REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2022 Privia Health Group Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 28, 2023 / 8:30AM ET

CORPORATE PARTICIPANTS

David Mountcastle *Privia Health Group, Inc. - Executive VP, CFO & Principal Accounting Officer*
Shawn Morris *Privia Health Group, Inc. - CEO & Director*
Parth Mehrotra *Privia Health Group, Inc. - President & COO*
Robert P. Borchert *Privia Health Group, Inc. - SVP of IR & Corporate Communications*

CONFERENCE CALL PARTICIPANTS

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*
Jailendra Singh *Truist Securities, Inc., Research Division - Analyst*
Jamie Perse *Goldman Sachs Group, Inc., Research Division - Associate*
Jessica Tassan *Piper Sandler & Co., Research Division - VP & Senior Research Analyst*
Joshua Raskin *Nephron Research LLC - Research Analyst*
Lisa Gill *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*
Richard Close *Canaccord Genuity Corp., Research Division - MD & Senior Analyst*
Ryan Daniels *William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Healthcare Technology and Services*
Sandy Draper *Guggenheim Partners, Senior Managing Director and Research Analyst*
Taji Phillips *Jefferies LLC, Research Division - Equity Associate*
Jessica Tassan *Piper Sandler & Co., Sr. Research Analyst*

PRESENTATION

Operator
Good day, and thank you for standing by. Welcome to the Privia Health Q4 2022 Conference Call. (Operator Instructions)

I would now like to hand the call back over to our speaker today, Robert Borchert, SVP of Investor and Corporate Communications.

Robert P. Borchert ***Privia Health Group, Inc. - SVP of IR & Corporate Communications***
Thank you, Gerald, 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 section of priviahealth.com. Following our prepared comments, we will open the line for questions. Given the number of analysts in the queue, we ask you 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 and in the press release are preliminary and are not final until our Form 10-K for the year ended December 31, 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 view of our business as of February 28, 2023. 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 a tremendous year of financial and operating performance in 2022. We continue to extend our geographic reach and positively impact care delivery in partnership with more than 3,600 providers in Privia Medical Group and an additional 1,400 providers in Privia Care Partners. This market momentum and highly aligned partnership model continues to be driven by growth on multiple fronts, supporting our high level of confidence in our business outlook for 2023. We expect to continue to increase our number of provider partners, expand attributed lives in at-risk value-based arrangements, and grow our presence in the new markets we recently entered.

This morning, I'll review a number of key business highlights. David will discuss our recent financial performance and our 2023 guidance outlook, and Parth will offer a market and operational update before we take your questions.

Throughout 2022, Privia Health executed and delivered at a very high level, with full- year financial performance at or above the high end of our updated guidance provided in November. Practice Collections increased more than 49% year-over-year to reach $2.42 billion and adjusted EBITDA was up more than 47% to a record $61 million. Our consistent performance was driven by a healthy balance of same-store growth, new provider additions in existing markets, and strength in ambulatory and value-based utilization across all of our existing practice locations.

We've entered a number of new states in the last few months. North Carolina and Ohio offer abundant opportunities to attract new providers to our medical group platform. More recently, we've entered Connecticut and Delaware with our Privia Care Partners' strategy, offering community physicians an opportunity to join Privia and leverage our platform solutions and population health expertise while caring for patients across all reimbursement models. Our entry into these four states validates our growth algorithm, significantly expanding our addressable market and organic growth opportunity and are significant steps toward our long-term goal to build one of the largest care delivery networks in the nation.

We continue to see a very strong sales pipeline of potential new providers across our existing markets and are maintaining a healthy business development pipeline as we look to continue to enter new states over the next few years. We now have more than 100 value-based care arrangements with payers in Commercial, Medicare, Medicare Advantage and Medicaid plans, and we continue to see very strong performance across the board.

A year ago, we initially moved 23,000 Medicare beneficiaries into our first capitated agreements. Beginning January 1st of 2023, we now have over 40,000 capitated lives, an increase of more than 38% from year-end 2022. Overall, we now have approximately 1.1 million attributed lives covered by our value-based care arrangements, from upside only to significant downside risk. This aligns perfectly with our long-term strategy to thoughtfully move providers and their patients to value-based arrangements when we are confident we can be more successful doing so.

Our business momentum and high forward visibility is driving our 2023 financial guidance, with Practice Collections expected to reach $2.7 billion or higher. We will continue to invest significantly across our enterprise to support our long-term growth and market expansion goals, and still expect strong adjusted EBITDA growth and free cash flow conversion.

Now, I'll ask David to review our recent financial results and '23 outlook.

David Mountcastle ***Privia Health Group, Inc. - Executive VP, CFO & Principal Accounting Officer***
Thank you, Shawn. Privia Health's operating model continues to scale, and we again delivered strong performance in the fourth quarter of 2022. Our Implemented Provider count of 3,606 was up 8.7% year-over-year. We updated our definition of Implemented Providers to exclude any temporary, local tenant providers. This growth in Implemented Providers, combined with our capitated agreements and solid ambulatory utilization trends, led to Practice Collections increasing 23.7% from Q4 a year ago to reach $634.8 million. The operating leverage in our model is clearly apparent as our top line and care margin growth translated into significant EBITDA growth, with adjusted EBITDA up 89.5% over Q4 last year to $14.3 million.

For full-year 2022, Practice Collections increased 49.1% over 2021 to more than $2.4 billion. Care margin was up 28.2%, and adjusted EBITDA grew 47.1% to reach $60.9 million for the year. We added a sources of revenue schedule in our press release this quarter so you can see the breakdown of the value-based care and fee-for-service GAAP revenue.

Total value-based care comprised 28.5% of total GAAP revenue in 2022 compared to 12.4% in the previous year. As a reminder, our GAAP revenue significantly understates total medical cost under management across our value-based care arrangements, including in the Medicare Shared Savings Program.

We also included a provider liability disclosure that captures the medical costs related to our at-risk capitated contracts. This shows that we booked a care margin of $264,000 from our capitated agreements in 2022. While we are still in the early stages of these capitation arrangements, we are focused on improving patient outcomes, lowering costs and improving profitability for Privia and our provider partners.

Our balance sheet and capital position continue to be very strong with $348 million of cash and no debt. Free cash flow for 2022 was $47.1 million. Adjusting for $8 million of one-time cash costs, including employer taxes on pre-IPO equity option exercises by our employees, as well as legal, severance and other non-recurring expenses, the conversion from EBITDA to free cash flow was approximately 91%.

Our strong 2022 performance and business momentum has positioned us well heading into this year. Using the midpoint of our 2023 guidance, Implemented Providers are expected to increase about 14% year-over-year to reach 4,100 by year-end. Attributed lives are up 28% from 2022 to 1.1 million.

We expect Practice Collections to grow 14.5% to more than $2.7 billion and adjusted EBITDA to increase 18.3%, both at the midpoint of our guidance. We remain confident in achieving our long-term targets of 20% Practice Collections growth and 30% adjusted EBITDA growth per year on average. As we've moved into 2023, we have entered four new states, launched three new ACOs and added 11,000 capitated lives. We plan to continue to invest across our business enterprise, in clinical, operational performance, sales, leadership and technology infrastructure to support our significant expansion.

Since new market entry and expansion costs are an ongoing and regular part of our long-term growth strategy, we do not add these expenses back to get to adjusted EBITDA. Therefore, our 2023 adjusted EBITDA guidance absorbs approximately USD8 million to USD10 million in investments. We expect our new markets to scale significantly in the coming years as we grow our provider base and attributed lives in these new states.

Finally, with our capital-efficient partnership model, we expect 80% to 90% of our adjusted EBITDA to convert to free cash flow.

Now, Parth will provide an update on our market growth, value-based care footprint and geographic expansion.

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
Thanks, David. Privia Health has performed extremely well over the past four years. We have gained momentum since our IPO and continue to execute on multiple fronts to extend our market reach, drive future growth and positively impact care delivery.

We have exceeded our long-term growth targets since 2020, averaging annual Practice Collections growth of about 29% and adjusted EBITDA growth of close to 35% over these four years. To reiterate, we continue to believe we can grow Practice Collections 20% and adjusted EBITDA 30% per year on average with our proven, long-term growth and profitability algorithm.

Our performance has clearly demonstrated our execution capabilities and success in transitioning to at-risk contracts over time as we generate increased profitability under those arrangements. We expect EBITDA and free cash flow growth each year while investing in our operating infrastructure to support our growth and expansion.

We continue to be very encouraged by Privia's business momentum across both existing and potential new geographies. Our national footprint now includes more than 3,600 implemented providers in our medical groups caring for over 4 million patients in 950 locations across 12 states and the District of Columbia. Our scale, geographic density and partnerships across more than 50 specialty types enable us to offer our providers, payers and patients a broad ambulatory care delivery network that can improve patient outcomes and reduce costs.

Privia Care Partner providers are not included in our Implemented Provider count. The patient lives associated with Privia Care Partners are included in our 1.1 million total value-based attributed lives. We believe there is a significant opportunity for us to move these Privia Care Partner providers to our full services platform over time.

While our entry in each state may look unique given our partnership model, our strategy is simple, consistent and replicable across all states. We enter new geographies and set up four primary elements: first, a single tax ID entity that facilitates payer negotiations and clinical alignment while maintaining a provider's legacy ownership structure; second, an Accountable Care Organization for risk-bearing value-based contracts; third, our tech and services platform offers providers a breadth of cloud-based applications and expertise to help reduce administrative burden, increase efficiency and lower medical costs; and last but most important, our close alignment with physicians is critical in successfully managing patient panels across the risk spectrum. We create a physician-led governance structure in our medical groups for data and analytics reviews, as well as peer-to-peer sharing of clinical and operational best practices.

Privia's operating model offers a unique ability to partner with and organize providers of all types, whether it's community physicians, health systems, clinically-integrated networks, independent physician associations or other facility-based providers across all specialties. Our flexible model enables us to offer solutions for all providers no matter where they are in the transition to value-based care.

We drive performance improvement through same-store volume and practice growth, add on valuable ancillary services over time and move to value-based care arrangements when we are confident we can be more successful doing so. Privia's very thoughtful move to risk and value-based arrangements is a key differentiator. We believe our doctors get better results than their peers due to our physician-led governance, extensive clinical, performance and actuarial expertise, and clear incentives that keep us highly aligned.

We take a balanced approach across a diverse set of Commercial, Medicare and Medicaid contracts. Our success over the last eight years is key to our collaboration with our provider and payer partners. In fact, in 2021 performance year alone, we generated savings of over $100 million in the Medicare Shared Savings Program.

Privia's value-based care platform continues to be one of the broadest, most balanced and diversified in the industry. We now cover an estimated 1.1 million attributed lives across more than 100 at-risk payer contracts in commercial and government programs. This includes our newest ACOs in Connecticut and Delaware.

Today, we take upside and downside risk on more than 70% of our attributed lives across the Medicare Shared Savings or similar programs. In addition, we now have more than 40,000 Medicare Advantage lives, or approximately 35% of our total MA lives, in capitated arrangements with significant downside risk. We believe there is a significant embedded opportunity for us to move a number of the remaining lives into upside and downside risk arrangements, and realize the earnings power associated with lowering of medical costs on those lives.

We also continue to take significant steps towards building a national network of primary and specialty care providers. Following our partnerships with Novant Health in North Carolina and OhioHealth, we announced an agreement in January with Beebe Healthcare, a community health system in Delaware to launch an Accountable Care Organization, where we are participating in the MSSP Enhanced Track with more than 12,000 patient lives.

Two weeks ago, we announced our partnership with Community Medical Group to launch an ACO with the largest clinically-integrated network in Connecticut comprising more than 1,100 multi-specialty providers. Privia Health is the majority owner of the ACO and we contract with Commercial and Medicare payers covering approximately 180,000 patient lives attributed to value-based arrangements, including 29,000 Medicare beneficiaries.

Today, we have approximately 1,440 providers in our Privia Care Partners' model with about 220,000 attributed lives in various value-based care programs. Privia Care Partners provides us an opportunity to increase the pipeline of community physicians to implement and leverage Privia's full technology and services platform in the future.

In summary, we remain focused on growing and expanding our business for many years to come as we build our national footprint. We wanted to leave you with this photo of a bus ad running in our North Carolina market in partnership with Novant.

Doctors have a fundamental choice of where they practice. Privia offers a unique alternative for community physicians across all specialties, entire patient panels and all reimbursement models. An alternative where doctors can remain in their legacy ownership structure, remain autonomous if they choose to and yet be part of a bigger organization. An option that we believe was not truly available in the past.

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

QUESTIONS AND ANSWERS

Operator
Our first question comes from Brian Tanquilut from Jefferies.

Taji Phillips ***Jefferies LLC, Research Division - Equity Associate***
Hi, you have Taji on for Brian. So clearly, you seem very aggressive in pursuing partnerships with health systems and physician practices in the back half of '22 and '23. Could you maybe just discuss expectations for '23, is the focus here integration or are you optimistic about the potential pipeline for additional partnerships?

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
Our pipeline continues to remain pretty robust for new markets. So we are focused both on expanding the footprint in existing geographies where there's a pretty inherent large TAM with the opening up of the new states and even in the states we are operating in today. And we continue to pursue entering into new states. I mean, we're in 12 states, we have 38 to go. So we're pretty much full steam ahead, so it's both strategies.

Operator
Our next question comes from David Larsen of BTIG.

David Larsen ***BTIG, LLC, Research Division - MD and Senior Healthcare IT & Digital Health Analyst***
Can you talk a bit about the impact of the RADV program and the advanced rate notice? Does that drive incremental demand from Privia, what are your thoughts? Thanks you.

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
As you can imagine, we take a very thoughtful and disciplined approach, as you would expect us to. We hold ourselves to very high standards, along with our providers when it comes to risk adjustment or any other type of quality or compliance program. The -- we don't believe where RADV is going to have a material impact to us. And -- but just kind of the way we've run the program in the past, the way we continue to expect to run it.

Now I'd say we understand what CMS is trying to do and address any, I guess, potential overcoding for lack of a better word, and in some -- with Privia think about it, it's with us, the diversity of revenue, probably this is a more significant risk for other companies that we tend to focus just on the -- on MA or something where RADV is a bigger portion of the top line. So again, I guess our balance of revenue and diversity is a differential for us.

Operator
Our next question comes from Lisa Gill from JPMorgan.

Lisa Gill ***JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst***
On the four new markets that you talked about Connecticut, Delaware, North Carolina, Ohio, what's included in the guidance for 2023 as far as any of the key metrics, whether we think about attributed lives or physician count. Is there anything included or is that -- you're going to spend the USD8 million to USD10 million to bring those on and that's more of an opportunity as we think about 2024? Just trying to figure out what's in the guidance.

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
So we'll take them one at a time. For North Carolina and Ohio, we're actively recruiting new providers. We did not start with any. And given the 5- to 6-month lag in implementation, there's pretty de minimis contribution from those 2 markets in any of the KPIs. So very limited implemented providers, very limited lives, very limited practice collections, care margin and so forth. So obviously, as we are spending those dollars, you should expect pretty significant operating leverage starting next year and beyond.

In Delaware and Connecticut, we entered those markets as we outlined in our prepared remarks, with attributed lives in both those states. So we are in value-based arrangements and they'll be -- so those are included in our attributed lives numbers. There are no providers in those 2 states today in the implemented provider accounts. So again, we are going to be actively recruiting in both of those states and you'll see some operating leverage coming from the fee-for-service book in the future. But there's some contribution from the value-based book and practice collections and care margin in those 2 states.

Operator
Our next question comes from Joshua Raskin of Nephron Research.

Joshua Raskin ***Nephron Research LLC - Research Analyst***
2023 guidance, that includes, call it, 200 million to 300 million incremental attributed lives. So I was wondering if you could just give some color on the categories. I think you gave us the MA, but just sort of where those lives are coming from? And how do we think about that in the -- that number in the future, just the gross number of incremental attributed lives sort of based on your pipeline and what you're looking at. Should we think of that as a relatively consistent number of patients that can convert over time? Or should we think about that as sort of an abnormal year or does it grow over time?

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
So if you compare our bubble chart on Slide 12 to previous quarters, you can see the growth year-over-year on those lives. We added Connecticut and we added Delaware and both of those came with 180,000 and then 12,000 lives, respectively. And so we made the appropriate disclosures. So you can see it's mainly MSSP, some commercial and some MA in those 2 states. That's all included in the 1.1 million. There's also organic growth in the existing states as we've grown our provider footprint. So there's some growth across all lines of business in lives from there.

And then to your second question, we'll just take a judicious approach on when we move to downside arrangements. You've seen we've gone from 0 to 40,000 in 2 years here. It will not be a linear line. I think we'll just evaluate it year-by-year. And in our model where we are sharing the economics, 60-40 up and down with our physician partners, it's a joint decision, and we'll try and do it when we think it's profitable and successful to doing so.

Operator
Our next question comes from Jailendra Singh with Truist.

Jailendra Singh ***Truist Securities, Inc., Research Division - Analyst***
This is Jailendra Singh from Truist Securities. With respect to EBITDA guidance, including approximately $8 million to $10 million in start-up costs for new geographies and ACOs. I was wondering if you could share some color around the quarterly cadence of those costs and any other puts and takes we should keep in mind as we think about the quarterly EBITDA cadence in general for '23?

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
Yes. I think you should expect the quarterly cadence to be pretty consistent with previous years. From an EBITDA perspective, our spend is pretty even across the years -- across the year in different quarters. So it should not be materially different from 2022.

Operator
Our next question comes from Andrew Mok of UBS.

Thomas Walsh UBS, Research Analyst
This is Thomas on for Andrew. Do you have a target for converting a certain share for Privia Care Partners providers to fully implemented providers? Just trying to figure out the general progression you're expecting and whether converting those providers is a priority in the near term.

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
Yes, it is a pretty high priority. We have a good relationship with those doctors and our hope is that they convert to the full stack. We have our internal targets, but obviously don't disclose that publicly, but you should expect for us to target those 1,440 providers and over time move as many of them to the full stack.

Operator
Our next question comes from Ryan Daniels of William Blair.

Ryan Daniels ***William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Healthcare Technology and Services***
Quick one on the guidance. The implemented provider range is reasonably tight 12% to 15% growth. But if I look at the attributed lives, it's 23% to 34% growth, so a bigger range there. And I'm curious if there's any nuances between those 2 metrics, larger provider groups coming on with more patient panels or anything unique that it describes kind of the larger range on lives under management?

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
One is a law of large number, it's a bigger number, so slightly wider range. Implemented providers, we have pretty good visibility given the 5- to 6-month lag. And so the range reflects that kind of visibility unless there's some quarter-over-quarter movements. In the implemented -- in the attributed lives, a lot of these products are PPO, so some of the attribution flows in even into Q1 -- late Q1, early Q2. So that's the range where we have a little bit less visibility other than the capitated book. And so we just account for that in the guidance.

Of course, we've entered some new states. So obviously, as we are adding providers and that attribution close in, it's just a bigger footprint. So we're giving ourselves a little bit of latitude from a broader range perspective.

Operator
Our next question comes from Sandy Draper of Guggenheim.

Sandy Draper *Guggenheim Partners, Senior Managing Director and Research Analyst*
So my question sort of echoes lot of the earlier questions. I'd be curious, in part and this is maybe a misperception on my part. It seems like more of the announcements recently we've been seeing going towards Privia Care Partners with then focus to switch those over to potentially full stack over time. I just didn't know if there's a focus from you guys where you're saying, hey, we can move faster and obviously, you're hitting -- getting into new states, I think, quicker than what you outlined at the IPO. Maybe you're looking at and saying, hey, this new strategy, we can move faster, we can get into more new states than we believe in the long term? Or is the market saying end up meeting the doctor saying, we would rather sort of dip our toe in the water, partner with you guys, and then we'll see about joining in full stack later. I'm just trying to see thinking about the -- where the push is coming from my perception is, the more of the focus or more of the new signings are going light versus full?

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
Yes. It's Parth. I'll start. Shawn can add. Since our IPO, as we showed on Slide 9, we've added 6 new states, and they've been consistent with our strategy to target medical groups, health systems or Privia Care Partners, whether it's clinically-integrated networks or ACOs. So we are focused on all 3. There's no particular focus on one or the other. And as we outlined on Slide 11, our strategy once we enter is very,

very consistent. We launched the full medical group, the full stack to both fee-for-service, value-based care.

I think the underlying operative strategy for us is to get very large scale as quickly as we can. We think our scale is underappreciated. So if an opportunity arises in Connecticut, where CMG is the largest clinically-integrated network with 1,100 providers across 450 locations, you can just compare their size to any other business model out there just in one state. And our model's flexibility allows us to partner with an entity like that and enter the state with an alignment with a large number of providers day 1, and then launch the full stack behind it and offer our full platform.

So I think the flexibility in the model allows us to pursue all, including health systems and including IPAs or CINs and that's how health care is organized in different parts of the country. So the flexibility in our model allows us to pursue all, so there is one particular focus on any on particular element.

Shawn Morris *Privia Health Group, Inc. - CEO & Director*
Having those conversations beginning to -- who would be interested and we want to kind of -- obviously, we think the solution -- long-term solution for us is to build single tax ID medical groups, but we want to have these relationships and we have those conversations upfront and we'll do that over a period of time.

Operator
Our next question comes from Jamie Perse of Goldman Sachs.

Jamie Perse *Goldman Sachs Group, Inc., Research Division - Associate*
Just a question on the MA profitability. I appreciate you sharing your savings from that in 2022. I think in the past, you've made some comments around MA being potentially more profitable than MSSP. But just curious how we should think about timing and how long it takes you to get to similar contribution to MSSP if not above.

Parth Mehrotra *Privia Health Group, Inc. - President & COO*
Good comparison, we, in our most successful large ACO in Mid-Atlantic or close to double-digits in shared savings and MSSP as we reported close to 10%. And that's an open access product, PPO type. Obviously, in MA, in capitation, when you're handholding the patient a little bit more, you should expect at least that we can get to that level over time. It won't happen overnight. It varies by geography, varies by our payer relationship and how our physicians perform. But over time, at least that or exceeding that should be the target for logical purposes. Our hope is when we -- as you can see, the contribution today is fairly de minimis. So that's a pretty big source of operating leverage in our business model as we move these lives into capitation. And again, hopefully, we'll see good progression over the years.

Operator
Our next question comes from Richard Close of Canaccord.

Richard Close ***Canaccord Genuity Corp., Research Division - MD & Senior Analyst***
I'm curious if you could comment on the reception of Ohio and North Carolina so far? And then as you think about entering new markets, is there any comment you can provide us in terms of how we should think of startup expenses on the different models something like Ohio and North Carolina versus Privia Care Partners in Connecticut or Delaware to get people on the platform?

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
Thanks, Richard. So on the first part, initial reception is pretty good. We're just getting started. And again, this is a 5, 10-year journey to go build big medical groups, 500 - 600 providers over time. So initial reception has been great. We shared that [photo bus ad] in the triangle area, which is pretty cool, all our elements in every single state over time. So if we are entering a state with a medical group or a health system, what may not happen day 1 is positive practice collections or care margin contribution because we have no doctors and no lives and we are setting up the market, spending sales and marketing, implementation costs, leadership costs for that particular state. And that's about the $2 million to $3 million number that we stated previously.

We do exactly the same in a state where we might enter with the Privia Care Partners model as an example, in Connecticut. However, that state comes with attributed lives and some contribution, both practice collections and care margin day 1 on the value-based book. But the level of spend is consistent. The only other factor I would say is the size of the state will have some impact on the level of spend. So obviously, Delaware would be much smaller than Connecticut, Montana is much smaller than California and so forth. But the strategy is pretty consistent and the level of spend that $2-3 million per year is fairly consistent.

Shawn Morris ***Privia Health Group, Inc. - CEO & Director***
Yes. The only thing I would add would be the -- in those last 2, we're hitting the ground with operators on the ground, too. So we've got some expenses for them because we have revenue on day 1.

Operator
Our next question comes from Whit Mayo of SVB.

Whit Mayo ***SVB Securities LLC, Research Division - MD of Equity Research & Senior Research Analyst***
This deal in Connecticut is a little bit more active with the balance sheet to grow and buy into some new and existing markets. Just wanted to take your temperature on the desire to be a little bit more active.

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
So our strategy has been consistent in any state, as we outlined, we are establishing the medical group, the risk entity and our services platform. So they can be an opportunity for us to buy that we're kind of full steam ahead looking at these opportunities. Obviously, we'll be very thoughtful in doing so. Smaller is better for us. I don't want to make mistakes. And so we'll be consistent with what we've been doing in the recent past.

Operator
Our next question comes from Jessica Tassan of Piper Sandler.

Jessica Tassan ***Piper Sandler & Co., Research Division - VP & Senior Research Analyst***
So I wanted to follow up just on the MA book. Can you help us understand the structure of the full cap contract? Should we continue to think about these as about a $625 or $650 PMPM for revenue? And then just what kind of year 2 care margin ramp is implied in the '23 guide?

Parth Mehrotra ***Privia Health Group, Inc. - President & COO***
So the structure is fairly unique by payer and by geography. This is not a homogenous contract. We don't break down the number of lives by geography or by payer. The PMPM should be higher than the amount you stated just logically, in practice as -- in GAAP revenue. But for practice collections, the PMPM should be much higher. And then again, we're not breaking down care margin contribution, but you can see the number every quarter now, given our increased disclosure. And our hope is, from the de minimis level, it's at today that, that increases over time.

Shawn Morris ***Privia Health Group, Inc. - CEO & Director***
Jessica, just as Parth mentioned it and we've talked about it in the past, I mean, these contracts tend to be somewhat bespoke. I mean, we don't -- we're not -- we don't do just to flat 85% and take all the risk. We really focus on aligning with the payer. We believe the payers should have some risk. We believe we should have some risk. We believe the doctors should have some risk. We think that is the most sustainable model long term. So we sit down with them, we look at kind of where we have density, what payers are there, where -- kind of what preferred type of ranges we'd like to have. And then we go at contracting in that manner. And so it's -- each one of them probably have -- they're going to be unique just because of the nature -- the nature of the market, the nature of the payers and then kind of how we go about the business.

Shawn Morris ***Privia Health Group, Inc. - CEO & Director***
Thank you for listening for our call today. Privia Health's capital-efficient, physician enablement model continues to gain significant scale and market momentum as we can support all providers and all patients, all reimbursement models in uniquely different geographies. We look forward to continue to execute at a high level through 2023 and for years to come. And we appreciate your continued interest and support of our company, and we look forward to speaking to you very soon again. Enjoy the rest of your day, and thank you.

REFINITIV