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Hims & Hers Health, Inc. (HIMS)

Q4 2020 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for joining us on today's conference call to discuss Hims & Hers Health, Inc.'s Fourth Quarter and Full Year 2020 Financial Results.

Joining me on the call are Andrew Dudum, our Chief Executive Officer; and Spencer Lee, our Chief Financial Officer.

On this call, we will be making forward-looking statements including financial guidance and expectations for our first quarter and fiscal year 2021, growth expansion into new categories, strategies, customer demand and products. These statements reflect our best judgment based on factors currently known to us and actual events or results may differ materially. Please refer to documents we file with the SEC including the Form 10-K filed with today's press release. Those documents contain risks and other factors that may cause our actual results to differ from those contained in our forward-looking statements. These forward-looking statements are being made as of today and we disclaim any obligation to update or revise these statements. If this call is reviewed after today, the information presented during this call may not be current or accurate.

We will also discuss non-GAAP financial measures, which are not prepared in accordance with Generally Accepted Accounting Principles. For historical periods, reconciliation of GAAP and non-GAAP results is provided in the press release filed today with the SEC on an 8-K and also available on our website.

And with that, I'll now turn it over to Andrew Dudum.

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

Welcome and thank you for joining our first earnings call as a public company.

2020 was a monumental year for Hims & Hers, and I'm happy to be with you all today to review our performance and share our exciting vision for the future. We've taken a big step forward in our plans to create a new front door to healthcare. Last year, we entered into a SPAC merger agreement. And in January of this year, we completed our SPAC merger and began trading under the ticker symbol HIMS on the New York Stock Exchange.

As a repeat founder and startup investor for over 15 years, I've come across very few businesses that look like Hims & Hers. A business that combines both a massive multigenerational vision, significant tailwinds and core fundamentals of robust, diversified growth and best-in-class margins. As just a three year old business, Hims & Hers has these dynamics in spades and is for that reason that we are so energized for the future of our company in the public market. We plan to leverage our unique DNA of innovation, brand building and speed to build one of the most transformative digital health companies of the next generation.

During the course of 2020, we took big, important steps from an operational standpoint that led to an incredibly successful year. I'm very pleased that we're able to meet and exceed the expectations for 2020 performance shared in our roadshow this past fall with no surprises. We are a team that prides itself on prudent execution and focus.

We ended the year significantly ahead of our internal plan on both the top and bottom lines including revenue growth of 80% year-over-year, gross margin expansion to 74% and an 88% reduction in adjusted EBITDA losses year-over-year. We ended the year powering over 3 million medical visits on our platform with over 300,000 subscriptions across dozens of medical services and offerings. [indiscernible] (03:33) patients a day, we serve consumers in every state in the nation offering access to products and services for individuals across the full spectrum of demographics and socioeconomic backgrounds and helping people access world-class clinical care from the comfort and safety of their home.

In 2020, we made very large strategic investments in order to unlock continued growth and success for the years to come. This included the launch of dermatology, mental health for anxiety and depression and primary care services, \$44 billion, \$14 billion, and \$280 billion market opportunities, respectively. As I've shared with many of you, we have a unique opportunity to build the transformative consumer brand known in households across the country for health and wellness that is supported within by a diversified set of specialty services and business units. It is under this brand an umbrella that we expect dozens of growth opportunities to exist.

We believe much of the US healthcare system will move toward digital experiences like ours over the next decade. And with that, we have a special opportunity to systematically expand our platform to serve more customers and more conditions. We believe our ability to expand prudently and successfully into these new categories is a unique and defensible asset.

In 2020, we made several critical investments to drive future growth in emerging categories, and I'm excited to report those investments are showing early signs of customer demand and robust fundamentals. Investments like this are key. Hims & Hers is in a leadership position today because we've boldly and deliberately invested hundreds of millions of dollars and hundreds of thousands of person hours to rapidly build a next generation digitally native platform, clinical protocols and a brand with meaning. Looking to the future, you can expect us to follow the same path, investing to unlock and drive future growth. Let me give you some of the examples of what we've been up to.

For our Hers brand, we invested in the dermatology and hair care categories to launch personalized and custom formularies, expanded product assortment, and new bundles for enhanced treatment plans. With the team's focus, these categories more than doubled revenue year-over-year in Q4 with materially improved conversion and

customer demand. In 2021, Hers continues to be a focus as we work to further unlock new acquisition channels and brand awareness. In mental health, we launched [ph] ACCESS (06:15) to affordable psychiatric evaluation for anxiety and depression, conditions that are far too prevalent in our core demographic. These initiatives are led by our Senior Vice President of Behavioral Health, Julian Cohen, who most recently led similar organizations at MDLIVE and Teladoc. With prudent iterations and customer insights, this business has been similar growing demand. We saw strong quarter-over-quarter revenue growth in Q4 and are energized by what we believe can eventually be a leading growth vertical in our portfolio.

In addition, we launched an affordable and streamlined virtual primary care offering with exceptionally high [ph] NPS (06:54) as compared to traditional healthcare systems. This primary care offering allows patients to engage further with our platforms across a broad set of daily medical needs, showing deeper trust, broader health and wellness support and ultimately expanded lifetime values.

In addition to smart category specific investments to drive future growth, in 2020, we invested in infrastructure verticalization that we believe will unlock improved efficiency and broad platform capabilities. Most notably, we opened a 300,000 square foot pharmacy and fulfillment center in Ohio. This facility is a key investment as we continue to deliver improved efficiency and high-quality customer experiences. In addition, this pharmacy will ultimately facilitate future insurance reimbursement for pharmaceutical products even further broadening access and care options to our customers.

We had a chance to meet many of you over the last several months, and in those conversations, discussed the unique moment in time for which we find ourselves, a moment where customers expect price transparency, on-demand access and digitally native beautiful experiences, a moment where technology and AI could standardize clinical protocols, empower healthcare providers, simplify patient diagnoses and drive higher engagement and better outcomes, and lastly a moment where COVID-19 has dramatically accelerated people's understanding of telehealth, experiencing the simplicity and ease of telehealth this year has shown people there is a better way. At Hims & Hers, we believe we are building that better way, the new front door to the healthcare system.

As we look towards 2021, our team continues to expand on key durable advantages that have allowed such rapid and distinct growth. Our unique focus on young, digitally native consumers especially millennials and Generation Z, the first generation who grew up with cell phones in their hands. We understand of thinking through expectations for convenience, affordability and accessibility and we've tailored our business and brand to meet each customer exactly where they are. Skate to where the puck is going is how we approach building the future of healthcare. These consumers share a distinct perspective on technology and consumer experiences and with such an accelerating divide between their expectations and the current healthcare system, we believe it is imperative to build for the generation that in 10 and 20 years will make up the majority of spend in this industry.

You cannot build the future without the future consumer as your focus. Importantly, we have honed our expertise in acquiring and monetizing this particular population as we take a highly differentiated approach to direct-to-consumer marketing and customer acquisition. This muscle for which we continue to strengthen will give us a unique springboard with consumers to address more and more of their healthcare needs from mental health to primary care and beyond. All of this is made possible by a technical and clinical platform that has been built for safety and scale. Led by veteran leaders such as Dr. Patrick Carroll, our in-house EMR and the Advanced Quality Assurance Programs and provider training maintained by our medical group partners ensure our business meet the highest expectations for a leading digital health platform.

Underlying the vision of Hims & Hers are solid fundamentals and favorable business characteristics allowed us to achieve so much in just three years since launch. Our revenue growth has been in excess of 80%. We deliver

recurring revenue of 90% plus and report gross margin trends of 75% plus. We have a diversified revenue mix in our portfolio including primary care, behavioral health, dermatology, and men's and women's sexual health. The breadth of our platform today, our teams' iterative approach and our deep expertise in customer insights acquisition and monetization are durable advantages that will help us maintain our position as a leader in this space.

In closing, I'm incredibly proud to be part of an organization that is representative of the future of healthcare at the forefront of transforming an industry that we all so desperately rely upon. We have built significant momentum in 2020 as we've worked to make Hims & Hers the choice for consumers when it comes to health and wellness. And I've never been more excited to continue to update all of you on our progress in 2021.

And now, I'll hand it off to Spencer for a more detailed view of the numbers.

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

Thank you, Andrew, and thanks everyone for joining our first earnings call. I'm going to touch on our 2020 highlights, then review fourth quarter results in more detail and close my comments with our financial guidance for 2021.

For fiscal year 2020, we generated revenues of \$148.8 million, which increased 80% year-over-year. Growth was driven by two primary factors. First, wholesale revenue increased to \$8 million in 2020, up from \$272,000 in 2019. This was a result of our new partnership with Target. Our average order value or AOV in 2020 was \$62 which increased 88% year-over-year. AOV increased as a result of subscribers purchasing larger product bundles and multi-month subscriptions. This was driven by our continued strategy from 2019 to increase subscriber lifetime values through product optimization. We successfully expanded our cohort LTVs throughout 2020.

We generated a 74% gross margin for the year, up 20 points versus 54% in 2019. This rapid expansion in margin was driven by customer uptake of higher margin product bundles and multi-month subscriptions, increased costs leverage in our provider network and shipping expenses and a reduction of price discounting.

In 2020, we generated 2.3 million net orders, down 9% year-over-year. This decrease was driven by a mix shift in our subscription base to multi-month plans. As a mix of multi-month plans grows, net orders will naturally decline. For example, monthly subscribers are shipped 12 orders per year versus quarterly subscribers are only shipped 4 orders per year. As net orders declined in 2020, subscriptions on our platform increased by 64% year-over-year to 312,000. We continued to capture strong demand for our products and services in our large end markets. Over the last four quarters, our subscriptions have grown from 218,000 in Q1 to 258,000 in Q2 to 283,000 in Q3 and to 312,000 in Q4. We are pleased with the growth in subscriptions, our recurring revenue base and the mix of multi-month plans.

We were able to drive continued subscription growth and margin expansion at increasing efficiency year-over-year. In 2020, we focused our marketing efforts on driving efficiency through data analytics. We analyzed our customer cohorts, continuously tested new marketing campaigns against different audiences and found increased efficiency throughout the year, while acquiring increasingly valuable new customer cohorts. This allowed us to drive strong revenue growth while actually reducing marketing expenses by \$4.2 million versus 2019.

The combination of increasing revenues, expanding gross margins and increasing marketing efficiency created material operating leverage enabling us to deliver adjusted EBITDA losses that decreased by \$58 million year-over-year to an \$8.1 million loss for 2020.

In January, we closed our merger with Oaktree Acquisition Corp. and began trading as a standalone public company under the ticker HIMS.

As of January 31, 2021, we had approximately \$340 million of cash, cash equivalents and short-term investments on the balance sheet and no debt. We are well-funded for future growth investments. Today, we have approximately 191 million common shares outstanding consisting of approximately 183 million Class A and 8 million Class B shares. This includes approximately 14 million Class A common shares related to earn-out shares per the merger agreement with Oaktree Acquisition Corp. In addition, by March 31, 2021, we expect to have between 28 million to 30 million potential dilutive securities outstanding including 8 million warrants and 20 million to 22 million shares consisting of existing options and RSUs and new options and RSUs issued under our 2020 equity plan.

For the fourth quarter 2020, we generated revenues of \$41.5 million which increased 67% year-over-year. Growth was driven by two primary factors. First, our AOV in Q4 was \$69 which increased 60% year-over-year. AOV increased as a result of our continued success in driving the purchase of larger product bundles and multi-month subscriptions. Second, our wholesale revenue increased to \$1.4 million in Q4, up from \$32,000 in the prior year as a result of our new partnership with Target. Quarter-over-quarter, our Q4 revenues of \$41.5 million was up slightly versus revenue of \$41.3 million in Q3.

I'd like to provide some additional color on some of the atypical events that influenced our quarter-over-quarter revenue trends for Q4. Wholesale revenue of \$1.4 million in Q4 declined by \$1.1 million quarter-over-quarter primarily due to onetime negotiated in-store marketing provided by Target in Q3 that was not provided in Q4. Online revenue of \$40.1 million in Q4 was up 3% quarter-over-quarter driven by 3% quarter-over-quarter growth in AOV.

In Q4, direct response advertising rates increased substantially versus Q3 driven by the presidential election and holiday season. In response, we moderated our direct response budget and shifted approximately 30% of our variable marketing expenses to awareness channels like TV and radio to build momentum going into 2021.

This January, we saw ad rates decline materially from their Q4 peak. We opportunistically took advantage of these lower rates, increased our direct response budgets and drove strong sequential monthly growth. Year-to-date, we additionally began investing in several new marketing campaigns across all of our categories. Many of these new campaigns have been highly effective including new campaigns for our Hers brand. As Andrew mentioned, you're seeing good signals from our newer categories and we are also seeing sequential acceleration in our core Hims categories.

As we continue to unlock growth through high velocity creative testing and analytics-driven marketing optimization, we expect to continue to make prudent growth investments given our strong unit economics. In Q1, our marketing campaigns are driving real scale at healthy rates of return. As a result, we are guiding to revenues for Q1 2021 of \$48 million to \$50 million and an adjusted EBITDA loss of negative \$9.5 million to negative \$11.5 million. Note that there will be a few extraordinary items in Q1 resulting from the merger transaction.

First, we anticipate Q1 stock-based compensation expenses of between \$30 million and \$40 million. The final amount will largely depend on the final technical accounting treatment for equity expenses related to the merger transaction. The technical accounting specifically for the earn-out shares as defined in the agreement has not yet been finalized. Depending on the conclusion, stock-based compensation could fall materially out of this range. All such expenses will be added back to adjusted EBITDA.

And two, for the merger agreement, the board approved a \$10 million bonus related to the transaction of which \$5.2 million has been expensed in Q1 which will be added back to adjusted EBITDA and \$4.6 million will be distributed in equity compensation which will be amortized and recognized as stock-based compensation over the vesting period.

For the full year 2021, we expect revenue of between \$195 million and \$205 million and adjusted EBITDA losses of negative \$35 million to negative \$45 million for the year.

We are pleased to be able to take up our revenue guidance at both the high end and the low end of the range versus our previous 2021 revenue forecast of \$179 million. The range of \$195 million to \$205 million represents 31% to 39% year-over-year growth. As Andrew mentioned, we are seeing strong early signs in our newer categories to start the year. Our new marketing campaigns in Q1 are delivering meaningful scale and are driving accelerated growth in our core Hims categories and for the Hers brand.

We continue to drive strong unit economics with our recurring revenue model, strong subscriber lifetime values, high gross margins and data driven marketing campaigns. To date this year, we are seeing opportunities to invest in incremental growth at healthy rates of return and our adjusted EBITDA guidance takes these opportunities into account. We've always been disciplined and return driven with our capital deployment. We will continue to be prudent and focused on driving growth at high rates of return. And I look forward to updating you on our performance and investment opportunities throughout this year.

I want to thank our team for delivering such strong financial results last year while also completing a monumental transaction. I'm really proud of all that we achieved last year. We are well-positioned for continued growth and 2021 is off to a great start.

With that, I'll open the call to questions and head it back to the operator.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Daniel Grosslight from Citi.

Daniel Grosslight

Analyst, Citi

Q

Hi, guys. Congrats on the strong and to a banner year here. I just want to dig in a little more into the 2021 guide specifically on EBITDA and those investments that you mentioned. So you're raising the revenue guide by around \$21 million at the midpoint from the proxy and lowering the EBITDA by about \$11 million, so kind of a net \$32 million delta there. Can you just go into a little bit more detail on what specifically is driving that revised guidance specifically with regard to the new investments you're making?

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

A

Hey, Daniel. So I think the guidance is really driven by the opportunities that we're seeing in Q1. We've launched a number of new marketing campaigns across all of our business lines this quarter and we're seeing really strong performance and strong success and off the back of the strong performance we're seeing in Q1 where we've taken our guidance for Q1 up to \$48 million to \$50 million in revenue for the quarter. We're seeing – we believe there are continued opportunities to invest across these campaigns where given our unit economics and relatively quick payback periods and high rates of return, I think the trade-off of an additional \$11 million EBITDA loss for the year for incremental \$21 million in revenue on the top line seems like a fairly prudent investment, again given our good rates of return and really strong payback periods.

Daniel Grosslight

Analyst, Citi

Q

Yeah. Understood. Okay. And can you provide a little more detail on the unit economics you're seeing heading into 2021? Any guidance you can give us on LTVs and CACs that you're seeing for this year?

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

A

Yeah. So for the roadshow presentation, I think we've provided – we showed that our cohort LTVs have expanded pretty consistently. What I can share is that through the second half of 2020, those cohort dynamics have continued. So LTVs have continued to expand and I think again based off the back of the strong performance we're seeing in these new marketing campaigns, we're continuing to drive equivalent, if not better, rates of return of our marginal marketing dollars and are investing accordingly, and again, are confident in delivering a really strong Q1 here, again we're guiding the \$48 million to \$50 million in revenue for the first quarter.

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

A

And the other thing, Daniel...

Daniel Grosslight

Analyst, Citi

Q

Got it.

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

...to add there...

A

Daniel Grosslight

Analyst, Citi

Yeah.

Q

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

...is just that as we've continued to expand into new categories, so last year on the Hers side of hair loss and dermatology as well as mental health, those were really intentional categories in that we saw with high prevalence in our existing customer base, those types of conditions popping up really quite frequently. So there's also this inherent compounding advantage that's continuing to take shape where we're able to retarget expand bundles, expand lifetime values, cross purchasing and fairly organic mechanisms to facilitate a lot of this expansion and essentially the durability of those unit economics. So that's also kind of happening underneath the current of the ways that as we continue to expand those categories I think will continue to increase.

A

Daniel Grosslight

Analyst, Citi

Understood, okay. And then last one for me before I hop back into the queue. There's been a lot of noise about the competition out there not just from your traditional DTC players, but now with Amazon Care, which is operating in a much different channel than you. But anything you can say about the competitive dynamic these days and specifically with non-traditional players coming into the market?

Q

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

Yeah, it's a great question. I think despite a lot of the excitement that we're seeing in this space and rightfully so, right, the model and the trends are really just showing continued improved durability and unit economics as Spencer said. I think when you step back, you realize that we're operating in probably the largest market in the United States that really has yet to be disrupted by traditional technology and for the benefit of traditional consumers. And so, at a \$4 trillion market, [indiscernible] (26:50) in my opinion you're talking about 70% or 80% of that market moving towards a digital platform like Hims & Hers over the next decade, I think it's safe to say that there's a lot of room for a lot of big winners and I think there will be.

A

I think in addition to that though, those things that we're doing that I think have created really defensible advantages and moats for us as business, I think first to focus strategically on building direct trust and deep relationships through our brand that's resonating with a very young audience, a young generation, right, the generation that in 10 years from now will be the largest spenders in healthcare, that's an audience we know exceptionally well. Our rapid diversification of revenue, as a result of having built that technology platform that allows us to scale so quickly, right, going from something like sexual health and hair loss to last year mental health, primary care, dermatology here has only been possible because we've really invested so much in that technology platform to accelerate that diversity.

And then I think lastly, the team's ability and I think expertise in acquiring and monetizing and iterating exceptionally fast I think are showing to be really strong and defensible advantages, right. This is a three year old company, but we're pulling off things that I think that I usually see at year 7 or 10 in a company's lifecycle. And so

I think a combination of all of those things gives me a lot of confidence that we'll be able to maintain a leadership role as more of these players into the space and as the space hopefully improves a lot in the next 5 and 10 years.

Daniel Grosslight

Analyst, Citi

Understood. Congrats again, guys. Thanks.

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

Thank you.

Operator: Your next question comes from Sean Wieland from Piper Sandler.

Sean W. Wieland

Analyst, Piper Sandler & Co.

Hi. Thanks very much and I'll add my congrats on your first report here. Can you quantify from a revenue perspective the month-to-month – the multi-month orders both in the quarter and how that's trending and the assumptions around that and the guidance?

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

Yeah. So I think in our roadshow presentation, we had shared back in Q2 of last year that something like 17% of our orders were multi-month orders, that percent mix has continued to expand. I mean, today, we're well over 20% of our orders being on a multi-month basis. Within our guidance, we expect that percent to continue to increase. I think we've just seen really strong uptick in organic demand from customers for that option and that capability. So yeah, we expect that to continue to increase over the course of this year and a meaningful percent of – becoming a more meaningful percent of the mix.

Sean W. Wieland

Analyst, Piper Sandler & Co.

So, I guess, a similar question but from a different angle, expectations around AOV, does that incrementally go higher as well throughout the year?

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

Yeah. We currently continue to expect AOV to sequentially increase for the next four quarters. I will say on a year-over-year basis, we expect AOV growth to be slower than last year. I think with the launch of the new product bundles and multi-month subscriptions at the end of 2019, 2020 really had the sort of the largest tailwinds from a year-over-year growth standpoint in AOV. So 2021, although AOVs will grow sequentially on a year-over-year basis, that growth won't be as strong as 2020. And I think in terms of the overall numbers to the \$195 million to \$205 million in revenue for the year, the bridge to that is we do expect a fairly strong year-over-year growth coming from net orders in 2021 as well such that the combination of those two we expect to deliver within our guidance range for the year.

Sean W. Wieland

Analyst, Piper Sandler & Co.

Okay. And then just one last question on the guidance is what are the assumptions around gross margins in the guide?

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

A

Yeah. So for 2021, we expect gross margins to be fairly in line with the second half of 2020. I think at a high level, there are definitely additional areas where we can optimize gross margins sort of across our cost of revenue stack. We're cautious though given that for 2021, there are things like potential mix shift from a product standpoint as we get incremental traction in some of these newer categories. We're constantly doing price testing. So there might be some puts and takes against that sort of embedded margin expansion that we've got as AOVs continuing to expand and multi-month subscriptions continue to be a larger percent of the base. So in the current guidance, essentially the gross margin assumption is that it's roughly in line with where margins were in the second half of 2020.

Sean W. Wieland

Analyst, Piper Sandler & Co.

Q

All right. Got it. Thanks so much.

Operator: Your next question comes from Jailendra Singh from Credit Suisse.

Jailendra Singh

Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you and congratulations on your first quarter as a public company. So I want to better understand your first quarter revenue outlook and your full year 2021 outlook. Your full year outlook seems to imply that you are not assuming much step-up in the quarterly run rate beyond first quarter. Help us understand why that is the case. I mean, logically, you should see some sequential step-up every quarter. But just curious if there's anything unusual about Q1 which we should keep in mind just curious like why so conservative expectations for your quarterly run rate beyond Q1?

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

A

Yeah. Sure thing. Our guidance is really driven by – our full year guidance really driven by the strong sequential performance we're seeing in Q1 year-to-date. We're seeing strong sequential growth trends across the entire business from sort of the core Hims categories to the newer categories that we launched towards the end of last year. If those trends in the next couple of quarters change, we'll provide updates to our guidance accordingly. But we are seeing a number of growth opportunities right now across the entire business and I think we've done a really great job of optimizing the business particularly on the marketing side in Q1 and if in the next couple of quarters, we see sort of additional execution and unlocks, I think we'll provide those updates as they come. But again, I think the overall year right now is being informed by the strong performance that we're seeing in Q1 and just carrying that trend forward.

Jailendra Singh

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And then I also wanted to understand about if you can give us some sense of the churn rate in Q4. Did you see much benefit from the continued expansion of multi-month subscription on your Q4 churn rate and just curious like how do you expect churn rate to trend in 2021?

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

A

Yeah. So churn is not a number that we are specifically in a position to disclose, but what I can share and what I have shared in our previous investor meetings is that overall churn for us on a monthly basis is kind of in the mid-single-digits. That number has trended down sequentially quarter-over-quarter for the last couple of years and has continued to trend down as one, we've improved retention in our subscription base through targeting higher value, higher LTV customers that have strong uptake in multi-month subscriptions. And as the mix of our base increasingly becomes existing repeat customers versus new customers, that will naturally take churn down over time as well and we've seen that trend continue in Q4.

Jailendra Singh

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And then my last question here. Can you give us an update as to the progress being made in your partnership with health systems and provider groups like Mount Sinai, Ochsner and Privia Health you talked about? Have you seen much volume coming to the platform from referrals from those providers?

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

A

Thanks, Jailendra. On those partnerships, the primary initiative that we put in place with them was really in order to benefit the customers that were already on the Hims & Hers platform that needed to have a more urgent in-person set of care. And so the first iteration of those partnerships where the team is really focused today is making sure that anybody that comes through our front doors and if you think about it, it's really the front door of the healthcare system, we need to be able to triage that patient appropriately depending on their current situation and set of symptoms. And so for the populations that come to us where the providers feel like an in-person consultation is appropriate, we are putting those partnerships with Privia and Mount Sinai and Ochsner and others that are in the work currently, so that we could really simply and easily refer that patient into an in-person environment. So, a beautiful seamless referral and to benefit the patients so that they have a really full and comprehensive lifecycle all within Hims & Hers.

So that's really the primary focus of those partnerships at the current moment and it's something that we're continuing to invest in from expansion standpoint, from a geographical coverage standpoint across the country, so that no matter where the person is, we have a network of systems that can operate as partners to us.

Now, the next step as you mentioned is really figuring out how we can then also benefit in partnership with those systems to offload areas or patients or care that maybe is not exceptionally urgent for them. And so those are still kind of in the early conversations but something that we do think is really exciting in the next year or two ahead.

Jailendra Singh

Analyst, Credit Suisse Securities (USA) LLC

Q

Just a follow-up, I mean, can you give us a sense of some magnitude and volume, are you referring off your platform to those providers or is it still very early at this point?

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

A

I think it's still relatively early. We're really just rolling those out in the last quarter and two. But we do see as I think most primary care physicians see in-person that a lot of people come in and not all of them come in with treatments that can be taken care of right then and there. So it's something that's been consistent in that I think

we're really excited about offering, because that broad platform set of capabilities and behind the scenes triage I think is a really important set of skills that our customers expect of us as they rely on us really as their front point person for health and wellness needs.

Jailendra Singh

Analyst, Credit Suisse Securities (USA) LLC

Great. Thanks a lot.

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

Thank you.

Operator: [Operator Instructions] Your next question comes from Sandy Draper from Truist.

Sandy Draper

Analyst, Truist Securities, Inc.

Thanks very much. And congrats on the year and the outlook. I had my questions sort of relates to Daniel's question I think in the beginning. Thinking about primary care, behavioral, are you really trying to grow those channels through the younger millennial population that's coming into Hims & Hers through the more what we would normally think of traditional channels for Hims & Hers? And then you populate – is there a whole separate marketing channel? I'm just trying to think how to understand that it's related to this whole competition in this industry is obviously changing incredibly quickly on all of us. And thinking about – are you really just trying to stick to, and it's a big market, what would be the traditional Hims & Hers market out of maybe 6 to 12 months ago, and that's where you're trying to drive behavioral and primary care or you really trying to step out of that sort of area? That's my first question. Thanks.

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

Yeah. Thanks, Sandy. I think there's a couple of pieces of color on that. When we've talked about the roadmap for Hims & Hers, I think we've really spoken about the benefits of the fact that you have probably 10 or 20 different conditions, and these are the conditions that make up maybe 80% of the spend in the US healthcare system. You're talking about behavioral health, dermatology, primary care, sleep, fertility, diabetes, cholesterol, hypertension, all of them that have very similar underlying fundamentals that make for great logical expansion for us as a business. And some of those fundamentals are things like the fact that they're chronic conditions, right. Today, 90-plus-percent of the revenue on the Hims & Hers platform is a recurring subscription based revenue where patients are paying for the comprehensive offering, the physician time, the access to treat that condition. And all of these new conditions have that same recurring dynamics.

Now, all of these conditions can be treated safely and in most situations are from a clinical standpoint preferred to be treated with safe generic medications which is important in that it allows us to continue to offer cash pay prices at \$20 or \$30 per month which is incredibly affordable and in most situations cheaper than the patients' co-pays on their insurance plan, while also still maintaining on the back side 70-plus-percent gross margins. And then I think lastly, these are all things that are stigmatized. There's a lot of specialty dynamics associated with them. And there are things we can safely treat on our platform.

And so, understanding that kind of then gives you the lens of excitement frankly for what we share around where we should go next. And we use the data and the patients coming in to learn from them because they tell us

directly what else they're concerned with. And so, things like mental health and behavioral health hugely prevalent in our core demographic. It was something like 25% of millennials had considered suicide over the course of the pandemic, which is a horrific stat but it just shows the prevalence of struggle.

And so we both believe there are direct channels to acquire these customers as an independent offering and as Spencer mentioned, we have a lot of marketing initiatives and strategies in place for each of these conditions independently to go and acquire that specific customer. But then on top of that, we also know that within our existing customer base of hundreds of thousands of patients and of the thousands of patients we see every day, a large chunk of them would also benefit. So there's this really nice organic dynamic where you can expand their care as they come to the platform maybe from something else. And so it's a combination of both. But we really believe that comprehensive offering of psychiatric services of therapy that we offer today and are really investing in is truly a standalone offering just like dermatology as a \$44 billion market, just as something like primary care as a multi-hundred billion dollar market. So we kind of take each of them, so to speak, as its own business and its own beast and go and build from there.

Sandy Draper*Analyst, Truist Securities, Inc.*

Q

Okay, great. And I guess, maybe a related follow-up, I guess, is it fair to say at least for the time being, you're not really – you're going after markets and you're not going to try to go hard with insurance companies or go after areas where people will have to be billing insurance? The idea is chronic conditions where you can do a lower price point where people don't have to pay with insurance that for the near-term who knows [indiscernible] (43:03) over the next two to three years?

Andrew Dudum*Chief Executive Officer & Director, Hims & Hers Health, Inc.*

A

So, that's correct. We've got a really efficient business model and as a result of the verticalization that we've built with the digitally native telemedicine platform, the EMR, the provider group, the pharmacy that we mentioned out in Ohio, we are able to rip out so much cost and efficiency in the traditional healthcare system that we can pass that saving to customers and offer comprehensive care for a treatment to doctor access, unlimited visits, et cetera and the medication for a \$20 to \$30 price. And when you compare that truly apples-to-apples with the existing healthcare system, it is almost always more affordable and more efficient than using the insurance plan. And so customers on our platform almost entirely are insured, but are still putting their dollars and paying cash out of pocket to use our platform. So we think that that's a very large growing trend. And again in the coming years, we'll likely as we've mentioned rollout insurance options for those medications or conditions where it really is required and may be a fringe pharmaceutical setting or maybe there's no generic off brand option, but for the most part to your point, the future really is this simplified cash pay model.

Sandy Draper*Analyst, Truist Securities, Inc.*

Q

Great. Thanks so much.

Andrew Dudum*Chief Executive Officer & Director, Hims & Hers Health, Inc.*

A

Thank you.

Operator: Your next question comes from [ph] George Choe from Deutsche Bank (44:27).

Q

Good afternoon, guys. And I'll echo the sentiments of welcoming you guys to the public market. And thanks for taking my questions. Spencer, maybe to take this in another direction, you guys talked a little bit about the advertising costs spike in Q4 and the impact on the business. And I guess, what I'm trying to wonder if you can quantify is kind of the delta in marketing spend versus the delta in revenue versus your expectations. And the point that I'm trying to get to is kind of like the stickiness of the customer base and the reliance on the ad spend to maintain the recurring revenue base. Any commentary you can make around on that would be helpful.

Spencer Lee

Chief Financial Officer, Hims & Hers Health, Inc.

A

Yeah. So relative to looking at Q3 versus Q4, what we really did was wind up shifting a fairly material portion of our customer acquisition budget to more brand-based channels, right? So, rather than try to compete in the direct response channels in Q4, when we had a presidential election, really aggressive return of advertisers during the holiday period, we shifted those dollars to other channels more and more awareness-based channels with television and radio to really build tailwinds going into 2021. So I think those dollars that you see quarter-over-quarter, there was a decent mix shift just as a change in strategy to build tailwinds going into 2021.

To address your other question on revenue, I mean, I think the metric and the thing that we think about, right, is our subscription base. So we've grown our subscription base fairly materially last year. We've got over 300,000 subscriptions on the platform, it grew over 60% year-over-year based on some of the data we shared during the roadshow. Retention across these – our subscriptions have consistently increased over time. AOVs has consistently increased over time. So these cohorts and subscribers are becoming more valuable, each subsequent cohort that we acquire and retention is actually improving. So against a large base of 300,000 subscriptions, I mean, I think we're well-positioned to have a very stable base of customers to drive future growth and marketing is just sort of incremental fuel, right, adding to that base and adding growth to the platform over time.

Q

Okay. I appreciate that commentary and if I could have a quick follow-up, Sandy alluded to it and I think everybody is kind of alluded to the rapidly evolving competitive environment in the space. You guys had briefly started to talk about how you kind of re-evaluate and test the pricing model. I guess, is there any way you could provide a little more color on how that works? Just given that I think in the span of the last three or four months, we've seen telemed vendors get acquired, new pharmacy companies come to market, new pharmacy price transparency tools come to market. So, I think pharmacy pricing and pharmacy transparency in pricing is kind of a hot topic with investors right now.

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

A

That's a great question. I think the first thing I would really speak to is the fact that when a customer comes to Hims & Hers, they're really not looking for a single pharmaceutical and I think in a lot of situations people will compare maybe a \$20 to \$30 price point at Hims & Hers equivalent to, let's say, a price point for take, let's say, Propecia generic finasteride on GoodRx's platform and notice that they're some cost delta, right or let's say, an online Canadian pharmacy and those costs difference. But I think what is overwhelmingly different is that patients are actually coming to get educated about an issue they're struggling with and they're paying for a comprehensive

set of solutions. So they're coming. They're getting that complete set of doctor visits. They're getting that doctor 24/7 in their pocket. They can message them, ask questions, jump on a video or phone, they can adjust their treatment plans as necessary as they're seeing the benefits or if they're not seeing the benefits, they can adjust dosing or other medications.

A lot of these patients – I think a very large chunk are buying not only single pharmaceuticals, but comprehensive bundles. So if you're talking about, let's say, cystic acne post pregnancy, women are buying not only just compounded Tretinoin formula and clindamycin and azelaic acid, but also moisturizers and cleansers for their skin. So I think that comprehensive offering is something that we spend a lot of time making more efficient and more beautiful and more valuable to customers. And so we do a lot of bundling and pricing associated with making sure that people really understand what they're getting. And I think overwhelmingly as Spencer mentioned as conversion rates are improving as we get better at this, and core Hims categories as well as new categories are showing acceleration on both fronts, a big part of it is just because the team is spending every day getting to know this customer or getting to know how you communicate this bundle of offerings in a really simple and beautiful format. And I think we're doing it really well.

And in most people's minds, it doesn't feel like the traditional healthcare system, right, it's not sterile and it's not cold and it doesn't make you feel sick. And I think that brand's resonance and that experience is something that we are truly focused on. And I think it's a real unique advantage to what we've built as a brand and as an experience.

Q

That's a great answer, Andrew. Thank you very much.

Andrew Dudum

Chief Executive Officer & Director, Hims & Hers Health, Inc.

A

Thank you.

Operator: That was our last question at this time. And this concludes today's conference call. Thank you for participating. You may now disconnect.

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