

Biote Corp.

Second Quarter 2024 Earnings Conference
Call

Thursday, August 08, 2024, 5:00 PM Eastern

CORPORATE PARTICIPANTS

Terry Weber - *Chief Executive Officer*

Bob Peterson - *Chief Financial Officer*

Szymon Serowiecki - *Investor Relations*

PRESENTATION

Operator

Good day, and welcome to the Biote Second Quarter 2024 Earnings Conference Call. All participants will be in a 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 Szymon Serowiecki, Investor Relations. Please go ahead.

Szymon Serowiecki

Thank you for joining us today. This afternoon, Biote published financial results for the second quarter ended June 30, 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'd like to remind everyone that management will make statements on 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, business development, manufacturing and commercialization activities, regulatory process operations, the impact of macroeconomic conditions of the business, results of operations, 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 representative of 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 measure 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 second quarter 2024 earnings release for a reconciliation of adjusted EBITDA to net income, the closest comparable GAAP measure.

I'll now turn the call over to Terry Weber.

Terry Weber

Thank you, Szymon, 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.

Biote generated solid financial performance in the second quarter, highlighted by a sequential increase in procedure revenue growth. This improvement reflected our strategic focus on driving growth from our top tier accounts, expanding our practitioner network, and optimizing new clinic success, through our quick-start program.

In the first half of 2024, we added approximately 30% more new clinics on a year-over-year basis, with significant growth in new clinics achieving quick-starts. We have found that the early success generated by clinics that achieve quick-start status translates into stronger clinic performance over time. As a result, we continue to work closely with our new providers to optimize the launch of their hormone and therapeutic wellness practices.

We also achieved solid gross profit and adjusted EBITDA, even as we selectively increased our investments in key marketing and sales initiatives to enhance our long-term growth opportunities. These investments included our annual provider conference where we strengthened engagement with our top practitioners. We spent two and a half days with over 500 practitioners teaching advanced concepts and therapeutic wellness. Even with these strategic investments, we remain on-track to achieve our 2024 financial guidance.

The phased launch of BioteRx across our network continues to progress well with approximately 600 clinics now enrolled. We believe our BioteRx platform represents a unique and differentiated approach to care in the hormone and therapeutic wellness market. In addition to an expanded range of products and treatments, BioteRx supports practitioners with a comprehensive portfolio of advanced technical tools, support, training, and educational resources, which we believe separates us from our competitors.

Over the next several weeks, we will introduce several major enhancements to the Biote method, expanding our science-based approach to care. With these enhancements, we're confident that Biote will enable practitioners to deliver an even higher level of holistic, personalized medicine for their patients. First, we'll expand our wellness lab panels to utilize the latest technology, liquid chromatography, and mass spectrometry for blood sample analysis. These additional lab panels broaden our testing capabilities while providing greater testing sensitivity and accuracy.

These advantages will enable practitioners to provide more precise dosing that addresses a wider range of treatments and delivers better health outcomes for patients. To further enhance clinical decision making, we will update our proprietary software with new functionality to deliver even more individualized precision patient care. For example, our updated clinical decision support software features enhanced algorithms for ongoing patient management, continuously adapting to a patient's evolving health needs.

We are also broadening our BioteRx offerings across key therapeutic categories. We will introduce new offerings in the areas of body composition, sexual wellness, non-pellet hormone optimization, and thyroid and autoimmune conditions. These new products complement our existing therapies, elevating our value proposition and enabling more comprehensive patient care.

Finally, we will further bolster our support for practitioners with enhanced tools and procedures, including a new trocar for pellet delivery and new techniques for pellet insertion. As always, Biote will continue to provide an unmatched level of education and training, covering a broad spectrum of hormone and therapeutic wellness.

The integration of Asteria Health into our operations continues to progress smoothly. We've been pleased with the positive feedback we're hearing from our practitioners, who value the capabilities that Asteria Health adds to our business. As we continue the integration process, we remain focused on expanding Asteria Health's licenses to additional states as well as driving long-term manufacturing cost efficiencies.

During the second quarter, we were pleased to conclude outstanding litigation with two large shareholders. These agreements eliminate the time and expense associated with litigation and build long-term shareholder value through significant share repurchases. Bob will provide more information in his remarks.

In summary, Biote continues to make solid progress in advancing our strategic objectives and we remain on-track to deliver our 2024 financial guidance.

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

Bob Peterson

Thank you, Terry, and good afternoon, everyone. Total revenue in the second quarter was \$49.2 million, essentially flat year-over-year, and consistent with our expectations. Procedure revenue growth increased 7.8%, increasing sequentially from the 6.6% growth reported in the first quarter of 2024. Second quarter procedure revenue growth was broad-based across our network and primarily driven by growth in our top tier clinics. Our performance also benefited from approximately 30% growth in new clinics over the past 12 months. As Terry mentioned previously, many of these newly added clinics have successfully implemented our quick-start program that accelerates new procedure revenue streams.

As expected, second quarter dietary supplement revenue decreased 32.2% year-over-year, as we continued the transition of our e-commerce business and lapped a significant seasonal promotion in last year's second quarter. Consistent with our timeline, we began management distribution of several key products previously delivered from our former distributor at the end of the second quarter. While we continue to work down inventory of certain nutraceuticals from our prior distributor, we expect overall nutraceutical revenue to resume year-over-year growth in the second half of this year.

Second quarter gross profit margin was 68.9%, a 100-basis point increase from the second quarter of 2023. Gross profit of \$33.9 million in the second quarter of 2024 included a \$1.2 million step-up in inventory value related to the acquisition of Asteria Health. Excluding this inventory revaluation, second quarter 2024 gross profit margin would have been 70.9%. The year-over-year improvement in gross profit margin reflected product mix and effective cost management. As expected, we anticipate consolidated gross profit margin will revert to historical levels, as nutraceutical sales resumed year-over-year growth in the second half.

Consistent with our expectations, selling, general and administrative costs were \$27.6 million, compared to \$25.8 million in the second quarter of 2023. Operating expenses increased from the prior year primarily due to planned strategic investments in sales and marketing, including our annual provider event. As a result, second quarter operating income was \$6.2 million, compared to \$7.7 million in the prior year quarter.

Net loss in the second quarter was \$10.5 million inclusive of a \$13.9 million loss due to a change in the fair value of the earn out liability. This compares to a net loss of \$13.1 million in the second quarter of 2023 which included a \$6.4 million loss due to the net change in fair value of the earn out liability and an \$11.8 million loss due to the net change in fair value of the warrant liability.

During the second quarter, we selectively increased our investments in sales and marketing to strengthen engagement with our top providers, expand our therapeutic wellness offerings, and further our geographic expansion.

Largely due to these investments, second quarter adjusted EBITDA decreased 12.4% from the prior year to \$12.7 million with an adjusted EBITDA margin of 25.9%. This compares to adjusted EBITDA of \$14.5 million with an adjusted EBITDA margin of 29.5% in the prior year period. While we continue to make investments aligned with our growth strategy, we anticipate our overall operating expenses will moderate in the second half of this year as compared to the first half.

Second quarter operating cash flow was approximately \$17.3 million. As Terry noted and as previously announced, Biote concluded litigation with two large shareholders during the second quarter. These settlements include significant share repurchases and the release and cancellation of earn-out shares for no additional consideration. Under the terms of these settlements, Biote repurchased the first tranche of shares from Dr. Gary Donovitz for \$32.2 million in April. Subsequently, in June, Biote repurchased the first tranche of shares from Marci Donovitz for \$30 million.

After the repurchase of the first tranches, Biote has agreed to repurchase the remaining 14.4 million shares over the next three years. Largely because of these share repurchases, cash and cash equivalents at the end of the second quarter of 2024 were \$26.4 million, down from \$78.8 million at the end of the first quarter of 2024. Moving forward, we will continue to prudently manage our operating cash flow to assist funding settlement-related share repurchases while maintaining our capital allocation discipline.

Turning to our financial outlook for fiscal 2024, we reiterate our previously reported guidance with revenue of \$200 million to \$204 million and adjusted EBITDA of \$60 million to \$63 million. At a high level, our 2024 sales guidance reflects our expectations for improving procedure revenue growth in the second half and a return to year-over-year growth in nutraceutical sales. On the expense side, we anticipate moderation in the second half operating expenses as compared to the first half.

Strengthening procedure revenue growth in the second half of 2024 relative to the first half is expected to be driven by three factors, one, improving performance from our top-tier clinics, two, the continued expansion of our existing practitioner network, and three, a growing contribution from new clinics, including continued growth in clinics implementing Quick Starts.

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 second quarter, and we are on track to achieve our financial and strategic objectives for the year. We continue to progressively roll out BioteRx across our network with plans to add new capabilities to better serve both patients and practitioners.

We also continue to integrate Asteria Health, which improves our manufacturing efficiency and offers new opportunities for growth over time. Finally, we have enhanced long-term shareholder value by concluding outstanding litigation and committing to significant share repurchases on favorable terms. We remain focused on driving profitable growth as we strive to become the leading single-source provider of evidence-based therapeutic wellness solutions.

And now, 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 touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press "*" and then "2."

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

Les Sulewski

Yes. Good evening, guys. Thank you for taking my questions. So, Terry, I didn't hear much commentary around your weight loss program and your strategy. Can you just perhaps maybe highlight, now that we've heard some of the branded GLP-1s coming off of the shortage list, essentially how does that impact your compounded GLP-1 strategy? And how do you conform with regulations if either the FDA puts a ban in place or I guess there's limitations from presentations will be no longer available on the drug shortage list? And I have a follow-up.

Terry Weber

Wow Les that is a mouthful. So I'll break it into the pieces. So let me give you a context and a framework for our BioteRx and our use to the GLP1. So, we have launched this therapeutic wellness, the BioteRx, it has a full complement of therapeutic wellness products, which includes the GLP1s and it includes both in the Tirzepatide and the Semaglutide that are both being produced because of the bi-compounders, because of the shortage list.

So, for us, it's a piece of a formula with a lot of the products that allow that one stop shop at Biote. So, we have a platform that allows those providers to order the product easily, delivered on very short SLAs, it is part of a performance piece on therapeutic wellness and it's a just a couple of the products. So, we are not concerned about this, the platform is working well. There is a lot of adoption. So it's proceeding very well and we can talk a little bit about what's happened even this week on those two products. So right now, if you look at the shortage and why compounders can manufacture, it's the shortage list and the FDA considers the following criteria before removing a drug from the shortage list.

First, whether the manufacturer is able to meet the total national historical demand and you can report on the amount of that national demand even within the last year on both of the formulations. The second part is whether the manufacturer can verify that he has built enough safety stock for the drugs. You also have other considerations as to other prescribers or patients have the availability of the drug or there is still that type of the shortage. So, it's quite a long process and the only person that determines whether it goes off shortage is the FDA. And if our audience has listened and probably has into the earnings recordings of from both Eli Lilly and Novo Nordisk that produce the two branded products of the Tirzepatide and the Semaglutide, both companies

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address the fact that they had difficulty meeting demand and that these certain dosages of their drugs come in and out of supply.

Lilly announced that there will intermittent supply disruptions for drugs such as Zepbound and Mounjaro while supply and demand are better in their balance they quoted, they expect increases in demand may result in periodic supply tightness at different dosage levels. So, when we look at this, it looks as if certainly for Novo Nordisk, they now will continue restricting supply of their starter doses in the US market to ensure patients who start the treatment can continue this treatment. So, in our estimation, these drugs will remain on shortage for a period of time. There is many options. New drugs are being developed in the GLP1 space as we speak. So compounders will be allowed to do the ones that are on shortage. And for us, we are not concerned about it in our model. We just want to make sure that our doctors get easy access to it and a consistent supply.

So, our platform offers that and I hope I have given you some insights into why that is not a big concern for us. I also remind you that we get paid a tech platform fee for accessing our platform which offers the other formulations as well in therapeutic wellness. So, this is just part of our long-term therapeutic wellness focus.

Les Sulewski

Excellent color, I mean, very helpful. Perhaps just to maybe build on that in some sense and on the Asteria facility, you know, you've mentioned before you are looking to add a production line on the compounded GLP1. Is that still in the works? When can we kind of expect that to be operational? And then I guess my last question is what percentage of your physicians are in the medical spa setting and then I guess how many operate at a virtual setting. Thank you.

Terry Weber

Good question. Three questions there. So, number one, on Asteria, we are looking to expanding our space at Asteria and after we are making sure that we can meet all the production need in our integration, we are very focused on manufacturing the other GLP1 products. So, I would be looking to 2025 for that manufacture and that impact.

Your second question, want to repeat that real quick?

Les Sulewski

Percentage of physicians in the medical spa setting and in virtual?

Terry Weber

Now, the medical spa setting. Our practitioners in the medical spa setting have all supervising practitioners. They are usually an arm of an OB GYN or internist who has a wellness practice next to their traditional practice. So, it's a way that that's structured that really allows us to have very good supervising practitioners and I would certainly say less than 10% and on the virtual end, we have very few that have...they have a virtual component of their practice but they are all practitioners with clinics. So, we don't at this point service just any completely virtual group.

Les Sulewski

Great. Thank you.

Operator

And the next question comes from Jonna Kim with TD Cowen. Please go ahead.

Jonna Kim

Hi, thank you for taking my questions. Just curious about the marketing and investments that you've made this quarter. It looks like a step up there. Should we expect a similar level of marketing and investment for the remainder of the year? And just a follow-up to that, how are you measuring your success of spend? And just going forward, how should we think about your investment plan? Thank you so much.

Terry Weber

So, what Biote looks to do, Jonna, is to really engage long-term with these practitioners, so they keep decades of an involvement with us. So, what we invested in this year is that enhancement to our clinical decision support software. So, you'll not only have that clinical decision support software doing an excellent job of hormone optimization, it includes now therapeutic wellness products from our BioteRx. So that's an investment in growing engagement with those providers.

Now, this is new science and its innovation. And so that large meeting that we had that had so many of our providers, our key large providers, we spent two and a half days educating them offsite on these new therapeutic wellness products and where the science is going. So that was a large investment in Q2, but all of these should do a very solid ROI on both the enhancement to the Tier 1 clinics and our largest providers as well as taking us into that next generation where we very much are differentiated from competition.

Bob Peterson

And Jonna, just to add a little bit to that, as we look at our OPEX, typically it's higher in Q2. And as Terry mentioned, several of the expenses to really support sales, marketing, and other customer related expenditures were planned in Q2, as Terry mentioned. And I would just tell you when we think about the investments that we're looking to continue to deploy, I mean, whether it's practitioner engagement, modernization of our data systems and data analytics, I would tell you all of those are really supporting what Terry is saying to review that ROI of the spends that we deploy.

Jonna Kim

And just one follow-up is, have you seen any notable changes or anything to call out quarter-to-date trends versus second quarter? And just what gives you confidence in the second half inflection embedded in your guidance? Thank you.

Bob Peterson

Yes, so right now. I think when we look at Q2 revenue, the improved growth from a sequential perspective on procedure revenue. It was consistent with our year-to-date guidance. We were expecting that uptick. We don't give quarterly guidance, so we continue to anticipate second half performance will strengthen versus the first half.

But we're focused really on our key trends, which as we mentioned during the call, growth in our top tier accounts, new customer growth, and specifically with improving the quick starts and nutra growth in the second half, which should show positive momentum.

Jonna Kim

Alright, thank you.

Operator

And the next question comes from Jeff Van Sinderen with B. Riley Securities.

Richard Magnusen

Hello, this is Richard Magnusen in for Jeff Van Sinderen. Thank you for taking our call. First off, you did mention quickly the state licenses. Now just wondering if you could provide more color on where you are exactly with obtaining all the various state licenses?

Bob Peterson

Yes, so we've made pretty good progress as it relates...as you can, as you look at the entirety of Asteria, we keep on applying for new licenses. It's constantly in flux. And I would just say we're obtaining those licenses as planned and we continue to work with our teams to diligently progress forward in that area. So, I would say we're approaching about the halfway mark of the licenses that we are looking to obtain with a whole handful coming over the next quarter, quarter and a half.

Richard Magnusen

Okay. And then my next question is, previously you talked about how the doctors, they were a little bit maybe stubborn to migrate towards your new platform from what they were used to. Some of it was because they had more inventory from previous sources. And so, my question is have they depleted that as far as you know or a lot of it? And the other aspect was that they were reluctant to move away from the legacy sources and were testing Biote as a source with smaller orders until they felt comfortable with Biote, has this situation meaningfully improved or what can you tell us about that?

Terry Weber

Yes, it's meaningfully improved. We've been adding new doctors because new state licenses are coming in for our, our BioteRX, so we've been adding practitioners, they've been increasing their orders, they're seeing the consistency of the delivery time and the quality of the product. So, all that's going very well and what I'm excited about is these new clinics that we've got are becoming dependent on us, in the beginning, for all of their BioteRX products.

So, I like that because it's a better mix. It's not just GLP-1s, they're not just shopping GLP-1s, but they're learning the business, and depending on us for their supply, and used to using our platforms. So, the strategy is working very well.

Richard Magnusen

All right. Thank you.

Operator

The next question comes from George Kelly with ROTH Capital. Please go ahead.

George Kelly

Hey, everyone, thanks for taking my questions. Just a couple for you. First on Asteria, curious how much of your production is running through there and what is your expectation for year-end?

Bob Peterson

Yes, so the way that I would look at this George and when we have talked a little bit about the state licenses, we are at a point now where from a production perspective, we built the capabilities to meet the needs in the short-term and then probably in the medium-term by building additional machinery, installing additional machinery and I think we are at a point now where we scaled up

well and we're building the inventory and producing enough really to make sure that we have enough inventory to meet our future demand.

George Kelly

So, I guess the next part of that question is so are you anticipating a meaningful step up in gross margin in the back half just based on that production point for Asteria?

Bob Peterson

So, the way that we are looking at this, I mean, as you look at the three different facets, so there...we should take a little bit of a step back and I'll touch on the gross margin piece. So, as you can imagine, when you onboard a function like Asteria into Biote, you need to be really focused on doing each facet quite well. One, as we just already mentioned, was the state licenses. Number two is really trying to phase in and work towards the conversion of these additional states that we get access to and what we are finding is that we are working quite well with our commercial teams and very strategically to work through this process to ensure a smooth transition and we're succeeding in this process. So, I think that's good.

We already also touched on the last piece which is building that inventory. So, clearly, Asteria is an important piece and a strategic part of our overall capabilities within Biote. As we transition, we'll begin to operationalize and operationally transition pellets into the different clinics. As procedures start to occur and these pellets are implanted, this will be more of a...as we start to progress through, this will enable a more phased approach through the second half of the year and the financial impact on gross margin has been factored into our 2024 adjusted EBITDA guidance range.

George Kelly

Okay. And then two other quick ones. In your prepared remarks, you mentioned that you expect SG&A to moderate in the back half versus what you just reported in the first half. Can you be more specific? Does that mean that you expect absolute SG&A dollars to decline in the back half versus the first half or what does that mean?

Bob Peterson

Now, so here's the way we look at it. So, we expect our core expenses to really remain flat. We don't see any material shifts in the business, but we are going to continue to spend additional funds on revenue-generating activities. We don't have any big expenses like the Sun and Sea event that Terry mentioned that we had in Q2, but we're going to continue to spend on new customer trainings, Amazon, demand-generating activities and development of new and existing customer growth. So, the moderation is really baked also into that guidance.

George Kelly

Okay.

Bob Peterson

Did that answer your question?

George Kelly

Yes, I think so. I am just trying to...sort of trying to lean into your EBITDA guidance and it implies fairly significant step up in EBITDA margin in the back half. And so, I'm just trying to figure out like what's...is that a gross margin thing or a SG&A thing? I don't know if there's a way to sort of get to that. If not, that's okay.

Bob Peterson

No, I think...no, I would just tell you right now, we do expect that moderation and I would just say as we look at gross margin in the second half, I would say we are kind of...well, we're going to be guiding towards the high end of our historical range, so, in that upper 60s range. So, that can give you kind of a little bit of a guide to where we're going on that front.

George Kelly

Okay. Understood. Thank you.

Operator

And the next question comes from Kaumil Gajrawala with Jefferies. Please go ahead.

Kaumil Gajrawala

Hey, guys, good evening. A couple, I guess, follow-ups from some of your answers to other questions. On the state licensing, can you maybe just give an update or an idea of maybe how many states are left and if any particularly large states are ones where you recently became licensed?

Bob Peterson

Well, I would tell you that the...just overall, the state licenses that we have been approved in match up fairly well to our existing footprint and I would just say that we are continuing...I think I can say with...we've applied for nearly all states and they're in varying phases of the approval process.

Kaumil Gajrawala

Okay, got it. And on marketing as a follow-up, a little bit to the last question is, was the step up in marketing simply the big event and we're just looking at more of a run rate over the rest of the year or is there an actual sort of in addition to the event, or a few things that were incremental that stepped up the investment dollars?

Bob Peterson

Yes, I would just say that the Sun, Sea event is a pretty material event and I would say that that is probably one of the largest drivers. I would say that there is a combination as I mentioned as we look at optimizing our sales force, engaging with our practitioners, improving our data system. There are other smaller items along the way, but you've really hit the big one.

Terry Weber

Yes, Kaumil, I think one of the things is that investing in the people. We are going to therapeutic wellness and taking all of our providers to a much more evidence-based science as we look into therapeutic wellness. So, we invested in our educators. Those are our practitioners who teach for us and we invested in their ability to teach and revamping the training program. So, I really want to invite you and people in the audience that you know, this is the new training in the fall, for this therapeutic wellness is a significant step up and we invested in the instructors, the materials and the whole education process to really make it a very strong interactive experience for our new providers and those that are coming back for additional training.

Kaumil Gajrawala

Got it. Sounds like a good time. We'll look out for an invite. Thanks guys. We'll talk soon.

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, everyone, for joining us today. We appreciate the interest in Biote and we really look forward to updating you on our progress in therapeutic wellness on our next conference call.

Operator

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