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Agilon Health, Inc. (AGL)

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Justin Lake
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Justin Lake
Analyst, Wolfe Research LLC

All right. Good afternoon. My name is Justin Lake, cover healthcare services here at Wolfe. Thanks, everybody, for being here. Next up, we've got the management team from Agilon. I'm very excited to have them here today. We've got the company's CEO, Steve Sell; the CFO, Tim Bensley; and the czar of IR, Matt Gillmor. Very excited. Thanks, Matt, for getting these guys here. I appreciate it.

So, before we get started with Q&A, maybe we can give Steve a minute to just give us, Steve and Tim, two minutes state of the Union on how you're seeing the business coming out of the third quarter and, more importantly, how things are trending for 2023? And I know you guys got some unique visibility, right? You're already thinking about 2024, right?

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

And beyond.

Justin Lake
Analyst, Wolfe Research LLC

And beyond. So, why don't you give us a quick update?

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

Yeah. Well, thanks, Justin. It's great to be here and doing it in-person. Matt, it's kind of nice to see people up close and personal.

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So, let me just start by saying, I think that as we come out of Q3 and we are rounding out Q4, heading into next year, the businesses is just operating very well. The model is executing exactly the way we're looking for it to do. Our fundamentals are really extremely strong. We've got best-in-class retention within the space, I mean, 90-plus-percent retention for senior patients. Our doctors on average have been with their groups for over a decade and that's really reflected in our results. Our quality scores were all 4- and 5-star across the board, which is really reflective in terms of the satisfaction that our patients have.

And then, as we are successful in each one of these markets, other physicians are choosing to join us, which is really reflected in strong same geography growth rates of low- to mid-teens. I think as we think about 2021 to 2022 and the guidance we just provided, we see a step up in med margin of $120 million, step up of adjusted EBITDA of $45 million, and next year is going to be another really meaningful step up, because that core MA business, which drives over 90% of our contribution to EBITDA, is performing so well. The adjusted – or the year two groups that have been on the platform for a couple of years are doing really well. Our year one groups are performing at the high-end of our expectations, which is really encouraging. So, as we look out towards 2023 and beyond, I think we feel really good about that.

And so, I think we can kind of dive in.

Justin Lake

Analyst, Wolfe Research LLC

Great.

Steven J. Sell

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

Anything you want to add, Tim?

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

No, I was just going to – just to tack on the last thing you said was good comment about that, obviously, the MA business is our business and that's what drives our performance, but we always talked all about this, cohort progression as markets mature, medical margins increase. And you talked about being year two plus or year three plus or even doing better than that. So, we are really, really confident – we're getting our confidence built by each of these market cohorts as [indiscernible] (00:03:18). We can talk about some of the numbers later, Justin if you want, but...

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QUESTION AND ANSWER SECTION

Justin Lake
Analyst, Wolfe Research LLC

Q

Yeah. Yeah, I'll go – I'll just jump off there. You guys did an Investor Day last year. Just give us an update in terms of like the – it's always nice to see this cohort data. You guys gave us some interesting data last year. Are we going to give it in Investor Day...

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

A

You bet.

Justin Lake
Analyst, Wolfe Research LLC

Q

...and how are you going to communicate those cohorts?

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

A

Same thing. So – I can give you a little bit of it, at least on the market cohorts right now. What we're seeing so far this year is an update, but when we get into Investor Day, we'll do the full breakout again. We'll show you member vintage cohorts, what is a one-year member, a two-year member, a three-year member, and then we'll show you market cohorts again. What is a two-year market, a three-year market, and four-year? I mean, this year, right now, we're very pleased with what we're seeing. If you just look at our overall performance out there right now, you're going to see $104 medical margin PMPM across all of our markets.

And obviously, that includes the year one markets that are somewhat dilutive and all the new members that are coming into the other markets. If you go to the year two plus markets, that Steve was talking about, it's like $126 and that's like a 24% increase, I think year-over-year, so – $128, a 24% increase year-over-year. But if you go to that next group which is how about year three plus? Because we've got to see progression all the way through. Those markets are looking like $146, I think medical margin PMPM, which is still a strong double-digit, like 17% increase year-over-year.

So, we're continuing to see that really strong as whole markets mature, even though they're dilutive from same geography growth themselves, as whole markets mature, we are pushing up that number. And that's a great story, because by the time we get three, four years out towards 2026, just the math of what percentage of our markets are in year three plus will be much bigger than it is today, and that's going to drive that overall medical margin. So...

Justin Lake
Analyst, Wolfe Research LLC

Q

Right.

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

A

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...it's really working well for us on a cohort, and we'll go into all those details come next March, so.

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

And, Justin, I mean, just to remind you and everybody, I mean, how do you grow business 40% to 50% a year and drive this kind of improvement in medical margin and EBITDA that Tim was just talking about? It's those veteran markets that pay for those new markets as...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...you come on, and we're able to then take those year one markets, and very quickly drive them up as they move to year two and beyond. So, our platform is getting smarter, our clinical programs are getting better, the networks learning from each other, and you can just see it in the results.

Justin Lake
Analyst, Wolfe Research LLC
Q

That's exciting. Can you talk a little bit about the Class of 2023 and how you're getting smarter in terms of getting them set up for success...

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

Yeah.

Justin Lake
Analyst, Wolfe Research LLC
Q

...in 2022? And then also, it certainly looks like you're ahead of schedule in terms of where you've been, at least historically in signing up groups for 2024, right. I think you have four now versus one before.

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

Yeah. I mean...

Justin Lake
Analyst, Wolfe Research LLC
Q

... [indiscernible] (00:06:04).

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

...the headline is that, for every primary care doctor in the country, regardless of what type of group they're involved in, they can find a partner with an Agilon that looks like them and sounds like them. And so, because of that tremendous experience across 12 states and 23 different markets, we're really able – you were seeing an inflection in demand. There's this macro in terms of CMS wanting to drive all seniors into total care relationship.

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There's payors saying we'd like to see more and more of our members in full-risk relationships. There's groups who are seeing more and more of their panel moving into Medicare over age 65 and that becomes very challenging for them. And then, there's the success that we're having that groups are seeing.

And so, the Class of 2023 is our largest class to-date. It's 80,000 members. It's four new states and seven new partners and eight new markets across that. And it's got great diversity within it, whether they're primary care-only groups, multi-specialty groups, and then our first health system of MaineHealth, which is really going very well. And what you do in an implementation is we're very focused on having a 12-month period in which we sign up the payors. We make sure we get the data in. We build out that local team. And that team is a combination of the resources that our partners bring and that we bring together.

And then, the most important thing is we get the patients in for those wellness visits and really get a good baseline. So, 2023 is going extremely well. And to your point, the Class of 2024, we've already signed up four partners at this point in time, which will allow us to have greater than a 12-month implementation, which portends well for where they'll start out on January 1, 2024. And so, I just think it's sort of this cycle of, as we do better, as the macro forces drive more people to it, you're going to continue to see this success in growth.

Justin Lake
Analyst, Wolfe Research LLC

Q

Got it, got it. What are you seeing from plans, for instance, there's been a big shake up in things like star ratings. And I know this is more of a 2024 issue than a 2023 issue. But most of the plans are sitting there saying that they're going to hold the member unchanged, right. They're going to leave the benefits intact, take the margin hit, which is fine for their membership where they're at risk, but a lot of times, you're the one at risk. So, how do you guys offset – like is that something you just kind of grind through and you think of the partnership as longer term? Or is there some kind of adjustment they need to make with you to keep you whole when their revenue is down?

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

A

Well, one, I bring the experience of running the payor for 20 years and running that sort of a diverse market and recognizing that certain partners really brought me differential value...

Justin Lake
Analyst, Wolfe Research LLC

Q

Right.

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

A

...I think the value that our partnerships are bringing to the payors is really being recognized. We have 4- and 5-star quality. We have above market growth rates. We have tremendous experience scores. And they have a predictable gross margin, even as benchmark rates and other things might move around across years...

Justin Lake
Analyst, Wolfe Research LLC

Q

Right.

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

...And so, all of that brings them tremendous value. You can see it in the renewal season that we just went through. We talked a little bit about this, Justin, on the Q3 call, came through that very, very well and that was a meaningful part of our membership, our revenue and the margin that we talked about. And I think it just reflects the value that comes. I think as you think about things like stars, I think there's two things payors can do. One is, they can move membership into those other age contracts...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...They can mitigate some of that, and then they work individually with groups like ours. And so, I think we believe that we can really mitigate and manage to do that. 2024 is a very long time away...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...For a couple of these payors, we will have multiple renewals between now and then. So there's multiple ways to sort of address it.

Justin Lake
Analyst, Wolfe Research LLC
Q

Got it, got it. Talk a little bit about one of the unique things you've got going is this health system partnership...

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

Yeah.

Justin Lake
Analyst, Wolfe Research LLC
Q

...with MaineHealth. And I know this is not even going to kick off live until 2023, but what...

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

Correct.

Justin Lake
Analyst, Wolfe Research LLC
Q

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...are the early returns there? And then, talk to me about the conversations you're having with other health systems?

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

Yeah. We, at our Investor Day, introduced our first health system partnership, MaineHealth, largest integrated health system up in northern New England. And the answer to the question, it's going extremely well. They've got a great CEO in Andy Mueller, who is a family physician, saw the benefit of moving to value-based care to address a couple of issues for them. One is a primary care strategy, 200-plus primary care physicians that they're subsidizing to the tune of roughly $100,000 a physician; and two is a Medicare business that was challenged financially in a health system where the beds were relatively full. And so, the ability to take primary care and use it as sort of the focal point around value-based care, reduce seniors that are in the ER, and in the inpatient beds appropriately, and be able to substitute that in with full pay commercial was really something that was very attractive to them.

To answer your question, the implementation is going really well. From the payor contracts that we're setting up, they are on the [ph] Epic (00:11:54) system as our most health systems. It has been the most comprehensive integration I'll say we've had with an EMR. The extent that health systems use EMRs is greater than perhaps a traditional primary care practice. We think that's going to give us some real advantages over time. The other thing is they bring tremendous resources that we're going to be able to leverage, whether it's social workers, whether it's care managers, whether it's pharmacists that will be able to integrate. And so, I think we're feeling very good as we approach day one, which will be January 1.

And then in terms of interest from other health systems, we have multiple health systems that we're talking to right now, whether for the Class of 2024, Class of 2025, regionals, nationals. I think every primary care physician and health systems specifically are feeling like they need to do something from a value-based care perspective. They need a primary care strategy. They need a Medicare strategy. And what we're doing with MaineHealth is distinctive and it's caught a lot of interest. So, we've got a lot of those conversations going.

Justin Lake
Analyst, Wolfe Research LLC
Q

Got it. Is there any kind of thread that goes through these conversations, like, for instance, you said something that resonated with me in terms of this hospital is full. And so, they're instead – like a lot of hospitals that are in faster growing markets or what have you. Like, for instance, I remember talking to the CFO of [indiscernible] (00:13:19) years ago...

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

Yeah.

Justin Lake
Analyst, Wolfe Research LLC
Q

...and they were running at pretty much capacity and they were looking at value-based care at the same time from the perspective of like, do I want to build a new hospital, or would I be willing to – my market's growing, I'll shrink some Medicare patients, right, in terms of move them out of the hospital quicker or into better settings of care and free up some beds...

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

Yeah.

Justin Lake
Analyst, Wolfe Research LLC
Q

...right and thinking about the ROI on both. So, is that something where it's kind of a niche where it only works, or at least the early interest is in hospitals where they've got that intersection of high-growth markets, very significant capacity? Or like is there any – what kind of hospitals really is this resonating with? I guess is the question?

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

Yeah. Well – sure. So, I think that there's probably a few common factors in it. One is this idea around primary care. I think that health systems are watching the changes that are happening in other markets, or potentially even in their own market. Like, we have some health systems and markets we're in, where a large independent group has made this move and they're thinking about what they want to do. Do they want to join into that, and sort of participate in value-based care...?

Justin Lake
Analyst, Wolfe Research LLC
Q

Right

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

...Or is it going to kind of happen to them? So, I think the primary care strategy is part of that. I do think this point around the next 10 years are going to look pretty different than the last 10 years did. There are some exceptions, but there's probably not as much building on inpatient beds going on right now and people thinking about how they want to kind of manage through that...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...And as a source of innovation, I think is a big part of that. And then just the changes in the population of 10,000 people a day turning age 65 and what they're seeing in their mix and what that does to their census and their overall economics? So, I think all of those things kind of come into the equation.

Justin Lake
Analyst, Wolfe Research LLC
Q

Got it, got it. If you had a crystal ball looking out three to five years, like how big a part of your business do you think health systems would be?

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

Well, I think it'll be bigger than it is today...

Justin Lake
Analyst, Wolfe Research LLC
Q

Okay.

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

...I'll say that without locking in on anything. But half the primary care doctors in the country work for health systems.

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

I think we are learning a ton through Maine and there's a tremendous amount of interest from other health systems. And so, I think as a mix of future classes, you will see it tick up as potentially a larger percentage of that. But having said that, if I think about the Class of 2024 and the four partners that we've already signed, I mean, they're right in the wheelhouse of what we've been doing since day one. They're independents...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...primary care, multi-specialty, single-TIN, single EMR. And so, it looks very good.

Justin Lake
Analyst, Wolfe Research LLC
Q

Got it. Let's talk a little bit about Direct Contracting. I know it's a much smaller business for you, and certainly, not a huge part of kind of the target you put out there, I think it was for 2025, Tim, right the EBITDA targets. Maybe you can remind us actually, I should know this off the top of my head, but what percentage of your EBITDA in 2025 is supposed to come from DCE?

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

Yeah. We actually talked about 2026...

[indiscernible] (00:16:53)

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

...if anything specific for 2025, but maybe it's also good just to frame it in terms of what it is today, and then what it would be maybe in the future.

Justin Lake
Analyst, Wolfe Research LLC
Q

Sure.

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

I mean, today, it's a significant part of our membership, so 25% of our members, but it's only about less than 10% of the contribution EBITDA. So the MA side of our business is 75% of our membership. It's over 90% of the contribution to our EBITDA is the flip side of that.

Justin Lake
Analyst, Wolfe Research LLC
Q

Okay.

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

As we – and there's some interesting things that happen with the structured direct contract and we can talk about if you want to get into it. But as we move forward, yeah, I mean, we see Direct Contracting is being – continuing to be less profitable than MA for a bunch of reasons we can talk about, but certainly, contributing positive profitability. But we would see, as we look out to 2026, it's still going to be less than 10% of our overall objective. And, in fact, it'll probably shrink as a percentage of – it almost mathematically will shrink as a percentage of our overall contribution to EBITDA, because our MA business is just really progressing and really doing well and will continue to grow.

And there are some limitations on the DC side structurally on the ability to do that. Having said that, there is a little bit less restrictions on it, as you get out into 2024, 2025 and 2026, because things happen like – and I'm sure you understand this issue of or whatever this structure of there's – indirect contracting, there's this thing called the global discount that comes off the top after you've got the benchmark, you've got risk...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...adjustment, then you've got a global discount that comes off the top...

[indiscernible] (00:18:21)

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Justin Lake
Analyst, Wolfe Research LLC
Q

...bigger discount.

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

But only gets bigger one more year.

Justin Lake
Analyst, Wolfe Research LLC
Q

Okay.

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

So, 2023 is the last year that that gets bigger, goes up by 1%, and then that stays constant. Well, the good thing is, Direct Contracting, that is all about your ability to beat your own performance historically and beat the reference population in terms of your cost coming down, in terms of MA control or ME control. And we're seeing that, right. We're beating the national reference population on cost trend by about 1%. Now, each year you do that, if they're upping that global discount, you got – that's a headwind. You got to...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...kind of keep fighting against. We won't be fighting against that anymore after 2023. So, if we can continue to have – see our platform and our process drive costs in the right direction versus that reference population, then we'll be able to expand profitability a little bit. It's never going to be as profitable as MA on MLR or medical margin PMPM, whichever way you want to look at it basis.

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

Yeah. Justin, if I can add. I mean, we talk about Direct Contracting being strategic. And the reason we talk about that is it literally roughly doubles the amount of senior patients that you have in a Total Care Model and in practice. And so, from the front office staff to the physician to the care team, the process is exactly the same, whether a patient comes in with a DCE or REACH card or an Aetna or an Anthem card. And that ability to have that same process allows you take out variability. We have 10 of our 17 markets in which we have MA and DCE side by side. In those 10 markets, we find that our Medicare Advantage business performs better. In other words, Direct Contracting makes MA better because of that consistency...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...both from a quality perspective and from a cost perspective. Second thing is about 5% to 10% of patients a year move from fee for service into MA. If they're coming on DCE or REACH, they're going to start in a better place. And part of our performing better is we're seeing these folks come in at a better place. And then, finally, you leverage the same infrastructure within those markets. You're not adding incremental teams around that. You're leveraging the same clinical programs, et cetera.

And so, all of those things really help you from a performance perspective and make it strategic. The piece we're working with the Innovation Center on is, how do you make the revenue more predictable? Can you do things like put corridors around this retro trend adjustment? So, Tim can tell me within a range, this is where we're going to come out at. I think for right now what we've said is, for Q4, hey, we're going to be sort of appropriately cautious around this. We can get home. It's a relatively small part of our contribution, and there is this opportunity to work with the Innovation Center to make that piece better. But also, as we continue to beat trend, you should win on this program over time. And I think that's going to be the name of the game in MA as well, is the ability to manage cost better at a door level.

Justin Lake
Analyst, Wolfe Research LLC
Q

That's helpful. I mean, what is the latest Direct Contracting, the retro adjustment that you're talking about? My recollection was that it was in the 70% range at the end of the quarter. Is that in the ballpark? Have you gotten any updates there?

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

Yeah. So, what – CMS puts out a number that is literally just what is their observation through a certain time point and to really figure out – and that's not the retro trend adjustment, right. The retro trend adjustment is what is it at the end of the year and how does that work out...?

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...So, you'll have to do your kind of own analysis around it. But right now for us to say that the expected retro trend adjustment is going to be around 8% or the RTA factor is going to be about $0.92, that looks like it's going to be in the range plus or minus.

Justin Lake
Analyst, Wolfe Research LLC
Q

Got it. And so, that CMS' way of saying that we thought costs were going to be $1, and now they're $0.92, right?

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

Yeah.

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Justin Lake
Analyst, Wolfe Research LLC

Q

So...

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

A

Across the reference population...

Justin Lake
Analyst, Wolfe Research LLC

Q

Across the reference population, right. So, obviously, that's a massive differential in something like healthcare cost trend, right? Maybe not the stock market that goes up and down 10% a day, but this...

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

A

And by the way, cost didn't go up and down 10% either.

Justin Lake
Analyst, Wolfe Research LLC

Q

Right.

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

A

It really gets better. And I don't want to – sorry, I'll let you ask your question.

Justin Lake
Analyst, Wolfe Research LLC

Q

No, no, this is where I was going anyway, so.

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

A

Yeah. I mean, it really gets back to what did they base the original number on?

Justin Lake
Analyst, Wolfe Research LLC

Q

Right.

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

A

And I think – and I understand that they've got a number they're looking at versus a 2019 baseline and each year, they're factoring in, if there was a low utilization and low cost because of COVID. Maybe we should just tack that back on as pent-up demand that'll come back to next year, so it ends up. But, I think anybody that looked at the going into, I guess, everybody did, but most people, if they analyzed and looked at the going into 2022 trend, they were giving us 16% over 2019, which would have applied like about 10% year-over-year, would have said that that's not good, that doesn't seem right. We're not going to see a 10% trend number in 2022 over 2021. So, you

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have to, I think, take that original number with more than a bit of a grain of salt to say that's not really an analytically based number that says it's going to get to. It's more of a whatever. It's a formulaic number that says based on the three-year trend and a drop off last year, we expect it to bounce back, which it's not going to do.

So, we went into the year saying, hey, they're not telling us what to accrue to. They're just putting out a number. And so, of course, we started the year saying we'll do our own analysis. We think that number's going to be lower than that. And that results for the revenue number and a profitability number that we projected. And it's pretty close to what we expected right now. And we thought it was going to be a little higher what we saw earlier in the year and a little bit better. And now, it's a little bit lower in Q3, but you're talking about a percent or so between those. And I think it's coming out about where we expected. Why that number was 10% at the beginning? You can't really bridge the two and say something changed in utilization...

Justin Lake Q
Analyst, Wolfe Research LLC

Right.

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

...Nothing changed. It's just that number was really high to begin with that they were estimating.

Justin Lake Q
Analyst, Wolfe Research LLC

Got it. So, has there been any feedback from CMS in terms of the question, like I think it's a totally reasonable one, like we need more revenue visibility, right? I don't care if it was 19% or 15%...

[indiscernible] (00:24:24)

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

Well, there's two sides of it. One is give us more information, so we can do a better job judging for ourselves, which they are now doing. So the monthly files and updates, they've been great partnering with us and I assume everybody else in the program on this. So the monthly files that we started getting after the Q3 update have been much more fulsome and we could do much more analysis on where this is going, just like we can with our underlying cost that we get for our own members. The other thing though – so that's just around better ability to project it. The other thing that Steve was talking about is not knowing where it's going, and this is what you're booking, your revenue number is on, is there some opportunity for them to put it more into corridors as well. So, it can move, but it can only move within this corridor...

Justin Lake Q
Analyst, Wolfe Research LLC

Right.

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

...And so, we'd like to see a little bit more of that, and that's one of the things we're talking to them about.

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Justin Lake
Analyst, Wolfe Research LLC

Q

And you talked about the reference population.

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

A

Yeah.

Justin Lake
Analyst, Wolfe Research LLC

Q

When you think about the reference population versus let's say, a lot of us look at for MA rate season and a couple of months we'll only focus there. How is that reference population different than the overall net kind of fee for service population that, I should say, CMS uses for to estimate total fee for service spending for MA rates?

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

A

Yeah. I think I don't know all, but there are some ins and outs of it, but I don't think it's too far off from this the general I mean, it's like over 30 million members. So, I think if you take all the MA stuff out and just say what's the actual fee for service population? It's a really big population that should be relatively representative. So, yeah, as you're looking at that trend, is it kind of like a bellwether of where overall Medicare trends could be in the future? Yeah, it's probably...

[indiscernible] (00:26:00)

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

A

...Unmanaged population. We're running $150 PMPM higher for that overall population versus MA, which is obviously much more managed. And so, if that's what you're asking about.

Justin Lake
Analyst, Wolfe Research LLC

Q

Yeah. No, that makes sense. The thing that's always sat in the back of my mind is a little bit of a concern when I think about the canary in the coal mine for Medicare Advantage rates is, if it's a similar population...

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

A

Yeah.

Justin Lake
Analyst, Wolfe Research LLC

Q

...and like I've actually looked, the trend you're talking about the 19% is pretty similar to the trend that they've used since 2019...

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

A

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Yeah, yeah.

Justin Lake
Analyst, Wolfe Research LLC
Q

...for Medicare Advantage rates to calculate them. So, if they're saying DCE is 7%, 8% below, right, that reference population is 8% below what they were expecting, at some point, does this come home to roost for Medicare Advantage rates in terms of retro rate adjustments? Is that something you guys – I've mad about a little bit. I'm just curios...

[indiscernible] (00:26:52)

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

Yeah. I mean, I don't think we're moving into a negative adjustment environment. I think you might see the annual benchmark, total amount come down. Obviously, the 2023 benchmark payment year was higher...

Justin Lake
Analyst, Wolfe Research LLC
Q

Yeah.

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

...than most people were expecting. I don't think we're going to see 4-plus again for 2024 and beyond. But I think it might move back into that sort of historical 1 to 2 range that we've seen. And frankly, just and I've said this many times before, I think that advantages us...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...And I think as you move into a tighter rate environment, if I'm a payor, I'm going to want to move more of my senior members into a total care relationship with groups like ours...

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...that were they are able to deliver 4- and 5-star quality, because the quality gates are going up, right?

Justin Lake
Analyst, Wolfe Research LLC
Q

Right.

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

...And that's being above 4 stars or not, that's a 5% bonus. So, I think you're going to see more of a pay for performance type of environment around it...

Justin Lake Q
Analyst, Wolfe Research LLC

Right.

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

...And those groups, physicians who are able to differentiate, it's going to be that much more valuable to payors over time?

Justin Lake Q
Analyst, Wolfe Research LLC

[indiscernible] (00:28:01).

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

So, that's sort of how I see it. The other thing is that the scale that we provide in these communities, as we add more and more volume, it gives us the ability to manage costs. And when I was saying MA is moving a little bit where Direct Contracting has been in the sense that you have to manage cost better than trend, that's what I'm talking about. And I think we're uniquely well-positioned to do that, given the scale we've got and just great partnerships we've got.

Justin Lake Q
Analyst, Wolfe Research LLC

Got it, got it. That's helpful. And I would agree with you that, right now, the rates have been so good that some of these ankle biters and guys who really don't have much business being in the same – the value-based care arena even, right, that don't have – that really have their act together are able to kind of make it work just because reimbursement is so good...

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

Yeah.

Justin Lake Q
Analyst, Wolfe Research LLC

...And if we do see a pullback, I think the water will pull back, and right the...

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

Yeah.

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Justin Lake
Analyst, Wolfe Research LLC
Q

...and the better, the players who are actually taking cost out of the system will rise.

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

Yeah.

Justin Lake
Analyst, Wolfe Research LLC
Q

Maybe in terms of taking cost out of the system, one of the things, I think is underappreciated about Agilon is the local scale...

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

Absolutely.

Justin Lake
Analyst, Wolfe Research LLC
Q

...When you get into a market and the benefits of that from a medical management perspective, right, you're a bigger part of the community. You control more of the referral patterns to specialists, to the hospitals...

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

Yeah.

Justin Lake
Analyst, Wolfe Research LLC
Q

...And so, you can get into the workflow of a specialist, right, and get more information out of them. So, I think you'd rolled out a couple of – I'm trying to think of the right word that this – getting into the workflow of some of the specialists in specific specialties, right. What was it? It was cardiology...

[indiscernible] (00:29:46)

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

Yeah. You're talking about specialty with cardiology...

Justin Lake
Analyst, Wolfe Research LLC
Q

Yes.

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

...oncology, MSK, right? So...

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Justin Lake
Analyst, Wolfe Research LLC

Q

So, talk to us a little bit about that and how you see it kind of playing out over the next few years?

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

A

Yeah. So, I mean, two headlines. One is the majority of costs occur in specialties and in facilities, right? So, ultimately, the ability to manage total care and cost means you have to be really effective around that. One of the great advantages, underappreciated, as you said that we have is, our partners have 15%, 20%, 25% or more of the adult primary care capacity in these communities, which mean they have a substantial influence on where specialty referrals go. And one of the data points we shared on Investor Day is that 90% of the referrals for our senior patients come via recommendations from their primary care physician. That's pretty extraordinary...

Justin Lake
Analyst, Wolfe Research LLC

Q

Right.

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

A

...I mean, running a health plan for a long time, if you would have told me it was north of 30%, I would have thought that was pretty good, particularly given that 50% of our members sit in PPO broad networks. This is not what I grew up with in Southern California, which is narrow network HMO, closed networks, where there's only certain specialists you can go to...

Justin Lake
Analyst, Wolfe Research LLC

Q

Right.

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

A

...So, we've had a tremendous focus around how do you manage total specialty costs? On the Q3 call, we talked about this specialty summit that we had in Akron in which a 100-plus specialists from the community came and met with our two groups there that have a meaningful share of the adult primary care capacity and spent a Saturday morning talking about how the community is changing and that the move had already occurred the value-based care and that they could be top-tier specialists if they did these things and they use these facilities and they were very thoughtful about [indiscernible] (00:31:45) them through exactly how that was working, the exact data that we use and the programs that you're talking about. But we also said, here's what we need from you. We need data back. We need you to hold appointments, so that you can get people in. And we need the primary care physician linked into that decision making process. So, they're really a part of that.

Justin Lake
Analyst, Wolfe Research LLC

Q

Right.

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

...And my favorite picture was at the end as our leaders are upfront and there's a long line of specialists waiting to talk to them, now that – a picture is worth a thousand words. That sort of captured what's happening in these communities. Why is that possible? It's because of these programs in which we've been able to demonstrate that we can stratify specialists and that we can truly guide patients to those top-tier specialists. But also, it's a dialogue with them about here is the type of service, here's the type of information, here's the type of access that we need to have in order for that to occur. So that's what we're doing around it. I mean, I think we're just highly encouraged. But that's why our same geography growth rate is so important. We start with scale, but we keep adding the scale. And the alignment that we have with the physicians is driving great results.

Justin Lake
Analyst, Wolfe Research LLC
Q

Got it. One of the questions I get occasionally that I struggle to answer is, to your point, you've had great growth. You've been in line, better than everything. You've kind of promised people coming out when you IPO the company. But the markets themselves feel like they're more like mid-tier markets, right. There's no New York City presence...

[indiscernible] (00:33:25)

Justin Lake
Analyst, Wolfe Research LLC
Q

...LA presence. Yeah. The Houston, Dallas, right. Why is it that this resonates in those markets more so? Or what is it that keeps you out of those bigger markets?

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

So, I think two headline comments. One is we need to have meaningful scale within the community, and starting in some of these mid-size markets allowed us to do that. But two is, the average size of our partners has gone up and the average size of markets has gone up. So, Detroit, as an example, is a market that we're entering for January 1, 2023, and we've announced that. Our partner there has 200-plus primary care physicians.

In Southeast Ohio, we have 25 primary care physicians. However, our partner represents 50-plus-percent of the capacity in the community. And so, finding the right partner, having that scale, MaineHealth 30% to 50% of the adult primary care capacity in the different markets within Maine, so that's kind of how we think about it. And so, I think that there are larger markets potentially on the horizon with the right partner for us, but that's really the key. Let's find the right partner. Let's get the alignment. Let's have that scale. And then we feel like we can really change the market.

Justin Lake
Analyst, Wolfe Research LLC
Q

Got it. I can't let you off the stage without asking about flu, given what's going on in the world today. So there's talk of potentially another COVID spike, RSV, and then just the flu that's out there. So just walk us through how flu would impact your business, right? Obviously, there's a cost associated with that, but I assume a lot of it's probably taking care in the primary care doctor's office. So, maybe, it's a little more fee for service cost and that's about it, or how should we think about it?

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

It is and I think it's really manageable for us. I think that it's early in the season. I think we're in 12 states and 23 different communities. And so, we've got a pretty good bellwether. In the South, we have seen some higher amount of cases earlier in the season than we would have expected. However, it is not materialized in terms of higher inpatient admissions...

Justin Lake
Analyst, Wolfe Research LLC
Q

Okay.

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

...So that's encouraging. Two is the high touch model that we have. Not only we see patients more, but our VAX rates are high. We saw that from COVID. We don't have perfect data, but – and people go to get flu vaccinations in a variety of places. But I think that that helps us within this as well. But I think we are looking at it sort of a normal flu season, given those dynamics. But – yeah.

Justin Lake
Analyst, Wolfe Research LLC
Q

No, perfect. I think that's right, yeah. Anything you want to share in terms of what a normal flu season would cost you? Just to give us some proportion and if it is – versus what a heightened one might cost you?

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

Yeah. I mean, I don't think I can quantify it like in the PMPM. And we haven't had a heightened flu season since years. So, that's a very, very light flu season in the last couple of years. I will tell you that what we're sort of facing right now coming through the fourth quarter and we're assuming that it's going to be in terms of the combination of either utilization or severity from flu to look kind of like it was in 2019. So, we're modeling it to be more of a normal case. I mean, what we're hearing from the CDC and a little bit from some of our practices is, right, that we're seeing a little bit higher incidence of flu, right. It looks like the severity is not going to be a problem, at least so far. And then, we'll see what happens in January and February when the real flu season hits. But for now, that's what we're doing.

Justin Lake
Analyst, Wolfe Research LLC

Great. Guys, I appreciate you being here today. Thanks, again, Steve, Tim...

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

Thanks, Justin. Yeah, appreciate it.

Justin Lake
Analyst, Wolfe Research LLC

...as well as Matt. Thanks again.

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