Teladoc, Inc. NYSE:TDOC

Company Conference Presentation

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Call Participants

EXECUTIVES

Jason Gorevic
Chief Executive Officer, President and Director

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

ANALYSTS

Sean William Wieland
Piper Jaffray Companies, Research Division

Unknown Analyst

Presentation

Sean William Wieland
Piper Jaffray Companies, Research Division

All right. Good morning, everybody. My name is Sean Wieland with Piper Jaffray and it's my pleasure to introduce Jason Gorevic, the Chief Executive Officer of Teladoc. Jason, thanks for joining us.

Jason Gorevic
Chief Executive Officer, President and Director
Thank you. I appreciate it. Thanks for having us.

Question and Answer

Sean William Wieland
Piper Jaffray Companies, Research Division

It's always a pleasure. So we're going to just jump right into it here. Just to remind you, though, love taking questions from the audience, we love playing full contact. So if you got a question or comment, feel free to throw your hand up. I wanted to start out, Jason, with an understanding of how you are thinking about managing this business because as I look at the market, there's so many access points to telehealth. I'm a Piper Jaffray employee. So I get it from -- through Piper Jaffray, but -- or I could get it through my managed care plan or I could get it from a direct-to-consumer perspective or I can -- maybe via the provider -- who is this guy? Security, security. Mark Hirschhorn, everybody. Better late than never.

Jason Gorevic
Chief Executive Officer, President and Director

He was listening to a very interesting presentation.

Sean William Wieland
Piper Jaffray Companies, Research Division

So you have one service, one platform, yet so many different constituents, each with their own agenda and goals on how they want to use your service. How do you create one platform, one service to manage all of those various on-ramps?

Jason Gorevic
Chief Executive Officer, President and Director

Well, I think your comments about one platform are critical. When I think about it, I think about one common platform regardless of what the access point is. So for me, it's very important that we have a common infrastructure, a common data structure that recognizes you regardless where you're coming from. Whether you're coming from your employer or whether you're coming from a direct-to-consumer entry point like a CVS or perhaps an AARP relationship or whether you're coming through your health plan or even your hospital system, which may or may not be taking risk for you, for you as a consumer, it has to be a singular experience, right, that ties all of those access points together and it's the same kind of experience regardless where you come from. So from my perspective, I think of my sales and marketing efforts as market segment-specific but I think of our operations and our infrastructure and our technology as being ubiquitous across multiple access points or entry points into the Teladoc ecosystem. And then lastly, we have to be able to connect to organizations across that health care landscape, right? So regardless where you're coming from, I have to make sure that we have interoperability, that we exchange data with your other health care providers, that we have access to your benefits information. And it doesn't really matter which of those entry points you have. I need all that data regardless of whether you're coming through your hospital system or whether you're coming in through your employer.

Sean William Wieland
Piper Jaffray Companies, Research Division

Okay, great. Well, that's weird. Look at what just happened to my screen.

Jason Gorevic
Chief Executive Officer, President and Director

That's pretty cool.

Sean William Wieland
Piper Jaffray Companies, Research Division

All right. Well, we're winging it now.

Jason Gorevic
Chief Executive Officer, President and Director

Mark did that. Purposeful. Sean's screen just went completely blank [ph] .

Sean William Wieland
Piper Jaffray Companies, Research Division

There's my question. I need some hands. Okay, so let's bring Mark into the conversation as Chief Financial Officer and Chief Operating Officer. Mark is an overachiever for anyone who doesn't know him. One of the things that I love at the surface of your model is the simplicity. I love the model of -- price times volume equals revenue. But then as you begin to unpack that, it gets to be -- like there's multiple layers to price, there's multiple layers to volume, and price is PMPM versus the visit fee and there's various arrangements on that. As you just break this model down to the simplistic price times volume equals revenue, where are your biggest levers to grow the business?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

So not all clients are equal. We clearly have a number of clients that have been with us for years and come to us with volume. Aetna, for instance, represents over 6 million of our currently 17 million members. They have the greatest price transparency. They demand the greatest economics. And from anywhere from $0.20 per member per month up through almost $8 per member per month, we have a varying degree of clients that are with us on a per member per month plus visit fee. So every one of our members of the 17 million members pay us a per member per month fee, probably coming close to 15%, and I would imagine, at the end of 2017 we'll be close to 20% of our members will be in that range of the higher per member per month fee and visits included. So they won't be submitting to us an additional fee for the visits. They'll have incorporated in their per member per month fee unlimited visits. Now we set that at a certain level because we understand that most entities will encourage their employees to a certain extent and we'll end up seeing utilization at a 20% or 25% level, but what [ph] that number is, is we maximize that level in the contract and we provide for utilization up to a certain, again, maximum level. But we'll end up seeing over the broad base approaching about 10% utilization in 2018 while certain cohorts of our clients will see anywhere from 5% to 40% utilization throughout 2017.

Sean William Wieland
Piper Jaffray Companies, Research Division

So if I hear you correctly, the strongest lever you've got is utilization?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Absolutely. 100%.

Sean William Wieland
Piper Jaffray Companies, Research Division

Okay. Now just -- I want to get into utilization and how digital marketing is driving that in a second, but I just want to say on -- that the business model -- and I got my questions back. So paid visits are going to decline to 50% of the total which I think is being pressured by HealthiestYou but maybe in a good way. What's the trade-off between the inclusive model where paid visits are declining versus that higher PMPM that you're getting from those inclusive contracts?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

The trade-off, quite frankly, is well worth it. It's a per member per month fee that could, in fact, equal 10x of what we generate today on the average per member per month fee. While we're looking at approximately $0.50 per member per month over the entire population, those who come in through

Teladoc on that platform, on the HealthiestYou platform, would typically look at anywhere from $4 to $6 per member per month.

Sean William Wieland
Piper Jaffray Companies, Research Division

And so in -- at that price point of $4 to $6 per member per month, where's the breakeven point? Where are you -- when are you losing money? At what level of utilization are you -- [indiscernible] do you start losing money on that contract?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

We generate margins equivalent to those that we had generated prior to the HealthiestYou acquisition today. So those margins are 72%, 73%. We price that service to ensure that we continue to generate margins at that 70% level. So that's going to provide for -- whether that pricing is $4, $5 or $6 on the population that we service today, we continue to generate margins in the plus-70% range.

Jason Gorevic
Chief Executive Officer, President and Director

And those contracts have triggers in them that if the utilization goes too high, we're able to ratchet up the price.

Sean William Wieland
Piper Jaffray Companies, Research Division

Got it. Okay. That's helpful to know. It's not like you're in this competing game internally where some part of your book you don't want them to use it and that's what you do. You want everybody to use it.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

No. Absolutely not. We have a team, an account management and client success team that reaches out to all of our clients to ensure that their utilization continues to grow month-over-month, quarter-over-quarter.

Sean William Wieland
Piper Jaffray Companies, Research Division

Okay, got it. Yes?

Unknown Analyst

Is any of the [indiscernible] do you have, like, a minimum utilization rate that you have to achieve?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

We certainly do. With a small percentage of our clients, we've provided for minimum utilization. And if we don't achieve that minimum utilization throughout the year, our per member per month fees are at risk. And I believe last year, we might have paid about $300,000 back in penalties to our $120 million revenue base.

Sean William Wieland
Piper Jaffray Companies, Research Division

So I'm just going to do a -- some quick primary research here. Raise your hand if you are a -- if you have access to Teladoc?

[Voting]

Mark J. Hirschhorn

Chief Financial Officer and Chief Operating Officer

Look at that.

Jason Gorevic
Chief Executive Officer, President and Director

That's fantastic.

Sean William Wieland
Piper Jaffray Companies, Research Division

Wow, okay.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Means there are a lot of Piper Jaffray people in the room.

Sean William Wieland
Piper Jaffray Companies, Research Division

Yes, there's a few Piper Jaffray but that was actually a lot more than I was expecting. And raise your hand if you've used it? You or someone in your family have used it.

[Voting]

Sean William Wieland
Piper Jaffray Companies, Research Division

All right. Well, that's pretty good utilization. One of the things that I've noticed over the course of, really, the past several months is Teladoc is all over my Facebook newsfeed, and I think that that's either you're targeting me specifically because -- in anticipation of this conference or something's happened with your digital marketing and it's getting to the people that use it. So let's talk about the digital marketing strategy and how you're using that to drive utilization.

Jason Gorevic
Chief Executive Officer, President and Director

So in January, we brought on a new Chief Marketing Officer, Stephany Verstraete. And Stephany comes from a background of Expedia, Match.com, as well as having a longer history in some of the big CPG companies like Pepsi, Frito-Lay, Hostess Brands, things like that. So we really targeted -- I went out with a search, specifically looking for someone with her skill set, which is all about digital consumer relationship marketing. And it was because we can do all the direct mail that we want but it's only by creating what we're now calling -- what Stephany has really coined -- as surround sound, right? We want you, as a Piper employee, not only to get our direct mail a couple of times a year and a welcome kit at the beginning of your relationship with Teladoc, but we also want you to get Facebook ads and we want to drop ads onto your phone and we want to be in your LinkedIn feed and we want to be everywhere that you are because we know that you're only going to need Teladoc a couple of times a year, okay? For yourself, for your kids, your wife might need it a couple of times a year. And in fact, she's probably the -- what we call the chief family medical officer. She's the one who's likely making the decisions in the household. So we have become very, very good, really expert, at finding you, not you, Sean Wieland, but rather you, the Piper employee who we know has access to Teladoc through your employer. Now that may be you as an Aetna member, that may be you as a member of Premera, it may be you as your employer who buys it from us, or it may be that you work for a bank that has retail locations and we know where those retail locations are so we can geofense those locations and drop an ad on your phone because you've been in that location more than a half hour. So as I've said to you before, either you're dating one of the tellers, or you work in that bank and we know that you're a member because your bank has bought that service for your employees. So we've become very, very good at that. And as a result, you see multiple impressions as opposed to just what -- even a year ago, it was just -- you would see a couple of impressions from us every year as opposed to today. You're probably seeing 5, 6, 10 different impressions. So when you come down with that sinus infection because you're traveling to New York in November, you're going to remember, hey, I've got Teladoc and now maybe I'm going to log in, I probably have already downloaded the app and it becomes easy, and we've reduced the barriers to entry.

Sean William Wieland
Piper Jaffray Companies, Research Division

And so is that -- how much is that costing you? I mean we had the whole sales and marketing spend issue in Q2 but that was not -- that was in your DTC behavioral [indiscernible].

Jason Gorevic
Chief Executive Officer, President and Director

Correct.

Sean William Wieland
Piper Jaffray Companies, Research Division

I mean, are we going to see this as a spike in sales and marketing expense in Q4?

Jason Gorevic
Chief Executive Officer, President and Director

So there are 2 really good things about that digital channel. One is it's much more efficient than sending direct mail into your home, right, much, much lower cost and it's highly targeted, as you know, right? You've seen it in your Facebook feed.

Sean William Wieland
Piper Jaffray Companies, Research Division

By the way, I never even remember the direct mail.

Jason Gorevic
Chief Executive Officer, President and Director

There you go. The second thing is we can turn it up or down at a moment's notice, right? So we can dial in that spend on a monthly basis, even on a weekly basis depending on what yields we're getting from it, depending on what the cost is. So right now, up until this point, we've been very, very heavy on that spend. That spend is actually going to sort of drift to a slightly lower level over the next several weeks because everybody's advertising on Facebook now, right? I mean we're now in that season before the holidays where everybody is advertising. So we did that in advance of the cold and flu season because now you're going to remember us. Now we modulate the spend through the holidays and we'll pick it back up at the end of the holidays as we go into the January season, and we can do that, I mean, really on a daily basis.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

The forecasted yield is much lower.

Sean William Wieland
Piper Jaffray Companies, Research Division

Okay. Speaking of cold and flu season, how's that going?

Jason Gorevic
Chief Executive Officer, President and Director

So I've got good news and bad news, right? The good news, I guess, for all of you, is that it's a light flu season. The bad news is for those of you who are invested in hospital systems, they're going to see low yields in their emergency rooms because the flu season's light, right, and so that means less -- fewer flu visits to the hospitals. We have seen a much greater yield from our consumer marketing. So all of that digital advertising, our fall campaign, we're 95% complete with our fall direct mail campaign to our households. We mailed over 7 million pieces of direct mail into households over the course of the last 6 weeks, really, and that's had a tremendous yield. So our visit volume is significantly ahead of our projections and we've had multiple days over our previous high watermark in terms of visits. But what I want to stress is that's a direct result of our communications and our outreach and our consumer engagement, not a result of what we would call a strong flu season. It's been a light flu season.

Sean William Wieland
Piper Jaffray Companies, Research Division

Okay. So despite being a light flu season, you guys are actually running ahead of where you wanted to be -- where you projected to be on visits.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

We are. We're seeing volume between 4,000 and 5,000 visits per day now. So last week, we probably hit the high watermark. We exceeded any visit volume that we'd ever predicted 3 or 4x, and we expect to see that again this week.

Sean William Wieland
Piper Jaffray Companies, Research Division

And how's your platform? And what's the stress on your platform on managing that? Do I have to wait an hour for Teladoc [indiscernible] ?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

No. That's the wonderful answer. Throughout last week, again, probably 3 or 4 days last week where we hit highs in excess of 4,000 visits a day. Our average response time was under 8.5 minutes. Our average response time has been decreasing as volume has increased. Many of our physicians recognize that the demand is there and they're attributing perhaps a greater extent of their daypart and coming on and acknowledging that there's a greater demand for their services throughout the day and they're making themselves available and that's reflected in our response time.

Sean William Wieland
Piper Jaffray Companies, Research Division

All right. To shift gears and talk a little bit about the HealthiestYou acquisition, because one of the things that strikes me when I play around in the model is just exactly -- I mean, the lift on a revenue per member that, that gives you in that base. And so, focused on the small midsize employer market, is that kind of pricing sustainable? Are you going to stick with that visits-included model? And then -- and what's the go-to-market strategy for selling to a very fragmented end market?

Jason Gorevic
Chief Executive Officer, President and Director

Yes. So we've done now 5 acquisitions in the history of the company, and we're about 5 months into the HealthiestYou acquisition. And I would say without hesitation, it's the best acquisition we've made by a reasonable measure. And the reason for that is a fewfold. One, it taps into a very, very strong segment of the market. Over half the employees in the country are employed in companies that have fewer than 1,000 employees. So this is a product that's specifically targeted at that segment of the market. It's also the least price-sensitive segment of the market. And finally, it's a market that's really controlled by a broker channel. So that company spent a lot of time building a product and cultivating a distribution channel, focused on, quite frankly, the most attractive segment of the market. As you say, it's hard to get to that segment, right? Very fragmented distribution, lots of brokers all over the country. So we now have over 2 dozen salespeople who are just focused on that broker distribution channel and getting to that smaller end of the market. Is the pricing sustainable? Absolutely. Why is it sustainable? Because we're bringing a much broader array of services to a segment of the market who usually doesn't get that, right? So that segment isn't like the big national accounts who are buying point solutions for each one of those health care tools and management capabilities like transparency on services like transparency on drug prices and things like that. And so we bring a whole suite of services that are very attractive and enable the employer to change their benefits and reduce the cost of their overall benefits which more than pays for the HealthiestYou application.

Sean William Wieland
Piper Jaffray Companies, Research Division

What does the ROI analysis look like between a small HealthiestYou employer and a large employer?

Jason Gorevic
Chief Executive Officer, President and Director

Yes. So I would say it's a couple of things. One is we're certainly reducing our health care costs. Two is the impact of improved productivity on a small employer is much greater than it is on a large employer because with a large employer, you have a big -- a pool of employees who are showing up to work every day. With a small employer, if you lose a couple of key employees over the course of a day or 2 days or a week, that has a big impact on your business. And lastly, it gives that small employer the ability to ratchet up their ER copay, right, ratchet up their deductible, for example but, at the same time, pay for unlimited visits to a Teladoc physician which is a big deal for that employee base.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

And we collaborate with the broker on the benefits' design that, that employer is going to put in place in that subsequent year in order to obviously accelerate the utilization of Teladoc but to ensure that the design is set up in a way that would foster an environment where people would generally use Teladoc more effectively.

Sean William Wieland
Piper Jaffray Companies, Research Division

Okay. Yes?

Unknown Analyst

I'm new to the story. So sorry if I'm repeating [ph] a question. Is the revenue growth about driving utilization more or adoption of new accounts?

Sean William Wieland
Piper Jaffray Companies, Research Division

So the question is, is the revenue growth about driving utilization or new accounts.

Jason Gorevic
Chief Executive Officer, President and Director

So we have 4 levers for growth. One is new logos on the page, new accounts. Two is greater penetration within our existing account. That's especially true for the health plans where we tend to get, first, a small population and then we expand within them. Three is more visits, so greater utilization, to your question. And four is selling new products, additional products, into that customer base, like our behavioral health or our dermatology services.

Unknown Analyst

And can you -- size is one more [indiscernible] than the other, or?

Jason Gorevic
Chief Executive Officer, President and Director

We have step function growth in the first quarter as we sell new accounts and we bring on additional populations within our existing accounts. But over the course of the year, we see growth in our utilization. And so every quarter for, I think, the last 14 or 15 quarters, we've seen faster growth in our visits than we have in our membership. So that's an increasing portion of our revenue that we expect that to continue. So where is the bulk of our revenue today? We're 80-20, give or take, in terms of membership fees versus visit fees, but we see that shifting to, over the long term, being more like a 60-40.

Sean William Wieland
Piper Jaffray Companies, Research Division

And we just have a minute left but in that minute, I want to talk about your move into the provider market with some Thomas Jefferson, Parkview on the most recent quarter. What does that opportunity do for the model? And when does that segment of the market begin making a meaningful impact on growth?

Jason Gorevic
Chief Executive Officer, President and Director

Yes. So it's the fastest-growing segment of the market. Two years ago, I would've said there's a lot of discussion but there's -- nobody's buying anything. Today, people are buying. So hospital systems are buying. Why? Because they're bearing risk more and more, because they're interested in attracting new patients. And what we see is that we have a significant competitive advantage in that market because we offer a spectrum. Everything from turnkey, you come to us, we'll do everything for you on a fully outsourced basis, all the way to we'll provide the technology platform and you guys can run it yourselves, right? So -- and we can start somebody on the full turnkey, outsourced solution and migrate them over time into more of a platform-as-a-service model. So that's going to be the fastest-growing part of our market over the course of the next several years. When do I think it's going to make a meaningful impact on our revenue? We're probably 2 or 3 years away from that, but we do see significant growth. Well, we'll see 100% plus growth in that market segment over the course of the next 12 months.

Sean William Wieland
Piper Jaffray Companies, Research Division

All right. With that, we got to leave it there. Thanks, guys.

Jason Gorevic
Chief Executive Officer, President and Director

Thanks, Sean.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer
Thanks, Sean.