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Doximity Fiscal 2025 First Quarter Earnings Call Prepared Remarks

<u>Jeff Tangney, Co-Founder and CEO</u>

We have three updates today: our financials, network growth, and product highlights.

Financials

First, our topline. We delivered $127 million in revenue for the first quarter of our fiscal 2025, which represents 17% year-on-year growth, and a 5% beat from the high end of our guidance range.

Of note, our top 20 clients once again grew the fastest for us, up 21% on a trailing twelve month basis. These clients are the largest, most sophisticated pharmaceutical manufacturers who employ entire teams of analysts to measure their marketing effectiveness. We believe our continued growth with them is proof of our value to the broader marketplace.

Our bottom-line was also strong in Q1 with an adjusted EBITDA margin of 52% or $66 million, which was 18% above the high end of our guidance. Our adjusted EBITDA grew 42% year-on-year, as we continue to run a disciplined and efficient business.

In short, we had a better than expected Q1 led by our new products and new Client Portal. Our CFO Anna will provide more detail on this in a minute.

Network Growth

Ok, turning now to our network growth and engagement.

We had another record quarter in Q1. Our unique active users on a quarterly, monthly, weekly, and daily basis, were all up double-digit percentages year-over-year.

And once again, our daily active users grew the most, a sign that we've become the go-to app for hybrid mobile medical work.

In Q1, a record 590,000 unique active prescribers used our generative AI, telehealth, messaging, and scheduling workflow tools to provide better care for their patients.

Our newsfeed also set new records. Last quarter, article reads among prescribers reached an all-time high.

We're proud to be both the newsfeed of medicine and the mobile medical office app. The practice of medicine is increasingly mobile, and we're honored to power it.

Product Highlights

OK, now for updates on our new AI and Client Portal products.

As a reminder, we're not AI tourists. For nearly a decade now, we've employed machine learning and AI to power our newsfeed, personalizing articles for each of our more than 2 million members based on their practice, publications, and reading histories. This personalized approach ensures that physicians receive the most relevant information, helping them stay current with the latest medical advancements.

We were also one of the earliest adopters of Generative AI, launching our own DoximityGPT product just three months after ChatGPT's debut. DoximityGPT provides a HIPAA-compliant writing assistant for doctors. To date, over 1.5 million letter requests or prompts have been completed on DoximityGPT, demonstrating the significant demand doctors have to "cut the scut" or streamline administrative writing tasks.

Last month, we made the front page of the New York Times in an article titled "In Constant Battle with Insurers, Doctors Reach for a Cudgel: A.I." Now if you ask me, we're more of a Jedi Lightsaber than a cudgel, but I won't quibble. We're just proud to help busy physicians get better care for their patients.

In the article, Dr. Azlan Tariq highlighted how DoximityGPT has halved his time spent on insurer appeal letters while increasing his appeal approval rate from 10% to 90%. The American Medical Association estimates that doctors spend 12 hours each week on prior authorization paperwork, so cutting that time in half is a substantial improvement. Dr. Tariq went on to say that DoximityGPT is "finally a tool I can use to fight back."

As always, we are proud to put physicians first and help them level the technology playing field with insurers. Our commitment to leveraging AI for the benefit of healthcare providers and patients remains unwavering, and we look forward to continuing to innovate in this space.

Ok, moving on now to our new Client Portal.

Our Portal is now available to 30% of our clients, and their feedback so far has been uniformly positive. In particular, they appreciate three key features: (1) daily updates, (2) seamless sales data, and (3) actionable recommendations.

First, clients value our daily 'in-flight' updates on their programs, which allow them to see their best-performing content and optimize accordingly. The transparency, consistency, and fidelity of our daily online reports stand in stark contrast to others who often redact and cherry pick the data they provide in their quarterly emailed reports.

Second, our seamless inclusion of prescription sales data allows clients to measure ROI not just annually or quarterly, but by individual headline or video message. This offers new real-time insight into what content resonates best. For instance, does their new clinical trial or co-pay coupons resonate most with doctors and patients?

Third, the Portal provides recommendations for easy add-on programs, suggesting new audiences and content orchestration to optimize ROI. This easy access includes pricing and simplifies the entire upsell process.

We are encouraged by our clients' reactions and upsells to date, and we remain on track with our longer-term Portal plan. Our first phase, reporting and insights, is nearly complete. Our second phase, recommendations and pricing, is now available to clients and soon for our agency partners. Our third and final phase, content creation, is currently in beta, with a full rollout expected by the end of this year.

Clients love our Portal's tech and transparency. And consequently, they're giving us a seat at their strategy table like never before.

Ok, I'd like to end by thanking my Doximity teammates, who continue to embrace our "lean team" principles and find more and more efficient ways to serve our physicians and clients.

With record engagement and a robust pipeline of new products, I couldn't be more excited about what we're building together.

Anna Bryson, CFO

First quarter revenue grew to $126.7 million, up 17% year-over-year and exceeding the high end of our guidance range.

Similar to prior quarters, our existing customers continued to lead our growth. We finished the quarter with a net revenue retention rate of 114% on a trailing twelve-month basis. For our top 20 customers, net revenue retention was higher at 121%, so our biggest, most sophisticated customers remain our fastest growing.

We ended the quarter with 102 customers contributing at least $500,000 each in subscription-based revenue on a trailing twelve-month basis. This is a roughly 16% increase from the 88 customers we had in this cohort a year ago, and these customers accounted for 82% of our total revenue.

Turning to our profitability, non-GAAP gross margin in the first quarter was 92% versus 90% in the prior year period.

Adjusted EBITDA for the first quarter was $65.9 million and adjusted EBITDA margin was 52%, compared to $46.6 million and a 43% margin in the prior year period. We are proud to continue to run a very profitable business with strong margin expansion.

Now, turning to our balance sheet, cash flow, and an update on our share repurchase program.

We generated free cash flow in the first quarter of $39.5 million compared to $55.6 million in the prior year period, a decrease of 29% year-over-year, driven primarily by the timing of tax payments compared to last year.

We ended the quarter with $750 million of cash, cash equivalents, and marketable securities.

During the first quarter, we repurchased $48.2 million worth of shares at an average price of $26.03. We believe repurchasing our shares is a valuable use of the incremental cash we generate above what's needed to reinvest in the business. These share repurchase efforts have decreased our fully diluted shares outstanding by 6% since Q1 of last year.

As of June 30th, we had $492 million remaining in our existing repurchase program.

Guidance for Second Quarter and Fiscal 2025

Now, moving onto our outlook. For the second fiscal quarter of 2025, we expect revenue in the range of $126.5 to $127.5 million, representing 12% growth at the midpoint, and we expect adjusted EBITDA in the range of $62.5 to $63.5 million, representing a 50% adjusted EBITDA margin.

For the full fiscal year, we now expect revenue in the range of $514 to $523 million, representing 9% growth at the midpoint, and we now expect adjusted EBITDA in the range of $248.5 to $257.5 million, representing a 49% adjusted EBITDA margin.

Our increased outlook is due to all businesses performing better than expected this past quarter.

Specific to our pharma customers, we saw a strong start to the upsell season, which we believe is due to a couple of factors.

First, we've never had a more focused and attractive product portfolio, and our new products continue to resonate with clients. In Q1, sales for our new Point of Care and Formulary products were each up more than 70% year-over-year.

Second, the Client Portal is providing deeper insights into program performance and driving favorable purchasing decisions. With greater visibility, our clients can evaluate their programs in real time and allocate additional spend to maximize their ROI. As we continue to build out our purchasing and content creation capabilities, we believe our Portal will unlock further budget over time.

We are proud of our Q1 performance and encouraged by the start to our year. We also recognize this remains an uncertain macro environment. Because of that, we will continue to take a measured approach to the revenue we have yet to book, which is reflected in our outlook for the back half of fiscal 2025.

Most importantly, we are focused on delivering industry-leading products and investing in our long-term growth. With record engagement across our platform and our new Client Portal now providing deeper insights to our customers, we're even more confident in our competitive position and our ability to gain market share.

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