S&P Global
Market Intelligence

Talkspace, Inc. NasdaqCM:TALK

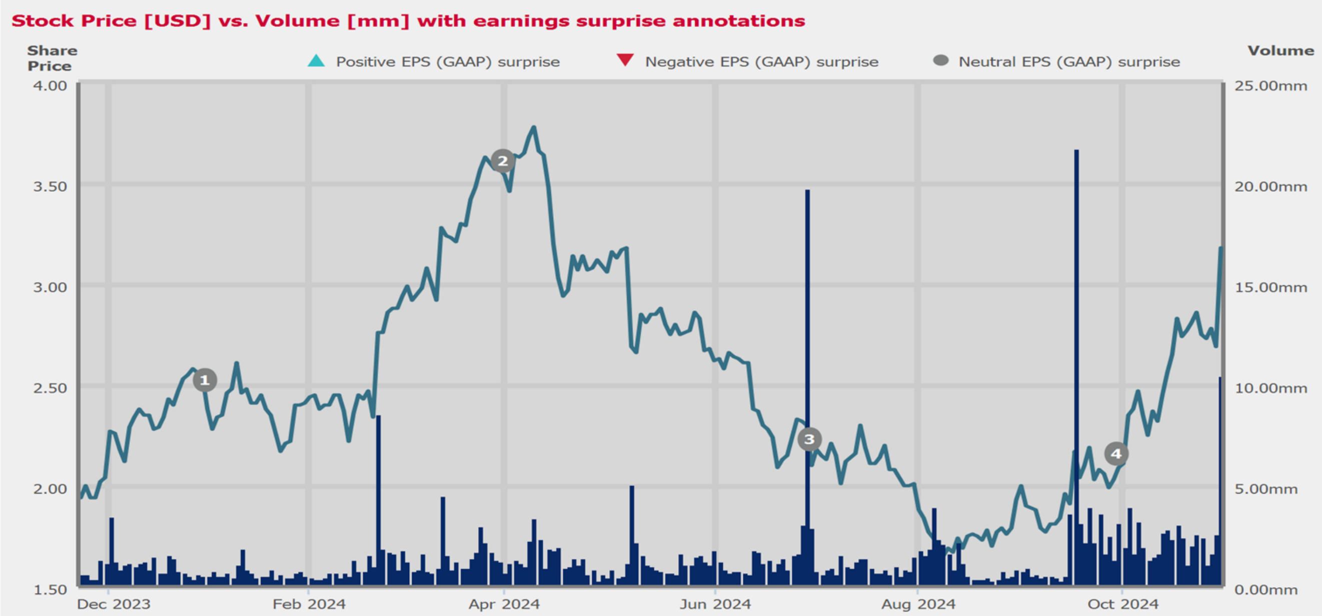
FQ3 2024 Earnings Call Transcripts

Tuesday, October 29, 2024 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.00	0.01	-	0.01	(0.01)	0.05
Revenue (mm)	47.48	47.40	(0.17 %)	51.98	190.91	227.23

Currency: USD
Consensus as of Sep-24-2024 10:13 PM GMT



- EPS (GAAP) -

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

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EXECUTIVES

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Chief Financial Officer

Jeannine Feyen
Director of Communications

Jon R. Cohen
CEO & Director

ANALYSTS

Adam Efrem
TD Cowen, Research Division

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

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

Stephanie July Davis
Barclays Bank PLC, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to the Talkspace Third Quarter 2024 Earnings Conference Call. [Operator Instructions] I would now like to turn the conference over to Jeannine Feyen, Director of Communications. You may begin.

Jeannine Feyen
Director of Communications

Good morning, and welcome to Talkspace's Earnings Conference Call for the third quarter of 2024. I hope you've had the opportunity to access the press release we posted on Talkspace's IR website and the presentation of our earnings results. We'll use the presentation to walk you through today's remarks. Leading today's call are our CEO, Dr. Jon Cohen; and our CFO, Ian Harris. Management will offer their prepared remarks, and then will take your questions. Certain measures we'll discuss on this call are expressed on a non-GAAP basis and have been adjusted to exclude the impact of one-off items. Reconciliations of these non-GAAP measures are included in our earnings release and on our website, talkspace.com.

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

Jon R. Cohen
CEO & Director

Thanks, Jeannine. Good morning, and thank you for joining us for our third quarter 2024 call, which reflects on continued strength in our business and progress on our strategic initiatives. For the third quarter, revenue increased 23% year-over-year to $47.4 million, and we delivered our third consecutive profitable quarter with adjusted EBITDA coming in at $2.4 million. We built on momentum from earlier in the year, working to further solidify our position as a trusted behavioral health provider, addressing the nation's massive need for accessible and affordable mental health therapy. Our largest revenue category, Payor, grew 45% year-over-year as we continue to strengthen our relationships with the key Payor partners and efficiently market our coverage services.

As a pure-play behavioral health provider focused on clinical excellence at scale, our approach to addressing the behavioral health crisis continues to resonate with the Payor community. We've earned the respect of the Payors with our commitment to research that proves the efficacy of our methods and defines best practices in virtual care, and they trust us to connect their members with highly qualified vetted mental health providers without delay. Our competitive position in the Payor space allowed us to grow our total covered lives to nearly 160 million people, an increase of 40% year-over-year and our total sessions to 316,000, an increase of 38% year-over-year.

In the third quarter, we continue to make progress on our goal to be in network for all Medicare beneficiaries. As of this month, we are now CMS approved in approximately 40 states and live in 30 states, including Texas, Florida, California and New York; therefore, providing access to the majority of the senior population in the U.S. Our team is working diligently to complete necessary final state approvals and launch our services in the remaining 20 states so that we could begin to test our go-to-market strategies more broadly. In addition to traditional Medicare, we are pleased to report expansion into Medicare Advantage with our October 1st launch announcement into the nation's largest Medicare Advantage plan, furthering our reach to another 7 million-plus lives.

Reaching seniors will be a focus for us. And as a start, we just announced our partnership with Wisdo, an AI-driven social health platform focused on curing social isolation. This partnership will allow us to reach even more new Medicare Advantage plans and to focus on challenges that seniors may have, most specifically loneliness. In addition to seniors, we are launching our initiative to offer Talkspace to all active military personnel and their dependents, a population with a significant need for mental health solutions. Recent studies suggest that 23% of active military are living with depression and 11% of active military have attempted suicide or have suicidal ideations, and these numbers are growing. In addition, military families and their spouses report an elevated need for mental health support given that over 30% of military deployments and separations are a month or longer and a significant number of military children have a treatable mental health condition.

We launched TRICARE East in August, covering 6 million active duty and retired military lives as well as their partners and team dependence. We expect to be a network nationally for the remaining TRICARE beneficiaries in early 2025. Building on this launch, we have entered into a new direct-to-enterprise pilot program with the U.S. Navy, where we will provide Talkspace access to 6 naval bases across the U.S., representing more than 25,000 sailors and their dependents 13 years and older. The opportunity to support the mental health of our military and their families is an honor that is profoundly inspiring to our providers and deeply appreciated by our organization as a whole.

With the addition of Medicare, military and several other large regional plans, we expect to be in network for approximately 200 million lives in 2025, about 2/3 of the U.S. insured population. Our priority is to unlock the potential of this enormous opportunity by focusing our efforts to first, increase the number of people who recognize and try Talkspace as their therapy option; and second, keep them engaged and on the platform for subsequent sessions under our providers' care to improve their long-term outcomes. We will accomplish this by, first, continuing to optimize our marketing efforts; second, making significant technology improvements to the patient journey and therapist experience; and third, increasing outside referrals.

To elaborate further: one, our core marketing focus will continue to be about driving awareness, engagement and activation of these 200 million covered lives. Our efforts are specifically designed to improve capture rate and engagement to ensure that people are aware that Talkspace is available to them at little or no direct out-of-pocket cost. Two, we are laser-focused on continuing to improve every step of the member journey, including enhancing user-friendly processes for determining coverage eligibility, therapist matching, registration, verification and intake. These improvements include further innovation in the product design to get people to their second and subsequent sessions, improved methods to establish better report between the member and the therapist, provide better line of sight for the patient as to how to achieve improved clinical outcomes and improving the tools our therapists use to understand how they can meet their professional and financial goals. These product improvements to the patient journey will be a strong factor in further optimizing performance in 2025 and beyond.

Three, developing partnerships that refer patients to us because of our national footprint of high-quality clinicians and in-network status. To that end, last month, we announced our launch of Amazon Health Services as the first behavioral health company within the Amazon Health Conditions Program. This collaboration makes it easier for millions of people across the U.S. to discover their behavioral health benefits while shopping on Amazon. When people search Amazon for mental health-related topics or services, they can now discover an easy way to check their eligibility for therapy and psychiatry services if they so choose. Customers can also visit the Amazon Health web page to see if their insurance covers Talkspace and explore Talkspace's various offerings. Eligible individuals will be guided to Talkspace's website to complete the enrollment process, get paired with a licensed therapist in their state and schedule online therapy or psychiatry sessions through audio, video or live chat or message asynchronously with their therapists. We're excited about what this means for the discoverability of Talkspace and look forward to similar such programs with other potential partners. With the addition of seniors and military and our experience with teens and teachers, we have become an easy solution for primary care physicians to refer these high-need populations and we'll continue to pursue these additional types of partners.

Moving to our direct-to-enterprise segment. We grew revenue in the quarter 17% year-over-year to $9.4 million, driven by our teens initiatives, including our Teenspace program with New York City, which just celebrated its 1-year anniversary. The results of the Teenspace program in New York City have been excellent. We are reaching thousands of teens in neighborhoods traditionally hard to penetrate, meeting the needs of a very diverse group of teens and significantly improving clinical results. We also expanded our specialized support for teens with the September 4 launch of our new peer-to-peer community called Teenspace Community. This product is built into the existing platform that allows teens to talk and share in a safe form and connect with other teens anonymously.

Our successful partnership with the nation's largest city has led to significant interest for our offering from other municipalities and school districts who are interested in applying our teen model to their teen populations. The demand for these programs remain strong as we recently signed 7 new school districts across the country. Our DTE pipeline remains strong, and we are pleased with the new deal activity in the quarter. On the employer side, we saw a number of new wins in the third quarter, including a partnership with the Professional Tennis Players Association. Talkspace will serve as the PTPA's exclusive mental health technology partner, granting players, their families, and their support teams 24/7 access to Talkspace. There's a lot to be proud of at Talkspace right now, and I want to close out my comments by expressing my gratitude to our exceptional team. Their dedication to our mission of making mental health care accessible to all continues to drive our success.

I am pleased to share that Talkspace has been recognized as one of Crane's 2024 Best Places to Work in New York City for the second year in a row, serving as a testament to the positive and supportive culture we've built together. As we move forward, I'm confident that with our talented team, strong financial position and innovative approach, Talkspace is well positioned to continue leading the transformation of mental health care delivery. Thank you all for your continued support and belief in our mission. With that, I'll turn the call over to Ian to review our third quarter results.

Ian Harris
Chief Financial Officer

Thank you, Jon, and good morning, everyone. My comments today will be based primarily on a year-over-year basis, unless otherwise noted. Total revenue for the third quarter was $47.4 million, a 23% increase from a year ago. Adjusted EBITDA was approximately $2.4 million in the third quarter, an improvement of $5.2 million from a year ago and an increase of approximately 100% sequentially. This also marks our third consecutive quarter of profitability on an adjusted EBITDA basis.

Moving to results by revenue category. Payor, our largest segment, accounted for revenue of $32 million, a 45% increase versus the prior year period. Payor sessions completed by behavioral health and EAP members grew 6% sequentially and 38% year-over-year to approximately 316,000. Unique active Payor members completing a session grew by 24% year-on-year to just over 93,000. Additionally, we experienced a 12% year-on-year improvement in the number of sessions completed per active member, which was driven by some of the early successes we're seeing in the product enhancements that Jon touched on earlier, which are aimed at increasing member retention and engagement.

In the direct-to-enterprise category, third quarter revenue was $9.4 million, up 17% from last year, driven by our teens contracts, such as New York City, as well as several other recent wins across schools, municipalities and employers. Sequentially, DTE revenue was down 2% as a result of certain contract expirations from earlier in the year, which we discussed the last 2 quarters. In Q3, we grew net ARR. And as Jon mentioned, we see good momentum overall in our direct-to-enterprise pipeline. In the consumer category, where members pay out of pocket, revenue was $6 million in the third quarter. This was an 8% sequential decline and a 30% decline year-over-year, which was in line with our expectations and a result of our strength in Payor growth. This is driven by our efforts to optimize both traffic conversion and checkout mix towards the highest long-term return on ad spend in our Payor segment.

Moving to gross profit. Our third quarter gross profit increased 15% versus the prior year period to $21.6 million. Gross margin for the third quarter was 45.6%, in line with last quarter and lower than last year as expected due to the further net revenue mix shift towards Payor. Turning to operating expenses. Our GAAP operating expenses for the third quarter decreased 10% year-over-year to $21.5 million. Excluding

stock-based compensation and certain nonrecurring items, our Q3 operating expenses amounted to approximately $19.3 million, a reduction of $2.4 million or 11% versus the same period last year. As mentioned on our last call, we initiated a number of cost optimization initiatives earlier in the year, which benefited the third quarter. These savings provide us additional flexibility to reinvest into strategic growth initiatives, as well as product improvements benefiting both our members and our providers. One example of this is our AI Smart Notes, which we launched last quarter. This new feature drove a 3% increase in efficiency where providers were able to conduct more sessions during the same working hours.
Scaling new features like these will continue to be an area of focus, which allows our network to operate at high volumes while supporting our providers' administrative burdens, thereby reducing costs and increasing productivity. Moving to profitability. GAAP net profit was $1.9 million versus a loss of $4.4 million a year ago. Adjusted EBITDA was $2.4 million, an improvement of $5.2 million year-over-year, driven by higher revenue and gross profit with a lower cost base of normalized OpEx compared to the same period a year ago. Turning to the balance sheet. We ended the quarter with $119 million in cash and cash equivalents, up from $115 million in the prior quarter. Finally, we reaffirmed our 2024 financial guidance, which, as a reminder, calls for $185 million to $195 million in revenue and adjusted EBITDA between $4 million and $8 million for the full year. With that, we can open up the call for questions.

Question and Answer

Operator

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

Stephanie July Davis
Barclays Bank PLC, Research Division

Congrats on the quarter. I really want to dig in a little bit on that Amazon partnership because I'm good, but that win is better. So I was hoping you could give us some color around maybe any associated investments in marketing or affiliate fees need to ramp on the platform? And maybe how we could think about the halo effect to your activation rate as a result?

Jon R. Cohen
CEO & Director

Sure. So we have been in discussions with them for a while. Being the only behavioral health partner on the Health Conditions platform is a very important deal for both them and for us, relative to exposing Amazon shoppers to mental health services and products. So I think you probably saw, the way it works is you're looking for several things on Amazon and we come up and then you check eligibility, and then they flip it over and we confirm eligibility and then you go through the process. So, what we've seen is we're very, very excited, and we're very, very happy with the early results. Obviously, we're not disclosing what, where, how or what that means, except that I could tell you that it's been a very positive launch thus far. I guess, it's 4 to 5 weeks into it. We -- Amazon, just for background, has their Health Conditions Program. They have Amazon Rx and then, of course, they have One Medical.

Right now, this is about our relationship with them on the Health Conditions Program. So I don't know what else you want me to talk about relative to them. We're obviously very excited about the opportunity. It goes under the -- what I call the referral category of increasing the number of BH sessions. First is how do we even get better at our really advertising marketing initiatives. The second category is referral. And then, of course, the third category you heard me talk about is the issues around really significantly improving the journey, the patient and actually the therapist's journey through the product.

Stephanie July Davis
Barclays Bank PLC, Research Division

Well, maybe one of the things we could dig in is, I assume, when you would be ramping up the amount of labs you're ramping up, you would maybe see some impact to your utilization rate, but it actually held up pretty strong in the quarter. So how much of that is from something like the Amazon partnership where there's more awareness? How quickly could that improve upon kind of the future quarters? Anything like that would be helpful. And maybe as a follow-up, any further color -- you talked about this is the first of many partnerships to come. What direction you want to go in with that?

Ian Harris
Chief Financial Officer

So, on the -- Hey, Stephanie, this is Ian. Good morning. On the first piece, just a reminder, we announced the partnership at the very, very end of September. I think it was the 27th of September. So de minimis to no impact in the Q3 results we put out. I would view this more -- just sort of from a strategic lens, it's obviously a testament to the quality of our network to our brand and also our national coverage, right? So that -- the fact that we're able to have those three pieces really resonate with a partner like Amazon, which -- whether it's financial resources or probably more importantly, just the human -- depth of human capital they have. For them to look at us and realize the therapist network that we have cannot be built overnight and them wanting to partner with us. We view it as really sort of validation of the sort of moat we've created for ourselves.

On the -- your question around the referral to what that looks like, I would view it as we do internally is really just part of another marketing channel. I mean they obviously will help drive brand awareness given their size and volume. And ultimately, they're going to be driving very, very high intent the way this is structured and the way their Health Conditions Program works. It's about driving high-intent potential users of Talkspace to us in a manner that's in network. So your other question was on...

Jon R. Cohen
CEO & Director

[indiscernible] -- so this is -- goes under the -- really the capture rate more than, I would say, utilization across the platform once we get somebody. But it really is the part of the bigger strategy of -- eventually 200 million covered lives and how do you increase people's awareness.

Stephanie July Davis
Barclays Bank PLC, Research Division

Alright. Thanks you guys. Congrats again.

Jon R. Cohen
CEO & Director

You -- Stephanie, just a second. You wanted to know about other -- so this is -- Amazon is one. We've talked about ZocDoc. So there are other relatively large channels like this that we are definitely pursuing.

Operator

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

Adam Efrem
TD Cowen, Research Division

This is Adam on for Charles. You've seen over $4 million in EBITDA year-to-date, and we see the guidance range for EBITDA was reiterated in the $4 million to $8 million range. Given the trajectory you're on, can you talk about what would get you to the top end versus the bottom end of that range?

Jon R. Cohen
CEO & Director

You go.

Ian Harris
Chief Financial Officer

Adam, thanks for the question. So while we don't give quarterly guidance, I understand sort of given where we are in the year, the ask. I'll help you out on sort of both components of our guidance. So just to give you a bit of a guidepost on modeling the rest of the year. I would say, as it relates to revenue, looking towards our sort of sequential quarter-over-quarter revenue growth rates over the last few quarters in 2024 as a framework is the best -- sort of best help I can give, which you do that math and it lands you a little bit below the midpoint on revenue. And then to your question on EBITDA, conversely, for EBITDA, you're exactly right, year-to-date, where we stand. We actually would expect, based on what we know today to land at the high end of the range.

A lot of that on the EBITDA side is sort of the OpEx initiatives we actioned shortly after I joined in May. We've seen a lot of success from those already and had a little bit of benefit from those in Q3, and we'll see sort of continued benefit of that in Q4. So that will get us to the higher end of the EBITDA range. Just to double-click on the revenue side. So I think this is an important nuance that is maybe a little bit hard to parse through on the surface. So since I joined in the middle of Q2, substantially all of the covered lives we've added have come from Medicare and military, which was obviously very intentional focus for us. We knew that this -- the work that goes into launching these 2 cohorts are multiyear initiatives that have been going on long before I got here. So it's a lot of work behind the scenes, whether it's rev cycle, compliance, legal, security, takes a lot of time and focus of the team, and that's been a lot of our 2024.

As we've talked about in the past, I just want to emphasize, we expect to begin testing these segments this quarter in Q4. But as it relates to your modeling, it's really a 2025 impact. So you can think about all of these initiatives we've been talking about for the last few quarters around Medicare, and you heard Jon's comments today focusing on military, which we're actually really excited about. It's really about setting the foundation for growth in 2025. The subtext there is that substantially all of the revenue growth we've seen in payer in Q2 and Q3 has actually come from driving further capture rate in our, call it, the existing base of covered lives as of -- basically March 31. Because since then, there's been, like I said, all of the covered lives we have been pretty much Medicare and military. So we'll come back to you with obviously more refined detail on 2025, but I hope that's helpful guidance. So 2024, look at growth and then a reacceleration on the top line in '25.

Adam Efrem
TD Cowen, Research Division

Yes. That's very helpful; thanks for all the color. And also wondering, additionally, if you can talk about how you're seeing the trajectory of the B2C business and whether there's a steady state you'd expect to hit there at some point, understanding that B2B is the core for the enterprise going forward. But wondering if you could talk about the degree to which you're seeing the conversion of B2C members to B2B members contribute to B2B growth? Or is it more so a drop-off of B2C members without converting to B2B?

Jon R. Cohen
CEO & Director

No, we don't -- it's -- people come to look for therapy and they -- you probably know you get a choice. And the big -- the #1 choice is let us determine your eligibility to see if you're covered by insurance. And then, of course, if not, you can pay for it as a consumer. So think of it as people are showing -- remember, 50% of people showing up at the door are new to therapy. So it's not like we're -- I don't -- we're not cannibalizing our consumer business. What's happening is more people are moving towards an insurance model being fee-for-service because they don't have to pay for it. So what you're seeing is a natural decrease in the percent only -- well, partially significantly because the number of eligible lives increase. So let's say you were looking -- I'm just going to make -- give you an example. Let's say you were looking 6 months ago, a certain percentage of people had coverage. If now you're looking. Now that we're Medicare and military, obviously, many more people will choose the other option because they are now eligible. So what you're seeing is a natural decrease in the percent.

We -- and we've talked about this before. There will always be a consumer market. There will always be people with high deductibles. There will always be people who choose to pay for it as opposed to using their insurance. There will be people who, for whatever personal reasons, don't want their employer to know that they're getting therapy or whatever. So there will always be a consumer. I don't -- I can't tell you what that percentage will be in the end. But it will always remain as a piece of the business.

Ian Harris
Chief Financial Officer

And I would say that the step downs we saw in 2023 and '24 in consumer, which was, again, completely in line with the strategy to lead with an in-network marketing message. Those are much more substantial changes in dollar amounts than what we would expect going forward. So that sort of last holdouts, that Jon references, of just folks who want to pay out of pocket no matter what for whatever reason, I'd say we're not quite there, but getting very close to approaching that sort of bottom, if you will.

Operator

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

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

This is Jack Senft on for Ryan. So, in your prepared remarks, you mentioned that the core marketing focus will continue to be about driving awareness. And I understand that this is most likely where -- it's most likely less about strictly paid marketing, more about the partnerships. But I guess, how should we think about the customer acquisition costs going forward for maybe the remainder of the year and maybe if you have any expectations into 2025? Just kind of thinking with this being an election year, maybe it's less efficient. But just kind of curious if you're seeing any impacts on customer acquisition costs and kind of how we should think about this going forward?

Ian Harris
Chief Financial Officer

Jack, yes, I mean we've actually done a really great job avoiding sort of the -- what, from our perspective, was anticipated inflation given the election year in the cost of acquisition. I think we've talked about this before, but it -- we have a 16-person marketing team who's -- we do it -- it's like a fully vertical marketing strategy, marketing operation. We do it -- it is extremely dynamic. We're not setting budgets at the beginning of a quarter or a month or a week and saying, "Hey, let's see what that yields us at the end of the period." It's -- I mean, these folks are -- we're dynamically in the market every day. We're in a great spot in terms of our scale where when we want to test something new, whether it's new content, a new channel, a new messaging, we can very quickly spin up a statistically significant A/B test because we have that scale to run it sort of in real time and go from there. So it's a very, very nimble operation, and they've done an incredible job keeping our CAC low and actually from where we were a couple of years ago, making drastic improvements.

As we start to talk more about these sort of affiliates and partnerships, all of that factors into our overall marketing strategy. So it's all about driving awareness at the most efficient cost possible. Some of that's paid advertising, a lot of that's organic and a lot of it is brand awareness and partnerships. I think last quarter, Q2, was the first time ever where our brand awareness -- per the sort of third-party objective surveys that we've done every year for the last number of years, it was the first year ever where our awareness went up with our ad spend going down, right? So the sort of capital light, if you will, ways of driving awareness is definitely working. In terms of looking ahead, I don't want to give CAC guidance for competitive reasons, but suffice it to say, it's -- we're very data-driven about how we spend our money, and marketing is no different here.

Jon R. Cohen
CEO & Director

Yes. Also, I'd be careful about generalizations because there is a -- there are multiple subcategories that go into acquisitions. So for instance, the acquisition cost on military personnel or their families is going to be pretty different than a Medicare person, which is also going to be different than a teen. So we're very careful about making the sort of broad brush, like this is what our CAC is, because it really is very different subsegment to subsegment. So I just want you to think about that in terms of how we approach this. It's like Ian said, it's very, very specific to what the needs of the group are almost day-to-day.

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

No, understood. I appreciate the color there. I guess just kind of along those lines then, too, when it comes to growing the capture rate, is there a different strategy when it comes to the different populations you're bringing on? I mean, just along the lines of what you were just talking about. I mean, I think that would -- growing the capture rate in Medicare might be different than military, for example. So can you just talk about the balance here and then just kind of how you think about that?

Ian Harris
Chief Financial Officer

So 100% it's there, right? So the go-to-market strategy on Medicare -- so for instance, you may have heard me talk about like -- so we know Medicare, Medicare seniors, are very responsive to Facebook, for instance. We know -- believe it or not, we know Medicare patients, particularly in senior communities, retirement communities read direct mail. I mean, you and I may not, but they actually read direct mail. So those are just examples. We know on the military that there's a lot of different strategies relative to how you approach the military bases and how do you approach the spouses and how the teens of military are very different. Quite honestly, moving city to city, different times. So the point is each one of these have a strategy that's directed towards their specific entities. So the answer is they're just -- they're very, very different. The good news is we've done a lot of work on all of them to hopefully figure out what's going to work and what's not. But like we've said, we always test it. Sometimes you have these impressions and they're wrong and then you move on and you try something else.

Operator

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

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

Maybe to start on the DTE segment. As you look at the pipeline and how it's developing into year-end and into next year, what's the mix between sort of the employer channel versus more of the municipal and the district channel? And on the district side, are you seeing a mix of ESSER funding being utilized for spend on Talkspace?

Jon R. Cohen
CEO & Director

So let me go back to -- that's a good question. Most of the ESSER funding, you probably know, is running out or expired. And that also was tied to a lot of the COVID funding, which is also basically run out. So we don't report or distinguish that much between employer versus municipalities versus states or municipalities being city/state/county. Yes, because there's another category in there, which we referred to in the press release for the Tennis Association. They're really not an employer. They're actually an organization. They're an association is the best way to put it. So there's a lot -- there's another -- this other subgroup of we refer to as associations, of large groups of people that belong to something, that are really not employed by them. So there's multiple strategies, again, on DTE. The sales force in DTE actually approaches all of them. And sometimes it's geographic based and not targeted based on what the entity is.

So for instance, we may have a rep in a particular region that may be talking to employers, municipalities and associations and actually teens and sometimes even parent groups. So it is variable region to region. It's variable type of vertical to vertical. So I can't parse it for you because it's -- again, it's -- there's just too many overlaps. The other is that we also have the channel of RFPs. So not only are we going outbound, but there is a fair amount of inbound nowadays relative to people who know what we're doing, who know of Talkspace, who know of our national footprint, who are actually approaching us or sending us RFPs, request for proposals, to ask us to bid on certain books of business.

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

That's helpful color there, Jon. I really appreciate it. Maybe just as a follow-up on the Payor channel. To the extent that you're -- as you continue to deepen the relationships with these Payor customers, are you starting to get into conversations around value-based care contracting? And if so, what sort of metrics are your Payor partners looking to be tracking as they're measuring effectiveness moving forward?

Jon R. Cohen
CEO & Director

So the answer is yes. We've already signed some new value-based contracts. I will tell you that the -- this is really, really at early stage. We have no issue and no problem at all dealing with what the metrics are. So I'll give you an example. Frequently, the metrics are what's your time to initial evaluation? Do you do full evaluation? Can someone get an appointment within a certain amount of days? Can you get a follow-up within 30 days? Those are the -- I'm just giving you examples of some of the value-based contracting metrics that we're using right now. They're relatively -- I don't -- rudimentary, but they're --

for us, because we've been in network, none of this is an issue. We've built -- all of this has been built way before these value-based contracts came up. So we encourage it. We see it more and more. But for us, it's a nonissue relative to the contracting metrics that they're putting in front of us, quite honestly. It's stuff we already do, to be honest.

Operator
And ladies and gentlemen, that does conclude our question-and-answer session. And with that, that does conclude today's conference call. Thank you for your participation, and you may now disconnect.