Company Note Overseas
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Babylon (BBLN.US)

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International Stock Market Weekly

Information Technology: Software: Small Cap Growth

Alkuri Acquisition Corp. (KURI.US) / Babylon (BBLN.US)

One of the few good things to come out of the Covid pandemic is acceleration of digital transformation in healthcare. Since 2020, there have been increased rates of telehealth usage, record-breaking investments in digital health companies, and more organizations adopting AI to drive efficiency. The pandemic led to a complete transformation in how healthcare organizations collaborate and share information. Thanks to their rapid adoption of technology, and the digital transformation should accelerate for the foreseeable future. Indeed, three of the biggest opportunities for technology in healthcare will be providing continuous care, implementing real-world data into care delivery, and making a more efficient system. Furthermore, the transformation should use data to improve the public health infrastructure, improving outcomes for a broader range of the population. Unleashing data will empower people with the ability to create new and better solutions to health care challenges, making such challenges a thing of the past.

One company that could emerge as major beneficiary of the digital transformation in healthcare is Babylon. The company will merge with blank check company Alkuri Global Acquisition Corp (KURI), formerly Ark Global Acquisition Corp. Babylon recently announced its plans to go public via a USD4.2bn SPAC merger with Alkuri and is branching out into new lines of business as it is going public. The company is expanding from an AI-based chat service for primary care clinics to a company taking global risk for populations of patients leveraging both digital care and clinics it has acquired. Babylon is positioning itself as the best of two worlds in digital health: the scalability of digital solutions with the revenue capture of value-based care solutions. Notable investors in Babylon include pure play AI company Palantir (PLTR), Munich Re/ ERGO Corporate Venture Fund, VNV Global, Kinnevik AB, and Saudi Arabia's Public Investment Fund.

Stock pick for the fourth week of August

Alkuri Acquisition Corp. (KURI.US) / Babylon (BBLN.US)

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Alkuri Global Acquisition Corp (KURI)., formerly Ark Global Acquisition Corp., is a Nashville, TN USA blank check company. The company was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or similar business combination with one or more businesses. The company intends to partner with a technology company leveraging data and artificial intelligence in the areas of consumer Internet and marketplaces, fintech, healthtech, and mobility. The company has not commenced any business operations and has not generated any revenue.

Babylon is a London, UK-based health care services company. The company was founded in 2013 and started as an AI-chat based primary care service with a primary care clinic in the UK. The company has since grown to be one of the largest practices in the UK. The AI chatbot serves as an entree for Babylon to manage patients through its virtual-first primary care model. The company now provides hybrid care with its NHS-backed service GP at Hand, which lets patients in the UK to sign up for the service in lieu of registering with their local general practitioner. The service includes digital triage, online video visits, and in-person care centers.

Post-merger, the new entity will be listed as Babylon (BBLN) on the Nasdaq. The deal is slated to close in 2H21. The company announced its revenue had multiplied by fivefold in 2020.
The company currently sells two main products. 1) Babylon 360, which lets patients check their symptoms, book an appointment, and develop personal healthcare goals. With this tool, patients can choose their primary care provider, create a personalized plan, and manage chronic diseases. 2) Babylon Cloud Services, which is made up of digital self-care tools.

Rationale

Babylon's digital first model of care empowers patients to take ownership of their health with an emphasis on prevention over cure. Its digital healthcare application enables users to talk to a doctor within minutes and obtain medical advice via video consultations, phone calls, or text messages.

The healthcare system is undergoing a massive shift in how information is obtained and disseminated. The time when all medical information was under exclusive control of doctors, and patients had to sign myriad forms to access their own health information is fast becoming a relic of the past. Today people want access to their health data from the palm of their hand. And with tools such as online patient portals that provide medical test results, diagnosis, and explanations of illnesses, patients are participants in their well-being, which in turn provides doctors with the ability to analyze patients in real-time. Babylon's digital first model of care empowers patients to take ownership of their health with an emphasis on prevention over cure. Its digital healthcare application enables users to talk to a doctor within minutes and obtain medical advice via video consultations, phone calls, or text messages.

As of 2021 the state of digital transformation in healthcare rests on the following pillars: I) On-demand healthcare: On-demand consumers want things at their own convenience, on their own time, and

wherever they are located. The era of digital innovation for the healthcare industry has begun in earnest, as patients seek on-demand healthcare and mobile is key to the digital transformation as the past decade has seen the population become more mobile. Indeed, most web browsing worldwide takes place on mobile devices. Factor in the billions of people on the Internet and it is easy to see the tremendous opportunities that digital healthcare offers; II) Big data in healthcare: Big data aggregates information via social media, ecommerce, online transactions, and financial transactions, and identifies patterns and trends for future use. For healthcare, big data provides benefits including a lower percentage of medication errors through patient record analysis; more accurate staffing thanks to predictive analysis, which will help healthcare facilities estimate future admission rates, enabling them to allocate the proper staff. This will also reduce costs and lower emergency room wait times; III) Treatment with virtual reality: VR is a more efficient and safer alternative to drugs. VR is already being utilized to treat pain as well as other conditions such as anxiety, PTSD, and stroke. And these are just the tip of the iceberg when it comes to VR's established capabilities in the medical field. And because of the immensity of its potential applications, there is considerable investment going into VR; IV) Wearable medical devices: Patients are focusing on prevention and maintenance, and demanding information about their health more frequently; V) Predictive healthcare: Predicting what illnesses and diseases may become major problems is also driving the digital transformation in healthcare; VI) Artificial intelligence: The healthcare AI-powered tools market is growing at an incredible rate and will shape nearly all facets of the industry. Chatbots and virtual health assistants such as those from Babylon are another AI-based technology that patients are growing more accustomed to. Chatbots handle roles from customer service representatives to diagnostic tools, and therapists; VII) Blockchain: Blockchain is a digital ledger or a computerized database of transactions. It allows patients to safely exchange information, without the need of a third party. The technology will enable better electronic health records, solving the problem of fragmented medical records.

The evolution of IT adoption in healthcare

The 1950s was the first wave of IT adoption in healthcare, with organizations started using new technologies to automate standardized and repetitive tasks, as well as to process statistical data. Two decades later, the second wave of IT adoption arrived, which helped integrate different parts of core processes within organizations, and it supported B2B processes. For the healthcare sector, this second wave of IT adoption brought about, electronic health cards in some countries and gave rise to the Health Information Technology for Economic and Clinical Health Act in the US, created to promote the adoption of health-IT These programs laid the groundwork for the digital transformation of healthcare.

Many organizations have already moved to the third wave of IT adoption, complete digitization, including digital products, channels, and processes, as well as analytics that enable new operating models. These new applications are not limited to simply helping to perform specific tasks more efficiently. Indeed, today's digital technology is enabling smarter choices, allowing people to spend more time on activities they think are important.

Success in the third

While the legacy players in the healthcare industry benefited from the first and second waves of IT adoption, they are facing difficulties in dealing with the current third wave due in part to myriad

wave of IT adoption hinges on first understanding patients' digital preferences in both channel and service—and this is one of Babylon's key advantages as a digital first healthcare company.

stakeholders, regulations, and privacy concerns required to build a fully integrated healthcare IT system. And this is largely due to the fact that the first and second wave focused more on processes and less on patient needs. Today, however, patients are more comfortable using digital networks and services, even for issues such as healthcare as evidenced by the success of many online services.

Digital first organizations outside of healthcare that pioneered the third wave of digitization started by analyzing what their customers wanted; and then created digital products and services based on that information and expanded their offerings and customer base. Success in the third wave of IT adoption hinges on first understanding patients' digital preferences in both channel and service—and this is one of Babylon's key advantages as a digital first healthcare company.

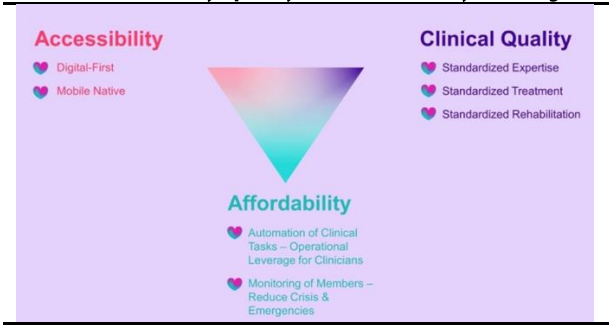
What is digital health?

Digital health includes categories such as health information technology (IT), mobile health (mHealth), personalized medicine, telehealth and telemedicine, and wearables, From mobile medical apps and software that support the clinical decisions doctors make to AI and ML, digital technology is driving a revolution in health care. Digital health tools are improving the ability to diagnose and treat disease and to enhance the delivery of health care. Digital health technologies use hardware, connectivity, software, and sensors for health care and related uses. These technologies encompass a range of uses, from general wellness to medical devices, and include technologies intended for use as a medical product, in a medical product, as companion diagnostics, or as an adjunct to other medical products, and can be used to develop medical products.

What are the benefits of digital health technologies?

Digital health technologies provide a superior view of patient health through data and empower patients more control over their health. Digital health offers opportunities to improve medical outcomes and enhance efficiency. The technologies empower users to make better decisions about their health and provide options for early diagnosis of diseases, facilitate prevention, and help management of chronic conditions. Providers and other stakeholders are using digital health technologies to expand access; reduce inefficiencies; lower costs; increase quality; and personalize medicine. Digital health technologies enable users to better manage and track their health and wellness-related activities. The use of technologies, such as smartphones, Internet applications, and social networks, is changing the manner in which we communicate, and is providing new ways to monitor health and well-being while simultaneously providing greater access to information. These advancements are improving health care and health outcomes and the companies that build the solutions for this transition should see considerable growth.

Fig 1. Babylon addresses the USD10trn global healthcare sector's accessibility, quality, and affordability challenges

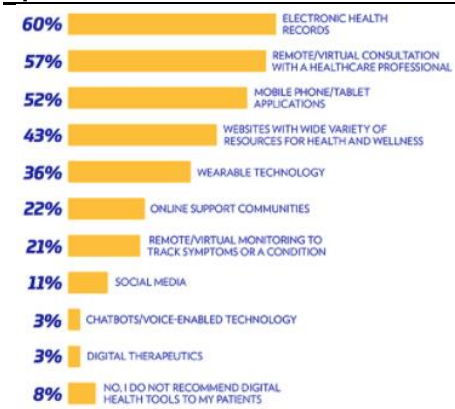


Source: Babylon, Hyundai Motor Securities

Fig 2. One of the most experienced management teams in digital health

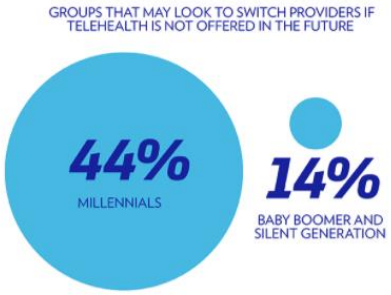
Source: Babylon, Hyundai Motor Securities

Fig 3. Over 92% of clinicians recommended digital tools to patients



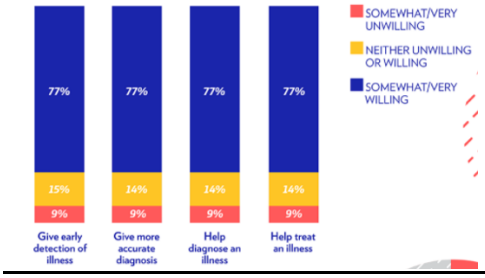
Source: HIMSS.org, Hyundai Motor Securities

Fig 4. Telehealth preferences moving forward differ by age group



Source: HIMSS.org, Hyundai Motor Securities

Fig 5. Willingness to share health data for treatment benefits

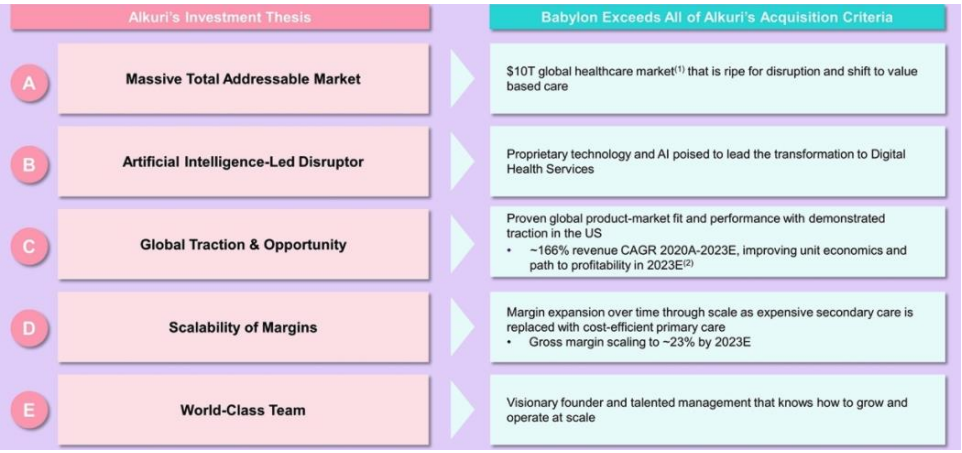


Source: HIMSS.org, Hyundai Motor Securities

Fig 6. Tech well protected and recognized for excellence

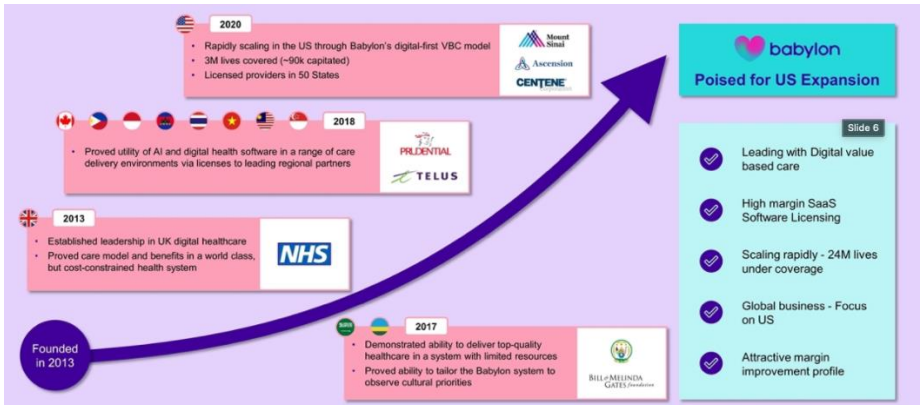
Source: Babylon, Hyundai Motor Securities

Fig 7. Acquisition criteria for Alkuri Global's acquisition of Babylon



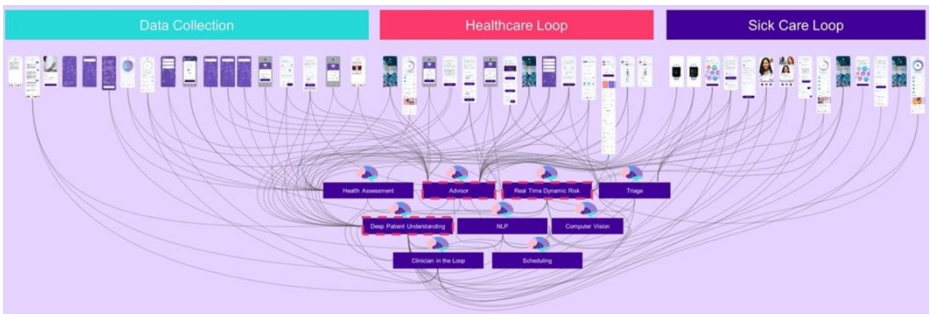
Source: Alkuri Global, Hyundai Motor Securities

Fig 8. Grown from its roots in the UK healthcare market to become a leader in scalable, digital-first value-based healthcare



Source: Alkuri Global, Hyundai Motor Securities

Fig 9. AI enhancing every step of member care



Source: Babylon, Hyundai Motor Securities

Valuation and risks

The merger of Kuri and Babylon gives the digital healthcare company a valuation of USD4.2bn. As Kuri is a blank check company, traditional valuation metrics are not applicable. For Babylon, it intends to reduce primary care costs with its more efficient model while simultaneously reducing specialty costs. Accordingly, the growth in value-based care (VBC) should drive considerable improvements in its financials. According to the company's projections the growth in both revenue and EBITDA appears to be driven by VBC contracts for the most part. Babylon's migration to VBC contracts should generate thousands of dollars per member per year at margins north of 30% in its third year after listing. VBC enables digital care organizations to capture substantially more revenue per life covered and generate strong margins if the total cost of care is well managed. And it remains to be seen if Babylon can accomplish this. Other risks include Babylon's model in which it recognizes top-quality margins from selling software to providers who could be competitors and sizable revenue volumes from servicing Medicare Advantage populations where its ability to generate margin is unproven.

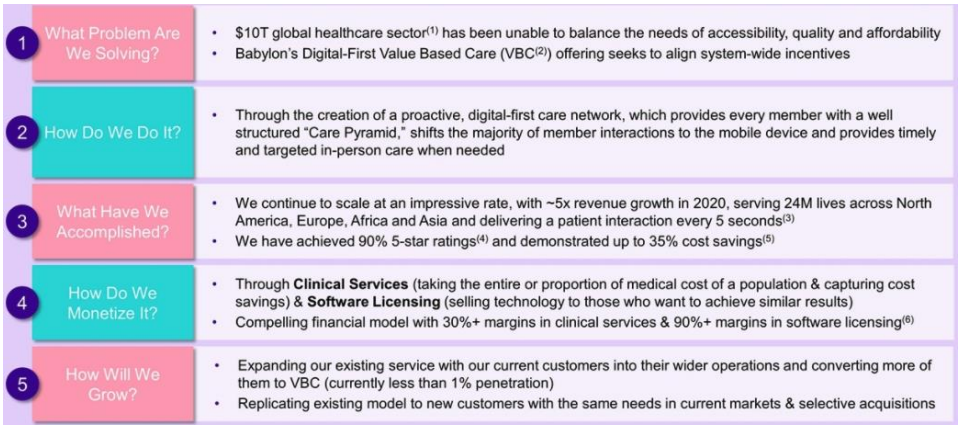
The bottom line

Like many potentially disruptive digital-first companies, Babylon has the potential to provide outsized gains, albeit with outsized risks. The approach Babylon is taking is unique in terms of leveraging a digital platform with acquired practices to manage risk, and if it successfully accomplishes this, the road ahead for the company is very promising.

Babylon offers investors an opportunity to gain exposure to a company in the vanguard of the digital revolution in healthcare and its expansion in the massive and highly lucrative US healthcare market, which is long overdue and primed for digital disruption.

We will monitor Babylon's first few quarters as a public company after it lists on the Nasdaq. That said, we think Babylon offers investors an opportunity to gain exposure to a company in the vanguard of healthcare's digital revolution. What is more, the company's expansion into the massive and highly lucrative US healthcare market, which is long overdue for digital disruption. If Babylon is able to successfully execute on its plan, then it could prove to be a home run for investors.

Fig 10. Understanding Babylon in five questions

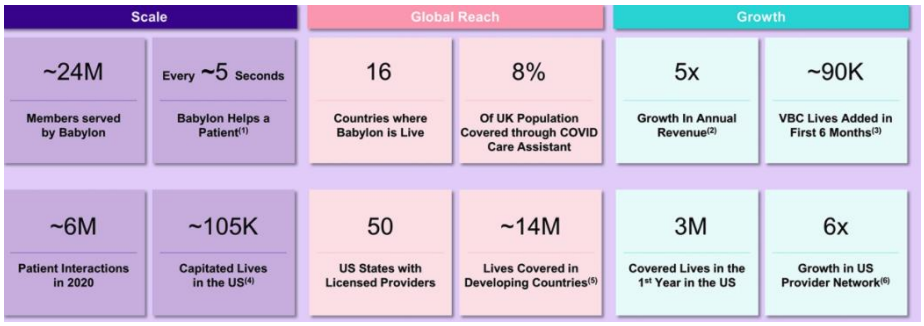


Source: Babylon, Hyundai Motor Securities

Fig 11. Babylon's AI platform and virtual services span the entire health journey

Source: Babylon, Hyundai Motor Securities

Fig 12. Babylon in numbers

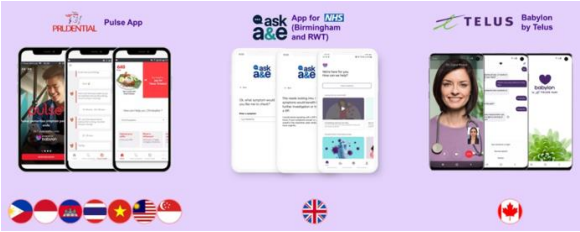


Source: Babylon, Hyundai Motor Securities

Fig 13. Tech licensed to ~15mn people globally in long-term

Fig 14. Strong pipeline of new contracts worldwide

licensing contacts

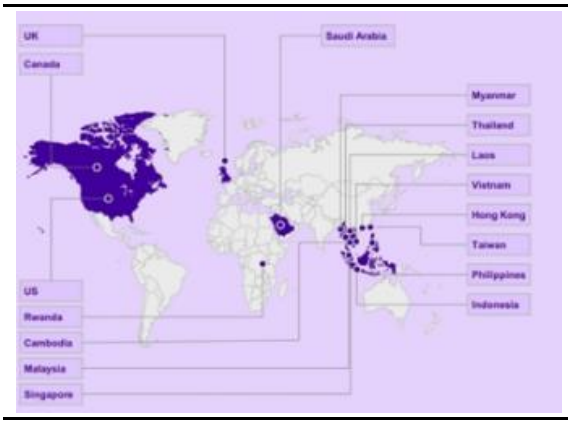


Source: Babylon, Hyundai Motor Securities

	Upselling Existing Clients	New Clients	Total Pipeline
Projected ARR(1)	~$1.2BN ~98% VBC	~$2.4BN ~99% VBC	~$3.6BN ~99% VBC
Pipeline Coverage(2)	2.5x	5.1x	7.6x
Deal Count	~15 ~55% VBC	~35 ~55% VBC	~50 ~55% VBC

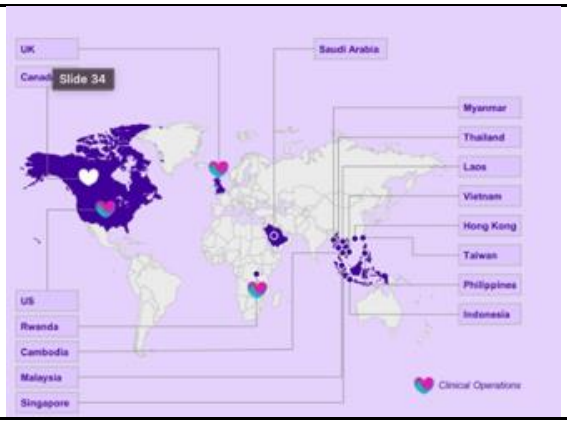
Source: Babylon, Hyundai Motor Securities

Fig 15. Global operations I: spans 16 countries and growing



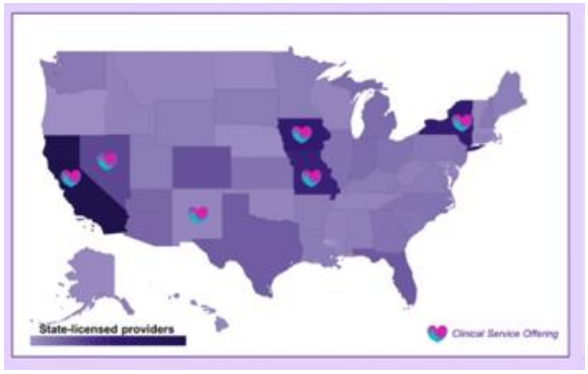
Source: Babylon, Hyundai Motor Securities

Fig 16. Global operations II: clinical operations across three continents



Source: Babylon, Hyundai Motor Securities

Fig 17. Built a 50-state provider in the US

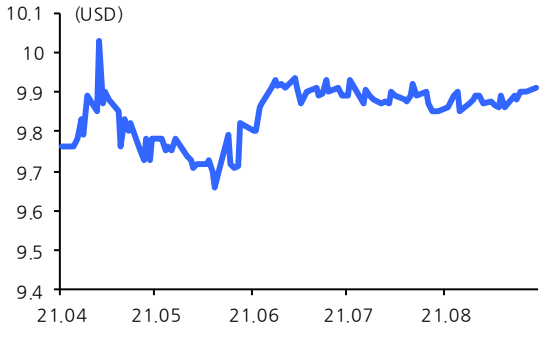


Source: Babylon, Hyundai Motor Securities

Fig 18. Approach via multiple channels enables global coverage at scale

Source: Babylon, Hyundai Motor Securities

Fig 18. KURI Stock Price



Source: Bloomberg, Hyundai Motor Securities

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