doximity

FY 2027 Q2 Earnings Call Prepared Remarks

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Today I'll cover three things: our financials, AI accuracy, and engagement.

Revenue was $175 million in Q2, up 4% year-on-year, and 2% above the high end of our guidance. Even with over 6x growth year-on-year in our AI spend, our Q2 adjusted EBITDA margin was 51% or $89 million, and 9% above the high end of our guidance. So while this remains our AI investment year, we continue to have strong margins.

AI ACCURACY

It's by far the #1 concern doctors have about AI. AI deals in probabilities; patient care demands precision. All of us have had the experience of hitting refresh on an AI answer and getting a different response. Thankfully, accuracy is where we continue to lead the way.

For starters, we launched DoseCheck™, a deterministic verifier for medication safety. In a study of over a quarter million AI drug dose queries across all major models, we found a 2.3% error rate. What's more, 40% of these errors are serious or even lethal. So from a million AI drug queries, 9,000 patients could get hurt. That's too many. Our DoseCheck catches these errors using our built-in drug dataset. It's painstaking work, and we're proud to do it.

Second, we're excited to add UpToDate to our AI answers. Every clinical AI model has read the National Library of Medicine, which has all the journals and guidelines, but Wolters Kluwer's UpToDate stands alone as the proprietary gold standard reference for point-of-care. Their 7,600 physician authors provide unique advice about what to do when there isn't an RCT (or randomized controlled trial) to answer the question. We think this real-world medical layer is really important, and now it's one tap away inside of Doximity.

Independent tests keep confirming our lead in accuracy and safety. In September, we joined other vertical AI leaders like Harvey in law and Sierra in customer service to create industry-specific benchmarks. When AI provider Fireworks graded the results, Doximity ranked first among 16 leading models, echoing our Stanford NOHARM study results in July.

Physician input is critical to getting AI in medicine right. This quarter we convened our Medical AI Summit: 150 physicians, chiefs & chairs from our nation's best hospitals, joined by two former U.S. Surgeons General, Dr. Vivek Murthy and Dr. Regina Benjamin, to work through how we build clinical AI responsibly, together. As a physicians-first company, this unique semi-annual event is our North Star and guides our roadmap.

ENGAGEMENT

Quarterly active workflow prescribers, which includes our AI users, grew 34% year-on-year to record highs, accelerating from last quarter. So for the first time, approximately half of all the 1.8 million U.S. prescribers used us last quarter as part of their workflow.

Our health system client footprint continued to grow as well – up over 190 on our AI suite from 165 last quarter, including 10 of the nation's top 20 hospitals.

NewYork-Presbyterian now provides access to Doximity AI directly from its EHR, giving NewYork-Presbyterian, Columbia, and Weill Cornell Medicine clinicians convenient access to AI-powered tools and the latest medical research within their existing workflows. Over the past five years working with NewYork-Presbyterian, we've seen firsthand why they're consistently ranked among the nation's best hospitals and we're excited to grow our AI toolset with them.

UCSD Health, the #1 ranked hospital in San Diego, is another AI client and one of the first hospitals to adopt our new Patient Context feature. Directly from a patient's chart, our AI can read that patient's notes, labs, imaging, conditions, and coverage to give patient-specific answers and guideline-based treatment plans. It's the difference between a doctor asking a general medical question and asking about the patient in front of them.

Our Patient Context feature is now available for thousands of doctors, and they're writing prompts half as long – 12 words versus our 24-word average, because they no longer have to re-type the chart details into a search bar. Our AI already has the labs, notes, and problem list, so it can find the pertinent clinical details deep in their record.

To fit more workflows, we're opening API access to our clinical intelligence layer. If you're building time-saving tools for clinicians, we'd love to work with you. Just email us at bd@doximity.com.

Last, on the pharma side, our AI Search commercial offering has been well received: 16 of the top 20 pharma companies have already purchased, with three more in contracting. And more than 100 clients attended our Pharma AI Showcase last month, our biggest turnout ever.

To sum up: with DoseCheck and UpToDate, we lead on AI accuracy and trust. With 190 health system AI clients and Patient Context, we lead on distribution and integration. And with AI Search now available to our Pharma clients, we're growing into a much larger market.

As always, I'd like to end by thanking my Doximity teammates, who continue to work incredibly hard to care for those who care for us.

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CFO

Q2 was another strong quarter for Doximity, with AI usage driving accelerated adoption of our broader workflow suite. This validates our decision to expand AI investment in FY‘27. We also improved AI cost efficiency during the quarter, which helped drive higher-than-expected profitability.

FISCAL SECOND QUARTER 2027 RESULTS

Turning to our topline, Q2 revenue of $174.5 million outperformed our guidance with 4% year-over-year growth. This growth comes against a difficult year-over-year comparison vs. Q2’26, when we benefited from rapid adoption of our multi-module integrated offering.

Revenue upside in Q2 was driven by solid performance across our product portfolio as well as growing interest in our AI Search product. Positive AI Search demand signals include pharma company customers purchasing, on average, more than two programs each, and a doubling of available conditions driven by customer interest. We believe customer engagement with AI Search continues to drive broader momentum across our entire pharma portfolio.

In terms of customer metrics, our top 20 hospital and pharma customers produced net revenue retention (“NRR”) of 106%, with overall NRR at 103%. Customers with greater than $500,000 in annual spend represented 82% of revenue and grew 3% year-over-year to 124. As a reminder, these are trailing twelve-month metrics.

Turning to profitability, adjusted EBITDA in Q2'27 was $89 million, and represented a 51% margin. Outperformance was split evenly between the flow-through of higher-than-expected-revenue and better-than-anticipated AI efficiency.

Non-GAAP gross margin was 88% vs. 92% last year. As we shared last quarter, the majority of the increase in cost of revenue reflects scaling our AI investment to support rapidly growing engagement. As a reminder, over 90% of our incremental AI cost is for clinician usage.

Even with significant engagement increases, we realized AI cost leverage. Efficiency drivers include pre-buying more capacity at favorable economics, greater multi-model usage, and continued performance gains in our proprietary harness. We’re encouraged by improving AI unit economics even as we increase the accuracy and value we deliver to clinicians.

On a GAAP basis, stock-based compensation (“SBC”) was $41 million in the quarter, or 23% of revenue. This is consistent with the low-20% SBC guidance provided last quarter. As a reminder, this year’s SBC increase is primarily related to the FY‘26 grant made to our AI-focused R&D team. Excluding the grant, SBC would have been approximately 19% of revenue in Q2. We expect the impact of the AI grant to ease in FY‘28.

Our GAAP effective tax rate was approximately 31% in the second quarter, compared to 15% in the prior year, driven by the tax treatment of equity compensation. Our non-GAAP effective tax rate remained at 21%.

In Q2, GAAP diluted EPS was $0.18 per share, and non-GAAP diluted EPS was $0.36 per share. Fully diluted shares declined by 13 million, down 6% year-over-year, to 188 million shares outstanding.

Our balance sheet and cash flow generation remain strong. We ended Q2'27 with $713 million in cash, cash equivalents, and marketable securities, and we remain debt-free.

We generated $91 million of free cash flow, outpacing Adjusted EBITDA and up from $40 million in Q1. As expected from last quarter, collections activity normalized.

During the quarter, we repurchased $54 million of shares. We believe share repurchases remain an attractive, opportunistic use of capital. As of September 30th, we had approximately $347 million remaining in our existing repurchase program.

GUIDANCE FOR THIRD QUARTER AND FISCAL 2027

For revenue in Q3, we expect a range of $195.0 to $196.0 million, representing 6% year-over-year growth at the midpoint. For FY'27, we've raised our revenue guidance range to $678.0 to $683.0 million, also representing 6% growth at the midpoint. We expect slight acceleration in 2nd-half revenue growth vs. the first half on a year-over-year basis.

For FY'27, we are increasing the guidance midpoint by $4.5 million. This reflects the flow-through of our Q2 outperformance, plus a modest incremental raise driven by growing visibility into the commercial AI pipeline. AI Search is now an eight-figure bookings product and we started recognizing revenue from the product when the first program launched in July.

As a reminder, Q3 is our upfront season. This is when most pharma clients commit the majority of their marketing budgets for next year's programs in what are called "upfront" contracts. It is the largest bookings quarter of the year, and most contracts are signed by the end of December. We then typically recognize those commitments as revenue over the following 12 months depending on the timing of program launches.

One key difference this year is the availability of our new AI Search product. To date, we've seen early broad-based adoption with 16 of the top 20 pharma companies having purchased programs, and three more are in our pipeline. We will provide an update about the upfront and AI search progress in our February call.

In Q4, we expect year-over-year revenue growth to be similar to the Q3 guided growth rate. As with prior years, we have lower visibility into Q4 until we finish the upfront. In addition, new products like AI Search have a steeper ramp in the first calendar quarter of a new year as we help new customers through the medical-legal review process. As a result, we expect a gradual ramp in AI Search revenue throughout calendar '27.

For adjusted EBITDA, in Q3 we expect a range of $102.5 to $103.5 million, representing a 53% adjusted EBITDA margin at the midpoint. For FY'27, we now expect a revised range of $317.0 to $325.0 million, representing a 47% adjusted EBITDA margin at the midpoint. This outlook incorporates the continued investment required to support the stronger-than-expected AI engagement we've seen this year.

In the second half of FY'27, we'll continue to invest in growing clinician AI usage and expanding our moats. Key initiatives include increased safety and accuracy through programs like DoseCheck, greater clinical content through partners like UpToDate, and growing distribution leadership with U.S. health systems.

In closing, our long-term approach remains unchanged. We will continue to deliver one platform for AI clinical decision support, documentation, and patient communication. Improving efficiency in our AI investments allows us to continue playing offense in the midst of this generational technology shift, and help our clinicians be more productive so they can provide better care for their patients.

Lastly, as a reminder, please see our "Modeling Considerations" appendix where you can see more detailed financial commentary.

ADDITIONAL MODELING CONSIDERATIONS

Please note the following modeling considerations and refer to the guidance section in the CFO Prepared Remarks for official guidance and added context.

- **Non-GAAP Gross Margin:** We expect gross margin to remain in the mid-to-high 80% range in Fiscal 2027.
- **Non-GAAP Operating Expenses:** We expect small increases in R&D and S&M expenses as a percentage of revenue as we continue to scale our AI-related investments.
- **Stock-Based Compensation:** We continue to expect SBC of low-20s as a percentage of revenue in Fiscal 2027, primarily due to the AI PSU pool granted to our growing AI team, trending back down starting in Fiscal 2028.
- **Fully Diluted Share Count:** We expect our fully diluted share count range to be as follows –
    - **Q3:** 185 million to 192 million shares
    - **Fiscal 2027:** 187 million to 193 million shares

LEGAL DISCLAIMER: FORWARD-LOOKING STATEMENTS

These prepared remarks contain forward-looking statements, including statements regarding expectations of future results of operations or financial performance of Doximity, market size and growth opportunities, the calculation of certain of our key financial and operating metrics, capital expenditures, plans for future operations, competitive position, technological capabilities, and strategic relationships, general business conditions and the assumptions underlying those statements. Any forward-looking statements contained herein are based upon Doximity's historical performance and its plans, estimates and expectations as of the dates noted herein, and are not a representation that such plans, estimates, or expectations have been or will be achieved. You should not put undue reliance on any forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved, if at all. Subsequent events may cause these expectations to change, and, except as required by law, Doximity disclaims any obligation to update the forward-looking statements in the future. These forward-looking statements are subject to known and unknown risks and uncertainties that may cause actual results to differ materially, including, but not limited to, those related to our business and financial performance, our ability to attract and retain customers, our ability to develop new products and services and enhance existing products and services, our ability to respond rapidly to emerging technology trends, our ability to execute on our business strategy, our ability to compete effectively and our ability to manage growth.

Additional risks and uncertainties that could affect Doximity's financial results are included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q filed with the SEC. These materials are available on our investor relations website at investors.doximity.com under the Financials section and on the SEC's website at sec.gov.

Further information on potential risks that could affect actual results may be included in future SEC filings. In addition to financial information presented in accordance with U.S. generally accepted accounting principles ("GAAP"), these remarks may include certain non-GAAP financial measures (including on a forward-looking basis) such as Adjusted EBITDA and Free Cash Flow. Definitions and reconciliations of non-GAAP measures to their most directly comparable GAAP counterparts are available in our most recent Form 10-K or 10-Q on the company's investor relations website at investors.doximity.com.