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Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by. My name is Kelvin, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Talkspace First Quarter 2025 Earnings Call. [Operator Instructions]

I would now like to turn the call over to Jeannine Feyen. Please go ahead.

Jeannine Feyen

Director of Communications

Good morning, and welcome to Talkspace's Earnings Conference Call for the First Quarter of 2025. 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'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.

Jon R. Cohen

CEO & Director

Good morning, and thank you for joining the call today to review our first quarter results. We had a good start to the year with revenue growing 15%, session volume up 23% and EBITDA up 153% over the first quarter of last year. May is Mental Health Awareness month. This year, we are reaffirming our commitment to breaking down barriers to care for millions of Americans with our, "Let's Face It" campaign, where we demonstrate how Talkspace members use our platform to confront what may be holding them back.

As a leading behavioral health provider with meaningful scale and reach, we are actively leveraging multiple channels, several of which I'll touch on today to raise awareness and drive members to our solution. We view the work we do across all areas of our business as part of a cohesive strategy aimed at building the most comprehensive approach to delivering behavioral health care to more Americans. With nearly 2/3 of Americans having access to Talkspace through their insurance plans or their Employee Assistance plans, we remain focused on the most significant opportunity, which is driving engagement within that population. We took meaningful steps in the quarter to optimize our funnel through a variety of technological improvements aimed at getting more people onto the platform; but even more importantly, delivering better quality of care by keeping them engaged in their therapeutic journey.

Specifically, we enhanced our real-time benefits verification with proprietary algorithms to overcome user and eligibility errors at the onset of registration. These efforts have reduced our drop-off rate by more than 12% at the early stage of the funnel, driving additional new registrations this quarter. No matter how a member pays for Talkspace, they are able to seamlessly switch to other payment methods and keep their same provider. Coverage may change as is often the case each January, but the continuity of care with the provider won't.

An example of this optimization is the creation of a new Easy button for our EAP members to convert to their employers' behavioral health insurance coverage when they exhaust their EAP plan session. Users are now notified when EAP sessions are running low, thus reducing friction related to checking coverage benefits and making a switch while continuing with their existing provider. This is an incredibly important step to facilitate our members' continuation on the platform as well as to ensure the continuity and quality of care. These are just a few examples of the work our product team is implementing to improve our customer experience and provide care for as long as clinically necessary.

We also remain relentlessly committed to delivering high-quality care and positive outcomes for users of Talkspace. Through our more than 30 peer-reviewed studies, we have consistently shown outcomes at parity with in-person traditional therapy, serving as proof of our efforts to show efficacy and quality across multiple modalities while ensuring this work is all backed by third-party academic review. The high-quality care our network of therapists provides remains a key differentiator for Talkspace as a service provider as opposed to just a directory of providers. This is very important to our payer partners, especially as value-based contracts become more prevalent.

As I have discussed in the past, we use qualitative and quantitative data and metrics across 5 key areas to assess our providers and our network. Armed with that data, we work extensively to ensure the highest quality care platform through rigorous hiring and onboarding standards, extensive training, education and outreach, continued network and quality management activities and risk management support. During the first quarter, we made progress in broadening the reach of Talkspace as an affordable option for care now with nearly 200 million covered lives. As a result of our broad member access and our high levels of clinical quality, we are working diligently with our payer partners to better integrate our solution into their online member experiences to make it easier for members to discover Talkspace, and I am extremely pleased with our progress in this area.

In January, we rolled out additional military coverage, launching TRICARE West. Talkspace now covers all of TRICARE's 10.5 million members, including families and dependents. Our reach into various military communities through a series of specialized grassroots efforts has been very successful and very cost effective to date with significant numbers of military personnel and their family members engaging in therapy. We are seeing that this audience relies extensively on word of mouth and loyalty from recommendations within their communities and are very open to therapy. In January, we also began to deploy initiatives to address the Medicare population. And as a result, we are seeing growth in our Medicare registrations.

In addition, we are witnessing strong patient outcomes with this population as 84% of Medicare members showed clinical improvement surpassing typical expectations of around 70%. We will continue to focus on initiatives that seed organic awareness that Talkspace is now covered for Medicare beneficiaries. In fact, we just announced last week that Gary Levingston, a fan favorite from the popular Golden Bachelor franchise is our Medicare spokesperson as we enter Mental Health Awareness month.

We believe that psychiatry is an important growth opportunity for the company. In the first quarter, we reconfigured a dedicated team to refine and relaunch our psychiatry offering for individuals 18 and older, which include medication initiation and management for commonly treated conditions such as anxiety and depression. As a covered benefit, we have seen a significant increase in demand for this offering from our partners and from internal referrals via our own providers treating therapy members that need this additional level of care. In addition, we recently expanded our relationship with Zocdoc to include our psychiatry offering. Our direct-to-enterprise pipeline remains strong, including a renewal with the City of Memphis and meaningful contributions from recent additions, including U.S. Rowing, the U.S. Navy and most recently, students at the University of Alaska Anchorage.

Last week, we announced another exciting agreement with Bark Technologies, the leader in online safety technology for kids. Through their phone and app, Bark covers 7 million children. Along with their technology installed in over 3,700 school computers, they provide safety alerts in 45 different categories and scan messages in over 30 social media apps, web browsers and e-mails. They have detected and alerted parents to over 2.7 million episodes of possible severe self-harm situations. Talkspace will now be available on all Bark Phone and Bark app users and will come preloaded on Bark phones, connecting teens

and parents to Talkspace to help them navigate the many emotional challenges these teens face today. This partnership with Bark, in addition to our teen initiatives with multiple cities and schools around the country, builds on our commitment to addressing the teen mental health crisis in the country.

In the past several months, we have announced several AI applications, including artificial intelligence augmented intake systems that surface key symptoms, psychosocial contacts and diagnostic considerations, streamlining client onboarding and clinical assessments, including real-time clinical documentation, summarization and decision support to reduce administrative burden. Client engagement tools that increase therapeutic adherence and continuity, including Talkcast, our personalized podcast feature for adults over the age of 18. Our goal with this product is to drive member engagement between sessions, keep members focused on their progress and ultimately assist in clinical improvement. We have generated 6,000 podcasts in the first several weeks and are already receiving very positive member and provider feedback.

In the last several weeks, we have validated a new risk assessment tool, a homicide violence ideation algorithm that is over 90% accurate in determining risk for violent behavior, including homicidal ideation and surfaces this risk to clinicians in real time. I am purposely highlighting these AI initiatives in the context that utilizing advanced technology to deliver better mental healthcare solutions has been at the core of Talkspace since its inception when we developed asynchronous messaging as an effective method for delivering therapy. The next chapter in innovation and growth is to further integrate AI to deliver even better mental health support.

With over a decade of experience in applying advanced technology to behavioral healthcare and owning the largest behavioral health data sets in the industry, we are now actively working on the development of a first-of-its-kind foundational large language model. Talkspace is uniquely positioned to build this foundational model trained on de-identified clinical data aligned with evidence-based therapeutic frameworks. Unlike horizontal general purpose models, this vertical AI platform will not only enhance existing Talkspace services but also serve as a launch pad for future AI applications and behavioral health services, unlocking new possibilities in clinical innovation.

Finally, I'd like to proactively address a common question we received amid recent market volatility. Our business is not directly affected by tariffs. More importantly, our long-term strategy has shifted the core of our business to an insured patient base, reducing reliance on out-of-pocket spending. As an in-network provider for nearly 200 million covered lives, we remain accessible and affordable. We are a national provider for Medicare, including Medicare Advantage and continue to benefit from the Federal investment in Senior mental health. Since we're not in Medicaid, we are insulated from potential changes to those programs.

To conclude my comments, I am very pleased with how we started the year and confident in our trajectory for the course of 2025. We expect continued demand for our convenient, affordable in-network care and remain confident in our full year guidance. And now I turn it over to Ian.

Ian Harris

Chief Financial Officer

Thank you, Jon, and good morning, everyone. We're pleased to be reporting a solid first quarter in line with our expectations. Our total revenue for Q1 was \$52.2 million, representing a 15% increase compared to the first quarter of 2024. This growth was driven by strength in our payer business, which was up 33% from Q1 last year and demonstrated continued strong performance across key metrics, including payer sessions, which totaled approximately 350,000 in the quarter, an increase of 23% year-over-year. Unique payer members completing a session in the quarter grew 17% year-over-year, reaching more than 101,000 in the quarter and completed sessions per active member increased 5% versus a year ago.

As it relates to our payer business, beginning this quarter, we will no longer be providing regular updates on our total covered lives figure. As Jon mentioned, we grew our covered lives by over 40% versus a year ago and now cover nearly 200 million lives, a milestone we've spoken about previously and one of which we are incredibly proud. We do expect to continue growing our covered lives, mainly through additional regional plans, including 2 of the largest ones that we expect to add later this quarter. However, we do

not view this metric as particularly relevant for driving sustainable growth given all the success we've had in scaling to nearly 200 million. Activating and engaging this large base of members who already have Talkspace as a covered benefit will be incrementally more important to our growth.

Turning to DTE. DTE revenue for the quarter came in at \$9.6 million, down 3% year-on-year and flat sequentially from Q4. Overall, our DTE pipeline remains strong across both the Employer and Youth segments, and we expect positive momentum in bookings throughout the rest of the year. Consumer revenue, which covers people choosing to pay out of pocket, declined by just over \$2 million versus the same quarter in 2024 as the overwhelming majority of new members are utilizing their insurance coverage at checkout. Gross profit for the quarter was \$23.3 million, up 7% from the previous year. Our gross margin came in at 44.6% compared to 44.2% in Q4 2024 and 47.8% a year ago. This is a continuation of the trend we expect to see as we continue to shift overall revenue mix more towards our payer business, which will benefit the company given the superior long-term economics and lifetime value for members under the payer-focused strategy.

During the quarter, we also maintained our focus on operational efficiency. Total operating expenses were \$24.4 million, an increase of \$1 million versus Q1 of last year due to the increased investments in marketing we've spoken about previously. As a percentage of revenue, total OpEx was 46.7% versus 51.5% in the first quarter of last year. We achieved a GAAP net income of \$300,000 in the quarter, an improvement from a \$1.5 million loss 1 year ago. Adjusted EBITDA for Q1 was \$2.0 million, an increase of \$1.2 million versus the same period last year.

Turning to the balance sheet. As I've mentioned previously, one of our key attributes is the strength of our balance sheet. We ended the first quarter with \$108 million in cash and cash equivalents, including available-for-sale securities, a decrease from \$118 million in the fourth quarter. The \$10 million sequential decline was primarily driven by our repurchase activity under our previously announced share repurchase program. In Q1, we bought back approximately \$7 million of stock, bringing our total repurchase activity to \$18 million since our initial authorization of the program 1 year ago.

Turning to our outlook for the year. We are reiterating the full year financial outlook provided on our last call, which consists of revenue between \$220 million and \$235 million, representing 21% growth at the midpoint and adjusted EBITDA of \$14 million to \$20 million, an increase of 144% at the midpoint. Talkspace remains a leader in the behavioral health market, and our commitment to high-quality care continues to resonate with our payer partners, our customers, our network of therapists; and most importantly, with our members. I'm very pleased with our solid start to the year and look forward to building on our momentum throughout the remainder of the year.

With that, we can open up the call for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Ryan Daniels of William Blair.

Ryan Scott Daniels

William Blair & Company L.L.C., Research Division

First off, maybe a question around Medicare Advantage that's twofold, and I'll start with the first one. Just given the very positive clinical data you're seeing that's above expectations, I'm curious how you'll use that to market to other MA plans to perhaps expand your entry into those. Can you comment on that?

Jon R. Cohen

CEO & Director

Yes, yes. So for the MA plans, we're seeing a lot of interest and participation in the MA plans through multiple payers and regional plans. Our view right now is the MA plans are viewing it as standard Medicare. In other words, they're offering it to their MA members. We suspect that at some point in the future, we'll develop deeper relationships with some specific MA plans relative to possibly a PMPM type offering. We haven't done that yet in terms of a "value-based contract" in that way. But we are seeing a significant amount of interest.

Ryan Scott Daniels

William Blair & Company L.L.C., Research Division

Okay. And then also on Medicare Advantage or Medicare fee-for-service, have you guys delineated maybe the marketing budget for the year? I know you've talked about being a new market, not knowing what channels will resonate or what the lifetime value will look like. So I'm curious as we're approaching the fifth month of the year, if you've got a little bit more data and have kind of honed in what your advertising outlook is for that segment?

Ian Harris

Chief Financial Officer

Hey, Ryan, it's Ian. We're pretty -- as we've talked about in the past, we're very much taking a portfolio approach in our go-to-market overall, which is reflected in our ad spend and our media planning. So we start the year with a general framework across sort of core Commercial, Military and then Medicare and MA.

We're -- as we've, I think, touched on before, very data-driven around that, right? So that -- those budgets and those relative allocations can change fairly substantially quarter-to-quarter and even month-to-month. So there's no number I'd put out for you in terms of pegging it to. We're effectively solving for the best ROI while at the same time understanding as it relates to Medicare, specifically, it's a new cohort, and it will take several quarters to figure out. So in that case, we are willing to lean in a little bit more on investments and understanding that it will take time to figure out the ROI.

On the contrary, Military, I'd say, has actually really exceeded our highest expectations. And so that -- while that's also a newer cohort, that one -- one, just given the sort of location-based media channels we can pursue for the on-base media channels and outlets to sort of community engagement platforms. We've seen really, really good traction and success in Military. So while that one is new, I would expect us to lean in there more just given the returns we're seeing.

Ryan Scott Daniels

William Blair & Company L.L.C., Research Division

Okay. Perfect. And then last one, I'll hop off. Just on the kind of technology improvements for benefit checking, and you mentioned the Easy button to switch between EAP and kind of coverage. How broadly is that rolled out? It seems like it's having a pretty reasonable impact on either use or continuation

of engagement. So I'm curious if you rolled that out broadly or if it was more of a pilot with certain employers or payers? Any color there would be great. Thanks and congrats again.

Jon R. Cohen
CEO & Director

We're in that process now of rolling it out, basically plan by plan meaning employer by employer. And it is as per your observation, it does have a significant impact. The whole idea of not having to switch over, reenter, single sign-on, whatever you want to call it, does make it much easier for people to switch over to their benefit. So we're in a very big way leaning in on this right now, and it is having a positive impact.

Operator

Your next question comes from the line of Steven Dechert of KeyBanc Capital Markets.

Steven Craig Dechert
KeyBanc Capital Markets Inc., Research Division

First, how has patient retention changed over the last maybe 6 or 12 months as you continue to add technology enhancements? And then secondly, as a follow-up, could you remind us what portion of your 2025 guidance, your revenue guidance is expected to come from Medicare and then Military?

Ian Harris
Chief Financial Officer

Hey Steve, on the second question, we don't break that out. Again, internally, we have a range of outcomes in terms of where the volumes ultimately come from. So there's no shortage of sort of combinations and permutations of sort of how we get to plan. As you can imagine, we take a pretty conservative approach in discounting the various sort of end markets, right? So I wouldn't peg a hard number to it. Again, if we're not seeing the returns in one area, we'll pivot spend to another while we figure out that former and sort of go at it proactively like that.

Your first question, I think, was on retention, what technology is doing for that? Yes. So I would point out the session velocity metric that we point to is one indicator for that. So that was up 5% year-on-year in the first quarter. Again, it's one good indicator. Going forward, we're actually kind of seeing the marketing investments we started in Q1 really start to have an impact as we exited in March and seeing really strong checkouts in April. And so that actually -- the session velocity metric, I just want to flag, may get a little bit skewed because of that increase in new users. But as a general matter, things like Talkcast and these other sort of product enhancements we're making, we do track and measure the retention impact. So it's all positive to LTV.

It does, however, when we roll out a new feature, take several quarters for us to really see that change in sort of average duration of the user, right? We got to make sure time goes by and see how much longer those folks stay on the platform, but all indications so far are positive.

Operator

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

Charles Rhyee
TD Cowen, Research Division

Just wanted to follow up maybe a little bit on sort of sales and marketing expense. If we think about that converting member -- people that have access to Talkspace and getting them engaged. I think sales and marketing expense was a little bit lower than we kind of expected, obviously, up a little bit year-over-year. And Ian, I get that you're saying that you want to see how some of the programs are tracking. But any reason not to maybe push the pedal a little bit more aggressively here? Or is this something that we could expect as certain channels work better than others, we could see more aggressive spend because it seems like this is -- this is a big opportunity. And if the demand is as great as we all think it is, it's just getting people aware of what's available to them.

Ian Harris*Chief Financial Officer*

Yes. Thanks, Charles. The short answer to your question is yes, absolutely. I mean we're solving the overall budget. Underneath of that ad spend. It's very competitive and nimble sort of going from one -- channel is not the right term, but sort of one end area of focus to another. I would say expect Q2 to be similar to Q1, right? So think of it as more like a first half, we're heavier on marketing investments, and then we see the benefits of that sort of get pulled through given the longer duration of a payer life relative to what you may have seen from us with a pure consumer model several years ago. So yes, absolutely. I mean a lot of it, Charles, is just the balance as we go month-to-month.

So in general, the ROIs are very positive. We've been very transparent publicly that we're leaning in and making greater investments in this area. Where the timing falls month-to-month, it can hinge on a variety of things, right? What's going on in the environment? What the ROIs are in certain channels? New things that we're testing? And then also candidly, new product things, right? If we're delayed 2 weeks on a product rollout that we think will have meaningful conversion benefits, then maybe we shift the marketing accordingly.

So it's -- I wouldn't read too much into the quarter-to-quarter perspective, I would flag the first half is going to be sort of the heavier marketing spend, and then we reap the benefits starting in Q2 really, where you'll see a step-up in growth. Thanks to those investments we made in Q1, and then see that pull-through for the remainder of the year also.

Charles Rhyee*TD Cowen, Research Division*

But if the ROIs are very positive, any reason not to just continue spending in sales and marketing to drive growth?

Ian Harris*Chief Financial Officer*

Throughout the year, you mean?

Charles Rhyee*TD Cowen, Research Division*

Yes, exactly.

Ian Harris*Chief Financial Officer*

Yes, yes.

Charles Rhyee*TD Cowen, Research Division*

Like I mean, I understand you can pull through benefits, but any reason not to just continue to drive greater conversion?

Ian Harris*Chief Financial Officer*

Yes, we may. It's something we talk about all the time. And honestly, it's like -- it gets down to like the day-to-day, how many holidays are there in this month and what other events do we need to be mindful of things like that. So like Mental Health Awareness month in May, this will be a very active month for us. If you're asking about the back half of the year, absolutely, right? But we -- because we have both top and bottom line substantial growth in the plan and in our financial guidance, that's just the balance we need to manage, right? It's like -- it takes time to see the benefit, the R (sic) [return] of that investment, right? So it just -- it's always just balancing those 2 factors.

Charles Rhyee*TD Cowen, Research Division*

Got it. And maybe just a quick -- I'm sorry, go ahead, Jon.

Jon R. Cohen*CEO & Director*

I was just going to say, remember, it's also not -- it's somewhat of the total, but a lot of it is specifics about where we spend it, right? So we know we need to spend -- we're going to spend more on Military. We know we're going to -- there's some other subpopulations we're looking at. So it's not just where it is, but it's how it gets distributed across the social media channels and how it gets distributed across the search channels. So it's a significant number, but it's not just like it needs to increase. It's -- to us, actually, it's more about how you distribute the money.

Charles Rhyee*TD Cowen, Research Division*

Got it. And Jon, maybe I could follow up on the Bark partnership. Can you talk a little bit about how that works? Because it looks like Bark members get sort of the free mental wellness tools, sort of Talk -- this Talkspace Go. And then they're getting some discounts off their first month if they subscribe to Talkspace. Can you talk a little bit more about how this partnership works and maybe sort of the economics from your end? And is this available to all the 7.5 million Bark members off the bat?

Jon R. Cohen*CEO & Director*

Yes. So there's a couple of parts of it. One is, of course, there is the Bark phone. So we're going to have -- the Talkspace app will be loaded on to the Bark phone. So essentially, when a parent gets some sort of notification, they have easy access to Talkspace. That's part of it.

The second is -- well -- is they are on -- you probably saw it, literally 3,700 schools have their software embedded so that kids can only go certain places when they're using the school software. So we don't -- we're not -- we won't disclose the actual financial relationship between Bark, but we do think that the whole area of parental alerts because of our experience on the suicide ideation and -- if you saw, we still -- we now have a homicide violence ideation, which we're rolling in. It's a really important, not just moral imperative for us, but it's a really potentially bigger channel for us to get referrals.

If you're into it or if you're looking at the whole parental protection issues, it's pretty remarkable actually because it's not just the suicide ideation and violence, it's they're monitoring for sex content, cyberbullying, risky applications, dangerous challenges, hate speech, drug, alcohol abuse. So there's a huge amount that they're looking at, which gives us an opportunity to be part of that as parents are looking for help for their kids when they find something they don't like.

Operator

Your next question comes from the line of Bobby Brooks of Northland Capital Markets.

Robert Brooks*Northland Capital Markets, Research Division*

So it's been a little more than a full month since you've launched Talkcast. I was just really curious to hear, is this something that's being used for every client across the board? And if not, could you -- how is it decided who gets these personalized inter-reading personalized podcasts?

Jon R. Cohen*CEO & Director*

Sure. So if you heard me talk about it. So we -- just in the first couple of weeks, we've launched about 6,000 podcasts. But the way it works is that the podcast is generated and then it's given to the therapist. The therapist then reads through it and makes a decision about whether or not they will give that to the

individual member or patient. Then after that, the patient member decides whether or not they're going to listen to it enough. So we're looking at that data now. But it is a decision that is up to the therapist about whether it's important or not to release to the individual patient. We are seeing some very positive feedback from both the providers and members who have used it. So early days, but it is available to everybody to their therapist and then the therapist decides.

Robert Brooks

Northland Capital Markets, Research Division

Okay. That makes sense. So in that 6,000 number you're using, those are ones where therapists green lit it and then the patient would actually listen to it?

Jon R. Cohen

CEO & Director

That's correct. Yes.

Robert Brooks

Northland Capital Markets, Research Division

Got it. Got it. And then I was just really curious on the switch -- the EAP switching to insurance. Could you just maybe talk about a little bit like financially -- like remind us all like financially like how different EAP patient is versus one who then switches over through insurance? I think that the insurance is probably a bit better for you guys financially. So I think that would be helpful.

Jon R. Cohen

CEO & Director

Well, so the EAP programs are very different, right? You could have -- your employer could say you can get 3 sessions to your EAP program, you could say they could get 10 sessions or 1 a month. It's very variable depending on the plan. The important thing is that when you exhaust them, if you have 3 or 5 and you want to stay with your therapist because we are covering 200 million roughly Americans, there's a very, very significant chance that you're going to be covered by your insurance, which is also your employer, right?

So what we've done is we've made it easier to switch over from your EAP benefits now to keep your therapist and switch into your insurance plan, which then you submit like any other insurance claim to an insurer, which is covered. So the Easy button here is that if you're in an EAP program that your employer bought, but your insurance does not cover you, then what happens is basically, you have to start over with a new therapist. And that's what we've addressed with this.

Robert Brooks

Northland Capital Markets, Research Division

Okay. Got it. And then could you maybe just touch on like the different -- because this isn't -- the revenues that you received through EAP plans isn't that fixed? And then on insurance, obviously, you're getting paid on a per session basis. Is that the right assumption there?

Ian Harris

Chief Financial Officer

No. Bobby, so EAP is -- it shows up in our payer revenue, first of all, and it's fee-for-service the same way an insurance coverage session would be.

Robert Brooks

Northland Capital Markets, Research Division

Got it.

Ian Harris

Chief Financial Officer

And then just on your -- I think you had a pricing margin question. Generally speaking, so not always the case, the rates, but also the sort of session structure and some of this gets into like length of sessions and flexibility you have on the insurance side that may not be the case in EAP. Generally, it's a higher-priced session under the BH rate of pure insurance coverage versus EAP, it tends to be because it's a limited menu, oftentimes, it's only 45-minute sessions allowed.

And then to Jon's point, you're capped on sessions, right? And so your lifetime value is artificially constrained, whereas now if we can facilitate for those who want to keep going after they exhaust their, whatever it may be, 3, 6, 8 sessions allotted to them through their employer benefits; and crucially, you want to stay with your same provider, we make that very easy to just have continued care and let that lifetime value run its natural course.

Robert Brooks

Northland Capital Markets, Research Division

Very helpful. And just the last one for me. So sequentially, you guys added about 5,000-plus payer patients. I was just really curious to kind of hear what the makeup of that was? Obviously, you talked about kind of Military being a strong vertical for you guys in the quarter. Was that mostly Military ads? Or just any more color you could provide on that?

Ian Harris

Chief Financial Officer

It's across the board. It's, I'd say, driven by Military, Medicare, but then also just organic growth in some of our existing commercial plans.

Robert Brooks

Northland Capital Markets, Research Division

Thank you very much and congrats on the strong quarter, guys.

Operator

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

Ryan Michael MacDonald

Needham & Company, LLC, Research Division

Jon, maybe I'll start with you. Great to hear about the strong outcomes you're seeing in the Medicare population. And maybe curious as you're measuring for quality in terms of the quantifiable metrics, can you talk about what a few of those metrics are? And have you been able to use sort of those outcomes in negotiations around rates with insurers? And are we at a point yet where we're starting to see sort of discussions around value-based care contracting at this point?

Jon R. Cohen

CEO & Director

So thanks. It's a great question because -- so just some of that -- so without getting too deep, we have 5 basic areas to measure quality, service quality, clinical quality, client experience, productivity and documentation. Now within each of those, there are a bunch of other metrics as in data points that we look at. And now we're also looking now at report cards and the feedback to the therapists and how we do that in a better way so that they see what's going on and how well they compare to the other therapists. So that's the broad base of the quality measurements and how we look at it.

It's a really important function for us because, quite honestly, we think it's a big differentiator for us in the market. I'd like to say we're not a matching service. We are a full-fledged HIPAA-compliant healthcare provider, which monitors our quality and the quality of our therapy network. That's a really big deal for us.

So what was the second part of your question? It was...

Ryan Michael MacDonald

Needham & Company, LLC, Research Division

I was wondering if you're starting to see the [value-based] metrics. Yes. And if it is impacting rates?

Jon R. Cohen
CEO & Director

Yes. So right now, the answer is no. Although we do have -- I think we talked about publicly, we do negotiate with some increases in rates with the payers. Part of that negotiation when we are negotiating with the payers, quite honestly, is a very substantial quality discussion because we are gauged by the payers based on quality metrics in addition to other metrics such as first time to appointment, first time to second appointment, no-shows, et cetera. So it's a basket of different indicators that they use.

Quality being a very important part of them, because what the payers do is they will do audits for us. And they actually look because we have a full-fledged EMR, they look at our notes, they look at our quality notes, they look at how good the therapists are doing in terms of delivering care. So this whole issue around both renegotiation and contractual rates is very much related to what we're talking about. We do have some early value-based contracting. Most of it is very straightforward, which is stuff we've been doing for a long time because a lot of it is related to first time to appointment and first time to second appointment, et cetera. But the payers are getting more sophisticated relative to monitoring who delivers better care.

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

Super helpful there. And maybe as a follow-up, I understand -- it's great to hear sort of no tariff impact or nothing sort of on Medicaid with no exposure there. But -- on one of the sort of, I guess, topics of discussion with the Trump administration has really been within the new budget, there's, I think, about a \$28 billion to \$29 billion cut on behavioral health funding across a number of different organizations. We've seen sort of freezing of funding to schools, which is, I think, about \$1 billion.

Just given that you have sort of city, state, municipality sort of school district exposure, we've been a bit surprised at sort of the sources of funding that the -- those entities sort of pulled. Are you seeing any impact from sort of the freezing or the cuts here on behavioral health from the new administration on -- whether it's on sales cycles or contracting, any spend there?

Jon R. Cohen
CEO & Director

Yes. So another really point and good question. So right now, the cuts that have been announced have been for all -- for what we've read and seen has all been in-person therapy. In other words, there are school-based counselors and in-person therapy programs in addition to some related to gun violence. None of that impacts on us because of our virtual Medicare (sic) [delivery]. We actually believe that because we are much less expensive and we have a larger ability to scale that it may actually be an opportunity for school districts to move from a dominant in-person model to a virtual model. So right now, we are looking at that. We are obviously very acutely aware of what's going on, but we have not seen -- first of all, we have not seen any impact.

Now in terms of the discussions with school districts, we have not -- we haven't seen it yet. So I have -- I've been in the room on a lot of these discussions with the person who runs this vertical for us. We haven't heard from a school district yet that has said, "Oh, because of the custom funding, et cetera, we're not going to do anything." The corollary of that is our pipeline remains very, very substantial on the school side. But I would tell you, having said all that, I don't think anybody could really predict what's going to happen in the next 3 to 6 months on this. But right now, our view has been, I would say, neutral to positive on what's happened relative to mental health support for kids.

Operator

Your next question comes from the line of Steven Valiquette of Mizuho Securities.

Steven James Valiquette*Mizuho Securities USA LLC, Research Division*

So I have 2 questions. I'll just ask them one at a time. I guess just the first one, the number of completed payer sessions came in a little bit lower relative to our modeling. But then conversely, though, the payer revenue per session came in higher. I think formulaically, that's up about 8% year-over-year. So I guess the first question is, is that a sustainable run rate that the payer revenue per session for the full year could be up high single digits? Just wanted to get some more color on that.

Ian Harris*Chief Financial Officer*

Steve, I think you're referencing sort of the implied price per session and how that shows through?

Steven James Valiquette*Mizuho Securities USA LLC, Research Division*

That's correct. Yes. Yes. That's all -- formulaically it doesn't provide a number formulaically, correct. Yes.

Ian Harris*Chief Financial Officer*

Exactly. So to sort of contextualize and remind folks, so that sort of implied payer price is subject to a few different variables. One is obviously contractual increases and sort of what the rack rate is we're able to negotiate. So we've talked about some positive developments there in the past. And so we did have some effective Jan 1 benefits there. It's also just going back to Bobby's question on BH versus EAP sort of relative price per session. It's very much influenced by mix of BH versus EAP, the specific customer and then also the specific CPT code, which is largely correlated to the duration of session, which again, BH is -- tends to be longer and higher price. And so the Easy button thing should be accretive to this metric.

It also reflects our sort of RCM efforts, our collection efforts and the improvements we've seen there. So we had a whole bunch of favorability, not by chance, we're pushing in all the right directions, which you saw come through in that sort of 8% year-on-year for Q1. I would say assuming sort of a flattish, if you model it that way, sort of price per session, I think where we end up in Q1 is a sort of good proxy for the rest of the year.

Steven James Valiquette*Mizuho Securities USA LLC, Research Division*

Okay. All right. That's perfect. Okay. Then the second question, I mean, I apologize if I missed this earlier. I think some of the questions were kind of geared towards this to some degree. But I think at the end of the day, the low end of the revenue guidance at \$220 million implies 17% growth year-over-year. So with 1Q coming in at 15%. Just remind us again of some of the biggest drivers of the reacceleration that's implied in the remaining quarters of the year to achieve the low end of the full year revenue guidance?

Ian Harris*Chief Financial Officer*

Sure. Yes. Thanks, Steve. I mean, a lot of it is what you've talked about the last couple of quarters the sort of very large new populations we've added over the last several quarters, right, namely Medicare, Medicare Advantage and TRICARE in 2 parts, August and January, which we've really waited until Q1 to start going after from a sort of engagement and marketing perspective. So that's underway in Q1, which are, again, completely new populations, and we'll see benefits as we ramp there throughout the year.

And then it's also just on our commercial -- I don't want to say core, but commercial sort of cohort and plans we have, the increased marketing investments we're making, which you can see is a pretty big step-up from last year, \$1 million in just Q1. And to Charles's question, we'll keep our foot on the gas a little bit in Q2. And given the sort of longer duration, longer -- better retention dynamics of a payer member, it takes time for that marketing investment to pay off, which we've already started to see in March and are

very much seeing in April, right? So Q2, Q3 and Q4 revenue growth, I do expect to be substantially higher than the year-on-year growth we saw in Q1.

And that's largely baked as a function of -- it takes a couple of quarters to see the pull-through of that one new user checking out and joining the platform, getting acquainted with his or her new therapists and then the sort of pull-through longer tail sessions you see from that new user.

Operator

There are no further questions at this time. Ladies and gentlemen, this concludes today's conference call. We thank you for participating and ask that you please disconnect your lines.

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