

Presentation

Operator

Good morning, and welcome to Teladoc's Third Quarter 2016 Earnings Conference Call and Webcast. [Operator Instructions] .

It is now my pleasure to turn the floor over to Adam Vandervoort, Chief Legal Officer. You may begin.

Adam C. Vandervoort

Chief Legal Officer and Secretary

Thank you, and good afternoon. I'm Adam Vandervoort, Teladoc's Chief Legal Officer. Teladoc intends to avail itself of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Certain statements made during this call will be forward-looking statements within the meaning of that law. These forward-looking statements are subject to risks, uncertainties and other factors that could cause Teladoc's actual results to differ materially from those expressed or implied by the forward-looking statements. For additional information on the risks facing Teladoc, please refer to our filings with the SEC.

I'll now turn the call over to Jason Gorevic, President and Chief Executive Officer of Teladoc. Jason?

Jason Gorevic

Chief Executive Officer, President and Director

Thanks, Adam. Welcome, everyone on the call, and thank you for joining us this afternoon to review our third quarter 2016 results. This was another strong quarter for Teladoc, where we saw continued momentum in the business with revenue of \$32.4 million, an increase of 62% compared to a year ago, partially reflecting the acquisition of HealthiestYou, which as a reminder, closed on July 1. Membership of 17.1 million members, an increase of 35%, and visits of over 202,000 visits this quarter, an increase of 73%. And finally, adjusted EBITDA loss of \$9.3 million, compared to a loss of \$10.4 million in the same period last year.

Our offerings including behavioral health showed solid results in the quarter with small business markets, health plans, large employers, as well as the provider market, all meeting or exceeding our expectations.

During our call today, I'd like to focus on 4 primary areas: one, a progress report on the integration of HealthiestYou; two, an update on our success in the provider market; three, a discussion of our exciting new collaboration with AARP; and four, an update on the selling season. The third quarter represents our first full quarter with HealthiestYou, so I want to start by discussing our integration progress and the contributions we're seeing so far. Each of our 4 previous acquisitions strengthened our position in different segments of the emerging telemedicine market and HealthiestYou was no exception. The acquisition of HealthiestYou broadened our exposure and deepened our relationships within the small-business market, which as we mentioned on our previous calls, is the fastest-growing market in terms of telemedicine adoption. This represents another significant opportunity for us with approximately 50% of U.S. employees falling into the small business category. As of today, we had successfully integrated HealthiestYou into the Teladoc platform and their existing customers have been very supportive of the change, which I believe is a testament to our experience, scale and breadth of offering.

Our go-to-market strategy is in place as an integrated platform and during September, we completed cross-training of the entire sales force and have merged the 2 organizations into a single integrated team. Already, we've made notable progress with UnitedHealthcare as a result of this transaction, and we now have an established relationship with them through their small employer offering and their ASO customers. In fact, over 200,000 of our new members during the quarter came from this newly expanded relationship with United. Specifically, this growth was focused on their student health market.

In summary, I'm even more excited about the HealthiestYou acquisition than I was when we did the deal.

Moving to the provider market, I want to start with an endorsement that we're very proud of. After a competitive process, Teladoc has been selected by the American Hospital Association as the exclusively endorsed telemedicine platform. This selection followed a rigorous process that included an RFP, interviews, product demonstration and client reference checks, and we're very excited to work with the AHA to bring telemedicine capabilities to its members. In addition to the AHA endorsement, I'm pleased to announce 2 prestigious new hospital clients. After very thorough reviews, Teladoc has been selected by both Thomas Jefferson University Hospital in Philadelphia, which will be adding the Teladoc platform to its telemedicine program and by the Parkview Hospital system in Indiana. With its 11 hospitals, Parkview is the largest system in that region, and our roster of provider clients now stands at over 80 hospitals utilizing our platform.

As a reminder, our provider clients license Teladoc services. Providers needs continue to evolve and they are now focused on better managing their risks as they move to becoming ACOs, improving provider employer physician productivity, expanding their brand into local markets and decreasing their post-discharge readmission rates. Our platform is designed to first defer to the providers doctors and then move to Teladoc's pool of physicians, if the providers doctors are unavailable. This is just another example of how flexible our telemedicine platform can be in order to address the different segments of the market.

Next, I'd like to move to a discussion of our new relationship with AARP Services. I'm very happy to report that Teladoc is the exclusive provider of telehealth services for Care Connection, AARP's groundbreaking initiative focused on the caregiver market. Under the program, Teladoc enables a three-way medical visit that includes a Teladoc physician, an adult caregiver and an aging parent. Teladoc handles all the technology, logistics and legal permissions, leaving the physician, patient and caregiver to focus on high-quality care and peace of mind. This program will be initially marketed through 2 primary channels; one, AARP is launching a bundle of services aimed to meet the needs of caregivers and the Teladoc telehealth product will be a cornerstone of this offering; and two, Teladoc will be marketing this capability to our employer and Medicare Advantage clients. While we expect the ramp on this product to be gradual, I'm very excited about the long-term prospects given the aging population and its unique needs.

As promised, I want to now turn to a discussion of the current selling season. As I mentioned earlier, we are seeing strong results from the integration of our teams in the under 1,000 employer market. Our relationships with our brokers continue to deepen, and we are seeing good growth on a weekly basis. As we review the pipeline of sold and high probability accounts, we continue to track above where we were at this time last year, and I'm very pleased with the team's progress. Similarly, our account retention looks very strong, as we close in on the end of the year, returning to our historical levels of over 95% retention. Specifically, I'm happy to list just a handful of our new accounts that will go live in the new year including Abbott Labs, Fannie Mae, Fox Entertainment, L-3 Communications, Phillips 66, ABP, Thermo Fisher Scientific, Avis Budget Group and Memorial Sloan Kettering, just to name a few.

Finally, I'm very pleased with the progress we're making with our behavioral health products and some of our largest accounts have adopted this important product as part of their 2017 benefits. At this point, we have over 80% visibility into the Street's range for our 2017 revenue.

Lastly, I want to provide an update on our discussion on last quarter's call about our direct-to-consumer behavioral health advertising strategy. Over the past quarter, we have seen online advertising pricing remain at the same elevated levels we saw in the second quarter. As we mentioned a few months ago, we have modified our advertising and marketing strategy to diversify our online presence and reduce our exposure to price increases from certain online advertisers. Our revised strategy is bearing fruit by improving our yields and maintaining our customer acquisition costs at previously budgeted levels that keeps us on track to meet our guidance for year-end. Behavioral health is a significant addressable market and a meaningful growth opportunity for us. We believe this segment will generate over a \$11 million for Teladoc in 2016.

Before I turn the call over to Mark to review our quarterly results in detail, and the outlook for the rest of 2016, I'd like to congratulate him on his appointment to the newly created role of Chief Operating Officer, while continuing to serve as Chief Financial Officer. In his expanded role, he will broaden his impact on our financial and strategic objectives, as we continue our exciting growth trajectory.

Mark J. Hirschhorn*Chief Financial Officer and Chief Operating Officer*

Thanks, Jason. I'm excited to enhance our company's next phase of growth and deliver on our shared aspirations of outperformance.

Turning to the quarter, we recorded total revenue of \$32.4 million, representing a 62% increase year-over-year. Excluding HealthiestYou revenue, we grew 35% over the same period last year. Subscription access fees accounted for \$27.8 million or growth of 63% year-over-year and comprising 86% of our total revenue this quarter. Increased subscription fees reflect the addition of nearly 4.5 million new members in the year-over-year period. Total membership today stands at 17.1 million members compared to 12.6 million members that we had in the same period last year. That's growth of 35% year-over-year. I'm pleased that 90% of our membership growth was organic.

As we mentioned on our call last quarter, we anticipate seeing continued strength in our PMPM numbers and this quarter was no exception. Our average PMPM fee for the third quarter grew to \$0.55, up sequentially from \$0.47 and up from \$0.44 on a year-over-year basis. This increase was driven primarily by the inclusion of HealthiestYou and product mix. As a reminder, PMPM fees from our small and midsized employers generate the highest PMPM fees.

Turning to the other component of our revenue. Visit fees grew by 55% year-over-year and accounted for \$4.6 million or 14% of total revenue. All of our revenue growth from visit fees was organic. We recorded over 202,000 visits in the third quarter, an increase of 73% over the same period last year. As a reminder, visit volume tends to be seasonally lower in the second and third calendar quarters. Our annualized utilization rate for all members grew to 4.8% in the third quarter compared to 3.7% in the same period last year. Of those approximately 202,000 visits in the third quarter, paid visits, as a percentage of total visits, was 58% compared to 61% in the same period last year, reflecting the impact of HealthiestYou, which is a visits included model. Going forward, we anticipate that the percentage of visits from visits included model should approach 50% of total 2017 visits.

The average paid visit to Teladoc was \$39.18 in the third quarter. We expect this average to continue to increase over the remainder of this year and in 2017, as our contracts renew and reset the visit price to \$45. Additionally, those higher dollar behavioral visits are expected to contribute to increasingly higher average throughout 2017.

Our gross margins were 78% in the third quarter, up from 74% sequentially and flat from a year ago. The sequential increase was due in part to the fact that our higher margin subscription revenue accounted for 86% in total revenue compared to just 81% in the second quarter of this year. The third quarter also represented the first full quarter of HealthiestYou revenue, which is comprised of 100% high margin subscription-based revenue. Ultimately, we remain confident that our revenue mix will stabilize at roughly 60% subscription access fees and 40% visit fees over the next several years.

General and administrative expenses for the third quarter were \$12.3 million compared to \$10.1 million in the same period last year and \$11.3 million in the second quarter of this year. The 22% year-over-year increase reflects growth in employee related expenses to support our 62% increase in revenues over the same period last year and also, was in line with our expectations.

Our net loss, as shown in our 10-Q filed this evening, reflects 2 nonrecurring, primarily noncash, charges totaling \$14.7 million. The first charge of \$6.9 million in transaction costs is related to the merger with HealthiestYou and includes professional fees but primarily consists of a \$5.7 million noncash charge determination of a multiyear vendor agreement that was contractually obligated to be paid by HealthiestYou prior to our acquisition of that company. The next component is another nonrecurring charge associated with the amortization of warrants and loss on extinguishment of debt for \$8.5 million. This also was a noncash charge and includes the full Black-Scholes determined debt issuance costs associated with the warrants that we granted to Silicon Valley Bank and certain other debt related costs in connection with the refinancing that we completed this past July. Again, both of these are nonrecurring, primarily noncash charges recorded for GAAP purposes only and may have been removed from our calculation of adjusted EBITDA.

In the press release we issued earlier today, we have provided reconciliation tables between GAAP and non-GAAP measures. Our adjusted EBITDA for the third quarter improved to a loss of \$9.3 million compared to a loss of \$10.4 million in the same period last year and compares favorably to a loss of \$10.5 million last quarter. Consistent with our prior messages, we expect to generate adjusted EBITDA breakeven during the fourth quarter of 2017, as we continue to generate strong new client growth and leverage the benefits of scale in our multiple platforms.

Finally, our net loss per share for the third quarter of 2016 was \$0.65 compared to a net loss of \$0.37 in the same period last year. Excluding the nonrecurring primarily noncash charges I just mentioned, net loss per share this quarter would have been \$0.33 and compares favorably to the second quarter's \$0.36 net loss per share, had the share count remained static. Our weighted average common shares outstanding were 45.9 million shares in this period compared to 36.1 million shares in the third quarter of 2015.

Turning to our balance sheet. We ended the quarter with approximately \$75 million in cash and short-term investments and \$45 million in debt. Based on our current projections, we believe, we will have cash balances and available borrowings in excess of \$50 million, as we exit 2017. This assumes no additional borrowings or capital raises. Earlier this month, we filed a shelf registration statement on Form S-3 with the SEC. The purpose of this shelf statement is to provide the company with optimal flexibility to access the capital markets if and when the company is presented with opportunities. Additionally, the effect of shelf provides a vehicle for orderly distributions of our BC investor shares if and when they seek liquidity.

Now I would like to provide our outlook for the remainder of the year. For fourth quarter of 2016, we expect revenues between \$36 million and \$37 million. EBITDA on a range of a loss of \$11 million to \$12 million. Adjusted EBITDA loss between \$9 million and \$10 million. Membership of approximately 17.3 million to 17.5 million members and total visits completed between 273,000 and 288,000 visits. Net loss per share based on 46.1 million weighted average shares of between \$0.34 and \$0.36.

The majority of our guidance for the full-year 2016 remains unchanged, but we are adjusting our reported EBITDA loss and net loss per share outlook to account for \$15.4 million in nonrecurring, primarily noncash charges that I just spoke about, incurred in the 9 months ended September 30, 2016. And now, we expect revenue to be in the range of \$122 million to \$123 million from the previous range of \$121 million to \$124 million. EBITDA loss between \$64 million and \$65 million, or \$49 million to \$50 million, excluding the nonrecurring charges from the prior range of \$48 million to \$50 million. Our adjusted EBITDA loss remains the same at between \$41 million and \$42 million. Membership is expected to total approximately 17.3 million to 17.5 million members and total visits between 915,000 and 930,000 visits, slightly tightening the previous range of 915,000 and 945,000, reflecting what we believe are preliminary indications of a milder flu season.

Our net loss per share is expected to come in between \$1.79 and \$1.81, up from our previous net loss range of \$1.47 to \$1.52 per share, based on 42.3 million weighted average shares outstanding. Excluding the nonrecurring charges, the net loss per share guidance is between \$1.42 and \$1.44 per share, an improvement from our previous guidance range, which was a loss between \$1.47 and \$1.52 per share.

With that, I'll turn the call over to Jason for a few closing remarks. Jason?

Jason Gorevic

Chief Executive Officer, President and Director

Thanks, Mark. Ultimately, I'm very pleased with our team's efforts and the results we've seen so far in 2016. The third quarter was very strong, and we're working hard to finish the year with a similar outcome. We're very well capitalized and remain on track to achieve adjusted EBITDA breakeven by the end of 2017. I'm looking forward to continued momentum as we head into 2017. We expect to provide our latest views of 2017 guidance in early January.

And with that, I think, we'll now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Nina Deka with Piper Jaffray.

Nina D. Deka

Piper Jaffray Companies, Research Division

Could you elaborate a little bit on the student health population that you're currently signed out via Q2? And maybe some metrics around how penetrated you are in that market? And what's the potential trajectory of expanding into other United markets and also within your existing customer base for the HealthiestYou platform?

Jason Gorevic

Chief Executive Officer, President and Director

Yes, absolutely. Thanks, Nina. I appreciate the questions. So we added around 200,000 members from the United student business. This is their business that focuses on university students and provides health plans for university students. We are at the early stages of penetrating that book of business, which numbers well over 1 million members. And we see this as continuing to prove the value of the Teladoc platform, which we've done now in their small group market, in their TPA, which is their UMR business and in their student business. And so we continue to expand our penetration across various segments of their business, prove the value, prove the increased utilization that they see from the Teladoc platform with the ultimate goal, of course, of going after the large chunk of their UHC core insured business. But we expect that, that's going to take some time. I don't want to set expectations that, that's going to happen immediately, although we continue to see good results and good utilization from the areas of their business that they -- that we serve. And I would say on the relationship side of the business, the United relationship, it's very strong. So we continue to have very, very good strategic discussions about expansion into their book. And I would say the value of the HealthiestYou platform and the value of the Teladoc platform has been well acknowledged and very appreciated by the management team at United.

Nina D. Deka

Piper Jaffray Companies, Research Division

Great. That's helpful. And just one more on the new deals that you had on behavioral into the existing client base. You said that you've managed some large accounts. Are they utilizing the texting options? Or is this more of the visits like your general medicine type visits or both?

Jason Gorevic

Chief Executive Officer, President and Director

So it's the latter. Our text story into the behavioral health business is really focused on the direct-to-consumer market. We have not yet released that into our B2B business. Rather, we see very strong uptakes from both employers and health plans. Live visits with a behavioral health professional whether that's a psychiatrist or psychologist or a master's level social worker. And we're seeing good penetration across really all the commercial segments as well as some of the government programs for that business.

Operator

Our next question comes from Ryan Daniels with William Blair.

Nick Hiller

This is actually Nick Hiller in for Ryan Daniels. I appreciate the color that you gave in the prepared remarks on the HealthiestYou integration. I was just wondering if you could expand a little first on your ability or progress in transitioning the telehealth consultations over to Teladoc's doctors? And then second, if you've seen the level of interest in your small employer base in HealthiestYou's capabilities?

Jason Gorevic*Chief Executive Officer, President and Director*

Yes, absolutely. So as you might recall, on the day that we closed, we transition the HealthiestYou telehealth service delivery from their prior service provider over to the Teladoc platform. We did that literally overnight. It increased our telehealth visit volume by about 8% or so, and we were able to do that without adding a single employee, without adding a single doctor to our network and without adding any costs to our system. So that was a pure lift and shift overnight. And in fact, we cut the response time for their members in half by doing that. So we had great receptivity by the HealthiestYou client base and we're very, very pleased with the results of that. With respect to the Teladoc client base and the Teladoc brokers prior to -- we had prior to the acquisitions, we're seeing extremely, extremely strong receptivity and excitement about the HealthiestYou platform. In the September time frame, we trained our entire sales force on the HealthiestYou product. And in fact, we're seeing very, very strong sales across our entire sales force, the HealthiestYou product into the smaller end of the market. So we're seeing very, very strong results from the Teladoc existing clients, the Teladoc brokers and, of course, continued expansion of our distribution channel into that small end of the employer market.

Nick Hiller

Okay, great. Thanks for the color. And then is there any way to parse out the impact on the PMPM fees this quarter from HealthiestYou? And then do you still see that growing to around \$30 million in 2017 still?

Mark J. Hirschhorn*Chief Financial Officer and Chief Operating Officer*

Yes, the PMPM remained essentially flat quarter-over-quarter around \$0.47 between Q2 and Q3. That was obviously up from the \$0.44 in Q3 of '15. So the overall Q3 \$0.55 increase was due principally to the impact of the HealthiestYou revenues. Again, those are the very high PMPM's averaging at 6x to 7x the rate of the traditional Teladoc business. I think, based on our exit rates, based on the sales that we're seeing coming through that channel today, we're very comfortable with our projections for the contribution from that line of business for 2017.

Operator

Our next question comes from Jamie Stockton with Wells Fargo.

Jamie Stockton*Wells Fargo Securities, LLC, Research Division*

So I guess, maybe first, the AARP deal. Jason, can you just walk me through how that's going to be marketed by them? And maybe the economic model that you guys will see?

Jason Gorevic*Chief Executive Officer, President and Director*

Sure, Jamie. So let me start with the rationale for that initiative. There are about 40 million or so caregivers in the United States, who spend in average of 24 hours a week caring for their aging loved ones and about 65% of those live more than 20 minutes from their patient. So this is an issue not only for the aging population and their sort of sandwich generation children, but also it's now an issue for employers. So what we -- the research shows that about 2/3 of caregivers arrive late or leave early from work and about 1 in 8 of them have to take a leave of absence because of the needs of their aging parents. So we piloted this initiative over the summer with AARP in a captive group of caregivers that AARP works with and the response to this was extremely positive. And AARP has done a survey of caregivers and found that 80% said they were likely to try a telehealth visit. So we're working with them. AARP services has put together a bundle marketed through the Care Connection's website focused on the caregiver market, and we are the exclusive telehealth provider into that market. So they've already launched. They're doing a multimedia marketing campaign. They are responsible for taking on the marketing. And so for us, we essentially have no cost of customer acquisition. As a result, this is a visit fee oriented model, right. So we -- you'll see the benefit of this over time as our visits increase and as our visit fees increase. We've also

talked with them and we haven't launched yet, but the majority of caregivers report feeling stressed and anxiety because of being put in this situation, and so we believe that there is also an opportunity for us to bring our behavioral health products to bear for that market. On the other side of the marketing effort, we will be marketing this product into our employers for some of the reasons that I cited, as well as some of our Medicare Advantage populations. And we are actually -- we now have our first pilot client signed on, and we're in the process of launching those first pilot clients. But we expect that this will roll out across our book of business as a capability. That's an integral part of our offering over the course of '17 and into the early part of '18.

Jamie Stockton

Wells Fargo Securities, LLC, Research Division

Okay. And then maybe this is kind of a question on AARP relationship, but then more broadly as well, and I think I maybe even asked this last quarter, but I'm interested in an update. One of the things that seem like it was really unique about the HealthiestYou platform was all of the functionality around the telehealth service that kind of came with their platform. I'm interested if there's been any kind of evolution in how you guys are thinking about your platform and how it's delivered? Are you going to kind of enhance some of the other solutions around it to make it stickier? And is there an opportunity, maybe specifically with AARP where you could do that, that would potentially make utilization of it stronger by these elderly people who seem to be huge consumers of healthcare?

Mark J. Hirschhorn

Chief Financial Officer and Chief Operating Officer

Yes. So great question. In fact, I just saw a demo from our technology team the sort of proof of concept of integrating one of the HealthiestYou tools into the Teladoc app. So that we've done now a proof of concept on importing those tools in order to broaden the suite of services that can be offered to Teladoc members. Now I'd caution you that we're still in the large end of the market see employers who are buying point solutions around a lot of the tools that HealthiestYou offers. Of course, in the small end of the market, those employers don't have access to it, why -- which is part of the reason that HealthiestYou is so attractive to that market. But we've now done the proof of concept. Then I think, over the course of '17, you'll see us add in additional capabilities, taking advantage of those tools and the greater engagement that HealthiestYou has gotten. Now I think you're exactly right that, that suite of tools and others will be valuable to the aging population and the caregiver population, especially when I think about things like drug pricing tools, where to find the lowest priced drug in the local area or how to find generic alternatives, things like that are clearly of high value to the senior population. So I'm optimistic about being able to add those into the capability set that we bring to that relationship.

Operator

Our next question comes from Mohan Naidu with Oppenheimer.

Michael Joseph Ott

Oppenheimer & Co. Inc., Research Division

This is Mike Ott on for Mohan. Wondering if you guys could update us on the timing of the 2 large planned clients you mentioned last quarter had delayed their shifting [indiscernible] into January of 2017.

Jason Gorevic

Chief Executive Officer, President and Director

Yes, sure. Those are on track for January 2017 launch, as we communicated on the last call. We see no slippage from that. And we were disappointed that they didn't launch in '16, but are very confident and they'll launch January of '17.

Michael Joseph Ott

Oppenheimer & Co. Inc., Research Division

Great. And I don't know if you could share any updates on the legal situation with the Texas Medical Board?

Jason Gorevic*Chief Executive Officer, President and Director*

Sure, happy to. So first of all, let me make sure that you're clear on what happened from a process perspective. After the Federal District Court in Austin ruled in our favor in May of '15, the Texas Medical Board filed a motion to dismiss the case, claiming that the TMB is immune from antitrust law because it's part of the state of Texas or the state agency. In December of '15, the District Court denied the TMB's motion. They ruled in our favor and the TMB then appealed that denial to the Fifth Circuit Court of Appeals in New Orleans. We went through a full briefing process where both parties briefed the appeal, and we had 13 outside parties file amicus briefs on our behalf supporting our position, including the FCC, the U.S. Department of Justice, the Cato Institute, a group of 55 leading antitrust law professors and a bunch of other parties. On October 17, the TMB notified us that it was going to voluntarily withdraw its appeal. This is a very, very unusual circumstance and the only reason that we can figure is that the TMB concluded that the Fifth Circuit was likely to rule against it and wanted to avoid a ninth loss in court to Teladoc. The underlying trial case will continue and will now resume with a scheduling conference before the Federal District Court in Austin. And since that case has been delayed while the TMB's appeal was occurring, we're likely still more than a year away from any trial, which we remain of course confident that we'll win. Our position is always been that we'd like to settle this dispute and perhaps with the recent change in leadership at the TMB, we'll see some movement in that direction. We're also very hopeful that the Texas legislature will take up the issue of telemedicine during the upcoming 2017 legislative session and that a law will get enacted that resolves this once and for all in our favor and of course, that would move the legal case.

Operator

Our next question comes from George Hill with Deutsche Bank.

Stephen Hagan*Deutsche Bank AG, Research Division*

It's actually Stephen Hagan on for George Hill. Just looking at -- looking for an update on what you've seen in the selling season so far, kind of how's the PMPM pricing environment compared to what you are expecting?

Jason Gorevic*Chief Executive Officer, President and Director*

Yes. As I said, the selling season has been very strong and it's -- we're significantly ahead of where we were at this time, last year with respect to the development of the pipeline. The PMPM's have also remained strong. I would say generally the financial arrangements are strong. In some cases, we've gotten -- we try to be flexible with our clients in putting together arrangements that are mutually beneficial for the 2 organizations, but the overall economics remain favorable to us. I think that's really reflective of what we've talked about before which is an improving competitive landscape for us. This time last year, we were facing 2 parties who were -- really, 1 party who was very loudly talking about the elimination of the PMPM model and going to market without a per member per month fee and another one who was willing to reduce pricing. We've seen actually improvement across the board in the market -- the pricing in the market. And I think part of that is reflected in our north of 95% retention rate that we see going into the end of this year. So we're significantly ahead of last year, both in the pipeline development as well as the retention rate. And I think that puts us in a very good position.

Operator

Our next question comes from Charles Rhyee with Cowen and company.

Unknown Analyst

[indiscernible] for Charles. I basically have a question. My first question is, can you expand on how you reduced exposure to certain advertisers that had an adverse impact in last quarter's numbers? And also, is this reduction in exposure sustainable going forward?

Jason Gorevic

Chief Executive Officer, President and Director

Yes. We had addressed the issue of our concentration of advertising dollars on 2 specific sites, principally Facebook and Google. And quite frankly, we -- we've changed our allocation of dollars not only between those 2 sites, but we found some other far more attractive sites from an ROI perspective. We came back through the expected numbers that we had intended to produce in Q2 and exiting Q3, we're right on track. So for us, it was truly a blip. We're able to refocus and the new strategy that we've put in place keeps our revenue expectations for that line of business between \$11 million and \$12 million, and we still envision a 50 plus percent growth from that product in 2017. We're confident that what we projected as far as the costs of those advertising stocks will remain high and that's what we built into our model. So we're tracking right along where we expect it to be after making those early 3Q adjustments.

Unknown Analyst

Okay, great. And also, can you talk about your pipeline payer opportunities?

Jason Gorevic

Chief Executive Officer, President and Director

Sure. So I would say that payer market is -- we see a number of payers who were in process with. We have several who are going live in the first part of 2017. We're seeing a very good activity in the managed Medicaid market, and I'm optimistic about that. A lot of those are regional players who are probably anywhere from about 50,000 up to 1 million members in a local geographic region. We're also doing very well of course with our existing clients or existing payer clients in expanding our relationships there, and we see expanding membership in several of our very large payers which will contribute well to -- not only which will contribute well to our membership growth and financials for next year, but I think also is a very strong endorsement of the value that we're bringing to our payers. You'll see us with some of our payers more than double our membership year-over-year because of the value that we're bringing and I think because of the recognition among the payers that telehealth is now part of the fabric of the healthcare delivery system as opposed to a new solution that's on the fringe.

Operator

There are no further questions at this time. This concludes the teleconference.

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