



2022 First Quarter Financial Results
Conference Call Transcript
May 5, 2022

Speakers:

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

Operator: Greetings. Welcome to the Apollo Medical Holdings' first quarter 2022 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 your host, Carolyne Sohn of The Equity Group. 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, 2022, 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 and other variants 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

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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 2022 highlights and the latest operational developments. The Company announced this afternoon the appointment of Chief Strategy Officer and Interim Chief Financial Officer Chan Basho. Chan will provide a review of ApolloMed's results for the first quarter ended March 31, 2022. And 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. This has been an exciting quarter, and I want to start today's call on a personal note. I'm very proud and thankful for the work that each of our provider partners embarks on daily. As some of you may know, my grandparents are both members of ApolloMed. I have seen firsthand just how diligently they have received care as they have gone through some recent care needs, and it has been eye-opening and touching for me to see our technology-powered care delivery model in action from the point of view of a family member.

Independent physicians are the backbone of our nation's healthcare delivery system, and we are strongly committed to supporting and enabling them. Our goal here at ApolloMed is to provide inclusive, high-quality care for all individuals within our communities. Today we have the privilege of serving Medicare Advantage, Managed Medicaid, ACA Exchange, commercial, and Medicare Fee-For-Service populations. And we look forward to continuing our efforts to advance health equity in all of these populations.

Now, historically, independent practices have lacked access to centralized care teams and integrate delivery services. Through our technology enabled tools, we are changing this paradigm and empowering our partner physicians to take on risk and manage both their managed care

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and fee-for-service populations in a proactive manner, with the support of ApolloMed's value-based care infrastructure. We believe that this will enhance quality, access to care and decrease overall cost of care.

Brandon Sim: Now on to the quarter. Strong organic membership growth and favorable membership mix, as well as participation in a value-based care model for the Medicare fee-for-service population, served as the catalysts for top line growth during the first quarter of 2022, as our capitated revenue grew 53% year over year. We achieved a 50% increase in total revenue, reporting \$263.3 million for the three months ended March 31, 2022. We expect that this will continue to be a trend in the remainder of the year, as we see strong tailwinds and interest in our unique model from physicians across the country.

We did incur operating expenses in Q1 in-line with increased revenues, as well as some lagging effects of the COVID-19 pandemic on our risk pools. The higher opex was also due to increased G&A expense related to share-based compensation and the hiring of additional key personnel and staff to support our operational growth. As a result of our ongoing efforts to build out our team, we incurred an additional \$2.2 million in salaries, wages and benefit expenses as compared to Q1 of 2021.

Despite rapid growth and increased investment in people and infrastructure, we were able to grow net income attributable to ApolloMed by 8.5% to \$14.3 million, or diluted EPS of \$0.31, for the quarter. Adjusted EBITDA was \$38.2 million, up 25% from \$30.5 million in the prior-year period.

Based on current trends within our businesses, we are pleased to be raising guidance for full-year 2022 revenues as well as the bottom end of the ranges for net income, EBITDA and adjusted EBITDA. We now anticipate at least 36% growth year over year on the top line to between \$1.055 to \$1.085 billion and Adjusted EBITDA of between \$136.0 million and \$166.0 million.

Moving on to our operations, last month, we closed on the acquisition of Jade Health Care Medical Group, which we had previously announced in December 2021. Jade Health is a primary and specialty care physician group of over 350 providers primarily serving Medicaid, Medicare, and Commercial members in the San Francisco Bay Area. They are a risk-bearing organization whose doctors are known for their culturally competent, linguistically appropriate, professional services to members of their local communities.

We continue to work closely with Jade Health leadership and their network of partner providers as we onboard them onto the ApolloMed platform. Our tools will enable the providers to put more of their time and focus on serving the patient and the community and less time on the day-to-day

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administrative tasks necessary for operating an independent practice in a value-based care setting. We are very pleased to be strengthening our presence in Northern California with the addition of Jade Health and look forward to helping the organization grow while enhancing patient experience in the months and years ahead.

Brandon Sim: Beyond Jade, we have also expanded our provider partner network being managed by ApolloMed subsidiaries in Northern California. We believe we offer a differentiated product in the marketplace for independent physicians and physician groups, and we expect to see strong growth going forward in this area.

As we look to the rest of 2022 and into 2023, we are excited to continue deepening our presence in our California markets while also expanding to new regions in New York through a series of acquisitions and partnerships with key provider groups that share our vision of empowering independent physicians.

As we go to market with a comprehensive suite of value-based care technologies, with the addition of Orma Health in our tech stack, we are seeing a strong uptick in organic inbound inquiries from IPAs, ACOs, DCEs and other organizations who are looking to bolster their care and quality analytics and as more physicians look to add remote patient monitoring to their value-based care toolkit. The Orma business continues to grow active membership strongly—23% in the first quarter—and has expanded to serve practices in two new states in Q1 of 2022.

As I mentioned earlier, we have continued to build out our team here at ApolloMed, particularly in the areas of operations, strategy, and business development to support our growth efforts. I am pleased to welcome Chan Basha as our new Chief Strategy Officer. He has also been appointed Interim Chief Financial Officer as Eric has stepped down from the role for personal reasons.

Chan brings 15 years of experience in finance, operations, strategy, and corporate development. As Chief Strategy Officer, Chan will lead the development and execution of our overall corporate strategy along with building and supervising our operating teams. He will be working closely with me and the larger leadership team. Most recently Chan served as VP of Strategy and Corporate Development at Alignment Healthcare. Prior to Alignment, he was Chief Financial Officer at Alsana, a private equity-backed behavioral health company. He also held roles at Healthcare Partners, a DaVita Medical Group company, where he spearheaded strategy and development for the California market as well as at DaVita itself where he led a corporate finance team. Chan is intimately familiar with what we are looking to achieve here at ApolloMed, and we are excited to have him on board.

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I would like to thank Eric for his many, many contributions to ApolloMed these past few years. He played a very important role in helping our Company grow to what it is today, and we wish him all the best in his future endeavors. I would like to turn it over to Eric to say a few words.

Eric Chin: Thank you, Brandon.

It's been very rewarding to see ApolloMed develop into the technology-powered healthcare organization that it is today. When I started, there was no engineering team, there was no business development team. We are a very different company today, set on a very strong foundation for significant future growth thanks to your leadership, continued support of our Board, and the new talent we have brought on board in the recent months.

I look forward to continue working at ApolloMed in an advisory capacity to ensure a smooth transition, and I'm excited to see what is next for the Company.

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

Chan Basho: Thanks so much, Eric. And I want to personally thank you for all of your guidance and assistance during this time.

I'm very excited to be part of ApolloMed and share a passion similar to Brandon around building the leading technology-powered organization for empowering independent physicians to be successful in value-based care.

Moving into 2022 Q1 earnings. We began 2022 on a strong note, reporting total revenues of \$263.3 million in the first quarter of 2022, a 50% increase from \$176.1 million in the prior-year quarter. This was primarily driven by increased capitation revenue resulting from organic membership growth in our core IPAs and participation in a value-based Medicare fee-for-service model, as well as increased fee-for-service revenue from the consolidation of Sun Labs and DMG.

Capitation revenue increased 53% to \$222.1 million during the period, accounting for over 84% of total revenue for the quarter ended March 31, 2022.

Fee-for-service revenue was \$11.1 million, compared to \$3.1 million in the prior-year quarter. The consolidation of Sun Labs and DMG contributed \$6.2 million of that during the period.

Our membership remained at approximately 1.2 million managed lives at the end of the first quarter ended March 31, 2022. Approximately 600,000, or half of our members, were under capitated risk-bearing arrangements through our consolidated IPAs.

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Total operating expenses increased about 54% to \$237.0 million in the first quarter of 2022, from \$154.3 million in the prior-year period. As Brandon noted earlier, this was primarily a result of increased cost of services due to higher medical claims, capitation, and other health service expenses commensurate to our increase in revenue, as well as some lagging effects from COVID-19 in our risk pools. We also incurred increased general and administrative expenses related to share-based compensation and salaries, wages and benefit expenses related to hiring additional key personnel and staff to support our operational growth.

Chan Basho: Net income attributable to ApolloMed was \$14.3 million, up 8.5% from \$13.2 million in the first quarter of 2021. Earnings per share on a diluted basis were \$0.31 per share, compared to \$0.30 per share in the prior-year period.

We reported EBITDA of \$23.7 million in the first quarter of 2022, which compares to \$26.6 million in the prior-year period. Adjusted EBITDA was \$38.2 million, up 25% from \$30.5 million in the prior-year period. As we have noted in the past, we place great emphasis on the Adjusted EBITDA figure as this number backs out the impact of recently acquired IPAs, other income, and income from equity method investments. It also backs out the impact of excluded assets, which for Q1 2022 included a one-time non-cash unrealized loss of \$9.0 million as a result of a decrease in fair value related to the passive investment in a payer partner. These losses are in the excluded assets bucket that we've described in the past, and 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 first quarter with \$237.9 million in cash and cash equivalents, compared to \$233.1 million at the end of 2021. Our working capital was \$284.0 million, compared to \$283.4 million at the end of 2021. And total stockholders' equity increased to \$479.5 million as of March 31, 2022, from \$460.5 million at December 31, 2021.

Moving further down the balance sheet, total debt at the end of the first quarter was \$188.6 million. We are safely in compliance with our debt covenants with consolidated Total Net Leverage Ratio of 1.04x compared to the maximum permitted 3.75x and consolidated Interest Coverage Ratio of 27.03x compared to the minimum permitted 3.25x.

I'd like to turn it back over to Brandon to discuss our growth strategy and outlook for the remainder of 2022. Brandon?

Brandon Sim: Thanks, Chan.

Our new business pipeline remains robust as we continue to field inbound inquiries from provider groups and healthcare organizations nationwide

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that are interested in the unique platform that we've built here at ApolloMed. Our history of positive clinical outcomes and financial performance, as well as our self-developed technology platform purpose built for independent doctors, has helped to fuel this interest. We are being selective and conducting the necessary diligence in evaluating potential opportunities in California, New York, as well as in the southwestern United States, focusing on groups that are very committed to serving their communities and to advancing health equity as we enable them to succeed in risk-based contracts.

Brandon Sim: As it relates to our current business, I noted earlier that we are raising revenue guidance as well as the lower end of the ranges for net income, EBITDA and Adjusted EBITDA for full-year 2022, as a result of the continued organic growth in our core business and favorable membership mix.

As listed on slide 11 of our supplement, we anticipate for the year ending December 31, 2022:

- 1) revenues of between \$1.055 billion and \$1.085 billion,
- 2) net income of \$38.0 million to \$57.0 million,
- 3) EBITDA of \$81.0 million to \$111.0 million, and
- 4) Adjusted EBITDA of \$136.0 million to \$166.0 million.

Please keep in mind that the updated guidance does take into account any potential impact of APC's passive investment in a payer partner, which Chan noted in his comments earlier. For this reason, we place greater emphasis on the Adjusted EBITDA metrics. These guidance metrics do not consider any potential acquisitions or any major business transactions we may complete in the remainder of 2022. As any material developments arise, we will be sure to update the markets and re-evaluate guidance as appropriate.

To close, it is a very exciting time here at ApolloMed. We see many growth opportunities before us as we continue to onboard new providers and provider groups across the country, expand our base of customers on our technology platform and continue nurturing strong organic growth in our existing core markets. ApolloMed is committed to empowering provider groups across the country to successfully participate in value-based care arrangements, enabling them to provide quality, high-quality, cost-effective care to individuals and families in local communities the same way our current ApolloMed providers have been doing for my own family.

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

Operator: And at this time, we will be conducting a question-and-answer session.
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Operator: It appears there are no questions at this time. Therefore I will now turn the call back over to management for closing remarks.

Brandon Sim: Thank you all for your time today. We are always open to a dialogue with investors and welcome visitors to our offices in Alhambra, California, should any of you be in the Los Angeles area. I will also be at the RBC and UBS healthcare conferences in New York later this month, and I look forward to seeing many of you there. Please feel free to reach out to us or our investor relations firm The Equity Group with any additional questions you may have. 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.