Call Participants

EXECUTIVES

Jason Gorevic
Chief Executive Officer, President and Director

Jisoo Suh
Director of Investor Relations

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

ANALYSTS

Charles Rhyee
Cowen and Company, LLC, Research Division

Jamie Stockton
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Lisa C. Gill
JP Morgan Chase & Co, Research Division

Matthew Gregory Hewitt
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Mohan A. Naidu
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Richard Collamer Close
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Ryan Daniels
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Sean William Wieland
Piper Jaffray Companies, Research Division

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Presentation

Operator

Good afternoon, and welcome to the Teladoc Fourth Quarter 2016 Earnings Release Conference Call. [Operator Instructions] Jisoo Suh, Director of Investor Relations, you may now begin your conference.

Jisoo Suh
Director of Investor Relations

Good afternoon, everyone. We look forward to discussing our fourth quarter and year-end 2016 results with you today.

Joining me for Teladoc's conference call are Jason Gorevic, our President and Chief Executive Officer; Mark Hirschhorn, our Chief Operating Officer and Chief Financial Officer; and Adam Vandervoort, our Chief Legal Officer and Chief Corporate Secretary.

Today, after the market closed, we issued a news release announcing our full year and fourth quarter 2016 results and filed our annual report on Form 10-K. The release and filings are available in the Investor Relations section of teladoc.com.

We'll start today's call with brief remarks from Jason and Mark, and Adam participating in Q&A.

We went to remind all listeners that Teladoc desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act.

Certain statements in this conference call, such as projections regarding future performance, may be considered forward-looking within the meaning of that act. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

For additional information on these factors, please refer to our press releases and filings with the SEC.

On today's call, we will refer to certain non-GAAP financial measures, which we believe are important in evaluating the company's performance. For more details on these measures, the most comparable GAAP measures and the reconciliation of the 2, please refer to the news release posted on teladoc.com.

And with that, I will turn over the call to Jason.

Jason Gorevic
Chief Executive Officer, President and Director

Thanks, Jisoo, and good afternoon, everyone.

As we reflect on our solid 2016 performance, I'm proud of the company and the industry milestones we set as we continue to execute on our mission to transform the health care experience for our members, clients and partners.

Turning to a review of the fourth quarter. We recorded total revenue of $37.4 million or a growth of 65%; total visits of approximately 310,000 or a growth of 68%, exceeding our guidance in spite of a mild winter and late flu season; and adjusted EBITDA loss improved to $8 million loss compared to $12 million in the same period last year. And for the full year 2016, we also made significant progress across all of our key metrics, including total revenue of $123 million or a growth of approximately 60%; total membership of 17.5 million lives, which is growth of over 40%; total visits of 952,000 or a growth of over 65% and representing full year utilization of 5.4%, which is a 70 basis point year-over-year increase; and finally, adjusted EBITDA loss for the full year improved to $39.7 million compared to a loss of $47.3 million in 2015.

In January, we completed a follow-on offering of approximately 7.9 million shares, resulting in net proceeds to the company of around $124 million. This capital raise provides us significant additional financial strength and the flexibility to reinvest in the company for growth and strategically add to our business as opportunities present themselves.

As part of the offering, we were able to engage with many of you and the broader investment community. It was terrific to hear your perspectives on our performance and strategy. So for those of you with whom Mark and I have spoken, I thank you for your support and for taking the time to share your insights.

During our call today, I will first go over our growing membership base and our performance in each of the attractive markets we've chosen. Next, I will provide a summary of our milestones in utilization. And lastly, I'll discuss how we continue to improve our service offering to our members, adding significant value and convenience to their overall experience.

In 2016, we grew membership by over 40%, and I'm happy to note that the growth was realized across the board through each of our sales channels and market segments.

In our core markets, where we serve health plans and large employer clients, we saw continued momentum in 2016, resulting in over 1,500 new clients.

In the recent selling season, we signed Bed Bath & Beyond, SunTrust, Takeda, Magellan, Petco and Owens Corning, among other enterprise clients, as well as new health plan clients, such as Health Net, Clover, Fallon and Ulticare, which have joined the Teladoc platform and recently gone live or will be implemented over the next several months.

We also saw strong momentum in the small to midsized employer segments, which continues to be one of our fastest-growing channels.

Just as important as new client wins, we made significant progress cross-selling new clinical services to existing clients. Health plans like UnitedAg and Premera as well as blue-chip enterprise clients, such as PepsiCo, Accenture, Johnson & Johnson, Masco, HP Enterprise and Cargill, among many others, have recently expanded their benefits to include coverage for Teladoc's behavioral health and/or dermatology offerings.

Our behavioral health offering, which more than doubled in 2016 to approximately $12 million of revenue, showcases consumers' accelerating acceptance of the telehealth channel for behavioral health visits.

In 2017, we expect behavioral health to continue to be a significant growth driver.

Meanwhile, existing clients like Rolls-Royce and Huntington Ingalls have embraced our 3-way caregiver technology platform that we pioneered with AARP, proving the broad appeal of our many solutions.

Additionally, we continue to have great momentum in the provider market as our client roster now stands at over 110 hospitals and health systems, up from approximately 60 at this time last year, including recent additions, such as Einstein Health and Silver Cross.

As many of you know, we have been methodically transitioning the composition of our historically VC-oriented Board of Directors to include members with deep industry experience aligned with our mission while continuing to enhance our overall corporate governance program.

In keeping with this effort, I'm very pleased to announce the appointment of Ken Paulus to Teladoc's Board of Directors. As the former President and CEO of Allina Health, one of the nation's leading health care systems of clinics, hospitals and specialty care centers, Ken will provide invaluable counsel as we continue to successfully accelerate our provider and hospital offerings.

I'd now like to turn to our 2016 milestones and member engagement and driving overall utilization of our products.

During the year, we completed our company's 2 millionth telehealth visit, representing savings through our clients in the U.S. health care system of over $900 million.

As context, it took us about 12 years to reach our first million visits, while only 14 months for our second million. This clearly signals the inflection point in overall telehealth adoption.

We also observed over 600,000 downloads of our family of mobile apps in 2016. Not only did this show increasing consumer engagement, it also gives us the operating leverage in our gross margin. Overall, our scalable technology platform is performing incredibly well and is primed to support our growth as we enjoy membership and utilization growth.

In November, for the first time, we reached daily visit volume records of over 5,000 visits per day compared to average daily levels of 3,000 to 3,500 visits per day just a few weeks earlier. Even with this uptick, we were able to comfortably handle this volume without adding any additional infrastructure.

We expect to continue to benefit from such operating leverage and the investments that we've made already in our platform and operations.

I'd also like to discuss several recent strategic partnerships that we've made with industry innovators to make Teladoc's offerings more attractive and extend the overall reach of telehealth. While these partnerships will start small in contribution, they represent critical steps in further enriching our consumer engagement efforts. For example, we recently partnered with Kinsa, provider of the first FDA-cleared smart thermometer to integrate their devices with the Teladoc platform to transmit comprehensive temperature readings that empower Teladoc physicians to make informed diagnoses.

Our newly expanded relationship with Analyte Health enables Teladoc members and physicians to seamlessly arrange for lab testing services via the Teladoc platform. This further supports quality diagnostics and extends the overall scope of telehealth applications.

And also, our new collaboration with Compass health provides Teladoc members with a thoughtfully curated in-network selection of primary care or specialist referrals from the Teladoc platform when needed, supporting our mission of patient-centered continuity of care.

Before I hand it off to Mark to review the results of the quarter and our outlook in greater detail, I'd just like to take a minute to thank our employees for their dedication and passion for delivering measurable value to our members and clients as we continue to trailblaze and innovate in the telehealth industry.

With that, I'll now turn it over to Mark.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Thank you, Jason. I'll first start with revenue where, in the fourth quarter, we generated $37.4 million, which represents 65% growth over the prior period. Organic revenue growth was approximately 40% over the same period last year. Subscription access fees accounted for $30.4 million or 81% of our total revenue and grew nearly 70% year-over-year. Increased subscription access fees reflect higher membership, which we've grown by 43% from 12.2 million members in 2015 to 17.5 million members at the end of 2016. You'll notice subscription access fees grew faster than total membership compared to the prior year. This primarily reflects contributions from HealthiestYou which, as Jason mentioned, has accelerated our penetration in the small- and midsized employer market, which tends to embrace more bundled services, often resulting in higher-priced PEPM contracts.

Our average per employee per month fee, or our PEPM, across our business in Q4 was $0.59 versus $0.48 in the prior year period. Average PEPM also increased sequentially from $0.55 in the third quarter of 2016. The 7% sequential increase reflects the impact of higher-priced contracts that became effective during the fourth quarter.

Visit fee revenue for the quarter grew 50% year-over-year to $7 million, all of which was organic. Visit fees accounted for 19% of total revenue, a mix that's roughly equivalent with what we experienced last year, while representing a sequential increase from the third quarter 2016 in which visit fees comprised 14% of revenue.

Turning to total visits. We completed approximately 310,000 visits in the fourth quarter, a 68% increase year-over-year and equating to a quarterly annualized utilization rate for all members of 7.1% or a 105 basis point improvement from the fourth quarter 2015. Total visits exceeded our guidance in spite of a mild flu season and reflect the impact and strength of our member engagement strategies.

59% of the total 310,000 visits we recorded were paid visits were practically unchanged on a sequential basis from the 58% in the third quarter 2016 and a slight decline compared to 64% in the same period last year. For the full year 2017, we expect 50% of our visit volume to comprise paid visits.

Additionally, as we have previously discussed, we expect the average value of our visit fees to increase longer-term reflecting the higher dollar per visit pricing from behavioral health and other new product offerings.

Our gross margin in the quarter was 73%, up slightly from 71% in the same period last year and reflects our subscription access fee revenue, accounting for 81% of total fourth quarter 2016 revenues compared to 79% in the prior year period. We continue to believe our revenue mix over the next several years will comprise 60% subscription access fees and 40% visit fees, all while maintaining attractive margins.

On a sequential basis, gross margin decreased from 78% in the third quarter, which is in line with our expectations as we completed increased visit volumes.

Net loss in the quarter improved to $14.3 million, and our net loss per share was $0.31 compared to a net loss of $0.39 in the same period last year.

Our weighted average common shares outstanding were 46.1 million shares in this period compared to 38.5 million shares in the same period last year. Note that our share count used for 2016 calculations do not account for the 7.9 million shares issued this past January.

Our total operating expenses in the fourth quarter were $38 million, which increased 31% over the prior year, reflecting increases spend in advertising, marketing and sales to drive the 65% revenue growth we've seen as well as an incremental headcount in our technology and corporate organizations to support our growth strategies.

Operating expenses as a percentage of revenue declined year-over-year, with particular leverage coming from general and administrative expenses, in line with our expectations.

Our adjusted EBITDA for the fourth quarter improved to a loss of $8 million compared to a loss of $11.8 million in the same period last year and also compares favorably on a sequential basis to a loss of $9.3 million for the third quarter of 2016.

Turning to our balance sheet. We ended the quarter with approximately $66 million in cash and short-term investments and $45 million in debt. Pro forma for the follow-on public offering that closed on January 25 this year, we had approximately $180 million of cash on hand. Again, this not only fortified our capital position but, as Jason already mentioned, allows us tremendous flexibility to be strategic over the next couple of years. We are extremely pleased with the outcome of the issuance, and I also want to thank our investor community for being so supportive of what we are trying to accomplish as a company.

Now I would like to provide our outlook for the first quarter of 2017 in which we currently expect total revenues between $41.5 million and $42.5 million; EBITDA loss between $14 million and $15 million; and adjusted EBITDA loss between $10 million and $11 million, reflecting the seasonal impact of higher onboarding expenses from millions of new members; total membership of approximately 20 million to 20.5 million members; total visits between 375,000 and 385,000; and finally, a net loss per share based on 52.1 million weighted average shares outstanding is expected to range from a loss of $0.33 to a loss of $0.34.

For the full year of 2017, we expect total revenues between $180 million and $185 million; EBITDA loss between $31 million and $34 million; and adjusted EBITDA loss between $19.5 million and $22.5 million, in which we target to achieve adjusted EBITDA breakeven in the fourth quarter of this year; total membership of approximately 21.5 million to 23 million members; total visits between 1.4 million and 1.45 million; and a net loss per share based on 54.2 million weighted average shares outstanding is expected to range from an $0.85 loss per share to $0.91 loss per share.

And with that, we can open up the call for questions.

Question and Answer

Operator

Our first question comes from the line of Sean Wieland from Piper Jaffray.

Sean William Wieland
Piper Jaffray Companies, Research Division

So I guess, on the Q1 guide, I hear you, you talked about some seasonal impact of higher onboarding expenses, but the EBITDA guidance is roughly the same as it was -- well, a little bit better than it was in first quarter '16 despite a higher revenue line. So can you just talk a little bit more about those onboarding expenses?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Yes. Sean, it's Mark. We brought on several million new members, and we expensed the entire cost of those members' onboarding experience. That's the outreach, that's the welcome kits, the cost of bringing them into our system and communicating with them. So all internal and external costs were all expensed in Q1. And again, I think I've shared with you in the past that the higher expenses in Q1 are a good sign for the company as the -- clearly, the number of new members coming on are going to be with us for, obviously, a year or multiple years based on the new contracts that we signed for those respective members.

Sean William Wieland
Piper Jaffray Companies, Research Division

And there was, if I remember correctly, a couple of large clients from -- was it Q3, that had flipped into January, are those contributing to the uptick in the members in Q1?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Yes. Certainly, we've got those plans that have joined or are joining over the next couple of months. They were delayed into -- as you correctly recalled, they were delayed into the start of 2017.

Sean William Wieland
Piper Jaffray Companies, Research Division

Okay. Your -- the guidance on the implied utilization for '17 comes out to about, I think, 6.4%, if my numbers are right, and it was 5.4% in '16. So it looks like that you're calling for an acceleration in utilization rates a little bit. Can you comment on what's giving you confidence there?

Jason Gorevic
Chief Executive Officer, President and Director

Yes. Sean, it's Jason. So that's exactly right. We continue to see visit growth exceed our membership growth. And that's based on, I would say, a few factors. One is the success of our consumer engagement strategies. And as you recall, Stephany joined us as Chief Marketing Officer the beginning of last year, and so we really started to see the impact of her contribution and the new team she put in place towards the second half of last year. And so this year, we'll get a full year of that benefit, and we continue to expand the sophistication and improve the sophistication of that. The second part is really just have to do with maturation of the telehealth market. And I really think that we've hit the inflection point in that growth rate. So we'll continue to see that accelerate.

Sean William Wieland
Piper Jaffray Companies, Research Division

Okay. And where does -- where can utilization go would be my last question.

Jason Gorevic
Chief Executive Officer, President and Director

The ultimate question. Look, I mean, if you do the math on the overall opportunity, we think that sort of terminal utilization within a given population is about 125%. And we have clients who are in the 40% to 60% range. And we have segments of our business, entire segments, that are in the 12% to 15% range. I think that, over time, the -- we're going to see it mature well into the double-digits. And I think in the next several years, we'll see it into sort of the mid-double digits.

Operator

Our next question comes from the line of Lisa Gill with JPMorgan.

Lisa C. Gill
JP Morgan Chase & Co, Research Division

Mark, I just wanted to come back and just talk about the guidance for a minute and just understand a couple of things. One, just the cadence of the EBITDA ramp. I understand the incremental cost in the first quarter, which I agree with you, are good things, meaning that you've signed more new members. But anything else that we should think about moving towards that breakeven, number one. And number two, can you help us just understand what's in the upper end and lower end of your guidance range?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Yes, sure. Again, our guidance for revenue, Lisa, remains at $180 million to $185 million. And while the loss for Q1 is clearly the largest loss we'll incur as a result of all those front-loaded costs, you should think of several million-dollar reduction for each subsequent quarter, getting us to that breakeven or slightly positive adjusted EBITDA figure for Q4. So somewhat linear.

Lisa C. Gill
JP Morgan Chase & Co, Research Division

Okay, great. And then how about like the upper end or the lower end of those ranges. Anything that you want to call out on either side?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

No. I mean we're comfortable with the ranges. We might narrow those ranges a bit in our Q1 call in early May. But today, and I think also back at your conference, we provided people with the understanding that if you look at 2016's ramp, there was a decrease in losses very similar when you start at the beginning -- in the first quarter and then you ramp down to $8 million in the fourth quarter. Here, you should think of a similar ramp but ramping down to 0.

Lisa C. Gill
JP Morgan Chase & Co, Research Division

Okay. And then just my second question is for you, Jason. You talked about behavioral health being a driver going into 2017. I know in the past we talked about dermatology. Can you maybe talk about anything else that you think you'll add as we think about your offering going into 2017? And based on your conversations with plan sponsors, are there things that they're looking for?

Jason Gorevic
Chief Executive Officer, President and Director

Sure. So thanks for bringing up dermatology. Over the last, really, 12 to 14 months, we've added 5 new service lines between behavioral health, dermatology, tobacco cessation, our caregiver product and our sexual health program. And so we've done a tremendous amount of product development. We're primarily focused -- my first focus is on making sure we get traction, we harvest the investment that we've made in those products. And it doesn't mean that we're going to stop, of course, we recently announced relationships with Compass to do referrals, with Analyte to do labs to expand the scope of what we can do clinically such that we are more useful to the consumer and, therefore, get more utilization. You'll continue to see us add new clinical areas, but I wouldn't say we're likely to do it at the same cadence that we did last year. We'll be a little bit more measured over the next several years as we add new adjacencies, clinical services and/or product offerings that perhaps, in some cases, we'll partner for; in other cases, we'll build ourselves.

Operator

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

Ryan Daniels
William Blair & Company L.L.C., Research Division

Jason, one for you on the mobile app. I'm curious if you can talk a little bit about the fulfillment cost when a consumer request to consult via that versus going through the call centers. I'm just trying to get a feel for the potential positive impact on gross margin as more and more of the business shifts to the mobile app?

Jason Gorevic
Chief Executive Officer, President and Director

Yes, absolutely. So you're exactly right. We get tremendously more leverage. Our COGS goes down because we don't have the call center cost associated with delivering a visit if someone comes in through the mobile app. So we think about roughly $5 of cost outside of the doctor visit when, in our COGS, about, give or take, a $1 of that is our med mal and the other $4 comes from the other areas. So we definitely get a lot more leverage on the gross margin when we deliver it through the mobile app.

Ryan Daniels
William Blair & Company L.L.C., Research Division

And is there anything you can do from a marketing standpoint or reduce the fee by a few dollars if you request via the mobile app in order to drive up that utilization given the pretty significant savings potential there?

Jason Gorevic
Chief Executive Officer, President and Director

So we certainly do a lot from a marketing perspective. In fact, if you look back at our communications from 2016, the majority of our calls to action were about downloading the mobile app because we know, if they download our mobile app, we get sort of 2 benefits from it. One is, of course, the gross margin leverage that you talked about; but the other is that we're constantly top of mind for them because we're there on their phone. So we are doing a lot to drive that, and that's really -- we're seeing the benefit of that in the increased proportion of our visits -- visit requests coming through the mobile app. We've talked a lot over the years about whether we need to financially incent and whether we would provide -- whether we would get more out of doing that. And we consistently come back to the fact that we think the market is going to go in that direction anyway, and we'd rather do it through our communications than by providing a discount that may not benefit us as much financially. It's not to say we would never do it, but that's where we -- it's coming out so far.

Ryan Daniels
William Blair & Company L.L.C., Research Division

Okay, that's helpful. And 2 more quick ones. Just on the provider solutions segment, it seems like strong demand there, going from 60 to 110 hospitals and health systems. Can you speak a little bit to the competitive advantage you have there versus some of the technology-only platform providers? I assume the AHA exclusive endorsement clearly has helped. But just other than that, kind of what's driving your strong growth in that marketplace?

Jason Gorevic

Chief Executive Officer, President and Director

Yes, absolutely. So I think we have an advantage on the technology side, which is -- which, as you say, is reflected in the AHA endorsement. That was specifically an endorsement of our technology platform. But in addition to that, we provide the flexibility for a hospital or a system to come to us, and we'll outsource everything for them, everything from the operations to the member communications to the clinical provision of service. On one end of the spectrum, all the way to pure Platform-as-a-Service, we'll license you technology and private-label it for you and you guys run it yourselves. And we can migrate a customer from one end of that spectrum to the other over time. That's a tremendous advantage because our system's so configurable for the client, then we've developed a proprietary readiness tool to help the client determine where on that spectrum they want to start and where they want to end up, and then we work with them on a migration plan over time. That's really -- I think that is unique to -- and not only is it unique to us, but it's really resonating with our clients.

Ryan Daniels
William Blair & Company L.L.C., Research Division

Okay, that's super helpful. One quick one for Mark. As we think about the paid visits going to that 50% level, is that also going to be linear through the year? Will there be a bigger jump towards that kind of 1/1/17 such that we're seeing close to 50% right at the start of the year.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

No, we expect that to be linear, Ryan, because now that we've got our first or second largest or fastest-growing component in that small- and medium-sized business, the majority of those sales are the visits-included sales. So we're looking at those premium PEPMs. And those come about throughout the year as sales for those businesses aren't as married to that 1/1 start date as the larger organizations are.

Operator

Our next question comes from the line of Jamie Stockton with Wells Fargo.

Jamie Stockton
Wells Fargo Securities, LLC, Research Division

I guess maybe the first one, Jason or Mark, if you think about your member base and who has access to your telehealth benefit, and it's either part of an all-you-can-eat payment model where the employer's picking up the whole cost, or at least the employer is counting that visit fee toward the deductible where the health plan is counting that visit fee toward the deductible, can you give us some sense for what percentage of your member base falls into that bucket where the actual patient either has no incremental cost for the visit or at least it's counting toward the deductible?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Yes, Jamie, the percentage of our membership is approximately 15% of our members today are covered under that visits-included model. There's likely another 3% to 5% that will have some degree of subsidy from the employer that's providing them with that contribution. So you could view that as a growing percentage clearly, or a growing absolute number, but I'm not sure that's going to be a materially growing percentage throughout the year.

Jason Gorevic
Chief Executive Officer, President and Director

And then, Jamie, I would say that our fully insured book of business is roughly represented -- representative of the percentage of the fully insured population that has high-deductible health plans, in which case, the Teladoc cost is going against their benefits or their deductible. So I don't think that we are -- I don't think we skew, one way or the other, either more in favor of high-deductible health plans or away from it.

Jamie Stockton
Wells Fargo Securities, LLC, Research Division

So when you say the fully insured, you're talking about health plans for their own fully insured lives, and they do count the cost of your visit towards the deductible that the members are facing?

Jason Gorevic
Chief Executive Officer, President and Director

That's correct. Yes, so in -- materially, all of our fully insured population is built into the benefit and either has its own custom copay is tacked to the primary care copay or is -- goes against the deductible.

Jamie Stockton
Wells Fargo Securities, LLC, Research Division

For the ASO lives -- and this is what I'm really getting at, for the ASO lives today where that visit fee doesn't count toward the deductible and it's not covered by some sort of all-you-can-eat payment that the employer is making, when are we going to see that dynamic change dramatically? I think there's an indication that maybe in 2018, Medicare would start to cover telehealth a little more aggressively. Is that the catalyst that's going to cause a lot of big self-insured employers to decide that, that's an encounter that counts towards the deductible or will take a longer? What are your thoughts on that front?

Jason Gorevic
Chief Executive Officer, President and Director

It's certainly moving in that direction. And of course, it helps when we sell in partnership with some of our health plan clients. But I -- so it's definitely moving in that direction. It's difficult for me to say off the top of my head what percentage of our, let's say, 230-or-so Fortune 1000 customers put that against their deductible, subsidize it completely or partially. But my guess is that this becomes -- in the next couple of years, this becomes just sort of an integral part of the benefits package, and it's built into the health plan cost-sharing model as opposed to sitting alongside it.

Jamie Stockton
Wells Fargo Securities, LLC, Research Division

Okay. And then maybe just one more, the Texas situation. It seems like maybe there's a legislative fix that's on the horizon there. Can you just give us your thoughts on the timing of that? And maybe, Mark, if you could tell us what you baked in the 2017 for legal expenses and when maybe this could fall off as a part of driving the ramp in EBITDA through the year?

Jason Gorevic
Chief Executive Officer, President and Director

Sure, so I'll take the first part. So Jamie, we've said for years now that we were targeting -- we were hopeful to get a legislative solution in the 2017 legislative session. There have been reports in the news about stakeholder meetings with multiple stakeholders. And so we're encouraged by that. We're encouraged by the substance of the bills that -- or the bill that seems to be emerging. The legislative session goes through the end of May, and I know better than to try to be too precise about what that process is going to look like and the timing of that process. But we are optimistic about the results of that overall process.

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

And Jamie, you know that over the past almost 2 years now, we've had on average over $1 million a quarter of legal costs principally all related to Texas. So if those costs were going to be reduced significantly as a result of a legislative action, we'd have that pickup in Q3 and Q4.

Operator

Our next question comes from the line of Mohan Naidu from Oppenheimer.

Mohan A. Naidu
Oppenheimer & Co. Inc., Research Division

Jason, maybe going back to the health system market. What is driving the appetite for health systems to take an aggressive action on the health care -- health -- telehealth offerings?

Jason Gorevic
Chief Executive Officer, President and Director

Yes, I think it's a couple of things, Mohan. One, they were sort of later to the telehealth game than other parts of the health care market. And to be honest, I think part of that is that they were just trying to digest what the ACA meant to them and trying to figure out what the implications of ACOs might be and figuring out value-based reimbursement and potential risk-sharing arrangements with the payers. And so it was just an issue of mind share for them. As they emerge from that with more cohesive strategies moving forward, they've become very focused on telehealth as a strategy. And there are really 4 or 5 different things that they're looking for. So they're not consistent -- the hospitals are much less consistent than the other markets in terms of what they are looking for. Some are looking for managing their risk because they're now taking financial risks and they're interested in figuring out how to optimize resource utilization and minimize the leakage outside their system. Others are looking for essentially patient acquisition. They're looking to try to figure out how to acquire new patients, and they see telehealth as a source of doing that. Some are looking at physician productivity, and they're frustrated by the lack of productivity of their owned or employed physician workforce, and so they see this as a way to improve the productivity. Some are looking at readmission avoidance. We just launched with a very large system that's using this specifically for post-acute, post-discharge adherence. And then of course, they're all -- almost all of them are the largest employer in their local market. And so for that, they look at it as a cost savings and access measure like our traditional employers do.

Mohan A. Naidu
Oppenheimer & Co. Inc., Research Division

Okay. And you said the health systems, you were about 110 now. How different is that revenue model given that you have various -- I guess, as you talked about before, a spectrum of offerings for the health systems depending on what they want? Or I guess, the other way of looking at it is how much of your revenue is coming from these telehealth -- health systems right now?

Jason Gorevic
Chief Executive Officer, President and Director

Yes. So it's a -- the revenue model is more of a license fee, a plus per visit administrative charge. If we are doing the -- if it's our physicians who are doing the visit then, obviously, we also get the full visit charge. If it's the hospital systems, providers who are delivering the visit, then we get an administrative fee on the -- sort of a transaction fee, if you will. And then, Mark, you want to comment on the percentage of our overall revenue?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Yes. Currently, Mo, we're still climbing up to approximately 5% of our revenue from subscription or access fees. That's it's all going to be -- principally all falls under that fixed contractual fee.

Mohan A. Naidu
Oppenheimer & Co. Inc., Research Division

Got it. Maybe if I can squeeze one in on the mix. Mark, you said you're going to get about 50% of paid visits this year on '17. How low can that number go? Or when you look at all-you-can-eat contracts, is that significantly increasing compared to the variable contracts?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Well, it's growing quickly, that cohort of the business is our fastest-growing. And quite frankly, based on the fact that we can generate a variable and stronger margin on some of that business because the smaller companies don't have the same pricing power as our largest clients. We would be fine seeing the percentage of paid visits representing a smaller and smaller percentage as we would have greater concentration of higher-priced annual subscription contracted revenue.

Operator

Our next question comes from the line of Charles Rhyee from Cowen and Company.

Charles Rhyee
Cowen and Company, LLC, Research Division

I'll just try to keep it pretty simple here. Maybe Mark, can you talk about -- I think you guys kind of touched on a little earlier the number of new services that you're kind of providing here. Can you talk about sort of the experience you've had last year in terms of cross-selling? And when we think about the revenue growth this year, how much do you attribute to cross-sell of services back into the base versus sort of -- and then how much of the -- when you look at the book in terms of new sales, people are buying the entire bundle?

Jason Gorevic
Chief Executive Officer, President and Director

Yes. So I would say, Charles, that -- we -- last year was really piloting these products and introducing them to the market. We've seen good uptake. And I mentioned in my prepared remarks a number of the clients who have taken our behavioral health products, our dermatology product as well as the caregiver product. I'm excited that, quite frankly, we only launched the caregiver product a few months ago and we already have 2 marquee clients who have adopted it and are building it into their offering or their value proposition for their employee base. In terms of overall contribution, we still have very conservative estimates for the contribution of this year. And that's because we're still going to be building penetration. I think that will continue to increase over the course of this year. And we're seeing -- we're having, to be honest, advanced discussions with some of our largest clients about introducing these new products and services into their mix. And remember that we get sort of a double benefit from those -- from introducing those products into a population. One, of course, it increases the utilization because there are more capabilities, more clinical services that the consumer can engage with but, two, materially all of those other types of clinical services are at a premium to our base general medical visit fee.

Charles Rhyee
Cowen and Company, LLC, Research Division

And then can that be introduced at any time of the year? Look, if these clients kind of say, "Hey, we want to do this," or does that wait till the next buying year?

Jason Gorevic
Chief Executive Officer, President and Director

Absolutely, it gets introduced over the course of the year. So it's not really tied to their contract year per se, and we have a very active effort working with our clients to introduce those over the course of the year.

Operator

Our next question comes from the line of Richard Close with Canaccord.

Richard Collamer Close
Canaccord Genuity Limited, Research Division

I just want to dive in a little bit deeper on some of the questions earlier. With respect to the health system and the good growth that you saw there, any targets that you can sort of lay out for us? Do you expect similar growth in terms of the number of health systems or hospitals here in 2017?

Jason Gorevic
Chief Executive Officer, President and Director

So the answer is yes. And to be honest, I would hope that it would accelerate. We really introduced that product the middle of -- beginning, sort of first -- yes, middle of last year was when that product fully came to market. And it's been getting tremendous reception. So I feel very good about that market segment. The traction we're getting, the velocity of opportunities and our close rates. So my hope is that, that will continue to accelerate.

Richard Collamer Close
Canaccord Genuity Limited, Research Division

And then, Jason, if you could talk a little bit -- have you guys been able to study the utilization patterns with the health system customers? Or is it just like you said, you just really launched it last year, is it too new to see whether see these guys may have higher utilization that you may be seeing in some of your other subsegments?

Jason Gorevic
Chief Executive Officer, President and Director

So the answer is sort of yes and yes. It's a little early to tell. And yes, we do a lot of studying of it. The thing I would just sort of caution on with the health systems is, you recall that I answered an earlier question by saying, it's a very heterogeneous group in terms of what their core strategy is and why they're introducing telehealth. And depending on which of those sort of 5 or 6 things I talked about is their primary goal, that has a big impact on how much utilization they get. So you might get much less utilization over a total population when you're using it as a post-discharge sort of care plan adherence program. But each one of those is extremely valuable. Whereas, if you're looking at it from a much larger population and you're trying to get -- drive volume and, therefore, do patient acquisition or work with your employee population, you're going to have much higher volume. So I can think of a hospital system, for example, that literally has over 100% utilization. They have more visits in a year than they have employees. And that is specifically focused on their own employee population. So it's kind of all over the board depending on what their core strategy is.

Richard Collamer Close
Canaccord Genuity Limited, Research Division

And then if you signed one of these guys up, and let's say it's not necessarily their employees, what determines how many members go into your member statistics? Or do they not, if they're just going out and market it themselves?

Jason Gorevic
Chief Executive Officer, President and Director

Yes, they don't. So only if we get a defined population would we have anything in our membership count.

Richard Collamer Close
Canaccord Genuity Limited, Research Division

Okay. And my final question would be for Mark. Just wanting to go over the EBITDA again as it progresses through the year and just looking at last year and how it progressed. I just want to understand the onboarding cost. First of all, where do all those onboarding costs show up on the P&L? Is it in the marketing and advertising? Or is it -- or just where does it show up on the expense line?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

Yes. Principally, marketing, advertising and SG&A, you're going to have both of those costs. This is -- Rich, we deal with both the production of the welcome kits, all of the information, the data inflows, really setting up all of the internal requirements to handle these millions of new members and their groupings and their accounts and reporting and then, obviously, the production and mailing, distribution of all these kits. So as you noted, right, Q1 of 2016, we had a $12 million EBITDA loss that reduced to $10 million in 2Q, $9 million in 3Q and $8 million in 4Q. It's safe to assume you're going to see the same decline in adjusted EBITDA losses but, obviously, bringing you down to 0 in Q4.

Jamie Stockton
Wells Fargo Securities, LLC, Research Division

Okay. So just to follow on that. But if I look at the advertising and marketing, it was, I mean, a 40 basis point improvement from first quarter to second quarter last year. And then your G&A was actually a little bit higher as a percentage of revenue in the second quarter versus the first quarter. So is there going to be something different this year with respect to that? Or should first quarter and second quarter be pretty similar as a percentage of revenue for advertising and marketing and G&A?

Mark J. Hirschhorn
Chief Financial Officer and Chief Operating Officer

No, G&A you'll see improve on a quarterly basis. The greatest -- I think, the greatest reduction as far as a percentage of sales will be viewed in G&A. And then quarter-over-quarter, you'll continue to see G&A improvement. You're getting most of your savings there and then, obviously, from the contribution of additional margin on each respective quarters' additional revenue.

Operator

Our next question comes from the line of Steve Wardell with Chardan Capital Markets.

Steven William Wardell
Chardan Capital Markets, LLC, Research Division

I was wondering if you can talk about what you're hearing from buyers. It's early in the selling season. Would love to hear about trends from the different categories of buyers, large employers, small and medium employers, carriers, others?

Jason Gorevic
Chief Executive Officer, President and Director

What we're hearing from them in terms of demand, in terms of products -- give me a little bit more guidance so I can answer your question directly.

Steven William Wardell
Chardan Capital Markets, LLC, Research Division

Sure. Do you think that demand this year is as strong or more strong or less strong than at this time in prior years? And are you seeing demand from multiple products in your category? And are you seeing a commitment toward educating their end users about the product?

Jason Gorevic
Chief Executive Officer, President and Director

Yes. So I would say demand is consistent with previous -- with last year in -- at the large end of the market, meaning at the employer, large employer health plan sector. We're starting, quite frankly, to see some employers to come -- coming -- sorry, some health plans especially coming to us who may have selected a lower-priced alternative before and are realizing that they're not getting the value out of it and are revisiting their choice. So that's different this year than it was last year at this time. And then the small end of the market is picking up substantially. That's been a market segment that's been later to develop. And so demand is higher now than it was at this time last year. And then the last part of your question, we're definitely seeing more interest in a broader array of services from us. I think the consultants are getting smarter among the large employer benefit consultants about the opportunity for us to impact a wider array of consumers and that they can get sort of an all-in-one solution. So I think that there is a lot of interest there that wasn't there last year, particularly with respect to the behavioral market.

Operator

And our next question comes from Matt Hewitt from Craig-Hallum Capital.

Matthew Gregory Hewitt
Craig-Hallum Capital Group LLC, Research Division

Most of my questions have been answered. Just one, I guess, this is maybe a little bit forward-thinking. But with the relationship with Kinsa, are you seeing -- or is there opportunities to expand into more of the remote monitoring market where you could either partnership or provide your own technology and kind of expand your opportunity there?

Jason Gorevic
Chief Executive Officer, President and Director

Sure, Matt. So we look at the remote monitoring space quite a bit. I would say our first step into that is not exactly remote monitoring, but we did a partnership with CareCentrix around the home care space, where a home care nurse can bring one of our physicians into the home virtually to help assess a patient. And we did Kinsa specifically because it's highly practical, very useful for the consumer, will drive engagement, which is a clear goal of ours, and it's an of affordable, approachable technology for the head of household who's really frequently making the decision, which is the female head of household. So that was -- that has proven to be a very attractive partnership. Remote monitoring gets to the next level of clinical integration, and so we're starting to talk to some hospital systems primarily about what they're doing and how we could be helpful to them. But it's not -- I wouldn't call it immediate on our product road map. It's a little further out relative to the next, let's say, 9 to 12 months.

Operator

And there are no further questions.

Jason Gorevic
Chief Executive Officer, President and Director
Thank you for participating in today's call. We look forward to updating you on our progress in May. And as always, you can reach out to Jisoo Suh with any follow-up questions.