08-Sep-2022

Agilon Health, Inc. (AGL)

Wells Fargo Healthcare Conference - Fireside Chat

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CORPORATE PARTICIPANTS

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

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.

OTHER PARTICIPANTS

Stephen Baxter
Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Stephen Baxter

Analyst, Wells Fargo Securities LLC

Hey. Good morning, everyone. I'm Steve Baxter, the Healthcare Services Analyst here at Wells Fargo. I'm very pleased to be joined by Agilon Health. Agilon is a physician-enabling company focused on value-based care and enabling primary care physicians to take financial risk on their Medicare patients. Traditionally, the company has been focused on independent primary care groups. But recently, it did announce its first partnership with the health system.

We're joined today by Tim Bensley, the Chief Financial Officer; Veeral Desai, Chief Strategy and Development Officer; and Matt Gillmor from Investor Relations.

So, with that, let's get started.

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QUESTION AND ANSWER SECTION

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

So, yeah, I guess just as I frame in, 2022 has been another really strong year on the membership side, another strong year for margin expansion. You guys have a lot of really strong cohort data you presented earlier at your Investor Day earlier this year. But let me just get your perspective as a CFO. Basically, how is the year progressing relative to your expectations? How is the company investing and setting yourself up [indiscernible] (00:00:57)?

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

A

Yeah. No. Absolutely, Stephen. And by the way, thanks for having us at the conference, and it's been great so far. So, really, really nice to see you down here, and thanks for the question.

I think you did a nice summary of my answer already there. But, no, yeah, it's been a really strong year. And I think kind of in the spirit of your question about what that means also going forward, I think the strength of the performance has been across each of the components are important for us to drive the long-term value that we're looking to drive. Our model is basically one about really strong growth, bringing new PCPs and new members on to the platform, really having a great aligned set of PCPs, the model aligning them to basically drive significantly improved cost and quality outcome for the members. So, that's driving the margin part of it at the end of the day. And we're doing well against all those components.

So, just to kind of take through it real quickly without taking up all of our 30 minutes here. The membership has been really strong. I mean, we added about 117,000 members in the first half of this year versus last year. And that's including both our MA membership and our direct contracting membership [indiscernible] (00:02:10) make up about 25% of our membership today. But just the MA part of it, it's up like 44% year-over-year, and it's very strong on both sides. I mean, we have like 13% same geography growth. And our ability to grow members in the same geography is such an important part of our long-term algorithm. That's a big deal. And we've added about 56,000 members from new markets, and that's a big number for us. And probably you remember earlier in the year, we said we'd add about 50,000...

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Yeah.

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

A

...through better attribution methodologies in everything that we're doing to focus. We're up to about 56,000 members in those six markets today, so that's great. And each year that number has been getting a bit bigger, which I think is really reflective of sort of an inflection in the demand for our model. And I'm sure we'll have...

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Yes.

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

...an opportunity to talk more about that, so I won't get into it. But those growth numbers are really fantastic for us right now. And as you look down to what we're doing with margin, which is also really important to our long-term algorithm because obviously our ability to continue to grow that average, medical margin is important.

We said MA membership was up about 44% year-to-date. Our medical margin, generated by those MA members, it was up about 57% year-to-date. It's like $168 million now. And if you flip that back to a PMPM basis, blended across all of those 261,000 or so MA members, we're seeing medical margins of about $109 through the first six months. So, that's up like 9% from a year ago, so that's great. But that's hugely diluted by the fact that we've got...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yes.

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

...all of the new members on the platform, which operated at a way lower level. And if you just look at the members that have been on board or the markets that have been on board for at least one year, for one year or more, that medical margin is like up 26% to like $136. So, when we get into maybe later talking a little bit about the longer term algorithm...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

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

...moving those groups, even with the dilution of same geography growth up to $136 is a really big number for us. And all that we're seeing good EBITDA flow through now, too, versus a year ago. That's a factor of that medical margin flowing through on top of a pretty light overall overhead model. And we've been getting a point plus out of our overhead as a percent of revenue. Each year it's down to just a little over 5%. That's more than a point improvement from year ago. And all of that is building to our conviction around the guidance that we gave for long-term EBITDA...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

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

...performance of getting to positive EBITDA this year of somewhere between $0 and $10 million.

So, I think it is really strong. I think all of those elements speak well to the long-term value that we can create as we continue to build those. And it just I think reemphasizes that idea that our ability to grow, but while we're

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growing, grow profitably is kind of a hallmark of the overall model. So, I know we can get into some of the details particularly around the growth parts. I'll leave it at that.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah. No, that's a great start. And then, to your point, the growth is something that clearly is really attractive about the model, like really would love to just get a sense. There's a bunch of different facets to it. But starting with potentially like new anchor partners for the independent groups, would love to just hear a little bit about kind of the process of how that gets off the ground, how you identify these prospective groups, what the diligence process looks like, and what really makes for a good fit for you, guys, to identify these new anchor groups.

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

Yeah. Sure.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

Sure, Stephen, and thanks for having us.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

Maybe I'll just start with a couple of global observations around what we're seeing in the market and then come back to our development process and how that's evolved. But I'd say the idea around full-risk Medicare Advantage, the role of the senior population in this type of model can mean for a broken primary care business model is now mainstream. I would say that was not the case five-plus years ago when we started the company.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

And I think what's particularly been powerful about our network and our trajectory has been the applicability of that model to a broad base of primary care physicians, primary care physicians that sit in a medical group setting and a primary care physician-only group with multispecialty groups, with what we call scale network models of affiliated independent physicians, and now the health system model, which we'll come back and talk about.

The other piece that I think is impacting the trajectory is that the value that people are seeing in value.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

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Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

The economic model and the proof points that we can go to partners with around here is a group that looks like [indiscernible] (00:06:53) in terms of MA penetration, where the benchmark sits, what growth rates look like, what group composition looks like. And here's how they're performing in year two, in year four, in year five. That's something we weren't able to do. And I think that's creating an inflection in the platform that's reflective of what we're seeing as an inflection in the market. And I think those two are related to each other.

Our development process is very overt. We look deeply at the markets. We try and understand what does the underlying composition of those markets look like in terms of Medicare enrollment, growth rates, MA penetration, where the benchmark sit, what are the underlying payor dynamics in those markets.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

And then, ultimately, it's about the partner. So, we spend a lot of time looking at the attractive attributes of a physician group and partner. And so, when you think about our model, our model is all around partnering with existing capacity. It's a big difference, right? Existing capacity in the market, and physician groups that view this strategy as a core strategy for primary care...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

...for the way in which they're going to advance their Medicare strategy and fundamentally create a substantial new value stream in their business, but by doing so in a model that is deeply aligned clinically with the way they want to serve the community.

Today, the primary care business model is focused around the commercial book of business.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

That world is changing. The mix of Medicare patients continues to grow. The economics they derive from commercial are under significant duress. And so, our ability to go create a completely new line of business, leveraging a completely different payment model that really aligns clinical capacity against the patient population that really needs it gives us a really unique window and opportunity into working with these groups.

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So, your question was more around our process, but I wanted to share those observations. and I'd also just say that partner, a 20-year partnerships,...

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

[indiscernible] (00:09:10) Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.

A

...especially as we start to talk about health system, it's not any given partner. We have a lot more, I'd say, awareness around our model because of having 23 groups across the country and being in a dozen states. That evaluation criteria around the strength of that group's physician leadership for the independent groups, their real propensity and desire to stay independent, the strength of their governance, the way in which they want to transparently share data to drive performance, all really important ingredients in terms of how we assess a market, how we assess a partner.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

And then, these groups do have choices, right, even if they decide that they're going to do something, even if they decide that they're going to want to remain independent as part of the model. I guess, how do you guys feel like you differentiate yourself? Why are you the right partner for these physician groups versus other alternatives in the market?

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.

A

Well, one key area that I'd start with is, for our independent groups, they view this as a strategy to not just sustain, but to really go on offense in their markets and do so again with the model that's oriented around helping them sustain their independence, but reallocate clinical capacity within the clinic and within their own resource base against the senior population.

I would tell you there are models out there that are going to be more oriented around how do you drive fee for service,...

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.

A

...how do you drive fee for service commercial rate. There are going to be models that are oriented around employment, acquisition, of practices. But when you think about a truly independent platform that's enabling groups to stay within their current ownership structure, create a completely new value stream, be able to meet you where you are in terms of what technology stack are you sitting on, all of those ingredients I think are what put us in a unique position in terms of serving the market, and it's a big market. There's a place for all of those models. But when I think about the 200,000 primary care physicians and where the puck is going, the puck is going towards more and more Medicare density in your panel and more and more of that population being in a

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full-risk model. And the work we've done in terms of our platform, both around the MA side and the [indiscernible] (00:11:42), it puts us in a really unique position to be that partner.

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

And I think, just to build on that a little bit, I think one of the competitive advantages is that we really do approach it as a true partnership. I mean, obviously, they're bringing something very important. They're bringing the PCPs and the members, but we're also bringing a lot to make this work that would be difficult for them to do on their own that we bring probably more than anyone else. We're bringing the capital to basically get this thing set up and make that investment during that implementation year. And I think you know we spend like up to a full year investing in that market before we're generating any kind of...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Right.

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

Evcen going live, we're generating I think. That's a big investment that obviously these guys can't take one on their own.

And then, once we get into it, obviously, we're in this 50/50 sharing, but we protect them on the downside. And I think that's a big advantage as well for our market. But the biggest thing gets to what – one of the biggest thing gets to what Veeral was saying is we've now got so many proof points across such a diverse set of partners that a new partner coming in can look at it and say – and you can talk about this better than me, but you can come in and look at it and say, well, here is two other partners that you already have, they are making this work and I can see what they're generating.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

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

And I can see one year, two years, three years down the road on how much economic value they're getting out of it and how much better their practice is performing. I think that's really attractive and it's really a good selling point for us obviously to bring more folks on. And that's part of why we're seeing an inflection in demand I think for our model and why we're seeing our new market growth kind of increase. I mean, you talked about it upfront. We've got the class of 2023 that we are implementing now, that we're making that investment in, going to be 80,000 members. It's our biggest class to-date. So, I don't know if I missed something there.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

Yeah. No, I think that's all right both in terms of bringing new partners on. But I'd also say our confidence level around implementation and the ability to drive predictable year one margin that has a much more rapid rate of change is a reflection that our platform is getting smarter. Our ability to work with 30 different health plans, ingest

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their data to be able to ingest a dozen different EMRs, thinking about our workflow and our processes and how they integrate at the point of care, the cycle times around being able to do that, our ability to secure payor contracts with any payor in the country. All of those elements I think give us a lot more confidence around, one, the built-for-the-purpose nature of our platform, how that will serve our partners, and then how that translates to outcomes faster.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

That makes a lot of sense. And then, when you're thinking about in-market development, I guess, we'd love to understand what aspects of it are similar and then what components of it are different [indiscernible] (00:14:22).

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

Yeah. So, one thing I would call out at the start, as you think about same market growth, is the quality of our underlying markets. And as you think about class of 2023, that the underlying growth that sits in those markets take a Charleston, South Carolina, a Jackson, Tennessee, these are groups that on a MA sort of membership basis [indiscernible] (00:14:48) are growing 12%, 13% a year. That's a function of low MA penetration, massive growth in the senior population, and greater adoption of the product.

So, one, market selection is really important. Two, now, how does our model help us go after the in-market TAM opportunity? I'll start with what's in the physician practice today. So, you start off going live with [indiscernible] (00:15:18) the MA patients that are on your panel, but immediately accessible to you are the Medicare fee-for-service patients, the commercial agent patients, and being very intentional around creating a [ph] branded kind of (00:15:30) delivery program that patients can go make a decision about and be informed about what are the opportunities and services available to them through a care delivery program that we brand in the market under the image of our partner practice.

That yields really significant outcome in terms of appropriate conversion of Medicare fee-for-service patients into the model, commercial agent. We're then thinking about how are we dramatically improving access for the community. We do an access study at the start of every implementation. Where do we want to make strategic investments in primary care capacity, in advanced practitioner capacity? All of that allows our physicians to open their panels, to expand into new geographies that create access. That also is a major source of growth within the practice.

Each of our markets, take Akron as an example. Akron, we started four years ago with 35 physicians, 6,500 MA lives. Today, we're sitting at 70 physicians with 30,000 lives across MA and DCE. But I still have a total addressable market of nearly 200,000 additional lives to go get.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

And so, the in-market opportunity is massive. There's two ways to get after that. One is in Akron or our anchor practice there, [ph] Pioneer and Family Physicians (00:16:53), has become the most desired place to practice. So,

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the ability to go acquire smaller practices, have doctors join that might be coming out of the local health system, and to now recruit new doctors from outside the geography to Akron is differentiated, so the practice grows.

The other way in which we can drive growth is through what we call a network model, which is you have an anchor practice like Pioneer. There was another significant practice that was independent, wanted to remain within their own governance and organizational structure, but could join the network and begin to access contracts and the model. So, that's what we call kind of the network model. But all of those vectors, when you think about kind of the baseline growth base off the markets that we've selected, and just the tailwinds that exist within the industry combined with the ways in which we can grow organically within the panels of the physicians today, combined with the ways in which the groups are now enabled to aggregate within their markets and bring in physicians that sit outside of their [indiscernible] (00:18:06), outside of their group, that's what gives us a lot of confidence that you've got an enduring, durable 13% to 15%, say, market growth rate.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Got it. And then to touch on I think at least initially, I didn't necessarily think that the hospital market, hospital systems were something that was going to be available to you when you think about the primary care physician group today. You surprised me at least by announcing a partnership up in Maine that'll go effective for next year, a big source of growth for you.

Love to just hear a little bit about, traditionally, I think most people think that models like yours and others are about keeping people out of the hospital. And it's just kind of like structurally be hard to kind of ever get over that friction and make it work for the health system from a financial point of view. Would love to just hear you talk about like why that's different in Maine, kind of how you guys are going to solve for that problem I think the capacity challenge [ph] perhaps to (00:19:00) some degree. And I guess, is this an extremely unique situation? I guess, how do we think about how repeatable this type of partnership could be.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.

A

Yeah. No, it's a great question. And I think as we look at the market, we continue to believe there is significant strength and opportunity in the independent primary care market. And our pipeline is incredibly robust in that area as our proof points. But the opportunity to impact – healthcare in these communities, half the physicians in the country are sitting in the health system, and those health systems have made massive investments around their primary care capacity. Most of them are losing $100,000 per year per primary care physician. They don't have a widget or a business model that's going to allow them to monetize that investment nor do they have an ability to look at their Medicare strategy, right, on a long-term basis in a way that aligns with their community and mission goals and from a business model perspective.

And, in Maine, I think we saw a bunch of things that I'd say were distinctive but not necessarily unique because I think they exist in other parts of the market. MaineHealth, tremendously strong leadership position, leadership position CEO, primary care physician CEO, down to tremendously strong leadership around a 300-physician medical group that sits within Maine. So, scale, quality of leadership, the way in which that group operates and governs, very unique and already real meaningful investments that were made around population health infrastructure. None of which are being monetized because they're in contracts that are suboptimized...

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

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Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

...and they're not performing but gives us kind of a unique starting point, a unique scale entry point.

And I'd also say they had a different disposition. They looked at their inpatient utilization and like every hospital, they worry about it. But for them, they looked at it and said, gosh, I've got a bunch of Medicare lives filling that bed capacity. That's not optimized relative to where I can be leveraging that bed capacity against commercial lots.

And so, our model, the synergy for the right progressive system that is thinking about what's my primary care strategy, what's my independent alignment strategy because I can't own and employ everybody, but I want to create this ecosystem within the community. What's my funding mechanism around my population health infrastructure? What's the ways in which I can have a more deliberate inpatient strategy? How am I going to monetize my investments around my ambulatory strategy? All of those things actually hang together incredibly well with MaineHealth.

I'd also say the implementation and what we've learned is that it's not that different from what we would do on the independent groups. We go in, [ph] we'd be able (00:22:10) to drive a single point of care experience through [ph] EPIC. We've integrated with EPIC (00:22:14) with a number of our integrated groups. We're able to create the same level of physician engagement and alignment. Their physicians candidly are as engaged as anyone we have in the country in terms of taking on leadership roles and standing up [indiscernible] (00:22:29) and quality programs.

And so, it's still early. We're in the implementation year...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

...but I think the promise around the opportunity and to me the replicability around the core ingredients that drove Maine to feel like they needed a partner to make this decision, and our confidence level around the ability to implement and drive performance are really high. And so, I think, for us, the only caveat I would give is it's not going to be every given system or any given system.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

Partner selection was really important in this process. It's going to continue to be really important.

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Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Got it. The only question I have, and it would be interesting to hear your point of view [indiscernible] (00:23:09). You do wonder the powers of the incentives are strong I guess, theoretically, the gains you accrue to the health system to help them [indiscernible] (00:23:18) the financial challenge that they are in versus an independent setting would maybe translate more directly through to the physicians. I guess, how do you guys think about that dynamic? And obviously, it feels to me at least like a big part of how you guys are successful as you put the physician in charge and you say, hey, every dollar you save, here's $0.50 of it. I guess that doesn't necessarily work that directly in the health system. Is there a reason to think that [indiscernible] (00:23:40) any different over time?

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.

A

Yeah. Well, compensation models are really important. It starts with the payment model and getting that right with the health plans and with Medicare, and that's what facilitates all of this. As you think about the value that ultimately then accrues to our partner, that's a really active part of the dialogue, and that's not something we do once the deal is signed. We're having a conversation with our partners very early around. What is your compensation model? How do you distribute economics? As we start to create surplus through our partnership, how will that flow to the physicians?

It's no different with MaineHealth. The conversations we have around incentive dollars that are coming in at the outset, how we're deploying capital to support the build-out of access and infrastructure? How we're making investments in population health infrastructure that's creating and reducing the administrative burden for those physicians? Those are all core elements of the value proposition to the physician. And when Maine thinks about this, they're really trying to look at how am I creating a more sustainable model for primary care where I can retain my physicians and I can systematically grow that physician base through a value stream. And so, a lot of that conversation comes back to, well, I have a lot more value that's now coming in to the system. How are the physicians participating in that in a way that I hadn't previously considered?

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Got it. That's good. And then, maybe the last one on the hospital side of things. So, as you guys are thinking about additional opportunities, is there any thought around like, hey, this is new, we're taking a wait-and-see approach, like maybe we wouldn't do another one of these until 2025, or do you think this is something that the confidence level [indiscernible] (00:25:27) maybe we get the 2024 and it's not a question that there could be another health system beyond that?

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.

A

I would say the pipeline and the inflection around the market has been consistent across the independents. And then I think since our announcement around MaineHealth and the trajectory of that implementation, the demand is really significant.

Our assessment will continue to be around the quality of the markets and the quality of the partners. And we feel, as we look ahead to 2024 and 2025, we feel like the pipeline kind of across the waterfront is really robust. The timing of when we might bring certain partners on is always an element of both the development process and our

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own judgment around how we want to implement. But I would say, at this stage, a lot of excitement around where we are in the implementation.

What I look forward to a year from now is being able to have the tangible results of how the business is performing, because I think that will be both an inflection point in our sales cycle...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

...and an inflection point in the pace at which we want to go drive that segment of the business.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

That makes sense.

Veeral Desai
Chief Strategy & Development Officer, Agilon Health, Inc.
A

But, Tim, what would you add about...

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

Actually, I was just going to say just almost what you said at the end, which is it's really impressive how much interest we have kind of across that segment even before we've been successful with one large market. And I think once we get up and show – just like we have in every other kind of segment of the TAM – once we get up and show, hey, we've been successful with one of these health systems, that's just going to really open up the selling season for health systems, for regional health systems.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Got it. Yeah. Okay. And then, on the financial side, maybe you guys have some pretty strong targets out there for 2026 on the membership side, the EBITDA side. One of the challenges I think people have as you have seen the underlying cohort performance, you guys gave some helpful data on that.

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

Sure.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

When we think about where you guys need to get from a medical margin point of view out in 2026, is it really as simple as rolling these cohorts forward and looking at a mix effect? I guess, how much of a buffer in there? Is it fair to assume that maybe not every group performs the way that they have so far? Just love to get your thoughts on [indiscernible] (00:27:48).

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

That's really a big part of it. And when you think of – they kind of comes back to the first question about how we're progressing today across kind of all the components that will drive our performance there. But the biggest thing is and the first thing we got to do is just hit – and by the way, I agree with you, we put out some really strong numbers for our 2026 projection.

I'd also say though I think they're pretty robust in terms of we have been putting up the proof points and put on the trajectory towards them. But if you think about we need to get out to that like 750,000 members to hit that number. The mix of that membership out there, to your point, has a big impact on the medical margin. But if you think about and probably have time to go through each component, maybe just focus on the medical margin part of it, we have to get from, say, a little bit under $100 we'll probably finish this year to about $165.

But, remember, the underlying medical margin for markets that are more than one year active right now for us in the first half this year is like $136 already. So, we're already headed in that direction. And when you look at that, say, $109 we put up in the first half of this year, 40% of our markets today have been active for one years to three years. When you get out to 2026, only about 14% of our markets will be in that one year or two year. So, we're going to literally get 86% of the medical margin dollars to get to that $165 PMPM, a medical margin PMPM. 85% of that or 84% of that is going to come from markets that will be – they are literally on the platform today either live or in implementation because it'll be generated from everybody that's live as of 2023.

So, our ability to continue to do the things that are driving that medical margin up and the underlying cohorts in combination with that mix impact, we'll just have a bigger mix of mature market...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

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

...gets you there pretty well, I think so.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

And if you happen to exceed your growth target, maybe the margins look different, but the dollar contribution is still there.

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

Yeah.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

So, I guess, if you grow faster, that doesn't mean that the EBITDA targets would [indiscernible] (00:29:49).

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

No. And there's not that big of a range, right? We put out a range at Investor Day...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

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

...and said, hey, if we went to 750,000 to 850,000 members, our medical margin assumption is $155 to $165. The $155 goes to the bigger membership number...

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah.

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

...because there's more dilution. But in both of those cases, we were higher EBITDA. So, we think at the 750,000 members, $165 medical margin PMPM, we can get to – with a little bit of contribution from direct contracting as well and the leverage of the overhead, we can get to high $500 million in terms of adjusted EBITDA. And even with the lower medical margin, a little more dilution, higher number, we would push over $600 million. So, yeah, that's the way it works.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Got it. And then, just a quick – I guess, we're actually out of time, so I might have to stop the conversation. Thank you, guys, for a very good discussion.

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

Yeah.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Really appreciate having you here.

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

Absolutely.

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Stephen Baxter

Analyst, Wells Fargo Securities LLC

Yeah. Thank you so much.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

[indiscernible] (00:30:38)

Veeral Desai

Chief Strategy & Development Officer, Agilon Health, Inc.

Appreciate it. Thank you.

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