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Agilon Health, Inc. (AGL)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to the agilon health First Quarter 2024 Earnings Conference. My name is Seb, and I'll be the operator for your call today. [Operator Instructions]

I will now hand the floor over to Matthew Gillmor to begin the call. Please go ahead.

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

Thank you, operator. Good afternoon and welcome to the call. With me is our CEO, Steve Sell; and our CFO, Tim Bensley. Following our prepared remarks, we will conduct a Q&A session.

Before we begin, I'd like to remind you that our remarks and responses to questions may include forward-looking statements. Actual results may differ materially from those stated or implied by forward-looking statements due to risks and uncertainties associated with our business. These risks and uncertainties are discussed in our SEC filings. Please note that we assume no obligation to update any forward-looking statements.

Additionally, certain financial measures we will discuss in this call are non-GAAP financial measures. We believe that providing these measures helps investors gain a better and more complete understanding of our financial results, and is consistent with how management views our financial results. A reconciliation of these non-GAAP

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

And with that, let me turn things over to Steve.

Steven J. Sell

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

Thanks, Matt. Good afternoon and thank you for joining us. On today's call, I would like to walk you through the following elements: Our Q1 2024 results and forward guidance. The tangible and rapid progress we are making against our performance action plan, in particular with strengthened payor relationships. An update on our CFO and CMO Search. And finally, our perspective that against the backdrop of a constrained Medicare program funding environment, the demand for value and the value proposition our company offers has further accelerated among physician groups and payors, including MA plans and CMS.

Starting with our quarterly performance. MA membership grew 43% to 523,000 members, while revenue grew 52% to $1.604 billion. Both metrics were towards the low end of our guidance ranges. This was primarily due to timing differences in signing new payor contracts as we work with our health plan partners to refine key terms. Additionally, our updated guidance for membership and revenue reflects our decision to exit certain unprofitable payor contracts, which I will discuss in a few moments. Medical margin grew 1% to $157 million and reflects an in-quarter medical cost trend of 9.1%, which is above the trends we observed in Q4 of 2023.

Given the current environment, we believe the assumption of continued elevated utilization is a prudent approach. We also recognized $8.7 million of net prior year claims development. Consistent with our approach to first quarter cost trend recognition, we have taken a cautious stance in closing out 2023 given the uncertain environment. Absent prior year development, medical margin would have been towards the high end of our outlook for the quarter. Adjusted EBITDA grew 21% to $29 million, which was above our guidance. This stronger performance reflects better flow-through of medical margin to gross profit and favorable timing of geographic entry costs.

During the quarter, we also began ramping our implementation work with five new physician groups that comprise our Class of 2025 new partners. Despite the challenging macro dynamics for MA and our measured approach to growth, the healthcare system continues to accelerate towards value, and the demand for our platform among high quality physician groups like the Class of 25 new partners remains strong.

Turning to our guidance. We are maintaining our full year medical margin and adjusted EBITDA outlook, with the prior year development we booked in the first quarter being offset by favorable payor contract updates. Our Q2 and full year guidance assumes that medical cost trends remain at elevated levels. Our paid claims data for some of our largest payors, which are relatively complete for January and February, indicates cost trends for our members were elevated in January and began moderating during February. This is also consistent with our real-time indicators, including our expanded use of payor census data, which indicates that inpatient utilization moderated throughout the quarter and versus the prior year was relatively flat during the month of March and declined in April. While these indicators are early, we view these data points as encouraging relative to where we booked Q1 and our guidance assumptions.

Turning to our performance action plan. We are making tangible progress executing our plan, which positions us to accelerate performance and profitability. As a reminder, our plan includes the following four elements: Refining our strong payor relationships. Expanding support for our primary care doctors to narrow variability. Improving data visibility and analytics. And accelerating our operating efficiency.

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Let me provide a few updates, starting with payor relationships. As discussed on our last call, our physician partnerships are critically important to payors as a key part of their network and value-based care strategies. Ongoing changes in the environment are driving productive discussions with payors around key terms, and several recent successes reinforce this point.

First, we have negotiated off-cycle percentage of premium rate increases in multiple markets to reflect higher costs associated with payor bids, including supplemental benefit filings. These improvements were captured in our initial 2024 guidance. Second, with a focus on sustaining the long-term relationships with our value-based care network, multiple regional and national payors have provided agilon and our partners with a series of adjusted favorable economic terms, including retroactive relief on prior year medical margin losses in a couple of markets, the June 30th exit of an unprofitable group Medicare Advantage contract in a mature market, and the Q2 exit of several payor contracts in a year two market. All of these payor contract changes were made in close collaboration with our local physician partners.

The dynamics in the year two market, including payor benefit changes during 2023 and 2024, elongated the path to sustainable profitability for our partnership and will result in agilon exiting this market. Given the tight alignment in our partnerships, in the rare circumstance where agilon and our physician partners are not winning, together we have the flexibility to mutually wind down our operations. Overall, we are pleased with our recent progress with payors, and we may execute additional contract enhancements for 2024 and 2025 as appropriate.

Turning to PCP support. The expanded support for the newest PCPs in our model is on track. 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 panel to ensure high-risk patients are receiving appropriate interventions, including proactive visits and appropriate enrollment into our clinical programs. Over time, we believe these efforts will improve and narrow the variability in physician performance across our network, and our partners are already seeing benefits in patient care and consistency of care delivery. For data visibility and analytics, we are making rapid progress, standing up our financial data pipeline and leveraging additional data sources. As we have discussed, this will enable our internal teams to process and analyze data faster and improve our forecasting and operations.

We have now onboarded greater than 55% of member data from our large national plans and CMS into our pipeline. And we are on track to onboard greater than 75% of member data as we move through Q2. We have also made advances, leveraging our expanded use of payer census data in HIE feeds to monitor our inpatient activity. As I mentioned earlier, our real time payer census data indicates that in-patient activity for our members, which accounts for about 25% of our medical costs moderated over the course of the first quarter and into April.

And finally, for operating efficiency, earlier this year, we accelerated centralization and better use of technology to reduce our platform support to 3% of revenues in 2024. I'm pleased to share that we are ahead of schedule for our targets and our platform support was just 2.8% of revenue during the quarter. We have made significant investments in our platform in recent years and we are starting to recognize the efficiency benefits from these investments. We continue to maintain a very disciplined approach in managing our controllable costs and are assessing additional opportunities to improve internal efficiency.

With respect to the funding environment for Medicare Advantage, like others, we were disappointed the final notice for 2025 didn't reflect the rising costs that have been observed across the industry. Despite this, we believe this environment is reinforcing Agilon's unique role in important ways, especially because the demand for value continues to accelerate among payers and physicians. Payers recognize the value Agilon delivers in terms of

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patient experience, accurate documentation and quality. Our partnerships consistently achieve four plus star quality ratings and expand access to preventative primary care services. Our value delivery and deep connectivity with PCPs is even more important for payers in a challenging funding environment. We believe this dynamic is supporting our ability to proactively refine our payer contracting, which I discussed earlier.

For primary care doctors, the need for an alternative to fee for service, payer demands for value-based care and the strength of our platform continues to drive a robust demand backdrop. Our Class of 2025 new physician partners include five leading physician groups with a long history in their communities. More leading physician organizations want to join the Agilon network and platform to be part of the movement towards value-based care. Our new partnerships with these five groups demonstrate the power of our growing network, especially in communities where we operate today, like Kentucky, Minnesota, and North Carolina.

Lastly, let me address the CFO and CMO transition and the ongoing search process. We continue to run a robust process and are impressed by the quality of candidates we have seen and their appreciation and interest in Agilon. Our primary focus is identifying the right candidates for our organization and we expect to provide a more definitive update on or before our next earnings call.

With that, let me turn the call over to Tim.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

Thanks, Steve, and good afternoon. I'll cover three items before we go into Q&A. First, additional details on the prior year development we booked in the first quarter. Second, balance sheet and cash flow. And third, some additional details on our updated guidance. Starting with the prior year development. As Steve noted, our results included $8.7 million in net prior claims development. In our 10-Q filing, you will see we booked $16.5 million in total claims development. This includes $7.8 million from retroactive membership, which comes with offsetting revenue that has very limited impact on our medical margins or adjusted EBITDA. The unfavorable development incurred during the quarter reflects our decision to adopt a cautious approach to our 2023 claims run-out. As we discussed with you last call, we applied additional judgment, incremental to the claims triangles in setting our 2023 IBNR reserves. Since then, we have observed some higher paid claims in several regions.

During the quarter, we maintained the same level of judgment associated with the 2023 and prior dates of service. As a result, the unfavorable development was recognized as incremental expense during the quarter. One important data point, for the Class of 2022 and older partners, which represented our same geography partners and payers in 2023, our estimated completion factor for 2023 claims is 93.5%. This is approximately 150 basis points below the actual and known completion factor for these same geographies and payers at this point last year. We believe this is a positive data point, as you think about the adequacy of our reserves for 2023.

Turning to our balance sheet and cash flow, Agilon ended the quarter with balance sheet cash and marketable securities of $426 million and another $26 million of off-balance sheet cash associated with our ACO REACH entities. We used $69 million of cash during the first quarter, which was consistent with our expectations and reflects the seasonality of our distributions to physician partners and settlements with payers. After considering cash received from the maturity of marketable securities, we continue to expect to use $125 million to $150 million of cash during 2024. As we have discussed previously, our cash flow from operations improves during the back half of the year as we settle with payers for performance from the prior year.

Our 2024 guidance would result in a 2025 use of cash of about $25 million with an expectation of positive cash flow in 2026 and beyond, which is consistent with the outlook we previously shared with you.

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Turning to our guidance. We have updated our membership and revenue outlook to reflect the exiting of payer contracts Steve referenced. These contract exits are effective during the second quarter and will be completed by June 30. We are maintaining our medical margin guidance of $400 million to $450 million and adjusted EBITDA guidance of negative $60 million to negative $15 million. The primary changes in our guidance include the negative prior year development we booked in Q1 being offset by the payer contract updates.

With that, let me turn the call back to Steve for some brief closing comments.

Steven J. Sell

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

Thanks, Tim. Before opening the lines for Q&A, I wanted to emphasize three key points. First, we are maintaining our full year guidance for medical margin and adjusted EBITDA, and we continue to take a cautious posture with respect to medical cost trends.

Second, we are making tangible progress executing our performance action plan, most notably with our payer relationships and operating efficiency. We expect to make additional progress during 2024 and we'll update you as we move forward. Third, the demand for value is accelerating among physician groups and payers, including MA plans and CMS. Our value proposition to primary care doctors and payers is even more important in a constrained funding environment and will serve as the foundation to accelerate our future performance.

With that, why don't we move to Q&A?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] In the interest of time and fairness to all participants on the call, we ask that you limit yourselves to one question and one follow-up. Our first question comes from Ryan Daniels at William Blair. Please go ahead.

Ryan Daniels

Analyst, William Blair & Co. LLC

Q

Yeah, guys, thanks for taking the questions. Maybe one big picture one to start. Interesting commentary there about the need for more value-based care given the cost pressures in the market. So I can see that accelerating the pipeline. But on the other hand, if there's lower shared savings due to higher utilization and perhaps lower payments to the providers, I'm wondering if that somewhat dilutes their enthusiasm. So how do you think about how those two divergent market aspects could impact the pipeline over the next year or two?

Steven J. Sell

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

A

Yeah. Thanks for the question, Ryan. I think what we're seeing is the current environment is really only accelerating the value that we provide both to payers and to our physician partners. I think what you're seeing in some of the payer outcomes we talked about really reflects the desire to have a sustainable, value-based care network that they can grow and add additional members into. I think when you look at our Class of 2025, you can see that our value prop to them is really significant. We're adding groups in existing states where we built infrastructure like Kentucky and Minnesota and North Carolina. And these are groups that are leaders in their

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community and have outstanding reputations. And so they see a real opportunity to drive additional value through a value-based care partnership with us. And I think it just tells us that fee for service is really not sustainable. So the reality is fee for service is getting more challenging. Our ability to be able to navigate and drive additional value in this environment is that much greater. And additional physician groups are wanting to join us.

Ryan Daniels
Analyst, William Blair & Co. LLC

Q

Okay. That's perfect color. And then as a follow-up, maybe a little bit of a double click down on some of the contract renegotiations as you look to redefine some terms there. Can you speak to how far along you are as a percentage of your book of business or in markets that are seeing pressure? And then I'm curious if that progress that you expect over the next few quarters could be seen in 2024? Is that more likely setting up for a more favorable 2025? Thanks.

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

A

So Ryan, thanks for that follow-up. I think we've worked really hard to build a network and a platform that delivers substantial value. I think the conversations that we've had to date with payers really has been focused on a long-term relationship and the ability to have a sustainable network they can add more members into. The focus to date has largely been on 2024, and I itemized the benefits that have been there, whether it's retroactive relief from 2023 medical margin losses or mutually working with our partners on contracts that were not sustainable. All of those involve payers that we're going to continue to work with on a go-forward basis. We are now pivoting really to focus on 2025. We're very early in that process, but we are going to be renewing over a-third of our book as we move for 2025. And we are looking very broadly in terms of terms that can give us benefits around that. So I would say there's an opportunity for further improvement within 2024 but we really have moved to focus on 2025.

Ryan Daniels
Analyst, William Blair & Co. LLC

Q

Okay. Perfect color. Thank you so much.

Operator: Our next question is from Justin Lake at Wolfe Research. Please go ahead.

Dean Rosales
Analyst, Wolfe Research LLC

Q

Hi, this is Dean Rosales on for Justin. In last quarter's call, you answered some questions on the older cohorts, specifically classes 2018 to 2020 and their progression to $150 to $200 PMPM med margin range. Is there any update there, as well as their progression speed relative to expectations. Thank you.

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

A

So, Dean, it's very early in the year. I think we continue to see good work with our partners around reducing variability and driving medical margin improvement. So I think we would say we are on track with what we communicated on that last call.

Dean Rosales
Analyst, Wolfe Research LLC

Q

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Awesome. Thanks so much. And just as a quick follow-up, how are you guys thinking about pending TBC changes? How our payer partners speaking to this topic with you guys, obviously really popular right now. Thank you.

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

A

We are in the early stages of talking with our payer partners about their filings for 2025. Obviously, TBC limits is one of the constraints that they've got as they look at their filings. What we are hearing is that payers are looking to adjust benefits down that would flow through directly to us. But obviously we're going to know a lot more in the next couple of months as you look at that. But it's an extensive part of our dialogue with them, particularly as we turn to 2025.

Operator: Our next question comes from Jailendra Singh from Truist. Please go ahead.

Jailendra Singh
Analyst, Truist Securities, Inc.

Q

Thank you. And thanks for taking my question. I want to go back to your agreement with certain payers to exit unprofitable contract effective second quarter. How are you making sure that these decisions are not impacting your relationship with these payers and future contract opportunity given these exit decisions?

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

A

Yeah. Thanks, Jailendra. I mean, all of these decisions are done in concert with our partners and with the payers. Every single payer that we have an updated economic relationship with that I talked about, we are continuing to work with them. And so it was arrived at mutually. It was really looking at the elements within this Year 2 market as an example that included some of those payer benefit changes, higher utilization, the final notice for 2025. And so together with our partner and that payer, we made the decision to exit out of that arrangement. But these payers also want to work with us in other markets and so we have active dialogue around that.

Jailendra Singh
Analyst, Truist Securities, Inc.

Q

Okay. And then my follow-up, maybe if you can provide a little bit more color on buckets of spend or utilization you saw in the quarter, is it the same buckets we have seen the last few quarters in terms of high spending like Part B drug costs, supplemental benefit, outpatient surgeries. And when you say that recent trends have been better, was that improvement across the board or was there any particular buckets we are seeing improving trends.

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

A

So Jailendra, we continue to operate in a very dynamic utilization environment. I think you can see we've taken a cautious approach in terms of the trend that we recorded for Q1 at 9.1%. That's up sequentially over Q4 at 8.7%. When we look at our utilization data points across a variety of categories for paid claims from our most complete payers in January and February, we saw those trends elevated. They began to step down into February. When we looked at our census data, which is specific to inpatient, obviously we saw a similar progression coming down January, February, March into April. And so I think your question is from an inpatient perspective, we are seeing

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that trend come down. We did see outpatient and Part B drugs elevated in that claims data in January and February. So it's really a mix.

Jailendra Singh
Analyst, Truist Securities, Inc.

Q

Great. Thanks a lot.

Operator: Our next question is from Adam Ron at Bank of America. Please go ahead.

Adam Ron
Analyst, BofA Securities, Inc.

Q

Hey, thanks for the question. You've talked in the past about how your claims visibility is lower than some of the managed care companies. And they came out a couple of your larger competitors, which make up a large percentage of your membership, and they had varying degrees of view on what utilization was and what their margin expectations for 2024 were versus their initial expectations. And so have you looked at that? And for example, CVS revised down their margin expectations [ph] like they (26:39) looked at that and looked at your own book of business with them and kind of like run analysis on why like what the downside scenario would be of if they're right about potentially having margin compression, like just how do you look at whatever data they had given you when you comprised your 2024 guidance and the margin commentary that they're giving now? And how can you be confident in your outlook if they're kind of losing visibility on theirs? Thanks.

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

A

Yeah, no, thanks for the question, Adam. So as I outlined sort of for Jailendra, we're looking at a series of utilization data points that give us comfort as it relates to where we landed on Q1 at a 9.1% trend. We do receive updated real time indicators in terms of census data from all of our payers. And so we can see what that is look like as we progressed from January, even through April. We do have claims data for our most complete payers through January and February that gives us data points around that. And then we have ongoing dialogue. What we're sharing with you is a composite across all of those payers and booking a trend that's up above 9%, which gives us comfort even given some of the encouragement from those indicators.

Adam Ron
Analyst, BofA Securities, Inc.

Q

I'm sorry, that 9% number like how does that compare to what you put into the guidance that you gave like some numbers when you initially gave the 2024 guidance? But can you remind us what those assumptions were and how the 9.1% is tracking against it? Thanks.

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

A

So in terms of our guide for the year, we had a 6.6% full year trend. We had our Q1 trend that was in the upper 9% range. And so 9.1% is below that. That is reflected on some of the improvements we've seen from the payer results that have helped to drive that. So that's really the difference that we've seen across that time.

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

A

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Yeah, and I think, Steve, as you said before, we do have probably a little bit better data right now to drive that number. So obviously, as we close the books we're looking at, as Steve said and, Adam, I think this gets at your primary question too, we have relatively complete data for the first month and a half to two months for our two largest payers. So, that helps us understand exactly where their costs are going. And as Steve said, we have significantly improved coverage on both third-party data around inpatient utilization, as well as really good census data that we get from the payers themselves. And the last thing is, I think where we're certainly where we booked Q1 or where we've essentially closed Q1 from a utilization standpoint, I think is pretty much in line with what we've heard kind of balanced across all the large payers that have reported. So, we feel like that 9.1% [ph] is completely right in line with what you've heard (29:33).

Adam Ron
Analyst, BofA Securities, Inc.

Q

[indiscernible] (29:37)

Operator: Our next question comes from Sean Dodge at RBC. Please go ahead.

Sean Dodge
Analyst, RBC Capital Markets LLC

Q

Yeah, thanks. Steve, the strategic exit you mentioned in Q2, mechanically how do those work? Does your financial responsibility for those members end at Q2 or is there a longer unwind period? And then can you quantify how much those exits are expected to benefit medical margin or EBITDA for the full year?

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

A

So, sure, Sean, thanks for the question. So both of the exits that I talked about, whether it's from the group, MA contract, is effective June 30th and that ends our responsibility from an expense perspective for that. And then the payer contracts in this Year 2 markets are effective in Q2 and will be completed by the time that we end the quarter. So there is no further run-out from those. We've worked very closely with the payers and with our physician partners to make sure that there's continuity of care, the totality of the economic benefits across the series of payer arrangements that I talked about is north of $10 million. So it more than offsets the negative PYD that we talked about in Q1.

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

A

Yeah, Steve. Just to make sure, Sean, I understand your question, the only thing I would add is we're responsible for the performance up through those dates, right? So there is of course – we won't have complete visibility to claims date, et cetera, through that date. And we'll go through the normal run-out period and the normal ultimate settlement for performance during those dates. But we're not responsible for performance in any way after the dates of the exit.

Sean Dodge
Analyst, RBC Capital Markets LLC

Q

Okay, that's good. And just to make sure I'm clear. I know you said, Steve, the renegotiations of the payer contracts were included in guidance or originally contemplated [ph] in guidance (31:38). Are these exits, were these also included or would these be incremental to that?

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

A

So the only piece, Sean, that was included in the initial guidance was the increase in percentage of premiums for those markets we talked about on the last call. The retroactive relief and then the group MA contract and the Tier 2 market contract exits are incremental. And so those have been added into the guidance that we provided for the year, the updated guide.

Sean Dodge
Analyst, RBC Capital Markets LLC

Q

Okay. All right. Thank you again.

Operator: The next question comes from Jack Slevin from Jefferies. Please go ahead.

Jack Slevin
Analyst, Jefferies LLC

Q

Hey, thanks for taking the question. Wanted to take a look at some of the 2025 Class and maybe just take a step back on that. So I guess couple levers you can pull there to make sure things come out nicely. Obviously, staying disciplined on the number of lives is one, and it seems to be the case in terms of how you're guiding the number of memberships that comes on for the year. Maybe looking at the markets, is there anything you can glean in terms of payor contract overlap with some of your existing large payors based on the geographies you're entering that'll give you a better sense that visibility on cost trend and overall performance should track nicely for that 2025 Class?

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

A

Yeah. Thanks for the question, Jack. So we have been very conscious in our growth strategy to make sure that we're really bringing in very strong groups. These groups are comprising four states, three of which are ones where we have current infrastructure, existing payor contracts, existing teams that we can leverage around that. So in Kentucky, in Minnesota and North Carolina, we're going to be able to leverage that, which should help as these groups start out. I think we believe their performance is going to be in line with kind of historically where we've started our year one markets, even given the environment in which we're operating around that. And then we are adding one new state, which is Illinois, in which we'd be standing up new infrastructure and new contracts. So, from that perspective, I think three existing states should give us the ability in pattern recognition to have solid year one performance.

Jack Slevin
Analyst, Jefferies LLC

Q

Got it. That's helpful color. And then one more follow-up, just maybe bifurcating between the overall book of business you have. And in that 2025 Class, can you give some numbers around how [ph] AWB (34:25) completion is tracking year to date versus prior years or versus historical trends? Thanks.

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

A

So the work that we're doing in terms of supporting our PCPs, the orientation work, the work that I talked about with our medical directors, has elevated our performance both around from an [ph] AWB (34:47) perspective and an assessment perspective. Those are the fundamentals that really help us identify our most complex patients

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and enroll them in clinical programs. We have seen nice step-ups, for instance, in our enrollment in our palliative programs as we've started to progress, which ultimately should end up reducing inpatient expense [indiscernible] (35:12). So, as an example in the markets in which we've executed that, we've seen about a 15% to 20% improvement in terms of enrollment within our palliative programs. We have 15,000 care plans that have been developed around complex patients as a result of this work, so I think we're progressing nicely and we're seeing a step-up year-over-year.

Jack Slevin
Analyst, Jefferies LLC

Q

Got it. Thanks again.

Operator: Our next question is from George Hill at Deutsche Bank. Please go ahead.

Q

Yeah, hi. It's [ph] Mikey (35:48), on for George. Thanks for taking the question. Can you provide a little bit more color on the impact of the final written orders versus your expectation? And what are the ways to offset the shortfall? Thank you.

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

A

Thanks for the question. As I said in my prepared remarks, we were obviously disappointed around the final notice. I think, though, what it has done is sort of reinforced the value that we're providing. We're seeing it in terms of some of the payor economic arrangements that have drive improved performance in 2024. We believe that will carry into 2025. We've seen it in terms of the interest from groups who are wanting to join agilon, as reflected in the Class of 2025. So I think our focusing really on our fundamentals is what's going to help us drive our performance and be able to manage through well. We also are working very closely with our payor partners around what their final bids will look like, because that obviously flows through to us as well.

Operator: Our next question comes from Andrew Mok at Barclays. Please go ahead.

Thomas Walsh
Analyst, Barclays Capital, Inc.

Q

Hi. This is Thomas Walsh, on for Andrew. Back on the topic of contract exits in the second quarter, as well as any additional contract changes this year or in 2025, what are the key characteristics you're evaluating in making those changes? Are there certain member or market types that aren't working, or is it more a product of benefit structure?

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

A

So thanks for the question. I mean, first I'll say, any of these decisions we make, we're doing in concert and doing it together with our partners. As I laid out relative to this year two-plus market, the factors that we saw there that ultimately led us to this decision was higher utilization payor, benefit design changes both in 2023 and in 2024. The final note is for 2025, that in particular was particularly challenging for that geography. And then the TBC limits that are in place on a go-forward basis and what that looked like in terms of a multi-year progression for that market. And so, all of that working in concert with our payor partners led us to make a decision that we did in

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terms of winding down these operations. We do not see that situation in any of our other markets today. And if anything, you're seeing additional groups want to join us. And we're growing within existing geographies, like I just laid out with the Class of 2025 in Minnesota and Kentucky and North Carolina.

Thomas Walsh
Analyst, Barclays Capital, Inc.

Q

Great. That's helpful. And a quick follow-up. What percentage of your contracts today carve out supplemental benefits? Thank you.

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

A

So our current contracts today, we have supplemental benefit requirements for all of them for 2024. What we have been able to negotiate is additional percentage of premiums, like I talked about in terms of multiple markets and multiple payors where we've been able to do that. In other cases, we've been able to sort of capitate or cap our exposure in terms of what the total expense could be associated with those. That is part of what we're laying out for 2025 in these negotiations with our payor partners. So it's an element of that renewal strategy that I talked about.

Thomas Walsh
Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Operator: Our next question is from Elizabeth Anderson from Evercore ISI. Please go ahead.

Sameer Patel
Analyst, Evercore Group LLC

Q

Hi, guys. This is Sameer Patel, on for Elizabeth Anderson. Maybe just following up on that question. Can you talk about sort of the receptivity you're getting from payors regarding, let's call it, different arrangements around supplementals, whether it be a carve-out, whether it be like sort of a corridor or cap on exposure. I know that's a 2025 thing, but sort of has there been appetite from your conversations with payors?

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

A

There has been receptivity. I think that it's not just a 2025 thing in 2024, we've been able to get incremental percentage of premium associated with those supplemental benefits. So it's already started this year in a couple of markets. I think as you look to 2025, there is receptivity around it. I think there is a macro discussion with them on how do you grow into our network and how do we have a long-term sustainable value-based care partnership? And so there's multiple elements; supplemental benefits is one of them. Part D is another one of them, particularly with the impact of the IRA as you start in 2025. And so, what their final bids look like in terms of the adjustments they're making as part of that factor back into it. So, again, I think the value that we're providing and the interest from these payors in terms of expanding has only grown. And you can see it in our results for 2024, and that's reflected in the discussions for 2025.

Sameer Patel
Analyst, Evercore Group LLC

Q

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Got it. Super helpful. And then just one follow-up. In terms of the retroactive relief you were mentioning, was there any benefit that flowed through in the first quarter or is this some sort of like a 2Q or 3Q or 4Q sort of benefit? What are the mechanics around [indiscernible] (41:46) relief as well, if you could explain?

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

A

Yeah. No, we did have some payors that we were able to work with that gave us retroactive relief back last year. Because it was prior year, all of that flowed through in the first quarter. It was basically just where we were able to go in and talk to payors about where there were significant changes in their benefits approach versus what we had established when we originally built the contracts and we're able to reach agreement with them that that would require some relief to basically bring it back in line with what our expectations were. So, yeah, we had a couple of different payors that we had that, that situation for all of that rolled through in Q1.

Sameer Patel
Analyst, Evercore Group LLC

Q

Got it. Thank you.

Operator: Our next question comes from David Larsen from BTIG. Please go ahead.

Jenny Shen
Analyst, BTIG LLC

Q

Hi. This is Jenny Shen, on for Dave Larsen. Congrats on the quarter and thanks for taking my questions. I just wanted to build off of a previous question on certain pockets of cost. Can you talk more about the type of utilization you're seeing? Is it higher costs in oncology and cardiology where there's some seasonal factors from a more intense cold and flu season? GLP1, just any color there would be helpful.

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

A

Sure. Jenny, thanks. Thanks for the question. I think when we look at sort of the pockets of spend, I referenced the census data related to inpatient that is reflecting higher levels in January and stepping down through March and into April. So that's really the inpatient side. I think we continue to see elevated levels from an outpatient perspective. You're seeing it in surgery centers in terms of the utilization there. In terms of Part B drug, you are seeing oncology, obviously, as a big part of that of that spend. So those are the areas in which we are seeing elevated utilization within the first quarter.

Jenny Shen
Analyst, BTIG LLC

Q

Got it. And then it was helpful to get some of those updates on your increased visibility with the new data and technology platform that you have. Can you just talk about some of the actual technology behind that new analytics platform? Is it completely built in-house or do you have some partnership with third-party vendors? And just any more color on your technology. Do you have a data lake? Are you integrating AI in anyway? Any color there would be helpful.

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

A

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Yeah, it's really a hybrid of all those things. We have transitioned our data management to a data lake format, which has been very successful for us. And by the way, to your point, that does allow us to use the data in some very innovative ways, including machine learning and AI that helps us drive the operations and performance of the market, so that's great.

In terms of some of the things we talked about around increased visibility for financial reporting and our financial data pipeline, I would describe it as sort of a hybrid between using a third-party that has some software and so that application we'll be able to use to drive the overall new structure, in combination with the data ingestion and data utilization environment that we've already built internally. So the combination of those two things is going to give us a significantly improved structure to our financial data that we'll be able to use for everything from estimating revenue, claims expense, and also using the data to help drive operations. And by the way, that new pipeline will also give us a much cleaner way to utilize third-party data in relation to how we're booking our financials, and use that to influence our financial estimates as well. But it's sort of a hybrid between all the things we've been doing internally with now the utilization of a third-party application that we think is really well-suited to our need.

Jenny Shen
Analyst, BTIG LLC

Q

Great. Thank you.

Operator: We have no further questions on the call, so I will hand the floor back to Steve to wrap up.

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

Thank you for your interest in agilon. And we look forward to continuing the dialogue with each of you. Thanks, everybody.

Operator: This concludes today's conference call. Thank you all very much for joining.

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