

Biote Corp.

Fourth Quarter and Full Year 2023 Earnings
Conference Call

Tuesday, March 12, 2024, 5:00 PM Eastern

CORPORATE PARTICIPANTS

Terry Weber - *Chief Executive Officer*

Bob Peterson - *Chief Financial Officer*

Simon Serowiecki - *Investor Relations*

Presentation

Operator

Good afternoon, and welcome to the Biote Fourth Quarter and Full Year 2023 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. To ask a question, you may press "*" then "1" on your telephone keypad. 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 evening, Biote published financial results for the quarter and full year ended December 31st, 2023. This news release is available in 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 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 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 measure is provided in our earnings release with the primary differences being stock-based compensation, fair value adjustments to certain liabilities, transaction-related expenses and other non-operating expenses. Please refer to our fourth quarter and full year 2023 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 answer your questions during the Q&A session following our prepared remarks.

2023 was a pivotal year for Biote, in which we achieved significant strategic progress and built a solid foundation for continued growth in the years ahead. Among our accomplishments this year, we added new talent to our leadership team and made key investments to strengthen our capabilities at the corporate level. We also optimized our sales territories to more efficiently manage our growing nationwide practitioner network.

We remained focused on our core hormone optimization business, leveraging our strengths in training and education to further expand our practitioner network. As we continue to evolve to meet patient and customer needs, we substantially broadened our addressable market opportunity with the launch of two strategic initiatives. First, to address the large and underserved opportunity in men's health, we began working in close partnership with certain Biote providers to expand their treatment programs for men. We also partnered with key opinion leaders to promote awareness of the benefits of hormone optimization in men.

Additionally, we have expanded and enhanced our hormone optimization practice to encompass evidence-based wellness therapeutics. Over the past six months, we successfully trialed a range of complementary wellness therapies delivered via our proprietary technology platform. By providing complementary wellness therapies, Biote is further enhancing patient health while expanding and monetizing our existing hormone practice. We are also enhancing the value that we provide to our growing network of practitioners.

Fourth quarter 2023 adjusted EBITDA increased by approximately 3% compared to the fourth quarter of 2022. Similar to our performance in the third quarter of 2023, fourth quarter procedure revenue increased by 6.6%, reflecting a consistent demand for our core hormone therapies. I am pleased with the initial success of our sales optimization strategy, which is helping to drive more consistent rates of procedure revenue growth among our top-tier providers. We are also working to more rapidly on-board new Biote-certified practitioners by offering a variety of training modalities, including both in-person and online options.

Consistent with our expectations, fourth quarter nutraceuticals revenue decreased, primarily driven by one of our larger distributors exiting the business during the quarter. As we transition the products previously sold by this distributor to our own online storefront, we anticipate our nutraceuticals business will resume year-over-year revenue growth starting in the second half of 2024.

In 2023 Biote reported consolidated revenue growth of 12.4%, which included procedure revenue growth of 9.3%. Throughout the year, we maintained strong profit margins, enabling us to achieve double-digit growth in adjusted EBITDA for the year. Further underscoring our focus on driving profitable growth, we generated approximately \$27 million in operating cash flow for 2023.

Following our successful commercial trial of complementary wellness therapies, I am pleased to report that in February we launched BioteRx, our new hormone and therapeutic wellness offerings. We believe BioteRx is a game-changer for Biote, significantly strengthening our competitive position. With the launch of BioteRx, we are transforming into a single-source provider of evidence-based hormone and therapeutic wellness products. We are now addressing both our patients' and our practitioners' needs across a range of wellness categories, including weight loss, body composition, sexual health, and preventative wellness.

We are taking a phased approach to the roll-out of BioteRx, ensuring that we provide our practitioners with consistent access to an expanded range of wellness therapeutics. To start, we have introduced approximately 10 new wellness therapeutic products. Our sales force is excited and energized to offer these products, which are among the most-requested therapies by both our patients and our practitioners.

In January, we announced the purchase of Asteria Health, a manufacturer of compounded bio identical hormones. We expect to close this acquisition by the end of March.

We also recently announced a settlement agreement with Dr. Gary Donovitz, Biote's founder, to repurchase all 18.4 million of his outstanding shares and paired interests at an average price of \$4.17 per share. We believe these repurchases will be accretive to shareholder value. The settlement with Dr. Donovitz also resolves legal claims between Dr. Donovitz and Biote, eliminating the costs and distraction of protracted litigation.

Before I turn the call to Bob, I would like to express my gratitude to the entire Biote team for their dedication over the past year. Biote has achieved significant progress against our strategic objectives, and we enter 2024 with a solid foundation to grow upon. I am proud of what we have accomplished and look forward to updating you on our continued progress throughout the year.

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

Bob Peterson

Thank you, Terry. It's great to be here, and I look forward to meeting all of you in the months ahead. Biote generated full year 2023 revenue of \$185.4 million and adjusted EBITDA of \$55.3 million, representing growth of 12.4% and 10.2%, respectively from 2022. The increases were driven by growth in both procedure revenue and nutraceuticals revenue.

Fourth quarter revenue increased 2.7% year-over-year to \$45.7 million. Procedure revenue grew 6.6% but was partially offset by a 14.6% decline in nutraceuticals revenue. The decline in nutraceuticals revenue was primarily driven by one of Biote's larger distributors opting to exit the nutraceutical business during the fourth quarter.

We expect to begin direct-to-patient distribution of the products previously delivered by this distributor by the end of the second quarter of 2024. Fourth quarter gross profit margin expanded 403 basis points to 69.4% due to product mix and effective cost management.

Selling, general and administrative costs were \$26.2 million, compared to \$21.8 million in the fourth quarter of 2022. 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 \$19.6 million in the fourth quarter of 2023.

Operating income was \$5.5 million, compared to \$7.3 million in the prior year quarter, as higher revenue and gross profit were more than offset by higher expenses, primarily for professional services.

Net income in the quarter was \$12.1 million, inclusive of a \$5.4 million gain due to a change in the fair value of the earn out liability. This compares to net income of \$12.8 million in the fourth quarter of 2022, which includes a \$6.9 million net change in the fair value of the earn out liability.

Adjusted EBITDA was \$13.6 million with an adjusted EBITDA margin of 29.7%. This compares to adjusted EBITDA of \$13.1 million with an adjusted EBITDA margin of 29.5% in the prior year period. Adjusted EBITDA and adjusted EBITDA margins increased primarily due to higher sales, product mix and improved profitability compared to the fourth quarter of 2022. Fourth quarter operating cash flow was approximately \$7.0 million and totaled \$26.9 million for the full year.

As Terry noted, this past month we reached a settlement agreement with Biote's founder to resolve outstanding litigation and repurchase all of his shares and paired interests. Supported by our solid balance sheet and cash flow, we are well positioned to execute on this share repurchase, which will occur over a period of three years on fixed terms. We believe this is an effective use of our cash and will be accretive to shareholder value.

Separately, we recently announced a \$20 million share repurchase program, further reflecting our commitment to enhancing long-term shareholder value. We began to execute against this program early in February.

Turning to our financial outlook for fiscal 2024, we expect to achieve 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 remains committed to enhancing patient health while delivering profitable growth for our stakeholders. As we look ahead to 2024 and beyond, we are confident Biote remains well-positioned to become the leading single-source provider of evidence-based therapeutic wellness solutions. Our addressable market is substantial, and we have only just begun to tap into the growth opportunity in front of us.

With that, I'd 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 "*" then "1" on your telephone keypad, if you are using a speakerphone, please pickup your handset before pressing the keys. To withdraw your question, please press "*" then "2." Please limit yourself to one question and one follow-up. At this time, we will pause momentarily to assemble our roster.

Our first question today comes from Les Sulewski of Truist. Please go ahead.

Les Sulewski

Good evening. Thank you for taking my questions. I'll start here on the guidance. Can you just walk us through some of the puts and takes around the guidance that you narrowed down. And how comfortable are you on that range? And then separately, what would you say is the right size of the salesforce, and how has the geographic expansion and international expansion been trending?

Terry Weber

So, I'll have Bob answer the first half of the question, Les, and then I'll take the second half.

Bob Peterson

Hey Les, how are you? Look, as we look at the guidance, I would say, we've evaluated the business plan. And given our position, I think we're in a solid place for both the core procedure business and nutra's to drive revenue growth in the second half. So I feel comfortable with these plans, and they're baked into our guidance. I would say when we look at 2024 procedure revenue growth, we definitely think it will mimic the first half as we said earlier in the prepared remarks. As we look at nutra guidance, I think the big thing that we want to do is make sure that we can take over that Amazon distribution channel by the end of the first half, and then we will return to growth in the second half. And I think selling at retail instead of wholesale will help the business.

As we look at the core business, I think our core providers remain strong and stable. We believe that we should see some margin accretion in the back half given Asteria integration in the second half, and we expect to see continued growth in our practitioner network.

I think, Terry, do you want to take the second half?

Terry Weber

Yes, I'll take the second half on our sales force optimization. So, we have been making progress on that sales force optimization going into the new space, which we used to call white space, but we're going into green space here. So that's been strong progress. We have found that we are bringing doctors into our training at a faster rate, and this new team as well as our older team has been ramping up these clinics faster. So that's where we feel that focus on that sales optimization is working. We've also hired key talent in that area, and we've modernized the data systems to really allow them to give actionable insights into the individual territories. So, on the domestic front, we are very pleased, and we'll highlight in later calls some of the progress in the new green space areas that has gone quite well, Mid Atlantic, Midwest, the West Coast, and then also we'll talk a little bit more on that key talent. So those things are going well.

In terms of the international, we see so much progress currently in domestic and so much of that green space that we continue to focus on is domestic and Puerto Rican business. And then we've expanded our offerings. As we talked about with BioteRx, that sales force will be delivering that rollout this year. So we think that domestic focus this year should be the way you really look at it. And looking, as Bob has said, to the second half of the year, to begin to see that input of the new practitioners and that ramping up of new clinics.

Les Sulewski

Very helpful. I appreciate that. One more, if I may. So, when we look at the economics and the revenue split that you've shared before, how has the new wellness product offerings changed the dynamics of the economics, if at all?

Terry Weber

This would not be the year, 2024. It will have a marginal impact. What it really allows us to be is more competitive in our core hormone business. So, I would not look for financial, I would look for competitive strength as we offer the wellness therapeutics. We rolled out that program in February. We're calling it BioteRx. So, we've rolled it out to 100 clinics. We'll be looking to roll it through the remainder of '24 in a very methodological fashion, ensuring access and that the program works very well through our tech platforms, but look to impact in 2025 on that program.

Les Sulewski

Excellent. Thank you.

Operator

The next question is from Jonna Kim with TD Cowen. Please go ahead.

Jonna Kim

Thanks for taking my question. Just expanding a little bit on BioteRx, and also you mentioned expanding treatment in men's health, how large do you think those new initiatives can become over time and sort of the incremental benefits that can bring to the business?

And then just one more question on gross margins. How should we think about gross margins for the year? What are some key puts and takes we should consider? Thank you.

Terry Weber

Yes, I'll go ahead and talk about the male market and that expansion. So, as we've discussed before, it's a large market over 45 million men have that experience over the age of 40, so it's got a very large TAM associated with it. This is also the undertreated market, only 10% to 12% of men go for any kind of treatment. So, our focus on that is going to be very accretive to Biote, adding our value in terms of growing the consumer base. The other piece is that male procedures will tend to grow over time with that focus on the urologist as well, as we look at different practitioners.

The BioteRx and the wellness therapeutics has a very large TAM. So that is only going to expand. If you look at the wellness statistics, Jonna, and I think you know them well, is that's just in the billions market, and that will be something that we do at Biote and get more specific on that impact in our business. What we see is what we've said earlier is the impact on that will be discussed more later in the year as we roll that program out, but it adds to our competitive position in both the hormone treatment, and these are the treatments that the providers and patients are asking for. So, the fact that we'll be the single-source provider of both those therapeutic wellness products and the hormone treatment makes that one-stop shop a key competitive advantage.

Bob Peterson

And Jonna, on the second piece that you were asking about regarding margin. I don't see any major shifts in the ratio that we have on sales that drive margin. I will say, as we look at Asteria, obviously, this is a strategic and accretive acquisition, and as we vertically integrate this pellet manufacturer, we will provide margin improvement over time as we shift volume to Asteria in the second half of the year. I believe the vast majority of the margin benefit and thus some EBITDA benefit will be realized by the end in the second half of 2024, and as we integrate fully by the end of 2024. So, I think that's probably the best guidance we can give you at this point.

Jonna Kim

Alright. Thank you so much.

Operator

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

George Kelly

Hey, everybody. Thanks for taking my questions. So maybe to start, Terry, you said in your prepared remarks that you're planning to offer training both in person and online. And I'm just curious, do you offer any online training or have you historically offered any online training? And if it's new, how much of an acceleration do you think? Like is it a big deal, and could it really create an acceleration to onboardings?

Terry Weber

Good question, George. So yes, we've offered it. We actually got quite proficient during 2020 when we actually trained on these therapeutic products and other hormone products that we're rolling out. So yes, we know it works well. We've done it before. We had looked all through 2023 about what's the optimization on a hybrid method of online training and in person proctoring, because this is a complex area. So, we've had some real success with what I'd call a hybrid method of training, and we've done complete digital. So, we've been looking at the results and how do those clinics and those providers perform? What's their depth of knowledge? How do they do the procedures, and then how do their clinics grow? And we found some very positive results in adding the online, especially the hybrid method, and we will be expanding that. And you're right, we haven't quantified what that's going to mean, but it will allow acceleration in the second half of the year really in terms of how many practitioners we can train in what we found to be a very efficient blended method.

George Kelly

Okay. That's helpful. And then second question for me, I guess maybe two questions on guidance. The first one...in the press release, in your prepared remarks you talked about a second half acceleration in procedure revenue growth. And I'm curious, is there any benefit or any kind of material benefit from your new products or is it really just driven by the hormone side of the business, that acceleration?

And then the second question on guidance. Back to Asteria, how much of your production do you expect to shift to Asteria by year-end? I mean, and if you think beyond year-end, are you going to produce the majority or vast majority of pellets?

Terry Weber

So, I'll answer the first question on the acceleration of BioteRx. So, what we're looking at is BioteRx really enhancing the core hormone business in 2024, especially in the second half of the year as we roll larger numbers of clinics onto it. So, then they'll have that single source, but you'll still see it will impact the hormone business, and it will be a modest impact in terms of our other guidance. So looking at modest in 2024, but actually having a very positive impact on the hormone and the combination of the hormone and the therapeutic business in the second half of the year, expanding more into 2025 when we fully rolled it out.

And then looking at the Asteria, I think I'll ask Bob to do that, he's been working on the detail.

Bob Peterson

So, as we await the closing date, and we expect it to be by the end of the month, as Terry said earlier, we're moving ahead with the planning. That will really allow us to hit the ground running

upon closing. We know that the vertical integration is a key part to our business, and we expect it to be fully integrated by the end of 2024. I think the big next step is how to onboard all the licenses. And we do not believe that we will have any manufacturing challenges. We believe that we should be fully integrated and have all the licenses set up by the end of the year for full integration. And given the way that phases out, will drive the second half volume. So that's really the way that we're looking at it.

George Kelly

Understood. Thank you.

Operator

The next question is from Richard Magnusen with B. Riley. Please go ahead.

Richard Magnusen

This is Richard Magnusen, I'm calling in for Jeff Van Sinderen. Thank you for taking our call. My first question here is regarding the 10 new products you're introducing, I believe you said they're being rolled out to 100 clinics. Are they all being offered at this point? And if not, what is the cadence there? And also, how is the doctor training being managed to accommodate all these new products?

Terry Weber

So, for those clinics, it will be the first 10 being offered to the 100. So that just began in February. So, these are being onboarded through our sales staff as well as our Chief Science Officer, who's providing the product training on those 10 products. These are 10 products that we've educated on before, actually starting in 2020. So many of our providers are very comfortable, some of the products are products that we have taught for all 12 years. So that's where we're comfortable with that training on that product. We're providing the guidelines, and then we're rolling out in a very measured way. So, we've made all 10 products available to all 100. And that just began in February, so you'll need to stay tuned as we roll that piece out and grow the number of providers. But we are very comfortable, we are actually monetizing these products for the first time, and we are pleased about that.

Richard Magnusen

Okay. And then sort of related to that, besides the GLP-1s, what are the most significant new products right now in terms of how they're being applied, application by practitioners? And are there any standouts in terms of demand by patients?

Terry Weber

Look, we're not giving individual discussion on those products right now because it's a brand new program. So we'll discuss that in later dates, but we found provider acceptance on all the products, and we're really looking to kind of see how they begin their ordering patterns. Having just begun this in February, this is something we'll be able to talk about a lot more in the future, but many of these products are prescribed almost to all female patients with certain attributes like progesterone, this type of thing. So, we'll kind of give you more. The categories are hormones, sexual wellness, weight loss, the GLP-1s, which you're aware of and body composition. So, we'll discuss those more in detail as we give more findings on those early providers.

Richard Magnusen

Thank you.

Operator

The next question is from Kaumil Gajrawala from Jefferies. Please go ahead.

Kaumil Gajrawala

Hey, everybody. Can you maybe talk about from those that started in February, maybe kind of a six month progress report of what you learned from this sort of first cohort of franchises that came onto the BioteRx wellness plan? And then along with that, if you can maybe after that, just add how will the economics evolve as more and more clinics come on board?

Terry Weber

So, February is February as in last month, so we've just been very initial. So, we won't be discussing too much on that initial, because these are initial orders, initial products going through. So, one month is too early to make comments on. So we'll talk about that later as we get in detail. There's been favorable response and very good interest on the initial rollout. I mean, as we discussed, it's going to be a modest contribution in 2024 with more meaningful in 2025. What it's really allowing is these practitioners to use our tech platform for these products that they've often had to find in many different places.

So, what this is, is really getting that single-source provider for those clinics and allowing them to see the efficiency of our platforms and our delivery. So that's exactly where you should be focused, and it really adds to our competitive strength as we look at our core hormone business. And honestly, really helping that provider who's had this onslaught of interest in weight loss and these things to be able to manage their business better. So that's where that single source provider will come over time. But these are just initial orders going in less than four weeks ago.

Kaumil Gajrawala

Got it. Okay. And then Bob, you made some commentary on Amazon and some shifts in distribution. Could you just maybe explain in a little more detail what that meant?

Bob Peterson

Well, yes. And I think as we talked about earlier, we had some challenges with our third-party who was managing the Amazon relationship for us in Q4. One of the core areas that we're looking to do now is bring that in-house so that we can begin to see the improvement of selling at retail as opposed to wholesale. And I think it gives us a little bit more control and could provide a little bit better management. So, again, the real key here is that we are going to bring it in by the end of the first half and then really try to start scaling that in the second half of the year.

Kaumil Gajrawala

Okay, great. Thank you.

Operator

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

CONCLUSION**Terry Weber**

Thank you for joining us on this call this afternoon. We're looking forward to updating you on our progress in the months to come. Have a good evening.