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Agilon Health, Inc. (AGL)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the agilon health Fourth Quarter 2021 Earnings Conference Call. My name is Katie and I will be coordinating the call today. [Operator Instructions]

I will now hand over to our host, Matthew Gillmor, Vice President of Investor Relations to begin. Matthew, please go ahead.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

Thanks, Katie. Good morning, and welcome to our fourth quarter earnings conference call. With me this morning is our CEO, Steve Sell; and our CFO, Tim Bensley. Following prepared remarks from Steve and Tim, we will conduct a Q&A session.

Before we begin, I'd like to remind you that our remarks and responses to questions may include forward-looking statements. Actual results may differ materially from those stated or implied by forward-looking statements due to risks and uncertainties associated with our business. These risks and uncertainties are discussed in our SEC filings. Please note that we assume no obligation to update any forward-looking statements.

Additionally, certain financial measures we will discuss in this call are non-GAAP financial measures. We believe that providing these measures helps investors gain a better and more complete understanding of our financial results and is consistent with how management views our financial results. A reconciliation of these non-GAAP

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financial measures to the most comparable GAAP measure is available in the earnings press release and Form 8-K filed with the SEC.

And with that, I'll turn the call over to Steve.

Steven J. Sell

Chief Executive Officer & Director, Agilon Health, Inc.

Great. Thanks, Matt. Good morning and thank you for joining us. 2021 was a very good year for agilon and we are entering 2022 with strong momentum across the business. Over the past four years, we have made tremendous progress against our vision to transform healthcare in 100-plus communities by empowering primary care doctors.

In 2018, we launched our first partnership with Central Ohio Primary Care, starting with 180 primary care physicians and 20,000 senior patients. In 2022, we have long-term partnerships in 17 diverse geographies across eight states, with more than 1,600 primary care doctors and 340,000 senior patients live on the agilon platform.

With the class of 2023, our business has reached another inflection point. Today, we are announcing a class of seven new partners, four new states, eight new markets, and an additional 600-plus primary care doctors, and 80,000 members. This level of growth is truly remarkable and provides clear evidence that powerful structural drivers, and our distinctive platform and partnership model built around existing primary care capacity is rapidly transforming primary care's role in the overall healthcare system.

Our approach focuses on one, deep alignment with primary care doctors. Two, local market scale that influences care delivery, and three, being a first mover in fee-for-service dominated geographies that allow us to shape value in those communities.

In 2021, we delivered highly differentiated performance with predictable growth and margins across diverse geographies in partner groups, reflecting the strength and flexibility of our platform and the trusted long-term relationship between our partner physicians and their patients. We have been able to deliver higher levels of membership growth while still generating significant gains and profitability, and we expect to generate positive adjusted EBITDA in 2022.

Because of our focus on existing market capacity, local market scale and platform insights, we are transforming how healthcare is delivered across our markets, both in and outside of the primary care office with increased primary care touch points and impactful programs like specialty referral and palliative care. We believe all primary care physicians will need to change their business model over the next decade, shifting from a transaction fee-for-service model to a value-based subscription model. Ultimately, this will improve quality, lower costs, and create better outcomes for our health care system.

Now to the focus of our call, I will cover three areas in my prepared remarks. First, highlights from our fourth quarter results and guidance for 2022, second, an update on our pipeline for the class of 2023 new partners, and third, a few details on our progress in our non-partner market of Hawaii, and some comments on the Direct Contracting program.

Starting with a few highlights from the quarter, total members live on the agilon platform increased 82% to 238,000. Our consolidated Medicare Advantage membership increased 42%, including 15% growth within same geographies that was broad based across our markets. Our growth continues to benefit from the embedded

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membership in our physician partners' practices and our established position as a first mover introducing risk for the first time in our markets.

The growth in our MA membership translated to 44% year-over-year growth in total revenue during the quarter. Medical margin was $31 million in the fourth quarter or 6.8% of revenue. Our medical margin performance was ahead of our expectations for the quarter, driven by strong results in our 16 partner markets and good year-end performance in our non-partner market of Hawaii. Utilization was generally in line with our expectations for the quarter with COVID costs moderating on a sequential basis following the Delta wave but rising into year-end following the Omicron surge. As with prior waves, we continue to see suppressed non-COVID utilization during periods of higher COVID activity.

Our partner markets continue to perform better than our internal expectations. During 2021, medical margin per member per month in our partner markets was $94. While this is down from 2020 due to COVID, it is higher than 2019, even with the dilution from our significant growth in new members, which is up about three-fold over the same period. These results highlight our ability to drive substantial growth without sacrificing margin improvement.

For Direct Contracting, consistent with our update in January, our underlying health care cost experience was better than expected in the quarter, and we did book a negative trend adjustment to revenue consistent with the program payment rules.

Given our health care cost and care coordination experience, we remain quite bullish on the benefits to patients from an aligned, accountable relationship with their primary care doctor, and our physician partners are gaining efficiency by having a single experience across their Medicare business. As an example, our physician partners have leveraged existing home visit programs, which expand access to preventive services and reduce the need for high-cost care seniors in both Direct Contracting and Medicare Advantage.

Even with the Direct Contracting program offset, our adjusted EBITDA for the quarter came in within the upper half of our updated guidance range reflecting stronger medical margin performance within our MA business and positive operating leverage against our platform support cost.

Looking ahead to 2022. We are expecting another strong year of growth with membership and revenues both growing 40% or higher. At the same time, we expect our adjusted EBITDA will be positive in 2022, reflecting an increase in MA medical margin of greater than $120 million. This significant year-over-year gain in adjusted EBITDA further highlights the power of our capital efficient partnership approach.

Our partner markets continue to mature above our expectations driven by our platform getting smarter with better insights and actionable information, our partnerships becoming even more aligned and leveraging their growing scale, and our network becoming a growing source of best practices and constructive comparison on performance. Based on the power of these factors, we expect existing partner market medical margins will increase to $127 to $130 per member per month in 2022, up from $94 per member per month in 2021. Please note that these approximately 165,000 members in existing partner markets which are the 10 partner markets that we're live in 2021 have an average time in the platform of only 2.5 years as of December 2022.

Moving to 2023 new partners. 2023 will be another record year for new market growth with 7 new partners in four additional states, 8 additional markets, 80,000 additional members, and more than 600 additional primary care physicians. Both the incremental physicians and members joining the platform are roughly double our estimate at the time of our IPO in April 2021. This significant inflection in the number of patients and physicians is indicative of

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the accelerating demand for primary care business model change, the power of our platform, and the results being experienced within our growing physician network.

In addition, the breadth of these new geographies should substantially enhance our in-market addressable opportunity. And with these new partners, there is the potential for significant membership upside through the revamped Direct Contracting program now known as ACO REACH. Our 2023 expansion will increase our footprint to cover 12 states, 25 geographies, 23 partners, and more than 2,200 primary care doctors. And with expected growth opportunity in same geography MA and ACO REACH, we should approach 500,000 senior patients on the platform by the end of 2023.

With this growth, we continue to build around the leading local partners at scale, and we expect to guide and shape the growth of full risk primary care in these markets for decades. We look forward to sharing additional details at next week's Investor Day.

Before I close, I wanted to provide a brief update on the progress we are making in our non-partner market of Hawaii and provide some perspective on the recently announced updates to the Direct Contracting program. Hawaii is a strategically important market for agilon and represents 15% of our membership for 2022 and closer to 10% when including the 2023 partner class growth.

As we've discussed with you in prior calls, unlike our 16 partner markets in the Continental US, Hawaii is our one market that we have historically operated without a partner. As a result, we don't have the same degree of primary care alignment in Hawaii, and that lack of alignment has contributed to historical performance, lagging behind our partner markets and our prior expectations. We believe we have the opportunity to shape the trajectory of this market, and I'm excited to share that we are in the process of finalizing an exclusive partnership with Hawaii Health Network.

Hawaii Health Network, or HHN, is comprised of the highest-performing primary care physicians in Hawaii, an award-winning health system, and the largest provider of post-acute and home-based care in the state. In total, Hawaii Health Network includes roughly 20% of the primary care capacity on Oahu. This arrangement will shift nearly 20% of our MA membership in Hawaii to a partnership that will be jointly operated by agilon and HHN. We expect this partnership will serve as the foundation to create stronger long-term physician alignment and drive better performance in this important market.

Moving to Direct Contracting, as many of you know, the CMS Innovation Center recently announced our Direct Contracting program will transition to a redesigned model called ACO REACH, which stands for Realizing Equity, Access, and Community Health. We are encouraged with the stability this announcement will bring to the program. ACO REACH will enable our existing and future partners to maintain an accountable total cost relationship with their traditional Medicare patients. It makes several adjustments to the program beginning in 2023, including an emphasis on health equity and an increase to provider governance requirements. These changes align closely with agilon's mission and values.

At agilon, we purposely establish the governance of our Direct Contracting entities to be physician-led, and the governance change in ACO REACH won't impact our accounting treatment or partnership economics. Additionally, 43% of our partner practice locations are in federally-designated underserved communities, and we are proud to help sustain and grow PCP services in these communities, consistent with CMMI's goals.

Before I hand the call over to Tim, I want to let you know how excited we are to see you at our Investor Day next week. We hope you'll come away with a deeper understanding of why we are seeing outcomes in our partner

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markets ahead of our expectations, how our partnership and platform model works, and the significant inflection in our growth opportunity, as demonstrated by the class of 2023. You'll also hear from members of our leadership team beyond Tim and me, and from several of our physician partners on what the partnership with agilon has meant for their patients, their practices and their communities. We look forward to seeing you next week.

With that, I'll turn things over to Tim.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

Thanks, Steve, and good morning, everyone. I'll review some highlights from our financial statements and provide some additional details on our 2022 guidance. Starting with our membership growth for the fourth quarter, total members live on the agilon platform increased 82% on a year-over-year basis to 238,000 members including both Medicare Advantage and Direct Contracting.

Our consolidated Medicare Advantage membership increased 42% to 186,000 and Direct Contracting members ended the quarter at 52,000. For Medicare Advantage, our growth was driven primarily by the impact of adding three new geographies in January 2021, which include our partners in Hartford, Buffalo and Toledo.

Additionally, as Steve mentioned, we benefited from strong same geography growth of 15%. Revenues increased 44% on a year-over-year basis to $463 million during the fourth quarter. For the full year 2021, revenues increased 50% to $1.83 billion. Revenue growth was primarily driven by membership gains in new and existing geographies. On a per member per month basis or PMPM, revenue increased 2.6% during the fourth quarter.

Medical margin increased 15% year-over-year to $31 million during the fourth quarter, compared to $27 million in the prior year. For the full year, medical margin was $182 million compared to $192 million in 2020. As Steve mentioned, medical margins came in ahead of our internal expectations for the quarter, driven by strong results in our partner markets and better year-end performance in our non-partner market of Hawaii.

Overall utilization was slightly below 2019 baseline and largely consistent with our expectations. COVID cost increased towards the end of the fourth quarter and continued into the early part of 2022, but have been offset by suppressed non-COVID utilization. Network contribution, which we calculate as medical margin after a surplus sharing with our physician partners, was $13 million during the fourth quarter compared to $9 million in the prior year.

Full year network contribution was $85 million compared to $99 million last year. The year-over-year decline in network contribution for 2021 reflects the impact COVID had on our prior year medical margin, as well as the relative contribution of medical margin across our geographies.

Platform support costs which include market and enterprise level G&A increased 20% to $31 million. Full year 2021 platform support costs increased 24% to $124 million. The growth in our platform support costs remains well below our revenue growth and continues to highlight the light overhead structure of our model. As a percent of revenue, platform support was 6.7% for the year, down from 8.2% in 2020.

Our adjusted EBITDA was negative $26.7 million in the fourth quarter and negative $38.6 million for the full year. Adjusted EBITDA for the quarter includes $9.4 million of negative contribution from Direct Contracting. While claims expense in Direct Contracting continues to trend better than our expectation, CMMI provided updated information on their full-year retroactive trend adjustment calculation, which translated into a revenue reduction in

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the quarter that negatively impacted our adjusted EBITDA performance. This was more than offset by stronger margins in our MA business and leverage against platform support.

Turning to our balance sheet. We remain extremely well-capitalized. As of December 31, we had over $1 billion of cash on hand and under $50 million in outstanding debt, which is essentially unchanged from last quarter. Cash flow from operations was negative $49 million for the quarter and negative $148 million for the year, which was in line with our expectations. Given the capital-light nature of our partnership model and trajectory for adjusted EBITDA in 2022, which I will discuss in a moment, we do not anticipate needing any external capital to fund our organic growth.

Turning now to financial guidance. For the full year 2022, we expect ending membership live on the agilon platform will grow over 40% to 340,000 to 355,000, including MA membership of 260,000 to 270,000, and Direct Contracting membership of 80,000 to 85,000. We expect revenue in a range of approximately $2.5 billion to $2.6 billion or 39% growth at the midpoint. At the same time, we expect to generate significant gains in adjusted EBITDA and medical margins during 2022.

For adjusted EBITDA, we expect to generate breakeven to a positive $10 million gain, up from negative $39 million in 2021. For medical margin, we expect PMPM profitability will increase from $83 in 2021 or about 10% of revenue to a range of $97 to [indiscernible] (00:20:49) in 2022 or 12% of revenue. The gain in our medical margins and adjusted EBITDA primarily reflects progress in maturing margins across older markets and member cohorts, coupled with platform support leverage, partially offset by the dilution from growth in new markets and new members. As we have mentioned, our partner markets continue to mature at or above our expectations. We expect Direct Contracting will generate very modest adjusted EBITDA in 2022 with Hawaii also showing some improvement.

There are a few items within our guidance I want to call out. First, 2022 revenue guidance assumes relatively moderate growth in revenue PMPM. This reflects 4% revenue PMPM growth for existing patients, offset by the dilution from agents and new geographies. Second, as you can see in the guidance table from the press release, we expect normal seasonality in our medical margins will drive moderating adjusted EBITDA throughout the year. This reflects the higher mix of agents in the latter part of the year.

Additionally, our revenue growth rates in the first and second quarter of 2022 will be impacted by the timing issue from the group contract we discussed last year. This will cause higher revenue growth in 1Q than lower growth in 2Q, but averaging to our 40% projection.

With that, we're now ready to take your questions. Operator?

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We take our first question from Lisa Gill from JPMorgan. Please go ahead.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Thanks very much for taking the question and congratulations. Steve, I really want to just start first with the class of 2023. I know we're talking about 2022 here, but very impressive seven new partners, 80,000 members, well ahead of the 40,000 we anticipated. And also, if I think about the 500,000 that you talked about by the end of 2023, that was actually our 2025 number. So, a couple of questions in here. One, what drove that strength in these new agreements? Two, is there anything unique when we think about these new markets? And then thirdly, within those 80,000 lives, if I heard you correctly, there's not anything in there for the new ACO REACH program? I just want to confirm that I heard that correctly.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

I'll start with the last one. That's correct. The 80,000 lives are MA only. Lisa and as I said, there is opportunity with these seven partners coming on to add direct contract or ACO REACH lives going forward. So, look, we're thrilled with this Class of 2023. It, obviously, is our largest class in history by a significant amount. You know, if you think about the progression from 2021 to 2022 to 2023, we had three new partners and 30,000 new members coming on the platform in 2021 that jumped to 6 partners and 50,000 in 2022.

And in 2023, as you said, we're talking about 7 partners and 80,000 members, that's double what we were thinking a year ago at the IPO. And so, your question about what's driving it Lisa is, there is just a real need for a new primary care business model. And we're seeing that across all types of primary care groups, smaller groups, larger groups, primary care only, multi-specialty, scaled networks. And it's a function of the aging population, the challenge they're facing from the Medicare business on a fee for service basis and what that means for them economically, what that means for them from a capacity perspective.

And they can't spend the time they need with those most complex patients, and they're feeling real pressure from CMS to move to value. They're feeling pressure from payers. That is a very common conversation in markets across the country, far more than even two years ago when I joined agilon. It is a dramatic inflection of those structural factors that are out there. But I really think the biggest thing is the success that we've had.

We now have 11 markets that we're able to drive great results that we talked about in 2021. We talked about what we're seeing as we go into 2022 in terms of what that can mean from partner medical margins. You know, just to remind you, we share that 50/50 with these partners. That is a significant change in the economics for them, for their Medicare business versus what they experienced prior to coming on.

In all of these groups, they see that. They see groups that look like them, that talk like them, that think like them. They may be in a different community. But when you go to these site visits, and we now have multiple locations which we bring people to, and they sit and talk with partners who have been on the platform for years, they're able to understand what this looks like and feels like and how different it is.

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So, I think that's just a really big difference in terms of what that looks like. The uniqueness of this group is, I would say, they're diverse. Like, I talked about the average size of these groups is larger than what we've seen before. And, I mean, I think I hit all those things, but it's a very strong class for us.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Great. And then just my second follow-up is just around Direct Contracting specific to 2022. Can you talk about – I think that Tim said that you do expect it to be profitable, but has your thoughts around Direct Contracting in 2022 changed at all, especially after the adjustment that you saw in the fourth quarter? How do I think about the impact on Direct Contracting specific to 2022?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

So, I think from a contribution perspective, we've moderated our expectation around that, but we do expect it to be a positive contributor to adjusted EBITDA, as we said. I think strategically, Lisa, it's such a great fit for our partners to have a single experience for all of their Medicare patients and they're seeing the leverage that comes from that. So, for us, it's full speed ahead and it lines up very well.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Great. Thanks for the comment and I'll see you next Friday.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

See you then.

Operator: The next question comes from Justin Lake from Wolfe Research. Please go ahead, Justin.

Justin Lake
Analyst, Wolfe Research LLC

Q

Thanks. Good morning. I appreciated your comments on the existing market PMPM going to $127, a couple of things. Can you give us some color within that in terms of where you talked about being ahead of plan in some markets? Where are you seeing those benefits come from? What types of markets do you feel like – what are the things that are driving you ahead of the plan? Number one.

Number two. Where do you think you'd be with this starting class? Do you think you'll be kind of on archetype with the 2022 class or below or above that? And then lastly, how does Hawaii compare to that $127? Maybe not giving us a specific number, but just trying to figure out where you are there versus that more mature number.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Sure. Well, Justin, we'll walk you through some detailed cohort data next week that that will amplify a lot of it. But what's driving these partner markets up to $127 and $130 when the patients in that group, 165,000 we've talked about, have only been on the platform for two and a half years, I think it's really three things. I think one, the platform is getting smart. We've got better insights that we're able to provide to the physicians that are actionable. We have clinical programs. Things like specialty referrals and palliative care that are being spread across the

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network and yielding the impact. Two, I think our partnerships are – they're just operating at a higher level. There's better alignment and that means that you're actually seeing behavior change. You're seeing physicians spend more time with their more complex patients, seeing patients earlier post-discharged from the hospital, and then scale. The ability to leverage that scale and impact costs outside of the primary care office.

And then the third thing is just the power of our network. We just have this incredible reference capability for groups to be able to compare how they're operating, what our best practice is, what's driving that. And so, I would say that's making all of our markets better and, in particular, our newer markets coming on are seeing an acceleration as they head into the year [indiscernible] (00:30:26)

Tim, you want to talk about the new markets?

Timothy S. Bensley
Chief Financial Officer, Agilon Health, Inc.

A

Yeah. Hey, Justin, this is Tim. I think the second part of your question is about the potential contribution. You know, Steve was talking about the existing members moving into 2022, medical margin maturing in that $127 to $130 range and you're asking about the other. What we've said is about 50,000 members that have come on in those six new geographies that went live in January. And our expectation at this point is they will be likely below what you would be modeling, probably as that archetype.

And generally, those members come on a lower medical margin and dilutive to somewhere around neutral from an EBITDA standpoint. And that's going to vary year-to-year just depending on where the starting point of each market is. And we've always talked about that, each market can start at a little bit of a different point. And to Steve's point, we'll go into a little bit more detail about that at the Investor Conference next week. But for us, that's not really a big concern. The bigger kind of positive point for us in bringing these members on is that we can develop their medical margin pretty quickly is the first point.

I mean, as Steve said, those existing members that we have that are going to mature to $127 to $130 medical margin have only been on the market by the end of next year for two-and-a-half years. So regardless of where the new markets are starting, we'll get them pretty quickly or we're confident we'll get them pretty quickly to good mature medical margins.

And the second thing is, I never want to – I never, like, let one of these questions go about, starting points or medical margin without throwing this in. The cost for us to bring those members on is really low. We have an extremely efficient, low capital cost to bring members on the market. It only costs us about $400 to bring each new member in a new market on. And so, we get – when you think about the medical margin maturation process that you've talked about we get very rapid paybacks on those. So, the combination of our low capital or our high-capital efficiency, low cost of acquisition, and the speed to which we develop medical margins makes us pretty excited about those 50,000 members coming on.

Justin Lake
Analyst, Wolfe Research LLC

Q

And can you give me the Hawaii comparisons for $127?

Timothy S. Bensley
Chief Financial Officer, Agilon Health, Inc.

A

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Yeah. Hawaii, as Steve talked about, is our non-partner market, and for all the reasons, Steve talked about without the same level of alignment of a partner market is also lower than the partner markets and certainly lower than the $127 to $130. I think next week we're going to go into detail and we'll actually go through a couple of things. One, we'll give you a little bit of – we'll show you the cohort progression that gets you to that blended $127 to $130 for partner markets. We'll go through a little bit about the progression of how Hawaii also has performed over that time as sort of a separate market or a separate cohort for non-partner look. And we'll give you a little more detail about that, about what's happening with the 50,000 new members that are coming off in those 16 markets as well.

Justin Lake
Analyst, Wolfe Research LLC

Q

Okay. And one last quick numbers question, by my math, I'm calculating your kind of, I think, the organic growth and the Medicare Advantage growth that's not coming from new markets, new physicians groups in 2022 at about 15%. First of all, am I in the right ballpark there? And then two, can you split that between growth at existing physician groups versus I know it's an important part of your model is bringing new positions to the same markets into the practices or into the partnerships? Can you split that between existing physician groups and new physician groups to kind of end markets?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Yeah. I mean, Justin, I think that sort of low- to mid-teens is kind of right on for same geography growth. And historically, it had been two-thirds organic and one-third physicians. Physicians are actually becoming a larger part of that. And it's really because they're seeing the same thing that the new groups are seeing, which is the benefits of this platform. And once we're there, this is the vehicle for you to move in, and so it's becoming a large – if it was 10% and 5% before that physician piece is becoming a larger component of that.

Timothy S. Bensley
Chief Financial Officer, Agilon Health, Inc.

A

Yeah. And just doing the math on it, which you're doing, it depends on whether obviously you're taking a low end or the high end of the guidance, 260,000 or 270,000. But I think we told you there's going to be about 50,000 coming off new markets, so you can do the math in the low end. It's about 13% or so growth. And the difference between that and the high end of the guidance really is, as you're kind of stating, kind of pushing a little bit harder on same-geography growth closer to 15%.

And we also potentially have the ability for that 50,000 to be bigger. I mean, when you think about what we did this year or last year in 2021 with the markets we brought on, initially, we kind of estimated they would come on at about the low 30s, 30,000, 31,000 members. We actually ended the year with that group being about 36,000 members. So, through agents and really good attribution work for their payers, we have the ability for maybe that to be a little larger. So, at the 270,000 kind of guidance number probably approaching 15% same geography growth and probably a little higher than the 50,000 on new market members.

Justin Lake
Analyst, Wolfe Research LLC

Q

Thanks.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

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Thanks, Justin.

Operator: The next question comes from Kevin Fischbeck from Bank of America. Please go ahead.

Kevin Fischbeck
Analyst, BofA Securities, Inc.

Q

Great. Thanks. I just wanted to get a little more color on this Hawaii announcement. Is this part of the 2023 numbers that you've given? And I guess, you mentioned that it sounds like you're going to put part of your membership into that arrangement. Are you getting attribution from them on top of that? I don't know if I heard a number there.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Yeah. So, Kevin, this is not included in that class of 2023. This is an existing market. These are existing members. These are existing physician groups and health systems and post-acute partners that we've worked with before. So, this is really trying to bring the alignment that we've been able to drive in other markets to Hawaii, putting about 20% of our membership into this arrangement.

And so it's not included those numbers. We think we can get the benefits that we've seen in some other places and drive much better performance. And Tim will show you next week kind of what our expectation is in 2022 in terms of what that looks like. But it really creates an integrated entity and allows some of the changes we've seen in other markets to come to Oahu to start. And so that's why we're excited about it.

Kevin Fischbeck
Analyst, BofA Securities, Inc.

Q

Okay. This is more about improving the margin than it is about growing the [indiscernible] (00:37:26)?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Absolutely. It's a different approach to an existing market to drive better performance.

Kevin Fischbeck
Analyst, BofA Securities, Inc.

Q

Okay. And then, I guess, maybe if you could just give us a little bit more color about your thoughts about overall trends in 2022, obviously, things kind of choppy the last couple of years. How are you thinking about pent-up demand, how are you thinking about COVID as the year goes on?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Yeah. I mean, so our 2022 guidance includes utilization expectations, which are composite that is basically taking that 2019 baseline trended forward and our expectation that we'll get back to that that level. We don't have any explicit sort of COVID surge built into that. And that's namely because what we've seen is an offset in non-COVID utilization with each of the most recent surges.

We did see, as I talked about, a surge sort of in the back half of Q4 that carried a little bit into the early part of Q1, but there was a corresponding offsets on that. So that's kind of the composite view in terms of utilization. The last

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thing I'll say is, we continue to see the shift from inpatient to outpatient. And so for 2022, the inpatient utilization probably below 2019 trended forward, but outpatient might be over that. And so that's kind of how the composite is calculated.

Kevin Fischbeck
Analyst, BofA Securities, Inc.

Q

Okay. Perfect. Thanks.

Operator: The next question is from Brian Tanquilut from Jefferies. Please go ahead, Brian.

Brian Tanquilut
Analyst, Jefferies LLC

Q

Hey. Good morning, guys, and congrats. I guess, I'll start, just piggybacking off of Lisa's question earlier. With a strong 2023 class of 80,000 buyers and seemingly strong and same performance on same geography growth is about 15% in the past few quarters. I mean, is that sort of the new normal that we should be thinking about as we look beyond 2023 in terms of growth rate?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Well, what I think we're clearly seeing is demand among physician organizations is accelerating for a different primary care business model. And so, we expect that's going to continue. There are – a greater diversity of primary care organizations that are looking at that. And so, we believe that our TAM has grown. And so, those pressures that I talked about that they're facing are not going to go away. And so, we believe our 2024 class which are already working on is going to be very strong as we look going forward.

And in terms of the margin improvement, yeah, we believe we are on a higher trajectory. We'll talk about it next week and we'll show you kind of the cohorts that contribute to that. I think the takeaway is by getting members on the platform earlier with more of these partnerships and the acceleration we're seeing in margins, this is going to be a larger, more profitable company in a few years than we had initially talked to you about. And so, we'll give you an update on that at our Investor Day.

[indiscernible] (00:40:46)

Brian Tanquilut
Analyst, Jefferies LLC

Q

...follow-up...

Matthew Dale Gillmor
Vice President-Investor Relations, Agilon Health, Inc.

A

Hey, Brian. This is Matt. One bit of color I was going to add to Steve's comment is entering 40 states has been a big deal for us. We become the vehicle for risk in those states. Other independent groups can then join in on the network. So that does have a bearing on organic growth. Some of these states that we're entering in are less mature from an MA penetration standpoint. So they have natural growth that's higher at a market level for MA enrollment. And so that'll be something to sustain the same geography growth in the future.

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Brian Tanquilut
Analyst, Jefferies LLC

Q

No, that makes. And actually, perfect segue for my next question. I guess we've talked a little bit about Hawaii today, and I know in the past you've talked about Pittsburgh in the Q3 call. Are there any more specialized or one-off operating models to call out in any of the geographies for the 2023 class? And I guess, the other question is, are we finding ways to be more flexible or creative in sort of discussions with prospective partners going forward?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Well, look, we've built our platform to be able to work with existing physician organizations, and they come in all sizes, and they come in all types. And we've demonstrated a track record of being able to do that with a diverse group. And so, I think the diversity continues to grow. I wouldn't call them one-off – Hawaii is a little bit different for the reasons we talked about. It's an existing market that we're making changes to improve performance. But our partnerships are very consistent in terms of how we're doing this. I just think the need among physician organizations is growing, and we're meeting that need. And, again, we'll give you more color next week on it.

Brian Tanquilut
Analyst, Jefferies LLC

Q

Awesome. Thank you, guys.

Operator: We have a question from Gary Taylor from Cowen. Please go ahead.

Gary Taylor
Analyst, Cowen & Co. LLC

Q

Hi. Good morning. Excuse me. Can you talk about or share with us number of physician partners in 2022 and these 7 new groups for 2023, like, how many physicians are represented or part of those groups?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Yeah. Absolutely. So, today, we have 16 partners. We're going to 23 partners with the class of 2023. We're going from 17 to 25 geographies so an incremental eight. As Matt said, we're going from eight to 12 states on incremental four. The primary care physicians are just north of 1,600 today and we're adding 600 incremental primary care doctors. So, we're going north of 2,200. And that is really significant. Everything we do is built around this alignment with the primary care physicians, and so it's a big step up.

Gary Taylor
Analyst, Cowen & Co. LLC

Q

I appreciate that. And then my just one other question, are there any platform investments, disease management programs, specifically, I'm thinking of something you might do around behavioral but anything that you're looking at that looks like it could be a material investment to make over the next couple of years?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Well, I talked about our platform getting smarter, and providing better insights in targeted clinical programs like palliative care or specialty referral. We're dealing with complex patients with chronic kidney disease as an

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example. The investments that we're making is really around being able to enable that. And so in 2022, our G&A reflects a step-up from a technology perspective of being able to support this many markets and be able to provide programs like that across the growth in markets and states that we talked about. So, it's reflected in kind of what we've provided to you. And again, next week, you're going to hear on some of those programs and what we're specifically doing around that.

Gary Taylor
Analyst, Cowen & Co. LLC

Q

Okay. Great. Thank you.

Operator: The next question is from George Hill from Deutsche Bank. Please go ahead.

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Good morning, guys, and thanks for the question. And I guess, I kind of wanted to dovetail on Justin's line of thinking earlier, which is, are you guys in a position yet to provide how you're thinking what in-market growth should look like in 2023 both from a membership and from a provider perspective?

And maybe to go down that hallway a little bit further, I'd love to hear you guys just comment a little bit more about the in-market provider growth. Steve, you've talked a lot about providers needing a new business model. But I guess kind of tactically, are you guys pulling them in? Are they running to you, guys? Are they running to practices that you guys are already partnered with in kind of a hub-and-spoke approach? I'd love to hear you talk a little bit more about that.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Yeah. I mean, I think a real distinctive part of our growth model is the power of our same geography growth. This idea of building around a partner at scale in a market and bringing risk to a market for the first time gives us the opportunity to really shape value in these communities for decades. What we're seeing is an acceleration in physicians joining the platform and that's what I was trying to say to Justin is that, we feel very comfortable in that low to mid-teens and believe that that will continue going forward.

The physician component of that is becoming an even larger part as we're seeing more folks come in and it's an attractive vehicle. They can see the economics. It's very easy. The payer contracts are set up and they can roll their group right into that. And so, we're seeing small groups join in. We're seeing some large groups join in. We had a very large group join us as of the first of the year. In one of our communities, that a few years ago had said, hey, I'm not going to do the partnership right now, but they've seen the compelling results in that community and they are a fantastic partner and they joined us as of the first of the year. So I think that's what's really driving a lot of this, George.

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

That's helpful. Thank you, Steve.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

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Yeah.

Operator: The next question is from Ryan Daniels from William Blair. Please go ahead.

Nicholas Spiekhout
Analyst, William Blair & Co. LLC

Q

Hey, guys. Nick Spiekhout on for Ryan. Thanks for taking my questions. To start, I guess, I was wondering if you could provide a bit of an update on the competitive environment. I mean, obviously, with your 2023 membership guide and [indiscernible] (00:47:45) you're not facing too many headwinds, but just wondering if you can provide a little bit of color there?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Sure. I mean, I think for these scaled physician organizations that are looking to make the move to value and facing the challenges with their Medicare business I talked about. We are doing incredibly well. They may have talked to some other folks, but we don't see a lot of competition around that.

The place where we do see competition is really once we're in a geography, the idea is that our partnership and our partner is going to be the aggregator in that community and other physicians are going to join in, the competition that really we face and we'll talk more about this next week the next closest organizations are typically health systems in terms of size. The smaller independents seem to be joining in to us at an accelerating rate.

We don't overlap with a number of the newer model players in many of our states. When we do, they're relatively small in comparison to our scale. And so, we do face competition, but we seem to be doing very well in the markets that we're in. And obviously, we're doing well in terms of new markets and new partners.

Nicholas Spiekhout
Analyst, William Blair & Co. LLC

Q

Great. Thanks. That's helpful color. And then, I guess, just kind of like a question on how you guys see kind of top line seasonality going this year? I know typically on the, kind of, med margin and EBITDA side, kind of like a declining seasonality throughout the year, but I'm just wondering, kind of, how you guys see revenue shaking out? And then, do you expect that trend to kind of be – what you expect going forward on years out as [indiscernible] (00:49:31) by the COVID?

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Yeah. The quarterly seasonality on revenue will be similar to what we've seen in previous years or similar to 2021. I mean, there's a little bit – look a little bit odd from an overlap standpoint, as we talked about in my comments, because of the retro adjustment we had to revenue in Q2 of last year because of that group contract that we talked about last year.

So, the indices will be a little bit odd in Q1 and Q2 versus a year ago, but average to a better overall. But as we move through the year, revenue will kind of move on that same historical trend that we've seen with generally revenue PMPMs or decline as we move from Q1 to Q4, as we bring more of those a higher mix of agents, which come in at a much lower revenue PMPM as we move through the year.

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Nicholas Spiekhout
Analyst, William Blair & Co. LLC

Q

Okay. Great. Thanks. Look forward next week, guys.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Yes.

Timothy S. Bensley
Chief Financial Officer, Agilon Health, Inc.

A

Yes.

Operator: [Operator Instructions] We'll take our next question from Stephen Baxter from Wells Fargo. Please go ahead.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. I was going to ask if you thought the evolution of the Direct Contracting program could potentially slow the growth of it going forward, but when I look at your comments around the 500,000 members you expect by the end of 2023 and considering the 80,000 growth class, the typical same store, it still seem to imply you're looking for another 30,000 to 40,000 DCE members or I should say ACO REACH members in 2023, which is a similar level of growth to 2022. I was hoping you could confirm if that's in the ballpark, obviously rounding because it impacted some? And then a follow-up question. Thanks.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Well, like I said, I think we're really feeling good about the announcement on ACO REACH. I think we believe it's in our wheelhouse with the focus on equity and the focus on physician governance. And we've got existing partners and new partners that we're having that dialogue with now that there's clarity on that program. And so I think the numbers that you talked about, we'll be very comfortable.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Thanks. And then appreciate the update on EBITDA and moving that into positive territory. So, if you could also give us an update on whether you're expecting cash flow to also move positive in 2022? It seems like if not this year, it should be soon. And if that's the case, how should we be thinking about the $1 billion of cash in the balance sheet and how you might think about using that to enhance growth or returns? Thanks.

Steven J. Sell
Chief Executive Officer & Director, Agilon Health, Inc.

A

Yes, Stephen. We're not expecting cash flow to move positive in 2022. Next week, we are going to talk a little bit about our cash flow projections out beyond 2022. So, we'll give you an update on that next week. And what I'll say is, we do have a $1 billion in cash. And I think our focus and the best and highest use of that is in two areas. One is on continuing to fuel our growth particularly with our provider partners, and allowing them to accelerate their growth in these geographies.

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And then the second is in terms of capabilities that can drive better performance and reduce cost and improve quality. We have some things that we're working on. We're not talking about right now, but I think there are – we like our position given that we come in a scaled position, and we can drive improvement with some new capabilities.

Operator: We have no further questions, so I hand it back to our speaker team for any closing remarks.

Steven J. Sell

Chief Executive Officer & Director, Agilon Health, Inc.

Well, I'll just say, we're really looking forward to seeing you next week. I think you're going to get a chance to understand not just why we're seeing the inflection that we talked about, why the performance is accelerating ahead of what we've projected, but also what our partners are experiencing and what it means to them. You're going to get a chance to meet other folks on the leadership team. So we're really excited about the day. We're excited to be together with those of you that can be in person and for those that are not, it'll be virtual. But thanks everybody and we'll see in a week.

Operator: Thank you all for joining. This now concludes today's call. Please disconnect your lines.

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