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PRVA - Q3 2022 Privia Health Group Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 10, 2022 / 8:30AM ET

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Privia Health Q3 2022 Conference Call. (Operator Instructions) Please be reminded that this conference call is being recorded.

I would now like to turn the call over today to Robert Borchert, SVP of Investor and Corporate Communications. Please go ahead, sir.

Robert P. Borchert - Privia Health Group, Inc. - SVP of IR & Corporate Communications

Thank you, Lisa, and good morning, everyone. Joining me today are Shawn Morris, our Chief Executive Officer; Parth Mehrotra, President and Chief Operating Officer; and David Mountcastle, our Chief Financial Officer.

This call is being webcast and can be accessed from the Invest Relations section of priviahealth.com. Today's press release highlighting our financial and operating performance and the slide presentation accompanying our formal remarks are posted on the Investor Relations pages of priviahealth.com. Following our prepared comments, we will open the line for questions. We ask that you please limit yourself to 1 question and 1 follow-up so we can get through the full queue in a timely fashion.

The financial results reported today and in the press release are preliminary and are not final until our Form 10-Q for the quarter ended September 30, 2022 is filed with the Securities and Exchange Commission. Some of the statements we will make today are forward-looking in nature based on our current expectations and our view of our business as of November 10, 2022. Such statements, including those related to our future financial and operating performance and future plans and objectives, are subject to risks and uncertainties that may cause actual results to differ materially.

As a result, these statements should be considered in conjunction with the cautionary statements in today's press release and the risk factors described in our company's most recent SEC filings.

Finally, we may refer to certain non-GAAP financial measures on the call, and reconciliations of these measures to comparable GAAP measures are included in our press release and the accompanying slide presentation posted on our website.

Now I'd like to turn the call over to Shawn.

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Thank you, Robert, and good morning everyone. Privia Health's highly aligned provider partnership model continues to gain momentum, and we delivered another strong quarter of growth. We continue to execute on multiple fronts to extend our market reach, drive future growth and positively impact care delivery. With our continued momentum in existing markets, we remain highly confident in our growth outlook for the remainder of 2022 and as we move into 2023. We continue to expect to increase our number of provider partners, expand attributed lives and enter new markets over the coming quarters.

This morning, I'll provide an overview of key highlights, Parth will offer a business update, and then David will discuss our third quarter financial performance and updated 2022 guidance before we take your questions.

Privia Health continues to execute at a very high level, with implemented providers up more than 27% year-over-year and practice collections increasing more than 52% in the third quarter to reach almost $612 million. We generated another record quarter of adjusted EBITDA, which was up 12.9% when compared to a very strong Q3 last year. We continue to gain leverage from the scale of our operating model even as we invest across our enterprise. This continued business momentum and high forward visibility is reflected in our updated financial guidance for 2022, with practice collections now expected to be greater than $2.3 billion.

Our balanced growth was driven by a solid quarter of new provider additions in existing markets, continued same-store growth as well as strength in ambulatory utilization across all our existing practice locations. We also expect to enter many new markets over the next few years, and we've taken a couple more steps toward this goal. In early September, we announced a memorandum of understanding with OhioHealth to form a strategic partnership and launch a medical group for independent providers throughout the state of Ohio. More recently, we announced a joint venture and strategic partnership with Novant Health, a nationally recognized integrated health delivery system based in North Carolina. Together, we will launch Privia Medical Group - North Carolina for independent providers throughout the state.

These health system partnerships will provide a new alternative for independent, community physicians and provider groups in North Carolina and Ohio to care for their patients while supporting the transition to value-based care. New providers are expected to join the medical groups and access Privia's technology and services platform. The health system employed providers will remain on their existing platforms.

These partnerships align well with Novant Health and OhioHealth's long-term independent provider strategies. Together, our aim is to help build one of the largest medical groups in both North Carolina and Ohio, and help align independent providers while preserving their legacy ownership structures. Our entry into these 2 large states significantly expands our addressable market and organic growth opportunity. In addition, our continuing efforts to grow in existing markets remains very healthy, as does our business development pipeline to enter additional new states over the next few years.

As I noted, our business momentum has continued to be extremely encouraging across both existing and potential new geographies. Our national footprint now includes nearly 3,600 implemented providers caring for over 4 million patients in more than 920 locations across 8 states and the District of Columbia, soon to be 10 states with the addition of North Carolina and Ohio. Our scale and geographic density enables us to offer our provider and payer partners, as well as consumers, a broad ambulatory care delivery network that can improve patient outcomes and reduce cost across the value-based care spectrum.

Now, I'll ask Parth to review our unique value proposition for health systems, provide an update on our value-based care footprint and our performance in the Medicare Shared Savings Program

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Parth Mehrotra - Privia Health Group, Inc. - President & COO

Thanks, Shawn. Privia Health's flexible operating model and alignment strategy is uniquely suited to work across all provider types, all specialties and all reimbursement models. Our recent announcements with Novant Health and OhioHealth are terrific examples of our distinctive value proposition to be a partner of choice for their statewide physician alignment strategies. As you may recall, we partnered with our first health system, Health First in Florida, in 2019 to establish a single tax ID medical group and accountable care organization. Health First's more than 400 employed providers converted to the full Privia technology and services platform. All new independent providers in Florida are implemented on the Privia platform and join our medical group and ACO entity. Today, we have over 700 providers across the state of Florida and growing.

In the case of both Novant Health and OhioHealth, we will leverage each health system's already established single tax ID medical group for fee-for-service payer contracts, and the risk-bearing entities for value-based care contracts to launch the Privia model in each of those 2 states. Both health systems will now have an ability to offer Privia's unique alignment model to independent providers across their states that would complement their employed group.

In addition, Privia would help enhance performance of the risk-bearing entities in various value-based arrangements across both employed and independent providers in the state and further accelerate transition to value-based care. We believe Privia is uniquely positioned in the industry to be a strategic partner to health systems across the country as they redefine their physician alignment strategy and transition thoughtfully to various value-based reimbursement models.

Privia's operating model and strategy continues to be one of the broadest, most balanced and diversified value-based care platforms in the industry. We cover approximately 846,000 attributed lives across more than 80 at-risk payer contracts in commercial and government programs. Our thoughtful move to risk continues to provide significant opportunities for top line and EBITDA growth. Today, we take upside and downside risk in many of our payer contracts covering nearly 2/3 of our attributed Medicare lives across our MSSP and Medicare Advantage programs.

We conduct contract performance reviews periodically with our medical groups and payer partners, and can witness some movement of providers and attributed lives. As a result, we saw a slight change in total attributed lives sequentially from Q2, primarily in the commercial group. This can happen from quarter-to-quarter, as we have noted previously. Our MSSP and MA attributed lives increased from Q2, and we expect our total number of attributed lives to continue to grow.

Our success in the Medicare Shared Savings Program continued in 2021 performance year. Across our ACOs in 4 markets, the results on the right that were publicly released in late August show that we lowered utilization and costs significantly below that of peer ACOs. This performance was even better when compared to fee-for-service Medicare, all while achieving an average quality score of 93% across all of our ACOs.

In the mid-Atlantic region, we operate one of the country's largest ACOs caring for about 63,000 patients in the MSSP ENHANCED track with significant downside risk. We delivered 9.2% in savings, which was the highest rate of all ACOs across the country with greater than 40,000 attributed lives.

Privia Health is well positioned to enter into value-based arrangements across the risk spectrum based on market dynamics in each state. Our success over the last 8 years is key to our collaboration with all of our payer partners that offer value-based arrangements across commercial and government programs. In fact, since 2014, our ACOs have delivered more than $740 million in total shared savings across all payers, including over $380 million through participation in the MSSP.

Using the 2021 MSSP performance data, Privia Health's ACOs managed about 113,000 patient lives representing over $1.1 billion in medical spend. However, we only recognized our share of the gross shared savings in practice collections and GAAP revenue, which was approximately $63 million. This underscores the fact that our revenue recognition understates the breadth, scale, performance and capability of Privia's value-based care platform. If our MSSP lives were converted into full-risk or capitation arrangements, then our top line would capture a significant portion of the underlying spend, rather than just our share of the shared savings.

Our financial results over the past 2 years have clearly demonstrated our success in transitioning to value-based and downside risk contracts over time as we generate increased profitability under those arrangements.

I'll ask David to review our recent financial results and updated 2022 outlook.

David Mountcastle - Privia Health Group, Inc. - Executive VP, CFO & Principal Accounting Officer

Thank you, Parth.

The scale of Privia Health's operating model and our continued business momentum again delivered strong performance in the third quarter of 2022. Our 27.2% growth in implemented providers, combined with our capitated agreements and solid ambulatory utilization trends, led to practice collections increasing 52.5% from Q3 a year ago to reach $611.9 million.

Care margin increased 26.4%, and adjusted EBITDA was $15.7 million, up 12.9% over a very strong third quarter last year. Our top line continued to grow faster than EBITDA this quarter due to the new capitated arrangements as well as investment across our business enterprise to support this accelerating top line growth. At the same time, the operating leverage in our model is clearly apparent as our top line and care margin growth is translating nicely into EBITDA growth.

Year to date, practice collections increased 60.8% over the same period in 2021 to almost $1.8 billion. Care margin was up 32.9%, and adjusted EBITDA grew 37.6% to reach $46.6 million for the first 9 months of 2022.

Our balance sheet and capital position continue to be very strong given the cash flow dynamics of our business. We're carrying no debt after paying it off in full last quarter, and have a pro forma cash position of $342 million. As noted in the table on this slide, we received $62.8 million in cash from CMS on October 11 as payment for Privia Health's portion of shared savings generated in the 2021 performance year of MSSP. As you may recall, we received the CMS payment in our third quarter last year. We then share approximately 60%, or $37.7 million, with our providers for their participation and success in MSSP.

Given our year-to-date performance and business momentum, we remain highly confident in our updated 2022 financial guidance. We raised our practice collections guidance to a range of $2.325 to $2.4 billion, the midpoint of which is a 7.4% above our initial guidance range provided in March. We also raised GAAP revenue and care margin guidance to be at and above the high end of our initial guidance ranges.

Our adjusted EBITDA guidance was increased to a range of $59 to $61 million, the midpoint of which is an 11.1% increase from our initial guidance. Our guidance includes new market startup costs in North Carolina and Ohio. As a reminder, we do not add back new market entry costs to get to adjusted EBITDA since this is an ongoing and recurring cost of our long-term growth strategy. We expect approximately 90% of our fully adjusted EBITDA to convert to free cash flow, with capital expenditures of significantly less than $1 million in 2022.

Our year-end implemented providers guidance is now in the 3,660 to 3,680 range. And our guidance for attributed lives is in the 850,000 to 860,000 range. As Parth noted, we can see slight movement of providers and attributed lives following periodic performance reviews with our medical groups and payer partners. Importantly, our year-end attributed lives guidance shows that we expect an increase from Q3 to Q4. We remain focused on growing and expanding our business and continuing to execute on our multiple growth initiatives.

With that operator, we are now ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question that we have today is coming from Joshua Raskin of Nephron Research.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

I know you both mentioned the reduction in value-based commercial VBC lives sequentially in these performances. Could you just give us a little bit more color? Are those performances with providers that you are terminating or health plan contracts that are going away, or what exactly is going on there?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Thanks, Josh, for the question. Yes, it's a combination of both. We've conducted these meetings with providers with overall review of the lives and the programs we have, and sometimes it can lead to quarter-over-quarter movement. As you know, we are really focused on the performance in each of these programs. And if we determine that some of the programs may not stand up to our expectations, then it leads to certain reviews and certain actions. More importantly, as you can see, this doesn't have any financial impact. In fact, we raised our guidance on all financial metrics. So pretty minimal or no financial impact in the commercial book, which is again an open access product where we take only upside risk, and so, again, no material impact to the business.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

Yes, I was going to follow up. So that makes sense. The ones that are getting termed are probably not providing any positive EBITDA, right? So these are ones that were, to your point, not meeting financial expectations.

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Josh, yes, this is Shawn. Just think about -- these are peers working through these POD meetings, and they've been working with people from time to time. And when they're not meeting their expectations, the medical group and us work together and sometimes we exit those providers and so forth.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

And then just a follow-up on the MSSP rules final here, the program changes. I'd be curious to get your perspectives on some of the changes. It looks like some positives, some negatives. And then maybe specifically to your MSSP payment for payment year 2021, was that above what you had been accruing for above expectations?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. So 2021 performance was above our expectations. Obviously, we get data each quarter and make the accrual estimates. And when we know the final results in Q3, we -- those were above our expectations.

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Josh, just specifically on the fee schedule and ACO type question. The final rule kind of we see it as net positive for us, closely aligned with what we kind of talked about before a few months ago and kind of these announced conversion factors. You've seen and you'll continue to see, I think, significant opposition from groups like the AMA and the AMGA, and we work with these groups. As we all know, Congress has prevented some of these cuts in the past, and we'll wait and see how that kind of shakes out. But as it relates to kind of the MSSP program, we feel pretty good about it, very positive impact. And we think it's a significant endorsement of the Privia model, and we work obviously close with CMS on this. And you can see from our results the last -- this year and the previous years. I mean, we're operating one of the most successful ACOs in the country. Actually, the #1 ACO over lives -- over 40,000 lives and producing the kind of shared savings. So we feel really good about the program and how it's progressing.

Operator

The next question will be coming from Jailendra Singh of Truist.

Jailendra Singh - Truist

Congrats on a good quarter. Just going back to Josh's question around MSSP program. Can you quantify how much was the actual benefit in the quarter? And is it all just about you guys were being conservative in your savings accrual compared to some of the other peers who have reported some noise because of these adjustments? Just help us understand that like compared to your approach compared to some of your peers and what was the actual benefit for you in the quarter.

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Thanks, Jailendra. Look, we have a very diversified value-based book. As we've stated, it's 80-plus contracts across MSSP, MA, commercial. So we're not breaking down results by any one and what we accrue each quarter. And then accruals of each quarter obviously are a combination of performance in the current year based on the data we get as well as any priority adjustments, as you know. We try and be prudent about what we accrue each quarter based on the data you get, and it comes with a lag basis. And operating one of the largest value-based book, we have a very strong internal process that we go through, not only in MSSP but in all other programs. So, obviously I can't comment on our peers, but given our depth of actuarial capability across close to 850,000 lives in 80-plus contracts, it's a pretty streamlined process, and we just follow that each quarter and go through it. Overall, we like to be prudent. And if there's a surprise, we hope it's on the upside, which it was this quarter. Again, we're not going to get into how many millions for any particular contract. If there's some anomaly that happens that is material, obviously we'll point that out. But overall, it was pretty balanced.

Jailendra Singh - Truist

Great. And then my follow-up with respect to the entry in Ohio and North Carolina through your health system operating model partnership. Why do you think these health system arrangements are getting more attractive now versus a couple of years back, from your perspective, as well as health system perspective? Is it just a function of challenges hospitals are going through these days, or is it a function of you guys getting to the scale where you're comfortable doing this? And will this be your preferred way to enter additional states or markets in the future?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. No, appreciate the question. So look, broadly, our strategy is the same in every state that we go. We want to over time, over a decade plus, want to be one of the largest medical groups in that state. Multiple hundred providers, multiple hundred locations, multiple thousands of attributed lives and all kinds of value-based arrangements. That's a common strategy that we follow in every state that we want to enter. We're not looking for some small scale to do this. So that's number one.

Number two then, I think when we evaluate how we enter a state, as you've now seen, our model is very flexible where Privia owns the medical group, the ACO entity. We can partner with a big medical group, or we can partner with a health system. We did our first one in 2019, so it's not a new concept to us. And I think that depends on the dynamics of each state. You have certain states where there's a lot of health system concentration.

A lot of provider groups are affiliated or aligned or employed by health systems. Overall in the country, we'll take the study, 50-plus percent providers are in that bucket where they are aligned, affiliated or employed by health systems. And we think our model, with the flexibility to partner with all types of provider groups, all specialties, and then more importantly, do value-based care across all segments, commercial, MA, MSSPs, is very uniquely positioned for health systems. You just cannot walk in the door and only talk about full capitation MA, as an example. You just can't walk in the door and just talk about one particular type of providers. So I think we just evaluate this state by state. And if we can get an aligned partner forward leaning, we establish those relationships.

The last thing I'd like to highlight is this is a decade-plus play. We're not getting into these arrangements for the near term. We are looking to build these medical groups over multiple years, again, back to the scale point, and really establish something that's going to be truly lasting and enduring and of pretty big scale in each of these states, so that's the hope.

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Jailendra, in reference to the last part of your question. We talked about it in the past. It still remains true. Our pipeline is robust, and it's pretty balanced. So as Parth described, the way we enter each one of these in the different type examples, very balanced amongst those 3.

Operator

Our next question will be coming from Richard Close of Canaccord Genuity.

Richard Collamer Close - Canaccord Genuity Corp., Research Division - MD & Senior Analyst

Maybe just a follow-up to that. As we think about new markets and implemented providers, how should we be thinking about implemented providers in 2023? Obviously during, I guess, the IPO process, and you called out Florida here where you added 400 providers, I think back to BASS where you had a bolus of providers. Obviously, these new market entrants, you're starting from scratch. So how should we think about that ramp in implemented providers? That would be helpful.

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Thanks for the question, Richard. So generically speaking, we can get implemented providers organically once we enter a market with the sales team. And we have pretty broad TAMs in each of these new states that we enter. Our goal is to build 400, 500-plus strong medical groups as we've stated in each of the states when we enter them. In some states, when we enter with a partnership, we can have certain number of providers that join the platform. And as you noted, that happened in Florida, that happened in California. And then some other states when we enter, we're starting from scratch, which is the case with Ohio and North Carolina. We are now in 10 states, and that leads us to a bigger TAM that our sales team can go and organically sell into. So generically speaking, you should expect, without any big medical groups or health systems that come with a certain number of providers as was the case previously, where we sit today, you can expect 400 to 500 providers is what we look to add each year organically. And then if big groups or health system employed groups join, then we'll disclose that at the right time, and that will be incremental.

Richard Collamer Close - Canaccord Genuity Corp., Research Division - MD & Senior Analyst

Okay. And then can you sort of talk about the same-store trends and maybe an update with respect to California? You had the anchor in BASS, but how are additions going outside of BASS?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. So with respect to the first question, same-store growth has been really strong in each of all locations. Utilization trends have been really strong. We've grown providers same-store in each of the 920 locations that we are in. So a combination of those you can see as we've raised practice collections guidance pretty meaningfully from where we thought we would be at the beginning of the year, and that's reflective. And then with respect to your second question, we're off and running in California. The sales activity is really strong. It's a very big state, a big TAM. We're really excited. And we've started selling and implementing new providers, and that'll happen over the course of the next few years. And we look to build a pretty big medical group there as we originally intended.

Operator

Our next question will be coming from Lisa Gill of JPMorgan.

Lisa Christine Gill - JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst

I just want to go back to a comment that David made in his prepared remarks around both new capitated arrangements as well as investments. Can you maybe just give us a little more color on each area of, one, how big are each of these when we think about a little bit of a headwind? And then secondly, like what types of areas are you investing in at this point?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Thanks for the question, Lisa. So look, again, on the capitated book, up until last quarter, we were accruing medical expense equal to revenue with no contribution. This quarter, you'll see we've booked a little bit less medical expense, about a couple hundred thousand. So nothing meaningful, but we see some good trends initially. And again, as we stated in our last earnings call, we'll continue to get data and then hopefully update that as we close out the year. So obviously, that book is not contributing much towards care margin and EBITDA as a result, but we hope that that accelerates going forward. So that's a source of investment as we get into capitation, and that'll happen if we enter into new capitation programs starting next year, if and when. I think that's an area of investment.

The second is, obviously as we are entering new markets, as you understand with the business model, we launched the sales team, launched the implementation team. And so that's obviously a drag on near-term EBITDA and contribution because we are actively selling, implementing providers. And once they are implementing, that's when the contribution -- top line contribution starts to happen. We don't add back those costs to adjusted EBITDA. We consider them ongoing operations. So our updated guidance of $59 million to $61 million includes those costs in this year, and that'll be there going forward into next year as well.

Lisa Christine Gill - JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst

And Parth, just going back to your comments about the 2 new markets, both North Carolina and Ohio, the fact that you're starting from scratch there. So should we think that there'll be incremental investments in 2023 as well to get to that goal of 400 to 500 providers in those markets?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes, that's correct. And in the first couple of years, you should expect those markets will generally be a drag on EBITDA. And so that'll be -- and its operating expenses pretty much in sales and marketing and implementation like I just said. As you know, our model is very capital efficient, so we don't expect any CapEx investment. This will be operating costs in the low-single digit millions as is certainly the case, depending on the size of the market. So you'll see some of that. But we think that enables us to go in an accelerated way and big -- and go build some of these big medical groups.

Operator

Our next question will be coming from Ryan Daniels of William Blair.

Ryan Scott Daniels - William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Healthcare Technology and Services

Wanted to dive again a little bit deeper into the health system partnerships. Can you talk a little bit about how the relationship progresses over time in regards to how you recruit providers? Is that kind of a joint marketing effort and you can leverage their brand equity in markets? And how much is on Privia to do that recruiting versus the health plan assisting in that or the health system?

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Ryan, it's Shawn. Yes, these are true joint venture partnerships. I mean, these are health systems that's been in these communities for decades, multiple decades. They know the providers pretty well. We're coming in as the lead partner and owner of the joint venture. And I mean -- so you think about it, 50%, 60% of the providers today are in health systems, and this is a very -- we talked about it in the past, very attractive market opportunity for us. And we think we're uniquely positioned as that strategic partner with these health systems to redefine kind of how they move into their kind of future position alignment strategy. And then more importantly, how to transition existing as well as these new community doctors in the new medical group into kind of the future value-based care models. As Parth mentioned and as you know, we've been -- this is not a new -- we've got a lot of experience doing this in Florida. And as I mentioned earlier, I mean this is a part of our pipeline going forward. I think these forward leaning health systems are really looking for a partner to kind of bring on, having different types of relationships with community physicians without having to go buy them.

Ryan Scott Daniels - William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Healthcare Technology and Services

Yes. Okay. And then as a follow-up, I wanted to talk about the existing book of business. And as you talk to your implemented provider partners, I'm curious if their appetite to move towards more risk and value-based contracting has increased. Especially if we stare down a potential recession, there could be some impact on fee-for-service volumes or utilization. Is that increasing the appetite and kind of actually a potential accelerant for your business going forward?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. Thanks, Ryan. Look, I think it's a very balanced approach that we take, and our providers have appreciated that balanced approach. Taking risk does not necessarily, as you have seen and know, translates into increased profitability even at the provider level sometimes. It is called risk for a reason. So it is just -- it depends on the markets we are in, the maturity of those markets, maturity of our groups, relationship with the payers. I think providers in general want to be thoughtful. And in our model, as you know, we go at risk with them 60/40 up and down when we take risk. We're not backstopping risk. And that is important to get a very good provider alignment. And I think that bodes well for our shareholders as we take that risk. The providers are fully aligned. And the goal is to thoughtfully do it over time. Especially during times of recession, you don't want to do artificial things. You don't want to do anything stupid and jump into risk when you're not ready. So I think we continue to take that balanced approach.

Our focus on both fee-for-service and value-based we think resonates much better with provider groups in these times. Whenever we've seen some financial stress, whether it was during COVID, whether it's during recessions, we tend to generally benefit. The interest in the model tends to grow as provider groups realize that they need a strong partner like ours for their entire book of business for all providers in that location, and a partner that can offer everything and not just go solve one particular problem. So I think we're seeing a lot of momentum. It's reflected in our financial performance. It's reflected in our guidance. And we continue to see the growth algorithm of the business continue with existing provider bases and then with all the new discussions we're having in new states.

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Operator

And our next question will be coming from Sandy Draper of Guggenheim.

Alexander Yearley Draper - Guggenheim Securities, LLC, Research Division - Senior MD & Healthcare IT Analyst

My question is I guess a little bit related to Ryan's question, but from an inflation standpoint. I guess 2 thoughts. One, what are you seeing in terms of just your own internal wage inflation for staffing, whether it's at the corporate level or also out at the practice support level? But then also thinking through longer term, as we see this wage inflation, does that make providers potentially want to partner more with you guys? And can you help them solve some of the staffing issues because of your technology or platform? And does that potentially make them more want to join you more? Just thinking about the inflation impact versus the recession impact.

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Thanks for the question, Sandy. So on the first one, we witnessed what most other companies witness. Again, we have a pretty diversified employee base across multiple functions, given the book of business we have. And again, we've seen the same level of inflation most of the high growth companies expect. Again, a recession here helps us. As other companies, technology companies lay off employees and so forth, we are growing pretty well. And I think the demand increases for us from a provider base, as I just outlined in my answer to Ryan's question. So hopefully that abates a little bit, and we are the preferred employer of choice as future employees see -- want a strong company to work for during recession times that is not laying off and it's growing. So I think we will hopefully be a net beneficiary there.

And in terms of your second question, totally agree. I think, again, any financial stress on the doctor's practice, whether it's top line related, reimbursement model changes, labor costs related, so that squeezes profitability, and ultimately take-home pay benefits us. When we go out and sell, it's a very ROI-driven approach. We take all of the data, and we financially demonstrate the impact on that take-home pay for each provider partner in a particular practice. And that's a net of both top line and bottom and expense. And so our ability to impact on the expense base, whether it's better technology stack, better productivity, having them not spend the time that they were doing previously with payers, and then making the practice more viable all bodes well for us. And I think it's important that we do it across the book of business. A lot of the practices we get into today are predominantly fee-for-service. They're looking to transition into value-based care. And so the immediate need is to solve what they have today versus go head on into risk as an example. So again, it bodes really well for us, and we continue to see a lot of demand.

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Sandy, this is Shawn. Just in relation to the first part of the question, we all realize take-home pay and salary and benefits are all part of kind of an employee's package. But really experience, work experience, participating in a company that's growing and exciting, they get -- they're helping us build our culture. And it's -- we work hard. And I'm not saying others don't, but we work really hard with our -- each one of the Privians in the company to kind of be a part of that. And like Parth said, we're growing, and we think some of this stuff benefits us when other companies are shedding off employees.

Alexander Yearley Draper - Guggenheim Securities, LLC, Research Division - Senior MD & Healthcare IT Analyst

Great. That's really helpful. Then maybe one follow-up or unrelated follow-up. You're obviously in the envious position now where you don't have any debt. So interest rate's actually going up. It gives you some -- you can actually make some money on your cash. But thinking about it, you don't have debt to pay down. You're doing partnerships, but the amazing thing is you're not having to commit lots of capital. There's some expense. Your CapEx isn't big. So the only thing that would leave is just build cash balances, possibly acquisitions, but you'll be able to grow without those. Would you ever consider the other obvious alternative would be? At some point, does share repurchases come into consideration for the Board because of the uniqueness of the model?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Thanks, Sandy, for the question. Look, I think we are in a very strong position, especially as the macro environment deteriorates, given the business model, given the demand increasing, and we are very conservatively positioned from a capital structure perspective. I think it's very important to our physician partners, to our health system partners, and the counterparty that they are interacting with and partnering with from a long-term basis is a very stable counterparty. I think that's often less appreciated in this business. And so we think there's a very good sleep at night bucket because -- and provider entities taking risk, while there's no regulated capital. As you know, it's called risk for a reason. And hurricanes happen, pandemics happen. So I think our capital position really gives a lot of credibility to us when we speak with new prospects, both in existing markets and new markets. So that's number one. And I think we continue to have a pretty substantial buffer with respect to that.

Bucket number two is growth, given the TAM that's available to us. Last quarter, we said we're in 8 states; 42 to go. We're in 40 state -- we're in 10 states; 40 to go now. And I think, as you've seen us deploy some capital with the BASS deal in California, in other places, we'll continue to use some of that capital to enter new states in thoughtful ways. Smaller is preferred for us. And then obviously, if there's anything large to do, we'll again, we like to take advantage of the macro environment and distress and see what's available in the market and do it thoughtfully.

And then finally, again, we have the flexibility if the stock price deviates pretty meaningfully from intrinsic value for whatever reason, we have the option to return capital in a thoughtful way. So those are the 4 buckets. We continue to evaluate that. I think it's hopefully a great position to be in where you can control your destiny and not have to rely on capital markets. And the business is generating very good free cash flow. As you've seen, we've guided to about $55 million of free cash flow at the midpoint of the range. So we'll continue to do that and see how it goes.

Operator

Next question that we have is coming from Whit Mayo of SVB.

Benjamin Whitman Mayo - SVB Securities LLC, Research Division - MD of Equity Research & Senior Research Analyst

Yes. Can you talk about the VAR days in the quarter? They increased a lot sequentially, I think maybe 4 quarters in a row now. And you collected MSSP, the payments, so I would have thought that would have come down, but maybe there's some other factors sort of influencing that. So I don't know if you could just maybe help understand some of the dynamics there.

David Mountcastle - Privia Health Group, Inc. - Executive VP, CFO & Principal Accounting Officer

Yes, Whit. That's the big reason we put that pro forma cash somewhere in there. Unlike last year, we didn't actually get the CMS cash until October. So the AR days are up right now. And obviously, as soon as we get that cash, it's going to come down by -- AR's going to come down by $63 million on the 11th of October. So we put that in there to try and hopefully show a little bit better guidance quarter versus quarter since CMS paid us in the last week of September last year and decided to pay us in the second week of October this year. So we were trying to kind of bridge that gap.

Benjamin Whitman Mayo - SVB Securities LLC, Research Division - MD of Equity Research & Senior Research Analyst

Okay. Perfect. That's what I thought. Second question, just the implied fourth quarter revenue guidance, it seems to suggest that you'd be down versus the third quarter. Normally you're up sequentially. So I don't know, maybe help me understand some of the assumptions or factors that are driving your views there.

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. Thanks, Whit. It's similar to what we said last quarter. We see -- we've seen really good utilization trends across our book, really strong utilization in pediatrics, which is about 300 providers out of out of 3,600. And again, our view is we are prudent with our guidance. If those trends continue in Q4, it's a pretty broad range that we gave for the last quarter of the year. Again, we're hoping if that happens, then you'll see some upside, but we'll see how it plays out. But hopefully it should follow last year's trends. We don't have any reason to believe it should not. But again, utilization's been just hard to predict. And again, on balance, our approach is if we are wrong, there's upside versus downside.

Benjamin Whitman Mayo - SVB Securities LLC, Research Division - MD of Equity Research & Senior Research Analyst

Got it. So maybe to put words in your mouth, if I look at just the fourth quarter guidance, are the assumptions still effectively the original assumptions that you use coming into this year? I just want to make sure I'm thinking about how you've maybe adjusted from March.

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. We've updated it. Obviously, our original guidance, the high end of the range was $2.2 billion on collections. You can see the high end of the range is $2.4 billion. That's a pretty meaningful move within 3 quarters. So I think we've updated it some. But again, we'll see how utilization plays out over the next 2 months and how we close out the year, and we'll see where we are.

Operator

Next question is coming from David Larsen of BTIG.

David Michael Larsen - BTIG, LLC, Research Division - MD and Senior Healthcare IT & Digital Health Analyst

Congratulations on a good quarter. Can you talk about how current the CMS data is that you have as of right now? 2 of your peers have received like data from CMS, I think it was like in August, and there were changes in how savings rates or benchmarks were calculated. And that had a significant impact on their P&L. Like how current is the data? Like are there any adjustments that might need to be made going forward? And I'm assuming you're doing well in your shared savings programs, right?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. Thanks for the question, David. Look, I mean, we get the same data I hope as others. Can't speak for any of our peers and when they get data and what they do with it. But CMS usually, I'm assuming, sends data out to all the participants around the same time in the same format. It's a very standard process. Again, our process has been very consistent over the last many years. As we've noted, we participated in the MSSP program for the last 7, 8 years. We've done exceptionally well. We run one of the largest ACOs. And our relative performance versus our peers just shows for itself. We have really strong actuarial data science capabilities. I think it's a core strength of the company. You should expect any company that is in the business of taking risk on the provider side to have those capabilities. We've always said it's called risk for a reason. You need to manage risk, and we do that through better actuarial capabilities, data science capabilities, operational capabilities. And I think that's -- our guidance, updated guidance just reflects that. So we've taken all factors into consideration as we sit here today. So we haven't seen any impact that you might be alluding to with some of the other companies, but obviously can't speak for them.

David Michael Larsen - BTIG, LLC, Research Division - MD and Senior Healthcare IT & Digital Health Analyst

Okay. And then just one quick follow-up. For the capitated revenue, is there positive EBITDA year-to-date for that line of business? And then what exactly is capitated revenue? Everything is some form of capitation, I would think, whether it's budgeted cap or direct cap. Are those direct contract models, or is it commercial revenue? Just any more color there on the year-to-date earnings would be great.

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Dave, I'll answer that last part. This is Shawn. Remember, these are the Medicare Advantage, the 3 different arrangements we have. Take various levels of risk in there that kind of move on to the capitated arrangements. And I'll let David speak to the dollar amounts of it.

David Mountcastle - Privia Health Group, Inc. - Executive VP, CFO & Principal Accounting Officer

Yes. So again, for the quarter, we had about $55 million of revenue. And we did have about $170,000 -- and you'll be able to see this in the Q -- from looking at a couple different pieces of information. But we did end up having our $170,000 of positive care margin. So we are trending, I would say, to positive. Again, I would say taking our very measured approach as we do with all of our value-based care, and especially with this being newer book of business for us, we're just being very measured in how we're evaluating these with the data that we receive.

Operator

The next question will be coming from Taji Phillips of Jefferies.

Brian Gil Tanquilut - Jefferies LLC, Research Division - Senior Equity/Stock Analyst

This is Brian Tanquilut from Jefferies. Congrats on the quarter. I guess, Shawn, as I think about the Novant deal, for example, are there still a lot of deals of that size in the market where the hospital systems aren't partnered yet or aren't really in discussions with other value-based players? And is that sort of the way we should be thinking about your expansion strategy for new contracts or new partnerships, more focused on the larger health system groups going forward?

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Yes. I don't know that I would -- you bucket them the larger. Most of the health systems are very large because they kind of -- these are entities that over the years have become large in their region or state. But as I commented earlier and we've commented the last few quarters, I mean this is -- we think we're uniquely positioned. We like this book of business. We've been doing it now for 3.5 years with Health First. And it's -- these health systems are looking for someone. They like the Privia model. It's capital light. They see the results just like you see and the market sees of how we're transitioning in a really thoughtful way to value-based care. And a lot of these own and employ big groups. This is not -- doesn't mean they want to shed these groups off, but they -- almost every health system that you're going to talk to in the country would like their employed providers to perform better. And they want to have a different relationship with the community docs without having to go out and continue to use their balance sheet and ongoing cash flow to support these and subsidize these community doctors. So to think about it, you look at the Privia model, it's capital efficient, it actually gets results. It's very thoughtful in how they transition to risk. And we have great relationships and NPS scores with our doctors. If you're a health system, you look at that and say, well, there's a model in there that helps me for the next 5 to 10 years, and I want to be part of that. So we think this is a huge opportunity out there for us.

Operator

And the next question is coming from Adam Ron of Bank of America.

Adam Matan Ron - BofA Securities, Research Division - Research Analyst

I feel like a broken record asking about this every quarter, but it sounds like a lot of the revenue outperformance year-to-date is related to the excess fee-for-service utilization and physician practices that you're referring to. So first of all, what about this utilization makes you think that it's excess? And should we technically be saying that all of this revenue outperformance is now a headwind for next year if it's artificially elevated?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. Thanks for the question, Adam. So first of all, the outperformance happens both in fee-for-service and value-based books. So it's a combination. It's just not fee-for-service. Second is, I think predicting the utilization out of COVID has been tough, especially as we went through the last 18 months and added the number of providers that we did. Those are all new providers, including our entries into California. When you add 1,000 to 1,500 providers in an 18-month, 24-month period through COVID, the legacy data that we get is very patchy. On a same-store basis, patients are coming back into seeing their physicians and so forth.

And our general view is ambulatory utilization is good utilization. Patients in the community seeing their primary doctor, whether it's a pediatrician, OB, primary care, those are all good things you need to see for managing the population. We don't think this will be a headwind. I think it's just the baseline that is getting reset from the COVID periods of 2020/2021 through the variants and so forth, depending on the state. And so I think our patient panels are getting pretty full. We are adding providers on a same-store basis to take market share. And we think both of those bode really well for us. I think it's just resetting the baseline here. And there's no reason for us to believe why ambulatory utilization for in the community doctors should go down. It doesn't work the same way as inpatient utilizations where you got to get a procedure, and once the procedure is done, you're not going to get it, and there was some lapping demand. I mean, this is for general primary care type visits, as you can imagine.

Adam Matan Ron - BofA Securities, Research Division - Research Analyst

Got it. That makes sense. And then separately, kind of on a tangent. I saw CMS updated its white paper and value-based care, and they were talking about a focus on creating accountable arrangements for specialists. And I'm pretty sure you have a lot of specialists in some of your practices. So if you could remind us how many specialists are implemented today, and if you're in any similar value-based arrangements focused on specialists, and if that could make sense as something to move into down the road.

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. General high-level breakdown out of our implemented providers, you can think of 65% is what we call Tier 1 or primary care type providers. And that definition is pretty broad for us. Family medicine, internal medicine, primary care, but also OB/GYNs, pediatricians. So somebody who's the primary point of contact for anybody in the family. And then 35% is specialists, but even there, our focus is on folks that are taking care of the chronically ill; endocrinology, pulmonology, and so forth. We do have certain cardiac, ortho, GI. But again, our focus is on folks that take care of the chronically ill. And so again, from our perspective, they have different value-based arrangements. We do do some bundles in a certain small way today. I think the next wave will be how we do specialty focus value-based. These programs will evolve over time. But we think we're positioned well to participate in those as the case may be.

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Adam, this is Shawn. Think about just how you should consider us building a multispecialty medical group. We're always going to be primary care focused. That's where the attribution comes from. But the more risk you take over a period of time, there are certain specialties that can really drive value with that. And so where we have density, and we are very thoughtful and begin to think about where our -- obviously, where do these specialty referrals go? What type of specialists are they? How are they performing? Should these specialists be in our group? Should they be on our tech stack? So just think about the consumer getting a completely improved experience. Access, which Parth talked about earlier, we talk a lot about access and how that drives healthcare costs down and consumer experiences improve, NPS scores go up. So yes, you should see us, we're building multispecialty groups that are always going to be primary care focused.

Operator

And our last question will be coming from Jessica Tassan of Piper Sandler.

Jessica Elizabeth Tassan - Piper Sandler & Co., Research Division - VP & Senior Research Analyst

So I just wanted to focus a little bit on MSSP. Is that 9% savings rate in the mid-Atlantic something that you guys would consider a repeatable event and kind of a target for the other less mature ACOs? Or was there something unique or maybe non-repeating in the 2021 benchmark that allowed you to achieve kind of that level of success?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Jess, thanks for the question. Look, we've achieved that in the mid-Atlantic for -- over 9% for 2 years now. 2021 -- 2020 and 2021. Each market's different. The underlying benchmark's different. Population cohorts are different. I think this demonstrates in an open access type product that MSSP is that you can get to close to double digit savings rate. I think we'll continue to chip away at it and try and do better, as we always do. And then other markets hopefully can follow that path. But again, the savings rate is a function of multiple variables. So whether we'll be able to achieve the same level just remains to be seen. But again, I think our other ACOs are at a much more immature stage. And so we're hoping to move up from where we are today as we get into ENAHNCED track and start performing in them and build a bigger attribution base and understand that population cohort better.

Jessica Elizabeth Tassan - Piper Sandler & Co., Research Division - VP & Senior Research Analyst

Got it. That makes sense. And my quick follow-up is just in an open access product, is -- so for your full cap lives, is that 9% kind of a fair way to think about where the threshold might be over 1 or 2 or maybe 3 years of performance?

Parth Mehrotra - Privia Health Group, Inc. - President & COO

Yes. I think it just depends. If you do MA full capitation, you arguably have more control on the patient and how you take care of the patient. You're taking more risk downstream. So again, I think each program is different. Each geography is different. It just depends on how it evolves over time. But arguably, you should be able to save -- all else being equal, you should be able to save more on an MA cap life versus an MSSP life.

Operator

Thank you. That concludes the Q&A session. I would like to turn the call over now to Mr. Morris. You may continue, sir, with your closing remarks.

Matthew Shawn Morris - Privia Health Group, Inc. - CEO & Director

Thank you for listening for our call today. Privia Health's capital efficient, integrated delivery care model is already running at scale and has significant momentum in the position in the market as we support all providers and all patients across all reimbursement models. We look forward to continue to execute at a high level throughout the remainder of 2022 and for years to come. We appreciate your continued interest and support for our company, and we look forward to speaking to you again soon. Enjoy the rest of your day, and Happy Thanksgiving.