Doximity Fiscal 2027 First Quarter Earnings Call Prepared Remarks

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

Today I'll cover four things: our financials, AI study results, usage growth, and commercial AI progress.

Financials

First, our financials.

Revenue growth reaccelerated to $157 million in Q1, up 7% year-on-year. Adjusted EBITDA was $75 million, or a margin of 48%. Respectively, these were both beats of 3% and 8% versus the high end of our guidance.

As you'll hear again shortly from our CFO Matt, this is our AI investment year. We're proving you can still post best-in-class software margins while investing heavily in clinical AI. We're leaning in as we see a once-in-a-generation opportunity to build the new AI age of medicine.

AI Study Results

To that end, I'm proud to report we're seeing record AI usage while topping the first large-scale independent head-to-head trial of clinical AI vendors.

A few weeks ago, a team of 57 researchers, led by 29 physicians from Stanford and Harvard, published NOHARM, the first-ever independent study of 24 clinical AI models and how they perform in 1,100 real-world patient cases. It's the kind of rigorous, independent, physician-led research that we need more of. Our Doximity Ask product led among U.S. models with the lowest clinical error rates and the highest safety ratings, or as Fortune magazine put it: "Doximity Ask came out on top."

Clinical AI is rapidly improving. Our winning model demonstrated a 4.8% error rate while others like Anthropic's best model, Fable 5, finished with a 13.6% error rate. We believe our outperformance is due mainly to two things: (1) our unique built-in drug reference, a model within the model, which is 100% expert-verified to ensure accurate drug doses and interactions, and (2) our over 12,000 physician PeerCheck editors who are continuously reviewing and refining our AI outputs.

These safeguards and quality checks are critical for hospital AI steering committees who could be held liable for their outputs and therefore care deeply about their accuracy. We continue to lead the way in the enterprise, now with 165 signed health system AI clients, including 8 of the nation's top Honor Roll hospitals. Our recent wins include Northwestern, Penn Medicine, and the University of Michigan. As this market migrates from AI Wild West to privacy and risk management, we're well positioned to win, as we did in telehealth.

Usage Growth

Ok, now to our usage growth.

Quarterly active workflow prescribers grew more than 30% year-on-year, to record highs, with nearly half using our AI tools in Q1. AI prompt volume was up more than 25% quarter-on-quarter, while our AI Scribe note-taking users grew a whopping 10x this July over prior. With these gains, we believe we're now the only clinical AI company who is top 3 in both the AI search and scribe markets.

Commercial AI Progress

Finally, our commercial AI products.

Our AI search monetization is off to a strong start, and the higher-level conversations it's generating with clients are fueling new business across our broader pharma portfolio. New search contracts are driving our revenue raise for the year, and we're just getting started.

Fifteen years ago, we carved out a niche as the leading online resume book for physicians. We've grown a lot since then, by keeping clinicians first and adapting the latest tech to their needs. Today, we believe we're the #1 most used clinical service in at least 5 categories – networking, news, scheduling, fax, and telehealth. We're the doctors' digital platform, and AI is just the next chapter in our growth.

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.

<u>Matt Sonefeldt, CFO</u>

Fiscal First Quarter 2027 Results

Thanks, Jeff.

Q1'27 was a strong quarter for Doximity, with robust revenue growth and clinicians adopting our AI Suite faster than anticipated. Higher than expected AI usage creates a good problem for Doximity, and we'll expand our AI investment in Fiscal '27 to capture the significant long-term opportunity ahead.

Turning to our topline, Q1'27 revenue of $157 million outperformed the high end of our guidance, with growth improving to 7% year-over-year. Revenue growth rebounded with solid performance across both pharma and hospital customers. Continued strong demand from large customers highlights our growing opportunity to work with pharma and hospital CXOs.

Our largest customers continued to drive our growth. We now have 127 pharma and hospital customers who generate more than $500,000 in annual subscription revenue on a trailing twelve-month basis, representing 7% growth year-over-year. They contributed 83% of total revenue, a level consistent with prior quarters. The top 20 customers produced net revenue retention ("NRR") of 112%, with overall NRR at 107% in Q1 on a trailing twelve-month basis.

Q1 outperformance was driven by two factors specific to pharma customers.

First, our new AI search product drove higher overall client engagement. As a reminder, we launched AI search in late April, leading to an increased velocity of pharma customer interactions. These conversations supported overall demand even as we did not recognize any AI revenue in Q1.

We have onboarded our first cohort of AI search customers across more than two dozen programs. We're also building a healthy pipeline for the remainder of FY27 and beyond with robust demand for our trusted brand and rigorously verified NPI-level engagement. We expect the majority of AI search revenue contracted to date to be recognized during Q3.

The second factor was unlocking additional budget from several customers that only committed to shorter-term buys during last year's upfront. For example, we saw a meaningful rebound in spend from one of our large, top-20 pharma customers that spent less in Q3 of last year.

While the overall pharma spending environment remains tight, we're starting to win innovation budget with the launch of AI search.

Turning to profitability, adjusted EBITDA in Q1'27 was $75 million, representing a 48% margin. The flow-through of incremental revenue growth drove the Q1 outperformance versus our outlook.

In Q1, non-GAAP gross margin was 88% vs. 91% last year. We increased AI compute spend during the quarter to support higher-than-expected clinician AI usage. We expect to maintain this trend throughout Fiscal '27 as we double down on AI investment to further scale Ask engagement. During Q1, we also saw higher costs in our other opex lines driven by annual merit increases, greater internal AI usage, and brand marketing.

On a GAAP basis, stock-based compensation ("SBC") was $37 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 Fiscal '26 grant made to our AI-focused R&D team. Excluding the grant, SBC would have been approximately 19% of revenue in Q1. We also saw a small impact from the hiring of new executives.

Our GAAP effective tax rate was approximately 40% in the first quarter, compared to 17% in the prior year, driven by the tax treatment of equity compensation. Our non-GAAP effective tax rate remained at 21%.

GAAP EPS was $0.13 per share, and non-GAAP EPS was $0.29 per share in Q1. Fully diluted shares declined by 10 million year-over-year, or 5%, to 191 million shares outstanding.

Our balance sheet and cash flow generation remain strong and create a solid foundation for our growth and AI investment.

We ended Q1’27 with $688 million in cash, cash equivalents, and marketable securities, and we remain debt-free.

In Q1, we generated free cash flow of $40 million. The decrease versus the prior year was driven by normal fluctuations in collections, which have variability based on program and delivery timing. We expect collections to normalize throughout the remainder of the year.

During the first quarter, we repurchased $92 million worth of shares. We believe share repurchases remain an attractive, opportunistic use of capital. As of June 30th, we had approximately $400 million remaining in our existing repurchase program.

Guidance for Second Quarter and Fiscal 2027

Let’s turn to our outlook.

For Q2’27 revenue, we expect a range of $170 to $171 million, representing a midpoint of 1% year-over-year. For the full year, we have revised our guidance range up by $6 million to between $671 and $681 million, representing 5% growth at the midpoint. The increase represents the flow-through from Q1 outperformance plus a modest incremental raise.

The stronger Fiscal ‘27 outlook reflects a more stable pharma budget environment, a higher velocity of customer interactions, and the nascent but growing AI commercial pipeline.

Our Q2'27 growth outlook is impacted by the tough comparison against last year's elevated 23% growth. In addition, we expect only modest revenue from AI search in Q2. In Q3’27, we expect stronger year-over-year growth as AI search revenue builds and we have a more normal growth comparison to the prior year.

To date, we've taken a deliberate approach to scaling AI search by protecting the Ask user experience while iterating on the product based on customer feedback. At launch, AI search programs had conservative inventory caps with shorter 3-4 month commitments. As we move into the upfront, the focus shifts toward larger, longer customer contracts with greater inventory available across more therapeutic categories.

For adjusted EBITDA, in Q2'27 we expect a range of $80.5 to $81.5 million, representing a 48% adjusted EBITDA margin at the midpoint. For Fiscal '27, we now expect a revised range of $309 to $329 million, representing a 47% adjusted EBITDA margin at the midpoint.

This continues to be our AI investment year as we respond to stronger-than-expected clinician usage and our growing commercial AI pipeline.

This is the right long-term decision for our members and our business. This additional spend allows us to further invest in our AI competitive advantages: increased safety and accuracy through PeerCheck, AI integration across our platform, and our growing presence in U.S. hospitals.

Approximately 90% of AI expenses will focus on responding to increased demand for our clinical AI suite. This will be recognized in cost of revenue and we expect gross margins to trend in the mid-high 80% range throughout the year.

In summary, we're leaning in from a position of strength during one of the most important technology shifts in medical history. We will leverage our best-in-class margins and lean culture to continue delivering the leading AI experience for U.S. clinicians. We believe this puts us one big step closer to realizing our mission: to help doctors be more productive so they can provide better care for their patients.

[PAUSE]

Lastly, this quarter we've begun to include a "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.

Profitability:

- **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.
- **Tax Rate:** We expect our non-GAAP effective tax rate to remain approximately 21% for Fiscal 2027.
- **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.

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 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 filings with the Securities and Exchange Commission on Form 10-K and subsequent Form 10-Qs. 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 will be included in other filings Doximity makes with the SEC from time to time. 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.