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PRVA - Q3 2025 Privia Health Group Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2025 / 8:00AM ET

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PRESENTATION

Operator

Hello and welcome to the Privia Health third quarter 2025 results conference call. (Operator Instructions) I'd like to hand the call over to Robert Borchert, as SVP of Investor and Corporate Communication. Please go ahead.

Robert Borchert - *Privia Health Group Inc – Senior Vice President, Investor & Corporate Communications*

Thank you, Kris, 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 through the Investor Relations section of priviahealth.com along with today's financial press release and slide presentation. Following our prepared comments, we'll 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 third quarter and nine-month periods ended September 30, 2025 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 November 6, 2025.

Such statements, including those related to our future financial and operating performance and future business plans and objectives, are subject to risks and uncertainties and 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 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 to Parth Mehrotra, our CEO.

Parth Mehrotra - *Privia Health Group Inc - Chief Executive Officer, Director*

Thank you, Robert, and good morning, everyone. Privia Health continued to execute very well across all aspects of our business through the third quarter of 2025. This momentum positions us for continued success in 2026.

Today I'll summarize our business and financial highlights, and David will discuss our financial results and updated 2025 guidance before we take questions. Privia Health's consistent results, operational execution, and differentiated business model have clearly demonstrated our ability to perform in all types of market environments.

We delivered very strong results across our value-based care book, including the Medicare Shared savings Program for 2024. New provider signings and implementations remain strong across all of our markets, which provides great visibility for 2026.

Implemented provider growth of 13.1% and value-based attribution growth of 12.8% year over year helped support practice collections growth of 27.1% in the third quarter. Adjusted EBITDA increased 61.6% with EBITDA margin as a percentage of care margin expanding 720 basis points to reach 30.5%.

This outstanding performance gives us confidence to raise our 2025 outlook above the high end of our previous ranges.

In September, Privia Health agreed to acquire an Accountable Care Organization business from Evolent Health for \$100 million in cash plus an earnout of up to \$13 million based on 2025 MSSP performance. This business will add over 120,000 value-based care attributed lives across existing and new states in MSSP, as well as various commercial and Medicare Advantage arrangements.

The transaction offers a compelling synergy for Privia as the ACO participating providers will have an opportunity to join Privia's medical groups for a full technology and service platform. The transaction is expected to close by year end 2025 pending regulatory approvals, and we expect it to positively contribute to adjusted EBITDA in 2026.

Privia's national footprint now includes 5,250 implemented providers caring for over 5.6 million patients in more than 1,340 care center locations operating in 15 states and DC. Our balanced and diversified value-based care organization now serves over 1.4 million patients through more than 100 commercial and government programs.

Our total attributed lives increased close to 13% from a year ago. This was broadly driven by new provider growth and our entry into Arizona. Commercial attributed lives increased more than 12% from last year to reach 864,000. Lives attributed to CMS Medicare programs were up 12%.

Medicare Advantage and Medicaid attribution increased more than 12% and 18% respectively from a year ago. This diversified value-based care book gives us the confidence to build scale and profitability without depending on any one particular contract.

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With the ACO business acquisition, Privia's total attributed lives will expand to more than \$1.5 million. We remain highly focused on generating positive contribution margin in our value-based contracts as we pursue attribution growth, manage risk, and implement clinical and operational enhancements in our medical groups.

Our consistent performance over the past few years is a testament of our approach to value-based care and the strength of our actuarial underwriting, physician-led governance structure, and clinical operations. Our physicians and providers continue to strive to reduce costs, improve patient well-being, and deliver value to our commercial and government payer partners. I'll ask David to review our recent financial results, balance sheet strength and our updated 2025 guidance in more detail.

David Mountcastle - Privia Health Group Inc - Chief Financial Officer, Executive Vice President

Thank you, Parth. We continue to see very strong performance across our value-based care book, especially in the Medicare Shared Savings Program. Across our nine ACOs and MSSP in 2024, Privia managed over \$2.5 billion in medical spend.

Our aggregate savings rate of 9.4% was up from 8.2% in 2023. Total shared savings of \$234.1 million increased 32.6% from a year earlier. This demonstrates our continued success in increasing savings and profitability while adding value-based and downside risk lies and contracts.

After CMS's share, previous gross shared savings was \$160.1 million a 36% increase over 2023. This is the amount recognized in practice collections and GAAP revenue.

In the Mid-Atlantic region, we operate one of the country's largest ACOs caring for about 60,000 patients. We delivered savings of 11%, which for the 5th year in a row was the highest savings rate of all ACOs with greater than 40,000 attributed lives.

Privia Health's strong operational execution and growth continued through the third quarter. Implemented providers grew 125 sequentially from Q2 to reach [5,250] at September 30. An increase of 13.1% year over year.

Implemented provider growth along with strong value-based performance and solid ambulatory utilization trends led to practice collections increasing 27.1% from Q3 a year ago to reach \$940.4 million. Adjusted EBITDA, which is reconciled to GAAP net income in the appendix, increased 61.6% over the third quarter of last year to reach \$38.2 million, representing 30.5% of care margin.

This is a 720-basis point margin improvement year over year as we posted better than expected results across our value-based care book which helped generate significant operating leverage across both cost of platform and G&A.

For the first nine months of 2025, practice collections increased 19.6% to \$2.6 billion. Care margin was up 16.7%, and adjusted EBITDA grew 43.5% to reach \$94.1 million. Our business continues to generate very strong free cash flow. Pro forma cash at the end of the third quarter was \$409.9 million with no debt.

This assumes the deployment of 100 million by year end for the ACO business acquisition and the net cash received from CMS for the 2024 MSSP performance year. Year-to-date, pro forma free cash flow, excluding cash employed for business development transactions was \$104.4 million.

Assuming no further deployment of capital for business development, we expect to end the year with at least \$410 million in cash. This continues to position us with significant financial flexibility to take advantage of opportunities in the current market environment.

Our outstanding year-to-date performance positioned us to once again raise our 2025 outlook. Using the midpoints of our new 2025 guidance, implemented providers are expected to increase 11.2% year over year to reach 5,325 by year end.

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Attribution growth is expected to be approximately 12.5%. We expect practice collections to grow 17.1% and care margin 13.2% at their respective midpoints. We are also guiding to adjusted EBITDA growth of 32% at the midpoint and expect more than 80% of full year 2025 adjusted EBITDA to convert to free cash flow.

Privia's consistent long-term growth and profitability across economic, healthcare, and regulatory cycles validates the strength of our differentiated business and economic model and consistent execution by our provider partners and our employees year after year.

Our momentum and diversified book of business has positioned us well to drive organic provider growth and increase operating leverage for long-term adjusted EBITDA and free cash flow growth as we build our national footprint. We look forward to continuing to serve our physicians, providers, and health system partners and their patients on our long-term journey together. Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

We'll now begin the question-and-answer session. (Operator Instructions) Josh Raskin, Nephron Research.

Marco Criscuolo - Nephron Research LLC - Analyst

Hey, good morning. This is actually Marco on for Josh. I would appreciate you taking the question. Actually, I had one on your MSSP performance. So given the very strong results for that program in 2024, I'm just wondering how you plan to guide to that in the future. Does the outperformance in 2024 now just get factored into the baseline for future planning, or are there any reasons why we should consider that year to be, above the go-forward, run rate? Thank you.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, I appreciate the question Marco. So, I think we're going to be pretty consistent with how we've done it over the past, seven, eight years. We take into account all the data we receive from CMS, look at our attribution, see any changes, to the program structure, fee rates, etcetera. Just factor all that in. We look at the results and if, we perform well relative to benchmarks, all that just does get factored in the next year.

So, every year when we report, we are updating for prior year and then also updating current estimates, for the current year, so all that's factored into the guidance. So you can see with our performance, that includes, both factoring in for '24 actual results as well as updated beyond '25.

Operator

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - Evercore Inc - Analyst

Good morning guys. Congrats on the quarter and the good MSSP results and thanks for the question. Could you talk to us about the go forward for the fourth Q? I know, you obviously had the outside gains in the third quarter, but sort of how you're seeing the core business

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performing as we go into the fourth quarter. And on prior calls you talked about over \$130 million of EBITDA for 2026. I don't know if you could comment on sort of where you're seeing that number now. Thank you.

Parth Mehrotra - *Privia Health Group Inc - Chief Executive Officer, Director*

Yeah, thanks, Elizabeth. Appreciate it. So, look, I think we continue to see very strong trends. There's no reason to believe the momentum changes in Q4. We don't give quarterly guidance. We're just focused on annual results, given when value-based care results flowing into the year. There's a very specific reason we just avoid the quarterly, guidance or implied outlook and so on and so forth. I think we're being our usual, prudent, in terms of, implied guidance for Q4.

So, I think we'll just see how the year goes. We just don't want to get ahead of ourselves, given we've had a pretty outstanding year, year-to-date at Q3. And then, I think, look, I mean, the updated guidance, we're sitting close to \$120 million.

I think we're going to keep targeting 20% growth off of where we close this year into next year. We'll just see how we close the year, hopefully strong. And then, close the Evolent transaction like we noted, factor all that in, see updated results on the value-based book across all categories as we enter later this year, early next year, factor all that in and give guidance in February like we do.

But there's no reason to believe, I mean, we've had one of our best years, and I think the momentum should help us, take that forward like we noted in our prepared remarks. It positions us exceptionally well for a pretty strong '26.

Operator

Whit Mayo, Leerink Partners

Whit Mayo - *Leerink Partners LLC - Analyst*

Hey, thanks. When I look at revenues or practice collections per provider, it's just up a ton this quarter and I know it's just a metric, but can you just talk about the factors influencing the strong fee for service growth? I know you don't give same store volumes, but just the revenues are growing so much faster than the implemented provider growth. Thanks.

Parth Mehrotra - *Privia Health Group Inc - Chief Executive Officer, Director*

Yeah, to answer the question, so, I think it was pretty broad based. We saw that, across the fee for service book, utilization trends, and then also value based book where, if the actual results come in ahead of accruals, all that gets factored in the practice collections. We added a couple of markets, Arizona is now fully factored in. When we give original guidance, we don't include BD like we noted, and, once we close the transaction, all that gets factored in. Indiana got implemented, that got ramped up.

So I think you're seeing the momentum across the business, same store, new provider growth, new markets, good value-based book, and it just speaks to the momentum in the business. When all of these things hit, you get results like this and it flows down. So, I think we're really pleased as to how it's played out.

Operator

Matt Gillmor, KeyBanc.

Matt Gillmor - *KeyBanc - Analyst*

Hey, thanks for the question. Parth, I wanted to ask about the synergy opportunities with the Evelyn Health ACO. How are you thinking about the pathway to enhancing the savings rate from Evolent's ACO up to previous performance and then also, can you provide a couple of comments about the physician base which I think is relatively large, around 1,000 physicians. Just give us a sense of what those practices look like and the appetite to join the Privia Medical Group.

Parth Mehrotra - *Privia Health Group Inc - Chief Executive Officer, Director*

Yeah, thanks for the question, Matt, and kudos to calling the deal out like a year ago, when we hadn't even started conversations. Look, I think you noted all of them. I mean, our thesis is, this is a core part of our business. We've done MSSP for 10 years. We think we can offer a lot more to these provider groups. Obviously, there's a synergy opportunity in our existing states where we have medical groups, we have a full infrastructure. We'll have a pretty tangible ROI for many of the practices, that can join us.

And so there's that cross-sell opportunity. I don't think it plays out just in the next quarter or two. I think this thing takes, a few years to play out as practices, some of the larger practices make that fundamental decision to join, our medical groups. It's an entirely different business value proposition. And then I think it gives us a good opportunity to, we're now going to enter 6 new states, with a lighter model. We're just, in the ACO, but then there's an opportunity for us to find anchor providers.

And others that we can actually establish a medical group and then implement our full suite, and enter these states. And so I think we're going to, focus on both of those and then obviously, improving the performance of the ACO at hand is kind of job number one. So, they are at a certain level of shared savings rate, with CMS.

You've seen our performance across our other ACOs as we've consistently improved that. We have, four or five ACOs that are now close to double-digit or higher than double-digit savings rates. So I don't think again that plays out in the near term, but over time our hope is we can improve performance. So there are multiple levers to get synergies out of the business, we haven't closed the transaction yet, so, we'll just go through that and hopefully that gives us good tailwinds over the next, two, three years as we play out that thesis.

Operator

Andrew Mok, Barclays.

Thomas Walsh - *Barclays - Analyst*

Good morning. This is Thomas Walsh on for Andrew, hoping you could discuss some of the moving pieces in the capitated business this quarter, including the step up in revenue, prior claims development, and any change in membership. Thanks.

Parth Mehrotra - *Privia Health Group Inc - Chief Executive Officer, Director*

Yeah, thanks. So, I think we have a pretty small capitated book, about 20,000, 22,000 lives. So I think that's just to note that, and then this

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was a small book that we retained on a capitated basis when we kind of restructured these contracts a couple of years ago, given our view on the broader MA, environment.

And our hope was that we would perform well in the book that we are keeping. So, I think you're seeing that play out. I think it's, effectively, the factors that you would expect on the revenue side, given attribution, risk adjustment, and then obviously performance relative to that on the cost side with all our programs, just performing, a little bit better than what we expected, which was the hope.

So, you're seeing that play out. I don't think it fundamentally changes our view. On capitation and, how that plays out going forward. We continue to believe having shared risk model with payers, providers, Privia, like we've said on our previous calls, we just think that's the most optimal structure. All the pressures in MA continue to persist, as most of the analysts on the call have written pretty extensively about V28 and STAR scores, utilization trends, all, none of that is changing. Fundamentally, so I think we're going to be pretty cautious on capitated MA, but, we're really pleased with the book we have and we'll continue to optimize it for profitability and, continue to give that value to both our pa partners and our providers.

David Mountcastle - Privia Health Group Inc - Chief Financial Officer, Executive Vice President

And just to add to that, for the quarter, there was, a little bit of timing of data and a little bit of retroactivity back to 1.1, so I would say we're looking at probably Q3 is the high mark for the year, I wouldn't expect that exact trend to continue into Q4.

Operator

Matthew Shea, Needham and Company.

Matthew Shea - Needham & Company LLC - Equity Analyst

Hey, thanks for taking the question and congrats on the nice quarter here. Wanted to ask about kind of the growth, go forward growth algorithm, historically you've stuck to a cadence of one to two markets per year, you demonstrated that this year. Evelyn obviously adds more than one to two markets immediately, so curious, how does the acquisition change the cadence of new markets? Is it fair to expect you will pause for a bit while you process through integrating those assets or just how does the deal change the growth algorithm? And then you also commented on the flexibility the cash position gives you at this point. So just curious what your appetite for incremental M&A is. Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, I appreciate the question, Matt. So I don't think anything changes fundamentally. We continue to have a pretty good business development pipeline. Evolent gives us access to six new states, but it's not with the full model as we just, were talking about. So, when we talk about a new state, it's implementing the full model with our medical groups, risk entities, full services platform.

So I think that'll be the cadence. We have a pretty strong cash balance, \$400 plus million even at the end of the year, despite spending \$200 million this year. I think we're going to continue to take advantage of all the dislocation in the market, a lot of companies that got started, public, private, have struggled for different reasons. I don't think new money is chasing some of these models, which is great for us.

A lot of TAM opens up as some of these models struggle. Physicians come out. So, I think we're going to continue to be, pretty, aggressive with BD and try to take advantage of, this opportunity and window and keep growing our business and compounding it. So, again, but we're going to be disciplined on price, on the types of deal we do, as we have been in the past. So, I think we'll just continue with the cadence, all across. So there's no fundamental change in how we think about our growth algorithm.

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Operator

Jailendra Singh, Truist Securities.

Jailendra Singh - Truist Securities - Analyst

Thank you. Good morning and congrats on a strong quarter. I want to stay on the topic of MSSP. Clearly, strong results there, but this landscape in general, I mean, we have come across multiple companies who were previously only focused on the ACO REACH program and now exploring ways to shift to MSSP given all the uncertainties in the ACO REACH program, is that how does that change the landscape for you guys? I mean, on the same topic of M&A, do you think that could be an opportunity for you to look at some of these entities who might have done okay on ACO reach but that now are uncertain about the future? Just give us the flavor about the landscape this might be, having some impact on.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, thanks. I think it ties to the previous question. I think there's a lot of dislocation. The barriers to entry to start a reach or an MSSP ACO were pretty low, but then executing on it and scaling it and making it profitable is where I think all the secret sauce is. I mean, there's no IP in healthcare services. So, as new money does not flow in and people are not willing to put in good money behind bad money, and some of these models struggle to get profitable, or scale. I think all of those give us good opportunities. I mean, at the end of the day, if you look at our slide 12, we are chasing two units that drive this business, providers, the patient lives they cover, and then how many of those are in some value-based arrangement.

So, As I think some of these entities struggle, the physicians come out, or we have an opportunity to buy some of these entities, at a reasonable price, I think we're going to look at all of those. The transaction we did with Evolent is an example of that. I mean, they didn't do reach, but, I mean, there's a pretty big value-based book available.

And I think the transaction was good for both parties. We got it at a reasonable price. They had something that was non-core to them. So I think, we're going to look for, those kinds of opportunities, but I think, like we said, we're going to be pretty aggressive across the board in looking for opportunities to keep growing.

Operator

Jeff Garro, Stevens.

Jeff Garro - Stephens Inc - Equity Analyst

Yeah, good morning. Thanks for taking the question. I want to ask how we should be thinking about the evolution of your relationships with payers as we head into the next calendar year and so you. Might be finalizing any of the negotiations or contractual arrangements with those counterparties towards your end. Has your execution on value-based care from both the cost and quality perspective changed those conversations dramatically, or should we continue to think about it as, kind of incremental gains towards value-based care as you show the high level of service that your providers offer? Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, I appreciate the question. I think it's a great question. Given the breadth of our relationship across commercial, MA, Medicaid, these are ongoing discussions. It's not like we have contracting discussions at one point of the year, because, like we said, we have, over 100 BBC contracts, close to 200 commercial contracts, including commercial value based.

So the discussions are really broad based and, these happen at the state level just given how, the industry works, but then as we really perform well in one state, we have case studies, we have, history of performance, the payers understand what we've done for them in one state, and so as we enter a new state or we have some of the younger states, I think those conversations help us, so there's a local level discussion, there's a national level discussion. We include multiple aspects to contracting. So when we go and negotiate a fee for service contract, it includes a value-based element to it, even on the commercial book, the MA book, the Medicaid book.

So I think it's a differentiated value proposition that very few companies in the space have at the scale and breadth that we do. And so I think we continue to work with the payers. They're seeing strong results. We offer them a very low-cost provider network, a delivery network, and that's the right side of history in terms of where, what you have to do to reduce cost, improve outcomes, improve patient wellbeing, so on and so forth. So I think it's great to see that play out over four, five, six, seven years.

So you have empirical, tangible results to show. And I think that continues to differentiate us, and I think it, it's not only with the payers, it's with provider groups, it's with the government, so I think, all of that bodes pretty well for us as to as we continue the momentum.

Operator

Ryan Langston, TD Cohen.

Ryan Langston - Cowen and Company LLC - Analyst

Thanks. Good morning. On the MA cap performance, I think I heard you say there was some favorable retro pickup. I guess could you maybe help us frame how much of that was sort of core performance versus one time in nature and then just on the current number of MA lives 20,000, 22,000, if you wanted to, is there an opportunity to increase the number of those lives in the current contracts that you have, or would you sort of have to move outside of those and sign additional contracts to grow lives?

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Thanks. Yeah, I appreciate the question. So, I think it was a bit of both on the first part. It's also relative to our accruals, what the actual results are. I mean, we've been very prudent and thoughtful on how we accrue, just given the environment, given everything you've heard from the pays.

So, we were, fairly prudent in our, assumptions, but then at the same time, we just don't take a step back on, actually performing in those contracts and we, then we hope for the best. And I think what you saw was, the team did a pretty good job. Now, it's a pretty small book. It's like we said earlier, it's 20,00, 22,000 lives, one or two states, a couple of payers. So, we really focused on what we needed to do, to reduce costs, improve outcomes, and then have the results we did.

So I think it was a bit of both, in terms of, great performance in the year. Now, like we said, I don't think we're going to assume that some of the headwinds just go away. So, I think we'll continue to be prudent in our approvals going forward. And if results are better, then you'll see the outperformance again, but I think that's the tactic we're just going to keep.

And then I think in terms of increasing attribution, look I think it's going to be both things. I mean we're looking to increase same store

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attribution growth in existing states with existing contracts with existing doctors. We add new providers in the same state, so, and in the same geography, so if we have an am a contract and a few zip codes, we add new. Providers there, that attribution adds to it and then we're going to obviously try to enter into new MA contracts in existing and new states as well. So, I think you'll see a combination of all of that.

Our approach is to continue to increase lives across the value-based book, MA, MSSP, Medicaid, commercial, and because that's the chassis for the business and the economic model. So I think you're going to continue to see us just increase lives as fast as we can.

Operator

A.J. Rice, UBS.

A.J. Rice - UBS - Analyst

Hi, everybody. You have a unique window on a bunch of different. Payer classes, coverage categories, and I wonder, there seems to still be quite a bit of, disruption and underlying utilization trends. Is there anything you're seeing to call out there? There's also been speculation that as people face coverage changes going into the new year, there might be some acceleration on utilization here in the fourth quarter. Are you seeing any of that in how people are approaching your primary care, operations and so forth?

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, thanks for the question. So, as we've done previously, I think it's important to distinguish between ambulatory utilization, physician practice offices in the communities versus, in the hospitals and post acute and so forth. And so I think, we continue to see elevated trends across the board. I don't think there's any reason to believe that that, those trends reduce.

We'll just see how Q4 plays out and whether all the changes in some of the programs and where the, attribution might change with Medicaid or, exchange population. It's not really big for us, but I think that impacts more of the post acute, an acute side of things versus ambulatory, but we'll see how that plays out. But I think our underlying assumption is it's going to be pretty elevated, and so we plan for that in the value-based book. It bodes well for us on the fee-for-service side. So I think that's our view.

Operator

Constantine Davides, Citizens.

Constantine Davides - Citizens JMP Securities LLC - Analyst

Thanks. Yeah, maybe just part changing gears a little bit here, but you, you've more than doubled the number of providers on the platform in the past five years. Can you maybe talk about, previous ancillary capabilities and how they've evolved over this time frame as you've added, new markets and particularly new specialties, and increased density and more mature markets, so. Just, again, how your ability to continue to scale the platform is maybe driving your thinking about some of the ancillary services you provide to your groups.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, I appreciate the question Constantine. So it's a really good point. I think, look, our strategy is enter a state, get density of providers,

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and then run the entire playbook, for the whole line of business, all patients, all pairs, all lines. And as we develop that density, there's a lot of opportunity for us to, get into things like labs, pharmacy, benefits, ASCs potentially, clinical research, anything that goes through our practices because we are operating integrated medical groups, risk entities, full tech and services platform. We've got all the data. The medical groups make the decisions collectively with the Privia team. And so there's a lot of saving opportunities that we can offer to the payers, incremental revenue opportunities we can offer to our medical group and our provider practices.

And so you'll see us pursue all that. Now, it varies by state depending on density. So it's not going to be homogeneous, but across all of those lines, we look to monetize the platform, and scale it. So and I think that leads to the, great economic model where incremental revenue, just slows down the P&L, as we monetize the network and I think that's one of the underappreciated parts of our business as to how we can, how well we can do that.

So you're seeing that play out in the thesis. Again, like slide 12 speaks for itself. If you look at the provider growth, collections growth, care margin, EBITDA, free cash flow, and that's a fully expensed P&L for all sales, marketing, BD, software development, everything, and we are approaching close to target margins. Overall, as a company, we're at 26% EBITDA to care margin.

When we went public five years ago, we said we're going to target 30% to 35%. I mean, we're pretty much there, over the next few years. So, I think you're seeing the whole thesis play out as a result.

Operator

Jessica Tassan, Piper Sandler.

Derek Gross – Piper Sandler Analyst

Hi guys, this is Derek Gross on for Jess. Thanks for taking the question. I had one on Evolent Care Partners. We believe that they had a \$220 million a year partial capitation contract with Blue Cross Blue Shield of North Carolina. Do they have any other contracts like this? And did the acquisition include management of this contract or just the MSSP business? Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, I appreciate the question. So, like, as we noted in our press release, when we did the deal, we bought the entire business, all contracts that included commercial and MA as well, in addition to MSSP, and so, yes, we assume that contract. We're not going to get into details of any specific contract and lives in it or revenue dollars and so forth, like we don't do it for the rest of our book. We'll include them. As part of our whole, entire platform and how we reported on slide 6.

But yes, we've inherited those contracts and it's part of our core strategy to just add the lives in each of the circles that you have on slide 6 and that'll add to the lives there and we'll continue to hope to perform, as expected or better over time.

Operator

Daniel Grosslight, Citi.

Daniel Grosslight - Citibank - Analyst

Hi guys, thanks for taking the question and congrats on another strong one here. If I look at the implied guide for 4Q on a year over year basis, it seems like you're projecting limited profit profitability growth. It's about low single-digits and some margin compression. I know you mentioned that, just given where you are in the year, you do continue to guide conservative, but I, I'm just curious if there's any investments that you're making in 4Q that may be weighing on margin, and I also just wanted to confirm if IMS contributed anything to profitability this quarter or are you still expecting that to start contributing in 4Q.

Thank you.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, I appreciate the questions. Yeah, so there's no investments. There's nothing, there's no anomaly. We're just being prudent. Didn't want to get ahead of ourselves, just given the strong results. If all that momentum continues, hopefully we'll close the year pretty strong. And, so IMS, and to your second question, IMS will contribute in Q4 and going forward once they were implemented in September.

So I think that hasn't contributed. So, I think, look, we expect Q4 to be strong. We'll see how it plays out. Hopefully, it's better than expected. We just had the magnitude of our performance in the first three months, first three quarters that, like we said earlier, like we don't give implied guidance. We don't guide by quarter. I think we're just looking at the full year. On each of our operating metrics, we are well above the high end. So if it's, if it continues at the trend that we expect it to, hopefully you'll see all that outperformance continue.

Operator

Jack Slevin, Jefferies.

Jack Slevin - Jefferies LLC - Equity Analyst

Hey, good morning. Congrats on the quarter. Most of my questions have been asked already, so maybe just a tidying up one on the numbers. And in previous years when you've had. Significant outperformance or a strong lead in. I know you've had sort of higher variable comp or bonuses that have come through in either the fourth quarter or on a cash basis hitting early in the following year. Is there anything we should be looking out for on that front as we look at 4Q and 1Q coming up? Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, I appreciate it, Jack. So, yeah, that's all factored in the guidance. So, as we, look at our scorecard, that you can see on the proxy every year based on the metrics, we accrue for that level of outperformance and bonus accruals and so forth. So that's all in the accrued bonus line on the balance sheet, and that's reflected in the P&L. So that's all fully expensed already and despite that, you're seeing the outperformance.

So, yes, that'll lead to some increased cash outflow in Q1, so you'll expect that, but, I mean, that's a result of great business. So, the interests are pretty aligned with the shareholders here in terms of how much free cash and EBITDA that we generate.

Operator

David Larsen, BTIG.

Jenny Shen - *BTIG LLC - Analyst*

Hi, this is Jenny Shen on for David. Thanks for taking my question and congrats on a great quarter. I just wanted to ask about the new big beautiful bill law. Any thoughts on impacts to Privia, any impact on your Medicaid book, even though it's small? Thanks.

Parth Mehrotra - *Privia Health Group Inc - Chief Executive Officer, Director*

Yeah, thanks for the question, Jenny. So, as you noted, I mean, the two main areas there were Medicaid and the exchange, populations and both of those are pretty small for us. We don't take any downside risk on Medicaid. It's a pretty small percentage of collections, for our practices. We'll see how the patient makes changes, but we don't expect any big changes, any fundamental issues. Practices run at capacity. Lives move. I don't think people give up their primary care. It's, pretty essential to their well-being and, getting back to work and things like that or kids going to school with pediatricians or women getting the care with our OB.

So, I don't think all of that changes much for us. We'll just see how the shifts happen, but, it's happened in the past, but, so we don't expect any meaningful impact to us given just our business model and mix.

Operator

Ryan Daniels, William Blair.

Ryan Daniels - *William Blair Capital Partners - Analyst*

Yeah guys, thanks for taking the questions. Congrats on the strong year to day performance. Parth, wanted to go back to some of your comments on ancillary services, and I'm curious, in particular, I know a few years ago you signed a partnership surgery center chain. We've got some potential changes to the inpatient only list. I'm curious if that in particular could be a bigger growth opportunity and kind of managing referrals and point of care for the organization going forward. Thanks.

Parth Mehrotra - *Privia Health Group Inc - Chief Executive Officer, Director*

Yeah, I appreciate the question, Ryan. I think absolutely, as we build out, I mean, we're consciously focused to building a multispecialty medical group for that reason. Downstream, 80% of the costs are downstream from the PCP, give or take, as you know. So, I think as we, continue to build out density in different states, that's a core focus for us. I think that comes with opportunities for outpatient surgeries, ASCs, managing more of the total cost of care and partnering with these, physicians.

So, I think as we continue to build out our network, in each state, get density, I think you'll expect us to continue to expand in that area. Again, I don't think we're going to be very surgical heavy, just given the nature of our business.

But I do think, folks being, take, chronically ill patients, whether, it's cardiology, pulmonology, CKD, things like that, I think we're going to keep looking at it selectively. Ortho is another big area, so, I do think, you'll expect us to continue to do it. It's, again, it's not going to be homogeneous by state, but as we build out the medical groups, that's a big lever to control cost of total care.

Operator

Craig Jones, Bank of America.

Joaquin Arriagada Martinez - *BofA Merrill Lynch - Analyst*

Hey, this is Joaquin on for Craig. Thanks for taking the question. So you have astutely shifted down risks in MA during the first two years of V28. What are the odds do you think we could see some kind of V29 in the next few years? And what would make you more comfortable taking more risks in MA? Thanks.

Parth Mehrotra - *Privia Health Group Inc - Chief Executive Officer, Director*

Yeah, I appreciate the question. I mean, it's pretty much similar to what we've said earlier. I think we'll just have to see how it plays out. It's just tough to predict when V29 comes, it doesn't come, what are the specifics on it.

We've continued to believe that a shared risk model between the payers, the providers, somebody like Privia in the middle is the right approach. You have to be thoughtful. These are long-term contracts. The patients don't change their PCPs. You're trying to manage the total cost as they are growing older. They're growing sicker. I don't think any one entity can perform well at the expense of the other on a long-term sustainable basis.

So I think you can get anomalies in the middle when somebody's trying to grow their business, with some, benefit design changes on the payer side or provider enablement entities throwing a lot of money to just get physicians in some risk contracts and you then see blow ups happen like we did in the last two, three years. So we just think the best long-term sustainable model is alignment of interest and everybody having skin in the game.

And that's what we're going to focus on. I think, everybody got too infatuated with this, how capitation works and does it have to be 100% downstream at the provider entity level versus the payer and we just believe in a different approach, and I think that's just more sustainable. So, the job to be done is not going to change. You're going to have an aging population that is growing sicker, older, and ultimately dying. I mean, that's the truism of humanity, unfortunately.

So, I think if that's the problem at hand, you need doctors in the community to do the work, on behalf of the pairs. Like the payers, unless they have a care delivery arm, they're not taking care of people. So, I just think you need interests aligned and you need to have contracts that reflect that. Physicians need to be paid to get the, get that job done, and that's the lowest cost setting, first point of contact.

So, I think for all those reasons, no matter what the changes are, once, we get some equilibrium over the last two, three years, excesses worn down, benefit designs getting more normalized, and so, we'll just continue to work with our payers to have a sustainable contract to do our job and get paid for it.

Operator

And there are no further questions, please go ahead, sir.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Thank you for listening to our call today. We appreciate your continued interest and look forward to speaking with you again in the near future.

Operator

This concludes today's conference call. Thank you all for joining and you may now disconnect.

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