LifeStance First Quarter 2024 Earnings Script

Monica Prokocki, VP of Finance & Investor Relations

Thank you, Operator.

Good morning, everyone, and welcome to LifeStance Health's first quarter 2024 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.

In the first quarter, we once again beat on all our guided metrics, making this the sixth consecutive quarter that LifeStance has met or exceeded expectations. We delivered strong financial performance, with revenue growth of 19% to $300 million and adjusted EBITDA up 174% to $28 million. We are also raising full year adjusted EBITDA guidance based on the strength of the quarter.

Our clinician value proposition continues to resonate with 221 net clinician adds in the quarter, representing 15% entirely organic growth in our clinician base. Our patient experience continues to receive outstanding scores, with a patient Net Promoter Score of 84 and average Google reviews across LifeStance centers at 4.5 out of 5 stars.

Before covering our strategic and operational highlights, I would like to share the news that Danish has reached the difficult decision to leave LifeStance. Knowing this was not an easy decision, I'd like to give Danish the opportunity to directly share his thoughts with all of you.

Danish Qureshi, COO & President

Thank you, Ken.

In March, we celebrated the 7-year anniversary of the founding of LifeStance. That's given me the chance to reflect on all that we have achieved over the years in service of our mission of increasing access to affordable mental healthcare. As one of the founders of LifeStance, it's been a remarkable journey as we've grown the company from our first practice group of approximately 100 clinicians in Ohio to almost 7,000 clinicians across 33 states, touching the lives of millions of patients for the better all along the way. It's been one of the great joys of my life to have contributed to those achievements.

Two years ago, it became clear that we needed to make the shift from a high-growth startup to a scaled public company. At that time, I stepped into the role of President and COO with the goal of solidifying the foundation of the business, rebuilding and upskilling our operations leadership team, and moving us to a performance-driven organization.

I am so proud of all that we have accomplished since then, and I am particularly proud of the strength of the operations leadership team we've built, no better demonstrated than by our delivering 6 sequential quarters of meeting and exceeding our financial commitments.

Having enjoyed the privilege of building LifeStance since its founding, and having spent the last two years turning LifeStance into a high-performing and stable public company, for me, now is the right time to step away and take on my next challenge. As an entrepreneur and builder at heart, I have the desire and drive to make a similar impact on other parts of the healthcare ecosystem, as I have had the privilege of doing so here at LifeStance.

This has not been an easy decision, and I want to thank all of those who have helped me as I thought this through over the previous months. I will continue to operate in my current role through the end of June. However, many of the changes needed to ensure a smooth transition have been put into place over the course of the last two years as we have built out our leadership bench strength and worked together to solidify our foundation.

While I am excited about my next chapter, I have never felt more confident in the future of LifeStance, and I look forward to seeing all that the team achieves over the coming years.

With that, I will pass it back to Ken.

Ken Burdick, Chairman & CEO

Thank you, Danish.

I have appreciated Danish's contributions and have enjoyed the partnership that we've developed. He has made an extraordinary impact on the organization over the past 7 years. I am grateful that he has engaged in these conversations with myself and the board to ensure a smooth transition through his final day. I know that I speak for the entire leadership team when I express profound appreciation for his contribution to LifeStance and a genuine desire for his continued success in the next chapter of his career.

As Danish referenced, LifeStance is well-positioned to continue our exciting journey of expanding access to high-quality, affordable mental healthcare. We have made strong progress on improving our operations and strengthening our team. To ensure a smooth transition, several of our leaders have already stepped into increased responsibility for which they are well-prepared and most deserving.

My conviction is stronger than ever regarding the ability of LifeStance's unique business model to address the challenges that have long existed within the industry. We see the benefits of our model play out through an exceptional patient experience, continued clinician growth, and our ability to navigate industry challenges in ways that positively differentiate us from other mental health companies.

The recent cyberattack on Change Healthcare offers a tangible proof point of LifeStance's differentiation and resilience. While Change Healthcare's systems were down, many mental health provider groups experienced unprecedented financial distress due to their inability to process claims and receive reimbursement—which in many cases affected their ability to pay their clinicians for the services they provided.

Our clinicians are W-2 employed and paid on a fee-for-service basis with guaranteed rate schedules. Thanks to our scale and flexibility, we have been able to absorb 100% of the impact of reimbursement delays, without financial disruption to our clinicians.

Additionally, we have been able to achieve this without the need to raise debt or equity capital, and as Dave will touch on shortly, we remain on track to be free cash flow positive for the full year of 2024.

Shifting to payor strategy, we have previously stated that we are becoming more assertive in demanding appropriate reimbursement and terms for our services. Overall, we've been successful in these efforts, as evidenced by the 4% year-over-year increase we saw in total revenue per visit in the first quarter. This was driven by the positive outcomes of several contract negotiations in late 2023 and early 2024.

Our increased engagement has translated into improved reimbursement from payors. However, we had a single outlier with historically above-market rates who negotiated reimbursement that will now bring them in line with our overall book of business. This will create short-term downward pressure on total revenue per visit for the back half of 2024 and the first part of 2025.

Importantly, this both de-risks our overall portfolio and has already been contemplated in our 2024 guidance raise. This is another demonstration of our resilience and ability to deliver on our commitments. We continue to expect total revenue per visit to increase by low-single digits for the year, and in the medium and longer term, we continue to see meaningful upside opportunity to increase the level of reimbursement with payors.

With our unique outpatient and in-network business model, we provide both patients and our payor partners with an affordable option for increasing access to much-needed mental healthcare services.

Before closing, I am pleased to announce that we welcomed Dr. Teresa DeLuca to our board of directors. She is a psychiatrist and accomplished physician executive with over 20 years of leadership experience in healthcare operations and clinical management. I am confident that Teresa will be a great addition to the LifeStance board.

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

Dave Bourdon, Chief Financial Officer

Thanks, Ken.

Like Ken, I am pleased with the team's operational and financial performance in the first quarter.

We delivered solid top-line results with revenue of $300 million, representing growth of 19% year-over-year. The outperformance was primarily driven by higher total revenue per visit and increased visit volumes. Both were modestly above our expectations.

Visit volumes of 1.9 million increased 15% year-over-year, primarily driven by higher organic clinician growth. In the first quarter, we added 221 net clinicians, which was above our expectations. This brings our total clinician base to 6,866 clinicians, representing growth of 15% year-over-year.

While we do not guide on clinician count, I want to highlight that we expect net clinician adds in the second quarter to be meaningfully lower than the first quarter, which is similar to the dynamic we saw last year, with the trend reversing later in the year.

Clinician productivity was in line with our expectations in the first quarter, with the timing of holidays and spring breaks impacting clinician capacity.

Total revenue per visit increased by 4% year-over-year to $157, primarily driven by payor rate increases.

Regarding profitability, the better-than-expected top-line results flowed through to Center Margin. Center Margin of $95 million in the quarter increased by 36% year-over-year, and Center Margin as a percentage of revenue grew nearly 4 points to 31.5%. The year-over-year improvement was primarily due to higher total revenue per visit and operating leverage in center costs, mainly driven by real estate optimization. Outperformance in the quarter was driven by favorable spending, and to a lesser extent, higher total revenue per visit.

Adjusted EBITDA of $28 million in the quarter was very strong and outperformed our expectations, increasing 174% year-over-year. Adjusted EBITDA as a percentage of revenue grew over 5 points to 9.2%. The outperformance in Adjusted EBITDA is attributable to the improvement in Center Margin.

Turning to liquidity – in the first quarter, free cash flow was negative $27 million. We exited the quarter with $49 million in cash and net long-term debt of $280 million.

As Ken touched on, we did see a temporary disruption to our cash collections from the cyber-attack on Change Healthcare. This resulted in a net impact of approximately $18 million, comprised of delayed cash collections, partially offset by stronger cash management. DSO increased to 53 days in the quarter, with the impact from Change being approximately 9 days.

The impact from Change is expected to be a timing issue that will largely resolve itself in the second quarter. We are already seeing progress with improved DSO in April and anticipate that DSO will revert back to normal later this year. As a result of this, we remain confident in our commitment to deliver positive free cash flow in 2024.

We also have additional debt capacity from a delayed-draw term loan of $8 million as well as a $50 million revolving debt facility, providing us with sufficient financial flexibility, and have no intention of raising additional debt or equity.

We continue to see improvement in our leverage ratios, with net leverage improving sequentially over 40 basis points to 3.1 times. We remain confident that we will finish the year with net leverage below 2.5 times.

In terms of our outlook for 2024, we are maintaining our full year revenue range of $1,190 million to $1,240 million. We feel good about the improved margin performance of the business and are raising the Center Margin range by $8 million at the midpoint to $353 to $373 million and the Adjusted EBITDA range by $8 million at the midpoint to $88 to $98 million.

We continue to expect earnings to have a different quarterly progression compared to 2023 which was more weighted to the back half, whereas this year will be more weighted to the front half of the year. As Ken noted, we will see a negative impact on total revenue per visit in the second half as a result of a rate decrease from one payor, partially offset by increases from others.

We continue to expect total revenue per visit to increase by low-single digits for the year. In the medium and longer term, we continue to see meaningful upside opportunity to increase the level of reimbursement with payors, and remain confident in our commitment to exit 2025 at double-digit margins.

For the second quarter, we expect Revenue of $297 to $315 million, Center Margin of $85 to $97 million, and Adjusted EBITDA of $20 to $26 million.

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

Ken Burdick, Chief Executive Officer

Thank you, Dave.

In closing, I'm proud of the results achieved by our clinicians and team members this quarter. We delivered strong organic revenue growth while executing on our commitment to deliver year-over-year operating leverage and margin expansion.

I would like to once again thank Danish for his contributions to LifeStance and wish him well on his career journey. While we are sad to see him go, we are well-positioned to continue delivering on our mission of expanding access to high-quality, affordable mental healthcare.

While I recognize that we still have a great deal of work ahead in 2024 and beyond, I am encouraged by the momentum we are building toward our stated commitments of positive free cash flow in 2024, growing revenue at mid-teens through 2025, and exiting 2025 with double-digit margins.

As a country, we have underfunded mental healthcare, and underserved millions of individuals, for far too long. Our team at LifeStance will continue to work tirelessly to address these challenges until mental health parity is a reality.

Operator, we're now ready for questions.