TRANSCRIPT

2021 Second Quarter Financial Results
Conference Call Transcript
August 5, 2021

Speakers:

- Carolyne Sohn, The Equity Group
- Kenneth Sim, M.D., Executive Chairman and Co-Chief Executive Officer, ApolloMed
- Brandon Sim, Chief Operating Officer and Chief Technology Officer, ApolloMed
- Eric Chin, Chief Financial Officer, ApolloMed

Operator: Good day, ladies and gentlemen, and welcome to the Apollo Medical Holdings' second quarter 2021 financial results call. All lines have been placed on a listen-only mode. And the floor will be opened for questions and comments following the presentation. {operator instructions} At this time, it is my pleasure to turn the floor over to your host, Carolyne Sohn. Ma'am, the floor is yours.

Carolyne Sohn: Thank you, operator, and hello, everyone. Thank you for joining us. The press release announcing Apollo Medical Holdings, Inc.'s results for the second quarter ended June 30, 2021, is available at the Investors section of the Company's website at www.apollomed.net. To provide some additional background on its results, the Company has made a supplemental deck available on its website. A replay of this broadcast will also be made available at ApolloMed's website after the conclusion of this call.

Before we get started, I would like to remind everyone that this conference call and any accompanying information discussed herein contains certain forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terms such as "anticipate", "believe", "expect", "future", "plan", "outlook", and "will" and include, among other things, statements regarding the Company's guidance for the year ending December 31, 2021, continued growth, acquisition strategy, ability to deliver sustainable long-term value, ability to respond to the changing environment, operational focus, strategic growth plans and merger integration efforts, as well as the impact of the 2020 Novel Coronavirus (COVID-19) pandemic and the delta variant on the Company's business, operations and financial results.

Although the Company believes that the expectations reflected in its forward-looking statements are reasonable as of today, those statements are subject to risks and uncertainties that could cause the actual results to differ dramatically from those projected. There can be no assurance that those expectations will prove to be correct. Information about the risks associated with investing in ApolloMed is included in its filings with the Securities and Exchange Commission, which we encourage you to review before making an investment decision.

Carolyne Sohn: The Company does not assume any obligation to update any forward-looking statements as a result of new information, future events, changes in market conditions, or otherwise, except as required by law. Regarding the disclaimer language, I would also like to refer you to slide 2 of the conference call presentation for further information.

For those of you following along with the accompanying supplement, there is an overview of the Company on slide 3.

On today's call, the Company's Executive Chairman and Co-CEO, Dr. Kenneth Sim, will provide an overview of the second quarter and first half 2021 highlights. The Company's Chief Operating Officer and Chief Technology Officer Brandon Sim will then discuss the latest operational developments, and Chief Financial Officer Eric Chin will follow with a review of ApolloMed's results for second quarter and first half 2021. Brandon will conclude the remarks with an update on the Company's outlook and long-term growth strategy before opening the floor for questions.

With that, I'll turn the call over to ApolloMed's Executive Chairman and Co-CEO, Dr. Kenneth Sim. Please go ahead, Dr. Sim.

Dr. Sim: Thank you, Carolyne. Good afternoon to all of you and thank you for joining us to discuss ApolloMed's second quarter 2021 results.

ApolloMed continued the positive momentum generated at the beginning of the year into the second quarter, delivering continued solid growth on the top line and even greater growth on the bottom line. This was primarily driven by revenue growth across nearly all our businesses and operational efficiencies derived from our proprietary technology platform, which Brandon will elaborate on later in our call.

Organic membership growth in our existing IPAs fueled capitation revenue, which represents the bulk of our total revenue. We also recognized increased risk pool and incentive revenues from our quality and value-based care efforts, as well as from decreased utilization at our partner hospitals related to the pandemic. Fee-for-service revenue also increased in the second quarter as a result of increased utilization at our surgery and heart centers following their reopening this year.

And while opex did increase overall in Q2, primarily due to fees incurred related to our debt refinancing, we continued to see our technology platform drive operational efficiencies internally, realizing approximately

$1.0 million in savings in general and administrative expenses in this quarter.

Dr. Sim: For the second quarter of 2021, we reported $175.6 million in total revenue, which is a 6% increase from $165.2 million in the prior-year period. On the bottom line, net income attributable to ApolloMed was $12.7 million, which is an increase of 80% from $7.0 million in the prior-year period. Diluted EPS was up 47% to $0.28 per share for the quarter.

Zooming out to the first six months ended June 30, 2021, we achieved a 6% increase in total revenue, reporting $351.7 million for the period and more than doubling net income attributable to ApolloMed, reporting $25.8 million. Diluted EPS increased 93% to $0.58 per share for the first half of 2021.

During our first quarter earnings call, we discussed the trend of decreased utilization brought on by the COVID-19 pandemic, which has ultimately had a positive impact on our business with savings realized due to decreased claims expense. While we did see utilization increase during the second quarter of 2021, we have not yet reached pre-pandemic levels of utilization due to the added uncertainty introduced by the delta variant over the past few months. We continue to believe the ongoing impact of COVID-19 will dissipate and eventually normalize over time. Even as this occurs, we remain confident in our ability to execute our model, having improved the top and bottom lines relative to prior-year periods.

Based on these trends, our continued organic growth, and encouraging results in the first half of the year, we are raising our guidance for full-year 2021. Brandon will provide more detail on our updated guidance during his discussion of outlook and growth strategy.

It has been a busy couple of months here at ApolloMed. In June, we entered into an agreement to purchase Sun Clinical Laboratories, which is a CLIA-certified full-service laboratory operating in 19 locations in southern California. Sun Labs gives us the added capacity of providing rapid COVID testing and genetic testing for our patients.

We also completed a successful debt refinancing, which puts us in an even stronger financial position and provides us with greater flexibility to execute on our growth strategy.

Most recently, we announced that our affiliate has entered into a definitive agreement to acquire 80% of the fully diluted capitalization of an IPA, Access Primary Care Medical Group, which primarily serves senior members in the northern California counties of San Mateo and San Francisco. We have been working with Access Primary Care as their MSO since 2016, and we are thrilled to be expanding our partnership with them.

Dr. Sim: I would like to thank our team, our providers, and all frontline workers across the country for their continued heroic efforts to meet the COVID challenges. We are proud to continue working for and with all of you. It truly has been an honor to be a healthcare provider during these difficult times.

With that, I will turn it over to Brandon who will elaborate on all of these recent developments and provide an update on our proprietary technology solutions. Brandon?

Brandon Sim: Thank you, Dr. Sim. Before getting into more detail about several recent developments, I'd like to take a minute to frame all of these events at ApolloMed. We are a physician-founded company, and just like our physicians do, we strive to put the patient first and foremost in all that we do. We do this by empowering physicians to participate in – and succeed at – value-based care arrangements, leveraging our tech-enabled healthcare platform, which serves as an operating system for all participants in the healthcare delivery system – providers, administrators, and coordinators alike. The platform helps to automate and optimize operations so that physicians can focus on providing the best possible care for patients in the most cost-effective way.

And although we strive for optimization and efficiency, we do not believe in a one-size-fits-all model. At ApolloMed, we truly believe that healthcare is local and that a care system should be tailored for each community that we serve via integration from a clinical, technological, and financial perspective. Our proprietary platform allows us to do just that – providing a flexible operating system that can be adapted for each community's optimal use case while also having a central infrastructure that allows for efficiencies of scale. This same platform is used across all of our businesses– our consolidated IPAs, our managed IPAs, and our ACO – as well as across our entire population, whether it's Medicaid, MA, Original Medicare, Commercial, or more. I'll also note that the development of this platform was a de novo effort that has been done in an entirely budget neutral fashion, as demonstrated by our recent financial results.

As Dr. Sim mentioned earlier, we continue to see operational savings driven primarily by continued development of this platform. For example, we are pleased to state that over 90% of medical claims that we process today in our consolidated IPA business are adjudicated automatically via our platform. We believe there is further operational margin expansion to come as we continue building out the technology and scaling it across the communities and the physicians that we serve.

I'm also very excited to elaborate on some of the expanded partnerships we have established over the course of the past few months, which are examples of the buildout of local integrated care systems that I mentioned earlier.

Brandon Sim: First, we entered into an agreement with Sun Clinical Labs, whereby ApolloMed will serve as the exclusive administrator of all daily business functions, excluding lab decisions, for Sun Labs. We have been working to integrate their 19 locations into our comprehensive care delivery platform, providing a seamless, best-in-class experience for our affiliated physicians and members. We see Sun Labs as a core partner in our planned expansion, growing the business and bringing high-quality lab services to more patients across the nation. We expect the transaction to close during the third quarter of 2021.

Last month, we announced our planned acquisition of 80% of the fully diluted capitalization of Access Primary Care Medical Group, a capitated risk-bearing organization that has successfully provided professional services to senior members since 2016. We are very pleased to be bringing Access Primary Care Medical Group's over 120 primary and specialty care providers, serving approximately 1,000 Medicare Advantage members, into the ApolloMed family. We look forward to building upon the success that they have had in delivering value-based care in northern California. Access Primary Care will provide ApolloMed with a strong foothold in the Bay Area with the opportunity to expand from San Francisco down the Peninsula. We also anticipate closing will take place in the third quarter of 2021.

We believe the success we have had in empowering providers in California to participate in value-based care arrangements and our expertise in building patient-centric local healthcare systems make us uniquely equipped to replicate this model in other states and geographies. I'd like to thank our remarkable ApolloMed team members and our healthcare providers for all the work that they do. We look forward to continue serving our local communities in any way that we can.

With that, I'll turn it over to Eric to review our financial results.

Eric Chin: Thank you, Brandon.

As Dr. Sim mentioned earlier, we achieved strong results in the second quarter of 2021, primarily driven by organic growth, reporting total revenue of $175.6 million, a 6% increase from the $165.2 million in the prior-year quarter. We also reported increased risk pool settlements and incentives revenue related to decreased utilization at our partner hospitals when the pandemic first began in 2020, as these revenues from our partner hospitals reflect a 15-18 month lag.

Our membership remained at approximately 1.1 million managed lives at the end of the second quarter ended June 30, 2021. Taking a closer look at our membership, 543,000, or approximately half of our members, were fully capitated through our consolidated IPAs.

Eric Chin: Total operating expenses increased about 2% to $154.7 million in the second quarter of 2021, from $152.3 million in the prior-year period. This was primarily a result of increased general and administrative expenses related to the debt refinancing, which were partially offset by $1.0 million in savings realized as a direct result of the Company's technology platform.

As a result of the increased net revenue, net income attributable to ApolloMed was $12.7 million, an increase of 80% from $7.0 million in the second quarter of 2020. Our earnings per share on a diluted basis were $0.28 per share, up 47% from the $0.19 per share in the prior-year period.

We reported EBITDA of $90.0 million in the second quarter of 2021, which compares to $119.3 million in the prior-year period. Adjusted EBITDA was $30.7 million, which is a 30% increase from $23.6 million in the prior-year period. We place greater emphasis on the Adjusted EBITDA figures as these numbers back out the impact of recently acquired IPAs, other income, and income from equity method investments. They also back out the impact of excluded assets, which for Q2 2021 included a one-time non-cash unrealized gain of $83.8 million related to the passive investment in a payer partner that completed an IPO during the period. This was partially offset by a $15.7 million write-off of the Company's beneficial interest in that aforementioned payer partner. Our Q2 2020 included a $99.6 million gain on sale of a small health plan called Brand New Day. These gains are in the excluded assets bucket that we've described in the past as they are solely for the benefit of our affiliate APC and its shareholders.

Now I'll quickly go over a few financial highlights for the first half of 2021.

Total revenue was $351.7 million, up 6% from $330.3 million in the prior-year period. Total opex decreased to $308.9 million, from $313.0 million in the prior-year period, primarily as a result of a reduction of claims expenditures incurred at APA ACO and a reduction in G&A expenses due to our technology platform.

Net income attributable to ApolloMed increased to $25.8 million for the six months ended June 30, 2021, from $11.1 million for the six months ended June 30, 2020. The increase from the prior-year quarter was primarily due to the increased revenues and lower opex, as well as increased preferred dividends ApolloMed received from APC.

Turning over to the balance sheet, we remain well capitalized and well positioned to execute on our growth initiatives. As Dr. Sim mentioned earlier, we completed a debt refinancing this past June as a proactive measure of increasing our ability to invest in growth while reducing our annual interest rate spread by 50 basis points on the initial $180.0 million drawdown and increasing our overall financial flexibility with respect to covenants and liquidity. We ended the second quarter with $177.3 million in cash and cash equivalents, compared to $193.5 million at the end of 2020. Our working capital increased to $342.5 million, from $223.6 million at the end of 2020. And lastly, total stockholders' equity increased to $404.6 million at June 30, 2021, from $330.9 million at December 31, 2020.

Eric Chin: Moving further down the balance sheet, total debt at the end of the second quarter was $182.7 million. We are safely in compliance with our debt covenants with consolidated Total Net Leverage Ratio of 1.02x compared to the maximum permitted 3.75x and consolidated Interest Coverage Ratio of 21.17x compared to the minimum permitted 3.25x.

I'd now like to turn it back over to Brandon for a discussion of our growth strategy and outlook for the remainder of 2021. Brandon?

Brandon Sim: Thanks, Eric.

Much of the first half of 2021 was spent on investing in our platform and infrastructure to allow for rapid scaling going forward without sacrificing on patient care, patient experience, or provider experience.

We continue working toward reaching our previously stated goal of growing our member population to approximately 2 million lives by the end of 2021.

I'd also like to provide an update on the CAIPA MSO transaction we announced at the beginning of the year, which has taken a bit longer to complete than we had initially expected. We continue working closely with the team there and anticipate closing this transaction, along with the Access Primary Care transaction, in the next few weeks.

That said, we are pleased to be raising our previously provided guidance projections for full-year 2021 due to the positive trends we are seeing across the business and the strong organic growth and financial results we have achieved thus far in the first half of the year.

As listed on slide 11 of our supplement, we now anticipate the following for the year ending December 31, 2021:

- revenues of between $700.0 million to $720.0 million,
- net income of $56.0 million to $66.0 million,
- net income attributable to ApolloMed of $48.0 million to $58.0 million,

- EBITDA of $100.0 million to $119.0 million,
- and Adjusted EBITDA of $120.5 million to $130.5 million.

Brandon Sim: Please keep in mind that net income and EBITDA account for a one-time non-cash gain in a passive investment that Eric mentioned earlier, and that we place greater emphasis on the net income attributable to ApolloMed and Adjusted EBITDA metrics. In addition, these guidance metrics do not consider any potential acquisitions or other major business transactions we may complete over the course of this year. As any material developments arise, we will be sure to update the markets and re-evaluate guidance as appropriate.

Before concluding, I'd also like to briefly touch on the increased recognition our stock has received from the investment community over the course of the past several months. The ApolloMed story has perhaps flown under the radar for quite some time, and we are pleased that our recent investments in technology and infrastructure, as well as our continued profitability, are being noticed. We look forward to continuing a productive dialogue with the investment community and do have a few conference presentations planned for later this year.

In summary, we are pleased with our second quarter financial results and are confident in the value proposition of the virtuous cycle we have created on the ApolloMed platform. We believe we are uniquely equipped to execute on our mission to empower providers as the nation increasingly shifts toward value-based care. And we continue to be laser focused on delivering improved clinical outcomes for our patients at lower costs by eliminating as much excess waste in the system as possible. We are proud to serve all patients in our local communities, and we look forward to serving more in the near future.

With that, operator, let's open it up for Q&A.

Operator: Thank you. The floor is now open for questions. {operator instructions} Doesn't look like we have any questions coming in. I'd like to turn it back over to management for closing remarks.

Brandon Sim: Thank you all for your time today. We are always open to a dialogue with investors and welcome visitors to our offices in Alhambra should any of you be in the Los Angeles area. Please feel free to reach out to us or our investor relations firm The Equity Group with any additional questions. We look forward to speaking to you all again on our next quarterly call. Thank you.

Dr. Sim: Thank you.

Operator: Thank you. This concludes today's conference call. We thank you for your participation. You may disconnect your lines at this time and have a great day.