1life Healthcare Inc (Q4 2019 Earnings)

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Corporate Speakers:

- Rose Salzwedel; One Medical; Director of Investor Relations
- Amir Rubin; 1Life Healthcare, Inc.; Chair, CEO & President
- Bjorn Thaler; 1Life Healthcare, Inc.; CFO

Participants:

- Lisa Gill; JP Morgan Chase & Co; Senior Publishing Analyst
- Rivka Goldwasser; Morgan Stanley; MD
- Ralph Giacobbe; Citigroup Inc; Director
- Sean Wieland; Piper Sandler & Co.; MD & Senior Research Analyst
- James Stockton; Wells Fargo Securities, LLC; Director & Senior Equity Research Analyst
- Ryan Daniels; William Blair & Company L.L.C.; Partner & Healthcare Analyst
- Matthew Gillmor; Robert W. Baird & Co. Incorporated; Senior Research Analyst
- Sandy Draper; SunTrust Robinson Humphrey, Inc.; MD of Equity Research

PRESENTATION

Operator: Good afternoon, ladies and gentlemen. Welcome to the One Medical Fourth Quarter and Full Year 2019 Earnings Results Conference Call. (Operator Instructions).

Please be advised that the conference is being recorded.

I would now like to turn the conference over to Rose Salzwedel, Director of Investor Relations at One Medical. You may begin.

Rose Salzwedel: Thank you, Carmen. Good afternoon. Welcome to One Medical's Fiscal 2019 Fourth Quarter Earnings Call.

With me on the call today are Amir Dan Rubin, Chair and CEO and President of One Medical; and Bjorn Thaler, Chief Financial Officer of One Medical.

A complete disclosure of our results can be found in our press release issued earlier today as well as in our related Form 8-K furnished to the SEC, all of which are available on our website at investor.onemedical.com. As a reminder, today's call is being recorded, and a replay will be available on our website following the conclusion of the call.

As part of our comments today, we will make forward-looking statements. These statements are based on management's current views, expectations and assumptions and are subject to various risks and uncertainties. Actual results may differ materially, and we disclaim any obligation to update any forward-looking statements or outlook. Please refer

to the risk factors in our most recent Form S-1 and Form 10-K to be filed with the SEC in the coming weeks.

Of note, it is One Medical's policy to neither reiterate nor adjust the financial guidance provided on today's call unless it is also done through a public disclosure such as a press release or through the filing of a Form 8-K.

We will also discuss certain non-GAAP metrics that we believe aid in the understanding of our financial results. A historical reconciliation to comparable GAAP metrics can be found in today's earnings release.

During the call, we may offer incremental metrics to provide greater insights into the dynamic of our business. These details may be one time in nature, and we may or may not provide updates in the future.

And with that, I'll turn the call over to Amir and Bjorn for their prepared remarks and to take your questions.

Amir Rubin: Thank you, Rose, and welcome, everyone, and thank you for joining us, particularly during these extraordinary times. We're so pleased to speak with you today. For those we met during our IPO roadshow, we are happy to reconnect today. For those new to One Medical, welcome.

As this is our first earnings call together, let us begin with a brief overview of our One Medical model, strategy and opportunity. We will then review our 2019 results, and then we'll also share comments with regards to COVID-19. One Medical is a membership-based and technology-powered primary care platform with seamless digital health and inviting in-office care convenient to where people work, shop, live and click. Our vision is to delight millions of members with better health and better care while reducing costs. Our mission is to transform health care for all through our human-centered, technology-powered model.

We believe that the current state of health care leaves key stakeholders frustrated. These stakeholders include consumers, employers, clinical providers and health networks. Consumers are dissatisfied with the health care experience with shortened in-personal visits, uninviting medical offices, constrained accessibility and a lack of coordination across clinical studies.

Employers often find their health offerings -- their health benefit offerings underperforming on attracting and engaging employees, improving productivity and managing costs. Providers nationally are showing symptoms of burnout driven in part by misaligned fee-for-service compensation approaches, which incentivize short interactions and avoidable referrals and excessive administrative tasks from electronic health records. And health networks, inclusive of health systems and health plans have been looking to develop more coordinated networks to better integrate primary care with specialty

services and to better align with attributable lives. Yet despite their large investments, many have struggled to deliver on these objectives.

In One Medical, we believe we are uniquely positioned to deliver results for all of these key stakeholder groups. Our membership model combines seamless 24/7 digital health services with highly accessible and inviting in-office care routinely covered under commercial health insurance programs. Accordingly, we see that we are delighting consumers with our elevated experience and best-in-class clinical care as evidenced by our continued high 90 Net Promoter Score and 90th percentile quality scores.

For employers who sponsor employee memberships, One Medical is supporting employee engagement and productivity while delivering cost savings. For example, by reducing emergency room visits by 41%, increasing generic prescription rates and driving total employer savings of 8% or more. For providers, we are addressing root causes of burnout by providing a salary as opposed to fee-for-service compensation by leveraging a team-based approach to longitudinal member relationships and by developing our own proprietary technology platform, which reduces many of the desktop medicine burdens and administrative hassles faced with cumbersome electronic health records.

And for health networks, we are clinically and digitally integrated for better care coordination and reduced duplication of testing across primary and specialty care settings and helping health networks build alignment with employer accounts and commercially insured patients without them incurring many of the costs and risks faced in their developing their own practices on their own.

Overall, we believe that our unique ability to simultaneously serve all these key stakeholders through our member-based and technology-powered model is delivering an enduring competitive advantage in a large and growing market.

We indeed see a long runway for growth, returns and impact. Currently, members can access our digital services 24/7 from any location nationally, and we have also scaled our medical office locations across 9 markets to date, including Boston, Chicago, Los Angeles, New York, Phoenix, the San Francisco Bay area, Seattle, Washington, D.C. and San Diego.

In 2020, as we've previously announced, we plan to expand into 3 new markets, which include Orange County, California; Portland, Oregon; and Atlanta, Georgia. Together, these 12 markets alone represent an estimated $38 billion in total addressable market for just the commercial population with the addressable market expanding to $159 billion when considering the commercial population across the entire United States and to $260 billion when considering all of primary care.

With that brief overview of our model, strategy and opportunity, let us turn to highlights from our 2019 results and how we've been able to perform, innovate and grow. We are very pleased with our financial performance during the past year and are happy to report

that we closed out 2019 with a strong fourth quarter, which Bjorn will dive into later on in the call.

We ended 2019 with 422,000 members, expanding our membership base by 22% year-over-year. For the full year, we delivered $276.3 million in annual net revenue, an increase of 30% over -- year-over-year. We generated a care margin for 2019 of $108.6 million, an increase of 42% year-over-year.

Adjusted EBITDA for 2019 of minus $25 million reflects continued investment in technology and capacity, expansion of sales and marketing efforts and our public company readiness preparation costs. Going forward, we anticipate adjusted EBITDA to improve given the leverage in our model. And we expect to reach adjusted EBITDA breakeven around year-end 2022.

In addition to delivering financial performance last year, we were widely recognized for our innovation. In 2019, Forbes ranked us as #1 on their list of the most consumer-centric health care companies. AllianceBernstein named us as their most disruptive private healthcare company. Fast Company named us as one of their most innovative companies. And we were named a great place to work. We also reached new heights in our impacts for chronic and complex care patients last year. For example, in late 2019, we were recognized by New York City as the #1 performer for suppressing the HIV virus amongst all New York City providers.

We also continued with strong member engagement across our digital and in-person settings. During the 12 months of 2019, we engaged with our members an average of 7x, 2x in person and 5x digitally. As 1 member wrote to us, "Keep up the great work. Your model is revolutionary and a much needed change to the doctor-patient relationship. It is sure to have hugely positive impacts on health outcomes." This level of member satisfaction is why we saw 9 out of 10 consumer members renewing with us in 2019 and enterprise clients renewing at even higher levels.

We also continued our growth last year, including with our health network partnerships as we further built clinical and digital integrations across the United States. As of year-end, partnerships covered 86% of our member base, up from 51% in the prior year. In January 2020, we announced a new partnership in Boston with Mass General Brigham, also known as Partners HealthCare. On a pro forma basis, 88% of members are now covered under these partnerships.

As we've already noted, we plan on expanding to Orange County, California; Portland, Oregon; and Atlanta, Georgia this year. With the addition of these 3 markets, by the end of 2020, we will have grown our total market by 50, 5-0, percent over the prior 18 months. These markets provide us with an outstanding opportunity to grow our enterprise and consumer enrollment and to align with premier partners. And today, we're pleased to announce an additional new market and new partnership as we plan to enter Austin, Texas next year in partnership with Ascension Seton Medical Center. This will be our 13th market and further extend our national reach to companies and consumers.

In addition to expanding health network partnerships and growing markets, we've continued to build outstanding relationships with new and existing enterprise clients. We ended 2019 with more than 7,000 enterprise clients. In Q4 specifically, we began new relationships in industries across technology, retail, professional services, consumer goods, health care and education.

In Q4, we also launched One Medical for kids across multiple markets, allowing us to further delve into care for the whole family and extend our services with both enterprise clients and consumer members who also continue to grow. Pediatrics is just one example of our extended offerings, which now include an array of digital health and in-office care services, including immunizations and lab services, behavioral health, women's health, men's health, LGBTQ plus care, sports medicine, lifestyle and well-being programs.

Let me now turn to how we're demonstrating the power of our model during this coronavirus outbreak and implications for our business. First, let me acknowledge our entire team for the incredible support given to our members, enterprise clients, colleagues and communities during this time. They have been delivering outstanding care, guided with the latest clinical insights and often have been the front line of health care for our members and employers in affected communities across the nation.

We are seeing that our model, which combines 24/7 bundled digital health along with our accessible in-office care and lab services has been so highly valuable during this time of COVID-19. Through our digital health services, we have been able to actively serve members virtually and then direct them for any further care needed.

In the first 2 weeks of March alone, approximately 31% of our entire membership base sought care with us virtually. We believe this is a remarkable demonstration of the deep reach and power of our model and the incredible health care delivered by our team. Additionally, when our providers have deemed it appropriate and in line with clinical and public health criteria, we have been able to support COVID-19 testing services at designated One Medical locations across the nation.

While testing volumes are still just ramping and capacity of centralized laboratories are still building up, we estimate One Medical has already facilitated about 1% to 2% of all the COVID-19 testing to date in the entire United States, noting that we're not yet in many markets. And we estimate we've facilitated approximately 4% of all testing in California and New York, 18% in Arizona and 45% in Washington, D.C.

For leadership at our enterprise clients, we have been serving as a key clinical resource as these employers work through their workplace and team approaches. For example, just last week, we had a conference call between our clinical leadership in more than 250 existing and potential enterprise clients, providing further insights on COVID-19 and areas for consideration for their organization.

We note that our model's membership-based relationship and service to employers along with our seamless combination of digital health and in-office care not only delivered in 2019, but is delivering significant impact during these extraordinary times as well. We are continuing to see new employers and consumers sign up with us as they further recognize the power of our model. While it's still early in 2020, we've already seen accelerated membership growth above our initial expectations, and we expect to see long-term tailwinds for our business from our expanding membership base.

Now we are seeing communities we serve being directed by public health officials to adopt social distancing and sheltering-in-place practices. As per such public official pronouncements, we are being guided to defer elective in-office visits when possible. Accordingly, while our revenues from membership fees and partnership revenues continue, our patient services revenues from in-office visits are anticipated to decline in the short term under such distancing and sheltering-in-place policies.

After relaxation of such policies, we anticipate in-office visits and related patient services revenues not only return to prior levels, but potentially surpassing them for some period of time as deferred visits get seen for such needs as chronic disease management of diabetes and heart disease, cancer screenings, reproductive health, sexually transmitted infections, behavioral health, wellness visits and many other needs.

Additionally, it is possible that COVID-19 will drive an influx of demand for our office space visits with lab testing services and at some point, drive an influx of demand for any future vaccinations or other treatments in supporting the healing of our nation and our economy.

In summary, we believe that our human-centered and technology-powered model can transform health care for all key stakeholders and deliver better health, better care and lower costs at scale. Moreover, during these extraordinary times, we see our model further demonstrating its extraordinary impact. We look forward to keeping you updated on our progress and appreciate your engagement with us.

Now let me turn it over to our CFO, Bjorn Thaler.

Bjorn Thaler: Thank you, Amir, and hello to everyone on today's call. We are very pleased with our strong 2019 results, which we previewed in our S-1. As this is our first call, we will share extra color on significant components of our business in addition to the detailed numbers.

We are a membership-driven model. And as I will discuss, members drive a majority of our economics. In 2019, we grew our membership base 22%, ending the year with 422,000 members. We have been a consumer-focused company since our founding and began building our enterprise strategy over the past several years. As of year-end 2019, our membership base was approximately 48% direct-to-consumer and 52% enterprise members.

Turning to revenue. We report 3 separate revenue streams, specifically, membership revenue, partnership revenue and net patient service revenue. In total, we delivered $77.4 million in net revenue in Q4, up 33% year-over-year. Our Q4 membership revenue grew 23% year-over-year and was 18% of our total net revenue for the same period. As a reminder, membership revenue is generated from consumer and enterprise annual membership fees.

We received partnership revenue primarily from our health network partners, which is a new revenue stream for us. In markets where health network partners pay us a fixed per member per month fee, or PMPM, when a member comes into our office, we build their insurance program for the services provided on behalf of these health network partners. As One Medical established such PMPM partnerships within our existing markets, we saw an increase in the percentage of total net revenue represented by partnership revenue with the corresponding decrease in net patient service revenue.

In Q4 2019, partnership revenue was 28% of our total net revenue, up from 13% in 2018. Please note that partnership revenue also includes fixed payments from enterprise clients for on-site medical services and capitation payments from independent physician associations, or IPAs.

Taken together, membership revenue and partnership revenue in Q4 totaled $35.8 million or 46% of total net revenue. These revenue streams are contractual and recurring in nature and generally independent of the number of in-office visits or digital encounters by our members.

Net patient service revenue is generated from providing care to members in our offices and billing them or their insurance program on a fee-for-service basis. Some of this revenue stream is generated in markets where we have health system partners, while in other markets, we contract directly with health plans.

Given our focus on primary care, we believe this revenue stream is generally fairly visible as it is driven by the number of in-person visits to our offices, the severity of these visits and the reimbursement rates of health plans. In Q4, this represented 54% of total net revenue. While this percentage is down from 68% in Q4 2018, this decline is driven by the increasing shift to partnership revenue as I mentioned earlier.

Turning to our Q4 results. Partnership and net patient service revenue collectively increased 36% year-over-year. This strong growth was driven predominantly by our membership base growing 22%. The remainder of the growth was largely driven by improved member engagement during Q4, including a strong flu vaccination campaign and improved pricing.

Our Q4 performance continued our strong momentum from earlier in 2019, which drove total net revenue for the year of $276.3 million, up 30% year-over-year.

We consider cost of care and care margin to be important measures of our efficiency levels and our pricing effectiveness. Cost of care excludes depreciation and amortization, but includes the costs for both our in-office and virtual providers and support staff as well as occupancy costs, medical supplies, malpractice insurance and other operating costs.

Our membership model gives us a distinct advantage in managing cost of care and resulting care margins as membership provides line of sight as to when we need to expand our virtual or in-office staffing and whether or when we need to extend into additional office locations.

While most of our cost of care is driven by staffing, as a reminder, we began incurring expenses for new offices several months in advance of opening, typically as soon as we sign a lease. Each new office results in a modest step-up in fixed cost primarily from additional occupancy expense, which is diffused over time as we grow members. To manage new offices efficiently, we typically hire only a few providers at office opening and over time grow staffing as membership grows, including growing our virtual team as digital needs increase as well.

We ended 2019 with a total of 83 offices, an increase of 17% year-over-year. During 2019, we opened a total of 12 new offices, 6 of those in Q3 and 6 in Q4. Additionally, in the second half of 2019, we began investing into new office growth for 2020. As a result, care margin in Q4 was $28.4 million or 37% of net revenue. In dollar terms, this represented a year-over-year increase of $6.1 million.

As a percentage of revenue, care margin decreased slightly compared to 38% of net revenue in Q4 2018 driven primarily by our new offices. Even with these capacity investments in Q4, we were pleased with our demonstrated ability to drive efficiency during the year and delivered strong year-over-year care margin improvements in 2019. For the year, care margin was $108.6 million or 39% of total net revenue, the highest annual care margin percentage in our history and up from $76.5 million or 36% of net revenue in 2018.

In terms of operating expenses, below the cost of care line, this past year we made investments to continue to fuel growth and to prepare to be a public company. Specifically, we grew our technology team to further build-out our platform for member engagement as well as integration with our health network partners.

In Q3 2019, we also moved into new corporate headquarters. Overall, a majority of these investments were fixed costs and we expect to see additional efficiencies as we grow into them over time.

Lastly, within sales and marketing, we invested in brand awareness, new member growth and member engagement. As a result, Q4 2019 adjusted EBITDA was a loss of $9.4 million or 12% of net revenue compared to a loss of $6.8 million, also 12% of net revenue in Q4 2018. 2019 adjusted EBITDA was a loss of $25 million or 9% of total net revenue compared to a loss of $13.9 million in 2018 or 7% of total net revenue.

As Amir mentioned, we expect to drive meaningful leverage in our operating expenses, particularly within G&A over the next several years.

Our balance sheet remains strong as we ended 2019 with $146.5 million of cash and short-term marketable securities and only $3.3 million of debt. We were pleased to complete our IPO on January 31, which generated $263.4 million in net proceeds, providing additional liquidity in addition to our year-end cash balance.

Lastly, on our statement of cash flows. Let me provide brief color on our 2019 CapEx investments of $54.4 million, which was up from $10.8 million in 2018. In 2019, approximately $22 million of CapEx was related to our new corporate headquarters. The remaining $32.4 million was primarily used to open 12 offices in 2019 with an additional 10 offices in progress to open in early 2020 for an average of approximately $1.5 million in CapEx per office.

Going forward, we have begun to modestly increase the size of our office footprints with new offices having on average 1 to 2 additional exam rooms and some even more. As such, we expect this rate to be flat to modestly up heading into 2020.

Now turning to our Q1 2020 guidance. As Amir mentioned, while it is still early in 2020, we have seen an acceleration in membership growth as we continue to demonstrate the high impact and power of our model during these unprecedented times. As a result, we expect to end the quarter with total membership between 443,000 and 447,000 members.

For revenue, while we had a strong January and February and we are seeing accelerated membership growth, a few days into March we began to see a decrease of in-office utilization as communities are increasingly promoting quarantine and self-isolation. For example, earlier this week, the San Francisco Bay area has required all residents shelter in their homes until April 7. And we are seeing other communities recommend or require similar self-isolation practices generally through early April. This situation is fluid with public health and government instructions involving often.

From a financial perspective, we generate approximately $3 million in weekly net patient service revenue. We currently expect to deliver Q1 net revenue between $74 million and $77 million. And this revenue guidance assumes a reduction of approximately $6 million to $8 million in net patient service revenue as a result of these quarantine measures.

We also expect to deliver Q1 care margin between $22 million and $25 million and Q1 adjusted EBITDA between a loss of $18 million and a loss of $15 million, both of which are impacted by the same dynamics I just mentioned.

Turning to 2020. We are seeing heightened interest by consumers and employers in our member-focused combined virtual and in-office service offerings with a strong and growing pipeline. Over the long term, we think this will accelerate the demand for our model. We remain focused on caring for our members and delivering high impact during

this time, which is shining a light on the importance of combining virtual and in-office care. Based on that, we are pleased to report that we now expect to end fiscal year 2020 with membership between 495,000 and 510,000 members, which we believe sets us up well to drive long-term incremental revenue particularly given that 9 out of 10 consumer members renew with us year-over-year and enterprise clients renew at even higher levels.

Turning to revenue. Based on our performance in January and February, we had expected to provide full year revenue guidance in the $338 million to $344 million range and adjusted EBITDA guidance of a loss of $74 million to a loss of $41 million or...

Amir Rubin: Just a correction. Loss of...

Rose Salzwedel: $47 million.

Amir Rubin: (Inaudible).

Bjorn Thaler: Adjusted EBITDA guidance of a loss of $47 million to a loss of $41 million. However, based on the aforementioned dynamics, we believe full year results will be negatively impacted by at least a $6 million to $8 million in reduction expected in Q1 2020. Any impact thereafter will depend on the level and duration of self-isolation practice in the communities we serve. As a result, we do not provide formal 2020 guidance beyond the membership numbers I just discussed at this time.

As I pointed out earlier, in 2019, 46% of our total net revenue was contractual and recurring in nature and generally independent of the number of in-office visits or digital encounters by our members, and we are seeing continued strength in new member enrollment. At the same time, we typically generate approximately $3 million in weekly net patient service revenue directly related to in-office utilization.

Notwithstanding the current reduction of in-office utilization due to increasing social distancing, as Amir previously mentioned, we believe we are well positioned to service the opportunities in the current environment including the potential to see significant demand for COVID-19 examination and testing services, increased visits due to pent-up demand for in-person care and higher-than-anticipated membership. As such, we believe we have strong business momentum that will help us mitigate some of these near-term COVID-19-related headwinds.

We also believe that our strong balance sheet will allow us to take advantage of the current dislocation in the marketplace, allowing us to accelerate our journey of responsible growth including opening more than 20 new offices this year.

Overall, we remain committed to reaching adjusted EBITDA breakeven around year-end 2022 with significant leverage generated within G&A to reach that target. And we also remain committed to the long-term financial targets we shared during our roadshow, which include mid-20% net revenue growth, 45% care margins and 20% adjusted EBITDA margins.

To close, we delivered a strong year of financial results in 2019, and we remain focused on executing against the opportunity ahead of us in 2020 and beyond and further proving the power of our model.

I'd like to thank our members, employers, partners, team members and shareholders for their continued support and engagement as we work to improve the way health care is delivered one member at a time.

Thank you for taking the time to join us on our call today. And with that, we'd be happy to take any of your questions at this time.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) And our first question is from Lisa Gill with JPMorgan.

Lisa Gill: And I understand how fluid everything is, and I appreciate your comments beyond as we think about that weekly net patient revenue. But as we think about visits, is there a way to break down how many of those visits, you would say, are acute visits, meaning that if somebody is self-isolating, they go, "I feel like I might have strep throat or something. So what I'm going to do is I'm just going to go and do a virtual care visit. And so therefore, I'm never going to come to the visit" versus, "Oh, you know what, I need to get my wellness visit for the year. I need to have my checkup, whether it's for me or my kids, et cetera?"

Amir Rubin: Lisa, thank you for your question. This is Amir. And we have always had very high engagement with our members, both digitally and in office. So before these extraordinary times, we had 7 engagements per member per year, about 5 digitally and 2 in person. And so we always were able to handle a lot of things that didn't require in-office care digitally. We haven't fundamentally seen a change in that at this time. And thus, we see the things that we more typically would have seen in office for longer, more extended visits as currently being deferred until they can come back in.

Lisa Gill: Okay. So the way we should think about this, Amir, is that if you believe that this is more of a deferral, not a replacement of a service that went digital versus in-office?

Amir Rubin: That is correct. Moreover, during this time, as I mentioned, we've had 31% of our entire membership population seek virtual care with us. Now a lot of that has been around the preoccupation of everybody with COVID-19 and the concerns there. But people will continue to be concerned about their blood sugar levels, their sexually transmitted infections, their COPD, their long-acting reproductive care. So we believe these conditions, we will need to turn back to them, but we're trying to defer those until an appropriate time.

Lisa Gill: That's very helpful. And then just a follow-up. When you talked about -- when Bjorn talked about fourth quarter 2022 EBITDA breakeven, if I remember correctly, previously it was fourth quarter 2021. Is that because of COVID-19 that you're pushing out that time line?

Bjorn Thaler: No. I think we always said we're going to be EBITDA breakeven about 8, 9, 10 quarters out of the IPO, so there's no change here.

Operator: Our next question comes from Rivka Goldwasser with Morgan Stanley.

Rivka Goldwasser: I have some follow-up questions on your commentary on the COVID impact. So when we think -- if you just can give us a little bit more context about that $6 million to $8 million. So should we think about it as an impact across all your regions? Is this just for the San Francisco market we've seen -- where we've seen the most social isolation activity so far?

And as we think about the net impact, is this $6 million to $8 million mainly related to your partnership fee-for-service, given the fact that the membership revenues are already kind of like paid upfront and the PMPM is paid regardless to the visit. So should we think about as a percent of that partnership fee-for-service?

And then lastly, have you seen any benefit from the membership revenues? And maybe you can help kind of quantify to us how much more new members do you think that you've seen in the quarter as a result of the situation that we're seeing in the marketplace?

Bjorn Thaler: Yes, absolutely. So maybe I'll start, and then Amir can share additional color on membership and sales efforts. Yes, as we think about the COVID-related impact on March, it's obviously $6 million to $8 million in total is our estimate of the impact. And really, when you think about what happened to our volumes, right, the first 2 weeks of March, we saw volume declines in a variety of different markets, and that's probably worth about 1/3 of that $6 million to $8 million in total.

And then for the remaining 2.5 weeks or so of March, given that whether it's New York, whether it's San Francisco, whether it's really across the country, we see an increasing demand and request to socially isolate. So for the last 2.5 weeks of March, we see roughly about 2/3 of that impact. And that also helps you, I think, box the potential impact and how many acute visits do you have versus how many visits can you defer.

Amir Rubin: Yes. And just to add to Bjorn on your question, so that is impacting the fee-for-service-oriented patient services revenue, Ricky. And then in terms of the kind of market opportunities, we're seeing increased interest and increased enrollment on both the enterprise and the consumer side. We've been seeing it strong through the beginning of 2020, but we're also seeing increased interest during these extraordinary times.

So at some level, these -- this COVID-19 time is further proving the power of our model. I think we'd all recognize that health and care is the primary thing on people's minds

these days. I also mentioned some pretty dramatic testing volumes and how One Medical already is significantly facilitating a large percentage of the testing in most of our markets and even adding it up across the United States. And so I think this also shows the potential of what might not just be pent-up in office visits, but a new level of care and testing services that might be needed. And so those are some of the kind of tailwinds on the demand side.

Rivka Goldwasser: Understood. So just one follow-up to clarify. If we think about where our estimates were for fee-for-service in the D.C. market, I think we were modeling around $38 million to $39 million. So when seen in that context, the $6 million to $8 million is around 20% decline in 2 weeks, just to make sure that I'm thinking about this correctly. That's one.

And then the other follow-up is just how should we think about the additional expenses, the costs associated with entering into Austin? Maybe when should we start flowing those through our model as we update it? Is this more kind of like a second half of 2020 type incremental cost?

Bjorn Thaler: Yes. So to your first part of the question, the $6 million to $8 million is really the full impact for the full month, right? So it's not just the last 2.5 weeks. This is all of March where we see the $6 million to $8 million impact. Again, probably about 1/3 of that impact, 33% is what we saw in the first 2 weeks and probably about 66% of that impact is what we are projecting for the last 2.5 weeks. So I think that gives you a pretty good sense. And again, to Amir's point, that is across all of our fee-for-service markets, not just specific markets.

And then relative to the expansion into Austin, we'll open or we plan to open Austin in early 2021, as you heard Amir say. We do expect to start incurring some costs, predominantly related to the build-out of new offices, probably here in the second half of this year. But going back to our general comment, we do plan overall to open about 20 or more offices this year. And the build-out of Austin is certainly contemplated in that.

Operator: Our next question comes from Ralph Giacobbe with Citigroup.

Ralph Giacobbe: I guess, I was interested and hoping you can delve a little bit more into the -- your sort of capacity and, I guess, ability to continue to serve your base on sort of the telehealth side with your existing staff. Obviously, some big numbers you threw out there in terms of the telehealth visits. So just wondering, on the other side of that, where you are on sort of the capacity on that end and whether you need to sort of build-out your physician staff at this point?

Amir Rubin: Yes. Thank you. We feel well positioned to handle and have already handled a large volume of that demand, leveraging our own technology, which is inclusive of synchronous video, asynchronous communication, structured text. So we have a multimodal virtual care platform that's allowing us to handle these tremendous influxes, and we feel very well positioned to continue to do so.

Ralph Giacobbe: Okay. All right. That's helpful. And I did want to go back to the discussion around sort of the $3 million in weekly net patient service revenue against the $6 million to $8 million that you sort of implied. I guess, the question is, if you just -- I mean, if you just take the numbers all in, you call it a sort of $12 million to $13 million in net patient service revenue a month and the impact is $6 million to $8 million. And that's 50% impact, if not more.

So if this does go for a full quarter, I mean, is it fair to think of it as a 50% reduction, again, just for a quarter on that net patient service revenue piece? Obviously, it sounds like you're going to get some of that back because it's deferred as opposed to lost. But is that a fair way to kind of frame it based on what your guidance is, even just for the last couple of weeks of March?

Bjorn Thaler: Yes. I think if you do the math that you outlaid, you're effectively saying there is no fee-for-service revenue coming in. And what we obviously see is, frankly, the opposite. There is still a fair amount of fee-for-service revenue coming in that's sort of where the $6 million to $8 million of impact is coming in. And to Amir's point, we are now increasingly ramping up our testing capabilities for COVID-19, which will also generate fee-for-service revenue.

We do believe that while folks are generally electing not to do wellness visits today that will create pent-up demand, and it is an everybody's guess at this point how long these extraordinary times that we are in will last. But we have a high degree of confidence that once we are through these extraordinary times, there's going to be a huge pent-up demand in our services that we are ready to serve on top of the incremental membership that we are signing up right now. So we feel very, very good about our long-term prospects.

Ralph Giacobbe: Okay. All right. Fair enough. And if I could just squeeze in one more. It sounds like -- your new membership, it sounds like it's accelerating and maybe COVID-19 and the headlines is helping to drive individuals. So maybe just give us a little bit of context of that and what you're seeing or hearing from those individuals signing up. Is it sort of an issue around sort of challenges around being primary care, given everything that's sort of going on out there? And/or what's happening sort of on the enterprise side? Is that being driven 50-50? Or is it more individual in terms of where you're seeing that incremental membership base coming from?

Amir Rubin: Yes. We're really seeing the growth on both the enterprise side and on the consumer side. In the enterprise side, some of this has been with accounts that we've been talking to and now want to push ahead. We've even had brand-new accounts that have gone from initial conversation to go live, sometimes within a matter of days, as people are realizing that our model is quite powerful, a combination of digital health to address the needs of their employees as well as in office services, including COVID-19 facilitation of testing services, that is seen as very powerful.

And so as people are looking for virtual care solutions, as they're looking for testing locations, they're finding that whether they're consumers or whether they're employers that One Medical has a unique model. It's also a model that's scaled. So we are also engaged with consumers in multiple markets as well as not only employers in multiple markets, but employers across markets, and we're uniquely positioned to do that.

Operator: (Operator Instructions) And our next question is from Sean Wieland with Piper Sandler.

Sean Wieland: And I hope you and your families are all staying safe there in San Francisco. What do you mean exactly by facilitated testing? Can you just -- that's shockingly high numbers of -- as a percentage. And I just want to get a better understanding of what you mean by facilitated and exactly what you're doing there and how you're getting access to tests and delivering a service that it seems like the rest of the health care system is unable to?

Amir Rubin: Yes. So what I mean is the actual laboratory test is done. Thank you, Sean, for the question. The actual laboratory test is done by central core laboratories like LabCorp or other local labs. So what I mean is we are doing the specimen collection. We are donning the personal protective equipment. We are examining the patients. We are collecting the specimen. We are then getting back the results. We are getting those results back in our app. We are then calling back the patients.

We are then assessing those results. We are then making clinical decisions whether to examine those patients further, whether to send them into hospitalization. So everything around except we do not own the PCR machines that do the actual laboratory testing. So that's what I mean by facilitating the test -- the actual PCR test. The mechanism that's now being used is done by the LabCorps and other such laboratories.

Operator: And our next question is from Jamie Stockton with Wells Fargo.

James Stockton: I guess, just on the telehealth, which you're obviously seeing very strong inflection for. Can you talk about -- maybe this isn't as much of a 2020 event, but just -- have you had any conversations with insurers around flipping to getting those encounters reimbursed? Obviously, we've seen Medicare expand telehealth reimbursement. That's not a big piece of your member base. But just any thoughts or color around that would be great.

Amir Rubin: Well, I think -- thank you, Jamie, for the question. I think, in general, what we're seeing is the power of our model, which is combining the digital health and the in-office care. And we've certainly seen tremendous demand. We are continuously looking at ways to continue to innovate on our model. And coming out of the COVID-19 times, we will reflect further on any additional opportunities that there might be.

Operator: And our next question is from Ryan Daniels with William Blair.

Ryan Daniels: Yes. We've talked a lot about the revenue impact of COVID on the business. I'm curious if you can go a little bit into the EBITDA impact. And I guess, my question there is twofold. One, in the markets where you're getting PMPM, it could be beneficial as you still get the recurring revenue without having to treat the patient. But in the markets where you're fee-for-service, obviously, it's going to be impacted. And I'm curious, too, if the bulk of increased telehealth visits, which are already included in the membership fee could pressure margins as well. Again, as you see, volume shift is something that's already included versus something you could bill for.

Bjorn Thaler: Yes. Great question. Thank you. I mean, the short answer is that we really don't expect any meaningful impact on care margins and EBITDA at this point other than, obviously, on a percentage basis, the impact from the change in revenue. And the reason for that in many ways, it goes back to our technology and our leverage model. While we do see a reduction in some of our in-office visits, what we are doing is actually we are redeploying those providers that are now having extra capacity in our offices to help us on the virtual side.

So our whole team is doing a great, great effort to make sure that we continue to have what we believe are industry-leading response times on virtual health, and we are really doing this through our technology and also through utilizing the capacity that is not necessarily utilized in the near term in our offices. So we think we can cover it relatively nicely here in the near term.

Operator: And our next question comes from Matthew Gillmor with Baird.

Matthew Gillmor: I had a follow-up to Jamie's question on telehealth. I know it's a very fluid situation. The Trump administration announced a relaxation of some telehealth regulation, which could allow practicing telehealth across state lines. Does it have any bearing on the business, either near term, long term? And I was curious, more specifically, if you're seeing any interest from employers to just pay for the telehealth access where One Medical doesn't have an office location in that state.

Amir Rubin: Yes. I think we are seeing interest from employers to do all kinds of things at this point with us. And so we will continue to innovate on that. I think in general, the direction of such telehealth policies has been helpful. I'm not sure it is instrumental to making the difference in our model in the near term. But in the longer term, I think these are helpful moves. But yes, we are seeing employers reach out to us because they're seeing that our model can help them not only address their current issues.

But remember, all these employers are going to have to figure out how to get back to work. And will that involve a lot of testing? Will there, hopefully, one day be an immunization? Will that be screening virtual? If it's any of those things, it's likely to leverage, yes, telehealth, but also a combination of telehealth in-office testing, in-office immunizations. Just wait until the next flu vaccine season. We'll see what people are like if they're going to want that vaccine. And hopefully, we'll have a COVID-19 vaccine. So

yes, we see opportunities on telehealth. But moreover, we see continued differentiation with our model that combines digital health and in-office care.

Operator: And our next question is from Sandy Draper with SunTrust.

Sandy Draper: So my question -- a lot of my questions have been asked. But maybe just in terms of office openings, when you think about building out the offices, hiring, is there any risk to those being delayed? Or the flip side is, would there be opportunities or would you ever consider delaying opening?

So let's say this is prolonged, you see more shelter-in-place in more cities. Do you actually say, you know what, we can serve the patients in those new markets telephonically, but we don't need to start turning on like staffing, turning on computers in the offices until we actually get through that. So just trying to think how much flexibility and what your thoughts are around the office opening implications.

Amir Rubin: Yes. Sandy, thank you for the question. Obviously, these are fluid times, but we really see One Medical as a key public health resource as well. So should we be in a severe COVID-19 situation and the hospitals of this country are flooded, we are an ideal place to see patients in outside of a hospital setting. And so in that regard, that might say, hey, do you want more distributed locations? Look at just the volume of testing we've been able to do.

We've got a national model. We've been able to get the standardized protocols going. We've got interfaces with national laboratories. We have teams who can call back in results. So we're built for that. So one can foresee a scenario. And like I said, it's fluid. Well, we'll have to examine the timing, but you could also foresee a scenario where we might want to accelerate the timing as well, pending what the needs are in the communities.

Operator: And sir, this concludes the Q&A session. I will pass the call back to Amir Dan Rubin for his final remarks.

Amir Rubin: Well, we really want to thank everybody for joining us here today. As a health care organization, let us leave with guidance to stay healthy, wash your hands, but also to be positive. Together, we will work through this. We certainly are incredibly proud of the role that we're playing to get our communities not only hopefully healed but reducing their anxiety. We have a tremendous group of technologists and providers who are on the front lines and are proving their merits every day with our membership base, with our employers and with our communities.

So thank you so much for being here today. We'll talk to you soon.

Thanks, everyone.

Operator: And with that, we thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.