

Biote Corp.

Second Quarter 2023 Earnings

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**CORPORATE PARTICIPANTS**

**Simon Serowiecki** – *Advisory Partners*

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

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

**Marc Beer** – *Executive Chair*

**Dr. Ross McQuivey** – *Chief Medical Officer*

## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Biote Second Quarter 2023 Earnings Conference call. All participants will be in listen-only mode. Should you need assistance, please signal the conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Simon Serowiecki.

### **Simon Serowiecki**

Good morning and thank you for joining us today.

Last evening, Biote published its financial results for the quarter ended June 30, 2023. This release is available in the Investor Relations section of the company's website. Terry Webber, 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, market, future performance, growth opportunities, business outlook, strategies, goals, research and development, manufacturing commercialization activities, regulatory process operations, the impact of macroeconomic conditions on its business, results of operations, financial conditions, and consumers and on the healthcare industry generally. 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, 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 website, and our Investor Relations website as well as risks and other important factors discussed in 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 the earnings release with the primary differences being stock based compensation, fair value adjustments to certain liabilities, transaction related expenses and other non-operating expenses. You are directed to our second quarter 2023 earnings release, which is available in the Investor Relations section of our website at [ir.biote.com](http://ir.biote.com) for a reconciliation of adjusted EBITDA to its closest comparable GAAP measure.

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 discuss our outlook for 2023. Marc Beer, our Executive Chairman and Dr. Ross McQuivey, our Chief Medical Officer are also on today's call to help answer your questions during the Q&A session following these prepared remarks.

I am pleased with the significant financial and strategic progress Biote achieved in the second quarter.

We generated double digit growth in both revenue and adjusted EBITDA. Adjusted EBITDA margins came in near the upper end of our target range, highlighting the profitability of our business model even as we invested to strengthen our capabilities.

During the quarter, we continued to broaden awareness of the benefits of hormone therapy and further build our practitioner network. From a strategic standpoint, we also formalized our commitment to men's health by launching a new division focused on capturing a larger share of this important addressable market. To enhance shareholder value, we simplified our capital structure and further improved the liquidity of our publicly traded shares.

Starting with our financial performance, revenue grew approximately 19% year-over-year, driven by growth in both procedure and dietary supplement revenues. Over the past several years, we've significantly expanded our dietary supplement offerings, providing a wider range of products that promote healthy aging and wellbeing. We view dietary supplements as a complementary business that strengthens Biote's brand identity and helps diversify our revenue streams.

In the second quarter, dietary supplements benefited from a successful seasonal promotion for our Biote providers. Additionally, our recently launched Direct to Patient distribution channel helped drive supplement sales growth.

Second quarter procedure revenue growth of approximately 10% was broad based geographically, but moderated from our historic growth rate. Earlier this year, we realigned our sales territories to accommodate our significantly expanded sales team. We undertook this strategic realignment to scale our business more efficiently, further strengthen our market position, and accelerate adoption of the Biote method into new markets. As our sales team grows into our newly scaled structure and gains productivity, we anticipate improving procedure revenue.

Turning to our new initiative in men's health, we're excited about the long-term growth opportunity for Biote in this large and growing addressable market. With recent scientific research providing support for the safety and efficacy of testosterone therapy in men, we believe now is the right time to deepen our commitment to advancing men's health. Industry data suggests that approximately 20 million men in the US over the age of 45 are affected by the adverse symptoms of testosterone deficiency. Yet, only 10% to 12% receive any testosterone treatment. Through the Biote method, we believe we can help achieve positive health outcomes for the tens of thousands of men who would otherwise likely go untreated.

As we build the foundational elements of our Men's Health Division, we're focused on three pillars supporting our strategy: awareness, education, and research. To drive awareness, we're closely working with our existing practitioners on the health benefits of the Biote method for men. We're also ramping up our sales and marketing efforts to better connect with a growing number of men who want to feel their best regardless of their age.

At the same time, we're leveraging our position as the foremost provider of hormone therapy education and research. For example, we are integrating new research supporting the safety and efficacy of testosterone therapy into our education programs. In addition, we are forming new relationships with key opinion leaders specializing in male urology. We believe urology practices offer a key pathway to accelerating adoption of the Biote method in men's health, just as OB/GYN practices have in women's health.

In addition, we are expanding our strategic approach to more fully address the extensive opportunities within the dynamic and evolving market for healthy living solutions. For example, many of our patients have expressed interest in certain wellness products that are complementary to our existing hormone

therapies. Working closely with our top providers, we're currently testing an expanded suite of requested wellness therapeutics that will help patients manage a variety of common health concerns. Currently, we're transitioning our sales and marketing efforts to encompass this broader category of therapeutic wellness, which includes hormone therapy, sexual health, weight loss, and preventative wellness. We believe we can leverage the strength of our brand and our practitioner network to ultimately become a leading provider of evidence based therapeutic wellness solutions.

Now I'll turn the call over to Samar.

**Samar Kamdar**

Thanks, Terry, and good morning, everyone.

Revenue for the second quarter increased 19.1% from the prior year period to \$49.3 million, reflecting 9.8% growth in procedure revenue and 52.8% growth in dietary supplement revenue. As Terry noted, second quarter supplement sales benefited from a successful seasonal promotion, as well as continued favorable response to our new distribution channel.

Gross profit margin was 67.9%, up 60 basis points from the second quarter of 2022. The increase in gross profit margin was primarily due to effective product cost management.

Selling, general and administrative expenses were \$25.8 million, a decrease of \$87.7 million or 77.3% from the second quarter of 2022. Excluding the impact of share-based compensation, transaction related expenses, and litigation and other, SG&A expenses would have been \$19.4 million in the second quarter of 2023, compared to \$15.2 million in the second quarter of 2022, representing an increase of \$4.2 million, or 27.5% over the prior year period.

I'll now provide additional detail on this quarterly expense increase on a year-over-year basis. \$1.3 million of this increase was related to the expansion of our sales team. We continue to expect the investment in our sales effort to drive improved procedure revenue. \$1.0 million dollars of this increase was related to investments in our clinical and corporate infrastructure, as well as technology to support our growth. \$1.0 million dollars of this increase was related to public company expense for the period, and \$400,000 of this increase was related to the expansion of our marketing efforts.

Operating income for the second quarter of 2023 was \$7.7 million compared to a loss of \$85.6 million for the second quarter of 2022. Operating income in the second quarter of 2023 reflected growth in revenue and improved gross profit, partially offset by increased personnel and other expenses to build our infrastructure. Operating loss in the second quarter of 2022 was mainly due to transaction related expenses of \$18.8 million and share based compensation of \$79.3 million at time of going public.

Net loss was \$13.1 million compared to net loss of \$21.3 million in the second quarter of 2022. Net loss in the second quarter of 2023 was due to a net change in the fair value adjustments to warrant and earn out liabilities of \$18.2 million.

Adjusted EBITDA was \$14.5 million in the second quarter of 2023 with an adjusted EBITDA margin of 29.5%. This compares to adjusted EBITDA of \$13.1 million with an adjusted EBITDA margin of 31.8% in the second quarter of 2022. Adjusted EBITDA in the second quarter of 2023 increased due to higher sales and improved gross profit, while adjusted EBITDA margin decreased due to higher operating expenses, which included investments in our infrastructure.

Second quarter operating cash flow was \$6.8 million and totaled \$19.8 million year to date. As we expected, operating cash flow for the second quarter of 2023 was lower as compared to the first quarter

of 2023, primarily reflecting timing of certain annual expenses.

I would like to highlight the improvements we have made with respect to our capital structure as Terry noted. In June, we completed a warrant exchange offer and consent solicitation. Given the positive shareholder response, we exercised the right to exchange all remaining outstanding warrants for shares of common stock. As a result, we have greatly simplified our capital structure.

Additionally, another successful secondary offering of our Class A common stock was completed, adding to our trading liquidity without diluting shareholders. Together, these corporate actions underscore our ongoing commitment to optimizing our capital structure and increasing our trading liquidity to enhance long-term shareholder value.

Turning to our financial guidance, we maintain our outlook for continued revenue and adjusted EBITDA growth in 2023. Due to temporary inefficiencies resulting from the realignment and expansion of our sales geographies and evolving market dynamics, we forecast a more moderate pace of growth in the second half of 2023 as compared to our prior forecast. We therefore forecast that 2023 revenue and adjusted EBITDA likely will be toward the lower end of our guidance range.

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

**Terry Weber**

Thank you, Samar.

Biote remains on track for continued profitable growth in 2023. We have achieved significant strategic progress across a number of focus areas while continuing to deliver solid financial performance. As we look forward, the preventative health market is evolving, and Biote is pivoting to meet our patient's growing needs. We envision a more expansive mission in which we build on our success, and Biote becomes a leading platform provider of evidence based therapeutic wellness solutions. We are taking key steps towards fulfilling this vision and we look forward to updating you on our progress.

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

**QUESTIONS AND ANSWERS**

**Operator**

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

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

**Les Sulewski**

Good morning. Thank you for taking my questions.

Just in regards to your guidance update, can you provide a little bit more color on what you mean by inefficiencies from realignment of sales geographies? Essentially, has there been a change in which geographic areas you're targeting? And also, secondarily on that is what color can you provide on the evolving market dynamics? Not quite sure I follow here. Are you seeing any unfavorable adoption rates? Are the additional sales teams just being held back by internal reasons and perhaps not performing as you expected? And I have some follow ups. Thanks.

**Terry Weber**

Great. Thank you for those questions. That was a mouthful and let's walk through that.

So yes, we're pleased with the total revenue growth of 19%, but looking at those procedures, we did this realignment in the new part of the year. We added a substantial number of salespeople and, honestly, it's taken a little longer than expected in some of the new geographies. So these are geographic. We maintain the guidance, but due to this delay, we just directed you to the lower end of the range. We're very confident on the market. We hired a top notch Chief Commercial Officer, Mary Puncochar, and she's really come in and taken a hard look and optimized those geographies and how we penetrate the new markets.

So what we want to do is kind of give you that confidence that we are absolutely training 100 providers this week, and we're very pleased with that continued interest of the providers and the patients. So that's where we're so strong on confidence in this marketplace.

When I was describing the second question, what we're talking about is these complementary evidence-based therapies that we've been training on since 2020. So, we're becoming more of a platform provider including hormone optimization, but we're looking at these other therapies that our age group is asking for, such as that fascination with the GLP1's, the semaglutide market, both our patients and our providers are asking for this complementary therapy; it works so well with hormone optimization and we have potential to offer that in a compounded form. So we've been training on it for years, and now we're looking at that coming in and providing that access.

**Les Sulewski**

Great. Thanks for that. Just to build on that you did mention broadening health categories, specifically weight loss, as you just discussed. What opportunities are available here and what internal investments would be required to get into these verticals?

**Terry Weber**

Oh, great question. So what we've been doing is teaching some of our providers, the number one trainers in those therapies in the US and probably in the world. So we train on this, but we've just never monetized it. So in providing the access and extending these therapies out, in addition to the hormone optimization, we really just extend what we've been doing for years in the training. We've got 6400 very well trained providers who trust our brand, and they're looking for access to this product that we can provide without substantial investment. We've been training on it, we've got the expertise now, it's opening the platform up that way.

**Les Sulewski**

Great, thank you. And just lastly for me, as far as your confidence in the guidance, as we walked through 3Q now, is there a possibility you can go essentially below the lower end of the guidance? What gives confidence there? And any possibility these inefficiencies leak into 2024? Thank you.

**Terry Weber**

No, I'm very comfortable with the guidance. This first year publicly traded, we want to be very candid, and that's why we wanted to talk to you about guiding to the lower end because of the slight delays, but the market is very strong. One of the things we're seeing is strong patient interest, really strong provider interest. There are not enough doctors. We're growing profitably, we continue these trends, but what we've got to do is get more doctors out there. We're creating capacity to train more doctors because the patients can't get in and get their appointments.

So one of the things that Mary has brought is that relentless discipline of analytics to show these patients aren't getting appointments because there aren't enough docs. So we really know where we're focused in the second half of the year. We are faster in terms of training new docs than we had forecasted, so that's good news. And even better news is they're coming on board faster. So the model is working.

We want to say what we're excited about as well is the testing of the new complementary therapies in the second half of the year. We really believe that that's just going to increase the TAM, absolutely increase the TAM in this patient base.

**Les Sulewski**

Thank you for that color, Terry. Appreciate it.

**Operator**

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

**Jonna Kim**

Thank you for taking my question. It sounds like provider interest is strong, but just wanted to get any color on any changes in the number of procedures provided by these providers given macro headwinds and would love any updates that you have on the retention rate as well.

**Terry Weber**

The retention rate is as strong as ever. We don't give you the exact number, but it's actually improving as we add the stickiness to our platform. These are very loyal providers who identify themselves as Biote certified providers. What we're seeing is capacity in the doctor's offices to take these appointments. So where our work is, is to get more providers trained and get these providers to open up hours to see our patients. That's our big, big focus and we're helping. That's what that new sales force is so key on is not only training them to find new docs, but they've really got to get into the docs and find how to add more patients' throughput.

So, the market is good. The doctors are providing as many procedures. They don't see a downturn. We survey them. We train every two weeks about 200 to 300 docs in the advanced training, and we survey them every time about do they see their Biote business slowing? What are their concerns? They do not see Biote slowing. What their concerns are is support staff in the offices and ability to get the patients through. So we really know the market is there, the TAM is there, and the second half of the year we'll be focusing on making them stronger and really training more providers.

**Jonna Kim**

Got it. Just one more from me. I would just love to hear more about how your international expansion plan is progressing for next year. Thank you.

**Terry Weber**

Okay, we have the dual language training in Tampa, so please join us, I don't think you've been to a training yet, so we'd love to have you join the international. And that's currently what we're doing, is we're bringing in all the interests of the international doctors into our Tampa training, which is every month and being able to provide that. So we've got so much opportunity in the US, I continue to stay very focused, especially adding these new therapies that offer such a bigger TAM to keep focusing on the US, train the international at our current ones, and look towards later in 2024 to expand that. We still believe in it. It's just let's go to training the immediate needs here in the US first.

**Jonna Kim**

Thank you so much.

**Operator**

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

**George Kelly**

Hi, everyone. Thanks for taking my questions.

So first, just a couple more on your guidance. I just want to make sure that I heard you properly. Have you seen any kind of evidence of changing consumer behavior or just weakening behavior, the frequency of procedures? And the second part of that question is, and Terry, I think you just answered this, but you're not seeing any kind of unexpected churn among your providers, are you?

**Terry Weber**

No, we're not seeing that and we're not seeing any decrease in patient interest. We're definitely seeing access problems for the patients to get in to see the providers. Some of that may actually be this GLP1, this semaglutide market. When those providers take those weight loss patients that's where we've got to make sure that our hormone people get seen and treated. That's why we're looking at the platform to do it together.

I don't know, George, I think you know us well enough to know that we've got very close relationships with the compounders who provide this additional therapeutic wellness. Great long term relationships, we just never turned it on. We never provided access before. We're still so committed to hormone optimization, but if that patient is coming in for that, is looking for both those treatments, we provide access and we provide those algorithms for our providers.

Consider how much that increases the potential of our TAM. So there's no reason, go use the same platform. We've invested, George, in technology. How do we make the easy button for the providers? How is it easy to treat both therapies as well as some of the other products we train on in terms of sexual wellness, preventive medicine? Hit it all through the same platform, provide the access, and really strengthen that Biote relationship with them. Be the one stop shop.

**George Kelly**

Okay. Understood. And then maybe more on that. If you were to look a year, maybe two years out, how many additional therapies do you think you could offer through your platform? And is the model going to look similar to your existing model where you're collecting a high margin stream, and you're just sort of connecting the compounding pharmacies with the providers? Just any more detail on the number of treatments you could offer and the model you're going to target?

**Terry Weber**

George, I wish you would have been to some of our earlier training. We train on these therapies already, our doctors are experts in it in the US, they're the ones that train all the specialty training, so easy to add what we train on anyway: hair loss, sexual wellness. Think about everyone interested in taking care of their bodies, they're getting hormone treatment, and then what comes with adjunct therapies. If you have one platform like we have, it's easy for that provider and that patient to order, think about what we've done in terms of being the premier leader in the market. We provide that type of value. I think this only makes us stickier. Nobody wants to look for semaglutide. What we would provide is that access.

We're testing it now, George. We'll be talking about it on our next call, but we're very confident. We've got the access to the right manufacturers, we have long term relationships with them, and our tech platform, we've invested in it this year. I'm excited about the skill levels to make it easy. What can we do to make it easier to get in and out of that practice and get everything you need for healthy aging.



**George Kelly**

Okay, and then maybe a last question. Your normal growth rate before, the procedure revenue, as you mentioned, decelerated in the quarter. I'm curious, these changes you're making with new therapies and the realignment of the sales force, it sounds like the 2H impacts will be minimal, we should expect a continuation of the current revenue growth that you just generated, correct me if I'm wrong, but how long do you suspect it will take to get to that more accelerated call it mid-teens or somewhere in that ballpark revenue growth rate? Do you think that's achievable sometime in 2024?

**Terry Weber**

Yes, absolutely. We feel very confident on it. We just took a little more than expected time this year. It's a hard to anticipate velocity. But that's all it is, George, it's just we're really comfortable on where we're at with these accretive programs. The TAM is there, the patients are there. Our real problem is getting providers to open up appointments.

And you know what, George, I've got to go find a way to train doctors, more doctors, and I'm doing it right now. You know, this is a change that the world has been looking for and it's really accelerated, so that's where we need to really focus here.

**George Kelly**

Okay, 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**

All right. Well, thank you so much for joining us this morning. We understand it's an early hour.

These are exciting times. I can't stress that enough that we're excited about the great interest from the patients and the providers. It's only increasing and it's now our job to continue to lead the market and really dominate in terms of how to go to market best with evidenced based therapies. I know we didn't talk about research today. Need to make sure we stress the research we're doing and looking forward to talking to you the next time. Thank you.