REFINITIV STREETEVENTS

EDITED TRANSCRIPT

PRVA.OQ - Q2 2022 Privia Health Group Inc Earnings Call

EVENT DATE/ TIME: AUGUST 11, 2022 / 8:30AM ET

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Adam Ron BofA Securities, Research Division - Research Analyst

A.J. Rice Crédit Suisse AG, Research Division - Research Analyst

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

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

Gary Taylor Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care

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

Joshua Raskin Nephron Research LLC - Research Analyst

Lisa Gill JPMorganChase&Co,ResearchDivision-MD,HeadofU.S.HealthcareTechnology&DistributionEquityResearchandSeniorResearchAnalyst

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

Sandy Draper Guggenheim Partners

Taji Phillips Jefferies

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Privia Health Q2 2022 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Robert Borchert, SVP of Investor and Corporate Communications. Please go ahead.

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

Thank you, Kyle. And good morning, everyone. Joining me today are Shawn Morris, our Chief Executive Officer; Parth Mehrotra, President and Chief Operating Officer; and David Mountcastle, our Chief Financial Officer. This call is being webcast and can be accessed from the Invest Relations section of priviahealth.com. Today's press release highlighting our financial and operating performance and the slide presentation accompanying our formal remarks are posted on the investor relations pages of priviahealth.com. Following our prepared comments, we will open the line for questions. And we ask that you please limit yourself to 1 question and 1 follow up so that we can get through the full queue in a timely fashion.

The financial results reported today and in the press release are preliminary and are not final until our Form 10-Q for the quarter ended June 30, 2022, is filed with the Securities and Exchange Commission. Some of the statements we will make today are forward-looking in nature based on our current expectations and our view of our business as of August 11, 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. Privia Health delivered another strong quarter of growth and our highly aligned provider partnership model continues to gain momentum, highlighted by our 31.5% growth of implemented providers from a year ago. We expect to continue expanding our number of provider partners, increased attributed lives and enter new markets over the coming quarters while also driving profit margin expansion by leveraging our capital-efficient operating structure. We are executing on multiple opportunities to extend our market reach, drive future growth and positively impact care delivery. With continued momentum in existing markets, we remain highly confident in our growth outlook for 2022 and beyond as we continue to organize physicians into scaled networks across our country.

This morning I'll present an overview of key business highlights, and then David will discuss our recent financial performance and updated outlook for 2022 before we take off for your questions.

Privia Health is continuing to execute at a very high level. Practice collections increased more than 67% in the second quarter, reaching over $615 million. We generated a record quarter of $15.5 million in adjusted EBITDA, up 55% when compared to the second quarter last year, showing the scale of our operating model while we continue to invest across our enterprise to support this accelerated top line growth. This business momentum and high forward visibility into our growth metrics is reflected in our updated financial guidance for 2022.

Our balanced growth is being driven by continued same-store growth in strength in ambulatory utilization across all our existing practice locations. We generated another solid quarter of new provider additions in existing markets in combination with a sustained high level of provider retention. In addition, our business development pipeline remains robust as we look to enter in many new markets over the next few years.

On an industry note, in early July CMS released the proposed 2023 Medicare Physician Fee Schedule rule. Overall, we believe the proposals are net positive for Privia. In particular, CMS made a significant endorsement of the Medicare Shared Savings Program. And some of the changes positively impact both Privia providers and their patients. CMS has been vocal in their support. Having recently said, it wants to use MSSP as a chassis for growth and care transformation. Launched 10 years ago, the Medicare Shared Savings Program now serves 11 million patients across 525,000 providers. The structure of the program has evolved over the last 5 to 7 years into one of the most successful CMS and CMMI programs. We continue to prove our success in the program by lowering cost and improving outcomes, thereby generating shared savings for CMS as well as for Privia and our provider partners.

As I noted, our business momentums has continued to be extremely encouraging across both existing and potential new geographies. Our national footprint now includes more than 3,500 implemented providers, caring for over 3.9 million patients in more than 890 locations across 8 states and the District of Columbia. Our scale and geographic density is also defined by their breadth of medical specialties. As I noted last quarter, while approximately 60% to 65% of our practice partners are primary care focused, including internal medicine, family practice, pediatrics and OB-GYNs, we actually partner with over 50 specialty types. This enables us to offer our primary care providers and our payer partners, as well as consumers, a broad ambulatory care delivery network that improve patient outcomes and reduce cost across the value-based care spectrum.

Our operating model and strategy has led Privia to have one of the broadest, most balanced and well-diversified balanced care, value-based care platforms in the industry. Our more than 80 at-risk contracts now cover approximately 856,000 attributed lives across commercial, Medicare and Medicaid programs. This is up 15.8% from a year ago, giving us a lot of momentum and visibility in the remainder of 2022.

As you know, we take upside and downside risk in many of our payer contracts, covering nearly 2/3 of our attributed Medicare lives across our MSSP and Medicare Advantage programs. This thoughtful move to risk continues to provide significant opportunities for top line and EBIDTA growth as we execute on our goals to earn greater shared savings in the years to come.

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

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

Thank you, Shawn. Our operating model again delivered outstanding performance in the second quarter of 2022, highlighting both the scale of our operations and our continued business momentum. Our 31.5% growth in implemented providers and 15.8% increase in value-based attributed lives, combined with solid ambulatory utilization trends led to all of our financial results coming in above expectations. Practice collections increased to $615.5 million, up 67.6% from Q2 a year ago. Care margin increased 36.6% and adjusted EBITDA was a record $15.5 million, up 54.8% over the same period last year.

As expected, our top line grew slightly faster than EBITDA again this quarter due to the new capitated arrangements as well as investment across our business enterprise to support this accelerating top line growth. At the same time, the operating leverage in our model is clearly apparent as our top line and care margin growth is translating nicely into EBITDA growth and margin expansion. Our adjusted EBITDA margin as a percentage of care margin increased 240 basis points from a year ago to reach 20.4%.

For the first half of 2022 practice collections increased 65.5% to almost $1.2 billion. Care margin was up 36.5%. And adjusted EBITDA grew 51.8% to reach $30.3 million for the first half of the year. Our capital resources continue to be very strong given the cash flow dynamics of our business. In June 2022, the company repaid all of its outstanding debt with cash on hand. Our balance sheet included cash and cash equivalents of $292.2 million and our $65 million revolving loan facility remains in place, available and undrawn as of June 30, 2022.

Given our first half performance, business momentum and visibility through the rest of 2022, we have a high level of confidence on our updated financial guidance. We now expect practice collections, GAAP revenue, and care margin to be at the high end of our guidance ranges. We raised our platform contribution guidance to a range of $137 million to $142 million, and also raised our adjusted EBITDA guidance to a range of $57 million to $60 million, an 8.3% increase at the midpoint.

Our year-end implemented provider guidance is now expected to be in the mid to high end of our range. And our guidance for attributed lives is now at the midpoint of our range. Our growth outlook includes only previously announced new market entries. And we continue to expect 90% plus of our adjusted EBITDA to convert to free cash flow with capital expenditures of less than $1 million in 2022.

We remain focused on growing and expanding our business and continuing to execute on our multiple growth initiatives. This includes growing existing practices, increasing attribution and risk-based contracts, adding new providers, identifying opportunities to expand our platform, and opening new markets over time.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Joshua Raskin from Nephron Research.

Joshua Raskin - Nephron Research LLC - Research Analyst

My question, I wanted to follow up on the comments you made about the Medicare physician fee schedule and the proposed changes around the MSSP program. And I'm curious, do you think there is short-term benefit from some of the benchmark changes? Do you think that helps? And then I'm curious if you guys are in a position where the changes to the risk score cap actually impacts you as well?

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

Josh, this is Shawn. Good to hear your voice. Without getting into all the details of it, we think there's a lot of beneficial things within the proposed rules. But the biggest thing probably is that, as we've talked a lot about in the past, it's a huge endorsement the way CMS wants to wants to reinvest in MSSP and these changes.
And I think some of the ones you mentioned are positive for Privia. As you know, we have one of the largest, most successful ACOs in the country. And our experience over the last 7 years, it's been very positive and it's continuous and headed that direction. So they will continue to evolve it. And the changes you mentioned are positive for us.

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

And, Josh, just to add, it's not a program where risk adjustment is a big factor, average risk score is around 1 or thereabout. So that's what differentiates us. It's relative performance. And it's harder to execute. So we're pretty happy with how we perform here.

Joshua Raskin - Nephron Research LLC - Research Analyst

Okay, that's helpful. And then if I could follow up. I know it's early, but I know you guys have a pretty good lead time on implemented providers. So I'm just thinking, just curious on your thoughts going into 2023, had sort of a big bump at the end of last year. I don't know how they ended this year. Based on guidance seems like sort of continued steady march upward. But I'm just curious 2023, how we should be thinking about that. And specifically, if there's any new market entries that you guys are expecting.

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

So obviously we're not giving '23 guidance today. What I would say is, as we sit at this time of the year, pretty much everybody that's expected to be implemented this year is already sold. So that gives us a lot of good visibility and that's reflected in the guidance we provided. Our sales pipeline and execution has been ahead of our expectations this year. And we continue to see a lot of momentum. So as we close out the year with new providers being added across all of our 8 states, that'll give us very good visibility as we enter '23. And we expect to continue to see that momentum going in the existing markets. And then obviously this guidance does not reflect any new markets that we may enter. The business development pipeline is pretty robust. Similar to last year, again, the timing is uncertain. But as and when we execute on those arrangements, we'll announce them and we'll update the guidance appropriately. And that could impact that metric into 2023.

Operator

Your next question comes from the line of A.J. Rice from Credit Suisse.

A.J. Rice - Crédit Suisse AG, Research Division - Research Analyst

Maybe I'll just follow up on that last one. When you think out to 2023, you mentioned some in response to Josh's questions, but what are the, some of the big puts and takes when you think about the outlook, what are the biggest swing factors in your mind as to where we might end up and looking at 2023 from this distance?

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

Yes, it's Parth. Appreciate the question. Look, again, generically speaking, the drivers are, as we've stated in the past, it's growth in our existing markets. It's a pretty broad footprint, a lot of TAM left. We continue to add new providers. So that obviously factors really well. A lot of same-store growth in the existing providers that are already implemented, both on the fee-for-service book, adding attributed lives in existing markets and then moving them further down the spectrum of risk. So it's pretty multi-pronged on the existing base of business. And then obviously, as we execute on business development in new markets, similar to what you saw last year, when we announced California, Montana, that accelerates growth even further. So it just depends on where we end this year. We're focused on just executing pretty strongly. Really happy with what we've done in the first half here. Positions us really well to close this year out strong, and then we'll continue to execute here in the next few months and see what 2023 brings. The one generic comment, we've obviously given our long-term guidance of 20% practice collections growth, 30% EBITDA growth. And obviously we are growing much faster than that this year, as you can see, as a lot of those drivers hit pretty well last year and this year. So there will be some years where we grow faster, some slower. We're obviously focused on accelerating that growth as much as we can as soon as we can, but you'll have variability year-over-year. But over the long term, 10-plus years, at least that's what we see ahead of us. As you know, we're in 8 states. We have 42 to go. So lots more to go.

A. J. Rice - Crédit Suisse AG, Research Division - Research Analyst

Okay. Maybe just a follow-up question. A lot of mixed messages this quarter across providers, across people broadly in your space, around utilization trends. I just wondered if you could comment both on your risk and your fee-for-service business. Anything to call out in underlying utilization trends that you're seeing? Is there any areas of surprise or something to highlight?

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

Sure. So to break it out on the fee-for-service book, ambulatory utilization, very similar to our comments in last few quarters, this has been running ahead of our expectations. We think that is good utilization, with patients seeing their primary care provider, pediatrician, OB-GYN in the community. That's been running ahead of our expectation. Our guidance assumes that that normalizes. So obviously we're trying to be prudent. And it's been tough to predict in and out of COVID as has been the case with everybody. But we prefer to err on the side of if you are wrong there's upside and not downside. The inpatient utilization obviously has been also very difficult to predict. That impacts the value-based book. Again, our guidance and accruals reflect what we see today. And we try and again be prudent with our assumptions. There's a lot more variability in the inpatient utilization. You've seen that in the comments from others in the industry. And again, it's a tough environment to just predict that. So we'll see how it plays out.

Operator

Your next question comes from the line of Lisa Gill from JPMorgan.

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

Congratulations on the quarter. I'm wondering if you can maybe just give a little more detail around the value-based care lives, the 15%, almost 15% growth. What areas are you seeing growth would be the first question? And then secondly, as we think about the improvement in the adjusted EBITDA, what are some of the key drivers there? Are you starting to see leverage in the business model? Or is there something else that you would call out as you think about that improvement being the biggest of the line items that you called out for improving in the back half of the year.

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

Thanks for the question, Lisa. So on the first question, the growth is broad-based, as you can compare quarter-over-quarter or year-over-year. And I think that's where we differentiate from a lot of peers. We are focused on commercial MA and MSSP attribution, as well as Medicaid. So all 4 buckets are important to us. We are trying to add lives across those 4. There can be some variability quarter-over-quarter in the mix. But ultimately, we are focused on the full patient panel, which I think really diversifies our book and is a key source of differentiation. It's also impacted by which providers we are adding in which markets and what the mix is in that particular geography, and that could influence it a little bit quarter-over-quarter, especially as we add new markets and ramp them up. But again, our focus is on growing all of those 4 buckets from an attribution perspective and then hopefully moving to increased levels of risk in all of those. So that's your first question. On the second one, again, look, we are really proud that the business already operates at a pretty good scale. While we are just in 8 states, if you look at any of our metrics, number of locations at close to 900, number of patients at close to 4 million, 3,500 providers, attributed lives over 850,000 in our book of business is at scale, and there's a lot of room to grow. So where we are at today is a pretty nice point where if we see acceleration in top line, that is ahead of our expectation, you can see that translating into very good operating leverage down the P&L, which is what we like to see. Now, we're obviously trying to invest in the business and capitalize on the growth opportunity that's ahead of us. Like I just mentioned, 42 more states to go. And so there'll be quarters where we'll prudently increase the level of investment if we open up new markets and so on and so forth and update the guidance. But as we see that top line momentum, it's all across the P&L where we see good operating leverage.

Operator

For your next question, it comes from the line of Adam Ron from Bank of America.

Adam Ron - BofA Securities, Research Division - Research Analyst

Going back to the fee-for-service revenue, and I guess the revenue performance in the quarter, it looks like based on the guidance, and you kind of touched on services in the back half, but it looks like there's 46% of your practice collections in the second half versus 56% last year and 53% in 2020. So just wondering, it seems like very counter to how I would think about utilization trending, people kind of -- if they're deductible, and then Q4 generally being the highest utilization quarters, if there is anything else you would call out in terms of the slowdown you're expecting?

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

No, nothing in particular. Again, we're being prudent. Everything that we see doesn't point to any material difference than how this operated last year. And again, look, we're at the midpoint of the year, and we've guided towards the high end of the range. Like I said, if these trends continue, again, we'll update our guidance in 3 months here, but nothing that we see is different from what we saw last year.

Adam Ron - BofA Securities, Research Division - Research Analyst

So you're saying that as far as physician utilization is above your expectations, but like what specifically makes you think that the actual utilization itself has elevated and not that you're just gaining share on a same-store basis?

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

Yes, that's a good point. I think it's a combination of both. Obviously, all our locations have some spare capacity. And if there's increased demand, we are able to absorb it. I think we have gained market share at the care center level. Given the strength of our business and our practices and how they've come out of COVID, I think we've increased patient panels at each provider level in aggregate overall. So we see all of that strength playing out. And again, it's hard to predict some of these trends, overall level of utilization on a per patient basis and then increase in the number of patients at the provider level if they are growing same-store growth on top. We continue to also see telehealth, which is about 10% of the mix. It's pretty stable, at least in the ambulatory fee-for-service book. Again, all of those, I think, bode pretty well for how we are set up. And if those continue, we'll update guidance again in 3 months.

Operator

For your next question, it comes from the line of Richard Close from Canaccord.

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

Congratulations. I was wondering if you could just provide us an update on the new markets you entered last year, West Texas and BASS. I know there's a period of time where you're selling, investing in potential new providers. Just curious how that sales process is going now that we're, call it, 2-plus quarters into it?

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

Yes. Thanks, Richard. Appreciate you joining despite your conference. All 3 markets are up and running, California, West Texas and Montana. As you know, we entered each of those with an anchor partner and a group joining us, BASS Medical Group in California, Abilene in West Texas, and then Great Falls Clinical with Surgery Partners in Montana. So all of those are live, and we have started our sales effort in all of the markets. We have sold our first provider groups in these markets, and we are on our way. Obviously that just takes time to ramp up the effort on the ground, but they are going as expected. And obviously, Montana and West Texas are smaller TAMs, but we're really excited about California, big state, big population. And we think we can really grow that medical group pretty meaningfully in the years to come. So really excited about it.

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

And just as a follow-up, Shawn, in your comments on the new market potential. It seems maybe a little bit more bullish, although it was bullish in the first quarter. Any big changes with respect to the pipeline that you can call out from maybe 3 months ago?

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

Yes. I mean, Richard, we remain bullish, to use your words. The pipeline is robust. We've talked a lot about the core model kind of in physician groups. We're still very excited about the health system approach. So not to get overly specific about what's in our pipeline, but it's a good cross-section. It's geographically dispersed. It's across those -- the 2 I talk about. So if you look at our history, these things come at different times, and we're not selling a widget. So we were out there selling a solution, and they take time, but at the same time we're very excited about the pipeline itself.

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

Congratulations.

Operator

Your next question comes from the line of Whit Mayo from SVB Securities.

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

Maybe just first on the 2 new full risk contracts. How did those track versus expectations? What did MLR look like? I don't have your 10-Q yet, but just maybe any early learnings or observations now that you're sort of 6 months into standing up a full risk-bearing entity?

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

Yes. Thanks for the question. Yes, we're still really early into those contracts, and we're taking, I would say, a conservative approach in how we're recording things. So at least to date we recorded -- and again, you'll be able to see this in our Q that 100% of the revenue we've taken in, we recorded expense against. So we're recognizing 0 care margin from the business so far. Really only have about 4 months of data with some tail out of 12.

And so again, just sort of taking it pretty conservative at this point. But again, I think we feel good about the business. And as we get more data from those programs, I think we're looking to see them take off.

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

Yes. Maybe just a follow-up. Are you finding any additional interest from existing affiliated groups today to explore these arrangements? I'm just sort of curious like how we think about 2023, 2024 and perhaps the penetration of new full-risk contracts. And I have one other follow-up, sorry.

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

Hey, Whit, it's Parth. So look, I mean, at every point we're evaluating what part of the book do we move into an enhanced level of risk, could be capitation, could be just enhancing the level of risk that we take without being capitated. And I think that just goes payer by payer, geography by geography and medical group by medical group. We're looking for good density in each market in our pools. And that's a discussion we continuously have with both our providers as well as our payer partners. So we're going through that discussion right now for 2023. And obviously we'll update. The one thing I would say is our criteria, as we've been very clear, to take on more risk is always to ensure that at a minimum we're not economically and from an EBITDA standpoint worse off. And ideally we're doing it to enhance the level of EBITDA and earnings and shared savings. So that's a fundamental criteria. We're not going to do it just to recognize top line practice collections or revenue. We'll do it when it makes sense and when we think it's a good financial decision for our physicians as well as the payers in Privia.

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

That makes sense. Just AR days grew kind of 2x faster than revenue. Can you kind of flesh out what's going on there? I presume some of that may be influenced by some of these capitated contracts, but I'm not sure.

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

Yes, it's a combination of the capitated contracts and if you want to think about how our shared savings accruals work. At Q2, we're at 18 months of accruals related to '21 because we keep looking at those. And then as we look at '22, we've put in additional accruals. So when we get, for example, MSSP, which we're expecting, hopefully in Q3, maybe early Q4, you'll see a bunch of that receivable come down. But we kind of get to a high point on receivables, especially related to shared savings because we've just got so much accrued in that number as of the end of Q2.

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

Okay. So it's not really a bad number then.

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

No.

Operator

For your next question, it comes from the line of Gary Taylor from Cowen.

Gary Taylor - Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care

I just wanted to ask a question about patient attributed lives, small picture question then a big picture one. The small picture is just I think the ACO lives were down about 4,000 sequentially. We hadn't seen a sequential decline there back in my model. So just wondering what that small change was. And the bigger picture one is, just when we sort of look at this quarter, I think gross practice collections up north of 60%, providers year-over-year, providers up like 32% and attributed lives up 16%. I don't think that's the long-term growth algorithm. So I just wanted to see kind of as we think about modeling '23 and '24 and trying to hit that 20% long-term guidance on growth practice collections, I would imagine practice collection lives and providers are all tying a little closer together than we're seeing right now. So I just wanted to make sure I'm understanding that.

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

Yes. Thanks, Gary. It's Parth. So on the first question, look, there will always be some quarter-over-quarter variability on the MSSP book. As you know, these are PPO lives. There's also some movement to MA from the MSSP book as those patients can move. And then the third factor could be if some patients in the first half just simply haven't come for the PCP visit, CMS classifies them as nonassignable and you can't count them in the period. But when that happens, you count them again. So again, the movement is pretty small. Nothing that worries us. Again, our guidance range was pretty tight. And so I think that's kind of the short or near-term question that you had.

On the longer-term question, the model is we add providers in existing and then obviously in new markets. And the attribution then follows. So California is a great example, the medical group that we partnered with a BASS doesn't have a big value-based book today, not a lot of attributed lives, even though it's about 400 providers. So the mix of provider matters, the market matters. But over time, that's a really good market to do a lot of value-based care. As we add more primary care providers in California as we -- as the existing providers to add more patients and attributed lives, the attribution follows the provider growth. The third aspect then will be the level of shared savings and profile of the contracts we get into. So even with the same attributed lives over the course of 2, 3, 4, 5 years, you can expect the level of shared savings to increase in the same program. And our MSSP book is a perfect example in Mid-Atlantic. If you look at the history over 7 years, publicly available data with CMS, you can see we've grown both attribution and the level of shared savings and the actual percentage of savings under the benchmark. So you can see the value per life or the yield per life increases over time. And then obviously, in the MA book, there's a much more pronounced revenue recognition when you move into capitation. And that's what you saw with about 25,000, 30,000 lives this year as we entered those contracts. So it's a multipronged answer to bridging top line practice collections to the provider and attribution, but that's the algorithm essentially. And again, that plays out over multiple years. So it's tough to pinpoint what happens in one particular year. A lot of the growth in California would likely come in the subsequent years, even though we entered the market last year. Hopefully, that helps.

Operator

For your next question, it comes from the line of David Larsen from BTIG.

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

Congratulations on another very good quarter. When we think about 2023, can you maybe talk a little bit about some of your largest groups? I mean, how are satisfaction levels, what percentage of revenue do some of your largest groups make up? And is there any risk that some of those large groups you're either in the process of implementing or implementing now may for whatever reason switch off of your platform due to like M&A activity or anything else? Just any color around that would be very helpful.

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

Yes, thanks, David. It's Parth. So as we showed in Slide 5, our satisfaction levels are pretty high. One of the highest we've seen since the beginning. Patient NPS is 84, provider NPS is 57, they're tough graders, but 57 is pretty high no matter what benchmark you use. Our attrition is at a record low, again, or close to record low across our markets, give or take. And that just is a great metric for us to track internally. We don't disclose it externally. So all of those things point to really good satisfaction. Ultimately, our value proposition is very ROI-driven. The providers are making more take-home pay at the end of the day, having pretty robust patient panels. We're moving them into value-based care and adding a lot of value to their overall practice and the functioning of the practice, the efficiency, productivity and so on and so forth. So we're not worried about M&A activity and folks buying out our groups. We don't have very big concentration. We had the one group that had left us prior to us going public in 2020 that we had disclosed. And again, that was if somebody wants to come in and pay a big check we've said we're not going to chase it. But again, our practices are joining us in a very self-selected manner. They are vehemently independent. And our health system partners are also very progressive in the way that they are thinking about partnerships with us. So that gives us a very diversified book. And as we grow, there's no really no single practice that really we have any concentration risk from that perspective.

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

Hey, David, this is Shawn. I'll add a little color. Over the years we've talked a lot about physicians and their care centers being the customers of Privia. And, as in any business, when your customers are referring you to other potential customers, then that is a big driver to how we grow, that same-store growth, addition of providers in existing markets, addition of doctors in existing care centers and even growing new markets, you know you're onto something special. You can always improve, but you know you're headed the right direction. With that, over half our additions come from doctors referring colleagues to Privia. And I mean, if you think about it, and somebody asked the question in the last quarter about the inflation factors, is it kind of different? How do you think about it from a driving business perspective? And anytime there's tough things going on in the economy, people are looking for partners and solutions to help. We saw it through COVID, and we believe that's going to continue to play out in the next few years as we -- as the economy kind of gets back
on its feet.

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

Great. And then one more quick follow-up. For the cap revenue, it sounds like you have 4 months of data. I like how you're not assuming any margin there. What's the risk of a loss though? How do you know you're being sort of conservative enough? With that 4 months of data that you have, is that within budget? Or is it over budget? What is that telling you?

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

Yes, it's Parth. Look, when you're in the risk business, we've said very clearly, it's called risk for a reason. There is always a potential for loss. There's a potential to have good shared savings. Generically speaking, again, we're not going to go into any particular contracts or what the data is saying for 4 months and so on and so forth. Our view has been you enter into these arrangements with the hope that you would do better than when you would just take an upside-only risk, and you're not on the downside on any, hope. So our hope is that we underwrite these properly, that there is not much potential for downside. But anomalies can happen. Events can happen that can impact the book again year-over-year. But from a long-term perspective, we feel pretty good as we are moving into these contracts that we can perform in them. And again, the diversity of our book also prevents any one particular contract from really impacting the P&L in a big way. And I think we're differentiated in that respect, given we are doing value-based care across commercial, MSSP, MA and Medicaid, and MA capitation is just part of the business.

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

Congrats on a good quarter.

Operator

For your next question, it comes from the line of Taji Phillips from Jefferies.

Taji Phillips - Jefferies

This is Taji on for Brian. So first, to start, I'm just curious, can you give some color on the factors that drove the beat, and specifically clarify operational metrics that came in higher than your original expectations?

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

Yes, sure. It's Parth. Look, it was pretty broad-based, which is what we like to see. The fee-for-service book performed ahead of our expectation. The utilization trends were ahead of our expectations, as we just stated. On the value-based side, our accruals reflect all the information we have, and that's been ahead of our expectations. So that's reflected there. And then that outperformance is reflecting down the P&L given the scalability of the business and the inherent operating leverage. So as you know, we've been meaningfully profitable and free cash flow positive. And we're managing the expense base pretty prudently, investing where we need to. And some of this outperformance if it happens, translates nicely into bottom-line metrics. So it was fairly broad-based all across. And it shows our confidence, we paid all our debt. And we feel pretty confident in the future here.

Taji Phillips - Jefferies

Great. And then just 1 more question. With thinking about your specialty offering, can you provide some detail on patient demand or specialties that are driving highest patient demand or health care utilization and how that's informing how you target additional providers for inclusion in your network?

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

Sure. So look, obviously, as Shawn stated in his prepared remarks, we're fairly broad-based with 51-odd specialties on the platform today. The one differentiation is our specialists are folks that typically take care of the chronically ill. We're not going for surgical specialty specifically. We do have some. And so that is a good reflection of the medical groups. We are trying to create very primary care OB (inaudible) focused and then surround them with the right specialist. In some markets, the concentration can be different with our anchor partner as is the case in Florida and with BASS in California. But over time, as those medical groups grow, the hope is that, that mix normalizes and it's very primary care-focused. So that's point one. And again, we see good utilization all around. We have a pretty good in-network referrals with our high-quality lower-cost specialists. And that benefits our value-based book. And I think that differentiates us to create a pretty holistic medical group that can perform at a pretty high level across both fee-for-service and value-based arrangements.

Operator

For your next question, it comes from the line of Sandy Draper from Guggenheim Partners.

Sandy Draper – Guggenheim Partners

Actually all my questions have been asked and answered. So I'll pass it back to the operator.

Operator

For your next question, it comes from the line of Jessica Tassan from Piper Sandler.

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

So I guess just my first one would be, I know you guys said you're booking the full risk lives at 0% care margin, but then also that you wouldn't enter these contracts if they were going to make you less well off. So just over what time frame ...

(technical difficulty)

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

Thanks for the question, Jess. Look, we look at data. And as and when we feel comfortable that we see the right trends, we'll book it -- we'll accrue for it appropriately. You should expect to see that happen over the next few quarters. The data does come with a lag, and it's not almost immediate, so this could flow into next year as well. And that's why you do have prior-period adjustments in this business when you're taking risk. And they could be positive. They could be negative in certain cases. And that's why it's called risk. But again, we hope we can manage the book pretty well, and we've entered into these to do well for both our payers as well as our physicians in Privia. So hopefully, over time, you'll see that trend.

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

Got it. So then just one more on the 2022. If the '22 full cap performance does prove to be better than 0% care margin, what is kind of the latest possible date that you'd expect to reconcile that and see upside on the P&L? And then just if you could remind us what was capitated revenue in the quarter? And that's it for me.

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

Yes. So on the first half part of the question, so our guidance assumes the existing accrual that we would book medical expense that equals capitated revenue. And that's what's reflected in the guidance we are giving today. If it is better or worse, we'll update guidance appropriately. And that could happen again in subsequent quarters this year. So in Q3 or Q4, when we report Q4 early next year, or it could happen afterwards if there's prior-period adjustments. So again, you'll expect to see that as we close out the year and go into next year. And David can take the next.

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

Yes. And as you'll see in our 10-Q when it gets published later today, capitated revenue was $57.7 million for the quarter and $106.1 million for the first 6 months. Now value-based care equals about 29.6% of our total GAAP revenue, up from 12.5% last year, which you'll see that in the Q as well.

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

Got it. And then just quickly, sorry, is the sequential increase due to capitated rates? Or it's due to just an increasing population of lives under full cap.

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

Yes, it's a combination of all of those. We entered one additional capitated contract from what we announced in our press release earlier in the year. So it's increased in lives. It's the nature of the capitated arrangements and the top line that we can recognize on a PMPM basis. And then it's also reflected of shared savings across the rest of the book in commercial and MSSP.

Operator

Your last question comes from the line of Ryan Daniels from William Blair.

Jack Senft – William Blair

This is Jack on for Ryan Daniels. Congrats on the solid quarter. So my phone cut out, so apologies if you addressed this already. But just looking at your total practice collections for the first half of the year, it looks like we're already past the halfway point for the high end of your guidance range for, I think it's 2,200. So just curious if you can provide any color on how we should kind of think about the quarterly cadence as it relates to the back half of the year? And if we should anticipate any sequential step-downs in the third or fourth quarter. Just any update there would be great.

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

Yes. Sure, Jack. I think we did address that one, but no worries if your line got cut off. So look, again, we don't expect any deviations from the trend we saw last year. We're being prudent. It's tough to predict the ambulatory utilization as we've stated. And so our guidance assumes that there's some normalization of that trend. It's been running ahead of our expectations. If the trend continues, then we'll obviously update the guidance in 3 months here. So -- but again, we don't see any anomalies from what we've experienced previously.

Operator

There are no further questions at this time. I would now like to turn the conference back to Mr. Shawn Morris, Chief Executive Officer, for closing remarks.

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

As always, thank you for listening to our call. Privia Health supports all providers, all patients through all reimbursement models. Our capital-efficient and proven integrated care delivery model is already running at scale and we have significant momentum in the physician-label market. And we look forward to continue to execute at a high level through '22 and beyond. So we appreciate your continued interest and support of our company. And we look forward to speaking to you again. And wish you the best and enjoy the day and the rest of the week. Thanks.

Operator

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