



2021 First Quarter Financial Results
Conference Call Transcript
May 5, 2021

Speakers:

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

Q&A Participants

- Gene Mannheimer, Colliers Securities

Operator: Greetings and welcome to the Apollo Medical Holdings' first quarter 2021 financial results conference call. 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 our host, Carolyne Sohn of The Equity Group. Thank you, you may begin.

Carolyne Sohn: Thank you, operator, and hello, everyone. Thank you for joining us. The press release announcing Apollo Medical Holdings, Inc.'s results for the first quarter ended March 31, 2021, is available at the Investors section of the Company's website at www.apollomed.net. You may also email us at investors@apolloed.net if you'd like a copy. 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 second quarter ending June 30, 2021, and 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 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

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are subject to risks and uncertainties that could cause the actual results to differ dramatically from those projected. There can be no assurance that those expectations will prove to be correct. Information about the risks associated with investing in ApolloMed is included in its filings with the Securities and Exchange Commission, which we encourage you to review before making an investment decision.

Carolyne Sohn: The Company does not assume any obligation to update any forward-looking statements as a result of new information, future events, changes in market conditions, or otherwise, except as required by law. Regarding the disclaimer language, I would also like to refer you to slide 2 of the conference call presentation for further information.

For those of you following along with the accompanying supplement, there is an overview of the Company on slide 3.

On today's call, the Company's Executive Chairman and Co-CEO, Dr. Kenneth Sim, will provide an overview of the first quarter 2021 highlights. The Company's Chief Operating Officer and Chief Technology Officer Brandon Sim will then discuss the latest operational developments, and Chief Financial Officer Eric Chin will follow with a review of ApolloMed's results for first quarter 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 and Co-CEO, 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 first quarter 2021 results.

2021 got off to a strong start as we reported solid growth on the top line and significantly greater growth on the bottom line, primarily as a result of organic membership growth in our existing IPAs driving capitation revenue and increased risk pool settlements and incentives revenue. The bottom line also benefitted from a decrease of \$2.4 million in general and administrative expenses related to third-party consulting and professional costs, a direct result of the implementation and ongoing use of our own technology platform.

For the first quarter of 2021, we reported \$176.1 million in total revenue, which is a 7% increase from \$165.1 million in the prior-year period, and net income attributable to ApolloMed of \$13.2 million, which compares to \$4.1 million in the prior-year period.

We reported EBITDA of \$26.6 million in the first quarter of 2021, which is a 137% increase from \$11.2 million in the prior-year period, and Adjusted EBITDA of \$29.2 million, which is a 111% increase from \$13.8 million in

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the prior-year period. We place greater emphasis on the Adjusted EBITDA figures as these numbers back out the impact of recently acquired IPAs, other income, and income from equity method investments.

Dr. Sim: We anticipate the trend of decreased claims due to the continued effects of COVID-19 will normalize as time goes on with more and more folks continuing to vaccinate against COVID-19 and the country maintains its steady path toward recovery, and we have accounted for this in our guidance for the second quarter of 2021, which Brandon will expand upon shortly.

We continue working closely with the team at CAIPA MSO, in which we announced a strategic investment and alliance in January 2021. With this partnership, ApolloMed will be bringing its proprietary technologies to benefit CAIPA physicians. And the strategic alliance will provide ApolloMed with a low-risk entry foothold into the state of New York with the possibility of expanding the relationship down the line. We anticipate closing this transaction by the end of the 2021 second quarter.

With that, I will turn it over to Brandon for an update on our operations and developments in our proprietary technology solutions. Brandon?

Brandon Sim: Thank you, Dr. Sim. We continue to innovate when it comes to our technology platform. As I mentioned on our last call, ApolloMed has invested heavily in the development of our fully integrated, proprietary software platform, including solutions for tech-enabled care coordination, population health and risk management, revenue cycle management, and more. The ApolloMed platform creates a powerful virtuous cycle which results in better patient care, measurable improvement in clinical outcomes, and reduced total cost of care.

Our industry-leading data moat and expertise in machine learning allows us to test ideas faster, build better models, and perform more accurate risk stratification and adjustment than our competitors do. This leads to more valuable and more actionable insights, data, and tools for our providers and therefore better outcomes for our patients. In turn, more and more providers are encouraged to participate in our value-based care delivery model, which further widens our lead in both product and data.

And we are feeding the ApolloMed flywheel by continuing to grow our provider network aggressively, both organically and through M&A activity, and by iterating rapidly with our team of top technologists on the ApolloMed care platform. This platform, along with our experience in taking risk and scaling profitably across diverse geographies and populations in California, will enable us to continue growing rapidly throughout the country, helping providers take risk successfully and perform value-based care to ensure better outcomes for our patients. ApolloMed and its partnered physicians now serve members in 9 of the top

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25 counties in the U.S. by population, but our journey to bring high-quality healthcare to communities across the nation is just beginning. We are seeing many opportunities in our M&A pipeline and are excited at the prospect of bringing our highly scalable model to a much larger population over the course of this year.

Brandon Sim: Operationally, we have set a strong foundation for the rapid growth strategy we set forth for the Company in 2021. As demonstrated in Q1, our technology solutions continue to generate millions of dollars in savings in annual operating expenses for ApolloMed, and we believe that our platform will continue to drive operating margin improvements as new products ramp online and as we expand our member population.

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

Eric Chin: Thank you, Brandon.

We achieved strong results in the first quarter of 2021, reporting total revenue of \$176.1 million, a 7% increase from \$165.1 million in the prior-year quarter. As Dr. Sim mentioned earlier, this was driven by two things: (i) an additional \$4.3 million in capitation revenue primarily as a result of organic membership growth at Allied Pacific IPA and Alpha Care Medical Group and (ii) a \$6.8 million increase in risk pool settlements and incentives revenue driven by reduced utilization of our hospital partners due to the suspension of non-emergency medical procedures as a result of the COVID-19 pandemic.

Capitation revenue of \$144.7 million represented 82% of our total revenue, compared to 85% of total revenue in the first quarter of 2020.

Our membership remained at approximately 1.1 million managed lives at the end of the first quarter ended March 31, 2021. Taking a closer look at our membership, 529,000 lives, or approximately half of our members, were fully capitated through our consolidated IPAs.

Total operating expenses decreased about 4% to \$154.3 million in the first quarter of 2021. That was from \$160.7 million in the prior-year period. This was primarily a result of a \$3.6 million decrease in cost of services driven by a reduction in claims expenditures incurred by our next-gen ACO, as well as decreased general and administrative expenses of \$2.4 million primarily attributable to a reduction in third-party consulting and professional costs due to efficiencies gained from the Company's technology platform.

As a result of the increased net revenue and decreased operating expenses, net income attributable to ApolloMed was \$13.2 million, an increase of 225% from \$4.1 million in the first quarter of 2020. Our

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earnings per share on a diluted basis were \$0.30 per share, up 173% from \$0.11 per share in the prior-year period.

Eric Chin: Adjusted EBITDA, which excludes the impact of equity method investments and recently acquired IPAs, other income and provider bonus payments, was \$29.2 million, compared to \$13.8 million in the prior-year period. That was a 111% increase year over year driven by the significant increase in net income.

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 \$205.9 million of cash and cash equivalents. That compares to \$193.5 million at the end of 2020. Our working capital increased to \$243.9 million, from \$223.6 million at the end of 2020. And total stockholders' equity increased to \$349.7 million at March 31, 2021, from \$330.9 million at December 31, 2020.

Moving further down the balance sheet, total debt at the end of the first quarter was \$243.3 million. We are safely in compliance with our debt covenants with consolidated Total Net Leverage Ratio of 1.44x compared to the maximum permitted 3.50x and consolidated Interest Coverage Ratio of 18.21x 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?

Brandon Sim: Thanks, Eric.

We remain committed to our previously stated goal of growing our member population to approximately 2 million lives by the end of 2021, which will be primarily driven by M&A. The marketplace is very active these days, but we are seeing a healthy set of opportunities before us and we're confident that we will be able to find like-minded physicians and physician groups we can onboard into a risk-bearing model through ApolloMed's platform.

We anticipate on closing the CAIPA MSO transaction over the course of the next few weeks, and we are in active discussions with organizations who are excited about changing healthcare with us.

That said, we are pleased to be reiterating our previously provided guidance for 2021, which is listed on slide 10 of our supplement. We are also providing the following guidance ranges for the second quarter ending June 30, 2021, in an effort to provide greater visibility into how we foresee the fluctuations in utilization returning to pre-pandemic levels. We anticipate:

- revenues of between \$163.0 million to \$173.0 million,

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- net income of \$6.3 million to \$12.3 million,
- net income attributable to ApolloMed of \$6.5 million to \$10.5 million,
- EBITDA of \$15.6 million to \$21.6 million,
- and Adjusted EBITDA of \$20.4 million to \$24.4 million.

Brandon Sim: Please keep in mind that these guidance metrics do not consider any potential acquisitions or other major business transactions that we may complete over the course of this year. As any material developments arise, we will be sure to update the markets and re-evaluate guidance as appropriate.

We strongly believe in the virtuous cycle we have created through the ApolloMed care management and delivery platform and in the value of the improved clinical outcomes that result from that platform. We look forward to serving more members of local communities across the nation in the months to come.

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

Q&A Session

Operator: Our first question comes from Gene Mannheimer with Colliers Securities. Please state your question.

Gene Mannheimer: Thanks. Good afternoon, congrats on a good quarter here. My first question just relates to that risk pool revenue. The numbers were obviously favorable as you called out, due to utilization trends that worked in your favor due to COVID, but that's expected to normalize. Can you give us a sense of your timing on when we kind of return to more normal utilization?

Eric Chin: Yea, hey Gene. How are you doing? It's Eric Chin here. Thanks for the question. That's also why we provided the guidance for the second quarter. You'll see that our revenue for the second quarter is guiding to a mid-point that's lower than the first quarter, and a lot of that is just due to the bump in the risk pool that we recognized this quarter. Basically, as you know, it's a share of a risk pool and there was a reduction in the utilization at the hospitals, which dropped down to more revenue to us coming from that risk pool settlement. But we expect that to normalize immediately in the second quarter there, so that's why you see the guidance for the second quarter.

Gene Mannheimer: OK, very helpful to have that. Thanks, Eric. And my follow-up would be, in terms of your goal to expand to 2 million lives from the 1.1 where you sat at the end of the quarter, we're about obviously 35% of the way through 2021. Sounds like you're still comfortable with your target, just trying to get a feel for whether this M&A would be back end loaded to the back half or incremental and would they be--

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- Brandon Sim: Hey, Gene. Sorry I must have lost you at the end of the question there.
- Gene Mannheimer: Yea. Well, what I was getting at was just how your comfort level might look with hitting those 2 million lives, and would it be back end loaded or would we see sort of incremental deal flow between now and year end to get there?
- Brandon Sim: Right. I think it will be incremental certainly. It will probably hit not necessarily in the first or second quarter but we do still feel comfortable with the projection that we gave at the beginning of the year. The marketplace, as I mentioned, is very active. But again the pipeline remains very healthy, and we think that we'll be able to close some of these deals in the near future and we'll be certain to update the investor community when that happens.
- Gene Mannheimer: Fair enough. Appreciate that comment. And then my other question relates to the direct contracting model with Medicare. You've touched on that in the past in terms of when ApolloMed may be participating in that innovation model. Is there any granularity you can provide on your progress there? Thank you.
- Brandon Sim: Yea, of course. Thanks, Gene. As you know we've been excited about this DCE and geographic DCE model. It is now public information that applications for the DCE model have closed at least for the global and professional tracks and that the geo DCE model has been postponed for one year as the new administration works out its plans for the future of the DCE model. Because we chose to participate in the very profitable, at least historically NGACO, Next-Gen ACO, this year, and because organizations cannot participate in both the NGACO track and DCE, ApolloMed unfortunately was not in the DCE application pool. However, we are exploring strategic options to collaborate with DCEs, and we believe that we have a path forward to participate in the DCE program even in 2022. In addition, given our provider network and strength of our provider networking growth into DCE regions, or geographic DCE regions rather, we see ourselves as strongly positioned to participate in the geo DCE model when it is recontinued by the current administration. So we are still fairly optimistic about our opportunities in the DCE model whether it's the global, professional or geo track.
- Gene Mannheimer: Great. Thank you for that, Brandon. Appreciate it.
- Brandon Sim: Absolutely.
- Operator: Thank you. There are no further questions at this time, so I will turn the floor back to management for closing remarks.
- Brandon Sim: Excellent. Thank you all for your time today. We really appreciate it, and we look forward to speaking to you all again on our next quarterly call.

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The Company will also be presenting at a couple of virtual investor conferences later in this month, and we hope to speak to some of you then. Please feel free to reach out to us or our investor relations firm The Equity Group with any additional questions. Thank you.

Dr. Sim: Thank you. Thank you, all.

Operator: Thank you. This concludes today's call. All parties may disconnect. Have a great evening.