

Biote Corporate

Fourth Quarter and Full Year 2022
Earnings Call

March 29, 2023 at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Simon Serowiecki – *Investor Relations*

Terry Weber – *Chief Executive Officer*

Samar Kamdar – *Chief Financial Officer*

Marc Beer – *Executive Chairman*

Dr. Ross McQuivey – *Chief Medical Officer*

PRESENTATION

Operator

Welcome to the Biote Fourth Quarter and Full Year 2022 Earnings Conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference over to Simon Serowiecki, Investor Relations. Please go ahead.

Simon Serowiecki

Good morning and thank you for joining us today. Yesterday, Biote published financial results for the quarter and full fiscal year ended December 31, 2022. This release is available in the Investor Relations section of the company's website. Terry Weber, Chief Executive Officer and Samar Kamdar, Chief Financial Officer will host this morning's call.

Before we get started, I'd like to remind everyone that management will be making statements during this call that include forward-looking statements regarding the company's financial results, business outlook, strategies, goals, research and development, manufacturing and commercialization activities, regulatory process operations, the impact of macroeconomic conditions on its business, results of operations and financial conditions, and other matters. These statements are not guarantees of future performance. They're subject to a variety of risks and uncertainties, some of which are beyond our control. Our actual results could differ materially from expectations reflected in any forward-looking statements.

These statements are subject to risks, uncertainties and assumptions that are based on management's current expectations as of today. Biote undertakes no obligation to update them in the future. Therefore, these statements should not be relied upon as representing the company's views as of any subsequent date. For discussion of risks and other important factors that could affect their actual results, please refer to our SEC filings available on the SEC website and our Investor Relations website, as well as risks and other important factors discussed in their earnings release.

We will also refer to adjusted EBITDA, which is a non-GAAP financial measure to provide additional information to investors. A reconciliation of the non-GAAP to GAAP measure is provided with our press release with the primary differences being stock based compensation, fair value adjustments to certain liabilities, transaction related expenses and other non-operating expenses.

I would now like to turn the call over to Terry Weber.

Terry Weber

Thank you, Simon, and thank you all for joining us. On the call with me today is Samar Kamdar, our Chief Financial Officer, who will review our financial results and provide our outlook for 2023. Marc Beer, our Executive Chairman and Dr. Ross McQuivey, our Chief Medical Officer are also on today's call to answer your questions during the Q&A session following these remarks.

I would like to begin by welcoming everyone, including those investors who participated in the secondary offering of Biote common stock completed in early January. This transaction marked an important step in our effort to increase the liquidity of our common stock and broaden our institutional ownership. We are excited to have our new investors join us on our journey, and we look forward to building relationships with all of you going forward.

Since Biote began trading as a public company last May, we've accomplished a great deal in a short amount of time. We've expanded our sales team and broadened our geographic reach; we have made strategic investments in our capabilities to drive sustainable, profitable growth; and we've delivered strong financial performance, reflecting the dedication of the entire Biote team.

Our fourth quarter results concluded a great year as we generated record sales and adjusted EBITDA in the fourth quarter and for the full 2022 year. In the fourth quarter, sales and adjusted EBITDA increased 18.5% and 40% year over year, respectively. Our strong growth and adjusted EBITDA reflected improved profitability on higher sales, demonstrating the attractive economics of our capital light and annuity light business model.

For the full 2022 fiscal year, sales grew more than 18% while adjusted EBITDA grew nearly 25%. We achieved this growth despite hurricane related weather closures in Florida and Puerto Rico that impacted our third quarter and to a lesser extent our fourth quarter. We closed 2022 in solid financial position with over \$79 million in cash on our balance sheet, which will help support our future growth initiatives.

As we execute on our strategy, we will continue to make investments in the business. In 2023, we are investing the necessary infrastructure to support our larger and more geographically diverse sales team. This investment strategy includes an increase in senior sales managers who are central to facilitating our continued geographic expansion. And even with our planned investments, we expect to achieve an adjusted EBITDA margin in 2023 of 28% to 30%, which is consistent with our historical performance.

As we continue to build our organization and expand geographically, we remain focused on our overriding mission to be the preeminent voice leading the discussion on the health benefits of hormone therapy. Consistent with our strong market position, we believe that Biote is the foremost provider of hormone replacement education, resources and supports in the United States today. Over the past decade, we've trained 1000s of medical practitioners in the Biote method. Additionally, we've continued to advance the science of hormone replacement therapy through formal clinical research and publications. Dr. Ross McQuivey, who joined Biote last year as chief medical officer, spearheads our clinical research program, and has been instrumental in strengthening our efforts to educate the medical community on the science of supporting hormone optimization.

Hormone therapy is also gaining visibility among the broader public. In early February 2023, *The New York Times Magazine* published an in depth report on menopause, and the benefit of hormone therapy, calling it “the single best option” that is available for women experiencing menopausal symptoms. The article noted that medical schools often do not provide menopause education. Because so many menopausal women go untreated, we are dedicated to providing educational leadership in hormone replacement therapy.

I would like to emphasize the considerable size of our total available market opportunity. As many as 200 million Americans experience symptoms of hormonal imbalances. Consumers are taking a more proactive role with respect to their health, and they are seeking affordable and effective treatments to feel their best. At the same time, medical practitioners see the value in the Biote platform to build their practices, while improving the health of their patients. The Biote network today has grown to encompass more than 6400 Biote trained and certified medical practitioners. And yet, even at our current size, we've tapped only a small portion, about 2.5% of our total practitioner opportunity.

Biote's competitive moat remains one of our key advantages. We believe our brand equity continues to strengthen as we expand our practitioner network to reach more patients. I'm proud of our efforts and the value we are building by broadening the public awareness of hormone optimization.

And now I'd like to turn the call over to Samar Kamdar, our Chief Financial Officer, to review our financial results.

Samar Kamdar

Thank you, Terry.

Biote generated full year 2022 revenue and adjusted EBITDA of \$165 million and \$50.1 million respectively, representing growth of 18.3% and 24.6% respectively from 2021. The strong annual performance was capped off by solid fourth quarter results consistent with our expectations.

Revenue for the fourth quarter was \$44.5 million, an 18.5% increase year over year, driven by continued growth in procedure revenue and dietary supplement revenue. Gross profit margin was 65.3%, up 130 basis points from the fourth quarter of 2021. The increase in gross profit margin was primarily due to improved contract pricing with suppliers and effective product cost management.

Selling, general and administrative expenses were \$20.3 million representing an increase of 27.2% from the fourth quarter of 2021. The increase in SG&A expense primarily reflected investments to expand our sales team and build our capabilities as an organization. SG&A expense included \$2.2 million of stock compensation expense, as well as approximately \$1 million of transactional expenses and certain non-recurring legal expenses of \$2.1 million.

Marketing expense was \$1.3 million in the fourth quarter, down 24% from the fourth quarter of 2021. Over the past year, we have worked to systematically optimize our marketing and advertising spend by insourcing these capabilities, which has enabled us to decrease our customer acquisition costs.

Operating income was \$7.3 million, up 23.3% from \$5.9 million in the fourth quarter of 2021. The growth in operating income was due to increased profitability on higher sales, partially offset by higher SG&A expense.

Net income was \$12.8 million compared to \$5.5 million in the fourth quarter of 2021. The improvement in net income was due to higher sales and increased profitability, as well as the \$7.5 million net change in the fair value adjustments to warrant in earn out liabilities which did not occur in the fourth quarter of 2021.

Adjusted EBITDA was \$13.1 million with an adjusted EBITDA margin of 29.5%. This compares to adjusted EBITDA of \$9.4 million with an adjusted EBITDA margin of 25% in the fourth quarter of 2021. Adjusted EBITDA and margins in the fourth quarter of 2022 increased primarily due to higher sales and improved profitability compared to the fourth quarter of 2021.

I will now provide our financial guidance for 2023. As noted, we believe our capital light and annuity light business model provides good visibility into our projected financial results. As we look at the cadence of revenue and adjusted EBITDA for the year, we anticipate results will be stronger in the second half of 2023 as compared to the first half. This reflects the six- to nine-month productivity lead time that we anticipate will be required for sales team members added in late 2022. I would note that the majority of our new sales team reps added in 2022 joined Biote in the fourth quarter.

For the full 2023 fiscal year, we expect to achieve revenue of \$190 million to \$200 million and adjusted EBITDA of \$56 million to \$60 million. As I noted last quarter, we expect our gross profit margin to remain in the mid-60s. We anticipate adjusted EBITDA profitability in 2023 will be consistent with our historical performance. We expect to accomplish this even as we continue to make strategic investments in our sales and corporate infrastructure to support our increased size and enhance our capabilities.

Now I'll turn the call back to Terry for closing comments.

Terry Weber

Thank you, Samar.

In 2022, Biote achieved significant progress against our goals. We delivered solid financial growth, expanded our sales team and geographic reach, and strengthened our capabilities as an organization. While we are just beginning our journey as a public company, I'm pleased with what we've accomplished over the past year and look forward to building on our success in 2023.

As we look forward, Biote remains well positioned for continued profitable growth. Our asset light model enables us to scale our business efficiently. We are investing to strengthen our capabilities and drive long term shareholder value, and we continue to pursue our mission of providing educational leadership in hormone optimization and promoting patient health and wellness.

Now, I'd like to open this call for questions. Operator, please begin the question and answer session.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Please limit yourself to one question and one follow up. At this time, we will pause momentarily to assemble our roster.

The first question comes from Brian Holland with TD Cowen. Please go ahead.

Jacob Henry

Good morning, everyone. Thanks for taking my question. This is Jacob Henry for Brian. First question. Are you able to provide any further detail on the progress of your sales force expansion? Did you meet your expectations of 50% growth in 2022? And are you able to provide any additional color on your expectations for growth this year?

Terry Weber

Yes, we plan to expand the sales team by 50%, and that's what we told you last year and we executed to the plan in 2022. And then as we said, the majority of the sales reps were added in the back half of 2022. And as we look at 2023, we'll continue to invest in our sales group, invest in the infrastructure around that sales group to try to really ensure work our focus on sales effectiveness. So we'll be looking at those salespeople that were added, the new territories that were added, and really truly look at the data that comes out of those new territories. So we're excited about 2023, and continuing to invest in that expansion.

Jacob Henry

Great, thanks. And then, in the context of either your sales force or clinic growth, can you update us on your geographic expansion efforts? I know you've mentioned you're targeting the West Coast, Midwest and Mid-Atlantic regions. How has that progress been so far, and are any regions growing faster or slower than expected?

Terry Weber

So just as we had said, we moved into the West, the Northwest, the Midwest, and the East, especially

the Mid-Atlantic area. And I'm proud to say that we've got clinics now in all 50 states, including North Dakota, and we'll continue to invest in these new territories. But we've found that the new territories are performing well. We're looking at those added in late '22 and '23, and we'll continue to invest in those territories. But we're very data driven and we're excited to look at those results as we go into '23.

Jacob Henry

Got it. Thanks. And then last one from me. Can you talk a little bit about what the moving pieces are with regards to your top line guidance? What are expectations baking into the high end and low end of your guidance range?

Samar Kamdar

Hi, this is Samar Kamdar, CFO. As we noted, or Terry noted, we added a significant number of territories in 2022 with the majority of those reps coming in Q4. I think we noted in our last call as well, it takes roughly six to nine months for these reps to ramp up to full speed and then likely more like 12 to 18 months when they really start hitting their stride. And so that variability is what you see baked into kind of the low end and the high end of making sure those folks are on the ramp to success.

Operator

The next question comes from Greg Fraser with Truist Securities. Please go ahead.

Greg Fraser

Morning, folks. Thanks for taking the questions.

On the revenue guidance, how much growth do you anticipate will be driven by partners that you had entering the year versus partners that you add during the year? And can you comment on the expected mix between pellet procedures and nutraceuticals for 2023?

Samar Kamdar

Greg, this is Samar. Yes, absolutely. Great question. So usually what happens is when we enter the year, about 75% of our revenue is driven by existing clinics, existing practitioners, and then 25% of that revenue is going to come from the growth or the new additions. And then when you think about the mix next year, we're very consistent, so similar to we've seen over the history. So 80%/20% procedures and pellets, and we expect there to be balanced growth throughout the year.

Greg Fraser

Got it. And I wasn't sure, on the comments about the sales force investment, are you going to add additional reps and territories this year?

Terry Weber

Yes, we'll add additional reps and territories. We'll continue to invest in this geographic expansion. As we discussed, we'll take a look at that data. We're also investing in that group of management to be able to manage that 50% additional sales we added, so we're really looking at putting that sales group expansion, and then the infrastructure to support that sales effectiveness.

Greg Fraser

Got it. And then for the current universe of your partners, what's the rough breakdown by specialty and how do you think that'll change or evolve as you expand the business further across the country? Thank you.

Terry Weber

Our current breakout is about 38%, our family practice and general practitioners; we have about 31%

that are OB/GYN; we've got about 8% that are internists; and about 2% to 3% urologists; about 2% of the group is also functional medicine. And we continue to see about that mix, but we also see an increasing interest in family practice, GP's and internists as more and more of these patients show up in their practices asking questions about hormone optimization. So we'll continue to educate that group and update you annually on the mix.

Greg Fraser

Thank you.

Operator

The next question comes from George Kelly with Roth MKM. Please go ahead.

George Kelly

Hi, everybody. Thanks for taking my questions.

So, first couple kind of higher level, more macro questions. Curious, there's so much noise every day just about consumer spending and inflation, etc. Curious if you've seen any kind of slowdown just in new customers or frequency or anything else.

And then secondly, there's also been a lot of press recently about hormone optimization therapy in some really big sort of high traffic media outlets. So wondering if you see any kind of impact when those *New York Times* articles come out or *Wall Street Journal*, there's been a whole bunch of them recently. So does that take a long time to start to play through what you see or any comment on that would be helpful, too.

Terry Weber

Oh, good questions, George. Good morning. There's no question that everybody's thinking about macroeconomics, so we're all watching that potential slowing of consumer spending. We're concerned, our providers are concerned, and we continue to monitor it closely, but we haven't really seen the impact of it yet. So we'll continue to update on all of our calls. And certainly, it's top of mind. So we'll keep investigating that. We survey our practitioners every time we get together with them, so we'll continue to update that.

Then if we look at – what was the second question, George, you want to give me that again?

George Kelly

Sure. Just about all the recent news articles.

Terry Weber

We are definitely seeing a real conversation about menopause and a real conversation about having so little information available to consumers. It's basically what we talk about every day at Biote. So, George, yes, on the macro question, you're right. It's absolutely increasing, the conversations are getting more direct, and I think the frustration of the patients, especially female patients, to get answers on hormone optimization from their practitioners is getting louder.

So, we see two impacts of that. We're getting increased interest on providers to be educated, because so little is done at med schools. So we're number one, getting more questions and more searches on the internet from providers on education, which is good for us to begin to get them in our system. That takes a good three months or four months for them to continue the conversation, know more about education, and then get involved with Biote.

On the second half of the question, we're absolutely getting more interest from consumers directly on how to find a provider, how to get their questions answered. So our marketing department that we've built up over the last year has really been engaging directly with consumers to try to get them answers and to forward them to our practitioners that are certified and educated. So that's why we have that push on the salespeople to make sure we provide information and access to these providers to get education, and then connect the patients to those providers.

So this is an effort that's going to take years. It's absolutely our day to day mission. And I think you're going to continue to hear more and more about it.

George Kelly

Okay, that's great. And then next question is, I believe you've been testing some kind of lead generation or marketing. I'm curious if that's something you plan to roll out more broadly and is it something that's factored into your guidance this year? Is it becoming more material?

Terry Weber

Yes, this new marketing department has been giving us really good, strong connectivity in that lead gen. We're finding the patients who are looking for the answers to try to connect, and that's been a real bonus to our providers. So it literally has added to the value we provide to those providers is to connect those patients.

We're going to continue to invest, it began as a pilot program in the fourth quarter, we're going to invest throughout this year. And I think in terms of guidance and how it impacted the guidance, we haven't done a lot of factoring that in yet. We're looking at those numbers, very data driven and conservative. We do a very disciplined approach, George, but we are making sure that we continue to invest in that lead gen and getting patients' answers and getting connected with educated, certified providers.

George Kelly

Great, thank you.

CONCLUSION

Operator

This concludes our question and answer session. I would like to turn the conference back over to Terry Weber for any closing remarks.

Terry Weber

Thank you very much for joining us this early morning. We look forward to speaking with many of you over the next few weeks, and then we'll update all of you after our next earnings release in May. And we continue to thank you for your support for all the patients and the providers on this critical, critical message. Thank you so much.