



2021 Third Quarter Financial Results
Conference Call Transcript
November 4, 2021

Speakers:

- Carolyne Sohn, The Equity Group
- Kenneth Sim, M.D., Executive Chairman, ApolloMed
- Brandon Sim, Co-Chief Executive Officer, ApolloMed
- Eric Chin, Chief Financial Officer, ApolloMed

Operator: Greetings. Welcome to Apollo Medical Holdings' third quarter 2021 financial results call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. {operator instructions} At this time, I'll turn the conference over to Carolyne Sohn with investor relations. Carolyne, 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 third quarter ended September 30, 2021, is available at the Investors section of the Company's website at www.apollomed.net. To provide some additional background on its results, the Company has made a supplemental deck available on its website. A replay of this broadcast will also be made available at ApolloMed's website after the conclusion of this call.

Before we get started, I would like to remind everyone that this conference call and any accompanying information discussed herein contains certain forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terms such as "anticipate", "believe", "expect", "future", "plan", "outlook", and "will" and include, among other things, statements regarding the Company's guidance for the year ending December 31, 2021, 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 the delta variant on the Company's business, operations and financial results.

Additionally, certain financial measures we will discuss on this call are non-GAAP financial measures. We believe that providing these measures helps investors gain a better and more complete understanding of our financial results and is consistent with how management views our financial results.

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A reconciliation of these non-GAAP measures to the most comparable GAAP measure is available in the earnings press release and Form 8-K filed with the SEC.

Carolyne Sohn: 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.

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 Executive Chairman, Dr. Kenneth Sim, will make some opening remarks and then turn the call over to Brandon Sim, the Company's Co-CEO, who will discuss the third quarter and year-to-date 2021 highlights and the latest operational developments. Chief Financial Officer Eric Chin will follow with a review of ApolloMed's results for the third quarter and first nine months of 2021. Brandon will conclude the remarks with an update on the Company's outlook and long-term growth strategy before opening the floor for questions.

With that, I'll turn the call over to ApolloMed's Executive Chairman Dr. Kenneth Sim. Please go ahead, Dr. Sim.

Dr. Sim: Good afternoon to all of you and thank you for joining us to discuss ApolloMed's third quarter 2021 results.

I would like to begin this call by addressing the leadership changes we announced in conjunction with our earnings report this afternoon. We are very pleased to appoint Brandon Sim as ApolloMed's Co-CEO, effective November 2nd. Since joining the Company, Brandon has led key efforts in creating and executing ApolloMed's new growth model, navigating the COVID-19 global pandemic, and transforming ApolloMed into the technology-powered healthcare company that it is today.

As Chief Technology Officer, Brandon built our team of engineers and data scientists from the ground up over the last 2½ years, leading the development of ApolloMed's proprietary technology platform. This

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platform, which serves as an operating system for value-based care, has allowed the Company to scale effectively across local healthcare delivery systems, greatly reducing operating expenses and leading to notable financial performance improvements. More importantly, this platform is helping us drive improved clinical outcomes and patient satisfaction by streamlining care and utilization management workflows. The platform also algorithmically surfaces actionable data and insights so that our providers can take on and succeed in value-based care arrangements.

Dr. Sim:

As Chief Operating Officer, Brandon has spearheaded ApolloMed's corporate strategy, business development, operations, and engineering efforts for over a year now, and he will continue to lead those efforts as Co-CEO. I will continue to serve as Executive Chairman of the Board, working closely with the Board of Directors and executive management team.

ApolloMed has been evolving towards becoming a technology-powered integrated healthcare delivery company for the last few years, and this leadership transition marks a major milestone in our continued efforts to provide patients with best-in-class value-based care. Having witnessed the incredible results yielded by Brandon's passion and drive, the Board of Directors and I are confident that Brandon is the right person to lead ApolloMed into its next chapter. It is truly an incredibly exciting time at our Company, and we look forward to continuing our success and rapid growth under Brandon's leadership.

With that, I would like to turn it over to Brandon who will go over highlights for the third quarter and year to date 2021, as well as recent operational developments. Brandon?

Brandon Sim:

Thank you, Dr. Sim.

I am so glad to have this opportunity to speak with you all on my first earnings call as ApolloMed's Co-CEO. It has been an exciting few years of building tirelessly, growing rapidly, and serving our providers and patients proudly here at ApolloMed. I am incredibly optimistic about our Company's future and our ability to execute on our mission of transforming the way healthcare is delivered in this country. I pledge to not only continue and even amplify our steadfast commitment to healthcare equity and physician empowerment as we continue on this journey, but to also align all stakeholders to continue driving sustainable, long-term value for our shareholders. And, of course, I very much look forward to continuing to work closely with Dr. Thomas Lam, my Co-CEO, and the rest of our talented and passionate team here at ApolloMed.

ApolloMed is in a truly unique position to bring about and lead this change in healthcare delivery for several reasons. The first differentiating advantage for ApolloMed is our long history of physician leadership and

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our dedication to physician empowerment and partnership. The roots of ApolloMed were planted by physicians, and our continued partnership and deep alignment with independent physicians and groups have led to an understanding of integrated healthcare delivery in a value-based care setting that is hard to match.

Brandon Sim: This advantage is a natural segue into the second powerful differentiator for ApolloMed: our expertise in value-based care and taking risk successfully. We have been operating profitably in risk-bearing, value-based arrangements in Southern California for more than two decades, and we have used this experience to create a platform that empowers independent physicians and groups all over the country to not only participate in but also succeed in such risk-bearing, value-based care arrangements.

Third, we couple our decades of value-based care expertise with technology and engineering advances, where I've had a lot of experience in both academic and practical settings. As Dr. Sim mentioned earlier, we are committed to continuing to invest in and build a world-class healthcare delivery operating system, marrying clinical and operational proficiency with advances in machine learning, Bayesian decision making, and modern software engineering. This allows us to create systems that are not only tailored to each independent physician group and local community but also flexible enough to handle and make sense of extremely large-scale data as we scale and build integrated healthcare delivery systems nationwide. It also allows us to reduce operating expenses and helps to improve clinical outcomes, quality, and patient satisfaction. This last piece of the puzzle is what allows us to take what has worked in the local communities we already serve and bring that expertise into other geographies across the country.

Finally, these three unique elements snowball into our final competitive advantage: a strong financial position with consistent profitability that we will use to invest in future growth and deliver sustained shareholder returns. The record third quarter earnings that we are reporting today, as well as our confidence in raising full year guidance, are evidence of this. We once again achieved solid growth on the top line and more than doubled our bottom line. This quarter represents the highest quarterly revenue, net income attributable to ApolloMed shareholders, and earnings per share that we have delivered thus far in our Company's history. And I am proud to say that these results were driven by growth across nearly all of our businesses, particularly in our risk pool settlements and incentives.

Based on the positive trends that we are seeing, our continued organic growth, contributions from our technology platform, and phenomenal results in the first nine months of the year, we are once again raising our guidance for full year 2021. We now anticipate at least 9% growth year over year on the top line to between \$751.5 million and \$758.5 million

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and at least 89% growth year over year in net income attributable to ApolloMed to between \$71.5 million and \$73.5 million. We also anticipate diluted EPS for the year to be between \$1.58 to \$1.62, which would represent at least 56% earnings growth year over year. I will go over the full set of updated guidance later on in the call during our discussion of outlook and growth strategy.

Brandon Sim:

During the third quarter of 2021, we continued to see solid organic membership growth in our existing IPAs during the period, which drove the increase in capitation revenue. We nearly doubled risk pool and incentive revenues year over year as a result of decreased utilization at our partner hospitals, as well as an increase in the shared savings settlement from our participation in an ACO for performance year 2020. Fee-for-service revenue also saw a year-over-year increase in the third quarter as a result of increased utilization at our surgery and heart centers following their reopening this year and \$2 million of contributions from Sun Labs following the closing of that transaction during the period.

We did incur higher opex in Q3 as a result of increased cost of services from greater utilization, increased provider bonus payments related to the increased ACO shared savings settlement, and increased payroll due to our continued investment in an all-star operational and technical team. Despite this, we were able to still achieve 105% growth in net income attributable to ApolloMed, recording \$34.3 million during the period, compared to \$16.7 million in the prior-year period. Diluted EPS was up 64% to \$0.74 for the quarter.

For the nine months ended September 30, 2021, we achieved a 13% increase in total revenue, reporting \$578.8 million for the period and achieved 116% growth in net income attributable to ApolloMed of \$60.1 million. Diluted EPS increased 77% to \$1.33 for the first nine months of 2021.

In terms of the utilization trends we are observing as a result of the ongoing COVID-19 pandemic, we continued to see utilization increase during the third quarter of 2021, and our current projection is a return to pre-COVID utilization rates for the remainder of this year. As utilization does return to normal levels, we remain confident in our ability to execute on our model, delivering consistently impressive results as we have in prior periods.

From an operational standpoint, we've also had a very productive third quarter. We closed the strategic alliance and investment in New York-based CAIPA MSO and now own 30% of the post-closing total interests on a fully diluted basis. We continue working to onboard CAIPA physicians onto our technology platform so that they may benefit from the additional clinical and administrative support that will drive improved outcomes for their patients. Value-based care has not yet become commonplace in New

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York, and we look forward to expanding upon this partnership and introducing our risk-bearing, value-based care model to local communities in that state.

Brandon Sim:

We also closed on the purchase of controlling interests in Sun Clinical Laboratories, a CLIA-certified full-service lab operating in 19 locations across southern California. We continue working to integrate Sun Labs' operations into our comprehensive care delivery platform and are exploring expansion opportunities where we can bring Sun Labs' high-quality lab services to more patients across the nation.

Lastly, we closed on the acquisition of Access Primary Care Medical Group, an IPA that primarily serves senior patients in the northern California counties of San Mateo and San Francisco. Access Primary Care is a risk-bearing organization that has successfully provided professional services to senior members under capitation arrangements with its contracted payer partners since 2016, which is also the year we began working with them as their MSO. We are pleased to welcome Access Primary Care's over 120 primary and specialty care providers and approximately 1,000 Medicare Advantage members as part of the ApolloMed network.

I would also like to share that Anthem, one of the largest health plans in the country, is partnering with us and several of our affiliated IPAs in a collaboration to provide high-quality, affordable, and culturally competent care to local communities. Our partnership, through which our affiliated network of contracted physicians will be offered to consumers through the Covered California program, will span both Southern and Northern California. Anthem has been a payer partner of ours for some time, and we look forward to continuing this partnership and finding similar ways to expand upon it in the years to come.

Finally, I know we've referenced our impressive performance for the 2019 year on several occasions, and I am thrilled to report that we have once again delivered phenomenal results. Our ACO generated \$57.7 million in gross savings in the 2020 performance year, which ranked the highest out of all 37 analogous ACOs for that performance year. Gross savings is defined as the total benchmark expenditures minus total aligned beneficiary expenditures, and we achieved the highest result in that measure by a margin of over \$18 million dollars, or 48% more in gross savings than the next best analogous ACO's results. We are incredibly pleased by this performance, which had a notable impact on our financial results for Q3, contributing \$21.8 million to our top line and \$13.1 million to our bottom line. Keep in mind that our ACO serves approximately 29,000 aligned beneficiaries, out of the over 1.1 million members that we manage.

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Brandon Sim: All of these accomplishments I've covered so far are thanks to the amazing people all throughout our organization, from the doctors, nurses, and other frontline providers to our administrative staff, all of whom benefit from utilizing our tech-powered healthcare platform. Our leading performance validates ApolloMed's superior clinical care coordination and our expertise in transitioning providers from traditional fee-for-service models to value-based care arrangements. This is why doctors join ApolloMed and why they stay with us.

In summary, I am incredibly excited by the strength of our platform and the many opportunities we have ahead of us, and we will continue to invest in our people and our technology as we execute on these opportunities and take ApolloMed to the next level.

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

Eric Chin: Thank you, Brandon.

We achieved strong results in the third quarter of 2021, primarily driven by the organic growth and increased risk pool and incentives revenue, reporting total revenue of \$227.1 million, a 26% increase from the \$180.1 million in the prior-year quarter. As in the second quarter, the increased risk pool settlements and incentives revenue was primarily related to decreased utilization at our partner hospitals when the pandemic first began in 2020, as these revenues from our partner hospitals reflect a 15-18 month lag. We also saw a \$2.0 million year over year increase in the shared savings settlement from our notable ACO results in performance year 2020.

Total operating expenses increased about 22% to \$174.0 million in the third quarter of 2021, from \$142.8 million in the prior-year period. This was primarily a result of increased cost of services due to higher claims expense at our consolidated IPAs as utilization increased compared to the prior-year period as well as increased claims expense at APA ACO. We also incurred increased general and administrative expenses related to provider bonus payments as a result of the increased shared savings settlement from our ACO, as well as increased investments in our staff, which Brandon touched on earlier.

As a result of the increased net revenue, net income attributable to ApolloMed was \$34.3 million, an increase of 105% from the \$16.7 million in the third quarter of 2020. Our earnings per share on a diluted basis were \$0.74 per share, up 64% from \$0.45 per share in the prior-year period.

We reported EBITDA of negative \$0.3 million in the third quarter of 2021, which compares to a positive \$42.6 million in the prior-year period. Adjusted EBITDA was \$74.5 million, which is a 40% increase from the

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\$53.4 million in the prior-year period. We place greater emphasis on the Adjusted EBITDA figures, which are calculated consistently quarter over quarter, as it is a more meaningful representation of the Company's performance and consistent with how management views the results. Adjusted EBITDA 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 Q3 2021 included a non-cash unrealized loss of \$63.0 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 as they are solely for the benefit of our affiliate APC and its shareholders.

Eric Chin: I'll quickly go over a few financial highlights for the first nine months of 2021.

Total revenue was \$578.8 million, up 13% from \$510.4 million in the prior-year period. Total opex increased to \$482.9 million, from \$455.8 million in the prior period, primarily as a result of increased claims expenses due to utilization returning closer to pre-COVID levels and increased payroll costs as discussed by Brandon earlier. G&A expense also increased due to costs incurred for the debt refinancing and provider bonus payments. These were partially offset by a reduction in G&A expenses due to our technology platform.

Net income attributable to ApolloMed increased to \$60.1 million for the nine months ended September 30, 2021, from \$27.8 million for the nine months ended September 30, 2020. The increase from the prior-year quarter was primarily due to the increased revenues across nearly all our lines of business.

Turning over to the balance sheet, we remain well capitalized and well positioned to execute on our growth initiatives. We ended the third quarter with \$204.8 million in cash and cash equivalents, compared to \$193.5 million at the end of 2020. Our working capital increased to \$310.5 million, from \$223.6 million at the end of 2020. And total stockholders' equity increased to \$440.3 million at September 30, 2021, from \$330.9 million at December 31, 2020.

Moving further down the balance sheet, total debt at the end of the third quarter was \$182.8 million. We are also safely in compliance with our debt covenants with Total Consolidated Net Leverage Ratio of 1.06x compared to the maximum permitted 3.75x and consolidated Interest Coverage Ratio of 25.55x compared to the minimum permitted 3.25x.

I'd now like to turn it back over to Brandon for a discussion of our growth strategy and outlook for the remainder of 2021. Brandon?

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Brandon Sim: Thanks, Eric.

We were pleased to close several of the transactions we had announced in the first half of the year and anticipate the final months of 2021 to have plenty of activity as well.

We continue working toward reaching our previously stated goal of growing our member population to approximately 2 million lives by the end of the year, and we believe we will reach the 2 million member mark in the near term future. However, we want to act responsibly when it comes to what we invest in, especially in a backdrop of frothy valuations. We have certain valuations and qualities in mind when it comes to whether we believe an organization might be a good fit for ApolloMed, and this leads to a differentiated pipeline which we've found has translated into longer transaction timelines. However, we remain confident that we will be able to identify and execute on the right deals to maximize long-term shareholder value, while working with like-minded physicians. We are also optimistic about organic growth in the near term, where we are seeing positive tailwinds due to several partnerships with payers as well as a pipeline of new clients.

As it relates to our current business, we are pleased to be once again raising our guidance projections for full-year 2021 due to the positive trends we are seeing across the business and the strong organic growth and outstanding financial results we have achieved in the first nine months of the year.

As listed on slide 11 of our supplement, we now anticipate for the year ending December 31, 2021:

- revenues of between \$751.5 million to \$758.5 million,
- net income of \$81.0 million to \$83.5 million,
- net income attributable to ApolloMed of \$71.5 million to \$73.5 million,
- Diluted EPS of \$1.58 to \$1.62,
- EBITDA of \$139.0 million to \$143.0 million, and
- Adjusted EBITDA of \$168.5 million to \$170.5 million.

Please keep in mind that the updated net income and EBITDA guidance do not take into account any potential impact of APC's passive investment in a publicly traded payer partner, which Eric noted earlier in his comments. For this reason, we place greater emphasis on the net income attributable to ApolloMed shareholders and Adjusted EBITDA metrics. These guidance metrics also do not consider any potential acquisitions or other major business transactions we may complete in the remainder of 2021. As any material developments arise, we will be sure to update the markets and re-evaluate guidance as appropriate.

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Brandon Sim: I'll also take a brief moment here to mention that we will be at the virtual Credit Suisse Global Healthcare Conference next week, and we look forward to speaking with investors during that event.

To close, 2021 has been a very productive year so far for ApolloMed. With our physician-centric model, our expertise in value-based care and taking risk successfully, our technology and engineering expertise, and our strong financial position as tailwinds, I am excited and energized by the opportunities we see before us to truly make a difference on healthcare delivery nationwide. We look forward to closing out the year on a strong note.

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

Operator: Thank you. We'll now be conducting a question-and-answer session. {operator instructions} Thank you. At this time, I'll turn the floor back to management for further 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. Please feel free to reach out to us or our investor relations firm The Equity Group with any additional questions. We look forward to speaking to you all again on our next quarterly call. Thank you.

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