



2022 Second Quarter Financial Results
Conference Call Transcript
August 4, 2022

Speakers:

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

Operator: Good day and welcome to your Apollo Medical Holdings' second quarter 2022 financial results call. All lines have been placed on a listen-only mode, and the floor will be open for your questions and comments following the presentation. {operator instructions} At this time, it is my pleasure to turn the floor over to your host, Carolyne Sohn of The Equity Group. The floor is yours, please go ahead.

Carolyne Sohn: Thank you, operator, and hello, everyone. Thank you for joining us.

The press release announcing Apollo Medical Holdings, Inc.'s results for the second quarter and six months ended June 30, 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 second quarter and first half 2022 highlights and the latest operational developments. Interim Chief Financial Officer Chan Basho will follow with a review of ApolloMed's results for the second quarter and the first six months ended June 30, 2022. 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. We were pleased to deliver another solid quarter of profitability in the second quarter of 2022 even as we continued to see utilization across our organization increase to pre-pandemic levels. As a result of strong organic membership growth within our core IPAs, a more favorable membership mix, and participation in a value-based care model for the Medicare fee-for-service population, capitated revenue grew 57% year over year, allowing us to achieve a 54% increase in total revenue, reporting \$269.7 million for the three months ended June 30, 2022.

As in Q1, operating expenses increased in line with revenues in Q2. First, on the cost of services side, although our medical loss ratio, or MLR, for our partnered risk-bearing provider entities increased by 150 basis points relative to last quarter, we are still within our previously disclosed range of 4% to 6% increase in MLR for the year, which has already been taken into account in our guidance. We see this as an expected consequence of medical utilization returning to pre-COVID levels.

We also continued to incur higher G&A expense related to the hiring of additional key personnel and staff to support our operational growth and expansion into both new geographies and new lines of business, as well as an increase in stock-based compensation. Despite the investments we've made not only to increase revenue but also to fuel operational growth into new regions, G&A expense as a percentage of total revenue actually

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decreased by 70 basis points, from 8.1% in Q2 of last year to 7.4% in Q2 of this year. This demonstrates the operating leverage our platform provides us even as we grow our business rapidly.

Brandon Sim: Despite our continued membership growth, increased utilization trends and ongoing investment in people and infrastructure, we remained profitable, reporting net income attributable to ApolloMed of \$11.4 million, or diluted EPS of \$0.25, for the quarter. Adjusted EBITDA was \$36.9 million, up 14% from \$32.4 million in the prior-year period.

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

In the second half of 2022, we continue working to expand our presence in existing California markets as well as explore opportunities to move into new regions through a series of acquisitions and partnerships with key provider groups that share our vision of empowering independent physicians. Our business development and M&A efforts have continued to benefit from the addition of Orma Health to our tech stack, and the pipeline remains incredibly robust.

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

Chan Basho: Thank you, Brandon.

We continued to deliver strong results, reporting total revenue of \$269.7 million in the second quarter of 2022, a 54% increase from \$175.6 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 57% to \$227.6 million during the period, accounting for 84% of total revenue for the quarter ended June 30, 2022.

Fee-for-service revenue increased 154% to \$11.7 million, from \$4.6 million in the prior-year quarter. Along with increased visits to our surgery center, which were partially closed in the prior year due to COVID-19, the consolidation of Sun Labs and DMG contributed \$5.8 million during this period.

Our membership remained at approximately 1.2 million managed lives at the end of the second quarter ended June 30, 2022. Approximately

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600,000, or half of our members, were under capitated risk-bearing arrangements through our consolidated IPAs.

Chan Basho:

Total operating expenses increased 64% to \$254.3 million in the second quarter of 2022, from \$154.7 million in the prior-year period. This was primarily a result of increased cost of services due to higher medical claims, capitation, and other health services expenses commensurate to our increase in revenue. 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.

Net income attributable to ApolloMed was \$11.4 million, compared to \$12.7 million in the second quarter of 2021. Earnings per share on a diluted basis were \$0.25, compared to \$0.28 in the prior-year period. The decrease in the bottom line can be attributed to higher cost of services due to a return of pre-COVID levels of utilization and increased operating expenses related to the hiring of additional personnel to support the Company's growth and development.

We reported EBITDA of \$22.4 million in the second quarter of 2022, which compares to \$90.0 million in the prior-year period. Adjusted EBITDA was \$36.9 million, an increase of 14% compared to \$32.4 million in the prior-year period. We place greater emphasis on the Adjusted EBITDA figures as these numbers back out the impact of excluded assets, recently acquired IPAs, stock-based compensation, other income, and income from equity method investments. The Adjusted EBITDA figure for Q2 2022 backs out the impact of a non-cash unrealized loss of \$1.9 million as a result of a decrease in fair value related to the passive investment in a payer partner's shares held as marketable securities and other investments, which compares to \$83.8 million in unrealized gains as a result of a 1-to-3 conversion of a payer partner's preferred shares to common stock in the prior-year period. These payer partner shares are in the excluded assets bucket that we've described in the past as they are solely for the benefit of our affiliate APC and its shareholders.

I'll quickly go over a few financial highlights for the first half of 2022.

Total revenue was \$533.0 million, up 52% from \$351.7 million in the prior-year period. Total opex increased to \$491.4 million, from \$308.9 million in the prior year, primarily as result of increase in cost of services due to higher medical claims, capitation, and other health services expenses in line with our increase in revenue.

Net income attributable to ApolloMed was \$25.7 million for the six months ended June 30, 2022, compared to \$25.8 million in the six months ended June 30, 2021. Diluted EPS was \$0.56 for the first six months ended June 30, 2022, compared to \$0.58 in the prior-year period.

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Chan Basho: Turning over to the balance sheet, we remain well capitalized and well positioned to execute on our growth initiatives. We ended the second quarter with \$234.2 million in cash and cash equivalents, compared to \$233.1 million at the end of 2021. Our working capital was \$275.8 million, compared to \$283.4 million at the end of 2021. And total stockholders' equity increased to \$485.8 million at June 30, 2022, from \$460.5 million at December 31, 2021.

Total debt at the end of the second quarter was \$201.5 million.

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

Brandon Sim: Thanks, Chan.

We expect the second half of 2022 to be very eventful. We continue to observe strong tailwinds around value-based and accountable care, and we're finding that provider groups and healthcare organizations nationwide are excited about the possibilities our unique physician enablement model and technology platform present to them in terms of improving their ability to better serve their patients and drive more positive clinical outcomes.

As it relates to our current business, I noted earlier that we are reiterating our previously disclosed guidance projections for full-year 2022, which we have also listed on slide 11 of our supplement.

Please keep in mind that the net income and EBITDA guidance include potential impact from the APC excluded assets, which Chan also noted in his comments earlier. For this reason, we place greater emphasis on the net income attributable to ApolloMed shareholders and Adjusted EBITDA metrics. These guidance metrics do not consider any potential acquisitions or other 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.

In closing, we continue to make progress on our various growth and care management initiatives and are excited about the positive impact we can make by introducing our model to providers and provider groups across the nation. ApolloMed has a long history of operating successfully, and profitably, in our core regions, and we believe we can replicate our success in other local communities across the country by partnering with like-minded physicians. We remain incredibly excited and energized in our mission to enable providers to excel in value-based care and deliver higher quality outcomes to their communities.

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

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Operator: Thank you. The floor is now open for questions. {operator instructions}

Operator: There appears to be no questions at this time. I will now turn the call back over to management for closing remarks.

Brandon Sim: Thank you. That concludes are Quarter 2 2022 earnings call. We look forward to your questions or dropping by our Los Angeles offices if you happen to be in the area. Thank you everyone and have a great day.

Operator: This does conclude today's teleconference. We thank you again for your participation. You may disconnect your lines at this time and have a good day.