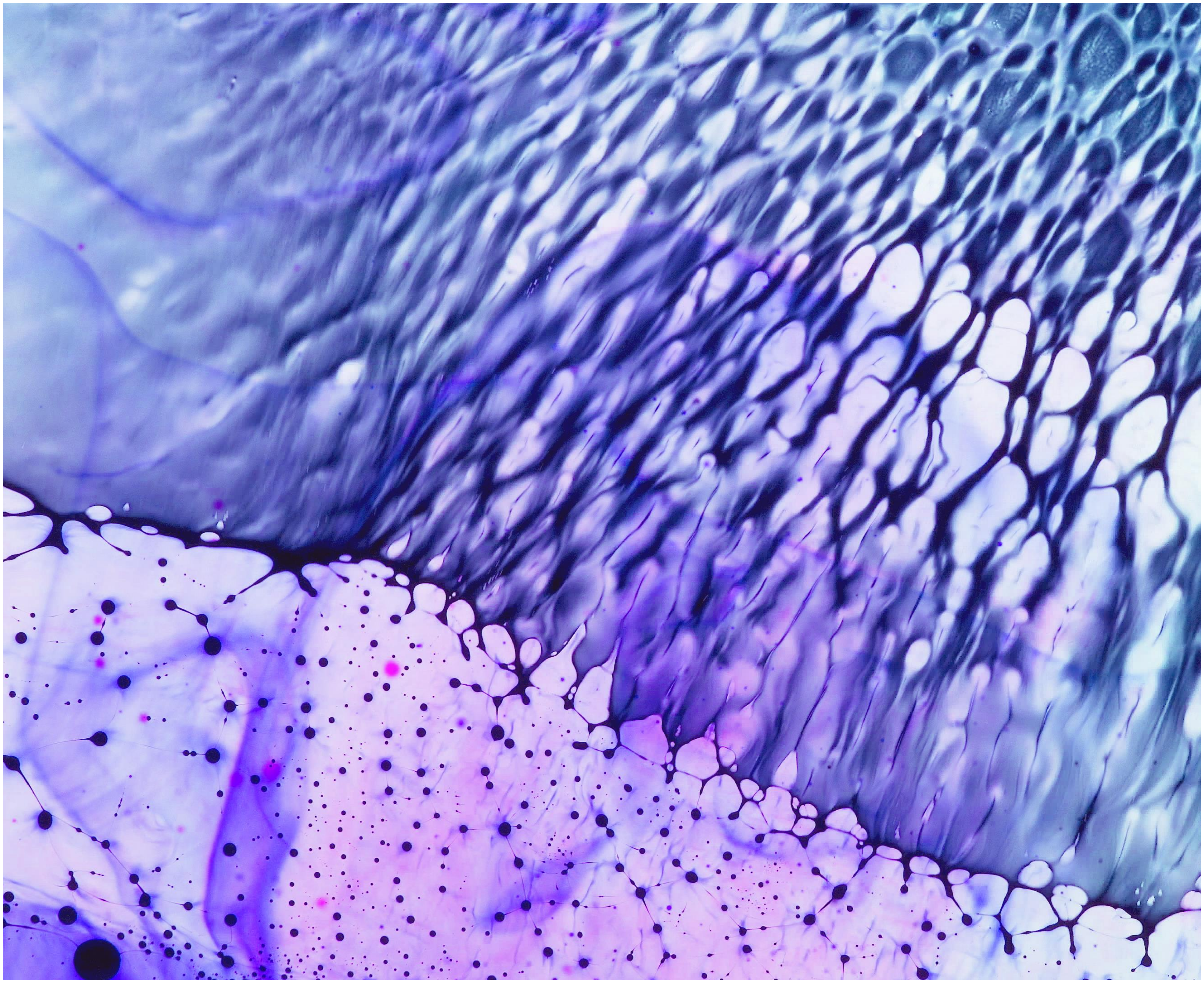


TNB Aura

Perspectives: Offering the latest intelligence on emerging industries and business models

Telehealth Edition

The Investment Case For Telehealth in Southeast Asia

Within this edition, we focus on the topic of Telehealth, and ask ourselves the following questions:

I. What are the key challenges facing Telehealth in Southeast Asia?

II. What is the right model to win the market in the region?

SEA is primed for the emergence of Telehealth...

Rising Telehealth Expenditures

- Telehealth expenditures in SEA are growing significantly faster than GDP (projected to grow from **US $425b in 2020 to US $740b by 2025**).[1]
- It is largely driven by an **ageing population** (% above age 60 will grow from 9.6% in 2016 to 13.6% in 2025)[2] and the prevalence of non-communicable and chronic diseases in the region.

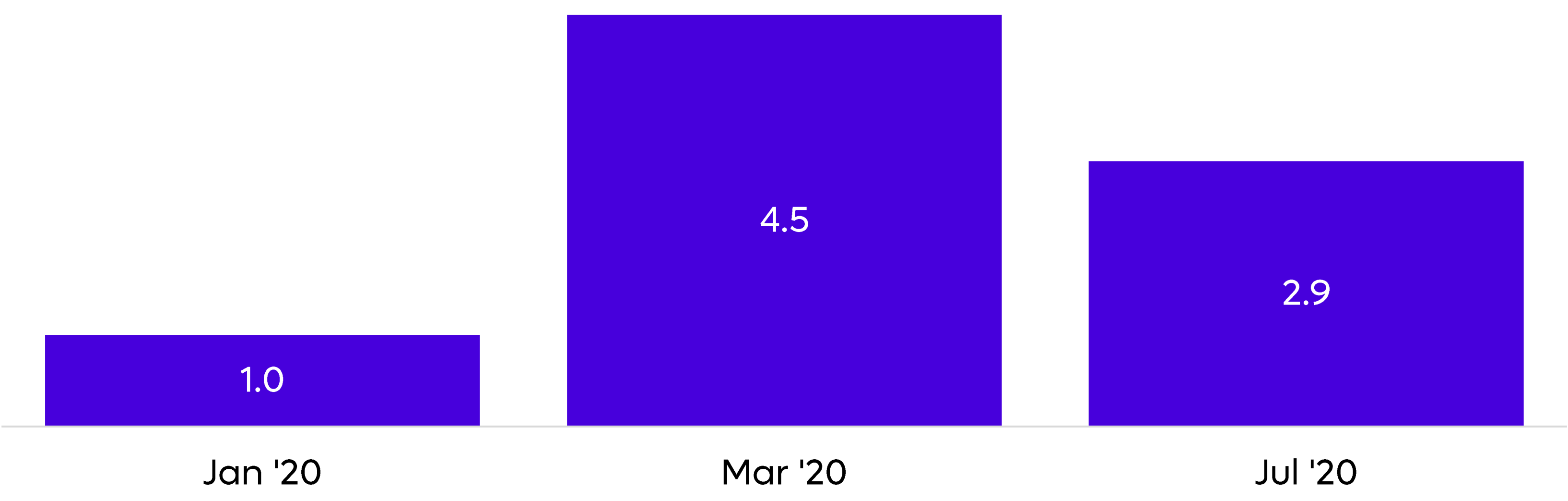
Public and Private Sector Support

- Governments are **increasing support for Telehealth** by issuing policy changes, formal advisories, and forming partnerships.
- In the private sector, **Pan-Asian insurance companies and local giants such as Grab have partnered with Telehealth startups** including Doctor Anywhere and Ping An Good Doctor.

Uptake of Digital Services

- # of internet users in SEA are increasing rapidly from 360m in 2019 to 460m in 2022[3].
- Telehealth usage in SEA expanded by 4x in 2020[4], accelerated by COVID-19, and digital health services **retained most of their users even** after the end of the lockdown period, as illustrated in the following chart.

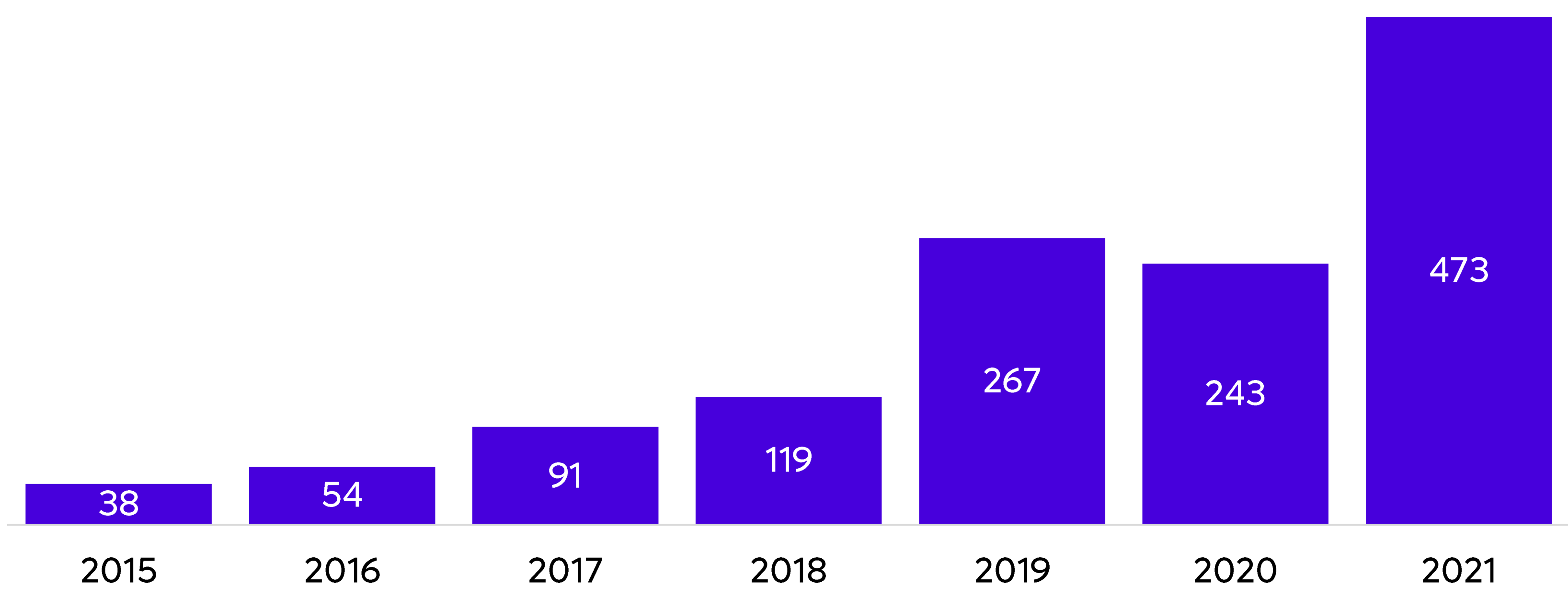
Usage of Telemedicine Platforms, by MAU, indexed to January 2020 (Pre-lockdown)



Increasing Funding

- Institutional partnerships and investments in recent years have legitimised the **Telehealth industry** as a **new pillar in the delivery of Healthcare services.**
- Telehealth in SEA had a record-breaking funding level of US $267m in 2019[5] , which is on top of a 41% CAGR in deal volume since 2014[5], as shown in the following chart.

SEA Telehealth Funding History (US $m)



Source: [1]Solidiance: The USD 320 Billion Telehealth Challenge in ASEAN, [2]UN Population, [3]Google E-conomy Report 2020, [4]Bain: e-Conomy SEA 2020: At Full Velocity - Resilient and Racing Ahead., [5]Galen Growth: Asia Pacific HealthTech Investment Landscape

...but still face some key challenges

Persistence of Patient Acceptance

- Patients are more likely to use Telehealth for routine checkups (45%) vs. more urgent care (19%)[6].
- In the US, the overall number of outpatient visits in 2022 have recovered to pre-pandemic levels and the usage of virtual Telehealth is **38x more than before the COVID-19 epidemic**[7]

Lagging Infrastructure

- **SEA's relative undersupply of hospital beds and qualified physicians and nurses**[9] have worsened since post-pandemic - Health workers are maldistributed and rural areas are often understaffed.
- Further exacerbated by the mass migration of Telehealth workers to other countries and the difficulty in attracting new professionals due to low salaries and poor working conditions (Refer to the following chart)

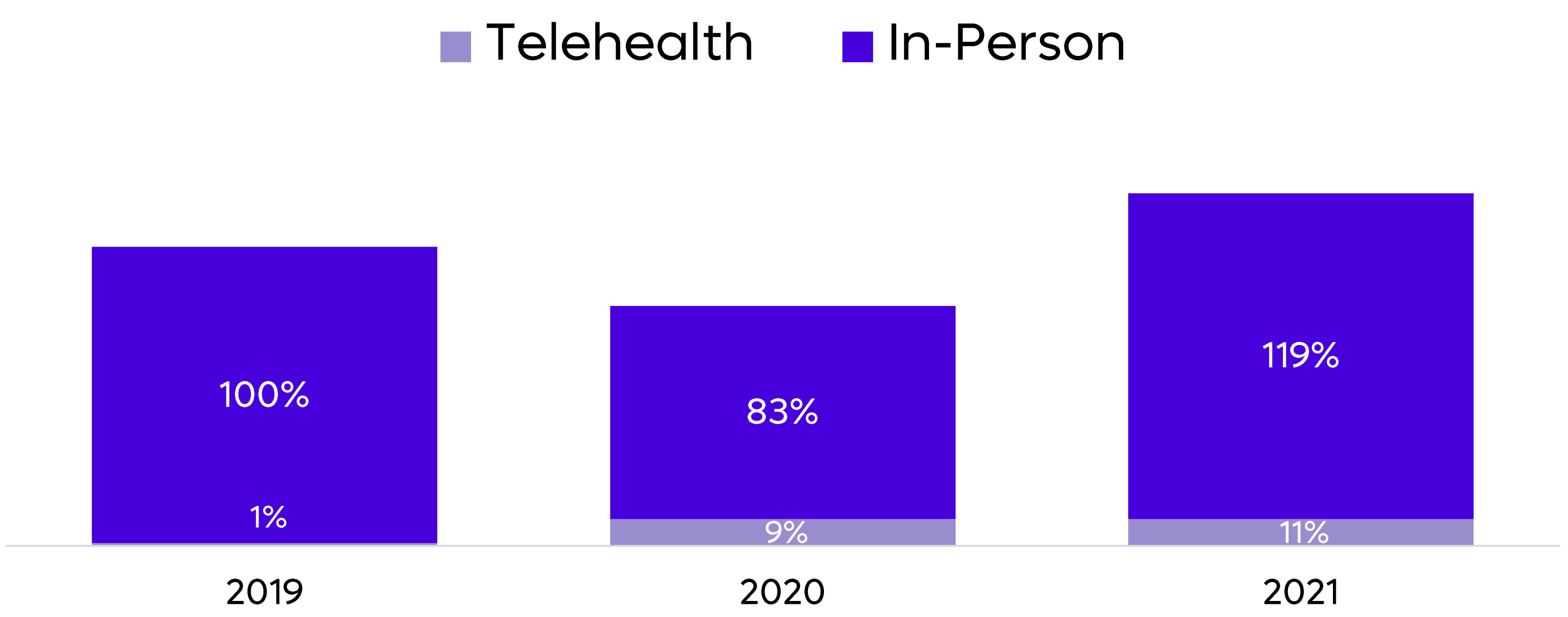
Fragmented Telehealth Ecosystem

- The Telehealth system in SEA is **diverse and highly fragmented -** Countries such as Vietnam and the Philippines have over a **thousand autonomous health systems**[8] at municipal, provincial, and national levels.

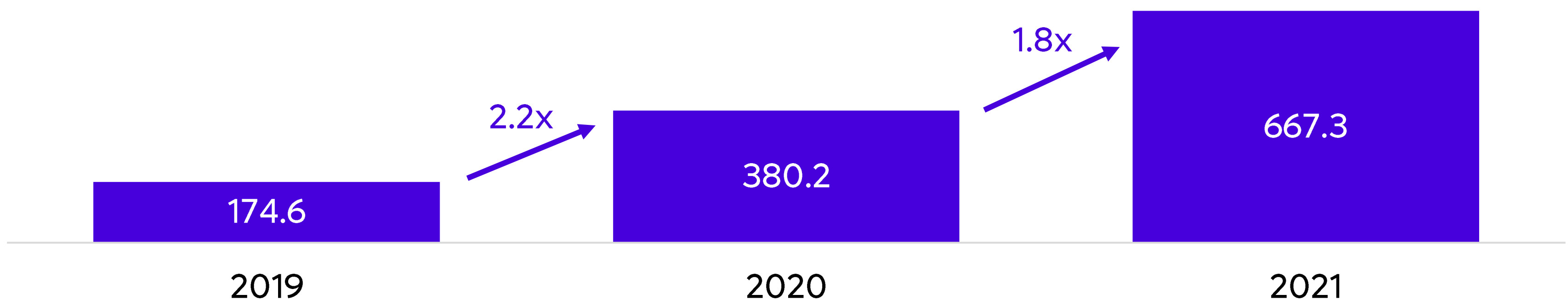
High Customer Acquisition Costs

- Telehealth companies are generally faced with high selling markets experiencing high customer acquisition costs
- Teladoc Health Inc, a leading Telehealth company had selling and marketing expenses of **US $380m** (34.8% of revenue) over FY 2020. In 2021, this skyrocketed to **US $667m** in 2021 and **US $820m TTM**[10] (Refer to the following chart)

Outpatient Visit Types Before the Pandemic



Teladoc Health Inc. Selling and Marketing Expenses (in USD $'000)



Source: [6]Doctor.com: Telemedicine Adoption in the Age of Covid-19 and Beyond, [7]McKinsey: Telehealth: A Quarter-Trillion-Dollar Post-COVID-19 Reality?, [8,9]Insead: Southeast Asia VC HealthTech Landscape, [10]Teladoc: Income Statement FY21

Out of the 4 business models, we believe specialised verticals to be at an advantage

Key Models	Marketplace/Platform	B2B SaaS/Enabler	Specialised Verticals	Online Full Stack
Description	Provides patients access to a wide range of Telehealth providers online	Creates the necessary infrastructure and tools for Telehealth providers to conduct Telehealth services, but do not directly offer services to patients	Offers Telehealth services for a specific Telehealth niche or condition, such as mental health, pediatrics, or sexual wellness	End-to-end virtual Telehealth solution to patients, from online consultation booking, virtual appointment with Telehealth providers, to online prescription fulfillment
Global Examples	• Walmart Health Virtual Care • Amwell • Sesame Care	• Amwell • eVisit	• Hims & Hers • Kindbody • Nurx	• PlushCare • Teladoc
Southeast Asian Players	• Doctor Anywhere • Halodoc • DocDoc • MyDoc	• DocDoc	• Ora • Ease • Norm • Ordinary Folk	• Whitecoat
Opportunities & Challenges	✓ Asset light × Low margins due to low take rate × No control over quality × Low defensibility × Intense competition	✓ Recurring revenue × Limited market size as mainly serves Telehealth providers only (vs. D2P)	✓ Recurring revenue ✓ Higher customer LTV ✓ Higher margins (vs. GMV) × Limited market size	✓ Higher margins ✓ Potentially higher LTV × Relatively asset heavier × Long curve in brand building × Intense competition from incumbents
Expected End-game	• Limited control over quality • Margin compression with profitability acquiring significance scale	• Profitability possible, however total scale in question	• House of brands • Best team and execution wins	• Long curve to scale and profitability

Did you know?

- Players with a focus on specialised verticals go deep in the market to meet the specific needs of patients, leading to higher customer stickiness and retention – and in turn, **higher customer lifetime value**
- Marketplaces and online full-stack players focus more on meeting the general needs of patients and usually face **lower customer switching costs**
- B2B SaaS players risk facing **greater competition** once the other models start building out the infrastructure for Telehealth providers, leveraging on the customer data they already have, and a better understanding of what businesses need

Source: PitchBook, Crunchbase

Comparing global examples based on financial performance

Global Players	hims & hers	Teladoc HEALTH	amwell
Description	Provides virtual Telehealth solutions for hair loss, sexual health, acne skin, and other stigmatized health conditions	Provides virtual Telehealth via platform delivering 24-hour, on-demand Telehealth via mobile devices	Virtual Telehealth provider that connects and enables providers, insurers, patients, and innovators to deliver access to Telehealth
Business Model	D2P Subscription Model	B2B SaaS Model (Clients), B2C Pay-per-use (Users)	B2B SaaS Model (Clients), B2C Pay-per-use (Users)
Total Funding	$272.0M	$507.0M	$1.8B
Valuation (Post-Money)	$1.9B	$703.9M	$4.1B
Revenue (TTM)	$444.4M	$2.3B	$270.7M
Gross Margin (%)	76.2%	68.6%	41.5%
EBITDA Margin (%)	-15.1%	-414.6%	-85.6%
Recurring Revenue (%)	58.4%	21.0%	40.1%
Product Differentiation	Niche medical conditions; Original formulation and brand of treatment	Wide range of general Telehealth services	Allow patient data to embed into existing clinical workflows and profiles

Did you know?

- Despite hims & hers having the lowest funding out of all 3, it is **second in valuation and revenue** with the highest gross margins, EBITDA margins and the highest % of recurring revenues amongst them.
- **Takeaway:** Focusing on vertical integration is a key factor in achieving higher margins. Direct-to-patient (D2P) subscription models bring in higher recurring revenues and hence enhance customer stickiness and increase customer lifetime value.

Source: 2021 Figures, Yahoo Finance

Key Success Factors to conquer the Southeast Asian Telehealth market

Direct-to-Patient model

- Based on global precedents, specialist D2P Telehealth have advantages in margins by going deep in the market as it is critical to understand the local patients' needs to conquer SEA

Focus on specialised verticals

- Specialised verticals are recurring in nature and extend the customer lifetime value, such as long term medical conditions like sexual health and hair loss
- Covering conditions that traditionally have a social stigma surrounding it also brings a unique value proposition

Acquire a pharmacy licence

- Having a pharmacy licence creates higher margins as they can buy directly from manufacturers, thereby allowing greater room to offer competitive prices

Product innovation

- Focusing on R&D and extending its capabilities upstream helps to improve margins
- Customising products for better product-market fit leads to higher conversion and better unit economics

Strengthen unit economics

- Increasing customer lifetime value by encouraging repeat purchases and enhancing customer stickiness
- Reducing CAC in the long run through channel optimisation and improving conversion

What's on your mind?
Share your thoughts in our comments.