LifeStance Second Quarter 2024 Earnings Script

Monica Prokocki, VP of Finance & Investor Relations

Thank you, Operator.

Good morning, everyone, and welcome to LifeStance Health's second quarter 2024 earnings conference call.

I'm Monica Prokocki, Vice President of Investor Relations. Joining me today are Ken Burdick, Chief Executive Officer and Dave Bourdon, Chief Financial Officer.

We issued the earnings release and presentation before the market opened this morning. Both are available on the Investor Relations section of our website, investor.lifestance.com. In addition, a replay of this conference call will be available following the call.

Before turning the call over to management for their prepared remarks, please direct your attention to the disclaimers about forward-looking statements included in the earnings press release and SEC filings.

Today's remarks contain forward-looking statements, including statements about our financial performance outlook, business model and strategy. Those statements involve risks, uncertainties, and other factors, as noted in our periodic filings with the SEC that could cause actual results to differ materially.

In addition, please note that we report results using non-GAAP financial measures, which we believe provide additional information for investors to help facilitate comparison of current and past performance. A reconciliation to the most directly comparable GAAP measures is included in the earnings press release tables and presentation appendix.

Unless otherwise noted, all results are compared to the comparable period in the prior year.

At this time, I'll turn the call over to Ken Burdick, CEO of LifeStance. Ken?

Ken Burdick, Chairman & CEO

Thanks, Monica, and thank you all for joining us today.

We continued to execute on our plan in the second quarter. This is now our seventh consecutive quarter of meeting or exceeding expectations. The team delivered revenue growth of 20%, or $312 million, and adjusted EBITDA of $29 million. Based on the strength of the quarter, we are once again raising our full year guidance for all financial metrics.

Our value proposition and differentiated hybrid model of in-person and virtual care continues to resonate with both our clinicians and patients, as we see increasing demand for in-person services.

We are now approaching 7,000 employed clinicians, with year-over-year growth of 14%, and 118 net clinician adds in the quarter. For the past five quarters, this growth has been 100% organic. Additionally, our clinicians continue to provide excellent care to our patients, as reflected in our Net Promoter Score of 86 and average Google reviews across LifeStance centers at 4.6 out of 5 stars.

Regarding operational execution, we continue to make progress on initiatives to streamline the business and improve our performance. I'll share three tangible examples with you:

First, we are finalizing the rollout of our digital matching tool for booking new patients by phone, improving efficiency and the user experience for our customer care specialists.

Second, we continue to roll out our new digital patient check-in tool. We have successfully implemented the first six states and are actively implementing the tool in five additional states. While still in the early stages, we are seeing higher patient satisfaction, operational efficiencies, and improvements in patient collections where this tool has been deployed.

Third, the redesign of the operating model was launched on July 1st. This represents an investment in improved patient and clinician experience by standardizing the operational model across our 33 states. This includes enhancing the staffing levels of front office support, and increasing the dedicated clinical leadership focused on coaching and supporting our clinicians.

The quarter is straightforward with solid performance including stronger than expected free cash flow. We expect this cash generation to remain strong for the remainder of the year as we continue to recover from the disruption of the Change Healthcare cyberattack.

With that, I'll turn it over to Dave to provide additional commentary on our financial performance and outlook. Dave?

Dave Bourdon, Chief Financial Officer

Thanks, Ken.

Like Ken, I am pleased with the team's operational and financial performance in the second quarter.

We produced strong top-line results with revenue of $312 million, representing growth of 20% year-over-year. The outperformance was driven by higher total revenue per visit and increased visit volumes.

Visit volumes of 2.0 million increased 15% year-over-year, primarily driven by clinician growth. In the second quarter, we added 118 net clinicians, which met our expectations. This brings our total clinician base to 6,984 clinicians, representing growth of 14% year-over-year. In addition, similar to last year, we expect our net clinician growth to seasonally step up in the third quarter.

With regard to clinician productivity, it was slightly ahead of our expectations in the second quarter.

Total revenue per visit increased 4% year-over-year to $159, primarily driven by payor rate increases.

Regarding profitability, the better-than-expected top-line results flowed through to Center Margin. Center Margin of $98 million in the quarter increased by 34% year-over-year. The year-over-year improvement was primarily due to higher total revenue per visit and operating leverage in center costs, mainly driven by real estate optimization. Outperformance in the quarter was primarily driven by favorable spending and higher total revenue per visit.

Adjusted EBITDA of $29 million in the quarter was strong and outperformed our expectations, increasing 103% year-over-year. Adjusted EBITDA as a percentage of revenue grew nearly 4 points year-over-year to 9.2%. The outperformance in the quarter is attributable to the improvement in Center Margin.

Turning to liquidity – in the second quarter, we generated strong free cash flow of $39 million. We exited the quarter with $87 million in cash and net long-term debt of $279 million. We are pleased to have finished the first half of 2024 free cash flow positive. In the third quarter, we will see a cash impact of approximately $18 million from the payment of the 401k match.

We remain confident that we will finish the full year with positive free cash flow due to stronger year-over-year operating results, disciplined capital deployment, and resolution of collection issues with payors. As a result, we continue to have sufficient financial flexibility, and have no intention of raising additional debt or equity.

DSO improved 4 days sequentially to 49 days in the quarter. We are continuing to work through the impact from the Change Healthcare collections disruption. We still believe this is a timing issue that will be resolved by the end of the year.

We continue to see improvement in our leverage ratios, with net leverage improving sequentially over 90 basis points to 2.2 times. We are pleased with our current net leverage ratio, and expect it to continue to improve over the remainder of the year.

In terms of our outlook for 2024, we are raising our full year revenue range by $6 million at the midpoint, to $1,200 million to $1,242 million. We are also raising our full year Center Margin range by $10 million at the midpoint to $363 to $383 million and the full year Adjusted EBITDA range by $2 million at the midpoint to $90 to $100 million.

Based on the Adjusted EBITDA outperformance in the first half of the year, we are giving ourselves flexibility through the back half of the year to make additional investments to better position us to achieve our 2025 objectives.

For the third quarter, we expect Revenue of $290 to $310 million, Center Margin of $83 to $95 million, and Adjusted EBITDA of $15 to $21 million.

Additionally, we now expect stock-based compensation to land toward the lower end of our originally guided range of approximately $80 to $95 million in 2024, compared with $99 million last year.

As compared with our original expectations of opening no more than 20 de novos in 2024, we now expect to open fewer than 10 by year-end.

These updates reflect our increased emphasis on profitable growth and disciplined capital deployment.

With that, I'll turn it back to Ken for his closing remarks.

Ken Burdick, Chief Executive Officer

Thanks, Dave.

In closing, I'm pleased with the progress made this quarter. We beat and raised on each of our guided financial metrics for the year, delivered another quarter of strong organic revenue growth and operating leverage, and achieved positive free cash flow for the first half of the year.

The operational improvements and investments that we've been making in people, processes and systems over the past two years are starting to give us greater consistency and visibility into the performance of the business, while also improving the experience for patients, clinicians and team members.

Operator, we're now ready for questions.