S&P Global
Market Intelligence

Talkspace, Inc. NasdaqCM:TALK

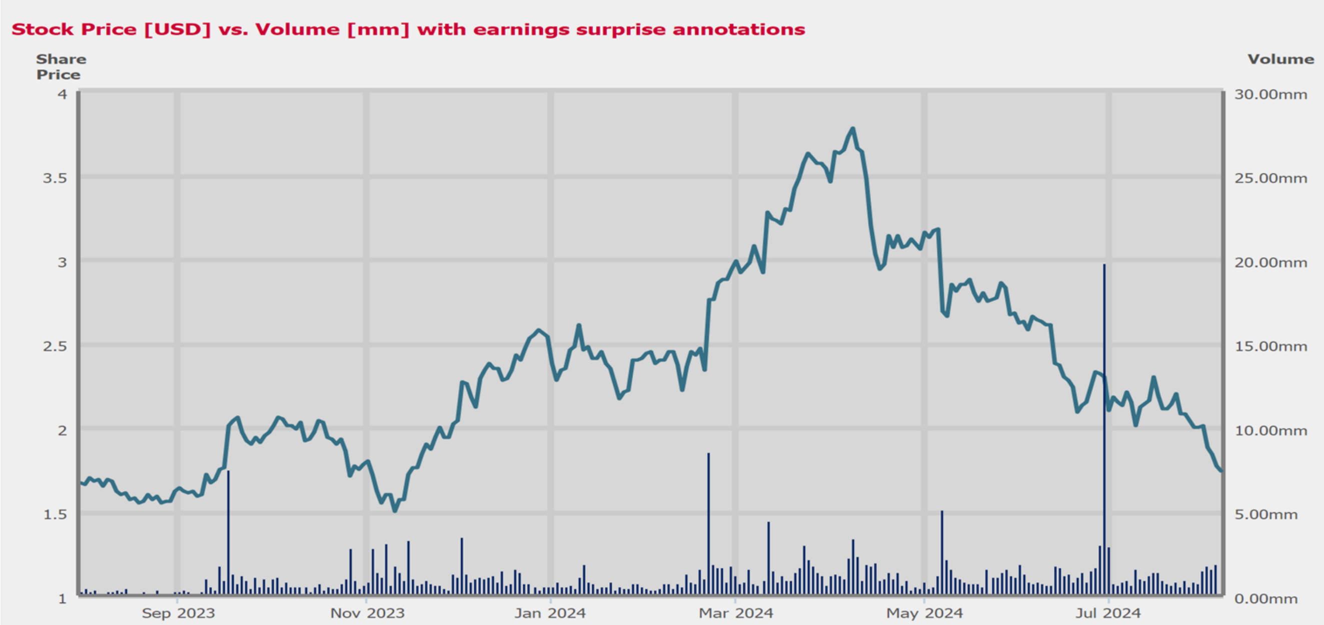
FQ2 2024 Earnings Call Transcripts

Tuesday, August 6, 2024 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.00	0.00	0.00	0.00	0.00	NA
Revenue (mm)	45.41	46.06	1.43	47.48	190.91	NA

Currency: USD
Consensus as of Aug-06-2024 9:53 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2023	(0.03)	(0.03)	NM
FQ4 2023	(0.03)	(0.01)	NM
FQ1 2024	(0.01)	(0.01)	NM
FQ2 2024	0.00	0.00	0.00 %

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Call Participants

EXECUTIVES

Ian Harris
Chief Financial Officer

Jeannine Feyen
Director of Communications

Jon R. Cohen
CEO & Director

ANALYSTS

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

Lucas Cole Romanski
TD Cowen, Research Division

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

Stephanie July Davis
Barclays Bank PLC, Research Division

Presentation

Operator

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

I would now 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 second 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, Ian Harris. Management will offer their prepared remarks and we will 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 planned goals and 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 in 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.

Jon R. Cohen
CEO & Director

Thanks, Jeannine. Good morning, everyone, and thank you for joining us for our second quarter 2024 call. We are pleased to report that Talkspace has achieved another strong quarter of results, reflecting continued execution across the business.

Before I get into the results, I want to reiterate some of the data we recently released on the new normalization survey we reported on last week. This survey of over 3,000 current, former and prospective clients of telehealth mental health services found that 85% of people are more open to therapy than they were 5 years ago. Gen Z and 65-year-old and older respondents cite loneliness as a top concern for seeking therapy. 99% believe that it should be covered by insurance and that mental health is the #1 benefit they want from their employer. This data confirms and supports our continued optimism about the future of the business.

Now turning to results. During the quarter, revenue increased 29% year-over-year to $46.1 million. And we delivered our second consecutive profitable quarter with adjusted EBITDA coming in at $1.2 million. Strong year-over-year top line growth reflects both the significant demand for behavioral health care as well as the power of the Talkspace brand and our ability to drive new members to use the Talkspace platform. Our continued cost discipline and the benefits of scale are highlighting the operating leverage inherent in the business, which is reflected in our adjusted EBITDA progress.

Let me cover our results in the second quarter by revenue category. First, our Payor revenue grew 62% year-over-year, thanks to our strategic relationships with the payors. This annual growth is a result of several factors. First, our continued expansion of covered lives, which grew from 131 million to 145 million by quarter-end. This was the result of adding the first batch of nearly 14 million people with standard Medicare coverage in 12 states.

Talkspace launched a dedicated Medicare website, where members can quickly check [indiscernible] coverage or get on the list to be notified when care becomes available in their state. We are on track towards our goal of having all 50 states live with Medicare coverage by the year-end in addition to adding several large Medicare Advantage plans, the first of which will launch in Q4.

Relative to new Payor contracts, we just announced yesterday that we went live with 6 million active military lives through TRICARE with Humana Military, including active duty and retired military personnel as well as their partners and 13-year-old and up dependents. Looking forward, we anticipate adding several new Blues plans and regional plans by the year-end. We expect that within the next 12 months, nearly 200 million people, almost 2/3 of the American public, will have access to Talkspace through their health insurance.

Second, understanding that our biggest opportunity for growth remains increasing capture rates and utilization for the 145 million and growing lives I just discussed, we continue to focus on our product improvement initiatives to motivate members to use and stay engaged on the platform. We are focused on enhancing the patient journey by making improvements to the intake process, therapist matching and more.

Some specific examples include the ability to show real-time member co-pays, making it easier for people to update to their behavioral health coverage and developing new navigation features in the therapy room to make it easier to book a next session.

Third, optimizing our focused marketing efforts, specifically designated to improve capture rates and drive utilization by ensuring that people are aware that care is available through their insurance benefits. The average out-of-pocket cost for those in-network is $15 per session. 60% of members pay $0 and 80% pay $25 or less.

Fourth, our strong Payor results were also driven by further developing our relationships to bring referrals to Talkspace. In Q2, we announced a number of strategic partnerships, like our previously announced Women's Health Coalition, that further strengthened Talkspace's brand reach and recognition, which in turn enables us to acquire members cost-effectively.

We will continue to announce new partnerships to build this network and drive even stronger awareness of Talkspace as an affordable option. In fact, based on Qualtrics' third-party survey data, the brand awareness of Talkspace increased this quarter to over 30%, a 7% increase versus a year ago despite less core member media spend, partly as a result of this strategy.

It is important to note that a significant differentiator for us in the market is our focus on the quality of care our therapists deliver. Compared to a directory or marketplace of providers, we measure the quality of service, the clinical impact, productivity, clinical experience and clinical documentation for each provider.

We find that this value proposition is resonating with payors as they are less concerned with just securing access to care and more interested in the quality of care. In addition, the infrastructure we have built around the clinical network gives us the opportunity to participate in value-based contracts, the obvious direction for most payor-provider relationships moving forward.

Moving to our Direct to Enterprise segment. We grew revenue in the quarter 20% year-over-year to $9.6 million, driven by our team's initiatives, including New York City. In May, we announced the early successful results of the New York City Teenspace program, which now has over 13,000 teens using the service. These results demonstrate that we are reaching teens where they are, on their phones, with 90% using asynchronous messaging therapy. We are also engaging teens that live in diverse and underserved communities that have traditionally been difficult to reach and frequently have less access to affordable care.

Finally, we are particularly proud that our therapists, in conjunction with our suicide ideation algorithm, have now identified and intervened in over 180 high-risk student cases. We are continuing to invest in new product features for this population based on feedback we have received from teens, parents and customers to date.

We continue to see a strong pipeline in this segment, driven by our continued focus on the mental health crisis impacting on our youth. And we are encouraged by the demand we see for our teen solutions across multiple states, cities and school districts. We have had recent notable wins with several independent schools as well as another public school district in Upstate New York.

In the employer vertical, we executed a number of key renewals in the quarter, secured several new client wins and began testing our new self-serve portal, where small business clients can make Talkspace benefits available to their employees. Our discussions with employer clients have been encouraging. And we expect to share more exciting additions as the year progresses.

In addition, we have made significant progress with the broker community, successfully demonstrating our value proposition as it relates to their end clients. Our sales team remains focused on converting our strong pipeline of employer opportunities. Our new wins in the quarter demonstrate the diversity of our pipeline and the team's ability to drive wins across various business types and geographies.

Moving to our provider network. We ended the quarter with over 5,700 therapists, up 2% sequentially and 34% year-over-year. We have intentionally slowed the growth of our network in recent quarters, which reflects the success of our initiatives to improve therapist efficiency while, at the same time, improving our metrics around the patient's time to access care all against the backdrop of growing patient demand.

Talkspace continues to be a platform of choice for therapists, which is a result of the investments we have made in our provider experience and our overall product quality. For example, our AI Innovation Group will bring to market product features in close partnership with our clinical team, including our new secure caption and translation technology, which allows Talkspace providers and clients to choose to see real-time closed captions during live sessions conducted on our app.

At the request of our providers, we have also expanded our AI smart notes feature, which helps to reduce the administrative burden of providers and allows us to focus more time on providing care. AI smart notes is now live with all providers for both live and testing sessions. In the quarter, our full-time therapists were the most productive in Talkspace's history relative to the number of billable hours per week, thanks in part to the investments we've made in efficiency tools like the AI smart notes.

In closing, I want to reiterate our unique position in the marketplace, reflected in our sustained momentum over the last 6 quarters. Our comprehensive service offering and modalities are built to serve all demographics from teens to seniors. Enhanced by innovation, we believe our capabilities continue to set industry standards validated time and again through our peer-reviewed research.

In July, the Psychiatric Services journal published the results of a trial delivering 12 weeks of asynchronous therapy to Talkspace members with diagnosed depression. Results of this trial, which was funded by the National Institute of Mental Health, suggests, "Psychotherapy delivered via text messages may be a viable alternative to face-to-face or [live video] delivery and allow for more immediate on-demand care." This quarter's results underscore our commitment to our mission of expanding mental health access to all.

Lastly, I want to extend a warm welcome to two new senior executives who joined Talkspace in the second quarter. Ian Harris joined as our Chief Financial Officer in May. He was previously a Partner at Hudson Executive Capital, where he led the firm's investments in health care, technology and fintech. And John Mooney joined Talkspace as Chief Product Officer in June, following senior leadership positions at NeoGenomics Laboratories, BioReference Health and CareEvolve.

With that, I'll turn the call over to Ian to review our second quarter results.

Ian Harris
Chief Financial Officer

Thank you, Jon, and good morning, everyone. First, let me say what an honor it is to join this incredible group of people at the preeminent virtual mental health platform. I'm looking forward to helping execute on the strategic mission of the business, making access to high-quality therapy more affordable and accessible for everyone through in-network and employer-sponsored coverage.

With 10 weeks as CFO under my belt, it's clear to me that Talkspace has the resources, human capital and the culture of innovation as well as the operational rigor to continue to lead the digital mental health industry. As Talkspace enters a new phase of profitable growth with a robust set of opportunities ahead of us, I'm excited to work closely with the leadership team to help execute on the strategic direction of the business by optimizing research allocation to drive long-term benefits for the company and to also clearly articulate our strategy to all of our stakeholders.

So let me start with our financials. My comments today will be based primarily on second quarter results on a year-on-year basis, unless otherwise noted. Total revenue for the second quarter was $46.1 million, a 29% increase from a year ago. Adjusted EBITDA was approximately $1.2 million in the second quarter, an improvement of $5.2 million versus the prior year period and marks our second consecutive quarter of profitability.

Moving to results by revenue category. Payor revenue was $29.9 million, a 62% increase versus the prior year period. Payor sessions completed by behavioral health and EAP members grew 5% sequentially and 49% year-over-year to nearly 299,000. Unique payor members completing a session grew by over 30% year-on-year to 89,000. Additionally, we experienced a 15% year-on-year improvement in the utilization of sessions per active member, driven by continued product enhancements aimed at increasing member engagement and retention.

In the Direct to Enterprise category, second quarter revenue was $9.6 million, up 20% from last year, driven by our teens contracts such as New York City and Baltimore County schools. Sequentially, DTE revenue was down 3% as a result of the timing of new contract wins we discussed last quarter. As a reminder, our pipeline remains robust with selling cycle times for new wins, especially in the teen space, have remained elongated.

In the Consumer category, where members pay out of pocket, revenue was $6.5 million in the quarter. This was a 7% sequential decline and a 28% decline year-over-year, which was in line with our expectations and results of our successful strategy to optimize both traffic conversion and segment mix to deliver maximum returns against our marketing investments.

Moving to gross profit. Our second quarter gross profit increased 18% versus the prior year period to $21 million. Gross margin for the second quarter was 45.5%, lower than last year as well as sequentially as expected due to further net revenue mix shift towards Payor. For the remainder of 2024, we would expect gross margin to remain around this level.

Turning to operating expenses. Our GAAP operating expenses for the second quarter increased 1% year-over-year to $24.4 million. Excluding stock-based compensation and nonrecurring items, our Q2 operating expenses amounted to approximately $19.8 million, a reduction of $2 million compared to the same period last year.

The benefits of our cost discipline over the last several quarters is beginning to show the operating leverage inherent in the business. While we've made tremendous progress in rightsizing our cost structure and enhancing organizational efficiencies, we remain vigilant when it comes to managing our cost base.

We continue to drive efficiency in our marketing spend despite elevated media costs in the market as a whole. We've been able to observe the strength of our brand and continued strong organic growth and do more with less through media optimization and diversification, primarily with programmatic media and influencer marketing.

We continue to see that focusing on payor coverage across our messaging and in all media channels is the most cost-effective way to acquire the right members, given the high intent and the longer tenure of covered members. As we grow our covered lives space, we will continue to broaden targeting and drive a higher conversion rate of that traffic, further lowering the cost to acquire members.

Moving to profitability. GAAP net loss was $500,000, a $4.2 million improvement versus the same period a year ago. Adjusted EBITDA was $1.2 million, an improvement of $5.2 million year-over-year, driven by higher revenue and gross profit with a lower cost base of normalized OpEx versus the same period a year ago.

Turning to the balance sheet. We ended the quarter with $114.9 million in cash and cash equivalents, down $5.4 million sequentially from Q1. The decline was driven by our share repurchase activity. We bought back approximately $8 million during the quarter, leaving roughly $7 million available under the program we announced earlier this year. Today, we announced that our Board of Directors increased the size of our share repurchase authorization by $25 million. This is in addition to the original $15 million authorization.

Finally, we're reiterating our 2024 guidance, which calls for revenue in the range of $185 million to $195 million and adjusted EBITDA of between $4 million and $8 million for the full year.

We continue to grow our Payor business and remain enthusiastic about the opportunities ahead, including adding new covered lives from both commercial Blues plans and executing on our earlier progress in Medicare. In Direct to Enterprise, we're optimistic about the strength of our pipeline and the demand we're seeing across a diverse set of enterprises, including cities, municipalities and employers. This is a testament to the strength of the Talkspace brand and the large and growing demand for quality mental health care in the U.S.

To summarize, the results we reported today mark further progress and reinforce our conviction in our enterprise and payor-focused strategy. While work remains, Talkspace is in a position to continue to drive profitable growth and capitalize on the many opportunities ahead of us.
With that, we'll open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Stephanie Davis of Barclays.

Stephanie July Davis
Barclays Bank PLC, Research Division

Congrats on the quarter. So government lives are becoming a bigger part of your story, right? You've got the Medicare rollout. We now have TRICARE. With that in mind, how should we think about these economics and how they compare to commercialize? And now that we've got a bit more time with this population, do we have any inklings on how utilization and maybe other usage metrics compare?

Jon R. Cohen
CEO & Director

So first of all, the Medicare really, we have no data yet, quite honestly, on what that's going to look like. It's really, really early days. We are -- as we said, we're in 12 states. We'll be at 50 by the end of the year. But we really have no line of sight yet on what that's going to look like. We have not yet, quite honestly, launched a fully baked marketing plan to go to market with Medicare.

I was looking to make sure we're in some of the larger Medicare Advantage plans as we move the plan forward. So really, no data yet. We know we suspect on Medicare reimbursement versus the commercials. But I'm just not prepared to talk about it yet because I don't have anything to tell you yet.

Ian Harris
Chief Financial Officer

Yes, Stephanie. This is Ian. We, as you can imagine, did a lot of analysis sort of proactively about it. But as Jon mentioned, we want to be really methodical about how we roll out in terms of the marketing initiatives. As you can imagine, there's an element of, call it, critical mass before national advertising makes sense. And so while we're on track to get to that 50 state target by the end of the year that we talked about, we're waiting a little bit to really sort of start opening up the marketing spigot, which we're going to do very deliberately and carefully.

And as Jon mentioned in his prepared remarks, we'll be announcing our first Medicare Advantage plan likely early Q4. And so I would say, at that point, we'll probably be close to that critical mass point, when we'll start spending more capital around it. But it all comes -- what I think you're alluding to, it all factors into, right, the ultimate contribution analysis we're trying to solve for and how we go about marketing to those members.

Jon R. Cohen
CEO & Director

Stephanie, one of the important really unknowns for us and anybody on the Medicare market is we don't know what the LTV is going to be on Medicare, right? So it's not just the issue of what we're going to get reimbursed, but how long are they going to stay on the platform or how much longer than a commercial payor or a younger person, let's put it that way. So those are all contributing to the -- a little bit of what's going to happen. And it's -- so there's just a bunch of unknowns still.

Stephanie July Davis
Barclays Bank PLC, Research Division

Okay, understood. I guess, flip side of that, looking at your cost structure, you've seen some pretty steady declines in OpEx over the past few years and starting to flatten out this quarter. So can you walk us through kind of the buckets of cost optimization and what's best? Or is that flattening more a function of the cost associated with this Medicare rollout and the TRICARE win and all you guys are doing behind the scenes to get these lives up and running?

Ian Harris
Chief Financial Officer

It's more the former, right? I wouldn't look at our current quarter and assume we're holding back our marketing initiatives overall targeting member media, if that's what's in your question. I would say, obviously, with me coming in and being able to sort of take a fresh look at our cost base overall, I do think there's some opportunity which we're already sort of actioning a few initiatives to, call it, save in certain G&A areas and reinvest those savings into more revenue-generating things, whether it's new marketing initiatives, right, talking about Medicare is just one of those.

But also importantly, I think a lot of the sort of longer-term revenue-generating investments we're making both on product -- new product development and also just in our platform overall. So one of the things I'm sort of wrestling a little bit is there's no shortage of really exciting, high-impact, sort of attractive ROI projects that are competing for capital inside the business. And so the more we can sort of optimize around the margins and save a little bit, the more budget we'll have for those sorts of things.

Operator

Your next question comes from the line of Charles Rhyee from TD Cowen.

Lucas Cole Romanski
TD Cowen, Research Division

This is Lucas on for Charles. I wanted to ask about your Humana TRICARE East contract and get some more details there. By our math, this contract represents somewhere in the neighborhood of $12 million to $14 million in annual contract value. One, does that math seem right or in the ballpark? And then two, how should we think about the timing of that contract and how it rolls out? Should we think of it as a one start? Or should we think of it being a rollout period across multiple states?

Jon R. Cohen
CEO & Director

Yes. So well, I'll talk about that. The rollout is not -- once we're live, there has always been, no matter who we add on -- yes, I'm having trouble, Lucas. You're typing in the background. Sorry, so many typing. So the Medicare rollout is across states, but it is a national rollout. And it just takes some time to get everybody onboard, although we're -- as I said, we announced the purpose because we were ready to go.

I would say on the -- just on the opportunity side, just on data, the current rate of depression on military, active military, is 23%. The suicide rate in the last several years has increased by 40%. So we know that the -- unfortunately, the opportunity in the military and dependents, actually, is fairly high, probably close to and similar to what we're seeing in teens and what we suspect we'll see in seniors over the age of 65 in terms of the risks.

Ian Harris
Chief Financial Officer

Yes. We don't comment on sort of payor-by-payor, contract-by-contract values, but I think you can maybe back into it a little bit, just given yesterday's press release around the covered lives. And to Jon's point, I would -- we're in-market already. We're working very closely with them to try to figure out how to most effectively and quickly roll this out to their population. Because for all the reasons Jon laid out, it's a very high priority for them and very high for us.

And so as we said before, we typically would tell folks externally to budget, call it, 6-or-so months to really see that sort of initial step-up in revenue from a new population launch. And that's just a little bit of integration back office, less interesting stuff perhaps but also just getting the word out to those covered members to let them know, "Hey, this benefit is available, is accessible today and it's a de minimis to 0 out of pocket for you." And so you can, yes, maybe back into it a little bit. But I would say give it a couple of quarters to really start to see the revenue show up in our consolidated P&L.

Lucas Cole Romanski
TD Cowen, Research Division

Okay, appreciate the color on that. And then my other question is one of your competitors recently announced that it would look to implement payor coverage for what has largely been a direct-to-consumer mental health and behavioral health business. I would like to hear a little bit about how you're thinking about this change in the competitive landscape.

Jon R. Cohen
CEO & Director

Yes, so I'll -- I'm not going to comment specifically on any specific competitor, what they do or what they want to. But what I will do is give you a little bit of color on what it takes to go in-network so that you have an idea of where we've been on basically a 2.5-year journey to get to where we are. And I think there's really four areas to consider when anybody is going to move, like we did, from a consumer market into a, call it, fee-for-service reimbursed model to the insurer.

So the first is the product design. The design of product for a person who has an insurance is significant. And it takes a fair amount of investment of time and resources to be able to establish the workflow for that kind of patient, which is very different than a consumer, which includes building a total eligibility capability to be able to determine eligibility, determine co-pay, determine deductible and give the patient a really adequate look at what it could or could not cost them as they go into network. That's in addition to being able to bill and collect from the payors and the remaining revenue that may or may not sit on the table. So that's -- the first is product design.

The second is actually getting into network, the ability to go to a payor, negotiate a contract, complete the contract and then operationalize it. Like we just talked with military, we launched military yesterday. But the time from when we first began discussing to them to now has been a significant amount of time. Now in addition is once you get the contract is the ability to operationalize that for a payor. That's bringing on -- that's a significant issue relative to making it so that it could actually happen based on what the contract is and the certain contract metrics. I would say that also getting into network, you've probably seen some of the major payors have made formal announcements about narrowing their networks. They've decided that they may have too many telehealth companies. So there has been announcement recently to narrow.

I would say the third is credentialing. Credentialing therapists for payors is a significant uplift of which we've spent an enormous amount of time investing in our therapy network to get to where we are. And that means particularly experienced with adherence to NCQA standards, establishing formal credentialing processes, verification, certification, deployment history, et cetera, ongoing monitoring to be able to ensure compliance. Because what's going to happen is the payors audit us. They audit our therapist and they audit to see how they're doing. And each payor, believe it or not, has unique requirements and certain processes that they want you to put in place.

The fourth is really maintaining quality control. It's a really significant issue in terms of developing reporting metrics, which could include things like clinical impact, clinical documentation, switching dates. And then all of this leads eventually to value-based contracts. So the reason I tell you all that is we're 2.5 years into this journey. So any entity out there, and there are several, who are considering or talking about getting into network, it's just going to take them some time to get there.

Operator

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

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

This is Jack Senft on for Ryan Daniels. First, and this is similar to Stephanie's question, but can you just kind of talk about the early momentum, I mean, if any, that you're seeing within the Medicare population and kind of if there have been any challenges you have identified within this population? And then maybe just a quick second part, are there any learnings for when you launch in the states beyond the 12 that you're already launched?

Jon R. Cohen
CEO & Director

No, I wouldn't say there's any learnings. I would say that there -- let's just say, we know that there is a significant market and interest on Medicare. We know that because we know how many people have already gone to the site to determine whether or not they're Medicare-eligible or not. And that is a significant number. I'll reiterate what Ian said, the reason we're -- our launch plan is developed the way it is, is we don't want lots of people to come to the site and then find out that they're not eligible yet because we're not in their state, so -- and in addition, remember, you have two very large Medicare populations.

You have standard Medicare, of which 80% is covered and then a lot of people have a secondary insurance. The other huge part of the market is Medicare Advantage. So as Ian said, as we get launched into Medicare Advantage a little bit further down in the Q3 and Q4, that gives the -- that means that the opportunity for essentially any Medicare person to become eligible. So that's really what we're trying to do. We're trying to time it so that we have the best possibility to capture as many patients as possible. But I'll reiterate the interest, because we announced, has been significant.

Ian Harris
Chief Financial Officer

Yes, Jack, I would just add on. So a lot of inbound interest simply from our one-off press release in May. You used the phrase launch for those 12 states. I would say the way we think about it more internally in terms of how we're planning is we actually haven't even launched. We've made available in 12 states. We're really holding back.

Because again, there's a trade-off on paying a premium to sort of hyper-focus our marketing outreach into those 12 states versus, we believe, a better cost/benefit of waiting for that sort of critical mass and having a bit more scale on the tipping point, which what we're communicating is think about that as like an early Q4.

And so as it relates to sort of forecasting opportunity, just to remind you what we said last quarter, this has always been, for us, a fairly modest -- like a very modest contributor to 2024 revenue, given the sort of Q4 ramp-up. And so I would view it much more as a material driver of top line in '25.

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

Okay, understood. As a follow-up to -- and I may have missed this in your prepared remarks, but G&A expense was up just a bit sequentially as a percent of revenue. Is there anything that drove this specifically? And maybe how should we think about the quarterly cadence of G&A expense going forward from here?

Ian Harris
Chief Financial Officer

No, I mean, nothing to call out for this quarter [indiscernible]. But I would say this sort of level that we're at this quarter is probably a fair sort of benchmark baseline going forward. And again, the composition of SG&A to me matters a lot, right? And so I think the absolute number is a fair baseline here. But what -- where that capital is actually being spent underneath is a huge focus of mine.

And so to the earlier question, right, I'd like to save in some areas, more on the G&A side, and be able to either let that fall to the bottom line and/or, and it will be a combination of all three, invest in these long-term sort of product initiatives through our product and tech team. And that will drive revenue sort of medium and longer term as well as reinvest some of the savings into some of our marketing initiatives again carefully and deliberately, which obviously contributes to sort of near-term and medium-term revenue in that it helps drive new members and utilization.

Operator

Your next question comes from the line of Ryan MacDonald of Needham.

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

Maybe just another one on the Medicare rollout. Do you expect to be rolled out in all 50 states in time for open enrollment later this year? And how should we think about the magnitude of maybe the marketing spend that would be associated around open enrollment, given the importance for Medicare? And is this sort of baked into your expectations currently for adjusted EBITDA for the full year?

Jon R. Cohen
CEO & Director

Yes. So I don't know the concluding date on open enrollment. But my -- but I would say we're going to be right in the middle of it. So in addition, we'll be, what I believe, is enough of the Medicare Advantage to benefit to some degree for the rollout in the mid- to late fall of the Medicare Advantage rollout also. So I think we're going to be -- honestly, we'll probably be right in the middle of it. So we should be able to take advantage of that.

Remember that there are existing 65 million Medicare lives. So there's just a huge number of patients who currently are in. But my predictions will be right in the middle. And I reiterated is we know at least some indication of the size and interest of the Medicare population to get the therapy through Talkspace.

Ian Harris
Chief Financial Officer

And to your question, I think, on spend, I wouldn't -- we're not assuming a massive spike in sort of this grand reveal, when we launch Medicare. I would say it factors into just our overall sort of marketing budgeting and where we want to deploy capital. So similar to the teens contract, right, where it's a very sort of unique demographic, unique population that consumes media differently than the sort of 18 to 64 general commercial population, that's obviously a similar case here with Medicare.

And so we're actually exploring a lot of interesting partnerships, new channels, sort of potential -- what we'd hope to be ultimately TAC-accretive ways to reach these folks efficiently and sort of cost-effectively. So I wouldn't expect any material impact to EBITDA driven by this, this year in a negative sense in terms of expected rollout.

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

I appreciate the color there. Maybe second, on the Direct to Enterprise channel, specifically your commentary around the employer channel, we're starting to see in some survey data for 2025 that benefits and wellness, and particularly mental health, mental wellness, is increasing in priority for organizations with 500 employees and less and then 500 to 5,000 employees.

Just wondering if you're starting to see maybe this sort of increased level of demand in sort of the early stages of your pipeline development and whether you feel like it's strong enough environment to incrementally invest on that employer channel side.

Jon R. Cohen
CEO & Director

So yes, I could confirm what you're saying is that on the mid- to lower-level number of employees firms, we are seeing continued significant interest in supporting mental health as an initiative. And our -- interestingly enough, our offering, because it's a pure-play mental health, is getting a lot of attention. Because it is the #1 issue and there are, quite honestly, a lot of employers that are not prepared to deal with a large number of other small point solutions in their EAP programs and their -- what they're doing is concentrating on the mental health.

So we have seen, and our pipeline continues to be, to grow for that particular environment. And then we have -- we also have small companies who actually are self-signing up. We have on the web, the ability with -- if you have 100 employees or less to actually sign up with Talkspace for your employees. And we're seeing traction there also.

Ian Harris
Chief Financial Officer

Yes, I would just -- just on DTE overall, so the short answer is yes. I mean, absolutely, we're seeing that demand. We see that in our pipeline sort of both in terms of growth, but more importantly, in terms of development. As Jon mentioned, we introduced recently the self-serve portal for SMB for sub-100 employees. We may actually -- we're getting like organic amount of interest without doing very much just yet around sort of getting the word out there.

We've also made lots of progress in recent quarters with the sort of broker community, who works more in the middle market, right? So in the sense of trying to variabilize our sales force, we're working with a lot of -- think of them as like VARs and software resellers to really leverage these existing relationships that are being sold into these middle market and sort of piggybacking on those discussions to add mental health, Talkspace as a point of sale.

I would say, I mean, just broadly in the DTE business, taking a step back, it was another strong quarter of year-on-year growth, right? We grew 20%. Last quarter, we mentioned the timing of net new wins being variable quarter-to-quarter, just like any sort of enterprise business is. I've spent a lot of time with enterprise software businesses, and it's very similar dynamics. But based on what we're seeing in terms of RFP flow, our pipeline health or pipeline development, we're very confident in the growth of that business this year.

On the teens side, we continue to get a ton of amount of interest. A lot of that's driven by, obviously, what's now our proven ability to really excel here, right, just pointing to New York and Baltimore and that sort of core set of capabilities that's very difficult to replicate on the product side. And we talked before about how popular async is.

While we don't give sort of product-level guidance, what I will say about DTE, just to help you all frame sort of your modeling, on a year-on-year basis from 2023 to 2024, we expect annual growth to sort of be in the high-teens or better. So hopefully, that can give you a little bit of guidance in terms of the cadence. But overall, we feel really confident about what we're seeing in the pipeline and RFP flow.

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