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Agilon Health, Inc. (AGL)

Morgan Stanley Global Healthcare Conference - Fireside Chat

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MANAGEMENT DISCUSSION SECTION

Michael Ha
Analyst, Morgan Stanley & Co. LLC

Okay. Hey, everyone. Welcome. My name is Michael Ha, the managed care and healthcare services analyst at Morgan Stanley. Our next session is with Agilon Health, one of the largest providers of physician services through its capitated physician JV model. Pleased to have with us today Chief Executive Officer, Steven Sell; Chief Financial Officer, Tim Bensley; and Head of Investor Relations, Matt Gillmor.

And before I jump in, just some quick research disclosures. For important disclosures, please see the Morgan Stanley Research Disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales rep.

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QUESTION AND ANSWER SECTION

Michael Ha
Analyst, Morgan Stanley & Co. LLC

Q

So, with that, thanks again. And maybe just to jump right into it, MLR utilization trends, how is it looking so far into 3Q and relative to your expectations?

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

A

Want to take that, Tim?

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

A

Yeah, absolutely. I mean, I can talk about certainly through 2Q at this point. I mean, we're pretty happy certainly with the way the overall either MLR or we like to talk about in terms of medical margin on a PMPM basis is working out. Year-to-date, through the first half of the year, it's really tremendous. Our overall medical margin number in our long-term progression is up to about $109, 9 points up over a year ago. But that is pretty heavily also diluted by a pretty high level of growth this year. I think everybody knows, as we've talked about, we've got a particularly large class this year, about 56,000 new members that come on in new markets that are little bit lower medical margin. We're generating about 13% same geography growth, which is also very dilutive. I mean, even with all that high growth and it adds up to about 44% MA growth, you're still generating that really good pickup.

Interestingly, if you look at our partner markets, one level below that, which is really encouraging, those markets that have been on the platform for at least a year or so not dilutive by those new market members. It's at like a $136 medical margin PMPM, which is like a 26% pickup over a year ago. So, really happy. Certainly, one of the things that's driving that is we're continuing to see pretty good utilization trends. I don't have anything, like, major to say differently than what we said almost every time we've asked this question, which is, overall blended utilization across all components is still kind of trending a little bit below that 2019 baseline number. I think the trend has been pretty consistent across the components. I don't know, Steve, [ph] if you want to jump in (00:02:27)?

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

A

No, I mean, Michael, just two points I would add. I think it's kind of distinctive about our model that allows us to deliver really predictable costs kind of quarter in, quarter out on a year-over-year trends that you've seen and us being able to expand medical margin is largely based on how well we've done on the cost side. But the two things are; one, we work with existing doctors and existing patients and we take them through a 12-month implementation period. So, when they go live, we have a very good idea of what that cost structure looks like and a very good idea on what revenues looks like.

But the second piece that I think is really important is we have this high touch model. We're making incredible investments around care team resources that allow that primary care doctor to touch that patient more often, and in particular, the most complex patients who have the vast majority of the total spend. And the data says, if you're able to see those people more often and you're able to surround that primary care doctor with social workers and care managers and pharmacists, the basics like medication adherence, making sure you're able to follow up with

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someone when they leave the hospital to reduce readmission rates, that's what translates into those cost trends that Tim talked about, but also the quality and the satisfaction that we've got in our model, which is top notch.

Michael Ha
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. Appreciate the update there. Maybe taking a step back. So, Agilon went public in 2021, just curious, what are some key areas of success, learnings over the past 12 to 18 months?

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

A

Yeah. We went public in April of last year. At the time, we talked about a new primary care model and that there was a tremendous need for primary care physicians to be able to spend more time with their most complex patients. And our approach around surrounding them with the care team would really enable that and changing the way they got paid.

I think one of the first big learnings is the opportunity and the need for that primary care model is far greater than we ever would have expected. At that time, we had sort of talked about 2023 outlook for class of maybe 40,000 new members or 2x that or 80,000. We've gone from 8 to 12 states, and we've expanded to 25 communities. And so, I think one of the biggest learnings is the macro drivers have gotten more powerful. So, whether it's payers being CMS or Aetna, Anthem, United looking for more move into full-risk value-based care, the demographic surge causing challenges or just the fee-for-service payment challenge for a primary care doctor, all of that is strong.

But then, the success that we've had, whether it's the ability to deliver predictable margins and generate surplus that allows us to reinvest, whether it is the great experience that the physicians and patients have had, more doctors are joining in. And today, we now work with virtually every type of medical group in the country. And so, that wasn't true at the time of the IPO. We added our first health system, which will go live as of January 1 of this year. And so, I think the market opportunity is bigger. I think it's broader in terms of the diversity which is there.

And then, I guess, the last thing I would say is the network that we built, we knew that was a tremendous asset for us at the time of the IPO. It's far greater than we would have predicted. You can see it in growth in terms of the reference capability for [ph] others, doctors (00:06:09) to get comfortable and in terms of the clinical innovation that we're able to do on one market and expand it out.

Michael Ha
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. And on top of the significant growth, you talked about medical cost trend earlier and you just mentioned some clinical initiatives. Maybe just to double click into the clinical initiatives, could you talk about some of them, some of them that supports improving quality, costs, how does Agilon's partnership with primary care physicians help to improve care over time?

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

A

Yeah. Absolutely. I totally appreciate the question. So, I think it starts with everything we do is built around enhancing this patient-physician relationship. We work with doctors that have been in their communities for decades, but the reality is prior to our partnership, they didn't have a business model that allowed them to invest in the resources of a care team. Those social workers or pharmacists or care managers, they weren't there prior

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to that. And so, that care team that surrounds them is really at the heart of what we're trying to do, and that's a big change and that's a big part of our kind of clinical baseline investment. The second thing is this investment in information and data that allows them to really understand where their patients are. Those most complex patients, are they going in the ER, are they going to the hospital? And so, we have sort of this surveillance capability that we've invested in that we have in all of our markets that allows us to know where those patients are at.

Those two foundational things then allow us to add programs on top of them. But I'll just tell you, coming from a health plan side, like we have a transition of care program that we've implemented. We have nurses in the ER. We have nurses that are doing pre-discharge planning. The results in that program are significantly better than what I saw from the payer side because of that trust. When you go into the ER or you're in the hospital, if your doctor has a patient, if I round on you, I'd say I'm part of Dr. Ho's care team, the trust of that patient has in you and the likelihood for them to comply, the likelihood to follow up within two days is far greater than what you see in others.

And so, like in Pittsburgh, which is a market that's a couple of years old for us, we rolled out those resources last year. We put the surveillance system. They've seen a 32% year-over-year reduction in their readmission rate for those most complex patients. Now, that's world class. I mean, that's really dramatic. We're not going to necessarily do it at that level in every single market, but it just shows you when you put those together what can happen.

Another example I'll give you is work we're doing in now seven markets with complex kidney disease patients and end-stage renal disease patients. And so, we've been able to better identify who those patients are and then work with two different partners to be able to provide home-based resources, whether they're nurses or whether they're physicians that really allow stabilizing these patients.

These patients have been with their primary care physician all along, but they're not seeing their PCP as often. They're very difficult. It's difficult for them to come into the office as an example. And so, the ability to have a home-based team, they can go in and do that. But the patient has to be comfortable with that. And so, these national partners have told us, on average, they have a 35% to 40% enrollment rate when they're offered this home-based team. Our enrollment rate is 80%.

And so, I think you can talk about programs, and I've invested in for decades, the return on investment of a program is directly correlated to the trust that that patient has with the primary care physician and how that's introduced to them. So, those are two examples that I think really kind of call out the power of the model.

Michael Ha
Analyst, Morgan Stanley & Co. LLC

Q

Thank you for that. I think that speaks to the power of your model and just the stigma between payers and the patients and providers and where they fit into the mold. So, in thinking about the growth algorithm, how does the company think about growth? I know you have a 2026 outlook for 750,000 to 850,000 MA members. What's embedded in that outlook?

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

A

Do you want to take that, Tim?

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

A

Yeah. And from the – just the growth part of the algorithm itself, getting to our 2026 overall outlook, getting to that 750,000 plus members is obviously a huge part of that. By the way, one of the reasons – let me kind of just talk to the build and then we'll talk about some of the [ph] ways of (00:10:41) why we think we can get to that number. But, today, we've got – just reported about 260,000 MA members on the platform. We think we're going to finish the year around 270,000. But we've got a huge class starting next year, about 80,000 members. With this year's ending membership, put 80,000 on – get about – continue to get kind of low- to mid-teens same geography growth, we're going to be close to 400,000 MA members in 2023. So, that's like a really good large starting point. From there, if we can – and I'll talk to you about how we might be able to do this, but if we continue to run at, say, 50,000 to 60,000 new market members every year, which is well within what we've been doing in the last few years, and can maintain that kind of low- to mid-teens same geography growth, that will get you to 750,000 members by 2026.

We have a ton of confidence in our ability to do that when you consider both the size of the TAM and the fact that we really expanded our TAM over the last few years and the types of partners that we can – or the types of PCP groups that we can partner with, not just the original groups that we partnered with that are really pure PCP-focused groups, but groups that are also multispecialty groups now that are kind of PO-based more distributed networks, especially like the large group we're bringing on next year with United Physicians outside of Detroit is in that kind of a model, and that's tremendously increased our TAM overall. And now, of course, we're going to our first health system with MaineHealth. So, when you think about the amount that we've expanded the TAM through the diversity of groups that we can partner with, we're pretty confident being able to get to those numbers from a growth perspective certainly.

Michael Ha
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. Interesting. It's sounds like you're doing a lot of interesting things on the specialists side. And on the health system side, the partnership, I guess, how should we think about the forward growth and entering potentially more health system partnerships?

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

A

I can start with that. I mean, I think that we're implementing MaineHealth, which is our first health system right now. I think, as we look at our class of 2024 and beyond, there is tremendous interest in health systems around the country. Andy Mueller is the CEO at MaineHealth, he's primary care physician by training, if you listen to Andy, and he talks about the challenges and the role that primary care can play in transforming the overall health of the community in Maine and transforming MaineHealth overall, it sounds very much like others. Primary care is really that catalyst. They've got a real challenge in their Medicare business, which our partners are facing. And the challenges come from that fee-for-service world. So, they're losing money on Medicare today. They've got a tremendous asset with 200 primary care plus physicians and the ability to change the way the model is paid, to be able to surround them with resources and leverage many of the existing resources they've got, but use them differently is why they made that decision.

Our implementation with them is going very well. We obviously don't have live results because we're not live as of yet. But what I would say is in that robust pipeline, there is a lot of interest from health systems around that, and it's increasing. I think this where I started, which is the demand for this new primary care model is far greater than

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we predicted. The opportunity is bigger than we predicted even a year ago is reflected in those health system conversations as well as independent groups and others.

Michael Ha
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And when you look at new markets, it sounds like the quality of the provider group, is that the top priority in new market criteria selection or is it a combination?

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

A

Yeah. I mean, we have an outstanding business development team. We're talking about it earlier. You know some of those folks. And we have a very focused view around the market in terms of the MA growth rate, in terms of the penetration rate, in terms of the benchmark rate. But the single biggest factor around that is finding that quality group that you're going to build around, because we're going to enter these markets at scale. So, these groups typically have 15%, 20%, 25% of the adult primary care capacity in that market. We start with them and then other physicians join rapidly.

Our same geography growth rate. Tim was talking about mid-teens. Each one was a big part of that as other physicians that are joining into that. And so, that quality group is such a key part of our success and being able to build around them. I think what we're finding that's changed even in the last 12 to 15 months is the breadth of those groups that are out there is far greater and the interest level in making this move has only accelerated.

Michael Ha
Analyst, Morgan Stanley & Co. LLC

Q

Great. So, it sounds like the pipeline for new partners next year and in 2024 is sounding pretty robust...

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

A

Yeah. I mean, the pipeline has expanded from the top of the funnel down, I would say, it's more robust than it's been in any year. We have two letters of intent, as we shared on our last Q call, already signed. We've never had them this early on. We're in implementation. Those will be like 16-month implementations typically. We're doing 12. Each month as you do that allows you to start in a better place. And the breadth of folks that are interested at the top of the funnel is broader. So, I think the opportunities we believe in the class of 2024 and beyond are really great. I mean, Tim talked about kind of the assumptions that build up in our multiyear model around that.

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

A

I would just say, it's interesting, this expansion of the TAM for growth that we talked about and two of the biggest new partners that we're bringing on as part of this 80,000 member groups next year are in two of these newer models, a big kind of physician organization type group in Michigan as well as MaineHealth. And it's allowed us to get more members of – and we've a big group this year too, like, 56,000 members year-to-date that we brought on through new markets. So, those are the two biggest classes we've done. And the fact that we're getting sort of that accelerated growth right now and get those members on early, that in combination with a lot of the clinical programs that Steve was talking about that are driving this improved member – or patient outcome really puts us in a great position to just build that longer term overall kind of P&L algorithm as well.

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Sort of the way it works is, if you think about today that I think I said upfront that we're getting like $109 medical margin PMPM blended across although that's heavily diluted by newer members and newer markets, underneath there, we have markets that have been around for more than one year – or for at least one year running at about $136, that's a big improvement over the last year. I think we're up by 26% with that group on medical margin. When you take that all the way to the groups that are really mature, like three-plus years that have been out there, they're running over $150 average medical margin now. And that includes dilution from the fact that they're growing same geography growth, which dilutes their overall number. And we see that number of course continue – that $150, even that group will continue to improve.

But the way the math works around this growth thing is interesting because, today, the – only about 60% of our members are actually in markets that are at least three-years-old. By the time we get out to 2026 because we brought so much growth on in this year and next year, 86% of our membership will be in markets that are three years-plus. And those are markets that today are getting like that $150 medical margin. Now, interestingly, to get all the way out to our 2026 margin targets with those 750,000 members, we have to get the average from $100 or so today all the way up to $165. But when you think about that it's being driven by those more mature markets, essentially, our medical margin ramp is driven by those markets maturing more than anything else. So, that most mature group and much more of our membership being in that mature group gives us a lot of confidence that we can get to that, say, $165 medical margin number that'll make our 2026 algorithm work.

And by the way, we have a number of markets blended today that are running well over $150 and pushing up towards $200. And even in those markets, when you think about the clinical programs that Steve talked about, we've got – we have line of sight to at least $100 additional medical margin PMPM from driving those continued improved member outcomes behind those clinical programs. So, we've got a lot of confidence that we can get to the 750,000 members that we talked about upfront, but then we can also get to that $165 medical margin PMPM.

And by the way, the reason that's important to us is, when we grow that medical margin, it sits on top of an incredibly light operating model that's hugely leverageable. So, our platform support cost, which is what all that sits on top of, year-to-date this year, it's running at about a little over, I think, 5% of revenue. That's down more than a full percent a year. We've been taking about a full percent off it every year. We have to get that number from that 5% range over the next four years down to about 3%. So, clearly, that growth is going to be able to drive that leverage in our mind.

And when you put those together, you put on top of that the assumption that, hey, we also have this Direct Contracting that will transition to ACO REACH program that we do expect to be less profitable than MA, but still we expect to get some pretty good performance out of it and you start getting that number with some reasonable expectations around medical margin and some light membership growth between now and 2026 and we get $50 million or so of adjusted EBITDA out of that, all of that adds up from the 750,000 members at $165 medical margin flowing through on top of our very leverageable platform forecast model with a little help from Direct Contracting.

And we're really confident that we're going to get to a 2026 profitability number of, like, somewhere between the high $500 million to low $600 million of adjusted EBITDA. So, we've got – it all starts with that growth in those clinical programs, but that all – I would say the success and the momentum that we've seen through the last few years gives us a lot of confidence that that's the way it's going to work and we'll get to those numbers.

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

A

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We really have a growth algorithm, which we very simply say grow markets, grow members, grow medical margin. Tim just described that. But what I would tell you is the way we're winning today is that our physicians are loving the model. Their experience is fantastic. And they're seeing the quality and the satisfaction from their patients be higher than they've ever seen. And these are patients who've been with them for a long time. On average, these patients are with their physicians for 13, 14 years before we start that partnership, and we build on that which gives a lot of that continuity. Those Net Promoter Scores I talked about are north of 80%.

And one of the keys to that is retention. If you look at the retention in our model, it's north of 90%. I mean, I think if you look at anyone else in the space, it's got to be 70% or lower. And it's really a function of what I just talked about, but when you really simplify it, if we keep delivering on a great experience and a great quality for physicians and patients, making those investments we talked about, we're going to win and other docs are going to want to join and you're going to do that, and that's important.

Michael Ha
Analyst, Morgan Stanley & Co. LLC
Q

Right. No, thank you for that. And I think that was a major point of differentiation. Your patient retention is significantly better...

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

Yeah.

Michael Ha
Analyst, Morgan Stanley & Co. LLC
Q

...than most of your peers. Not to mention your physicians are more tenured. The average patient [ph] counts (00:22:34) are much larger. I think the quality of care is truly different.

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

It also drives tremendously lower sort of member acquisition costs for us as well. So, we've got that kind of double good news that on the one hand it doesn't cost us a lot to bring a member on board on the platform, at the same time that we're getting this great development of that member in terms of developing medical margin over time. And we've got obviously a really strong balance sheet. So, we've got – we're well capitalized, but don't have a high capital-intensive model. So, that's really working well for us. And certainly, in this environment, to be able to say we certainly don't have to raise any additional capital anytime to hit our long-term objectives is a great place to be.

Michael Ha
Analyst, Morgan Stanley & Co. LLC
Q

That's great. Maybe shifting gears real quick to M&A. It's been very active to say the least with CVS-Signify, Amazon-One Medical. I guess, my question is what does it all mean to Agilon?

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

Well, I think – well, I can tell you what I [ph] wrote (00:23:37) our doctors, right, because it's just accelerating, there's like an announcement every couple of weeks. And I think our prediction is there's going to be more of

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them. I think what it says is the world [ph] depending (00:23:50) from a variety of chairs and people who are looking at opportunity are saying primary care is ripe for disruption. And I think you don't have to be a healthcare person. You can look at a lot of analogs from other industries to say the access model can be better, right? The access for patients, the experience for the physician and for the patient can be a lot better. And the efficiency and the effectiveness of the investment and the return on that investment in terms of better health and in terms of lower expenses can be a heck of a lot better. And so, we believed that for a long time. I think just a lot more people are sort of validating.

I think the second thing it means is the competition for the scarce resource, which is the primary care physician, is being elevated. And so, we have a head start where our traction, the growth rates that we're seeing, the reputation we're building for physicians, we need to double down on that. Those care teams I talked about, those clinical investments, the ability to really provide a great experience for patients and physicians and have communities get the benefit of that, the more that we do around that, other physicians in these communities are going to see that and they're going to continue to join in at the rate or even faster than that. And so, I think that's sort of the basis of competition is what I would say. And there's a lot of capital out there, but I think it really is in if you're going to make that decision as a physician to make this move, where do you want to do that. And the track record that we're laying down around is just so important to be able to continue that momentum and drive it going forward. So, that's what we really see as a key part of that.

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

Michael, one thing I'd add is if you think about sort of the way the healthcare industry has evolved, so the last 40 years really defined by fee-for-service, and that's obviously changing because of the macro items Steve talked about is changing because of government policy. But risk is moving down to the provider and PCPs are in the very best position to manage risk. And Steve talked about how the basis for competition is really for PCPs, but the value of a PCP on our platform continues to increase. And we just feel so confident that we are so differentiated and the value that we're creating for the PCPs and their patients is just head and shoulders above what some of these alternative strategies look like.

Michael Ha
Analyst, Morgan Stanley & Co. LLC
Q

I think that makes a lot of sense. Basically, all the value-based care companies have gone public. They talk about the whitespace opportunity, which is massive. But in 10 years from now when it's much more saturated, mature market, I feel like your differentiated strategy and actually partnering with physicians, providing more incentives might be the competitive advantage that really shines in 10 years from now. And – yeah.

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

Well, I think so. I mean, I think that primary care physicians should be the most valued player in communities. They're not in the fee-for-service system. We changed that. We put them in position to actually practice medicine the way they were trained and surround them with those resources. The patients get the benefit of that. And it's the ability to; A, change their economics; but B, really reinvest in the role of primary care within that local community, that care team, those programs that we talked about, I think, it's differentiated.

I mean – I'll tell you. I think our physicians really push us on let's keep pushing that quality lever, let's keep on pushing that clinical innovation side, because if we do that, we'll win. And docs are smart. I mean, they understand evidence-based medicine, they can understand outcomes and they can see it, and our results have

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been super compelling. But we are scratching the surface in terms of where we can go. And that's our focus. We try and not get distracted by kind of all the noise around. Because if we do that well, we'll win.

Michael Ha
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thank you. Maybe I'll pause for any audience questions. If you – feel free to raise your hand. Okay. Well, maybe I'll ask another question then. And this will just be the really high level. What are investors right now currently underappreciating about the Agilon story that they'll come to appreciate in 18 months from now?

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

[indiscernible] (00:28:29)...

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

...why don't I start...?

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

Yeah.

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

I think that there's several companies similar to us that all came public at the same time. And I think investors are still trying to figure out what that winning strategy will be. And we are still doing a fair amount of sort of education with investors about how we are differentiated. We do have a really incredible core group of shareholders that have a really deep appreciation for what we do.

I think the things that really differentiate us that will start to shine through will be the level of scale we have in these markets. And Steve talked about these clinical investments, but they are really to a certain degree enabled by scale, because you're leveraging these investments off a much bigger membership base, the fact that we're a first mover in these markets, and that's reflected in the same geography growth, and also the fact that we just have this deep alignment with these physician groups. This isn't a short-term affiliation. This is a 20-year joint venture. There's tremendous value that we are delivering back into these communities. And I think those are the differentiators in the model that will ultimately shine through. And we hope investors come to appreciate that more and more.

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

Yeah. And I would just say the combination of those things being first in 12 states and 25 communities with these incredible partners has really kind of de-risked the forward growth and that sort of progression that Tim talked about. I mean, I just think everything that's just happened to-date puts us in such a great position going forward.

Michael Ha
Analyst, Morgan Stanley & Co. LLC
Q

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Great. And I didn't realize you've almost 20% market share PCPs in your markets. That's tremendous scale and leverage for downstream provider rates and everything.

Michael Ha

Analyst, Morgan Stanley & Co. LLC

Well, we're right at time. And thank you, guys, for your time. Thank you, and have a great day.

Steven J. Sell

Chief Executive Officer, President & Director, Agilon Health, Inc.

Great. Thank you.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

Thanks, Michael. Appreciate it.

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