LifeStance First Quarter 2023 Earnings Script

Monica Prokocki, VP of Investor Relations

Good morning, everyone, and welcome to LifeStance Health's first 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 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 Ken Burdick, CEO of LifeStance. Ken?

Ken Burdick, Chairman & CEO

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

We are in the early innings of executing on our strategy and we are making progress on improving operational performance. While we focus on operational improvement, we also continue to grow our clinician base, now approaching 6,000 W-2 employed clinicians who deliver on LifeStance's mission to provide access to trusted, affordable and personalized mental healthcare.

Our hybrid model provides tremendous flexibility to our patients and clinicians, and uniquely positions us to respond to changes in the industry. For example, with the Public Health Emergency, or PHE, ending tomorrow, May 11, we are pleased to share that we have been preparing for this for months now, as we knew the PHE would eventually sunset. Our psychiatric clinicians have been working with our practice operations staff to ensure that all appropriate patients being prescribed a controlled substance are scheduled for an in-person visit.

May is also Mental Health Awareness Month. To promote the importance of mental health, LifeStance launched our newest iteration of our "Not One Face" marketing campaign, with a focus on real people sharing their experiences with anxiety. As leaders in the mental healthcare space, we have learned that mental health is non-discriminating. Mental health conditions may be associated with stereotypical images, but the truth is that these conditions have no one face—there are literally tens of millions of faces. Reimagining mental health to help people lead healthier, more fulfilling lives is at the heart of everything we do here at LifeStance.

As we've previously stated, we are committed to partnerships that support our vision of a truly healthy society where mental and physical healthcare are unified. In alignment with this vision, we are excited to announce that LifeStance has partnered with Gennev, a Unified Women's Healthcare subsidiary that utilizes a team of doctors and dieticians in all 50 states to offer a personalized care plan for women in menopause. Gennev providers will work closely with LifeStance clinicians as a collaborative care team to provide comprehensive treatment that takes a whole-person approach to menopause.

Regarding operational execution, we are making progress on improving our performance.

For example, we are following through on the real estate optimization strategy that we announced on our last earnings call. We remain on track to consolidate 30 to 40 centers and have detailed operational plans in place to do so with little or no disruption to our patients and clinicians. To date, we have streamlined our physical footprint with the consolidation of over 20 centers.

We are also making progress on reducing administrative complexity by terminating our lower volume payor contracts. Consistent with the plan we discussed previously, we are in the process of sending termination notifications for approximately 140 payor contracts, with nearly half of the notifications sent earlier this month. This represents approximately 30% of our total payor contracts, slightly greater than the initial 25% target. Terminating these contracts will have an immaterial impact on visit volume, but will have a material impact on efficiency for our credentialling, intake, and revenue cycle management teams.

Finally, we launched three strategic initiatives to build enterprise-level, scalable infrastructure over the next few years. On this front, we have signed agreements with two vendors: one will implement a human resource information system, long overdue for a company with 8,000 employees—and the other will implement a technology platform that improves our credentialing and clinical onboarding processes. We have also begun an EHR discovery initiative with the goal of evaluating a range of options by the end of this year.

Turning to our financial results in the first quarter, we produced Revenue of $253 million, Center Margin of $70 million, Adjusted EBITDA of $10 million, all of which exceeded our expectations.

Although it is still early, we are encouraged by the first quarter results. Dave will provide more color on the outlook shortly, but we believe that our first quarter performance sets us up well for achieving our full-year commitments.

In closing, I remain confident about the tremendous opportunity in front of us. In the near-term, I am proud of the team for remaining laser-focused on our key objectives for 2023. I believe that we are taking the right actions to streamline and improve the operations of our business to position LifeStance for long-term profitable and sustainable growth. While pleased with the progress we have made thus far, my team and I fully recognize that we still have a great deal of work to do.

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 so far this year, both operationally and in our financial results.

In the first quarter, we produced strong top-line results with revenue of $253 million, representing growth of 24% year-over-year. This outperformance was primarily driven by higher-than-expected clinician productivity.

Visit volumes of 1,665,000 increased 20% year-over-year, primarily driven by higher net clinician count. Total revenue per visit increased 4% year-over-year to $152, primarily driven by payor rate improvement.

The outperformance on revenue flowed through to Center Margin. Center Margin of $70 million in the quarter increased by 28% year-over-year. Adjusted EBITDA of $10 million was slightly above our expectations.

Turning to liquidity-- in the first quarter, free cash flow was negative $16 million, a $9 million improvement year-over-year, and cash from operating activities was negative $8 million; both were in-line with our expectations. As we stated previously, cash flow in the first quarter was impacted by one, compensation costs such as higher payroll taxes and bonus payments; and two, temporarily higher DSO driven by an increase in patient responsibility as deductibles reset every year in January. In the first quarter, DSO increased by 2 days sequentially to 42 days, in line with our expectations.

We exited the quarter with cash of $68 million and net long-term debt of $225 million. As of the end of Q1, we had additional debt capacity from a delayed-draw term loan of $66 million as well as a $50 million revolving debt facility, providing us with sufficient financial flexibility to run the business until we get to positive free cash flow in 2025.

In terms of our outlook for 2023, we are raising the lower end and narrowing our full year Revenue range to $990 million to $1,020 million and raising the lower end and narrowing our full year Center Margin range to $274 to $290 million. We are reiterating our Adjusted EBITDA guidance range of $50 to $62 million.

While we are encouraged by early signs that the operational improvements we have been making to strengthen our performance are bearing fruit, we believe it is still too early to revise our assumptions for the remainder of the year. As a result, we are reflecting the higher Q1 revenue in our full year guidance, but we believe that it is prudent to maintain our original assumptions for Q2 through Q4 until we have more evidence to support that higher productivity will persist, especially during the summer vacation season.

For the second quarter, we expect Revenue of $250 to $260 million, Center Margin of $69 to $76 million, and Adjusted EBITDA of $10 to $16 million.

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

Danish Qureshi, President & COO

Thank you, Dave.

In addition to executing on the operational improvements and administrative simplification described by Ken and Dave, we continue to align our teams around two growth priorities: net clinician adds and clinician productivity.

In terms of clinician growth, we delivered 330 net clinician adds in the first quarter, bringing our total to 5,961 clinicians, an increase of 19% year-over-year.

We completed three small acquisitions at the beginning of the year, and consistent with our shift toward organic growth, we are not planning for additional M&A this year.

Regarding clinician productivity, we saw positive trends in both clinician capacity and utilization.

Clinician capacity, or the time our clinicians make available to see patients, trended slightly higher compared to the last two quarters. As a reminder, last year we saw capacity in the first half of the year run higher, with the back half of the year moderating due to time off taken during the summer vacation and fourth quarter holiday periods. This seasonality is reflected in our full year guidance.

In terms of utilization, or our ability to appropriately fill the time clinicians make available to see patients, we observed encouraging signs of improvement. However, it is still early in the year, and we would like to see these productivity trends continue before updating our go-forward assumptions. 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. We also continue to do this at an extremely low cost per acquisition, with minimal reliance on paid marketing. For example, we are seeing benefits from our investment in our boots-on-the-ground primary care referral team as they continue to expand and solidify local relationships. This team has done a tremendous job delivering growth in primary care referrals. Additionally, organic online marketing as well as increasing levels of brand awareness has had a positive effect at the top of the funnel, resulting in a roughly 50% increase in organic patient traffic sequentially.

Second, at the middle of the funnel, we are improving our scheduling of patients. Our intake teams are enhancing the overall conversion and matching experience for patients who prefer to schedule their appointments through the phone channel. Additionally, we continue to leverage our digital capabilities to optimize patient matching via our online booking experience, OBIE. At the end of Q1, OBIE was live in 26 states, and we remain on pace for a full national rollout by mid-year. 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 nearly 2%, down to 12% in the first quarter. Our stronger execution at the top, middle and bottom funnel contributed to better-than-expected productivity in the first quarter.

In closing, I am proud of the team's efforts in improving operational performance. We are encouraged by the positive signs in our key performance metrics and there remains significant opportunity for further progress as we focus on delivering on our commitments to our clinicians, patients, and shareholders.

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

Ken Burdick, Chief Executive Officer

Thank you, Danish.

This is a multi-year journey. We are in the very early phase of building the muscle to run a highly effective business commensurate with the immense market opportunity in front of us. The need for accessible and affordable mental healthcare in our society has never been greater and our vision of aligning mental and physical healthcare energizes us every day.

We will now take your questions. Operator?