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Q4 2021 Privia Health Group Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Privia Health Fourth Quarter Conference Call.

(Operator Instructions)

Please be advised today's conference may be recorded.

(Operator Instructions)

I'd now like to hand the conference over to your host today, Robert Borchert, Senior Vice President, Investor and Corporate Communications. Please go ahead.

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

Thank you, Liz, 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 be accessed from the Investor Relations section of priviahealth.com. Today's press release highlighting our financial and operating performance as well as the slide presentation accompanying our formal remarks are posted on our IR website pages.

Following our prepared comments, we will open the line for questions. We ask you please limit yourself to one question and one 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-K for the year ended December 31, 2021, 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 March 23, 2022.

Such statements, including those related to our future financial and operating performance and future business 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'll turn the call over to Shawn.

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

Thank you, Robert, and good morning everyone. Today, I'm excited to report that Privia Health delivered another strong quarter of financial and operating performance in Q4 and our full year financial results were above the high end of our previous guidance.

This performance positions our company for accelerated growth in 2022 as we continue to build a National Physician organization engaged with and organizing physicians into scaled provider networks across our country. Today, I'll provide an overview of key highlights that are driving our continued business momentum. David will cover our recent financial performance, and then Parth will discuss our outlook for 2022, and conclude with a more detailed business update on our growth drivers and value-based care initiatives before we take your questions.

We also announced that Jeff Sherman resigned from his position of Chief Financial Officer to pursue other opportunities. Jeff joined in January this year, and his departure was not a result of any disagreements or issues with regard to previous health operations or accounting policies and practices.

Following Jeff's decision, we appointed David Mountcastle, Executive Vice President and Chief Financial Officer. David joined Privia in 2014 as our CFO, and he has an intimate understanding of our company's business operations and financial and accounting practices.

Importantly, we are on track to file our 10-K later this week as originally planned. We remain very excited about our business momentum and our financial performance will speak for itself.

Now on to our business highlights. Privia Health executed at a very high level in our first year as a public company. We have materially advanced our business, entering 3 new markets in the last 5 months, adding close to 500 physicians and providers through our anchor partnerships in California, Montana and West Texas.

Long term, our strategy is to align with and enable provider partners, and leverage our underwriting expertise to transition profitably to risk-based reimbursement arrangements over time. Effective January 1st of this year, we launched 3 new Accountable Care Organizations and now have 7 ACOs participating in the Medicare Shared Savings Program caring for over 168,000 Medicare beneficiaries.

We have shown sustainable success in the MSSP program, and 4 of our 7 ACOs are now participating in the enhanced track with substantial upside and shared savings as well as some downside on financial risk.

In addition, our Florida and Mid-Atlantic ACOs entered into previous first capitated arrangements covering approximately 23,000 Medicare Advantage beneficiaries. We now manage care in more than 80 value-based arrangements across the risk spectrum.

This highlights our forward progress in executing on our long-term strategy in full alignment with our provider partners across their entire patient panels. As I noted, our exceptional operational execution delivered financial performance that was way above the high end of our previous guidance, and our operating model continues to generate strong cash flow without needing new sources of liquidity.

In aggregate, our 2021 performance and operational achievements are expected to drive acceleration of top line growth this year as well as increasing profitability and adjusted EBITDA while we continue to invest in our operations, talent and technology capabilities to support this growth.

We have made great strides in building a scaled national delivery network. Privia can partner with all providers in every setting from single and multi-specialty to employed or health system affiliated providers. Our model offers a tremendous market opportunity for growth in the physician enablement space.

The Privia platform is applicable in every single state. With our recent new market entries, we have shown the ability to be flexible as we look to enter new geographies. Our national footprint now includes over 3,300 providers caring over 3 million patients in 870 locations in 8 states in the District of Columbia. We are one of the largest provider groups in the country with scale and geographic density. We're looking forward to continuing to expand the number of providers in existing markets and entering many new markets over the next few years.

Privia Health has 4 distinct attributes that position us as a clear alternative for providers looking to maintain their autonomy and optimize their performance. First, in each of our geographies, our integrated medical groups, risk-bearing entities and tech-enabled clinical and performance operations platform serve as one of the most unique models in the healthcare ecosystem. This attains maximum physician alignment and outcomes and value-based arrangements without our ownership of the underlying practice.

Second, we partner with all provider types and all reimbursement models. This combination has created a very balanced, diverse and sustainable financial model and is a key driver of physician referrals and our momentum in signing up new providers.

Third, our proven success across the risk-bearing spectrum is supported by our physician-led governance structure at the local, market and national level. This is crucial in optimizing performance, sharing best practices and helping physicians improve outcomes. And fourth, our capital-efficient partnership and operating model generates positive and increasing EBITDA and free cash flow with minimal capital expenditures. Now I'll ask David to review our most recent financial results.

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

Thanks, Shawn. Privia is addressing a significant market opportunity and is well positioned to capitalize on the growing shift to value-based care with health plans, providers and physician groups looking for help in navigating this transition.

Our performance through 2021 underscores this with guidance raised in each of the last 3 quarters and culminating with above guidance results for the full year. Our operating momentum continued to drive strong results in the fourth quarter.

Practice Collections were \$513 million, a 45.8% increase from Q4, a year ago. Care Margin increased 33.8%, and adjusted EBITDA was \$7.5 million, an increase of 18.2% over the prior year.

EBITDA was down sequentially from Q3 to Q4 due to our outperformance in Q3 related to our MSSP shared savings results as well as the expected new market entry cost in Q4 that we discussed last quarter. New market entries are part of our ongoing strategy, so we do not add back these costs to arrive at adjusted EBITDA.

We also increased our quarterly bonus accruals by an incremental \$2 million in the fourth quarter based on our strong full year performance. So if you spread this incremental expense over the quarters, Q4 adjusted EBITDA would have been \$1.5 million higher than the reported number.

For full year 2021, our 30.1% growth in Implemented Providers and 15.2% increase in value-based Attributed Lives, combined with ambulatory patient volumes, led to all of our financial results being at the high end of our previous guidance.

Practice Collections increased 25%, which was 5.5% above the top end of our guidance at Q3 and 11% higher than the top end of our initial guidance back in May.

Care Margin was up 27.1% and adjusted EBITDA grew 40.9%. Our adjusted EBITDA margin reached 17.4% of care margin, a 170 basis point increase year-over-year which highlights the operating leverage of our model.

One of Privia Health's key differentiators is our solid balance sheet and positive cash flow. We ended 2021 with a net cash position of more than \$287 million and significant cash flow generation heading into 2022.

Cash flow from operations was \$55 million, an increase of 41.6% from 2020. With capital expenditures of less than \$1 million, free cash flow was \$54.6 million. Our strong performance positions Privia very well as we move into 2022.

We continue to gain traction with providers looking to partner with scaled, financially sound organization to improve outcomes for their entire patient population. With our liquidity strength, low leverage and a strong cash position, we are highly confident in our ability to fund all of our growth initiatives and opportunities, including new market development and strategic investments. Now I'd like to ask Parth to discuss our 2022 outlook and update you on our growth drivers and value-based care initiatives.

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

Thanks, David. We are excited about our recent performance and operating momentum heading into 2022. We intend to continue this success by growing within existing practices, increasing attribution and risk-based contracts, adding new providers, opening new markets and identifying opportunities to expand our platform.

For 2022, Implemented Providers is expected to reach 3,675 with Attributed Lives increasing to 875,000 at the midpoint, which is double-digit year-over-year growth. We expect Practice Collections to grow 30.7% to more than \$2.1 billion and adjusted EBITDA to increase 30.4%, both at the midpoint of our guidance.

We plan to invest across our business enterprise in sales and leadership, clinical and operational performance talent and our technology infrastructure to support this accelerating top line growth.

We expect Practice Collections and GAAP revenue to ramp through the year and adjusted EBITDA to follow as newly signed providers are implemented and come online at the full top line run rate.

Beginning in Q1, we anticipate reporting our capitated revenue as a new line item in the sources of revenue section of our 10-Q. We also expect to rename our physician and practice expense line to provider expense, which will capture the complete medical cost related to the at-risk capitated contracts.

Here are several assumptions underlying our 2022 guidance. Our growth outlook includes the impact of our new capitated agreements and only previously announced new market entries. Adjusted EBITDA guidance includes approximately \$4 million to \$6 million in accelerated investment spend.

This is to support our recently announced new market expansions and value-based care initiatives, all of which were ahead of our expectations from a timing perspective.

We are making prudent financial assumptions for this first year of our new capitated agreements and are resuming minimal incremental Care Margin and EBITDA contribution at this point in 2022.

We would anticipate greater operating leverage from our growth investments to follow in 2023, assuming no new market entries this year or next. With our capital-efficient partnership model, we expect 90% plus of our adjusted EBITDA to convert to free cash flow with capital expenditures of less than \$1 million in 2022.

Our financial performance is allowing us to focus on growth and Privia Health is executing at a high level. This is highlighted by a number of recent operational activities and achievements that are driving our broad-based growth.

First, during 2021 and through the fourth quarter, we continued to see solid and resilient same-store growth in our practices driven by the strength in ambulatory utilization across all of our markets, with visits up on a seasonally adjusted basis and well ahead of pre-COVID baseline. Our practices have gained market share and grew by adding providers in existing locations.

Second, our success across more than 80 value-based arrangements provides a solid baseline and supports our confidence in taking additional financial risk. We have 3 new ACOs, and 4 of our 7 are now participating in the MSSP Enhanced Track effective January 1 of this year, which provides us substantially more upside opportunity. Privia's first capitated arrangements in our Florida and Mid-Atlantic ACOs are also expected to add more than \$180 million to our top line this year on a net basis.

We incrementally added Attributed Lives to each of our core value-based care programs and are focused on increasing both the top and bottom line yield per life. We achieved this through better clinical and operations performance as well as by increasing the level of risk and resulting shared savings in various programs.

Third, we continue to witness the flywheel effect of our success and presence in our existing geographies. We generated a record number of new provider additions through our organic sales efforts in existing markets during the year.

A key component of our growth strategy is to monetize the Privia platform through value-added ancillary services, such as our state-of-the-art lab in the Mid-Atlantic market and our clinical research program in partnership with Javara.

Our at-scale integrated medical group and risk-bearing entity on a common platform allows us to uniquely offer these value-added services to our physician and payer partners.

Fourth, a key component of our growth strategy is our active business development pipeline, and we are tracking well ahead of our long-term plan. Our partnership with BASS Medical Group in California and Surgery Partners' Great Falls Clinic in Montana reflect the strength and flexibility of our model across geographies and provider types.

Our Montana entry, in particular, provides Surgery Partners and their clinic with access to best-in-class technology and services platform that drives efficiencies and allows doctors to focus on their patients. We look forward to seeing how this partnership evolves.

Privia Health has one of the broadest value-based care platforms in the industry with our at-risk Payer Contracts covering approximately 786,000 Attributed Lives across commercial, Medicare, Medicaid Advantage and Medicaid arrangements.

As we've noted at the bottom of this slide, starting January 1, 2022, we are taking upside and downside risk in many of our payer contracts, covering two-thirds of the attributed Medicare lives across our MSSP and Medicare Advantage programs.

This thoughtful move to risk continues to provide opportunities for significant top line and EBITDA growth as we execute on our goals to reduce costs and improve patient outcomes to earn greater shared savings in the years to come.

It is important to emphasize that the tremendous size, scale, performance and capability of Privia's value-based care platform is not recognized in our current top line practice collections and GAAP revenue. This slide shows that we manage a total of approximately \$5.2 billion in total medical spend associated with our attributed lives with \$2.2 billion managed under upside and downside risk arrangements.

However, we would only recognize approximately \$300 million in our top line on a forward annual basis today. So we have an additional \$1.9 billion opportunity to add to our top line, if or when we convert these lives into capitated or full risk contracts over time.

A key differentiator is Privia's very thoughtful approach to risk. We match the maturity of our patient pools with the risk parameters in each of the requisite value-based programs. Our goal is to have a high level of confidence that we can succeed in limiting financial risk and increasing profitability as we move to greater risk in each value-based care arrangement, improve patient outcomes and lower medical costs.

Privia's proven model has been increasingly successful in managing risk. It is called risk for a reason, and we balance risk across a diverse set of contracts and leverage our extensive clinical performance management, health care economics and actuarial expertise to closely manage this transition to risk profitably. Our close alignment with our physicians is critically important to successfully manage patient panels across the risk spectrum.

This is accomplished through our physician-led governance structure and hands-on, day-to-day work of our clinical and operations team. We provide robust audit and compliance oversight and help influence key levers of physician practice performance.

Our comprehensive technology platform is deeply embedded in our practices and drives the everyday workflows as well as providing data analytics to support and measure practice performance. This is why we are confident in our ability to influence value-based care outcomes across our providers' entire patient panels while preserving the autonomy and ownership structure.

The Privia platform is gaining momentum with provider adoption, scale in value-based lives and resulting top line growth, as shown on this slide. We have further proven that our business model can deliver not only consistent top line growth, but also translate that down the P&L with consistent growth in care margin, platform contribution, adjusted EBITDA and free cash flow while increasing margins.

Since our initial public offering almost a year ago, we have performed ahead of the expectations we set internally and communicated externally at that time. We are well ahead of our internal IPO expectations in terms of new market entries, implemented providers and attributed lives.

We expect to see accelerated top line growth and reach approximately \$2.1 billion in practice collections for 2022, at the midpoint of our guidance range. Furthermore, we have translated that top line growth into a solid 80-plus percent EBITDA growth over a 2-year period.

Privia is well positioned to continue to grow our scalable, integrated care delivery model and expand our deep value-based care capabilities in both existing and new markets. I'd like to thank all of our physician partners and Privians for their hard work and dedication in delivering high-quality patient outcomes and achieving these financial results which position us for future success. With that, operator, we're now ready for the first question.

QUESTIONS AND ANSWERS

Operator

Our first question comes from Josh Raskin with Nephron Research.

Joshua Raskin - Nephron Research LLC - Research Analyst

My first question is, how many of those 3,700 implemented providers this year, sort of midpoint of guidance, will be in global cap arrangements? And what's a reasonable cadence of growth over the next full years? I fully understand it's lumpy. So kind of just looking for averages.

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

Yes. Thanks, Josh. I'll start and Shawn can add. We don't split out how many providers. Typically, 70% of our provider base is, as you know, what we call gatekeeper providers, primary care, internal medicine, family medicine, pediatricians and OB/GYNs, and 30% plus are specialists in some nature.

A subset of our PCPs, both in Mid-Atlantic and in Florida, will be in those global cap arrangements. So it's obviously going to be a pretty small number. It's about 23,000 lives as we articulated in our press release earlier this year.

Joshua Raskin - Nephron Research LLC - Research Analyst

Okay. And is the idea -- I know the idea is sort of convert these lives, but is it more a focus on getting the provider ready to do that? As I assume that's kind of the operations, right, that you have to get the provider to take the risk and then kind of the lives follow. Is that the right way to think about it?

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

Yes, Josh, this is Shawn. Think about -- I think it's obviously the provider, you're familiar with that slide we've presented multiple times kind of the first couple of buckets of getting the technology in place, stabilizing the practice, teaching them get the cash flow that in moving them up the risk spectrum. So obviously, there's a provider element to that.

But there's also a payer element to that, making sure that we're confident they're going to get us the right data making sure we have the arrangement, the right contractual arrangements that they're going to kind of stand up to, and we've been pretty upfront about the type of range as we like or where the payers still have some risk in that and that we're operating all within aligned incentives down -- from payer all the way down to provider.

Joshua Raskin - Nephron Research LLC - Research Analyst

Got you. And then just a quick follow-up. I think I heard you say that the healthcare utilization, your fee-for-service trends were running above the pre-pandemic baselines. I want to make sure I understood that. Is that -- do you think overall health care utilization is now back to or above baseline?

Or was that just your providers are taking market share, and so they're actually doing more business than they were pre-pandemic?

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

Yes. I think it's important to identify the 2 buckets of broad utilization. One is where we are concerned is ambulatory utilization in a community docs that we have at Privia. And we think that utilization is pretty much back as we experienced seasonally adjusted at above the pre-COVID baseline, it was better than expected despite the recent variant in Q4 and Q1.

The inpatient utilization trends or facility base still varies by geography and probably gets more impacted. That obviously does not impact our providers as much. And so I think that's the key difference.

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

Yes, Josh. The only thing I would add, as you know, you have been in covered managed care a long time, access is absolutely critical. We worked with our providers in the last couple of years at COVID and up until now. And as you know, we introduced very early on, the ability for virtual care and all those things. So I think they're utilizing a lot of those aspects, getting their patients in.

And it's what I think we did, like we said, take some market share, and we're seeing that ambulatory utilization up, which is, we think, is a very good thing, especially in our value-based arrangements.

Operator

Our next question comes from Whit Mayo with SVB Securities.

Whit Mayo - SVB Leerink LLC, Research Division - MD of Equity Research & Senior Research Analyst

The first question I have is just around the ACOs. And as you look at the financial performance, standing up and starting your historical ACOs. Is there any reason that we shouldn't look at that as a guidepost for what the performance should be this year, do you think you can do better?

And really the corollary to this question is also in the transition towards the Enhanced Track and why your experience in the new 3 ACOs moving into Enhanced Track may or may not be any different than your experience in the Mid-Atlantic?

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

Yes. Thanks for the question Whit, it's Parth. Yes, I think it's an important point to note, we are obviously much more mature as an organization today relative to what we were 5 years ago when we first started in Mid-Atlantic.

So that would manifest itself in 2 particular areas as it pertains to this question. One is our ability to take on more risk sooner and the capabilities that we've developed are obviously much better. So it allows us to do that sooner than what we were at 5 or 6 years ago.

And that would mean moving these -- the new ACOs into Enhanced Track sooner. Obviously, it depends -- the answer also depends on the geography. No two geographies are the same. We look at the patient pools. We look at our provider density. We look at the payer relationship in any particular market. All else being equal, you should expect we would accelerate that move given the maturity of the organization, but it will depend by the geography.

Whit Mayo - SVB Leerink LLC, Research Division - MD of Equity Research & Senior Research Analyst

Okay. That's helpful. Second question, just around the investments that you're making, not terribly surprising, but I think it might be helpful just to maybe break out a little bit more discreetly some of the buckets.

And I'm just wondering if I take \$5 million at the midpoint. How much of that should we look at as perhaps being really onetime and thinking -- I mean I think that as you move into new markets, some of this is probably going to continue to repeat itself. So I'm just trying to make sure I properly understand exactly what -- where the \$5 million is going?

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

Yes, definitely. So number one, it's fairly broad-based. When you experience this kind of growth, which is across both the fee-for-service book, the value-based book in existing markets and then also new market entries, we expect we are investing across the spectrum. And then we typically think about this as both as fixed and variable costs.

There are certain costs that are variable in nature that would ramp up, mainly pertaining to the new market entries, sales costs, implementation costs as we get more providers in, in those new geographies. But then a lot of the costs are fixed in nature that happen at the upfront as we either enter new geographies or enter into some enhanced capitated arrangements as an example, where we are beefing up some of the capabilities that we have.

And you should expect those to scale over time, more G&A in nature, but also some fixed costs in other areas of the company. And then broadly speaking, it is both leadership costs. We're adding a lot of great talent across the organization to support this growth. And then also infrastructure and technology investments.

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

Yes. The only thing I would add is we report this above the line because it's ongoing operations. You're going to see us continue to expand and grow the business.

Operator

Our next question comes from Jailendra Singh with Credit Suisse.

Jailendra P. Singh - Crédit Suisse AG, Research Division - Research Analyst

I have a question on your like a long-term outlook. I mean, clearly, 2022 practice collection revenue outlook and EBITDA guidance kind of implies mid-20 to mid-30% growth rate but it does include some puts and takes in terms of new market contract rollouts and investment spending. Just curious with all these puts and takes, I mean, what's your latest thoughts on the long-term revenue and EBITDA growth and margin outlook for the company in like '23 and beyond?

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

Thanks, Jailendra. Look, when we went public, we had articulated that over a long term, which we define a decade plus, you should expect this business given the substantial TAM that is in front of us, and then also the broad-based platform that we have at Privia, to hopefully deliver 20-plus percent top line growth over that long period of time.

And then as the operating leverage kicks in, that would translate into 30-plus percent EBITDA growth. Our hope is we can accelerate that. Obviously, no business grows in that straight-line fashion. You're going to see spikes, and we've experienced that in our recent past as well. So our hope is to keep delivering at a high level, accelerate that as much as possible, make thoughtful investments.

The key differentiator for us is we are not sacrificing profitability as we grow. And I think this is a perfect year for '22. As you see, both top line is growing 30%, but EBITDA is also growing 30-plus percent at the midpoint of the guidance. So while we are growing top line at a more accelerated pace than that 20%, we're not really sacrificing EBITDA growth this year, and then we expect to continue that operating leverage in future years.

Jailendra P. Singh - Crédit Suisse AG, Research Division - Research Analyst

And just a quick clarification. I mean do those targets include any acceleration in like a shift to full risk capitated arrangements or even your involvement in ACO REACH Model if you decided to do so?

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

Yes. Our view is, it will be across the platform. So whether it's entering new markets, adding providers in existing markets, converting some of the lives we have into capitated arrangements as we did this year, or entering into new value-based program.

So again, I think the broad-based drivers are pretty meaningful for us in this platform and allows us to pull many levers, where, as you can see this year, attributed lives and implemented providers are growing double digits -- low double digits. But then that can translate into much more significant practice collections growth given those broad-based drivers.

Jailendra P. Singh - Crédit Suisse AG, Research Division - Research Analyst

Okay. And then my follow-up on the comment you guys made earlier about the company's key differentiation being a solid balance sheet and positive cash flow. A couple of questions there. With almost like \$300 million in net cash and another strong cash flow you had expected this year. Do you think there are opportunities for you guys to get more aggressive with respect to capital deployment in any way? And second, just a quick number of clarification here. What exactly was \$32 million business acquisition you had in the fourth quarter?

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

Yes, thanks. So I'll take them in line. Number one, just from a capital allocation perspective, look, we think about it in 4 buckets. First is what we think is a sleep well at night bucket, where -- in our business as a provider entity that is growing this fast, taking on additional financial risk, we believe we should have significant cushion and have a very conservative balance sheet, low leverage and a solid cash flow profile. That is what helps when the risk presents itself.

And our view is not to rely on the capital markets when that happens is that can be very dilutive. Second is, obviously, given the significant TAM that we have, we're looking to continue to invest organically in existing and new markets. The beauty of this business is a lot of that happens on the P&L.

And so EBITDA expansion may not happen, but that is part of capital allocation from our perspective. Third is opportunistic M&A. If or when the right opportunity arises. We've not relied on that historically. -- given how well we've grown organically. And we are fairly disciplined. But whenever that happens, obviously, you want to have some cushion.

And then finally, from a completeness perspective, look, if we do have excess cash -- and the valuation of the business materially differs from what we think is intrinsic value, we can obviously look to return capital in accretive manners to our shareholders. So that's kind of the first part of the question you asked.

The second is, the free cash flow generation capability, I think, is truly differentiated. As we articulated, the EBITDA number is fairly straightforward, not too many add-backs. We prefer it that way. It's mainly stock-based comp. And then our business also tends to have this negative working capital or a positive float, which in some periods like in 2021, the phenomena magnifies itself given the timing of cash flows from our payer partners to our medical groups or our risk-bearing entities and then flowing downstream to our physicians.

And then obviously, given the minimal CapEx, there's a pretty high EBITDA to free cash flow conversion as far as we're still utilizing our NOLs. The \$32 million spend was related to our acquisition of the services platform of BASS MSO in California and the medical group in West Texas.

Operator

Our next question comes from Lisa Gill with JPMorgan.

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

I hope you can hear me. I have a couple of things. First off would be the ACO REACH program. I know when we talked in the past about direct contracting and talking about the expenses being aligned, you also had to say around the governance of your position. So one, can you give us thoughts around will you participate in (inaudible) about that program, would be my first question.

And then my second question would be pertaining around cash flow. We talked about 90% cash conversion. Is that the way to think about the model going forward when you think about EBITDA version?

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

Lisa, this is Shawn. We got most of that, I believe. So I'll take the first part of that. I believe you asked about the ACO REACH program. So I'll talk specifically about that. The -- with any program, as you know, with us, and I mean it's about balancing risk and reward. We thoroughly add a -- we're going to do the analysis, we do it internally as well as sometimes externally bringing in external consultants to look at those programs.

We want to -- projecting that risk reward, understanding the different rules, understanding the levers that will make us successful. And as you know, the company has significant experience in MSSP, Medicare Advantage and the management team goes decades back in government programs.

So specific to ACO REACH, there was some incremental improvements in this latest -- variation. But as the current -- as it's outlined today, it really doesn't provide the clarity that we would desire for the risk of the additional risk we're assuming. So our positions do really, really well in MSSP. You've seen it. You see it in the results we just published. We are moving some of the additional ACOs, 3 more into Enhanced and with 2/3 of our entire book of Medicare -- either in Medicare Advantage or MSSP or in risk programs, so about roughly about -- looks like 345,000 lives. So I hope that adds -- hope that's the question you asked on the first part. And the second question was...

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

Yes, I'll take the second question. I think it was around EBITDA to free cash flow conversion of 90% and how that moves going forward. If we heard that correctly. So given we are still running through our NOLs and the stock comp impacts that, I think cash taxes paid would be a key item on the cash flow statement to look out for.

So the next few years, obviously, the EBITDA to free cash flow conversion would be fairly high around that 90-plus percent level. And then once we burn through the NOLs, you'll have to obviously tax [effect] it. But again, our hope will be, there'll be minimal add back to get to the adjusted EBITDA number. And then CapEx would continue to be fairly muted below -- at or below \$1 million number.

Operator

Our next question comes from Jessica Tassan with Piper Sandler.

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

Do you guys just mind reminding us what the status or progress is on Privia Care Partners? And what are the expectations for 2022, 2023?

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

Jess, it's Parth. Thanks for the question. So as we articulated in our Q3 call, we expected about 30,000 lives in Privia Care Partners. We are running at or ahead of those expectations. Those are included in the guidance we've given today for 2022.

And we'll continue to add to that going forward. We're obviously not going to split out the reporting of that number. We don't manage that business separately. It's within all our existing markets. But we are seeing a lot of momentum and are really excited about that product and service offering.

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

And then maybe just as a follow-up. We had some expectations just comparing Privia Care Partners to the full tech stack. Can you maybe help us understand what the financial model is for Privia Care Partners and how it compares on a revenue, care margin and EBITDA per life -- the full tax back or to the full stack?

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

Yes, sure. So -- the margins on the Care Partners book would actually be slightly higher. And similar to the margins we have on our value-based book today. We don't break out margins for fee-for-service and value-based as you know. But generally speaking, the tech stack is a lighter component in the Care Partners model.

And the economics are similarly shared. We keep the care management fees -- and then the shared savings are split 60-40 between physicians and Privia. So the economic profile is very similar to the rest of our value-based book. And that's why these lives would be embedded in our ACO attribution that we report going forward.

Operator

Our next question comes from Richard Close with Canaccord Genuity.

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

Yes. Can you talk a little bit about the outperformance on practice collections and revenue in the fourth quarter. Was that primarily the new markets that were added? And if you strip that out, what would the growth then? Parth, you mentioned same-store growth, but maybe you can provide that for us.

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

Yes. Thanks for the question, Richard. Obviously, the extent of the [beat] was fairly significant relative to what we guided, and it really was very broad-based. So there was not one particular element and there were 4 key components. So one was utilization, was much, much stronger than what we anticipated, given the Omicron variant. Obviously, tough to predict and guide to, but it came in much better than we expected.

We also think our practices actually gain market share. So both utilization being higher. And then on a same-store basis, we added new providers. We saw record low gross attrition.

And on a net basis, we actually grew our same store, and that contributed pretty significantly. And then the value-based book continued to outperform. We saw some of that outperformance in Q3, but then that continued into Q4. And then finally, both California and West Texas, the new -- the contribution from the new markets in Q4, it was one quarter, it was better than our expectations when we guided back in Q3. So it was really broad-based, which is great to see. Not one particular element that drove that kind of lift.

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

Okay. And my follow-up question is you talked a little bit about Surgery Partners and that relationship. And then you also said you're not really looking at additional new markets this year or next year. Is that completely off the table -- or how are you thinking about that? Is that just not included in guidance? You also talked about business development being really strong. So just trying to get a little bit more detail there.

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

Yes, definitely. So to be clear, the business development pipeline is really strong, and we are looking to open new markets as soon as we can. Just given the TAM we were in 8 states plus D.C. And so we are continuing to look actively at opening new markets this year and going forward. What's in our guidance is only the markets we have announced so far, which is California, Montana and West Texas, which were the recent new markets alongside our other existing markets.

So much like 2021, where our initial guidance did not include any new markets. We're doing the same in '22. This guidance does not include the impact of any new markets which we may open. The timing on that is uncertain, so as and when we do announce those, we will update our guidance going forward.

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

And in reference to Surgery Partners, I mean, you think about their business model, running ASCs, with physicians, existing and future markets. It lines up with what we do. site of service, lower cost of care, higher quality. We've been working with Eric's team, a great group, great management team, and it just lines up really well with what we do. And we'll see where the partnership takes us.

Operator

Our last question comes from Ryan Daniels with William Blair.

Nick Spiekhout – William Blair, Research Analyst

Hi. This is Nick speaking on for Ryan. I guess just a clarification, to start. What was the cadence that you said was going to be on that kind of additional 400 providers you expect in 2022?

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

Nick, it's Parth. Not sure we fully understand the question. Our guidance at the midpoint is 3,675 and it will be spread evenly through the year, much similar to the progression you saw in '21. A lot of those providers are sold but not implemented. It takes about 6 months to implement and get them fully on ramp. So you should expect a similar cadence to what we had in 2021 based on that ramp.

Nick Spiekhout – William Blair, Research Analyst

Okay. Because just in Q4, there was a pretty big jump over Q3, so -- but that was most of new markets coming online. So it should be pretty kind of evenly spread out throughout the year, so to say?

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

That's correct.

Nick Spiekhout – William Blair, Research Analyst

Okay. Great. I appreciate that. And then, the next one, I was wondering if you can kind of sort of walk through at a high level, almost like a waterfall, from your 2022 guide versus your expectations from your IPO?

So for example, like how much of the 2022 outperformance from IPO is from 2021 outperformance? How much is from incremental new market entries? And then how much of that is from moving further kind of down the risk spectrum?

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

Yes, I appreciate the question. So look, obviously, we're not going to pinpoint it specifically and break down the Practice Collections bridge. But generally speaking, again, it was similar to last question, very, very broad-based. So -- what we saw in the existing geographies were 3 components.

One was really good utilization. Second was very strong same-store growth, very low attrition. Thirdly, a record new provider adds in existing markets. And all of those were ahead of or better than our expectations.

On the value-based book, we performed much better than expectation -- what our initial guidance was in '21 in the existing markets. So both the MSSP program and other value-based programs during the course of the year. And then obviously, our initial guidance did not include in '21 any new markets. So when we entered California, West Texas, Montana, all of those, obviously ahead of our expectations from a timing perspective.

When that happens, we get this acceleration in top line growth in the following 6 to 12 months. So you're seeing some of that play out in '22. And then as these providers ramp up, you'll see that come through the course of this year. And then if we add new markets, that would hopefully accelerate it beyond, but we'll update that when that happens.

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

Yes. And the only (inaudible) I'd add there was the addition of the capitated arrangements slate that we've added. None of those were in our IPO projections.

Operator

We have a follow-up question from the line of Richard Close with Canaccord Genuity.

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

I guess just a follow-up to Josh's question earlier on with respect to moving to full risk. Do you guys think you need 1 year or 2 with health, first in Humana before you feel comfortable moving more lives to full risk? Or could it be shorter than that?

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

Yes. Thanks for the question, Richard. Look, our view is we'll do enter into these agreements when it makes the most sense, both from a fair perspective, our providers and the risk pools we have.

So there's really no cookie cutter formula. It will vary by market. And it will vary based on our ability to manage that pool and make money at the end of the day. And I think that last part really differentiates us. We're not doing it just to get top line growth, and move lives and just recognize that top line PMPM, when you do that based on accounting rules.

The key is, can you make money both for the payers? Can we have shared savings? Can we get the patient outcomes? Share that with the payers, share that with our physicians, and we are all in it from a skin in the game perspective.

So I think the answer would just vary. We could have 0 additions or we could double the number of capitated lives. It just depends on how we believe the risk pools move and what the best decision might be for the company.

Operator

That concludes today's question-and-answer session. I'd like to turn the call back to Mr. Morris for closing remarks.

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

Thank you for listening to our call today. Privia Health's proven model supports all providers and all patients across all reimbursement models. Our scalable, capital-efficient integrated care delivery model has significant momentum in the physician enablement market, and we look forward to continuing to execute at a high level and delivering accelerated growth in 2022.

We appreciate your continued interest and support of our company and look forward to speaking to you soon, again. Enjoy the rest of your day, and thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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