

Agilon Health

With MA industry expectations reset, focus could start to turn to 2025 and beyond

Reiterate Rating: BUY | PO: 13.00 USD | Price: 6.65 USD

Thesis hinges 2025 profitability, aided by repricing

The magnitude of MLR pressure at both AGL and across the broader MA industry was higher than expected. However, we continue to believe that at a decent chunk of the earnings variance has been due to industry factors which should begin to normalize (improve) for insurers in 2025 and beyond. AGL had long discussed double-digit margins, however at this point investor expectations have gotten so low (understandably) that if AGL can simply become free cash flow profitable the stock should double. Based on current MCO commentary, we estimate repricing alone should be a 100-200bps MLR tailwind (50-100bps of EBITDA), which alongside at least another 50bps of G&A leverage, gives us confidence 2025 should see a major set up in profitability. While we are lowering our estimates and PO from \$16 to \$13 (prev. 35x multiple or 2025 EBITDA estimate) the fact AGL's commentary now more closely aligns with major MCOs should reduce the chances of future guidance cuts. Reiterate Buy.

Fourth quarter looked similar to most MA companies

In a repeat of the performance that we've seen play out at pretty much every other major MA exposed company, the fourth quarter missed on medical costs (after having cut its 2023 outlook 3 times) and as a result, AGL has already lowered the expectations for 2024 it had initially previewed in January. While the results are far from ideal, another guidance cut was largely expected heading into the quarter given the significant pressures larger peers discussed on earnings calls in the past few weeks. For some context, after seeing more MA claims develop in late 2023 the company updated its 2024 projections to assume higher total net trend of 6.6% (increase of 250bps vs prior expectations), which compares to what it believes was a 7.0% net trend in 2023.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.26)	(0.64)	(0.48)	(0.10)	0.23
EPS Change (YoY)	76.1%	-146.2%	25.0%	79.2%	NM
Consensus EPS (Bloomberg)	(0.21)	(0.33)	(0.10)	0.10	0.27
Valuation (Dec)					
P/E	NM	NM	NM	NM	28.9x

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	16.00	13.00
2024E Rev (m)	6,364.3	6,407.1
2025E Rev (m)	8,454.1	7,863.3
2026E Rev (m)	10,728.1	9,498.3
2024E EPS	-0.16	-0.48
2025E EPS	0.16	-0.10
2026E EPS	0.45	0.23

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Stock Data

Price	6.65 USD
Price Objective	13.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-9
52-Week Range	5.63 USD - 29.44 USD
Mkt Val (mn) / Shares Out (mn)	2,922 USD / 439.3
Free Float	74.0%
Average Daily Value (mn)	37.48 USD
BofA Ticker / Exchange	AGL / NYS
Bloomberg / Reuters	AGL US / AGLN
ROE (2024E)	-33.1%
Net Dbt to Eqty (Dec-2023A)	-10.4%
ESGMeter™	Medium

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MA- Medicare Advantage

MCO- Managed Care Organization

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iQprofileSM Agilon Health

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	NA	NA	NA	NA	NA
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	2,708	4,557	6,407	7,863	9,498
Total Cost of Benefits and Claims	(2,400)	(4,241)	(5,996)	(7,208)	(8,584)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(2,829)	(4,794)	(6,589)	(7,901)	(9,390)
Pre-Tax Operating Earnings	(120)	(237)	(182)	(38)	108
Income Tax Expense	(2)	(1)	0	0	0
Operating Earnings After Tax	(107)	(263)	(197)	(43)	104
Net Income (Reported)	(107)	(263)	(197)	(43)	104
Diluted Shares	408	409	409	413	445
Operating Earnings Per Share	(0.26)	(0.64)	(0.48)	(0.10)	0.23
Net Income (Reported) Per Share	(0.26)	(0.64)	(0.48)	(0.10)	0.23

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	NA	NA	NA	NA	NA
Total Assets	1,697	1,741	2,043	2,539	3,054
Reserves	NA	NA	NA	NA	NA
LT Debt	38	32	32	32	32
Total Liabilities	657	1,080	1,517	1,993	2,341
Total Equity	1,041	662	528	547	714
Total Equity (Ex FAS 115)	NA	NA	NA	NA	NA
Book Value per Share (Reported)	2.55	1.62	1.29	1.32	1.71
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NA	NA	NA	NA	NA
Loss Ratio	NA	NA	NA	NA	NA
Combined Ratio	NA	NA	NA	NA	NA
Avg Assets / Avg Eq (Ex FAS 115) Ratio	NA	NA	NA	NA	NA

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
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	76.1%	-146.2%	25.0%	79.2%	NM
Asset	NA	NA	NA	NA	NA
Reported Book Value per Share	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	-10.0%	-30.8%	-33.1%	-8.0%	16.5%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	NA	NA	NA	NA	NA
Operating Margin	-4.4%	-5.2%	-2.8%	-0.5%	1.1%
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 5,636,452

Quarterly Earnings Estimates

	2023	2024
Q1	0.04A	-0.07E
Q2	-0.04A	-0.13E
Q3	-0.08A	-0.11E
Q4	-0.57A	-0.17E



Price objective basis & risk

Agilon Health (AGL)

Ultimately, we value AGL using 20x EV/EBITDA on our 2026 estimate to arrive at \$13 price objective (0.6x Adj. Revenues). This is in-line with how the market has similarly valued high growth healthcare services companies.

But in order to 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 13x on 2032 EBITDA and a discount rate of 10%.

Risks to our price objective are regulatory changes. Other risks difficulty expanding, or pricing pressures.

Analyst Certification

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US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	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
	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
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	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

iQmethodSM 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 & 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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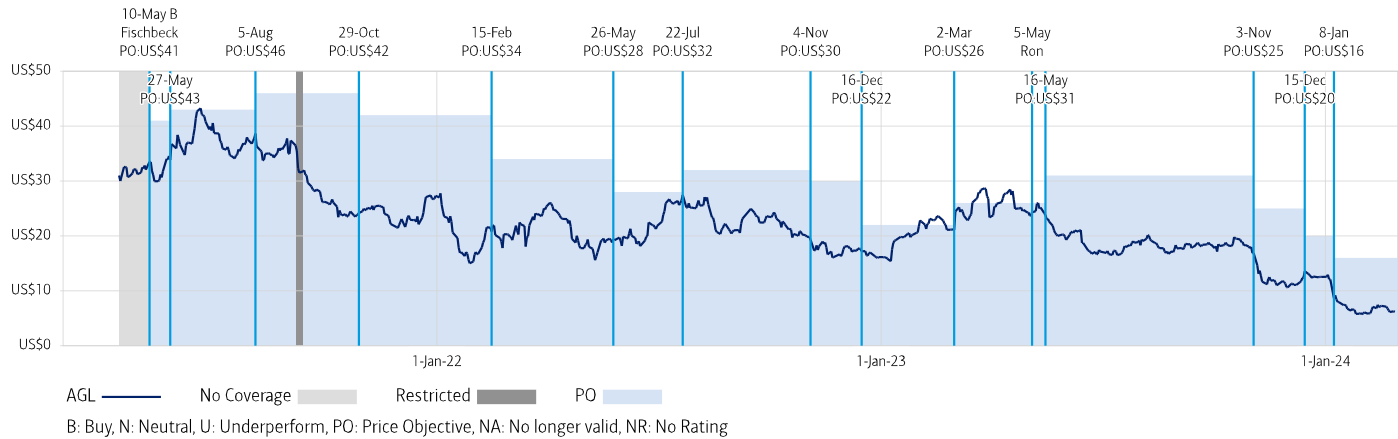
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Agilon Health (AGL) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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