

## **LifeStance Fourth Quarter 2021 Earnings Script**

### **Monica Prockocki, VP of Investor Relations**

Good afternoon, everyone, and welcome to LifeStance Health's fourth quarter 2021 earnings conference call.

I'm Monica Prockocki, 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](http://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**

Good afternoon and thank you for joining us today. I want to start by covering our performance and outlook up front.

2021 was a milestone year for LifeStance as we made the transition from a private to a public company. We delivered revenue of \$668 million and positive adjusted EBITDA of \$49 million. We grew our clinician base to 4,790 and had a net add of 1,693 clinicians in the year.

We demonstrated strong performance and are well-positioned as we continue to build the nation's leading outpatient mental health platform. We grew our revenue by over 75% in 2021 which we are incredibly proud of.

For 2022, we are reaffirming our preliminary outlook of revenue growth rate in the low 30s for the year, with adjusted EBITDA dollar growth rate on pace with, or slightly greater than, revenue. We expect full year revenue to be in the range of \$865 to \$885 million and positive adjusted EBITDA in the range of \$63 to \$67 million.

Our unique, hybrid model provides competitive advantages in meeting patient and clinician needs, as well as operational flexibility. While we believe the long-term mix of virtual versus in-person visits will be around 50/50, our mix of telehealth visits is currently over 80%. Therefore, we plan to strategically moderate our de novo center openings in the second half of 2022 to improve profitability.

Given the flexibility of our hybrid model, we can flex the pace of physical location expansion based on current and projected patient and clinician demand for in-person visits, while continuing to aggressively grow our total clinician base, which is the primary driver of revenue growth. LifeStance is uniquely positioned to support patients both in-person and virtually, and we believe that this is a significant advantage for our patients, for our clinicians and for our shareholders.

Our 2022 guidance reflects our continued confidence in our ability to execute on our profitable growth strategy, significantly expand our clinician population, and deliver best-in-class outpatient mental health services.

Mike Bruff will go into more detail about our financial performance and outlook in his section.

Turning to the market. Our country is in the middle of a significant mental health crisis and our work has never been more needed or more critical. At LifeStance, we remain deeply

committed to our company vision of a “truly healthy society where mental and physical healthcare are unified to make lives better.” Similarly, as many of you heard, the President highlighted in his State of the Union last week the nation’s imperative to “get all Americans the mental health services they need,” and achieve “full parity between physical and mental health care.”

Demand for our services remains at record levels nationwide and continues to grow. Today, there are over 50 million Americans who require mental health services. One in five adults and one in six children have a mental health issue, and untreated mental health creates a significant burden on patient health and the entire health system. This represents a total addressable market of over \$100 billion growing at double-digit rates to over \$200 billion by 2025.

LifeStance operates what we believe is the largest provider of outpatient mental health services in the country, yet we currently represent only 1% of that large and growing total addressable market, demonstrating a long runway of growth and white space.

While there are many players in the mental healthcare market, LifeStance is differentiated by our profitable, hybrid model of care, meeting patients where they are, whether in-person or via telehealth when they need it most.

According to a recent survey of nearly 8,000 patients conducted by Rock Health and the Stanford University School of Medicine, 75% of patients prefer in-person mental health visits and 25% prefer telehealth visits. Patients seeking mental healthcare want to build a close relationship with their provider, and for many, that connection is developed by meeting face-to-face.

While telehealth has played an important role during the pandemic, our ability to support our patients both at home and in our physical locations has solidified our position as a mental healthcare leader, providing high-quality care across multiple care settings. Combined with the fact that we have negotiated telehealth rate parity in the majority of our payor contracts, LifeStance has an unparalleled ability to seamlessly transition both the business and individual patient care back and forth between in-person and virtual settings.

When COVID first emerged in 2020, our patient visits moved from 5% virtual to over 90% virtual within weeks. Through 2021, our telehealth mix trended downward to the low 80s, and we expect that mix to be approximately 50/50 virtual versus in-person over the long term.

We have found that our clinicians having a personal and meaningful connection with our patients makes a tremendous difference. We are confident that our hybrid model is the future of mental healthcare delivery, and we are well-positioned to win in this space. Regardless of the covid environment and patient and clinician preferences, we can seamlessly transition with our hybrid model and provide a mix of in-person and virtual visits to provide patients with the very best care.

Turning to the labor market dynamics, 2021 has seen a record number of resignations across all industries in the country, especially in the healthcare industry.

Even in this environment, we have demonstrated that LifeStance is positioned as a best-in-class employer with the culture, value proposition, and technology to attract and retain clinicians. We have continued to experience significant rates of clinician growth, which powers our growth engine, and retention has continued to be stable.

As an example of our focus on continuing to build a destination of choice for clinicians, LifeStance was recently recognized as a Great Place to Work, based on direct employee feedback. When asked what makes LifeStance a Great Place to Work, our team members most valued our Flexibility, Caring People, Management, Support Staff and Inclusion. We were honored to be recognized by the global authority on workplace culture, employee experience and leadership behaviors, and intend to continue making improvements to build quality experiences for our clinicians and all employees.

Our employees are deeply compassionate, dedicated advocates for mental health and overall wellbeing. Over the last year, we have implemented a number of initiatives to support our employees' health and wellbeing, including improving communication channels, developing a long-term equity incentive program that includes our clinicians, enhancing medical benefits and wellness plans, offering peer-to-peer support and developing a robust national diversity, equity and inclusion network. At LifeStance, over 70% of our clinicians, 50% of our executive leadership team, and 40% of our Board of Directors are diverse by gender or race and ethnicity.

Another attribute of happiness and well-being is participation in the community and giving back. In support of this and further increasing access to affordable mental health care, LifeStance endowed the LifeStance Health Foundation in June 2021. The Foundation was developed to award grants and scholarships to support organizations that share our mission with a focus on especially vulnerable patients including youth and adolescents, underrepresented minority communities and the underemployed and uninsured. To date, the

LifeStance Health Foundation has awarded more than \$400,000 to both national and regional non-profits working to destigmatize access to mental healthcare, including The Mental Health Coalition and the U.S. Olympic and Paralympic Foundation.

We are very proud to support our employees and their commitment to our mission which improves the health and wellbeing of patients across the communities we serve. While world events over the last few years have destigmatized mental health in important ways, our clinicians and team members chose a career in mental healthcare long before it was in the spotlight. Their compassion, expertise, and advocacy are making a difference.

Our company values of Delivering Compassion, Building Relationships, and Celebrating Difference underlie everything we do on a daily basis, and we believe will allow us to continue to attract the best talent nationwide.

Turning to the payor environment, our payor partnerships are critical to our success in improving patient access. In the highly fragmented mental health space, our scale is unmatched as we provide payors with thousands of clinicians working within a single, integrated organization to deliver mental health care to their broad membership base in a low-cost outpatient care setting.

Providing in-network care for patients—where the alternatives are largely cash pay or out-of-network options with limited patient affordability—combined with the depth, breadth and geographic reach of our payor partnerships is a key competitive advantage for LifeStance.

Success with our payor partners speaks for itself. Since 2017, we've grown to over 250 national and regional payor relationships and have never lost a payor contract. Approximately 90% of our business is in-network reimbursed by commercial insurers.

We are differentiated in providing in-network care and improving access and affordability for patients.

Turning back to execution. Our strong results in 2021 show that both our growth strategy and business model are working.

We are revolutionizing how patients receive easy access to affordable mental healthcare. To deliver on that goal, we continue to focus our growth strategy on 3 core pillars: first, expand into new markets; second, build market density; and third, deploy our tech enabled services. In 2021, we delivered strong progress against each of these pillars.

First, in terms of expanding into new markets, 2021 represented another banner year of geographic expansion. In the fourth quarter, we expanded into Rhode Island, our 6<sup>th</sup> new state entry for the year, bringing our nationwide total to 32 states served. Each new state brings us access to a greater pool of clinicians, the ability to reach patients with our hybrid model in new markets, and contributes to delivering on our mission of improving access.

Long term we remain committed to delivering care to all 50 states through either in-person or virtual care, and we won't stop until every person in the U.S. is one click or call away from a LifeStance Health clinician.

Second, in terms of building market density—clinicians remain our primary growth driver, and in 2021 we grew our clinician base nationwide. We added 415 net clinicians in the fourth quarter, bringing our total to 4,790, an increase of 1,693 or approximately 55% year-over-year. This strong growth, especially in the current labor market environment, demonstrates that our value proposition is resonating as we continue tremendous net clinician growth quarter after quarter.

When we founded LifeStance, creating a new model for mental health clinicians was a central foundation of our mission. To achieve this, we set out to solve key clinician pain points, which we called our Six Points of Value, including a mission-driven culture, collegial and collaborative environment, strong-work life balance, enhanced digital tools, robust support services, and competitive compensation.

Most recently, in Q4 of 2021, we announced the addition of a seventh point of value, which is creating an ownership mentality among our clinicians by including them in our employee long-term equity incentive program.

Our clinician growth was driven by our organic recruiting engine as well as practice acquisition engine, with 24 acquisitions closed in 2021, or 7 in the fourth quarter. In 2021, we also opened 106 new de novo centers, or 14 in the fourth quarter, to bolster our physical presence in addition to our virtual service offering. In total, we now have over 500 centers nationwide.

Growing our clinician base supports our mission of improving access to affordable, high quality mental healthcare. In 2021, we cared for over 570,000 unique patients versus 357,000 in 2020, representing growth of approximately 60%.

And, we grew visit volume. Last year we reported 2.29 million visits for 2020, which excluded approximately 240,000 visits from pre-integrated acquisitions for a total of 2.53 million visits.

For 2021, visit volume grew to 4.57 million, including approximately 530,000 visits from pre-integrated acquisitions. This represents growth of over 80% year-over-year. Going forward we will continue to provide the total volume of visits on an annual basis.

Third, in terms of deploying our tech enabled services—as we announced earlier this year, we are rolling out a new improved matching, booking, and intake experience for new patients to better set up our patients and clinicians for success in that first visit. This new interface has been designed by our in-house experts with strong tech backgrounds.

Improving the match between patient and clinician from the very start and seamlessly collecting necessary patient information up front leads to higher satisfaction for both. Patients can more easily find the right care, while clinicians can be better prepared for the first visit. Based on our early experience, the reception has been extremely positive, and we have seen a reduction in the number of cancellations and rebookings related to clinician-patient matching.

This enhancement will 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.

Additionally, we are in the process of designing similar, user-friendly tools for our customer care teams to make their workflows more efficient, while offering an improved patient experience over the phone. This investment will allow us to deliver a consistent and unified patient experience both on and offline.

Looking beyond our 3 core growth pillars, we remain excited about our next growth horizon of integrated care models, including value-based care. We currently have over 10 partnership programs in place including Medicare Advantage plans, a large dialysis provider and others, so this not just a goal—we are innovating in this space today and are at the forefront of integrated care in the mental health industry.

LifeStance is truly cutting-edge in this space. While we expect it will take several years for the market to build the capabilities to fully support integrated care, we believe it is critical to maximizing the impact that mental healthcare can have in improving outcomes and reducing overall medical costs for Americans.

While we lead the industry in these new models of care, it's important to understand that the runway and growth opportunity we have in our core outpatient market is enormous, with

significant white space left to capture. We are laser-focused on executing against that core market opportunity and maintaining our strong focus on growth and profitability.

Over the last year, we delivered on the three pillars of our growth strategy. We have also deepened our focus on the patient, working to expand access and improve the end-to-end experience through tech enabled services, and creating future growth options through integrated care model programs.

In closing, we are starting 2022 with strong momentum, following our third consecutive quarter of strong, 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 growth strategy, which includes balancing growth, profitability, and liquidity.

So let me start with growth. LifeStance continued to deliver solid growth in the fourth quarter, with revenue of \$190 million, up 61% year over year. This included an estimated impact of approximately \$1 to \$2 million from an uptick in patient and clinician cancellations in late December caused by the Omicron covid variant.

For the full year, we delivered revenue of \$668 million, up 77% year over year.

Turning to profitability, in the fourth quarter, Center Margin of \$54 million increased 39% over the same period last year, driven by strong revenue growth. Full year Center Margin of \$202 million grew 69% year over year.

We generated adjusted EBITDA of \$11 million in the fourth quarter, or 6.0% of revenue. For the full year, adjusted EBITDA was \$49 million, or 7.4% of revenue, slightly down year-over-year driven by strong clinician and revenue growth, offset by the impact from a shift in labor market dynamics and investments in future growth and scalable infrastructure.

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

We exited the year with cash of \$148 million and debt of \$157 million. Additionally, the company ended the year with an undrawn revolver of \$20 million. We have no material debt payments due until 2026.

In 2021, we generated \$9 million of cash from operations, including IPO-related payments and interest payments on long-term debt.

Turning to 2022 guidance, we expect another year of strong, profitable growth, with revenue of \$865 to \$885 million, Center Margin of \$240 to \$255 million and Adjusted EBITDA of \$63 to \$67 million.

For the first quarter, we expect revenue of \$195 to \$200 million, Center Margin of \$50 to \$54 million, and Adjusted EBITDA of \$7 to \$10 million. This guidance includes approximately \$3 to \$7 million in revenue impact from Omicron.

We expect improvements in profitability in the second half of 2022 based on the resolution of the Omicron impact in the first quarter, continued growth in our clinician base, and leverage in the second half of the year driven by our strategic decision to moderate de novo center openings, as well as scaling in G&A costs.

Our planning assumptions include 80 to 90 de novo center openings this year, heavily weighted toward the first half with 70 to 75 openings; M&A spend of \$50 to \$70 million; and no further COVID-related impacts or changes in the current labor market environment.

Additionally, we expect stock-based compensation expense of approximately \$190 million in 2022, including approximately \$30 million from new 2022 grants. We expect stock-based compensation expense to continue to decrease as the pre-IPO awards vest.

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

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**

Before we transition to the Q&A portion of the call, I hope you've already taken away the strong sense of confidence I and my team have in the growth potential of this company.

So here is what you can expect from us.

- That we will deliver strong sustainable growth and profitability coupled with strategic and disciplined capital deployment, and
- Continued investment and focus on a sustainable business and employee development and wellbeing, which is our pathway to our topline and bottom-line goals overtime.

My confidence in our potential is shaped by our strong performance in 2021 that we are carrying into 2022, supported by a highly differentiated, profitable, hybrid platform, strong market demand, and digital innovation that is driving patient and clinician preference for LifeStance. As we enter 2022, I have significant confidence in our ability to execute upon our objectives and am excited about our next growth horizons.

Our ability to positively impact the lives and mental health of the millions of people nationwide that are in need of our services is unparalleled. That drive is what motivates each of our over 6,500 team members every day as we execute on our mission of helping people lead healthier, more fulfilling lives by improving access to trusted, affordable, and personalized mental healthcare.

Mike, Danish and I will now take your questions.