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15 October 2020 Investor Presentation Conference Call – Recorded Video Link and Transcript

1st Group Limited (ASX: 1ST) is sharing here a transcript of the presentation and link to the video file recording of the investor briefing call on 15th October 2020.

The video file link can be located at www.1stgrp.com/investors page.

Start of the transcript

Michael Brown: Morning everybody it's Michael Brown here from Investor Relations. Welcome to the call.

We have today Klaus Bartosch CEO/Co-Founder and Richard Rodgers CFO on the line with us and the format for today's presentation will be that Klaus will present the slides that were released to ASX yesterday and will share those slides on the screen so everybody can see them.

And then following the formal presentation will be pleased to open the lines for Q&A .If you'd like to ask a question you can either use the chat facility on zoom or unmute yourself and ask away. Thank you again for joining us at that point I'll hand over to Klaus.

Klaus Bartosch: Good morning everyone and thank you for joining today's investor presentation. I'm quite looking forward to sharing with you some insights into the material that's been provided. But for those of you who are new to 1st Group and what our organization is doing is we are building a platform and marketplace and helps digitize more of what we do as consumers and the way in which we engage with healthcare services. Much of the industry remains today with using fax machines. And this is a real opportunity that our organization is finding and being able to transition more of what we do as consumers into online channels and how we engage with healthcare services. We've released this presentation for the first time after reporting season to help present and disclose our SaaS unit economics for the first time using financial year 20 numbers.

I am also joined by Richard Rodgers our CFO which is on the call and will be available for answering questions later and obviously Michael Brown from investor relations who you heard from earlier.

Slide 2 – 1st Group Company Overview

Klaus Bartosch: Look, we've made some significant platform investments over the last nine years and they have positioned us very, very strongly to benefit from the songwriter structural shift to online health has been brought about as a result of the pandemic. Way to market leaders in independent optometry and pharmacy and vet and expanding our presence in other sectors such as dental psychology and the specialist markets.

Our customers include both private practices, corporate and government agencies, GP practice owners and large corporate groups like Pacific smiles group and various government agencies as well. The end users of our platform, the beneficiaries of what we do aren't just those customers but obviously their patients or their customers, who can now interact with them more conveniently and more easily online.

As a company, we've now taken almost 13 million appointments to date and have over 11,000 customer sites will locations across our platforms already.

And a little bit about our revenue model is that we have four sources of revenue and setup fees and recurring subscription revenue recurring advertising fees and recurring usage fees have delivered a fairly consistent 26% CAGR ever since FY19.

The size of the current addressable market in the markets that we presently operating is about $1.2 billion. And so we have a long runway ahead of us in terms of being able to drive growth continued going forward.

Slide 3 – CEO Update

Klaus Bartosch: Look, I wanted to provide you with an update on our trading performance we've released as I mentioned, for the first time a number of key SAS metrics and I'll be covering these in a later slide, and importantly lifetime value and CAC ratio, which is really an important ratio was 7.0 for the last financial year, and our portfolio lifetime value is $89.4 million and I'll be explaining and covering this much more detail in a subsequent slide.

And as you all, as many of you would know we signed a number of landmark contracts a bit over a year ago with Medibank, Benestar Group and St Vincent's health. I'm keen to provide you an update on how those projects are progressing. Obviously, they were impacted by things like the bush fires and, more recently, the pandemic, which had slowed some of that progress down. But I'm really pleased to report that we're making really good progress now in FY21 and do expect to see these projects mature and deliver good results during this financial year. Importantly, I think it's important to note that, you know, during the pandemic and recent lockdowns both nationally, and more recently in Victoria, that our company has actually performed quite resiliently and we continue to expand and progress our landmark deals and we continue to grow new customers. And in fact, we've been seeing some good progress being made and some accelerated growth as a result of the Victoria lockdowns now having eased and so our progress I think continues to be very good in this half and I think going forward.

Slide 4 – Growth Across Key Drivers

Klaus Bartosch: This is about our key growth drivers. You know when investors asked me, you know, what are the key metrics that matter to me that matter to us as a company, well frankly they're all on this slide on this page, it's a really important page.

We're clearly a growth company and we have some exciting opportunities ahead of us and given our unit economics that we're now revealing for the first time that strategy is really underpinning really strong returns.

Slide 5 – Unit economics and track record of value creation

Klaus Bartosch: Slide five are our SaaS unit economics, and I do want to spend some time going, both through this slide and the subsequent slide because they really are very important to understanding the company's strategy and the opportunity that lies ahead of us and but this is an exciting new disclosure for us. And I wanted to spend some time to really walk you through it.

Why is it relevant well because of the nature of our contracts. We are in effect a subscription business. But importantly, we also have additional revenue streams that sit on top of that. We've applied the standard SaaS methodology to value our subscription business. It does not include the additional revenues from advertising and usage fees for example, but these reflect the economic value of what our customers have committed to with our business. And I think that makes them extremely important so let me take you through them. The first is Annualised Contract Value (ACV), which is currently an average of $577 and we do expect over time as we increase the value and opportunity with each customer that that number will rise. Churn for the last financial year was 6%. This was due to some legacy non-healthcare gobookings customers who no longer required the service that resulted in that slight increase. Customer Acquisition Cost, which is just over 1100 dollars, but remember we get an average of about $7,900 in return over the lifetime of that relationship with that customer. Importantly these numbers exclude the additional value that can be created from these customers by providing additional products and services to them over time and you'll see us continue to take those opportunities and to bring added value to a customer relationships which will increase the value of each site to our business over time.

So why is this important, well portfolio life-time value is $89.4 million. And this is important because it's equal to the value of contracts already signed. This is really important and significant number and that I think really talks to the value of the business that we're creating.

Lifetime value to CAC ratio and is the basis of our growth strategy. That's why we're investing in growth. It's why we believe in investing and is the rational strategy to drive increase shareholder value over time.

Slide 6 – Attractive Unit Economics – SaaS Metrics

Klaus Bartosch: Slide six provides more detail about the calculations of these very attractive unit economics and both compares the results for last financial year with the previous financial year before that. And there's a reason why we're sharing this and I'm really keen to walk you through it now.

It's important to note, by the way, that the details that are on this slide are also explained ion a glossary on slide 23 that provides much more detail explaining each of these key acronyms that you see on this page so do take the time to review the glossary at a later date when you get an opportunity. Look churn while it increased from FY 19 to FY 20 we do expect that to normalize between 4 and 5% as we go forward.

The CAC, the cost of customer acquisition did increase by 100% last year which is actually related to the investments that we made in landmark contracts for which we will see that revenue grow over time and we do expect CAC again to normalize closer to the June 2019 numbers as revenue grows and sites are added as a result of those investments.

Look, Medibank, Benestar and St Vincent's Health projects for which we remain very strongly engaged with these customers are progressing those deals now quite well are really quite important because these relationships are helping us expand in key markets. In the case of Medibank initially in the dental market, in the case of Benestar in the psychology market and in the case of St Vincent's Health into the specialist market. The impacts of the of these deals though, are yet to be included in the numbers, which is why we're frankly quite excited. We should expect lifetime value to CAC ratio to also recover back to FY 19 numbers and these are obviously very, very strong ratios and metrics and they really do argue strongly for continued investment in growth.

Slide 7 – Rising Contribution Margin with investments for growth

Contribution Margin is a really important statistic to understand when seeking to understand a growth company like ours, it has really been offered in the spirit of a new disclosure and transparency in the way in which we seek to understand the growth and the underlying performance of the company.

The way this is calculated is to separate maintenance opex from discretionary investments that drive growth, you can see the fixed costs here are relatively stable and therefore the operational gearing coming through with improved contribution margin.

This really helps investors understand why it makes sense to continue to invest in driving growth based on our unit economics and this is commonly used by investors to really understand high growth SaaS companies.

Slide 8 – Covid-19 Update

The key takeaway from this slide is really in column three. What we've seen the pandemic do is significantly accelerate a number of key initiatives which importantly has moved all Australians and all healthcare service providers online en masse in a way that we just have not seen before. And you've also seen government make decisions in short time, like with Telehealth and rapidly progressing the adoption of telehealth in Australia and making decisions very, very quickly.

You know, we've been making significant investments in our platform over the last nine years to enable us to take advantage of what we had expected to be at least another decade of ongoing change in moving healthcare providers and consumers online. This pandemic has really significantly shifted and created a structural shift to online health and why we believe will really benefit our business and the investments that we've been making.

Slide 9 – Revenue Model

Want to make sure that we have a good understanding of our revenue model and the upside potential and opportunity continues to remain. We've essentially for sources of revenue. The first is obviously subscription revenue. These are the recurring revenue components from products like our online appointment booking service and easy engage, etc. We have one-off that customers pay us to be onboarded onto our platforms and they vary depending on whether it's an individual practice or large corporate customer. The third is advertising revenue and there remains some really good opportunity for us going forward in that. And usage fees for things like the more transaction oriented fees that become possible as we continue to monetize the network and marketplace that we are creating over time.

Slide 10 – Current Addressable Market

So what we've done here is we've re-cut the total addressable market into the current addressable market, that is, the markets that we are presently active in that we've talked about already. This is to help investors understand the value of relative markets that were active in versus other opportunities that still remain ahead in terms of other sectors that we could continue to grow into.

We've been building our platform for scale right from day one and that's based on the expertise of the people that we have within our organization.

Healthcare though is one of the last markets on earth to actually make this transition to digital and that provides us a significant opportunity, as I mentioned earlier, and healthcare practices, by and large, continue to use fax machines. I find that extraordinary, but we are seeing significant change in behaviors and these products and platforms, the tools that we're providing to market is helping these practices change and move into the online world in a really powerful way that's helping their businesses and importantly, placing us very much at the forefront of that change that's occurring in the market.

We just need to look at companies, for example, and marketplaces like realestate.com.au to understand the importance of grabbing the opportunity of grabbing the land grab and the value they creating they are building over time. And that's really what our platforms and our businesses all about.

Slide 11 – Platforms and Online Health Marketplaces

Klaus Bartosch: Look, we've been investing and building our platforms and marketplaces, as I mentioned, for the last nine years. What's important I think to takeaway from this are the key barriers to entry for others, and that is that we've made some significant investments here. To integrate with over 45 practice management software systems, the very software systems that our customers use to manage their operations and to enable them take appointments online and to interact and manage their patient information. And this is really a big part of our secret sauce and it's complex. It's a complex area to understand. I mean, these practice management systems integrations allow us to access the significant part of the health care market. And so these integrations are really quite important, but also quite difficult to create and represent a big part of our investment.

What we're building here though is much, much more than a booking engine and much, much more frankly than even a SAS platform. Because importantly what we're building here is a Healthcare Marketplace. That helps consumers access these services, much more easily and much more quickly in the way in which that existed prior to the arrival of the things that we've been doing.

Slide 12 – Current Product Suite

Look, I won't to take you through the range of products. I'm presuming that you can peruse this slide on your own. So we'll take it as read and move on to the next slide.

Slide 13 – Market Positions

Slide 13 outlines our key strength in market positions and some of our key customers are I'll take that also was read and move on to the next slide,

slide 14 – Revenue Analysis

Slide 14 is a more detailed revenue analysis. But look, we've already covered these details in previous slides. So again, we'll move forward and go on.

Slide 15 – Financial Analysis

Similarly with the financial analysis we've already covered these and so we'll skip this go onto slide 16, but I will spend some time on slide 16. It's really important.

Slide 16 – Balance Sheet

At the end of June, we had $2.5 million in available funds and an offer for additional $1 million extension to a convertible note on very favourable terms from are very supportive Cornerstone shareholder, John Palmer, should we require it. We can fund our business plan. We have no plans at present to raise funds.

Slide 17 – 5 Year Financials and Drivers

Klaus Bartosch: Slide 17 is our five your financials so will take them as read as we've covered so much of this material already so we'll move on to slide 18.

Slide 18 – Growth Strategy

Klaus Bartosch: This slide is important. This is our growth strategy. This is how we as an organization, focus our energies and efforts on growing the business. The first is obviously increase sites to get more customers onto our platform.

The second is to upsell those customers by providing additional value added services and products to those and there remains a good roadmap and a good opportunity for us to continue to add value to our existing customers over time. As we do this though, we also want to make sure that we're increasing the consumer interactions and therefore the bookings per site and by increasing those consumers interactions were able to monetize what becomes the network effect that's created through our platform.

This network effect lets us do things like, for example, generate new patient fees and generate other advertising revenue, etc. And then lastly, we continue to explore strategic opportunities to accelerate growth. Like the recently announced strategic partnership with Openpay and I'm looking forward to in time sharing with you more about our progress that we're making with the buy now pay later company Openpay.

Slide 19 – Key Investment Considerations

Klaus Bartosch: These are key investment considerations for investors and want to make sure that you're familiar with these. There are six key investment considerations. The first is that our continued positive directional movement in SAS metrics and rising contribution margin really talks to the underlying progress that we're making in our business.

The second is we operate in a very large addressable market that provides us with a long runway and opportunities for growth going forward.

We have multiple growth drivers, which I've mentioned in previous slides and we expect strong momentum to build in particularly as our landmark contracts mature during this financial year.

We benefit from the structural shift that's been caused it online, health and by the pandemic, an unfortunate, but positive outcome for our business.

We continue to have significant revenue potential from our existing footprint, as mentioned by bringing more, you know, new, additional products and services to those existing customers.

And we have an experienced leadership team and board to help take us forward.

I'd like to now stop at this slide and like to open up the call to take any questions.

End of transcript.

This announcement has been approved for release by the Board of Directors.

Further information

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About 1st Group Limited

1st Group is an ASX listed digital health group building Australia's leading health services portal, MyHealth1st.com.au, Australia's online pet service portal PetYeti.com.au and corporate and government solutions platform GoBookings.com. These integrated platforms provide an easy to use online search and appointment booking service and offer a range of value-added apps and services that facilitate digital patient and customer engagement. We improve lives by connecting consumers to a variety of healthcare services and information anytime, anywhere, so they can get well sooner and stay well longer. To find out more visit 1stGrp.com, MyHealth1st.com.au, PetYeti.com.au and GoBookings.com.