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Talkspace, Inc. (TALK)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Talkspace Second Quarter Earnings Conference Call. My name is Richard and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions]

I'll now turn the call over to Mr. Mark Hirschhorn, President and Chief Operating Officer. You may begin.

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.

Good afternoon, everyone. This is Mark Hirschhorn, Talkspace's President and Chief Operating Officer. I'd like to welcome you to our earnings conference call for the second quarter of 2021. Leading today's call is Oren Frank, Talkspace's Co-Founder and Chief Executive Officer. He'll be joined by Jennifer Fulk, the company's Chief Financial Officer, and myself. Management will offer their prepared remarks and will then take your questions. Talkspace's press release and webcast link are available on the Investor Relations section of Talkspace's website.

On this call, we will be making forward-looking statements. These statements reflect our best judgment based on factors currently known to us, and actual events or results may differ materially. Please refer to the documents that we file with the SEC, including the Form 8-K filed with today's press release and the disclaimer posted on Talkspace's website.

I'll now turn it over to Oren Frank.

Oren Frank

Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

Thank you, Mark. Welcome and thank you all for joining us on our first earning as a public company. We founded Talkspace with the mission of making high-quality behavioral healthcare accessible to everyone and we are proud of the impact that we have had so far on millions of lives. Our purpose-built technology platform is designed to personalize treatment, lower costs, and most importantly improved clinical outcomes at a very large scale.

We continue to invest in product and service innovation with the aim of providing individuals greater choice and address an even broader array of conditions that will make our portfolio extremely attractive for individual, health plans, and enterprise clients. We continue to develop our distribution channel that will further expand our market reach. We believe that our clinical and technology capabilities allow us to offer an unparalleled product set designed to address the vast, unmet and growing demand for mental health services in innovative ways.

I am delighted to start today's call by introducing Jennifer Fulk, who joined us as our Chief Financial Officer. Jennifer joined us from Eli Lilly and brings with her an accomplished track record of success across a diverse set of leadership roles in finance, strategy, and investor relations at a world-class healthcare organization. Jennifer, over to you.

Jennifer Fulk

Chief Financial Officer, Talkspace, Inc.

Thank you, Oren, and good afternoon, everyone. I'm thrilled to have joined Talkspace. And I've been very impressed by the passion and commitment of our talented leadership team. It is clear that we have differentiated medical-grade clinical capabilities, a unique technology stack, and a highly recognized brand. This gives us an incredible foundation to capitalize on strong demand tailwind as we revolutionize virtual behavioral healthcare. And I'm looking forward to speaking with our investors in the coming weeks.

Oren Frank

Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

Thanks, Jennifer. I also want to mention our two incredibly important recent hires: Dr. Varun Choudhary, who joined us as Chief Medical Officer. Varun was previously at Magellan, where he managed the National Behavioral Health Program; and Erin Boyd, who joined us as Chief Growth Officer for our Enterprise business, and previously served as Director of the Behavioral Network Strategy for Cigna. Erin's hire further strengthens our commitment to taking advantage of what we view as a massive B2B opportunity.

Recognizing that many of you are new to the Talkspace story, I would like to spend some time talking about our company more generally. After this, we will review some of the highlights of Talkspace's second quarter results and then touch on the exciting growth opportunities ahead of us.

Talkspace is the only public pure-play virtual behavioral health provider delivering same-day access to high-quality mental health resources via text, video and audio messaging, and also via live video or audio sessions. Our platform treats a wide range of mental health conditions and acuities across over 20 clinical specializations and addresses the needs of individuals, couples, adolescents, and psychiatric patients. Clinicians can also write a prescription and have it sent directly to the patient's local or virtual pharmacy in all 50 states.

Since the founding of Talkspace, we have been a technology-first company because of our belief that virtual therapy can dramatically improve engagement and treatment outcomes through the application of data science.

Our proprietary machine learning and natural language technologies leverage a vast and anonymized datasets to identify patterns and to personalize treatment. This allows us to improve the speed and accuracy of matching and diagnosis, empower clinicians to deliver personalized care, and optimize and enhance clinical outcomes.

Of course, we have designed our ecosystem and information practices to achieve and maintain full compliance with HIPAA and other legal requirements regarding the confidentiality of patient information. We believe that our technological capabilities and data-driven approach are a robust and sustainable competitive advantage. The behavioral health market is ripe for innovation and we see several opportunities to further satisfy demand with new products that reimagine quality-centric behavioral healthcare, making it more convenient and affordable.

In the second half of the year, our service portfolio will expand again with an enhanced suite of functionalities that will further drive broad market adoption. Expanding our product suite towards a full behavioral stack will enable us to adopt the land-and-expand approach, cross-selling and upselling our services across the entire spectrum of clinical use cases, needs and also modalities. These coming medical-grade capabilities are unique in the marketplace and represents a compelling value proposition for our B2C and B2B clients.

We serve our members through two different channels: direct-to-consumer, comprised of individual consumers who subscribe directly to our platform; and our business-to-business channel, comprised of enterprise clients who pay us per-member per-month fee, as well as large health plans who offer their insured members access to our platform at an in-network reimbursement rates. We're currently making inroads into new distribution channels such as healthcare platforms and navigators, e-commerce platform, partnerships, and additional nontraditional carriers that will give us access to an even broader and more diversified audience.

Our B2C product is offered via several subscription tiers, some allow for asynchronous treatment via unlimited text, video and audio messaging, and offer a range of scheduled live or audio sessions. We continue to see a shift toward higher tiers which should continue to drive ARPU. We currently offer psychotherapy, psychiatry and prescription services target to individuals coupled with teenagers. And in the second half of the year, we're planning to further expand our offering and encompass group therapy and situation-specific treatments focused on the workplace.

Our B2B business is built to service large plans and employers, and provides a reoccurring and visible stream of revenue with low customer acquisition cost which will ultimately lead to higher operating margins over time. We're extremely excited about these offerings accelerating traction and cross-selling opportunities as it continues to outperform our expectations. And over time, we expect it to contribute in increasing portions of both our revenue and margin. Our B2B provides all employees access to our services as a benefit paid for by their employer, either directly what we call DTE or direct-to-employer or through an insurance plan. Through our direct-to-employing (sic) [direct-to-employer] offer, we contract directly with the enterprises, governments and universities to provide care on a per-member per-month basis.

A representative sample of our enterprise clients include Accenture, Blackstone, Expedia, Google, Federal Reserve Bank, West Virginia University, and the USA Triathlon Association. For our health plan clients, we contract with major insurance clients to deliver care via their EAP, employee assistance program; and MBH, managed behavioral health programs. A representative sample of our health plans and EAP clients include Aetna, Cigna, Humana, Optum, Premera and Wellspring.

We have built the living network of approximately 3,000 licensed therapists, psychiatrists and nurse practitioners who serve our large and growing demand and member base. The proceeds from our merger enabled us to accelerate our strategic decision to hire full-time W-2 clinicians which we believe enhances our members' retention, engagement and satisfaction. The increasing availability of full-time employee providers will lead to higher matching rates, increase our network's capacity utilization, and grant us more flexibility to experiment with new products. We expect to add additional full-time therapists throughout the remainder of the calendar year. And this strategy requires a greater upfront investment but we are confident that we can scale rapidly as we continue to grow and can meaningfully improve both our quality and unit economics over time.

We are all living through a major industry shift. Mental health is finally recognized as an essential need. And thanks to its greater convenience, lower cost and demonstrable clinical efficacy, the adoption of behavioral telehealth has continued to increase post-pandemic. While most medical specialties have seen a gradual decline in telehealth utilization in the aftermath of COVID, the percentage of claims for virtual behavioral health visits has remained consistent since the onset of the pandemic, both in aggregate and as the percentage of total behavioral visits claims. The most meaningful driver of consumer behavioral in mental telehealth is no longer the threat of contagion but convenience, reduced stigma and lower cost, which ultimately validate the durability of virtual behavioral healthcare demand. We believe this change is structural as certain surveys suggest telehealth's consumer satisfaction is actually at an all-time high. Utilization continues to increase as clinicians become more familiar with the platform, and patients' demands attract new investment in infrastructure and innovation.

As it relates to Talkspace's go-to-market strategy, our audience has been and continues to be digitally natives, mobile-first, and young. 60% of our members are first-time therapy users who select Talkspace for its privacy, convenience and affordability. As such, we expect demand to remain especially robust as consumers and providers continue to appreciate the benefits of virtual modality for mental healthcare.

Before turning the conversation over to Mark, I would like to highlight some key items from our quarterly financial performance and also share a number of KPIs we use to track our business internally and expect to share regularly with our investors to help you monitor our performance. This quarter, we served more patients across more conditions than ever before, with approximately 61,500 active members at the end of the second quarter, up over 40% for just one year ago.

Our $31 million in net revenue for the second quarter was a quarterly record for the company and represents 73% year-over-year growth. B2C net revenue for the second quarter was $21 million, up 36% year-over-year and up 14% sequentially. Of particular note, our B2B revenue grew 320% year-over-year to $10 million, and we have a robust pipeline of B2B clients and revenue opportunities. As a result, we are on track to meet our revenue guidance of $125 million, growing our revenue by 64% for the fiscal year of 2021.

While our B2C revenue grew substantially, we and many other of our peers are experiencing elevated customer acquisition costs due mainly to a material increase in the cost of digital advertising. As a result of this environment, we're taking a number of steps which we believe further strengthens our business. First, we increased our advertising budget which we believe further enhances our market-leading brand, which differentiates us from competition, is an important driver for our B2B pipeline. Second, we focused on further enhancing our medical-grade clinical capabilities in part by building our network of W-2 clinicians, a unique asset that we believe will ultimately increase members' retention, engagement and satisfaction. Third, we expect to launch a number of new products, feature and distribution channels over the coming quarters which we will believe will drive organic growth. And finally, we are undertaking a number of operational improvements which we believe could mitigate the impact of CAC inflation. While we do not know how long this pricing environment will persist, we believe we are both well-positioned and well-capitalized to defend our brand's market-leading position.

Moving back to our B2B business, we continue to execute on our B2B growth strategy which provides a reoccurring and visible stream of high margin revenue. As our differentiated and comprehensive product portfolio continues to resonate in the B2B marketplace, we are seeing traction in expanding our offering both within existing clients as well as adding new clients. In the second quarter, we added a combined 14 million eligible lives, representing a 34% sequential quarterly increase and a 67% year-over-year increase. The number of enterprise customers was also up strongly, ending the quarter up 18% from the prior quarter. Our direct-to-employer offering continues to grow rapidly, and we've just experienced our largest DTE or direct-to-employer work in the company's history.

The B2B business is thriving and continues to outperform our expectations. We foresee a significant opportunity to cross-sell and upsell our medical-grade innovative product suite. And over time we expect it to contribute an increasing portion of our revenue and margin.

As a result of our merger, we ended the quarter with approximately $250 million of cash, which will be used to further increase our already high-brand awareness, drive adoption across all channels, add new products and partnerships, leverage the massive B2B opportunity we have ahead of us, and expand internationally.

At this point, I will turn the call over to Mark for a review of our financial results. Thanks very much, everyone.

Mark J. Hirschhorn

President & Chief Operating Officer, Talkspace, Inc.

Thank you, Oren.

As Oren noted, we had a very solid second quarter. During the second quarter revenues increased 73% year-over-year to $31 million. Direct-to-consumer revenue for the second quarter increased 36% year-over-year to $21 million driven by a significant increase in our active membership as well as consumer preferences shifting towards higher subscription tiers. B2B revenue for the second quarter increased 321% year-over-year to $10 million and grew to represent 32% of total revenue compared to 13% of total revenue in last year's quarter. This is exactly where we want to be at this point of the year and underscores our success in moving aggressively into the enterprise arena. We are reaffirming our 2021 revenue guidance of $125 million, which reflects 64% year-over-year growth.

Turning to membership and access, we ended the second quarter with 61,500 active members, an increase of 41% over the prior year's quarter. At the end of Q2, our B2B business reached over 56 million eligible lives. Between July 1 of 2020 through June 30, 2021, Talkspace was added as an in-network benefit for over 22 million eligible lives.

Direct-to-employer clients increased to 107 as of June 30, 2021, up from 41 clients as of the end of the second quarter 2020. As Oren mentioned, our direct-to-employer offering continues to gain traction in the marketplace as we just experienced our largest direct-to-employer weekly wins in the company's history. In fact, our sales pipeline today stands at a greater than 10x increase in opportunities than where it stood at this time last year.

Our enterprise clients, as well as those pending enterprise opportunities, including some of the nation's largest health plans, have been slowly transitioning to the recognition that virtual behavioral care is an absolute necessity as a permanent modality for care. This nation's shortage of qualified professionals in addition to other inherent obstacles to access that are systemic in our healthcare system make Talkspace a vital partner to every health plan and healthcare benefits provider. We are extremely excited for the fourth quarter as timely product enhancements will enable us to capture an even greater percentage of the existing white space in the payer market.

While we had been actively promoting our market-leading brand, we have also been busy creating optionality for our members. We will shortly have the ability to offer synchronous or live messaging to complement phone and video features to ensure that members have the opportunities to select exactly how and when they want to engage with their psychotherapist or psychiatrist. While Talkspace has been an innovator in bringing therapy to millions of people through messaging, we have listened to our health plan clients and we will be introducing these expanded features to ensure that a far broader audience can advance into therapy over the next several months.

Our gross profit increased to $19 million for the quarter, an increase of 57% compared to the prior year's second quarter. Our gross margin was 62% compared to 69% in the second quarter of 2020. The decline in gross margin is primarily attributable to the increasing B2B line of business and its growing absolute dollars as a percentage of the total revenues in addition to upfront investments in W-2 clinicians and the time it takes to optimize their client capacity.

These full-time clinicians have been transitioned either from part-time 1099 clinicians already on our platform or recruited from outside of Talkspace. We expect that margins will normalize as these clinicians reach full utilization and optimization on our platform over the next several quarters.

Adjusted EBITDA loss was $12 million in the second quarter 2021 compared to a loss of $300,000 in the second quarter of 2020. As Oren mentioned, CAC has been meaningfully elevated since the beginning of the year relative to prior periods. The majority of the excess losses in the quarter, relative to initial expectations, can be attributed to this increase in customer acquisition cost. While advertising costs have dramatically increased during the first half of this year, the current environment makes it more difficult to predict when customer acquisition costs will ultimately normalize. As such, we will not be providing any update to guidance on EBITDA for the remainder of this year.

Net loss for the quarter was $30.4 million compared to a net loss of $600,000 in the prior-year period and included transaction-related expenses of $4 million. On a per share basis, net loss was $1.15 per share for the second quarter compared to a loss of $0.05 in the comparable quarter last year. Also, for Q2, we booked a $39 million liability on our balance sheet related to warrants that were acquired from Hudson Executive Investment Corp. in connection with the closing of our merger.

We ended the quarter with about $248 million in cash and short-term investments. We are very confident that these resources will enable us to both continue to invest in our expanding B2C franchise while we also build out our emerging B2B franchise. Over time, our strategy is to strengthen our B2B commercial offerings and in turn see this segment generate an increasing portion of our revenue and margin. We believe we have a significant opportunity to cross-sell and upsell our comprehensive service portfolio, and we will continue to invest in new products, channels, and geographies.

With that, I will turn the call back to Oren for closing remarks.

Oren Frank

Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

Thanks, Mark and Jennifer.

Before I turn over the call to Q&A, I would like to take this time to thank our investors for your trust in us and in our mission. I would also like to use this opportunity to acknowledge the hard work of the Talkspace team members around the world. We are grateful for your passion, talent, and incredible execution all while managing the exciting and demanding transition into a public company. I'm proud to share these results on your behalf and tell the world that TALK is good.

And with that, we will open the call for questions. Back to you, operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And we're standing by for questions. Our first question on line comes from Mr. Charles Rhyee from Cowen. Please go ahead.

Charles Rhyee
Analyst, Cowen and Company

Q

Yeah. Thanks and congratulations on the merger and congratulations on the quarter. Just had a quick question here really about sort of the – I think, Mark, you noted that a lot of the gross margin erosion was from actually the mix shift in B2B. Can you give us a breakdown of the active members between the B2C and the B2B business?

And just looking at how that mix – how we're thinking about that as we go forward into the third quarter guidance here in particular, obviously a nice step-up from first to second quarter, a little bit less so in the third. Can you kind of give us a sense on what might be driving that?

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.

A

Yeah, Charles, thank you. This quarter we saw a significant increase in B2B active membership to the extent that B2B members are now essentially representing slightly more than half of the active members on the platform. As you know, those B2B members come to us at a far reduced acquisition cost. They generate however a slightly lower gross margin, but a far improved bottom line net margin. We would continue to look towards the B2B contribution of membership as well as revenue to continue to represent a growing portion of consolidated revenue both in the third and fourth quarters of this year as we continue to see just tremendous traction from both our health plan clients and our direct-to-employer clients.

We have now exceeded our expectations for annualized revenue as our quarter came in at $10 million. And clearly, we'll be looking to exceed our original guidance on the enterprise contribution to total revenue.

Charles Rhyee
Analyst, Cowen and Company

Q

The active members in the B2C side were down sequentially, anything to comment on that and what do you expect for the rest of the year? Thanks.

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.

A

Sure. We were very deliberate this quarter and we continue to really focus on the fact that there's really punitive pricing in the market today. There is a tremendous price disparity in customer acquisition costs this year as compared to where we were in the second quarter of 2020. The frequency of price increases is somewhat dramatic from Facebook and Google and the other digital properties. And we are spending what we believe is appropriate to maintain our competitive advantage in our leading brand. But we're going to continue to look to obviously now diversify our acquisition channels through investments in nontraditional channels as well as looking to partner with some of the nation's leading companies.

I think it's unlikely that we are going to see a dramatic shift downward in the next quarter or two, but we do believe that CAC will stabilize because these are, quite frankly, levels I'd say elevated levels that we don't believe are sustainable nor have we ever seen increases like this since this – really since this, I'd say, past two to three years, and we've been tracking this clearly over the last five years.

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.
A

Charles, this is Oren, a couple of additional comments. First of all to your question about Q3, we've been doing this for 10 years now. This is purely seasonal. Historically, the demand for psychotherapy and psychiatry is slightly lower during the summer, so we're being a little conservative on Q3. Although when you look at what's going on with the Delta variant, it's very unclear as to how the markets will behave. There're still very strong tailwinds as Mark has mentioned.

Regarding the CAC question, we are optimizing this very, very carefully and thoughtfully as to achieve two things. First of all, we have a unique, I would say, advantage of differentiation that we're active on both B2C and B2B. And therefore, the power of our brand to actually help both penetration and utilization on B2B is part of our consideration on how much to invest in CAC and in B2C. They're, I would say, cross-feeding and helping each other in a very, very unique manner.

So, we are investing the money there to keep our brand the number one brand in this market. But, as Mark said, there are certain levels of prices. If you guys saw the Q2 Facebook release, you will have seen that they raised their prices close to 50% year over the year that we just don't think are worth it. So, it's a careful optimizing game.

Charles Rhyee
Analyst, Cowen and Company
Q

Great. Appreciate it. Thank you.

Operator: Thank you. Our next question on the line comes from Stephanie Davis from SVB Leerink.

Stephanie Davis
Analyst, SVB Leerink LLC
Q

Hey, guys, congrats on the [indiscernible] (00:29:46). And, Mark, welcome back to the public earnings call arena. You have been missed.

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.
A

Thank you, Stephanie.

Stephanie Davis
Analyst, SVB Leerink LLC
Q

I was hoping to hear a little bit about how things are going in your key selling season just because the employers are beginning to look at different benefits for the following year. And maybe how that could tie into any forward growth we're going to see in the B2B eligible lives metric and any lumpiness or seasonality to consider there?

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.

A

We are extremely excited about where the B2B business sits today. We've obviously exceeded our internal projections. We're going to exceed our objectives both from individual sales performance as well as for the entire group of our colleagues that work on the enterprise side of the business. They've seen uptakes clearly coming from both the payer sides and the direct employer sides.

What we're seeing today I think is a accelerated interest in trying to align with the benefits, the traditional benefits commencement on January 1 moving towards a Q3 and Q4 adoption and implementation of Talkspace services ahead of the introduction of additional or revised benefits. We're seeing a tremendous amount of interest from traditional companies. And now we're beginning to really get traction with some of the nation's largest consultants and brokers.

We've added and we continue to add some extremely experienced individuals from the markets. As you saw, we brought Erin Boyd on. We're going to announce a number of additional hires on the enterprise side. Quite frankly, we are in a position that's somewhat enviable as we have I believe a solution for both enterprise clients and health plan clients through modalities of live video, through messaging, through voice that can help to attend to the most critical issues that are out in the marketplace today, that being access and cost.

Stephanie Davis
Analyst, SVB Leerink LLC

Q

Then [ph] dating (00:32:13) to the early days of Teladoc, I remember improving user penetration into the health plan base was something you guys end up spending a lot of your marketing budgets on. So, how should we think about improving the penetration of active users in that health plan revenue base and maybe some strategy and cost metrics around that?

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.

A

Well, I think the analogy is 100% spot on. We're still at a point where we're evangelizing the access point and the expansion of networks to all of our health plan clients. And those health plan prospects that we're speaking to find us extremely appealing because we have thousands of available therapists to their platform almost overnight. I believe we are likely going to see additional traction as some of our product innovations are rolled out in the fourth quarter. And those innovations really align us with where the consumer is deciding that they want to receive their care.

So, the consumerization and the fact that we believe that we're striving towards some degree of commercial ubiquity as tens of millions of individuals have access to our psychotherapists and psychiatrists, the term Talkspace could very quickly become a verb. And I think it is very similar to those breakthrough years when people were being introduced to Teladoc and other virtual care, urgent care solutions. Ours, of course, has a far greater depth and tenure of the relationship as our subscribers are normally with us for many months through their condition and through their, of course, successful remission.

Stephanie Davis
Analyst, SVB Leerink LLC

Q

Super helpful. Thanks, guys.

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

A

Stephanie, I'd one thing which is Teladoc at the time, 9 or 10 years ago, had to really evangelize the notion of telemedicine, of remote care. We don't have to do any of that. That is a done deal. I think we've crossed that particular threshold. And so, we have, I would say, an easier job in educating. Secondly and unfortunately, the pandemic has generated, the second pandemic one of mental health. And we don't have just to look at the Olympics and to read the newspaper. I think we all know somebody and understand the level of stress and anxiety and depression that are around that. So, the tailwinds of demands are very, very strong, and that helps us to, I would say, reach the levels of both penetration and utilization that are – that should be easier than Teladoc today.

To give you one example which is fascinating and points to the alignment between very large employers or health plans and Talkspace, during Q2, we launched coverage for EAP of one of the largest employers in the United States. In the first couple of weeks, we have quite a few thousands of their employees looking for help. Our ability allowed us to match about 95% of their employees to a licensed therapist in all 50 states in under three hours, and 100% match rate in under 24 hours. That capability of our platform, our technology and our network does not exist elsewhere. And I think you know, this is what really large employers and plans are looking for, for that immediate access, as Mark mentioned, accompanied by proven quality. When we actually report the clinical outcome, the level of engagements and all the data that can be used for those employers to assess whether the launch was successful.

Stephanie Davis
Analyst, SVB Leerink LLC

Q

And I hear that. It's an easier lift, major lift than it was a few years ago, [ph] that's what it was (00:36:21).

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

A

Exactly.

Stephanie Davis
Analyst, SVB Leerink LLC

Q

Thank you, guys.

Operator: Thank you, Stephanie.

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

A

Thank you.

Operator: And thank you. Our next question online comes from Ryan Daniels from William Blair. Please, go ahead.

Ryan Daniels
Analyst, William Blair & Co. LLC

Q

Yeah, guys. Thank you for taking the questions. I want to go back to some of the new product offerings that are coming out over the next two quarters, or I think you referenced the fourth quarter in particular. Can you talk a little bit about which of those are going to be targeted more towards the B2C market because employers are demanding there and which would be D2C?

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

A

So, thanks for the question. I have to tell you that we look at the member or the patient as one individual or person that will need our services, and I think the issues and the needs are crossing our go-to-markets. And you will be surprised at how many of those requests for additional services are actually from people that access us privately or through employers and health plans.

With that in mind, I'll give you just the taste what we are looking at and planning with the kind of, I would say, a better fit for B2C or B2B or both. And as you know, we deliver psychotherapy and psychiatry in all 50 states, including prescription management for various audiences around over 20 clinical specialties. So, all the major conditions and acuities are already covered. In terms of modalities, we are planning to add, as Mark mentioned, live messaging which is actually something that was requested by both those markets; and come up with, I would say, a better suite of live sessions, something that, again, comes from both users. As more people that have used traditional face-to-face therapy in the past are moving to Talkspace, the closest proxy for them, of course, is a live video session. So, we are seeing growth in that and more demand. We are planning to add forms of group therapy, or a therapy in the group which is, again, on both ends but I would say more on the plan or the B2B side.

And then, we look at the other vector which is conditions and acuities, we are definitely very interesting in helping substance use disorder patients. This is a clear request from some of our partners in the large plan; but also something that, again, if you follow the news, you will see that alcohol use disorders has grown dramatically through the pandemic and now represents a major, major issue. We already treat many of those conditions through our network, but we want to build products and services that are dedicated for that. And with those, I would also include other forms of chronic ailments that are associated with behavioral health that could be diabetes, that could be hypertension, that could be a lot of issues that has a very huge overlap with the above.

In essence, when we look at our strategy which is the full stack which is providing, I would say, the vast majority of conditions and acuities with a properly strong clinical solution, we think this is very much in demand from the plans and our large partners. They want a full solution for the vast majority of their cases. But also, we find that as virtual care for behavioral health becomes, I would say, the first line or the first choice of treatment in the consumer world, more and more conditions and acuities are looking for solutions online versus face-to-face. So, I guess, the short answer is both.

Ryan Daniels
Analyst, William Blair & Co. LLC

Q

Okay. That's helpful color. And it actually leads into my next question. As you try to reduce customer acquisition cost, it would seem like one potential way to do that would be strengthening partnership with primary care groups across the country. Obviously, with the mental health crisis, there's a lot of need to better integrate behavioral and physical healthcare. If those doctors probably see a lot of patients and want them to get care but realize, in local markets, even if there is access to care, there might be long matching periods, not the greatest matches. There's a lot of private pay only, so you might have to go out of network and spend more money. So, has there been thoughts to kind of working with that as a referral channel to try to drive prefer-refer relationships with the larger PCP groups across the country as you have such a broad platform and service offering relative to some of your peers?

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.
A

Mark?

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.
A

Ryan, let me take that. I think there is naturally going to be aggressive M&A over the next several quarters as people move towards designing a platform that can give their consumers the optionality and give some of these physical practices the opportunity to leverage a lot of – I would say, a lot of their resources, but also enable them to have an array of services where the consumer can select, perhaps, intervals of once a month to come in and be seen in-person by somebody. But then either for a comorbid condition that they're being treated for or in order to just ensure that they can make a weekly or biweekly appointment, they'll engage over live video or over messaging.

The fact that this comprehensive type of care is not available today anywhere in the nation through any scaled provider group is something that we believe we'll be able to facilitate regionally as well as likely nationally over the next several years. I think this will come about as a result of small acquisitions in certain geographies, and I think it's going to be a very active part of our inorganic growth.

Ryan Daniels
Analyst, William Blair & Co. LLC
Q

Okay. That's very helpful. And final one, then I'll hop off. Just again on the customer acquisition costs, I think you mentioned Facebook raising their prices. I'm curious if you've seen that across kind of all mediums, so paid search, if that is having similar year-over-year price increases? And then, also, is this just generally across the marketplace or is it specific to the behavioral market? Given the big uptick we've seen in utilization and in some of the funding that allowed the competitors saw in-fills of hundreds of millions of dollars earlier this year, they're kind of spending that money really actively to try to drive up their membership base. So, is it specific to the tele-behaviorial industry which is very broad? Thanks.

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.
A

So, Ryan, the price raise is very broad. If you look at the big platforms namely Facebook and Google which are essentially the majority of online advertising in the United States, you will see that the growth is across all categories. And so, I would say that the majority, of course, there is an element of competition but it's less pronounced than people, I would say, tend to see because of all the noise, a lot of money is being invested. And of course, as I have spoken with some of you before, we strongly believe this is the decade of behavioral health so there's a lot of attention. It's red hot.

When we look at the CAC, what we see is growth in cost across most of the large platforms. And therefore, we definitely will channel much of our effort into alternative channels, alternative solutions in order to generate, I would say, more direct and organic growth. We will keep investing in our brand. And as I mentioned before, we are not going to pay the growth needs of Facebook because they raised their prices so aggressively. We believe it's an optimization game that's going to take a little bit. It's doable. The only thing I can't really tell you is how long this environment is going to last.

Operator: Thank you. Our next question online comes from Vikram Kesavabhotla from Baird. Please, go ahead.

Vikram Kesavabhotla
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Thanks for taking the question. I'm curious if you can talk about what you're seeing with respect to member duration on the platform across both the D2C and B2B channels relative to what you've seen historically? And any expectations for how that can trend going forward just based on the behavior of some of the newer members on the platform/

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

A

So, let me take the consumer side of it, Vikram. Thank you for your question. And then, I'll hand it over to Mark for enterprise. In essence, lifetime on the platform has been relatively stable through many of the years that we are doing this, and actually improved recently as you will see in our ARPU number. And I think – we think this is related mostly to the condition and the acuity of the people that come to seek help of our members. It's very difficult to forecast what it will be. We always work in order to provide a better service, which translates into longer lifetimes and better clinical outcomes. Those are highly correlated.

I think I mentioned earlier on a very large investment in the quality of our network by hiring fully employed W-2 clinicians. This generates a higher quality of care, which, in turn, translates into longer lifetimes and better clinical outcomes.

So we did see an improvement in the last quarter. I hope and plan for it to continue. We definitely didn't see a decline. And again, if you come in – it's very simple to understand by who the people that are seeking care are. If I come in and I suffered from depression for many long years, I'm probably going to be a member of Talkspace going back and forth for quite a few years to come. And if I came here because I had an argument with my girlfriend, I'm probably going to stay a few weeks, solve that particular issue and go back.

Over time, this normalizes because we want to help both, I would say, personas. I hope this answers your question.

Vikram Kesavabhotla
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Great. Thanks. And then maybe just as a follow-up on the provider network. Can you talk about the mix of fully employed versus independent providers in the network today and any expectation on where that can go through the balance of this year and longer term as well? Thanks.

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

A

Yes. Thank you. So, first of all, I think something is very, very good is happening to those set of professionals, both psychotherapists and psychiatrists. They are being recognized as a huge [ph] value added as they are (00:47:53) and they are being treated with the right kind of respect. And they're all now essentially post-COVID or through COVID, depends on your point of view on Delta, they are all virtual providers now.

So we have a huge opportunity to actually, I would say, recruit the best ones. And we believe that because of the way we manage our data platform, we have a far better view into who the real therapists and psychiatrists are.

Therefore, earlier this year in January, we changed strategy and then we started to hire them. We have now – out of the, I would say, roughly 2,700 psychotherapists on the platform, and around 300 to 400 prescribers, around 250 psychotherapists are fully employed from January this year and we aim to continue this trend very aggressively.

We find that the providers are very happy to join us, from the people that we hired from the beginning of the year, the W-2, the churn is very, very minimal and the alignment, of course, is very strong. And I would also think that we have, again, a very clear advantage in hiring the best therapists because most of their alternatives are being hired by brick-and-mortar networks. And of course, the flexibility and the lifestyle that's associated with that kind of hire is very different to the data power, very independent, very flexible nature of working with Talkspace. So we're very, very bullish on this and we think this is a great development for the industry and for us.

Operator: Thank you. Our next question on line comes from Richard Close from Canaccord Genuity. Please go ahead.

Richard Close
Analyst, Canaccord Genuity LLC
Q

Yeah. Thanks for the questions and congratulations on the transaction. I just had a couple of housekeeping here, maybe clarification on some of the answers to the previous questions. Just on the B2B and direct-to-consumer, just the breakout in terms of the active users. Am I on target saying like B2B was like 31,400 around there and B2C 30,100? Is that sort of like 51%, 49%?

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.
A

Yeah. You're on target there, Richard.

Richard Close
Analyst, Canaccord Genuity LLC
Q

Oh, okay. Great. And then on retention, Oren, I appreciate saying stable. Just going through my notes, I think I had five months as like average duration. Is that the right number we should be thinking about?

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.
A

For direct-to-consumer, that's exactly right.

Richard Close
Analyst, Canaccord Genuity LLC
Q

Okay. Great. Mark, on your comments, I think this was for Stephanie's question. Just to be clear, I took from your answer in terms of the selling season that – were you implying that new wins here in the selling season could actually start prior to January 1? So they'd be launching in the, call it, late third quarter, fourth quarter timeframe?

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.
A

That's exactly right. We're currently in finalist positions in a number of RFPs. One or two of them are some of the – they'll represent in top 100 employers in the nation. And there are a number of other initiatives that are launching with some brokerage houses that will also enable us to accelerate the onboarding and go-live dates prior to the traditional January 1 start dates.

Operator: Thank you. And our last question on line comes from Charles Rhyee from Cowen. Please go ahead.

Charles Rhyee
Analyst, Cowen and Company

Q

Yeah. Thanks for taking the follow-up. Mark, just wanted to ask a little bit about – what to think about for EBITDA for the rest of year? I appreciate you saying that there are certainly uncertainties around customer acquisition costs and the like here. But at the same time, it sounds like you are optimizing for that environment and if right now is sort of this kind of peak kind of CAC pricing.

And so, I think the EBITDA loss of the quarter was about $11.8 million roughly, let's call it roughly a ballpark from last quarter, $10.5 million on adjusted EBITDA basis. Is that sort of the right run rate to think of for the rest of the year? Anything else that we should think about that would pull it one way or the other as we look at our model?

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.

A

I think, Charles, it's fair to assume that this third quarter is experiencing very similar metrics to what we've seen in the first reported six months of the year. So, I would suggest that your approach is correct.

We really don't have any insight into where this CAC pricing will be. Clearly, additional lives coming onto the platform that we've already contracted will begin contributing, obviously, additional revenues to offset some of that. But we'll continue to moderate our spend to ensure that we can optimize and develop those additional channels. But our run rate today is most likely going to be seen throughout the next several months.

I can't really opine on Q4 as Q4 typically experiences the highest CAC inflation just as a result of all that retail demand. If we pull away from that, we'll see lower spend clearly. But there's a degree to which we obviously are going to plan on investing in the brand.

Operator: Thank you. There are no further questions at this time. I'd like to turn the call over to Mark Hirschhorn for any closing comments.

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.

Guys, actually...

Oren Frank
Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

It's me, Oren.

Mark J. Hirschhorn
President & Chief Operating Officer, Talkspace, Inc.

...it's going to be to Oren. Like go ahead, Oren.

Oren Frank

Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

Yeah.

Mark J. Hirschhorn

President & Chief Operating Officer, Talkspace, Inc.

Thank you.

Oren Frank

Co-Founder, Chief Executive Officer & Executive Director, Talkspace, Inc.

Thanks very much, everyone. We're very excited for this quarter and for the rest of the year. And as I mentioned, perhaps the rest of this decade, Talkspace is uniquely positioned to help millions of people in need with a tailwind of this industry that's finally getting the right recognition, the right prioritization. So, thanks again for your trust and for your support.

Operator: And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.