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Talkspace

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Chris Aholt: Good morning, everyone. Thank you so much for joining us this morning. My name is Chris Aholt. I'm an associate in the healthcare investment banking group at J.P. Morgan.

Today, we have the opportunity to hear from Talkspace. We'll be hearing from Dr. Jon Cohen and Jennifer Fulk, the CEO and CFO, respectively, of the company. They've planned for about a 20 to 25-minute presentation followed by Q&A. We look forward to any questions that you may have. Thank you so much.

Dr. Jon Cohen: Thanks. Thanks, Chris. Wow. Good morning. First off, I want to thank all of you for attending this early morning session on the last day of the conference. It doesn't go unrecognized.

As you probably know, the United States is facing a behavior health crisis. There's not a day that goes by when there's some mental health, behavior health issue that's not in the news. The presence of behavior health issues is actually quite staggering, with 32 percent of adults reporting symptoms of anxiety or depression in 2023.

Furthermore, the economic cost and the loss of productivity to the country from mental health issues is close to \$50 billion. The projected growth of behavior health market is close, right now, to about a five percent CAGR, estimated to be \$137 billion by 2032.

Yet, affordability and insurance access remain a major challenge for behavior health, with 42 percent of the population with a diagnosed condition cannot access treatment. Of those who actually have access or have insurance, 34 percent of those people, one in three, have difficulty finding a therapist to accept their insurance.

Most recently, some of you may have noticed the attorney general in New York reported recently on what we call the ghost networks that are occurring all around the country, particularly in New York, for behavior health, where investigators actually found that 86 percent of providers were ghosts, meaning that they were unreachable, not in network, and not accepting new patients.

It is our vision, and has been, to be the solution of choice, which means to provide accessible, affordable, and effective mental health support to all. Today, I'm excited to share our journey, our impact, and the roadmap for the future.

What Talkspace is is it provides us several different solutions. First and foremost is therapy. We match a therapist within one to two days. Frequently, it's actually within several hours. Our therapists treat multiple, multiple conditions. It's listed as possibly 120-plus conditions that they are able to treat.

Most importantly, Talkspace, which did most of the pioneering work on texting and messaging, provides asynchronous therapy, which is really texting and messaging, which occurs, although not, as I said, exactly when someone reaches out, but it is available essentially 24/7. We also provide live video and live audio.

The texting and the messaging part of Talkspace is really one of the big differentiators in the market. When you look at a lot of the telehealth providers out there who say that they provide telehealth, mental health services, it's true, but most of them are providing video. Most of them do not have the platform to provide messaging and asynchronous care.

The coverage, which I'll get into in more depth, is by insurance, your EAP program, employers, schools. Then, of course, we still have a consumer business where people have cash pay.

We also have a Talkspace self-guided called Talkspace Go. It's a whole slew of personalized courses, daily journaling, prompts every day, live classes with a therapist, and literally hundreds of different sessions that we offer. With, as I said, messaging, sometimes that will only occur, they only need to do, five minutes a day, with an easy referral, if need be, to therapy.

The third, although a small part of our growing business, is psychiatry, which is available in all 50 states. It includes a psychiatric evaluation, prescriptions, and ongoing medication management.

Right now, we only provide it for people 18 years old and older. We do not prescribe controlled substances as of right now. It's made up of a 200-plus network of nurse practitioners and physicians.

In terms of our therapy network, the network is growing substantially. We now have about, if not more than, 5,000 therapists on the network. As I said, we're covering all 50 states. Within the last

year, our network grew 60 percent. Approximately 1,600 therapists were added onto the network in the last year.

It's a hybrid network. What do we mean by that? It's a combination of people who get paid through their 1099s or about 200-plus who are full-time and work for us only as in-house full-time providers.

As I mentioned earlier, there's a huge number of conditions that we treat. The most common, of course, is anxiety, depression, family issues, grief, trauma, loneliness, eating disorders, and others.

It's interesting. Of course, after you match, usually you will see a therapist within 24 hours. If you want a live video, it'll take you somewhere between three and five days to get scheduled.

It, of course, addresses the client's needs, particularly around language, ethnicity, and LGBTQ needs of the particular member. Meaning that, of course, for our therapists and the reason that people are joining Talkspace and why we've had a such significant increase, it is what we believe one, if not the, platform of choice.

It is meaningful work for the therapists. We obviously pay them what they and us think is appropriate. We also provide them with an environment for learning and an environment for development, an environment to be part of a bigger community, and, really, an environment to be part of the ongoing culture that exists at Talkspace.

Of course, probably the most important thing is it addresses what I talked about earlier, is the issue of availability.

If you look at Talkspace, we have two very distinct, although obviously somewhat related, growing lines of businesses. There is the payer side of the business. Then there is the direct-to-enterprise side of the business.

The payer side of the business, we continue to maintain that, right now, we are the largest in-network telehealth mental health provider in the country. Recently, we announced the addition of, through Anthem, of another 15 million lives, which brings our total now up to 130 million covered lives throughout the country.

That means that all of the national players on the payer side are in-network, plus several of the

Blues across the country. In 2024 -- I'll get into it a little bit more later -- we will increase that another significant amount by adding more Blues, more regional coverage, and then Medicare, which I said I'll get into in a couple of minutes.

It's not just about the covered lives. It's very important that even though it's covered, that we capture. We have what's called a capture rate, where we actually have to get people noted, identify the fact that they're actually covered and actually sign up.

Then it's an issue of how do we increase utilization by providing a better service so that they stay on the platform and get as much coverage as they need. The major emphasis in 2024 is not just adding lives, but actually increase the capture rate and increase utilization.

Then, of course, we still do offer cash pay. People come to us. They find Talkspace. We say, "If you would like, you can pay for it out of pocket, as we've done in the past, but, by the way, let us determine your eligibility." By determining eligibility, obviously, it moves them towards the payer side of the equation.

If you look at the other side of the business, which is the direct enterprise side, as I said, we're one of the leaders in providing enterprises to employers, schools, government, and multiple entities.

We have listed some of them here, which includes retail, healthcare, technology, hospitality, and I'll talk a little bit more in a minute about education. These are some of the targeted verticals, but we obviously serve very large and small employers.

The financial relationship on the direct enterprise is usually either a per member per month, meaning really a per employee per month fee, or a per student per month fee, depending if it's a school, team, college, or a university. We literally serve hundreds of clients from large corporations, to small corporations, to small businesses.

As I said, we have a significant amount of business related to employers that are looking for a solution. We've been clear about it. We've been public about it. We know that if someone has a true mental health offering, if that mental health offering is through Talkspace, there is an increase in productivity, decrease in costs, decrease in absenteeism, and increase in retention rate for people, employees.

Let me turn a little bit more towards the education piece and go a little bit deeper into combating

the youth mental health crisis. The US, as again, many of you have seen, is truly facing a dire crisis among our youth. It's in the press again, mostly every day. You've probably seen the Surgeon General report.

The Surgeon General has said that mental health is the defining public health crisis of our time and that social media addiction is the greatest threat to the lives of our children and teens, more so than in the past than cigarette smoking was, to give you an idea. 40 percent of teenagers, 40 percent say that they struggle with persistent feelings of sadness or actually hopelessness.

62 percent has been the number in terms of an increase in suicide rate among young people between the ages of 10 and 24, from 2007 to 2021. You hear a lot about the problem, but quite honestly, there has not been, up until now or recently, a lot of solutions that have gone on the table.

We know that the schools have a lot of counselors, and those counselors truly do an amazing job, but if you speak to the counselors, you'll find that they are just incredibly overwhelmed. They cannot handle the volume of what's coming through the students relative to schools.

President Biden, you probably saw recently, committed another billion dollars to be invested in schools in support of mental health. If you look at what we've done, we're a big believer in public-private partnerships. Recently, we announced two big announcements. On November 15th, we announced our relationship and partnership with the city of New York.

Our relationship with the city of New York is contracted to provide every single teenager between the age of 13 and 17, 465,000 teenagers in New York, access to Talkspace on a direct contract with New York City. Four weeks later, we announced a contract with the Baltimore City school system, where we are now providing Talkspace to every single high school student in Baltimore.

Those two announcements, obviously, are very important, not just for the moral imperative that we have to provide when we can for teenagers, but important for the company relative to the issue of mental health for teenagers and us "leaning in" on that vertical.

I've been asked about the market before for teenagers, and again, 13 to 17 year old, roughly, an it's conservatively approximately a \$500 million market. Now, if I could do this right, I'm going to play a 30-second video about making the difference in teens.

[video begins]

Woman 1: Gave it a shot with Talkspace, and I really liked it. It really did help. It was very organized, and set my goals and expectations of this therapy.

Woman 2: I was able to understand more about myself, as well as building specific exercises.

Woman 3: I was going through it emotionally, and I just felt like I did not have anyone to talk to until I came across Talkspace.

Woman 4: Talkspace kind of just allowed me to get the care that I needed at the time that I needed it, when I needed it.

Woman 5: Not having to go in person to a therapy appointment is really nice, and also, just knowing that I can text my therapist whenever I need and she can get back to me as soon as she can is also really comforting. Honestly, I don't know where I'd be today if I hadn't started using Talkspace.

Woman 1: I gave it a shot with Talkspace...

[video ends]

Dr. Cohen: So, those are real. Those are a couple of clips we took from our recent initiative, relative to talking to teens in some of the focus groups. It's just incredibly impactful what these kids are going through and how much you can help them. I want to move now on to innovation.

Talkspace has had a very strong history of innovation and pioneering the original work on messaging therapy. Innovation in technology is core to who we are. We are in an unusual position to accelerate our clinical efficiency and operational excellence. We will lean in on artificial intelligence this year in multiple different applications.

Our AI tools are meant to be assistants to our therapists, helping them to be more efficient, but not replacing them, integrating the power of AI insights with the expertise of human therapy. As an example, in our proprietary machine-learning model, it alerts our therapists when the patient may be at risk for self-harm.

It detects language patterns consistent with high-risk behaviors, that place individuals at risk for self-harm or suicide. It is 83 percent accurate. We reported it in 2019, and since 2019, we have

flagged 32,000 patients since the launch who are at risk for suicide. The model has been revalidated recently for teens, and moving forward, we will look to add additional clinicals to the clinical alerts.

It improves the therapist's workflow, and it increases the comprehensive notes and intake summaries, something we'll do, and we will also increase our business operations and customer support tools. To give you an idea of our structured and unstructured data set, our data contains approximately 4 billion words, sent by 1.4 billion users, over 75 million messages.

Our messages contain 26 million audio messages and 400,000 video messages. The de-identified data is also augmented by other data types that provide a holistic view of our users and their behavior health. It is an incredible data set.

At Talkspace, we believe that digital therapy provides an unprecedented opportunity for us to improve mental health through data science and machine learning, all securely HIPAA compliant. Our goal is to leverage our unique data to identify patterns and improve the way that behavior health is delivered.

In reviewing 2023, you can see, basically, we did what we said we would do. The results speak for themselves. In terms of EBITDA, we took it down from \$60 million to \$16 million in 2023. Our reduction in operating costs went from \$120 million to \$88 million. We grew the network by 60 percent.

We increased covered lives from 92 million to now 130 million lives. We increased our payer sessions, essentially doubling them from 2022 to 2023 to 830,000. As I said, we've launched two major teen initiatives for New York and Baltimore.

We've also talked about a business-development process and partnerships. Possibly a little bit later in the Q&A, we'll talk about what those two partnerships look like with a lot more to come.

In terms of what does 2024 look like and where we're headed. First off, this quarter, after 12-plus years of Talkspace in existence, this quarter, in the Q1, we will be break-even and then profitable.

We will also maintain our very strong cash position with greater than \$120 million of cash on the books. We will continue to grow profitability. We will substantially grow covered lives. We will maintain our strength with employers. We will continue our momentum.

Sorry about that.

[pause]

Dr. Cohen: Continue our momentum in teens and public schools. As I said a couple of minutes ago, we will make pioneering investments in clinical AI tools. We will launch a whole bunch more of what we call needle-moving strategic partnerships.

In addition to our big initiative in AI, the other really important announcement we're making this morning is that, in 2024, we will be a Medicare provider for both standard Medicare and Medicare Advantage. We will roll it out in all 50 states by the end of 2024. Medicare has 62 million lives -- 34 million in standard Medicare, 32 million in Medicare Advantage.

The importance of the Medicare mental-health changes in the 65-year-old is, again, hopefully obvious. Currently, it's increased two-and-a-half times since 2020 -- the number of people that have said there are mental-health challenges. 61 percent of those 65 years old and older have a cell phone. If you look at the data a little differently from 60-to-70-year-old have 80 percent of them.

I would say that, for anyone who thinks that seniors don't use their cell phones, you have not been a grandparent. I'm fortunate enough to have a four and seven-year-old, two grandchildren. The amount of time that we have already began to spend with them facetimeing with their parents' phones or just talking to them? As I said, just look at any grandparent.

The major communication route right now is through the cell phone, for those of you who don't believe that seniors use cell phones. We believe that is a really, really important initiative. We might be -- we're not sure -- the first and possibly the only telehealth mental-health provider to be in network with Medicare across the country.

I want to close by restating we've had an amazing and terrific year. The market continues to grow. Our solution addresses the criticality of accessibility, availability, and affordability. With our payer and DTE strategies and the way that businesses are going, we're looking forward to another great year in 2024. Thank you.

[applause]

Chris: Are there any questions from the audience just yet? Maybe up here in the front row?

Audience Member: Thank you for the talk. You mentioned the mental-health crisis among the youth population. What is the most pressing issue when we talk about the mental-health crisis specifically that you guys are most focused on? Is it really just having talk therapy accessible that you think will be the solution to whatever the top one is or the top two?

Dr. Cohen: We have done a bunch of other school systems before. We did a fairly significant amount of focus groups relative to talking to teens. "What is it that you want? What is it that's going on?"

The message is very clear. One, "I want to be able to talk to somebody now." Two, "I want it to be really available so I could talk to them anywhere. I want the privacy. I want it to be at my convenience. Of course, I don't want to have to pay for it."

The Talkspace solution addresses all those issues, frequently texting on your phone. By the way, it's 24/7. We match with a therapist. We know already on the data from New York, we're matching therapists within an hour available.

What they're saying is, "We want to vent. We want somebody to talk to. We want it available now." It addresses those issues. By the way, in New York, just for the record, it is with parental consent, which is part of the workflow.

Audience Member: I think the text-messaging platform is really good because it allows you to triage like the acute patients from the ones that can wait or have a different level of care. For the patients that need more acute care from a psychiatrist, maybe in person, how are you guys bridging that relationship or that need?

Dr. Cohen: We've always had in place SOPs, standard operating procedures. We have devoted partners who are specifically available for what we call a warm hand-off.

If the therapist gets into an issue where they think that they cannot deal with it, -- which is unusual by the way, because the therapists deal with a lot of these issues all the time -- we will hand off to people that need acute care, which is usually crisis management.

It's not just 988. 988 is part of it in New York City. There are other partners that we have that deal specifically with this issue for a warm hand-off if the child needs it. That includes ongoing therapy, possibly a emergency room visit, urgent care visit, or actually admission to a hospital.

We have all those resources available as part of the standard operating procedure for the therapist.

Audience Member: Hi. Good morning. What do you expect from a consolidation perspective in the industry? Because we at Asabys are investors in healthcare companies. We're receiving for the past two years a lot of mental health companies. Some of them smaller, focused on treating particular disorders within mental health. Let's say PTSD, anxiety, obesity.

Is that something that can sometimes confuse the user or the consumer when you have so many options out there that you could use? Is Talkspace expecting more consolidation in the industry? Are you willing to keep the M&A acquisition path?

Dr. Cohen: It's a great question because there are smaller businesses that are delivering services to a very specific need. You said PTSD, OCD. There are hundreds of others, which we can talk about on the partnership side, that are looking for therapy, weight loss, diabetes management, cancer diagnosis, cardiovascular. You can go through.

What's happening is all of these smaller companies frequently are looking for therapy. The first part of your question is yes. If there is somebody out there that's looking to be part of Talkspace, then we certainly would talk to them and say, "Does it make sense for us to get together on that kind of relationship?"

On the other side, because we're national, because we're in network, we are, what I call, the obvious solution for all these other populations that need coverage and need therapy.

What we've seen as a result of that, is a lot of incoming, as you can imagine. People talking to us saying, "I have this group of patients. We're treating them for X, but by the way, they need therapy. If we go to Talkspace, it doesn't cost them anything." Well, it costs them \$20 out of pocket if it's a co-pay.

Basically, they can be getting therapy anywhere, all 50 states, and it doesn't cost anything.

Jennifer Fulk: Maybe I'll just elaborate because it also speaks to our conviction in others, that we're really at the beginning stages of mental health care, and what that could mean. We talked a minute ago about the higher-acuity end of the spectrum. There's also a lower acuity, so when it comes to digital services to support this market.

You will continue to see players come in, just given how massive we believe this addressable market is, and how rapidly it's growing.

Audience Member: Thanks for your talk. With the 60 percent growth that you've had in therapists, I'm wondering how you're thinking about onboarding? Do you do a training, standardization? As a second part to this, quality measures, are you doing rating scales with patients? How are you thinking about that?

Dr. Cohen: What we've found is the therapists, I mentioned earlier, they like coming onto the network. One is, we have a whole standard set of parameters and training that they need to go through to get on. Once they get on, they like the community. They like being part of it.

Quite honestly, when they come onto Talkspace, they know there's a pretty good chance they're going to get pretty busy. That helps them, too, in terms of knowing that there's going to be a funds flow. That's the way we're visualizing the network, which is probably at least some of the reasons that it grew substantially.

Audience Member: I wanted to ask, what outcomes are you tracking, and how are you tracking them?

Dr. Cohen: It's a little bit second part of your question. We track every three weeks on how they're doing. Two months ago, we hired a new Chief Medical Officer. She's responsible for clinical oversight and clinical outcomes. The whole quality metrics, clinical outcomes is a very, very important part of it.

There are two things we do. Well, there's more than two things we do. Basically, our product is our therapists, and how they deliver care. If we don't get the therapists right, and how they deliver care, and the outcomes being good, then we shouldn't be doing what we're doing. It will reflect in how people come to the network.

It's a really big deal for us, to be perfectly frank. I'm a physician by training we know, so clinical outcomes and quality metrics is really important to us.

Audience Member: I'm also a physician at a healthcare startup. I champion the fact that we do see more MDs in the CEO position in healthcare companies. I don't know how it is with you speaking to other non-MD CEOs of other healthcare startups, but the bottom line is putting

patient care first.

Second, when you're delivering good care, that will take care of the bottom line. Are you feeling that, when you speak to other people that are not MDs -- excuse my bias here -- in your position, that they're missing the mark in terms of delivering care first, and the revenue second?

Dr. Cohen: I'm not going to take the bait on criticizing other CEOs, to be perfectly frank.

[laughter]

Dr. Cohen: My perspective is, there's a lot of good people who lead companies who do it a lot of different ways. As a physician leader, the difference is...Let's put it this way, you bring a clinical bent to the discussions that are happening in the room with your executive team.

I practiced for 20 years. I'm a vascular surgeon by training. Has a total irrelevance to psychiatry, but it is an important piece of the pie, relative to when we're talking about clinical outcomes and what's important. You could get there a lot of different ways. It has been important for me, personally, in terms of how I lead. Any other questions?

Audience Member: Dr. Cohen, just in the past few months, I understand that you've announced a couple of strategic partnerships. I know that you hinted at that earlier in your presentation. Would you like to speak about that a little bit?

Dr. Cohen: One of the things we did last year, which was on the list, is we put in place a business development process, and put somebody in charge of doing business developments, which we hadn't done that much in the past. That means it was talking to...I would say we were just getting started.

We announced two partnerships recently. One of them was with a company called the Evernow. What it is, is for women who are helping to manage their journey through menopause. We're now the therapy partner for Evernow to provide therapy to women as they navigate through that journey.

The second one, which was announced, was Oura Ring. Oura Ring is the ring that people wear to measure a whole bunch of biometric data. What it is for there, is the Oura Ring shares their sleep data with the therapist for people who are on the treatment, so that the therapists are able to help navigate patients relative to what their sleep cycle looks like.

Oura Ring and Evernow were announced within the last couple weeks, couple months. I will tell you, this year, there's a lot more to come. The list is fairly extensive right now.

Chris: Any other questions from the audience? Maybe one more here in the middle.

Audience Member: When you're seeking partnerships with different groups, what are you seeking in those partnerships? Is it to reach more audience, or is it to impact certain groups? What is it that you're seeking in your partnerships right now?

Dr. Cohen: Quite honestly, like Jennifer likes to say is, everybody wants mental health therapy in some way or another. The reason I say that is, we're not limiting it in any way to who's talking to us. Now, we have specific areas we might be interested in. I would say, interestingly enough, on the primary care side, primary care physicians, primary care physician groups, how do they refer to us, etc.

There are multiple, multiple other areas, whether it's mental health disease-specific, or outside that. Like I said, that are people looking for it. We have a tremendous amount of inbound right now. In addition, there are some particular areas that we might be looking for.

I would say the physician-referral thing is a big, important interest of ours. To get physicians to understand that by referring their patients to Talkspace, it doesn't cost their patients anything because if they're in network, and it's an easy button for them.

We've built a mechanism for them to be able to refer to us, to send them back a note, and integrate into their electronic medical records. That's an important initiative of ours going forward.

Chris: Being cognizant of time, I want to thank you both for being here, and thank everybody here in the audience, and see if you had any closing comments for us. Thank you.

Dr. Cohen: Thanks.

Jennifer: Thank you.



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