

Biote Corporation

Third Quarter Earnings

November 9, 2022 at 8:30 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Viktoriia Nakhla** – *Investor Relations*

**Terry Weber** – *Chief Executive Officer*

**Samar Kamdar** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Welcome to the Biote Third Quarter 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 than one on your telephone keypad. To withdraw your question, please press star than two. Please note, this event is being recorded.

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

### **Viktoriia Nakhla**

Good morning and thank you for joining us today. Yesterday, Biote published financial results for the quarter ended September 30 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 would 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 micro-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 our control. Our actual results could differ materially from expectations reflected in any forward-looking statements.

These statements are subject to risks and 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 our 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 the 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, Viktoriia and thank you all for joining us. On the call today, I will discuss our recent achievements and share our outlook for the remainder of 2022. Samar Kamdar, our Chief Financial Officer, will review our financial results. Dr. Ross McQuivey, our Chief Medical Officer and Marc Beer, our Chairman, are also on today's calls to answer your questions during the Q&A session that will immediately follow these remarks.

Since we last spoke in August, Biote has achieved important progress both operationally and financially as we continue to execute on our long-term growth strategy. To start, we have strengthened our talent and leadership capabilities with two key additions to our executive management team. Samar Kamdar, our new Chief Financial Officer joined Biote in August and has hit the ground running, building out our

finance team and providing leadership that we believe will help drive our financial success.

Dr. McQuivey, our Chief Medical Officer, joined us in June and has been impactful over the last several months, leading the expansion of our clinical research program and increasing awareness of the Biote method within the medical community. I'm thrilled to be working alongside these two talented members of the Biote team.

Now turning to our third quarter results. Biote generated 18% revenue growth as compared to the third quarter of 2021. This was primarily driven by balanced growth in both procedures and dietary supplement revenue. We were able to achieve strong top line performance in spite of weeks of hurricane related clinic closures in both Florida and Puerto Rico, two of our key markets.

Adjusted EBITDA grew 19% year-over-year, even as we continue to invest in expanding our salesforce and incurred new public company related expenses. We are committed to managing our business with a disciplined focus on generating positive cash flow through profitable growth. While our operating performance has remained strong, third quarter cash flow was impacted by certain non-recurring items that Samar will detail shortly. Our third quarter revenue and adjusted EBITDA growth reflected our continued progress in expanding our clinic and practitioner network. We have broadened our reach by expanding our sales team, which continues to open up new geographic markets and lay the groundwork for future growth.

Patient interest in pursuing hormone optimization treatments contributed to the increased demand for our therapies. Despite the challenging economic environment, consumers place a high value on their personal health, and they continue to seek effective and affordable treatments that really help them feel their best. Our data driven and digital marketing strategies enable us to effectively identify and connect with these consumers in a cost effective and efficient manner, offering new patient leads to practitioners to grow their clinical practices.

We believe our strong franchise-like model remains a unique competitive advantage that's foundational to our long-term success. The Biote certified provider network is currently 11 times larger than our nearest competitor. We believe this underscores the strength of the Biote brand and our ability to scale our proprietary business model into new markets.

Today, we have well over 5,000 Biote certified providers across a variety of medical specialties, which includes OB/GYN, internal medicine, family practice and urology. Even with this extensive network, we have only reached approximately 2% of the total addressable provider market. As a result, we believe we have considerable untapped growth potential as we further expand the Biote method to 1,000s of providers operating in our targeted specialties.

To capitalize on this growth opportunity, we are actively building our sales team as planned, placing particular emphasis on the West Coast, Midwest and Mid-Atlantic regions, where we've identified significant unmet patient demand for our therapies. We continue to draw on the proven strength of our internal sales referral program to efficiently recruit experienced sales personnel. The sales team is supported by our robust internal infrastructure, which enables us to scale our business in a consistent and predictable manner. We remain focused on broadening our practitioner network to all 50 states. Our consistent geographic expansion is well supported by the capital efficient nature of our Biote business model.

Now I'll turn the call over to Samar Kamdar, Chief Financial Officer, to review our financial results.

**Samar Kamdar**

Thank you, Terry. It's great to be here. I'm pleased to have joined Biote during this exciting time in the company's growth. I look forward to meeting with our investors in the weeks and months ahead.

Revenues for the quarter were \$42 million, an 18% year-over-year increase, primarily driven by balanced growth in both procedure and dietary supplement revenue. Gross profit margins expanded to 68.2%. The improvement in gross profit margin was primarily due to a more favorable product mix. We anticipate gross margin percentage in the mid-60s going forward.

Marketing expenses totaled \$1 million, down from \$1.4 million in the third quarter of 2021. The decline in marketing expense was driven by a more optimized spend on both our digital marketing channels and advertising. Operating income was \$7.8 million compared to \$9 million in the third quarter of 2021. The decrease in operating income primarily reflected transaction related expenses and certain non-recurring legal expenses of \$3.1 million.

Interest expense was \$1.8 million, up from \$400,000 in the same quarter last year. The increase is primarily a result of the higher debt balance outstanding from the new debt issued in 2022. Net loss was \$6.3 million, compared to net income of \$8.5 million in the third quarter of 2021. The net loss in the third quarter was primarily due to a net change in the fair value adjustments to warrant and earnout liabilities of \$12.5 million in transactional expenses and certain non-recurring legal expenses of \$3.1 million.

Adjusted EBITDA was \$12.2 million in the quarter, a 19% increase from the third quarter of 2021. Adjusted EBITDA margin was 29.1%, up 24 basis points from the third quarter of 2021. During the third quarter, we generated \$6.4 million in operating cash flow, which included transaction related expenses and certain non-recurring legal expenses of \$2.3 million and a compensation expense of \$2 million related to the transaction. Excluding these items, third quarter cash flow from operations would have been \$10.7 million, compared to \$6.3 million in the third quarter of 2021.

During the third quarter, our cash balance declined compared to the second quarter of 2022 due to the transaction related expenses and certain non-recurring legal expenses I mentioned, along with \$7.3 million of accrued equity payouts. As Terry noted, we remain focused on managing our business to generate positive cash flow through profitable growth.

Let me now turn to our financial guidance. Based on the strength of our year-to-date results and our expectations for the fourth quarter, we expect to achieve the upper end of our 2022 guidance ranges of \$160 million to \$166 million in revenue, and \$47 million to \$51 million in adjusted EBITDA.

Now I'll turn the call back to Terry.

### **Terry Weber**

Thank you, Samar. While we are not yet providing specific financial guidance for 2023, our strong financial performance this year, coupled with the success of our expanded sales team, reinforce our confidence that we can continue to generate double-digit growth consistent with our recent growth trends in both revenue and adjusted EBITDA in 2023.

In summary, this has been an exciting and productive period for Biote, as we delivered financial growth consistent with our forecast, and continued our geographic expansion. Biote remains well positioned to deliver on our financial targets as we continue to successfully execute our strategy through capital efficient, profitable growth. We look forward to updating you when we report fourth quarter and full year results early in the new year. If you'd like to connect with us, please contact Advisory Partners, our Investor Relations team.

Now I'd like to open the call for questions. Operator, please begin the Q&A session now.

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press star than 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 than two. At this time, we will pause momentarily to assemble our roster.

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

### **Brian Holland**

Yeah, thanks. Good morning and congrats on the quarter. Can you share breakout of procedure and supplement revenue in the quarter? Also, are you able to quantify the revenue impact of the clinic closures in Florida and Puerto Rico in the quarter?

### **Terry Weber**

Yes. Good morning, Brian. So talking about our mix in terms of the business, as we've talked about, we have a real predictable model split between our procedures and our revenue and our third quarter results stayed right with that. Our nutraceuticals are complementary to the hormone treatment and we performed like we have in our model with that mix. So it's highly predictable and that's the breakout that we had.

Then our second question— Samar, do you want to take that one?

### **Samar Kamdar**

Yeah, for the hurricanes that you talked about, the weather in Puerto Rico and Florida, we do believe that we're going to see— we saw about 140 clinics impacted in those areas. There's going to be some catch-up. We're not going to quantify exactly how much is going to come in Q4 versus Q1, because we don't know the exact behavior but we do expect those revenues to bounce.

### **Brian Holland**

Okay, got it. Gross margin— better than I forecasted, although Samar, I think you mentioned guiding to about mid-60s, which will be a little bit lower than what we saw in Q3. So could you just flesh out the favorable mix impact in this quarter? Sort of what's behind that and whether that's just a one off benefit or something we should be thinking about as being more sustainable going forward?

### **Terry Weber**

I think, Brian, the way you want to look at that is that it is a product mix and it was favorable type of products that our patients were purchasing. So I wouldn't look at that. In terms of going forward, I think our guidance is right where it needs to be and those are kind of small fluctuations you'll see in product mix.

### **Brian Holland**

Great. Terry, I trust you're plugged in on the competitive landscape here. It's something we get asked often about by investors. Any sense how existing competitors are faring retaining practitioners and are you aware of any new players emerging in the space?

### **Terry Weber**

That's very interesting question. I get asked all the time. Our competitive landscape stays the same, although there's pressure on the third and fourth competitors, where they're actually losing practices. So

that's what we've seen. No new competitors on the market and some issues in some of the smaller operations. We've got a very fragmented market and some are struggling. So good call there.

**Brian Holland**

And then maybe just last one for me. I know you mentioned a little bit about 2023 and you're not quite ready to guide but you talked about double-digits. I'm just curious as we think about framing this, as you add the sales, as you add to your sales force, as you scale geographically, is there a path to accelerated growth in 2023 versus what you're guiding to in 2022? I'm just wondering if you can help maybe shape that for us a little bit.

**Terry Weber**

I think what you should look at is the predictable model and in these kinds of recessionary-like times, to go ahead and say that we're really comfortable with— you look at our past history of growth, I think you're going to be able to talk about what's going to happen in '23. Where I can help you be comfortable is we see no change. We don't see any slowdown in that edition of practitioners. We're on target in the new whitespaces and we see the customers continuing by coming in for their procedures. We don't see the slowdowns. I think you can be comfortable. Take a look at our historic rates more recently, and then feel comfortable with 2023.

**Brian Holland**

Thanks, I'll leave it there. Best of luck.

**Terry Weber**

Thank you.

**Operator**

Next question comes from George Kelly with Roth Capital Partners. Please go ahead.

**George Kelly**

Hey, everybody, thanks for taking my questions and congrats. First, just to expand on something you were just talking about? Have you seen any kind of change in consumer behavior patterns as far as your revenue stream? Just with all the inflation, etc.?

**Terry Weber**

We watched that, George, very carefully. I know people may not be aware, but we survey our practitioners at every one of our large gatherings and we actually did a formal market research to address kind of potential inflationary impact on the providers and their patients. The overwhelming majority of those providers didn't expect any downturn in their hormone optimization business in 2023. So that was very interesting to us where they thought that there were other cash pay procedures that could be affected. Over 85% of our providers said that they would have growth or steady performance in 2023. So we're comfortable that patients continue to think this is a quality of life issue and they absolutely behave that way.

**George Kelly**

Okay, okay. Gotcha. And then Samar, the balance sheet, just curious, can you give us the quarter end cash and debt?

**Samar Kamdar**

Yeah, so we did have the client cash balance and as we mentioned, the quarter end cash was \$77.6 million and the debt \$123 million.

**George Kelly**

Okay. And then last question for me just back to your salesforce. I appreciate you giving the kind of high level guidance for next year just as far as the growth you're anticipating. Underneath that, what are your plans for continued expansion of the salesforce? Are you still tracking to the kind of growth in the number of people in the salesforce this year? And just high level like what are you thinking for next year?

**Terry Weber**

Yeah, that salesforce is absolutely key for us and growing that salesforce. We're seeing no slowdown in our ability to attract real talent. As a matter of fact, obviously, in these times, we're actually seeing an ability that's really improving, right. So our salesforce growth is on track. They're continuing to perform very well right to our FP&A model. So we continue to be really inspired by that.

Our history and that track record and the growth for the sales group, our whitespace is working very well. So adding those new people into the whitespace, I see that full 50 states and continuing to grow in that US model. So we've got no slowdown looking at '23 in terms of performance of our salespeople, and will continue to invest in the US and that salesforce growth. So it's continuing to be a key part and highly predictable in our model here.

**George Kelly**

Okay, and then maybe one more, just back to your comments about 2023. Any big— basically trying to get a read on your expectation for EBITDA margin and should it stay kind of consistent with what you've been doing or any kind of big investments you might be planning? Basically just trying to get a read, should we see margin improvement next year as the salesforce becomes more productive or are you finding places for planned investment to kind of offset some of that margin expansion?

**Terry Weber**

Our key investment continues to be the salesforce. So we see that continuing in the same type of investment and looking at the same, as we guided you on margins to take a look really at that mid-60s, because we feel like we're going to continue to invest in that growth. It's highly predictable. I don't think there's any surprises that you need to be concerned about. I think what we're so pleased is that our kind of capital light model really allows us to continue investing in people and people are everything as we go forward into that growth of '23. So I would look to that.

Our guidance on our competence in terms of being able to execute in recessionary times. So, I think Steady as she goes, George, and I think you can be comfortable with looking at those kind of models for 2023.

**George Kelly**

Okay, thank you.

**Operator**

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

**Greg Fraser**

Good morning, folks. Thanks for taking the questions. When do you plan to provide formal 2023 guidance? Will that be on the fourth quarter call or could it come sooner?

**Terry Weber**

Can you— you gapped out there. Can you repeat that, Greg?

**Greg Fraser**

Yeah. When do you plan to provide formal 2023 guidance, by the fourth quarter call or might we get it sooner?

**Samar Kamdar**

Hey, Greg, this is Samar. We plan to release 2023 guidance in early January.

**Greg Fraser**

Got it. Okay. Can you talk about the programs that you're considering to benefit patients like a loyalty program that could become a new tailwind for demand?

**Terry Weber**

We at this point are very provider focused. So most of our marketing and all of our digital strategy is very focused on the provider or providing leads for that provider. So at this point, we've got the whitespace. We're really— if you address our TAM for the available provider market, we're at just in over 2%. So I think our whole focus is going to continue to be that provider, growing the providers and making sure we have that network for the consumers. So good question to ask me a little bit further down the line next year.

**Greg Fraser**

Got it. Okay. And then maybe if you could talk about the work that you're doing with data analytics. I think you're doing a lot there that might eventually lead to tools that you can use to help your own business as well as your partner practices. That will be helpful. Thank you.

**Terry Weber**

Oh, absolutely. So I'm, I know that you're aware of the different types of systems we have. So since day one, we've been recording all of our procedures. So we have over 2.5 million procedures recorded and the data with that and we've got over 5,300 providers and all of the data they have on their patients. And one of the reasons we added Samar Kamdar to the team here was his technology background and his data analytics to really expand our internal team. That is where we're adding infrastructure is to take a look at the data that we collect and really figure out how to produce that much, much more effectively.

So it's an exciting time for us with the addition of Samar and focusing on how those data analytics can really help in that clinical research, also in our ability to provide new systems for our providers that can make their practices so much more successful.

**Greg Fraser**

Thanks for taking the questions.

**CONCLUSION**

**Operator**

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

**Terry Weber**

Well, thank you so much for joining us this morning. We look forward to inviting you to join us for our fourth quarter and end of year results. So have a good day. We'll speak to you soon.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect



