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The Beauty Health Company's (SKIN) CEO Clint Carnell on Q1 2021 Results - Earnings Call Transcript

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The Beauty Health Company (SKIN) Q1 2021 Earnings Conference Call May 13, 2021 4:30 PM ET

Company Participants

Dawn Francfort – Managing Director-ICR
Brent Saunders – Executive Chairman
Clint Carnell – Chief Executive Officer
Liyuan Woo – Chief Financial Officer

Conference Call Participants

Operator

Greetings and welcome to The Beauty Health Company's call to discuss the HydraFacial Company's First Quarter Results. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host today, Dawn Francfort, Managing Director at ICR. Please go ahead.

Dawn Francfort

Sinclair Pharma Exhibit 1057
Sinclair Pharma, et al. v. HydraFacial
IPR2025-00145

Good afternoon, everyone. Thank you for joining The Beauty Health Company's call to discuss the HydraFacial Company's first quarter results, which we released this afternoon and can be found on our website at investors.beautyhealth.com. With me on the call is Brent Saunders, Executive Chairman of The Beauty Health Company; Clint Carnell, Chief Executive Officer; and Liyuan Woo, Chief Financial Officer.

Before we get started, I would like to remind you of the company's safe harbor language, which I'm sure you're all familiar with. Management may make forward-looking statements, including guidance and underlining assumptions. Forward-looking statements are based on expectations that involve risks and uncertainties that could cause actual results to differ materially. For further discussion of risks related to our business, see our filings with the SEC.

This call will contain non-GAAP financial measures such as adjusted gross profit, adjusted gross margin, adjusted EBITDA and adjusted EBITDA margin. Reconciliation of these non-GAAP measures to the most comparable GAAP measure are included in the earnings release, furnished to the SEC and available on our website.

Now I would like to turn the call over to Brent Saunders, Executive Chairman of The Beauty Health Company.

Brent Saunders

Thank you, Dawn, and thank you for joining our very first earnings calls as a public company. Last week, we successfully closed our business combination and became The Beauty Health Company. This was not only an important corporate milestone for the company, but also a significant event in beauty health, which is a category we have pioneered. The capital and strategic resources from this transaction position as well to expand our footprint globally and deliver sustainable growth. In addition, beauty health is the ideal platform towards achieving our goal of building an enduring and premier company in the beauty health category.

I would like to extend my congratulations and appreciation to the team that made this combination and our success possible. Between our management and Board of Directors with a diverse range of expertise, we are confident that we have assembled an accomplished team with significant experience to appropriately fuel and guide the growth of beauty health.

Turning now to the business. As you will hear later from Clint and Liyuan, this is a very resilient business, as evidenced by the financial performance in the first quarter. And we believe we have plenty of growth opportunities ahead as we begin to emerge from the global pandemic. My objective is to ensure that this new public company has the appropriate resources and team to deploy the right strategies in order to unleash growth. Over the minimum long-term, I believe this is the ideal platform to create an enduring growth company in the category of beauty health. I'm excited about our next chapter's beauty health and the significant growth opportunity we have ahead.

Clint Carnell

Thank you, Brent, and hello, everyone. It is great to be speaking with you today on our first earnings call as a public company. I will begin by discussing an overview of who we are at beauty health and why we are uniquely positioned for sustainable long-term growth. After which I will touch on some highlights from our first quarter and share our outlook and growth strategies. I'll then turn the call to Liyuan to discuss our first quarter financial performance in detail.

Over the past few months, we have shared with you our vision of creating a powerful consumer brand and platform business that redefined the emerging category, we created beauty health. With delivery systems of over 17,000 and millions of consumers treated worldwide today, we are the clear leaders in the category. We are bridging the gap in the skin health continuum by connecting consumers across the medical professional and retail skincare markets, as well as enhancing outcomes for both skin correction and skin care. We are providing all of this beauty health for everyone across ages, genders, and races as we transform the beauty category.

Our flagship brand HydraFacial is a highly effective, non-invasive and approachable game-changing treatment. It is an accessible skin treatment that's utilized in an innovative approach to cleanse, extract and hydrate skin, offering an immediate outcome and an instantly gratifying glow. In three steps and 30 minutes, we simply deliver you the best skin of your life. We're a platform business with the objective of building an enduring company of beauty health. We will continue to leverage our infrastructure, powerful technology and data as well as passionate community in the HydraFacial nation. These initiatives will allow us to accelerate our global expansion and our product innovation efforts.

We are uniquely positioned for five key reasons. First, we operate in a large and growing market with favorable demographic trends. We have a first mover industry advantage in the beauty health category, where we are clearly the leaders. Second, we have a technologically advanced offering with high consumer and provider satisfaction. We are excited about the support from our customers and our high NPS suggest customer approval ratings are strong. Our flagship brand HydraFacial ranked the highest across branded esthetician and medtech peers as score of 80 among estheticians and 40 among consumers. And third, through our partnership with estheticians, we have created a passionate community of loyal and highly influential providers that is powering the success of our company. We invest in estheticians by providing clinical training, professional development and a holistic business education program called HydraFacial CONNECT. We aim to be the world's largest university and deployer of estheticians worldwide.

What differentiates our partnerships is that we don't just sell products to customers, but rather we invest with our business partners. As a result, we have created an extremely engaged community in the HydraFacial Nation, which deepens our relationships and enhances consumer engagement. We partner with and invest in our providers in order to deliver transformational experience to our end consumer. Fourth, we are seeing a sustainable shift in consumer behavior towards health and wellness. Consumers are seeking approachable and effective skin health solutions that bridge the gap between traditional beauty and healthcare options.

And fifth, we operate a diversified channel mix that spans multiple touch points, including day and beauty retail, resort spas and medical offices, such as dermatology and plastic surgery. We have partnerships across the ecosystem and our signature HydraFacial treatment provides favorable economics for a spa and clinic owners. Taking this altogether, we have a powerful flywheel to accelerate growth as we increase our investments in both training and marketing, expand our global footprint and accelerate R&D efforts to improve and elevate our offering and create innovative products.

We operate a fast growing and highly profitable business model, generating attractive adjusted gross margins of over 70% and a historical adjusted EBITDA margin of approximately 25%. However, given the significant opportunity we see ahead, we are elevating our investment levels over the next two years to fuel our high growth potential, after which we expect to return to our historically adjusted EBITDA margins as we moderate our increased spending levels.

Turning briefly to an overview of our first quarter financial performance. Our first quarter results demonstrate our brand is resonating globally. A portion of our outsides growth was related to COVID-19, specifically the easier comps in the prior year. However, we saw a significant growth of our 2019 levels, supporting the fact that we are executing on our initiatives. Our first quarter sales grew by 46% led by strength in our delivery system sales, which nearly doubled, and a 23% expansion in our consumable sales. Our adjusted gross profit increased nearly 60% from a year ago and our gross margin expanded 590 basis points. Our adjusted EBITDA significantly improved to $7 million.

As we look forward to our second quarter and beyond, we remain focused on the significant multi-dimensional growth opportunities ahead, leveraging both our infrastructure and growing installed base to fund new investments. We plan to significantly increase our marketing spend to continue to build upon our growing brand awareness as well as ramp up our R&D initiatives to accelerate our innovation in the category we've created, beauty health.

As a result of our strong performance, we are pleased to provide updated and increased top line guidance for 2021 of approximately $200 million from our previously provided guidance of $181 million. This is based on our strong results in the first quarter, driven by a gradual global reopening from pandemic-related closures in conjunction with the consumer behavioral shifts and to health and wellness. In markets such as China, which have been reopened for longer, this shift in behavior is encouraging and meaningful.

We are hyper-focused on growing our global footprint by adding more access points, making consumers aware of the benefits of beauty health and investing in our partnerships. We have four strategic growth initiatives. First, we are addressing the significant white space opportunity to drive consumer demand within the ecosystem by growing units and consumables in our existing markets. We are activating consumer demand by deploying tactics to speak directly with the consumer. This strategy creates omnichannel engagement with consumers that are digital, localized and personalized as well as agile and fast.

We are focused on our sales and marketing efforts to drive consumer demand and increase system productivity globally. And as part of our overall strategy to drive consumer demand, we will intensify our marketing of the brand to emphasize wellness and personalization messaging. We will increase training to elevate the esthetician, build loyalty as well as launch additional pop-up stores.

Second, we are quickly expanding our global footprint. We are building upon our capabilities to increase consumer demand globally through our established partnerships across many channels, as well as increasing our sales office resources with incremental support. We look forward to expanding our international footprint through distributor relationships and new markets, as well as implementing a direct to market approach in key strategic markets.

Third, we are accelerating our R&D efforts to improve and elevate our offerings as we look to accelerate our innovation initiatives in the beauty health category we created. We're enhancing our brand and product extensions to continue to fuel our category, create a leading position and transform beauty health as such we will remain relentlessly focused on innovation. In 2022, we will launch our 2.0 delivery system Syndeo, as well as our at home device Project Casa. We will also continue to add innovation across all touch points, including serums, devices and experiences. As part of this innovation, we plan to launch at least one new serum a quarter, including collaborations, such as our Dr. Murad co-branded serum, which drives increased consumer engagement with our own brand.

Fourth, we will leverage technology to drive product and category expansion. We will transform our offering from analog to digital. This upgrade will allow us to enhance our data analysis capabilities in order to improve personalization and drive growth. Through our innovation we will be able to harness and leverage the power of data to provide our customer with a seamless experience whenever, wherever, and forever.

In summary, we are excited for our future opportunities to deliver strong long-term growth. As we accelerate investments to build an enduring platform in the dynamic beauty health category we've created. Now, I will turn the call over to Liyuan, who will discuss our financial performance in the first quarter in more detail and provide you with our financial outlook for the year as we continue to grow and reinvest in our business.

Liyuan Woo

Thank you, Clint and hello everyone. Before I begin, I'd like to thank our team for their continued dedication throughout this unprecedented period. The hard work and commitment of our people drove our impressive growth this quarter in a still challenging environment, demonstrating the unique flexibility of our team and our business model.

We did see outsized performance in this quarter, despite the continued select global market closures related to COVID-19 government mandate restrictions. With that in mind, I will make select comparisons to our first quarter of 2019 in my prepared remarks, as it removes anomaly created by the COVID-19 related market closures, which also impacted 2020. We believe this comparison will provide you with a more comprehensive understanding of our growth profile.

Starting with our first quarter results net sales of 47.5 million, increased 46% from 2020 and 37% from 2019, our increase in revenue was primarily driven by significant expansion in our delivery systems with over 16,000 globally and strength in our predictable recurring consumable revenue streams. For the first quarter, delivery systems revenue increased 82% and 51% and consumables were up 19% and 23% from the same period in 2020 and 2019 respectively.

Net sales in the Americas region increased 31% to 31.3 million compared to a 23.9 million in the prior year or increased 18% compared to 26.5 million in 2019. The strength was driven by continued traction in the U.S. as well as accelerating consumer demand. It's important to note that with the second wave of COVID-19, we had significant location closures in the first half of Q1 2021. Although the market did reopened once vaccines were available, we still had our non-medical channels in select States, such as retail partners, gyms, hotels, casinos and spa with many closed locations.

O-U.S. locations operated with reduced capacity to accommodate state and local regulations. While the trend for the quarter was strong. We also saw consumable orders increase for customer starting to reopen, which contributed to our record first quarter. Net sales in the EMEA and APAC regions were up 89% to 16.3 million compared to 8.6 million 2020, or up 98% compared to 8.2 million in 2019. The performance was driven by strength in China, France, Japan, Taiwan, and Australia, partially offset by COVID-19 restrictions that led to closures in the UK and Germany.

For APAC, keep in mind that during the first quarter of 2020 many countries were already severely impacted by COVID-19 and as such experienced closures earlier than the rest of the world. Since we are opening in the late second quarter of 2020, the trend has been sequentially improving for the APAC market. APAC region net sales for the first quarter of 2021 was 8.8 million compared to 1.7 million in 2020 and 2.5 million in 2019. On the other hand, EMEA was adversely impacted by COVID-19 closures during the first quarter of 2021, EMEA region net sales for the first quarter 2021 was 7.5 million compared to a 6.9 million in 2020 or 5.7 million in 2019.

Gross profit was 31.7 million in Q1 2021 compared to 18.9 million in Q1 2020. Gross margin was 66.8% in Q1 2021 compared to a 58.2% in Q1 2020. Adjusted gross profit in the first quarter was 34.3 million or 72.2% of net sales, this compares to a 21.6 million or 66.3% of net sales in the first quarter of 2020. This 590 basis point expansion in adjusted gross margin rate was primarily driven by cost savings initiatives as well as fixed cost leverage from higher sales.

Selling general and administrative expenses in the quarter were 27.9 million as compared to a 24.9 million for the prior year. As a percentage of sales SG&A decreased by 1,780 basis points to 58.7% compared to a 76.5% in the first quarter of 2020, this decrease was due to sales to leverage and lower marketing spent related to decision to delay select marketing programs until COVID-19 restrictions were lifted and markets reopen, partially offset by increased sales commissions and personnel related expenses.

Total operating expenses for the quarter were 29.4 million compared to 26.3 million in the same period last year, operating income for the quarter, totaled 2.4 million compared to an operating loss of 7.3 million in the prior year. In addition to these GAAP measures, adjusted EBITDA is an important profitability measure that we use to manage our business internally. For the quarter adjusted EBITDA was 7 million versus 2020’s adjusted EBITDA loss of 2.1 million. The improvement in our profitability is a result of higher sales and gross margin improvement, as well as a delay in select marketing spend, partially offset by increased commission and bonus related to the strong sales.

Turning to the balance sheet, cash and cash equivalents at the end of the quarter totaled 14.1 million compared to a 6.1 million in the first quarter of last year. Total debt for the quarter was 223.7 million compared to 196.2 million in the first quarter last year. The increase was driven by the 30 million additional debt provided by our private equity owner during the pandemic. As part of our business combination with Vesper Healthcare, we repaid all outstanding debt on May 5.

Now I'll share our outlook for the full year. As Clint mentioned, we expect net sales of approximately 200 million up from our prior guidance of 181 million. We’re leaving our adjusted EBITDA outlook at 25 million as we intend to invest the additional sales generated back into the business. We also anticipate capital expenditures of up to 15 million in 2021. Our upward net sales guidance revision reflects our highly encouraging performance so far in 2021. Our forecast includes solid results in the first quarter and strong trends that have continued into the second quarter.

However, given the uncertainty in the environment we're operating in, we remain cautious of the potential risk for further market closures for new COVID-19 strains and the even global rollout of the vaccines. Our second half guidance factors in the largely reopened global market, which would be negatively impacted if closures are re-implemented or persisted, we plan to provide you with more color our outlook once we have greater visibility into global market openings, which we hope to provide during our second quarter earnings call.

With those comments I'll turn the call back over to Clint for some closing remarks. Clint?

Clint Carnell

Thank you, Liyuan. Our team's performance in the first quarter shows excellent execution. We continue to deliver on the guidance we provided in November during a highly uncertain environment. We remained focused on creating exceptional customer experiences and are seeing strong results from our investments in growth and innovation. As our markets reopen, we are encouraged by the demand for our services as consumer interest in health and wellness continues to accelerate. Looking ahead, we are focused on building our strong community, executing our growth strategy and creating long-term shareholder value.

Thank you for your time and for joining today's call. And we look forward to continuing to update you on our future progress. Operator?

Operator

Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

Question-and-Answer Session

Q -

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