annual marketing budgets
    - DOCS signs contracts in 3Q and primarily recognizes revenue over the next 12 months depending on timing of program launches
- Upfront season saw growth with brand partners, particularly among brands that spend at least $1MM with DOCS
    - Cohort grew to 75 brands, up 30% y/y
    - Of the $1MM+ brands, DOCS had three brands spend at least $10MM each
- Saw strength in modules such as Peer to Peer, Point of Care, and Formulary
    - Combined these modules grew +100% y/y during upfront season
- Benefitted from increased focus on selling newer modules on a packaged basis
- FY4Q'24 guidance
    - Revenue of $115.9-$116.9MM
    - Adj. EBITDA of $50.5-$51.5MM
- FY24 guidance
    - Revenue of $473.3-$474.3MM
    - Adj. EBITDA of $224.5-$225.5MM
- Increased outlook reflects stronger than expected upsells at calendar year end
- Incremental budgets unlocked later than typical this past year
    - As those dollars became available, DOCS remained a top choice for customers (evident in the step-up in 3Q revenue)
- Upfront selling season saw deeper investment in newer modules and addition of several large new brands
- In 4Q, focused on getting new programs live
- 4Q revenue growth reflects growth more indicative of program launch timing than underlying sales growth
- Expect pharma healthcare professional digital market to grow 5-7% in CY24

Q&A

- New products
    - Excited by growth in newer modules
    - Cohort of new modules was up over 100% during the buying season
    - Working on packaging these modules together to increase scale of the overall programs and reach across budget lines
- Budgets tracking to 5-7% and levers to share gains
    - Market will grow roughly 5-7% in CY24
    - Continuing to invest in newer modules
    - Excited about the client portal and have that portal available to launch and expand programs
- Comfort around opening up the client portal by the summer season
    - Pleased to have grown the aperture
    - Reaction have been uniformly positive
    - Transparency, real-time data
    - Right way to do the transition over multiple quarters and may years
    - 1-2 years to migrate the full business
- Budget environment and sales & marketing going forward
    - High incremental leverage association
    - Sales and marketing as a % of revenue to be pretty consistent and not go higher
    - Client portal can be an unlock without adding too many new heads
- Color on engagement and user metrics
    - Artificial intelligence (AI) spans across all products and has led to more usage
- Launch timing and creation of new content
    - 4Q revenue outlook reflects growth of launch timing rather than revenue growth
    - New modules grew over 100% y/y
    - Saw strong growth in newer brands (1 out of 3 $10MM+ brand is a newer brand and is not contractually launching until the spring)
- Potential for new modules to cannibalize existing modules
    - New modules unlock new budgets

  - Within the new budgets, the products are offering a digital vs. analog approach and much more interactive vs. other solutions on the market
  - Great entrance to those budgets
  - Products are typically multi-budget applicable
  - Clients are interested in buying DOCS, not just modules
- Implied step-down in 4Q guidance
  - Saw stronger 3Q than typical due to a more condensed upsell season
  - Seeing 4Q that is dependent on launch timing
  - Have a higher mix of new products/new brands
  - Baking in enough time to get programs live
- Potential for GPT product
  - Engagement first then monetization second approach
  - Best product, but not the easiest to buy
  - Goal this summer to have built the engagement to support monetization
- Step up in gross margin and sustainability on a go-forward rate
  - Large factor due to revenue outperformance
  - Optimizing infrastructure costs
  - Leaning into AI to increase productivity with the team
  - Due to revenue outperformance, will not necessarily stay at 93% levels, but feel good about +90%
- Cadence of OpEx spend
  - Step up between 3Q and 4Q expenses consistent with prior years
- Budget flush in the quarter and industry growth dynamics
  - Like many other industries, saw elongated sales cycle this past year
  - Incremental dollars added to the platform in a normal year (May, June) didn't come until August
  - Strength at the end of the year indicates competitive positioning in the market
  - DOCS remains one of the top choices given industry leading return on investment (ROI)
- New launch of a $10MM customer
  - Brand is with one of the top 5 customers

  - Not normal, have not seen it in the past
  - Excited that as newer brands launch, launching with a digital first strategy
  - Encouraged by the brand and is hopeful of new brands starting at higher spend levels
- Any changes over the past 90 days
  - Still some macro uncertainty impacting pharma budgets
  - Upfront came in ahead of expectations
- Benefit of new product launches in FY24
  - Too soon to start giving further color on FY25
- Upsell season comparison to last year
  - This calendar year was more condensed at year end
  - Macro uncertainty and cyclical head
  - For next year, excited about ease of use with the new client portal (ease of buying despite macro uncertainty)
- Potential impact given an election year
  - Hasn't been much change
  - Excited about three new brands, so far so good
  - Have not seen a lot of election oriented pressure
- Market share
  - Not many data sources to break out during the mid-year cycle
  - More visibility, greater percent under contract which is a good sign long-term
- Contribution and ramp of new modules
  - Encouraged by the ramp in the 2nd year that DOCS is selling
  - On the packaged approach, unlikely to break out in as much detail

Price objective basis & risk

Doximity Inc (DOCS)

Our $29 price objective is based on c21x 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 c21x 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

I, Allen Lutz, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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
	Omnicell 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

US - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

*iQ*method SM Measures Definitions

Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

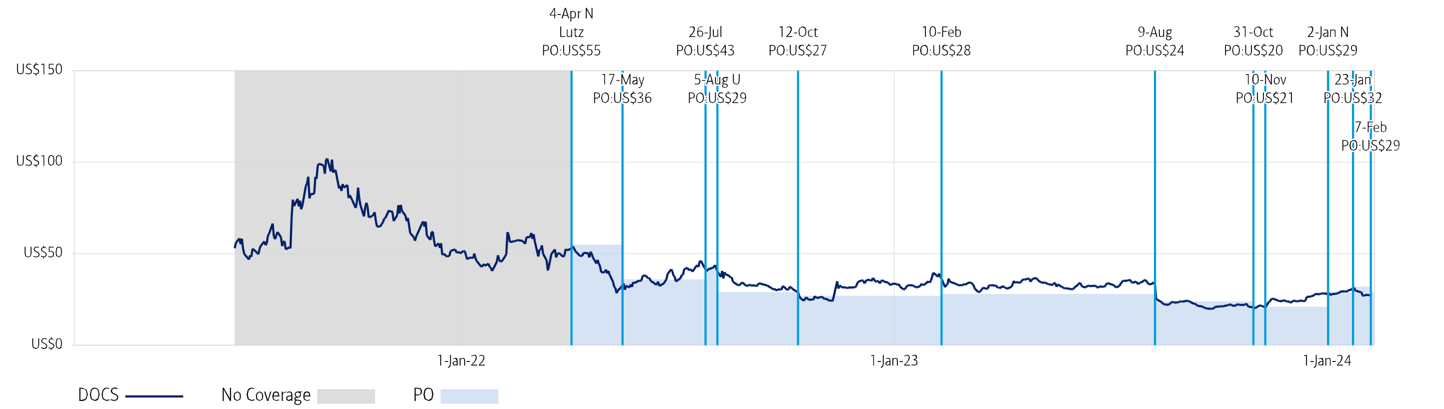
iQmethod SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

Doximity (DOCS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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