Alignment Healthcare (ALHC) / 1 May 25 / 2025 Q1 Earnings call transcript

Company Profile

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John Kao	executive
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Ryan Daniels	analyst
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Benjamin Mayo	analyst
Jessica Tassan	analyst
Matthew Gillmor	analyst
Jonathan Yong	analyst
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Operator

Good afternoon, and welcome to Alignment Healthcare's First Quarter 2025 Earnings Conference Call and webcast. [Operator Instructions]. Please note that this event is being recorded. Leading today's call are John Kao, Founder and CEO; and Thomas Freeman, Chief Financial Officer.

Before we begin, we would like to remind you that certain statements made during this call will be forward-looking statements as defined by the Private Securities Litigation Reform Act. These forward-looking statements are subject to various risks and uncertainties and reflect our current expectations based on our beliefs, assumptions, and information currently available to us. Descriptions of some of the factors that could cause actual results to differ materially from these forward-looking statements are discussed in more detail in our filings with the SEC, including the Risk Factors section of our annual report on Form 10-K for the fiscal year ended December 31, 2024.

Although we believe our expectations are reasonable, we undertake no obligation to revise any statements to reflect changes that occur after this call.

In addition, please note that the company will be discussing certain non-GAAP financial measures that they believe are important in evaluating performance. Details on the relationship between these non-GAAP measures to the most comparable GAAP measures and reconciliation of historical non-GAAP financial measures can be found in the press release that is posted on the company's website and in our Form 10-Q for the fiscal year ended March 31, 2025.

John Kao

Hello, and thank you for joining us on our first quarter earnings conference call.

We are pleased to announce a strong start to the year, where we surpassed the high end of guidance for each of our 4 key metrics.

For the first quarter 2025, our health plan membership of 217,500 members represented approximately 32% growth year-over-year. This drove total revenue of $927 million, which grew approximately 47% year-over-year.

We also delivered strong margin expansion even as we grew faster than our initial expectations. Adjusted gross profit of $107 million grew 87% year-over-year, which produced a consolidated MBR of 88.4%, a 250 basis point improvement versus the prior year. Meanwhile, adjusted EBITDA of $20 million resulted in 410 basis points of margin expansion year-over-year and exceeded the high end of our first quarter guidance.

Our strong results are once again demonstrating that our business model is Medicare Advantage done right. Building upon last year's momentum, we continue to scale our clinical model across the enterprise, including our ex-California markets, where we more than doubled our membership year-over-year. This resulted in first quarter inpatient admissions per 1,000 of 153 in California and 145 across our ex-California markets, both of which outperformed our expectations.

As the Medicare Advantage landscape has evolved around us, our approach to serving our seniors has remained unchanged since our founding.

Our model combines the product control and data visibility of a health plan, clinical insights of a modern technology platform, medical management expertise of a care delivery organization, and member experience of a consumer-first company. By bringing each of these capabilities together, we are creating a durable senior health platform that is enabling us to take share at an accelerated pace while controlling medical costs, just as we have demonstrated again this quarter.

Given the strength of our first quarter results and our solid growth momentum, we are raising the midpoint of our guidance ranges across each of our 4 key metrics. Thomas will share more in his remarks.

While we are proud of our recent results, we believe the biggest opportunities are still on the horizon. Despite our rapid growth in recent years, we still have less than 5% share across our existing markets.

As we prepare to scale the organization in anticipation of the growth opportunity ahead, we are investing in our back-office operations, enhancing the member journey, and doubling down on our provider relationships through long-term collaborative partnerships. With Medicare Advantage penetration now over 50% and seniors becoming a larger share of provider patient panels, we believe there will be more symbiotic opportunities to help our provider partners manage their seniors, particularly for those most at risk, like the duly eligible population and seniors with multiple chronic conditions. These members benefit most from the enhanced care that our Care Anywhere teams provide through greater care coordination, chronic disease management, and in-home support.

We also see opportunity to further expand our competitive advantages by driving continued innovation in our AIVA technology. These innovations aim to further advance our ability to improve clinical quality and member experience outcomes at lower costs. Each of these improvements are positioning us for the next phase of growth and maturing our operations as we scale.

As we plan for 2026, we remain confident in our multiyear trajectory.

First, our Stars payment advantages are widening considerably in 2026, when we will have 100% of our California members and plans rated 4 stars or above, which will be approximately 40% better than competitors in the state, with just 59% of members in 4-star or above plans.

Second, we believe we will be less impacted than our competitors by the third and final phase-in of V28 risk model changes, which may create an even greater opportunity for us relative to the first 2 years of the phase-in. And third, the final rate notice incorporates a healthy increase in benchmark rates, which more accurately reflects industry utilization trends and positions us well to achieve our financial objectives in 2026. Meanwhile, our relative advantages on medical cost management, quality, and Stars reimbursement will continue to support our growth objectives.

Over the long term, we believe these differentiators will continue to position us for success irrespective of the rate environment.

Beyond 2026, we are pleased that the final rate notice indicated CMS's intent to continue transitioning the current Stars reward factor into the Health Equity Index reward, now called the excellent Health Outcomes for all Reward in rating year 2027, payment year 2028. We believe the new methodology more accurately rewards plans that perform well on clinical quality, particularly amongst complex populations.

Finally, today, we announced that Thomas has decided to step down from his role as CFO and, effective tomorrow will serve as strategic adviser to the CEO. In this new role, he will focus on ensuring a smooth transition of his CFO responsibilities and supporting the company's long-term strategies and partnerships.

As Thomas enters his new role, I'd like to thank him for 10 years of financial leadership and service to alignment and its members.

During this time with Alignment, Thomas helped us grow to a nationally recognized Medicare Advantage leader, profitably serving over 200,000 members across 5 states. He has been a trusted friend and partner throughout his tenure, and I sincerely appreciate his contributions over the past decade. After conducting a thoughtful and extensive search, I'm excited to introduce Jim Head, who will succeed Thomas as CFO and provide financial leadership as we continue to scale Alignment's business from its strong foundation. Jim most recently served as the Chief Financial Officer of Claritiv, a publicly traded data analytics company for health plans, and joins us with more than 30 years of experience in strategic finance, health care, and business development. Above all else, Jim is the financial leader best positioned to build upon our unique Medicare Advantage playbook and help us continue to scale Alignment's vision of Medicare Advantage done right. Thomas and I look forward to introducing you to Jim over the coming months as we meet with investors. In conclusion, I'd like to thank our employees for their tireless dedication to our seniors as we continue define industry expectations.

As we step forward to the future ahead, we do so in a stronger financial and competitive position than at any time in our history. With a sturdy foundation to build upon, we are eager to push forward to new frontiers, explore new ways to improve the lives of our members, and bring our model to more seniors everywhere.

Now I'll turn the call over to Thomas to further discuss our financial results and outlook. Thomas?

Robert Freeman

Thanks, John.

For the quarter ending March 2025, our health plan membership of 217,500 increased 32% year-over-year. Meanwhile, our first quarter revenue of $927 million represented 47% growth year-over-year.

Our top line was supported by membership outperformance as our AEP momentum continued through OEP as well as higher Part D revenue PMPM due to changes associated with the Inflation Reduction Act. Total adjusted gross profit in the quarter of $107 million grew 87% versus the first quarter of 2024. This represented an MBR of 88.4% and an improvement of 250 basis points year-over-year.

Our first quarter outperformance relative to guidance was driven by favorable inpatient utilization as we continue to demonstrate our ability to scale our clinical model across a larger population.

Our overall inpatient admissions per 1,000 of 152 increased slightly year-over-year, consistent with our expectations shared last quarter due to changes in membership mix.

Our first quarter outperformance was also driven by modest favorability in our Part D MBR, which we anticipate to reverse over the next 3 quarters.

Lastly, we experienced favorable prior period IBNP reserve releases that supported our first quarter results. This further reinforces the strength of our ability to manage through rapid membership growth and sets a solid foundation towards our full year 2025 outlook.

Moving down the P&L. SG&A in the quarter was $104 million.

Our adjusted SG&A of $87 million represented 9.4% of revenue, decreasing by 160 basis points year-over-year.

Our first quarter result puts us squarely on track towards our full year operating leverage target as we continue to see opportunities to scale the business and drive efficiencies throughout 2025, just as we did in 2024.

Lastly, our adjusted EBITDA of $20 million represented 410 basis points of margin expansion year-over-year. This was well ahead of our initial expectations and places us in a solid position to achieve our full year profitability objectives, which we will expand upon shortly.

Moving to the balance sheet. We remain in a strong position with $480 million in cash and investments at the end of the quarter.

Turning to our guidance.

For the second quarter, we expect health plan membership to be between 220,000 and 222,000 members, revenue to be in the range of $950 million and $965 million, adjusted gross profit to be between $105 million and $113 million and adjusted EBITDA to be in the range of $10 million to $18 million.

For the full year 2025, we expect health plan membership to be between 228,000 and 233,000 members, revenue to be in the range of $3.77 billion and $3.815 billion, adjusted gross profit to be between $420 million and $445 million and adjusted EBITDA to be in the range of $38 million to $60 million.

We are raising the midpoint of our guidance ranges across each of our 4 key metrics. The increase to the midpoint of our membership outlook reflects our latest visibility following a strong OET season. Along with our membership increase, we are also raising our full year revenue outlook to now reflect approximately $3.8 billion and 40% growth at the midpoint. The increase to our revenue outlook also reflects our expectations for a continued increase in our Part D revenue PMPM through the remainder of the year.

Although it's early in the year, our strong first quarter also gives us the confidence to increase the low end of both our adjusted gross profit and adjusted EBITDA ranges. The following elements are captured within our updated profitability outlook.

First, we expect continued stability in our inpatient admissions per 1,000. Similar to the first quarter, we anticipate inpatient utilization to continue to run modestly higher compared to 2024 for the remainder of the year. This is due to a shift in our mix of membership during AEP and in line with our commentary last quarter.

Second, we anticipate our early favorability in Part D gross margin to reverse during the remainder of the year.

While our first quarter Part D MBR outperformed, we expect our Part D MBR to be slightly higher in the second through fourth quarters relative to prior expectations, leaving our Part D outlook for the full year roughly unchanged.

We continue to take a prudent stance around our expectations for heightened pharmacy utilization, including oncology drugs, an approach which served us well in the first quarter.

Third, we plan to invest a portion of our early outperformance towards our ongoing member engagement activities that support both our growth and profitability objectives in 2026 and beyond. And finally, turning to SG&A. The midpoint of our guidance implies an adjusted SG&A ratio of 10.1% for the full year. This reflects a 100 basis point improvement year-over-year on top of the 320 basis points of operating leverage we delivered in 2024.

In terms of seasonality over the remainder of the year, we expect our second half MBR to be higher than the first half MBR. This cadence is driven by assumptions for normal utilization seasonality patterns, including the regular flu season in the fourth quarter and greater Part D liability in the second half due to changes related to the Inflation Reduction Act.

Additionally, we also expect our second half SG&A ratio to be higher than the first half with the highest SG&A ratio in the fourth quarter. This is consistent with prior years and driven primarily by AEP sales and marketing costs as well as increased staffing levels to support anticipated AEP growth.

Taken together and combined with the strength of our first quarter outperformance, we have established a solid foundation for our full year adjusted EBITDA outlook of $49 million at the midpoint of our updated guidance range.

Lastly, as previously shared, this will be my last earnings call. My tenure as CFO has been an incredible journey, and I'd like to extend my heartfelt appreciation to our employees for their unwavering partnership. I'd also like to thank our investors and analysts for their immense support over the last 4 years as a public company.

While it's never an easy time to step away, I'm more optimistic than ever about Alignment's opportunities ahead.

As we have demonstrated time and time again, Alignment has set itself apart by balancing industry-leading growth with strong margin expansion as a result of our unique MA strategy and capabilities. I've yet to find a Medicare Advantage company better positioned to succeed as the industry continues to evolve, and I look forward to working with John and Jim to execute a seamless transition. With that, let's open the call to questions. Operator?

Operator

[Operator instructions].

Our first question comes from the line of Ryan Daniels with William Blair.

Ryan Daniels

Yes. Congratulations to the team. John, maybe one for you to start.

You had an interesting comment about working more with duals and patients with multiple chronic conditions and doing more care coordination with providers.

So I'm curious if you're alluding there to more things like the integrated strategic partnerships such as Sutter or if there's actually some thoughts on the chalkboard about maybe doing a practice partner/tech platform where you might sell it into the market or help with provider enablement even more so.

John Kao

Ryan, no, I think it's just that we do so well managing that population that -- and it's becoming more and more important in each of our markets. And I think that they're a hard population to actually manage. They have more complex conditions. They just require more sophisticated care management. And I think that, that's something that differentiates us from everybody else, which is that care management capability that we're not just dependent on capitating that out to downstream providers.

So in the context of how we do that, I think we also are seeing really good ADK performance ex California.

So we know it's not limited to just the kind of California phenomenon. And I think when you combine that with the Stars, it gives us that much more confidence that we can kind of extend that into new markets.

I think that's what the reference is about.

Ryan Daniels

Okay.

So maybe it is now that you've proven the model, you're showing that AVA is replicable in other markets.

You've hit profitability.

You've seen the SG&A leverage. Is this really the time you think you will look to grow in 2026 into new markets or maybe contemplate M&A activity? Is that how we should think about it?

John Kao

I think -- yes, exactly.

I think that we said that we're going to add new markets in the existing markets in 2026. We want to still be very thoughtful and disciplined about how we do that, and we're going to do that from our operating cash.

We also said that we're starting initiatives now for 2027 new market launches, which require us to have service area expansions completed in February of 2026.

And so all of that activity is starting now. And to your point, [Indiscernible], by the way, given our strong growth, our strong margin performance, and a lot of it is really a function of AVA and the care model. And the scale economies we've been able to garner is, I think, going to give us that much more credibility to think about building that business out. But I've said in the past, we don't want to get ahead of ourselves. We want to be, again, very thoughtful. It's a very different business. Others have tried this and not been successful. And if we do it, we need to make sure it's very, very referenceable. But I still think, again, it's a strategy that we've contemplated from the beginning. And I think all the cards are starting to line up, particularly given some of the challenges that we see in the sector.

I think we can help a lot of people.

Operator

And our next question comes from the line of Michael Ha with Baird.

Unknown Analyst

Just firstly, really a pleasure working with you, Thomas, one of the best in the game. And also congrats to Jim. And yes, switching gears, congrats on the quarter, Monster earnings beat. I was wondering, first, if you could elaborate a bit more on the MLR outperformance. Thomas, I know you mentioned Part D.

I think you said benefited 1Q.

So I'm just curious how much of your MLR outperformance this quarter was attributed to any sort of pull forward of earnings into 1Q related to that changing Part D cadence this year? Trying to parse out -- figure out what the MLR performance would have been excluding Part D? And because I also thought in your 1Q guidance, you may have already reflected that seasonality change.

Robert Freeman

Yes. Mike, I appreciate the kind words, of course.

So in terms of our first quarter outperformance, we did allude to some early favorability we saw in Part D that we anticipate to reverse over the second to fourth quarters, leaving our kind of our full year expectations on Part D largely unchanged. It was pretty modest, to be quite honest. I would not say it was a significant driver of our outperformance in the quarter, but it was slightly better than our original expectations, where I think we had taken in just a bit more cautiousness and conservatism around what the first quarter Part D results might look like given the many changing variables for 2025.

Beyond Part D, I would say we did allude to some favorability in terms of our IB&P reserve releases from the prior year. Not all that fell to the bottom line, of course, because we share part of that back in the form of our risk pool and profit shares with providers. And quite honestly, a little bit of that, I think, is sort of normal course of operations. And I think it's very demonstrative of our ability to be both conservative but also appropriate with how we think about our reserve setting, particularly on a big year like last year where we had a lot of growth, not just in the first half, but in the back half of 2024. But I think big picture, when we think about the quarter, our utilization was right in line with expectations, in fact, slightly better on the inpatient ADK setting.

I think we're continuing to see solid progress in terms of our cohorts maturing. And notwithstanding the Part D and the IBNR, we would have beaten the high end of our guidance range regardless without those 2 factors.

So big picture, I think a lot of things are going well as we start the year and really set a very solid foundation towards our full year outlook.

Unknown Analyst

Great. And then just a quick -- or not a quick, but my follow-up question.

So heading into '26, you have a very favorable final rate notice.

You have HAPS admin measured down weighting, so more star ratings tailwinds to come.

So it feels like rates are very much on your side next year, especially in a year where your competitors are still negative margins, benefits likely rational again. Yes, just understanding that, I wanted to get your thoughts on how you're going to approach this favorable rate dynamic next year? Because if my math is right, even, let's say, 300 bps better than expected '26 rates after you pass through about 1/3 of it to your global cap partners, that's still, I mean, roughly $90 million of additional rate tailwind.

So it could be a very powerful part of your EBITDA bridge next year if we assume rates flow through to margins.

So I just wanted to get your thoughts on your posture toward margins versus growth next year? And yes, any color there would be great.

John Kao

Michael, it's John. No, I think our relative advantages in Stars and our relative advantages on V28, which we've shared in the past, will continue. We're obviously very pleased with the new final rate notice. And I think your assessment of the -- I would say, the larger players is actually accurate. But I'd remind you, there are still smaller players and not-for-profit types of players where anything can happen as we've seen in the past. We've observed that those strategies where people are buying business are not durable.

And so I think we've also demonstrated we're not going to go chase dumb business. And we're right literally in the throes of the bid process now.

So we're not going to comment on the margin versus growth question at this point. But we feel very, very well positioned.

Operator

And our next question comes from the line of John Ransom with Raymond James.

John Ransom

Can you hear me? Thomas, congratulations. Look forward to seeing where you land.

So John, a little more of a soft question. But if we think about AVA today, what's it doing at kind of a patient engagement level that maybe is new and different than it was doing 1.0 version or a couple of years ago? And then where else do you see some opportunity to continue to kind of knock down -- get into that 20% of the population that's on the cost and continue to drive down that cost curve?

John Kao

Yes. Thanks, John.

I think the stratification model, kind of the identification of who are the high-risk members that AVA gives us is really working well.

Our engagement with that population continues to go up. And I think the medical management and the proactive kind of at-home care support, all of that, I think, is working, both in California and ex California.

So I'm really happy about that.

I think to your point, the next evolution of AVA requires us to have the -- I call it the kind of culture of continuous improvement, where we're really looking at it and zeroing in on what is the efficacy of every single module within AVA. And what is the adoption rates? What are the returns? What are we getting out of each module? And then we're going to double down on ones that are producing really good outcomes for us. We might sunset ones that are less, and then we're going to be very focused on how we deploy capital with respect to our CapEx. Having said that, your question is a really good one in that I think the entire, I would say, member experience or member journey is going to be something that AVA helps us glue together end-to-end. And as we've talked about from day 1, having high-quality ID Stars and making sure that those gaps are closed at affordable costs, which is the MLR management, the clinical management and having those the core competencies inside the company is what we need to do. And I think AVA is going to evolve into that. And we're being very mindful for every part of that journey, really starting before a member is a member that they're a consumer or a prospect is part of that journey. And they come in and they become members and how we onboard them, how we support them, how we answer their questions, how we take care of them from a medical management point of view and care for the polychronic at home.

As well as ensuring that the -- I think the administrative functions are really, really well run, like Star gap closures, be very, very compliant on Medicare risk adjustment and all the kind of the operational functions.

All of that is working really well right now. We need to really automate it so that experience is completely seamless for that member. And I think that will get to ultimately what you and I have talked about over the years where that consumer platform, the Medicare Advantage consumer platform is going to be able to take a lot of different kind of revenue models. And given our performance as a company, we're our best referenceable customer.

And so we want to keep that going and then we can talk about what opportunities exist on the services side.

Operator

And our next question comes from the line of Whit Mayo with Leerink Partners.

Benjamin Mayo

Best of luck, Thomas. My first question, just given the membership growth this year and some of the peer commentary on RAF issues, can you talk about the visibility that you guys have on RAF on new members with the January premium payment from CMS? And maybe just elaborate more on the process that you have on estimating RAF on new members?

Robert Freeman

Yes, happy to. And I appreciate it, Whit. I'm not going anywhere overnight. But I appreciate the kind words.

In terms of the new member revenue PMPM, that is one of the advantages of being the health plan is we get visibility to our paid revenue PMPM on new members in the first month of the year in January.

And so from a revenue recognition standpoint, we actually book our revenue on the new members consistent with what we're being paid up until we see the midyear sweeps.

And so that creates, I think, a really conservative posture heading into the sweeps and ensures that we don't find ourselves surprised by having overestimated from what we might see on new members, which, again, the revenue PMPM for this year based on last year's codes and activities, we don't have control over.

So I think we've historically taken a conservative approach on that, and we feel very comfortable with our visibility on the new member revenue PMPM.

Benjamin Mayo

Got it. And my second question or follow-up is just on Starz. John, any new initiatives that have crystallized into 2025 for caps or anything that you care to share?

John Kao

Yes. No, it's been across the board emphasis on pretty much everything to make sure that the regulatory changes with respect to caps is not something that we're just relying on, nor is just the Health Equity index something we're relying on.

So just core operations, making sure that that we are performance managing our IPAs where they understand how we can improve our CAP scores and in certain situations where the IPA is not doing the kind of job that we need, we are doing it. And I think that's the main one.

I think our Part D, our admin are all on track. We feel good about that. It's visibility that we have on a daily basis. And I feel very good about where we are. I can't comment on the litigation with CMS. I'm not going to comment on that as it relates to 2026 payment. But I will say that our dates of service in 2024 and our ratings in '25 are on track.

Operator

And our next question comes from the line of Jessica Tassan with Piper Sandler.

Jessica Tassan

Congrats on the quarter. And also, Thomas, congrats and thanks for all the help last couple of years.

I think I'm interested to know how are you all expecting the competitive landscape in California specifically to change in '26, just as competitors try to capitalize on the rate announcement.

I think we saw a press release from SCA and Sutter a few weeks back.

So just interested to know what sorts of investments you might make in the fourth quarter to kind of brace the sales force for an increasingly competitive landscape.

John Kao

Yes. No. I mean I think the key thing to think about is that given the rate notice, I think that's going to advantage everybody relative to the advanced notice, obviously. But the relative advantages for both, I would underscore both Stars and V28, I think, is something that we still feel very strongly in. The Sutter organization is a friend of ours. We like each other.

We are 1 of 2 really plans they intend to work with in the coming year.

And so we feel good about that. Does it create some complexities? Yes, it does. But I'm not really particularly worried about it. And I think there are some other smaller players that are in the marketplace that we have to be mindful of as it relates to kind of our short-term 2026 considerations. I would be surprised if they were a long-term threat to us. I don't particularly see that.

I think from what we see, what they're doing is not sustainable. And I think again, we've seen that come and go over the last several years.

I think there's going to be a lot of opportunity given the Stars declinations and I would think people are going to be certainly, the larger players that we've all read about are going to be more margin expansion focused than anything else.

So I feel good. But again, like I mentioned, we're right in the middle of the bids.

So I'm not going to comment on that part of it. But I don't think we've been in a stronger position than we are right now is what I would say, heading into 2026 relative to everybody else. And remember, the V28 thing is a big deal. It's a big deal. And many of our competitors are reliant upon global cap providers who are experiencing meaningful declination because of V28. That's going to impact our competitors' revenues.

Jessica Tassan

That's really helpful. I guess that actually is my next question. I'm interested to know if you guys are getting any feedback or requests from your capitated providers for increased either MLR concessions or just Part D carve-outs.

Just any changes in those contracts? And then I guess, the way that we look at it, at least your capitated provider MLRs are considerably higher than your at-risk tenured member MLRs.

And so just at what point do you start to kind of reassume that risk from those capitated providers to capture the margin that is effectively getting lost?

Robert Freeman

Jess, Thomas here.

So I think in terms of your question on how we contract with our global cap IPAs and providers, I'd say what we do is maybe a little bit different than a few others.

And so our global cap IPAs, more often than not, they do not take any risk on Part D nor do they have any risk on supplemental benefits.

And so what that does is it creates a more, I think, aligned relationship versus what you've heard about in other situations nationally where providers have felt like they're getting dumped benefit adjustments or increases on them without any seat at the table to make any kind of choices around those decisions.

So from our perspective, that's not something we've experienced in terms of providers coming back to the table.

I think we're in a pretty good place from that perspective, and we're very aligned with them moving forward. And I think as we think about the overall book of business, we do want to continue to grow the at-risk book of business where we manage institutional costs, and that does allow us to share in the profits with the providers as we drive down those MBRs for those more tenured members. At the same time, we have a number of good global cap partners, and we'll continue to work with those so long as we're hitting all of our marks on things like stars performance, retention, data exchange and a series of other things that are really important to us as far as ensuring that we have long-term durability to our contracts.

Operator

And our next question comes from the line of Joanna Gajuk with Bank of America.

Unknown Analyst

So if I may, I guess, a couple of related questions around the reimbursement, right? So we've been talking about how the final rate notice was better.

So first part of the question, do you expect these rates to keep getting better as CMS tries to kind of catch up with these higher trend levels in the last few years? And on the other hand, is there any indication or the sense you're getting in D.C. for any appetite for additional risk adjustment model changes maybe? And I guess if that was to happen, right, the question is like how would you think this would impact your company? Like would this be a headwind or kind of a repeat of the most recent experience and other kind of opportunity to get more market share?

John Kao

That's a great question. It's John. I'd just remind you that we built the business with specifically the ability to thrive in either an increasing or decreasing rate environment. And as we've demonstrated over the last couple of years, if rates are compressed, which they obviously have been in the really last four years, but in particular, the last couple of years of V28 and the starts tightening, we have thrived. And it's because we have focused on having the best quality at the lowest cost.

And so when you're the low-cost producer of quality products, you have an advantage when it's tightened up. When rates go up, which they will in 2026, our relative advantages are going to still be intact.

And so we think that there's an opportunity for margin expansion.

And so in the context of all boats rising a rising tide.

Now to some of the previous questions that others have asked, I think that the competitive dynamic is going to play to our favor just because of what you've been reading with the bigger folks. Smaller folks, it's hard to say what they're going to do. But again, I think given our position, we feel very good about where we are.

Operator

And our next question comes from the line of Matthew Gilmore with KeyBanc.

Matthew Gillmor

Good luck to Thomas and Jim. I just wanted to follow up on some of the utilization comments, and we appreciate the visibility you all provided the 80,000 metric, and we understand the mix dynamics at play this quarter. Are you able to look at that on a same-store or same member basis? And would it be fair to assume that it was sort of flat to down if you normalize for that membership mix dynamic?

Robert Freeman

Yes, it would have been roughly flat.

Matthew Gillmor

And then, Thomas, any additional comments on utilization in terms of other categories, whether that's outpatient or however else you want to slice and dice it? Anything else kind of to call out in terms of how things are trending relative to expectations?

Robert Freeman

Yes, happy to.

So I think a couple of thoughts.

First is one of the reasons we like the inpatient KPI is I think it's a very strong leading indicator for other categories of spend such as skilled nursing, home health, ER visits per 1,000, things that are kind of preceding the inpatient admission and that then typically occur post discharge.

And so when you think about the inpatient KPI stability and in the first quarter outperformance versus expectations, I think we would expect to see similar types of performance along some of those key categories.

I think from an overall outpatient standpoint, we continue to feel good about the trends there. I know that was a big topic over the last few years whereas we didn't quite fully see the increase some of the others saw. I would say, particularly with respect to 2024, where we now have pretty much full visibility to last year's claims experience, that was one area that actually ran below expectations in terms of our anticipated year-over-year trend in 2024.

So I think we're continuing to feel good about that through the first quarter. And I would just add that from a pharmacy standpoint, we have many seen -- similar to others seen an increase in some of the pharmacy spend during the first quarter, generally in line with our expectations. But as we've discussed in the past, I think we took a fairly conservative posture on how we thought that would unfold during 2025.

And so while it is within the overall realm of expectations, we have seen a pretty sizable increase year-over-year. Similar to others thematically, we've seen that with some of the specialty drugs, some of the non-low-income subsidy populations. But I think we feel good about our ability to kind of forecast from here what the rest of the year will look like based on the first quarter results.

Operator

And our next question comes from the line of Jonathan Yong with UBS.

Jonathan Yong

I guess just going back to kind of the Part D portion of the business. Are you seeing any behavior changes that are kind of becoming evident right now? I know it's within the realm of your expectations, but is anything changing from your perspective? And how much visibility do you have right now into kind of where it's heading towards as we progress throughout the year?

Robert Freeman

Yes. Jonathan, Thomas here.

I think to your point, we have seen, I think, a little bit of uptick. And like I said, the non-low-income subsidy population, which is where, if any, there would be some of the behavioral changes that might be caused by the changes in 2025 Part D related to the Inflation Reduction Act.

So I think we've seen a little bit of that similar to others. At the same time, though, like I said, one of the great things about the Part D program is you get real-time claims visibility.

So as we sit here through the end of April and given that our first quarter generally ran within expectations, I think we feel pretty good about our full year visibility. More to come as we get through the second quarter. But I would say at this point, it's definitely a good place for us in terms of where we thought we would be when we started the year back in January.

Jonathan Yong

Okay. And then the CMS and the administration has talked about trying to limit or reduce the use of prior authorization. They obviously haven't introduced anything yet. But how are you kind of thinking about this and what it may mean for you and kind of the industry at large?

Robert Freeman

So I think from our perspective, one of the motives of this company is more care, not less care.

And so the way we look at it is when we look at our UM auth and denial rates, we historically have been considerably below the national averages for Medicare Advantage. And our whole theory is built upon this idea that if you provide the right care to the right people, you're going to have the right population engaged in order to control the vast majority of your costs. There's going to be a much, much larger portion of the population that is going to drive a much lower portion of the overall spend and really ensuring that they're getting directed to the right high-quality networks is our goal.

So from our standpoint, it's not something that keeps us up at night. And I would say from a competitive perspective is one of our potential tailwinds heading into the years ahead.

Operator

And our next question comes from the line of Ryan Langston with TD Cowen.

Ryan Langston

Welcome, Jim and Thomas. Always enjoyed our interactions through the year.

So I appreciate it. I know you called out the $6 million favorable EBITDA release, but the total PYD looked really strong kind of just versus historical first quarters. Can you give us a sense on what maybe drove that strength versus like the historicals?

Robert Freeman

Yes.

So I think you're maybe referring to the difference in the footnote on our IBNR release versus what is in the table around the prior year.

And so that dynamic is really driven more so by the margin in LAE pad that we apply against our IBNR reserves.

So the way to think about that is that's roughly an extra 7% that we add to our reserves that is intended to ensure that in a worst-case scenario, we have adequate reserves for runout purposes. But from our perspective, that 7% is something that we never anticipate really needing to use. It's intended to be cushion and keep us compliant with the states amongst other things.

So I think that's really driving the difference between the tables.

So I don't look at the $13 million, $14 million in the footnote table as the driver in the quarter. I really focus on the $6 million you mentioned in the footnote. And I would note that on that $6 million, again, not all of that falls to the bottom line. A portion of that we do share back with providers in the form of our risk pools and profit share.

So I would say it was a part of the first quarter outperformance, but definitely not one of the larger drivers.

Ryan Langston

Got it. And obviously, the 26% rate over 5% is good. Is there a way -- I think historically, you've given us the weighted average rate, I think it was about 5% for 2025. Can you give us that for 2026 for alignment versus the just sort of overall rate?

Robert Freeman

Yes.

So I think we tend to focus, first and foremost, on sort of the top line of the table that CMS puts out the effective growth rate as a starting point for us.

So nationally, it looks to be about 9% for 2026.

I think our weighted average across our markets is approximately 8%.

And so I think that would compare to last year, yes, you're right at about 5% for the overall company.

So I think as John was saying, I think that provides us a lot of kind of flexibility as we think through both our growth and margin goals for 2026.

Operator

And our next question comes from the line of Andrew Mok with Barclays.

Andrew Mok

Just wanted to echo congratulations and best wishes to Thomas in your new role. I wanted to clarify the Part D seasonality.

I think the initial expectation was that Part D MLR would improve throughout the year.

Now it sounds like Part D MLR will be increasing. Can you help us understand what you're seeing on Part D trends that would flip the cost curve? Because it doesn't sound like 1Q performance was that off plan.

Robert Freeman

Yes. Happy to take that one.

So I think what we would expect is that the second and third quarters do still continue to improve in terms of MBR versus the first quarter. But I think on the fourth quarter, I think it's possible that there could be an uptick on Part D specifically in the fourth quarter. But I think big picture, we still anticipate the first half MBR to be higher than the second half on Part D.

Andrew Mok

Great. And then just a follow-up on that. Thomas, I think you made a comment that Part D PMPMs would increase throughout the year. Can you help us understand what would cause that?

Robert Freeman

You mean from a medical expense standpoint?

Andrew Mok

I thought it was on a revenue standpoint, but if it if it's on a medical expense standpoint.

Robert Freeman

No, that makes perfect sense. I understand the question now. Yes.

So from a revenue standpoint, it has to do with both the sweep timing, where I think we'll likely to see some revenue PMPM impact from the sweep as we get to the end of the second quarter. And then it also has to do with the way we book our risk corridor revenue, where today, we are in a payable position in booking contra revenue, but we would anticipate that to reverse over the course of the year and actually start contributing to overall revenue PMPM in a positive fashion.

Operator

Thank you. Ladies and gentlemen, thank you for participating. This does conclude today's program, and you may now disconnect.