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TRANSCRIPT

Q2 2024 Privia Health Group Inc Earnings Call

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CORPORATE PARTICIPANTS

Robert Borchert Privia Health Group Inc - SVP - Investor & Corporate Communications

Parth Mehrotra Privia Health Group Inc - CEO & Director

David Mountcastle Privia Health Group Inc - CFO & EVP

CONFERENCE CALL PARTICIPANTS

Josh Raskin Nephron Research LLC - Analyst

Andrew Mok Barclays Bank PLC - Analyst

Eduardo Ron Truist Securities, Inc. - Analyst

Elizabeth Anderson Evercore ISI - Analyst

A.J. Rice UBS Securities LLC - Analyst

Jeff Garro Stephens Inc. - Analyst

Jack Slevin Jefferies Group LLC - Analyst

David Larsen BTIG, LLC - Analyst

Richard Close Canaccord Genuity LLC - Analyst

Jessica Tassan Piper Sandler Companies - Analyst

Ryan Daniels William Blair & Company LLC - Analyst

Michael Ha Robert W. Baird & Co. Inc. - Analyst

Ryan Langston TD Cowen - Analyst

Daniel Grosslight Citigroup Inc. - Analyst

Adam Ron BofA Securities Inc. - Analyst

PRESENTATION

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Privia Health second-quarter 2024 conference call. (Operator Instructions)

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

Robert Borchert - Privia Health Group Inc - SVP - Investor & Corporate Communications

Thank you, Regina. And good morning, everyone. Joining me are Parth Mehrotra, our Chief Executive Officer; and David Mountcastle, our Chief Financial Officer. This call is being webcast and can be accessed in the Investor Relations section of priviahealth.com.

Today's financial press release and slide presentation are posted in the Investor Relations section of priviahealth.com. And following our prepared comments, we will open the line for questions. Please limit yourself to one question only and return to the queue if you have a follow up, so we can get to as many questions as possible.

The financial results reported today are preliminary and are not final until our Form 10-Q for the second quarter ended June 30, 2024, 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 view of our business as of August 8, 2024. 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 along 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. Reconciliation 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 our CEO, Parth Mehrotra.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Thank you, Robert. And good morning, everyone. Privia Health posted another strong quarter of financial performance as we are executing well operationally and continue to drive growth across all of our markets. This morning, I'll cover some key highlights and provide a business update. Then David will discuss our recent financial performance and provide an update to our 2024 guidance outlook given our strong results in the first half of the year, before we take your questions.

During the second quarter, Privia's momentum continued across all aspects of our business. We are making great progress towards our long-term vision to build one of the largest ambulatory care delivery networks in nation. Implemented providers increased 16.4% from a year ago. This strength in same-store growth and new provider additions is reflected in our top-line performance.

Q2 practice collections grew 4% year over year and increased more than 12% when you exclude the impact of the restructured MA capitation contracts at the beginning of year. Adjusted EBITDA was up 14% as we continue to drive operating leverage while absorbing incremental new market investments.

Our pipeline for both existing growth and new market business development remains robust. We have $387 million in cash, no debt, and a strong conversion of annual EBITDA to free cash flow, which positions us well for durable long-term growth. Given our solid first-half performance across all metrics and high visibility into the rest of the year, we are increasing our guidance to the mid to high end for all metrics.

The combination of our diversified value-based platform and strong underlying fee-for-service business serving the entire physician practice continues to be a key differentiator in attracting community providers to the Privia model in today's environment.

Privia's national footprint continues expand. At the end of Q2, we had 4,504 implemented providers caring for more than five million patients across 13 states and the District of Columbia. We are working diligently to expand into new states and increase our provider density every state we operate in. Our aim is to build large-scale high-quality community-based medical groups that will become one of the most important assets in healthcare ecosystem.

We have very high patient satisfaction as reflected in the net promoter score of 85. Our gross provider retention has averaged more than 98% over the past three years. On a net basis, our provider retention is over 100% given our same-store growth in existing geographies. We continue to expand our diversified value-based platform across reimbursement models. Privia now serves over 1.2 million attributed lives across 100-plus commercial and government programs.

Total attributed lives increased more than 10.5% from Q2 a year ago, which places Privia as one of the broadest and most balanced value-based care players in the industry. Our commercial attributed lives increased 11.6% from last year to reach 741,000. We earn care management fees and generate shared savings that are incremental to our predictable fee-for-service management fees.

This offers a highly differentiated value proposition to our medical groups and is core to our long-term strategy to opportunistically increase attribution in various risk arrangements over time to drive future earnings growth. We continue to perform well in our Medicare shared savings book of business and have taken proactive steps to navigate the challenging MA environment as we discussed last quarter.

Now I'll ask David to review our Q2 and year-to-date financial results and our updated 2024 guidance outlook.

David Mountcastle - Privia Health Group Inc - CFO & EVP

Thank you, Parth. Our strong operating and financial performance continued through the second quarter of 2024. Our implemented provider count grew 145 sequentially from Q1 to reach 4,504 at June 30, an increase of 16.4% year over year. Solid ambulatory utilization trends, new implemented providers, and additional attributed lives led to practice collections increasing 4% from Q2 a year ago to reach $728 million.

As we previously mentioned, the balance and flexibility of our operating model enabled us to shift attributed lives out of capitated agreements for improved contribution margin. Excluding second-quarter 2023 revenue from our renegotiated Medicare Advantage capitation agreements, practice collections increased more than 12% year over year in the second quarter of 2024.

Quarter-to-quarter variability in shared savings revenue was as expected due to accrual true-ups over 100-plus value-based contracts. As we mentioned previously, it is most helpful to look at our shared savings revenue trend on an annual basis to smooth out the quarterly variances.

Adjusted EBITDA was up 14% over Q2 last year to reach $22 million as we continue to generate operating leverage despite investing in existing and new markets. For the first half of 2024, practice collections increased 5.7% to $1.44 billion. Care margin was up 10.8%, and adjusted EBITDA grew 15.9% to reach $41.9 million.

With strong first-half performance and high visibility through 2024, we are raising our 2024 guidance. We now expect attributed lives to be at the high end of our initial guidance range and all other metrics to be in the mid to high end of our initial ranges. Recall that our full-year practice collections guidance assumed a reduction of approximately $198 million from 2023, given lower-risk exposure from MA capitation agreements.

Our balance sheet and capital position continue to be very strong with cash of more than $387 million and no debt. Given our capital-light operating model, we expect approximately 80% of our full-year adjusted EBITDA to convert free cash flow. Consistent with past years, we expect to receive a significant portion of our shared savings cash payments in the second half of the year.

Privia's business momentum and diversified book of business has positioned us well to drive organic provider growth and increased operating leverage for long-term adjusted EBITDA and free cash flow growth as we build our national footprint. We would like to thank all our physician partners and employees for their continued dedication and hard work to help us achieve these results. We are now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Josh Raskin, Nephron Research.

Josh Raskin - Nephron Research LLC - Analyst

Hi, thanks. Good morning. First question maybe I'll sneak in two -- the first question is, I know you've gotten this before. But you'll have safely over $400 million in cash by the end of year with no debt. So how are you thinking about updated capital priorities? And then just secondly, maybe if you could give us an update on utilization trends and if there were any differences as the quarter progressed or even maybe compared to the first quarter.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Yes. Thanks for the question, Josh. I appreciate it, just top of mind for a lot of our shareholders. So on the cash, look, I think, broadly, a few big-picture comments and then the framework. I think what's important to recognize is a lot of our organic growth is expensed fully on the P&L. So if you're looking to add, as we've said previously, 400-500 implemented providers each year, that growth is fully expensed on the P&L.

So despite that, we are now converting 80-plus percent of EBITDA to free cash over the past few years. I think if you look at it relatively, that conversion rate is 2x the next best comp in the industry. So you could almost double the EBITDA and still get the same free cash flow as our business, which is pretty incredible.

And as you rightly pointed out, if we don't spend any cash in business development activity or otherwise, we'll end probably close to somewhere between $425 million to $450 million by the end of this year. And so I think the framework that we are looking at is as follows.

The first bucket we've always said is sleep-well-at-night money, which is just to make sure as we grow our risk book, if you have one-off events like pandemics, hurricanes, et cetera, that can impact in your results, we have sufficient liquidity to support our medical groups. It's very dilutive to rely on external financing when something like that happens. And so approximately, 25% of the cash balance plus our revolver, which is undrawn, about $125 million, we kind of keep it in that bucket.

Number two, our big priority will be to utilize the cash for bigger business development transactions. So that will be either new market entries. We're in just 13 states. Our aspirations ought to be in many more states, become a national company. And so you should expect us to keep doing transactions, the likes of which we've done in the past, either acquire tax IDs or medical groups, ACO entities, or MSO entities like we've done in Washington or Connecticut or California in the past few years. You have good examples of that.

So I think that will be the predominant use of cash, as well as doing transactions in our current existing states to build more density. And then finally, I think a lot of the Board and the management team has pretty high ownership. So we're obviously looking at -- we can look at opportunities to return capital if the stock price materially deviates from what we think is intrinsic value. So I think that's the framework that we are using, but we'll do this in a pretty judicious manner, in a thoughtful and patient manner, which is accretive to shareholders.

And then on your second question on utilization, I think -- as we've bifurcated it before, between ambulatory and then, let's say, inpatient or downstream utilization, you can see from our results the ambulatory utilization continues to be really high. We think that is good utilization. It really benefits our fee-for-service business. Its utilization for patients and our members to come visit the primary care doctors, and we think that's really good engagement.

So that benefits us on both the fee-for-service as well as value-based book. And then I think we continue to see elevated utilization downstream on the inpatient side. Despite that, I think our value-based book is really balanced and really hedged in the nature of the programs we have. So you're seeing that in our accruals, and our updated guidance reflects that, but we continue to see good utilization trends.

Josh Raskin - Nephron Research LLC - Analyst

Thank you.

Operator

Andrew Mok, Barclays.

Andrew Mok - Barclays Bank PLC - Analyst

Hi. Hoping you can comment on development pipeline and just the evolution of your sales process. You seem to be doing pretty well adding implemented providers, but a lot has changed over the last two years with respect to value-based care. So maybe just comment on how the sales process differs today in terms of pitch process and duration versus, say, three years ago?

Parth Mehrotra - Privia Health Group Inc - CEO & Director

To answer that question, Andrew, I think it's largely the same. I mean, we've had a very consistent sales growth engine, which is organic in our existing states. We are pitching the entire business model, which is very differentiated across all lines of business for any physician practice, every single patient, every single payer walking in the door for every single specialty.

So I think that has truly differentiated us. I think the last couple of years with all the changes in the risk-based environment and Medicare Advantage, I think, as we noted in our prepared remarks, physician practices are looking at us for a much more holistic solution rather than just a one-off solution for a particular risk contract. I think that truly differentiates Privia.

I think on top of that, we are deeply embedded in the workflows of the practice from our technology stack and then revenue cycle and care management teams and value-based operations workflow perspective. So I think a practice joining Privia really is understanding all that value proposition, and you can see that in our results. We continue to focus on adding 400 to 500 implemented providers in our existing geographies and then entering many more new geographies. But the engine is pretty strong and it's running.

Andrew Mok - Barclays Bank PLC - Analyst

Great. And if I could just follow-up on the stock-based comp, it's ticked up another $2.5 million sequentially. It's now up 80% year to date. What drives -- what's the full year expectation there, and what's driving the significant increase? I thought that line was supposed to moderate as we got further from the IPO. Thanks.

David Mountcastle - Privia Health Group Inc - CFO & EVP

Yes, so part of the change is effectively when we issued the equity each year. So last year, we issued our annual grants in the middle of Q2. This year, we issued them in the middle of Q1. So we're still getting a little bit of residual, I would say, impact from a stock comp perspective, from just sort of the timing difference there. And we're looking at, on an annual basis, probably $55 million to $60 million in total stock comp expense. And then on a go-forward basis, again, we're still sort of targeting the 1.5% to 2% range.

Andrew Mok - Barclays Bank PLC - Analyst

Got it. But I guess I'm still a little confused. What's driving that significant increase you're saying? It's all timing, or is it something else?

David Mountcastle - Privia Health Group Inc - CFO & EVP

It's all timing. So it's when in the period that we issued both grants, so the difference -- the same explanation if you remember back to Q1. So again, it's just when did we -- so for example, last year, we issued our annual stock comp in Q2. This year, we issued in Q1. So there was a larger variance in Q1 than Q2 because there was a larger period where we didn't have both years of comp expense. This year, it's just a composition of half a quarter versus the full quarter in Q1.

Operator

Jailendra Singh, Truist Securities.

Eduardo Ron - Truist Securities, Inc. - Analyst

Hi. Good morning, guys. This is Eduardo Ron on for Jailendra. Thanks for the question. Just curious if you can provide some color around the EBITDA margin progression and your long-term growth and targets. And maybe just piggybacking on Andrew's question, if we think about the current development pipeline, does it tend to skew more towards expanding in new states or is it more building the breadth out in your existing markets?

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Thanks for the question, Eduardo. So on the EBITDA progression, look, our long-term margin targets are 30% to 35% EBITDA to care margin. That's been very consistent since we went public four years ago. As you can see from the first-half results, we are about we are about 22%, and so two-thirds of the way there.

However, in that number we fully expense all of the new market that we've entered in the last few years and about $10 to $12 million of expense in those new markets, which are still not close to EBITDA breakeven as well as all the growth investments -- organic growth investments for the sales team. Sales and marketing line is about $30 million.

So I think if you pro forma for that, you can see the company is already operating in the most mature markets at long-term target profile. And we're very proud of that. You can see it's a very proven business model. The unit economics are proven. The flywheel is proven. So I think we see ourselves achieving those targets in all of our geographies and consistently progressing towards that long-term target profile.

And then on your second question, I think it's going to be a combination of both. We are acutely focused on building density in our existing states. That's what drives the flywheel. That's what drives EBITDA margin progression. That's what makes our medical groups very important assets for all the payers. And so you will see us do transactions that can meaningfully increase density in the current geographies. And then obviously, we are looking to add and get into as many new states. So you'll see a combination of both.

Operator

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - Evercore ISI - Analyst

Hey, guys. Thanks so much for the question. I appreciated how the guidance is -- you obviously give it on an annual basis. Can you talk about anything you can call out even qualitatively on the 3Q versus 4Q cadence for this year? Thanks.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Thanks for the question, Elizabeth. So from a seasonality perspective, I think you should see the same trend line as past years. It should not materially differ. The second half is a little bit stronger than the first half. We do get our MSSP results in Q3 or Q4. And so I think from a shared savings perspective and then utilization perspective on the fee-for-service book, that same pattern would follow.

At this point in the half year, we've sold and implemented every provider that will impact this year's results. So there's a very good visibility on the fee-for-service book. And then our accruals are reflected based on all the data we've got across our value-based book. That's reflected in our updated guidance. But then again, we'll get our MSSP results in Q3, Q4. So we'll see how that plays out. But we're hopeful that they will be as expected. So that's reflected in our guidance.

Operator

A.J. Rice, UBS.

A.J. Rice - UBS Securities LLC - Analyst

Hi, everybody, just a specific question. Obviously, the commercial lives are up nicely year to year. And sequentially, you showed good growth there. I think government is up similarly year to year. But sequentially, it was more flat. Is that something about the new markets that they skewed toward adding more commercial lives? Or any thoughts on sequentially the variance in growth there?

And then I might just piggyback off some of the other questions. There's obviously a lot of disruption in the broad peer group. A lot of the people pursuing strategy is different than yours. Given that disruption among other physician-oriented companies, does that make you think about M&A any differently? Is there any opportunities that are presenting themselves that make you think maybe there's an opportunity to do a little bigger deal than you've done historically?

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Thanks for the question, A.J. So on the first piece, the commercial lives generally follow implemented provider growth. So that's across all our markets as we add providers. We get commercial lives on day one, and they get included in the value-based arrangements we have.

On the government lives, I think it's just timing based on the data we get on some of the lagged attribution, so I think it picks up. And then if there's any true-ups or true-downs, I guess, that's kind of reflected in some of the between MSSP and MA.

But overall, we feel pretty good. You can see overall attribution is already at the high end of our original guidance. So I think we've added what we expected to. You can see some more additions over the next couple of quarters. There's some lives bleed in, but we're already well ahead of our plan from that perspective overall from an attribution perspective.

And then on your second question, look, I think we're in a very strong position. Josh asked the question on cash. We have a very pristine balance sheet. We have debt capacity. We have a pretty solid EBITDA, free cash flow profile. So you can expect us to look at all kinds of assets. I think the key is to be really thoughtful and do deals that would be accretive to shareholders from a long-term perspective that are EBITDA and free cash flow accretive.

I think we're going to be very disciplined. But I think our very consistent performance over the past seven, eight years, you can see the data from our S-1 and being public for four years. The nature of our business model, serving the needs of entire practice, I think that's truly differentiated.

So I think physician practices, other entities looking to sell or transact, or looking at our balance sheet, looking at our performance -- and our hope is they view us as a very strong durable partner as this industry evolves. And I think we'll be opportunistic to take advantage of any dislocations.

Operator

Jeff Garro, Stephens.

Jeff Garro - Stephens Inc. - Analyst

Yes. Good morning. Thanks for taking the questions. So I know it's a little early here, but as we head into fall, I was hoping you could discuss the current environment and previous appetite for growing exposure to upside-downside risk contracts next year. Some of the largest payers have discussed a better environment for value-based care contracts that are wins for all stakeholders. So I want to check in whether you're seeing the same thing and how that's shaping your views over the next 12 to 18 months. Thanks.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Thanks for question, Jeff. So I think it's important to recognize, we today already do a fair bit of upside-downside and take downside risk. If you look at our MSSP book, 76% of our lives are in enhanced track with the maximum risk that CMS allows us. 38-plus percent of the commercial lives are in upside-downside track. And I think we're one of the very few companies that do commercial risk in that manner -- in a very sophisticated manner. It's a very different value proposition to the payers.

So if your question is mainly geared towards MA and capitated MA, we do take downside risk in MA. We're just putting guardrails given the current environment. I think we're just going to continue to be thoughtful. I think you're seeing the payers adjust to, obviously, V28 utilization trends. Every single payer has commented on it, so I'm not going to go into details. But I think that's a two-, three-year process.

We've had this view on MA, which has been a little bit contrarian. We just don't think overnight, the environment changes. You're going to see the payers adjust the benefit designs going into 2025. We think V28 impact will continue through '25 into '26.

And then we are downstream from the payers, so we are happy to take as much risk. The key for us, as we said last quarter, is we've got to be compensated to take that additional risk. You have to recognize that care delivery takes place in entities like ours. The payers, unless they're vertically integrated, the insurance arm does not provide care.

So the doctors taking good care of patients across entire age cohorts have to be compensated well to assume that risk. And I think we have fiduciaries from that perspective on behalf of our physicians and our medical groups to ensure that they are getting paid for doing all the good work.

So I think as the payers are just -- hopefully, we'll get into some normalization, and then we're happy to dial up risk as long we see a good risk reward and we are well positioned to do so. The lives have not gone anywhere. The doctors are not going anywhere. We'll just restructure some of the contracts from a financial perspective to protect unnecessary downside for the good work we're doing.

Operator

Jack Slevin, Jefferies.

Jack Slevin - Jefferies Group LLC - Analyst

Hey, good morning. Thanks for taking the question. I wanted to ask a couple on MSSP. Maybe one, just as we're coming to the end of the BD cycle for 2025, how that's shaping up? And then a couple just to get your thoughts on some of the changes that CMS has announced this year and last year going forward, specifically, what benefits you could see from prepaid shared savings and if the elimination of the negative regional adjustment opens up more BD avenues for you than what you thought about previously. Or really anything else that stuck out of note to you on some of the adjustments you announced. Thanks.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Yes. Thanks for question, Jack. So from a BD perspective, look, it's no different than any of the past years. When we add a primary care physician or a provider to our platform, the lives come in day one, and they get attributed into our MSSP program even if we are adding providers during the course of the year. So I think it's less governed by a Jan. 1 date even though the program resets from a performance-year perspective.

But we continue to add lives, and you can see that in our reported numbers as they grow quarter-over-quarter. We do get a bump up in Q1, but then it normalizes. So I don't think from a sales perspective, it's any different. I do think back to some of the questions on BD that we're taking advantage of any dislocations in the industry and speaking to as many groups as we can ahead of the Jan. 1 cycle. And this is pretty strong sales quarter for us to get ahead of those discussions. But that's no different than past years.

And then to the second question, look, I think we've been participants in MSSP with CMS for the past seven, eight years. We've seen many changes over that period of time to the program. That is natural progression through different tracks of MSSP and then the enhanced track.

So whether it is a new full-risk version of MSSP, whether it's prepaying some of the dollars to do care management and such services, we are ready for it. I think those are all positive changes. They make sure that adequate dollars are flowing to primary care community doctors to take good care of patients.

We saw that in the Maryland Primary Care Plus Program, where three or four years ago, a version of that was implemented. And we did really well in that program. So we've performed in such programs over the years. So I think most of these changes, hopefully, are beneficial to us.

We'll obviously see the fine print if and when and once they get implemented. But overall, with one of the largest MSSP books out there and given our performance track record, I think we'll look forward to some of these changes, and we're excited about how the program progresses from here.

Operator

David Larsen, BTIG.

David Larsen - BTIG, LLC - Analyst

Hi. Can you talk a little bit about your discussions with health plans? I mean, obviously, all of the major plans seem to be under pressure with their MLRs increasing, V28 utilization. Are they introducing you to more physician practice partners in different states?

And then part of that, can you talk a bit about how you measure outcomes on sort of a consistent basis and how you're feeding that information to the health plans? Are they looking at declines in inpatient utilization and costs on a regular basis? Just any color there would be very helpful. Thanks, Parth.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Yes. Thanks for the question, David. So on the first half, look, we have a very differentiated relationship with the payers, whether it's the blue plans or the national commercial payers. They now understand our model much better than seven, eight years ago. We've proven for them across our commercial book, across MSSP, across MA, and then Medicaid on what we can do and what we can achieve in a state once we get density.

So I think the nature of the conversation is much broader for us. We are often speaking about commercial value-based contracts in addition to MA and Medicaid. So I think that broadens the conversation relative to some of the other players in the industry.

And I think what's changed fundamentally for us is if we enter a new state, oftentimes, we have case studies of good data from what we've achieved in our existing states today that we can take to the payer teams on a national basis. And they're willing to work with us in a new state that we might enter. So I think the path to getting into some of the value-based contracts, kudos to our healthcare economics team, is much shorter, hopefully.

Our ability to take risk is obviously market specific. But in general, that timeframe is shorter as well as we get more confident. So I think we have good payer relationships across the board, and they're happy to work with us and enable us as an entity that keeps community -- low-cost community practices viable and save a lot of dollars for their members.

And then I think on your second question, look, I mean, we get data across the board, across each of our different program types within value-based care, and it's not consistent data. So on the commercial book, it's very different versus MA, versus Medicaid.

That's a big reason why we take the level of risk we do take in each of these buckets. If you enter a new state and get initial attribution, it's unlikely you enter with full-risk mindset because you want to establish a cadence with the physician practices, establish the best practices, start working with the payers. And lack of good data is a risk in the business.

So if you're in the risk business like we are, that's a risk you have to manage. And so we manage it very thoughtfully -- again, why we don't jump in with full risk, day one. But overall, I mean, we continue to see utilization trends being elevated. I think the payers are adjusting the benefit designs. We just answered a question previously that adds to this. So I think we continue to work with the payers, and we'll see how it plays out over the next few quarters and keep evaluating our risk book.

Operator

Richard Close, Canaccord Genuity.

Richard Close - Canaccord Genuity LLC - Analyst

Yes, thanks for the questions. Congratulations on the quarter and guidance. Parth, I was wondering maybe if you could provide an update on Ohio and North Carolina. Are those health system relationships performing in line with expectations now that we're, I guess, almost two years into them? And then can you talk about any variances in same-store growth across the different markets? Or are they fairly similar?

Parth Mehrotra - Privia Health Group Inc - CEO & Director

I appreciate the question, Richard. So on the first one, look, both markets are progressing as planned. They never go in a straight line, but we have two really strong partners in Novant and OhioHealth. We're working very closely with them, and it's a long-term partnership.

Our view is to develop those markets over the next 4, 5, 10 years and build very large medical groups like we've done elsewhere. But we are pretty pleased with how it's going, and it's pretty much according to plan and hope we can accelerate some of the flywheel.

And that dovetails into your second question, which is our business snowballs as we start getting density because when we enter a state, pretty much nobody knows us. And once we get going, we establish an anchor practice or a partnership. And then as physicians join and start to perform better, that starts a very good flywheel where a lot of our top-of-the-funnel sales referrals are coming from existing practices, and that leads to very high conversion rates.

And as we establish and start performing well and there's empirical evidence, we start to snowball. So you'll typically see the markets have some sort of inverted -- or some sort of an S-curve that it follows. You're seeing that in Mid-Atlantic and Georgia, where we continue to add despite being pretty dense. Despite being at our long-term margin profile targets, we continue to add a pretty good set of physicians every quarter.

So we expect that to happen across all of our markets and -- but no two progress in the same manner. Healthcare ecosystems are different. The payer dynamics are different. Composition of the medical groups is different. So we just have to factor in all of that as we progress these.

Operator

Jessica Tassan, Piper Sandler.

Jessica Tassan - Piper Sandler Companies - Analyst

Hi, guys. Thanks for taking the questions. So it looks like MLR in the 2024 capitated book went from about 99% last quarter to 95% in 2Q. So hopefully, you can just talk a little bit about the positive development in the margin on that book and how we should be thinking about MLR for the rest of the year in the 2024 capitated book. And then just wondering if you can address the prior-year claims in 2Q. Thanks.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Thanks for the question, Jess. So obviously, that's a good positive indication for us. I mean, we restructured some of the MA contracts to protect our EBITDA margin. And the ones that remain, obviously, our hope was to continue to perform as well as we can. So you can see that that in the results.

David will comment on some of the prior-period impact on the numbers. But if you look at any year, if we are doing capitation, we would like to save the payer money and therefore generate shared savings for our medical group. So that's our hope. And we'll only take risk, as we've said, if it's EBITDA and free cash flow accretive. So we'll see how the performance continues. You're seeing elevated utilization trends, et cetera, but we are working pretty diligently despite that to continue to perform well. But we'll see how it plays out. But so far, we're pretty pleased.

David Mountcastle - Privia Health Group Inc - CFO & EVP

Yes. And on the prior-period development, we just got some updated payer data showing additional attributed lives for 2023. So although you can see the cost side of that, there was also an approximate revenue increase. So from an overall perspective, there was sort of a de minimis impact from the prior development to the bottom line.

Operator

Ryan Daniels, William Blair.

Ryan Daniels - William Blair & Company LLC - Analyst

Yes. Good morning, guys. Thank you for taking the questions. First, maybe a different twist on the commercial risk question for you. A lot of the macro data indicates that employers are facing some of the highest cost trends they've seen in decades. And I'm curious if you have, in any of your more mature markets or hospital partnership markets, gone direct to employer to offer them value-based contracts for their workforce given your payer- and patient-agnostic platform? Thanks.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Yes, I appreciate the question, Ryan. I think it's very underappreciated what we can do with the commercial book. What we've done is to answer it directly. We have a couple of pilots where we have gone directly to employers in markets where we have a lot of density. So the key here is to build density and have an adequate network that we can then offer directly to self-insured employers.

So you can think about university towns. You can think about states where we have a very big density. And as we establish that we can go directly to self-insure employers, we also can work with health plans on the ASO book where they're managing the network. But then we are a very preferred partner where we can bring some sort of a narrow network product. And we've started to have some of those initial discussions with payers. But I think that is to come.

We just -- I just don't think it's sustainable for this level of inflation in the commercial book to persist before employers said they've got to do something about it. You're seeing some of the on-site models come up as a way to at least have some presence on site where employees can attend.

But there are employers that are virtual. There are employees that are multi-state. I think we have a pretty unique model which can offer the ability to do commercial risk for self-insured employers. So I think stay tuned. I think this will develop over the next few years, and we are really well positioned to pursue this.

Operator

Michael Ha, Baird.

Michael Ha - Robert W. Baird & Co. Inc. - Analyst

Thank you. Just a quick clarification, and then my real question. Understanding -- I understand you're expecting minimal year-to-year increase in shared savings. It looks like revenue came in a bit lighter than expected. It looks like typical 2Q cadence is an increase sequentially. Is that mainly driven by your MSSP lives dropping 6,000 sequentially? Is that the Delaware exit?

And then, my main question is, yes, Parth, you just mentioned you're one of the few value-based care providers that take on commercial upside and downside risk. So I think you might have just answered my question, but is the secret though in managing those lives really building market density, having great networks, driving better unit economics? Or is there anything in the clinical care, care management approach that you need to do differently in order to manage commercial lives better?

Parth Mehrotra - Privia Health Group Inc - CEO & Director

I appreciate the questions. So I'll let David go first on the first one, and I'll tackle the second one.

David Mountcastle - Privia Health Group Inc - CFO & EVP

Yes, so for the first one, again, from a shared savings perspective, this was just kind of normal quarter-to-quarter variability that we expect based on the timing over all of our contracts. So it's not MSSP. It's not one contract specifically. It's all of them.

Again, you can see we've raised our guidance and have a diversified value-based care book. So if anything else, that shows our confidence in the future. And again, we always remind people to look at this on an annual basis, so we're going to get some quarterly fluctuations. But on an annual basis, it is very consistent.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Yes. We are performing pretty much according to plan, and that's reflected in the guidance. I think there's a reason we don't give quarterly guidance because we're still not a really big player and that you can have some of this quarterly variance. But overall, we feel really good, and that's reflected in the updated guidance.

So on the second one, look, I think you have to start with the business model first. I think it's very underappreciated that we are actually building medical groups, which are very dense in the geographies we operate in, which are payer agnostic for the entire patient population, entire specialty network that we are creating across the practice. I think it's pretty much Optum Care and us that do that at some scale on a multi-state basis.

On top of that, we are deeply embedded in the workflow. So if you want to do anything in commercial, it's very hard to do if you are not in the technology stack, in the RCM workflows, and influencing some of that. Otherwise, it's very difficult to take risk if you're just getting data from the payers on three-, six-, nine-month lag basis, which is what happens with commercial from a downstream perspective.

I think as we build that density, it allows us to start managing the population really well. We've demonstrated now that across many payers in many geographies with close to 0.75 million lives, that we can get some care management fees and use those dollars to handhold some of these commercial patients much better across age cohorts. And I think that's also important.

You can do commercial value within the pediatric population, the middle aged. You can do it just pre-Medicare age cohorts, call it, 50-plus. And that's very valuable to the payers as those lives age in into Medicare Advantage or Medicare shared savings. So I think the business model structure fundamentally differentiates us to allow us to do that.

And as we've noted, getting care management fee and shared savings on top of fee-for-service management fees is a true differentiator. It really increases take home-pay for the providers. It's getting them their due share for the good work that they're doing with these lives. And I think it diversifies our book of business and our profitability and EBITDA profile and the stability in our results like you've seen.

So if you look at the seven-year empirical data from the time we issued our S-1, we had cycles pre-COVID, during COVID, post-COVID, utilization down, utilization up, MA environment challenging. And you've seen every single metric. We progress very consistently on a very thoughtful basis and growing the business and growing all the way down to free cash flow. So I think the commercial book plays a big part in that, in the stability of those results across cycles. And I think that truly differentiates us.

Operator

Ryan Langston, TD Cowen.

Ryan Langston - TD Cowen - Analyst

Hi, good morning. Given, I guess, all elevated trend commentary you've heard from some of the payers and even the providers, I guess, combine that with the likelihood of probably broad MA benefit reductions and just general market dynamics, are you seeing any different behavior from your competitors in markets, like maybe in terms of how aggressive or not aggressive they're going after capitated contracts or even competing with some of the physician affiliations you may be pursuing? Thanks.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Look, I'm not going to get into specific competitors, but generally, there's been a lot of disruption. We read the same news. You all read the companies going bankrupt, companies facing challenging free cash flow situations and financing situations as they have not managed the risk book really well. They're raising dilutive capital, so on, so forth.

I think what's important to recognize is sophisticated physician practices and community doctors have been around for a long time. They've been approached by private-equity-backed entities, venture-capital-backed entities, some of the new players for the last 20, 30 years if you've been around. And I think they see this differentiation much more acutely than the Street things they do.

So I think you can throw money in acquiring doctors' practices or signing them up. But ultimately, the business model and the performance matters. And I think we are seeing a lot of rationalization over the past couple of years. I think a few of the bigger entities had acquired assets, and they seem to be now shedding them or slowing them down.

So I think any of this disruption naturally benefits a strong business model like ours, and that's reflective of some of the questions we just answered on the call earlier, where our flywheel continues to progress in existing states, good conversations in entering new states. We're just going to continue to be very thoughtful and take advantage of the situation as we can.

Operator

Daniel Grosslight, Citi.

Daniel Grosslight - Citigroup Inc. - Analyst

Hey, guys. Thanks for taking the question, and congrats on a strong quarter here. I just wanted to go back on how you're thinking about new market entrants, not just this year but over the next years. Your entrance into new origins has slowed from last year, but perhaps last year was a bit anomalous. But curious if there's been anything different in how you're thinking about new markets versus now? Or perhaps if there's any macro change in the environment that is your preference to existing markets?

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Yes. Thanks for the question, Daniel. You're breaking up a little bit, but I think we got most of the questions. So I don't think anything has fundamentally changed. Since the IPO, we've said our aim is to target one to two new states every year. These are obviously lumpy. You saw when we did that consistently, and then there was a period of four to six quarters where we added five new markets.

I think BD deals happen when they happen. As we noted in our prepared remarks, our pipeline seems pretty robust. We're in 13 states. Our aspirations ought to be a true national company, so you should expect us to keep adding. And you'll have periods where we add two or three or four pretty quickly, and then we add a little slowly. But that's just the nature of how we enter new markets on a thoughtful basis.

Given our cash balance, as we noted earlier on the call, I think we have the capital to pursue some of these opportunities more aggressively. But again, we're going to be very thoughtful, do BD where it makes sense from an EBITDA and free cash flow perspective and building these large-scale medical groups. So I think we're going to keep pursuing these opportunities and keep doing what we've done consistently over the past few years.

Operator

Adam Ron, Bank of America.

Adam Ron - BofA Securities Inc. - Analyst

Hey, thanks for squeezing me in. So if I divide the fee-for-service practice collections by the number of implemented providers and come up with my own billing for a provider number, it seems like that has been somewhat flat over the past few quarters. And I'm just wondering -- I would think about that as being up 3% to 5% with cost trend, plus you're trying to help the doctors recruit more patients. And so is that a mix shift dynamic? Are you recruiting maybe lower-revenue physician groups? And over time, how should we think about that number? Thanks.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Yes. Thanks for the question, Adam. So yes, I think that's an interesting metric, but we track that internally. It's not a big driver because as you noted, it's mainly driven by new markets that come on when we don't have the full-year collections number in for a provider if they come on midyear. And then secondly, it's a mix between physicians and APPs or NPs. So obviously, APPs and NPs have much lower collections per provider versus physicians.

And then there's also the specialty versus primary care, pediatrician, OB/GYN mix. So that varies over time. But on a consistent basis, once the market is mature and more settled, we see pretty consistent trends. We have annual inflators in our commercial contracts. We have a pretty diversified book. So overall, that metric should be fairly stable. But those are the factors that influence it. But we don't see any concern from that perspective.

Operator

That will conclude our question-and-answer session. I will then turn the call back to management for any closing remarks.

Parth Mehrotra - Privia Health Group Inc - CEO & Director

Thank you for joining us today. We appreciate your interest in the company and look forward to discussing our results next quarter.

Operator

Ladies and gentlemen, that will conclude today's call. Thank you all for joining. You may now disconnect.