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Earnings Call

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Call Participants

EXECUTIVES

Jeannine Feyen
Director of Communications

Jennifer Fulk
Chief Financial Officer

Jon R. Cohen
CEO & Director

ANALYSTS

Charles Rhyee
TD Cowen, Research Division

Jack A. Senft
William Blair & Company L.L.C., Research Division

Ryan Scott Daniels
William Blair & Company L.L.C., Research Division

Stephanie July Davis
Barclays PLC

Presentation

Operator

Thank you for standing by. My name is Benjamin, and I will be your conference operator today. At this time, I'd like to welcome everyone to Talkspace First Quarter 2024 Earnings Conference Call. [Operator Instructions]

I would like to turn the call over to Jeannine Feyen, Director of Communications. Please go ahead.

Jeannine Feyen
Director of Communications

Good morning, and welcome to Talkspace's Earnings Conference Call for the First Quarter of 2024. I hope you've had the opportunity to access the press release we posted on Talkspace's IR website and the presentation of our earnings results. We'll use the presentation to walk you through today's remarks.

Leading today's call are our CEO, Dr. Jon Cohen; and our CFO, Jennifer Fulk. Management will offer their prepared remarks, and we'll then take your questions.

Certain measures we'll discuss on this call are expressed on a non-GAAP basis and have been adjusted to exclude the impact of one-off items. Reconciliations of these non-GAAP measures are included in our earnings release and on our website, talkspace.com.

I also want to remind you that we will be discussing forward-looking information today, which may include forecasts, targets and other statements regarding our plans, goals, strategic priorities and anticipated financial results. While these statements represent our best current judgment about future results and performance as of today, our actual results are subject to many risks and uncertainties that could cause actual results to differ materially from what we expect. Important factors that may affect our future results are described on our most recent SEC reports and today's earnings press release. For more information, please review our safe harbor disclaimer on Slide 2.

Now I will turn it over to Dr. Jon Cohen.

Ryan Scott Daniels
William Blair & Company L.L.C., Research Division

Thanks, Jeannine, and thank you all for joining us today.

We began 2024 with another strong set of results, driven by continued execution across the business. This quarter, we delivered revenue of $45.4 million, up 36% year-over-year, and an adjusted EBITDA of $800,000, which marks our first quarter of profitability in the 13-year history of the company. This is a testament to the focus and dedication of our team.

The continued momentum in our top line and our continuous rigorous focus on our cost structure provide a strong base to build upon, and we are confident in our ability to maintain profitable growth going forward.

Let me cover our progress in the first quarter by strategic priority. First, in our payor category, revenue grew 92% year-over-year. This growth is the result of our focused efforts to expand our covered lives, increase capture rates and increased utilization.

Our expansion into Anthem commercial lives, which we announced last November, contributed to our strong revenue growth in the quarter and is progressing as expected. We also continue to see favorable member acquisition metrics from our marketing investments and our product work to enhance both capture rate and utilization. In addition, we have entered into strategic conversations with other payors regarding value-based arrangements.

The Talkspace platform was built to continuously improve quality and increase efficacy in the delivery of mental health care, our ability to measure these parameters and report them as a competitive advantage as we discuss value-based arrangements.

Medicare, as we mentioned, is a significant opportunity with 65 million lives. We expect to go live in multiple states later this month within traditional Medicare, representing more than 10 million lives at launch. The reception from payors has been very positive, and we are in advanced discussions to expand within their Medicare Advantage networks.

We continue to expect to be in network with Medicare in all 50 states by the end of the year, further cementing our position as the behavioral health company with the most covered lives across the United States. With Medicare, we will continue to lead as the platform advancing affordable behavioral health care.

We've also expanded our brand and referral partnerships significantly in 2024. Notable collaborations include our new partnership with Thirty Madison, a specialty telemedicine company operating Keeps, Cove and Nurx and an expansion of our provider directories on Zocdoc and Health Grades.

Additionally, we launched our Health Collective marketplace, offering members access to a comprehensive and growing suite of whole health digital providers and services. This platform will provide members with clinically vetted and curated resources and member benefits across the entire health spectrum with the goal of expanding accessibility to high-quality and holistic care. Some of those first partners include Oura, Evernow, Conceive and FitOn.

Moving to direct-to-enterprise. We are encouraged by the early progress of our offering in New York City and Baltimore launched in Q4. Results on the first months around engagement and effectiveness indicate that we are reaching diverse populations as well as previously underserved communities. Many thousands of kids have already received help from their Talkspace therapists, and we know that our suicide risk alerts are working as intended.

We also know of several occurrences where therapist intervention for teens in crisis has made a dramatic impact on their lives. We are very proud of the impact we are already having on these students.

These 2 partnerships, the first of their kind, exemplify our commitment to addressing the teen mental health crisis. We believe providing teens with access to quality care through a platform that meets them where they are will drive better outcomes for all. The reception and inbound interest we have received from other public health entities as a result of these initiatives has been high.

On the employer side of our DTE category, while we did have a number of renewals and new wins in Q1, we also experienced headwinds with respect to account attrition. This was in part due to businesses continuing to review their budgets in the current inflationary environment as well as an increased competition.

We believe our ability to demonstrate value for employers is a meaningful differentiator. And last month, we released our ROI calculator aimed at doing just that. This independently validated tool provides enterprises with the ability to measure the impact of offering virtual mental health services and validates potential enterprise savings in 3 areas: medical savings, time savings with respect to employee commute and absenteeism savings related to the number of workdays missed by employees due to depression.

We are also investing in new technology and digital capabilities to further enhance the offerings and features of our platform for the DTE category, specifically focused on the teens market. I'd like to call out that our platform remains attractive to partners for their members because of the comprehensive nature including psychiatry and therapy across all stages of life, including teens, couples, soon to be seniors, with multiple modalities, leading with text-based therapy and live video and audio so that their members can use Talkspace from anywhere, anytime for any need that comes up. We are excited about our growing DTE pipeline, particularly when it comes to the teens vertical and look forward to sharing more throughout the year.

Moving to our provider network. We continue to build out our network of providers, and ended the quarter with over 5,600 therapists, up 6% sequentially. We continue to see strong demand to join the Talkspace network and believe this is a testament to the investments we continue to make in our platform to enhance the provider experience and deliver exceptional clinical outcomes. These outcomes were recently highlighted in a study published in the Journal of the American Medical Association.

Using machine learning, researchers from Talkspace and Lyssn analyzed more than 20 million de-identified messages between therapists and their clients to find that more supportive, empathetic and warm the therapist was, the stronger the patient's outcomes and the higher the satisfaction with therapy overall. This supports what we know, that the higher the quality of the relationship with the provider, the better the members' experience and outcomes.

We also continue to focus on the innovation of our platform for the benefit of both our members and providers. During the quarter, we launched an AI capability that generates a comprehensive, succinct summary for the provider, a Smart Note, which reduces the administrative burden on clinicians. The initial response from our providers has been exceptionally positive, and we estimate that it is eliminating for our full-time providers up to 4 hours per week of administrative work, optimizing the time they could spend on therapy with members.

The AI team is working on multiple other features to improve the therapist workflow and enhance our ability to deliver better clinical care. While we are committed to continuing to invest in new tools such as these, we will, of course, do so in a clinically led, responsible and secure manner that protects the privacy and data integrity of our members.

Investments such as these not only expand provider productivity, but also improve the member experience and are emblematic of our commitment to innovation and operational excellence. In addition to these new AI initiatives, we will continue to make technology enhancements supporting payor capture rate and utilization and investment in DTE digital capabilities to increase the value proposition of Talkspace's offerings.

Before I turn the call over to Jennifer, I'd like to note that May is Mental Health Awareness Month, and we join others across the industry to underscore the importance of self-care and making quality mental health care more accessible.

This month, we have unveiled a new brand identity on our corporate and investor websites. Our new brand is a bold, design-forward look and feel that captures the company's core beliefs that therapy and mental health support should be a routine, positive part of anyone's life and that everyone deserves access to high-quality mental health services. It is my belief that complete health is both physical health and mental health. As everyone should have access to a primary care physician, everyone should have access to a mental health therapist.

You will see that our Mental Health Awareness Month campaign encourages people to talk it out through therapy. The campaign features our own members telling their stories of the pivotal and profound insights they gained while working with their Talkspace therapists.

You will also see our new TV Spot, teaching the relationship with the therapist and member and highlighting a key differentiator for us, which is that our therapists have, on average, over 10 years' experience.

With that, I'll turn the call over to Jennifer.

Jennifer Fulk
Chief Financial Officer

Thank you, Jon, and good morning, everyone. We are pleased with our first quarter 2024 results, which reflect continued strengthening of financial performance as the result of execution across our company priorities.

My comments today will be based primarily on the first quarter results on a year-over-year basis, unless otherwise noted. I will cover highlights from our financial results and then give more details on our outlook.

Total revenue for the first quarter was $45.4 million, a 36% increase from a year ago. Adjusted EBITDA was approximately $800,000 in the first quarter, marking our first quarter of profitability on this basis.

Moving to results by category. Payor revenue was $28.5 million, a 92% increase versus the prior year period. Payor sessions completed by behavioral health and EAP members grew 14% sequentially and 65% year-over-year to 284,000. And unique payor members completing sessions grew sequentially by 9% and year-over-year by 39% to 86,000. As Jon previously highlighted, the first quarter benefited significantly from the December launch of the 18 million incremental covered commercial lives.

In addition, compared to the same period last year, there was an 11% growth in the same basis capture rate and a 19% improvement in the utilization of sessions per member. These gains were primarily driven by continued upper funnel marketing and media optimization as well as enhancements across the product.

In the direct-to-enterprise category, first quarter revenue was $9.9 million, up 14% from last year and 11% sequentially, primarily due to progress in our recent teen launches last quarter. As Jon noted, these new launches were partially offset by attrition of legacy accounts.

In the consumer category where members pay out of pocket, revenue was $7 million for the first quarter. This was a 14% sequential decline and a 29% year-over-year decrease. The decline primarily stemmed from the substantial increase in covered lives during the fourth quarter, which allowed more members to qualify for coverage, thereby reducing their need to pay out of pocket. While this shift has impacted consumer category revenues, it aligns with our strategic focus on increasing coverage, drives higher conversion rates and creates greater long-term value from payor members.

Moving to gross profit. Our first quarter gross profit increased 30% versus the prior year to $21.7 million. Gross margin for the first quarter was 47.8%, lower than last year as expected due to further net revenue mix shift towards the payor category, which has lower gross margins than DTE and consumer categories.

Turning to operating expenses. Our GAAP operating expenses for the first quarter were reduced 9% year-over-year to $23.4 million. Excluding stock-based compensation, our Q1 expenses amounted to approximately $21.2 million, reflecting a reduction of $2.3 million compared to the same period last year.

Over the past several quarters, we've made significant strides in optimizing our cost structure. This includes enhancing organizational efficiencies across all departments, which has improved our operational agility and reduced overhead costs.

Additionally, we have strategically invested in our marketing initiatives to align with our growth objectives, focusing on high ROI activities that enhance brand visibility and member acquisition. We have also invested in scaling our platform capabilities, enhancing its robustness and scalability to better accommodate growth and expand our service offerings efficiently. These improvements reflect our ongoing commitment to fostering a lean and responsive operational framework, supporting sustained growth and operational excellence.

Moving to profitability. GAAP net loss was $1.5 million, a $7.3 million improvement versus the same period a year ago. Adjusted EBITDA was $800,000, an improvement of $7.2 million year-over-year. Adjusted EBITDA in the first quarter did benefit from a few immaterial nonoperating accounting items. However, excluding these items, we would still have achieved a positive adjusted EBITDA in the quarter.

Turning to the balance sheet. We had $120 million in cash and cash equivalents at the end of the first quarter, down $3.6 million sequentially from Q4 and driven primarily by the payment of corporate employee bonuses from 2023.

Finally, we remain confident in the financial guidance we established during our fourth quarter commentary and continue to expect revenue between $185 million and $195 million and adjusted EBITDA between $4 million and $8 million for the full year. We remain enthusiastic for our payor business as we continue to bring on more covered lives through both commercial plans, government and Medicare.

And in DTE, we are encouraged by the ongoing value of our employer pipeline and our potential to expand within the teens vertical, supported by the early positive impact from our initiatives in New York and Baltimore.

The timing of converting and implementing these prospects to revenue-generating clients remains quite variable quarter-to-quarter, and as a result, we now expect adjusted EBITDA to be more heavily weighted towards the second half of the year.

To summarize, today's discussion reinforces our enthusiasm for the strategic direction of both our payor and DTE categories. The growing demand for affordable, accessible and high-quality mental health care, coupled with the significant operational advancements we've achieved in recent quarters bolsters our confidence in the long-term profitability and sustainability of our business.
With that, we will open the call for questions.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Charles Rhyee with TD Cowen.

Charles Rhyee
TD Cowen, Research Division

I wanted to ask about the Medicare opportunity as we think about next year. And perhaps, how would you expect that kind of roll out to occur? And then secondly, how much of this opportunity have you already perhaps contemplated in the long-term guidance that you gave last quarter?

Jon R. Cohen
CEO & Director

So Charles. So as we stated, we're going to have 11-ish states that we'll launch within a very short period of time. And then by the end of the year, we'll have all 50 states. Now that will be for standard Medicare.

We are in, as you heard, fairly deep discussions with Medicare Advantage Plans to add on to that and it's almost split, 32 million, 33 million each, both sides of Medicare.

We have a strongly developed go-to-market plan for Medicare. As you know, it's new for most people because there really are no significant national providers to the over 65-year-old for Medicare Group. So this will be, what I like to call, a work in progress as we figure out how we will sign up Medicare patients, make them aware of the service. So it's -- and in terms of the guidance.

Jennifer Fulk
Chief Financial Officer

Yes. I'll touch on that, Charles. So our long-term guidance had several levers. I would describe Medicare expansion and the covered lives that come with it as a component of that. So remember, our long-term guidance was really weighted on both payor, specifically in the long-term payor growth in that same basis capture rate and in utilization within the lives that we have as well as the direct-to-enterprise category. So those 2 factors really weigh in. But across those 2 categories, we had a number of levers, Medicare being one.

Charles Rhyee
TD Cowen, Research Division

Okay. I guess the way I was asking the question was more like, given sort of the opportunity here, and when I look at the guide, it seems like maybe perhaps you haven't put that much in for Medicare per se. Would that be a fair assumption?

Jon R. Cohen
CEO & Director

Yes. I think that would be a fair assumption. I mean it's -- yes, we're adding millions of lives with -- I think you've heard me talk about a fairly large opportunity, given 25% of Medicare patients are either depressed or lonely or/and have a diagnosable medical mental health issue.

So we know the opportunity is large. I like to compare this to the schools when we first got into the really providing services to teens, it took us a little bit of time to figure out the go-to-market strategy, but we figured it out. And I think the same thing is going to happen in Medicare.

Charles Rhyee
TD Cowen, Research Division

Great. And just a clarification. Jennifer, you talked about adjusted EBITDA being a little bit more back half weighted. Is that a -- and then is that in relation to sort of as you're ramping up New York City and Baltimore, just the timing effect? What's driving that back half weight?

Jennifer Fulk
Chief Financial Officer

Yes. And I'll come back to -- as we issued guidance for the year, we said there were -- the 2 factors are growth in payors, specifically from the covered lives. And what we saw in the first quarter, particularly early in the quarter was a nice ramp of those covered lives that we added in December of '23. And then we also said that our guidance for the year was going to be dependent on those direct-to-enterprise, the pipeline maturing and turning, having a contribution. We also said it was going to be lumpy and that we'd have variability from quarter-to-quarter. So that's the context for that.

Operator

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

Jack A. Senft
William Blair & Company L.L.C., Research Division

This is Jack Senft on for Ryan Daniel. So first, I know you don't guide to this specifically, but how should we think about gross margins going forward? I know it's down from mix shift and it has been. But just kind of for the remainder of the year, how should we think about this?

Jennifer Fulk
Chief Financial Officer

Yes, Jack. So I'll come back to what we said originally in guidance. I know I didn't reference it earlier, but we still anticipate that revenue growth to be the 23% to 30%, and we expect the gross profit to grow at a lower rate, given that payor -- the payor category is making up, as you saw in the first quarter, a larger percentage of our top line. So we don't have a change at the moment to make to that guidance.

Jack A. Senft
William Blair & Company L.L.C., Research Division

Understood. And just a quick follow-up. I know in the -- in your prepared remarks, you guys mentioned some headwinds with respect to account attrition. And that the main drivers were really inflation and then increase in competition. Can you just dive a bit deeper on the competitive front and generally kind of what you're seeing there?

Jon R. Cohen
CEO & Director

Yes. So first off, I'll reiterate that revenue on DTE did grow 14% in the quarter. So that's taking into consideration both new wins and of course, attrition. And there are multiple reasons for attrition. I don't -- I want to make sure we don't point to anything specific that it's really -- the competition is one of them, but there are product issues versus international versus national.

There are budgetary restraints and constraints that we're seeing on some employers. There are some employers that have tried mental health benefits and decided, for one reason or another, that they don't want to offer the benefit anymore. There is an issue, which is a good thing for us, but people do realize that they have Talkspace frequently way through their payor, through their behavioral health benefits. So they sometimes they move towards that as opposed to having a DTE relationship. And then sometimes they'll say, well, utilization is not as what they thought it was.

So the reason I talk about all that is there's multiple, multiple reasons about how companies evaluate their mental health benefit. So it's not just one or the other.

Operator

And your next question comes from the line of Stephanie Davis with Barclays.

Stephanie July Davis
Barclays PLC

When we saw you in March, you did talk about this B2B member retention increasing quite a bit given some changes in duration on the platform as you go on a more covered benefit. Can you talk about the durability of this duration increases and how the addition of some of these newer populations, that maybe we don't have as much data on, could potentially impact that?

Jon R. Cohen
CEO & Director

Sure. I'll give it back to Jennifer in a second. But we know we continue to see strong amount of evidence that the people who are on the payor side, who are not consumers, who are coming through the BH benefits are absolutely staying on the platform longer than consumers. We -- that data is very clear. And I don't know what we're going to give relative to specifics, but we do -- we have seen increases in people on the platform relative to the length of time and the number of sessions that they do.

Jennifer Fulk
Chief Financial Officer

I'll just point back, Stephanie, to the metrics that we provide, you really see progress against all of them, right? Of course, covered lives, and that's been consistent, but also the growth in the members that are completing a session on the platform. Total sessions, of course, but that's driven also by utilization.

We've only moved in the positive direction across all of these metrics. And I believe we've got good line of sight to additional levers, both when it comes to the top of funnel, like I mentioned, but also within product features. So Jon referenced a couple of those features. But we do feel like there's -- we've got the teams in place, the focus on them and some really interesting levers to pull when it comes to just improving, reducing the friction throughout the funnel, further increasing the capture rate and the utilization within that capture rate.

I'll just comment on Medicare. This is a new category and TAM for us. And so we've stayed -- we're staying relatively conservative just in our outlook but we will be testing a lot of things and figuring out what works for that population as we launch these new lives here in the rest of the year.

Stephanie July Davis
Barclays PLC

And in terms of how you're thinking of -- I know you mentioned that's not really a big factor in the guidance. But thinking about these new populations coming on, how are you planning on structuring the rollout? And how are you -- basically, what are your assumptions in order to get this as you ramp up to this?

Jon R. Cohen
CEO & Director

On the commercial? On the Medicare or commercial?

Stephanie July Davis
Barclays PLC

On the Medicare. On the Medicare side. Just thinking -- it's a new population so we don't know how's the utilization. We don't know what sort of durability. What are you assuming?

Jon R. Cohen
CEO & Director

As Jennifer said, we're being relatively conservative in terms of what we think the uptake will be as we begin to test the multiple different ways, as I mentioned earlier. A significant go-to-market strategy, which involves multiple levers that we're going to look at, both on the marketing side and actually directly to Medicare patients.

So we're -- we spend a lot of time thinking through this, quite honestly, and it's also taken us a fair amount of time, as I've discussed before, to get us to the point where we can build and collect Medicare and actually address all the nuances of a secondary payor.

But the launch itself to get Medicare patients on board is, as it begins, it will be a test. We have the ability, quite honestly, to move relatively quickly to test things that work and don't work. As I said, relative to the same thing we do with the schools. But I -- as I sit here today, I can't tell you what exactly is there. We know what platforms they use. We know what social media platforms they use. We know what's big with them. We know what they're going to use, video versus texting, because for a variety of other reasons. But we also know that a fair number of them are very tech savvy. All of that has gone into the decisions about how we're going to approach the market.

Jennifer Fulk
Chief Financial Officer

Yes. And maybe I'll just add real quick because it's important to everything else we do. On day 1, what we do get is just the synergy with our broad marketing media messages and with our brands. So now if you're a Medicare patient, if you see an ad or if you just come to talkspace.com, looking for where your insurance team might have benefits that cover therapy, you will now see that you, when you put in Medicare, that you are covered. So on day 1, we get the benefit of capture rate just from that broader just the size of our covered lives and that expanding.

Stephanie July Davis
Barclays PLC

All right. Super helpful. And last one out of me. Just a quick question on the kind of the shift from DTE to payor coverage. How are you thinking about your cost structure as you do this? Is there a way to repurpose some of the folks on the DTE side? Or is this something that just maybe declines importance a bit as you focus more on the payor side of the house?

Ryan Scott Daniels
William Blair & Company L.L.C., Research Division

So I would say, first off, we took out -- we've taken a fair number of people within the last year relative to the size of the commercial operation. We have reconfigured it with new leadership and new people, which I've talked about, who's now been here close to months to a year in terms of what that organization looks like.

The organization now, honestly, is right where I think it should be relative to what we're going after on the DTE side. Remember, the DTE side is employers, colleges, universities, teens, subcategories, city states, counties.

So there is a very -- continue to be a very large opportunity on the DTE side and not just thinking about it as all the employers, and I honestly believe that we have now currently configured the commercial organization to approach all of those opportunities with a very substantial pipeline that we already built. So I don't think there'll be much more change in the DTE. Or actually, no, there won't be much more change in the DTE organization as it's currently structured.

Operator

That concludes our Q&A session. I will now turn the conference back over to Jon Cohen for closing remarks.

Jon R. Cohen
CEO & Director

Thank you. In closing, I want to reiterate our unique position in the market, reflected in our sustained momentum over the last 6 quarters.

Comprehensive offerings and modalities are built to serve all demographics from teens to the elderly. Enhanced by innovation, we believe our capabilities continue to set industry standards. This quarter's results underscore our commitment to our mission of expanding mental health care access.

Thank you again for joining us this morning.

Operator
Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.