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Agilon Health, Inc. (AGL)

Q4 2022 Earnings Call

CORPORATE PARTICIPANTS

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

Steven J. Sell

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

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

OTHER PARTICIPANTS

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Justin Lake

Analyst, Wolfe Research LLC

Jailendra Singh

Analyst, Truist Securities, Inc.

Kevin Fischbeck

Analyst, BofA Securities, Inc.

Sean Dodge

Analyst, RBC Capital Markets LLC

George Hill

Analyst, Deutsche Bank Securities, Inc.

Ryan Daniels

Analyst, William Blair & Co. LLC

Brian Tanquilut

Analyst, Jefferies LLC

David Larsen

Analyst, BTIG LLC

Jamie Perse

Analyst, Goldman Sachs & Co. LLC

Whit Mayo

Analyst, SVB Securities LLC

Sandy Draper

Analyst, Guggenheim Securities LLC

Stephen Baxter

Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello, everybody, and welcome to the agilon health Fourth Quarter 2022 Earnings Call. My name is Sam, and I'll be coordinating your call today. [Operator Instructions]

I will now hand you over to your host, Matthew Gillmor, Vice President of Investor Relations, to begin. Please go ahead.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

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

Before we begin, I'd like to remind you that our remarks and responses to questions may include forward-looking statements. Actual results may differ materially from those stated or implied by forward-looking statements due to risks and uncertainties 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 financial measures to the most comparable GAAP measure is available in the earnings press release and Form 8-K filed with the SEC.

And with that, I'll turn the call over to Steve.

Steven J. Sell

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

Thanks, Matt. Good evening and thank you for joining us. 2022 was a very strong year for agilon and our physician partners, and we have entered 2023 with incredible momentum. We have made significant progress against our vision to transform healthcare in 100-plus communities by empowering primary care doctors to accelerate the transition to a value-based care system. The research analysis we published in mid-January, highlights the success of our model, specifically in patients with diabetes. As many of you know, diabetes affects about 30% of the Medicare population and if not properly managed can have significant long-term health consequences for seniors. Our analysis found that diabetic patients cared for by agilon physician partners when compared to Medicare Advantage and Medicare fee-for-service benchmarks, saw a two times greater improvement in A1C control, a 19% lower total cost of care, and a meaningful improvement in health equity access and quality.

Consistent results like these are simply not possible in the legacy fee-for-service model, which is prevalent in the vast majority of communities in this country. With our early success in managing diabetics, we see a multi-decade opportunity for agilon and our partners in addressing significant variability in the way complex patients are managed, ultimately driving better outcomes at lower cost.

To that end, we are making meaningful strides in addressing the access, cost and quality variability that defines the fee-for-service system. Our distinctive platform is rapidly unlocking for more primary care doctors, a care delivery and payment model that allows them to operate an outcome versus transaction-driven business model. This new primary care model delivers consistently better outcomes across our networks and creates an infrastructure for additional doctors and communities to make the transition to a value-based model.

What is good for our physician partners and their patients is ultimately good for agilon, and you can see it in the incredible results of our business. Today, we are serving 25 diverse geographies with 2,200 primary care doctors in nearly 500,000 senior patients. These figures include the record 130,000 new senior patients we will add in 2023. And today, we are pleased to share that in 2024, we will add at least another 130,000 new members with the opportunity for that number to grow. For context, our 2024 total Medicare Advantage membership will be approximately double the membership in the 2022 period, which we are reporting today on this call.

Our accelerating momentum in both new and current markets comes from our ability to drive meaningful reductions in wasteful health spending, generating a surplus that we call medical margin, and we reinvest roughly half of that surplus back into local primary care.

Our medical margin for 2023 is projected at nearly \$550 million, making agilon and our partners an incredible catalyst for stabilizing and growing primary care nationally. The rapid inflection in membership and maturation of earnings across a large and diverse set of markets highlights that the agilon platform can be the standard for how primary care doctors operate in this changing healthcare landscape. We believe this latest step change in the business is also reflective of the power of a large and growing number of physicians winning together on a common platform.

Now to 2022 performance. The overall momentum in our business was evident as our fourth quarter results closed out a very strong year. Performance across Medicare Advantage and Direct Contracting was in-line or better across all key metrics, enabling a full year adjusted EBITDA of \$4.3 million, even as we made substantial platform investments in technology and infrastructure to scale our organization for the future.

For the full year, our core MA business performed extremely well, with membership increasing 45%, medical margin increasing 67%, and medical margin per member per month increasing 15%. On one of the most important metrics in our fast growing subscription business, our 10 year-two plus partners improved their medical margin by 33%, from \$93 to \$124, which accounted for 90-plus-percent of the full year, \$43 million improvement in adjusted EBITDA.

Similarly, for the quarter and the full year, our Direct Contracting or REACH business came in ahead of expectations and contributed modestly to adjusted EBITDA. We continue to demonstrate the power of our model to deliver strong cost and quality performance, as costs for our Direct Contracting patients were 1% better than the national trend and we are on track to achieve a 100% quality score, reflecting the excellence in areas such as post hospital discharge and timely follow-up visits.

Our performance in 2022 drove an estimated \$20 million in savings back to the Medicare program, as well as positive surplus to our physician partners. The combination of two years of experience in this program and an increased level of transparency on the revenue calculations from the Innovation Center, has increased our level of confidence in REACH and the overall opportunity that we see to drive future performance.

Turning to 2023, our guidance reflects the momentum in our business as membership, revenue, medical margin, and adjusted EBITDA are all projected to grow even faster than they did last year. Our adjusted EBITDA guidance

of \$75 million to \$90 million reflects a year-over-year increase of approximately \$78 million at the midpoint where we are sustaining 50% MA membership growth.

Just like in 2022, the inflection in our 2023 adjusted EBITDA is powered by our year-two plus markets, which generate substantial operating leverage at the market and corporate level. This step change in earnings is being delivered while 44% of our membership is in year-one or -two markets versus 37% in 2022, highlighting the long-term embedded earnings being created while we continue to drive significant improvements in the current period.

These results also highlight the operating leverage inherent in setting up the infrastructure for full risk in a local market as the flow-through of incremental medical margin dollars to adjusted EBITDA is significant. The takeaway is that the maturation of our markets and members is accelerating our adjusted EBITDA gains in 2023 and beyond.

Looking to 2024, as I mentioned earlier, the success of the agilon network is both improving our collective performance and driving our growth. The Class of 2024 will reflect that momentum as we will onboard at least 6 new groups, 2 new states, 80,000 members, and 500 primary care physicians. This class will be at least double the size that we predicted last March at our Investor Day and reflects the accelerating demand for a new primary care model, driven by the success of our partners and powerful dynamics with senior demographics, physician practice challenges, and payer demand for a move-away from fee-for-service.

The Class of 2024 partners are very diverse and include primary care, multispecialty in both independent and employee groups affiliated with health systems. Of note, the Class of 2024 represents a meaningful step forward for the organization in tapping the unique power of the large and growing local addressable market.

We have highlighted in the past the power of transforming the payment model in a local market to full risk. Once our value-based care infrastructure is established, other physician organizations, including health systems, can confidently and quickly move into full risk value-based care, leveraging the infrastructure and learnings of that local market.

As we have purposefully expanded to 14 states and 30-plus markets over the past six years, we have established for ourselves an in-market TAM of 33,000 primary care doctors and 10.5 million senior patients. This year's Class includes particularly large new partner organizations within our existing markets and states driving outsized in-market growth for next year.

As I mentioned in our last call, our sales cycle has accelerated and this will allow for a longer implementation period for new partner groups in 2024. This coupled with the increasing scale of our platform, positions our new partners to generate outcomes much earlier in their lifecycle, including a higher starting point for quality performance and medical margin.

Performance of our new partners will be further supported by the acquisition of mphrX, which we completed yesterday. The company's Minerva platform uses FHIR-based standards to aggregate access and exchange data across health care delivery networks. We have known their team for some time and piloted their technology during our 2022 new market implementation process.

The integration of this technology into agilon's existing technology platform will enable faster onboarding of our partners and more rapid integration with EMR systems. This improvement in speed, particularly with complex EMR integrations, will support our ability to scale and enter additional communities, especially with distributed physician networks and health systems. Every incremental week is important during our implementation process,

and this technology will effectively buy us time and accelerate our ability to drive outcomes for both patients and physician partners. The continued investment in our platform to accelerate success of current and new partners should allow us to further strengthen our leadership position.

Let me close with some perspective on the macro environment, the tailwinds for the move to agilon's new primary care model have never been stronger, and in that assessment, I would include the recent advance notice from CMS and the final RADV rule. It is increasingly clear that the challenges of fee-for-service system are too great, and both health plans and CMS are looking to a health care system that emphasizes the relationship between a senior patient and their primary care doctor and rewards health outcomes rather than the volume of visits.

agilon has been solely built for success in that type of environment and these developments only increase our opportunity. When I look more immediately at the levers in our business, like getting members on the platform earlier, delivering a more effective implementation period with improved starting points for new partners, and accelerating quality and medical cost performance in our more mature markets, I am left feeling extremely bullish on 2023, 2024, and beyond.

With that, let me turn things over to Tim.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

Thanks, Steve, and good evening, everyone. I'll review highlights from our financial statements and provide some additional details on our guidance for 2023.

Starting with our membership, Medicare Advantage membership increased 45% to approximately 270,000 at the high-end of our guidance range. Direct Contracting membership increased 72% to approximately 89,000. Total members live on the agilon platform, including both Medicare Advantage and Direct Contracting, increased to 359,000. Our MA membership growth was driven by the 6 new partner geographies that went live in January 2022 and 13% growth within our existing geographies.

Revenues increased 49% on a year-over-year basis to \$690 million during the fourth quarter. For the full year, revenues increased 48% to \$2.7 billion. Revenue growth was driven primarily by MA membership gains from our new and existing geographies.

On a per member, per month basis, or PMPM, revenue increased approximately 2% for the quarter and for full year, which primarily reflects benchmark updates and market and member mix.

Medical margin increased 93% year-over-year to \$61 million in the fourth quarter. For the full year, medical margin increased 67% to \$305 million. Even with the dilution from our strong membership growth and a higher proportion of members in our year-one markets, medical margin increased as a percentage of revenue and on a PMPM basis.

For the full year 2022, medical margins were 11.2% of revenue compared to 9.9% last year, and medical margin PMPM increased 15% to \$96 versus \$83 last year. Medical margins benefited from stronger performance in our year-one markets and significant gains in our year-two plus partner markets. As Steve mentioned in our 10 year-two plus partner markets, medical margin PMPM increased by 33% to \$124 in 2022, up from \$93 in 2021.

Network contribution, which reflects agilon's share of medical margin, increased 74% to \$22 million during the fourth quarter. For the full year, network contribution increased 56% to \$132 million. The year-over-year increase

in network contribution reflects gains in medical margin, as well as the relative contribution of medical margin across our markets.

Platform support costs, which include market and enterprise level G&A, increased 35% to \$42 million in the fourth quarter. For the full year, platform support costs increased 19% to \$146 million. Platform support costs were higher than our internal forecast during Q4, largely due to investments to help scale our business in 2023 and beyond. The growth in our platform support costs continues to trend well below our revenue growth, reflecting the efficiency of our partnership model.

For the full year, platform support costs declined to 5.4% of revenue compared to 6.7% last year. Our adjusted EBITDA was negative \$10.6 million in the quarter compared to negative \$26.7 million last year. On a full year basis, adjusted EBITDA was positive \$4.3 million compared to negative \$38.6 million last year. The \$43 million year-over-year gain in adjusted EBITDA for the full year was primarily driven by higher medical margins and our year-two plus partner markets, which generate significant operating leverage against market and enterprise G&A.

Adjusted EBITDA contribution from Direct Contracting, which is reflected on a net basis within other income, was positive \$8 million in the quarter and positive \$14 million for the full year. Our underlying performance in Direct Contracting from a cost and quality standpoint remained strong and continues to outperform benchmarks. During the quarter, CMS provided updated estimates for the retro trend adjustment which positively impacted our revenue benchmarks. This drove modest upside to adjusted EBITDA contribution and offset the platform support investments I mentioned previously.

Turning to our balance sheet and cash flows. As of December 31, we had \$909 million in cash and marketable securities and \$43 million in outstanding debt. We remain extremely well-capitalized and do not anticipate needing any external capital to drive our future growth. Additionally, we continue to anticipate generating positive cash flow as we move into 2024. Our strong balance sheet position and adjusted EBITDA progression gives us significant flexibility to make targeted investments to further strengthen our scale and scale our platform, including both internal and external investments.

From an external perspective, we continue to evaluate targeted capabilities that can leverage our growing membership base. To that end, we are pleased to complete the acquisition of mphrX. As referenced in the accompanying press release we issued this afternoon, we expect the integration of mphrX into our existing technology platform will accelerate the onboarding and performance of our new partners through faster data integration. While the acquisition won't contribute to our adjusted EBITDA in 2023, we do expect modest levels of accretion in 2024 and beyond.

From an internal perspective, we continue to focus our investments in technology and growth. In 2022, we stepped up our geographic entry costs, going from \$33 million last year to \$68 million in 2022. The increase in geographic entry cost relates to two factors, which we view as key positives. First, the Class of 2023 new partners included over 100,000 members, which went live in January of this year. This is almost double the size of the Class of 2022 and compared to our original estimate of 80,000.

Second, given the shorter sales cycle, our 2022 financials include some costs associated with implementing the Class of 2024 new partners, which will go live in January of next year. In total, our member acquisition costs, including both new geographies and same geography, remain in the \$400 to \$600 range. This is incredibly efficient and considering our high member retention and improving unit economics, will generate very attractive returns.

Before turning to our guidance for 2023, I want to note that we did identify two material weaknesses in our internal controls, which we have disclosed in our 10-K filing. These were identified during our Sarbanes-Oxley audit as a public company and did not impact our financial statements. We are committed to maintaining strong internal controls and are implementing procedures to remediate this as soon as possible.

So turning now to our guidance. For the full year 2023, we expect ending membership live on the agilon platform will grow to a range of 485,000 to 500,000 members, including 50% growth in MA membership to approximately 405,000 and steady ACO REACH membership at approximately 88,000 at the midpoints. We expect revenue in the range of approximately \$4.28 billion to \$4.37 billion, or 60% growth at the midpoint.

At the same time, we anticipate our adjusted EBITDA will continue to inflect higher to a range of \$75 million to \$90 million. This is driven by continued progression in medical margins across the maturing partner markets, along with platform support costs leverage. This more than offsets dilution from new members and markets as we are accelerating our EBITDA growth, while also accelerating our membership growth in 2023.

For the first quarter, we expect MA membership growth of 385,000 to 390,000, revenue of \$1.07 billion to \$1.09 billion, and adjusted EBITDA of \$32 million to \$37 million. As you can see on the guidance table from our press release, we expect normal seasonality in our medical margins for driving moderating adjusted EBITDA throughout the year. This reflects the higher mix of agents in the latter part of the year.

Three other items to call out as it relates to our 2023 guidance. First, we expect Direct Contracting will generate modest adjusted EBITDA contribution in 2023, in a range of \$5 million to \$10 million. We also expect this will be weighted towards the back half of the year as we plan to take a prudent approach in estimating the retro trend adjustment and other factors.

Second, we expect the mphrX acquisition will contribute approximately \$6 million in revenue for 2023 with an immaterial impact on our adjusted EBITDA for the year.

Finally, I'd note that our same geography growth will likely trend in the low double-digit range during 2023 across our partner markets. This reflects our decision to push several new partners within our existing geographies and to the Class of 2024, and provide for a longer implementation period.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Lisa Gill of JPMorgan. Lisa, your line is now open, please go ahead.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Q

Thanks very much. Good afternoon. You got through a lot of detail here, but maybe just wanted to hone in on the revenue number for next year, because that's substantially higher. I know you gave a few of the metrics at our conference just a little over a month ago. But Steve, as I think about the revenue being higher, can you maybe just talk about the components to that? One, is it risk scores or are the acuity level is higher? Two, I know that we had nice rates, MA rates were better for 2023. How do I think about the revenue, and then how that translates to medical margin?

Steven J. Sell

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

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So 2023 unit revenue has a nice step-up, I'll let Tim kind of dimensionalize that for you, Lisa.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

A

Yeah. In fact, of course the first, big pickup in revenues because we had this very large increase in membership coming in. Then when you look at, I think revenue at least on a PMPM basis, that's going up around 8%, which of course is a big number. But the benchmark increase itself this year kind of blended across our markets and members, it is in that 4% to, approaching 5% range to begin with.

And then on top of that, I mean we would expect especially in our kind of year-one and year-two sort of younger markets, that we would get some continued ramp improvement as well, and that kind of tops you on to that sort of 6% or so range on a revenue PMPM basis. So that in combination with a very strong membership growth gets us to that overall revenue number.

Steven J. Sell

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

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And Lisa, one thing I would add to Tim's comment is, if you think about what we do, we love going to these markets and being first. They're a 100% fee-for-service and we want to move them to value. I think we've found that there are markets out there with higher health care spend and therefore higher starting points on rates as part of our mix that are really attractive for us, and we've been able to demonstrate success within them. And when you realize how large this Class is with those year-one markets that have a higher baseline plus the factors that Tim talked about, that accounts for that higher composite revenue number you referenced.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thanks. I'll jump back into the queue. Thanks.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

A

Thanks, Lisa.

Operator: Our next question is from Justin Lake of Wolfe Research. Justin, your line is now open, please go ahead.

Justin Lake

Analyst, Wolfe Research LLC

Q

Hey. Good afternoon. So wanted to ask two quickies. So one, on the ACO REACH membership [ph] now would be a (00:27:19) basically flat year-over-year. What are you seeing in terms of physician groups? I know not every physician group is in there. So are you seeing some enter and some exit? Are you seeing changes in the underlying membership, just trying to understand that.

And then, Steve, you give some positive commentary on [indiscernible] (00:27:35) probably the bigger question that I get from people is on this new risk model. Would love to hear your comments on how you [indiscernible] (00:27:44) through this back in California, the last time they put through a big change in the risk score model. So would love to hear your thoughts on kind of maybe how you've seen that change implemented and how you think it might affect agilon? Thanks.

Steven J. Sell

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

A

Sure. Thanks, Justin. Two fulsome questions. So real quickly on ACO REACH, same partners in 2023 that we have in 2022. And that's sort of the year-over-year relatively flat. As we'd shared early in January, we did have some partners that could have gone in 2023, we pushed to 2024 because we're very focused on having a strong implementation and a good starting point. And so, we see opportunity in 2024 and beyond for additional ACO REACH membership. We continue to see it as a very strategic program. I think we're really pleased with our results from a cost and quality perspective. The value that we get both in Direct Contracting and Medicare Advantage, of having that concentration within the practice and with the community, is really very strong.

So, we're bullish on Direct Contracting and now with two years of visibility and experience and better transparency and almost a full run-out on 2022, you can see in our results that there was some upside within that, which is encouraging for us as we go forward, although we are being cautious. Do you have anything to add?

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

A

Yeah. Before we move on to the advance rate notice question, I'd just say that obviously, we're pretty pleased with the overall performance so far of Direct Contracting now transitioned to ACO REACH. I mean the name of the game is beat drive cost out, beat cost benchmark and have high quality and we're basically doing both of those. We're continuing to beat the cost benchmarks and we've got a 100% quality score, and that really helped drive that a little bit higher performance than we had previously expected for DC in 2022.

We did mention that for 2023, we're being – trying to be very prudent. We've got both the combination, the step-down in the global – or the step-up, I guess in the global discount and just trying to be a little bit prudent. We're saying that we would expect that ACO REACH in 2023 will probably contribute a little bit less than that in the \$5 million to \$10 million range.

Steven J. Sell

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

A

And then, Justin, on your second question about the 2024 rate notice and the recalibration of the risk adjustment model within the context of that, we, like everyone has – we've done our preliminary work. We've gone through this on a market-by-market basis, looked at the HECs and kind of the proposed changes. And I think the headline for you is we feel like it's very manageable for us. The composite is probably in line with that 3% impact that's been called out nationally.

And if you think about what we do and the markets we go to and the populations we serve, that really makes sense. We are going to markets that are a 100% fee-for-service. They're really early in their lifecycle, 44% of our membership is in year-one or year-two markets. We are working on taking out variability on cost and quality, but also on risk adjustment. And so, when we look at some of our prevalence numbers relative to – or when we look at regional prevalence numbers relative to our capture, we can be below those. So I think there's opportunity and therefore, the impact of this is not nearly as great as you might find in a clinic model, it's very concentrated with more complex patients such as [indiscernible] (00:31:22).

I think we are – when I talked about how confident I am in 2024 and beyond as well as 2023, it's really about the levers that we're exercising today and we continue to exercise that are going to give us a nice lift in 2024. We're getting members on the platform earlier. Think about what I said, we are going to double our membership in MA from what we just reported to you today for the close of 2022 and what we're seeing out in 2024, which is just significant, two classes of at least 130,000 with the opportunity for 2024 to be larger than that.

Second point is, higher starting points. We've got year-one markets that typically come in, they're breakeven. They're certainly dilutive on a med margin level. Our ability with a longer implementation cycle on this acquisition which we're really excited about, can help that starting point.

And then the third thing is, really just the cohort migration across time. And so, I think we feel like we can manage it. We're obviously in the comment period. We participated with APG and BMA and the Healthcare Transformation Task Force on this. I think there are others that are much more dramatically impacted than we would be, and we are supportive of phasing in something of this magnitude and type of change. But for us, it's manageable.

And I guess the last point I'd make is what I talked about in my remarks, which is, I think there's just a macro trend in terms of the push towards value from fee-for-service. There's always been the factors of the challenge for physicians, the demographic surge in terms of seniors, and payers demanding looking for more to value. I think what just happened with this notice is going to accelerate that. If you think about payers and Medicare Advantage, the vast majority nationally of their membership in MA, sits on a fee-for-service chassis. They are going to want to move that, because of that [indiscernible] (00:33:35) I talked about. And who is the solution for that from a payer side? I think it's agilon. Who's the solution for that from the physician side? I think, it's agilon. And so I think, from a volume perspective we're going to win on it. We'll see where this settles out. We'll know in a month. But I think the headline is it's manageable.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

A

Thanks, Justin. And just one clarification, Steve mentioned new markets being dilutive on a medical margin basis, I think he probably meant EBITDA.

Steven J. Sell

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

I'm sorry. Yeah.

A

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

But just to clarify. Operator, we can move to the next question, please.

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Operator: And our next question comes from Jailendra Singh from Truist Securities. Your line is now open, please go ahead.

Jailendra Singh

Analyst, Truist Securities, Inc.

Thank you. And thanks for taking my question. Actually, my question is related to what – the clarification, Matt, you just gave. So on this, clearly Class of 2022 performed well compared to your medical margin PMPM target of \$30 to \$60. How should we think about year-one medical margin guidance in terms of Class of 2023? Does the unique nature of this year's Class impact your view, how you think about year-one medical margin this year?

Q

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

This is – so I'll take that one. I don't think so. I think we're still – looking at the Class of 2023, we still say that that range of \$30 to \$60 is going to be the starting point. We've got within that – within the class, it's a very large Class of 2023.

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Steven J. Sell

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

Yeah.

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We've got some of both sides of that. But that range is still very appropriate for the Class of 2023 for this year.

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Jailendra Singh

Analyst, Truist Securities, Inc.

If I can ask one more quick here on the – any update you can provide on your discussions with health systems? Are you actively exploring those partnerships for Class of 2024, or do you believe that there is a wait-and-see approach on how main health plays out?

Q

Steven J. Sell

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

Yeah, I can update you on that. I mean, I think it's a great question. As I shared in our remarks, part of the Class of 2024 includes health systems or the physicians affiliated with them, both employed and independent physicians that are affiliated. And so, we're going to expand a lot more at our Investor Day on our Class of 2024 and give you that. But I think, we see this as a tremendous growth area for us. I think that health systems are seeing many of the challenges from this fee-for-service, world reimbursement changes, labor costs that our physician partners are

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seeing. And they've got a tremendous opportunity with their primary care physicians in a senior population to move to value. So we're going to see that again with the Class of 2024, and we'll be able to give you much more detail at that meeting at the end of the month.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

A

Thanks, Jailendra. Operator, why don't we move on? And if we could just keep it to one question, just so we can get to the full queue.

Operator: And our next question comes from Kevin Fischbeck from Bank of America. Your line is now open. Please proceed.

Kevin Fischbeck

Analyst, BofA Securities, Inc.

Q

Great. Thanks. I just wanted to get a little more color on this implementation timeframe that you guys talked about with mpherX, are you thinking about this is more about being more prepared when you go live, because of [ph] natural (00:37:02) limitation? Or does this potentially accelerate your ability to bring someone on faster when you would have had to wait 12 months with implementation I can do it with only 10 months advance warning. Thanks.

Steven J. Sell

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

A

Well, I think we're going to continue to take as many months as we can on the implementation period. The example I'll give you Kevin is, in our 2022 pilot, we utilized this in a market that took us four months doing it the old way, and using the technology, Minerva technology, we are able to do it in four weeks. It's 75% faster in that example. Each month is worth a lot in terms of our ability to get patients scheduled, get them in for visits, get clinical programs set up earlier, the ability to stratify that population. And so what I would say, when I said it buys us time is, it gives us more time to get into the really the heart of that implementation which is getting that patient in, getting that assessment and getting them the resources that they need around that.

And so, that is the most immediate and powerful impact. This will improve our clinical quality over time, should help us on the medical expense because we're getting there. The quality of our data through this was improved too versus the way we were doing, some of that variability came out. So I think it's a combination of those things, Kevin, that leave us pretty excited about the acquisition.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

A

I think it's really important strategically as we have continued to diversify the kind of partners that we that out now and partner with, including some of these very large kind of PEO type organizations that have multiple EMRs within their systems. This really just gives us more capability to be able to serve as a larger number of types and diverse types of partners. So this is – yeah, it's going to be really impactful with that kind of partnership as well.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

A

Thanks, Kevin. Operator, why don't we move to the next one?

Operator: Our next question comes from Sean Dodge from RBC. Your line is now open, please go ahead.

Sean Dodge

Analyst, RBC Capital Markets LLC

Q

Yeah. Thanks. Good afternoon. The Class of 2024, 130,000 members, Steve, you made the point that's much larger than you had initially contemplated, should we think about 2024 being fully baked now or do you expect there'll be more to be added there, and I guess at what point do you start to kind of shift over to building out 2025?

Steven J. Sell

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

A

So, Sean, we'll give you a lot more context at our Investor Day at the end of the month. I think, I said it's going to be at least that, right? The Class of new partners, new markets is 80,000 that's coming on. The composite, when you think about what we're doing and saying, geography could get you to that 130,000, but it could be larger than that, and it could be a combination of – there are additional partners that we have letters of intent with that we could put into that Class of 2024 or we could push them as we did last year, out a year. So, in this case they would go out to the Class of 2025.

There also is – that's an estimate on those six partners I talked about, but there is some additional membership potentially within that. We try to be really kind of smart about the way we do this. But with some of the technologies, some of the faster implementation period, maybe some of that gets into 2024. So, we'll update you at the end of the month at our Investor Day on it. But I think, we're pretty positive on the Class and what the opportunity could be for it.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

A

Thanks, Sean.

Sean Dodge

Analyst, RBC Capital Markets LLC

Q

Great. Thank you.

Matthew Dale Gillmor

Vice President-Investor Relations, Agilon Health, Inc.

A

Operator, why don't we move to the – thanks, Sean.

Operator: Our next question comes from George Hill from Deutsche Bank. George, your line is now open. Please go ahead.

George Hill

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Steven, I think you probably just answered this question, because it had a little bit of a long preamble. But if I look at what you guys have signed already for the Class of 2024, it looks like FCP (sic) [FPC] (00:41:09) in Pennsylvania, if the national averages apply, will contribute 30,000 to 35,000. And again with Lexington Clinic, that looks like it could be as many as 60,000 MA lives. You said in multiple it could probably be over 30,000. I guess my question is, a follow-up on just when do you cut the Class of 2024 off and kind of what size is too big that for you to ramp 2024 and then kind of push people into 2025?

Steven J. Sell

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

A

So, George, thanks for the question. Well, first, let me say FPC and Lexington are the two partners of the Class of 2024, they put releases out. We'll do those on the others and we'll talk to you fulsomely at our Investor Day at the end of the month.

They both are great partners and they're emblematic of how strong this class is. FPC is the largest independent primary care group in Central Pennsylvania. We've talked about this phenomenon of groups in an existing state or region, in which we talked to them previously. And then for whatever reason, it wasn't right. And we came back and a few years later, when they want to make the move to value, agilon was the partner for them. That's the case of FPC. And I mean, they're an outstanding group. We're really excited to have them.

And then Lexington Clinic is really a phenomenal, a largest multispecialty, oldest multispecialty group in Central Kentucky. And so, we're excited to bring them on as well. And they were a group that we've got a longer implementation period as we talked about it. We pushed them from the – mutually, we agreed to have them go into the Class of 2024 instead of the Class of 2023. So we'll talk about it at the end of the month. We are approaching the period in which at – in another month or so, it's probably going to push folks into that next Class of 2025. So you can have that long runway and get that great starting point that I talked about.

George Hill

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. We'll hold off for the Analyst Day. Thanks, Steve.

Operator: Our next question comes from Ryan Daniels from William Blair. Ryan, your line is now open, please go ahead.

Ryan Daniels

Analyst, William Blair & Co. LLC

Q

Hey, guys. Thanks for taking the question. Congrats on the announcement. Tim, a lot of data, but I want to hone in again on your comment on medical margin. They were interesting looking at the year-two cohort. So I'm curious if you could give us any color on how that contrasts to what that year-two cohort may have looked like a year or two ago?

And then second, do you think that's due to more rapid and better implementation? So starting at a higher point, or is it more to do with kind of the operational speed to value as you move into the second year of those performance metrics? Thanks.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

A

Yeah. No, that's a great question. I think our – and you can – we'll update you. Again, Steve was just talking about it, in about a month on the cohort data, you get even to better look at this. But even if you refer back to a year ago, I think you can – the information we put out on cohort data at last year's Investor Day, you can see that. Our year-two plus market performance has been consistent across cohorts as we move through time. So we're not necessarily seeing a faster pickup, we're just seeing that same kind of progression, I guess, in each cohort as they move forward. I don't think, at least right now, in the last couple of years it hasn't been really a higher starting point. I think we've been consistently in that \$30 to \$60 range.

More important – when we start something in the \$30 to \$60 range, the more important thing is that we're quickly moving those folks up on that maturation curve and medical margin, kind of as we walked you through in the cohort analysis last year, and as they move into year – from year-one to year-two and year-three, and they're quickly getting numbers up into the mid-100s. And we even showed you markets are by year-three are getting up and already pushing between \$150 and \$200 medical margin PMPM.

So I don't think it's necessarily a higher starting point. I think it is our ability to quickly ramp those markets up in year-two and year-three. And basically that ramp up is coming because as they mature on the market, we're just getting tremendous physician variability out of the system, we're getting tremendous compliance with our – and execution of our clinical programs that are driving quality up and cost out.

Operator: Our next question comes from Brian Tanquilut from Jefferies. Your line is now open, please go ahead.

Brian Tanquilut

Analyst, Jefferies LLC

Q

Hey, good afternoon. Tim, just a quick question on the EBITDA to cash flow conversion, so obviously, it's strong outlook in EBITDA growth, but how should we be thinking about cash flows this year and into next year as well? Thanks.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

A

Yeah. So one of the things that happens is, our cash flow typically is going to lag our EBITDA. And the reason for that is a couple of things. One is, just the timing of how we said a lot of our risk pools with the payers, means that we're getting the cash for our EBITDA performance kind of well behind the time period that we're reporting the EBITDA. And the second thing is, we are actually investing in these larger and larger markets. And so that year-one or that – that year-zero implementing market expense is actually going up as well. And obviously we don't get any revenue or any cash for that until the following year.

So typically, we're seeing cash flow kind of lag EBITDA. So for instance, in 2023, a significant portion of our cash flow improvement year-over-year, we would expect to see a significant pickup in past year-over-year will come from 2022. And certainly in 2022, the fact that we had significantly more EBITDA gain than we did cash flow is driven by those same factors.

Brian Tanquilut

Analyst, Jefferies LLC

Q

Got it. Thank you.

Operator: Our next question comes from David Larsen of BTIG. David, your line is now open, please go ahead.

David Larsen

Analyst, BTIG LLC

Q

Hi. Can you talk about any conversations you might be having with your days around the RADV rule or the final rate notice. It seems to me like physician practices will need basically all of the assistance they can get in terms of like coding and implementing restricted and effective networks. Is that driving up demand for your platform or not? Just any thoughts here would be helpful. Thank you.

Steven J. Sell

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

A

Yeah. No. David, really appreciate the conversation and [ph] all of their (00:47:52) question. And I'll just say, this weekend we're going to be with 200 physicians in Florida, and the regulatory environment and how it is increasing the acceleration to value and how together we can take advantage of that and even perform better, is really kind of at the heart of that of that discussion. So I think from a – opportunity for us, we're saying that we can just perform better on value. We will work with them very closely to make sure that we have high accuracy from a coding perspective. We've done a very good job to-date. We'll continue to do that. So we're constantly looking at how we can make improvements, we'll walk them through that this weekend. They want to make sure that we're all doing things the right ways.

If you think about the power of what I'm talking about, \$550 million of medical margin in 2023, roughly half of that goes back to be invested in these practices. And so it's a tremendous catalyst for them, tremendous catalyst for their communities. But we just want to make sure that we're doing things in a really smart way. So it's a key part of that.

And then obviously, what that impact is from that advance notice. We're talking to them because it's different by market. But it's not the final notice. And we'll find out in a month what that looks like. So we'll make preliminary plans around that and then adjust as we see what that final looks like.

David Larsen

Analyst, BTIG LLC

Q

Thanks very much.

Operator: Our next question comes from Jamie Perse from Goldman Sachs. Jamie, your line is now open, please go ahead.

Jamie Perse

Analyst, Goldman Sachs & Co. LLC

Q

Hey, thanks. Good afternoon. Just wanted to follow-up on the platform support cost that I think you said those were higher than expected due to infrastructure to scale over 2023 and beyond. Can you elaborate on what these investments are a little bit more? Should we think about them as accelerating growth, accelerating profitability, or just necessary investments to support what's already in place?

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

A

Yeah. And first of all, I think we're really pleased with our ability to get leverage out of platform support cost. I mean, I think we talked about, again platform support cost as a percentage of revenue overall for 2022 is down by more than another 100 basis points. And we continue to expect to see that improvement year-over-year as we move forward.

I mean, I think getting that leverage against platform support cost is obviously a big part of how our model works. Specifically in Q4, we did have the opportunity to step up platform support cost. And you kind of see it when you look across the quarters, and the higher absolute level of spending Q4 versus the first three quarters. And that was really to support this very large Class of 2023 coming in.

So we're able to do things like kind of proactively increase our technology infrastructure and data storage, for instance. So we're able to do these kinds of things that essentially put us in a position to get that huge Class of 2023 onboard and really put us in a position to scale our business over time. So I don't think it's indicative of anything going forward, other than we'll continue to get great leverage out of platform support costs. But I think we're in a good position to do that.

Now, of course in Q4, one of the reasons we're able to do that is, we did have a little bit higher Direct Contracting EBITDA flow that offset that increase.

Steven J. Sell

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

A

And Jamie, if I can just add to that, I think just the macro is, we are investing heavily in our business in a variety of ways. I think we are the solution out there. I think we have a lead. We are trying to invest in a period of dislocation and frankly, advanced that lead. And so, meaningful step-up in terms of platform support costs, a lot around technology. The amount of data set we are taking in and providing to our partners on a daily basis to help do the things that we talked about for better cost and quality has escalated dramatically when you have a much larger Class. Getting in front of that is a key part of it.

The geo entry costs that Tim talked about, now that's just a function of the – double the class size, but that's a substantial investment and then, this acquisition that we talked about. So in a variety of ways, we are trying to do things that are going to put our partners in a position to really extend their lead in their communities and attract other doctors and other patients.

Operator: Our next question comes from Whit Mayo from [ph] SVB (00:52:38) Securities. Whit, your line is now open, please go ahead.

Whit Mayo

Analyst, SVB Securities LLC

Q

Hey, thanks. Tim, I was just wondering if you guys are making any changes in your patient attribution initiatives or process, is just anything new with the systems to ensure that you're matching with the plans given the materiality of the membership growth in front of you. And maybe do you find that the plans are getting better with this as well? They obviously have some huge incentives to match alongside you.

Steven J. Sell

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

A

So, Whit, it's Steve. I can chime in on this one. We are spending a lot of time with our plans right now. We are on the phone with the Humana national team on Monday and we collectively have a goal to really accelerate that period, so there's not as much retroactivity. And so both of us are saying, what do we need to do earlier?

When you have a mix shift like you talked about between plans, obviously, there's more work around that. And so it's what I would say, it's a lot of logic, it's a lot of process, it's a lot of data that's going on to make that work happen. There's still going to be some retroactivity through this first quarter, given the magnitude of some of those shifts. But it's just kind of table stakes in this business and we've got a great relationship with the plans and we're working on it.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.

A

Yeah. And I think that's [ph] fair (00:54:04), I don't think we're doing anything new, but I would say that that continues to be a strength of our model and one of the strengths that we bring to our partnerships, both with the payers and with our provider groups. Our ability to have a really good attribution logic and process for, obviously it's easy to do for HMO membership, but to be able to do that for a significant mix of PPO membership that we have is something that actually, essentially makes our model work. So I wouldn't say we're necessarily doing anything new, but our ability to sort of leverage that core expertise that we have, really makes it a lot easier for us to expand both with the national payers and with all these new regional payers that we're bringing on.

Whit Mayo

Analyst, SVB Securities LLC



Okay. Thanks.

Operator: Our next question comes from Sandy Draper from Guggenheim. Sandy, your line is now open.

Sandy Draper

Analyst, Guggenheim Securities LLC



Thanks very much. A lot of questions have been asked and answered, but maybe just a follow-up on the comments about the platform support costs and same geography. Given the strength of the pipeline and the outlook for 2024 and beyond, is it fair to assume that we're not going to fairly see those – this wasn't sort of one-time, one quarter and we're going to fall off, it seems like we're sort of stepping up to a new level just because the visibility for long-term growth is there? Just want to make sure I'm thinking about that right.

Timothy S. Bensley

Chief Financial Officer, Agilon Health, Inc.



Yes. So I'd answer it in a couple of ways. On platform support costs specifically, we had the opportunity, particularly after – on top of the strong performance we had on both the MA side and the Direct Contracting side, sort of ramp up platform support costs in advance of 2023 and sort of kind of get a jump start up to that 2023 run rate. So our fourth quarter platform support cost is more in line with what we would expect our 2023 run rate to be. And that's, as we go into 2023, obviously that increases is heavily – in platform support cost is heavily influenced by the fact that we're bringing on a lot of new markets and a lot of new members. So that makes sense, but still getting a significant reduction in platform support costs as a percentage of revenue, so still getting leverage out of it.

On the implementation costs, that continues on a per member basis, sustained a very good range and stay at that \$400 to \$600 range. And when we spend \$400 to \$600 to bring a new member on, we're getting phenomenally quick payback on that and getting like – we consider the lifetime value or the medical margin and that for contribution that we're going to be generating off of that membership considering the really good retention that we have with membership, we're going to get a lifetime value to customer acquisition costs ratio of something like 10, 12 to 1, so really, really positive.

The fact that we had a big pickup and implementation costs this year is really primarily a factor of having twice as many members that we were implementing. I mean, we implemented over 100,000 new members in 2022 that went live now at the beginning of 2023. The year before, Class was like 57,000. So that increase in membership, obviously at a still really good cost per member, is just generating a bigger number. Yeah, I mean, we will make that investment all day long, right? Getting those members on the platform early today as many as we can with all that embedded margin, just puts us in better shape to be able to have both our membership and our medical margin and EBITDA projections for the future.

Operator: And our final question comes from Stephen Baxter of Wells Fargo. Stephen, your line is now open, please go ahead.

Stephen Baxter

Analyst, Wells Fargo Securities LLC

Q

Yeah. Hi. Thanks. I was hoping you could talk in a little greater detail about your ability to manage margins and margin progression in a more challenging rate environment, inclusive of that risk model headwind. Not to harp on it too much, but the risk model change alone that you size is larger than the average annual EBITDA margin expansion, that's implied to reach your long-term growth guidance targets. So I'm just trying to understand why this wouldn't be a bigger setback for you in 2024, absent some kind of mitigation in the final rule? Thanks.

Steven J. Sell

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

A

So, Stephen, I think my headline to you was that it's manageable, it's in that 3% range and the reason is those levers that I talked about. So getting more members on the platform earlier, the fact that we are doubling our MA membership from 2022 to 2024, that's far greater than we would have told you a year ago. And then the year-over-year maturation that's driven by earlier rollout of clinical programs, better quality, the diabetes research that I cited at the beginning where we're 20% better than Medicare Advantage on a national basis in terms of total cost to care, go down the list of sort of complex patients and we're getting much better on that.

And so – and I'm not even counting anything that might happen on the benefit side. There's a lot of dialogue that we have going with plans on that that could be – there could be adjustments on benefits and we have that discussion every year. Last couple of years has been about increasing benefits. This year, depending upon the market, it could be about, hey, are there places where we tune, reduce some of those benefits. But it's a pretty normal cycle. And so, I think – and then the starting point that we talked about. If you think about, the year-one market has being dilutive potentially at that adjusted EBITDA level, each incremental dollar that we were able to drive there by having a better implementation period, really helps a lot.

Operator: And there are no further questions. So I would like to hand the call back to the management team for any closing remarks.

Steven J. Sell

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

We're obviously, excited about our performance in 2022 and what's ahead in 2023 and 2024. And we look forward to seeing all of you at the end of the month at our Investor Day here in New York. I think it's going to be a great discussion. So, see you then.

Operator: This concludes today's call. Thank you, everyone for joining. You may now disconnect.

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