TRANSCRIPT

2023 First Quarter Financial Results
Conference Call Transcript
May 8, 2023

Speakers:

- Carolyne Sohn, The Equity Group
- Brandon Sim, Co-Chief Executive Officer, ApolloMed
- Chan Basho, Chief Strategy Officer and Chief Financial Officer, ApolloMed

Operator: Greetings. Welcome to Apollo Medical Holdings' first quarter 2023 financial results. 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 Carolyne Sohn, Vice President of Investor Relations. Thank you. 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 first quarter ended March 31, 2023, 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, 2023, continued growth, ability to decrease cost of care while improving quality and outcomes, ability to deliver sustainable revenue and EBITDA growth as well as long-term value, ability to respond to the changing environment, ability to offset anticipated losses in the Care Enablement segment, ability to successfully implement operational streamlining, and successful implementation of strategic growth plans, acquisition strategy, and merger integration efforts.

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 first quarter 2023 highlights and the latest operational developments. Chief Financial Officer Chan Basho will follow with a review of ApolloMed's results for the first quarter ended March 31, 2023. 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. And good evening, everyone. Thank you for joining us today.

We began 2023 with a strong first quarter as we continue to rapidly scale our leading value-based care enablement and delivery platform while maintaining our long history of outstanding clinical outcomes, great healthcare experiences for our members, and sustained profitability. I will first summarize our key quarterly financial results and reporting improvements, and then provide updates on operations.

For the first quarter ended March 31, 2023, we reported total revenue of $337.2 million, a 28% increase from the prior-year quarter, and $29.8 million in adjusted EBITDA. We are also introducing segment-based reporting, details of which are included on slide 7 of our earnings supplement. As our business continues to grow, we felt it was important for us to provide greater clarity into each segment's revenue growth and operating profitability, which are the metrics by which we also evaluate our businesses excluding non-operator factors. We believe this information will allow investors to better evaluate changes in the operating results of our business segments outside of non-operational factors that affect net income, thus providing insight into both operations and other factors impacting our reported results. Beginning with the first quarter ended March 31, 2023, we are reporting our financial results based on the following three business segments: Care Enablement, Care Partners, and Care Delivery.

Brandon Sim: Our Care Enablement segment is an integrated, end-to-end clinical administrative platform, powered by our proprietary technology suite, which provides operational, clinical, financial, technology, management, and strategic services to providers and payers. Revenue for this segment is primarily comprised of management and software fees, charged as a percentage of gross revenue or on a per-member-per-month basis.

Our Care Partners segment is focused on building and managing high-quality and high-performance provider networks by partnering with, empowering, and investing in strong provider partners with a shared vision for coordinated care delivery. By leveraging our unique care enablement platform and ability to recruit, empower, and incentivize physicians, we are able to organize partnered providers into successful risk-bearing organizations which take on varying levels of risk based on total cost of care across membership in all lines of business, including Medicare, Medicaid, commercial, and exchange. Revenue for this segment is primarily comprised of capitation and risk pool settlements and incentives.

Finally, our Care Delivery segment seeks to provide high-quality and accessible healthcare services through a patient-centric care delivery organization. It consists of outpatient clinics providing primary care, multi-specialty care including cardiology and women's health, and urgent care, as well as ancillary services such as ambulatory surgical centers, diagnostic, laboratory, and imaging services, and hospitalists. Revenue is primarily earned based on fee-for-service reimbursements, capitation, and performance-based incentives.

Moving next to operations, we continue to execute on our operational goals of one, growing our membership in core and new geographies, two, moving members along the risk ladder towards global risk value-based contracts, and three, enabling our providers to deliver excellent patient outcomes in order to manage that risk effectively.

On the first goal, we've seen strong and steady progress. As Chan will detail later, we grew our Care Partners business by over 30% from the prior-year quarter, due to organic membership growth and a more favorable payer mix in our risk-bearing business. We also continued to make inroads in our newer Nevada and Texas geographies following our acquisition of Valley Oaks Medical Group last October. Since that time, we have increased unique members seen by 120%. And we are very excited about the ongoing growth in those regions as we continue to provide excellent care to members of those communities.

Brandon Sim: We believe that this growth will be sustainable for the years to come as we execute on our second operational target in moving towards taking global risk on total cost of care for our patients. Last week, we closed on the acquisition of For Your Benefit, or FYB, along with receiving regulatory approval for the change in control of FYB's full-service Restricted Knox-Keene licensed health plan, which will allow us to take global risk for the professional and institutional cost of care for members in the plan. This is a significant opportunity for us to deploy our care coordination and management capabilities more effectively and enhances our demonstrated ability to decrease total cost of care while improving quality and patient outcomes. We expect that this will drive both revenue and EBITDA growth over the next several years. As guided to in the past, we plan to assume additional risk in a prudent, measured fashion over the next several years, but we strongly believe that the infrastructure, technology, and operations we have developed position us strongly to succeed in this transition.

Finally, on our third goal, we continue to see MLR trends to be favorable versus both prior period and in line quarter over quarter. This is the result of improvements we've made in medical costs in our existing markets as well as new ones we've added over the past year.

In addition to executing on our three stated goals above, we also strongly believe in investing in the care delivery ecosystem at large. While we have built what we believe to be a world-class platform for managing global risk in a multi-payer setting across all patient types, we also know that there are others building innovative and exciting solutions in the value-based care delivery ecosystem. To that end, in recent months, we have made small venture investments in areas we feel will enhance our ability to empower providers in the delivery of value-based care. We led the pre-seed funding for Third Way Health, a company looking to transform the front office for care delivery organizations, and also invested in two other companies, one focused on providing care to high-risk Medicare members and another focused on delivering technology-enabled services and infrastructure for value-based care providers and organizations. We are excited by the progress we have made so far in working with these innovators and look forward to continuing those partnerships.

I also have two more operational updates to share. Recently, we were unable to come to mutually agreeable terms for the renewal of a management services contract with Lasalle Medical Associates, one of our clients in our Care Enablement business with approximately 370,000 members. That contract will thus terminate by the end of August of this year. In 2022, Lasalle contributed $21.4 million in net revenue on an annualized basis for the Care Enablement business. I want to emphasize that the impact of Lasalle only impacts our Care Enablement segment, and that impact is under 2% of our total revenues for 2022. There will be no effect on our risk-bearing Care Partners segment. We expect to partially offset losses in revenue from this contract as we continually add new clients to our Care Enablement business.

Brandon Sim: We are also taking this opportunity to streamline our operations and organizational structure, which have grown significantly over the course of the past several years. While this was necessary to support the growth of the Company, we currently have over 1,500 employees across our organization. We will be focusing on performance management, especially within our operating departments, in order to ensure that the profitability and margins in our Care Enablement segment remain on track against our expectations. We are confident that we will be able to continue delivering high-quality healthcare experiences and driving positive outcomes for our members with a leaner operating structure that will position the Company for greater success.

Given the strength of our first quarter and despite the recent development, we are reiterating our full-year 2023 guidance on both the top and bottom line, which is listed in full on slide 10 of our supplement. We aim to continue growing membership in our core California markets while scaling rapidly in our newer markets, making progress on moving patient cohorts towards global risk, and managing towards excellent clinical and financial outcomes. We are excited by our progress so far on these fronts and believe we are well-positioned going forward into the rest of 2023.

Before I turn it over to Chan, I wanted to congratulate him on his official appointment as Chief Financial Officer of ApolloMed, effective last Friday. He will continue in his role as Chief Strategy Officer, and we are very pleased to have his leadership in the areas of finance, operations, strategy, and corporate development. Bringing his over 20 years of experience in these areas at various other healthcare companies, Chan has made invaluable contributions over the past year, and I'm thrilled to continue building with him in the years ahead.

With that, I'll turn it over to Chan.

Chan Basho: Thank you, Brandon. I want to thank you for the support and greatly value the opportunity.

As we highlighted, we continued to deliver strong results, reporting total revenue of $337.2 million in the first quarter of 2023, a 28% increase from $263.3 million in the prior-year quarter. This was primarily driven by increased revenue within our Care Partners segment. I'll quickly highlight our per segment results and offer brief commentary on each.

First, our Care Enablement segment reported revenue of $30.6 million for the quarter, an increase of 4.0% from $29.4 million in the prior-year period. Segment operating income decreased 49.3% to $5.7 million for the period, which was driven by our additional investments in infrastructure, technology and people to support our operational growth. We believe that these investments are necessary as we prepare to take on management services contracts related to global risk, and we expect margin expansion once fees for managing these global risk contracts begin to offset some of the investments made over the past year.

Chan Basho: Membership under management within our Care Enablement business segment was approximately 1.3 million managed lives at the end of the first quarter ended March 31, 2023. Approximately 650,000, or half of these members, were also within our Care Partners business and have capitated risk-bearing arrangements through our consolidated risk-bearing entities.

Deep diving into our Care Partners segment, revenue increased 30.4% to $314.7 million during the period, primarily driven by organic membership growth in our consolidated risk-bearing entities and a more favorable payer mix. Segment operating income increased 28.2% to $22.3 million, which was primarily driven by our ability to maintain a steady medical loss ratio and cost structure even with rising revenue. This is a result we're pleased with, and we will continue driving further growth in this segment by growing our membership base and moving cohorts of patients into global risk, value-based arrangements.

Finally, our Care Delivery segment revenue increased by 24.9% relative to the prior-year period to $25.4 million. This was primarily driven by increased volume in patient visits to our primary, multi-specialty, and ancillary care delivery entities. The segment's operating loss was ($1 million), relative to operating income of $1.1 million in the prior-year period. This was due to our continued investment in expanding our care delivery footprint in Nevada and Texas. We view the results in this segment as in line to better than the guidance that we provided last quarter around investing an incremental $5 million to $10 million dollars in 2023 to scale our new geographies.

Net income attributable to ApolloMed was $14.6 million, up 3% relative to $14.3 million in the first quarter of 2022. Earnings per share on a diluted basis were $0.31, which is flat compared to $0.31 in the prior-year period, mainly due to increased operating expenses that I referenced earlier.

We reported EBITDA of $24.0 million in the first quarter of 2023, up 1.2% from $23.7 million in the prior-year period, Adjusted EBITDA for this period was $29.8 million. We place greater emphasis on the Adjusted EBITDA figures as these numbers back out the impact of excluded assets, stock-based compensation, other income, and income from equity method investments.

Turning over to the balance sheet, we remain well capitalized and well positioned to execute on our growth initiatives. We ended the first quarter with $274.6 million in cash and cash equivalents, compared to $288.0 million at the end of 2022. Our working capital was $292.7 million, compared to $287.8 million at the end of 2022. Total stockholders' equity increased to $563.2 million at the end of March 31, 2023, from $555.0 million as of December 31, 2022. Total debt at the end of the first quarter was $205.6 million.

Chan Basho: Lastly, this past December, our Board authorized the repurchase of up to $50 million of the Company's shares of common stock from time to time in the open market as well as privately negotiated transactions. The Company repurchased $9.5 million, or approximately 270,000 shares, during the first quarter. As a note, this share repurchase plan has no expiration date.

In summary, we remain confident in the long-term prospects of our business and operational strategy and are looking forward to the year ahead.

I'd now like to turn it back to Brandon for a discussion of our growth strategy and outlook for the remainder of 2023. Brandon?

Brandon Sim: Thanks, Chan.

In closing, we have hit the ground running in 2023 and are very excited about our prospects for the remainder of the year. We are making notable progress on the key operational goals of organic growth in our core and new markets, moving our risk-based membership towards global risk, and empowering a growing network of providers to deliver superior outcomes for their patients in order to effectively manage our increasing book of risk-based business.

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

Operator: Thank you. {operator instructions} Our first question is from Ryan Daniels with William Blair. Please proceed.

Ryan Daniels: Hey guys. Thanks for taking the questions. Love to get a little bit more color on some of the G&A investments you're making and how we should think about that going forward, given some of the streamlining you mentioned and in particular, would love to hear more about what you're doing in Care Enablement. I know that nearly doubled year over year, even though it's only about 10% of your sales. So it's not the biggest G&A area. So, maybe one, talk about how we think about overall G&A going forward., and number two, specifically in Care Enablement?

Brandon Sim: Hey Ryan, this is Brandon. Thanks for joining the call. Good to hear from you. So around Care Enablement and overall G&A, I think there have been a lot of areas where we've invested in, starting last year and that's where you're seeing the same quarter year-over-year increases in G&A. With particular respect to Care Enablement, we've made a lot of investment in our analytics and software engineering departments, for example, which are leading to – causing some of the increased G&A.

We've also made investments into preparing for management services around institutional claims processing, authorization, case management, etc., which we've been doing in anticipation of one of our clients in the Care Enablement segment signing on for additional institutional-related services as well as our own Restricted Knox-Keene license going live this year. And so we'll start to see revenue come in to offset the increased G&A within the next quarter or two, for the institutional investment. We do believe that G&A is going to slow down a bit for the rest of the year. Maybe Chan can talk a little bit about that.

Chan Basho: Yeah. Thanks. Thanks, Brandon. Kevin, thanks for the question. So as we previously mentioned the G&A increase that we saw last year really kicked in in Q3 and Q4, is running at a steady state in Q1 and will, we expect 2023 to be in line with full-year 2022, and...

Ryan Daniels: Okay.

Chan Basho: ...sorry about that, Ryan, I – in terms of the name.

Ryan Daniels: No, no worries at all. And then maybe another big picture one, just on Medicaid redetermination, I know that's down to 20% of sales now, but any thoughts on the potential impact given your exposure to California Medicaid? I know you're payer-agnostic, but certainly some of those lives are going to lose coverage. So, is that contemplated in guidance and then how big of an impact would that have?

Chan Basho: Yeah. We're just starting to see redetermination kick in, in May, and we – those numbers are built into our guidance. Give us about till next quarter to give you exactly the movement that we're seeing from Medicaid over to the exchange. With the robust policies that are in place in California, we do expect to capture many of those members as they – as the process happens.

Ryan Daniels: Okay. Okay, perfect. And then maybe last one. Just any more color – I'm sure we'll get some questions on Lasalle Medical Group and the Care Enablement agreement there with the MSA being, I guess, discontinued as of August. Was it a pricing issue? Was it anything with dissatisfaction with the technology, just normal business? And then maybe you can remind us what the typical length of contract terms are in your historic retention rates. Thanks.

Brandon Sim: Sure thing, Ryan. I can take this one. Around Lasalle, I would say that all of our MSO, our Care Enablement clients are important to us. We really do our best not to lose any, and this is actually a pretty rare occurrence for us. I think our retention rate is well into the 90s and net retention from a revenue basis is probably over 100% to answer your other question, but I think in this particular instance, and those numbers I cited earlier, obviously excluding Lasalle, just to-date, and then the contract ends August 31 of this year.

Unfortunately with Lasalle, we were unable to come to terms with pricing that supported the long-term margins that we've we wanted in business, which are 20% to 30%. And there's a bit of a difference in kind of strategy that I probably won't go too deep into on this call. But, unfortunately, you know, these things happen. What I can say is that going forward, we do anticipate the builds to ensure that the Care Enablement segment is still on track towards the 20% to 30% EBITDA margins that we've talked about, and there is a pipeline, kind of, of folks who are excited to get back on board – or to get on board sorry, in the Care Enablement segment.

Ryan Daniels: Okay. I appreciate all the color and thank you for the new disclosure. I think it's super helpful. So I applaud you for kind of continuing to advance your communication efforts. Thanks so much.

Brandon Sim: Thanks Ryan, appreciate it.

Operator: Our next question is from Brooks O'Neil with Lake Street Capital Markets. Please proceed.

Brooks O'Neil: Good afternoon, guys. And congratulations on the strong start to the year. Congratulations to Chan. I think it's fantastic. I look forward to continuing to work with you guys. So, I have a couple questions. I guess I'd like to start off obviously, when you comment about trimming up the workforce, I've heard some other rumblings around from some other health plan organizations that they are considering staffing reductions. Would you say that's in response to reimbursement levels in any parts of your business in particular? Ryan mentioned the redetermination in Medicaid, but I've heard that there's some pressures in the Medicare Advantage business broadly defined. And can you comment if you guys are seeing that, feeling that?

Brandon Sim: Sure. Yeah. Brooks, thanks for joining. Good to hear from you. I can certainly comment on that. I think around Medicare, we haven't seen as much pressure as perhaps the organization – or perhaps the industry on average has seen. I think some of those, some of the pressure that folks are anticipating are related to the RADV changes that will be phased in over the next three years – the risk adjustment changes from CMS. I think as we've stated before and continue to believe, the risk-adjustment changes will not affect us as much as other organizations. We've run some analyses around the prevalence of certain codes, or combinations of codes that will be eliminated or reduced in terms of risk adjustment contributions. And it's just not as high as we- as we think.

That, combined with the rate of growth for us and the heightened base value score, demographic score for risk adjustment should end up being a bit of a wash. So, I think we're feeling okay on the Medicare side of things. The main realignment or streamlining, so to speak, for the organization will really be, we grew very quickly, we grew to 1,500 – more than 1,500 employees. Currently, we're talking about cuts of 5% or less. To be honest, it's not a large thing, but it is something we have to do to ensure that our margins in the Care Enablement business are going to be robust and on track for the 20% to 30% long-term margins that we've guided towards in the past. So that's really the scope and the rationale for the streamlining.

Brooks O'Neil: Makes total sense to me. Thanks for that color, Brandon. So, second question I have or I guess I'd make a quick comment that I'm wildly excited about your opportunity with the Restricted Knox-Keene license. I was hoping you might tell us a little bit about how you expect to take advantage of that. Obviously, San Francisco market is one opportunity, but since it's applied to the whole state, seems like just an enormous opportunity for you. Maybe you could share with all of us, sort of how you envision the financial impact of that and how you expect to take advantage over the next couple of years.

Brandon Sim: Sure thing. Yeah. Thanks for the question, Brooks. So we received regulatory approval from the state for the Restricted Knox-Keene licensed health plan and as we mentioned, currently for two counties. So, it's a fairly small group of members today, around 5,000 senior members, which we're taking global risk on via the Restricted Knox-Keene license. Chan and myself are working hard to make sure that that's operationalized across other counties in California, including ones in which we have the bulk of our risk-bearing Care Partners membership, and so you'll start seeing results of that show up in the Care Partners segment as we do that.

Chan, do you want to talk a little more in depth about the impact you talk in bottom line?

Chan Basho: Sure. Brooks, thanks so much for the kind words. Great to hear from you. Yeah, short term, in terms of top line, we have about under 10,000 members that will initially be within FYB and we're working to quickly expand it from the San Francisco Bay areas to other locales within California. In terms of bottom line, I would say for the initial 12 months, it's – as we invest in buildup, this is – it's going to be breakeven and we expect over time, the – it will come in line with our overall long-term margins that we've guided to historically.

Brooks O'Neil: Great. Could I just ask one more follow up on that? Obviously, FYB has had some experience managing the global capitation, global risk. Would you say your organization more broadly has significant experience with that, or is that going to be a learning curve for the organization going forward?

Brandon Sim: Yeah. We've been managing institutional risk via our dual risk arrangements, full-risk arrangements as it's called California, for some time, even in Southern California, a fairly large book of business. We've also hired most, if not all, of the FYB related staff, which contributed partially to the increased G&A in the Care Enablement segment, because the revenues haven't come in yet, but we've already hired the staff. And so, that's kind of a bit of what I was alluding to earlier with some of the fees related to institutional revenue coming in to offset the increased G&A that we had to invest in for. It was a bit of a quarter timing issue there. So we expect those margins to kind of climb back up in line on the Care Enablement segment. On the Care Partners segment, where the actual risk will be borne, as Chan mentioned earlier, we think we can get a 10% to 20% long term margins even on the – close to doubled revenue on that segment.

So, to answer your question, yeah, we're confident in our ability to do it. We've hired the folks and made the investments we need to. And what's left is really operationalizing the contract across the State of California.

Brooks O'Neil: Great. Let me just ask one more. Appreciate all the color. Can just give us an update on what's going on, if anything, with regard to sort of the traditional Medicare programs you've been involved in, in the past? You performed incredibly well. I'm just curious what your vision either this year or next year are in those areas. Thanks a lot.

Chan Basho: Hey, Brooks. So last year we were in the DCE program for our – and that is now transitioned to the ACO REACH program. As we think about our – as we think about 2022, we've really viewed this as a breakeven business. In 2023, we continue to evaluate and as we get further data, especially around the retroactive – retrospective trend adjustment factor, which is a benchmark used by CMS around historical revenues versus current revenues, we'll be able to provide more insight probably by Q3.

Brooks O'Neil: Fantastic. Thanks for taking my questions, guys. Congratulations again.

Chan Basho: Thank you.

Operator: {operator instructions} Our next question is from Adam Ron with Bank of America. Please proceed.

Adam Ron: Hey guys, thanks for having me on the call. I have a couple of questions. So I guess following on the ACO REACH, are you saying last year was breakeven and this year you're accruing for basically 100% MLR in the program? And if so, if that's how things end up playing out, like is that a program still worth being in? Like it adds scale and revenue and that's kind of breakeven introduces new provider relationships or is it not really playing out versus what our expectations were and then would you seek out MSSP or what is the general thought process around that?

Chan Basho: Yeah. I mean, long term we would, we would want to be in a business where we are able to achieve margins similar to other books of business. And you're right in your earlier statements, Adam, that for 2022 it's breakeven and we're – in terms of 2023, that's where we're starting. I think we are still – we're being very conservative and we're still learning about the program. And so, as we see our – and we've had so much fluctuations in the retrospective trend adjustment factor that it's hard to – it's really hard to get to move in any other way.

And so, we will be getting our May – in May, we'll be getting our summary for 2022 and then the final reconciliation happens in August. And so, we will be able to provide a lot more insight on 2022 there. In terms of 2023, as we start seeing that retrospective trend adjustment factor stabilize, we can also provide more insight.

Around your third question around other programs, we're definitely evaluating other programs in terms of our long-term focus around providing a full range of offerings and services for all members. In terms of viewing the ACO program, in terms of a growth lever, it definitely is a growth lever. It's a way for us to build a relationship with new providers and further expand it as – over the years, and as well as for our existing providers, make sure we have a program for all of their members.

Adam Ron: All right. Appreciate that. And then going back to another question about the Knox-Keene conversion, if you could add some additional color around potential timing of converting it across your other capitated lives in California. Like, what is it tied to? Is it tied to payer contracts? And so those expire over the course of two to three years? And as you renegotiate those, you need to get full risk contracts from them. And so we might – it might take two to three years to get fully converted. And if that's the case, like, what is the lumpiness associated with that?

And then second, I didn't fully understand how the EBITDA conversion on that would work like would it be symmetrical if you're going from like 40% risk to 100% risk, if EBITDA shouldn't convert that way? Or was your hospital partner already sharing through the risk pool incentives if some of – what the upside would be if taking full risk and so it's somewhere in between the 40% and 100%?

Brandon Sim: Hey, Adam. This is Brandon. Thank you for joining the call. Good to hear from you. I can take this one. So, around the timing of the operationalization of the RKK license, you're right, there will be lumpiness to it because it depends on the specific health plan partner and county combination for that to be signed and then approved and moved into the global risk arrangements. We don't necessarily have to wait until the end of the expiration of each contract. So, it's not like we have to wait two, three years, if that's the end of the current contract. That's something we're negotiating on a plan-by-plan basis to ensure it gets done as soon as possible.

I would guide towards at least – you know, one – at least one plan in Southern California, we expect to be within the Restricted Knox-Keene umbrella this year in 2023, and the next and the rest should be phased in over the next 18 to 24 months. The delay really is around contracting with each payer, and we're very diversified in terms of our payer mix, as well as contracting with the appropriate hospital systems for the members that are included in each plan in order to have network adequacy. So that's something we've been working on already, some of the investments we've been making on the Care Enablement side. And like I said earlier, we should have some results to show sometime this year.

And then in terms of conversion to EBITDA of increased revenue, the risk-revenue related to those numbers moving into global risk, we're conservatively saying that we – we should expect only a couple of percent of that to convert to EBITDA year-zero because we are going to try to maintain the existing hospital relationships that can keep them whole from a financial perspective. Over time, we certainly expect to accrue – more of that EBITDA to accrue such that in the long term it's 10% to 20% EBITDA margin on the entire book of business, including the institutional part of the risk. That's just not going to happen year-zero because it takes time to kind of move the hospital partners into the right economic arrangements.

And so, I would guide for that to also happen over 18 to 36 months for the EBITDA contribution to get to the scaled margin contribution that we expect. Hope that helps, Adam.

Adam Ron: Yeah. No super helpful. And you made an interesting comment about the new geography investments coming in better than you expect. So less dilutive than the $5 million to $10 million you initially guided to. What specifically is driving that? Is it like you're growing patients faster and so there's more fixed cost coverage or is MLR ramping better and based on what you're seeing, I guess just – is there anything to call out or do you see an opportunity to invest further? Or like what metrics are you seeing and what do you need to see to expand, I guess, further into next year in these new markets?

Brandon Sim: Yeah, totally. So in Q1, you can see in our Care Delivery segment, which is most of the investments we're making in new geographies, came in around $2 million less in terms of operating income relative to last year's Q1. And that's kind of the extent of the investments we've been making. So it's around $8 million on aan nnualized run rate basis. I think we've guided towards $5 million to $10 million in each of the new markets. So it's on track to slightly lower in terms of an operating income hit than guided towards.

The progress has been good. We've been adding – a lot of the investments include adding net new providers, for example, and takes time to ramp those providers up in terms of their patient panels, moving the fee-for-service folks into partial risk arrangements over time as well. And so those are investments needed for the infrastructure on the ground to operationalize that. So, I would say it's going better than expected. Membership, as I mentioned earlier in the prepared remarks, has been growing ahead of curve. We're monitoring number of fee-for-service numbers, number of capitated numbers, star scores, incentive reimbursements, so on and so forth and things are tracking.

So, really, it's going to be a small "J-curve" as we add on new providers to ramp for our patients. But we expect that to be kind of in the 10,000 Medicare mark sooner than expected.

Adam Ron: Okay. Great. And then I guess my last question is broader. Basically, we cover a lot of the managed care companies and it seems like trend broadly has been, you know, more controlled or tighter than maybe some expected with hospital companies and Medtech companies talking about accelerating volumes. And so just curious what you're seeing in terms of your capitated risk business around trend and what you're assuming for the rest of the year, how things came in versus expectations. Thanks.

Brandon Sim: Yeah. You can see our Care Partners business, that operating income actually grew quite well in line with revenue growth. So, if I'm – please correct me if I'm misunderstanding your question, but we're seeing volumes moderate and we're keeping our medical loss ratios in control. You mentioned it's favorable relative to Q1 of last year and approximately in line. I think it was like a 30 basis point increase from Q4 of last year to this year. But let me know if I didn't – let me know if I missed your question.

Adam Ron: Yeah. No, I guess things came in better than expected and just curious, like into April, if things are continuing as you, you know, accrued and built into guidance.

Brandon Sim: Yeah. We're seeing margins in line with Q1 going into Q2. Yeah. I wouldn't say it's materially better. It's probably in line.

Adam Ron: Okay. Great. Thank you so much.

Brandon Sim: Sure thing. Thanks.

Operator: We have reached the end of our question-and-answer session. I would like to turn the call back over to Brandon for closing comments.

Brandon Sim: Great. Well, thank you all for your time today. We appreciate it. We thank you for joining the call. We are always open to a dialogue with investors and welcome visitors to our offices in Los Angeles. Please feel free to reach out to us or our investor relations firm, The Equity Group, if you have any additional questions. And we look forward to speaking to you all again on our next quarterly call. Thank you.

Operator: Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.