LifeStance First Quarter 2022 Earnings Script

Monica Prokocki, VP of Investor Relations

Good afternoon, everyone, and welcome to LifeStance Health's first quarter 2022 earnings conference call.

I'm Monica Prokocki, Vice President of Investor Relations. Joining me today are Mike Lester, Chief Executive Officer; Mike Bruff, Chief Financial Officer; and Danish Qureshi, Chief Growth Officer.

We issued the earnings release and presentation after the market close today. 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.

Those statements involve risks, uncertainties, and other factors, including the possible future impact of the COVID-19 pandemic on our business 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 prior 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 prior-year comparative period.

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

Michael K. Lester, Chairman, President & CEO

Thank you, Monica, and thanks to all of you for joining us today.

To begin, I would like to emphasize the importance of our mission of improving access to trusted, affordable, and personalized mental healthcare. As you may know, May is Mental Health Awareness month, a time when we, as a country, raise the awareness about the importance of our society's mental health.

Now and always, LifeStance is committed to helping people lead healthier, more fulfilling lives as the country's largest outpatient provider of in-person and virtual mental healthcare.

Turning to results, we are pleased with the team's disciplined execution of our strategy, which drove solid performance in the first quarter, even through the recent pandemic surge and ongoing labor market dynamics.

We continue to see strong demand for our services and consistent execution by the team, which was reflected in our results. Revenue for the first quarter was $203 million, representing growth of 42%, and adjusted EBITDA was positive $12 million.

As we have noted previously, revenue growth is primarily driven by our total clinician count. In the first quarter, we grew our net clinician base to 4,989, representing growth of 51% compared with the prior year and in line with our expectations.

We believe that our first quarter performance positions us well for the balance of the year. As a result, we are reaffirming full year guidance for revenue in the range of $865 million to $885 million, Center Margin of $240 million to $255 million, and positive adjusted EBITDA in the range of $63 million to $67 million.

Mike Bruff will provide additional detail about our financial performance in his section of our prepared remarks.

Before turning to execution, I would like to remind everyone about what differentiates LifeStance's business model from pure-play telehealth companies in the market.

Compared with virtual healthcare companies, our nearly 5,000 W-2 employed clinicians are able to deliver mental health care services in person or virtually, a source of sustainable competitive advantage for LifeStance and one of the key drivers of our momentum in the market.

Independent third-party surveys continue to support LifeStance's approach to care. For example, according to a recent Blue Cross Blue Shield survey, nearly 70% of patients want to see the same clinician both in person and via telehealth. It is clear that patients and clinicians want convenience, choice and control over when and how to access or provide mental health services, and we are uniquely positioned to deliver on both patient and clinician preferences due to our flexible, hybrid model.

Furthermore, patient demand for our services has never been stronger. Not only are patients attracted to the hybrid model, but we also provide affordable access to care through coverage that is in-network with commercial insurers, as opposed to cash-pay or subscription-based online models. Additionally, because of our diverse mix of prescribers and therapists, patients can access personalized, comprehensive care to meet each individual's unique mental healthcare needs.

As we have noted previously, our patient acquisition costs remain very low, as the vast majority of our patients come directly from sticky primary care referrals, in-network payor relationships, and organic online self-referrals. We are NOT and never have been dependent on direct-to-consumer paid marketing.

Turning to execution. In the first quarter, I am pleased that we have been able to demonstrate consistent performance and are executing effectively on our profitable growth strategy.

We are reimagining how patients receive easy access to affordable mental healthcare. To deliver on that goal, we continue to focus our growth strategy on three core pillars of expanding into new markets, building market density, and deploying our tech enabled services.

In terms of expanding into new markets, we entered into six new states in 2021, and are now deepening our presence in our existing 32 states, contributing to our mission of improving access.

As for building market density—clinicians remain our primary growth driver, and in the first quarter we grew our clinician base nationwide.

We added 199 net clinicians in the first quarter, bringing our total to 4,989, an increase of over 50% year-over-year. This strong growth, especially in the current labor market environment, demonstrates that our value proposition is resonating as we continue steady net clinician growth each quarter.

The growth in our clinician population is also an indication of our operational capability to onboard and ramp new clinicians within our organization, one of the largest W-2 employed groups of clinicians in the mental healthcare space.

Our clinician growth was driven by our organic recruiting engine as well as our practice acquisition engine. In the first quarter, we opened 41 de novo centers to bolster our physical presence in addition to our virtual service offering, adding to our over 500 centers nationwide.

Additionally, we completed two new acquisitions in the first quarter, bringing the total since inception to 79. Both acquisitions were tuck-ins to platforms in existing states in which we operate, Michigan and Massachusetts.

Growing our clinician base supports our mission of improving access to affordable, high quality mental healthcare.

In terms of deploying our tech enabled services, we believe that our opportunity to implement digital tools to support patients' ability to navigate their mental health care experience is a significant competitive advantage for LifeStance.

As we previously announced, we are rolling out a new, improved online booking and intake experience (or "OBIE," for short) to better match our new patients with clinicians and to set them up for success in that first visit.

We have continued to deploy OBIE across the country and are now live in seven states.

In these states, we have seen a significant reduction in the number of online cancellations because of improvements in the intake and booking process, and an increase in levels of patient satisfaction.

This enhancement will continue to be rolled out state by state throughout 2022 and into early 2023, as well as receive additional product improvements over time as we continue to invest in innovation around the booking experience for our patients.

I have great confidence in our ability to continue to execute our strategy and take advantage of the considerable market opportunities in front of us.

Finally, in the first quarter, we released a "State of Youth Mental Health Report," including the results of a survey of 2,000 American parents. We learned that 68% of parents have seen their children face significant mental and emotional challenges during the pandemic and are looking for solutions.

To further improve access for youth and support the destigmatization of mental health, we awarded grants through the LifeStance Health Foundation to several non-profits that directly serve youth and adolescent populations, including the American Foundation for Suicide Prevention.

We are committed to expanding access to mental healthcare among at-risk populations and directly addressing the alarming increase in young people struggling with their mental health.

We're honored to partner with organizations that share our vision of a truly healthy society where mental and physical healthcare are unified to make lives better.

In closing, we are starting 2022 with strong momentum with a first quarter of continued profitable growth as a public company.

I am confident in our future and our ability to help people on their path to better mental health.

Now I'll turn it over to Mike Bruff, Chief Financial Officer, to provide more detail on our financial performance and outlook.

J. Michael Bruff, Chief Financial Officer

Thanks Mike.

Today and going forward, I will frame my comments in the context of our long-term strategy, which includes balancing growth, profitability, and liquidity considerations.

So let me start with growth. LifeStance continued to deliver solid growth in the first quarter, with revenue of $203 million, up 42% year over year.

We believe that first quarter revenue overachieved our expectations primarily due to Omicron having less of an impact in February and March relative to our initial estimates.

Turning to profitability, in the first quarter, Center Margin of $54 million increased 23% over the same period last year, driven by strong revenue growth.

Adjusted EBITDA remained relatively flat year-over-year at $12 million, or 6.2% of revenue. Adjusted EBITDA as a percentage of revenue declined due to the decrease in Center Margin as a percentage of revenue, partially offset by improved leverage in G&A expenses.

First quarter adjusted EBITDA exceeded our initial expectations primarily due to the slight revenue favorability and delayed G&A expenses, which we expect will be utilized across the remainder of the year on planned investments.

Turning to liquidity, LifeStance continues to be supported by a solid balance sheet.

We exited the quarter with cash of $114 million and net debt of $177 million. In the first quarter, we generated positive $3 million of cash from operations.

As we announced this afternoon with our earnings release, we entered into a new credit facility in early May. This facility will be used to repay our existing net long-term debt at more favorable cost of debt than the existing credit facility; and at close, will provide access to incremental capital to fund growth through up to $100 million in delayed draw loans and $50 million in revolving loans, both undrawn at close.

Turning to guidance, as Mike mentioned, we are reaffirming our guidance for the full year. For the second quarter, we expect revenue of $209 million to $214 million, Center Margin of $57 million to $61 million, and Adjusted EBITDA of $12 million to $15 million.

As we noted last quarter, we expect improvements in profitability in the second half of 2022 based on continued growth in our clinician base and leverage in the second half of the year driven by our strategic decision to moderate our de novo center openings and scale our G&A.

To summarize, we remain focused on delivering on our long-term strategy by balancing growth, profitability, and liquidity considerations.

With that, I'll turn it back to Mike Lester for a few words before going to Q&A.

Michael K. Lester, Chairman, President & CEO

Thank you, Mike.

Our financial performance, execution, and differentiated strategy create strong momentum going into the balance of 2022 and a clear path to achieve our goals.

We have solidified our leadership role in behavioral health delivery as a trusted partner to patients. As we build upon this trust, we will continue to drive meaningful improvements in the cost of care, access and engagement across our flexible, hybrid model.

I would also like to take a moment to recognize the continued contribution of all of our colleagues at LifeStance who have played a vital role during the pandemic and are now looking forward to continuing to build our best-in-class platform.

We are proud of what they do every day in the lives of our patients.

Mike, Danish and I will now take your questions. Operator?