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Agilon Health, Inc. (AGL)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the agilon health First Quarter 2021 Earnings Conference Call. At this time, all the participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your host, Matthew Gilmore, Vice President of Investor Relations. Please go ahead.

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

Thank you, operator. Good morning, everyone, and welcome to agilon health first quarter 2021 earnings conference call. With me this morning is our CEO, Steve Sell; and our CFO, Tim Bensley. Following prepared remarks from Steve and Tim, we'll 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.

With that, I'll turn the call over to Steve. Steve?

Steven J. Sell

Chief Executive Officer & Director, Agilon Health, Inc.

Thanks, Matt. Good morning, everyone, and thank you for joining our first earnings conference call as a public company. I'd like to start by welcoming our new shareholders. We really enjoyed meeting many of you last month on the IPO roadshow and appreciate the trust you've placed in agilon.

We're doing today's call from Columbus, Ohio which is home to our founding partner medical group, Central Ohio Primary Care. COPC is the largest independent primary care group in the country and, like all of our partner groups, is a leader in their community. In Columbus, as in all of our markets, agilon health is co-located with our partner groups and our employees work each day to enable our physician partners to transform the health of their local community.

We take our mission seriously to be the trusted long-term partner of community-based doctors. Today, our partner spans 17 diverse geographies and provide integrated total care to nearly 275,000 senior patients on the agilon platform. And while the last 15 months with the COVID pandemic have been extremely difficult for our senior patients, the dedication, innovation, and perseverance of our physician partners and our employees has been extraordinary and I could not be more proud of the positive impact they have made on patient and community health.

I will cover four areas in my prepared remarks. First, some background on agilon. Second, some highlights on our first quarter results. Third, an update on a new program, Direct Contracting. And fourth, our priorities following last month's IPO. Tim will provide a more detailed review of the numbers in our guidance. And after that, we'd be happy to answer your questions.

Some background on agilon and our strategy. Our focus is enabling primary care doctors to be the agent for transforming healthcare at the community level. We do this in a unique way by partnering with leading independent physician groups and entering into long-term exclusive joint venture agreements that focus on their senior patients in Medicare Advantage and, starting last month, in Direct Contracting.

Our partnerships move existing doctors, senior patients, and payers from a fee-for-service model to a long-term, value-based subscription model, in which the primary care doctor is responsible for a patient's total care, cost, and quality. Our platform and partnership provide doctors with information, resources, and time they need to meaningfully improve their patients' health, while aligning physician practice economics with improved patient outcomes.

In just four-and-a-half years, the momentum in the business is tremendous. We've entered into long-term partnerships across 17 diverse geographies, 11 of which are revenue-producing today, and 6 of which we're implementing for 2022. With our partners, we have nearly 225,000 Medicare Advantage patients and 50,000 Direct Contracting patients on the platform.

Our business model has three distinct components; platform, partnership, and network. The agilon platform includes people, process, capital, and technology, and provides the capabilities that are required to succeed in a value-based model such as payer contracting and clinical programs. Our platform is portable and scalable across

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markets. Through our long-term partnership with physician groups, we operate a new line of business focused on Medicare.

When our partnership generates a surplus by improving health outcomes of senior patients, we split it with our physician partners. Our platform and partnership model is deployed in a common way across markets and our success has created a growing network of like-minded entrepreneurial physician groups that are both learning from each other and constructively challenging one another.

With our approach, all stakeholders are winning. Patients and physicians report world-class Net Promoter Scores. Physicians are able to practice medicine the way they were trained to and access recurring subscription economics tied to the long-term health outcomes of their patients. Payers experience consistent growth and gross margins, while enjoying higher patient quality scores and retention. And Medicare and local communities benefit through more sustainable primary care and effective management of healthcare costs.

The financial attributes of our model are highly attractive. Our business is capital light. Member acquisition costs start at a relatively low level and then decline within a geography over time. Our same geography growth is driven by patients within existing physician panels choosing MA or new physicians join their anchor partner.

We don't spend money on brick-and-mortar or sales and marketing. This results in a highly efficient growth model with extremely strong returns on investment. Because our partners are leaders in their community and have scale at the local level, we have multiple levers to improve outcomes outside of the primary care office. This makes our model successful in diverse markets with varying plan offerings, which supports our ability to access a broad total addressable market.

We have a high degree of visibility into future revenues and margin progression. From a revenue perspective, we implement new geographies up to 12 months in advance. For example, during 2021, we are currently implementing the six new geographies I mentioned with approximately 49,000 new members. These new geographies will start generating revenue in 2022.

70% of our current members have been on the platform less than three years. As these members mature on the platform, we believe this provides high visibility to consistent medical margin expansion over the next several years. The success of our early partners in terms of sustaining both strong membership and medical margin growth gives us confidence that we can successfully scale our platform into additional geographies.

Now, let me discuss a few highlights from our first quarter results. We're pleased with our quarterly performance. Adjusted for the retroactive group MA contract, revenue growth was 50% and membership growth was 42%. We also reported positive year-over-year gains in medical margin, network contribution, and EBITDA. Same geography membership growth, a key differentiator on our model was 15% including the retroactive group contract.

In one of our markets, a group Medicare Advantage contract covering about 9,000 members shifted between two national payers effective January 2021. While we work with both health plans in multiple geographies, we did not have a contract in place with the receiving payer covering these members at the beginning of the year, primarily because of the timing required to complete the transition.

As a result, these members are not reflected in our first quarter financial results. We were pleased to complete a new multi-year agreement covering this membership within the past several weeks, and we expect to recognize some retroactive revenue during the second quarter. Most importantly, patients covered by this group plan were

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under the continuous care of their primary care doctor during the transition from 2020 into 2021. We think this helps to underscore the very sticky relationship between our physician partners and their patients and the power of our multi-payer model on patient retention and experience.

From a new market perspective, three new partners in Hartford, Buffalo and Toledo went live on the agilon platform in January 2021, covering approximately 33,000 members. Additionally, we signed six new partners to definitive agreements covering 49,000 members during the first quarter. These six partners began implementation on the agilon platform in late 2020 or early this year and will generate revenue starting in January 2022.

Our development team is now focused on signing letters of intent for new groups that will begin implementation during late 2021, early 2022 and generate revenue starting in January 2023. We are already in active dialogue with physician groups in multiple new states and markets and are encouraged by the growing and robust level of interest in partnering with agilon.

First quarter results also demonstrated the efficiency of our growth model, platform support costs, which includes local market and enterprise G&A, represent just 7% of revenue during the first quarter compared to 8% in the prior year. On a per member per month basis, platform support costs declined 11% year-over-year.

And now let me pivot to talk about Direct Contracting. On April 1, we launched five Direct Contracting Entities in conjunction with seven of our physician partners. These five DCEs cover more than 50,000 traditional Medicare patients in a value-based subscription model. And we believe agilon is one of the largest participants in this program. The agilon platform allows physician groups to operate a single line of business for their Medicare patients across both MA and direct contracting.

While it's still very early and government programs can change over time, our initial experience has been in line with our original expectations. Consistent with the idea of new government programs evolving over time, on April 8, the CMS Innovation Center announced its intention not to solicit applications for new DCEs for 2022. Despite this, we will be able to utilize existing DCEs as well as our four deferred DCEs as a vehicle for new or existing physician groups to participate in the Direct Contracting program.

More recently on May 21, CMS announced that next gen ACOs will be eligible to apply for new DCEs for 2022. We take these announcements and the recent conversations with the Innovation Center as encouraging as we believe the direct contracting program is aligned with the administration's goal of advancing primary care centric value-based care.

Finally, I'd like to touch on some key priorities following our IPO last month. We plan to increase our investments in the agilon platform and support our overall growth strategy both with our existing partners and current geographies and with new partners in new markets. In terms of technology platform investments, a key focus for us is to enhance our data ingestion and normalization capabilities which we expect, among other things, to accelerate clinical insights and further improve areas such as member attribution. We expect these technology investments will also improve internal efficiency and the scalability of our platform.

As an example, we recently deployed a referral insight program in our Akron market, which provides important cost and quality information about specialist care to our primary care partners. In just two months, our physician partners in Akron have increased referrals to identified high value cardiologists from 37% to 60%. While we're still early with this initiative, we expect our referral insight program will have a positive impact on patient outcomes.

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From a growth perspective, the IPO not only increased agilon's capitalization, but it also increased the capital available for our physician partners to improve care delivery and accelerate growth in their markets. Our partners, through agilon, are now effectively some of the best capitalized physician groups in the country. Together, we can accelerate the transformation of care delivery for seniors. We see a tremendous runway in front of us and are excited to help more doctors, more senior patients, and more communities.

With that, I'll turn the call over to Tim.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

Thanks, Steve, and good morning, everyone. As Steve, mentioned we're pleased with our first quarter results. I'll review some highlights from our financial statements then provide an updated view on our cash and debt position post-IPO, as well as some details on our guidance for the second quarter and full-year 2021.

Starting with membership. Membership increased by 35% on a year-over-year basis during the first quarter to approximately 165,000. Including the recently completed group Medicare Advantage contract, membership at the end of Q1 would have increased 42% to approximately 174,000. Membership growth was driven by a combination of same geography growth and the impact from three new geographies that went live on the platform in January. Same geography membership growth was 8% for the first quarter and including the recently completed group contract, same geography membership growth was 15%.

Aside from the geography temporarily impacted by the group MA contract transition, all of our geographies grew membership at or above the national trend for MA enrollment growth. Several of our geographies were well above the national trend. As we previously discussed, a group Medicare Advantage contract in one of our geographies shifted from one national payer to another in January. This included about 9,000 patients attributed to our partners.

We completed an agreement during the second quarter with a new MA payer covering these members. These members are not included in our first quarter financial results, but will be included in our second quarter results including retroactive revenue and costs associated with the first quarter. We expect the retroactive revenue associated with the first quarter to be approximately $24 million.

Subsequent to the end of the quarter, we launched five Direct Contracting Entities with seven partners covering over 50,000 members. As a reminder, the revenue and costs for these members will not be consolidated in agilon's financial results. Including the estimated 49,000 members currently in implementation for 2022 go live as well as 50,000 Direct Contracting members, total membership on the agilon platform is now approaching 275,000.

Revenues increased 42% on a year-over-year basis to $413 million during the first quarter. Revenue growth was primarily driven by membership gains, the suspension of the Medicare sequester, and changes to CMS county benchmarks and member acuity or burden of illness.

On a per member per month basis, revenue increased 5.3%. Medical margin increased 23% during the first quarter to $52 million compared to $42 million in the prior year. Consolidated medical margin on a PMPM basis was $106 compared to $116 in the prior year. Medical margin PMPM performance reflects a number of factors including the positive impact from clinical programs deployed through the agilon total care model, the maturation of members that have not been on the platform – that have been on the platform for a longer period of time and lower non-COVID utilization. This was offset by the dilution from new members which typically start at a lower medical margin and COVID-related costs, which were higher in the earlier part of the quarter.

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Network contribution, defined as medical margin less partner sharing and other medical expenses, increased 22% during the quarter to $30 million compared to $25 million in the prior year. All of our new geographies were profitable on a medical margin and network contribution basis during the first quarter, which demonstrates the efficiency of our growth and the implementation model.

Platform support costs, which include market and enterprise level G&A, increased 21% to $28 million. The increase in platform support costs was well below our revenue growth rate, highlighting the very light overhead structure that is associated with our partnership model. As a percent of revenue, platform support cost was 7% during the first quarter, down from 8% in the prior year. On a PMPM basis, platform support cost declined 11% to $58 compared to $65 in the prior year.

Adjusted EBITDA for the quarter was $4 million, which compared to $3 million in the prior year. The increase to adjusted EBITDA primarily reflects the higher medical margin and leverage against our platform support costs.

Turning to our balance sheet and cash flow, we ended the quarter with $105 million in cash and $100 million of debt outstanding under our secured term loan. Cash flow from operations during the quarter reflects a use of $41 million compared to a use of $26 million the prior year. The increase in net use of cash was primarily driven by the transition from a delegated claims payment model to a non-delegated model with a health plan in one of our geographies. Following the completion of our IPO on April 19, we have approximately $1.1 billion of cash and $50 million of debt outstanding under our term loan.

Turning to our financial guidance for the second quarter of 2021, for the second quarter, we expect ending membership in a range of 175,000 to 177,000 and revenue in a range of $470 million to $475 million. It is important to keep in mind our second quarter guidance includes the revenue and costs from the group MA contract we discussed earlier including retroactive amounts that are associated with the first quarter. We estimate the retroactive revenue and membership will be approximately $24 million and 9,000 members, respectively.

During the second quarter, we will also recognize one-time expenses associated with the completion of our IPO including $275 million in non-cash compensation associated with the issuance of stock to our physician partners. These one-time expenses will be excluded from our adjusted EBITDA. Finally, platform support costs will increase sequentially in the second quarter reflecting the ongoing public company costs such as increased D&O insurance.

For the full-year 2021, we are expecting ending membership in a range of 182,000 to 184,000, revenue in the range of $1.765 billion to $1.78 billion, and adjusted EBITDA loss of $41 million to $38 million. We expect revenue growth will be driven by similar factors that drove growth during the first quarter. From an EBITDA perspective, we expect non-COVID costs will increase on a year-over-year basis as vaccination rates rise and people feel more comfortable utilizing the healthcare system.

We anticipate this dynamic along with the increased platform support will more than offset the positive impact from members maturing on the platform resulting in lower medical margin PMPM in 2021 compared to 2020. As a result, we expect the adjusted EBITDA losses reflected in our guidance will be weighted towards the second half of the year.

With that, we're now ready to take your questions. Operator?

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from the line of Lisa Gill with JPMorgan.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks very much and good morning. Congratulations on your first public quarter. Steve, I just want to go back to some of the comments around the medical margin and just kind of understand a couple things a little bit better. One, can you just maybe bifurcate the new versus the existing, more mature member when we think about the cost of those individuals? Number one.

And number two, I know Tim made a comment around COVID costs. Can you talk about what you saw for COVID costs in the first quarter and then the comments of non-COVID costs coming back? How do we think about the progression of medical costs for the second, third, and fourth quarter of this year?

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

A

Sure. Maybe I can start and Tim can fill in on that. So, I think we're pleased by continuing to see medical margin improvement in our recurring members, those that were with us four quarters ago. And so, that improved nicely. There's a dilutive effect that comes in from the new members that are coming on the platform which is reflected in the quarter and the strong growth has some of the effect on the medical margin.

Lisa, in terms of kind of the seasonality, we do expect to see a step-up in costs in the back half of the year as the country reopens. The vast majority of that is, I would call, tied to non-COVID utilization. We're seeing extremely high vaccination rates with our seniors. We expect that it's above the national average, which is now almost at 80% in terms of seniors with at least one shot and in the low-70s with those at two shots. Many of our communities are higher than that. So, we don't expect the COVID-related costs to be spiking up as much but there was some of that within the quarter that Tim can talk to.

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

A

Yeah. Absolutely. Hey, Lisa. Good morning and thanks for the question. Just to amplify a little bit on what Steve said, I think the best way to think about the first quarter is, first of all, yeah, we're really happy with the overall increase in medical margin to $52 million, up $10 million year-over-year. On a PMPM basis, I think Steve did a good job of walking through the cause of change. We're seeing an increase in medical margin on a PMPM basis for our retained members on a year-over-year basis where that's obviously diluted by the high same geography growth in new members coming in as well as the 33,000 new members that we brought in in new geographies. So, both of those kind of diluting that number.

And then we did see some – continue to see some lower utilization in Q1 versus sort of our 2019 baseline, but still overall COVID utilization – our overall utilization in Q1, a bit higher than it was during the first quarter of last year, so that's still a bit of a headwind as well. So, the combination of that kind of drove the first quarter medical margin PMPM change over year ago.

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And, yes, [ph] we worked through (00:25:53) the rest of the year a couple of factors; we expect to see utilization sort of start to track back towards that 2019 baseline as we move through the rest of the year. So, probably a bit better in Q2, but started to move back towards the 2019 levels in the second half of the year. And so, you can get a pretty good idea of the seasonalization of what we expect for medical margin and adjusted EBITDA from the adjusted EBITDA guidance that we've given.

I would expect that both medical margin and adjusted EBITDA will decline versus Q1 on an absolute basis in each of the subsequent quarters. But based on the real heavy overlap of COVID, we expect most of that EBITDA loss to be weighted towards the second half of the year. And one thing to just remember, as you're looking at that EBITDA progression, one of the things that I mentioned was and we are going to see some increase in platform support cost starting in the second quarter as well, that will be a driver of that, primarily related to the costs associated with being a new public company. We mentioned, for instance, significantly higher costs, for instance, for D&O insurance.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you.

Operator: Your next question is from the line of Justin Lake with Wolfe Research.

Justin Lake
Analyst, Wolfe Research LLC

Q

Yeah. Thanks. Good morning. Wanted to go through the membership numbers in a little bit of detail. So, just looking at your year-end membership of 131,000 that included the 9,000 group MA, right. You had that in your membership at the end of the year, correct?

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

A

That's correct, Justin.

Justin Lake
Analyst, Wolfe Research LLC

Q

Good. So, then if I look at your guidance, you're assuming a little over 50,000 members or patient growth year-over-year and it looks like it's about evenly split between new markets and kind of same markets, right?

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

A

Yes. 33,000 from new markets and the balance from same geography growth.

Justin Lake
Analyst, Wolfe Research LLC

Q

Okay. Yeah, because you'd have to add the 9,000 would be also – okay, so new markets 33,000, so then call it 20,000, low-20s. So, that puts you at kind of high-teens membership growth on the same market, give or take, I think. Can you break it down for us between the existing docs, what you were talking about just core market growth and then the benefit from adding new docs that is part of the model...

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[indiscernible] (00:28:30)

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

A

Yeah, Justin. I mean, it's almost half and half in terms of what we're seeing for the year in that sort of bread and butter core agents, people turning 65, choosing Medicare Advantage or fee-for-service conversions. And then, the other half being with new physicians joining in the existing markets, which we're already in.

Justin Lake
Analyst, Wolfe Research LLC

Q

Okay. Great. And then, lastly, can you talk a little bit about the pipeline for 2023, both in terms of kind of how it looks now versus, let's say, the last couple of years? And then, the timing that investors should expect for you to be sharing kind of new – those new adds as they kind of happen through the year? When do you kind of typically sign those contracts? Thanks.

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

A

Yeah. Happy to do that. And I tried to lay out some of that in my prepared remarks. So, let me start by saying I think the 2023 pipeline is strong, it's robust, and we're seeing interest in new cities within our existing states, as well as a number of new states which are out there and I would say that that pipeline has only grown over the course of the last couple of months.

As per usual, our current partners have made introductions to a number of folks. Our business development team has done a great job identifying groups. But we're also seeing a higher level of inbound folks that we hadn't necessarily identified before that are aware of agilon and the partnership approach that we bring, and there's a lot of interest in that. So, I think it's strong and we're in active dialogue right now with a number of those groups.

In terms of kind of the timeline that you asked about, our biz dev team is really focused on signing letters of intent with these new partners for 2023, new geographies in the back half of this year. Immediately, once we have those letters of intent, we'll go into implementation because as we've shared, we really like to have up to a full year to be able to implement around that.

And then, next year, we will be signing definitive agreements with those groups. And our plan is to sort of share that at one time, Justin, in terms of those partners for 2023 and what that associated membership looks like. In the meantime, I think we point back to what we've shared previously about new geography members at about 40,000 for 2023 and that's what I'd point to, but we will be giving updates on that. And you didn't ask about 2022 but we've got those six new partners in geographies with the 49,000 members that we talked about. And as we move to the back half of this year, we'll be signing payer contracts and giving an update on that on our Q4 call in terms of what that looks like as well. So, that's kind of how the new markets are rolling out and what that timeline will look like.

Justin Lake
Analyst, Wolfe Research LLC

Q

And I'm sorry, Steve. Just you mentioned the – you mentioned you'll be signing these payer contracts on the 49,000.

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

A

Yeah.

Justin Lake
Analyst, Wolfe Research LLC

Q

Should I read that as you saying that the six groups that you signed up, the 49,000 patients that you've assumed probably had some discount in it for an assumption that you don't sign up every payer 411, but as you roll that forward you'll give us an update and there could actually be some upside to that number...

[indiscernible] (00:32:41)

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

A

Yeah, I think that's a fair way to – we're comfortable with the 49,000 and we'll be updating that based on the progression with these payers. We'll be at – we have 16 payers today, Justin, and we'll be adding quite a few for 2022 given these new geographies that we're going into. And as we get into that, we always get more information. We're able to refine that.

Justin Lake
Analyst, Wolfe Research LLC

Q

Great. Guys, appreciate all the color.

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

A

Yes. No problem.

Operator: Your next question is from the line of Kevin Fischbeck with the Bank of America.

Kevin Fischbeck
Analyst, BofA Securities, Inc.

Q

Great. Thanks. We've heard a few companies talk about coding being a headwind I guess. How are you thinking about that in your business if it has been a headwind at all this year. If it has, how do you think about capturing that next year?

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

A

Yes. So, I think folks have talked about the challenges of the pandemic, creating some headwind in terms of being able to capture codes. I think it's a real strength of our model, Kevin, that we have this physician-patient type relationship. We're able to maintain that through the pandemic both in terms of in-person and in terms of telehealth. And so, we are very strong from an annual wellness visit perspective, very strong from a reassessment perspective.

So, as it relates to activity last year for this year and activity for this year for next year, we have not seen maybe the headwind that some others have talked about. Just to remind you, we don't do in-home nurse-based

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assessments for purposes of burden of illness or RAF. And that is an area that I think was much more challenged throughout the pandemic.

Kevin Fischbeck
Analyst, BofA Securities, Inc.

Q

Okay. That's great. And then, I guess, the MA contract as you guys were able to, I guess, transfer works well for you this time, I guess. What's the risk that you – in the future there's another large contract that shifts? I guess, A, how much visibility do you have into that? When do you know about this shift? And then, B, what's your track record on being able to keep contracts like this?

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

A

Yeah, I mean, I think the group contracts don't move all that often. We don't have a ton of group business. So, it's somewhat limited by that. But when they do move, it's not uncommon to have this sort of long-term drawn out relationship, I think, in terms of process. In terms of exposure, I think it kind of speaks to the power of our model, right. So, when group contracts move, typically, the receiving payer wants [ph] domain (00:35:47) continuity particularly for seniors. And the power of this sticky patient-physician relationship and the multi-payer approach that we've got really allows us to support that in a meaningful way.

And so, I think as we look out, we did know about this one in advance, and we will know about other ones as they approach. But again, Kevin, they don't happen all that often. But I think given our approach, we believe that we're in a pretty strong position. Our partner, our leaders in their community and for the group contracts that they've got today, those patients and their sponsors are going to want to keep that relationship.

Kevin Fischbeck
Analyst, BofA Securities, Inc.

Q

All right. Great. Thanks.

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

A

Thanks, Kevin.

Operator: Your next question is from Ryan Daniels with William Blair.

Ryan Daniels
Analyst, William Blair & Co. LLC

Q

Yeah. Guys, thanks for taking the question. Congrats on the first quarter out of the box. Can you speak a little bit more, Steve, to the investments you're making in regards to the referral management program? I assume number one outside of maybe oncology, cardiology is probably a fairly large specialty cost. So, a little bit about the potential to drive medical margins and how quickly something like that can be replicated and rolled out throughout the network. Thanks.

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

A

Yeah. No. Thanks for the question, Ryan. I mean I think it's a great point. I think the fact that we're able to develop these programs and run them through our partnerships gives us an ability to affect an awful lot of markets. The

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specialty referral insight program that we talked about in the remarks was specifically in Akron around cardiology. And when you have a cardiac condition, you're with your cardiologist for a while. And so, the ability to increase referrals to these top tier specialists that have substantial cost savings, it can be as much as $100 per member per month for those cardiology patients, is really substantial and that would be across a long period of time.

But the insight program provides that primary care doctor at the point of referral information on those top tier specialists. And its cost savings but at equivalent or better quality, which is a really important component of it. It's exportable to other markets, but it's exportable to other specialties, oncology, GI, just to name a few. And so, the components that we're building around this, I think, give us that opportunity.

Ryan Daniels
Analyst, William Blair & Co. LLC

Q

Great. That's very helpful color. And then a little bit off the cuff question, but I'm curious with the increased exposure as a public company that you're getting kind of notoriety. Is that actually opening up the partner recruiting pipeline at all where there's more inbound? I think you mentioned [audio gap] (00:38:56) just the market reality of MA or are you actually getting a little bit more inbound interest now given your growth and success in markets? Thank you.

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

A

Yes. No. Thanks for the follow-up. I think it's a little bit hard to separate exactly what's driving that. We are definitely seeing a step-up in terms of the inbound activity. Obviously, we do have a higher profile and that could be a part of it. But I think it's just a reflection of this interest in the move to value specifically for that over 65 Medicare population, and for independents who want to remain independent, which is a key differentiator for us. So, I think it's a combination of those factors that's driving it, but it has definitely stepped up in the last couple of months.

Ryan Daniels
Analyst, William Blair & Co. LLC

Q

Okay. Great. Thank you, guys.

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

A

Thanks, Ryan.

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

A

Thanks, Ryan.

Operator: Your next question is from the line of George Hill with Deutsche Bank.

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning, guys, and thanks for taking the question. I guess I wanted to jump in with one on Direct Contracting. I wanted to just affirm that the – any kind of economic impact from Direct Contracting is still not

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included in the numbers for fiscal 2021. But, I guess, can you talk about when do you start to include, maybe when does it become material? And I'll start right there. Thank you.

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

Do you want me to give the macro or do you want to give – why don't you answer...

[indiscernible] (00:40:30)

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

Let me answer [ph] the specific (00:40:31) question. Then, maybe Steve you can come back and give some macro comments about DC. But yeah, so overall the economic impact of DC will be in our 2021. We just won't consolidate those results. So, you just see the net impact into the P&L. But your point, for the full year, we expect the impact of D.C. to be relatively slight loss to break even. So, you won't see a big impact in the 2021 results from that, but it will be actually in our results just not a big bottom line impact.

George Hill
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Can you kind of quantify the top line expectation?

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

We're not going to consolidate revenue, so there won't be any top line impact at all from DC.

George Hill
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. And then, yeah, Steve, would love kind of your comments on the macro front...

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

Yeah, I mean, just the context that I would give you is it's a new government program, right. So, it's subject to change, it's a six-year program and it started last month. So, I mean, we're literally in the early days. I think our initial view on performance is kind of in line with expectations and attribution. But we did talk with the Innovation Center just this week and I think they were very clear about this as part of their approach to how they can drive more primary care centric value-based care. And so, that's encouraging for us.

And I think they want this to be a successful program from a cost to quality and an access standpoint. So, we spent a fair amount of time talking to them about this idea of keeping independent physicians independent, increasing primary care in communities, diverse communities around the country. And so, I think that's just the added context that I would give. And there is the option, as I mentioned, with our DCEs to add in for January of 2022 and any of the membership numbers that we've talked about do not reflect that.

George Hill
Analyst, Deutsche Bank Securities, Inc.
Q

That's helpful. Thank you.

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Operator: Your next question is from the line of Stephen Baxter with Wells Fargo.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Hey. Good morning. Thanks for the questions. So, as we look at the payer disclosures in your Q, it looks like the growth for your largest payer was fairly modest sort of well below the same geography growth that you saw. I was wondering if there's anything worth highlighting there about what that payer is doing, perhaps that was impacted by this group Medicare Advantage transaction...

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

Yeah. Yes, it was, Steve.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

And whether [indiscernible] (00:43:02) about other – yeah. Sorry, go ahead.

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

Yeah. Hey, Stephen. Yeah. Thanks. It's Tim. Yeah. 100% it doesn't have the – that is that payer and it doesn't have the $24 million retro revenue in it. So, when you put that revenue back in that payer's on par with the rest of the growth numbers on the page.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Got it. Yeah. I was – go ahead.

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

Well, Stephen, I mean I guess just the only other thing I would call out is we're up to 16 payers now. That number is going to go up again in 2020. So, just as kind of a trend, I think you are going to see – continue to see kind of a dilutive effect from regional payers that are coming on. I think we have fantastic partnerships with the nationals and we'll continue to grow with those. But it's going to be a balance in terms of what that looks like.

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

And just specifically, you're talking about payer A in the release. If you put that $24 million retroactive and it would – it be about a 25% growth for that payer in the quarter.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Perfect. That makes a lot more sense then. And then, you mentioned that you don't have a lot of group membership. I was wondering if you could talk about that a little bit and why that's the case, whether there's any structural barriers there and whether it could be more of an opportunity for you over time?

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

A

Well, I think one is group's a minority in the country. And so, that's probably the biggest part of that. And so, that's what I was trying to call out is I don't think it's a big part of the membership overall. And then, two, it's group contracts don't move all that that often. So, that was really the point.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Got it. Okay. And then just one clarifying question on the pipeline for 2022. So, appreciate the color on the 49,000 members and some of the dynamics you were talking about an earlier question there. Should we think about the 49,000 members as those are the existing members today? Or as we think about what that will look like a year from now, is there also consideration that that would move higher as it relates to same market growth or those practices recruiting physicians in this calendar year? Thanks.

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

A

Yeah. I mean, like I said, I think we're comfortable with the 49,000 members. Those are members that are with those practices today in which our physician partners are seeing those and they would be, obviously, eligible for attribution. Need to get all those payer contracts done. And we'll refine that and let you know if there's some additional opportunity within that as we go forward. And then, there's also these partners are constantly growing within their communities and that can happen during implementation as well. So, that can be effective.

Stephen Baxter
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you very much.

Operator: Okay. Your next question is from the line of Sandy Draper with Truist Securities.

Sandy Draper
Analyst, Truist Securities, Inc.

Q

Thanks so much and good morning. A lot of questions have been asked. Maybe just [indiscernible] (00:46:16) question, rear look – rearview mirror looking but also forward. Last year, the new geography or geography entry costs were heavily weighted towards the fourth quarter. There was a pretty meaningful step up. When we're thinking about the new geographies you're already planning going to 2022, should we really think about the weighting towards the fourth quarter every year and that's where the bulk of the costs are? And is it really dependent on number of geographies? Could you actually have a situation where fewer geographies for whatever reason, there's more cost? Just trying to think about longer term how to be thinking about those geography entry costs. Thanks.

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

A

Yeah. It's a little – Sandy, thanks for the question. It's a little bit different for each geography and – but probably more a relationship with the number of members that we're bringing on than the number of geographies. It's not really dependent on the number of new partners as much as the number of members in each partner. Most of our new – our implementation costs are really the AWV incentives that we're paying to kind of get the system up and going during implementation.

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I think one of the things that drives it is just how much implementation time do you have. We're actually in pretty decent shape this year with a longer implementation time for most of those new members that'll be – or most of those new geographies and partners that'll be coming onboard in January of 2022. So, you would expect that those implementation costs or new geography costs this year would be more spread over the quarters than back-loaded into the second half of the year.

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

And I think there was some...

Sandy Draper
Analyst, Truist Securities, Inc.
Q

Okay. Great.

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

...COVID effect last year that made it a little bit more lumpy. It was just tough to be on the ground with partners earlier in in 2020 during those implementations. And so, that was probably some of the effect of that and getting control.

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

And even the timing of when AWVs are complete [indiscernible] (00:48:11)...

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

Yes. Correct.

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

...but it should be – we're out there early this year in implementation with most of those partners. And so, you would expect it to be or we would expect it to be more evenly spread than back half-loaded as it was last year.

Sandy Draper
Analyst, Truist Securities, Inc.
Q

Okay. That makes a lot of sense. That's very helpful. Thanks again and congrats on a good first quarter.

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

Sure. Thanks, Sandy.

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

Great. Thanks, Sandy.

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Operator: At this time, there are no further questions. I will now turn the call back to Steve Sell for any closing remarks.

Steven J. Sell

Chief Executive Officer & Director, Agilon Health, Inc.

Great. I would just say thanks for the good questions in the discussion. We're obviously excited about our quarter and excited what's in front of us, and we look forward to speaking with each of you soon. So, thanks, everyone.

Operator: Thank you for joining today's conference call. You may now disconnect.

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