

Phreesia

Fiscal Third Quarter 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

Balaji Gandhi, *Senior Vice President, Investor Relations*

Chaim Indig, *Chief Executive Officer and Co-Founder*

Randy Rasmussen, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Anne Samuel, *JPMorgan*

Ryan Daniels, *William Blair*

Richard Close, *Canaccord*

Jessica Tassan, *Piper Sandler*

Stephanie Davis, *SVB*

Glen Santangelo, *Jefferies*

Daniel Grosslight, *Citi*

John Ransom, *Raymond James*

Scott Schoenhaus, *KeyBanc*

Joe Vruwink, *Baird*

Ryan MacDonald, *Needham*

Robert Simmons, *D.A. Davidson*

PRESENTATION

Operator

Good evening, ladies and gentlemen, and welcome to the Phreesia Fiscal Third Quarter 2023 Earnings Conference Call.

First, I would like to introduce Balaji Gandhi, Senior Vice President, Investor Relations of Phreesia.

Mr. Gandhi, you may begin.

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Balaji Gandhi

Thank you, Operator.

Good evening and welcome to Phreesia's earnings conference call for the fiscal third quarter of 2023, which ended on October 31, 2022. Joining me on today's call are Chaim Indig, our Chief Executive Officer and Co-Founder; and Randy Rasmussen, our Chief Financial Officer.

A complete discussion of our results can be found in our earnings press release and in our related Form 8-K submission to the SEC, including our quarterly stakeholder letter, both issued after the markets closed today. These documents 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 on our Investor Relations website at ir.phreesia.com following the conclusion of the call.

During today's call, we may make forward-looking statements, including statements regarding trends, our anticipated growth, our strategies, predictions about our industry, and the anticipated performance of our business, including our outlook regarding future financial results. Forward-looking statements are subject to various risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from those described in our forward-looking statements. Such risks are described more fully in our earnings press release, our stakeholder letter, and our risk factors included in our SEC filings, including in our quarterly report on Form 10-Q that will be filed with the SEC tomorrow.

The forward-looking statements made on this call will be based on our current views and expectations and speak only as of the date on which the statements are made. We undertake no obligation to update, and expressly disclaim the obligation to update, these forward-looking statements to reflect events or circumstances after the date of this call, or to reflect new information or the occurrence of unanticipated events.

We may 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 release and stakeholder letter, which were furnished with our Form 8-K filed after the market closed today with the SEC and may also be found on our Investor Relations website at ir.phreesia.com.

One final note. As discussed in our stakeholder letter, we are updating the nomenclature of one of our revenue categories in our consolidated statement of operations, beginning with this reporting period. The revenue line previously named Life Sciences will be named Network Solutions going forward. This change in nomenclature had no effect on prior revenue amounts. We have provided a background on why we chose to make this change in our stakeholder letter.

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

Chaim Indig

Thank you, Balaji.

Good evening, everyone. Thank you for participating in our third quarter earnings call. Our stakeholder letter and earnings release hit the wires at just after 4:00 p.m. Eastern. Let me share some key highlights for those of you who haven't had a chance to go through all the materials yet.

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Revenue in the third quarter was $73 million, up 31% year-over-year. That's our seventh consecutive quarter of over 30% revenue growth. I want to congratulate and thank the entire Phreesia team for making this happen.

In the quarter, our average number of health care services clients was 2,982. We added 206 average health care services clients from the second quarter to the third quarter. Health care services revenue, which is the combination of subscription and related services and payment processing revenue, was up 30% year-over-year in the third quarter. On a per average health care services client basis, subscription-related services revenue remained in the $11,000 range in the third quarter, reflecting both our land and expand go-to-market motion and another quarter of growth in average health care services clients.

Payment processing revenue grew 22% year-over-year in the third quarter. Network Solutions revenue, the new name for our revenue category previously known as Life Sciences, was up 33% year-over-year.

Moving on to our outlook for the rest of the fiscal year. We expect revenue for the Fiscal Year 2023 be at least $278 million, up from a range of $273 million to $275 million. We expect average health care services clients to increase by approximately 150 in the fourth quarter. We expect fourth quarter subscription and related services revenue on a per average health care services client basis to remain roughly in line with our second and third quarter results.

We continue to see solid operating leverage, and we expect to return to Adjusted EBITDA profitability in Fiscal Year 2025. Based on our strong year-to-date performance, we've taken the Adjusted EBITDA outlook for the fiscal year to approximately negative $95 million from a previous range of negative $109 million to negative $106 million. We remain comfortable with our ability to finance our Fiscal Year 2025 targets and expect to end Fiscal 2023 with approximately $170 million in cash and cash equivalents. We believe our capital allocation strategy sets us up to deliver on our financial targets for Fiscal 2025 and beyond.

Everyone here at Phreesia is focused on driving value for all of our stakeholders, including driving shareholder value.

Operator, we think we can now open it up for Q&A.

Operator

Your first question comes from the line of Anne Samuel with JPMorgan. Your line is open.

Anne Samuel

Hi, guys. Congrats on the terrific results.

Chaim Indig

Thank you.

Anne Samuel

In your letter, you talked about an incremental $1 billion opportunity from the payer space as you add to Network Solutions.

I was wondering if maybe you could just discuss a little bit how you get paid in this new area and how we should think about the pace of growth for that segment relative to your traditional Life Sciences business.

Randy Rasmussen

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Can I take that one?

Chaim Indig

Sure.

Randy Rasmussen

Yes. It's similar to how we get paid for clients that's based on digital engagement, so based on the volume of digital engagement we receive, we bill and receive cash for that. it's very similar to the billing for Life Science.

Balaji Gandhi

Annie, on the second part of your question, I mean, we've been in the life sciences space for our entire history. This is brand new, growth is sort of a different animal altogether. We're starting from zero pretty recently.

Anne Samuel

Great. No, it's a very interesting opportunity. Maybe just my next question is, you've seen a couple of quarters here now that, because you're growing your new loans at such a rapid pace, your revenue per client has just lagged a little bit. It seems like maybe that will improve a little bit in the fourth quarter just from adding larger new clients. I was wondering if you could talk about is this a newer trend we should expect to continue, or maybe just a one quarter dynamic.

Randy Rasmussen

I mean, I think quarter-to-quarter, some quarters we have big expands, and we'll land along their clients.

I don't know if I would call it a trend, but I think it's going to stay in the range that it has been in the past couple of quarters, and we're excited about some of the new larger wins and expansions that we felt recently.

Chaim Indig

Well, and frankly, Annie, we're just doing really well. Like the teams been rocketing out. Like, it's been all across the board, big, small expands, like we're just really—I can't thank everyone enough at Phreesia for this past quarter and the work they're doing. It's very, very pleasant and exciting.

Anne Samuel

Yes. The new logo growth was impressive, and looking forward to seeing those clients expand over time and really waterfall into the growth; great job, terrific results this quarter.

Chaim Indig

They are. I'm sure you'll see it soon.

Operator

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

Ryan Daniels

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Hi, guys. Congrats on the quarter.

Maybe another one on MemberConnect. I'm curious if you can leverage the client base in Insignia Health. I think they had a pretty significant number of installed clients across the MA book of business, in particular, is that something that you're leveraging to kind of launch this in drug market growth in that area?

Chaim Indig

Thanks for that question, right.

Insignia had a—it was a pretty small business, and it was very—I wouldn't say it was a significant client base. I'd say the most important clients that they had that we've been able—we've definitely been leveraging and working closely with is (Inaudible), and we were working—we're going to—the (inaudible) program has been rolling out very successfully, and we really appreciate that the impact it's having on kidney patients, and we're really proud to be part of that work.

But what Insignia definitely had in which we are leveraging is the reputation of the patient activation measure. That measure is the gold standard for understanding how patients feel about their own health care and are they participating and are they active. And that's becoming a core tent pole into our payer strategy. not just how we think about our payer products, but also just how we think about engaging and understanding the patient population. We think it's—long term—and I think we tried to articulate this over the last 12 months. Long term, we think it's really important. Activation is just so critical to understanding and impacting health outcomes. That's why it's important to everyone here at Phreesia, we think that we are going to keep leveraging the work that doctors did with the PAM.

We think we're—frankly, someone asked me if we're—at what inning we're in, I'd say we're in the top of the first, we feel very excited about the impact we could have across the board.

Ryan Daniels

Okay. I appreciate that. Congrats to Mike and his team on the expanded market opportunity. I guess a follow-up there for Randy. Initially coming into the year, the EBITDA guidance at the midpoint was above negative $150 million, you improved it again today, more importantly, from where we started the year, it's a very dramatic improvement. I'm hoping you can walk through maybe some of the details there, what's driving that, then certainly, I want to get your take on (inaudible) at your alma mater.

Randy Rasmussen

Yes. (Inaudible). There's a lot of excitement. My son actually (inaudible) the University of Colorado, so he's following with that.

As far as the (inaudible) profitability, our leadership team is very focused on our Fiscal '25 goal of being $500 million run rate in '25 and returning back to profitability. I'd just say that every leader is thinking very carefully about the resourcing and what is needed to get to that top line goal. We also feel very strongly that we have enough cash in the bank to execute on our '25 plan. I would say that it's a joint effort of the leadership team just really focused on where we're going and what we need to do to get there. The team has been incredible this year thinking about this and driving towards it.

Ryan Daniels

Okay. Perfect. Congrats again to Mike. Thanks.

Operator

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Your next question comes from the line of Richard Close with Canaccord. Your line is open.

Richard Close

Yes. Thank you. Congratulations on the great results.

You called out winning larger deals in the payment processing and talked about price in that description. Can you provide a little bit more context in terms of that?

Chaim Indig

Yes. What we realized is that a lot of large customers, really, when we started working with them and we built that trust, we were very surprised at how Michael—just a lot of them are being price-gouged almost by some of the large payment processors, so just by offering, frankly, competitive prices, we're able to significantly help them, so I think the surprise has been the ability for us to—as we work with them, to understand how we're able to offer them a fairly competitive price, while at the same time allowing them to use those dollars to run their businesses, the health systems, the hospitals, that—those dollars are (inaudible) from—to a payment processor, they're coming to us and going back to the hospital. It's been really advantageous to all the stakeholders.

We—and I've been very—been really—like the team has just done a great job of working with larger clients and winning some of that business. We really—it's just all around just wonderful.

Richard Close

That's good to hear.

Balaji, maybe you could go in a little bit deeper on the $1 billion payer TAM in terms of what's the buildup there. And is that just for the current products like as you're thinking MemberConnect and activation? Or any thoughts there?

Balaji Gandhi

Yes. I mean as you saw in the letter, the way we described MemberConnect and its current iteration is underneath health plan enrollment and patient activation, but—member activation I'd say, so Richard, I mean, we're going to be a little bit close to the that in terms of pricing. I think at a very high level, I think as Randy articulated, very analogous to how our life sciences revenue has been generated and its engagement base, we essentially get paid by payers, and it's all types of payers.

There's government payers, right, predominantly in Medicare Advantage; on some of the activation stuff, it could be a commercial plan. It could be a value-based care plan with (inaudible), they're paying us on a per engagement basis.

There's a range of expectations there in terms of what we can get. It's still early days, but there's two variables in that. It's the number of people we can engage and how much we get paid for each. I'm not trying to (inaudible) but...

Richard Close

Can I slip one more in regarding that?

Balaji Gandhi

Yes.

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Richard Close

Yes. I mean, are you essentially getting paid for lead flow? And if they activate or sign up for the plan, is there any type of residual revenue associated with that? Or...

Balaji Gandhi

No. Hence, again, the description, we renamed the revenue line with revenue category, and it's engagement based, nonrecurring. There's no residual today.

Richard Close

Excellent. Thank you.

Operator

Your next question comes from the line of Jessica Tassan with Piper Sandler. Your line is open.

Jessica Tassan

Thank you. Congrats on the good quarter.

I was just curious to know—so when you sign a new provider client, do the network solutions that you've contracted more broadly automatically extend to that provider's patients, assuming he's a network? Or how does that work?

Randy Rasmussen

Yes. Assuming when we set a new provider, if they give us permission, then they would be part of the network, we could deliver digital engagement for either life science or MemberConnect.

Jessica Tassan

Got it, then just—I'm sorry.

Randy Rasmussen

Go ahead.

Jessica Tassan

Just as you guys diversify the revenue streams, is there any thought to potentially offsetting some of the subscription burden incumbent upon the provider with some of these alternative sources of revenue?

Or should we still expect that the kind of total addressable opportunity for prescriptions on a per provider basis is the same as it always was? That's it for me.

Chaim Indig

We expect subscription to stay where it was. We—this isn't an alternative. This is in lieu of (phon).

Jessica Tassan

Got it. Thank you.

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Randy Rasmussen

Thanks, Jess.

Operator

Your next question comes from the line of Stephanie Davis with SVB. Your line is open.

Stephanie Davis

Congrats on a great quarter.

Chaim Indig

Thank you.

Stephanie Davis

I was hoping to prod a little on that transaction you commented, because you said that upmarket, you were seeing a lot of cages from the other merchant acquirers. At 3%, like that's a solidly 50 bps above market. Is there anything else in your transaction yield beyond just the (inaudible) merchant acquiring that we should know about? Or is pricing really that bad in the market?

Chaim Indig

I would say pricing is really that bad, right? Just it is unbelievable. People are taking advantage of our hospitals in America, it is very upsetting, Stephanie.

Stephanie Davis

That's insane. With that in mind, would you go to something more in line with a traditional merchant acquiring? And does that mean you're not bumping into the traditional merchant acquirers like the Bank of America Merchant Services and Chase fintechs of the world? Or are they just going to take advantage of it? And they're still doing that both the pricing.

Chaim Indig

Yes. They've all these hidden fees and stuff. It's crazy. It's crazy times.

Stephanie Davis

Got it. Does that mean we're going to see more of this payback mix change over time as you get more attraction in that hospital side of the world?

Balaji Gandhi

I mean, Stephanie, I would say the reason we pointed this out is, if you remember, I mean, historically, we've talked about that percentage going down. In fact, it's holding in and was slightly up, Randy?

Randy Rasmussen

Yes, it's been fair to (inaudible).

Chaim Indig

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We did think it would just go down as we entered the enterprise.

Stephanie Davis

All right. I'll look for more of that hospital mix going forward. Wait. Quick comments. Do you have anything on the EBITDA raised by less than the beat? Anything to read through there? Just conservatism?

Balaji Gandhi

I mean, one thing to think about is that our fiscal year-end goes into January, one of the things that raises from expense is the employer taxes that we have to pay. That's a significant bump up in the quarter-over-quarter just as we go into the—one month of our fiscal year is in a new calendar; the basically, social security taxes and (inaudible).

Chaim Indig

Taxes are important.

Operator

Your next question comes from the line of Glen Santangelo with Jefferies. Your line is open.

Glen Santangelo

Okay. Thanks for taking my question.

Chaim, I want to dig in on this average number of client growth. If I look at the year in totality, in the first quarter you grew 33%, then you grew 40%, and now you're growing 42% this quarter. I just wanted to get a sense for you as to what's driving that acceleration. Because it seems like a lot of other companies, not necessarily in your sector, but just more broadly, are starting to feel the effect of a difficult environment. Your numbers are accelerating here. I'm kind of curious, is there anything going on here with respect to increased promotion activity? Or is it productivity from the recent hires, or maybe anything shifting in the competitive landscape? What do you think is sort of driving that acceleration?

Chaim Indig

Well, look, so first and foremost, it's the key, right? It's—we've got a great product that offers a phenomenal amount of value, and in good times in that people aren't looking for value, we're—and we provide it. We show it. Like there's phenomenal ROI when you choose free drug, so when there is—when people are looking at tightening budgets, they look for things that help them drive their business. That's one.

Second, the team has just executed really, really well. I wouldn't just say it's the sales, which is freaking down amazing. It's been our SCRs who have, like, just been crushing it. It's our implementation organization, our CSM organization, it's our product organization. I think it's—the Company is really just doing really—like, as a team, we're doing really well. I just can't say enough about it. Now, we did pull it up. so like I was wondering if people are going to ask a question because I do listen to what other people say, and I read the papers, so I asked the team, I'm like how—and we watch it on a—because I do watch it on a monthly basis, how our opportunity to close rates have been, have we seen—because we've been—we actually do watch that metric.

Balaji, how's...

Balaji Gandhi

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Yes. From opportunity to close, Glen, we looked at sort of two buckets, sort of small and then in the sort of enterprise area. In the small, we've seen the change maybe tick up by a day or two in terms of opportunity to close, then more in the enterprise area, it's been into 15 days pickup, and this is sort of comparing as of October versus last...

Chaim Indig

When (inaudible) taking on a day longer to close some deals and about 10 to 15 days longer to close other deals than we traditionally see. I guess you could say we've seen it. I don't know if that answers your question.

Glen Santangelo

Yes. No. That's fine. Maybe if I ask a bigger picture question. Just sort of going back to some comments you made a quarter or two ago about the market in total. I think you said last year, there were about 1 billion physician visits, if I remember correctly, and we said you guys are now at the 100 million mark, so maybe 10% of the market, maybe at this point, 30% or 40% have done the automated check-in. I wanted to sort of verify those numbers, but also really get a sense for maybe what percentage of the physicians today already have some type of solution at this point, right? Because I think what investors are really trying to understand is sort of how penetrated we are into the TAM at this point as we are all trying to assess the durability of this revenue growth.

Chaim Indig

Yes. Well, I don't know if I'll do a great job answering, and I'm sure Balaji will either jump in, or else give the consequence, we got about 10% based of all the—and it's not just physicians, it's also hospital visits, right? So I think the totality is about 1.3 when you look at ambulatory and hospital, we have seen growth in the hospital market, so we think we're about 10% of the available market. I think we got a long way to go.

Frankly, we think that we've been winning a fair number of where—people have tried other solutions to, right? And so—and the reason we tend to win is just because of our ability to drive, call it, 80%, 90% self-service rates; we think that's what drives the ROI, when the vast majority of patients use the product. we think we have, frankly, a long period of growth in front of us, and that's why we made the investments we did over the last couple of years and why we're seeing some of the payback; we really, frankly, appreciate the trust our investors place in us in being able to make those investments to be able to grow share so significantly.

I take this moment to thank them for that trust.

Balaji Gandhi

Glen, the only thing I'd add to what Chaim said is just that in 2019, we did disclose—we did about 54 million visits; about 5% then, closer to 10% now, we obviously have some ambitions to double the business roughly if you look at our '25 targets. That's sort of the trajectory; quarter-to-quarter—so we're doing pretty good.

Glen Santangelo

All right. Thanks a lot. Appreciate the colors.

Operator

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

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Daniel Grosslight

Hi, guys. Thanks for taking the question.

I want to piggyback on some of the questions around adding larger clients for 4Q. Are these clients in your what I would call your core ambulatory channel, or are you seeing strength in the acute care health system setting?

Balaji Gandhi

I mean, I think we're seeing, I think, a lot of expansion activity.

Chaim Indig

Everywhere.

Balaji Gandhi

We're in hospitals. We're in large systems. There's—the opportunity to expand is there, and we're doing well.

Chaim Indig

And we're selling them and getting them to use and have a phenomenal amount of value from a lot of our new products. I think it's expand the footprint, but it's also upsell and cross-sell, but I like to think about it as providing way more value.

Daniel Grosslight

Yes, you're not weighted to the acute care setting for 4Q?

Chaim Indig

No.

Daniel Grosslight

Okay.

Chaim Indig

(Inaudible).

Daniel Grosslight

Got it. Okay. One of your competitors in the life sciences advertising space noted last quarter that there was some weakness recently around pharma companies potentially cutting back on digital ad spend amid a pending recession. Obviously, you didn't see that this quarter, but I'm curious what your conversations with the pharma companies have been like, and if you expect to see some cutbacks next fiscal quarter in the advertising spend, given a pending recession.

Chaim Indig

I can't comment about other companies. I can't comment about our amazing team and the work that they've been doing with our life sciences clients. The feedback I'm getting is like things—they're working

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really hard. We're in the selling season, but I—look, I frankly think we have a bunch of areas where there's significant competition for the inventory. I think that the life sciences team has just been doing a phenomenal job of working with our clients and demonstrating phenomenal ROIs, which has allowed us to continue to grow.

It's not a question of like just the macroeconomics. It's a question of, are we providing phenomenal value to all of our clients? Our life sciences organization has just done a great job of working with clients and demonstrating the lift and value of our platform. We're doing well.

Daniel Grosslight

Okay. Congrats on the quarter. Thank you.

Operator

Your next question comes from the line of John Ransom with Raymond James. Your line is open.

John Ransom

Hi, there.

Just stepping back, when you guys decided to step on the accelerator last year and spend money to make money, if you will, now that we're a year or so into this, what has surprised you, both good and bad? And what does not surprise you?

Chaim Indig

I don't think we have enough time on this call, Mr. Ransom, for all the things that have surprised me and...

John Ransom

You got to do better than—you really have to do better than that. That's all I got so far.

Chaim Indig

I think I have been—I think what's been very interesting to watch from our vantage point is that our execution has been generally to plan. I think I've been very pleasantly surprised on, as we've executed the number and the amount of feedback and trust we've gotten from our investors and our employees, that as we continue to execute, the, like, size of relief we often get, and I think the thing that's been very nice as we've gone through it is the support we've gotten from the investor community, and I really do appreciate that and from all of you on this call. I think that, that's been—I don't know if I comment that a surprise or not, but it's been a—this has been—it was a very significant investment that we made, obviously, we're still in the middle of that journey, and we're starting to show material improvements and success in that journey, but I've been very pleasantly surprised at the (inaudible) support we got.

John Ransom

All right. You're—just to kind of go one more level on to that, do you think the R&D step-up or the sales step-up has been more—and what did you learned from really accelerating your pace of that, adding new salespeople? Did you end up having to get more churn on the back end of that? Or have you proven that you can add more salespeople at scale and not have a diminishing return from the additional people that you added?

Chaim Indig

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I think that with all rules, sometimes you have—you hire lots of people, and whether—it doesn't matter the category. Sometimes they're just not the right fit for the organization and realizing that as soon as you can for them, if they're taking you or is it the right thing. I don't think we differentiate from any other company that way, other than internally the acknowledgment that not everyone is the right fit for Phreesia. Phreesia is a special place. I would say that the sales organization has just done a phenomenal job.

Going back to your earlier part of the question around R&D, look, I think we keep investing in R&D because, at the end of the day, the product is what—we were a product like company. The product has to provide a phenomenal amount of value and continuously get—provide more and more value every day to our clients. We can't treat patients. They can. All we can do is try to make it easier and better for them and their patients in, like, experiencing the health care system and helping those patients become more activated, improving their journey. Those are all things that we're pretty blessed and lucky to be able to be part of.

John Ransom

Do you have everybody over for dinner again tonight? Did you make dinner?

Chaim Indig

Well, we're having dinner out (inaudible) around table. Really, same way. At this time—because we got feedback on the (inaudible) like the mic is on a pillow in the middle of the table, hopefully, (inaudible).

John Ransom

Your kids are somewhere where they're not making a lot of noise.

Chaim Indig

The kids have left the building.

John Ransom

All right. Thank you.

Chaim Indig

Great.

Operator

Your next question comes from the line from Scott Schoenhaus with KeyBanc. Your line is now open.

Scott Schoenhaus

Hi. How are you doing, team? Congrats on the results, (inaudible) battling a flu here, most of my questions have been asked.

Just wanted to kind of drive on this last point that you just kind of mentioned in about your team, really, your sales and marketing expense as a percent of revenue reached kind of the lowest levels we've seen since 2020, you just posted record new client wins with healthy adds expected in 4Q. How are you getting so much efficiency with your sales and marketing team now?

Chaim Indig

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Well, I think it's the fact that our whole Organization understands what we have to do. Randy mentioned the leadership organization, but I would say it's the whole Organization, right? It's winning opportunities, making phone calls, the SCRs, creating the demand of our (inaudible), but also being able to then make sure that we could demonstrate that value and keep that client (inaudible) and work cohesively, and a lot of that also, frankly, depends on our product organization building great products, which we do. We—our product is great. It's great because we have a great product organization; when you have a great product, you are able to demonstrate value quickly, it does the things that you say you're going to do, and it does them quickly.

I think the reason we're able to do what we do is the investments we made over years; over the last couple of years, we made a lot of investments, and we're now starting to see the fruit of those investments pay off. I think we still—and we will continue to see that for some period of time.

We're going to keep investing in this amazing thing that we get to do, which is called Phreesia. The reason we're seeing improvement is the team. The team just executing on their targets and beating them and doing and waking up the next day and doing it again. I can't thank them enough.

Scott Schoenhaus

Thanks. That's all from me. Great results.

Operator

Your next question comes from the line of Joe Vruwink with Baird. Your line is open.

Joe Vruwink

Great. Hi, everyone.

This may be overly simplistic, but over the last four quarters now, you've invested $30 million to $34 million, let's say, a quarter in sales and marketing, over that time, you've also added clients at a clip typically over 200 a quarter. Just leaving the composition of a client add aside, is the productivity associated with the current team and the current expense base something that you think kind of supports the same level of client growth going forward?

Balaji Gandhi

I mean, generally, yes. I mean I think we feel like—we've said this before, the level of headcount that we have is adequate to get to the plan as we talk about this march towards the $500 million in 2025, we feel like we have the team in place that can bring us there. So—and I think we're confident in their productivity and their ability to deliver on it.

Joe Vruwink

Okay. Then just so I understand the comments that the fourth quarter, do you expect to see a greater mix of larger clients added and expansion activity? How does that kind of flow into the average subscription per client metric. One quarter relative to a big installed base I can appreciate it doesn't move the needle immediately. But is this sort of a function of time where eventually the activity you're seeing or, I should say, recent many quarters now of activity, eventually, that will be more reflective of just what's happening in the broader installed base, and that's where you start to get per client growth?

Balaji Gandhi

Yes. I mean, you're correct. I think one quarter isn't going to move the needle a lot. I mean, I think we see that number—even if you look at the past six quarters, I mean, it's been around somewhere between the

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eleven two and eleven six (phon). I think we said it would moderate, meaning it can go up slightly. I think quarter-to-quarter, it also depends on the mix. We've added a lot of new clients, and then there's a cycle where—then you start to expand and cross-sell and some of the new clients that you added in the prior quarter. I think generally, I don't—like we said, it would moderate, but I think it just—it kind of fluctuates quarter-to-quarter, depending on what this mix ends up being.

Joe Vruwink

Okay. I'll leave it there. Thank you.

Operator

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

Ryan MacDonald

Hi. Thanks for taking my questions. Congrats on a great quarter.

Chaim, you already mentioned in the shareholder letter that you're working with some health plans during the Medicare open enrollment period. I'm just curious, one, with those clients, how are you measuring ROI? And two, to the extent that you've sort of seen it thus far, what sort of ROI are you delivering for those clients relative to sort of the benchmark?

Chaim Indig

I don't know if we're going to disclose some of it right now, just because we're in the middle of a lot of these things, but the early indications and the anecdotal feedback has been very, very positive. I'm sure Michael and the payer team will start releasing some of that information over the next 12, 18 months, and I'm sure we'll make it easily digestible for the investment community; we are very excited, and we do think that we will have broad-based value impacts for the payer and payvider communities, the early indications have been very, very positive.

Randy Rasmussen

If it wasn't clear from the earlier question, I mean, the value proposition is member acquisition, member activation, that's sort of how to think about it.

Chaim Indig

And member retention.

Ryan MacDonald

Got it. Got it. Okay. That's helpful, then in terms of as you look to continue to build out these new businesses or these new offerings, what sort of incremental investments need to be made, if any, on sort of go-to-market motion there? And then as you contemplate sort of the $500 million target, what potential do you believe there is for these new offerings to accelerate your path to that $500 million?

Chaim Indig

Let's just take what we like, our commitment. We feel really good about it, one foot in front of the other for now. Look, I think one of the reasons why we also wanted to be very clear to talk about this opportunity to our investors is we have been making a lot of investments in it, and we think it's our responsibility to articulate where some of those investments have gone. I think that's the compact we have with our shareholders. So once it got to a certain, like, size and we started talking about it, we thought it was just

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the right thing to do, right, is to—and we're pretty excited about it, and we're in market talking to a lot of early clients about it, and they're pretty happy; we thought this was the right platform and forum to properly articulate this; we'll be talking about it more over the coming years as it grows.

We do think it's going to be a big part of us getting to where we have committed to being in the coming years.

Ryan MacDonald

Understood. Thanks for the color, and congrats again.

Balaji Gandhi

Well, thanks, Ryan.

Operator

Your next question comes from the line of Jack Wallace with Guggenheim. Your line is open.

Male Speaker

Hi. This is actually Sandy on for Jack.

Obviously, a lot of the questions have been asked and answered, maybe just one, and I think I maybe know the answer because you're enthusiastic across all the business lines; when I look at the lift in revenue guidance and how you've been bringing that up through the year, against my model at least or Jack's model, the network solutions, new innings has been the one that's really outperformed this quarter. Is there any certain area you'd call out? Or are you just generally more positive across all three of the segments?

Chaim Indig

We're pretty positive about all three of the segments. Look, payments was a little bit lighter than we thought it would be when we started the year. I think we've been articulating that it could go up and it could go down throughout the year, depending on flu season and if people are going to the visits or not. I think the team is just—look, there's a bunch of variability that when you start the year, you plan for the worse than you hope for the best. I think that's one of the things, continuously we try to figure out how something good happens, how we do more of it. If something bad happens, and we prevent it from happening over and over again.

For 18 years, we would run the business, and it's a lot of work and you just pay attention to the details, and you surround yourself with as many amazing people as possible, and you empower them to just make a difference at every stage of the way. If you keep—if we keep doing that, as we have for the last 18 years or the next 18 years, we're going to build a very significant company in health care; we feel pretty good about that.

Male Speaker

Great. That's really helpful, then just a quick housekeeping. The number of FCRs (phon) in the quarter, at the end of the quarter?

Balaji Gandhi

The number is 175, including FCRs and inside sales (inaudible).

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Chaim Indig

Thank you, and give Jack our best if you talk to him.

Male Speaker

Well, the baby was delivered last night; everybody is healthy and happy and family's expanded.

Chaim Indig

(Inaudible). That's awesome.

Operator

Your next question comes from the line of Robert Simmons with D.A. Davidson. Your line is open.

Robert Simmons

Hi. Thanks for taking our questions.

First, I was wondering, did MemberConnect contribute revenue in 3Q, or is that starting this quarter here?

Randy Rasmussen

MemberConnect contributing—yes. We just reported Q3, there's MemberConnect revenue in that number, yes.

Robert Simmons

Okay. Great, then—so your headcount has net come down each of the last three quarters. Where is that primarily been coming from? Has it been pretty much across the board? Or is it more, say, in G&A? Or any kind of color would be helpful.

Balaji Gandhi

I think it's across the board. I mean, like I mentioned, it's our leadership team just focusing on what's needed to drive our Fiscal '25 target; it's not in one particular area or another.

Robert Simmons

Got it. Thank you very much.

Randy Rasmussen

Thank you.

Operator

Your next question comes from the line of Richard Close with Canaccord Genuity. Your line is open.

Chaim Indig

Got you again.

Richard Close

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Thanks. I'm good. Have a good night.

Chaim Indig

On that note, I'd like to thank everyone for joining us for the call, and we hope to see everyone virtually and in person soon enough, have a great holiday season if I don't talk to all of you.

Thanks, everyone, on Phreesia for a great quarter.

Operator

This concludes today's conference call. Thank you for attending.

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