



**Second Quarter Fiscal 2025 Earning Call for the Period Ended
December 31, 2024
Tuesday, February 4, 2025**

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 second quarter earnings call. With me today is Patrick Blair, CEO, and Ben Adams, CFO. Michael Scarbrough, President and COO, and 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 second 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, February 4th, 2025, 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 and guidance, future growth prospects and growth strategy, our clinical and operational value initiatives, Medicare rates increases, census headwinds, 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 Annual Report on Form 10-K 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'd like to start by expressing my sincere appreciation to our colleagues, participants, government partners, and the investor community for their continued support of InnovAge. Your commitment and collaboration remain essential to our mission, and we value the trust you place in us.

The company's second-quarter results were in line with our expectations, and we are reaffirming our Fiscal 2025 guidance set in September. We continue to make meaningful progress in strengthening the business, driving topline growth and margin improvement in alignment with the multi-year roadmap we outlined at Investor Day last year.

This quarter included some one-time adjustments, which, while not unusual for a company of our size, impacted our financials. Given our scale and ongoing transformation, some quarter-to-quarter variability is expected as we true up revenue and expenses against prior estimates. Ben will provide further detail on these adjustments in his remarks.

Looking ahead, we enter calendar year 2025 with positive momentum. On the reimbursement front, we were pleased to see Medicaid rate increases in California and Pennsylvania for 2025 that appropriately reflected cost trends. Additionally, our core medical cost trends remain in line with expectations, driven by the success of our clinical initiatives. As our more mature Clinical Value Initiatives (CVIs) reach full impact in the back half of the fiscal year, we see potential for additional financial upside.

Taking a step back, we continue to see strong momentum in the PACE industry, with steady growth in demand for services that enable seniors to remain safely in their homes rather than transitioning to institutional care. PACE remains a proven, high-value, community-based integrated care solution for seniors with complex care needs, and we are encouraged by the continued expansion of the model nationwide.

Over the past three years, approximately 50 new PACE centers have opened across the country—a 16 percent increase from the roughly 300 centers operating in January 2022. We believe this sustained growth reflects the increasing recognition of PACE's value among policymakers, healthcare providers, and the communities we serve.

Importantly, PACE has long enjoyed bipartisan support, and we believe the incoming administration will continue to champion its role in high-cost senior care. As an industry leader, we remain actively engaged with our national association and federal and state officials to shape policies that further enable PACE expansion, ensuring more seniors can benefit from this model of care.

Turning to our quarterly financials, we reported revenue of \$209 million for the quarter, a 2 percent increase compared to the first quarter. Center-level contribution came in at \$37.1 million,

representing a 17.7 percent margin and a 7 percent sequential improvement. Adjusted EBITDA was \$5.9 million, and census grew to 7,480, reflecting approximately 4 percent quarter-over-quarter census increase.

Our results demonstrate continued progress across key areas, including topline growth, medical cost management, center-level staffing costs, and SG&A but for one-time adjustments which Ben will touch on in his section. This performance reflects the inherent seasonality of our business, and as we continue to recapture margin, I'll remind everyone that our fiscal year guidance remains somewhat back-end weighted. Overall, we are executing on our strategy and remain pleased with the trajectory of the business as we move through the second half of the fiscal year.

I recently marked my third anniversary with InnovAge, and it's been a moment of reflection—on both how far we've come and the important work that still lies ahead. In many ways, the first 18 months were about stabilization—aligning the organization around urgent priorities, addressing critical compliance gaps, strengthening our quality and regulatory functions, and restoring trust with our government partners. It was a challenging and intense period, but we emerged stronger.

The following 18 months--ending this past calendar year--were focused on foundation-building and optimization—reinforcing core business processes, elevating talent in key roles, enhancing financial discipline, and positioning the company for long-term success. This wasn't just about fixing the past—it was about rediscovering our identity as a great company and proving that we could operate with consistency, excellence, and confidence.

Today, InnovAge is in the strongest position it has been in years. But we are not content with simply maintaining progress. The next 18 months will be about transformation—setting a bold vision for the future, challenging ourselves to work smarter, collaborate more effectively, and scale in ways that drive sustainable, profitable growth. This is about reimagining how we operate, how we deliver value, and how we fulfill our mission to provide exceptional care to seniors who rely on us every day.

On the organic front, we continue to see steady progress. Our census increased to approximately 7,480 participants, representing over 10% year-over-year growth compared to the second quarter of Fiscal 2024. Our sales and marketing teams are strengthening workflows to better identify and engage prospective participants, while also expanding referral channels to enhance the durability and predictability of future growth. This year, we've invested in technology to track and manage lead submissions in real time, providing greater visibility into our pipeline. Additionally, we've developed new tools that improve the accuracy and efficiency of assessing financial eligibility, helping to streamline the enrollment process.

Regarding our de novo centers, our Tampa and Orlando centers continue to grow monthly enrollment, and we are encouraged by the shared mission of our exclusive joint venture partner in Orlando, Orlando Health. And in Crenshaw, we eclipsed 100 participants this month—a significant

increase from the 20 participants at the time of acquisition a year ago. While still early in its growth trajectory, Crenshaw is an example of our ability to successfully acquire smaller PACE organizations, transition them to our operating model, and scale them effectively.

That said, as I've mentioned in prior calls, state-driven enrollment processing delays—both for new enrollments and Medicaid redeterminations—continue to impact certain markets. These delays can affect both our gross enrollment when applications are stalled and our net enrollment when Medicaid disenrollments and redeterminations take longer than expected. In California this quarter, these delays led to higher allowances against accounts receivable and corresponding write offs. The state has been a good partner, and we are making every effort to reduce future exposure. We remain confident in our ability to drive sustainable census growth while managing variability in our financial results.

A brief note on regulatory compliance activities. In California, the State audit processes remain open in Sacramento and San Bernardino. We intend to provide updates as they become available.

Operationally, our new President & COO, Michael Scarbrough, has hit the ground running, bringing fresh thinking and a heightened level of rigor to our operations. His leadership is already driving momentum, and I strongly believe his approach will translate into stronger operating and financial performance over time. Michael's arrival has reinforced our confidence in the next phase of our transformation, enabling us to take on higher-impact initiatives over the next 12–18 months. Specifically, he has been evaluating ways to reimagine key operational areas through a technology-first mindset —such as sales & marketing, call center management, appointment scheduling, and transportation. By leveraging innovative tools and empowering our staff, we aim to create a fully integrated ecosystem that connects participants, staff, and providers more effectively across these functions. While we have not yet fully quantified the impact, we expect to incorporate these improvements into our Fiscal 2026 guidance.

As we continue optimizing our operating model, we are thoughtfully evaluating which capabilities to insource and where it makes sense to leverage external partners. Great companies strike the right balance—owning mission-critical functions that drive quality and efficiency while leveraging third-party expertise in areas that are not core to their strategic value proposition.

In line with this approach, we recently acquired a small pharmacy in the Denver area, marking an important step in bringing critical capabilities in-house. By assuming direct control over pharmaceutical packaging and distribution, we believe we can enhance compliance, improve participant outcomes, and increase satisfaction—while also reducing costs previously paid to third parties. Over time, we expect to unlock further value by integrating pharmacy services more seamlessly into our clinical care model, creating an integrated, end-to-end system from prescribing to last-mile delivery.

Another key area of focus is provider network management, where we have recently added an experienced, dedicated leader to drive external network development and optimization. While we directly manage approximately 35 percent of our healthcare spend within our centers, the remaining 65 percent—more than \$400 million in Fiscal 2024—is spent on care and services outside our centers. Given the scale of this spend, we see opportunity to improve quality, enhance care coordination, and reduce costs by becoming a more sophisticated, data-driven partner to our providers.

Beyond these specific initiatives, we remain laser-focused on cost discipline across the organization. We see additional opportunities to drive efficiencies and standardization within our centers while better leveraging our corporate G&A infrastructure as we scale.

Ultimately, all these efforts contribute to building a differentiated and highly scalable platform in the PACE market—one that will not only strengthen our ability to grow organically but also enhance our competitive position for future M&A opportunities. With PACE continuing to expand nationwide, we believe there will be compelling acquisition opportunities over time. Our goal is to position InnovAge as the strategic partner or buyer of choice, leveraging our platform to accelerate growth, enhance compliance, improve participant experience, and drive incremental contribution margin.

Turning to clinical performance, we continue to demonstrate strong management of external provider costs. Compared to the first quarter, external provider costs increased by 0.7 percent, which was driven by an increase in member months and importantly, a decrease in cost per participant. Given the seasonal pressures of flu, localized COVID resurgences in select communities, and persistently high utilization across the broader healthcare system, our ability to contain cost growth reflects the strength of our proactive, individualized care model. By staying ahead of these challenges, we are effectively mitigating cost variability while ensuring high-quality care for our participants.

I'm pleased with the steady progress we've made and the momentum we continue to build quarter over quarter. As we enter this next phase of our journey, we are not just fine-tuning the business—we are fundamentally elevating it. We will challenge old ways of thinking, sharpen our execution, and push ourselves to operate at a higher level. Our vision is clear: to build the leading PACE platform—one defined by best-in-class people, processes, and technology. We are committed to delivering meaningful value to our participants, caregivers, regulatory partners, and investors, and we will execute relentlessly to achieve our full potential.

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 second 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 7,480 participants across 20 centers as of December 31, 2024, which represents annual growth of 10.3 percent from the second quarter of fiscal year 2024 and sequential quarter growth of 3.7 percent. We reported 22,200 member months in the second quarter, an increase of approximately 10.3 percent compared to the second quarter of fiscal year 2024 and an increase of approximately 3.8 percent over the first quarter.

Total revenues of \$209.0 million dollars increased 10.6 percent compared to \$188.9 million dollars in the second quarter of fiscal year 2024 primarily driven by an increase in member months, largely due to growth in our existing California and Colorado centers, and to a lesser extent the addition of our two de novo centers in Florida and the Crenshaw center acquired from Concerto in California. Rates increased slightly when compared to the second quarter of fiscal year 2024, due primarily to the annual increase in Medicaid capitation rates. This was partially offset by an out of cycle Medicare Part C risk score true up payment received in the prior year coupled with a change to our reporting methodology, which we previously disclosed in the fourth quarter of fiscal year 2024, where effective July 1st, a portion of what was recorded as bad debt in previous years is now recorded as revenue reserve.

Compared to the first quarter of fiscal year 2025, total revenues increased 1.9 percent primarily due to the sequential increase in member months, partially offset by a decrease in Medicare rates associated with decreasing risk score as new participants are entering PACE with lower risk scores and disenrolling participants are leaving PACE with higher risk scores. We also continue to experience delays and increased gaps in eligibility with enrollment and redetermination applications, particularly in the State of California, as a result of state and county agency processing delays and other enrollment and redetermination procedures. While these delays have not had a material impact on our financial results or operations during the first two quarters of fiscal 2025, we continue to assess the situation. Despite these continued delays, we are pleased with our results for the first half of fiscal year 2025.

We incurred \$107.9 million dollars of external provider costs during the second quarter of fiscal year 2025, an increase of approximately 6.8 percent compared to the second 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 inpatient, assisted living, permanent nursing facility and short stay skilled nursing facility utilization coupled with 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 inpatient unit cost, an annual increase in pharmacy cost, and an annual increase in assisted living and permanent nursing facility unit cost.

Compared to the first quarter, external provider costs increased 0.7 percent. The sequential increase was primarily driven by the increase in member months, partially offset by a decrease in cost per participant. The decrease in cost per participant was due to pharmacy expense timing, coupled with lower utilization in permanent nursing facilities, short stay skilled nursing facilities, and assisted living facilities.

Cost of care, excluding depreciation and amortization, was \$64.1 million dollars, an increase of 17.9 percent compared to the second 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 expense was primarily driven by:

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

Cost of care, excluding depreciation and amortization, increased 1.1 percent compared to the first quarter. The increase was primarily due to an increase in headcount to support growth including contract providers in California, partially offset by lower recruiting cost, supplies and administrative expense. This was partially offset by a decrease in cost per participant.

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 \$37.1 million dollars for the quarter compared to \$34.5 million dollars for the first quarter of fiscal year 2025. As a percentage of revenue, center-level contribution margin of 17.7 percent increased by approximately 90 basis points in the quarter compared to 16.8 percent in the first quarter of fiscal year 2025.

Sales and marketing expenses of approximately \$7.7 million dollars increased 31.5 percent compared to the second quarter of fiscal year 2024, primarily due to increased headcount and marketing to support growth.

Sales and marketing expenses increased by approximately 18.7 percent compared to the first quarter of 2025 as a result of increased media investment, the introduction of a new retention-focused direct mail campaign during the open enrollment period, and additional spending to support growth.

Corporate, general and administrative expenses of \$28.1 million dollars increased 11.3 percent compared to the second quarter of fiscal year 2024. The increase was primarily due to:

- An increase in employee compensation and benefits as a result of greater headcount and wage rates to bolster organizational capabilities,
- An increase in consulting expense primarily in support of the pharmacy acquisition,
- An increase in fees associated with claims payment integrity audits,
- An increase in software license fees, and
- Higher recruiting costs.

These costs were partially offset by a decrease in consulting expense associated with improving organizational capabilities including the transition to a new electronic medical record system and a reduction in insurance expense.

Corporate general and administrative expenses increased by approximately 2.1 percent compared to the first quarter. The increase was primarily associated with recruiting, consulting, travel, and administrative expenses.

Net Loss was \$13.5 million dollars compared to net loss of \$3.8 million dollars in the second quarter of fiscal year 2024. We reported a net loss per share of 10 cents, on both a basic and diluted basis, and our weighted average share count was approximately 135.4 million shares for the quarter, on both a basic and fully diluted basis.

Additionally, as we've called out in the earnings release, we recorded an impairment of right-of-use asset and construction in progress of approximately \$8.5 million related to halting development on our previously planned de novo center in Louisville, Kentucky that we are no longer pursuing. It is important to note that this, combined with the previously disclosed one-time Medicare true-up payment in the fiscal second quarter of 2024 heavily impact current and prior period net loss comparisons.

Adjusted EBITDA, calculated per our previously described methodology, was \$5.9 million dollars for the quarter, compared to \$6.9 million dollars in the second quarter of fiscal year 2024. Our Adjusted EBITDA margin was 2.8 percent for the second quarter, compared to 3.2 percent in the first quarter of fiscal year 2025.

We do not add back losses incurred by 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 second quarter, de novo losses were \$4.0 million dollars and are primarily related to our Bakersfield and Crenshaw centers acquired from Concerto in fiscal year 2024, and our Tampa and Orlando centers in Florida. This compares to \$2.2 million dollars of de novo losses in the second quarter of fiscal year 2024 and \$4.1 million dollars of de novo losses in the first quarter.

Turning to our balance sheet, we ended the quarter with \$46.1 million dollars in cash and cash equivalents plus \$40.8 million dollars in short-term investments. We had \$78.3 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 second quarter, we recorded negative cash flow from operations of \$6.8 million dollars and had \$1.3 million dollars of capital expenditures. We repurchased approximately 200,000 shares of our common stock for an aggregate of approximately \$1.1 million dollars under the Company's share repurchase plan during the quarter.

We are re-affirming our fiscal year 2025 guidance which we laid out back in September. 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 and
- We anticipate that de novo losses for fiscal 2025 will be in the \$18 to \$20 million-dollar range.

Regarding the trends we are observing in the business as we head into the second half of the fiscal year:

- First, we received calendar year Medicaid rate increases in California and Pennsylvania in the mid-to-high single digits that went into effect January 1st. We are pleased with the results of the rate setting process this year and with the engagement of our respective state partners.
- Second, while still early, we are optimistic that our new retention-focused efforts for Medicare open enrollment period will prove beneficial and reduce participant churn as we continue into the fiscal third quarter.
- Finally, we are continuing to assess the enrollment and redetermination delays we are experiencing in California that we mentioned previously and we are closely monitoring this situation as it develops through the remainder of the fiscal year.

In closing, we are pleased with our results for the first half of fiscal year 2025. 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 document 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 make regarding quarterly or annual financial 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 and operational 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 unsupportable 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.