# LifeStance Second Quarter 2023 Earnings Script

## Monica Prokocki, VP of Investor Relations

Good morning, everyone, and welcome to LifeStance Health's second quarter 2023 earnings conference call.

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

Halfway through the year, we are continuing to steadily strengthen our operational performance. In addition, we continue to see strong visit volume and clinician growth. Importantly, this is the first quarter where 100% of our growth was organic.

Nearly 90% of the U.S. population has access to our multidisciplinary team of clinicians through a hybrid model of virtual and in-person care covered by commercial insurance. These dedicated clinicians deliver every day on LifeStance's mission to provide access to trusted, affordable and personalized mental healthcare.

Our team is passionate about optimizing patient outcomes. I want to begin by highlighting recent advances on this front. To better support our clinicians in measuring how their patients' care is progressing, we launched a new outcomes-informed care program. As part of this program, outcomes assessments will be sent to all new patients, and after follow-up appointments as deemed clinically appropriate.

Over time, this new capability will allow us to develop an unprecedented level of clinical efficacy data. This data will be invaluable for improving patient care at LifeStance and will highlight our differentiated ability to deliver quality outcomes. It will also support our continued advancement toward value-based care arrangements with our payor partners.

We are uniquely positioned to leverage LifeStance's size and scale to measure quality and outcomes in a disciplined way that we believe can help drive improvements in mental health care across the country. We are excited about this step on our path to using data and analytics to better inform care and enhance mental health treatment.

While we are still early in rolling out our new outcomes initiatives, we are very pleased with the results of other patient experience data that we have been tracking over time. We currently earn a patient Net Promoter Score of over 80, and our average reviews for LifeStance centers across Google searches are currently at 4.6 out of 5 stars.

The ratings represent the tremendous experience and care that our patients receive from LifeStance clinicians. We are proud of the compassionate and customized care that we deliver every day, but recognize that we have opportunities to enhance the patient experience. As we constantly strive for continuous improvement, we are proud of the team's progress and commitment as we move closer to serving nearly one million patients annually.

Regarding operational execution, we continue to make progress on initiatives to streamline the business and improve our performance.

We announced on our last earnings call that we were in the process of sending termination notifications for approximately 30% of our payor contracts, which we completed as of July 1st. These will have little to no impact on visit volume but will allow our internal teams to operate more efficiently. While this initial phase is complete, we will continue to evaluate our payor contracts and focus on aligning with payor partners who share our vision of expanding access to mental health care, and invest in that vision with rates and terms commensurate with the value that LifeStance clinicians provide.

Additionally, as of July 1st we now have all of our centers aligned on one single EHR system, one phone system, and one e-mail system. This is a truly significant step forward toward simplifying the complexity created from nearly 100 acquisitions during the past six years as the administrative burden of multiple systems will be significantly reduced. Streamlining our processes and systems will also enable us to swiftly and effectively implement new company-wide initiatives.

Turning to our financial results in the second quarter, we delivered Revenue of $260 million, Center Margin of $73 million, and Adjusted EBITDA of $14 million, all of which met or exceeded our expectations.

This is the third consecutive quarter that our team has met or exceeded expectations, and with continued disciplined execution, we feel well-positioned to achieve our full-year commitments. With that, I will turn it over to Dave to provide additional commentary on our financial performance and outlook. Dave?

## Dave Bourdon, Chief Financial Officer

Thank you, Ken.

I would like to echo Ken's comments regarding the team's solid performance through the first half of this year, both operationally and in our financial results.

In the second quarter, we produced strong top-line results with revenue of $260 million, representing growth of 24% year-over-year. This outperformance was primarily driven by increased visit volumes that were the result of higher-than-expected productivity.

Visit volumes of 1,705,000 increased 21% year-over-year, primarily driven by higher clinician count and higher productivity.  Total revenue per visit increased 3% year-over-year to $152, primarily driven by modest payor rate increases.

The outperformance on revenue flowed through to Center Margin. Center Margin of $73 million in the quarter increased by 22% year-over-year.  Adjusted EBITDA of $14 million was consistent with our expectations.

Turning to liquidity— in the second quarter, free cash flow was negative $12 million, a $6 million improvement year-over-year, which was in-line with our expectations.  As we stated previously, we expected to improve cash flow from the first quarter, which was impacted by compensation costs such as bonus payments and higher payroll taxes.

In the second quarter, DSO increased sequentially from 42 days to 43 days. This was above our prior expectations as we made the decision to hold claims for a large payor due to a retroactive rate increase.  We expect a similar dynamic in the third quarter as we hold claims for several other payors due to updates from rate negotiations.  DSO should meaningfully improve during the fourth quarter.

We exited the quarter with cash of $80 million and net long-term debt of $249 million.  As of the end of Q2, we had additional debt capacity from a delayed-draw term loan of $41 million as well as a $50 million revolving debt facility, providing us with sufficient financial flexibility to run the business as we head toward positive free cash flow for the full year 2025.

In terms of our outlook for 2023, we are raising our full year revenue range by $20 million, to $1,010 to $1,040 million, and raising our full year Center Margin range to $280 to $300 million. We are reiterating the Adjusted EBITDA guidance range of $50 to $62 million to maintain flexibility for further investing in the business.

We expect the higher productivity that we experienced in Q1 and Q2 to continue into the second half of the year, which is driving the increase in our revenue guidance.

For the third quarter, we expect Revenue of $250 to $260 million, Center Margin of $69 to $76 million, and Adjusted EBITDA of $11 to $17 million. As a reminder, there is seasonality reflected in our third quarter guidance as a result of the summer vacation season, which results in lower clinician capacity.

Before I transition to Danish, I'd like to make it clear that as we drive revenue favorability, we are continuing to accelerate investments in 2023. As stated previously, we expect to exit 2025 with double-digit margins; however, our progression from 2023 to 2025 will not be linear. We fully expect to see margin expansion in 2024 but anticipate greater margin expansion in 2025, as we will have the benefit of a full year of returns on our foundational investments.

With that, I'll turn it over to Danish for additional color with respect to operations.

## Danish Qureshi, President & COO

Thank you, Dave.

We continue to align our teams around two growth priorities: net clinician adds and clinician productivity.

In terms of net clinician adds, we grew by 171 in the second quarter, bringing our total to 6,132 clinicians, an increase of 17% year-over-year. Importantly, and consistent with our prior messaging, this quarter's growth was 100% organic.

Turning to clinician productivity—capacity, or the time clinicians make available to see patients, trended in-line with our expectations.

In terms of utilization, or our ability to appropriately fill our clinician's schedules, we continued to deliver improvement, which has been sustained for three quarters. We believe it is now appropriate to increase our go-forward productivity assumptions to reflect the performance in the first half of the year, which is factored into our higher revenue expectations for the second half of the year.

We are driving these improvements in utilization through operational discipline at the top, middle and bottom of the patient funnel.

At the top of the funnel, we continue to attract new patients in line with the overall growth of our clinicians and their related capacity. Our boots-on-the-ground primary care referral team is doing a tremendous job expanding and solidifying local relationships and delivering growth in referrals, which is a key contributor to ramping new clinicians. Additionally, our marketing team's ability to drive continued growth in online organic patient traffic, in combination with increasing levels of brand awareness, continues to have a positive effect at the top of the funnel.

Second, at the middle of the funnel, we are improving our scheduling of patients. Our intake teams are focused on enhancing the overall conversion and matching experience for patients who prefer to schedule their appointments over the phone. We also continue to leverage our digital capabilities to optimize patient matching via our online booking and intake experience, OBIE. We are excited to announce that OBIE has been fully implemented nationwide as of the second quarter, completing an 18-month project. These online and offline efforts have led to further progress at the middle of the funnel.

Finally, at the bottom of the funnel, in terms of scheduled appointments converting to completed visits, our cancellation rates improved by another 2 points this quarter, down to 10%. That represents a 4-point improvement since the end of 2022, and has had a significant impact on utilization and the ability of our clinicians to use their patient-facing time productively.

Our strong execution at the top, middle and bottom funnel contributed to better-than-expected productivity in the second quarter.

Turning to real estate, we are making good progress on the real estate optimization project that we initially announced on our Q4 earnings call. As a reminder, we were planning to consolidate 30 to 40 centers this year. By the end of the second quarter, we consolidated 36 centers with little to no disruption to our patients and clinicians. As we worked through this review of our real estate, we identified additional centers that we are targeting for consolidation late in 2023 and we will provide an update by next quarter's earnings call.

Additionally, we are continuing to intentionally moderate our pace of de novo openings. We are now expecting to open no more than 36 in 2023, down from our original guidance of 40 to 45. Going forward, we will continue to regularly evaluate our real estate footprint to ensure it meets the needs of our hybrid model while supporting our goals of efficiency and operating leverage, and we expect fewer de novo openings in 2024 as we continue to optimize use of our existing space.

In closing, I'm proud of the team's continued dedication to driving operational improvements across the foundation of our business. We have dramatically reduced complexity and streamlined many areas of the company. We've gone from a hundred phone systems to one, dozens of EHRs to one, and rolled out a national online booking system. We've also aligned the teams around a single set of KPIs that move us forward in a common direction.

While we still have a lot of work to do and are just two quarters into a two-year transformation process, the energy and enthusiasm of the team are palpable and inspiring.

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

### Ken Burdick, Chief Executive Officer

Thank you, Danish.

I would like to thank all of our dedicated clinicians and team members for their continued outstanding work in the first half of 2023. It has been nearly one year since I joined LifeStance, and in that time we have focused on standardizing and simplifying our processes, systems, payor contracts, real estate, and other areas of the business, as referenced by Danish. As leaders in the outpatient mental healthcare space, we are also beginning to leverage our unique scale to use data and analytics to better inform care and enhance mental health treatment.

While I recognize that there is a great deal of work ahead of us, I am more confident than ever that as we continue to focus on our top priorities, execute with discipline, and make the necessary investments to strengthen our foundation, we will achieve both our short- and long-term commitments.

We will now take your questions. Operator?