

LifeStance First Quarter 2025 Earnings Script

Monica Prokocki, VP of Finance & Investor Relations

Thank you, Operator.

Good morning, everyone, and welcome to LifeStance Health's first quarter 2025 earnings conference call.

I'm Monica Prokocki, Vice President of Finance and Investor Relations. Joining me today are Dave Bourdon, Chief Executive Officer and Ryan McGroarty, Chief Financial Officer. In addition, Ken Burdick, our Executive Chairman, is also with us.

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 Dave Bourdon, CEO of LifeStance. Dave?

Dave Bourdon, Chief Executive Officer

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

I am pleased to report a solid quarter to start the year. We exceeded each of our guided metrics and remain confident in delivering on the full-year guidance ranges that we previously provided.

I'd also like to officially welcome our new Chief Financial Officer, Ryan McGroarty. He's been onboard for two months and has hit the ground running. His deep financial and healthcare expertise will be invaluable as we continue to build on LifeStance's position as the leader in outpatient mental healthcare.

I'd like to briefly address the macro environment in this time of uncertainty for the broader economy as it relates to tariffs and a potential recession.

First, as a U.S.-based service business, we are not directly impacted by tariffs.

Second, regarding the impact of a potential recession, we believe that our model is resilient to economic cycles. In fact, depending on what transpires, there are factors which can potentially mitigate headwinds in a challenging environment and could even be a benefit to LifeStance.

For example, in a period of economic uncertainty, when individuals experience greater stress and anxiety, they may benefit from mental health care and this could result in increased demand for services. In addition, as consumers tighten up on spending, we believe the impact may be disproportionately felt by clinicians and practices that operate in a cash pay environment. Our commercially insured model provides greater stability for clinicians and greater affordability for patients, which could drive both clinician growth and patient demand for LifeStance.

In regard to our long-term view of the industry, we continue to expect increasing demand for mental health services as well as a migration from cash pay to utilizing insurance. LifeStance is well-positioned to benefit from both of these trends.

Now, turning to our quarterly results. We delivered solid performance on multiple fronts.

First, double-digit adjusted EBITDA margins of 10.4% exceeded our expectations. Additionally, we achieved positive net income for the first quarter in LifeStance's history as a public company, enhancing our confidence in achieving full-year positive net income in 2026. And, we

generated strong year-over-year improvement in free cash flow, driven by stronger-than-expected earnings and the dedicated efforts of our collections team.

Turning to operational execution, we continued to make progress in the first quarter toward streamlining and standardizing our operations and improving the underlying performance of the business.

On the clinician front, our value proposition continues to resonate, as our team grew by over 150 in the quarter to more than 7,500 clinicians.

We continue to refine our value proposition to better align with clinician preferences and to create a sustainable economic model. We implemented a cash bonus incentive program for clinicians that is based on quality and productivity. This program, which became effective in May, is better aligned with the feedback from our clinicians and places greater emphasis on quality and access for our patients. In conjunction, we sunset our stock-based clinician incentive program.

As for the patient experience, this is driven by the fantastic work of our clinicians, who continue to demonstrate an unparalleled commitment to our patients. I'd like to briefly share an example of this. In the aftermath of the tragic wildfires in Los Angeles County, we saw increased demand for our services, and our clinicians ensured that patients were able to quickly access the compassionate, quality care for which LifeStance is known. Our LifeStance clinicians created a group therapy program for survivors of the fires and provided hybrid care to patients who had to relocate. The resilience and dedication of our LifeStance team during this crisis truly exemplifies our commitment to patients during the most challenging times in their lives.

As for the operational and strategic initiatives, we made progress on several fronts.

For example, we have now completed the rollout of our digital patient check-in tool, which is driving higher patient satisfaction, operational efficiencies, and significant improvements in patient collections.

Additionally, we continue to advance our focus on clinical excellence. For example, we are working to increase access to additional services like TMS and Spravato for patients with treatment-resistant depression. In addition, to facilitate the comprehensive treatment of our patients, we have implemented an enhanced referral tool and process to improve access to these and other services.

Finally, in 2023 we embarked on an EHR discovery process to evaluate options for enhancing our capabilities. We paused in 2024 to prioritize other initiatives, like the digital patient check-in tool, and are now picking the EHR initiative back up. We expect to complete our evaluation this year.

In closing, since stepping into the CEO role in March, I have been conducting listening sessions throughout the organization. One thing that has stood out in these sessions has been the immense passion and dedication the team has for our mission. Their tireless commitment, along with their incredible capabilities, make me more confident than ever that we have the right ingredients at LifeStance to continue expanding upon our existing leadership in delivering high-quality, affordable mental health services.

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

Ryan McGroarty, Chief Financial Officer

Thanks, Dave.

I'm excited to participate in my first LifeStance earnings call. I joined the company because of its compelling mission, significant growth opportunity and unique market position. Since starting in March, I have been very impressed with the talent of the organization, the team's strong execution, financial discipline, and shared passion for our mission. I look forward to building on the track record of recent years of delivering on our commitments and feel that the company is well-positioned for long-term success and industry leadership.

Now, turning to our first quarter performance. We delivered solid top-line results with revenue of \$333 million, representing growth of 11% year-over-year. The modest outperformance was driven by slightly better-than-expected clinician productivity and total revenue per visit.

Visit volumes of 2.1 million increased 10% year-over-year, driven primarily by clinician growth.

On the clinician front, we grew our clinician base by 152 clinicians, or 10% year-over-year, bringing our total to 7,535 clinicians.

As part of our ongoing standardization efforts, we refined our clinician definition, resulting in a small downward adjustment to clinician count. We have provided the revised figures for each quarter of 2024 in our earnings presentation for comparison purposes.

Relative to expectations, clinician productivity came in slightly ahead in the first quarter, and was favorable to last year after normalizing for business days.

Total revenue per visit increased 1% year-over-year to \$159, primarily driven by modest payor rate increases. This performance, which was slightly ahead of our expectations, includes the absorption of last year's rate decreases related to a single outlier payor. It also includes the partial impact from the final rate decrease associated with this unique situation, which took effect on March 1st.

Turning to profitability, Center Margin of \$110 million increased 16% year-over-year, and was 33.0% as a percentage of revenue. The outperformance in the quarter was driven by the modest revenue beat as well as slightly lower spend.

Adjusted EBITDA of \$35 million in the quarter exceeded our expectations, increasing 25% year-over-year. Adjusted EBITDA as a percentage of revenue was 10.4%, making this the second consecutive quarter in which we achieved double-digit margins. The outperformance in the quarter was primarily attributable to favorable Center Margin and G&A spending.

As Dave mentioned, we also achieved another milestone in the first quarter, finishing with net income of \$700 thousand. This is the first quarter in our history as a public company that we achieved positive net income. We view this as a key profitability metric for our business and increases our confidence in delivering positive net income and earnings per share for the full year in 2026.

Turning to liquidity – in the first quarter, free cash flow was negative \$10 million, which was an improvement of \$17 million from the first quarter last year. We exited the quarter with cash of \$134 million and net long-term debt of \$276 million. We have additional capacity from an undrawn revolver of \$100 million. DSO for the quarter was 38 days, and we remain confident in our ability to generate meaningful positive free cash flow for the full year.

Our leverage ratios continue to remain strong, with net and gross leverage of 1.2 and 2.3 times, respectively. This represents a significant improvement from the 3.1 net and 3.8 times gross leverage in Q1 of last year. We have sufficient financial flexibility to run the business and execute on our strategy, including potential acquisitions.

In terms of our outlook for the full year, we are maintaining our guidance ranges of \$1.4 to \$1.44 billion for revenue, \$440 to \$464 million for Center Margin, and \$130 to \$150 million for Adjusted EBITDA. We feel good about the outperformance in the first quarter, but it is still early in the year, and there is a great deal of work in front of us to execute on our commitments.

For the second quarter, we expect revenue of \$332 to \$352 million, Center Margin of \$100 to \$114 million, and Adjusted EBITDA of \$28 to \$34 million.

As we previously communicated, our annual guidance assumes year-over-year revenue growth driven primarily by higher visit volumes, with total revenue per visit being roughly flat.

The third and final rate decrease from the single outlier payor became effective in March. We had disclosed that this would result in downward pressure on rates in the first part of 2025. The second quarter is the first full quarter in which we will be absorbing this impact. We believe that sequentially, this will result in lower total revenue per visit, as well as lower Center and Adjusted EBITDA margins as a percentage of revenue.

Consistent with our prior messaging, our guidance contemplates a revenue split of roughly 50/50 in the first and second half of the year, with the second half slightly higher. We anticipate that in addition to modest rate improvements from other payors and continued growth in clinicians, we are also focused on better filling existing clinician calendars, which should result in improved productivity. The combination of these three drivers will lead to higher revenue in the back half of the year.

Similar to revenue, we expect earnings to build in the back half of the year, driven by modest rate improvement along with higher visits and specialty revenue.

We continue to expect stock-based compensation of approximately \$70 to \$85 million in 2025. As Dave mentioned, we are sunsetting our stock-based incentive program for clinicians and replacing it with a cash bonus incentive program. The annual grants provided in early 2025 were the last clinician grants for the program. As a result of this change, we expect our stock-based compensation to decrease roughly \$10 million per year beginning in 2026 and continuing over the next four years as the existing tranches of clinician stock vest.

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

With that, I'll turn it back to Dave for his closing comments.

Dave Bourdon, Chief Executive Officer

Thanks, Ryan.

To summarize, we've had a solid start to 2025 and feel well-positioned to deliver on our full-year commitments, with work still to be done. The strength and dedication of the team gives us confidence in meeting these commitments, while also setting the organization up for success in 2026 and beyond.

Operator, we will now take questions.