05-Jun-2024

Agilon Health, Inc. (AGL)

William Blair Growth Stock Conference

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MANAGEMENT DISCUSSION SECTION

Ryan Daniels
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All right. Good morning, everyone. I think we're officially on the clock, so I'm going to go ahead and kick it off. For those of you whom I've not yet, my name is Ryan Daniels. I am the HCIT and healthcare services analyst here at William Blair that has the pleasure of covering agilon health and thus the opportunity to introduce our speaker today, Steven Sell, who's the company's Chief Executive Officer. We also have Matt Gillmor in the audience there in the second row, who many of you probably interact with from an investor relations standpoint.

A couple of quick housekeeping issues really quickly. Number one, disclosures are at our website at williamblair.com. Much more importantly, we will be in [indiscernible] (00:00:44), which is upstairs for the breakout session for any Q&A you may have after the formal presentation.

I won't go through a ton of detail on agilon as Steven will walk through that in the presentation, but we think a great long-term growth story. This is a company that has really built that chassis to enable primary care providers to take on Medicare Advantage risk for an entire patient panel. And despite a company that's billions in revenue, it continues to have perhaps the most robust organic growth at the top line in our entire coverage universe. And Steven and I were just talking about this. Given everything that's going on in the market, there's actually just accelerating demand for the company's solution set, enabling more partnership discussions and opportunities. So, again, we see a great long-term growth opportunity.

Certainly not a space without noise given increased MA utilization, higher benefits, V28, payment rates. There's a lot of nuances in the market, but I think things that will settle out over time and, again, offer perhaps a greater long-term growth opportunity for this company and developing partnerships, which are really the greenshoots to the long-term growth model here. So, great opportunity and timing to see the team, and thank you for all participating today. And then again, we'll go up to [indiscernible] (00:01:57) at the end of this presentation for Q&A.

So with that, I'll turn it over to Steven.

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Steven J. Sell

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

All right. Thanks, Ryan, to you and the team for hosting us today. It's great to be here. For those of you that are on the webcast, we'll be going through a presentation that's on our investor website if you want to access that.

But before we dive in, I'd like to set a few kind of macro context points for you. First is when we look at primary care today, the demand for a strong alternative to fee for service has never been stronger. Second, our business model is working for doctors, patients and payers, and we'll give you examples of that. Third, as Ryan said, we've been operating in a challenging environment, but we're really making tangible progress executing against our action plan. We'll share some of that.

And finally, the long-term thesis and opportunity for agilon remains firmly intact. We issued an 8-K and a press release this morning. We're going to have a new CFO, Jeff Schwaneke. Very excited to have him. Very experienced executive. And I think when I look at that, that's just another indication of the potential for our company.

But let's start with the problem. It's very challenging to be a primary care doctor, especially in Medicare fee for service. As this slide shows you on page 4, I don't know of another business that has seen a 20% decline in effective unit economics in which revenue is not keeping pace with costs. Doctors are burning out. One in five are considering leaving medicine in the next few years and, at the same time, the Medicare population is growing and the system needs more PCPs to address that demand.

For senior patients, it also is a challenging situation. Outcomes for them are highly variable and you can see it in significant differences. Access to preventative care is dramatically different depending upon where you live and who your primary care doctor is. There's a three times difference in terms of utilization of the hospital in the ER and a two times difference in terms of total cost of care.

The system sees primary care as the solution. So, health plans typically talk about moving more members into value. There's incredible structural support in Washington, D.C. and beyond for this move. It lines up very well with the desire of primary care doctors to improve access and deliver high quality, cost effective care. But while everyone says primary care doctors are the key element of the solution, the problem is they don't have the business model to do it and they don't have the time nor do they have the capacity.

We're solving that problem for primary care doctors and for the overall healthcare system. Our Total Care Model takes the same doctors, the same patients, the same health plans, and moves them into a total care relationship. We create a budget, the ability to invest ahead of the outcome, with additional resources and far more information than these doctors have ever had. And you can see our success in terms of growth, as Ryan referenced, in terms of PCP partners, their senior patients, and in terms of a critical reinvestment that we're making into local economics for primary care doctors.

When you look at this page, you can see the impact we're having across the broad network. To be successful and value based care, you need to be successful in three areas. One, providing ready access to patients, particularly high risk patients. Two, delivering on quality as defined by CMS in the Medicare program. And three, effectively managing unnecessary utilization, particularly in the emergency room and hospital settings.

These are easy concepts to understand, but difficult to deliver on. And historically, primary care has not been in a position to deliver the necessary outcomes. We have changed that paradigm. And as you can see here, from an access perspective, we are delivering two to three titimes increase in annual wellness visits relative to fee for

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service. From a quality perspective, across diverse geographies and all types of groups, we are delivering quality scores at four and above. All of our year two partners, regardless of where they start, are getting across this critical threshold in which Medicare will pay health plans a 5%, bonus, strengthening our value proposition to health plans.

And better quality care is better cost care. We're driving significant reductions. Seniors are spending far less time in the hospital. Far fewer seniors are accessing through the ER, which is really the last place you want to be entering the health system unless it's absolutely necessary. And we're seeing a substantial reduction in terms of readmissions, senior patients being admitted back into the hospital within 30 days after they have been discharged.

Here's an example of how this works. From a peer reviewed palliative care study that was recently published in the Journal of Pain and Symptom Management. In this study, 900 patients treated by agilon partner physicians were compared for those enrolled in the palliative care program versus a control group. What the study found was that there was strong alignment between the wishes of the senior patients and their families to have a passing at home. And as a result, as you can see on the right, we saw a 65% reduction in hospital based deaths, seniors were able to spend an additional five days at home, and there was a 33% reduction in the total cost of care. Importantly, all of these outcomes are statistically significant.

We've always talked about there being a natural flywheel in our business in which better performance drives better growth. And it follows what you see here in terms of docs joining in our investment in care delivery, keeping patients out of the ER and avoiding unnecessary hospital admission. As a result, our physician partners are doing better. It changes their practice. It changes their outlook, and more doctors want to join. As you can see the impact of that in our growth results, 30 markets, 2,400 primary care doctors, and 635,000 senior patients.

Now let's pivot to the drivers of our financial model. These include from the left, membership growth and we've been doing particularly well on this, particularly in terms of new partners. Our ACO REACH business has been a real area of strength for us, and we're tracking well ahead of our expectations in 2023 and we've continued that in our 2024 guidance. Operating leverage, we're making real progress here as we saw in our Q1 results to drive OpEx to 3% of revenue or better. In medical margins well, as Ryan said, we're living in a higher utilization environment and that hasn't impacted performance. We are seeing our mature cohorts progressing or sustaining near $150 PMPM, and we are executing well in 2024 against some action plan to improve that.

Let's take each one of these drivers one at a time, starting with membership growth. Despite the challenging macro dynamics for Medicare Advantage, the healthcare system continues to accelerate towards value and the demand for our platform among high quality physician groups like the class of 2025 listed here remains strong. Each of these groups are long established leaders in their community, and this class demonstrates the power of our growing network, especially in states where we operate today like Kentucky and Minnesota.

As I mentioned previously, the ACO model program or ACO REACH program continues to be an area of strength where we have consistently demonstrated our ability to beat the national fee for service cost benchmark in that year. As you see here in 2023, we beat the national benchmark by 320 basis points. The REACH program is designed to reward the most effective cost and quality managers, something we have consistently demonstrated an ability to do. I believe this underscores the power of our model to differentially impact costs in a higher cost unmanaged population.

On the right, we look at operating leverage in our platform support cost. We've been driving these down consistently by greater than 100 basis points per year. And this year we have pushed further on centralizing

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clinical operations services and harvesting the return on technology investments to drive even further efficiency. And as I said, we expect to get to 3% or better in 2024.

Looking to the medical margin progression of the members, we shared this on a recent call. Despite the challenging utilization environment in 2023, our membership that came on the platform from 2018 to 2020 are sustaining medical margin performance at attractive levels of roughly $150 per member per month. Our 2021 and 2022 member cohorts are showing positive progression. In 2023, member cohort shows the impact of higher utilization and started off at about $25 per member per month. We are pleased with the overall performance of mature cohorts and the progression of this newer cohort, which shows the business model is working.

Pivoting to our performance action plan, we initially discussed this in January and provided updates with our Q1 reporting. We highlight those updates in bold. Let me start with our primary care physician support. We have really good progress in improving the performance of our newest physicians. In addition to robust training sessions in our mature markets, local medical directors are reinforcing these learnings with an active quarterly review of a PCP's patient profile to ensure high risk patients are receiving appropriate interventions.

Payer partnerships is perhaps our greatest area of progress this year. As I said earlier, the value of what we are providing to our health plan partners has never been stronger, and our physician partnerships are critically important to payers as a key part of their network and value based care strategies. Ongoing changes in the environment are driving productive discussions with payers around key terms. And we've had several recent successes that reinforce this point. We've been able to negotiate meaningful off cycle percentage of premium capitation increases and we've seen economic relief both from a retroactive perspective and on a prospective basis.

From a data visibility perspective, we made very good progress in Q1. We now have 50% of our member data that's integrated from our largest national payers into a digital database that allows us to do integrated analysis. In Q2, that number will expand up to 75%. That is allowing us to correlate very closely leading indicator data like census and HIE data with paid claims data that's critical to tell you where you are at from a utilization perspective. And as I mentioned, from an operating efficiency perspective, we've made great progress.

This morning we did a press release and an 8-K, and I'm really pleased to share that Jeff Schwaneke will become agilon's CFO on July 1. And I really see it as a strong validation of the long-term opportunity for our company. I'm very excited to partner with Jeff. I've known him for almost 10 years. He's a great leader. He brings very strong industry knowledge, and he is a world-class finance leader and an experienced public company CFO with a proven track record of performance. As I said, we worked together previously at Centene and Jeff did join our board in 2022. So, we're able to have someone who's been inside of the agilon family move into this critical role.

In closing, there is a clear long-term value opportunity in our business. There are a few elements to that. One, the demand for a new primary care model has never been higher. Two, the platform that we have built is driving more value each year to our existing primary care doctors even with a more challenging macro backdrop. Third, as I said, we are making tangible progress on executing the action plan we have discussed, especially on payer relationships and on PCP education. And finally, as we have talked about, variability in the system is really our opportunity. It's what the company was created to address and the value proposition is compelling for primary care doctors around the country. Thank you.

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QUESTION AND ANSWER SECTION

[indiscernible] (00:15:53-00:16:28)

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

A

All right. I'll repeat the question from [ph] Jay (00:16:33). It was really top three priorities, right, for Jeff Schwaneke, who is our new CFO here, as he comes on board. I think Jeff is a really experienced finance executive. I think focusing around forecasting, estimation and reserving that process and being very tight and being able to get people extremely comfortable around that, I think, is at the top. So that would be number one. I think, two, with our finance team and our business team really building a detailed bottoms up plan in each one of our markets for 2025, that gives us confidence around the levers in our business that I mentioned.

And then third, I would say is really partnering with me strategically on the next chapter of this business. There's a lot of work we're doing with our payer partners right now. They want us to be their partner 5, 10, 15 years from now, [ph] Jay (00:17:29). And so, how we lay out that path, how we grow, how we construct those economic relationships, Jeff's expertise and just the partnership that we've built will be really critical around that.

Q

Maybe you can – you highlighted the PCP support and the advancements in some of your partnerships. Can you dive into a little bit more [Abrupt End]

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