

Biote Corp.

First Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Terry Weber - *Chief Executive Officer*

Bob Peterson - *Chief Financial Officer*

Simon Serowiecki - *Investor Relations*

PRESENTATION

Operator

Good day and welcome to the Biote First Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. You may press "*" then "1" on a touchtone phone, to withdraw your question, please press "*" then "2." Please note, this event is being recorded.

I would now like to turn the conference over to Simon Serowiecki, IR representative from AdvisIRy Partners. Please go ahead.

Simon Serowiecki

Thank you for joining us today. This afternoon, Biote published financial results for the quarter ended March 31, 2024. This news release is available on the Investor Relations section of the company's website. Terry Weber, Chief Executive Officer and Bob Peterson, Chief Financial Officer, will host today's call.

Before we get started, I would like to remind everyone that management will make statements during this call that include forward-looking statements regarding, among other things, the company's financial results, future performance and growth opportunities, business outlook, strategies, goals, research and development, manufacturing and commercialization activities, regulatory process operations, the impact of macro-economic conditions on its business, results of operations and financial conditions and other matters.

These statements are not guarantees of future performance. They are subject to a variety of risks and uncertainties, some of which are beyond the company's control. Actual results could differ materially from expectations reflected in any forward-looking statement. 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 a discussion of risks and other important factors that could affect our actual results, please refer to our SEC filings available on the SEC's website and the Investor Relations section of our website as well as risks and other important factors discussed in the earnings release. Management 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 measures is provided in our earnings release, with the primary differences being stock-based compensation, fair value adjustments of certain liabilities, transaction-related expenses and other non-operating expenses. Please refer to our first quarter 2024 earnings release for a reconciliation of adjusted EBITDA to net income, the closest comparable GAAP measure.

I will now 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 Bob Peterson, our Chief Financial Officer, who will review our financial results and discuss our outlook for

2024. Marc Beer, our executive chairman, is also on today's call to help you answer questions during the Q&A session following our prepared remarks.

Biote generated solid financial performance in the first quarter, delivering results consistent with our expectations. We successfully launched BioteRx, our new suite of complementary hormone and evidence-based wellness products, greatly expanding our long-term growth opportunities. We also closed our acquisition of Asteria Health, a strategic transaction that enhances our efficiency and strengthens our manufacturing capabilities.

Shortly after the first quarter closed, we were pleased to reach a definitive settlement agreement with Biote's founder. This settlement ends costly litigation, and we believe will prove accretive to shareholder value through the planned repurchase of more than 18 million shares held by Dr. Donovitz at an average repurchase price of \$4.17 per share. Bob will provide more information on the expected financial impact of this agreement in his remarks.

Now let's turn to our first quarter results. Revenue increased 4.4% reflecting procedure revenue growth of 6.6%, partially offset by a decrease in dietary supplement revenue of 11.3% due to an expected decline in nutraceutical sales, as we transition our e-commerce business.

Consistent with our expectations, procedure revenue growth remained stable compared to that of the fourth quarter of 2023. Procedure revenue was driven primarily from our top-tier clinics and included a contribution from new clinics we had added in the past 12 months.

Adjusted EBITDA increased 8%, outpacing revenue growth and we generated an adjusted EBITDA margin in excess of 30%.

Following the exit of one of our larger nutraceutical distributors from the market in the fourth quarter of 2023, we continue to transition a portion of our nutraceutical sales to our own online storefront. As part of this transition, we're eliminating unauthorized third-party resellers, which we anticipate will enhance the overall margin profile of our nutraceuticals business in the long run. We expect our nutraceuticals business will resume year-over-year revenue growth starting in the second half of 2024, as existing inventory is cleared from the distribution channel.

In February, we successfully launched BioteRx, our new suite of hormone and wellness therapies. BioteRx represents a milestone in our evolution as we build on our leadership to become the foremost provider of evidence-based healthy aging and therapeutic wellness solutions. BioteRx addresses patient and practitioner needs in key areas including preventative wellness, sexual health, and weight loss. It also further separates Biote from our competitors by providing practitioners with the complete solution to promote positive health outcomes for patients.

As we continue the phased rollout of BioteRx, we're focused on ensuring practitioners have consistent access to our expanded range of hormone and wellness therapeutics. To-date, we've introduced 10 new products, including hormone formulations that provide efficacious alternatives to pellet therapy. We plan to further expand our formulary with additional hormone and therapeutic wellness products later in the year.

Patient and practitioner response to our new offerings has been positive, highlighting what we believe is an attractive market opportunity for Biote in the years ahead. For practitioners, BioteRx will be offering valuable tools and resources, including a proprietary clinical decision support system that provides treatment recommendations formulated to individual patients'

unique needs. For patients our expanded BioteRx formulary enables them to conveniently receive hormone and wellness treatments from a single medical provider.

In addition to our successful launch of BioteRx, we also closed our acquisition of Asteria Health, a manufacturer of compounded bio identical hormones, in the first quarter. The integration of Asteria is already underway and we remain focused on expanding Asteria Health licenses to additional states.

We believe Asteria Health advances our strategic objectives in the following key aspects. First, we are strengthening control over our supply chain, enabling us to generate product enhancements through the vertical integration of our manufacturing. As we work towards achieving full vertical integration, we are also focused on driving productivity gains in our pellet manufacturing.

Second, we are gaining expertise in the manufacturing of 503(B) products, enabling us to provide a wide range of high-quality compounded medications. Later this year, we plan to open the Biote Lab and Innovation Processing Center, where we will develop innovative hormone and therapeutic wellness formulations backed by our own pharmacokinetic research studies. This is an exciting initiative for Biote, which we believe will strengthen our competitive position and keep us on the forefront of innovation.

Our commitment to training and continuing education remains integral to the Biote method and serves as a key competitive differentiator, especially as we evolve into a single source provider of hormone and therapeutic wellness solutions.

To optimize our growth and enhance the startup experience for our new practitioners, we recently introduced a quick start program designed to streamline the onboarding process. At the same time, we are laying groundwork for more immersive and interactive didactic and advanced training for both new and existing practitioners. Through these enhancements, we aim to accelerate the revenue ramp from new clinics, improve our cost efficiency and extend our leadership position in both training and education.

I'll now turn the call over to Bob to discuss our financial results and provide our outlook for 2024.

Bob Peterson

Thank you, Terry, and good afternoon, everyone. First quarter revenue increased 4.4% year-over-year to \$46.8 million when compared to the same quarter in 2023. Procedure revenue grew 6.6% from the prior year period, a growth rate consistent with our performance in the fourth quarter of 2023.

Nutraceuticals revenue decreased by 11.3% as we expected, primarily as a result of one of the company's larger distributors exiting the nutraceuticals business during the fourth quarter of 2023. As I noted in last quarter's call, we expect to begin managing distribution of the products previously delivered by this distributor by the end of the second quarter of 2024.

First quarter gross profit margin expanded by approximately 240 basis points to 71.4% due to product mix and effective cost management. I would note that this quarter's increase in gross profit margin was favorably impacted by lower nutraceutical sales.

As mentioned earlier, as nutraceutical sales resume growth in the second half, as we expect, we anticipate consolidated gross profit margin should revert to historical levels. Selling general

and administrative costs were \$23.0 million compared to \$23.1 million in the first quarter of 2023. Excluding the impact of share-based compensation, litigation expenses and settlements unrelated to ongoing business transaction and M&A related expenses and other, SG&A expenses would have been \$20.0 million in the first quarter of 2024.

Operating income was \$10.4 million, compared to \$7.9 million in the prior year quarter, driven by revenue growth, improved gross profit margin and effective management of operating expenses.

Net loss in the quarter was \$5.8 million, inclusive of a \$12.1 million loss due to a change in the fair value of the earn out liability. This compares to a net loss of \$21.4 million in the first quarter of 2023, which included a \$25.4 million loss due to the net change in the fair value of the earn out liability.

Adjusted EBITDA was \$14.2 million with an adjusted EBITDA margin of 30.2%. This compares to adjusted EBITDA of \$13.1 million with an adjusted EBITDA margin of 29.2% in the prior year period. Adjusted EBITDA and margins increased primarily due to higher sales, product mix and improved profitability compared to the first quarter of 2023.

First quarter operating cash flow was approximately \$7.4 million. The positive cash flow in Q1 2024 was primarily related to better margins. As Terry noted, on April 23, 2024, Biote reached a definitive settlement in the company's litigation with Dr. Gary S. Donovanitz, Biote's founder.

Under the terms of this settlement, Biote has agreed to repurchase all of the 18.4 million shares beneficially owned by Dr. Donovanitz at the time of the settlement at an average price of \$4.17 per share, with the first tranche of shares having been repurchased for \$32.2 million on April 26, 2024. The remaining shares will be repurchased over the next three years. Also pursuant to the settlement, the company is cancelling all 3.9 million unvested earn out shares that were beneficially owned by Dr. Donovanitz at the time of settlement.

Turning to our financial outlook for fiscal 2024, we reaffirm our previously-reported guidance with revenue of \$200 million to \$204 million and adjusted EBITDA of \$60 million to \$63 million.

As we look at the cadence of revenue and adjusted EBITDA for the year, we expect our financial performance to be weighted toward the second half of the year. Total revenue growth in the first half of 2024 is expected to be impacted by the transition in the nutraceutical distribution channel and timing of seasonal promotions.

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

Terry Weber

Thank you, Bob. Biote generated solid financial performance in the first quarter and achieved substantial progress against our strategic objectives. With the successful launch of BioteRx and the closure of the Asteria Health acquisition, we are strengthening and expanding our capabilities. We remain focused on providing a comprehensive approach to aging by delivering evidence-based healthy aging and therapeutic wellness solutions to both practitioners and their patients.

Now, I would like to open the call for questions. Operator, please begin the question-and-answer session.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press "*" key then "1" on your touchtone phone. If you're using a speakerphone, please pick up your handset to ask a question. If at any time, your question has been addressed and you would like to withdraw your question, please press "*" then "2."

The first question comes from Les Sulewski with Truist Securities.

Les Sulewski

Good evening. Thank you for taking my question. Terry, if you could perhaps give us a little bit more color on the 6.6% procedure growth in Q1, can you comment on essentially how much of that growth is contributed to new providers versus your top existing clinics?

And then the second question would be on the five months of data that you now have with your 10 new products that you rolled out to your first 100 clinics. Perhaps give us some feedback on that, and then at what stage would you expect to roll out to the additional clinics?

And then I guess the third one would be on the Asteria acquisition, and just give us a little bit of a sense of your integration there. And then what sort of investments, capital investments, would you expect to have when you're looking to create new products from that? And is this based on preliminary feedback that you're getting from demand, or are you looking to create a new market in that space? Thank you.

Terry Weber

Great. So I'll start with the first question talking about the procedure growth year-over-year, that 6.6%. As we had talked about, the first half of 2024 was going to reflect the back half of 2023. So, we were pleased with that stable growth, our ability to continue to grow, and the percentage as it usually is, is from existing clinics. The majority is moving those top-tier clinics and continuing to grow their practices. And then, looking at indexing to grow that second tier of clinics into the top tier.

And then we did have, as we've talked about before, we are very encouraged by those new clinics. We continue to onboard them at a higher rate. We have highly qualified, well-indexed practitioners that are coming to that training and that quick start program I referred to in my remarks is performing better than it has since I've been here, since 2019, to really give us a quick start to those practitioners as they end up giving hormone optimization as they go back from training. So, solid performance this quarter and we are pleased to have it on balance and consistent with our expectations.

The second question that you had was on BioteRx. So those 10 new products were launched in February, mid-February, with those 100 initial providers, and the response has been very positive from both the providers and the patients. They really like the fact that they can have both the hormone products from us, not just the pelleting, but all the additional products and have access with quick delivery and very consistent results, so that first 100 onboarded well with good response on the products. We have a large provider leading, well over 600 plus people in attendance to really look at them, the launching of the second phase of BioteRx at this training meeting so that we then ended up focusing on 500 new providers that will roll out in the second phase looking at those 10 new products and they are being very positively respond to.

So, as you know, we've got over 7,100 providers so this roll out will be systematic to '24 ensuring that we have consistent access, especially for those really popular products like GLP-1s. And then I will give the Asteria questions over to Bob.

Bob Peterson

Looking at Asteria, thinking about the investments that we put in, we are capital light operation, and I don't see us spending a significant amount of capital to get this operation up and running in the interim. When we look at the strategic nature of the operation, I think expanding a little bit of capabilities from our machinery and a design perspective are going to be the primary investments that we take. So I think that's really the focus that we have at Asteria.

Les Sulewski

Great.

Operator

Your next question comes from Jonna Kim with TD Cowen.

Jonna Kim

Thank you for taking my questions, any color on new product pipeline and how long it typically takes to get new products in the market, that will be helpful. Thank you so much.

Terry Weber

So, I missed the first of, Jonna of your question. Could you repeat that because it gapped out?

Jonna Kim

Yes, sure. I just asked about how the pace of expansion outside your core market at this point. How fast should we expect that on an annual basis and then the second question was on R&D and innovation. Thank you.

Terry Weber

The first question. Our geographic expansion is going very well. So we've seen real pockets of good uptake on the new providers that we are bringing to training and their ability to really go into those new markets and start to practice. So you know, we've got a highly experienced sales force, the best in hormone optimization certainly in the US and they've really been able to index those providers that would be capable of having very successful hormone practices. So, the expansion geographically is going well, and we expect it to go well through the rest of the year and you will be able to see those results second half of 2024 and into 2025 as those new markets develop. I will try to give some more color as we go on in the year on some of those new markets.

And then the second question you had was on innovation products. So, I think we have a real need in this country for these therapeutic wellness products on healthy aging. So, we are developing those products. We've got a wonderful doctor, Doreen Saltiel, a very excellent functional medicine doctor and formulator, and we are looking at providing those new products in those categories I discussed and I think that innovation process is going well. What we have to ensure is that we have access to those products in all 50 states and certainly, that all are available. Some states, California more limited but getting that access and consistent delivery on those new products. So, we are encouraged and it's moving effectively. It's not overnight.

Jonna Kim

All right. Thank you.

Operator

Your next question comes from Kaumil Gajrawala with Jefferies.

Kaumil Gajrawala

Hi. A follow-up on one of the earlier questions on procedure growth. Just to make sure that I heard, is the primary driver of the growth the existing clinics, or could you give me a sense of how much of the growth has come from new ones?

Terry Weber

The primary growth in that procedure, that 6.6 year-over-year procedure growth is in our existing clinics, and I would say there are two categories. One is the top tier clinic who are continuing to expand their business and their increased amount of hormone optimization. The second is targeting second-tier clinics to move them into a top tier. And then always as we said those new clinics provide and I don't give the exact numbers, but they provide that base to build over the next 18 months. So, we're bringing more clinics to training quicker and you'll see that acceleration in the second half of the year as that quick start program really gets them engaged in increasing their procedures in that first 90 days. So, you'll see, but three quarters or the greater one is from our existing clinics and really working with them to grow their business. And then to a lesser degree on those new clinics, but they're performing well.

Kaumil Gajrawala

Okay, got it. How was the new clinic adds this quarter versus in the past? I don't think you give a number, but you are better or worse on the same pace?

Bob Peterson

We typically don't give specifics on new customer adds. But one thing I can tell you, as we look at the new customer growth, and as Terry said a little bit earlier, no one's better than Biote in bringing in new customers into the hormone business. And I can say, we're seeing a higher quality new customer coming in the door. And I can tell you that we've never been more focused on who we're targeting and how we're indexing. So, I can tell you we're coming off of one of our best years since 2018 from an onboarding perspective of new customers. And as Terry said, a big contributor to that is our quick start program, which is proving to be pretty effective.

Kaumil Gajrawala

Okay, great. And maybe, longer term, as your business is evolving with BioteRx and such, is there a different margin structure? How should we think about how the business might look? Actually, there's two big differences between the vertical integration and with the addition of new products, how should we just be thinking about what the P&L will look like over time, below the revenue line?

Terry Weber

Yes, the new products and then I'll pass it to Bob to talk about the margins in Asteria. I think if you look at 2024, I would look at it at a very nominal contribution on those new products in that we're getting a transaction fee. We're not actually manufacturing those products yet. So, we have acquired a 503(B) that will be in our future. But at this point, it's a transaction fee. So, what it does, though, it gives us that one stop shop. Our providers are doing GLP-1s and they are doing hormone optimization. As a matter of fact, at a new training last Friday, 100 providers, I asked how many were doing GLP-1s, well over a third were already doing GLP-1s.

So how testosterone in our core business works with that side effect of the GLP-1s and the loss of lean muscle mass, we really believe testosterone will be core to that conversation over the next few years. So that BioteRx becomes critical in what we educate on how we teach those providers to use both sets of products, right? So I think this therapeutic wellness category is only going to expand and you're not going to see the same type of a provider as you did two years ago. Your family practice providers, all of the OB-GYNs, everyone's expected to understand how to navigate these products and their side effects. And that's where Biote really comes in. And then I'll let Bob comment on the integration.

Bob Peterson

Yes, and I think, Terry, you hit on it. I think right now, when we look at the transaction fee and how it isn't going to be material to our year, when you think longer term, it would be great at some point to do what we're doing with Asteria to be fully integrated. But at this point, we don't really have line of sight into executing that plan as of yet.

Kaumil Gajrawala

Got it. Thank you.

Operator

Your next question comes from George Kelly with Roth MKM.

George Kelly

Hey, everybody. Thanks for taking my questions. So maybe to start with this, Terry, just to follow-up on some of the questions that have already been asked, but I'm curious how quickly you expect to shift your core hormone pellet production to that facility?

Bob Peterson

Now, it's a really good question. When you see when we executed the closing date, obviously, we've been working quite diligently to get all the strategic parts up and running. And I would just tell you, we may be seeing a little bit slower uptick in the Q2 range, as we talked about in the past, we really want to hit the ground running. I still think we are on a strong phase to deliver in the second half, and I think everything is starting to line up in place. I think just the late start based on the closing has caused a little bit of a slowdown in the beginning of Q2. Does that answer your question, George?

George Kelly

Is it fair to say by year-end, the vast majority of your pellet business will be produced internally?

Terry Weber

I think what we are talking about, what Bob is trying to say is that when we are looking at state licenses, yes I would say the vast majority by the end of the year George, but the only thing we don't control is the state license from California or some of the other states that mandate their own timing and schedule as you convert licenses.

Bob Peterson

The only other thing I would say is as we start the conversion process, there will be a little bit of a lag also due to the bleed-down of existing inventory within the clinics. So, as Terry mentioned, very clear on how we obtain state licensure but there could be that slight delay for people who maybe have or over indexed on inventory. As they bleed down, when they start to take on new inventory, that will be another factor left to watch closely.

George Kelly

Okay. That's helpful. And then next topic I wanted to cover is related to your guidance and commentary about your sort of one-half versus two-half expectations on procedure revenue growth. I am curious, the 6.6% growth now that you reported for two consecutive quarters, do you think that's the bottom? And then as you look to the acceleration that you have talked to in the back-half, is that mostly driven by new products or is it really just the core business kind of starting to find its momentum again? And new products are more the '25 and beyond kind of story?

Terry Weber

I think we can kind of answer that multiple ways, George. So, definitely that Q1 performance was consistent with our expectations, and we feel as if we understand our providers. We understand the competitive market and I feel that we are very confident in where the procedure revenue growth is going to come from in Q2 as well as Q3 and Q4. So, although we point you to Q3 and Q4, and we have got solid plans in place and really looking at the formulas, very comfortable with them for that Q3 and Q4 and I'll have Bob talk a little bit about some of the individual programs.

Bob Peterson

Yes, sure and, George, good question and we factored the following kind of parts into our guidance. I would say that there are two big pieces, one of them on the procedure side and I'll just hit the high points so then I can dive into any of them in more depth. But you heard from Terry, you heard from me earlier, the heightened focus on our top tier growth is absolutely mission critical for us. We are seeing these performing well and we expect to have that play through in the second half.

Additionally, as I just mentioned and I won't go into this too much because I have already commented, but we need to be growing new customers and we have seen with the quick starts and the other items that we have mentioned, a pretty solid uptick there. One that I think we didn't dive into too much, but it's how do we drive those existing customers that may be newer or in the middle of their journey, of their life cycle with us. How do we start to drive them leveraging our sales force and internal data to drive opportunities to really expand within our portfolio. And I think that's a real key for us because the more people we can get into our top tiers, the better we'll perform and Terry mentioned it earlier, we do have a really great salesforce that's really battle tested in this area and I think that's key to mention.

And the only other side of the equation that I would bring up is as we look at nutras, we need to continue to expand nutras into our existing customer base, continue to make good penetration especially in those newer customers and even some of the older customers that may not be acclimated to nutras and that's a real focus of our salesforce and we are seeing good uptake there and then finally as you know and we have talked about on the prior calls, that conversion from Amazon, from our prior distributor, and seeing that growth, because if we can get that up and running, which we are on pace to do in the second half, that would be very accretive.

George Kelly

Okay. That was all helpful info. Thank you.

Bob Peterson

Thank you.

Operator

With that question-and-answer session, I would like to turn the conference over back for any closing remarks.

CONCLUSION**Terry Weber**

I would like to say thank you to all of you for joining us. We look forward to updating you as the year goes on, on our therapeutic wellness and the real positive impact we are seeing on hormone optimization and the interest throughout the US. So, I am looking forward to our next call. Thank you.

Bob Peterson

Thank you.