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Agilon Health, Inc. (AGL)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for attending today's agilon health First Quarter 2022 Earnings Conference Call. My name is Amber, and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions]

I now have the pleasure of handing the conference over to our host, Matthew Gillmor, Vice President of Investor Relations with agilon. Mr. Gilmore, please proceed.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

All right. Thank you, operator. Good evening and welcome to the 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.

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

With that, let me turn things over to Steve.

Steven J. Sell

Chief Executive Officer & Director, Agilon Health, Inc.

Thanks, Matt. Good evening, everyone, and thanks for joining us. We've had a very successful start to the year, and we are making rapid progress against our vision: to transform healthcare in communities across the country by empowering primary care physicians. The new primary care model we've created with our partners aligns physician outcomes with improvements in the quality, experience and cost of their senior patient's care.

Being first in the market, coupled with scale, allows agilon and our partners to shape the local evolution of value-based care and positively impact downstream specialty and facility costs. The success of the agilon network of partners in a diverse set of communities, along with macro tailwinds in terms of senior population growth and payor demand for value-based care is driving our record growth. Including the implementing class of 2023, we now have 12 states, 25 communities, 420,000 senior patients, and 2,200 primary care physicians on the platform.

Now, to the focus of today's call. I will cover three areas in my prepared remarks: first, highlights from our first quarter results; second, an update on our pipeline for new partners and some early observations for 2024; and third, some takeaways from our recent physician leadership retreat, including the substantial power of our growing network.

Starting with a few highlights from the quarter. Across Medicare Advantage and Direct Contracting, an incremental 100,000-plus members went live, bringing our total live membership on the platform to 342,000. This exceptional increase includes strong organic growth in our 11 existing geographies, the addition of six new MA geographies that went live in January, and increasing Direct Contracting from 6 to 10 geographies.

Our growth continues to benefit from the embedded membership in our physicians partners' practices and our established position as a first-mover, introducing risk in our markets. On a year-over-year basis, our consolidated Medicare Advantage membership increased by 85,000 or 51%, which translated into 58% revenue growth.

Medical margin increased by 66% to $86 million or $116 per member per month in the first quarter, up from $106 per member per month a year ago. Revenue and medical cost performance was consistent with our expectations and reflected positive momentum within our partner markets.

Importantly, in our 10 partner markets that have been live more than a year, medical margin increased from $109 per member per month to $143 per member per month. Equally encouraging is that our six new year-one markets are off to a strong start when we look at their operational indicators.

These strong results across our various cohorts continue to reflect the power of our aligned primary care model to deliver a consistent and capital-efficient combination of high growth and rapid profitability, and to do it across a diverse set of groups, including primary care, multi-specialty and scaled networks.

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Continuing on the theme of profitability; adjusted EBITDA tripled in the quarter to $12 million, up from $4 million a year ago. Strong MA medical margin performance, positive contributions from Direct Contracting and growing platform support cost leverage, all contributed to a large step-up in adjusted EBITDA. Our ability to drive record membership growth while significantly improving profitability is only possible because of our aligned primary care model.

Now, for an update on our 2023 partners and some early observations for 2024. As we shared with you in early March, we expect 2023 will be another record year of growth. We are currently implementing seven new partner groups with approximately 80,000 Medicare Advantage lives, including our first health system partner in MaineHealth. Our implementation work is progressing well and our new partners are benefiting from the power of the agilon network.

I'm pleased to share that one of our new partners is United Physicians in the Greater Detroit area. United Physicians is one of the largest physician organizations in Michigan and represents a major expansion of our operations in the state. If you'll recall, we entered Western Michigan during 2021 in partnership with Answer Health. Now that we have established our infrastructure, including multi-payor risk contracts and regional resources, other physician groups in the state, like United Physicians, have the opportunity to transform their business model.

This is the power of being a first-mover and what has driven our growth in markets like Ohio and Texas. For this reason, adding four new states in 2023 is very important to us. This will increase our total state count from 8 to 12, and end market membership opportunity from 4.7 million to 7.5 million lives. We will have the opportunity to define and shape value-based care in these states for decades.

Our partner development team is now shifting their focus to 2024. While it is very early, we are seeing significant opportunities across diverse partner types and geographies. This includes all types of groups, including primary care only, multi-specialty, scaled networks and health systems in both new and existing states.

The sizable inflection in demand among physician groups for a sustainable primary care model reflects two drivers: one, structural tailwinds, including all payors pushing for value and an accelerating senior population; and two, the very visible level of success the agilon groups are seeing on our platform.

Today, almost any type of physician organization in the country can look to the agilon network and see a group that looks like them, succeeding in value, and succeeding in a big way.

I wanted to close by sharing some observations from our physician leadership retreat last weekend in Austin, Texas. Power of our network as a learning tool was evident to everyone in the room as we gathered with 100-plus physicians from groups encompassing all of our existing partners, the implementing class of 2023, and early partners and prospects from the class of 24.

As a reminder, our physician partners are positioned to be the value-based care leader in their community, and they have a deep interest in learning from their peers across the country.

A few themes stood out from our time together. First, our newest partners, representing both the class of 2022 and the class of 2023, are leveraging the experience and learnings of our older partners to go faster and accelerate their success. Meaningful differences within and across group performance were highlighted and correlated with best practices in areas like a new partner's clinical peer review process, physician education, and

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timely [ph] pod (00:09:53) structure implementation. Our year-one markets have already implemented some of these learnings and are off to a great start, as reflected in their Q1 performance.

In addition, we have now paired all year-zero physician leaders with mentors from our more experienced partners. And we expect these insights and mentor relationships will translate into improved quality and faster medical margin progression in our newer markets.

A second learning was in the power of the network to drive accelerated performance across all of our partners. By comparing performance metrics across a diverse network, we have been able to isolate the most impactful levers that translate into better access to primary care services and quality outcomes for patients.

Our best performers excel in their team-based approach to care delivery, the consistency of performance across their entire group and their primary care team touch points, particularly with their most complex patients. Investments in the necessary resources to drive the success are only possible when you have an aligned primary care physician in value, combined with agilon's data insights and centralized platform capabilities.

A final take away from Austin was that our time together served as another catalyst for our Women's Physician Leadership Council. And given the robust support across the network, we expect the council's work to be a great source of differentiation for our groups, including the attraction and retention of women physicians.

With that, let me turn things over to Tim.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

Thanks, Steve, and good evening, everyone. I'll review some highlights from our first quarter results and our guidance for the second quarter and full-year 2022. Starting with our membership growth for the first quarter, total members live on the agilon platform increased to 342,000, including both Medicare Advantage and Direct Contracting. Our consolidated Medicare Advantage membership increased 51% to 250,000, and Direct Contracting members ended the quarter at 92,000.

For Medicare Advantage, our membership growth was driven by the impact from adding six new geographies in January and 20% growth within our same geographies. Normalized for the timing of a large retroactive group contract in the prior year, Medicare Advantage membership would have increased 43%, with 14% growth in same geographies.

Revenues increased 58% on a year-over-year basis to $653 million during the first quarter. Normalizing for the retro group contract I just mentioned, revenues would have increased 49%. Revenue growth was primarily driven by membership gains in new and existing geographies. On a per member per month basis, or PMPM, revenue increased 4% during the first quarter.

Medical margin increased 66% year-over-year to $86 million during the first quarter, compared to $52 million in the prior year. Even with the dilution from our membership growth, medical margins increased as a percentage of revenue and on a PMPM basis. Medical margins were 13.2% of revenue during the first quarter, compared to 12.6% last year; and medical margin PMPM increased 9% to $116, compared to $106 last year. The growth in medical margin was primarily driven by the maturation of older markets and member cohorts, more than offsetting the dilution from new members.

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Utilization trends were consistent with our expectations and remain near 2019 baseline levels. Utilization for inpatient services continues to run below historical baseline, while outpatient utilization is modestly above baseline. COVID-related cost increased in January of this year with the Omicron wave, but moderated significantly during February and March. In total, COVID costs during the first quarter of 2022 were similar to the prior year.

Network contribution, which reflects agilon's share of medical margin, increased 38% to $42 million during the first quarter. The year-over-year increase in network contribution reflects the gain in 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 19% to $34 million. Growth in our platform support costs remains well below our revenue growth and continues to highlight the light overhead structure of our partnership model. As a percentage of revenue, platform support costs declined to 5.2% during the first quarter, compared to 6.9% last year.

Our adjusted EBITDA was $12 million in the quarter, compared to $4 million last year. The increase to adjusted EBITDA reflects the gain in network contribution and leverage against platform support, as well as a positive $3 million contribution from Direct Contracting. As you know, results from our Direct Contracting Entities are reflected on a net basis within other income.

Turning to our balance sheet and cash flow. As of March 31, we had over $1 billion of cash on hand and under $50 million in outstanding debt. Cash flow from operations was negative $23 million for the quarter, which was in line with our expectations. agilon remains extremely well-capitalized and, given our efficient partnership model, we do not anticipate needing any external capital to drive our future growth.

Turning now to our financial guidance for the second quarter and full-year 2022. For the second quarter, we expect ending membership live on the agilon platform will grow 44% at the midpoint to a range of 338,000 to 348,000. This includes Medicare Advantage membership of 253,000 to 258,000 and Direct Contracting membership of 85,000 to 90,000. We expect revenue in a range of $640 million to $652 million.

Please note that the timing of the large group contract we discussed previously will negatively impact the growth rate of our average membership and revenue metrics during the second quarter. This will normalize in the third quarter and does not impact our full-year growth rates.

On a normalized basis, we anticipate revenue in the second quarter to increase approximately 36% to 38% year-over-year. We also expect continued progression with our medical margin and adjusted EBITDA, as members and markets mature on the platform.

For the second quarter, we expect medical margin in a range of $80 million to $83 million, representing 43% growth; and adjusted EBITDA of positive $4 million to $7 million, compared to a loss of $2 million in the prior year.

For the full-year 2022, our previous guidance remains unchanged. We expect total membership on the agilon platform will grow over 40% year-over-year to 340,000 to 350,000, with revenue growth of 39% at the midpoint to a range of $2.5 billion to $2.59 billion. We also expect significant gains in medical margin and adjusted EBITDA.

We continue to anticipate medical margin in a range of $290 million to $305 million. And adjusted EBITDA in a range of breakeven deposit of $10 million, which will represent a year-over-year gain in adjusted EBITDA of approximately $40 million to $50 million.

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

QUESTION AND ANSWER SECTION

Operator: Of course. Thank you. [Operator Instructions] We will pause here briefly as questions are registered. Our first question comes from Lisa Gill with JPMorgan. Lisa, your line is now open.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Thanks very much, and congratulations on the great way to start the year. First, I just really want to understand as we think about medical cost going forward, especially as we start to think about 2024, Steve, and some of the new physician groups that you've brought on that have specialty practices within them, you talked about MaineHealth and hospital relationships. How do you think that that can help to shape the medical cost trend going forward?

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

A

Well, thanks, Lisa. It's a great question. I think that we see tremendous opportunity with our ability to leverage the specialists that sit within our multi-specialty practices and all of the ancillary capabilities that sit within a health system like MaineHealth. Our early days has been a lot around really optimizing the primary care model and those touch points, but it's yielding incredible information for us that really allows us to tune the specialists that need to be accessed. And given what our multi-specialty groups in MaineHealth bring, we think that we can see demonstrable improvements.

One of the learnings from our retreat in Austin was that we have multi-specialty groups already really beginning to bend the cost curve around some of the specialty areas. So we see tremendous opportunity going forward.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

And just one of the things that stuck out to me in your prepared comments, Steve, was around that the Women Physician Leadership Council that you talked about, obviously, being a female. Can you maybe just talk about that a little bit more in detail, and talk about how you think that potentially can impact the business?

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

A

Yeah. Well, Lisa, I think it's something that we're really proud of and believe can be a real differentiator for us. It's a smart business move. Our goal is to sustain and grow primary care in the communities we serve, and that starts with slowing the number of primary care physicians that are leaving because of burnout.

The data would say that women physicians are leaving adult primary care at a much faster rate than their male counterparts, and that's really based around the challenges of fee-for-service and the treadmill. But what we found is in value-based care in building a business that's focused around the team being optimized, coordinating across a series of specialties, long-term, in-depth relationships with patients that are women physicians are really exceptional at that.

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And we have an economic model that rewards them for that. And so, what we'd like to do is have more of our women in leadership positions, really espousing the merits of our partnership and value-based care. And we think, with that, we're going to be able to achieve that goal of sustaining and growing primary care.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Makes sense. Thanks so much for the comments.

Operator: Thank you, Lisa. Our next question comes from Whit Mayo with SVB Securities. Whit, your line is now open.

Whit Mayo
Analyst, SVB Securities LLC

Q

Hey, thanks. Just first question on United Physician, I presume there is nothing terribly different about the process around the year-one preparation, sounds like there are some learnings coming out of your Austin meetings. But anything distinct about this market versus your legacy – or this group versus your legacy groups? And, Detroit's a little bit unique of a market. They've had significant hospital consolidation with Beaumont over the last few years. So just maybe any comment about the market and how perhaps this is a little bit different than any of your existing geographies?

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

A

Sure, Whit. Thanks for the question. I mean, we're really excited about the partnership with United Physicians. They are the scaled independent physician organization in the Greater Detroit area. And they bring that. And they're really the first in that area to do full risk value-based care across multiple payors. There is still a fair amount of fragmentation within that market.

And so, we believe there's an opportunity for them really to grow and to become the vehicle for other physicians in the organization to join in. They have an exceptional reputation, and they've really done a great job sort of managing the system dynamics within that market.

The other thing I'd point out is it's, obviously, a much larger market. The greater MSA has almost 4 million people within it. And so, you need to have a scaled partner like United Physicians in order to build around.

The last point I would make is they are a IPA or physician organization type of organization. That's the same as Answer Health, which we went live with in 2021 in the western part of the state. And I think we've learned a lot through that implementation that we're able to leverage over and really get the benefit of that. And we're able to leverage health plan contracts in the same team. So for a lot of reasons, we're very excited about it.

Whit Mayo
Analyst, SVB Securities LLC

Q

Okay. And maybe just one last one, you've had this sort of evolving strategy around palliative care and putting an initiative, building out maybe some AI. Just any developments to share? I think you're piloting something in Buffalo, if my notes are right. So just any update will be helpful.

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

A

Yeah. We had a deep-dive session in Austin with actually three of our markets that have had great success within palliative care. And we're expanding that out to many more markets here in 2022 with. But I think one of the things that we found was the ability to identify folks at the end of life getting better at that really helps.

But perhaps the biggest impact on getting people to enroll in palliative and have a very good experience for the patient and the family at the end of life is around the quality of the physician conversation, educating them on that, supporting them with social workers and others in terms of enrolling them, and then also having a really trusted partner on the palliative and hospice side of that.

And so, we were able to lay that out. There's been some really significant improvements in terms of enrollment in the program, duration in palliative and in hospice, and just the experience scores that we're getting back from the families. So I think we'll give you an update on our next call even more on that. But there's been a lot of progress.

Whit Mayo
Analyst, SVB Securities LLC

Q

Awesome. Thanks a lot.

Operator: Thank you, Whit. Our next question comes from Brian Tanquilut with Jefferies. Brian, your line is now open.

Jack Slevin
Analyst, Jefferies LLC

Q

Hey. Good afternoon. Excuse me, I was going to say good morning. It's Jack Slevin on for Brian. Congrats on strong print. Numbers look really nice. I guess, a question here, my curiosity being looking at that 14% same-store number, ex the retroactive or same-store, same-geography growth number, can you give us a little color on what that's looked like across geographies?

And I guess what I'm looking for here is, are you seeing acceleration over the years in some of – I know Ohio has been the one example we've branched off of to see where you're going to new markets within the same state and continue to grow same geography presence within those markets. But trying to get a sense for is the geography like Ohio tapped out a little bit or is there still lot of runway there, and how that's progressing across sort of the different cohorts you have? Thanks.

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

A

Yeah. No, thanks, Jack, for the question. There's still a lot of runway in Ohio. In fact, in the quarter, Ohio was a very strong contributor to that, as we had some rather large groups join in, in the same geography in which we operate. Southeast has been extremely strong from a same-geography growth. And they're, obviously, seen market growth in the teens overall, so that kind of lifts up that average. Texas continues to be a very strong market in terms of same-geography growth. And we see tremendous opportunity in our other markets as well. So I think it's distributed. I think markets continue to run 1.5 to 2 times sort of the market overall growth level. And that's what we're seeing across that.

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Jack Slevin
Analyst, Jefferies LLC

Q

Okay, got it. Really helpful. And then, just one more quick follow up. I think a lot of investors continue to look at the space on revenue multiples for better or for worse. Obviously, with the Direct Contracting lives not fully consolidated, you're not getting credit for those if you're looking on that metric. I guess I just wanted to check in with how you guys are thinking about what you're looking for in order to flip those over to consolidated? Or if there's any sort of checkpoints or milestones that you'd like to see before you look to do that. Thanks.

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

A

Go ahead.

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

A

Yeah. I don't think so. I mean, I think, if anything, we originally structured the partnerships on the Direct Contracting side in a way that would facilitate us not consolidating. And originally, our concern was what's the future of the program, how long-lived is it going to be, and we didn't want to be in a situation where our revenue number was fluctuating around a lot.

Obviously, this program is more stable. We're actually quite pleased with the outcome of Direct Contracting so far through this year. I mean, you probably noticed in either my prepared remarks or in the release that we just put out that we actually swung it to a positive EBITDA contributor of about $3 million in the first quarter. And we're expecting it to be somewhat positive over the full year after a loss last year.

So the program is performing well. We're pleased with the underlying performance. But with the new changes that have been announced for the ACO REACH program that we'll transition to next year and with the requirement that these partnerships to really be physician controlled and all the other new requirements that have been put in place, I think that really leaves us with it's going to remain unconsolidated for the foreseeable future. We really don't see over the coming couple of years us making a change to that.

Having said that, we're pretty transparent about what the revenue is. You can read it in our – you can see in full year in our 10-K that we put out last quarter, and you can see in the 10-Q for Q1 exactly what the revenue is. So that number is available. We report it. But I don't think we'll be consolidating it any time soon.

Jack Slevin
Analyst, Jefferies LLC

Q

Got it. Really helpful. Thanks, guys.

Operator: Thank you, Ryan (sic) [Jack] (00:29:36). Our next question comes from Justin Lake with Wolfe Research. Justin, your line is now open.

Harrison Zhuo
Analyst, Wolfe Research

Q

Hi. Thanks. This is Harrison on for Justin. Just maybe, first off, curious as to why you didn't take up the guide this quarter for the full year given pretty strong performance for the year. I think DCE members came in higher relative to your expectations that you laid out for 1Q. Just curious why you try to maintain the guidance instead of raise it.

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And then, maybe as part of that, for DCE, do you expect that to be kind of EBITDA breakeven for the remainder of the year, call it, in 2Q to 4Q? I think what you had originally pointed us towards at the beginning of the year was low-single digit millions contributor, but looks like it contributed $3 million already in first quarter. Thanks.

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

Yeah. I'll take the first one and maybe, Tim, you take the second one. So, Harrison, on the guide, really strong Q1, really in line with our expectations and very comfortable with our Q2 forecast out on the year. And so, we felt like, given where we're at early in the year, strong start, but in line with our expectations, holding guidance was the right thing to do.

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

Yeah. And I'd also say that with the high end of our guidance at almost $2.6 billion of revenue, 270,000 MA members, the high end of our guidance on medical margin is picking up over $120 million of medical margin year-over-year, and we're extremely excited, of course, about this being the first year that we're guiding to and projecting to be EBITDA breakeven for the entire business. So we also think the full-year guidance is, obviously, quite strong.

The second part of the question was...

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

Direct Contracting.

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

Direct Contracting. And I think I just said it in the last answer too. We're about $3 million positive in Q1. Direct Contracting profitability will follow a bit of seasonalization like the MA business that's not quite as pronounced, because we don't have the dilution of a bunch of agents coming on Direct Contracting. But we'll still see the progressive seasonality of Direct Contracting EBITDA as we move through the year, similar to the MA side.

So with that, we would expect for the full year that Direct Contracting is going to be modestly positive adjusted EBITDA. And I think that's a good number, considering just the second full year of the program where we're coming off the 2021 first three quarters at a loss of about $5 million. So that's a nice turn around and a pick up for us in the program.

Harrison Zhuo
Analyst, Wolfe Research
Q

Got it. Thanks. It's helpful. And maybe just one more. I think you guys talked about kind of a closed-loop system some time last year when we were having discussions. And some of your scaled markets having the ability to have some extra visibility into kind of the scheduling, completion and outcome of certain specialist visits on your [indiscernible] (00:32:59) management platform.

Is there anymore you could kind of share on the progress of that in terms of have you extended it to other geographies outside of maybe Ohio or for Austin and maybe on the progress on – have you extended it to other

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specialties as well? I think you guys called out cardiology and neurology as places where you're operating now with that model.

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

Yeah. No, thanks, Harrison. So we made a lot progress on it. We're demonstrating the ability to identify the best performing specialist within the community, and we're able to guide referrals to them. And so, 90% of our senior patients are relying on their PCP for their referrals, which is 2 to 3 times what I've seen in any other model. And remember, 50% of our seniors are in PPO broad network. So that's really striking. We have expanded it. I think we're in six markets now. We're across cardiology, urology, ortho, spine. Is that right?

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

Yeah. That's right.

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

Okay. So that's sort of the update on that. We did spend a fair amount of time in Austin going through that. And we're continuing to see the referral rates go up, the satisfaction go up. The other thing that's interesting is that more specialists are sort of learning what they need to do to move into the top tier, whether that's things from a diagnostic perspective or facilities that they're using. And so, we're seeing a larger proportion of specialists within the communities move into that top tier that we're comfortable with from a quality and cost perspective. So that's the update.

Harrison Zhuo
Analyst, Wolfe Research
Q

Awesome. Thank you.

Operator: Thank you, Harry. Our next question comes from Stephen Baxter with Wells Fargo. Stephen, your line is now open.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah. Hi. Thanks. Appreciate the early comments on 2024. I was hoping that maybe you could step back and give us some perspective on where you are in the market cycle for 2024, compared to maybe where you were a year ago for 2023. What would you say are the key things that are different? How do you think the market development process is evolving? Any change to things like the balance of inbound interest versus outbound opportunities? Things like that would be great. And then, one follow up. Thanks.

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

Yeah. No, absolutely. Thanks, Steve. And I would say the macro tailwinds for the move to value have never been stronger, whether they're payors that are saying we need to get more senior patients to value. Obviously, the demographic surge continues. The challenges of fee-for-service are just becoming greater and greater. This labor situation that's out there is really a challenge for practices, but it's particularly challenging in a fee-for-service practice. And so, there is just tremendous advantages for the move to value.

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The second thing I would say that's different is the success of the agilon network across 10 partner markets. And we shared the data with you that literally there is now – any group in the country can kind of look at a group that looks and sounds like them and understand that. And we're able to really tailor and share that with them, and then allow them to visit that group and have that dialogue. Whereas even a year ago, we didn't have seven or eight sort of spots they could visit with referenceable data.

And so, I just think we're getting better. The network is getting better. There's more push towards value. All of that is translating into more groups expressing interest. Also, the depth of our relationships is getting greater. So things like Answer Health had the relationship with United Physicians, as an example. We see that, as we're building towards the class of the 2024, in many states across the country a very similar phenomenon.

So I would say we're ahead. I would also say that health systems are very interested. We are working really hard to make sure that we learn from MaineHealth and really refine that criteria. But MaineHealth is very visible out talking about what they're doing with us, and that's generating an awful lot of interest.

So I would say we've got a lot more at the top of the funnel than we had a year ago. It's greater in terms of the diversity of those types of folks, both in breadth and in depth. So I think we're very encouraged. We continue to need to make really smart choices around who those partners are because we're going to build around them for 20 years. But we're pretty encouraged where we're at.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Got it. Appreciate that. And then, just one kind of quick numbers question. One of the large Medicare companies talked about, as they look back to Q4 and their medical cost picture completed, seeing some higher unit costs on the inpatient side. It seemed to be some kind of issue around patients that weren't really there for COVID, but ultimately were classified as having COVID. I would just be curious to get a sense of how PYD impacted the quarter? Whether you guys saw anything like that as you were closing the books? And just any broader update on how your completion looked for Q4? Thanks.

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

A

Yeah. I don't think we saw anything in particular that is specifically related to COVID. As we reported in the 10-Q that we just published, we did have some nominal negative prior year development that flowed through into our first quarter. It wasn't really related to any one particular payor or any one particular geography; it was pretty well spread across multiple payors and multiple geographies. And it's, obviously, captured within the $86 million of medical margin that was – that big increase year-over-year that we already reported.

So nothing really of note to report on that. Just kind of some – we're going to see some normal fluctuation, obviously, in development quarter-to-quarter, positive and negative.

And this quarter, we had a bit of negative, but nothing that I would tie back to COVID or any one specific payor, geography or incident.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

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Operator: Thank you, Stephen. Our next question comes from Gary Taylor with Cowen. Gary, your line is now open.

Gary Taylor
Analyst, Cowen and Company LLC

Q

Hey. Good afternoon, gentlemen. I have three numbers questions. The first is, Tim, you had said $3 million EBITDA from Direct Contracting this quarter. When I look at the Q and it shows that $2 million, is there just some allocated overhead on top of that GAAP number? Or is there actually a way that I could do math to get to the $3 million?

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

A

Yeah. You can do it. And you have to just look back into the net income to adjusted EBITDA, walk a little bit further back in the Q. There's about $1.2 million of interest and taxes that we actually add back. So you're looking at the $2 million net income contribution from Direct Contracting. If you put that – add that back on, you get the $3.2 million was the actual contribution in the quarter.

Gary Taylor
Analyst, Cowen and Company LLC

Q

Okay, good. I couldn't stump you with that one. My second question, just looking – I'll try with the second one. When I look at the Direct Contracting MLR, so to speak, this quarter, again, taking that medical expense and the revenue this quarter about 92.8% in the back half for 2021, you're kind of running 93.5%. But your DC enrollment jumped almost 80% sequentially.

So I mean that's really good performance, better than we would have thought. So is there anything notable to call out that the 2021 cohort improved a lot or that you're more comfortable now booking starting pulling MLR on class of 2022 cohort? Or is there just a mix effect in there? I mean, that's a pretty good – pretty good to be able to book that lower MLR, given the growth of enrollment sequentially.

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

A

Yeah. I think sum of all of the above. Clearly, just like we do on MA, as we roll the 2021 cohort through in 2022, we are clearly – now, we had them under the program for three full quarters. We should be seeing some improvement.

The second thing is we didn't have them in the first quarter of last year. We didn't have the program. And there is some seasonality around – the best MLR we're going to have is in the first quarter for both DC and MA. So comparing kind of how we rolled through the end of last year to the first quarter might be a little bit of apples and oranges.

But yeah, otherwise, having said that, I think we're getting smarter about how to understand how the program and how the math of the program works. And, yeah, hopefully, having the benefit of all of those members being on the same platform and managing the same way as the MA business, it's been around a little bit longer for us, we'll continue to benefit. And like I said, we'll roll that through the full year into some kind of a low-single digit positive start for the year.

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

And, Gary, this is Matt. Tim may expand on this. But I think the numbers you're looking at are probably burdened for the retro trend adjustment that was impacting the back half of the year numbers for Direct Contracting.

Gary Taylor
Analyst, Cowen and Company LLC
Q

Yeah.

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

I mean that...

Gary Taylor
Analyst, Cowen and Company LLC
Q

Fair.

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

Well, that's – yeah. If you're looking at just the fourth quarter, that's going to be – or that's going to – or just the third and fourth quarter, that's going to be even a little bit more negative because we started to take adjustments for that retro trend adjustment in the third and then even more so in the fourth quarter of last year. But if you look at the full year, obviously, that blends out to what you would've expected for the three quarters of last year. And even that, you would expect to be not quite as strong as the first quarter of this year for the reasons we've talked about. We've had those members on the platform for a while now. And the first quarter is going to be the strongest MLR quarter anyway.

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

Yeah. And, Gary, I would just add the six markets that are now entering into their second year of Direct Contracting, in particular, are really seeing the power of one line of business. And so, as we talk about the various programs we're doing around specialty costs and others, the ability to really impact that is being seen in both lines of business.

Gary Taylor
Analyst, Cowen and Company LLC
Q

Last one for me. I think every quarter we learn another lesson in sort of virtual capitation accounting. But looking at DSO up about 20 days sequentially and DCP is up about 24 days sequentially, some really big movement on both receivables and medical payables this quarter. I'm guessing the answer is some delayed plan settlement, but just wondering what the color is on that.

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

Not really. I mean, the way to think about it is, for each quarter, we have a different amount of time that we have visibility to capture that before we actually file the K for our Q4 or the Q now for Q1. An example would be, I think

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our days claims payable was about 75 days in Q1, and that's obviously up from Q4. It's actually up a little bit from Q1 of last year as well, where I think we reported 69 days claims payable.

The difference year-over-year is because, last year, our timing of the first quarter was driven by the IPO timing, and we didn't have to report until right at the end of May. So we had a little bit more visibility into the first quarter, and we can incorporate that into our balance sheet when we reported it for Q1. This year, obviously, we reported right now only a weekend to May. So a couple of weeks difference would explain that difference. With the fourth quarter to the first quarter, it's even more pronounced because we have that full 60 days essentially to report the – even a little bit longer than that this year. We have until early March.

So that extra time period that we have to basically get visibility to completion of claims from our payors just puts us in a position where we can report more completeness and, therefore, have lower both receivables and days claims payable.

Gary Taylor
Analyst, Cowen and Company LLC

Q

Got it. So it sounds like 4Q is always going to be the lowest then from that perspective, all else equal, it sounds like.

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

A

It always will be the lowest, because we just have the most time between when we report the quarter and when we file.

Gary Taylor
Analyst, Cowen and Company LLC

Q

Interesting, great. Okay. Thank you.

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

A

Thanks, Gary.

Operator: Thank you, Gary. Our next question comes from Ryan Daniels with William Blair. Ryan, your line is now open.

Nicholas Spiekhout
Analyst, William Blair & Co. LLC

Q

Hey, guys. Nick Spiekhout on for Ryan. Thanks for taking my question. I guess, just to start, you mentioned the success that you're seeing in your older cohorts, as well as your newer cohorts on kind of med margin area. Just wondering, like, are those newer cohorts actually tracking better than the older ones did at the same kind of point in their life cycle?

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

A

So the newer cohorts are tracking in line with kind of what we laid out at Investor Day. I think when we look at some of the operational indicators, Nick, we're really encouraged. And they're sort of getting the learnings from

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some of their older folks. So I think they're off to a good start. It's too early to say that it's dramatically better than what we had laid out, but I think we're very, very encouraged by that.

Each class comes in and starts at a different place, and as we share this class of 2022 on average as a composite with lower than some of the other classes. But I think what we're saying in terms of what we had forecasted out, we're just really encouraged with how the performance is going and the benefits that they're learning.

Nicholas Spiekhout
Analyst, William Blair & Co. LLC

Q

Great. Yeah. Thank you. And then, I guess – so, obviously, office utilization in the first quarter was like affected by COVID. I'm just wondering how is that tracking currently as that kind of [indiscernible] (00:47:40) or are we kind of rebalancing as far as kind of out-of-office versus in-office utilization? And then, how does that affect med margins as that kind of recalibrates back to normal?

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

A

So I think we're continuing to see inpatient below baseline and outpatient above baseline. Some of that may be some COVID effect, some of it may be a new normal that we're moving forward. When we put it all together from a composite perspective, we continue to see it sort of in line with our expectations.

If you're asking specifically about primary care in the office and telehealth, our telehealth is running about 15% and has been there for a while. When there's a surge in January, it went up, as an example. But that's the mix in terms of the primary care, in-office versus virtual, if that's what you're asking.

Nicholas Spiekhout
Analyst, William Blair & Co. LLC

Q

Okay. Yeah. No, more the latter. So as kind of the inpatient services, if that does recalibrate, it shouldn't affect med margins in any way because it's kind of shaking out to have no effect, essentially?

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

A

No. I think we're feeling good about where it's at and what we're seeing from the indicators.

Nicholas Spiekhout
Analyst, William Blair & Co. LLC

Q

Okay. Great. Thanks for the color, guys.

Operator: Thank you, Ryan (sic) [Nick] (00:49:12). Our next question comes from Sandy Draper with Guggenheim Partners. Sandy, your line is now open.

Alexander Yearley Draper
Analyst, Guggenheim Securities LLC

Q

Thanks very much. A lot of the questions have been asked, but I did have a little bit of trouble dialing in. So not sure, Tim, if this was covered. But the other medical expenses was up and – both on a percentage basis as well as dollars and didn't know if you had any commentary. Obviously, medical margin was strong. EBITDA was

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strong. But just trying to get any additional commentary, which you may have already said and I apologize, just about that step-up in other medical expenses in your live geographies? Thanks.

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

Yeah. I mean, other medical expenses has two components to it. The biggest component of it is just our partner sharing. So, obviously, that goes up as medical margin increases and our partner sharing increases. The second part of it – the biggest component of the second part of it is actually the incentives that we pay to physicians to do things like complete annual wellness visits. And we did have a little bit of a skew into the first quarter. That's actually good news for us. That's not an issue for the full year because the idea is to complete a high level of annual wellnesses for the full year. We'll pay incentives out against that.

But the fact that we're actually getting them done a little bit earlier, which did push a little bit more into the first quarter, by the way, that was true across the board. Steve talked about the idea that we're managing both DC and MA now as kind of one population. We actually saw our annual wellness visits accelerated a little bit more in the first quarter for both those populations. And so, that did have some impact on – on the MA side, it had some impact on other medical expenses.

But other than that, I think the overall number and the flow-through from medical margin and network contribution that that drives is actually a pretty positive number, well within the expectation that we had and helped drive that pretty strong adjusted EBITDA number down on the bottom line.

Alexander Yearley Draper
Analyst, Guggenheim Securities LLC
Q

Got it. That's helpful. So, basically, just a big step-up in medical margin just the share portion, and then a little bit else, but nothing to really – to call out.

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

Yeah. A little bit...

Alexander Yearley Draper
Analyst, Guggenheim Securities LLC
Q

Okay. That would...

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

Yeah. A little bit of an acceleration into the quarter of the non-partner sharing. But, I mean, the biggest step-up obviously in that number is just going to be as we continue to increase medical margin, partner sharing goes up, which is a good thing, right? Our share goes up, partner sharing goes up, and that will continue to drive that number up.

Alexander Yearley Draper
Analyst, Guggenheim Securities LLC
Q

Got it. That was my only question. Appreciate it and congrats on the nice quarter.

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

A

Thanks.

Operator: Thank you, Sandy. Our next question comes from George Hill with Deutsche Bank. George, your line is now open.

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Good evening, guys. Thanks for taking the question. And Steve and Tim, I kind of have an inflation-related question. I know that a lot of the MCOs are protected on short-term inflationary risk from their provider partners because of the nature of the multi-year contracting. I probably should know this, but I just wanted to check and make sure that you guys are kind of projecting the same way or maybe talk about kind of your contracting with partner inpatient providers such that when your attributed beneficiaries need to seek inpatient care, as we look out probably over the next 12 to 18 months, there's probably going to try to be some [indiscernible] (00:52:34) and cost inflation. Just how does that work with agilon? And how are you guys protected from inflationary costs on the provider side when [indiscernible] (00:52:43) direct provider partner?

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

A

Yeah. So the contracts that were leveraging, George, are through our payors, right? So we are using their networks and their deals. And so, to the extent that they're insulated around that, we're insulated around it. We're obviously taking the total risk underneath that. But that's sort of the short answer to that bigger picture.

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

That's helpful. Thank you.

Operator: Thank you, George. Our next question comes from Kevin Fischbeck with Bank of America. Kevin, your line is now open.

Adam Ron
Analyst, BofA Securities, Inc.

Q

Actually, it's Adam Ron on for Kevin. But thanks for squeezing me in. You mentioned that you had $1 billion of cash and whatever it was, less than $5 million of debt, or $50 million of debt, and you'll soon be free cash flow breakeven. So just wondering – and you don't have a lot of CapEx. So just wondering what the plan is for cash and if M&A makes sense or any capabilities that you need or just any – what plans there are for the $1 billion of cash?

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

A

Yeah. Thanks, Adam. It's a pretty dynamic environment out there right now. And, clearly, that presents some opportunities. I think a couple things. One is, we really like the fact that we have a business model that even as we're growing as fast as we are, we're not burning a lot of cash. And so, we don't need to raise capital going forward. And two, is we really like having dry powder and the flexibility that that gives us.

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There continue to be two areas that we really look at in terms of how we want to deploy our capital. The first is around growth. The best and highest use of our capital is in allowing our partners to be the aggregators in their community and really drive that same geography growth rate like we've talked about in the examples we've talked about on this call in multiple markets. So that's one.

The second is really in terms of capabilities that help our partners deliver better medical margin and better quality. There are quite a few opportunities out there in both areas, and the dislocation from this environment presents some opportunities. So we're very methodical. We're working our strategy very carefully right now. But we really like where we're at and we're not necessarily in a rush.

Adam Ron
Analyst, BofA Securities, Inc.

Q

Yeah. Yeah, that's helpful. And that kind of segues into my next question is like a lot of the in-market growth seems to be from adding capacity to your provider groups. So you mentioned that you didn't see labor as the problem. And it seems like you are adding [indiscernible] (00:55:41) to the platform, but I'm just curious. And you did mention that you think the value-based care model is more conducive to seeing fewer labor issues versus fee-for-service. I'm wondering if you can comment on why you think that is and why do you think that'll continue.

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

A

Yeah. No, I really appreciate the question. I mean, I think we're in a different business than fee-for-service. I think our partners have the benefit of being in that business and are able to approach challenges like this in a different way. If they need to pay 5% or 10% more in that, that gets charged against our joint venture, against the totality, the total premium dollar and the total expenses that are being managed. It's a relatively small difference.

Two is they're able to leverage our network. We talked a lot about this last weekend in Austin in terms of how we can share resources. And they're able to leverage agilon resources. So there are lot of things that we're able to do to help them in the market, but also from a centralized perspective. And we're getting smarter on that all the time. So I think that not that labor is not an issue, I guess my point is it's just more manageable in the partnership model that we've got because it really is a different business.

Adam Ron
Analyst, BofA Securities, Inc.

Q

Great. Thanks.

Operator: Thank you, Kevin (sic) [Adam] (00:57:15). There are no further questions at this time. [Operator Instructions]

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

Okay. Thank you, everyone. Talk to you soon.

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

Hey, Amber. I think we can go ahead and wrap up the call since we're at the top of the hour.

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Operator: That concludes today's agilon health first quarter 2022 earnings call. Thank you for your participation. You may now disconnect your lines.

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