



**First Quarter Fiscal 2025 Earning Call for the Period Ended
September 30, 2024
Tuesday, November 5, 2024**

Corporate Participants

Ryan Kubota, Director, Investor Relations

Patrick Blair, Chief Executive Officer

Ben Adams, Chief Financial Officer

Ryan Kubota, Director, Investor Relations

Good afternoon and thank you all for joining the InnovAge 2025 fiscal first quarter earnings call. With me today is Patrick Blair, CEO, and Ben Adams, CFO. Doctor Rich Feifer, Chief Medical Officer, will also be joining the Q&A portion of the call.

Today, after the market closed, we issued an earnings press release containing detailed information on our fiscal first quarter results. You may access the release on the Investor Relations section of our company website, [InnovAge.com](https://www.innovage.com).

For those listening to the rebroadcast of this call, we remind you that the remarks made herein are as of today, Tuesday, November 5th, 2024, and have not been updated subsequent to this call.

During our call we will refer to certain non-GAAP measures. A reconciliation of these measures to the most directly comparable GAAP measures, can be found in our earnings press release posted on our website.

We will also be making forward-looking statements, including statements related to our 2025 fiscal year projections, future growth prospects and growth strategy, our clinical and operational value initiatives, Medicare rate increases, executive leadership transition, the status of current and future regulatory actions, and other expectations.

Listeners are cautioned that all of our forward-looking statements involve certain assumptions and are inherently subject to risks and uncertainties that can cause our actual results to differ materially from our current expectations. We advise listeners to review the risk factors discussed in our Form 10-K annual report for fiscal year 2024 and any subsequent reports filed with the SEC, including our most recent Quarterly Report on Form 10-Q.

After the completion of our prepared remarks, we will open the call for questions. I will now turn the call over to our CEO, Patrick Blair.

Patrick?...

Patrick Blair, Chief Executive Officer

Thank you, Ryan, and good afternoon, everyone. I want to begin by expressing my continued appreciation to our colleagues, participants, government partners, and the investor community who support InnovAge.

Today, I will discuss several topics: financial results for our first fiscal quarter, an update on our organic growth and drivers, a California regulatory compliance update, recent progress in our clinical and operational value initiatives, and affirmation of our annual targets.

Let me start with our first quarter performance. Earlier today, we reported total revenues of \$205.1 million dollars, center level contribution margin of \$34.5 million dollars, and Adjusted EBITDA of \$6.5 million dollars for the first fiscal quarter. When compared to the first quarter of fiscal 2024, revenues have increased by approximately 12 percent from \$182.5 million dollars and Adjusted EBITDA has increased by approximately 500 percent from Adjusted EBITDA of \$1.3 million dollars. When compared to the fourth quarter of fiscal 2024, revenues increased by approximately 3 percent and Adjusted EBITDA increased by approximately 25 percent. Census increased to approximately 7,210, which represents a quarter over quarter improvement of approximately 3 percent. Building on our strong fiscal year 2024 performance, our first quarter reflects continued momentum and execution of our strategy to deliver high quality care with strong stewardship of internal and external costs, while continuing to enhance our margins.

On the leadership front, we welcomed Michael Scarbrough this week as our new President and Chief Operating Officer. Michael comes with three decades of experience building, scaling, and managing Government healthcare programs. Most recently, he served as the CEO of Optum at Home following the acquisition of Prospero, a physician-led, home-based medical care model that Michael co-founded and sold to United Healthcare in 2022. In approximately three years, Prospero grew to serve fifty thousand members in twenty-eight states. Prior to that, Michael served as a Senior Vice President at both Anthem and Amerigroup. Given the uniqueness of PACE as both a provider and payor, we're thrilled to have a leader with Michael's experience and track record join the company at this pivotal inflection point. At the same time, Chris Bent will be leaving the organization. I want to personally thank Chris as a partner and friend for her leadership. She will be missed.

Staying a moment longer on the people who deliver on InnovAge's mission every day, I'm excited to share that our recent employee satisfaction and engagement survey demonstrated strong, quarter-over-quarter performance with an employee engagement score of 79 percent. And our recently completed net promoter score survey, which measures participant satisfaction, loyalty and enthusiasm, reached a new high of 56, well above the comparable survey score of 50 in the first quarter of fiscal 2024.

Fostering a highly engaged workforce is a key priority for our company. When employees are engaged and invested in the company's success, they are more motivated to deliver exceptional service and go the extra mile for our participants. This translates to higher participant loyalty and stronger word-of-mouth referrals that drives incremental growth.

Before turning to growth, I do want to take a moment to recognize the tremendous efforts of our teams in Tampa and Orlando who went above and beyond to support our employees, participants, and local communities during the recent hurricanes. Despite facing significant personal and professional disruptions, our teams demonstrated remarkable resilience, teamwork, and a steadfast commitment to our mission. They worked tirelessly to ensure our facilities remained open, participant care was uninterrupted, and critical resources were provided to those in need. What makes this response even more remarkable is that these teams are simultaneously navigating the complexities of newly opened centers. To demonstrate such resilience - managing both a natural disaster and the day-to-day challenges of scaling operations - speaks volumes about their commitment and capabilities. Their actions embodied our core values and I'm incredibly proud of how they represented our company during this difficult time.

On the organic growth front, we are off to a solid start in Fiscal 2025. Census increased to approximately 7,210, which represents approximately 10 percent year-over-year growth compared to the first quarter of Fiscal 2024. Our sales and marketing teams have made significant strides in their ability to identify and engage new prospective participants. By leveraging advanced market data and analytics, they have developed a more nuanced understanding of our target customer segments and their evolving pain points and preferences. This intelligence has allowed our teams to craft highly personalized, channel-specific messaging that resonates more effectively with potential leads. For example, our digital marketing campaigns now leverage sophisticated audience targeting and dynamic creative to serve prospective customers with ads tailored to their specific needs and behaviors. Similarly, our enrollment representatives are armed with deeper insights that enable them to have more meaningful, consultative conversations with prospects.

The results of these data-driven strategies are evident in our Q1 performance, which saw a 7 percent improvement in qualified lead volume compared to the same period last year. Additionally, our Inside Sales team is now contributing over 20 percent of our enrollments, which is more than double where it was a year ago. This increased pipeline provides us with greater visibility into future revenue potential and strengthens our ability to efficiently convert prospects into loyal, long-term participants.

Lastly, you'll recall previous discussions regarding state processing delays in some of our key markets. I'm pleased to report that we are now beginning to see small but steady signs of improvement in application processing times, thanks to our continued collaboration with state agencies to reduce bottlenecks that have contributed to delayed enrollment and access to PACE

services. As we enter the Medicare Annual Enrollment Period in the second quarter, we typically experience some seasonal variations in enrollment patterns. However, we are more optimistic about our competitive position this year, particularly given the broader financial pressures affecting the Medicare Advantage sector. These factors position us for stronger comparative performance relative to this period last year.

Regarding regulatory compliance, as disclosed in our 10-Q, CMS has closed its audit process for Sacramento while the State audit processes remain open in Sacramento and San Bernardino. We intend to provide updates as they become available. As such, we have no updates regarding the timeline to open Bakersfield and Downey locations.

On the operational front, we continue to systematically address medical costs, labor efficiency, administrative expenses and risk score accuracy through our dual-track approach of Clinical Value Initiatives (CVIs) and Operational Value Initiatives (or OVIs). Through the first quarter, we're pleased with our progress. Importantly, we look at these as a portfolio as some initiatives produce more value than we expect, and some produce less value or delayed value. Ultimately, we depend on these initiatives to counteract the natural inflation in medical expenses and to aid in rebuilding profitability. With our first group of CVIs now in place for over a year, we believe they are contributing to improvement in our center level margins. And like our CVIs, we expect OVIs to contribute incremental margin lift over time.

External provider costs PMPM increased 1.6 percent on a sequential quarter-over-quarter basis, which is a commendable result given the prevailing environment of higher medical service utilization we're observing more broadly in other programs serving frail seniors. Our inpatient admissions rate decreased to 5.1 percent, below where we ended Fiscal 2024 at 5.5 percent, and we're pleased that our short-stay nursing utilization of 1.8 percent continues to remain at our target. And while we are encouraged by these results, managing utilization requires constant vigilance and is subject to some volatility on a quarterly basis. Our clinical and operational teams are driving more consistency across our centers in the areas of utilization management, high acuity care management, re-contracting high-cost external providers, ancillary services network management, claims payment integrity, and chronic condition documentation. We are also looking at pharmacy costs. Last fiscal year, we spent \$88 million on net pharmacy costs, and it is growing proportionately with our census. We conducted a routine market pricing check last year and we're taking a close look at the options available in the market, as well as how we're organized to efficiently and effectively deliver these critical services to our participants. We continue to pursue opportunities to improve the participant experience while also reducing costs in this area.

We also continue to invest in tools and technologies to enable our clinicians to remain focused on participant care and practice at the top end of their license. Last fiscal year, we piloted a new e-consults initiative that enables our primary care physicians to get a specialist review within 24

hours and can often prevent the need for an in-person specialist visit, which can sometimes take months to schedule and complete. After a successful pilot, we are scaling this solution nationally. We believe this is essential for further empowering our physicians, who because of their extensive geriatric training, manage a significant amount of routine specialty care that would otherwise be referred to specialists by other primary care providers.

Lastly, we remain committed to strong administrative cost controls in our centers and in corporate services. We continue to push ourselves to find ways to be more efficient and productive and are beginning to see fixed cost leveraging translate into margin.

As we conclude the first quarter, our strategic initiatives are delivering measurable results across key metrics. Based on our performance and leading indicators, we are reaffirming our annual guidance. Our disciplined approach to enrollment growth, combined with robust cost management and enhanced quality and compliance programs, has yielded tangible improvements in organizational effectiveness, participant satisfaction scores, and financial performance. At our core, we remain focused on operational excellence in our centers - the foundation of our business - where continuous, incremental improvements drive sustainable long-term value for our participants and stakeholders.

With that, I'll turn it over to Ben to walk through our quarterly financial performance.

Ben Adams, Chief Financial Officer

Thank you Patrick.

Today, I will provide some highlights from our first quarter fiscal year 2025 financial performance, and insight into some of the trends we are seeing in the current quarter.

Starting with census, we served approximately 7,210 participants across 20 centers as of September 30, 2024, which represents annual growth of 9.4 percent and sequential quarter growth of 2.7 percent. We reported 21,380 member months in the first quarter, an increase of approximately 9.4 percent compared to the first quarter of fiscal year 2024 and 2.8 percent over the fourth quarter representing a strong start to fiscal year 2025.

Total revenues of \$205.1 million dollars increased 12.4 percent compared to 182.5 million dollars in the first quarter of fiscal year 2024 primarily driven by an increase in member months and capitation rates. The increase in capitation rates was primarily driven by higher Medicaid rates in connection with our annual state contract increases and higher Medicare rates as a result of increased risk score and county rates.

Compared to the fourth quarter, total revenues increased 2.9 percent primarily due to the sequential increase in member months as rates were flat. Rate activity included an annual increase in Medicaid capitation rates effective July 1. This was offset by a Medicare Part C risk score true up recorded in the fourth quarter coupled with a change to our reporting methodology addressed on the last call where effective July 1st, a portion of what was recorded as bad debt in previous years is now recorded as a revenue reserve or contra revenue.

We incurred \$107.2 million dollars of external provider costs during the first quarter of fiscal 2025, an increase of approximately 7.9 percent compared to the first quarter of fiscal year 2024. The increase was primarily driven by an increase in member months partially offset by a decrease in cost per participant. The decrease in cost per participant was primarily driven by a decrease in permanent nursing facility utilization and a decrease in external hospice care associated with the transition of this function to internal clinical resources. This was partially offset by an increase in pharmacy cost, and an annual increase in assisted living and permanent nursing facility unit cost. Compared to the fourth quarter, external provider costs increased 4.4 percent. The sequential increase was primarily driven by the increase in member months and an increase in cost per participant. The increase in cost per participant was due to pharmacy expense timing coupled with an increase in assisted living and nursing facility unit cost, partially offset by lower inpatient utilization and cost per admit.

Cost of care, excluding depreciation and amortization, was \$63.4 million dollars, an increase of 14.7 percent compared to the first quarter of fiscal year 2024. The increase was primarily due to an increase in member months coupled with an increase in cost per participant. The increase in cost per participant was primarily driven by:

- Higher salaries, wages and benefits associated with increased headcount and higher wages,
- Increased software license fees
- An increase in contract provider expense in California associated with growth,
- Contract provider recruiting, and
- De novo occupancy and administrative expense associated with opening centers in Florida and the Concerto acquisition.

These costs were partially offset by a reduction in contract transportation costs associated with the transition of services to internal transportation resources.

Cost of care, excluding depreciation and amortization, increased 5.4 percent compared to the fourth quarter. The increase was due to higher salary, wages and benefits costs associated with an increase in member months as well as recruiting costs in California for primary care physicians.

Center-level contribution margin, which we define as total revenues less external provider costs and cost of care, excluding depreciation and amortization, which includes all medical and

pharmacy costs, was \$34.5 million dollars for the quarter compared to \$27.9 million dollars for the first quarter of fiscal year 2024. As a percentage of revenue, center-level contribution margin of 16.8 percent increased by approximately 1.5 percent compared to 15.3 percent in the first quarter of fiscal year 2024.

Sales and marketing expenses of approximately \$6.5 million dollars increased 20.7 percent compared to the first quarter of fiscal year 2024, primarily due to increased headcount to support growth.

Sales and marketing expenses decreased slightly by approximately 70 basis points compared to the fourth quarter.

Corporate, general and administrative expenses of \$27.5 million dollars decreased 4.9 percent compared to the first quarter of fiscal year 2024. The decrease was primarily due to:

- A reduction in insurance expense,
- Lower consulting expense associated with improving organizational capabilities including the transition to a new electronic medical record system, and
- A reduction in consulting costs associated with SOX compliance and internal audit.

These costs were partially offset by an increase in employee compensation and benefits as a result of greater headcount to support compliance and bolster organizational capabilities.

Corporate general and administrative expenses decreased by approximately 6.9 percent compared to the fourth quarter. The decrease was primarily due to the change to our reporting methodology we announced last quarter, coupled with lower third-party legal expense. Effective July first, a portion of what was previously recorded as bad debt expense is now recorded as a revenue reserve or contra revenue. This decrease was partially offset by higher salaries, wages and benefits associated with higher wage rates and an increase in contract services.

Net loss was \$5.7 million dollars compared to net loss of \$11 million dollars in the first quarter of fiscal year 2024. We reported a net loss per share of 4 cents, on both a basic and diluted basis, and our weighted average share count was approximately 136 million shares for the quarter, on both a basic and fully diluted basis.

Adjusted EBITDA, calculated per our revised methodology previously described, was \$6.5 million dollars for the quarter, compared to \$1.3 million dollars in the first quarter of fiscal 2024.

Our Adjusted EBITDA margin was 3.2 percent for the first quarter, compared to 0.7 percent in the first quarter of fiscal year 2024.

We do not add back any losses incurred in connection with our de novo centers in the calculation of Adjusted EBITDA. De novo center losses, are defined as net losses related to pre-opening and

start-up ramp through the first 24 months of de novo operations. For the first quarter, de novo losses were \$4.1 million dollars and primarily related to our Bakersfield and Crenshaw centers that we acquired in fiscal 2024, and our Tampa and Orlando centers in Florida. This compares to \$1.6 million dollars of de novo losses in the first quarter of fiscal 2024 and \$4.2 million dollars of de novo losses in the fourth quarter.

Turning to our balance sheet, we ended the quarter with \$39 million dollars in cash and cash equivalents plus \$46.7 million dollars in short-term investments. We had \$81.3 million dollars in total debt on the balance sheet (representing debt under our senior secured term loan, convertible term loan and finance leases).

For the first quarter, we recorded negative cash flow from operations of \$7.5 million dollars and had \$2.2 million dollars of capital expenditures. We repurchased approximately 801,300 shares of our common stock for an aggregate of approximately \$4.8 million dollars under the Company's share repurchase plan during the quarter. In September, our Board increased the size of our share repurchase program by an additional \$2.5 million dollars.

Our first quarter performance was in line with our expectations and thus we are re-affirming our fiscal 2025 guidance which we laid out last quarter. Based on the information as of today:

- We expect our ending census for fiscal year 2025 to be between 7,300 and 7,750 participants, and member months to be in the range of 86,000 to 89,000.
- We are projecting total revenue in the range of \$815 million dollars to \$865 million dollars, and adjusted EBITDA in the range of \$24 million dollars to \$31 million dollars.
- Finally, we anticipate that de novo losses for fiscal 2025 will be in the \$18 to \$20 million-dollar range.

In closing, we are off to a solid start to the year, and we believe we are continuing to improve and strengthen the business every quarter. We remain focused on day-to-day operational execution and are mindful that our participants are at the core of our work. We believe that the comprehensive and personalized model of care PACE requires, positions us to provide a level of service that is unmatched in traditional Medicare Advantage and enables us to have greater visibility and consistency in medical cost trends, despite the level of frailty in the population we serve.

Operator, that concludes our prepared remarks, please open the call for questions.

Forward-Looking Statements – Safe Harbor

This press release may contain “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “can have,” “likely,” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. Forward-looking statements may be identified by the fact that they do not relate strictly to historical or current facts. Examples of forward-looking statements include, among others, statements we may make regarding quarterly or annual guidance; financial outlook, including future revenues and future earnings; the viability of our growth strategy including our ability or expectations to increase the number of participants we serve, to build and/or open de novo centers, or to identify and execute tuck-in acquisitions, joint ventures and strategic partnerships; our ability to control costs, mitigate the effects of elevated expenses, expand our payor capabilities, implement clinical value initiatives and strengthen enterprise functions; our expectations with respect to audits, post-sanction work, legal proceedings and government investigations and actions; relationships and discussions with regulatory agencies; our ability to effectively implement operational excellence as a provider across all our centers; reimbursement and regulatory developments; market developments; new services; integration activities; industry and market opportunity; and the effects of any of the foregoing on our future results of operations or financial conditions.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on currently available information and our current beliefs, expectations and assumptions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control and may cause our actual results and financial condition to differ materially. Important factors that could cause our actual results and financial condition to differ materially include, among others, the following: (i) the viability of our growth strategy, including our ability to obtain licenses to open our de novo centers in Downey and Bakersfield, California, and our ability to ramp up our de novo centers in Florida; (ii) our ability to identify and successfully complete acquisitions, joint ventures and strategic partnerships; (iii) our ability to attract new participants and retain existing participants; (iv) the impact on our business from ongoing macroeconomic related challenges, including labor shortages, labor competition and inflation; (v) inspections, reviews, audits, and investigations under the federal and state government programs, including any corrective action and adverse findings thereunder; (vi) legal proceedings, enforcement actions and litigation malpractice and privacy disputes, which are costly to defend; (vii) under our PACE contracts, we assume all of the risk that the cost of providing services will exceed our compensation; (viii) the dependence of our revenues upon a limited number of government payors; (ix) the risk that our submissions to government payors may contain inaccurate or unsupported information, including regarding risk adjustment scores of participants, subjecting us to repayment obligations or penalties; and (x) the impact on our

business of renegotiation, non-renewal or termination of capitation agreements with government payors.

Forward-looking statements are based only on information currently available to us and speaks only as of the date on which it is made. Except as required by law, we undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. We advise you to not place undue reliance on forward-looking statements and to review our risk factors and other disclosures included in the reports we file or furnish with the Securities and Exchange Commission, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.