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AGL.N - Q3 2025 agilon health inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and thank you all for attending the Agilon Health third-quarter 2025 earnings conference call. My name is Brika, and I will be your moderator for today. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end.

I would now like to pass the conference over to your host, Evan Smith, Investor Relations at Agilon Health. Thank you. You may proceed, Evan.

Evan Smith - *Agilon Health - Senior Vice President, Investor Relations*

Thank you, operator. Good afternoon, and welcome to the call. With me are Executive Chairman Ron Williams and our CFO, Jeff Schwaneke. Following our prepared remarks, we will conduct a Q&A session.

Before we begin, I would 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 it's consistent with how management views our financial results. A reconciliation of these non-GAAP financial measures to the most comparable GAAP measures is available in the earnings press release and Form 8-K filed with the SEC.

And with that, let me turn the call over to Ron.

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Ronald Williams - *agilon health inc - Non-Executive Chairman of the Board, Co-founder*

Thank you, Evan. Good afternoon, everyone, and thank you for joining us. I'm pleased to be with all of you today. For the third quarter, we reported revenue of $1.44 billion, medical margin of negative $57 million, and adjusted EBITDA of negative $91 million. We are also reinitiating 2025 guidance. While the quarter benefited from the execution of our clinical and quality programs as well as cost discipline, we nevertheless were impacted by lower-than-expected in-year RAF contribution as well as continued high costs from exited markets.

As we look forward, we believe 2026 is shaping up to be a strong stepping stone in our transformation, with positive development in the first half, the enhanced financial data pipeline ramping to 80% in membership, and Part D exposure potentially moving to the low 30%. We believe we are establishing a solid 2026 baseline. We expect to have improved forecasting and lower volatility as well as significant internal and market-driven tailwinds. These tailwinds include our burden of illness and clinical pathways, initiatives driving broader identification and diagnosis of high-risk conditions, increased incentives for our quality performance, and more disciplined and favorable contracting. This is further supported by more favorable payer bids, including increased premiums, maximum out-of-pocket, and deductibles, benefiting Agilon's financial performance.

And last, we believe we are establishing a more efficient platform to drive additional operating leverage and have reduced our operating costs by $30 million. With increased visibility, we have reinstated our 2025 guidance. At the midpoint, we expect revenue of $5.82 billion, medical margin of $5 million, and adjusted EBITDA of negative $258 million, which includes the impact of lower-than-expected risk scores for 2025 and costs related to exited markets, partially offset by positive development in first-half medical cost, strong performance in ACO REACH, and continued operating cost discipline. Jeff will provide more detail in a moment.

Our focus is on executing a strong finish to 2025 and a quick start in 2026. Our organization is executing with precision and purpose. Our strategic initiatives are tightly aligned with our mission and partners and centered on embedding urgency, focus, operational rigor, clinical excellence, and data-driven executional accountability across the enterprise, which we believe will translate into improved performance in 2026. Through investment in technology and efforts to expand our access to richer and more timely data, Agilon is leveraging data analytics and AI-driven insights to support delivery with a focus to improve the visibility and predictability of our financial performance.

Through our enhanced data pipeline, which went live in the first quarter, we now have more timely direct payer data feeds with validated and highly correlated member-level clinical and claims data as well as member-level risk scores on approximately 80% of our members. We expect the increased visibility and alignment of our financial and operational data will enable us to more quickly identify and drive improvements. We remain extremely focused on the performance optimization initiatives we previously laid out. These are centered on improving the near-term profitability of the business, allowing us to drive improved medical margin, adjusted EBITDA, and cash flow performance in 2026.

With respect to improved contract economics, we are currently in active negotiation with our payer partners for 2026. Based on our discussions to date, we are making strong progress on several fronts. First, further reduction in Part D exposure; second, an expansion in quality incentives; third, improved economic terms for Part C. And fourth, we expect continued narrowing of risk from supplemental benefits through better information. Based on the public commentary and initial review of payer bids, we expect more favorable bid design focused on MA profitability, including improved pricing, reduced benefits, increased deductibles, and maximum out-of-pockets which is expected to have a positive impact on Agilon's medical margin in 2026.

We are also taking a very disciplined approach to contracting, and for those payers with benefit designs and pricing that are inconsistent with market dynamics, we are prepared to take decisive action. While this may result in reduced membership, we are focused on profitable growth and earning the appropriate economics for the value we are delivering. With respect to quality or Stars, approximately 75% of health plans' Star ratings are directly impacted by the PCP, making our success in delivering four Stars in a majority of our markets critical for payers. Our programs enable care gap closure rates that exceed the overall MA average on key Star measures such as cancer screening and chronic condition management.

To further enhance our Stars performance, we are leveraging our enhanced analytics capabilities and collaborating with our partners to further improve condition identification, diagnosis, and screening, leading to documenting and closing of gaps in care through treatment such as medication adherence. In early October, CMS released the 2026 Stars ratings, which will impact 2027. Approximately 75% of Agilon members are expected to be in 4-plus Star plans, an increase from 71% in the 2026 payment year. This also compares favorably to 65% in the overall Medicare Advantage

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market. In addition, for the 2026 Star ratings, Agilon achieved a consolidated average of 4.2 Stars across our markets. This supports our efforts for improved payer economics that are better aligned with Agilon's strong quality performance.

Our BOI program is also contributing to improvements in early and accurate identification, assessment, and documentation of a patient's comprehensive health conditions. By connecting the burden of illness assessment to our quality and care delivery programs, we can more effectively manage high-acuity, chronic disease categories like heart failure. We are on track for our palliative program and clinical pathways. Based on the performance to date, we believe this will positively contribute to our financial results in 2026.

As a reminder, these patient-focused, physician-driven, and technology-enabled clinical pathways have been developed in collaboration with our physician partners and national experts. They enable our teams to close care gaps by looking at some of the highest prevalence chronic conditions which affect our patient population. With respect to our heart failure pathway, we are seeing encouraging results. By identifying and diagnosing these conditions earlier in the outpatient setting, our physician partners are better able to manage the progression of each illness and improve the quality of care for the patient.

We have reduced new inpatient heart failure diagnosis rates from 18% in 2024 to 5% in 2025 across our MA population. In markets where our virtual pharmacy solutions are active, about 50% of patients with heart failure and reduced ejection fraction are receiving guideline-directed medication therapy. This is approximately 30% higher than the national average. Similarly, when virtual pharmacy solutions are combined with transitions of care cardiology, we have seen 30-day readmission rates fall below 5%, as compared to the national average of approximately 20%. This performance is expected to continue as we expand the programming and we move into 2026 as more partners fully implement the program.

With respect to our palliative care program, we continue to make progress in our education, market penetration, and enrollment. By focusing on providing care in a hospice or home setting, we see better care satisfaction for the member and their families and less hospital admissions. As we move into 2026, in addition to existing programs, we are beginning to expand our COPD and dementia pilots and anticipate further adoption. In the quarter, we have also taken steps to optimize our cost structure to align with current market dynamics, including a more balanced near-term growth outlook.

The leadership team is working to strategically realign our organizational structure. We have made thoughtful decisions to streamline certain teams while simultaneously investing in other areas that will help drive our next chapter of innovation. Through the centralization of certain functions, implementation of technology, and alignment with our PCP partners, we have reduced our headcount and streamlined our capital requirements and third-party costs, all to gain greater operating leverage from the platform and support our growth objectives. These operating expense initiatives are expected to reduce our costs by approximately $30 million in 2026.

Finally, while we are making progress in our search for a CEO with the skills, experience, and relationships that are aligned to our new path, we remain committed to moving decisively now to enhance performance and Agilon's position for sustainable value creation. Thank you for your continued support during this transition period.

With that, I'll turn it over to Jeff.

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Thanks, Ron, and good afternoon. As Ron touched on, 2025 is a transformational year. We are advancing strategic initiatives that we started putting in place last year to improve our contract economics, reduce our risk, and optimize our cost structure. We believe the increased visibility gained from the enhanced data pipeline, advances we have made in our BOI and clinical pathways programs, a $30 million reduction in operating expenses, and a more disciplined approach to growth are expected to have a positive impact in 2026. For today's discussion, I will cover four key areas.

First, I will walk through our third-quarter results. Second, I will provide details on our reinstated 2025 guidance and a bridge to our jumping-off point for 2026. Third, I will provide color on a significant number of tailwinds we believe will support improvement in our 2026 performance. And finally, I will discuss the strength of our capital position based on our expectations for 2026 and a more disciplined near-term growth outlook.

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Moving to our financial performance for the third quarter, starting with membership, Medicare Advantage membership at the end of Q3 2025 was 503,000 members compared to 525,000 members in Q3 2024. Our ACO REACH membership for Q3 was 115,000 members, compared to 132,000 members in the same period of 2024. As we discussed previously, our decision to take a measured approach to membership growth has resulted in a slight year-over-year decline, driven by previously disclosed partner exits and a smaller 2025 class. Total revenue for the third quarter 2025 was $1.44 billion compared to $1.45 billion in the same period of 2024. Our year-over-year revenue comparison continues to be impacted by lower-than-expected risk adjustment as well as the impact from market and payer contract exits.

During the third quarter, we received the remainder of the 2024 risk adjustment data and substantially all the mid-year 2025 risk adjustment data from our payer partners. This indicated the 2025 risk adjustment for the remaining 28% of members we did not include in our prior results was lower than the average. The third quarter reflects the impact of lower-than-expected revenue associated with 2025 risk adjustment scores of $73 million, including a nine-month true-up of approximately $50 million for the remaining 28%. We now estimate the full-year impact to medical margin for lower-than-expected risk adjustment is approximately $150 million.

The larger-than-average impact for the remaining 28% is primarily driven by one payer representing a new market in 2024, where we also did not have data for 2023. This payer is now in our data pipeline, which provides us with confidence in establishing our risk adjustment baseline and potential for 2026. In addition, exited markets negatively impacted the quarter by $20 million.

First-half cost trends continue to develop favorably and were approximately 5.7%. We took a prudent approach in the current quarter and recorded cost trends at a little over 6%. As we have previously stated, we have limited paid claims visibility at this point post quarter closed. Medical margin this quarter was negative $57 million compared to negative $58 million in Q3 2024. The current quarter reflects continued elevated cost trends in line with our expectations for the year.

In addition, this includes the previously mentioned risk adjustment and exited market impact. Adjusted EBITDA for the quarter was negative $91 million compared to negative $96 million in the third quarter of 2024. The third quarter reflects the items I already highlighted, partially offset by lower geography entry costs and benefit from continued operating cost discipline.

We are very pleased with our strong ACO REACH performance during the quarter, including our final 2024 reconciliation. Adjusted EBITDA related to this program this quarter was ahead of expectations at $18 million. ACO REACH continues to demonstrate the value creation Agilon can deliver and is shaping the way we are transforming our MA business, reducing our exposure for things outside of our control like Part D and supplemental benefits while focusing on improved economics and incentives for Agilon's quality, clinical, and medical cost performance.

On the balance sheet, we ended the quarter with $311 million in cash and marketable securities, and $172 million of off-balance sheet cash held by our ACO entities. Next, let's move to our medical cost trend outlook and reinstated 2025 guidance.

Managing medical cost trends remains a top priority. For the first half of 2025, medical cost trends have been stable but elevated in areas such as inpatient and Part B oncology drugs and restated favorably relative to our expectations. We anticipate the medical cost trend to remain in line with our expectations.

Now moving to guidance, with greater visibility as we head into the year-end, we are reinstating our full-year 2025 guidance. I will also provide some color on our expectations for 2026 based on our actions to date and initial review of payer bids and contracting efforts. For the full year 2025, we expect Medicare Advantage membership in the range of 503,000 to 506,000 with ACO model membership projected to be between 113,000 to 115,000. We expect revenue for 2025 to be in the range of $5.81 billion to $5.83 billion, reflecting the impact of membership shifts and improved revenue yield from payer contracts.

Revenue outlook also reflects lower-than-expected 2025 risk adjustment performance of approximately $150 million, prior year development to date of $70 million, and exited markets of approximately $60 million. Full-year medical margins are projected to be between negative $5 million to $15 million and adjusted EBITDA guidance range of negative $270 million to negative $245 million. We expect to end the year with approximately $310 million of cash on our balance sheet, including approximately $65 million held off balance sheet by our ACO entities.

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We have provided a bridge in the earnings presentation we issued today that walks from the current guide for 2025 to our jumping-off point for 2026. The expected $135 million medical margin jumping-off point for 2026 includes approximately $150 million of lower-than-expected risk adjustment contribution for 2025.

Now let me provide some color on 2026. While we are not prepared to provide specific 2026 guidance at this time, I will walk through why we are optimistic about next year as illustrated on slide 7 of our earnings presentation. We see several tailwinds, including macro factors like the 9% benchmark rate increase, better aligned payer contracts, and the disciplined cost actions Ron outlined that we believe will both drive material improvement in our performance in 2026 and establish a path for consistent improvement as we move beyond next year.

First, in the third quarter, we completed restructuring actions to improve our operating expenses. We rationalized other medical expenses, including better alignment of incentives with our PCP partners, reduced overhead and vendor costs in line with the current revenue run rate, and a more balanced growth outlook. We estimate that this will drive $30 million in cost and adjusted EBITDA benefit in 2026, with additional opportunities for savings in 2027.

Second, we have taken a more disciplined approach to payer contracting, which includes incremental percentage of premium and enhanced quality incentives from payers for the value we deliver. This is expected to drive revenue growth on a PMPM basis potentially greater than the 9% CMS Final Rate Notice for 2026. We have reviewed payer bids across our markets, and on average, we see payers bidding for profitability with benefit design changes, including increases in premiums, deductibles, and maximum out-of-pocket expenses, and a reduction in supplemental benefits. This is expected to be a positive offset to cost trend in 2026.

As a reminder, 2025 included a 1% benefit from payer bids. As part of our disciplined contracting strategy, we are taking decisive action market by market with payer contracts that do not meet a minimum threshold for profitability. While our contracting for 2026 is not final, if we cannot come to appropriate economic terms in certain markets, we may not contract with specific payers in these markets.

As part of our discussions, we may also transition some of these members to a care coordination fee with additional performance incentives. Depending on the outcome, this may reduce our overall membership in 2026, though this impact may be mitigated if a member shifts to another payer with more favorable economics for Agilon or moves to a coordinated care fee arrangement. This disciplined approach is expected to be favorable to medical margin and adjusted EBITDA in 2026 and beyond.

Our contracting efforts also include additional steps to reduce variability in our performance by effectively managing multi-year contract terms to reduce our exposure to macro cost trend volatility, interim payer benefit design changes, and pricing that may be detrimental to our capitated economics. This includes reducing our payer contract term length if needed or adding additional material adverse change clauses to the contracts. In addition, all our exposure to Part D in 2025 was primarily related to carved-out or exited markets. We are continuing to further reduce our exposure.

With respect to BOI, we are confident that the enhanced data pipeline, which now includes the outlier payer from the remaining 28% of our members, AI advances for high-risk member identification and diagnosis in our BOI program, and execution on clinical pathways will deliver results over and above the final year of V28. Our confidence is based on a review of validated codes in our data pipeline and our ability to deliver results above the impact of V28.

Last, on our cash outlook, with the anticipated performance improvement in 2026 from our initiatives and the macro factors I just walked through, combined with our focus on working capital management, we expect to end 2025 with approximately $310 million in cash and 2026 with at least $100 million in cash on our balance sheet, including cash held in our ACO REACH entities. Before I close, given our current stock price, we anticipate pursuing a reverse stock split and expect to seek stockholder approval at our Annual General Meeting in 2026.

In summary, while we continue to operate in a challenging environment, the actions we are taking to refine our strategy, improve operational execution and financial visibility, and strengthen our financial position are expected to have a positive impact on our performance in 2026 and beyond. We remain confident in the value we bring to our members, PCP partners and payers, and our ability to navigate the near-term headwinds while positioning Agilon for long-term success.

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With that, operator, let's move to the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Ha, Baird.

Michael Ha - *Robert W. Baird & Co Inc - Senior Reseach Analyst*

I see on your slide that you have ACO REACH as a negative impact for next year, and I know the risk corridors are narrowing next year to a 10% savings rate. I think Agilon's at 13%. If on our back-of-the-envelope math, we're getting somewhere around $10 million to $15 million of EBITDA impact. Is that the right ballpark to frame it? Is that what you're highlighting in your slide? Are you able to offset it?

Does this narrowing of the savings rate create any friction with your ACO REACH partners? Just thoughts here would be great.

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

This is Jeff. I actually think the re-baselining of the risk adjustment is actually more meaningful for us. And so yes, what we are reflecting here is that there were several changes to the ACO REACH program, and I think we've commented about this before that we do expect lower economics from the program while still contributing, I would say, very good margin. And we're reviewing our ACOs right now determining what model is actually better, and I think we've made the decision on some of our ACOs to move them to the MSSP program as we think about 2026 because the economics would be better in that program.

Not going to really size the impact right now, we're getting a little ahead here on the '26 guide, but you are correct. It's really driven by those changes.

Operator

Jack Slevin, Jefferies.

Jack Slevin - *Jefferies LLC - Equity Analyst*

I guess, this might be a little high level because I acknowledge it's a bit early, but I just wanted to frame some of your commentary around potential further exits from payer contracts. And maybe I'll just broaden it out to say, are you contemplating, I guess, one, are market exits on the table at this point or is it really just specific payers?

And then two, if there's any way to get a sense of the order of magnitude that might be at play here, just trying to frame out sort of what we might be looking at going forward. Any thoughts or sort of qualitative color would be really helpful.

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

You're right, it is a little early. We're kind of midstream on the contracting here as we think about 2026. I think the takeaway for you would be, listen, we are taking a very disciplined approach, and where the economics don't make sense for the value that we're delivering, ultimately, we don't have to do business with that payer. Some of those members may move to another payer in that market, or we may enter into a care management deal or care coordination fee with upside for quality and things like that.

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I think the point I would take away is, any potential reduction in membership would be beneficial to the medical margin and the EBITDA for Agilon. And that's really what we're focused on. So unfortunately, I can't size it for you right now, but any reduction would ultimately be to the benefit of the bottom line.

Ronald Williams - *agilon health inc - Non-Executive Chairman of the Board, Co-founder*

Yeah, I would just add -- Ron here -- that we have been very clear with the payers about the value that our physician partners create, both in terms of the Stars program as well as closing gaps in care. And I think we've been very clear that we are contracting for tomorrow and not the historical relationship that we've had in a more normalized trend, more normalized utilization. I think the good news is that we've been working with some of our partners who understand this, who are exhibiting an attitude that's supportive of the kinds of objectives that we have. So we're very clear. This is about being profitable and achieving the kind of margin that we want, and we're committed to working through that.

Operator

Jailendra Singh, Truist Securities.

Payton Engdahl - *Truist Securities - Analyst*

Hi, this is Peyton Engle on for Indra Singh. Thank you for taking my question. I guess just to start, is there any type of update you can provide on the CEO search and how that's going, and if you guys have made a decision between internal and external candidates?

Ronald Williams - *agilon health inc - Non-Executive Chairman of the Board, Co-founder*

Yeah, I would say that I've been spending a good deal of time. I think I'm pleased to say that we have some very good candidates coming forward. The process is open to all candidates who are interested in applying for the opportunity, and I would say that we feel good about where we are in pace and timing. I certainly wouldn't forecast a conclusion here.

I think the most important thing for you to know is that while we don't have a permanent CEO, I am 100% focused on what we need to do to improve performance in the business. I meet regularly on a daily basis. The Office of the Executive Chairman meets every day. We focus on the critical priorities and objectives with the goal of having a very strong finish to the year and a strong start for next year. So while no timeline on the process, this is not caretaking. This is active engagement and focused execution.

Payton Engdahl - *Truist Securities - Analyst*

Yeah, and if you don't mind if I could squeeze in just a quick follow-up. Thank you for all the color on the medical cost trends. Is there just anything to call out in terms of what you saw in Q3 in areas that were maybe high or cooling off a little bit? And then also if there's any color you can provide into 2024?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, I think it's the same issues we've highlighted in the past quarters. Really, it's inpatient Part B drug spend specifically oncology. Inpatient continues to run a little bit high as well. I think those have been consistent over the last several quarters, so nothing new here. I would say that the first-half medical cost trends have all restated favorably.

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So Q1's come down, Q2 has come down since we last spoke, which is good, and it's just a little bit over the mid-5% range. And again, for Q3 we just took what I call a relatively conservative approach in the low 6s. Ultimately, we don't have a lot of paid claims for that, and so we'll have to see how that estimate plays out as we get into the fourth quarter.

Operator

Ryan Langston, TD Cowen.

Ryan Langston - *Cowen and Company LLC - Analyst*

I think I heard you say there's about $65 million currently at the ACO entity level. I guess, is there a minimum amount of cash you need to have allocated to the REACH entities, and in the year-end 2026 balance for cash, what's contemplated at the ACO REACH level?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah. So actually, at the end of the quarter, we had $172 million in the REACH entities, and there's cash settlements that happen in the fourth quarter. And so the way we think about it is once those settlements are processed in Q4, we'll roughly be at the $60 million to $65 million. And as you think about the year-end balance, the $310 million we quoted, it includes that $65 million. So we expect to end the year roughly at $310 million, and that includes $65 million from REACH.

I would say there's no requirement to hold those dollars in the REACH entities. It's more from a tax perspective because they're outside of our consolidated umbrella. There are some tax efficiencies gained by leaving it there and then monetizing that over time, but we have access to that if we needed it.

Ryan Langston - *Cowen and Company LLC - Analyst*

Okay, great. And then on the sort of higher-than-average impact on the risk revenue for the remaining 28% of the enrollment, I guess, is there any particular reason you expect these members to have higher scores with that accrual driven, incomplete coding. Just trying to understand the potential implications for 2026.

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, I think we highlighted that in the prepared remarks. It's really, I would say, that the higher-than-average is really driven by one payer that was new to us in 2024. We did not have data for them in 2023, so I think that made the estimation, call it, more challenging obviously because you have to have '23 and '24 to really determine the increase in actual risk scores. The good news is that that payer is now on our enhanced data pipeline.

And what I will say is, sitting here today, we actually have the ability to calculate member-level risk scores. We did not have that ability a year ago. And so if you think about what happened in the second quarter, we were able to calculate member-level risk scores that tied -- or that agreed, highly correlated, with the mid-year data from CMS and the final year risk scores as well. And so we're in a much better position this year to calculate member-level risk scores.

That's all been driven by the process change associated with the enhanced data pipeline. So we feel pretty good that we have a solid foundation in order, I would say, set a foundation for this year obviously project forward as we think about the 2026 guide.

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Operator

Justin Lake, Wolfe Research.

Dean Rosales - *Wolfe Research LLC - Analyst*

Hi, this is Dean Rosales on for Justin. Is there any color you can give on what CMS is estimating for fee-for-service trend in 2025 within the ACO REACH program? And then my second question is, in your earnings presentation, you stated that you expect payer bids to act as a tailwind in '26. Is there any color on the benefit designs that you're seeing that you could share? Would you say reduction of benefits is largely consistent across your payers?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, first I'll handle the REACH question. The latest data I think we have is fee-for-service cost trends are 8.5%. So that's the latest information we have on the cost trends in the fee-for-service business. And then as far as the bid detail, it is different by payer is what I would say, and obviously, everybody kind of reads the public announcements from all of our payer partners.

But generally, I would say it's different. But broadly across our network, what we've seen is really pricing for margin. And it's maximum out-of-pockets, it's all the things and the levers that the payers have in the bid design. So across our book, generally I would say what we see is pricing for margin, which we believe is going to be a tailwind for us as we head into '26. So not all payers are the same, but across our footprint and our network, it's going to be a positive for next year.

Operator

Craig Jones, Bank of America.

Craig Jones - *Bank of America - Analyst*

So looking at your palliative and heart failure programs, I think you've rolled those out in most of your geographies now. For 2025, what kind of savings do you expect from those, either PMPM or millions. And then as you think about these catch programs going forward, once you kind of get installed in all your geographies, is this sort of like a one-time boost and then kind of oscillates up and down based on participation, or is it sort of an annual continued margin accretion?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, I would say just to go back, we implemented a lot of these clinical programs, I would say, late in 2024, early in 2025, so there certainly is a ramp period, and some of that benefit will accrue to 2026 given the long-tail nature of our business. We're not going to get into any specific PMPM savings, but I think Ron highlighted in his prepared remarks some of the outcomes that we're seeing from those programs. They've been very successful. Ultimately, it is reducing medical expense and improving, I would say, the identification of disease burden for our members so that we can get them into the appropriate treatment programs.

And so we look to, I would say, continue the evolution of these programs as we exit '25 into '26, and they will be permanent programs, so they will continuously derive value, and we would continue to iterate on these programs to continue to make them successful.

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Ronald Williams - *agilon health inc - Non-Executive Chairman of the Board, Co-founder*

Yeah, probably the only thing I would add is that we will continue to enrich the datasets and the AI algorithms that we use to identify potential suspects and the burden of illness in patients that has not yet been detected, along with other diagnostic techniques that our medical groups have invested in, and we've supported. So I think you can expect that this will continue some level of progression into the future, while at the same time, we expect to ramp up other programs that our medical groups have determined represent good clinical care for their patients.

Operator

Daniel Augustine, Citi.

Daniel Augustine - *Citi - Analyst*

I think you've covered the changes you're making to payer contracting well, but correct me if I'm wrong, I may have misheard this, I think I heard in your prepared remarks that you're also altering how you're contracting on the provider side. Can you just provide a little bit more detail on how, if at all, your provider contracts are changing, particularly with regard to risk sharing and how this may shift receptivity on the provider side to contracting?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, on the provider side, we're not changing any of the contracts on the provider side. I think what you're referring to is, there was a comment about the $30 million of operating savings really executed on for next year. I think part of that was aligning the incentives with our physician partners, so we did take a fresh look at incentive alignment, and that was a component of that $30 million.

Daniel Augustine - *Citi - Analyst*

Okay, can you provide a bit more detail on what that means in practice? What incentive alignment, or what incentives are changing?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Probably not here. I mean, it wasn't a substantial piece of the $30 million is what I would say. And so, as you think about that $30 million, I would say half was generally corporate -- what I call corporate overhead costs, and then the other half would have been, I would say, more market operating costs that we are looking at. So the physician incentive piece was relatively small.

Operator

Andrew Mok, Barclays.

Andrew Mok - *Barclays Services Corp - Analyst*

I want to follow up on the payer contract discussion. When you see benefit misalignment with your payer partners, is that concentrated more in small regional health plans or large national carriers? And how much of your current membership is already contracted for next year, and how much is still outstanding?

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Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, I guess what I would say is it's a market-by-market item, right? So it's not just broadly across one payer or this payer. You have to go into each specific market and understand the benefit designs that impact us, and ultimately, it's part of our contracting process. We get the bid information, we analyze that, and that is a key component of our request on economics, as you can imagine. So I would say it's a little more nuanced than what you're saying.

And then the second part of your question, what was that?

Andrew Mok - *Barclays Services Corp - Analyst*

How much of your membership is already contracted for next year when you think about what's left outstanding?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, I would say it's kind of hard to put a pin on exactly how much is where the ink is dry, if you will. I think we've come to business terms with a lot. Remember, we had about 50% of our contracts open for renewal. We've come to relative agreement on a substantial portion of that, but obviously you have to dot the I's and cross the T's, and that matters.

So I would hesitate to say right now at this point how much, but obviously, we're going to work through the bulk of this in the fourth quarter, and we'll have an update for you when we do our year-end call.

Ronald Williams - *agilon health inc - Non-Executive Chairman of the Board, Co-founder*

Yeah, the only thing I would add is that the negotiations have really been extensively supported by our physician partners because they are in that community. They have the relationship with the patient, and so they have been really actively at the table with us in markets to assist in delivering the important messages to payers who may not have heard us as clearly as we had hoped.

Andrew Mok - *Barclays Services Corp - Analyst*

Great. And if I could sneak in one additional question. I'd love to follow up on Stars. Appreciate the comment that bonus year 2027 Star scores will increase, but as we think about bonus year 2026 and some of the volatility there to the extent some of your payer partners have a reduction in Stars, can you help us understand whether this headwind flows downstream to you, or are you getting a fair premium increase to offset that Stars headwind?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, obviously that's another key component of what we're talking about when we're doing our contracting. So again, I would say we are looking for total overall economics that make sense for our partners and Agilon, and that's what we're focused on. And that's when we said we're taking a disciplined approach. That would be part of that equation.

Operator

Matthew Shea, Needham.

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Matthew Shea - *Needham & Company LLC - Equity Analyst*

I wanted to hit on the clinical programs again and the broader COPD and dementia rollout. What is the staging or timing of going from a pilot to permanent program look like? And based on your success with palliative, how long do these broader launches tend to take to ramp towards meaningful savings? With that, I guess, given the early success from your existing programs and some of your commentary, do you plan on rolling out incremental programs or piloting new specialty areas in 2026, or how should we think about clinical programs evolving from here?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, I would say you're getting down the correct path. The first thing we typically do is pilot some of these programs and validate that ultimately it's improving the care for the member. So we would pilot those. You have to have enough data, obviously, to make sure that that's happening. So I'd say the pilot phase is relatively six to eight months, could be longer, then ultimately, we would roll that out.

And of course, you can't roll it out to everyone at all times, so we roll it out market by market, starting with the markets that we believe would provide the most value. And so, yes, I would say we plan to take the pilots of COPD and dementia, and I think we're going to roll those out to more markets in 2026. And yes, obviously potential new pilots are on the table, and we're thinking about those as we think about our 2026 guide and what we're planning on doing for next year.

Ronald Williams - *agilon health inc - Non-Executive Chairman of the Board, Co-founder*

All of these programs are developed in consultation with our partners, and we have a network advisory board where the leaders of the principal medical groups come and advise, review the evidence, and support and endorse these types of initiatives as good patient care for their members. And so we do have some teed up as Jeff described, and we feel like as we've implemented congestive heart failure, we've learned a lot about that process of diffusion of both the clinical evidence, technology, training, and support of the physicians.

Operator

David Larsen, BTIG.

Jenny Shen - *BTIG LLC - Analyst*

Hi, this is Jenny Shen on for David. Thanks for taking my question. I just wanted to ask about the Big Beautiful Bill Act. Do you expect that, on the Medicare side, to have any impact on your business at all? And if you do, what do you expect those impacts to be?

Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, we don't expect it to have a meaningful impact on the business, and I guess we'll just leave it at that.

Operator

(Operator Instructions) [Amir Barney] Evercore.

Amir Barney - *Evercore - Analyst*

Hey guys, good afternoon. Thanks for taking my question. So Humana is one of your largest payer partners, I believe, and it looks like they're focused on benefit stability for '26. So I guess I'm trying to get a sense for how you think this impacts your medical cost for next year. Some numbers around that would be very helpful. And if I could squeeze in a quick follow-up, what do you see as minimum working capital for your business?

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Jeffrey Schwaneke - *agilon health inc - Chief Financial Officer, Executive Vice President*

Yeah, so real quick, I think we've kind of covered this maybe. The first question, as far as Humana, I think we covered this in the contracting phase, which is ultimately we get the benefits for each of our markets, we get the plan designs, and we analyze that. And that's part of our overall contracting efforts, looking for the economics that we think make sense for us. And so I would say that's just one, you're just talking specifically about one payer, but the process is the same across all payers. So I think that's where we are from that standpoint. It's part of the overall contracting process and the economics we look for.

And your second question on minimum working capital. I don't know what you're trying to really get at there. I don't have a number off the top of my head for what you're trying to pinpoint, but we can certainly follow up.

Operator

(Operator Instructions) I can confirm that does conclude the question-and-answer session here, and I would like to hand it back to Ron Williams for some final closing comments.

Ronald Williams - *agilon health inc - Non-Executive Chairman of the Board, Co-founder*

Well, thank you for joining us today. Agilon will close 2025 with a sharpened focus and momentum driven by a suite of high-impact initiatives that are fundamentally reshaping our operating discipline and executional rigor. I want to thank our employees and our partners who may be listening, and I also want to thank you for your dedication and partnership with us. You're playing a crucial role in the healthcare industry, helping to transform healthcare for our employees and empowering our primary care physicians to focus on the entire health of their patients. We will continue to fulfill this mission with our employees.

Thank you. Have a good evening.

Operator

Thank you. I can confirm that does conclude the Agilon Health third-quarter 2025 earnings conference call. Thank you all for your participation. You may now disconnect, and please enjoy the rest of your day.

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