1Life Healthcare, Inc. (Q1 2021 Earnings)

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Corporate Speakers:

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

Participants:

- Ryan Daniels; William Blair & Company L.L.C.; Partner & Co-Group Head of Healthcare Technology and Services
- Lisa Gill; JPMorgan Chase & Co; MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst
- Elizabeth Anderson; Evercore ISI Institutional Equities; Associate
- George Hill; Deutsche Bank AG; MD & Equity Research Analyst
- Stephanie Wissink; Jefferies LLC; Equity Analyst and MD
- Alexander Draper; Truist Securities, Inc.; MD of Equity Research
- Connor Oleferchik; Morgan Stanley; Research Associate
- Richard Close; Canaccord Genuity Corp.; MD & Senior Analyst
- Daniel Grosslight; Citigroup Inc.; Research Analyst
- Stephanie Davis; SVB Leerink LLC; MD of Healthcare Technology and Distribution
- Jessica Tassan; Piper Sandler & Co.; Research Analyst
- Carlos Consuegra; Credit Suisse AG; Research Analyst

PRESENTATION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the One Medical First Quarter 2021 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to your speaker for today, Rose Salzwedel, Head of Investor Relations. You may begin.

Rose Salzwedel: Thank you, operator. Hello, everyone, and welcome to One Medical Fiscal 2021 First 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 multiple 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 our 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, May 12, 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 comparable GAAP metrics can be found in today's earnings release. Finally, during the call, we may offer incremental metrics to provide greater insight 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: Thank you, everyone, for joining us. Today, we are pleased to share results from our first quarter and update you on how we continue to perform, innovate and grow.

We continued our strong financial performance in Q1 as our human-centered and technology-powered model continues to deliver results for a growing number of employers and consumers. We saw a record number of net new membership additions in the quarter, as our dedicated team continued to serve our members and communities with service-oriented and value-based high quality care.

Through our team's commitment to innovate, we share additional proof points this quarter on how we can reduce the total cost of care. We also continued to grow by attracting and aligning with a broad set of distinguished employers and health network partners who share our vision in transforming health care. All of these developments are reflected in our strong financial results and further build upon our extreme enthusiasm for the opportunities ahead for our organization.

Starting with our performance, we ended Q1 with 598,000 members, growing our membership base 31% year-over-year. Q1 was our strongest quarter ever of net new membership addition as we added 49,000 members during the quarter, and as we have added more than 140,000 members over the past 12 months.

We delivered $121 million in Q1 net revenue, which was up 54% year-over-year. We delivered Q1 care margin of $51 million or 42% of net revenue, while at the same time, investing in our business. And we delivered Q1 adjusted EBITDA of positive $4.8 million, highlighting the leverage inherent in our model. These results showcase our momentum and value proposition in the market.

In addition to delivering strong financial results, our dedicated team members have continued to perform by delivering outstanding service and care to our members, clients and communities. This has included providing on-demand digital health, scheduled remote visits and convenient in-person care and testing. We have also continued to serve our communities with COVID-19 vaccinations in many of our markets. Our Healthy Together program has supported employers as they evaluate return-to-workplace approaches.

We've also been able to serve employers across the country with our nationwide One Medical Now digital health services. By serving as a longitudinal system of care for our members, we've continued to support members' ongoing health needs through both remote and in-person care for acute needs, chronic disease management, cancer screenings, LGBTQ+ care, women's health, reproductive health, sexual wellness, behavioral health and other population health conditions.

We have continued to extend into caring for the whole family by growing our One Medical for Kids pediatric services and into broader mental health needs through our One Medical Mindset behavioral health solution. And we have also continued to coordinate care across the continuum of primary care and specialty health network setting to own the complexity of navigating care for our members.

In parallel, we've also continued to innovate by further demonstrating our model's impact on reducing health care costs. Our approach leverages our technology platform, along with our own salaried clinical team of virtual and in-office providers to better reach out to patients with gaps in care, to better support chronic condition care and to better coordinate specialty care when needed through clinical and digital interfaces with health network partners.

For example, performance data from a large national health plan for one of our markets demonstrated that during the last 2 quarters, One Medical outperformed reported trends in that market. The health plan's data showed that on average, we reduced the total cost of care for our members through reductions in outpatient, professional, inpatient and pharmacy costs. We believe the ability of our model to both delight members and show reductions in the total cost of care demonstrates One Medical's differentiated value proposition and how we are transforming health care.

As we deliver new heights in performance and advanced our value-based innovation, we also continued our strong growth. Our demonstrated track record of delighting members and helping manage health care costs continues to open new doors for growth with an expanding set of diverse employers and premier partners. In Q1, we began new relationships with organizations and industries across financial services, health care, real estate, manufacturing, professional services, telecommunications, retail and nonprofit sectors.

We believe we are uniquely serving employers with a platform that combines 24/7 nationwide inbound and outbound telemedicine and population health with our own salaried providers, along with convenient in-person care and testing, behavioral health integrated into primary care for whole person care, pediatric services for whole family care and coordination of specialty care with our partners. We see that our multimodal care model, coupled with our breadth and depth of services and value-based care, is a strong differentiator in the market.

In addition to growing alongside employers, we continue to see long runways for expansion as we continue growing our market presence and our health network partnerships. As shared previously, we plan on expanding into Columbus, Ohio; Houston, Texas; Milwaukee, Wisconsin; and Raleigh-Durham, North Carolina, alongside premier health network partners. Also, we were pleased to recently announce plans to enter South Florida in partnership with the University of Miami Health System.

And today, we're pleased to announce that we will be entering into the Dallas-Fort Worth, Texas metropolitan area in partnership with Baylor Scott & White Health System. Our market expansions provide outstanding opportunities to grow our enterprise and consumer enrollment. Furthermore, our alignment with distinguished partners allows us to make impactful progress in transforming health care by building a more clinically and digitally connected health care ecosystem that can deliver more highly coordinated care with greater levels of value.

We also continue extending our health network partnership approaches, and just last week, announced a new partnership with ParetoHealth to bring innovative health care solutions to Pareto's customer base of over 1,400 employers nationwide. Together, we aim to improve employee well-being and support employers in managing health care costs through engagement in our modernized primary care model.

We look forward to the opportunity to serve Pareto's employer clients, leveraging our experience with more than 8,000 employers today. As part of this partnership, we are excited to also expand our in-person presence in the Midwest and Southeast to serve some of Pareto's clients in Alabama and Kansas City.

With the addition of these new markets, we are on track to go from 9 in-person markets at the time of our IPO last year to 22 in-person markets. Beyond the reach of our 24/7 nationwide employer digital health solution, these 22 markets provide us an opportunity to deliver multimodal longitudinal care in markets representing nearly 40% of the U.S. commercially insured population.

In closing, this quarter, we advanced how we perform, innovate and grow. Our performance to start the year has been strong, and we remain on track to deliver a great FY '21, in line with our initial guidance. Our team continues to deliver impactful care to 598,000 members as of Q1. We are innovating through our technology platform and clinical model, advancing better health outcomes and better care experiences while also reducing health care costs, and we are growing.

Our model's unique ability to delight members and reduce health care costs is providing a growing number of opportunities as multiple key stakeholders see how we can transform health care and scale. We continue to grow our nationwide digital health services and with aligned partners for value-based and coordinated care, we are on track to expand our multimodal model into 22 markets.

We thank all of you for joining our call today and for your continued partnership in our mission. Now over to Bjorn Thaler, our CFO. Bjorn?

Bjorn Thaler: Thank you, Amir, and good to be with everyone. We are pleased to share strong financial results in Q1, which put us on track to deliver on our 2021 outlook. During today's call, we will briefly discuss our financial results for the quarter as well as our expectations for the second quarter and provide additional color on our full year 2021.

First, turning to Q1. We expanded our membership base by 31% year-over-year, ending the quarter with 598,000 members. Q1 marked our third consecutive quarter of record net new membership additions as our value proposition with both consumers and employers continues to grow. As a reminder, our membership count continues to exclude virtual-only One Medical Now users and any temporary users we care for as part of our community service during this pandemic.

Turning to revenue. In total, we delivered $121.4 million in net revenue in Q1, up 54% year-over-year. Q1 revenue includes an income grant of $1.8 million related to the Provider Relief Fund established under the CARES Act, which has been recorded as a distinct line item in our P&L. Our Q1 membership revenue was $20.2 million and grew 33% year-over-year, approximately in line with our membership goal. Our Q1 net patient service revenue was $44.5 million, up 30% year-over-year.

This growth was driven in part by our continued strong membership growth. It also reflects increased revenue year-over-year from COVID-19 testing, 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 and were reimbursed on a fee-for-service basis. Since August of last year, all of our members are now covered by health network partnerships. Hence, we expect this shift to abate going forward.

Our Q1 partnership revenue of $54.9 million increased 86% 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 continued 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.

Moving down to P&L. We delivered Q1 care margin of $51.3 million or 42% of net revenue. We were pleased to deliver these strong results, while at the same time, making continued investments to fuel our future growth, which included investing in existing markets and in preparing for our new markets.

Moving below cost of care. Our remaining Q1 operating expenses, excluding our non-GAAP adjustments, were $46.4 million and were up 14% year-over-year as we continued to invest in sales and marketing, technology and support functions. As a result of our Q1 revenue and expense performance, our Q1 adjusted EBITDA was positive $4.8 million or 4% of net revenue compared to a loss of $13.5 million or 17% of net revenue in Q1 2020.

Turning to our balance sheet. We ended Q1 with a strong balance sheet and liquidity position, with $703.6 million in total cash and short-term marketable securities, providing us with ample capital to continue to fuel responsible growth.

Let us now turn to guidance. We expect to finish Q2 with a total membership count in the range of 610,000 to 620,000 members, and we expect to deliver Q2 net revenue in the range of $111 million to $118 million. Please keep in mind that our Q2 membership guide reflects the historic seasonal trends that we typically saw in our business prior to 2020, where we see relatively higher membership additions in Q1 and Q4 with more moderate additions in Q2 and Q3.

Similarly, our revenue guidance reflects the same historical seasonal trend of more moderate fee-for-service revenues in Q2 and Q3 compared to the colder winter months as well as the earlier-than-anticipated reduction in COVID-19 testing volumes.

For the full year, we are pleased to reaffirm our previous expectations. We continue to 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 in the marketplace. We also continue to expect to deliver annual net revenue of approximately $465 million to $485 million, annual care margin of approximately $170 million to $190 million and annual adjusted EBITDA that approximates a loss of $20 million to breakeven.

We reaffirmed this guidance, even in light of the faster-than-anticipated reduction in COVID-19 testing volumes we just noted. As you may recall, we had initially expected

COVID-19 testing volumes to decline meaningfully in the second half of 2021, whereas we have already seen a meaningful drop in testing volumes beginning in April.

At this point, we do not expect testing volumes to return to prior levels. As a result, this guidance highlights the continued strength of our business and financial model, particularly as we plan to grow to 22 markets over the next 12 months and while we continue to invest in our service offering, technology and operations.

In closing, we were pleased to deliver another quarter of strong financial results and remain on track to deliver a strong 2021. Our value proposition continues to resonate in the market as we demonstrate our unique ability to attract and delight members, while simultaneously reducing health care costs. These trends, coupled with our opportunity to expand our multimodal and longitudinal care to nearly 40% of the U.S. commercial population, continue to provide long-term tailwinds to our business.

Thank you for your time today. We will now open up the call for your questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from the line of Ryan Daniels with William Blair.

Ryan Daniels: Congrats on the strong start to the year. Amir, I was hoping maybe you could go into a little bit more detail about the relationship you announced with ParetoHealth. I think that's somewhat of a new distribution model for the organization. So any color on how that arose? And if there's a revenue share or how that will work from a financial perspective for the organization would be helpful.

Amir Dan Rubin: Great, Ryan. Thanks for the question. Yes, we're really excited about this relationship. It's just another distribution arm for us to reach, in this instance, small- and medium-sized employers. Pareto is a captive insurance company serving about 1,400 employers. So it provides us a great way to further distribute ourselves to them.

And really, they value helping small employers not only get great health care but manage their total cost of care, and they've seen the impact that our model can make on not only delighting consumers with our high NPS, digital health and in-person care, but also on reducing the total cost of care. So this allows them to bundle us in some of their offerings as they go and serve small and midsized employers.

Ryan Daniels: Okay. That's helpful. And then I guess, as a follow-up, different topic. You brought up the pediatric and behavioral offerings. I know behavioral, in particular, has been relatively hot in the market, and you can service that both with your physician base and through virtual visits. I'm curious for both those, and in particular, behavioral, how the adoption is taking place and how broadly that's been rolled out across the market?

Amir Dan Rubin: Yes. Thanks, Ryan. Yes, this has been really exciting. I think part of the power of our model is that we are providing a interconnected and coordinated model of care that combines kind of medical and behavioral integration. And all of our team is in our organization on our salaried model.

So we certainly can provide behavioral health services, but we could also address things in primary care. We can use our group visits. We can use our coaches. We can use our therapists. Somebody needs more complex care, we could arrange for seamless referrals through our network of care. So that really is the distinction of our interconnected model of care.

Operator: (Operator Instructions) Our next question comes from the line of Lisa Gill with JPMorgan.

Lisa Gill: I just want to better understand the impact within the quarter and the guidance as it pertains to COVID. So I heard both Amir and Bjorn and talk about Healthy Together reentry, the COVID testing. How do I think about the COVID testing falling off in April. So maybe we can start, Bjorn, with, is there a number you can give us as to what COVID testing was in the net patient revenue in the quarter? And then kind of a range of what's still in your guidance?

And then secondly, when we think about Healthy Together, is this a onetime item? How long do you think that those kind of programs last? And then lastly, I think I'm just really trying to level set how to think about the business going forward once we're past COVID. I would expect that the lower flu also had an impact in the quarter versus what it would have looked like in a more normalized year. So is there a way to maybe triangulate all 3 of those to think about your business on a more normalized basis?

Bjorn Thaler: Sure. I'll try to give you some color on maybe the first and the third one, and then I'll ask Amir to jump in on Healthy Together. Yes, I think as we take a step back on the COVID-19 testing, yes, if I can take you back to our full year call. What we said is that we expect to continue to do a meaningful amount of testing in the first half and then sort of expect that, that testing sort of drops off fairly materially in the second half.

As you've heard us say today, and really, I think that's been nationwide, the number of COVID tests has really started to drop meaningfully as early as April. And certainly, we have not been an exception to that. Obviously, that still means that Q1 has sort of those increased levels of COVID testing that we had expected in there. And as we look at the rest of the year, certainly, we don't expect those numbers to come back.

And I think when I just take a step back and sort of look at our overall Q2 guidance, but also the guidance for the year, we are very proud of our Q1. We are very proud of the fact that we are barely 1/3 into the year and there remained to be many swing factors. As we always said, there are different ways to get to the high end of the guidance, for example. And yes, COVID testing certainly is a headwind that we'll face in the second quarter relative to where we initially were, but we are very proud that we can -- that we feel confident that we can overcome that headwind. And therefore, we're able to reiterate our guidance today.

As it relates to flu, I mean, we all know that the flu season effectively was nonexistent in this year or in this season in many ways. We, just like in the year before, had a very successful flu vaccination campaign last year in Q3 and Q4. And thankfully, we expect to have a very successful flu vaccination campaign this year as well.

But certainly, the number of members who presented themselves with flu or flu-like symptoms has been very, very modest in the winter months. So hopefully, that gives you a little bit of color just on the volumes. And Amir, I hand it over to you for Healthy Together.

Amir Dan Rubin: Yes. Thank you, Lisa. And just to add to Bjorn's comment, I'd say with regards to Healthy Together, that's just another kind of proof point out there as to how we can serve employers. Today, we shared another powerful proof point on how we can help reduce the total cost of care. In this instance, data from one of the leading health plans in one of our markets, showing that we outperform the market and reduced cost of care, both in inpatient, outpatient, professional services and drug cost categories.

Healthy Together was another example. Whether it's with testing or whether it's return-to-the-workplace or whether it's this fall with flu campaigns or if there are booster campaigns for COVID, we believe we'll be well positioned to serve employers across that.

And of course, with their multimodal health care needs, in-person care, gaps in care, the population care that we're seeing, behavioral health and care for the whole family as children and families prepare for going back to school and summer camps. So we feel kind of very well positioned to continue to serve all those key stakeholders.

Operator: Our next question comes from the line of Elizabeth Anderson with Evercore.

Elizabeth Anderson: I just want to circle back to what you said about ParetoHealth. If you're sort of talking to them and they're there using that as a new sales channel, it sounds like it's a great way to expand out your reach. Is that look like more of a contribution in terms of members to 2022?

And then in general, we've been hearing a lot about HR people and seeing so many different, like health care companies. Can you talk about what's been really resonating and allowing you to differentiate yourself and continue to grow as so many people are focused on reaching out to HR employees?

Amir Dan Rubin: Yes. Thanks for those questions, Elizabeth. On the first one on Pareto, for us, this is just another way that we get out and reach employers. So far, as we've noted in the past, we serve 8,000 employers. And this is a great way for us to get reach into the small and mid-market side.

So I will say it's another way that we're going out into the market to gain sales. And what's nice here, it's with a captive insurance company that's very focused on not only serving its employees, but saving money and cost of care, and they saw the power in our model. And so it's a great additional tool to sell and distribute ourselves going forward.

In terms of then the broader story to employers, it's really quite powerful and quite differentiated. We can delight consumers with 90-plus Net Promoter Score, and we can take out between 8% and 45% of the cost of care. I mean, so reducing the total cost of care and delighting consumers, doing this in a multimodal way, not just inbound digital health, but outbound digital population health, in-person care when needed, integration with behavioral and medical care for the whole family.

And if somebody needs that diagnostic test, that specialty procedure, that hospitalization, helping get that referral, that authorization, that scheduling, integrating those medical records, getting that information post discharge, owning that complexity of navigating health care across a continuum of settings and doing that in a way that delivers not only high experience, but value-based care, that, we believe, is quite differentiated, and that's why we say transformative in the sense that it can delight members and help reduce cost of care. So we're seeing that resonate really well in the marketplace.

Operator: Our next question comes from the line of George Hill with Deutsche Bank.

George Hill: Kind of a question on the partnership model, Amir. I guess one of the trends that we continue to see in lots of segments of the employer sponsor book is everybody trying to push a bundled model, particularly as it relates to the inpatient procedures. I guess, do you think of your partnership model with your provider organizations as working in concert with employer sponsors looking at a bundled model? Or is there some contention here around whether the referral and partnership model in primary care works well if you think about things like surgical bundles?

Amir Dan Rubin: Yes. No, employers really see us as a powerful tool to help drive in-network care, whatever their network programs are, whether it's bundles or anything else. We are an in-network provider that tightly coordinates care. And we've shown both in the data that we mentioned today and previously from the JAMA study that we've shared in the past that we can help drive down. In that JAMA study, we had 26% reductions in drug costs, 33% reductions in ER costs, 43% in surgery and 54% in specialty.

And also similarly, today, we shared another proof point from a health plan on how we took out costs in those similar categories. So no, employers very much see us as fitting into their benefit design. We do fit into their benefit design, whether that's bundles or anything else. But we can also help their employees and dependents navigate that care, own that complexity of care, get their record, communicate that information, avoid duplicative testing as we've integrated our information together.

Operator: Our next question comes from the line of Steph Wissink with Jefferies.

Stephanie Wissink: Bjorn, this is a question for you on the composition of revenue as we progress through 2021. Just looking at the partnership versus the patient service, is it best to model the partnership line as a sequential increase quarter after quarter? Or is there some seasonality to that business as well?

Bjorn Thaler: Yes, a great question. Yes, the partnership line is really where we are getting paid a per-member, per-month fee from our health network partners side and so for the most part. And as a result, I think it's fair to look at this as really sort of purely membership revenue in many ways, i.e., based on the members that we sign up, based on the new members we take care of, we get the PMPM from our health network partners, generally speaking. So yes, I think that's probably a good way to think about this.

Now I will point you back to the fact that over the last year, we did have this mix shift in our membership between members that were not covered by the health network partnership previously that now are covered by health network partnership. And actually, since August, 100% of our members are covered. So until that annualizes, so to speak, in August of 2021, you'll still have a little bit of variability if you just look at the year-over-year numbers. But certainly, quarter-over-quarter, if you compare Q1 to Q4 or even Q3 of last year, you sort of see that sequential trend that I think is a good indicator of the business.

Operator: Our next question comes from the line of Sandy Draper with Truist Securities.

Alexander Draper: I guess my question, Amir, is thinking about the new markets. I would -- at least from my perspective, you guys have done a great job and are opening new markets faster than I would have anticipated at the beginning of the IPO. And I'm just trying to think about, as you announce these new markets, how should we think about the lag or time to be adding new members because you put up another really strong quarter of member growth, and I know you don't want to break out the number of members that are coming from new markets versus old markets.

But I'm just trying to get a sense of, as you keep making more and more announcements in some pretty big markets, should we think about those are a year, 2 years lag? What's driving -- just any context around opening a new market? And then how quickly you drive membership would be really helpful.

Amir Dan Rubin: Yes. Thanks, Sandy. Great to hear from you. Yes, really, we think about this kind of in the long-term in the sense that we've gone from, as you noted, 9 markets pre-IPO to now 22 announced markets, and that provides us reach to almost 40% of the commercially-insured population in the United States.

Now we're slightly below serving 40% of the population, but it gives us this long-term ability to have that reach. I mean, the most recent market we launched just at the end of the last calendar year was Austin, and that's off to another great start. And this multimarket approach actually generates this kind of virtuous growth cycle and these positive network effects.

So with more markets, we can sign up more employers. With more employers, if you sign up more employers, you become more attractive to multimarket employers. As you get more employers, more consumers notice that, you get more consumers. And if you have more consumers and employers, it helps you get more partners.

And when you get more partners, more partners are interested. And then we have more presence, more providers want to come work in our modernized model that helps reduce burnout. So we think about this in a long run fashion, expanding our reach across the country. And certainly, we're excited to be able to reach more and more people in the U.S. now.

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

Connor Oleferchik: This is Connor Oleferchik on for Ricky. We hear that the primary care doctor is the quarterback of health care. Recently, there's been a lot of excitement around health care navigation solutions. I'm wondering if you could help us think through how One Medical's platform helps coordinate care and navigate patients to the health system? And is health care navigation an area where One Medical could add more capabilities going forward?

Amir Dan Rubin: Yes. Thanks for the question. We absolutely help navigate and coordinate the patient. As we noted on our annual results call, we're now touching the member 10x per year, and that includes not only inbound requests from our members, whether it's acute digital or in-person care or care for the family, but also outbound population health. So we are there longitudinally over time coordinating with the member, not just if they need a referral or something, and we do that as well.

But over time, thinking about where do they have gaps in care, how can we help them manage their chronic diseases? How can we help them with their ongoing health and well-being, sexual health, reproductive health, avoidance of cancer through screenings, of course, things like vaccinations and that for the whole family.

When people do need acute care, we can help own that complexity and indeed navigate that system. How do you get a referral? How do you get an authorization? How do you get the schedule? How do you get the test before you get the specialist? How do you get the records over them? We help do all of that.

And then post that information, that information gets clinically and digitally integrated back into our system. And then you can actually talk to a real-life provider, your primary care provider and talk about what's going on, what's happened now, what do we have to do next. So that is exactly this kind of interconnected system of care that we are sitting in the middle of.

And we certainly can deliver a lot of those services, but we can also connect into health network partners and others, and we can make these interfaces much more coordinated for our members. And that's part of the reason why we see such strong Net Promoter Scores and strong retention and strong delight in our model. It's really quite differentiated. And if something needs to be done, we're not just navigating or coordinating it. We actually are medical providers as well, and that really provides a different level of coordination for the member.

Operator: Our next question comes from the line of Richard Close with Canaccord.

Richard Close: Congratulations on a strong start to the year. Bjorn, just maybe spend some time on care margin. I hear you talk about the testing drop-off and maintaining guidance overall. Obviously, a strong care margin in the first quarter. If you look at the guidance ranges, I guess, for the year, the care margin would be 35% to 41% based on the high and low ends of the guidance. Can you talk a little bit about the progression, I guess, from second quarter to fourth quarter, is there anything to call out?

Bjorn Thaler: Yes, Richard, great question. Thank you for that. Yes, if I think about the year, obviously, our guidance reflects the continued sort of strong outlook that we have for the business. Certainly, we feel very good about our Q1 results in terms of membership and growth in revenue and, to your point, I think it sort of really showcases the leverage that we've built in our model sort of throughout, whether it's care margin all the way down to EBITDA.

If you think a little bit about the seasonality, certainly, historically, Q2 and Q3, the summer months are months where the fee-for-service part of the business tends to have a little less utilization, right? By definition, if you're getting paid fee-for-service, that does impact a little bit your revenue.

And again, 60% of our revenue approximately comes in on a sort of recurring in nature basis, the other 40% is your fee-for-service. And given the leverage that we do have in the model, yes, I would obviously expect that the cost of care in the rest of the operations, we're going to continue to invest in our growth. We're going to continue to invest in the new markets that Amir talked about, and that's certainly going to be something that you all see sort of throughout our P&L, whether it's on the care margin line or the EBITDA margin line.

Again, as a reminder, our guidance for the full year is a negative EBITDA of minus $20 million to about breakeven, obviously, compared to the positive EBITDA that we recorded in Q1. So you'll see sort of those investments as we continue to make them in the year. And then certainly, Q4, as we mentioned earlier as well, typically a quarter where we tend to see more membership additions, where we tend to see certainly with the colder winter months incremental visits relative to flu vaccinations, the flu, et cetera, recognizing that this year, in many ways, is going to be a unique year as well.

Right? We don't know about vaccine booster shots for COVID, for example, lots of uncertainty still to come and if I take you back to our guidance philosophy, we very early on said that our guidance is based on a couple of different pathways that you can get to various different outcomes that you can get to the higher end. It's not like everything has to go well to get there. And I think our results for Q1 and our guidance for the rest of the year shows that.

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

Daniel Grosslight: I'm curious if you're seeing any changes in the acuity of your patient mix as in-person opens up? And what assumptions you're making around in-person versus billable, virtual and the acuity of those visits for the full year?

Bjorn Thaler: Yes, great question. I mean, obviously, one of the things we talked about last year was that we had sort of this pent-up demand for some of the deferred care, where folks, frankly, in the first half of 2020 didn't go and have their wellness visits, didn't go and have their sort of checkups, didn't go and have their chronic diseases checked, their A1c, what have you. And certainly, one of the things that we've seen is this sort of starting to normalize.

We had this pent-up demand in Q3 and Q4 that we worked through and certainly it looks so far this year is starting to return to normal. And I think, generally speaking, we expect the trend to continue, i.e., relatively normal utilization for primary care. It's certainly something we see in our book of business and that we expect going forward. So hopefully, that helps you with a little bit of color there.

Operator: Our next question comes from the line of Stephanie Davis with Leerink.

Stephanie Davis: I would love to hear how you're viewing the advent of some of the virtual-first primary care offerings of the MCOs. Is this a partnership opportunity for your team as more folks want to roll out virtual-first primary care and they look for someone with your sorts of outcome? Or are you seeing any pushback from potential employer clients in the market as this is viewed as more of a competition with what you're offering?

Amir Dan Rubin: Yes. Thanks for the question, Stephanie. We really see our model as quite distinctive. As we mentioned, we're now up to 10 engagements per member per year. And so our model has always had more digital engagement than in-person, but it's multimodal. And it's not just synchronous video, it could be a asynchronous. It could be outbound digital population health as we discussed, it could be in-person, it could be helping coordinate primary and specialty care. It could be helping with vaccines or testing or navigating across an ecosystem. So in that regard, we see our model as very differentiated.

Certainly, we see ourselves as an in-network provider, participating in major insurance networks. And we certainly believe health plans see us as an outstanding partner. We're delighting members with 90-plus Net Promoter Score. And as we shared this month -- or this call, their own data is showing we're helping take down the total cost of care. So that's really quite powerful. So we absolutely see health plans as good partners for us, and I think they see the same that we're good partners for them.

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

Jessica Tassan: So I think we were interested to know how the ParetoHealth Alabama and Kansas City locations are going to work with respect to branding, memberships and maybe health system partnership and whether those locations are included in the full year office guidance. And then just separately on Pareto, are their 140 captive members all renewing annually for a Jan 1 start date?

Amir Dan Rubin: Great. Jessica, thank you for the questions. So as we mentioned before, I think one of the exciting things about the Pareto relationship is kind of this distribution relationship that gives us reach to 1,400 small and midsized employers that they have. So that's great. And one of the things that they've kind of always recognized is, boy, if you had a powerful primary care model with the right digital health and in-person care and salaried providers and right incentives, that could really drive value to their members.

They actually decided to try to do some of this on their own and said, boy, this is complicated. And so as part of this broader distribution relationship, One Medical is, if you will, taking over their sites in Alabama and Kansas City. We will run them. They will be branded as One Medical. They will be run in our model. And that's how that part fits in.

But more broadly, with any existing or any new sales they have, there's an opportunity for them to sell us, bundle us, distribute us under different relationships into kind of more employer accounts, which, for us, is a great opportunity. Of course, we also have our nationwide One Medical Now digital health services that they can bundle in where we have in-person presence in digital health in 22 markets or across multiple markets.

And also opportunities to bundle just not our primary, but behavioral health or pediatrics and also our coordination of specialty care with our health network. So they really are an outstanding partner. They deliver great benefit solutions to the small and midsized employers, and we see it as a great fit with what we do.

Operator: Our next question comes from the line of Jailendra Singh with Credit Suisse.

Carlos Consuegra: This is Carlos jumping in for Jailendra. And the question I have for you is a similar note to the headwinds. You spoke about on-site testing. Can you touch on -- you touched upon the booster vaccines, but can you talk more about the demand and trends you are seeing in COVID vaccines?

Operator: We have a follow-up question from Ricky Goldwasser with Morgan Stanley.

Amir Dan Rubin: Sorry, I was answering the other one, but I must have been on mute. Apologies.

Thank you. Thanks for the question, Carlos. Yes. In terms of vaccines, this is something we've been trying to do to help serve our communities and markets. It's not been meaningful economics-wise in total, but it is something that we are positioned to do. We're vaccinating in most of our markets. And should boosters become important, and obviously, Bjorn talked about routine COVID vaccines, are we likely to see -- excuse me, routine flu vaccines, are we likely to see combined COVID boosters and flu vaccines, are we moving from a pandemic state to an endemic state where we're going to have routine boosters.

I think whatever that future looks like, we feel very well positioned to serve in that given kind of our multimodal model, our longitudinal relationships, our relationships in communities. We continue to also serve our community. We're running the public site, for example, in Washington, D.C., continue to do that and pleased to do that. So I think that still remains to be seen, what the fall and winter and the future looks like, but we feel good about our positioning there.

Operator: We have a follow-up question from Ricky Goldwasser. Ricky? (Operator Instructions) I'm not showing Ricky in the queue. All right. I'm not showing -- no further questions in the queue. I would now like to turn the call back over to Amir for closing comments.

Amir Dan Rubin: Well, great. Well, we really want to thank everybody for joining us today, for your great engagement in our mission and the great questions today, and we'll see you next time. Thanks, everybody.

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