PACS Group, Inc.
Second Quarter FY 2024 Earnings Conference Call and Webcast
August 12, 2024

Presenters
Derick APT - CFO
Jason Murray - CEO
Josh Jergensen - COO

Q&A Participants
David MacDonald - Truist Securities
Scott Fidel - Stevens
Jason Cassorla - Citi
Ben Hendricks - RBC
Tau Que (sp) – Aquarry

Operator
Hello, and welcome to the PACS Group, Inc. Second Quarter Fiscal Year 2024 earnings conference call and webcast. At this time, all participants are in listening-only mode. If anyone should require operator assistance, please press star zero on your telephone keypad. A question and answer session will follow the formal presentation. You may press star, 1 at any time to be placed into question queue.

As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Derek Apt, CFO. Please go ahead, Derek.

Derek Apt
Thank you, Kevin, and good afternoon, everyone. Thank you for joining us for our second quarter 2024 earnings call. I'm joined today by Jason Murray, our chairman and CEO, and Josh Jergensen, our president and COO.

Before we begin the prepared remarks, we'd like to remind you that this afternoon, PACS Group issued a press release announcing its second quarter 2024 results. An investor presentation was published and is available on investor relations section of PACS.com.

I'd also like to remind everyone that during the course of today's conference call, we'll discuss certain forward-looking information. Any forward-looking statements made today are based on management's current expectation, assumptions, and beliefs about our business and the environment in which we operate. These statements are subject to risk and uncertainties that could cause our actual results to materially differ from those expressed or implied on today's call.

In addition to any risk highlighted during this call, you should carefully consider other important risk factors and disclosures that may affect PACS Group's future results as described in our quarterly report on Form 10Q for the quarter ended June 30th and our other reports filed with or furnished to the SEC.

Listeners should not place undue reliance on forward -looking statements and are encouraged to review our SEC filings for a more complete discussion of factors that could impact our results. Except as required by Federal Securities Law, PACS Group and its affiliates do not undertake to publicly update or revise any forward-looking statements where changes arise as a result of new information, future events, changing circumstances, or for any other reason. Information discussed on this call concerning PACS Group's industry, competitive position made upon reviewing such data and our experience and the knowledge of our industry and markets, by definition, assumptions are subject to uncertainty and risk, which could cause results to differ materially from those expressed in the estimates.

During this call, we'll discuss certain non -gap financial measures, including adjusted EBITDA and adjusted EBITDAR. These non-gap financial measures should be considered as a supplement to and not a substitute for measures prepared in accordance with GAAP. For reconciliation of non-GAAP financial measures discussed during this call to the most directly comparable GAAP measures, please refer to the earnings release and the appendix in the Investor Relations presentation, which are both published and available on the Investor Relations section of PACS Group's website.

I'll now turn the call over to Jason.

Jason Murray
Thanks, Derek, and thank you all for attending today's call.

We continue to take great pride and responsibility with our mission of delivering better post-acute clinical care across the country and ensuring we elevate care for America's most vulnerable. We're proud of the work of our more than 38,000 employees across the country provide each day and we are inspired by their commitment to quality and excellence. They are the foundation of our success.

We're proud to report that we have built upon our strong first quarter performance into the second quarter of this year. We saw an increase in the number of buildings with four or five-star quality measure ratings, as well as continued strong financial performance from our buildings. Clinically, our teams continue to push for better outcomes for our patients and residents.

Our leading indicator of better clinical results is the CMS quality measure or QM star rating. Over the second quarter, we had seven buildings move into four-star rating, resulting in 165 or 75 percent of our skilled nursing portfolio having achieved a four or five-star CMS QM rating. To

better illustrate our facility's dedication or quality, I'd like to share a quick anecdote from one of our facilities.

In Q1 of this year, we acquired a highly distressed facility in the state of California. The facility lacked the clinical capability to admit higher acuity patients resulting in a depressed census of less than 60 percent. Since the acquisition, the facility leadership has invested heavily in the recruitment, the training, and education of staff, as well as adding additional tools and resources to improve care. These efforts have yielded impressive results, and more importantly, the facilities earned a higher level of confidence in the community it serves. So as a result, during Q2, the facility achieved and maintained an average daily census of over 95 percent and had increased its skilled mix from less than 10 patients daily at acquisition to over 60.

The facility has recently approached by one of their local hospitals and asked that they'd like to be a preferred partner to take care of their higher-acuity patients. The facility now has the staff and the clinical competence to serve its community in a meaningful way. The improvement of clinical outcomes is truly the most important factor in our financial strength. This is represented in our revenue growth year over year of 29.1 percent or 221.2 million for the second quarter and a 35, 30.5 percent increase or 447.5 million dollars year over year for the first six months of the year.

Our revenue was driven higher by several factors when compared to the same quarter last year. In addition to maintaining 90 percent plus occupancy in our ramping and mature facilities, we also saw revenue per patient day increases. For example, our average daily Medicare rates increased by 9.5 percent for the second quarter of 2024, compared to the second quarter of 2023 and 10.3 percent for the six months ended June 30th, 2024, compared to the same period last year. And our average Medicaid rates over the same period increased 3.5 percent and 4.3 percent over the same periods, respectively, due to the state reimbursement increases and our participation in supplemental Medicaid payment and quality improvement programs.

Both increases come from our efforts to keep health care local by recognizing and serving patients' acuity needs locally. This also allows us to properly meet the continuing shift of higher acuity patients being discharged from acute care settings into skilled nursing facilities. Outlook for continued growth remains strong with a robust acquisition pipeline and continued improvements both clinically and financially in the operations we've recently acquired.

To support further growth, we continue to focus efforts on our robust administrator and training program where we have a pool of talent ready to take on leadership roles at new facilities.
The AIT program's success includes roughly 200 PACS AITs hired since our founding, with 157 still employed with us in licensed administrator and other leadership positions, a retention rate of about 75 percent, which we're very proud of. We currently have 31 AITs in our program to help facilitate further strengthening existing facilities and to support our growth.

In addition to training new leaders, the PACS leadership model allows our local leaders to make operational decisions as close to our patients and employees as possible, which is ultimately better for the residents and community in which they live. With support from PACS Services, our back office, clinical, clients and business support team, our teams are able to stay laser focus on providing quality clinical care while creating a culture that attracts the best employees to our sector.

Not only is our growth supported by our leadership pipeline and robust clinical processes, the PACS also enables our facilities with technology and data-enabled resources that allow our clinicians and administrators to make decisions more quickly with a higher positive impact on patient care. We provide real -time data that allows both our local teams and PACS services to prioritize the most important KPIs that lead to more consistent clinical outcomes for better financial performance.

So we look forward to the second half of 2024, the improvements that we have planned and the 28 new facilities we've already added in Q3. The quality of our people helps ensure we stay in a strong business position moving forward.

So with that, I'll now turn the call back over to Derek to cover our financial highlights from the quarter.

Derek Apt
Thank you, Jason. And thank you to our employees for continuing to push to meet our mission of excellence in serving our patients, residents, and communities where we operate.

First, I wanted to highlight, since the close of the second quarter on June 30th, we have successfully completed the acquisition of 28 additional facility operations and entered into four new states. Additionally, we closed on a JV investment, which purchased the real estate of 37 facilities.

A few financial highlights from the quarter. We had $981.8 million of revenue for three months into June 30th, a 29.1 percent increase over prior year period. And we had $1.9 billion of revenue for the first six months of the year, a 30.5 percent increase over that same period in 2023. Adjusted EBITDAR was $318 million, and adjusted EBITDA was $188.2 million, respectively, for the first six months ended June 2024. Adjusted EBITDA grew by 53 .8 percent year over year for the first six months.

And last, our earnings per share for the quarter was negative seven cents, which was driven by an increase in stock compensation expenses of $90.9 million associated with the restricted stock units granted at the time of our IPO in April. Total facility occupancy was 91 percent during the second quarter compared to an industry average of 76 percent. Specifically, a ramping and mature facility occupancy increased by 1.4 percent and 1 percent respectively over the prior year quarter.

While our new facilities ended the quarter with 84.2 percent occupancy, a 0.9 percent increase over the prior quarter. Historically, this occupancy improves to 90 percent plus during the first three years of PACS operations. We attribute our revenue growth in part to adding 3,947 operating beds to the company over the past year, which represents 24.8 percent increase in patient days.

Additionally, we realize improvement on revenue per patient day in our mature and ramping facilities. We continue the growth of our overall bed count in the second quarter with the addition of two new operations. And as previously mentioned, we added 28 facilities since June 30th, which have added 1,450 skilled nursing beds and 831 assisted living and senior living beds to our portfolio.

Our average Medicare revenue per patient day grew through the second quarter across all facilities at $952 per patient day compared to $870 in Q2 of 2023. And our overall revenue per patient day for Q2 was $459 per patient day. Our teams continue to make operational improvements in our newly acquired facilities, which resulted in a 29 percent year-over-year increase in cost to services. Additionally, net of stock compensation expenses, we realized a 15 percent decrease in G &A over the same period prior year and an 18 percent for the first six months of 2024 over the same period in 2023.

Finally, we exercised two purchase options and acquired one additional real property in the quarter. The addition of these facilities brings our total owned facilities to 38. We currently own or have joint venture real estate interest and purchase on 37.7 percent of our beds, with a long - term goal of only 50 percent of our overall portfolio. Of our facilities that we lease, we have an average of 14 years remaining on the initial term.

And now I'll turn to guidance. We look forward to a great second half for 2024, with our growth year to date, including the closing of 28 operations in the last six weeks. We're updating our guidance for the full year as follows.

We expect annual revenue to be between 3.85 and 3.95 billion. The midpoint of this range is a 25 percent increase over 2023 revenue. And we expect adjusted EBITDA to be between $370 million and $380 million for 2024.

I'll now turn the call back over to Jason.

Jason Murray
Thanks, Derek. With that, Operator, I believe we're ready for questions.

Operator

Certainly. We'll now be conducting a question-and-answer session, if you'd like to be placed into the question queue, please press star 1 on your telephone keypad. One moment, please, while we poll for questions.

Our first question is coming from David McDowell from Truist Securities. Your line is now live.

David MacDonald
Hey, guys. A couple of questions. Just curious, look, M&A has been a little bit more robust in CIPO than we had expected. I guess just any general comments on the opportunity that you see among skilled mix, occupancy, et cetera, within either the recent or even the pending acquisitions kind of relative to the overall company. And then I get one or two others.

Derek Apt
Okay. Well, thanks, Dave. Good to hear from you. And, yeah, the opportunities out there continue to be robust is the best way to describe our M&A pipeline. You know, since IPO, and even prior to that. But the acquisitions that we've announced, you know, for Q2 and then more robustly and already in Q3, the opportunity to move skilled mix in those buildings is pretty large. You know, for the most part, the buildings are operating less than 50 percent of where we operate our skilled mix at. And the occupancy is much lower than our average. It's closer to the national average.

So we see a lot of upside and these opportunities to kind of execute on the PACS playbook of both increasing the clinical outcomes, moving the occupancy and the skilled mix/the acuity of those patients to yield better financial, you know, as we acquire these and mature them through our process.

David MacDonald
And then guys I guess just one quick follow-up on that is, you know, when we hear about it sounds like the pipeline's pretty full. How do we think about you know the internal governors in terms of you know M&A? Obviously, it's a decentralized model so it's not, you know, what we traditionally think about is there's only a certain amount that, you know, you can kind of do in a certain period of time. So I'm just curious how you think about the pacing of potential further M&A on a go-forward basis and how you think about that, just given, again, what our check suggests is, you know, a pretty full opportunity in terms of ongoing consolidation?

Derek Apt
Yeah, yeah, great follow-up question there, Dave. You know, from our perspective, when we review opportunities, we stay disciplined and strategic in looking at the most opportune set of buildings that we could acquire, whether that's in a new state or that's a tuck in an existing region. And typically when we sit down to discuss that through, you know, we're looking at what is the deal cost? Is the real estate involved or not? Is there any limits on the balance sheet and the capital? And then also we always bring in the human capital component, right? Because we have

to have the human capital to make the necessary clinical outcome changes to get our product the best it can to yield those financial results.

So as we look to the future, we're always evaluating that, whether that's, you know, only adding two buildings in Q2 or adding, you know, the 28 we have so far in Q3. And we'll continue to go through that same process for every deal that we look at.

As we roll out, it's hard to predict the future as far as what buildings are going to come through the pipeline. And I think we've talked in the past and, you know, throughout this year, we've always guided towards we feel that there's a pretty easy path to acquiring 20 buildings per year. And that's what's in our out -year models, because at the end of the day, those can be tucked into our existing regions without the presence of good M&A for maybe an expansion to a new state or a new region, because those deals take a little longer to diligence, and we have to wait for the right opportunity to be able to expand the actual geographic footprint.

So as of today, we're not changing from kind of that's what we believe the future paths will be. Now, that number may go up and down depending on the quarter. But from our perspective, we're going after the best opportunities that are in front of us versus chasing a specific dealer or building count.

David MacDonald
And then guys, just last one for me, when you look at the quality scores, can you just talk about a little bit the impact that has on the conversations with payers and especially as you start entering new states, new markets, kind of the halo effect that that potentially has just in terms of, you know, again, the overarching conversations that you're having with some of the payers in your market?

Josh Jergensen
Yeah, good question there, Dave. This is Josh Jergensen. I'll take that one here. We talk often as a company and you hear us, you know, discuss quality measures and in general quality care because it is what we do. It's our product. We lead out with that all the time. We genuinely believe having operated nursing homes for a long time that if that is the primary focus of the company and each individual facility, then the financial results follow.

One of those results is the ability to get a seat at the table when you're talking to managed care providers as well as other referring partners. Managed care has a certain set of criteria that they want to see a facility perform at that involves things like star rating, quality measure rating, re-hospitalization rates, other things that all revolve around care. And I think each of you understand the reason they do that is they want to make sure that there's a financial incentive as well for them to get great outcomes for their patients.

And so we believe that as we continue to improve, particularly in these new facilities that we take on, the quality of care, improving quality metrics, that will be able to go to those providers,

gain confidence in them, either negotiate for the first time or renegotiate contracts that will allow for us to take on a more clinically acute patient, take a higher volume of those patients, improve reimbursement rates, and continue to build a positive reputation with them in the community to take care of those patients.

So for sure, we're seeing an impact. You see that in the revenue, the increased revenue that we're pointing towards. We believe all of that is, you know, ultimately a result of the care that we've provided.

David MacDonald
Okay. Thanks for the questions, guys.

Josh Jergensen
Thanks.

Derek Apt
Sure.

Operator
Thank you. Next question today is coming from Scott Fidel from Stevens. Your line is now live.

Scott Fidel
Great. Thanks. Hey, everyone. First question, just thought it would be helpful if you want to give us some of your thinking around the pacing of EBITDA and 3Q and 4Q that's embedded in the implied guide without giving, obviously, explicit quarterly guidance but just thinking in particular about, you know, one just sort of seasonality or indicators in the KPIs for the buildings that you had enforced through the end of the second quarter? And then second, just sort of the pacing of the new acquisitions? Clearly, I assume that that probably has a little bit more dilutive effect on EBITDA on the 3Q relative to 4Q just as you start the integration of those facilities.

Derek Apt
Yeah, certainly, Scott, this is Derek, and starting from kind of the last going backwards, you know, the EBITDA accretion from newly acquired facilities is pretty much negligible to maybe a little bit. You're talking a couple million dollars because at the end of the day, you know, our goal is to transition these buildings from zero to 18 months and build that from kind of a break -even to negative EBITDA in some situations to, you know, low single-digit EBITDA margins. And so our EBITDA uptick and our guidance really isn't driven from the new acquisitions, but it's driven from, as you see in the results, both are mature and our ramping cohorts.

The occupancy has not seen a cyclical seasonal drop that we that we did most summers. The occupancies remain strong. The skilled mix is hung in there. And most importantly, our revenue per patient day continues to grow with capturing the acuity mix, you know, across the patient population. So really the EBITDA uptick is driven from that. And then kind of go into your first

question on how that breaks down for latter in the year. I mean, quickly speaking, you know, the months typically are better with higher acuity just due to, you know, more respiratory viruses and or illnesses going through the communities. So I would anticipate, you know, maybe it picks up a little stronger towards the end of the year versus where we're pacing right now on a quarterly basis.

But really what that blends out to for the second half of the year is making up the rest of the guidance versus, you know, what we've done for the first half of the year of $188 million.

Scott Fidel
Okay, great. And then following up on that and sort of, you know, implied in your comment, Derek, just around the acquisitions that you've done in the 3Q really not contributing to EBITDA. You know, it would be helpful if you wanted to give us an update on when thinking about the embedded EBITDA in the acquired facilities, you know, clearly a quarter or so ago, you had sort of $100 million, up to 100 million of an embedded EBITDA opportunity in the recent tranches of Beals. Looks like you're already harvesting that nicely in the first half.

So just interested in sort of how you're thinking about that embedded EBITDA opportunity, just given, you know, the new facilities that you're bringing on right now with very little EBITDA that are going to ramp up the forward, you know, embedded EBITDA opportunity looking out to 2025, for example?

Derek Apt
Yeah, yeah, and not too, because we're still refining our '25 and '26 guidance. You know, with Dave's questions and yours, obviously, the opportunity set of M&A was a little more robust than we originally started out in the year. So as we are looking to the future, you know, what I would point to, roughly speaking, is, you know, our new buildings, we typically see somewhere between, you know, zero, two to three percent EBITDA margin, that ramping, which is 18 to 36 months of ownership, you know, that builds the high single-digit EBITDA margin. And then as we're seeing right now in our mature facilities, as well as some of the ramping facilities that are near the end of their maturity in moving into that mature bucket by the end of the year, you know, those buildings producing low teens EBITDA margin.

And so ultimately, as we point to that, you know, if you think you bring in '28 so far in the quarter and the rest of the prestige deal will be closing here by the end of Q3, you know, you fast forward a year. Those buildings should be producing three to two to three percent EBITDA margins as we roll into late '25. And that's what we're refining now as we look forward.

But I think ultimately We didn't be doing the deal if we didn't think it fit the roadmap of maturing the buildings that we've experienced over, you know, the other 220 buildings we've acquired prior to these.

Scott Fidel

Great. And I guess since Dave started the precedent of a third question, I'll continue that trend and sneak one more in here.

Just thought it would be helpful. You talked about 3 .5 percent rate growth for Medicaid in the first half. I'm interested if you could give us sort of what you're seeing on visibility into Medicaid rates in the back half of the year and, you know, as you're seeing some of the FY '25 rates come in and sort of how you would think about that underlying Medicaid rate trend in the back half of the year compared to the first half. And that's it for me. Thanks.

Derek Apt
Yeah, no, and that's great. And I think part of the, you know, we revised guidance because the performance, some of the Medicaid rate increases both from base rates and also from acuity/quality mix rate increases were a little stronger. I think as I've reviewed you know prior you know our model in the out years kind of shows a 2 percent to maybe 2 and a half percent depending on the state growth in Medicaid but as we enter more states with case mix index we have the ability to control that and kind of control our own destiny with taking higher acuity long-term patients.

And as you look at the rest of this year, we have had some strong rate increases in a couple states, specifically Kentucky and Colorado, just had large rate increases in July.
We also had another rate increase in Ohio. And so we anticipate that to continue. And then as we blend through, you know, making sure that the case mix and we're capturing the acuity that we need in those longer-term patients, then we should see a healthy growth in that Medicaid rate.

Now, further out than that, it's super hard to predict, mainly because we cannot sit here and tell you we know exactly what different Medicaid programs or state politicians will do. But as we look to the future, we'll probably continue with our modeling of 2 to 2.2 percent Medicaid rate increases and depend on our operators to make sure they're maximizing that and capturing any additional rate that that could be possible from quality programs or acuity programs.

Scott Fidel
Okay, great. Thank you.

Operator
Thank you next question is coming from Jason Cassorla from Citi. Your line is online.

Jason Cassorla
Great thanks. Good afternoon, guys. Congrats on the quarter.

Maybe just picking up on the rate side, I wanted to ask about the 2025 Medicare rate notice up a strong, you know, 4.2 percent at the headline level. I guess, just curious on how you're thinking about how that rate translates for you guys. You know, is there any considerations in terms of

the wage index changes or any components of the rule that are kind of worth noting at this point? Thanks.

Derek Apt
Yeah. Hey, Jason, this is Derek. I don't think there's anything that jumps out worth noting. You know, anecdotally, if you look back last year, I believe the rate increase from CMS overall was under 3 percent. But as you see, our Medicare rate for the first half of the year, we were able to drive up, I believe, 9 percent, 9.5 percent. And really, that comes from capturing higher acuity. With PDPM, we're getting rewarded financially for taking care of those clinical needs of the higher acuity patients.

So instead just taking a base Medicare patient, if somebody with comorbidities, Medicare's paying for that. And that's really our model, is taking the higher acuity needs of the local patients in the communities and making sure that we're satisfying them with good quality outcomes.

Jason Cassorla
Okay. Great. Maybe just shifting gears a little bit, wanted to ask about the purchase option opportunity on your book. It looks like you have 31 kind of currently, but maybe could you just help unpack that opportunity set for you, you know, what timing on executing those options would look like, or just any other color as we think about, you know, the purchase options is a source of EBITDA upside kind of down the line. Thanks.

Derek Apt
Yeah, This is Derek. So the options, as we view them, all the options that we have in front of us are really fixed purchase price options. And as we view those, you know, over the next, I believe it's three to four years by the time they all kind of option windows open, is the goal would be to step in and exercise those options. Because ultimately, as we have the ability to step in and capture that internal rent that we're paying to third parties, you know, it provides incremental upside for us instead of having that rent go elsewhere, we're able to capture that in the EBITDA upside.

So, you know, that number will continue to evolve as we get more and more options because if we're not purchasing the real estate, we push hard in our deal structures to have options or access to real estate at some point in the future to be able to capitalize on that equity upside that we're generating through the strong financial results.

Jason Cassorla
Okay. Thank you guys.

Operator
Thank you. Next question is coming from Ben Hendricks from RBC. Your line is now live.

Ben Hendricks

Thank you very much, guys. Just a quick follow up on that last one. Would the same be true for the joint venture that you entered into for the old real estate of your latest acquisition? I think it's, what, about 25 percent of that you own? Would you be looking to increase your ownership percentage of that JV over time?

Derek Apt
Yeah, as of now, we're not entering into it to look to kind of change the ownership spectrum. We have a good relationship with our partner on that JV investment. It's the same partner that we've utilized in a prior investment in South Carolina. As we look through the portfolio and try to make sure we're maximizing both the leverage and the JV investment. We have the ability to work closely with them. For example, in the South Carolina, some of those buildings have been taken to HUD with HUD financing mortgages and others we purchased and just put on our balance sheet versus kind of staying in the JV.

So it's something that we're constantly under evaluation, but we really don't start evaluating or trying to maximize the JV investment return until the buildings are at a stable point,
and we believe we're getting close to stabilization and maximization of those financial results from the underlying buildings.

Ben Hendrix
Great. Thank you. Just one more. I appreciate the corollary you offered on that one California facility, and its ability to kind of ramp up into a preferred provider relationship. I wanted to kind of get the landscape of the four new states that you're in kind of what the provider relationships are there that exist and kind of your opportunity to get more of a preferred relationship in those regions. Do you know those regions well? Thank you.

Josh Jergensen
Yeah, good question. I mean, this is Josh. For us, as we enter into these new states, it's always important that we begin establishing relationship in the community. I already mentioned the quality measures that we start with, but as we go in there, that's a key component. Fortunately, in this situation, as we've evaluated, you know, not only the states that we're in, but we also evaluate the operator and the facilities that we're purchasing to see what their relationship was before.

We're fortunate because in this particular deal, there were actually some very beneficial relationships that we feel we're going to be able to enter into and leverage relationships with hospitals that have wanted to work with these facilities. Part of the reason is quality. We think there's still some areas that we can improve, but we also recognize that the outgoing provider has worked hard to build density in key markets. And so when you look at these states, a number of them are new for us. You know, you have Alaska, Washington, and Kansas, or most recent ones that we feel there's nice density from, you know, the location of the facilities close to hospitals.

So as we hit the ground in any of these places, as we're driving care and quality, we're also going out into the community and making sure people aware that there has been a change and that they understand what our intentions are as far as investment into the people, to the systems, to the physical plants in these environments so that we can build confidence in those communities. So as we've done that, we feel with the ones we've just recently taken on that we're already making great progress in the couple weeks that we've been there and we intend on the remainder of those buildings to execute the same game plan.

Ben Hendrix
Great. Thank you.

Operator
Thank you. And next question is coming from Tau Que (ph) from Aquarry. Your line is now live. Thank you.

Tau Que
Good afternoon. I think I heard you have 31 leaders in the AIT program, and you are acquiring at a faster pace when we account for the prestige transaction. You know, do you feel like you have adequate leadership pipeline to continue the brisk pace of acquisitions and also maybe remind us how fast you are turning out these leaders and how you make sure, you know, they adhere to the same culture and operating models? Thank you.

Derek Apt
Yeah, this is an area that we emphasize internally and we talk about often because we believe this is an area where, you know, we have a significant advantage to go and grow. And as we evaluate talent in these facilities, each deal is a little bit different. Again, as we look at this particular deal that we just most recently did, although the facility count is high, you know, we feel that there are a number of leaders that were already in place that are doing a lot of good things and will be a good fit in our model. We want to be prepared with a bench of talent in the event we need to make changes.

But in this particular deal, we've met with a number of the administrators. They're local to the area, as I mentioned. A number of them have great relationships with the hospitals. There's certainly an adjustment as they come into our more decentralized model, but we believe a number of these individuals are capable to adapt to our model and get good results. And so in the event that happens that we maintain a higher number of administrators that are already in place, that just continues to allow the bench to be deeper as we evaluate other deals that we're looking at into the future.

Tau Que
Got it. That's helpful.

And then clarification, I mean, you initiated the stock incentive program this quarter. Help us understand what will be the wrong rate of stop XCOM going forward, any GTNA target you can provide.

Derick Apt
That's a great question. So of the $90 million that we booked in Q2, approximately $80 million was for immediate vesting on the IPO. And the remainder was for May and June entries, so roughly and slightly part of April for accrual for vesting next year. So that run rate comes out to a little over four million a month.

Tau Que
All right, thank you. And last question from me. In terms of the Medicaid Supplemental program, could you size up the impact for the quarter from that program?

Derek Apt
Specifically in which state or overall?

Tau Que
Overall. I mean, California is probably a big piece there, but if you can provide any color, that would be helpful. Thank you.

Derek Apt
In Q2, it's negligible. In Q1, we had some entries from the W-QIP program, but California staged the payment of those this year. And so some was paid out at the end of Q1 and the remainder is set per the state to be paid in September. And so we have not recognized all that onto our revenue for the books until the state actually pays us.

Tau Que
Okay. How much of that in the is in the guidance?

Derek Apt
None of that is in the guidance due to we wait for the state because there's been years past where California stretches out for many months and several years back they stretch us clear until the next year. So we have taken the approach to wait for that to be paid before we recognize it to ensure that the state is going through with their commitment to pay it.

Tau Que
Got you. Thank you.

Operator
Thank you. We've reached the end of our question and answer session. I'd like to turn the floor back over to management for any further or closing comments.

Jason Murray
Thank you, Operator. We appreciate that and thank you all for joining us. We look forward to speaking with you soon. Have a great rest of your day.

Operator
Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.