REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

PRVA - Q4 2023 Privia Health Group, Inc. Conference Call

FEBRUARY 27, 2024 / 8:00AM ET



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Joshua Raskin** Nephron Research - Analyst

**Jack Slevin** Jefferies - Analyst

**Lisa Gill** JP Morgan - Analyst

**Jack Senft** William Blair & Company - Analyst

**Sameer Patel** Evercore ISI - Analyst

**David Larsen** BTIG - Analyst

**Jessica Tassan** Piper Sandler Companies - Analyst

**Gary Taylor** TD Cowen - Analyst

**Richard Close** Canaccord Genuity - Analyst

**Whit Mayo** Leerink Partners - Analyst

**Jeff Garro** Stephens Inc - Analyst

**Eduardo Ron** Truist Securities - Analyst

**Thomas Keller** RBC Capital Markets - Analyst

## PRESENTATION

**Operator**

Good day, and thank you for standing by. Welcome to the Privia Health Group fourth-quarter 2023 conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

---

**Robert Borchert** - Privia Health Group, Inc. - SVP, Investor and Corporate Communications

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

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

The financial results reported today are preliminary and are not final until our Form 10-K for the year ended December 31, 2023, is filed with the Securities and Exchange Commission.



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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 27, 2024. Such statements, including those related to our future financial and operating performance and future business plans and objectives, are subject to risks and uncertainties that may cause actual results to differ materially. As a result, these statements should be considered along with the cautionary statements in today's press release and the risk factors described in our company's most recent SEC filings.

Finally, we may refer to certain non-GAAP financial measures on the call. Reconciliation of these measures to comparable GAAP measures are included in our press release and the accompanying slide presentation posted on our website.

Now I'll turn the call over to Parth.

---

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

Thank you, Robert, and good morning, everyone. Privia Health closed 2023 with another quarter of strong performance. We extended our market reach and continued to execute at a high level on multiple fronts, with a focus on growth and profitability. This morning, I'll briefly highlight our 2023 performance, discuss our core focus areas for 2024, and cover some key business highlights. Then David will review our recent financial results, our balance sheet and capital position, and our business and financial outlook for 2024 before we take your questions.

2023 was another outstanding year of growth for Privia Health. I am extremely proud of our employees and provider partners, whose contributions drove results that met or exceeded our updated guidance across all key metrics. We had a record year of new and same-store provider sales as we continue to build one of the largest ambulatory provider networks in the nation. We added 200 implemented providers in the fourth quarter and a total of 699 implemented providers in the year, meaningfully increasing density in existing states. The ongoing success of our model is underlined by our gross provider retention of over 98% in 2023.

We were also pleased with our Practice Collections growth for the year, following the restructuring of one capitation agreement announced in the first quarter of 2023 that led to an approximate $110 million headwind to our initial guidance. A combination of accelerated implementations from organic sales, strong fee-for-service and value-based care performance, and new market launches contributed to actual Practice Collections ending the year near the high end of guidance.

We entered three new states in this past year, with the addition of Connecticut, South Carolina, and Washington. Our business development efforts continue to expand our total addressable market and bring the Privia model as a differentiated alternative for community providers in new states.

Growth in our more mature markets drove meaningful outperformance in Platform Contribution, above the high end of guidance, due to the operating leverage embedded in our model, validating our strong unit economics. Given our strong free cash flow conversion, we ended the year with approximately $390 million in cash and no debt.

Moving on to 2024, we are taking appropriate steps to manage our value-based risk arrangements given the regulatory and utilization headwinds faced by various payers in the Medicare Advantage market. Over recent months, we have heard commentary from payers anticipating top-line and margin pressure stemming from several factors, including V28, a continuation of strong inpatient and outpatient utilization, and an expected reduction in the number of 4- and 5-star-rated health plans. As payers look to strengthen their market position, some are adjusting plan benefit designs and setting MLR thresholds in the risk-based MA contracts that do not sufficiently compensate provider groups taking risk downstream.

As we stated earlier this year, we believe that the environment today does not support overextension into downside risk or capitation arrangements. We are prudently managing our risk book for more favorable contract structures and margin contribution. Our ability to nimbly respond to the changing reimbursement environment is essential for a provider organization and demonstrates the flexibility and diversity of the Privia business model. We expect to benefit from these changes as we continue to grow adjusted EBITDA year over year in a sustainable manner while limiting downside risk in this environment in the near term.



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

To that end, for 2024, we are renegotiating certain MA capitation arrangements and moving 19,900 attributed lives into upside/downside risk arrangements. This lowers our risk exposure and reduces Practice Collections by approximately $198 million year over year. With improved economic terms, we expect to benefit on a care margin basis from restructuring the contracts.

Second, we notified CMS that we are exiting the Delaware ACO effective January 1, 2024. This ACO comprised approximately 12,000 attributed lives in MSSP, and, given utilization trends in that market, was expected to generate a negative contribution margin for the foreseeable future. Third, we continue to be prudent with our value-based care accruals. Our 2024 guidance assumes minimal increase in shared savings accruals across our value-based care arrangements in the aggregate. The goal of these actions is to actively manage our risk exposure, like our capitation contract reevaluation in early 2023.

Looking back at the past couple of years, we believe our thoughtful approach to managing risk arrangements has served our providers and shareholders well in delivering consistent, predictable EBITDA growth. As we look out into the future, Privia is exceptionally well positioned to enter new capitation arrangements when the market conditions become more favorable and present the right opportunities for Privia and our provider partners.

Our long-term goals remain unchanged: to build density in existing geographies through organic provider growth; move our medical groups into value-based care arrangements at scale; and, expand adjusted EBITDA and free cash flow in a durable manner.

As many of our newest markets enter the next stage of their life cycle, we expect to invest $10 million to $12 million in platform costs in 2024 to continue supporting their growth. Despite this increased investment and minimal accretion in shared savings accruals in 2024, we expect 21% adjusted EBITDA growth at the midpoint of our guidance.

Adjusted EBITDA margin, as a percent of care margin, is expected to increase 200 basis points at the midpoint. With minimal capital expenditure in our capital light model, we expect about 80% of our adjusted EBITDA in 2024 to convert to free cash flow. This would increase our cash position to over $450 million by year end, excluding any business development activity.

Our business development and sales pipeline for both new anchor partners and existing provider groups continues to be very robust. In addition, we are starting to see some disruption in the provider space due to the challenging environment. Given our thoughtful approach and very strong balance sheet, we look forward to pursuing opportunities that position Privia as the partner of choice for physician groups.

Privia's national footprint continues to expand as we build one of the largest primary care-centric delivery networks in the country. Today, we have more than 4,300 implemented providers caring for over 4.8 million patients in approximately 1,100 care center locations across 13 states and the District of Columbia. Expansion into our newer markets is picking up pace as our multi-specialty provider partnership model across all patients and all reimbursements is a key differentiator for Privia.

As of January 1 of this year, we estimate Privia is serving 1.13 million attributed lives across more than 100 at-risk payer contracts in commercial and government programs. Total attributed lives increased approximately 32% from year-end 2022. This positions our business as one of the broadest and most balanced value-based care platforms in the industry.

Our commercial attributed lives increased more than 36% from year-end 2022 to 678,000. 69% of our commercial attributed lives are in upside-only arrangements and 31% are in arrangements with some downside risk. Our ability to earn care management fees and shared savings that are incremental to our highly-predictable fee-for-service administrative fees offers a very unique value proposition to our medical groups in the commercial book of business.

Total lives in Medicare Shared Savings Program, excluding Delaware, grew 6% from 2023. Approximately 76% of the 192,000 attributed lives participating in MSSP are in the Enhanced Track with significant upside opportunity as well as the greatest downside risk CMS offers in the program.

As of January 1, 75% of the 172,000 attributed lives in Medicare Advantage are in upside-only payer contracts and 16% are in upside/downside arrangements. The remaining 9%, or approximately 16,000 lives, are expected to be in capitation arrangements, down from 35,900 at the end of



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

2023 due to our actions to limit downside risk exposure. There remains a significant embedded opportunity for us to move our Medicare Advantage lives into downside risk arrangements over the next few years. As we've consistently noted, core to our long-term strategy is to thoughtfully move lives into increased risk arrangements when we are confident it will provide significant opportunities for EBITDA and free cash flow growth.

We wanted to provide additional color on the substantial amount of medical spend that underscores our value-based arrangements. In aggregate, Privia's ACOs, or risk entities, are managing approximately $9 billion of medical spend in 2024. In most of our contracts, we only recognize care management fees and/or shared savings in Practice Collections and GAAP revenue due to revenue recognition rules.

In our capitation contracts, we recognize the medical premium associated with those lives. Any shift of lives between different types of value-based care arrangements, such as into ACO REACH from MSSP or capitation from upside/downside MA contracts, could lead to significant movement in Practice Collections and GAAP revenue.

The potential volatility of shared savings, associated with the scale of our medical spend under management, requires us to be thoughtful in our risk taking, including limiting downside risk as appropriate in the current environment. We remain focused on growing our value-based care business in a profitable manner for our provider partners and shareholders.

Now, I'll ask David to review our recent financial performance, capital position, and our operating and financial outlook for 2024.

---

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

Thank you, Parth. Privia Health's strong operational execution and financial performance continued through the fourth quarter of 2023. We added 200 providers since the end of September, bringing our implemented provider count to 4,305, up 19.4% year over year. Combined with solid ambulatory utilization trends, this led to Practice Collections increasing 19.2% from Q4 a year ago to $757 million.

Platform costs and SG&A expenses grew slower than our top line, and this operating leverage helped drive adjusted EBITDA up 21.1% over Q4 last year to $17.3 million as we continue to grow in more mature and newer markets.

As Parth noted, we met or exceeded guidance for all key operating and financial metrics for full-year 2023. Practice Collections increased 17.1% from a year ago to $2.84 billion, care margin was up 17.5%, and adjusted EBITDA grew 18.7% to reach $72.2 million despite absorbing new market entry costs.

Our business model continues to generate very strong cash flow, and we ended the year with no debt and a cash balance of approximately $390 million. Free cash flow for the year was almost $81 million or more than 100% of adjusted EBITDA due to timing differences. We generated net cash of $41.5 million in 2023 after investing $43 million of cash for business development activities to enter new states. We also have an undrawn and available $125 million credit facility, and plan to continue maintaining a conservative balance sheet.

Privia's strong 2023 performance, business momentum, and diversified book of business has positioned us well heading into this year. Our focus in 2024 is three-fold: drive organic provider growth to increase density and scale in existing geographies; limit downside risk arrangements from more favorable contract structures and margin contribution; and, drive operating leverage for adjusted EBITDA growth.

Using the midpoint of our 2024 guidance, implemented providers are expected to increase 9.2% year over year to reach 4,700 by year end. Attributed lives growth of approximately 5% at the midpoint includes our exit from the Delaware ACO in 2024.

Moving to our top line, we are proactively adjusting our risk book to focus on positive margin contribution as we foresaw a more challenging MA environment ahead of us. Therefore, we expect Practice Collections and GAAP revenue growth to be essentially flat year over year. Our Practice Collections guidance includes a reduction of approximately $198 million from 2023 given lower risk exposure from the MA capitation agreements we are renegotiating. The improved economic terms are expected to benefit our care margin.



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

We are also assuming minimal increase in shared savings year over year as part of our prudent accruals. This implies expected 2024 growth in fee-for-service Practice Collections of approximately 10%, driven by implemented provider growth in more mature markets in 2023 as well as early provider growth momentum in newer markets. We expect care margin growth to be 9.7% at the midpoint given minimal increase in shared savings accruals. Platform contribution growth of 5% to 6% at the midpoint of guidance reflects an incremental $10 million to $12 million of operational investment in the new markets we've entered over the past 18 months.

We are guiding to adjusted EBITDA growth of approximately 21%. Adjusted EBITDA margin as a percentage of care margin is expected to expand 200 basis points year over year at the midpoint, as our operating leverage in more mature markets more than offsets new market entry costs. We also anticipate our newer markets to contribute significant growth in providers, attributed lives, and adjusted EBITDA in the future.

In the near term, given the current environment, we are targeting annual organic Practice Collections growth in the mid-teens and adjusted EBITDA growth of 20% or greater, excluding the potential positive impact of any business development activity or growth in our capitated MA book. Finally, we expect capital expenditures to again be less than $1 million this year as part of our capital-light operating model, and are assuming an effective tax rate of 27% to 28%. This should all lead to approximately 80% of our full-year adjusted EBITDA converting to free cash flow.

Privia Health continues to grow in existing and new markets and we remain focused on building one of the largest ambulatory care delivery networks in the nation. We remain extremely well positioned to reaccelerate our move to downside-risk arrangements when the appropriate MA market conditions present themselves in future years. And we look forward to continuing to serve our physicians, providers and health system partners, and their patients.

Operator, we are now ready to take your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Joshua Raskin, Nephron Research.

**Joshua Raskin** - Nephron Research - Analyst

Can you talk about the negotiations with payers around taking risk? I'm specifically interested in why they're okay with you titrating risk back when you see utilization and other changes? And how receptive do you think they're going to be in the future when you come back and say, we want to resume capitation when things sort of calm down?

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

It's a great question. So there are a few things. Number one, we've built a very conscious model from day one that can take risk in different flavors and do value-based care across the spectrum, as you know. So we're doing fee for service with upside-only shared savings and bonus payments. We're doing upside/downside risk arrangements; we're also doing capitation. We're doing this across commercial, MA, and MSSP, so that the value proposition is fairly broad for any payer in the industry, public or private.

When we discuss the capitated book, specifically to your question, with payers, they are seeing utilization trends that everybody's seeing. It's impacting their book. And at the end of the day, they understand that this is a long-term partnership with Privia. If they have given us MLR targets that are no longer supported given recent historical trends, we've tried to make sure that they have certain skin in the game in every payer contract. And if that leads to adjusting those levels appropriately, we can have that discussion.



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

To be clear, we are still taking pretty substantial risk in these contracts, 50% or higher. It's just that we're dialing it down with a certain higher MLR threshold. And it's a one- to three-year arrangement that changes over time. The ability for us to take risk changes over time. And then we've just got to deal with the realities that we are seeing in the marketplace. So I think it speaks to our strength of the business model and how we can work with the payers and the long-term nature of the contract.

**Operator**

Brian Tanquilut, Jefferies.

**Jack Slevin** - Jefferies - Analyst

It's Jack Slevin on here. Thanks for taking the question. I guess, looking at the numbers, there's a little bit of optical impact, I think, from the strong print on implementer providers in Q4. And I'm shaking out at somewhere in the 14% to 15% average provider growth for '24 based on the guidance range.

I guess, one, is that the right way to think about it? And then, two, as you think about jumping off from '24 given the change in operating leverage from platform contribution to EBITDA in the guide, how should we think about where provider growth and attributed lives growth needs to be off of '24 to sustain a growth rate in the same range that you've guided to for the year? Thanks.

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

So I'll answer them in order. So, number one, look, we've always said we're going to target 400 to 500 new implementer providers every year. As we get into new states, our TAM expands, and ideally we'd like to exceed that number. 2023 was an outstanding year. We implemented close to 700 providers, as we noted. So there's always some timing difference. All else being equal, we'll try and implement them as soon as possible. Some of the new markets also come with implementer providers day one, and that's what happened in '23.

So the right way is just to normalize that over a two- or three-year period of time. But given the TAM we have, our low penetration, even in the existing states, we think we can continue to add 400 to 500 implementer providers in just the existing footprint without adding a single new market. Then those providers come with attributed lives. We move them into value-based arrangements. And then that flows down the P&L. And you can see, 2024 is a perfect example where we are not assuming any accretion in shared savings, just given the current utilization trends across the value-based book.

We're not assuming any new market entries in 2024. We still have three or four markets that are negative EBITDA that we entered recently. And despite that, we are able to generate operating leverage and grow EBITDA 20-plus percent at the midpoint of the guidance. So I think as we move forward into '24, if we keep adding, at that level of clip, implementer providers and lives, and those are the two units that drive the business, we think the inherent unit economics and operating leverage in the business just magnifies.

And we'd like to keep increasing the operating leverage to grow EBITDA at least 20-plus percent in the existing footprint. The marginal provider that joins and the life that joins is highly accretive, and the beauty of the business is we've already proven the unit economics and operating leverage today.

**Operator**

Lisa Gill, JPMorgan.



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

**Lisa Gill** - JP Morgan - Analyst

I want to go back to how you're seeing the market right now. You talked about minimal increases in shared savings as we think about 2024. You talked about renegotiating some of these risk contracts. But when I think about, for example, the minimal increase in shared savings, is that utilization? Is that the risk model changes?

And how do we think about the timeline of you coming back into more capitated type of relationships? Is that several years away? Or do you think, like, we just need to get through '24 and have a better baseline? Just any thoughts that you have on how we should think about this?

---

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

So just from a macro perspective, we've had a little bit of a contrarian viewpoint over the last two years on the MA and capitated space. And that viewpoint has been against the grain, which has been hard when both public and private investors have focused on risk-taking businesses without regard to in-year profitability or free cash flow.

---

**Lisa Gill** - JP Morgan - Analyst

And you were right. I will say that. You were right. I mean, if we look back now, right? I will be on the record saying that.

---

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

It's hard to do. Yes, and kudos to our healthcare economics team and data analytics team. We have some of the best in the industry that see these trends and keep us out of trouble. We think some of these regulatory changes would have pretty significant impact. You've heard it from all the payers. We think V28 would be a pretty significant impact.

I think you're seeing some of that in 2024 when payers have reset expectations. We do think '25 would be the first year where you'll actually see the impact downstream in the provider groups. And knowing that, we've actively restructured our book and protected the downside risk for both our providers and our shareholders, I think.

Look, our view is we're on the right side of history. We are building multi-specialty medical groups at scale with community doctors, which are lowest cost setting in the communities that we serve. Any payer wanting to do value-based care at the end of the day would rely on such a network. And we just think you're in an environment where obviously everybody protects their turf. The payers are going through a pretty challenging phase. Things do normalize. The MA business goes in cycles; we've seen this over the last 20 years. And we think once we get through '24, '25, things will normalize.

Our ability to work with the payers and make sure we do the right thing by providers that are actually undertaking total cost of care management and helping the payers lower total cost across different books of business, including commercial, is very differentiated. And the payers are willing to work with us.

So I do think to answer your question directly, once we get through '24, '25, we should see some normalization.

---

**Operator**

Ryan Daniels, William Blair.

---



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

**Jack Senft** - William Blair & Company - Analyst

This is Jack Senft for Ryan Daniels. Thanks for taking the question. Just kind of off of the provider question asked earlier. I guess, in terms of the implemented providers, and as you previously alluded to, you're looking to add about 400 providers in 2024; and in 2023, the provider adds are just a bit more back-half weighted.

Can you just discuss the cadence you expect for added providers over the year? Should that be more linear and kind of weighted equally, or maybe back-half weighted and similar to 2023? Thanks.

---

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

Yes, absolutely. So usually, they should be pretty linear with the exception of new market entries. So what happened in '23 was we entered South Carolina, we entered Washington. Both of those came with some implemented providers day one. And so that led to that increase.

And then obviously we blew through the numbers. 699 was one of the best years we've had; that just speaks to the strength of the model and the momentum that we have. But other than that, we should expect it to be pretty linear. We are not including any new markets in our guidance as we've done previously in previous years. So as and when we enter new markets, and if that comes with implemented providers, that would be additive to the guidance we've given.

---

**Operator**

Elizabeth Anderson, Evercore ISI.

---

**Sameer Patel** - Evercore ISI - Analyst

This is Sameer Patel on for Elizabeth Anderson. Thanks for the question. I just wanted to confirm, as it relates to you guys moving to capitated contract, those lives over, are there any, like, fee-for-service economics that you're going to be now gaining on this, or is this strictly, like, shared savings?

---

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

Yes, thanks for the question, Sameer. So there's always fee-for-service economics even when we move lives into capitation because we are deeply in the workflows and processing claims. So we earn a fee-for-service administrative fees on any claims that go through even when the lives move into capitation.

What happens is the fee-for-service spend is captured also as a medical expense if we are getting capitated payments up top. So that's the nature of the business. But we do earn fees on both the fee-for-service book and then any shared savings on the value-based book on the same patient. I do think that differentiates ourselves, and we're able to get pretty good unit economics on the same life if we can process both fee-for-service and value-based care payments.

---

**Operator**

David Larsen, BTIG.

---



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

**David Larsen** - BTIG - Analyst

Hi, congrats on the good quarter. Can you talk a little bit about your relationship with BASS Medical? And I'm assuming your retention levels with your groups are high. And maybe talk a little bit about your choice to exit Delaware. Thanks very much.

---

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

Yeah, thanks, David. So on the first one, we have a pretty good relationship with BASS Medical Group, long-standing relationship where we are helping the group grow, and we obviously have a joint venture MSO entity. So that relationship remains pretty strong. They were looking for a joint venture partner to establish a California risk-bearing organization that took delegated risk downstream from the payers. It's not a business Privia is in. We do work with other such entities that do that. As an example, we work in North Texas with WellMed that is owned by Optum for certain MA contracts.

Our economics are unchanged. We continue to get 40% of shared savings on all providers participating in value-based arrangements. And so we've been discussing that with the BASS Medical Group with we respect the decision to establish such an entity, and we expect to participate in some of those contracts, and hopefully that helps the group to grow.

The Delaware question, look, it was purely an economic decision. We underwrite some of these businesses looking at the utilization trends, and if that changes, as we noted in our prepared remarks, given what we were seeing in the marketplace, we didn't think that ACO would have generated any shared savings for our provider partners or EBITDA for Privia shareholders for the foreseeable future. Sometimes that happens. And the flexibility in our model is that we can prudently dial back risk or exit these ACOs when we can in an appropriate manner, and we'll keep monitoring the situation. If the opportunity arises in the future, we'll enter back in.

---

**Operator**

Jess Tassan, Piper Sandler.

---

**Jessica Tassan** - Piper Sandler Companies - Analyst

Congrats on the quarter and the guide. So I just wanted to kind of clarify where are you experiencing new market entry costs in 2024, and then just maybe if you could articulate when you expect to lap those headwinds. I know you said $10 million to $12 million, but can you remind us which states those headwinds are attributable to? And then is the Delaware exit effectively a tailwind to EBITDA in '24 because you won't have those new market entry costs associated, assuming you wind down the ACO? Thanks.

---

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

Thanks for the question, Jess. So on the first piece, as we've stated consistently, when we enter a new state, we first start with the spend at the sales and marketing line. So a lot of the spend in 2023 was building out our sales team and the infrastructure to go add providers in those new states. That continues to be there in '24.

However, once we start implementing providers, some of the spend also increases in the cost of platform. So you're seeing a majority of the $10 million to $12 million spend is now incremental in the platform costs to support implementing and working with these providers as we ramp them up. So that shift happens.

And these are the recent new markets, as you would expect, between Connecticut, North and South Carolina, as well as Ohio. Some of those are still EBITDA negative, and we would expect to break even over the next couple of years. Obviously, it depends on the provider growth, but that's our trajectory.



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

From a Delaware perspective, we did not have any implemented providers. As you recall, this was a Care Partners' deal with a health system, so those providers were not on our platform. So there were not substantial sales, marketing or implementation costs in that market. However, we've exited the ACO, and that prevents a negative care margin and EBITDA impact that we would have faced had we not shut down the ACO.

**Operator**

Gary Taylor, Cowen.

**Gary Taylor** - TD Cowen - Analyst

Most of my questions answered. Just a couple, maybe, follow-ups. Just following up on Delaware and Beebe, which when you announced was a couple hundred physicians. Is there still some commercial shared savings, risk-taking activity happening in that market, or was MSSP the only thing that you were doing with that group?

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

It was only MSSP, so they were not on our platform. There was no fee-for-service work that we were doing, and there was no other line of business, so only MSSP.

**Gary Taylor** - TD Cowen - Analyst

Got it. And my other quick one was on the capitated book, prior-year development, swung to a positive $3.3 million in the fourth quarter; first half of the year, you had some headwinds from negative development, and I was just trying to intuitively understand that. Is there a quick explanation for that?

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

This is David Mountcastle. Thanks for the question. Yes, the payers go back and sort of reassess the attributable lives from time to time, and that was just some reassessment from one of our payer groups. The overall impact was de minimis when you got to care margin. It essentially took out the same amount of revenue and costs. So no real impact overall; it's just sort of an attributable life audit from one of our payers.

**Operator**

Richard Close, Canaccord Genuity.

**Richard Close** - Canaccord Genuity - Analyst

Thanks for the question. I realize that you don't have new markets in the 2024 guidance. But Parth, you mentioned something about disruption in the provider market. I'm just curious what specifically you're meaning by that and what that means for Privia as a potential opportunity?

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

Yeah, I appreciate the question, Richard. Look, I'll just keep my comments generic. You're obviously seeing some Chapter 11 filings. You're seeing significant earnings revisions and business models that are single-line focused, facing some headwinds in this market environment, both public companies as well as privately held companies. We think there was a lot of capital that chased this space in the past four or five years. And as things



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

normalize, we think there will be opportunities both organically for us, where provider groups may have partnered with an entity that may not be optimal, and they get out of those arrangements and can join the Privia model, which is well proven and established.

And there will be some opportunities from a business development perspective where we could see entities that may be struggling, where there's opportunity for us to both increase our density in existing states or enter new markets.

At the end of the day, we're looking to add to our two units, add implemented providers, add attributed lives. And so if we can go get some lives in an arrangement where they may be struggling in the current structure that they might have in the current environment, I think given our strong balance sheet and capital position, we'll be willing to go at that pretty aggressively to grow.

---

**Operator**

Whit Mayo, Leerink Partners.

---

**Whit Mayo** - Leerink Partners - Analyst

Just one quick clarification and a real question. I just want to make sure I get this right. The $10 million to $12 million in startup costs, is that all incremental to 2023? Or is that cumulative for the investments that you made last year?

---

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

Yeah, I would consider those to be some incremental costs because we added, predominantly in '23, it was sales- and marketing-related expenses; towards the end of the year, we started some implementation and performance consultants and our infrastructure in the states. A lot of the incremental would come in on the platform cost line, but these are costs that are established. They're not one time, as we've said. They get established in the market. And then as we add providers, the business scales pretty rapidly and gets to break even.

So the $10 million to $12 million, you should say that if we would have not entered these states, we could take those costs out as a proxy for what we are adding. Now, all of that is embedded in our guidance, but we give that rationale given the states that we are having a meaningful level of spend that are negative EBITDA states for us today.

---

**Whit Mayo** - Leerink Partners - Analyst

Okay, that makes a lot more sense. Okay, helpful. I think it was a year or so ago that you guys acquired an ACO, maybe in Connecticut, had kind of a whole value-based care book to it. Just was looking for an update around the performance of that and how you're thinking about other opportunities to maybe deploy capital into opportunities like that?

---

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

Yeah, that was a great transaction for us. The Connecticut Community Medical Group, they've been great partners. We think we can build a pretty big business in Connecticut. It's performing really well, and we are seeing a lot of momentum in the state with community providers implementing our full-scale model at the back of the ACO or the IPA entity that we bought. And I think that's a great playbook for us. If we can find like-minded partners and other such IPAs, we're going to go and acquire them given the strong balance sheet that we have. So that's a big part of the playbook.

---

**Operator**

Jeff Garro, Stephens, Inc.



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

**Jeff Garro** - Stephens Inc - Analyst

I'll try to lump together a few on shared savings. So first for 2024, I was hoping you could add some more specifics on how many Privia providers are participating and beneficiaries are expected to be attributed to Privia MSSP ACOs. And I was hoping you could also dig into visibility into 2023 MSSP performance versus expectations for 2024. But definitely, do 2024 shared savings expectations in the guidance include some cushion for final 2023 results? Thanks.

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

I may ask you to repeat a question, given there were a handful. So we don't disclose the number of providers. Typically, 60% of our providers are gatekeepers, including PCPs and family medicine. A large part of those get the attributed lives. It varies by state. In aggregate, as we've reported our results, we have 192,000 lives in MSSP program as of January 1, and that excludes the exit of Delaware. And then you can see three quarters of those are sort of in the Enhanced Track.

We are assuming shared savings to be flat in aggregate year over year. So there's some headwinds and tailwinds. So there are puts and takes across our three diverse book between commercial, MA, and MSSP. So that's embedded in our guidance.

If you could repeat your second question or second of half the question, that would be great.

**Jeff Garro** - Stephens Inc - Analyst

Just trying to understand whether 2024 expected financial results from the shared savings lives includes some element of a cushion for the final 2023 results that you'll firm up as you get more claims data from your payer partners?

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

Got it. So look, we update our accruals every quarter as we get claims data. So they could go either way, up or down. I mean, we're working pretty real time in the current utilization environment. Hopefully, we have always tried to be very prudent with the accruals. That's embedded in our guidance. As we noted very clearly, we are assuming minimal shared savings increase. But again, given the current environment, nobody knows.

So we'll update this every quarter. But hopefully, as you've seen from our past results over the past three years, when we give guidance, we hopefully try and meet it or beat it. But it's tough to predict. It is called risk for a reason. And there can always be some variability. But hopefully, we're being pretty prudent here. So we'll see.

**Operator**

Jailendra Singh, Truist.

**Eduardo Ron** - Truist Securities - Analyst

Hey, guys. This is Eduardo Ron for Jailendra. We cut out there for a minute, so I'm not sure if this was asked. Can you discuss this move in your capitated to renegotiate contracts? You're seeing a decline of $198 million of revenue. Are these lives located in a specific region? And if we look at your overall capitated book, it looks like to be relatively break-even from a care margin perspective over the last two years, give or take. Does that imply that the remaining 16,000 lives were driving favorable results to care margin as opposed to those 19,000?



©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

So yeah, we don't disclose the region. But the 16,000 remaining are in a particular region, and the contracts we renegotiated also were in a particular region with a particular payer, but we're not going to disclose which region or payer. I think that's confidential info. Our view is we do take on more risk with the idea that we could generate significant shared savings, benefit the payer, benefit our providers and our medical groups, and then ultimately benefit our shareholders.

The environment has just been such that the cost trends have worked against everybody given the MLR targets we got. So usually, we don't dial up risk unless you're getting paid sufficiently to take on that incremental risk. And I think that's the beauty of our model where we can flex across the risk spectrum. It's not a single line where we are just doing capitation day one. We protected the downside pretty meaningfully.

I do think going forward in the future, if we are keeping the 16,000 lives, our hope is that that generates some positive contribution in EBITDA. Otherwise, we would have tried to renegotiate that as well. But we just evaluate that on a case-by-case basis. But our hope is if we are keeping the risk book, that we expect to generate positive shared savings and care margin even in the current environment.

**Operator**

Sean Dodge, RBC Capital Markets.

**Thomas Keller** - RBC Capital Markets - Analyst

This is Thomas Keller on for Sean. Thanks for the taking the question. So I actually just got disconnected there. I think, Parth, you might have answered this indirectly already, but wanted to check back in on Privia Care Partners. I think there are about 1,400 providers on that model at the end of '22. How many are there now? And if possible, how many of those have already converted over to the full tech stack?

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

Yeah, I appreciate the question. We have about 1,350 Care Partners' providers, and you can see that on slide 6 of our presentation this morning. We added Community Medical Group in Connecticut last year. Those are predominantly Care Partners' lives, and as we noted earlier, that's gone really well. And we continue to look for opportunities to add other IPA- or ACO-type entities, both organically and inorganically. And so, we hope to keep growing that book of business.

Thank you for listening to our call today. We appreciate your continued interest and support of Privia, and I look forward to speaking with you again in the near future. Thanks, Shannon.

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.