

# LifeStance Fourth Quarter 2024 Earnings Script

## Monica Prokocki, VP of Finance & Investor Relations

Thank you, Operator.

Good morning, everyone, and welcome to LifeStance Health's fourth quarter 2024 earnings conference call.

I'm Monica Prokocki, Vice President of Finance & Investor Relations. Joining me today are Ken Burdick, Chief Executive Officer and Dave Bourdon, Chief Financial 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](https://investor.lifestance.com).

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, Chief Executive Officer of LifeStance. Ken?

## **Ken Burdick, Chief Executive Officer**

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

In the fourth quarter, we once again beat on all of our guided metrics. We delivered strong financial performance for the full year, with 19% revenue growth to one and a quarter billion dollars and adjusted EBITDA up 103% to \$120 million, which represents a 9.6% margin. We also feel well-positioned to deliver on our 2025 commitments. Dave will share more on our financial performance and outlook shortly.

Before covering our strategic and operational highlights, I would like to begin by addressing the leadership changes we announced today.

First, Dave Bourdon, whom you all know well as LifeStance's CFO, has been appointed by the Board of Directors as the next CEO of LifeStance. We are thrilled that Dave will succeed me as CEO, effective March 3<sup>rd</sup>.

As our CFO for the last two and a half years, Dave has played an instrumental role in LifeStance's financial and operational transformation. We have worked in partnership during our tenure at LifeStance, so I can speak firsthand to Dave's business acumen, deep healthcare experience and collaborative relationships with both internal and external stakeholders. He is passionate about executing on our mission to expand access to high-quality, affordable mental healthcare, and the commitment he brings to both our clinicians and our patients makes him the right leader to guide LifeStance into the future. I have no doubt that Dave will carry LifeStance to even greater heights in our next chapter and over the long term.

Second, I will move into the role of Executive Chairman. We have made tremendous strides simplifying and streamlining the business while also meeting or exceeding our financial commitments for the past nine quarters. Now is the appropriate time for me to step back away from day-to-day operations. As Executive Chairman, I will be involved in setting our long-term strategy, investor engagement, and supporting Dave.

I will continue to serve as Chairman of the Board, and Dave has been appointed to serve on our Board of Directors. In our new roles, Dave and I will continue to work closely together, and I have every confidence that this management team will continue to deliver on our commitments to patients, clinicians, teammates and shareholders.

**Third**, we have appointed Ryan McGroarty as our new CFO.

Ryan brings over 25 years of healthcare experience, having served in multiple CFO roles at Cigna, and most recently as the CFO for Help at Home, a multi-billion dollar revenue company providing home care for seniors and people with disabilities. Ryan will start on March 17<sup>th</sup> and we are excited to welcome Ryan and have the utmost confidence in his ability to successfully lead our finance organization.

It is an exciting time here at LifeStance. We had an exceptional finish to 2024 and have positive momentum heading into 2025. Now I'd like to turn it over to Dave for a few brief remarks before we continue with our earnings discussion.

### **Dave Bourdon, Chief Financial Officer**

Thanks, Ken.

I am honored to serve as LifeStance's next CEO and to lead such an incredibly dedicated and talented team as we continue to focus on transforming mental healthcare. I'm proud of the strong progress we've made and look forward to further driving operational and clinical excellence, exceptional service for our patients, and in turn, profitable growth for shareholders. It has been a privilege to work alongside Ken and the management team, and I look forward to our continued collaboration in our new roles as we build on our positive momentum.

This will be a seamless transition. I share the same vision for LifeStance as Ken, and you should not expect to see any major pivots in our strategy. I believe wholeheartedly in the potential of our hybrid, commercially-insured business model and look forward to leading LifeStance as we continue on our path toward unifying mental and physical healthcare.

I'd also like to welcome our new CFO, Ryan McGroarty, to the LifeStance team. As Ken mentioned, Ryan brings an extensive amount of experience and knowledge leading large healthcare organizations. I had the pleasure of working alongside Ryan at Cigna for over two decades and can personally attest that his leadership, business acumen and passion for improving mental health care make him uniquely qualified to take over the reins of our finance organization.

With that, I'll turn it back over to Ken.

## **Ken Burdick, Chief Executive Officer**

Thanks, Dave.

Turning to our updates for the quarter, I'm extremely proud of what we have accomplished in 2024. Through our financial, operational, and clinical advancements, we have begun to show the true potential of LifeStance as the leader in outpatient mental healthcare.

The success in 2024 starts and ends with the exceptional care our clinicians provide to our patients every day. With our team of over 7,400 clinicians, LifeStance provided nearly 8 million visits to nearly 1 million patients in 2024.

The quality of care provided by our clinicians continues to be reflected in the feedback from our patients. In 2024, LifeStance received a patient Net Promoter Score of 85, and our average Google reviews across all LifeStance centers stood at 4.6 out of 5 stars. Both of these metrics improved modestly from last year's already exceptional scores of 82 and 4.5.

Turning to operational execution, in 2024 we continued to advance our goals of streamlining the business and improving performance.

First, we implemented our new operating model, which standardizes our organization with consistent staffing and processes to better support our clinicians and serve our patients at our hundreds of centers across the country. The operating model rollout is built upon the concept of practice groups, which are clusters of centers providing a localized community approach to our operations. We are confident that this new operating model, which drives local decision-making and accountability, will enable LifeStance to successfully scale in 2025 and beyond.

Second, we improved the patient experience and administration of virtual visits. A great example of this is the rollout of our new digital patient check-in tool. As of mid-February, we have implemented it successfully across 21 of our 33 states and are on track to complete the national rollout by mid-year. We continue to see higher patient satisfaction, operational efficiencies, and significant improvements in patient collections where this tool has been deployed.

Third, we continued to enhance our value proposition to clinicians with the implementation of a bi-weekly payroll cycle for our clinicians, who were previously paid on a monthly basis. We have received positive feedback about this change and will continue to focus on initiatives to enhance clinician satisfaction at LifeStance.

In regard to financial performance, in 2024, we beat on all guided metrics for the second consecutive year. We achieved three other notable financial milestones. This was the first quarter in our history as a public company in which we delivered double-digit adjusted EBITDA margins. Second, for the full year, we more than doubled our adjusted EBITDA. And third, we achieved significant positive free cash flow for the year, and are pleased to have reached this goal one full year ahead of our original expectations.

Our focus on operational and financial discipline over the last two years have contributed to the positive trajectory of the company. With a more standardized operating model, as well as an improved capital position and positive free cash flow generation, we are now at a stage, both operationally and financially, where we are ready to return to acquisitions as early as this year.

Going forward, our approach to M&A will be very disciplined. We will be selective in pursuing acquisitions that are focused on expanding capabilities, services, or customer segments. We will continue to be primarily dependent on organic growth and will be strategic in pursuing deals that meet our stringent criteria.

While there is still work to do, I couldn't be more proud of the progress we have made as a company. As we look ahead to 2025, we will continue to enhance the patient and clinician experience, while delivering on our mission of expanding access to the millions of Americans who seek to improve their lives through the care of LifeStance clinicians.

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 2024, which exceeded our expectations.

In the fourth quarter, we delivered strong top-line results with revenue of \$325 million, representing growth of 16% year-over-year. The outperformance was driven by higher total revenue per visit and better-than-expected clinician productivity.

Visit volumes of 2.0 million increased 14% year-over-year, driven primarily by clinician growth. We grew our net clinicians by 155 in the fourth quarter and 779 for the full year, bringing our total clinician base to 7,424, representing growth of 12% year-over-year.

With regard to clinician productivity, it came in slightly ahead of our expectations in the fourth quarter.

Total revenue per visit increased 2% year-over-year to \$160, primarily driven by modest payor rate increases.

For the full year, we delivered revenue of \$1,251 million, up 19%. Visit volumes increased 15% and total revenue per visit increased 3%.

Regarding profitability, the better-than-expected top-line results flowed through to Center Margin. Center Margin of \$109 million in the quarter increased 31% year-over-year. The outperformance in the quarter was driven by the revenue beat and lower-than-expected spending. Full year Center Margin of \$402 million grew 33%.

Adjusted EBITDA of \$33 million in the quarter was very strong and exceeded our expectations, increasing 62% year-over-year. Adjusted EBITDA as a percentage of revenue was 10.1%. As Ken mentioned, this is the first time as a public company that LifeStance has achieved double-digit margins in a quarter. The outperformance in the quarter was primarily attributable to the improvement in Center Margin.

Additionally, in the fourth quarter we resolved the labor-related litigation noted in our SEC filings, which had an immaterial impact to our financial results.

For the full year, Adjusted EBITDA was \$120 million, increasing 103%, with margins increasing 4 points to 9.6%.

Turning to liquidity – in the fourth quarter, we generated strong free cash flow of \$56 million. For the full year, we generated \$86 million in positive free cash flow, far exceeding our expectations. We are proud of the progress that we have made on this front over the last twelve months, especially in light of the industrywide challenges resulting from the Change Healthcare cyberattack.

We exited the quarter with \$155 million in cash and net long-term debt of \$280 million. DSO improved 10 days sequentially to 37 days in the quarter, which is a tremendous outcome and the result of the team's dedication and resilience.

We continue to see improvement in our leverage ratios, with both our net and gross leverage ratios improving over 50 and 25 basis points sequentially to 1.1 and 2.4 times, respectively. This represents a significant improvement from the 3.6 net and 4.9 times gross leverage in Q4 of last year.

Additionally, we are pleased to have announced in December that we refinanced our existing debt with favorable terms, including a significant improvement in pricing and enhanced flexibility to fund future investments and potential acquisitions. The credit spread in our new agreement has been reduced to 2.25% based on our current net leverage, which is down from 3.75%. We estimate that the annualized benefit of lower interest expense from this refinancing is greater than \$4 million per year. We also expanded our capacity by increasing our revolver from \$50 million to \$100 million. These better terms and lender interest are a testament to the company's improving visibility, predictability, and positive track record over the past two years.

In terms of our outlook for 2025, we expect full year revenue of \$1,400 million to \$1,440 million, Center Margin of \$440 to \$464 million, and Adjusted EBITDA of \$130 to \$150 million. These financials are solely based on organic growth, as we did not contemplate any potential acquisitions in our planning assumptions.

Our annual guidance assumes year-over-year revenue growth primarily driven by higher visit volumes, with total revenue per visit being roughly flat. Regarding rates, as a reminder, we previously stated we would experience downward pressure in total revenue per visit in the first part of 2025, due to the last of three rate decreases from a single outlier payor negotiating their reimbursement to be more in line with our overall book of business.

When considering the overall payor rate environment, including the unique payor rate decrease, our guidance contemplates roughly flat rates year-over-year. Factoring this in, along with clinician compensation increases, we anticipate pressure on Center Margin year-over-year, which we expect to offset with G&A operating leverage.

As for phasing, 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 expect earnings to build throughout the year, as the first quarter is disproportionately impacted by payroll tax expense and in the back half of the year, we expect modest rate improvement along with higher specialty revenue.

For the first quarter, we expect Revenue of \$320 to \$340 million, Center Margin of \$100 to \$114 million, and Adjusted EBITDA of \$27 to \$33 million.

Additionally, we expect stock-based compensation of approximately \$70 to \$85 million in 2025.

Regarding free cash flow, we expect to once again generate meaningful positive free cash flow for the full year 2025. However, we expect lower free cash flow versus 2024 driven in part by the switch to bi-weekly payroll for clinicians and higher capital expenditures related to opening 25 to 30 de novos in 2025. Similar to last year, we expect negative free cash flow in the first quarter, due in part to these items as well as bonus payments for 2024 performance.

As we look to 2026, we expect to return to low-to-mid single digit annual rate improvement. With these rate improvements, we will be well-positioned to grow revenue in the mid-teens while expanding margins. Furthermore, we believe that in 2026, we will achieve positive net income and earnings per share for the full year. This is a key milestone in our journey as a public company.

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

### **Ken Burdick, Chief Executive Officer**

Thanks, Dave.

In closing, I'd like to thank each LifeStance employee for the passion and dedication they bring to their work every day. 2024 was a fantastic year, and in the face of challenges, we had our best year yet. We have demonstrated our resilience, and I am confident that we will continue to deliver on our financial commitments while we transform the mental health industry.

As this is my last call as CEO of LifeStance, I'd also like to thank everyone, including the board and our shareholders, for allowing me to serve in this role over the past two and a half years. It has been a tremendous honor to lead this dynamic and purpose-driven organization. While I am proud of our accomplishments, there is still so much runway ahead of us. As I transition into my new role as Executive Chairman, I am more confident than ever in the future of LifeStance.

Operator, we will now take questions.