Fiscal Fourth Quarter and Full Year 2021 Earnings Conference Call

March 31, 2021 | 8:30am EST

Corporate Participants

Balaji Gandhi | Senior Vice President, Investor Relations

Chaim Indig | Co-Founder, Chief Executive Officer & Director

Michael Davidoff | Senior Vice President, Marketing & Business Development

Thomas Altier | Chief Financial Officer

Other Participants

Jared Haase | William Blair & Company

Stephanie Davis | SVB Leerink

Scott Schoenhaus | Stephens Inc.

Sean Wieland | Piper Sandler & Co.

Hannah Baade | D.A. Davidson & Co.

Ryan MacDonald | Needham & Company

Sean Dodge | RBC Capital Markets

Daniel Grosslight | Citigroup

John Ransom | Raymond James & Associates

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Phreesia Fiscal Fourth Quarter and Full Year 2021 Earnings Conference Call.

I would now like to introduce Balaji Gandhi, Vice President, Investor Relations for Phreesia. Mr. Gandhi, you may begin.

Balaji Gandhi

Thank you, Operator.

Good morning, and welcome to Phreesia's earnings conference call for the fiscal fourth quarter of 2021, which ended on January 31, 2021.

Participating on today's call from Phreesia are our Chief Executive Officer and Co-Founder, Chaim Indig; Chief Financial Officer, Tom Altier; and Senior Vice President of Marketing and Business Development, Michael Davidoff. Following prepared remarks from Chaim, Michael and Tom, we will conduct a Q&A session.

A complete disclosure of our results can be found in our earnings press release issued yesterday evening as well as in our related Form 8-K submission to the SEC, both of which are available on the Investor Relations section of our website at ir.phreesia.com.

As a reminder, today's call is being recorded, and a replay will be available following the conclusion of the call.

During today's call, we will make forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future operational or financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control, including, without limitation, statements about our future financial performance, including our revenue, cash flows, cost of revenue and operating expenses; our anticipated growth; our predictions about our industry; the impact of the COVID-19 pandemic on our business; and our ability to attract, retain and cross-sell to health care provider clients. These statements are also subject to other risks and uncertainties, including those more fully described in our filings with the SEC, including in our Annual Report on Form 10-K that will be filed with the SEC later today.

The forward-looking statements made on this call speak only as of the date on which these statements are made. We undertake no obligation to update and expressly disclaim the obligation to update any forward-looking statements to reflect events or circumstances or to reflect new information or the occurrence of unanticipated events, except as required by law.

We will also refer to certain financial measures not in accordance with generally accepted accounting principles in order to provide additional information to investors. These non-GAAP measures should be considered in addition to and not as a substitute for or in isolation from our GAAP results. A reconciliation of GAAP to non-GAAP results may be found in our earnings press release and supplemental materials, which were furnished with our Form 8-K filed after the market closed on March 30 with the SEC and may also be found on our Investor Relations website at ir.phreesia.com.

As a reminder, we are participating on today's call from four different locations, so we appreciate your patience with us.

I will now turn the call over to our CEO, Chaim Indig.

Chaim Indig

Thank you, Balaji.

Good morning, and thank you for your interest in Phreesia.

Our fourth quarter reflects continued solid performance. Total revenue was $41.8 million, up 27% year-over-year. The average number of provider clients was 1,808, up 13% year-over-year. Average revenue per provider client was $17,858, up 7% year-over-year. Life sciences revenue was $9.5 million, up 58% year-over-year. Adjusted EBITDA was negative $85,000, a decline of $1.4 million year-over-year, reflecting our continued investment in long-term growth.

Our performance over the past year was truly a team effort. There are two unique aspects of the past fiscal year that I would like to highlight and acknowledge.

First, the transition to remote work. From the earliest days of the pandemic, everyone at Phreesia has had to adapt to full-time remote work, often in the same living space as their roommates or families who are working and learning remotely as well. This has allowed us to continue to grow our team to over 800 folks, who work tirelessly for our clients and their communities.

Our team grew 55% in Fiscal 2021, with growth spread across all areas of our Organization: service and support, sales and marketing, research and development and G&A. The recruitment and onboarding of hundreds of new team members in the pandemic environment was particularly challenging. There is no playbook to draw from.

Our human resources team and managers across the Organization adapted to the new environment by testing new approaches to recruitment and onboarding that we believe will strengthen our processes going forward. We will continue to invest and learn together as we adapt our Company to a permanently remote-first environment.

Second, the development of new solutions such as our COVID-19 screener, intake for telehealth and vaccine delivery management, all of which were not part of our near-term product road map when we entered Fiscal 2021. These modules are helping our clients operate safely and efficiently through the pandemic.

We saw significant client growth with our average provider client count in the fourth quarter increasing by over 200 clients year-over-year. These clients range from small ambulatory practices, who were onboarded quickly, to large health systems that engaged us and will likely look to expand their relationship with us over time. We will continue to invest across the Organization to support our work with all the new and existing clients.

Finally, we grew through acquisition. In October 2020, we integrated two web-based workflow applications codeveloped by Geisinger and Merck that are focused on patient communication and medication adherence, respectively.

In January 2021, we acquired QueueDr, an innovative company in our space who we have known for six years. Both of these additions to Phreesia were led by our operating executives. I've asked Michael Davidoff, our SVP of Marketing and Business Development, to join us today to provide an overview of the QueueDr acquisition.

Michael?

Michael Davidoff

Thank you, Chaim, and good morning, everyone.

QueueDr was founded in 2013 by Patrick Randolph. Patrick and his team set out to address the need for providers to reduce patient appointment cancellations and no shows and ultimately accelerate patient access to care. According to industry data, cancellations, reschedules and no shows can reduce a provider's revenue by over 20%.

What attracted us to QueueDr was a set of high-value SaaS features that will expand the value of our appointment space offering. QueueDr's software is designed to identify patient appointment cancellations and no shows and automatically fill those gaps in the schedule by pulling forward future patient appointments. We tracked QueueDr's progress in this space for many years and determined that it would take too long to replicate it through internal development.

In addition to QueueDr's strong product offering and cultural fit, roughly one-third of QueueDr's clients are existing Phreesia clients, which we believe speaks to the complementary nature of our products. As we indicated in our earnings press release, the total consideration for the acquisition consists of $5.8 million in cash, paid on the acquisition date, $2.1 million of liabilities incurred and $2.2 million in performance-related contingent payments. Over time, we believe the underlying QueueDr technology will enhance our appointment-based solutions and the overall value of the Phreesia platform to health care providers and patients.

I'll now turn the call back to Chaim.

Chaim Indig

Thank you, Michael.

Before handing it over to Tom for his final quarterly review of the financials, I would like to acknowledge Tom's contributions to Phreesia. Tom joined us in 2012 and brought with him half a century of experience in public accounting and growing technology businesses. He played an important role in our successful transition from a small venture-backed company to the Phreesia that was introduced to all of you through our IPO in 2019.

I speak for the entire Phreesia team, including our Board of Directors, in thanking Tom for his contributions. We wish him and his family all the best as he begins his next chapter in semiretirement at the end of April. Going forward, we will also benefit from his experience in a new advisory role, and I will continue to enjoy his friendship.

Tom?

Thomas Altier

Thank you, Chaim, and good morning, everyone.

I'll review the income statement, balance sheet and cash flows for the fiscal fourth quarter and update our outlook for Fiscal 2022.

First, total revenue was $41.8 million, up 27% year-over-year. Subscription and related services revenue was $18.8 million in the quarter, up 25% year-over-year.

Payment processing fee revenue was $13.4 million in the quarter, up 15% year-over-year, reflecting a continued recovery in patient visit trends but still slightly below pre-pandemic levels. Provider revenue, which combines revenue from subscription and related service fees with payment processing fees, was $32.3 million in the quarter, up 21% year-over-year. The two drivers of the 21% provider revenue growth in the quarter were average provider client growth, up 13% year-over-year, and average revenue per provider client, up 7% year-over-year. As we indicated last quarter, provider client growth has been trending higher, reflecting increased demand for our offerings.

That being said, our land and expand go-to-market strategy tends to result in quarter-to-quarter variability between the contribution of client growth and revenue per client. This has been the case for many years, as our historical results show.

Life sciences revenue was $9.5 million in the quarter, up 58% year-over-year. Our team continues to execute on closing new business and delivering messages to very targeted patients.

Now let's move on to expenses. I will review several expense line items on an adjusted non-GAAP basis, which excludes stock-based compensation expense from each line item. Please note that a full reconciliation of GAAP to non-GAAP measures, including Adjusted EBITDA, is included in our earnings press release and our Form 10-K to be filed with the SEC.

Cost of revenue was $6.8 million or 16.2% of total revenue, up 320 basis points year-over-year. The year-over-year trend reflects the ramp-up we discussed last quarter in our client services organization to support our growth. On a sequential quarter basis, cost of revenue as a percentage of revenue was down 10 basis points.

Sales and marketing expense was $12 million or 28.7% of total revenue, up 530 basis points year-over-year. The increase reflects the accelerated investments we previewed earlier in the fiscal year to support our current and future anticipated growth.

Research and development expense was $5.9 million or 14% of total revenue, up 10 basis points year-over-year as a percentage of revenue. Note that we expect the pace and level of investment in R&D to accelerate over the next several quarters and dollars will be allocated across the existing platform as well as into new products and solutions.

General and administrative expense was $9.5 million or 22.8% of total revenue, down 180 basis points year-over-year as a percentage of revenue. We continue to ramp up public company expenses, particularly in finance and legal. We expect to begin to see operating leverage in the fourth quarter of Fiscal '22.

Payment processing expense was $7.8 million, up 12% year-over-year. Payment processing margin was 42%, up 120 basis points year-over-year due to the mix of transaction type and lower cost routing of payments. Longer term, we expect payments margins to return to the 40% range with a quarter-to-quarter variability due to transaction type mix and interchange fees.

Adjusted EBITDA was a loss of $85,000, a decline of $1.4 million year-over-year. The decline is largely due to the acceleration of investment across the Company but most notably in sales and marketing in the fourth quarter as we capture the growth opportunities we are seeing in the market.

Shares outstanding as of March 26 was 44.9 million.

Cash on the balance sheet at January 31 was $218.8 million, down $35.3 million from October 31. However,

we paid down our $21 million revolver in the fourth quarter. Cash flow from operations from the quarter was $4.1 million compared to $1.3 million in the prior year quarter.

Capital expenditures for the quarter were $7.5 million, up $4.3 million year-over-year. The significant increase reflects our ramp-up in data center equipment purchases and capitalized software to support our growth.

Our outlook for revenue growth in Fiscal '22 remains 20% to 25%, which translates into a revenue range of $178 million to $186 million. We expect our overall cash outflow to increase in Fiscal '22 compared to Fiscal '21 as we continue to ramp up hiring and infrastructure across the Organization to support our anticipated growth.

In closing, the past eight years with Phreesia have been an incredible journey. I'd like to thank Chaim and the entire Phreesia team for their partnership and support. I wish the best to Randy and the finance team members, who have been so dedicated to our mission and growth over the years.

We're ready to take your questions.

Operator?

Operator

Your first question comes from the line of Ryan Daniels with William Blair. Ryan, your line is open.

Jared Haase

This is Jared Haase on for Ryan. Thanks for taking the questions.

Just wanted to ask, maybe a quick one to start, on the life sciences revenues. Obviously, that was strong again, both on a year-over-year basis as well as sequentially versus last quarter. I think last quarter, you talked about you kind of continuing to make some investments and maybe feeling a little bit better about the team and kind of where that product line is positioned in the marketplace.

Just curious if the strength here this quarter has more to do with any sort of seasonality factors, thinking maybe year-end budget flush with pharma clients. Or is it really just kind of continued execution with the sales team and then just a really strong demand environment?

Chaim Indig

Good morning.

I love talking about our life sciences org. What I'd say is that it's just execution. As much as I'd love to be able to point to a onetime seasonal thing, at the end of the day, the team has just been doing a really good job of really focusing on clients and making sure that we deliver phenomenal value and strong ROIs and are clearly articulating our value.

Jared Haase

Got it. Yes. Thanks for that. That's good color.

Then, I guess, just maybe a bigger picture question, kind of thinking more longer term.

Given all the things that have kind of changed from a demand perspective over the last year or so in

the product lines that you have developed as well as the pace of hiring and the way in which you kind of transformed the cost structure a little bit, is there any reason to think about any sort of meaningful difference in your longer-term margin targets for the business? Or you still feel like eventually getting to maybe 20% Adjusted EBITDA margin is the right sort of longer-term target?

Chaim Indig

That's still the right target for us. I think the only thing we've done is increased our investment levels to support what we see as our ability to grab unfair share of market. We're very enthused. This is my excited voice. We're very enthused about the reaction and feedback we're getting from our client base. We're going to keep leaning in and investing to capture that share.

Jared Haase

Okay. Great. Thanks for that.

Chaim Indig

Cheers.

Operator

Your next question comes from the line of Stephanie Davis with SBV Leerink. Stephanie, your line is open.

Stephanie Davis

Hi, guys. Thank you for taking my questions. Congrats on the quarter.

Chaim Indig

Thank you.

Stephanie Davis

Looking at your three revenue lines, as you go forward to next year, you've got a likely acceleration in your subscription growth because you just had a huge sales force investment. You have a likely acceleration in payment processing because of fees that are still to come. Does that leave life sciences as the plug to make 20% to 25% growth? But all market signals on your recent performance there suggests that that shouldn't be decelerating dramatically. Could you help me reconcile that?

Chaim Indig

I can't reconcile your numbers, and I tend not to run the business by plugging. But I will say that we feel that the investments we've made across the board are really paying off. All of our early indicators that we see are very, very positive. I think life sciences is—our life sciences team is capturing also an unfair share of market gains, too. We feel good across the board. But that being said, I have no idea what the recovery is going to look like, and we just know that we're going to keep supporting our clients any which way possible.

Stephanie Davis

Maybe asked another way, is there anything that will cause deceleration in that life sciences revenue?

Chaim Indig

I'm sure, if you thought enough ways, there's ways you could decelerate it. But we're really focused on it, on

continued growing it. I don't know if that—I don't really wake up and think about how I could decelerate the business.

Stephanie Davis

Okay. Fair.

Chaim Indig

That's right. We're pretty pumped about all—like just everyone's sort of running hard here. We're really excited.

Stephanie Davis

How do you get to only at the midpoint three points of revenue growth acceleration?

Chaim Indig

The numbers get bigger.

Stephanie Davis

No, I get that. The point is the only three points. It's not that three points is the low end.

Balaji Gandhi

Yes. It's Balaji, Stephanie.

I'd just say the acceleration in and of itself is a move up from our growth rate historically. You just have to sort of take it that way.

Stephanie Davis

Okay. Fair. A quick follow-up on the QueueDr. It sounds like there's only a third overlap in your client base. Are you going to use this more as a capabilities expansion? Or is there a cross-sell opportunity for incremental revenues there for that two-thirds that doesn't have it?

Chaim Indig

We both think this is capabilities, and it will allow us to cross-sell other applications. It will fit into applications that we are cross-selling to our client base. It's already integrated. We've had early success to date already. It's been good.

Stephanie Davis

All right. Thank you.

Chaim Indig

Cheers.

Operator

Your next question comes from the line of Scott Schoenhaus with Stephens. Scott, your line is open.

Scott Schoenhaus

Thank you. Hi, Chaim and team.

I wanted to ask you a balance sheet-related question I thought was interesting. Property, plant and equipment nearly doubled from last quarter. I wanted to see if you could provide more color on what investments you're making there and what that means for your business.

Chaim Indig

Because of the big ramp in volume, we're also making fairly significant investments in data centers. A lot of that is just to add significantly more capacity.

Scott Schoenhaus

Is that also a sign that you're continuing to succeed upmarket into larger hospital systems, you need these larger data centers or more data centers?

Chaim Indig

To be clear, I think we're succeeding not just in large health systems, in the mid-tier and large ambulatory groups and surgery centers. Frankly, I think the team is doing a phenomenal job across the board.

I think we've had some really nice wins in all of the markets that we've been tackling. I'm just very pleased. We want to make sure that we continue to invest to continue to support the market share gains that we're winning.

Scott Schoenhaus

Great. Just a follow-up there. You're obviously seeing success in selling to—across the board, client base and taking share. How does the dynamic change between provider client growth and average revenue per client, given these larger land and expand opportunities with larger hospital systems? Just to be specific there, the cross-selling and up-selling opportunities once you expand into these systems. Is there a way to think about the average revenue per provider growth kind of accelerating in the back half of the year into Fiscal '23? Just trying to get more color there.

Chaim Indig

Yes. I think when you think about one of the things that we pointed out even in our TAM, we didn't think that we were going to be able to grab as much payment volumes in the large hospital systems. You're seeing some of that shift happen. But look, we view those metrics as tightly tied together, both average revenue and revenue per client. Those are metrics that, internally, the entire Leadership team is strongly tied to.

Scott Schoenhaus

Got it. Thanks, Chaim.

Chaim Indig

Cheers.

Operator

Your next question comes from the line of Sean Wieland with Piper Sandler. Sean, your line is open.

Sean Wieland

Hi. Thank you. Good morning.

I'd like to better understand payments up 15%, life science revenue up 58%. I would suspect that both of those have at least some correlation to visit volume. Can you discuss what the separation there is?

Chaim Indig

There is some correlation to visit volume. You're correct. But the life sciences revenue has other drivers to it as does the payment volume. Since we—you did see a slight drop in our—where we—where the PayFac was the—was tied to Phreesia. But we've also done a great job of cross-selling more visits to different life sciences customers using our significant investment in data science.

Sean Wieland

Okay. Can you just—as a follow-up, what was the overall trend in visit volume for the year across the platform? And how is pricing holding up in the payments business?

Balaji Gandhi

Hi, Sean, this is Balaji.

The Commonwealth data, which we've been putting out, I mean, we want to be clear, we don't disclose visit data as sort of other KPI or anything like that. But you can see the data from Commonwealth, which spans pretty much the entire fiscal year, that it basically got within low single digits of pre-COVID levels by the end of the year. But overall, I mean, it was clearly down year-over-year. If that helps you. It's more tied to payments, as Chaim said, than it is to life sciences.

There's some nuances in life sciences, but payments, there's much more of a direct impact.

Sean Wieland

Okay. How about the pricing in the payments business?

Balaji Gandhi

Can you be more specific on that?

Sean Wieland

Can you characterize the pricing environment in the payments business, your pricing?

Thomas Altier

Sean, I think you're talking about our take rate. Is that correct?

Sean Wieland

Yes.

Thomas Altier

Yes. It's been pretty flat sequentially. It's down like a hair, but not much sequentially.

Sean Wieland

Okay. Thank you very much.

Operator

Your next question comes from the line of Hannah Baade with D.A. Davidson. Hannah, your line is open.

Hannah Baade

Hi. Thanks for taking my question.

As Phreesia moves upmarket with larger health system clients coming online, putting pressure on the percent of patient volumes processed through Phreesia, can you ballpark where we should expect this percent to moderate?

Balaji Gandhi

Can you repeat that, Hannah?

Hannah Baade

Yes. On the stat, the 79% this quarter of patient volume processed through Phreesia, obviously, as Phreesia moves more upmarket, the larger health system clients coming online, that's going to put some downward pressure on that statistic. Can you ballpark where we should expect this to moderate as you move more upmarket?

Balaji Gandhi

Yes. I mean, I think I'll let Chaim and Tom follow up on this one, but it's a function of just the types of clients we add quarter-to-quarter and the type of growth we get. There's definitely mix in there. It's hard for us to, I think, tell you what the PayFac rate is going to be.

There's a little bit of chicken and egg there. But I think, and Chaim and Tom can weigh in here, but that change, the delta in that percentage is a reflection of moving up market, the decline that you saw.

Anything you want to add, Chaim or Tom?

Thomas Altier

No.

Chaim Indig

No.

Thomas Altier

As we add health systems and if they don't take payments, you'll see that decline.

Hannah Baade

Okay. Thank you. That's very helpful.

Just one follow-up. With a recent and likely episodic shift to vaccines, mass vaccination sites, pharmacies and grocery stores as opposed to traditional ambulatory care centers, are you seeing any customers impacted in regards to the visit uplift that they might have been expecting specifically for COVID vaccines?

Chaim Indig

I'm not sure I understand the question. Can you try again?

Hannah Baade

Yes, absolutely. As vaccines kind of shift away from a traditional doctor's office and an outpatient care center to, say, a CVS, have you seen any customers kind of be impacted in regards to customer revenue they're expecting to get in-office because vaccines have shifted to kind of these external care centers like a pharmacy?

Chaim Indig

I don't think our clients, and this is conversations we've had with them, are waking up thinking that vaccines are a revenue driver. I think that what we're seeing is our clients and provider groups and health systems are mostly looking at this is, how do they vaccinate their communities as fast and effective as possible. I know a bunch that are partnering with the pharmacies locally and other organizations. I think the goal, Hannah, is to try to vaccinate the population as effectively possible, not to think about this as a profit driver. We don't monetize it in a meaningful way.

Hannah Baade

Got it. Thanks, guys.

Chaim Indig

Thanks.

Operator

Next question comes from the line of Ryan MacDonald with Needham. Ryan, your line is open.

Ryan MacDonald

Tom, best of luck in semiretirement. Great working with you.

Thomas Altier

Thanks. (Multiple speakers).

Ryan MacDonald

My first question on—yes, thanks.

My first question, I guess, for Chaim. Obviously, seeing some continued strength in new logo growth. Curious to see here how the newest group of SDRs that you added in throughout 2020 are impacting that new customer level growth? How are they ramping in terms of productivity versus your internal expectations?

Chaim Indig

I've been really very pleased, would be an understatement. I sat through one of the weekly demand gen calls last week, and I know Tom sat through a couple of them, too. They're just doing a good job. They're really able to reach out to people effectively. They're doing their calls effectively. We're seeing good demand gen.

I don't want to say I'm pleasantly surprised, because I'm not surprised, because we have a phenomenal Organization, but they're doing it as expected. We're very excited for the new group of folks that we have on the team.

Ryan MacDonald

Great. As a follow-up to that, as you sit on those types of calls and listen to the dynamics of the market, is there anything that you're seeing in terms of incremental change and whether it's heightened demand? Or as your reps are out talking to prospective customers, is there noise of other vendors sort of that are in the same markets right now? We've certainly heard a lot of noise from a financing of other vendors in this space. But curious if you hear how early stages of market opportunity still is here.

Chaim Indig

We've always heard noise for 16 years. Everyone always thought that this space is easy to be in, and delivering solutions is all it requires is a website or a press release. A general view is raising money and putting out websites and press releases doesn't create product to drive a phenomenal amount of value.

I think what we're doing is making sure that our customers get products that drive a phenomenal amount of value at great value and then rolling out and trusting us even more for more products. That thesis has proved phenomenally well for years, and we're not seeing any change in that. When we use usage as our North Star, we want to make sure not that we just get our products sold, but that patients use it. When we transfer the work to the patient, we get this amazing ROI. I don't think now is any different. I just think that the numbers get bigger and the press releases get louder.

Ryan MacDonald

Great. Thanks for the color. Congrats again on a good quarter.

Chaim Indig

Cheers.

Operator

Your next question comes from the line of Sean Dodge with RBC Capital Markets. Sean, your line is open.

Sean Dodge

Yes. Thanks. Good morning.

Maybe on the acute care opportunity. When we think about timing and a potential ramp from then, is there anything you can share with us to kind of help better frame that out? And obviously, hospital workflows are a lot more complicated. There's just a lot of de novo development work you're having to do? Is there a lot more integration work? How far along do you think you are on that? And then I'd imagine sales cycles—sales processes are different, too. Anything just to kind of better frame on timing?

Chaim Indig

I think we're going to keep investing. I don't think this is the fifth inning. It's probably closer to the second inning. We're seeing real value propositions and wins. Yes, we're going to keep investing heavily in the product, in the workflow, in the integrations, in the people, in the process and in the value that we provide our clients. If we just keep rinsing and repeating with the same formula and we keep doing it at scale, I think we're going to keep having the success that we've had previously and hopefully at even greater degrees.

Sean Dodge

Okay. Then...

Chaim Indig

Just to clarify, we don't have any data to say that the sales cycle is longer.

Sean Dodge

Okay. On—maybe on social determinants. It was about a year ago now, you guys began to highlight the work you were doing there. I think it was initially in North Carolina, building and the ability to screen for those, integrating that into the intake process. Is there any interesting developments, updates you can share there?

Chaim Indig

Yes. I think we've been doing a bunch of work, and Michael could talk to this also, around vaccine hesitancy in different communities and understanding vaccine hesitancy, understanding the impact of the virus on different communities often tied to their social determinants. But this is an area which we have not slowed down our investment. We think it makes a material difference to health care delivery and patients in America.

Michael, you want to add to that?

Michael Davidoff

Yes, Chaim. Thanks for the question.

I think I would just add that we're continuing to invest in our clinical team and expanding that group. They're doing some incredible work with measuring hesitancy and working with our clients to really understand how they can improve the ability of the delivery of the vaccine to groups that just might not be comfortable getting the vaccine right now. It makes us extremely proud and really speaks to the mission of the Company.

Sean Dodge

Okay. Great, thanks again.

Operator

Your next question comes from the line of Daniel Grosslight with Citi. Daniel, your line is open.

Daniel Grosslight

Hi, guys. Thanks for taking the question. Congrats to a strong quarter.

I just have a quick question on the patient payment volume. If I divide patient payment volume by the average provider client in the quarter, I get a sequential increase versus 3Q of about 1% versus an 8% sequential increase from 2Q to 3Q. I'm just curious of any trends you've seen recently on the patient

payment volume per provider growth.

Was the large sequential increase in 3Q due to a bolus of larger clients coming aboard, etc.? And how should we think about the growth in patient payment volume per provider for Fiscal Year 2022?

Chaim Indig

Tom, you want to get that?

Balaji Gandhi

There's a lot in that question, but maybe just to break it down, Daniel, maybe the first part is it was sequentially, Daniel, you're trying to understand payment volume trend from—was it 2Q to 3Q or Q4?

Daniel Grosslight

Exactly. I'm trying to understand the patient payment volume per provider client sequential growth trends. Because it grew pretty rapidly in 3Q, about an 8% sequential increase per provider and then slowed to around a 1% sequential increase, still very, very good relative to historical, but a sequential slowdown.

I'm just trying to understand trends underlying the sequential growth in payments per provider and how to think about that in Fiscal Year 2022.

Thomas Altier

Dan, I think there's probably some seasonal impacts in there and some impacts from our land and expand strategy that make it somewhat difficult to answer that question crisply. The decline in per provider patient payment volume has a lot of factors that go into it, size of the customers, etc. It's tough for me to give you a forecast as to what that's going to be in the future.

Daniel Grosslight

Okay. Okay. Understood. All right.

Then, I guess, another question I have is on the vaccine rollout. There's been some good press reports on how you've been helping some of your clients with the intake process there. I know you're giving those capabilities away free of charge, similar to what you did with telehealth modules. But I'm curious how you may leverage some of the goodwill or the learnings that you learned during the vaccine rollout into a growth acceleration in Fiscal Year 2022, i.e., will this accelerate some of the sales prospects that you had in the pipeline.

Chaim Indig

I think all these things, when you do right by clients, when you build really amazing products that help massive amounts of people, the general view that I have and everyone here has is the positive outcomes usually follow. That's something we've seen traditionally and untraditionally through our entire existence in 16 years.

It's not a halo. I think we've built some really amazing products that have helped us win clients because of it. We have won clients because of it, and our clients feel really good about us being able to support them through tough times, and that's part of that relationship that we build. Also, it's just the right thing to do. I want everyone to understand that we will always endeavor to try to always do the right thing. It's important.

Daniel Grosslight

I understand. All right, guys. Thanks.

Operator

Your final question comes from the line of John Ransom with Raymond James. John, your line is open.

John Ransom

Good morning. Chaim, I think you need to practice that excited voice a little bit. That was not that excited.

But the question I have is, recently, Visa and Mastercard talked about maybe bumping up the interchange fee. They pulled back after some political pressure. But just help us size if that does go up, what does that mean for your payments business?

Thomas Altier

Chaim, do you want me to take this?

Chaim Indig

I do. But give him your excited voice first.

Thomas Altier

Okay.

Chaim Indig

Because, you were pretty excited about that.

Thomas Altier

John, I think they announced about a 10 bps increase in their list prices in January or February, and that's what they backed off on, I assume. That's a rumor. I don't know the exact number, but that's what I read in the press as to what their price increases would have been on a list price basis in April. That gives you some size on it.

John Ransom

Can you translate that to Phreesia revenue in case our calculator down here is broken? If it does get through?

Chaim Indig

It means that we don't have to pass on an increased cost to our providers. It means that Visa, Mastercard unfairly taxing health care providers in America just got put on hold for a little bit. It was a good thing. I don't think it's really—it's great that they have that pressure.

John Ransom

Okay. Got you. The other question, and I'll probably be the only guy that doesn't understand this. But could you say again why, as you transition to larger clients, that 79% ratio that you referred—that put some pressure on that number, why is that ratio lower than it is what you're doing mostly smaller back offices?

Chaim Indig

In the sales cycle, what we've often found is in very large health systems, the treasury group of the large health systems have tight relationships with large banks. Often, they give them their credit card processing as part of those relationships. It often takes some bit of maneuvering to be able to pry that away from the banks who are unfairly charging and taxing them for it. That's generally what we've seen. It's often tied to lending relationships.

John Ransom

I got you. Okay.

Chaim Indig

Okay.

John Ransom

And, you know...

Chaim Indig

Go ahead.

Thomas Altier

John, are you there?

Operator

John, if you would like to press star, one to re-queue up.

Balaji Gandhi

We lost John Ransom.

Operator

John's line is now open.

John Ransom

She cut me off. Reminds me of home.

The jump in SD&R, is that—I'm sorry, marketing, is that mostly just a headcount issue in SD&R? Is there something else still on it?

Chaim Indig

Yes. It is. It's us investing in that future team to make more sales. Thank you.

Operator

This concludes our question-and-answer session. I'll now turn the call back over to Chaim Indig for closing remarks.

Chaim Indig

Thank you, everyone, and thank you, again, Tom, for your last earnings call, and we appreciate everyone's support. We'll talk to you in a couple of months. Cheers.

Operator

Ladies and gentlemen, this concludes today's conference call. On behalf of Phreesia, thank you for participating.