07-Jun-2023

Agilon Health, Inc. (AGL)

William Blair Growth Stock Conference

Copyright © 2001-2023 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Ryan Daniels
Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Ryan Daniels
Analyst, William Blair & Co. LLC

So I'll go ahead and kick it off. Thank you everyone for coming to the Agilon Health Presentation. For those of you whom I have not yet met, my name is Ryan Daniels, I am the Healthcare Services and IT Analyst here at William Blair, and covers Agilon, so very pleased to have two members of the management team up here with us at the podium. First to my direct left is Tim Bensley, who is the company's Chief Financial Officer. Next to him is Steven Sell, the company's Chief Executive Officer. And up here in the front row is Matt Gillmor, who runs Investor Relations, who just waved as well. So very happy to have all three of them with us today.

Agilon is our top healthcare pick. We've talked about this heading into the conference. And to many of you who were in the offices this week, we think it's a great growth story with a ton of momentum and organization, really with a winning solution for patients, payers and providers, which is pretty unique in the healthcare market and really it's part of what's accelerating the growth profile leading to such a strong long-term outlook for the organization. So really happy to have them here to share the story. Just a couple of quick logistics. We will have a breakout session up in [ph] Janey A (00:01:10), following this. So we'll save the Q&A session for that immediately after. And I'm also required to inform you all that our disclosures on our website at williamblair.com.

So with that, I'm going to turn it over to Steve, who I think is going to kick us off and then Tim will finish [indiscernible] (00:01:27). Thanks, everyone.

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

All right. Thanks. Thanks, Ryan. Good afternoon, everybody. It's great to be here. It's been a really impactful last 12 months for our company and for our physician partners that we work for, and for their patients. And I'm really excited to share that update with you today. We thought we'd start with just some investment highlights if you're thinking about Agilon as an investment. And if you didn't know a lot about healthcare what would I encourage you to sort of think about?

Copyright © 2001-2023 FactSet CallStreet, LLC

The first is that we're in a really large, growing and attractive market. 10,000 people a day are turning age 65. The Medicare program will soon be spending $1 trillion a year in terms of covering all of those seniors. And it's also a market that's got some challenges that we'll talk about, looking – it's a market looking for solutions for both physicians and patients.

The second thing I'd call out is that we have a very unique solution. We partner in a long-term joint venture with physicians. People who've been in physician groups for decades, they're extremely well-respected within their communities. And that partnership creates incredible alignment with primary care physicians. That partnership model, in addition to creating alignment, allows us to do a few things, enter markets that have been 100% fee-for-service. And today we're in 32 markets in 14 states, which is pretty remarkable for a company that's 6.5 years old. And it gives us a real first mover advantage. We are moving not just our partners, but these communities from fee-for-service to risk. That's unlocking a tremendous opportunity that I'll talk to you about.

And finally, probably what I would focus on most is the results of the business. Ryan hit it. We are performing incredibly well when you look at cost and quality. What that means for patients and patient satisfaction. Our physicians are winning. They are materially changing the trajectory of their practices. And when that happens, other doctors notice and other doctors are joining in those 32 communities I talked about, but also in new communities. And so it's an incredibly efficient growth model that Tim will walk you through.

But let me back up and talk about the challenge within this huge market. My first point is it's really difficult to be a primary care physician serving the Medicare population today in a fee-for-service system. The economics for these primary care doctors are upside down, and it's got dramatically worse over the last couple of decades. It gets worse every year. In short, the cost of running these practices is growing far faster than the Medicare fee schedule reimbursement for primary care is, physicians are having to work harder. They're having to see more patients in order just to stay level. Not surprisingly, physicians are burning out. One in five primary care doctors are considering leaving the profession within the next couple of years. And in a time when everyone says we need more primary care, the growing shortage is only getting greater.

Second challenge. It's pretty difficult to be a senior patient in the Medicare program with fee-for-service underlying it. There is huge variability in terms of cost and quality. The experience is uncoordinated. It's fragmented. Your primary care doctor doesn't know what happens when you typically leave their office. But the senior patient really doesn't have anyone guiding them. Differences in quality and outcomes leads to dramatic differences in cost. Variability is a huge opportunity that I'm going to talk to you about. But when you look at the fee-for-service system today, you see 2x to 3x, the variation in terms of the spending in those regions and the amount of time that senior patients are spending in the hospital.

Finally, the system is asking more primary care doctors, whether it's CMS, whether it's health plans. People are saying the key to this is going to be we need more primary care, we need them at the forefront and we believe at the same time we should make the move to value. The problem is primary care physicians don't have a business model that will allow them to spend the time, allow them to coordinate all of that. We're solving that problem. We're creating a better healthcare system for communities. It's better for physicians and it's better for patients.

We call it our Total Care Model. And over the last 6.5 years, as we brought on 650,000 senior patients, as we're serving roughly 1.5% of the primary care physicians in the country, these are the results we've been able to drive across the three basic tenets that you need to be successful to deliver high-quality care, you need patient access. And we're seeing dramatic step-ups in terms of annual wellness visits for our senior patients, getting in, understanding what their conditions are.

Copyright © 2001-2023 FactSet CallStreet, LLC

Quality, particularly in terms of quality, dealing with those most complex patients, the Medicare program is fantastic in terms of calling out what best in class looks like. It's very easy to benchmark in the Medicare system. On quality, they have a five star system above four stars. They pay health plans, a 5% bonus. Getting above four stars is extremely important. Across all the markets I talked about in every single one of our [ph] year two (00:07:39) markets, we're across that four-star threshold. The value that provides to the government, the value that provides to payers and by association our physicians is significant.

And finally, you're going to hear me say this repeatedly. High quality care is cost effective care. When you drive that type of quality, senior patients spend less time in the hospital. They spend less time being readmitted into the hospital when they've been discharged, and they spend less time entering the emergency department, which is really the last place you want to be entering healthcare, unless it's absolutely necessary.

Now there's a couple of slides today that I'm going to call out for you that I would really hope that you remember, this is one of them. This is how we do this. And this shows you the primary care physician who's got that trusted relationship with the patients. Our partners bring that to this partnership. And it shows them dealing with complex patients. In this case, diabetics. Diabetics represent 25% to 30% of seniors. When their conditions are not managed, they can spend a lot of time in the ER, they can spend a lot of time in the hospital. And over the long-term, it can lead to catastrophic outcomes like blindness or amputation of limbs. Managing diabetics well is table stakes to be successful in value-based care and for our physicians to thrive and our patients to win.

What you can see on the right, in the upper right is basically what fee-for-service medicine looks like in this country. Medicare again tells you what best-in-class looks like for diabetics. You want to have 80-plus percent care gap closure on diabetic eye exams and 80-plus percent care gap closure on blood glucose control or A1c. Before we go to a market, oftentimes this is what it looks like. Physicians within a group may be operating the same EMR, operating with the same payers, each of which has their own practice, look at that variation. I talked about variability is an opportunity. Look at how variable they are in terms of treating diabetic patients. Each one of those docs is a primary care physician. In one year, we are able to move to the lower right and you can see how many of those primary care physicians are best-in-class as Medicare would define it. That movement is in 12 months. We're able to do this again and again and again. And the left shows you basically what's driving that.

We are able to provide these primary care doctors with a better information model and a better resource model and obviously a better economic and incentive model as we change the way they get paid and they're being rewarded for those outcomes on the right. This primary care physician now has a pharmacist available to work with their senior patients around medication adherence. They have a care manager who's able to follow-up with that patient after their visit. They have access to retinal cameras for those diabetic eye exams. They have a team that's able to go into the home to help manage those most challenging patients.

And in terms of information, they know when their patients are in the hospital and they know when they're being discharged. And they're – we're working with their schedules to get those patients in for a follow-up visit within 48 hours that has a dramatic impact. That happens across a variety of areas within senior patient care. This is just one example, but I think it's instructive about how we're able to go into diverse markets with very different types of groups and drive such significant improvements in quality.

Medicare benchmarks. It's very easy to look at what best-in-class looks like. And so not only are we delivering better performance than the overall Medicare Advantage program, but our partners are improving faster. What this shows you on those two critical areas, eye exams and A1c control, is that our partners are driving 2 to 3 times the rate of improvement for their senior patients. That is significant. What did I tell you, high quality care leads to

Copyright © 2001-2023 FactSet CallStreet, LLC

cost effective care. And so what do we see from a cost perspective, across our broad network, the difference between controlled patients and we showed you the how well our partners do one year in, in terms of controlling their diabetics, 50% fewer in-patient admissions. That is significant.

The hospital is a significant cost area for senior patients and nearly a 20% reduction in terms of total medical expenses. High-quality care is cost effective care. That performance is driving growth. There is a simple flywheel. What did I talk to you about in terms of investment themes? The biggest differentiator is our performance. The better we perform, the greater we grow. We are investing more in care delivery. Those care team resources that I showed you.

The more we invest, the more we're able to drive better patient outcomes. Those outcomes create economics. We split the surplus, which is Tim will walk you through. This is the difference between the revenue and the total health care costs, 50/50 with the partners, we absorb 100% of the downside, so you'll never lose money. Those new economics are changing the trajectory of that practice and addressing the challenge that I talked about at the very beginning. It's threatening primary care.

Other doctors are noticing, they're joining in existing communities and new committees and look at what it does to our growth. 32 markets, 1.5% of the primary care doctors within the country, each year is a record year. This year of 2023 we're north of 130,000 members joining the platform. And we've already let you know that in 2024, because this is such a forward-looking model, we'll have greater than 145,000 new senior patients.

That growth drives scale. And there's two competitive advantages that I want to call out for you that comes from that scale. The first is local. We're in 32 markets and in 14 states. And what have we done by going first to these markets? We've created an infrastructure that enables not just our partners, and health plans and hospitals and others to make the move to value-based care. It enables additional physicians and their patients who want to make that move.

In short, we have become the standard in these communities for doctors and patients who want to make that leap into the new world of value-based care. There is a tremendous in-market total addressable market within it. 10.5 million seniors, I just told you we're at 650,000. 33,000 primary care doctors. We have less than 3,000. If we never went to another community, the runway of opportunity is tremendous.

The second differentiator and competitive moat that we're building is in terms of national scale. The ability for us to invest in clinical programs, things like renal care, complex kidney disease, patients with CKD 4 and 5 better able to manage those conditions. Palliative, end of life care, able to work with families and patients around advance care planning and better manage that for a better quality last year or two of life.

The ability to invest in technology. We've just made an acquisition of our mphrX. They have a platform called Minerva, that allows us to connect faster with these electronic medical records that our partners have, identify patients earlier and get them aligned with those programs. We did not have these capabilities a couple of years ago. And when Tim shows you the other slide, which is going to show you the trajectory of each one of our markets and what's happening in medical margin across time, think about these differentiators in that scale. Tim?

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

Thanks, Steve. All right. I'm going to take you on a whirlwind tour of a very powerful financial model. For those of you that aren't really familiar with exactly how this works, what Steve was talking about, the left hand side of this slide just gives you a very simple understanding of how our model is built. So, we go in and enter a market at

Copyright © 2001-2023 FactSet CallStreet, LLC

scale with an existing PCP group, and we essentially get contracts with – contract with all of the payers in that market. Usually if you start on the left hand side of this page, at about 85% of the premium that those payers are receiving from CMS for the Medicare Advantage patients, we of course, take all the risk then for the course of care and the cost of care for those patients. And that typically, and that is, we typically do that obviously at a lower cost, and the revenue that we're receiving. The difference between those two numbers is what we call medical margin. So that's the surplus that we are generating in each market that we share essentially with our partners, 50-50. Now, before we do that, we actually have some operating costs. We bring into the market that are deducted from that medical margin to get to a market level profitability. That market level profitability is shared 50-50.

By the way, really important point we typically get to or typically at positive medical margin or generating a positive surplus with every one of our partners in year one. And we're typically running positive operating profitability if not in year one by at least year two. So, we get to profitability pretty quickly. And if you just real quickly look down to the right hand side of this page, some of the key attributes and the driver of financial outcome, first of all, that model that I'm talking about, where we go in with a 50-50 partnership and are sharing this surplus that we're generating, drives tremendous alignment between Agilon and our PCP partners to drive outcome over time in an aligned way.

We have tremendously high visibility to growth and a number of things drive that. Steve talked about some of them, just the fact that we have a large existing embedded membership within our current practices that we partner with that are either people converting for fee-for-service into Medicare each year or people aging in off the commercial panel of our providers into Medicare each year. And then we also have really good forward-looking visibility to our future growth. Steve already talk to you about our visibility into our class of 2024, for instance. And we also have a process in which we implement our new markets up to 12 months before going live.

So long before we go live, we have really, really strong visibility into exactly what's happening. So right now for the class of 2024, we're already implementing those partners and we have good visibility into not only what that membership is, but what the economics for that class will look like going into 2024.

Our model is extremely capital light because we enter these markets at scale with existing PCP, PCP practices. We don't really have a large acquisition costs. Our costs are essentially the cost that it takes for us to implement those markets each year. It's only about $500 per member for us to acquire and bring a partner, bring a member on to the platform, which we get paid back usually within the first year that we're out there actually operating the model.

These are tremendously attractive lifetime value to customer acquisition cost because not only do we have low cost, but we have tremendous retention of our members over time. And then those margins in our – we have tremendous embedded margins within each of our market. So as our members and our partners mature on the Agilon platform, margins grow over time. And as Steve said, I'll show you a really great slide and exactly how that's been working in practice. So we have really great confidence and visibility in our long-term value drivers. And right now our EBITDA has actually been inflecting positive year-over-year, really four things that are driving that.

The first thing is our ability to continue to put members on a platform. I'll show you in a second. We continue to do that at an accelerating rate. The second thing is our ability to progress medical margin at both the market and member cohort level over time. Again, I'll show you that in a second exactly how that's working. But we're doing it at or ahead of the rate that we expected to do to project to our long-term model, our long-term projections.

Copyright © 2001-2023 FactSet CallStreet, LLC

Member vintage, as we grow and the average vintage of our members and markets grows the mix of higher medical margin PMPM markets increases and we drive profitability that way as well and we get tremendous leverage as we grow. I'll show you a slide on this as well. But as we grow in each market and as we add markets, we're getting tremendous leverage against operating costs and that's creating a very strong flow through to adjusted EBITDA in each market as they grow year-over-year.

Steve talked about – the first point is our ability to add members over time. When you look at our ability to – the markets that we've added basically from the two markets that we had live back in 2018 to the 32 partners that we intend to have live in 2024. And we're growing markets at a 60% CAGR, and that's resulting in about a 50% CAGR over that time period in overall membership.

And the interesting thing is a chart in the middle where you can see not only are we growing, but we have actually increased the number of members that we're adding each year, year-over-year. And you can see the class of 2023 for MA coming in at about 138,000 incremental members that we expect to add this year. In 2024, it'll be our biggest class ever. We expect to add about 145,000 members. And again, that's something that we have really clear visibility to because we're already implementing those markets that are going to represent those 145,000 members.

And then when you look at it, the MA membership in concert with our ACO Reach membership, we're going to add about 170,000 members to the platform in 2024. And that'll take us from close to 500,000 members on the platform in 2023. We're starting to get upwards closer to 700,000 members next year. So, growth is accelerating and we're not only growing strong, but that growth is accelerating each year.

So this is the famous slide that Steve was referring to our ability to essentially grow medical margins as members and markets mature on the platform. This view is particularly is purely a member view. So what that means is when you look at each line on this graph, it takes out any of the dilution that we would get in a market from new members that come on in any year that would dilute our medical margin in that year. And it just shows, for instance, in the line that starts in 2019 at $37. Those are the – that's the medical margin per member per month, $37 of the two markets or the members that we brought on in the markets in 2019, which would have been across three markets.

And then you can see how the medical margin has progressed only for those members over time. And the impressive thing is not only that we're getting to good numbers, but each of these lines is progressing in a very similar way. And you can see that we've already got, a couple of markets in 2022, or couple of member cohorts in 2022 that were already operating over $200 medical margin PMPM.

For those of you that aren't as familiar, I just point out that that hump in the middle, of course, in 2020 is a little bit of an anomaly because that was COVID impact and there was a particularly an unusually low utilization in that year. But other than that, the lines have been really in each member cohort progressively going up.

This now looks at a medical margin progression over time, but at the market level. So in this case, each of these lines represents all of those markets that have come live in a particular year and how those total market cohorts have grown over time. So in this case, each year there is the impact of dilution because as we grow in market and bring new members into each of these market cohorts, they come on initially at a lower medical margin and then we develop them over time.

And you can see that in market growth across each of those cohorts has been significant double-digit CAGRs across each of these lines for in-market same geography growth. Notwithstanding that dilution, we still seen,

Copyright © 2001-2023 FactSet CallStreet, LLC

again, steady progress on medical margin upwards. And you can see in 2023, even at the total market level, you were projecting a couple of markets to already be over $200 medical margin PMPM. But again, everybody on a relatively consistent progress.

The other thing that's interesting about this chart is that each of the markets or each of the market cohorts are essentially starting at a bit of a different point. You can see the 2019 cohort starting as low as $35, 2022 starting at $61. Everybody starts at a little bit different point. But over time, we have the ability to basically develop those markets and all get them up to the same kind of medical margin rates as the markets mature.

I talked a little bit about market vintage. So really important if you think about that markets – when we have markets that are in year four and five, they're generating that $150 to $200 plus medical margin over time as we have more and more markets that are in that year four, year five plus, that math alone is driving our overall blended medical margin across Agilon. And you can see today, if you kind of look at the 2023 bar on there, our average market vintage this year is about 3.3 year. By the way, that's about the same as last year. We haven't made a lot of progress in that because we have a really big class coming in this year.

But the good news is the big class is coming in, in 2023 and 2024 that I showed you, 140,000 almost members in 2023, almost a 150,000 members in 2024. Those members will now, of course, have a couple of years to mature between now and 2026. By the time we get to 2026, we'll be at almost a five-year average market vintage. And again, when you consider what the medical margins are for those markets that I just showed you in year four and five, that's really important to our economics.

And also, as we grow, then we see tremendous leverage against our platform support cost or the G&A cost that goes directly against running our markets. Here you can see this has been a steady decline over time or steady leverage, I mean, 2023, we expect to drop more than a 100 basis points from 2022 down to about 4%. And we would expect that steady state, that our platform support cost would be running under 3% by 2026 and going forward. So a big part of how we're going to generate adjusted EBITDA margins over time.

Again, we're just seeing tremendous inflection in these rates when you look at revenue growing over 50% during this time period. You can see between Q1 of 2023 this year that we just reported, Q1 more like a 74% growth in medical margin and revenue and that resulted in about an 88% increase year-over-year for the first quarter in medical margin dollars. And you can see over time, our medical margin inflection has been tremendous at about 60% CAGR or certainly in line with what our revenue – I'm sorry, with what our membership CAGR has been. And we expect this year to generate somewhere around $550 million of medical margin.

And then just to wrap up, we have a tremendously strong balance sheet. As of March 31, we had over $800 million of cash on hand. And we use some of that cash to repurchase securities in the deal that – in the secondary offering that Steve just talked about since the first quarter. We do anticipate at this point that we're going to be generating positive cash flow for the first time in 2024 and thereafter. And because of all that, we really do not have any need for us to go out to the capital markets to raise capital externally to meet and achieve our growth targets.

How we're spending all that capital? A couple of different ways. The primary use of our capital is to continue to support our PCPs and driving growth. And so we invest in our PCPs locally to drive same geography growth. We're continuing to make investments in our platform to drive the technology that helps drive that medical margin forward. And we are buying some – looking at something that we're actually bringing in external technology, the acquisition of our mphrX that we announced last quarter.

Copyright © 2001-2023 FactSet CallStreet, LLC

And I think with that whirlwind tour, Steve, you [ph] got 1 minute and 15 seconds (00:29:37) here to close out.

Steven J. Sell

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

All right. Thanks, Tim. So I'll just leave you with a few things. One, is we've had a really strong start to this year. Tim walked you through the numbers, but I don't know many businesses that show an 88% step-up in their main margin metric. We're tripling our adjusted EBITDA year-over-year while we're growing 60-plus percent.

Two things are driving that, our mature markets that Tim showed you and that maturation year-over-year and strengthen the ACO Reach program which we've got increasing confidence around. That carries forward to high confidence in 2024, it'll be another year of meaningful adjusted EBITDA step-up. Tim showed you what the progression has looked like. We're not giving guidance today, but we are feeling very good given the run rate in the business and our ability to manage the final rate notice very well. That's a function of our ability to be nimble and in our overall sort of risk adjustment score, which is relatively one. And so the impact for us is not nearly as great.

And finally, as Tim said, we recently completed a secondary offering that was a real clearing event. I think it removed some of the overhang that's been on the stock as CD&R steps down from 47% to just below 25%. And it's created great alignment with an excellent set of long-term investors who are excited about the future of the business. So thank you very much.

Ryan Daniels

Analyst, William Blair & Co. LLC

Thank you, everyone. With that, we'll head up to [ph] Janey A (00:30:09).

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.