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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to One Medical's Fourth Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that this conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your host, Rose Salzwedel, Director of Investor Relations. Please go ahead.

Rose Salzwedel ***1Life Healthcare, Inc. - Director of IR***

Thank you, operator. Hello, everyone, and welcome to One Medical's Fiscal 2020 Fourth Quarter Earnings Call. I am joined today by Amir Dan Rubin, Chair and CEO 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, 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.

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 annual report as updated from time to time by other reports and filings with the SEC, including our quarterly reports.

We believe that the COVID-19 pandemic creates particular complexity when it comes to providing a forward-looking view of the business, and we are providing our guidance on a good faith basis per recent SEC recommendations. We would like to specifically caution investors that our future performance will be harder to predict for the foreseeable future.

Our forward-looking statements are based on assumptions that we believe to be reasonable as of today's date, February 25, 2021. Information contained in today's statements should not be relied upon as representing our estimates as of any subsequent date. 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.

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

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

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

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Welcome to everyone on the call, and thank you for joining us. Today, we report another quarter of significant outperformance across all key financial metrics. We are pleased to report a strong finish to FY '20, capping off our impactful first year as a publicly traded company.

Our human-centered and technology-powered model continues to resonate with more consumers and more employers than ever before. We ended the quarter with 549,000 members, growing 30% year-over-year. In addition to strong consumer growth, more than 8,000 employers are now sponsoring memberships on behalf of their workforces compared to more than 7,000 employers at the end of 2019.

Coming out of our record Q3, we were pleased to hit another membership milestone in Q4 as it was our best quarter yet of net new member additions. We added this record number of net new members while continuing to deliver an elevated experience, with a Net Promoter Score of 90.

As we've shared previously, our modernized health care model has also been linked to reductions in health care spending of 8% to 45% for employers. We believe our ability to deliver outstanding experiences while facilitating cost reductions makes our model differentiated and transformational. Moreover, we continue to see 9 out of 10 consumer members renew with us in 2020 and also continue to retain more than 90% of our enterprise contract value.

Our ability to transform health care is also enabling our strong financial results. We delivered $380 million in total FY '20 net revenue, which grew 38% year-over-year. In Q4 alone, we delivered $122 million in total net revenue, growing 57% year-over-year, nearly double our growth rate in the same quarter last year. We delivered FY '20 care margin of $145 million or 38% of net revenue, while at the same time, launching 4 new markets and continuing to invest across our organization.

We delivered FY '20 adjusted EBITDA of minus $13.9 million, which reflects an $11.1 million improvement to FY '19. In Q4 specifically, we delivered a historically high $11.2 million of positive adjusted EBITDA or positive 9% of Q4 net revenue. These results showcase the continued momentum in our business and serve as further indication of our ability to achieve our long-term financial targets.

Let us now share further highlights from 2020 and how our model continues to serve our key stakeholders, which includes consumers, employers and payers, providers and health network. It has been a privilege to serve our consumer and enterprise members as they entrust us with their health and care every day, especially during these pandemic days. We continue to see strong engagement in 2020, while at the same time, we served more members across our existing markets and in new markets.

Throughout the year, we demonstrated our unique ability to provide longitudinal care across digital and in-person settings, enabling record levels of engagement with our model compared to prior periods. We supported over 5 million interactions during 2020, which grew more than 80% year-over-year.

During the 12 months of 2020, we engaged with members at an average of 10x, including approximately 8x digitally and twice in person. Our membership model and bundled digital health services enabled inbound synchronous and asynchronous interactions as well as outbound population health interactions. Thus, we not only addressed the acute care and COVID-19 needs of our members, but also their ongoing chronic care and well-being needs, including support for cancer screenings, well women care, family care, behavioral health and more.

Additionally, our members and providers continued to build trusted ongoing relationships through both scheduled Remote Visits and convenient in-person care. Our welcoming offices supported superior in-person experiences, along with the service-oriented outdoor sites we launched for COVID-19 testing. We believe the extensive engagement we saw in 2020 highlights our ability to provide responsive as well as proactive care, and to provide acute as well as longitudinal health care across a range of delivery modalities. Our impactful relationships with our members fueled us to reach out to more people and enterprises across existing and more new markets.

Last year, we entered Portland, Oregon; Atlanta, Georgia; Orange County, California; and most recently, Austin, Texas. As we previously announced, we plan to enter Raleigh, Durham, North Carolina; Columbus, Ohio; Milwaukee, Wisconsin; and Houston, Texas within the year. While there continues to be a tremendous opportunity for significant growth in our existing markets, expansion into new geographies further advances our network's attractiveness to multi-market employers and consumers.

Accordingly, in addition to our national digital health coverage and One Medical Now reach, our expansion into 4 new markets during 2021 will take us to 17 markets by the end of this year. This represents 30% growth in market count during 2021 alone. Collectively, our 17 planned markets represent a total addressable market opportunity of $44 billion in the commercial primary care segment alone, before considering any expanded populations or services.

In addition to growing within existing markets and into new markets with consumers, we continue to see outstanding growth in our enterprise business across organizations of various sizes, industries and geographies. During Q4, we began new relationships with organizations in manufacturing, technology, education, professional services, biotech, med tech, nonprofit, financial services, real estate, amongst others. Throughout the year, we also continue to grow alongside existing clients, expanding coverage with dependence and further extending into additional services such as pediatrics and behavioral health.

With our high engagement, retention and satisfaction levels, we believe we can continue to see great opportunities to further grow within our existing client base. In addition to being a highly engaging benefit that employees and dependents tell us they love, we deliver value-based results to employers and payers as we help manage the health and cost of care of our member population.

Our technology platform, membership model and clinical team enable us to proactively reach out to members for preventive care, screenings and chronic disease management. We develop personalized care plans and engage members to act on these plans through the modality of their choosing, whether that's in person, in an office, in a drive-through site, remotely through scheduled virtual appointments or digitally through asynchronous or synchronous on-demand virtual care.

As you may recall, our model is linked to employer savings, including over 8% in a case study and up to 45% as per a seminal study published last year in JAMA Network Open. As discussed in the JAMA article, savings included 54% lower spending on specialty care, 43% lower spending on surgery, 33% lower spending on emergency department care and 26% lower spending on prescriptions. By acting as a low-friction health care home for employees, we can engage our members in improving their ongoing levels of health and well-being and help reduce expensive and avoidable downstream medical costs.

Now even as our membership-based and technology-powered model delivers outstanding impacts to consumers, employers and payers, it also provides a more fulfilling way for providers to practice medicine. A way that isn't driven by piecemeal fee-for-service compensation that is so endemic in the health care ecosystem, a way which alleviates desktop medicine burdens from cumbersome technology for providers and a way which streamlines the manual coordination of insurance authorizations and specialty referrals and is promoting burnout in physicians across the nation.

Our model supports our clinical teams in developing ongoing relationships with our members to help close gaps in preventive and chronic care. Our salary-based compensation approach supports providers in delivering the right care at the right time, irrespective of whether that care is delivered in person or virtually.

Our purpose-built technology platform can help reduce 40% of the tasks providers often experience in other electronic health record systems and organizations. Accordingly, we believe that our model enables a more professionally rewarding and impactful experience while also reducing the factors driving burnout, supporting our efforts to attract and retain more and more of the best providers anywhere.

During the quarter, we also advanced our health network partnerships to further build clinical and digital integration for more seamless specialty care and to further support our providers in coordinating care across a continuum of settings. In December, we were delighted to launch in Austin, Texas, alongside our partner Ascension Texas health care. We celebrated the launch of 4 new partnerships in 2020 as well, including Mass General Brigham, Emory Healthcare, MedStar Health and Ascension Health, in addition to expanding into 2 new markets with our existing partner, Providence St. Joseph Health.

Building on our momentum in 2020, we have already announced partnerships across all our planned new markets, including with Duke University Health System, Ohio State Medical Center and Houston Methodist health system.

Now let me acknowledge our entire team for the support given to our members, employer clients, partners and communities during this past year. They have been delivering such outstanding and compassionate care as we reached more members, clients and communities than ever before in the most extraordinary of times. While we do not completely know what lies ahead as a result of the pandemic, we do know that our employees will continue to be there to serve our members, employers and communities.

As we've described, our team's collective efforts are here to help transform health care by serving the needs of key stakeholders, consumers, employers and payers, providers and health networks. We are delighting consumer and employee members with seamless digital health and inviting in-person care, enabling millions of engagement points per year. We are serving more than 8,000 employers with a highly engaging benefit, while at the same time, lowering costs by promoting population health, value-based care and improved productivity.

We are creating a more fulfilling way to practice primary care with a salaried model with modern technology that emphasizes relationships and minimizes transactional burdens and friction. We are building connectivity with distinguished health network partners to further digitally and clinically integrate care across primary and specialty settings to help own the complexity of navigating care for our members and providers.

As a result of these efforts, we have delighted members as seen in our 90 Net Promoter Score, while also demonstrating we can reduce up to 45% of health benefit costs. We believe the opportunity to delight members and reduce the cost of health care is truly transformational and have never been more excited about the opportunity ahead for our organization.

Before I turn the call over to our CFO, Bjorn, let me take a few moments to update you on our COVID-19 vaccination efforts. Our national presence, digital tools and scaled infrastructure support us in these efforts. With limited quantities of vaccines currently available, we are partnering with departments of public health to serve vulnerable community members.

For example, in New York City, we are providing vaccinations at homeless shelters. And in other markets, we are vaccinating frontline health care workers, teachers and other essential workers. We are also providing complementary telehealth services to individuals referred to us by local departments of public health. During the course of vaccination services, these individuals can leverage our platform for vaccine appointments and second-dose reminders but also for follow-up video chats and messaging to address their health care needs and concerns during this time. While it is early days in the vaccine rollout, once vaccine eligibility opens up to broader population, we believe that our multimodal service model positions us well to continue to support our communities, our members and our employer clients.

To those joining us today, we thank you for your continued support and partnership in our mission.

Now over to you, Bjorn.

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

Thank you, Amir, and hello to everyone on today's call. First, let me echo Amir's comments and say that we are pleased with our financial and operating performance in Q4 and during 2020.

Throughout the year, we continued to see our modernized primary care model resonate strongly as we signed up more members than ever before, serviced more enterprise customers than ever before, drove better-than-expected financial performance and enabled better health and better care for our members.

We ended the quarter with 549,000 members, up 127,000 members year-over-year or 30%. Q4 specifically represented the strongest quarter of net new membership additions in our history as we added 38,000 net new members. This comes a quarter after we recorded our previous high watermark in terms of net new membership adds.

This increase has been supported by continued strength across both our consumer as well as enterprise offerings with the enterprise channel continuing to show particular strength. As a result, as of year-end 2020, our membership included 58% enterprise members and 42% consumer members. This compares to 52% and 48% at the end of 2019, respectively.

Please keep in mind that our membership count continues to exclude 3 important groups. First, anyone who downloads our app or registers with us by using a complementary community code, which provides temporary free use of our on-demand telehealth services. We launched these codes last summer to support community COVID-19 testing, and we expanded them recently to anyone referred to us from local departments of public health for COVID-19 vaccines. This has caused a meaningful increase in code redemption.

Second, we also exclude any paid short-term enterprise contracts that are less than 12 months. And third, we exclude any virtual-only One Medical Now users, which is a service offering that is available to employers in geographies where we don't have a physical footprint.

Turning to revenue. In total, we delivered $121.8 million in net revenue in Q4, up 57% year-over-year. Our Q4 membership revenue was $18.2 million and grew 29% year-over-year, approximately in line with our membership growth. Our Q4 net patient service revenue was $51.4 million, up 24% year-over-year. This growth was driven in part by our continued strong membership growth as well as the larger-than-expected demand by our members for COVID-19 testing in November and December. It also reflects increased revenue year-over-year from a successful flu vaccination campaign in Q4, partially offset by a mix shift from fee-for-service reimbursement to partnership revenue.

As a reminder, we experienced this mix shift as we signed up additional health network partners that reimburse us on a per-member, per-month basis in markets where we previously had no partner. As all of our members are now covered by health network partnerships, we expect this mix shift to abate going forward.

Our Q4 partnership revenue of $52.1 million increased 140% year-over-year. This growth was driven not just by our strong membership growth and the aforementioned shift from fee-for-service revenue to partnership revenue but also by the strong results of our Healthy Together workplace reentry program, where we partner with enterprise clients such as employers, schools and universities to help them in their COVID-19 response. For example, in Q4, our partnership revenue included approximately $7 million related to these on-site testing services compared to $3 million in Q3.

Our revenue results in Q4 capped off an incredibly strong year, delivering full fiscal year 2020 net revenue of $380.2 million, which was up 38% year-over-year. As a reminder, our fiscal 2020 results include $2.6 million of an income grant related to the Provider Relief Fund established under the CARES Act, which we report as a distinct line item on our P&L. At this point, we cannot predict how much, if any, additional funds we may receive in the future.

Moving down the P&L. We delivered Q4 care margin of $50.6 million or 42% of net revenue. This was our second consecutive quarter of achieving a 42% care margin. For the year, our care margin was $145.3 million or 38% of net revenue compared with $108.6 million or 39% of net revenue in 2019.

We were pleased to deliver these strong results, while at the same time, making continued investments to fuel our future growth, which included opening 4 new markets this year, further investing in existing markets and in preparing for our new markets. In total, we opened 24 new offices in 2020, expanding our physical footprint by about 30% year-over-year and taking us to 107 total offices at year-end.

Moving below cost of care. Our remaining Q4 operating expenses, excluding noncash charges such as depreciation and amortization and stock-based compensation, were $39.4 million, and we are approximately flat to our Q3 spend. For the full year, these operating expenses were $159.2 million, up 19% year-over-year. This annual increase included some grow over of our public company readiness costs that we have discussed on prior calls and reflects our strong ongoing commitment to expanding our service offering and supporting our strong growth.

As a result of our Q4 revenue tailwinds and expense performance, our Q4 adjusted EBITDA was positive $11.2 million or 9% of net revenue compared to a loss of $9.4 million or 12% of net revenue in Q4 2019. For the year, adjusted EBITDA was a loss of $13.9 million or 4% of net revenue compared to a loss of $25 million or 9% of net revenue in 2019.

Turning to our balance sheet. We ended Q4 with a strong balance sheet and liquidity position with $683 million in total cash and short-term marketable securities, providing us with ample capital to continue to fuel responsible growth. We were pleased to deliver strong revenue growth in 2020, while at the same time, continuing our journey towards greater operating profitability.

We have signed up and retained more members than ever before, engaged them more than ever before, continue to deliver a 90 NPS and proved that we can reduce total cost of care. At the same time, we continue to strategically plan and execute towards profitability with both Q3 and Q4 of 2020 serving as proof points of the leverage our model provides.

Turning to guidance. We are pleased to provide you with full year 2021 guidance for members, revenue, care margin and adjusted EBITDA. In addition, we are also providing color on both members and revenue for the upcoming quarter.

First, our full year guidance, starting with membership. We expect to finish 2021 with a total membership count in the range of 660,000 to 680,000, reflecting our strong and growing value proposition to consumers and enterprise customers.

Turning to the P&L. For the full year 2021, we expect to deliver annual net revenue of approximately $465 million to $485 million. Annual care margin of approximately $170 million to $190 million and adjusted annual EBITDA that approximates a loss of $20 million to breakeven. This guidance highlights the continued strong demand we expect for our membership and services as well as our continued investments as we expand in existing and new markets.

For example, in 2021, we expect to enter 4 new markets and open between 30 and 40 new offices across both new and existing markets. We will also increase our investments in our service offering, technology and operations to further grow our business in the long term, as is reflected in our care margin and EBITDA guidance.

While we are pleased to provide this full year guidance, we also recognize that COVID-19 continues to create a higher level of uncertainty in our outlook. In particular, we view both COVID-19 testing and COVID-19 vaccines as material potential swing factors. As it relates to COVID-19 testing, which we perform in our offices, in mass testing sites and on-site at select employers as part of our Healthy Together services, we expect meaningful continued revenue contribution, particularly during the first half of the year, while assuming the testing volumes will decline materially in the second half of the year.

As it relates to COVID-19 vaccinations, our revenue guidance assumes relatively immaterial revenue contribution from administering these vaccines. It is currently particularly hard to predict the timing and amount of vaccine supply. In addition, shifting local and regional rules and regulations, prescribing all details of the vaccination program makes the number of people we will be able to help difficult to estimate. These swing factors, among others, will require us to continue to dynamically adapt our business and operations and may potentially also impact our financial results.

As we look at Q1, we expect to finish the quarter with a total membership count in the range of 590,000 to 600,000 members, and to deliver net revenues in the range of $113 million to $118 million, which also reflects the dynamics I just noted.

In closing, as we reflect on 2020, we had a remarkable first year as a publicly traded company, made possible by the perseverance and commitment of our incredible team. We are in a unique time to demonstrate the power of our model and increase brand loyalty. We continue to expand our competitive differentiation by expanding our services and the geographies we serve.

We continue to enable better health outcomes for our members while reducing total health care costs, which we believe will provide long-term tailwinds to our revenue and margins. And we equally remain confident that we can deliver the attractive long-term financial targets that we previewed during our IPO.

I want to thank all of our team members for their continued efforts in serving our members, employer clients, partners and communities. I'm excited for what 2021 has to bring, and I look forward to updating you all throughout the year.

We will now open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Richard Close with Canaccord Genuity.

Richard Collamer Close ***Canaccord Genuity Corp., Research Division - MD & Senior Analyst***

Congratulations on a strong year in a difficult environment. So congratulations there. Bjorn, I appreciate the comments on the vaccine as you closed your remarks. And Amir, I'm just curious, obviously, there's some articles out there. I'd like to get your perspective on the vaccine and maybe those articles. I'm curious to hear from you whether you think there's going to be any impact in terms of membership growth or employers, the discussions you're having with employers related to anything on the vaccine.

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Great. Richard, thank you. Thanks for the question. Yes, regarding the stories, we strongly refute these gross mischaracterizations. Any assertions that we broadly and knowingly disregard eligibility guidelines are not true and in contradiction to our actual approach.

So we've made great stride in vaccinating tens of thousands of eligible community members. The vast majority have been referred from departments of public health, and we've been vaccinating high-priority populations, and we've not let any vaccines go to waste. And we continue partnering with departments of public health today, yesterday and, I'm sure, tomorrow.

For example, in Washington, D.C., we're serving teachers, essential workers in the stadium where the WNBA team plays. In New York City today we're vaccinating in homeless shelters and vaccinating in cities across the United States.

We've registered as a vaccine provider with more than 30 different jurisdictions, and we navigate across all the guidelines that, as you may know, are unique and evolving to each jurisdiction. They're often different than the CDC or state guidelines and even neighboring county guidelines.

Now in terms of eligibility checking, we have numerous checkpoints in place, including online, at the time of appointment booking, prior to appointment via schedule scanning process that we do and in-person verification at the point-of-care if needed. However, it is still possible that some people either misrepresented themselves, abused our trust or booked outside the specific eligibility criteria for their county, even and maybe even if they're eligible in another adjacent county.

But in summary, we believe these articles are a gross mischaracterization of our outstanding work. Our focus has been on leveraging our strengths to serve our communities in partnership with departments of public health. And we'll continue to do that work, and we anticipate that work continuing to go strongly with our employers, with our consumers, with our partners and in conjunction with departments of public health.

Richard Collamer Close ***Canaccord Genuity Corp., Research Division - MD & Senior Analyst***

Okay. And then on the business, so the 8,000 employer relationships, great progress from 7,000 last year. And based on the membership, obviously, that -- you call it a pretty small average employee count per employee or employer relationships. And I'm just curious now with One Medical Now and the benefit parity associated with that and then you're going to be in 17 markets this year, I'm curious whether you're seeing an acceleration or an increased level of discussions with large employers signing up or potentially signing up and can sort of think about is there an opportunity for accelerated member growth from getting larger employers.

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Yes. Thanks for that follow-up, Richard. I mean, in short, we're really excited to see that we can grow across sizes, industries and geographies. As we noted, we've grown in everything from manufacturing to tech to schools to professional services, biotech, med tech, financial services, nonprofit, real estate. And some of these are growing companies, smaller companies. We're also continuing to grow in our consumer enrollment.

And I think to your question, I think as we continue to expand into 17 markets this year and along with our One Medical Now digital health everywhere services, we start becoming more and more interesting and attractive to multi-market employers and consumers. So we actually feel very positive about the range of employers and enterprises and consumers we can serve. And increasingly, within more markets and then those that span multiple markets.

Operator

Our next question comes from the line of Daniel Grosslight with Citi.

Daniel R. Grosslight ***Citigroup Inc. Exchange Research - Research Analyst***

Congrats on the strong end to a great year. For 2021 guidance, it implies kind of a 2% to 3% growth in revenue per member, around 20% to 24% growth in members, which is a step down from a very strong 2020. So curious what the puts and takes around the 2021 guidance are. I know you mentioned the testing of vaccination, but more curious on the return of higher acuity visits and perhaps the flu season next year or this year. Any additional color you could provide on that would be great.

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

Yes. Thanks, Daniel, and great question. I think just taking a step back, to your point, we obviously continue to grow very strongly. And we also think we're going to grow in a way that allows us to consistently deliver the results that, frankly, our members and our other key stakeholders expect. Just by way of example, even at the low end of our guidance, we will have grown at roughly 30% of CAGR in terms of revenue since the beginning of 2021.

Yes. When you obviously look at some of the gives and takes of the year, as I mentioned in your prepared remarks, there are still a couple of uncertainties here, particularly around COVID. And what we tried to do here is be relatively transparent on what is in the guidance and what is not in the guidance. So as it relates to COVID-19 testing, we certainly expect meaningful continued revenue contribution, particularly in the first half of the year, which we then do expect that it will decline materially in the second half of the year.

One interesting piece here is, obviously, in 2020, as we had a very successful flu vaccination campaign, actual visits related to the flu, for example, were relatively modest, right? So you're sort of going to see here sort of another uncertainty factor related to COVID-19 and how the testing is going to progress here.

And then, again, the flip side is, we haven't baked in any really meaningful revenue from COVID-19 vaccines. In fact, the revenue that is baked into our guidance right now is sort of less than $2 million. There could be another sort of material swing factor here as we look at the balance of the year.

Operator

Our next question comes from the line of Lisa Gill with JPMorgan.

Lisa Christine Gill ***JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst***

I'll add my congratulations on the quarter. Just wanted to dig in a little bit deeper on membership and the amount of visibility that you have going into 2021.

So my first question would be around member conversion. So Bjorn, thank you so much for all that detail around membership and what's included and not included. And as we think about those virtual One members now today and we think about the new markets that you're moving into, what's your assumption for converting them to fully paid One Medical members? Would be my first question.

And then secondly, just to really understand the process of signing on an enterprise customer, are you utilizing the consulting community? Are you going directly to those employers? How does that relationship build? And how do we think about how long it takes to sign that versus signing a consumer who sees one of your advertisements, et cetera, and downloads the app?

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

Yes. And maybe I'll take sort of the first question here, and then I'll hand it over to Amir on the sales cycle and give you additional sort of color there here. Yes, I think as we look at 2021 and sort of the visibility we have on the membership, we obviously feel very positive about the momentum that we have heading into '21. Yes, as you noted, we had the best Q3 in terms of net new membership adds, now followed by the best Q4 in net new membership adds and a very strong, in fact, the third best quarter, so to speak, in a row here based on our guidance for Q1.

And I think that really comes from our value proposition resonating both with employer customers and with consumers, whether it is the ability to do same-day, next-day appointments, whether it is the ability to interact with us digitally, whether you're on the go or whether you're at home, I think we've really shown the power of the model in 2020. We've put forward a lot of that demand curve, so to speak. And I think we are now seeing the fruits of that in the membership count.

And maybe I'll hand it over now to Amir to talk a little more about specifically what we are seeing on the enterprise side.

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Yes. Great. Lisa, thank you for the question. So on the enterprise side, a couple of reflections to your questions here. One, you were noting kind of our One Medical Now, which is our digital-only offering that we offer to employers where we don't have a physical presence in those markets. And so to your question, could those digital-only members become full, if you will, One Medical members, if and when we open up in-person presence in those markets. And the answer is yes. So that does become a nice way for us to kind of cede or precede markets that we might enter into.

And now with One Medical Now, we're often turning on, if you will, the membership, whether the One Medical Now membership or the full membership for all the employees when we're signing up an enterprise account. We don't count the One Medical Now users as members in our member count. But those indeed could be built-in members for membership growth.

The other thing we're seeing with enterprise growth is there is also built-in growth from adding more dependents and from activating and engaging with more of our enterprise accounts. So we are seeing more and more people using dependents and pediatric services. We're also extending into behavioral services, as we've mentioned as well in the past. So those give us really nice opportunities to grow with new accounts in existing markets, with One Medical Now, with dependents, with greater activation and, as noted, across large, medium and small accounts.

Operator

Our next question comes from the line of Ryan Daniels with William Blair.

Ryan Scott Daniels ***William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Healthcare Technology and Services***

I want to continue with a little bit more commentary on the membership. I think, Bjorn, you may have mentioned this, but 58% of the members this year are enterprise level. That's up nicely. And I want to get a little more color on that. It seems to me that, that would be a positive longer term for the business in a couple of regards. One, I think the retention rate's modestly higher there. And then number two, I assume kind of the revenue potential from enterprise customers are higher as they might use more additional services like peds or behavioral than some of the DTC consumers, but I'm not sure if that's really the case. So any color on those 2 aspects and kind of what that uptick means for you guys?

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

Yes, great question. And we're certainly very proud with our performance on the enterprise side as well as our performance on the consumer side. I think it really goes to show how the value proposition is perceived.

I think the interesting thing, particularly on the enterprise side is that, as Amir just mentioned actually, there are a couple of built-in growth levers over time that I think are really important for us to point out. It is sort of this, look, yes, you start out with a couple of members in an enterprise customer. And then over time, you get the trust from benefits departments, and you can start to engage your employees more. You get that water-cooler talk, whether it's virtual or in person, going about the great experience that people had. And you're already presold in that employer. As an employee, you already have access to One Medical. So it lowers the hurdle certainly to become a member here, point one.

Point two, to your point, whether it's OM Now or some of the other service offerings, they are predominantly targeted as the enterprise customer today. And that's certainly an additional upsell potential here as well. So I don't want to dismiss the consumer growth. I think it is a very important part of what we're doing. And at the end of the day, whether somebody comes in as a consumer or somebody comes in as an enterprise customer or employee, we give them the same exceptional experience. And we want to delight all of them equally, but the enterprise certainly provides us with an additional runway and additional visibility.

Ryan Scott Daniels ***William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Healthcare Technology and Services***

Okay. Great. And then maybe another question for you. I think over the last few quarters, you've been offering EBITDA and care margin guidance on a quarterly basis as well, but not this quarter. So I'm just curious if there's anything we need to consider for our models in regards to the cadence this year as it relates to investments or maybe start-ups, as that obviously impacts the care margin as you open new markets. So any color commentary there that we should consider as we think about the profit cadence for the year?

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

Yes. So if I take you back only a year, but what the year it has been, right? What we talked about in terms of the IPO, it was actually that we planned on giving annual guidance and then a preview for the individual quarters. And in many ways, what we tried to do here in 2021 is making good on that promise and actually expand sort of the yardstick that we give you all to measure our performance by effectively giving you 6 metrics as opposed to just 5 in the past.

Yes, I think part of that was, frankly, also driven by us really showcasing the leverage that we have in the model, particularly in Q3 and Q4. So when I think about the membership model where beginning of the membership, it sort of drives revenue, and then you have the leverage on the care margin side, you've got the leverage on the G&A and sales and marketing side. We really thought that, that membership and revenue are probably the 2 most important metrics here that will help you all with your model.

And then a little bit to the second part of your question on sort of where are the investments. We'll certainly continue to invest in our geographic footprint, we'll continue to invest in our services, we'll continue to invest in our technology. And we'll try as best as we can to spread that throughout the year, but obviously, there will be quarterly fluctuations.

Operator

Our next question comes from the line of Ricky Goldwasser with Morgan Stanley.

Rivka Regina Goldwasser ***Morgan Stanley, Research Division - MD***

So I have a question on the per-member gross profit because I think about it sort of as a good measure of unit economics. And when I think about your 2021 guide, despite the fact that you're opening new centers in new regions and you're going to have less COVID testing in 2021 and you're not assuming much for vaccine, when we think about sort of the upper end of the guidance, you're assuming nice growth in that unit economic and in the gross profit per member.

So can we talk about these growth drivers? Can we talk maybe about the impact of the fact that you now have a new product, right, the video billable visits? And how should we think about the contribution of that? How should we think about that contribution to the margin structure going forward? And then I have a follow-up on the vaccine, but let's start with this one.

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

Sure. So yes, I think those are all great questions, and it goes a little bit back to the conversation that we had earlier around the opportunity that some of our enterprise businesses provide us, right, through providing additional services, whether it's OM Now, whether it's Healthy Together, whether it's our behavioral health program. So those are certainly part of what will continue to drive that revenue per member.

Yes. We also, as I mentioned in the prepared remarks, still assume a material amount of COVID testing, particularly in the first half, which is another thing to consider. And yes, I think if I just -- so -- and then certainly, last but not least, you also have the grow over from us entering into additional hospital system partnerships throughout 2020, which, again, as you look at the annual numbers are something to consider here.

But yes, when I take a step back, we feel very good about the product offering and the service offering that we have today for our clients, whether on the enterprise side or consumer side. Amir talked a little bit about earlier about the fact that we engaged our members on average 10x, twice of which sort of in the office. And that engagement ultimately drives value across not just our P&L but also is what drives the value for our enterprise clients and our consumers because that is what keeps them healthier. That is what helps reduce the cost for them. And yes, I think that value proposition is what we've been able to really capitalize on.

Rivka Regina Goldwasser ***Morgan Stanley, Research Division - MD***

But Bjorn, is it fair to say that because now you can get reimbursed for telehealth and video visits that pre-COVID you couldn't, that each of that interaction with the member, and I'm thinking about it from the profit side, not the revenue side, is a higher-margin interaction?

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

It's definitely a higher-margin interaction in a percent -- from a percentage perspective. So what happens here, right, to your point, the introduction of billable Remote Visits really helped us take care of our members, not just in our offices, but also, frankly, allowed our members to have a longitudinal relationship with their provider from the safety of their sofa and from the safety of the provider's sofa, right?

So what it does is, certainly, it helps us become more efficient with our own operations. It helps us become more efficient with our footprint, and it helps us serve our members better. So that the relative costs associated with some of those visits at the margin are lower.

Now at the same time, I also want to point out that the average reimbursement for those visits is lower, too, right? You -- there are certain things that you simply can't do remotely. You can't give people COVID vaccines remotely. You can't stitch their -- stitch them back up together if they have the need, for example, right?

So there are puts and takes, and that's sort of why we keep mentioning that the average reimbursement across all of our visit types, which is in the office, remote and COVID, certainly is still below the average reimbursement that we saw pre-COVID. But on a relative margin basis, I think you're absolutely right.

Rivka Regina Goldwasser ***Morgan Stanley, Research Division - MD***

And can I just ask the vaccine question. I mean I appreciate that there's not a lot of visibility around supply and allocations. It seems that you're assuming very low contribution, which is $2 million. If you can maybe help us frame it, I mean, when I think about the J&J vaccine, which seems to be more suitable for the primary care setting. Can we maybe look to your share in COVID testing to help us reframe what maybe your share of the J&J vaccine opportunity could look like? Can you just remind us what percent of total COVID testing you got -- your share is?

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

I don't know that this doesn't necessarily a number that I would overrotate on at this point, right? What I would probably say, though, is that just like in COVID testing, we are not just COVID testing our members. We are testing for COVID at mass testing sites. Early on in the pandemic, we said everybody can come in and get tested with us. And frankly, we are saying the same thing now relative to vaccines within the guidelines of the states and the departments of public health. And yes, Amir talked a little bit about the dynamics there.

So yes, we certainly think that we have a strong platform that is ready, willing and able to vaccinate, not just tens of thousands of people, which is what we've done today, but many, many more, whether those are members or nonmembers. And we will continue to work with the federal and state and local governments in order to vaccinate as many people as we can because it's the right thing to do for the communities. That's the first and foremost part.

And then the actual revenue associated with that, that frankly comes also with expense, right? Running those sites is not for free. It does take labor. It does take other additional start-up costs. So as we've been saying last year to me that's less an opportunity of revenue per se. It's really more an opportunity of showing people what One Medical can do.

Operator

(Operator Instructions) Our next question comes from the line of George Hill with Deutsche Bank.

Maxi Ma ***Deutsche Bank AG, Research Division - Research Associate***

It's Maxi Ma on for George. So the guidance in why care margin is going to stay relatively flat or slightly lower in 2021. Are there any other factors besides continued investments in technology and expanding into new markets? Could you provide more color on the mix dynamics that will impact margins next year?

Bjorn B. Thaler ***1Life Healthcare, Inc. - CFO***

Yes, I think that...

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Well, I was just going to briefly add, as we noted, and thank you for the question. Yes, we'll be going from 13 to 17 markets. We just opened at the end of last year in Austin, Texas, and we'll be launching in Houston, Texas; Raleigh, Durham in North Carolina; Milwaukee, Wisconsin; Columbus, Ohio. And so yes, we will be expanding those new markets. And as Bjorn mentioned in his prepared remarks, we will also be expanding, including physical footprint significantly in our existing markets and continuing to grow our services and our digital platform. So all of that is assumed in that care margin.

Operator

Our next question comes from the line of Jessica Tassan with Piper Sandler.

Jessica Elizabeth Tassan ***Piper Sandler & Co., Research Division - Research Analyst***

It's Jess on for Sean. So I think we're interested to know on some of the new markets that you guys are opening this year, like Raleigh, Houston, Columbus. How should we think about the cadence of these openings over the course of the year? And then were these geographies open with kind of [current] employer accounts in place? And if so, will those go live in 2021 or not until 2022?

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Thanks for the question, Jess. We will roll these out throughout the year with each partner. The ability to open physical sites varies by markets, given time to put in offices and ramp up staff and, frankly, also some delays with COVID. But those typically will be spread more in the back half in terms of new markets of the year. So that's how you might think about that.

In terms of employer opportunity yes, what is exciting is we have current employers that have presence in some of those markets, and we do have the opportunity to, if you will, turn on those lives as full One Medical members when we enter those markets. And there is also opportunity, as we discussed before, to convert some of those One Medical Now kind of virtual-only members into kind of multi-modality members. So this adding -- addition of markets kind of furthers the network attractiveness of ourselves, not only to capture this current business, but now as we come to more and more multi-market employers, we're more likely to hit more of their employee bases with our presence.

Jessica Elizabeth Tassan ***Piper Sandler & Co., Research Division - Research Analyst***

A quick follow-up. So as you guys look to maybe a 17-city footprint, is the 50 MSA target that you laid out around the IPO is still viable? Or are you guys kind of looking at existing footprints and thinking that it might be more attractive to try to grow penetration within sort of -- yes, within the existing markets?

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Well, we think we can grow in 50 and even much bigger than that. We're just scratching the surface. We were just using that number as an example of just what the total addressable market is. But as you -- as we mentioned here today, I mean, we have 10 engagements with our members this year, 8 of them were digital, right, and 2 in person. And that infrastructure that we've built, that technology is highly scalable and leverageable. And even the investments in markets, it's reasonably nominal given the overall base that we're growing on top of.

So we would expect to continue to grow. But also, we've only scratched the surface in existing markets. We have massive opportunities in existing markets, and we'll continue to grow there. So big opportunities. Existing markets, new markets, existing employers, new employers, consumers, expanded services, expanded populations, a lot of opportunity ahead of us.

Operator

Our last question comes from the line of Jailendra Singh with Crédit Suisse.

Jailendra P. Singh ***Crédit Suisse AG, Research Division - Research Analyst***

Amir, I was wondering if you can comment on the competitive landscape, especially several telehealth companies through employers or payers investing heavily in a virtual primary care platform. Would you characterize those offerings as trying to compete in a large market you described? Or would you consider your offerings like complementary to those virtual care, virtual primary care offerings from employers' perspective?

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Yes. Thanks, Jailendra. Yes, I think what we're doing is quite powerful. And we're simultaneously addressing the needs of multiple key stakeholders, I'd say in a very unique way. So from a consumer perspective, we're delivering 90 Net Promoter Scores and delivering outstanding HEDIS and quality scores.

And then simultaneously for employers and payers, we're taking down the cost of care, right? Publication in JAMA that it reduced the cost of care up to 45% as well as engaging our members 10x in a year. That's really quite different. And then in addition to that kind of demand-side innovation.

On the supply side, we took physicians off the fee-for-service treadmill, that's burning them out and is generating more and more utilization, right? So we have a salaried model. And we're showing we cannot only reduce specialty visits and hospitalizations and referrals, but we're also reducing physician burnout, which allows us to differentially attract and retain great providers.

And then finally, we're very differentially, clinically and digitally integrating with the major health systems across the United States. We can get that referral. We can get that authorization. We can digitally collect the medical record information. We can help get that appointment. We can get that person post-discharge coordinated back into follow-up care and really own the complexity of navigating that system on behalf of the consumer. And we're doing this through our own fabulous providers on a salary model and our purpose-built technology. We think that is really quite differentiated.

Operator

There are no further questions at this time. I will now turn the call back to Amir Rubin for closing remarks.

Amir Dan Rubin ***1Life Healthcare, Inc. - Chair, CEO & President***

Well, thank you, everybody, so much for joining us today. Thank you for your continued interest, the great questions, the great discussions, and we look forward to seeing you next time. Have a great evening. Thanks, everyone.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.
