LifeStance Third Quarter 2021 Earnings Script

Monica Prokocki, VP of Investor Relations

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

I'm Monica Prokocki, Vice President of Investor Relations. Joining me today are Mike Lester, Chairman, President and Chief Executive Officer; Mike Bruff, Chief Financial Officer; and Danish Qureshi, Chief Growth Officer. While this is my first earnings call with LifeStance, I have been a corporate finance and IR professional for nearly a decade with public healthcare companies. I am excited to be a member of LifeStance and look forward to working with all of you as we continue our journey as a recent public company.

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 present performance. A reconciliation to the most directly comparable GAAP measures is included in the Earnings Press Release tables and Presentation appendix. Also, 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, Chairman and CEO of LifeStance. Mike?

Michael K. Lester, Chairman, President & CEO

Thank you, Monica. Welcome back from maternity leave and congratulations on the birth of your son!

Good afternoon, everyone. Thank you for joining us today to discuss our third quarter 2021 results.

As society has navigated the pandemic over the past year and half, we have seen demand for mental health care continue to grow. At the same time, we have continued to witness the challenges patients face as they try to get access to high-quality, affordable mental health care.

The services we offer at LifeStance are needed more than ever. We are deeply committed to our mission to help people lead healthier, more fulfilling lives by improving access to trusted, affordable, and personalized mental healthcare.

Our team combines a powerful vision for the future of mental health care delivery with a sharp focus on execution and a growth mindset, evidenced by our strong operational and financial results.

During the quarter, we added 400 net clinicians; stabilized clinician retention to 80% annualized, aligned with our expectations; opened 29 de novo centers; and completed six acquisitions. The team's solid execution brought our footprint to 4,375 clinicians and approximately 500 centers across 31 states, contributing to our strong growth and enabling us to deliver on our mission of increasing access.

Financially, we also delivered at the high end of our expectations, including revenue of $173.8 million, up 70% year-over-year, adjusted EBITDA of $10.7 million and adjusted EBITDA margin of 6.2%. We continue to maintain a strong capital position, with $212 million of cash on our balance sheet.

We have also added new talent to our organization, including the appointment of a new independent director, Seema Verma, to our Board of Directors. Seema is a leading national health policy expert with over two decades of experience in the healthcare industry, having most recently served as the longest-running administrator for the Centers for Medicare & Medicaid Services. Seema brings to the team deep knowledge of healthcare policy, and we look forward to learning from her expertise.

We continue to invest in management leadership throughout the company, such as business operations, people operations, and information security to strengthen our operating rhythms and the necessary infrastructure to support a growing public company.

At the end of the third quarter, we had approximately 6,000 employees. Investing in our talent and human capital is paramount. Under our employee equity incentive program, we will be making grants to eligible employees, including clinicians, beginning in 2022. For clinicians, eligibility for equity awards and vesting will be tied to productivity, directly serving our mission of expanding access to mental health care at this critical time for the country.

We believe our equity program will boost our value proposition in a highly competitive labor market; help attract and retain the talent needed for our patient-centric business model; and establish an ownership mindset among our employees, including our clinicians. Just as critically, it aligns with our values and purpose and builds on a history of investment in our team by providing meaningful rewards for furthering our mission of enhancing access to mental health care in a sustainable manner over the long term.

Turning to the market environment, we believe that patient demand for mental health services has never been greater. From 2019 to 2020 alone, the number of adults seeking psychotherapy increased 28%, per a recent McKinsey report. In October, the American Academy of Pediatrics declared a national state of emergency in child and adolescent mental health.

At the same time that patient demand continues to grow, the health care industry is experiencing elevated resignations per the latest jobs reports, driven by worker burnout, childcare costs, and pandemic fatigue. This has impacted the mental health care sector as well. According to a survey published by the National Council for Mental Wellbeing in September, 82% of mental health care provider organizations reported that it has been difficult to *retain* employees, and 97% said that it has been difficult to *recruit* employees.

LifeStance is not immune to these broader labor market dynamics and their impact on the mental health care industry in particular, as we shared back in August.

While these dynamics present a more difficult operating environment, growth in demand for our services continues and we are focused on controlling what we can to drive strong results by being the employer of choice for clinicians.

Over the past quarter, we have escalated focus on our clinician value proposition, with special attention to engaging with our clinicians on a regular and systematic basis, and leaning into our values of delivering compassion, building relationships and celebrating difference.

The culture and community we build with our clinicians is what really matters, especially in a higher turnover labor market. We've made improvements by engaging clinicians more frequently to hear the stressors in their lives, and taking actions to ensure we continue to support them both within and outside of the professional setting.

For example, we have implemented a systematic way of identifying "at risk" clinicians, and working to assess and address their needs. In cases where compassion fatigue or burnout are identified, peer-to-peer support is offered through our national clinical team. Additionally, 100% of clinicians have been assigned champions who have initiated routine one-on-one communications to ensure that we are giving our clinicians opportunities to be heard. These initiatives are an important component of our value proposition to clinicians and core to delivering on our mission.

Across our forums for engagement, one clear theme emerged most of all from our clinician feedback—many are now feeling the impact of COVID fatigue and value the flexibility to deal with their own mental well-being.

As a company focused on mental health, allowing for our employees to have a flexible schedule is part of the strategy. To this end, many employees are planning to take more time off than usual during the holidays given the difficult year, and we have adjusted our projections accordingly. We now expect our full year 2021 revenue to land toward the lower end of the $668 to $678 million range to which we previously guided, still representing a growth rate in excess of 75%.

Clinicians value the flexibility afforded by their careers at LifeStance and we believe that supporting them is the right move to prioritize the well-being of our approximately 4,400 clinicians providing care for patients across the country. Supporting the well-being of our clinicians will create greater opportunities to recruit and retain talent into the future and ultimately lead to a happier, more productive workforce over the long term.

Our efforts are paying off. We are pleased to report that even in the current labor market environment, we grew our net clinician base by 400, a 10% sequential increase in the third quarter and one of the best quarters in the company’s history. And, retention rates have stabilized at a level consistent with our expectations of approximately 80% annualized within the quarter. This was driven by our laser focus on our clinician value proposition.

We have also seen sequential improvement in our clinician satisfaction scores from our internal quarterly surveys, including improvement in our communication scores as we collaborate more closely with our clinicians, demonstrating our ability to continue to build a best-in-class environment for the long term.

We are taking the necessary actions now that we believe will position us well relative to the market as macro conditions improve.

I am proud of what we’ve achieved, but there is much more to do. LifeStance is a leading mental healthcare provider with a broad and unique set of assets and capabilities. I have great confidence that we will be entering 2022 with an extraordinary set of opportunities to help improve the mental health care system for all of those we can serve.

And now, I will turn the call over to Danish to provide more detail on the initiatives that are driving growth across the organization.

Danish Qureshi, Chief Growth Officer

Thanks, Mike, and good afternoon, everyone.

First off, I wanted to reiterate what Mike said earlier about how proud we all are of the mission we are serving.

Here at LifeStance, we are revolutionizing how patients receive easy access to affordable mental healthcare. There are more than 50 million people in the United States with a mental health condition, many of whom are unable to find the care they need.

As we continue to deliver growth nationwide, serving those patients that are in desperate need of care is at the core of what drives us every day. We won't stop until every person in the United States is one click or call away from a LifeStance Health clinician.

As we look to continue to transform the industry, our growth strategy remains focused on three core pillars: expanding into new markets, building market density, and deploying our digital tools.

In the second quarter, we expanded into five new states, growing our presence to 31 states and making progress towards our long-term mission of delivering care to all 50 states through either in-person or virtual care. We continue to have a strong acquisition pipeline of new state entry points and look to become fully operational in approximately six more states in the near term.

In the third quarter, we focused our growth efforts on building market density in our five recently entered states, as well as continued density-building in our legacy states. We build market density by 1) executing on our playbook of hiring more clinicians, 2) acquiring tuck-in practices, and 3) opening de novo centers. During the third quarter, we made excellent progress against each of these drivers.

On the first driver, we added 400 net clinicians in the quarter, bringing our total clinician base to approximately 4,375, an increase of 72% year-over-year. Year to date, we have added a net total of almost 1,300 clinicians, or approximately 30% of our total clinician base.

Our six-point clinician value proposition continues to resonate in the market, as we provide a mission-driven culture, a collegial and collaborative work environment, a strong work-life balance, enhanced digital tools, robust support services, and a competitive compensation package.

We are truly dedicated to enhancing our value proposition as an employer of choice for mental health clinicians, as evidenced by our support for workplace and work-life flexibility.

Second, regarding acquisitions—in the quarter, we completed six tuck-ins, bringing our total to 70 acquisitions since inception, further demonstrating the robustness of our acquisition pipeline. These acquisitions deepened our presence in Atlanta, Austin, Chicago, Seattle and DC, and expanded our presence into Columbia, South Carolina.

Third, in terms of de novo centers, during the quarter, we opened 29 new locations and reached a company milestone – our 200th de novo location opening – bringing the total number of centers to approximately 500 nationwide, as we continue to strengthen our first-mover advantage and national scale.

In addition, we launched a brand-new spatial design for all new de novo centers going forward that reimagines the mental healthcare experience for both patients and clinicians. Designed to reinforce our commitment to providing compassionate, evidence-based treatment, every detail from lighting to materials to color palette has been thoughtfully selected to encourage stress reduction and support personalized, high-quality care for patients, as well as collaboration and a best-in-class work environment for our clinicians.

The first centers to feature the new spatial design are now open in Chicago, and patient and clinician feedback alike has been overwhelmingly positive. This enhanced design keeps us at the forefront of innovation in healthcare, and delivers on our long term promise to reimagine the mental healthcare experience, both in person and online.

Turning to our growth strategy of deploying our digital tools—we are investing in our digital platform to provide patients and clinicians with a unique high-quality user experience, regardless of how they engage with LifeStance. We are currently focused on improving the overall booking and intake experience by creating a more streamlined process for our patients that reduces the burden on them and our clinicians, while also improving our patient-clinician matching process. Our product, built in-house, will offer personalized experiences based on the workflows and needs of our clinicians and patients.

Our continued investments in digital tools, combined with our investments in physical space design, are a testament to our unique hybrid model that puts LifeStance at the cutting edge of healthcare innovation.

We believe in a future where patients receive a unified experience across all channels, regardless of how they choose to receive care with us, and a consistent experience for our clinicians as they flex back and forth between in-person and virtual care.

As we look forward to the future, LifeStance continues to have an unmatched offering that will enable us to deliver strong long-term growth for years to come. We remain focused on our core growth strategy, and it continues to deliver consistent results. We also remain excited about our long-term prospects in the integrated care and value-based spaces as we continue to evolve our solutions in those areas over the coming years.

Let me now turn it over to Mike Bruff for a deeper dive into our financial performance.

J. Michael Bruff, CFO

Thanks, Danish, and good afternoon, everyone. Thank you for joining us today.

In the third quarter we delivered revenue of $173.8 million, up 70% year-over-year, primarily driven by robust net clinician growth of 72%.

Center Margin of $52.1 million increased 57% over the same period last year, driven by strong revenue growth. Center Margin as a percentage of revenue declined 260 basis points year over year to 29.9%, as expected, as new clinicians ramp to maturity.

Adjusted EBITDA of $10.7 million declined 29% and adjusted EBITDA margin of 6.2% was down from 14.7% in the same period last year, primarily driven by planned investments as we build out our growth initiatives and public-company infrastructure.

Our balance sheet remains strong. We ended the quarter with $212 million of cash and cash equivalents and $157 million of net long-term debt with no material payments due until 2026. For the nine months ended September 30, 2021, we used $21 million of cash flow from operations, including $23 million for IPO-related payments and $19 million in interest payments on long-term debt.

Our capital allocation strategy remains disciplined, and we continue to prioritize investing in growth, both organically and via acquisitions, as well as in operating efficiency as we scale our clinician and support operations.

As Mike said, the market remains robust and the need for mental healthcare has never been greater. We are building LifeStance for the long run to deliver on our mission of increasing access to trusted, personalized and affordable mental health care. We are confident that our investments in our clinicians and in our infrastructure will provide strong leverage and cash returns over the next several years.

Turning to 2021 guidance. As Mike noted, we still expect full year 2021 revenue within our previously guided $668 million to $678 million range, but now expect to land toward the lower end, reflecting anticipated incremental holiday time off for clinicians.

Guidance for center margin of $198 million to $208 million and adjusted EBITDA of $47 million to $53 million remain unchanged.

Looking ahead, we are in the midst of our annual planning cycle for 2022. As we work toward finalizing our plan, we are considering strategic, financial and operational factors, as well as continuing to monitor the broader market dynamics. Therefore, we will not be providing formal 2022 guidance at this time.

However, our preliminary outlook is for 2022 revenue growth rate in the low 30s and adjusted EBITDA dollar growth rate on pace with, or slightly greater than, revenue. This assumes retention rates remain relatively consistent with where they are today and that we move forward with making the appropriate infrastructure and talent investments necessary to execute on our long-term strategy.

We will provide formal 2022 guidance and assumptions on our fourth quarter earnings call.

As Mike noted, we remain proud and committed to delivering strong year-over-year growth. We believe that we are delivering a critical service to our patients and continue to see strong demand and unmet need across the country which will persist.

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

Michael K. Lester, Chairman, President & CEO

Thanks, Mike.

As we look at the market and our environment, we see so much opportunity and room for growth in front of us in a market that is growing mid double-digits and a societal need for mental health care that continues to get more recognition and less stigmatization.

We know we must invest smartly to continue to build our highly differentiated hybrid platform. We also know we must continue executing on our clinician and geographic growth. We are confident in our outlook for our company and that our strategy is working and will continue to allow us to build market share.

Delivering on our mission of affordable quality mental health care for all keeps our approximately 6,000 purpose-driven employees inspired to execute and make a tangible impact. Let me close by thanking our team members and partners for their dedication and support this quarter. We are proud of the work and results that everyone at LifeStance has produced and the enthusiasm they bring each and every day to achieving our mission.