

## Agilon Health

## Crisis of confidence, but there are still reasons to believe in the model

Reiterate Rating: BUY | PO: 16.00 USD | Price: 8.63 USD

## Still a path to meaningful profitability on cost leverage

Last week, AGL guided down both 2023 and 2024, rescinded its long-term outlook, and announced the CFO was retiring. This marks the 3rd consecutive quarter of disappointing results, and sparked a nearly 30% selloff in the stock as investors continued to lose confidence. The company pointed to industry headwinds as the main driver, though we note MLR has now come in ~400bps worse than initial expectations, while that figure is only up 100-200bps at OptumHealth, fueling investor concerns around sustainability of the AGL model. In our view, if you believe the model works in the long term (we outline why we do below), it argues for upside to the valuation. We are cutting our PO and forward estimates (same multiple) but even if AGL 'only' achieves 2022 levels of gross profit, which in part is supported by insurers themselves pricing more rationally, the fixed cost leverage implies >\$300m in EBITDA in 2026.

## UNH is the largest proof point, but has key differences

The gold standard for value-based care has always been UNH's OptumHealth segment, which has consistently generated 9-11% EBITDA margins across millions of VBC lives. Bears point to a couple key differences between the models which stack the deck against AGL: **1)** UNH directly owns practices while AGL is in a JV with the doctors, **2)** UNH owns the health plan while AGL is independent, **3)** UNH is focused in high Medicare Advantage (MA) penetration, urban markets while AGL is trying to be a first mover in predominantly FFS, more suburban geographies, **4)** UNH is focused on high acuity patients while AGL's physicians are in higher income, commercial markets.

## Still some reasons to believe in the JV model will work

To address these in order: **1)** Not every physician group wants to be owned by a payer, and even UNH partners in JVs with around 25% of its VBC physicians, **2)** While owning the payor can be an advantage in pricing, 50% of OptumHealth's VBC lives are tied to other MCOs, **3)** In suburban areas, it's possible the JV model is the only solution. AGL is only now on track to get G&A down to <3% of revenue after establishing itself across 32 different markets, meaning each of those individual markets would have difficulty replicating the capabilities on their own. Additionally, the implication of being in lower MA penetration markets is that MCOs haven't done a good job in lowering costs vs. the benchmark, arguing a different approach (such as engaging doctors in VBC) is needed, which insurers should rationally be willing to pay for as it opens up a wider TAM in the most important subsegment. **4)** To some degree, the high acuity patient arbitrage window is closing with risk model revision changes, which leaves AGL better positioned.

Estimates(Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(1.09)	(0.26)	(0.38)	(0.16)	0.16
EPS Change (YoY)	-505.6%	76.1%	-46.2%	57.9%	NM
Consensus EPS (Bloomberg)	(1.02)	(0.21)	(0.25)	(0.03)	0.22
Valuation (Dec)					
P/E	NM	NM	NM	NM	53.9x

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Timestamp: 08 January 2024 02:00AM EST

08 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	20.00	16.00
2023E Rev (m)	4556.3	4311.0
2024E Rev (m)	5873.7	6364.3
2025E Rev (m)	7794.9	8454.1
2023E EPS	-0.21	-0.38
2024E EPS	-0.02	-0.16
2025E EPS	0.28	0.16

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## Stock Data

Price	8.63 USD
Price Objective	16.00 USD
Date Established	8-Jan-2024
Investment Opinion	C-1-9
52-Week Range	7.59 USD - 29.44 USD
Mkt Val (mn) / Shares Out (mn)	3,791 USD / 439.3
Free Float	74.1%
Average Daily Value (mn)	36.51 USD
BofA Ticker / Exchange	AGL / NYS
Bloomberg / Reuters	AGL US / AGL.N
ROE (2023E)	-17.2%
Net Dbt to Eqty (Dec-2022A)	-43.6%
ESGMeter™	Medium

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## Glossary

AGL = Agilon  
FFS = Fee for Service  
JV = Joint Venture  
MCO = Managed Care Organization  
MLR = Medical Loss Ratio  
TAM = Total Addressable Market  
UNH = United Health Group  
VBC = Value Based Care

# iQprofile<sup>SM</sup> Agilon Health

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	NA	NA	NA	NA	NA
Net Investment Income	NA	NA	NA	NA	NA
<b>Total Revenue</b>	<b>1,834</b>	<b>2,708</b>	<b>4,311</b>	<b>6,364</b>	<b>8,454</b>
Total Cost of Benefits and Claims	(1,648)	(2,400)	(3,968)	(5,775)	(7,547)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
<b>Total Operating Expenses</b>	<b>(2,228)</b>	<b>(2,829)</b>	<b>(4,506)</b>	<b>(6,450)</b>	<b>(8,404)</b>
<b>Pre-Tax Operating Earnings</b>	<b>(394)</b>	<b>(120)</b>	<b>(195)</b>	<b>(86)</b>	<b>50</b>
Income Tax Expense	(1)	(2)	(1)	0	0
<b>Operating Earnings After Tax</b>	<b>(406)</b>	<b>(107)</b>	<b>(155)</b>	<b>(65)</b>	<b>72</b>
<b>Net Income (Reported)</b>	<b>(406)</b>	<b>(107)</b>	<b>(155)</b>	<b>(65)</b>	<b>72</b>
Diluted Shares	373	408	409	413	443
Operating Earnings Per Share	(1.09)	(0.26)	(0.38)	(0.16)	0.16
Net Income (Reported) Per Share	(1.09)	(0.26)	(0.38)	(0.16)	0.16

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	NA	NA	NA	NA	NA
<b>Total Assets</b>	<b>1,586</b>	<b>1,697</b>	<b>1,830</b>	<b>2,917</b>	<b>2,978</b>
Reserves	NA	NA	NA	NA	NA
LT Debt	43	38	32	32	32
<b>Total Liabilities</b>	<b>495</b>	<b>657</b>	<b>1,071</b>	<b>2,159</b>	<b>2,083</b>
<b>Total Equity</b>	<b>1,092</b>	<b>1,041</b>	<b>760</b>	<b>759</b>	<b>896</b>
<b>Total Equity (Ex FAS 115)</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Book Value per Share (Reported)	2.93	2.55	1.86	1.84	2.15
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

## Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	NA	NA	NA	NA	NA
Loss Ratio	NA	NA	NA	NA	NA
<b>Combined Ratio</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	NA	NA	NA	NA	NA

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	NA	NA	NA	NA	NA
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	NA	NA	NA	NA	NA
Operating Earnings per Share	-505.6%	76.1%	-46.2%	57.9%	NM
Asset	NA	NA	NA	NA	NA
Reported Book Value per Share	NA	NA	NA	NA	NA

## Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	-72.8%	-10.0%	-17.2%	-8.6%	8.7%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	NA	NA	NA	NA	NA
Operating Margin	-21.5%	-4.4%	-4.5%	-1.3%	0.6%
Long Term Debt to Cap Ratio (Ex FAS 115)	NA	NA	NA	NA	NA
Net Income % Operating Income	NA	NA	NA	NA	NA
Amtz of DAC % Pretax Profit bef Amtz of DAC	NA	NA	NA	NA	NA

## Company Sector

Managed Health Care

## Company Description

Agilon Health (AGL) is a physician management company that focuses on value-based care, specifically in Medicare. By taking responsibility of all patient-related medical costs, including care delivered outside of affiliated clinics, AGL incentivizes doctors to focus on patient health and value rather than maximizing visit volumes. AGL leverages its technology platform, high-value referral networks, and clinical expertise to help close gaps in care, improve outcomes and save money for the system.

## Investment Rationale

Buy-rated AGL is a tech-enabled, fast growing, physician management company focused on converting MA patients to risk. Given its unique positioning in the fastest growing industry within Managed Care, we expect AGL to organically grow revenues 30%+ a year for the next several years. Growth is further supported by its LT contracts and pipeline, payer agnostic model, and ability to expand into new business line such as ACO REACH.

## Stock Data

Average Daily Volume 4231,137

## Quarterly Earnings Estimates

	2022	2023
Q1	0A	0.04A
Q2	-0.05A	-0.04A
Q3	-0.07A	-0.08A
Q4	-0.14A	-0.30E

## Price objective basis & risk

### Agilon Health (AGL)

Ultimately, we value AGL using 35x EV/EBITDA on our 2025 estimate to arrive at \$16 (0.6x Adj. Revenues). This is in-line with how the market has valued PRVA, a company growing less than half as quickly as AGL, in an end market with less investor interest.

But in order to sanity check our assumptions we use a 10YR DCF assuming a discount rate and exit multiple. For the DCF we use our free cash flow estimates from 2024-2032, but back out interest expense and stock compensation, apply an 'Exit Multiple' EBITDA multiple of 15x on 2032 EBITDA and a discount rate of 12%, which we see as an appropriate exit multiple given it is roughly in line with where other high revenue growth health care services companies have traded (such as OPCH or UNH)

Additional upside from further ramping unit economics, medical management initiatives, cost trend, ACO REACH.

Biggest risk to numbers are regulatory changes. Other risks include difficulty expanding, or pricing pressures.

## Analyst Certification

I, Adam Ron, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
<b>NEUTRAL</b>				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk



**US - Facilities, Hospitals and Managed Healthcare Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA

**UNDERPERFORM**

	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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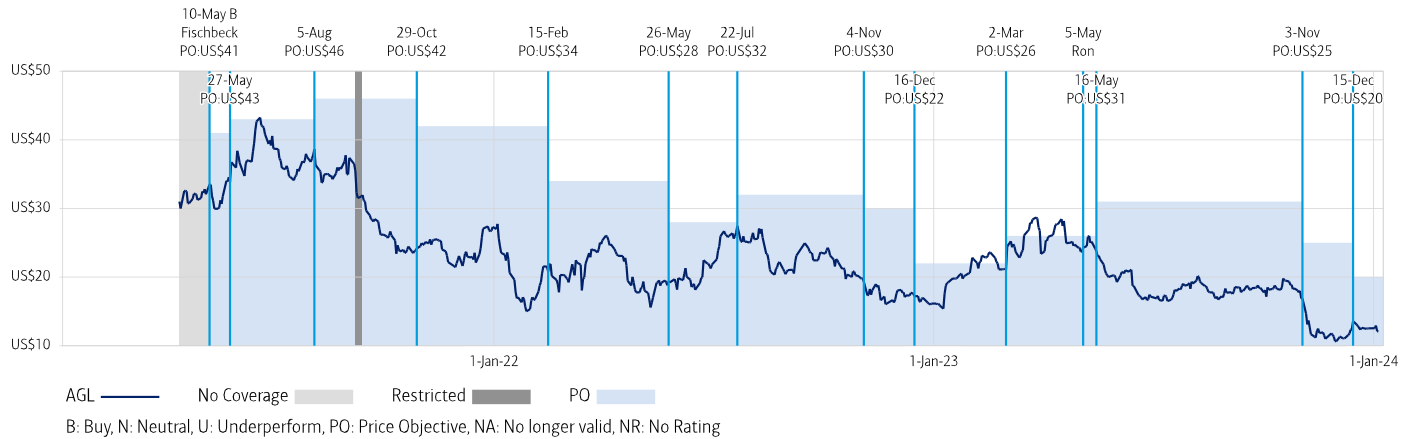
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### Agilon Health (AGL) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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