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Agilon Health, Inc. (AGL)

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MANAGEMENT DISCUSSION SECTION

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Good afternoon, everyone. Steve Baxter, Healthcare Services Analyst here at Wells Fargo. We're very pleased to have agilon with us this afternoon. So agilon is one of the largest, if not, the largest value-based care enablement company in the country. From the company, we have CEO, Steve Sell and CFO, Jeff Schwaneke. So, thanks again for being here. Jump right into Q&A. If that's all right.

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

Go for it, Steve. Yeah. Thanks for having us.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Yeah, of course. No, thank you for coming.

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QUESTION AND ANSWER SECTION

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

So just to kind of start things off, most basic kind of blocking and tackling, with Q2 results, I think, pleasantly surprised to hear that cost trend was potentially trending better than when you initially booked that, at least when it came to Q1. Just remind us what you saw with Q1, how you approach booking in Q2 from a cost trend perspective? And then anything incremental you may have learned since about that?

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

Yeah, yeah, I can...

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

A

Go ahead.

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

...start in here. So, a couple of things, in the original guide we had over 10% cost trending floated in Q1 that subsequently came down into the 9% range and now it's been recast into the 8.2% range. So, I think it's important to remember it's about where your expectations were. So we had high expectations at 10%, and now we're at 8.2%. So that – it really came down across all categories from our expectations.

Obviously, we're still seeing higher costs in the inpatient medical category, which I think everybody is kind of experiencing. Second quarter, as we went into second quarter we forecasted 6.8%, ultimately recorded that up to 7.3%. Just recognizing that I think the dynamic utilization environment that we're in at this point in time.

And then, going on Q3, we've got 6% costs trend loaded. And then tailing into the fourth quarter, we switched to a PMPM because the jumping off point in the previous year was so high. So, our PMPM medical costs in the fourth quarter is higher than the third quarter. So, we have it – and that's traditional seasonality. So that's what we got.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Got it. And then, obviously, to your point, inpatient has been a huge area of focus, everything going on with two-midnight rule dynamics and things like that. I believe you said that the second quarter saw inpatient lower than the first quarter. It doesn't sound like you're seeing anything on the inpatient side that's incredibly deviating from your expectations. But I guess what are you seeing on inpatient broadly and two-midnight rule like how were you guys planning for that and what are you actually seeing at this point?

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

A

Yeah. So, Steve, on our call, we kind of called out that we built in the expectations around two-midnight rule with more lower acuity admissions coming in. I think we've seen that. We have census data for inpatient for about 50%

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of our membership from our three largest nationals. We get that on like a two-week lag. So, we have the ability to track across time what that looks like. And I think we've seen some differences in terms of payers' performance on that from a month-to-month perspective.

But in general, we did see Q2 down versus Q1 from an ADK or admits per thousand perspective across that time. We did see some of the effect from two midnight in terms of some of those low acuity admissions when we correlated with the paid claims data. But that's giving us a pretty good read on that. And what we did see it come down, we felt like we only had 50% view across, and that'll step up to 75% here in the back half of the year, and it's dynamic. And so, as Jeff said, we chose to book the extra 50 basis points in Q2.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Okay. Yeah, I think that makes sense. That way even if things are a little bit worse, like you've planned for that, but no evidence yet, that's what you're actually saying.

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

Yeah. No. Yeah, that's right.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Okay. And I think one of the other guidance updates – can you hear me okay?

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

[indiscernible] (04:03)

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Okay. One of the other guidance updates you provided was kind of an update on obviously you took a contract out retroactively. I think you made some adjustments to some of the yield assumptions in your contracts underneath that. Can you just walk us through some of those yield changes that you made, like if you exclude the contract exit, what was driving the lower PMPM yields and what's the degree of confidence that that also result in lower medical costs underneath that?

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.
A

Yeah. Yeah. So, a couple a couple of things. I'll just – I'll talk about it all from start to finish here because there's a lot of moving pieces, as I think you noted. So, the first piece was a retroactive contract termination, $110 million. If you do the math on that, those members had a premium of roughly $1,075 each. That was partially offset by continued new membership growth. And those new members coming in have a premium in the high $800s. And so, there is a mix component there.

And then another piece, as we mentioned on the call was the RAF. So, we had data from one of our national payers that indicated our risk adjustment was a little bit below what we expected. And so, ultimately, we flowed that through the first half of the year and then pushed a piece of that into the second half of the year as well, and

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that was the other component. And there was a margin component of all of that. And so, that's why we guided from the midpoint of our previous guide [ph] swings (05:32) down to the bottom. And so, those are the kind of the components that are, I would say, change in the PMPM on the revenue line.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay.

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

And then, you asked about lower acuity revenue and the correlation with [indiscernible] (05:47)...

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Yeah. Like a practical example, I guess of like what is a lower yield in PMPM plan on the revenue side and what makes the costs lower?

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

Yeah. I mean, that's typically the way it's correlated in our experience is folks choosing lighter plans. Do you have lower [ph] medex (06:05) against that? And so, we've just got enough pattern recognition, that's what we applied there.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay. And then in terms of your growth cohorts this year, and I think the upward trend projected like, can you update us on performance of your 2024 cohort, how it's performing versus your expectations?

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

Yeah. We have a really strong Class of 2024. It's our largest class to date. We've got some really strong partners within that class and they are off to a very good start. Some of the best groups in the country that brought in a tremendous amount of experience, Catalyst Medical Group as an example out of Dallas, Fort Worth in North Texas, and all of the groups within that cohort are performing well.

The implementation went very well. We had a full implementation in 2023. Some of them have implemented clinical programs earlier than some of our other year one markets. So, we're off to a good start with that class.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay. It sounds like in the past few weeks you started to get a lot more information from payers about 2025 offerings. I'd love to get your initial sense of what you're learning as you've got more visibility into those offerings, whatever you might be willing to share at this point, and have some follow-up questions of – about like Part D re-contracting or supplemental benefits and things like that too.

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

I think we have to be pretty careful about what we would say publicly about what we've got. And we are just digesting, and we've got about 50% of our membership that we've received the bids on for 01/01/2025, that have come in in the last week. We'll get the balance of those here over the next couple of weeks. I think the quick glance as they seem to be in line with public commentary, but the detail at the market level is really what matters.

Where we're at is – I mean, Jeff's team is working 24/7 in terms of analyzing those bids. And then we'll take that information and then apply it to 2025. Couple of big things for 2025. One is Part D with the changes with the Inflation Reduction Act. So that's a pretty active dialog in terms of the ability to carve out or corridor that benefit. Just to remind you, two-thirds of our payors in 2024, we don't have de-risk for, and one-third of our membership. So this is the balance that we're talking about that's moved beyond just concept to now we're sort of going back and forth about mechanically what could that look like.

And I think just as we've looked at Part D historically, we don't feel like we have as much of the levers to manage that relative to a payer. The formulary, we don't have the manufacturer rebates around that. And so, there's been receptivity around that and we'll update. But then the last piece of this is 40% of the book is open 1/1 for renewals. So we'll reprice that for 1/1, incorporating all those things I talked about. We'll reprice 100% of the book by 1/1 of 2027. So, in the next, 24, 27 months, you'll basically reset all of that. And we've been able to get some nice language in there around sort of material changes. Look, back period, some of the things that I think can reduce the volatility that we've seen historically.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

And I think in the past you discussed, hey, there might be an opportunity around certain supplemental benefits. Obviously, you don't have a great...

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

That's right.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

...ability to control. As you've gone through this, kind of these renegotiation processes. Do you feel like you're having success potentially, making carve outs anywhere there or do you think it's more, hey, we just need to fix the underlying benefit structure and then you'll benefit downstream from that too?

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

That mean – that's one of our acts is to carve out or to corridor supplemental benefits the same way we have less impact on things like dental or vision or somebody using a cash card to purchase something at CVS. It's not sort of in that core medical. So I think there's an openness to that. What the payers have asked us to do is to go through those bids and then come back and talk about how we kind of structure that. So understand what changes they made for 2025.

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Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Is this still important to you?

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

A

How big of an issue is this really? And then and then kind of work? So again, we're going to know a lot more. I mean, is there anything you'd add to that?

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

No, no. I mean, we have to go through the process, look at all the bids. We're going to know a lot more by the time we get to the third quarter call, I would say.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay, that makes sense. And in terms of just you mentioned like the payer receptivity of some of the changes on the Part D are pretty good at the moment, which is nice to hear. I guess, how do you think about the natural push and pull of you have a lot of large companies that are really underperforming their margin expectations.

And at the same time, you're trying to think about getting things that you probably feel like are very reasonable things to request. They might feel like they are in some ways concessions or make it harder for them to show the progress they want on margins. Like. how do you feel like that push and pull is sort of playing out?

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

A

I mean, I think the key is in terms of the value that we can provide to a large health plan, I think they all pretty consistently are looking to expand their value-based care penetration within their membership. I think the range of alternatives that they have to work within that have shrunk in the last 24 months. So again, our relative value proposition is sort of elevated.

I think we've done a very good job on the things we control within that, that core medical driving 200 basis points to 300 basis points better than what they see across their fee for service network, kind of their alternative within that that geography.

And so, for all of those reasons, I think they are amenable to the things that we're asking about. Obviously, we're going to find out a lot here in the next couple of months. But that's the nature. I mean, it's constructive. If anything, they're asking us to go to more geographies and to take on more senior patients. And so, we're having a really healthy back and forth on that.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay. Got it. Okay. So then – yeah, so the first lever for you guys to obviously improve your margins is being downstream from an improving industry dynamic.

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

Correct.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Can you talk a little bit about, in order of magnitude, what are the other key drivers for you in terms of improving the margins, I mean, cohort maturation is obviously a big part of it, but you're also working on a lot of physician initiatives and clinical initiatives as well. Like what are the most important things beyond a margin improvement at the industry level that we should be watching?

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

Yeah. I mean, there will be an impact from how the payers bid to your perspective. But the big things that we control is where we grow and the populations we serve. But within that then what we're doing in terms of sort of what we call burden of illness or risk adjustment maturation each year, you typically see that move materially in those first few years in particular, years one, two, three.

Reminder, we're going to geographies that have typically been heavy fee for service. So we're starting from a lower standpoint in terms of that starting off point quality is very important and there's pretty significant incentives in these payer arrangements around hitting 4, and particularly 4.25 stars. All of our year two markets are above 4 stars. Majority of them are actually above 4.25. And I think even if you know that the baselines are coming up and so there are fewer and fewer people that are able to deliver that, so that's important for them.

And then it's the core clinical work, right. So, the work we do to identify those highest risk patients, to get them enrolled in our clinical programs, whether it's renal, whether it's palliative, we have some oncology programs that we're working through. But those are what are allowing us to drive that sort of performance alpha of 200 basis points to 300 basis points better than that alternative for them. So, those are the things outside of their bids that we work on.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Okay. And then, as we're thinking about the size of the cohort, this has shown a nice upward trend over the past couple of years in terms of the size of the new...

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

The new [indiscernible] (15:08). Yeah.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah. I guess, like, how are you guys thinking about that as a sustainable level? And I guess in general, I still love to hear how some of the discussions are going with prospective partner groups, especially in light of potentially other alternatives maybe stepping back to your point earlier?

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

Yeah. I mean, I think the demand for what we're doing from the payer side and from the physician side has only increased given the environment in which we operate today, fewer alternatives for physicians and fewer alternatives for payers around that. The Class of 2025 that we've announced is 5 really strong groups, 60,000 senior patients. That group is – 4 of those groups are in existing state, Stephen, and one is in a new state. That's a little bit different growth profile for us. It's a conscious decision on our part.

There's a lower beta to grow into an existing market where you've got contracts, you've got technology, you've got clinical programs that are set up around that. And so, that was a very conscious decision. That class could have been much larger. I think given the environment we're talking about really sort of being prudent around our growth and not only the volume, but where we wanted to do that. And so, that's how we thought about that.

There are groups that we're working on that could have been in 25 to bring them into 26. There's new groups that we're talking about around that. But again, I think the key is going to be what is sort of the economic profile that you can put them on in a market which goes to those payer contracts that we're going to know a lot about here in the next few months. So, that's sort of the process that we're going through right now that can range that. But the opportunity is fairly large around that.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Okay. So you're saying, there are some things that might make sense to leave for 2026 because maybe in 2025 you're not necessarily where you want to be like with a given payer [indiscernible] (17:14). Okay.

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

Well, we've done that. So we've announced class 25, right now we're working on class 26. And we made that decision to go from 25 to 26; and jointly with that partner based on dialogue with payers, there's a lot of wood to chop around these payor renewals with 40% of the book open, with new contracts that are coming out as well. And so, that's an opportunity for us on a go-forward basis.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Yeah. And I guess, how in addition to the new market growth, like should we think about the same-store growth profile as well? I mean, for a while I think you're kind of reporting like 13% to 15% same-store membership growth. And maybe it's slowed down a little bit as you've tried to focus more, I think, like physician standardization and making sure the new physicians are performing at the level that you expect. What's the latest interaction between improving the new physician performance and the level of same-store enrollment that you can drive?

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

Yeah. So I think just in general, sort of the rule of thumb we have is, we will grow at or above the local growth rate, 1 to 1.5 times. Those local growth rates have come down relative to where they were two years ago. Next year, we'll see what that growth rate is. I mean, you have to go through all of these bids and sort of understand what that growth rate will look like. But I'll pick a number. If it was 5% next year averaging across our base, we might grow at 6% or 7%. And so, I think the big thing will be those bids, what that looks like. The work we're doing on sort of the physician engagement and really narrowing sort of that performance has got a lot of traction.

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Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Yeah.

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

A

We talked about on our call about 75% of our PCPs we put through an active panel review every single quarter, they're meeting with the local medical director and a care team around that. They're not only just getting benchmarking back on their performance, but you're looking at how you identify those complex patients and get them matched up with the resource. And then is there anything like operationally that's in the way?

And the early returns are encouraging for us. We talked about – we had three of those markets that got on early. Between January and May, they saw an 8% reduction in ER and inpatient in our – the control group that had not gone on was basically flat in that time. So we'll see if we're expanding that pretty dramatically. But that's – those are the things where we feel like we block and tackle. We can really drive that that type of difference relative to what a payor might be able to do on a broad fee for service network that's out there.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Yeah. It makes perfect sense when you provide the information that they're compelled to act differently. I guess are there examples of when it doesn't work, like why it doesn't work, like you set them operational?

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

A

Well, I mean, you could be an issue in terms of the EMR. In terms of the interface on that, and are you getting that. It could be scheduling, right. So we're working with folks. Those things are fixable. But as you look at that, there could be a difference between some offices and how those are being handled. One of the biggest things we've seen is strong clinical leadership that's sort of reinforcing with them around that.

And so, we really tried to elevate the role of the local medical director around that. And we brought in regional medical directors who've been practicing physicians in our network and then strong local leaders to actually become regional leaders. So they might be working with other groups within a state or within a region.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay. And in the past you've had like a big focus on rolling out new clinical initiatives. What's the latest update on – yeah, I think at your Investor Day, for example, you highlighted a few big examples. Any big new clinical programs that are a new focus area for you that you guys have found incrementally as you've looked for ways to drive that?

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

A

I think oncology infusion is a massive area. And so, we've got a few of our markets where we're really piloting with a partner around the ability to meaningfully impact that. And I think if you look at the pipeline, you look at Part B – after inpatient, Part B, as in boy, is the other category this year that's running high single digits.

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And so, that is the big one outpatient surgeries, hips, knees was a big issue last year. Not as much of an issue this year, but we've got significant s that's going on in a few of our markets in terms of site of service; two is that place where you want to get that, so you can channel that volume, which is something that we have the ability to do pretty well. So those are the two that I would call out.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Okay. [ph] like more (22:17) trying to make sure that things get into ASCs, they could be...

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

Correct. Yeah. That's right.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

...and ASCs just like moving them down the chain a little bit. Okay. Makes sense. And then in terms of your hospital partnerships were like a notable addition. I guess, in general, like, how they performed. Is there more come in on the hospital side, and I know it's pretty unique opportunity in the first place, but how are the provider opportunities coming along?

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

Yeah. So they're coming along well. We have three health system partners just to remind you, one that's in year two, which is MaineHealth. Two that are year one, which is Premier in Dayton, and Holland in Western Michigan, Premier and Holland have come on in markets that we had an independent partner in that market already. We had all that infrastructure set up like I talked about, and they've come on and they've really hit the ground running.

And so, we really like that model a lot, particularly if our local partner has a good relation, in both cases, they were the ones who made that introduction, got those physicians and leadership comfortable. Both health systems have a mix of employed and affiliated or independent docs around that. So – but physicians trust physicians and they know each other in the community. And so, those are tracking very well and they're in that Class of 2024 that I talked about and stepping up. MaineHealth is Class of 2023.

That's a large, almost state wide network. It's like in 10 different geographies within the state of Maine. And they're tracking well, they were our first. We learned a lot about things like the epic interface. And it's difficult because each instance is a little different. But if you can get some things implemented there, you can see pretty meaningful step ups and compliance around that, working very closely with their medical directors back on that sort of reinforcement piece that I talked about. So, health systems are definitely in our total addressable market and we like this idea of pulling in health systems that are in the geographies we're serving.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Okay. And obviously, we're almost now complete the first year of the V28 rollout, seems like the company was always very comfortable, its ability to manage that. I mean you're in now, like what have you learned about that? How comfortable are you with the next two years of the [ph] Phase 1 (24:48)?

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

A

Feel like I've been talking a lot. Do you want to [indiscernible] (24:50)?

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

Yeah sure. So, yeah, we had V24, V28 in the in the forecast for this year. I think the only data point that we have was, as I mentioned on the second quarter call, which we had one payer where we were just a little a bit light. So, we're getting the rest of that data this quarter, and hopefully we'll have an answer by the time we get to end of Q3. But I think for all the reasons that Steve just mentioned on how we're controlling costs and all of those factors, I think we're comfortable that we can manage that headwind going forward.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay. And then, you mentioned a little bit with having greater visibility to inpatient census for your three largest payers. I think like a big focus the investment community is trying to understand, I guess like how much your level of visibility on utilization is maybe improve versus where it was a year or two, maybe two years ago. Can you talk a little about that dynamic?

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

Yeah. Yeah. Sure. I mean, a year ago we didn't even have the census data at all. So, I think having 50% at this point in time, moving to 75% towards the end of the year is going to be important. That's one data point that we're using. That's more real time, right. We talked about two-week delay that we're using in order to triangulate in on what we think the correct medical cost estimate is for the quarter.

And so, I think what I've been focused on since I've hit the ground here is, what other kind of data points can we pull together that are more real time that we can use to kind of paint the picture of what we think medical costs are and what cost trends are. The other piece that we had going is, we have a financial data pipeline that we've talked about. It's going to cover 11 of our top payers, over 80% of our members. It's going to provide member level revenue and cost data and claim line cost data, that goes live in January of next year, that's certainly going to help in the reserving process.

But I think, more importantly, it's going to help us manage the business at a more granular level, which is super important. So, we're not done. We still have progress to go and a long way to go, I think, to pull all those pieces of data together. But we're ahead of where we were a year ago. And by next year, we're even going to be further ahead. So, I think we're all heading in the right direction, but just a lot more work to go.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Got it. Yeah. That's a good lead into my next question, I probably should ask this even earlier is just, you're obviously new to the role. You're not as new as you were a couple of months ago. In terms of the big opportunities that you see to really improve the financial process of the company beyond some of the visibility concerns, like what do you think are some of the biggest things that you think are an opportunity for the company to innovate on?

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Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

Yeah. I think the first thing was obviously reserving. So, I've spent a lot of time, I think, focused on reserving, pulling these pieces of data together, really applying judgment and trying to get the whole picture of where we think medical costs are going to land. I think forecasting and visibility on revenue and some of these other medical charges that we've talked about, I think there's an area there that we can spend more time on. But I'm two months in and so I'm continuing to turn over every stone and learn more every day. And I'm excited about the things that we can do going ahead.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Yeah, that's great. And then obviously, cash is just obviously a big focus for you guys. I think like you provided some reasonably updated expectations on what you think the cash burn looks like over the next year or two. Just remind us your comfort level with where things are in liquidity basis and your expectations for cash flow.

Jeffrey A. Schwaneke
Chief Financial Officer, Agilon Health, Inc.

A

Yeah, yeah. Nothing has changed there since the second quarter call. We said this year using between $125 million and $150 million of cash. We have $408 million on the balance sheet, and roughly, I'd say, in the mid-30s on the ACO program at the end of Q2. Next year, cash use of $25 million.

And the way our cash flow works is, this year really set the stage for next year because we chew up all the payments that are for this year's business into next year. And so, as we look at it, we have a revolving credit facility. We're not just standing by. We're actively managing our cash flow. And I guess, what I'd say is, we're comfortable that we have enough capital to get us where we need to go.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Okay. Just a couple more on MM. One thing we're starting to hear from the payers is a reasonably high expectation for a switching in 2025 between different plan types. I guess, just holistically, I guess, how do you think about the impacted members switching from one plan to another has. And I think historically you've positioned your model as being relatively agnostic between PPO membership and HMO membership.

It does seem like a lot of the rationalization we might see could be on the PPO side of things. So, you might have higher mix in HMO and kind of all said and done. Does that help you incremental to the underlying change in benefits or how should we think about the membership mix changes?

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

A

Yeah. So, I mean, I guess in a macro level, we are multi-payer or agnostic, as you talked about in a geography, three, four, five different health plans. People move between health plan A, B or C. Our retention typically runs in the low 90s, so we really don't lose people based on sort of movement between payers. I mean, the best you could do would be like 96% just given the population that you're serving.

So I think our retention is sort of best in class. So I think I don't worry about that as we look at next year. I think movement between plans and leaner plan designs or PPO versus HMO, we've got to kind of go through this

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analysis. I mean, conceptually, I think I agree with what you said, but we're -we have to go through that a little bit, Stephen.

I mean, there are markets we serve where there are very few HMO products, period. And so, we've developed a facility. And what we've tried to do with this relationship between the PCP and the patient is drive where that patient is going for their specialty care, where they're going for they're inpatient or they're elective. And so, we could do more on that. But I think we've had to build muscle around that sort of product set.

If you move to a close network HMO with a required [ph] op (31:43), I mean that just gives us sort of more lever within that and we'll work closely with the payers. I do think what Jeff talked about on the financial pipeline is going to help a lot because you can track that member longitudinally when they move from Plan A to Plan B and see what that looks like pretty rapidly. Whereas before, you had to go look at kind of each payer's data set. Now, you've got them standardized and normalized, so you can do that.

So I think the things that we've been working on are going to help if that scenario plays out. It will be dependent. I think they'll be markets where there's not a lot of switching and maybe there are some where there are a lot, it's just totally dependent on the bids, the relative relationship between them.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Yeah. Makes perfect sense. Okay. And then, I haven't asked about ACO REACH, like performance there, seems like it's held up. How do you think about ACO REACH performance and potential for growth in the next couple of years? Like why couldn't you grow more in ACO REACH [indiscernible] (32:43)?

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

A

Yeah. I mean, it's been an area of strength. I mean, we – our membership this year is above what we expected. We grew north of 30,000 members kind of year-over-year. I think we're at 132,000 at the end of Q2. We again beat that benchmark by 200 basis points to 300 basis points, which is how you – basically how you make the economics work. It's kind of a zero sum game. If you beat it, you win.

If you don't, you lose. And it's done within a year. So, literally, it works back within that. And I think we're good at it for all the reasons that we've just talked about around those levers. So, I think there's an opportunity to grow more membership within that. I also think that there's bipartisan support for what comes after 2026 because REACH does some [ph] sense (33:33) at the end of 2026.

But I think if you're looking at the Medicare trust fund, if you're thinking about a budget-based model in the fee for service world, that probably helps that that economic outlook in the trust fund. And so, there seems to be support from both sides of the aisle around that. And I think that could be an opportunity for us, but that'll play out here and there's an election [ph] and other stuff there (33:58).

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

I've heard that there's an election.

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

A

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There is. I think there is [indiscernible] (34:02).

Stephen Baxter

Analyst, Wells Fargo Securities LLC

Okay. All right. Well, I think that's a good place for us to leave it. So thanks again for your time today. I really appreciate it. Great.

Jeffrey A. Schwaneke

Chief Financial Officer, Agilon Health, Inc.

Thanks. [indiscernible] (34:08)

Steven J. Sell

Chief Executive Officer & Director, Agilon Health, Inc.

Thank you. Appreciate it.

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