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PRESENTATION

Operator

Good morning. My name is Dexter, and I will be your conference operator today. At this time, I would like to welcome everyone to the Privia Health Second Quarter Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. And now I would like to turn the call over to Mr. Robert Borchert, SVP Investor and Corporate Communications. Please go ahead, sir.

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

Thank you, Dexter, and good morning. Joining me on today's call 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 Investor Relations section of priviahealth.com. Today's press release highlighting our financial and operating performance as well as the slide presentation accompanying our formal remarks are posted on our IR website pages. Following Shawn and Parth’s opening comments, we will open the line for questions.

The financial results reported today and in the press release are preliminary and are not final until our Form 10-Q for the second quarter ended June 30, 2021, is filed with the Securities and Exchange Commission. Some of the statements we will make today are forward-looking in nature based on our current expectations and our view of our business as of August 9, 2021. 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. Good morning, everyone. I'll provide a brief performance summary and an update on our continued business momentum and success, and then Parth will offer a detailed review of our financial and operating performance and the outlook for the year before we take your questions.

The Privia Health partnership model continues to gain traction and greater awareness with our providers. This is underscored by our growth in both implemented providers and attributed lives across a number of value-based reimbursement programs since year-end 2020. This has helped propel our strong financial performance in the second quarter, with practice collections increasing 30.3% to over $367 million and our care margin increasing 33.7% when compared with the second quarter of last year.

We also continue to drive operating leverage through our platform with adjusted EBITDA growing 43% in the quarter. The strong year-to-date performance across all our service lines positions Privia Health very well for the remainder of the year. This is especially true given our diversified patient, provider and payer mix against the backdrop of current utilization trends we see across partner practices. Underpinning our top line growth is the continued expansion of provider partners in both existing markets and as we enter new markets. We expect our fees from value-based programs to grow faster than fee-for-service dollars as we continue to increase the number of patient lives attributed to at-risk reimbursement models and as more of these lives move from partial to full risk arrangements over the coming quarters.

One key update is that we have recently launched Privia Care Partners. This lighter version of our traditional model also partners with providers, meeting them where they are on their value-based journey and aids in transitioning their practices to specific value-based programs. This aligns perfectly with our capital efficient operating structure and primary financial goal to drive significant operating leverage and profit margin expansion, which we expect to continue as we execute on multiple growth opportunities.

As I noted, Privia Care Partners is our new flexible model that expands our opportunity to partner with providers. As you can see on this slide, the primary difference between our traditional model and a lighter version is there's no need for provider groups to join our single tax ID medical group no need for them to change electronic medical record vendors, and yet they can still participate in various high-value arrangements.

Providers joining Privia Care Partners will be supported by a lighter version of our tech stack, advanced analytics to enhance their existing EHR system, a physician-led governance structure and select MSO service to help them succeed in value-based care. Our focus with Privia Care Partners is to expand the Privia relationship to new physicians and grow value-based attributed lives in both existing and new markets. We expect the program will officially start on January 1, 2022, so we intend to provide additional details over the next 2 quarters.

We continue to be optimistic about the significant opportunity as we expand our risk-sharing arrangements across many value-based reimbursement models and taking a very thoughtful business approach in this effort. Privia Health already participates in more than 70 at-risk value-based care programs and payer contracts across Commercial, Medicare, Medicare Advantage and Medicaid. In fact, of our 739,000 attributed lives today, more than 140,000 are the Medicare shared savings and the Maryland Primary Care Programs, in which we take both upside and downside risk.

Importantly, our financial interests are closely aligned with our Privia providers and that we jointly share in both the financial benefit and risk associated with these value-based care programs.

In addition, our Medicare Advantage lives increased 13% sequentially to 102,000 at the end of the second quarter. We are already at scale and are executing on a deliberate, long-term plan to enable our providers to transition profitably to increase risk in value-based programs. We will continue to grow attributed lives and intend to move more of those lives into downside and full risk arrangements over time.

An important point is our current top line reflects only fee-for-service collections, care management fees and shared savings. Under our current partial risk contracts, we do not recognize the full per member per month premium for our Medicare Advantage lives. The Privia Health leadership team has decades of experience in managing and underwriting risk, and we certainly expect to move more of our attributable lives from partial to full risk arrangements.

Now I'll ask Parth to provide additional detail on our second quarter performance and outlook for the remainder of 2021. Parth?

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

Thanks, Shawn. Our business delivered a strong quarter with double-digit organic top line growth, which we expect to continue for the remainder of 2021 and beyond given the high forward visibility of our operating model. On the top row of this slide, you can see the continued growth in implemented providers and value-based attributed lives led to a 30.3% increase in practice collections when compared to the second quarter a year ago.

We obviously recognize that last year's second quarter was impacted by the onset of COVID. This year, our second quarter same-store visits were at par with, or higher than, the historical baseline pre-COVID across all of our markets. Our care margin increased 33.7% from Q2 of last year. This is our key financial metric. Care margin is essentially the gross profit generated by Privia Health after the cost of care delivery, which includes provider compensation, our provider share of any shared savings in value-based contracts and the cost to build, maintain and operate care centers. Our goal is to grow care margin at a faster rate than practice collections and then drive operating leverage all the way down our P&L.

As Shawn noted, our business model showed significant operating leverage this quarter, driving adjusted EBITDA growth of 43% from the second quarter a year ago. Adjusted EBITDA margin, as a percentage of care margin, expanded 110 basis points year-over-year as we scale our sales and marketing platform development and corporate G&A costs. And with positive free cash flow and a net cash position of $266 million, we have sufficient capital and liquidity to invest in our business and pursue our various growth initiatives.

This slide highlights our year-to-date performance with practice collections up almost 17%; care margin increasing approximately 21% and adjusted EBITDA growing 42% over the first half of 2020. Given our first half performance, operational execution and business momentum, we remain confident in our outlook for the remainder of 2021. We now expect attributed lives, practice collections, GAAP revenue, Care margin, platform contribution and adjusted EBITDA to all be near the high end of our guidance ranges, with implemented providers expected to be at the mid- to high end of our guidance range.

As a reminder, this guidance does not include any potential new markets in 2021 or any impact from Privia Care Partners, which is expected to begin January 1, 2022. Privia Health continues to be well positioned to monetize our platform and drive growth through our 5 core strategies. These are same-store growth, increasing attribution in risk-based contracts, adding new providers in existing markets, opening new markets and looking at M&A opportunities to expand our platform.

In summary, our leadership team has purposely built Privia Health to be a next-generation physician organization that engages with and organizes physicians into large-scale medical groups building density in each state. We facilitate physician autonomy while preserving their current ownership structure. We support all providers and all patients across all reimbursement models, and we are directly aligned with our provider's financial success. We will continue to leverage our financially-sound expansion strategy and take a thoughtful approach to long-term top line growth and profitable growth.

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

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

Dexter, we're ready for our first question.

QUESTIONS AND ANSWERS

Operator

Our first question comes from the line of Ryan Daniels from William Blair.

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

Congrats on the quarter. In regards to care partners, can you offer a little bit more detail around the genesis of that? And I'm curious if it's really just for value-based care and not fee for service, will you be doing RCM? How deep will you go within these groups?

And then second, is this a response to maybe moving into the hospital-owned group market where they, perhaps, don't want to switch over the platform that's already inpatient like EPIC? Or hesitation in the market for doctors to switch platforms such that it opens up that opportunity more?

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

Thanks, Ryan. This is Shawn. Over the course of the IPO and otherwise, we talked a lot about the quadrants and our ability to, kind of, pivot and move into the various quadrants. It's really our ability to expand and offer Privia care partners to more physicians. Like I mentioned, it's a lighter version, and we will be offering MSO services, it's specifically related, as you noted, to the value-based care programs. We might be offering rev cycle on fee-for-service and those type of services, but it's specifically about organizing physicians around a form of our governance model, a form of our tech stack and a lighter version and then and it's just specifically related to different value-based arrangements, but they could range from commercial to Medicare Advantage.

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

Great. And then is that a response to trying to work with hospital groups or just doctor groups that don't want to switch over platforms or move into the, kind of, broader offering. Kind of what was the genesis of this outside of market expansion, given how large your current market is?

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

Sorry, I didn't answer that question. It's not necessarily the health system. I mean there's physicians out there. And there's no doubt some health systems that maybe have invested $1 billion in Epic, kind of, necessarily might not want to move off their platform, but organize the independence into a different kind of scenario, but it's really just not aimed at independence nor health systems independently. The genesis is really about our ability to expand into existing and new markets, reach a provider that wants to participate with Privia and certain value-based arrangement, but not necessarily ready to make the full switch over into the deep model. but it's our ability to expand and get to know these physicians.

If you think about our ability to do commercial before the Medicare Advantage market is in that market and ready. This is our ability to reach providers that are not ready to move to the full Privia Medical Group, but us have a relationship and build that way.

Operator

Your next question is from Josh Raskin from Nephron Research.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

Great. So first question, just we've heard a lot this quarter about utilization trends picking up sooner than expected, mostly on the non-[Cope] utilization. I think payers seeing some pressure, providers seeing a little bit of upside. Can you just remind us how this impacts Privia both the fee-for-service and value-based sides of the business?

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

Josh, thank you for the question. There's no doubt we are all seeing the impacts of COVID. I think it really speaks to -- and you guys all tend to probably cover the hospital, public hospital carriers. And you, obviously, cover the MCO areas, so you're seeing some of these utilization trends.

We talked about the diversification of Privia and the models all the way from commercial to Medicare Advantage. And it really plays our ability for physicians and health systems that need to transition. We all know that if you -- we respect and really appreciate moving to a full risk Medicare Advantage at the right time, but it's at the right time. And as your provider groups are ready to go. And as you can influence that geography at scale. So again, it's the diversification of what we offer these provider groups and the ability to do deeper service all the way to global cap when it makes sense.

Again, it's just -- I think it's the flexibility and diversification of our model really is a differentiation and I think it's going to be for decades. I don't think we're all going to see a flip to global cap and immediately. And when we do, we're ready to move that market as necessary. Parth, do you want to add anything to that?

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

Yes. The only couple of points is, one is, Josh, I think we are seeing our model as a little bit of an all-weather performer. Last year, we did pretty well. Utilization was down. This year, we're doing pretty well. Utilization is up. And so you can see us performing well in both scenarios across the cycle. And then more importantly, I think not only are we performing really well on the top line growing the business, adding lives and growing practice collections, but also you're seeing our performance down the P&L from care margin to platform contribution to EBITDA.

So I think the key is there's a clear differentiation where in an MA full cap model, you're seeing a negative impact on the P&L, and we're not witnessing that with our diversified book of business.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

Got you. That's super helpful. And then if I could just sneak one more in. On the implemented provider guidance, you're moving to the upper half of the previous guidance range. So obviously, I know directionally where that's going. But can you speak to the provider pipeline and -- as we move towards '22? And just remind us, are there any factors that impact the seasonality of when physicians move over? I don't know if there's, sort of, the MA cycle or tax implications or if there's anything that gets physicians moving more at one time than the other during the year?

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

Parth, go ahead.

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

Yes, I can take that. Yes. So look, we sell pretty consistently throughout the year. No real seasonal impact to selling. As we've stated previously, and as you know, it takes about 5 to 6 months to implement the providers on the platform in the full Privia Medical Group model, and it's mainly related to the providers being credentialed in our single tax ID, and we work with all the payers.

So obviously, sitting at the midpoint of the year, the pipeline now through the end of the year for implementation is all under contract. So we don't have to find these providers. Anybody that we are selling now will likely get implemented in 2022. And that gives us a lot of forward visibility. So I think we're doing pretty well in terms of adding new providers consistently for the first half, and we see the momentum continuing into second half. And as we do that, that provides a lot of visibility going into 2022. But implicitly, stating our guidance from mid- to high end, all of these are under contract as we speak today.

Operator

Your next question is from Jailendra Singh with Crédit Suisse.

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

I want to go back to Privia Care Partners, just to make sure I understand the economics there. So do you expect the economics and savings you generate for providers who are joining Privia Care Partners model versus your traditional model is significantly different? And how does your pitch to these potential providers going to change with the launch of this Privia Care Partners. And the last related question is that, should we think of this as a model which is competing directly with models like Agilon and Aledade, just to maybe help us with color some there.

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

Parth, do you want to speak to that in addition to the comments I made on the first question?

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

Yes, so I think our economics will be pretty much the same as we have today on our value-based book. Obviously, the key metric for this line of business would be attributed lives, number one; number two, we anticipate participating in all kinds of value-based programs, whether it's commercial, Medicare shared savings and then Medicare Advantage, similar to what we do today.

And then I think over time, our hope is a lot of these providers will join the full Privia Medical Group model, and we'll be able to provide further value add in terms of the fee-for-service book as they joined a single Tax ID. So no change in economics. Obviously, each of these programs would differ both by market and by stage of evolution.

And then to your final question, yes, I think, given this model, we would end up competing with the couple of names that you mentioned.

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

Okay. And then my quick follow-up. I want to better understand your implied second half guidance for GAAP revenue and practice collections. It seems your guidance does imply a sequential step-up in practice collection for first half to second half, around 6%, but flat for GAAP revenue. Help us understand the thought process there, why not growth in GAAP revenue?

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

Yes. So 2 quick points. So first is that our GAAP revenue reflects collections in the states that don't have corporate practice laws and that we own the tax ID. So it's restricted to a couple of our geographies and not all of them. So as we grow faster in some of these other states that do have corporate practice laws, and we don't own the tax ID, that's the key difference.

Number two is, look, we feel really good about the first half performance. Still 6 months to go. And I think if the momentum continues, we'll have an opportunity to update you in 3 months here. So we're hoping that, that trend continues.

Operator

We have a question from Richard Close with Canaccord Genuity.

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

Just on the Care Partners side, I'm just curious, with them not using the full tech stack, how do you feel in terms of your ability to drive the better outcomes from the at-risk programs. Just -- I mean, obviously, with your tech stack, that was one of the value propositions and being able to successfully participate in these programs. So how are you thinking about that?

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

Thanks, Richard. I'll start, and I'm sure Parth can add. A lot of our management teams had decades running models similar to Privia Care Partners. Like our ability to pivot, we've mentioned that over the last -- during the IPO and even in the first quarter. So we've been building this, I guess, muscle memory and strength. And then it's no doubt -- what we know and what we learned from running a single stack and kind of, I guess, what we're going to use from those learnings to move into this adjacent model.

And use those strengths along with our governance model, our care management programs that we use and just the things that we know from running that, the deeper model, we think we just provides us a great opportunity to get to know providers, meet them where they are on their journey, a step before Privia Care Partners. And like we mentioned, expand our current -- within our current existing footprint as well as open new markets with a model such as this. So we're excited about the opportunity. Parth, you want to add something to that?

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

Yes, two quick points. Richard, so of course, it's obviously with the interoperability gaining steam and a lot of innovation on the on the technology stack side, a lot of the legacy EMR platforms are opening up. And I think that gives us an opportunity to extract the right data, perform analytics and support these providers in certain value-based programs. And that's been done in -- for many years now in ACO entities or IPAs, et cetera, that participates joint to just access some value-based contracts.

And then I think, part of the equation would be a version of our MSO services, where we'll focus on things like risk adjustment, quality measures, part engagement, reporting, then, obviously, total cost of care management. I think the 2 go hand in hand to make sure you get the success, which is far greater than what these providers are doing today.

And then over time, like I said, this is an offensive strategy. It allows us to interact and get to know some of these providers in a lighter setting, in a quicker setting and then over time, move them into the full Privia Medical Group model where we have a lot to offer from a fee-for-service perspective.

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

Okay. And as a follow-up, is there any update on Anthem, your relationship with Anthem that came about at the time of the IPO?

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

Yes, Richard, we continue to work with Anthem. And in our existing markets, we've done -- that relationship continues to improve even more so. And we -- we're talking, obviously, new markets and how we participate with them in organizing independent docs as even in other models that we're running. So I think it's early stages. We're maturing the relationship, and we like the potential of where that could go. And as you know, it's not exclusive we're -- we continue to talk to other players in doing some very similar things. We're excited about it.

Operator

(Operator Instructions) We have questions from Sean Wieland from Piper Sandler.

Sean William Wieland - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

I'm still stuck on Privia Care Partners. I don't really understand the economics and how this is going to flow through the P&L. If you could hit that again? And then also, I guess, you pitched the single tax ID, the single tech stack was such an important feature of Privia, and this seems to dilute that a little bit. So I don't really understand the pivot.

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

Parth, do you want to touch on the P&L impact?

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

Yes. Sean, so the P&L would work no differently than it does today. will participate in various value-based programs and have shared savings or care management fees that would accrue through those programs, depending on the nature of the program. So they'll hit practice collections, and we will take a percentage of that, and that will flow through Care Margin as it does for our existing value-based book. So really no different.

Sean William Wieland - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

At a similar percent of collections?

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

That's correct. Similar or higher. Yes.

Sean William Wieland - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

And then -- okay. I just -- I don't understand why billing under a single tax ID was so important for the rest of the business, but it's not important here.

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

Yes. So Sean, ACOs, IPAs, CINs have existed for a long time. Participants and providers are able to access very select value-based programs, whether it's commercial, MSSP or Medicare Advantage without giving up their tax ID and the bill on the fee-for-service book through their own tax ID, but access some select value-based programs through these different forms. And I think this is a strategy to attack that market. It allows us to, obviously, even from an M&A perspective, go out and acquire select ACOs or IPAs and other such structures and increase attributed lives at a much faster rate. And then have a relationship with these providers and then over time, move them to the single tax ID.

There's no doubt. The single tax ID model and the integrated 5 components that we highlight, we still think as a preferred model. We still think is -- it's a very deep moat and very hard to execute on that I don't think it's easy to replicate, and we don't see anybody else doing it. I think this gives us an opportunity to have a relationship with providers sooner and faster in existing but also in new markets and then over time, move them into the Privia Medical Group model.

Operator

We have a question from Lisa Gill with JPMorgan.

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

I just wanted to follow up to that last comment and just really understand the competitive landscape right now. So I understand wanting to offer a lighter model. Is it because doctors are becoming more apprehensive? Is it because providers have more options in the marketplace, so you want to have a couple of different options to be able to capture that position? Just any thoughts on what you're seeing in the competitive landscape right now would be helpful.

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

Thanks, Lisa, it's Shawn. The -- it's -- as Parth mentioned, our preferred model will always be the Privia Medical Group, they're all the right -- they're all the things we've talked about. And it's very sticky, it's very -- it's just -- it performs well, but at the same time, we want to be able to touch base with providers in a way that they want to connect into Privia, but they're not ready to make that make that jump. And it's just -- it's a natural expansion for us. We've been working on it for some time.

And it's not necessary reaction to the marketplace as much as we think that just moving into these other quadrants and adjacencies to support it to continue to expand our TAM. And as providers get to know Privia and we believe they're going to want access to all the contracts, all the services, but this is just the way to expand that first tier base.

And which -- it's just a way -- as we've mentioned, that we can expand our same-store footprint as well as grow into new markets and then bring the Privia Medical Group in.

Operator

There are no further questions at this time. I would now like to turn the conference back to Mr. Morris.

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

I just want to thank you for dialing in. Thank you for listening. We're excited about the future. Thank you for continue to build our relationship with us, and we continue to execute on the things we discuss today, and we're excited about the next couple of quarters, and we'll talk to you soon. Thanks a lot.