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2021 Fourth Quarter and Year-End Financial Results Conference Call Transcript February 24, 2022

Speakers:

- Carolyne Sohn, The Equity Group
- Brandon Sim, Co-Chief Executive Officer, ApolloMed
- Eric Chin, Chief Financial Officer, ApolloMed

Operator: Greetings. Welcome to Apollo Medical Holdings' fourth quarter and year-end 2021 financial results conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. {operator instructions} I will now turn the conference over to your host, Carolyne Sohn. You may begin.

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 fourth quarter and year ended December 31, 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, 2022, 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 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 co-Chief Executive Officer Brandon Sim will discuss fourth quarter and year-end 2021 highlights and the latest operational developments. Chief Financial Officer Eric Chin will follow with a review of ApolloMed's results for the year ended December 31, 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 Co-Chief Executive Officer Brandon Sim. Please go ahead, Brandon.

Brandon Sim: Thank you, Carolyne. Good afternoon and thank you for joining us to discuss ApolloMed's fourth quarter and year-end 2021 results. I'm excited to discuss another milestone year for our Company in 2021, during which we made great strides across the business, continued to enable thousands of physicians and healthcare providers through our technology-powered platform, and set the stage for significant growth in 2022. We continue to execute on our mission of making it seamless for all healthcare providers – from primary care to specialist to hospitalist, from independent practices to staff model clinics – to engage in and excel at delivering value-based care to all populations, especially those which are traditionally underserved. And we're proud of the work we have done to enable all healthcare providers with the flexibility to deliver high-quality care in a way that is tailored to each local community.

Reflecting on 2021, the Company achieved total revenues of $773.9 million, an increase of 13% from $687.2 million in 2020. We nearly doubled net income attributable to ApolloMed, which came in at $73.9 million for 2021, compared to $37.9 million in the prior year. Diluted EPS for the year was $1.63 per share for the year ended December 31, 2021, which was up 61% from $1.01 per share for 2020. I'll quickly note that these results exceeded our own projections for each of these metrics, once again delivering record numbers for the Company. This was primarily driven by organic growth in our existing consolidated IPAs, increased risk pool settlement and incentives revenue, and our continued superior performance in an ACO model for the performance year of 2020.

Brandon Sim: Like some of our peers, we've benefited from tailwinds due to decreased utilization during the pandemic, which we do expect to normalize back to pre-COVID levels in 2022. However, we believe the gains we have made through the use of our technology platform will continue to create efficiencies and improve patient experience, access to care, and staff productivity, dampening the impact of normalized utilization levels.

To support our growth plans for 2022 and beyond, we have made several strategic appointments in recent months. We have hired key personnel in strategy, operations, business development and more to help us bring greater focus to these areas as we aim to grow aggressively over the next few years. It wasn't until a couple of months ago, for example, that we made our first business development team hire, which will enable us to allocate more resources to identifying and evaluating business development opportunities. Our entire management team is fully onboard to invest heavily in our current team members and to expand our clinical, operations, and administrative teams as we move into new regions and continue to recruit mission-driven individuals to create the nation’s leading value-based care platform. As a result of this, we do expect our operating expenses to increase near-term as part of this org-wide investment, but are confident that this will strengthen our culture, capabilities, and ability to scale rapidly in 2022 and beyond.

To that point, I’m excited to announce that we recently appointed Allen Hsu as Chief Growth Officer of ApolloMed. Allen brings over 15 years of finance and operations experience within the healthcare industry to this newly created role and will be responsible for driving physician recruitment, strategy, and revenue growth for ApolloMed. He most recently served as Vice President of Operations at Optum, where he led managed care operations, IPA Strategy, and Network Development for Southern California. Prior to Optum, he held various healthcare leadership roles such as VP of M&A and Integration as well as international new market development for DaVita. We are excited to welcome Allen to our leadership team, and I’m looking forward to working closely with him to drive growth onto the ApolloMed platform.

In addition, we strengthened our Board of Directors with the addition of two new board members, Weili Dai and J. Lorraine Estradas. Weili brings over 25 years of experience in the tech industry as a founder, executive, venture capitalist, and board member in the technology and digital health industries. We believe her expertise will be valuable as we continue to grow our technology platform and AI capabilities while executing on our growth strategy.

Brandon Sim: Lorraine brings decades of leadership and experience within the Los Angeles healthcare industry. She currently serves as Chief Executive Officer of Arroyo Vista Family Health Center, a non-profit network of community health centers serving Greater Northeast Los Angeles since 1981. She helped grow Arroyo Vista from a small storefront clinic to a healthcare delivery network of four health centers and a mobile medical clinic serving the healthcare needs of medically underserved families within its local communities as a Federally Qualified Health Center.

In other operating news, over the course of 2021, we entered into a few strategic partnerships and made several small tuck-in acquisitions that enhance the ApolloMed healthcare delivery network either by growing the number of members under capitated arrangements or by bringing ancillary services like lab and diagnostics work in network for our contracted physicians and for our members.

In December 2021, we announced that our affiliate entered into a definitive agreement to acquire 100% of the fully diluted capitalization of Jade Health Care Medical Group, a primary and specialty care physicians' group of over 350 providers serving Medicaid, Medicare, and Commercial members in the San Francisco Bay Area.

Jade Health is a risk-bearing organization that has successfully provided culturally competent, linguistically appropriate, professional services to members in its local communities since 2016. The transaction will add approximately 13,000 members, primarily located in the City and County of San Francisco and San Mateo County, to ApolloMed's membership under capitated arrangements. We are working to onboard Jade Health and its providers onto our technology and operations platform by the close of the transaction, which is expected to take place by the end of the second quarter of this year. Following the acquisition of Access Primary Care Medical Group in 2021, Jade Health will continue to strengthen ApolloMed's presence in Northern California.

Just last month, we also closed on the acquisition of Orma Health, a provider of AI-driven solutions that enables physician groups to transition to and succeed in the delivery of value-based care. We are very excited to have made significant progress in integrating Orma Health's technology platform into that of ApolloMed. As a reminder, Orma's real-time Clinical AI platform takes data from multiple sources and utilizes advanced risk-stratification models to identify patients for various clinical programs, including RPM - remote patient monitoring, mental health support, chronic disease management, and more. Its clinical platform is also deeply integrated with its proprietary RPM ecosystem, which consists of smart health devices and a suite of technology tools to help manage patients' health.

Brandon Sim: Prior to the acquisition, Orma Health served over 4,000 aligned Medicare beneficiaries in a CMS innovation model and over 2,500 patients in California, Nevada, Arizona and Texas through its remote patient monitoring platform. I'm excited to share that shortly after joining ApolloMed, Orma Health has seen a significant increase in demand for its products and today serves over 40,000 Medicare fee-for-service patients on its analytics platform and over 2,700 active members on its RPM platform, which is growing at approximately 10% month over month. We continue to see Orma as a key growth lever within our Medicare fee-for-service business in this coming year and beyond, driven by its ability to further augment our existing technology, boost organic growth, and deliver deeper, more actionable insights to enable our providers to succeed at value-based care and all CMMI programs.

Lastly, we have seen an acceleration of organic growth over the last few months in core and new regions. Our team has been working extremely hard to ensure that our patients receive the highest quality care, and we're seeing the word spread within our core markets, as we saw more than 9% growth during the latest annual enrollment period in those regions. In conjunction, we continue to integrate our management platform with our recently acquired businesses, for which we're seeing early indications of success through the normalization of margins towards what we see in our core markets. Additionally, due to our strong track record in managed care and success participating in CMMI programs, we have received a lot of inbound interest from provider groups and healthcare organizations in new regions looking to join the ApolloMed platform, citing our robust suite of tech-enabled solutions as a key differentiator among other value-based care platforms. Within the last few months, we've already added over 200 providers and 4,500 members in new regions and have a strong pipeline of groups in late-stage discussions eager to join the platform.

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

Eric Chin: Thank you, Brandon.

We reported record total revenue of $773.9 million for 2021, an increase of 13% from $687.2 million in 2020. Our top line growth was primarily driven by the following:

1) increased capitation revenue from organic membership growth at APC and Alpha Care Medical Group, as well as higher average capitation rates at APC, during the year;

2) increased risk pool settlements and incentives revenue driven by increased incentive payments received from our payer partners, as well as reduced utilization at ApolloMed's partner hospitals during the COVID-19 pandemic (please keep in mind these revenues from ApolloMed's partner hospitals reflect a 15-18 month lag) and lastly an increase in the shared

savings settlement earned from ApolloMed's participation in an ACO related to performance year 2020, and

3) increased fee-for-service revenue as a result of more patient visits with the reopening of ApolloMed's surgery and heart centers and the Company's consolidation of Sun Clinical Laboratories and Diagnostic Medical Group, which contributed an additional $7 million, during the year.

Eric Chin: Capitation revenue of $593.2 million represented 77% of our total revenue in 2021.

We ended 2021 with our membership at approximately 1.2 million managed lives. Taking a closer look at our membership, approximately half of our members were fully capitated through our consolidated IPAs.

Total opex increased to $675.7 million in 2021, an increase of 11% from $606.7 million. This increase was primarily due to increased cost of services from higher medical claims, capitation, and other health services expenses due to greater utilization throughout the year, as well as increased G&A expense related to increased share-based compensation, higher bonuses paid to certain physicians driven by the increase in shared savings earned related to the settlement of the 2020 ACO performance year, and costs incurred for the debt refinancing. These were partially offset by a reduction in G&A expenses due to our technology platform.

Net income attributable to ApolloMed increased to a record $73.9 million, up 95% from $37.9 million for 2020. Earnings per share on a diluted basis were $1.63 per share, compared to $1.01 per share for the prior year.

We reported EBITDA of $99.1 million, compared to $203.5 million for the year ended December 31, 2020. Adjusted EBITDA increased 34% to $174.2 million for the year ended December 31, 2021, from $129.9 million for the year ended December 31, 2020. We place greater emphasis on the Adjusted EBITDA figures as these numbers back out the impact of recently acquired IPAs, provider bonus payments, other income, and income from equity method investments. They also back out the impact of excluded assets, which for 2021 included a one-time non-cash unrealized loss of $10.7 million as a result of a decrease in fair value related to the passive investment in a payer partner as well as unrealized losses on investments. These losses 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.

Turning over to the balance sheet, we remain well capitalized and well positioned to execute on our growth initiatives. We ended the fourth quarter with $233.1 million in cash and cash equivalents, compared to

$193.5 million at the end of 2020. Our working capital increased to $283.4 million, from $223.6 million at the end of 2020. And total stockholders' equity increased to $460.5 million at December 31, 2021, from $330.9 million at December 31, 2020.

Moving further down the balance sheet, total debt at the end of the fourth quarter was $182.9 million. We are safely in compliance with our debt covenants with our consolidated Total Net Leverage Ratio of 1.16x compared to the maximum permitted 3.75x and our consolidated Interest Coverage Ratio of 25.44x compared to the minimum permitted 3.25x.

As Brandon mentioned earlier, the impact of COVID provided some temporary tailwinds that had a positive impact on our results in 2021. We anticipate these tailwinds will subside as we have returned to pre-COVID utilization levels in 2022. We are seeing a return to more normal visit patterns for routine non-COVID-related care impacting our medical claims costs and patient visits to the hospital for non-emergency procedures affecting our risk pool settlements with our hospital partners.

With respect to the Omicron surge in early 2022 and the overall employment macro environment, similar to many employers across the country, we have also experienced higher employee related costs as we expand our team to support our continued growth as week as retain our existing team members. We believe we will be able to manage these additional costs effectively as we grow our business.

I'd now like to turn it back over to Brandon for a discussion of our growth strategy and outlook for 2022. Brandon?

Brandon Sim: Thanks, Eric.

We believe that ApolloMed is well positioned to execute on our growth strategy, particularly given the recent appointments to our leadership, operations and business development teams. We are very excited about the additional talent that has joined our Company and remain optimistic about our prospects as we continue to work through our robust pipeline of potential targets in new regions.

As shown on slide 11 of our supplement, we are also excited to be providing total revenue guidance projections for 2022 of between $1.03 billion and $1.08 billion, which would translate into between 33% and 39% year-over-year growth on the top line. This revenue growth is being driven by strong organic growth in core markets, expansion into new markets, and participation in a CMMI innovation model.

The Company is providing projections for total revenue only at this time due to uncertainties related to its participation in the previously mentioned model, ongoing investment in staff to support future growth, and certain investments that depend on unpredictable macroeconomic factors.

Brandon Sim: Please also note these guidance metrics do not consider any potential acquisitions or other major business transactions we may complete in 2022. As any material developments arise, we will be sure to update the markets and re-evaluate guidance as appropriate.

I also want to briefly mention that we are excited about and support the new ACO REACH program. The vision represented by the REACH model of high-quality affordable care with a focus on health equity, access and community health align exactly with our guiding principles and our core values here at ApolloMed. I'll also mention that I will be attending the Barclays Global Healthcare Conference in Miami next month, and I look forward to seeing some of you there.

To close, 2021 was another milestone year for ApolloMed. We believe that we are differentiated by our physician-centric model, our expertise in value-based care and taking risk successfully and our technology and engineering expertise. We truly understand that there is no one-size-fits-all methodology when we engage with doctors who operate their own practices. We want to work with doctors who want to participate in value-based arrangements and possess the mindset that it requires. We believe that our platform offers providers a practical and flexible way of engaging in risk-bearing arrangements successfully. Our goal is to provide individuals and families in all local communities with quality, cost-effective healthcare and that by empowering doctors to successfully engage in value-based care, we can make that change happen. The results we have achieved thus far are the best testament, we believe, to what we can achieve in further parts of the country as we expand.

Thank you, everyone. And with that, operator, let’s open it up for Q&A.

Operator: At this time, we will be conducting a question-and-answer session. {operator instructions} Our first question is from Sarah James with Barclays. Please proceed with your question.

Sarah James: Thank you. I'm hoping you guys can unpack a little bit how you get to the 30% to 45% long-term growth. So that implies about 20% on M&A and 10% to 25% on organic, so it would be helpful if you had any context around the product mix of that. And then on the M&A side, how you think about your pipeline development?

Brandon Sim: Hi Sarah, thanks for calling in today. Appreciate you joining. Yes, happy to talk about the 30% to 45% number, which I believe you're referencing from our latest investor presentation. As you mentioned, that's a mix of both organic growth as well as M&A. On the organic side of things, we are -- as I mentioned in our earnings call, we're seeing really strong growth in our core markets after AEP. We're excited to say that a lot of members have chosen to join the plans and aligned with doctors that are currently in our affiliated IPAs. And that led to really strong organic growth in our existing markets.

Brandon Sim: We're also seeing great results as we expand into new markets. As I mentioned in the earnings call, we recently signed on another couple hundred providers, a couple thousand senior members and have a lot of items in the pipeline organically as well. We believe that all these efforts combined can conservatively reach those numbers that we talked about in the investor presentation.

As for M&A, with the hiring of Allen and our existing corporate development team, we believe we still have a strong pipeline of exciting opportunities, and we expect some of those to be announced in the first half of this year.

Hopefully, that helps answer your question, Sarah.

Sarah James: It does, thank you. And to follow up on the M&A, I was looking at Slide 32, the map going from 1.2 million to 2 million. The wording on that seems to imply that they're maybe capitated. So I just wanted to make sure I understood, is that membership growth on the capitated side, MSO or unclear at this point?

Brandon Sim: Yes, happy to clarify. The growth from 1.2 million to 2 million in our slide deck does not specify the breakdown between fully capitated membership growth versus, let's say, managed services membership. We're currently unable to kind of provide the breakdown at this time. But as soon as we have further information, we'll let you and other investors know.

Sarah James: And then on the DCE front, I know you guys can't talk about how that's going so far, but I'm wondering if you can talk about any accounting aspects of it. So with the next-gen ACO, there's a lag in when you get paid out because of the benchmark aspect. And just wondering if the DCE program would work the same with you guys or if there would be a year where if you were in the DCE program, you would get paid from that program and then a double-up from the lagging next-gen ACO.

Brandon Sim: Right. That's a great question. As you know, the next-gen ACO program had ended, had sunsetted at the end of 2021. And as you stated, there is a lag in terms of when that impact is realized in our accounting due to the 12-18 month lag on the shared savings settlement for the next-gen ACO. Therefore, as you noted, the 2021 performance year shared savings will be most likely realized sometime this year in 2022.

As for the DCE or, as it's now called, the ACO realizing equity access and community health—REACH—model, you also correctly noted that we're unfortunately able to confirm -- unable, sorry, to confirm our participation in REACH, which is a successor to the GPDC model. However, if we were to participate, we would be realizing part of the benchmark as top line revenue, if not all.

Sarah James: Okay. And then last question here is on this unrealized loss of $33.5 million in the quarter on previous investments. Just any color that you can give us on what asset that was and any kind of detail would be helpful.

Eric Chin: Sarah, it's Eric Chin here. Thanks for the question. In terms of that investment, it was shares that our excluded assets bucket of APC had taken from a payer partner. And so at the end of the day, those are not impacting the bottom line net income attributable to ApolloMed shareholders. And it just reflects the change in the market value of those shares.

Brandon Sim: I believe that the identity of the payer partner is disclosed or has been disclosed in the past.

Sarah James: OK, I'll check for that. Thank you, guys. Appreciate it.

Brandon Sim: Thanks so much, Sarah.

Operator: [Operator Instructions] Our next question is from Kyle Bauser with Colliers.

Kyle Bauser: Brandon and Eric, congratulations on the great results. So with the newly formed BD team in place, can you talk a little bit more about how you're sourcing new M&A opportunities and how you're prioritizing them as it relates to geography and clinical specialties, etc.?

Brandon Sim: Hey Kyle, thanks for joining the call. Good to hear from you. Yes, absolutely happy to talk about that. So for the new BD and growth team led by Allen, we have an existing pipeline of both inbound interest as well as groups that align very well with our mission and with the demographics that we currently serve. We will be executing on some of the inbound opportunities as well as our current pipeline, and Allen is building a team of other BD folks to create new opportunities as well.

As for how we're prioritizing, we're prioritizing acquisitions in new regions and then using those as springboards for us to continue growing in those new regions organically. Hopefully, that helps.

Kyle Bauser: Got it. Yes, it does. And you've mentioned, and it's still in the presentation, the goal of getting to the 2 million patients for coordinating the care of -- I think Eric said the number is at 1.2 million now, and sorry if I missed this, but can you talk a little bit about timing, how you anticipate getting to that goal this year?

Brandon Sim: Sure, yes. So for that membership number, I'd like to point out that -- or clarify that, that includes both managed -- lives under management as well as consolidated IPA fully capitated lives. The mix, as I mentioned to Sarah, we're not sure of exactly at the moment, and we'll disclose more details as it comes along. That being said, given the number of the 2 million, a lot of that will be in M&A. Some of it will be in continued organic growth in our core and existing markets.

As for timing, we think that it will probably be in the first half of this year. But with the markets as they are, we're being vigilant around kind of what the opportunities -- which opportunities we'd like to take and which ones we wouldn't. And so we'll continue to be prudent and ensure that we're maximizing shareholder value.

Kyle Bauser: Got you. Appreciate that. And then lastly, so regarding the Orma Health acquisition, you mentioned the AI and RPM capabilities. I'm just curious, is Orma focusing on services that relate to the new CMS reimbursement codes for remote therapeutic monitoring? Those codes kind of allow for patient self-reported outcomes. Just kind of curious how they're thinking about that?

Brandon Sim: Yes, Kyle, some of the codes they're working on do include the RPM and RTM reimbursement codes. If you want more detail on them, I'm happy to connect with you as well in that. The other part of their offering is primarily around serving analytics to Medicare fee-for-service beneficiaries who are aligned with a CMMI innovation model. And that's that 40,000 aligned Medicare fee-for-service beneficiary number that I referenced in the earnings call. So it's kind of a two-pronged approach, both helping providers with analytics on those fee-for-service populations and also helping them with RPM chronic care management so on and so forth.

Kyle Bauser: Got it. Okay. That makes sense. I appreciate it. That's it for me. Thanks for all the updates.

Brandon Sim: Yes, absolutely. Catch up soon. Thanks, Kyle.

Operator: We have reached the end of the question-and-answer session, and I will now turn the call over to Brandon Sim 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.

Operator: This concludes today’s conference, and you may disconnect your lines at this time. Thank you for your participation.