Alignment Healthcare (ALHC) / 1 Aug 24 / 2024 Q2 Earnings call transcript

Company Profile

Transcript menu

John Kao	executive
Robert Freeman	executive
John Ransom	analyst
Benjamin Mayo	analyst
Hua Ha	analyst
Jessica Tassan	analyst
Jared Haase	analyst
Adam Ron	analyst
Scott Fidel	analyst
Ryan Langston	analyst
Andrew Mok	analyst

Operator

Good afternoon, and welcome to Alignment Healthcare's Second Quarter 2024 Earnings Conference Call and Webcast. [Operator Instructions] Please be advised that today's conference 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 those 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, 2023.

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 quarter ended June 30, 2024. It is now my pleasure to introduce Founder and CEO, John Kao.

John Kao

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

For the second quarter 2024, our health plan membership of 175,100 members represented approximately 56% growth year-over-year and outperformed our year-end membership guidance of 170,000 to 172,000 members. Total revenue of $681 million grew approximately 47% year-over-year and 58% excluding ACO REACH. Adjusted gross profit of $77 million produced a consolidated MBR of 88.7%, which led to our adjusted EBITDA of positive $6 million in the quarter. Both our adjusted gross profit and adjusted EBITDA achieved the high end of our second quarter guidance, which places us on track toward our full year adjusted gross profit and adjusted EBITDA guidance ranges.

As we round out the first half of the year, I'm proud of what the team has accomplished.

Over the past several years, we increased investments in member experience, clinical infrastructure, distribution and our unified data platform AVA, to realize our vision of Medicare Advantage done right. These investments provide us with the visibility and control required to manage our markets in real time, resulting in both exceptional growth and superior MBR outcomes.

We continue to believe our platform is the model for the future of Medicare Advantage and our year-to-date results reinforce my optimism about our replicability and scalability over time.

During the second quarter, we continued to drive membership growth ahead of expectations.

Our sustained growth momentum was enabled by strong product offerings resulting from our virtuous cycle, which reinvests savings from our unique ability to manage medical costs into richer benefit offerings. This was further supported by robust broker engagement activity and our expanding reputation for clinical quality and a superior member experience. Heading into this AEP, we continue to deepen strong relationships with our broker partners as we become the household name for seniors seeking the best quality at the lowest cost. From a retention standpoint, our member experience in investments last year resulted in our voluntary disenrollment rate improving roughly 22% year-over-year. We achieved this while improving service levels and seamlessly onboarding approximately 63,000 net members in the last 12 months demonstrating the scalability of our platform.

Our 56% growth year-over-year makes us one of the fastest-growing MA plans in the nation. And we believe the only MA plan that has demonstrated an ability to both grow membership rapidly and manage MBR.

As we have said before, we are focused on profitable growth. This is enabled by our visibility and control over the value drivers required to manage our MBR: stars, risk adjustment, medical management, product development and provider engagement. These capabilities resulted in continued utilization outperformance in the second quarter, including inpatient emissions per 1,000 of 151, which is approximately in line with the prior quarter.

Our MBR result in the second quarter is a continuation of the momentum we achieved in the first quarter where we grew 51% year-over-year, while MBR increased just 1.5%.

As a reminder, new members typically join at a higher MBR, meaning faster-growing plans with a higher mix of new members, typically see a greater increase in MBR year-over-year. To put our performance into perspective, the average publicly-traded national health plan grew Medicare Advantage members just 2% year-over-year, while MBR still increased by 2.8% in the first quarter as the industry faced utilization, stars and risk adjustment challenges.

Our differentiated results shared here are further highlighted in the latest investor presentation available on our Investor Relations website.

While we are pleased with our MBR performance to date, we are already driving innovation to improve our clinical outcomes through pre-service care navigation, post discharge case management and IPA performance improvement, all of which we believe will continue to improve our MBR results in the future.

Turning to our preparation for 2025. We believe we are well positioned to deliver at least 20% growth next year and adjusted EBITDA profitability through MBR improvement and continued SG&A leverage.

Our confidence in our ability to achieve both objectives is underpinned by our margin-focused bid process and our competitive advantages heading into 2025.

We have added more members than any other health plan in California in 2024, and our growing market presence is increasing our competitive advantages.

In addition to supporting our enterprise operating leverage objectives, our size and market share gains enhance our local competitive position by increasing mind share with brokers, collaboration with providers and reputation among seniors. Even with our strong growth, our California market share stands at only 4.5%, leaving a significant room to expand further.

Over the long term, we believe we can capture at least 20% share across our California markets, similar to what we've achieved in some of our most mature counties. In 2025, we plan to fully capitalize on our position in California where we have relative advantages on stars and risk model changes. Even after accounting for the recent CMS Star rating changes, there are still approximately 1.2 million total California seniors in HMO plans below 4 stars were not rated.

Given our position with roughly 95% of our California members and plans that will still have 4-star payment level, we anticipate a unique opportunity to capture strong growth while remaining focused on margin expansion. Outside of California, we have more than doubled our membership year-over-year and continue to demonstrate our commitment to quality. The recent update to CMS Star ratings for payment year 2025 awarded us a 5-star rating in our North Carolina and Nevada markets. By first focusing on stars and clinical outcomes, we have built a strong foundation that gives us long-term competitive advantages.

As we move toward consolidated profitability, we will be able to deepen our investments in these newer markets. When combined with our investments in our shared services infrastructure and our ability to scale, we see a significant opportunity to accelerate and sustain growth in these newer markets over time.

Given our competitive strength in our existing markets, our focus on profitability and our solid positioning to achieve at least 20% growth, we will not enter any new states in 2025.

However, we expect to prioritize further market expansion in future years while committing to sustained profitability. In conclusion, I'd like to thank each of our employees for their part in pioneering the Medicare Advantage model of the future. Tens of thousands of new members are choosing alignment as their senior health care partner this year, making us one of the fastest growing plans in the nation.

However, we are just barely scratching the surface for the millions of seniors who need our help. And I believe we will make further inroads towards our vision for Medicare done right in 2025. I look forward to sharing more as we get closer to AEP. And 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 June 2024, our health plan membership of 175,100 increased 56% year-over-year, outperforming our expectation for 50% membership growth at the midpoint of our second quarter guidance range.

Our second quarter revenue of $681 million represented 47% growth year-over-year and 58% growth, excluding ACO REACH.

As John described, our value proposition and reputation for quality, service delivery and provider and broker partnership continue to expand in our local markets, setting us up with positive momentum heading into this AEP. Adjusted gross profit in the quarter was $77 million, representing an MBR of 88.7% and a 220 basis point improvement from the first quarter.

For the second quarter in a row, we are demonstrating that industry-leading membership growth can be balanced with strong MBR performance if you have a model with differentiated visibility and control.

Second quarter utilization experience continued to trend within our expectations with inpatient admissions per 1,000 of 151 continuing to drive our overall MBR performance.

While we believe our inpatient admissions per 1,000 performance continues to lead the industry, we still see significant room for improvement in the back half of the year, which I will expand on shortly.

Our utilization performance was partially offset by the overall increasing mix of new members from our strong growth outperformance who are still being on board onto our clinical programs.

As we previously mentioned, we are also continuing to navigate heightened levels of supplemental benefit expense and atypically high unit cost increases in 2024, both of which will improve in 2025.

As we closed out the second quarter, it's worth noting that we now have sufficient paid claims visibility on our first quarter dates of service experience to more fully assess our Q1 performance.

Given our overall volume of new membership, we are pleased to report that we remain confident in our first quarter incurred but not paid or IBNP accruals, implying both accuracy in our initial assessments as well as stability in our overall reserves.

Turning to OpEx. SG&A in the quarter was $88 million.

Our adjusted SG&A was $71 million, an increase of 27% year-over-year. Adjusted SG&A as a percentage of revenue, excluding ACO REACH, declined from 12.9% to 10.4% year-over-year, improving by approximately 250 basis points and exceeding our Q2 operating leverage expectations.

Taken together, our adjusted EBITDA was positive $6 million in the quarter, achieving the high end of our outlook range and placing us on track towards our full year adjusted EBITDA guidance.

Lastly, we ended the quarter with $364 million in cash and investments.

Moving to our guidance.

For the third quarter, we expect health plan membership to be between 176,000 and 178,000 members, revenue to be in the range of $655 million and $665 million, adjusted gross profit to be between $75 million and $81 million, and adjusted EBITDA to be in the range of $0 million to positive $6 million.

For full year 2024, we expec7t health plan membership to be between 178,000 and 180,000 members, revenue to be in the range of $2.61 billion and $2.64 billion, adjusted gross profit to be between $280 million and $310 million, and adjusted EBITDA to be in the range of a loss of $12 million to positive $12 million.

We have raised our year-end membership guidance by an additional 8,000 members based on our year-to-date outperformance and our expectation for continued growth momentum in the second half, which further drives the increase in our full year revenue outlook. Since our initial expectations in January, the midpoint of our membership guidance range has increased by 16,000 members.

Our outlook now implies membership growth of 50% at the midpoint versus our initial guidance of 37% and revenue growth, excluding ACO REACH, of 54% at the midpoint versus our initial guidance of 41%.

Turning to profitability.

Our guidance remains unchanged in spite of our higher growth outlook.

We are pleased with the results of our operational initiatives, investments in automation and the continuous improvement of our clinical model. These efforts have resulted in improved SG&A scale economies and closely managed MBR, giving us confidence in our full year adjusted EBITDA guidance.

Specifically on adjusted gross profit, we expect the added gross profit dollars from our incremental membership to be offset by a continued uptick in our supplemental benefit expense, which we have captured in our 2025 bids. These 2 factors resulted in an implied 50 basis point MBR increase to our prior guidance. The midpoint of our guidance range now represents an MBR of 88.8%, which we are very well positioned to offset with SG&A scale economies. From a utilization standpoint, our engagement rate of Care Anywhere eligibles among new members remains on target through the first half of the year. We still see significant opportunity remaining in the second half as we work toward achieving our expected year-end engagement rate of 60% from our current level of approximately 30%.

As a reminder, we typically see a 30% improvement in its institutional claims PMPM in the 12 months following engagement compared to our control group of members that have not yet engaged. Accordingly, we see an opportunity to improve our utilization performance as we continue to onboard our new membership and ramp up new member engagement in the back half of the year with a particular eye towards the fourth quarter. Further, as John commented on previously, we continue to see opportunity on cost management beyond the inpatient setting and are ramping up our efforts on both pre-service care navigation, post-discharge case management and IPA performance improvement to continue to improve our overall MBR. On SG&A, our first half results demonstrate the scalability of our model with adjusted SG&A as a percentage of revenue excluding ACO REACH, declining by 200 basis points year-over-year.

We continue to expect even greater improvement in the second half since we will not have the impact of onetime costs incurred last year related to the in-sourcing of our member experience function and the acceleration of AEP growth and staffing expenses. In conjunction with the increase in our membership outlook, our full year guidance now implies an adjusted SG&A as a percentage of revenue of 11.3%, representing roughly 300 basis points of improvement year-over-year, excluding ACO REACH. This improvement includes commissions and other variable expenses related to incremental growth.

As we look towards 2025, we are increasingly excited about the growth and margin opportunity in front of us that will be supported by a number of tailwinds.

First, our growth momentum in 2024 adds to our scale advantages and mind share with brokers in the upcoming AEP.

Second, we believe we have appropriately captured our 2024 higher supplemental benefit expense experience in our 2025 bids.

Third, our weighted average benchmark increase of 5% relative to the national average of 2.4% will make us hold for the outsized unit cost increases we are currently absorbing in 2024.

Finally, our relative advantages on stars and the second phase of the V28 risk model changes will further our competitive positioning. In summary, the combination of these factors positions us strongly towards driving adjusted EBITDA profitability while achieving our growth target of at least 20% or greater next year. With that, let's open the call to questions. Operator?

Operator

[Operator Instructions] And our first question comes from the line of John Ransom with Raymond James.

John Ransom

I may have missed this, but was there anything to call out in the quarter from the midyear sweep?

Robert Freeman

John, this is Thomas. I can take that one.

So we did pick up a bit of revenue in the second quarter related to the sweeps, both the final sweep from last year and the mid-year sweep of this year, though the majority of the revenue outperformance in the quarter was related to the membership outperformance. From a gross profit standpoint, we actually did not pick up much relative to expectations on the sweeps. And similar to last year, where we talked about how a lot of the sweeps came through with some of our globally capitated contracts, it wasn't really a significant driver of overall MBR performance in the quarter relative to expectations.

John Ransom

And then just -- this is a question for John, and I'll get back in the queue.

Asked this one of your competitors, but it seems like there's a plurality of people in D.C. who are not convinced that Medicare Advantage is a great deal for the taxpayers. When you're having those conversations with policy people, what's your elevator pitch? I mean, we know it's good for members and doctors like it, but what's the pitch that says at least it's a tie, if not better, for the taxpayers.

John Kao

John, I'd say that the benefits for the beneficiaries and I think to your point, the doctors, I think, is pretty compelling.

I think some of the recent policy changes with respect to stars and with respect to V28 and even with respect to some of the potential changes with respect to the distribution side of things, it's all getting back to what CMS really originally intended which we think is a really good thing, which is to increase quality access at a more affordable price, less than fee-for-service. And I think that's the trend that I see happening. And I think this kind of higher standard and lowering cost, if you will, overall for the taxpayer fundamentally is going to be better for everybody. And I think that's certainly the foundation and the infrastructure that we've built, and we've been saying that since the beginning, which is the companies that will win are those that are going to be providing the highest quality of care at the lowest cost.

Operator

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

Benjamin Mayo

Thomas, back on that member engagement metric that you referenced, is that 30% number for 100% of the total new members this year? Or is that a subset of the total new members? And is that for the first quarter or for the first half? Sorry.

Robert Freeman

Yes. No, good questions.

So what we're really talking about there is engagement of the Care Anywhere eligible population.

And so as a reminder, when we onboarded our new membership this year, we quickly began running the data we are capturing from lab values, pharmacy data, authorization and utilization data through our stratification model to identify those that we thought were at greatest risk of an inpatient event and had the greatest level of comorbidities and therefore needed that proactive Care program that we call Care Anywhere.

And so as we have continued to identify those members over the course of the second quarter, it stands at about probably 10% of the population is eligible for that Care Anywhere program. We've engaged about 30% of them so far, which is really, I'd say, consistent with our expectations this year and it's pretty consistent to where we have performed in years past. But of course, if you think about that relative to our overall population, which typically runs at about 60% engagement on that more intensive set of Care programs, there's clearly a big opportunity for us to get from 30% to 60% over the back half of the year.

And so that's what we're really underscoring as a significant area of opportunity where year-to-date, we're quite pleased with our emissions per thousand performance. We mentioned that for the second quarter in a row we've run below 150 inpatient admissions per 1,000. But we still feel like there's an opportunity to do better as we continue to ramp up engagement and onboard the significant growth we've taken on this year.

Benjamin Mayo

And maybe just my follow-up on still just staring at this 10,000 new members that you picked up in the quarter, and it certainly jumps off the page.

Just maybe unpack that a little bit. I presume the preponderance of that is California, but maybe D-SNP, just agents.

Just any other color commentary to help us sort of visualize kind of how you picked up that much growth.

Robert Freeman

Yes, absolutely.

So I think from a market positioning standpoint, I think there's sort of a few things happening.

So first is our products continue to be market leading, which is a function of the benefits we were able to afford based on the Care model and our overall virtuous cycle we often talk about.

And so I think that leading product position has combined with this kind of growing reputation among seniors for quality and from brokers as well. And that's really, I think, underscored by the fact that we've maintained our star rating at 4 stars or greater now for the last, I think, 6 or 7 years in California for that HMO contract. And as we continue to grow market share, I think just that word-of-mouth grassroots movement is continuing to gain traction. From an actual product standpoint, you're right, a good portion of the membership we continue to grow at in the second quarter was through the duly eligible population. That tends to be a sweet spot for us, both for our Care programs, and we tend to do well financially on those members. And I think overall, our duals still stand at about 30% of our total book of business.

Beyond that though, we offer products that are designed for a variety of acuities, ethnicities and income levels.

So I think we're continuing to see pretty good traction amongst different product types as well.

Operator

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

Hua Ha

So I wanted to talk about SG&A. And yes, what's really remarkable to me is that you guys are basically at the same SG&A as Humana. Yet, they are -- I think they're like 50x your size in revenue.

So it's pretty eye-opening to think about that and your ability to generate just a scaled economy, cost leverage, especially in a year where you're growing like 56%.

So my first 2 questions would be how sustainable do you think this is going forward? Number 2, any unique items to call out that may have benefitted 2Q? And then taking a step back, a general question on what you think the secret sauce is in creating your cost structure? And then I guess a question 4 is, are there any other low-hanging fruit opportunities or do you think you're at that point where it's all about like productivity, automation, technology, and that's sort of the new stage of cost structure evolution?

John Kao

Michael, great question. I'd say we kind of passed a scale threshold that we needed to really benefit from some of the investments that we've made over the past couple of years. And if you recall, we spent a lot of effort on our consumer engagement. Everything is around service delivery and around clinical quality outcomes.

So that whole line of thinking around just quality as reflected in stars and as reflected in retention rates is really starting to pay off. The foundation of your question though starts with the way in which we've architected our systems, the way in which we look at our data.

And so we have this kind of data architecture that's what we call a unified data architecture. And we have information that's actionable in real time. There's not a 60 or 90-day delay in reconciling claims data with eligibility data with provider databases. It's all kind of captured in a unified data architecture. That allows us to make very efficient and actionable decisions. And it allows us to streamline our functional G&A in a way that we don't have to just staff up manually.

And so that, I would say, is the main opportunity. And by the way, to your point, I mean -- and it's with that additional growth that we just announced came incremental commission expenses.

And so to the point that you just made, these efficiencies that we're garnering from these investments in automation are even more profound. And I think we're going to be able to scale that even further. The thing that should also be noted is onboarding 63,000 new members was seamless. That's a big deal. It's really quite a statement to be able to onboard all these folks and have no complaints. I'm actually at a broker event right now, and I asked the brokers, and they said, no, they haven't heard any complaints from our members. They're very happy. That, I think, is a function of the systems and the automation paying off. Low-hanging fruit, I do think there's opportunities.

I think there is opportunities in the way in which we work with our provider partners.

I think we have set out on a path to, we call it a path to surplusing more. We want our IPAs to make more money. We want them to be more successful.

I think there's opportunities there.

I think there's opportunities with the way in which we're improving our clinical model, again, using AVA technology.

On the G&A side, I think back office automation in a variety of areas is also something that should be noted that we're able to achieve these G&A scale economies while we're doing implementations of getting more automation in our back office and our EHR and our administrative functions.

So all of that is going to, I think, even lend more opportunity for us for margin expansion, the bigger we get.

Hua Ha

Maybe just one more relatively long-ish question.

So, yes, in a year where everyone's reducing benefits, you guys have shown that edge and not only maintaining but increasing benefits, I think, by 70 bps year-to-year.

And so with that said, 2025 would be expected to be another year probably with even worse benefit reductions across the board.

So understanding that and also your massive advantage in star rating in California, would it be fair to say next year could be another year where Alignment had similar benefit stability? Or is it a year where you're just so far ahead in terms of competitive positioning, star ratings, funding, that investing more into benefits and taking advantage of your position might be a bigger priority? And I know it's a delicate balance between your focus on margins next year, but I'd love to hear your thoughts.

John Kao

Yes. Well, I'll just shout out to you, Michael. I mean you were the only one that called 50% growth last year.

So having said that, we're still sticking to the 20% -- at least 20% growth dynamic. I will say that in our bids, I would say we were much more margin focused in the 25 bids.

And so the degree of growth we will achieve or won't achieve, I think, is a bit of a function of what our competitors do.

All of the kind of the rational metrics that we see with respect to star ratings, V28 exposure and some of the perhaps aggressive pricing that they exhibited last year lead us to conclude that you're right that people will be more conservative than not. And to your -- also, to your point, remember in 2024, we got this growth. We did not increase benefits very much. It was relatively flat.

And so we just -- we still found that balance between growth and margin.

We are very, very, very focused on margin for 2025, I'll say that. But logic would kind of conclude that we're going to have a pretty good year in growth in '25. My only caution is you still have some people doing stuff that are, I'd call it, nonsustainable in terms of their growth strategies. If they don't have the stars or they don't have the V28 kind of tailwinds like we do, they may still just price to lose money. That's certainly a possibility. But I feel really well positioned heading into '25. Remember, last year, we said we felt good with both '24 and '25 is what we said and potentially '26, by the way, depending upon how the stars come out. And we'll find out more about stars in the next couple of months.

Operator

Our next question comes from the line of Jess Tassan with Piper Sandler.

Jessica Tassan

Congratulations on the results. I'm hoping you can help frame the impact of California's efforts to align Medicare and Medicaid benefits by regulating D-SNPs in the state. I'm just interested to know if there's a way for alignment to partner with the Medi-Cal plan and kind of insulate yourself from any forthcoming regulation or restrictions on growth.

John Kao

Jess, it's John. Good question. Yes, we'd be very interested in partnering with Medicaid plans.

I think the tactic that we've taken over the last couple of years -- it's clearly an area that we spend a lot of time on -- has really allowed us to still get the kind of growth that we expect through some of the programs and products that will still be able to be sold during SCP and we just feel good about that.

I think fundamentally at a kind of consumer perspective, people don't necessarily want to be forced into a Medicaid network or a set of Medicaid products. They like our service levels. They like our benefit designs and they like our networks.

So -- and they like the clinical model of care.

And so I think those things thus far have really superseded any kind of aligned network in some of the counties that we're in.

And so we'll see. But thus far, we've been able to manage it pretty effectively.

Jessica Tassan

And then I was just hoping that you could comment on utilization over the course of the second quarter. Did you see any kind of end of quarter surge in volumes in any particular setting? And then I wanted to just verify, you all said that you were increasing supplemental benefits in 2025. Is that accurate?

Robert Freeman

Jess, Thomas, I can take those 2.

So on your first question in terms of utilization, I would say our utilization performance throughout the quarter was pretty steady.

I think those who maybe saw an uptick in utilization in other situations may have been driven by things such as the new Two-Midnight Rule, which as we talked about on the last couple of calls, hasn't really been an issue for us given that we were already really operating under the Two-Midnight Rule as a de facto way of adjudicating claims principally here in California.

So that has not been an issue for us nor do we anticipate it being an issue for us kind of moving forward. On your second question on supplemental benefits, we did not speak to supplemental benefit changes or increases for 2025. Rather what we were emphasizing is that throughout the first half of 2024, we have continued to see our supplemental benefit expenses increase relative to our initial expectations to a modest extent.

And so that's a part of our overall updated guidance release today, is just contemplating that those will continue at slightly elevated levels over the back half of the year, which, to your point, we have captured in our 2025 bid outlook, but we're not really commenting on the actual levels of changes in the investments and the benefits for next year.

Operator

Our next question comes from the line of Jared Haase with William Blair.

Jared Haase

Yes. This is Jared on for Ryan Daniels this evening. Maybe just a quick one kind of unpacking the utilization trends a little bit further. I know last quarter, the Part D MBR was kind of a big focus.

So I was hoping to just get an update there in terms of how that's tracked relative to expectations? And then what's assumed for the second half of the year?

John Kao

Yes. Absolutely, Jared.

So I don't think we're going to break out C versus D kind of every quarter moving forward necessarily. And we really wanted to underscore that on the first quarter call just to make sure folks understood the overall mechanics and seasonality from Q1 relative to the rest of the year. But more specifically to your question, our Part D performance in the second quarter did run in line with expectations and really was not a major driver of the overall MBR on a consolidated basis relative to our Part C performance.

As we look at the back half of the year, we still anticipate that Part D will be a meaningful tailwind to MBR over the next 2 quarters, similar to what we talked about on the last call.

Jared Haase

And then, John, I know you mentioned no new states again for 2025. I guess just wanted to touch base and sort of get the updated thoughts longer term around market expansion opportunities sort of beyond 2025. Obviously I get the runway that you have to continue to grow share in your current footprint. But how do you sort of balance that when you think about especially some of the larger national plans talking about exiting certain markets as they look to preserve margins and thinking about what opportunity that might open up for you in newer geographies?

John Kao

Yes, I think the whole governor that we have is just cash on the balance sheet, and we feel really well positioned for that. But as I've said in the past, I really want us to start expanding when a couple of things start coming together. One is just producing the cash and funding the growth from cash. And I feel in a good position to do that over the next couple of years. And at the same time, we're leveraging these investments on automation that we were just talking about. And I think once we get these workflows and we get these systems in a way, both on the administrative side as well as the clinical side as well as the network kind of management side, you get all these things kind of matured and packaged in best practices to go along with the cash from operations. That's when we really want to take this model and get the kind of national footprint that we said we really desire to achieve in the IPO. That's still the goal, is simply now focusing on the most accretive way for we to grow and to get scale economies and get to EBITDA profitability. That's the priority now. And then what we're not quite showing everybody yet is all the work behind the scenes in terms of getting ready to have the degree of expansion I expect.

The other thing I've said is I do think there is an emerging trend toward integrated delivery networks, kind of these large hospital systems that are looking for innovative ways to partner from what they're currently experiencing in Medicare Advantage. And I think you'll see that come to fruition over the next year or so.

Operator

Our next question comes from the line of Kevin Fischbeck with Bank of America.

Adam Ron

This is actually Adam Ron.

So first, a quick one. When you say 20% growth, are you specifically talking about enrollment? Or does that include yields? And so would yield be on top of the 20%?

Robert Freeman

Yes, I can take that one, Adam. Yes, I think we're contemplating that both membership and revenue, we feel like we can achieve 20% growth next year in 2025.

I think we don't currently -- I think it's too early to say, rather, what we expect from an overall PMPM standpoint because while we do have the very positive benchmark rate uptake for 2025, we also have to take into account what we're doing in terms of our benefit designs as well as new member population, product mix, et cetera.

So probably too early for us to talk about revenue PMPM change year-over-year into 2025. But I think we feel good about our ability to see from that 20% growth on membership and revenue that John was alluding to previously.

Adam Ron

And then on MLR, there's a lot of moving parts just because last year, you had a reach and then that came out and then this year, you have a very high percentage of members who are new to Alignment.

You're saying there's a wide delta of MLR on those members and returning members.

So I was wondering if you can give us any color on like what that delta is and like maybe what MLR was last year and this year on returning members and how that's different from new members to give us a sense of how things are trending versus what you bid.

John Kao

Yes, yes, absolutely.

So I would say overall, our new members are generally running relatively in line with expectations.

So you all have seen our historical cohort performance in this past, which would suggest that members run around 89%, maybe 90% MBRs for that at-risk population. And there's been obviously some variability in various years, a few points better or a few points worse than that. I'd say we're within that overall range right now, maybe a couple of points higher than the original kind of 89% to 90% historically, but certainly within the band of expectations. Part of that is what I was describing on the supplemental benefits, which we're seeing across our overall population, both new and loyal. From a loyal member standpoint, I would say that very similarly is continuing to run consistent with expectations, inclusive of or taking into consideration some of the supplemental benefit and unit cost dynamics we described in the call. On that point, I want to take just a second to kind of amplify our comments on the unit cost dynamics that we're currently navigating this year.

So in totality, our overall inpatient and outpatient unit costs are going up about 8% in 2024. And I would say, in a normal year and years past, we typically would have seen something closer to 3%, maybe 4% on average. And that value to us in total is worth about a point of overall MLR.

And so in other words, our experience year-to-date and our full year outlook had we had, what I would say, is kind of a more normalized unit cost rate update environment would have been a little less than almost 1% better on overall MLR.

And so I think that's really a testament to the team and our ability to manage not just the growth, to your point, but also manage some of these other dynamics around our overall unit cost experience based on the CMS rate updates this year.

So I think we're in a very good position based on the first half performance, and I think our full year achievability on both our adjusted gross profit and adjusted EBITDA we feel very good about.

Adam Ron

And if I could just clarify one more thing about that. When you say unit costs are up 8%, is that because like about what Humana is talking about with the Two-Midnight Rule and doctors or hospitals are reclassifying what were previously outpatient admissions or is this just all across the board anytime someone goes there, it's just 8% higher? Basically, I'm asking this because you would have more visibility on the latter.

Robert Freeman

Yes.

So it's not related to Two-Midnight Rule, as I was saying earlier. That really is not an area of exposure for us, and we've not seen any unfavorable performance due to that variable. What I'm referring to was kind of a onetime change that CMS put in place heading into 2024 when they reclassified urban and rural markets, and it caused certain markets to go up and beyond what I would say is kind of a normal increase and in other places across the country rates actually came down.

So on a national basis, it was somewhat of a normal, I'd say, year-over-year change. But for our specific markets, we saw an atypically high increase that we've been able to successfully navigate thus far this year.

Operator

Our next question comes from the line of Scott Fidel with Stephens.

Scott Fidel

First question, I was hoping if you could maybe help us in terms of trying to quantify or ring fence the impact of the supplemental benefits on the MLR this year. Maybe if possible, in a similar way, Thomas, that you just did the exercise in sort of laying out the impact of the inpatient and outpatient unit costs and sort of gave us what those increased year-over-year and the impact to the MLR at about 100 basis points, is there any way you could sort of similarly sort of help quantify the supplemental benefits impact given that you talked about it impacting both the new and existing members this year?

Robert Freeman

Yes, happy to.

I think if you were to kind of look at our overall MBR implied by our prior guidance relative to our current guidance today, it went up about 50 basis points for the full year. And I would say, if you think about the kind of the new member impact and the greater mix of new members that we were previously discussing and then you look at the supplemental benefit piece, I would say it's probably somewhere in the neighborhood of maybe 10 to 30 basis points on the new members and probably 20 to 30 basis points on a supplemental benefit expense.

So it really is overall pretty consistent with expectations. It's just very slightly higher than we initially anticipated.

Scott Fidel

And then on my follow-up question, definitely would be interested in getting your guys' initial assessment on the premium stabilization program that CMS has proposed for Part D that they just came out with this week for the one year demo. No, it's still pretty early here, but if you want to give us initial observations on what you may like, what you may be concerned about with that demo program and you're thinking on potentially participating in that.

Robert Freeman

Yes.

I think it's something we're evaluating, but probably too early for us to provide too much of a definitive view on one way or another.

I think big picture, obviously, there's a lot of changes coming down the pipeline for Part D in 2025 under the Inflation Reduction Act. And I think overall, we feel very well positioned, both from a kind of an overall benefit standpoint, but also in terms of our ability to continue to navigate those through our clinical teams employed internally as well as the partnership through our PBM.

So we actually feel like there's probably more opportunity than risk on the Part D changes heading into 2025, and we'll continue to evaluate the program you were just describing as part of that.

Operator

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

Ryan Langston

Just wanted to know, any way you can talk about utilization trends, maybe California versus the rest of the enrollment portfolio? Obviously, California has been the majority. But just kind of curious if California has progressed above, below utilization trends or outside.

Just looking for any context you can give us there.

Robert Freeman

Yes, happy to, Ryan.

So from an inpatient admissions per 1,000 standpoint, our ex-California markets continue to do quite well. It depends on the market. But I'd say overall, we're running pretty similar ex-California than -- or relative to what we're running in California. And I'd say over the past couple of years, we've launched these new markets we typically run better than California or in line with California. And really what that's a function of is the replicability efforts that we've put in place over the last few years to ensure that as we're bringing on new Care teams, we're being consistent and systematizing how we recruit for those individuals, how we train those individuals to use our tools such as AVA and then actually how we monitor them.

So in terms of our ability to have a centralized command and control to evaluate metrics and making sure we're seeing the right people at the right time, and managing those metrics on the back end in terms of how our teams doing things like readmission rates, skilled nursing length of stay, inpatient admissions per 1,000, ER business per K, et cetera.

So I think we've been pretty disciplined about how we try to build this from an operational standpoint, and we're seeing the results of that as we continue to grow the population ex-California.

Ryan Langston

And then just one quick one maybe.

Just talking about your non-California markets. I mean you've been in some of those markets now for a couple of years, North Carolina, et cetera.

Now that you have a little bit more, maybe one more year of experience, do you intend to grow faster in those markets into '25 maybe than you would have grown into 2024?

John Kao

Yes, it's John. Yes, foundationally, we want and made the decision that we need to get quality established and replicability of the Care model established.

And so we've been able to do that in North Carolina. We've been able to do that in Nevada. We're still working on Arizona in terms of the stars, but the clinical outcomes are very, very good.

And so we made the specific decision to emphasize growth from California just because I think it's been the most accretive and the lowest acquisition cost.

We have just such good provider partners and such good broker partners, it just made sense for us to really double down on that. And I think we'll continue to do that.

And so heading into 2025 I think because there's still so much emphasis that we have to and conviction that we're going to focus on is toward profitability, we'll see.

I think you'll see us be much more aggressive in '26.

I think we're going to get growth in '25 in these ex-California markets. But I think you're going to get a lot of growth in '26 just because of the investments that we're going to be making, again, from the fact that we're going to be, I think, very, very well positioned on profitability.

And so it starts with that, and then we're going to make investments in our existing ex-California markets. And then I think we're going to take both of those, call it, factors and think about '26 new market expansions. That's kind of how we're thinking about prioritization.

Operator

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

Andrew Mok

Now that 2025 bids are behind us, maybe if you could share a bit more on the potential for margin expansion next year. What do you think is a reasonable level of expansion? And what do you think the bigger drivers will be between MLR and SG&A?

Robert Freeman

So I think we'll probably withhold too much detailed commentary on 2025 benefits just given that reallocations are kind of currently underway as the direct subsidy information has come through from CMS. But I think to your kind of more broad question around the MBR versus SG&A opportunity for 2025, I think both are an opportunity. And what I mean by that is from an MBR standpoint, as John was describing, we were, I think, continuing to be disciplined and margin-oriented in the bid process to drive MBR performance improvement into 2025.

I think the extent of which you see it will in part relate to the growth we get. But I think almost irrespective of the level of growth, we see an opportunity to improve MBR next year based on how we came together in the bid process.

On the SG&A side of things that John was describing, while we've done a great job this year on driving close to 300 basis points of SG&A as a percentage of revenue improvement in 2024, we're still going to be north of 11% in total SG&A as a percentage of revenue this year. And as we've talked about in the past, our goal remains to get to 10% or even below that, possibly to high single digits.

So I think as we continue to grow next year, we do continue to anticipate further economies of scale and SG&A leverage improvement in 2025 as well.

Ryan Langston

And if I could just follow up here. Hoping you could elaborate on some of the MLR seasonality that you're expecting this year. It looks like you're expecting MLR to improve sequentially in both 3Q and 4Q. It wasn't clear to me why 4Q MLR would improve.

I think that's a bit different than historical trends.

So can you walk us through that progression and maybe quantify the impact of the calendar if meaningful?

Robert Freeman

Yes, happy to.

So I think in terms of the third and fourth quarter dynamics and kind of in part thinking about that year-over-year, what I would say is that last year, the seasonality was a little bit distorted in that the third quarter had a couple of kind of onetime or a typically favorable prior period items that helped drive down MLR in the third quarter of last year. And on the other side, the fourth quarter was a bit opposite in that we had a couple of atypically unfavorable items that occurred in the fourth quarter last year. In particular, the inpatient unit costs I was describing actually went into effect October 1, 2023.

So I would say kind of third quarter, fourth quarter dynamics aside is probably more appropriate to think about our full year guidance or even our second half guidance. And in terms of that outlook, I think we feel really good about where we stand.

As we talked about, I think our latest guidance reflects both kind of the incremental membership we have now added and the MBR implications of that incremental growth as well as that kind of modest impact of the supplemental benefit increase.

On the other side, I think we feel good about the opportunities for further improvement on Care Anywhere. And then beyond that, some of the things we talked about last quarter, including Payment Integrity and some of the non-inpatient initiatives that we're talking about today.

So I think kind of where we land in terms of the overall range on both gross profit and adjusted EBITDA will be somewhat dependent upon the timing of those initiatives. But big picture, I think we feel confident in our full year outlook and our ability to continue to offset that modest MBR pressure with the further economy of scale in SG&A.

Operator

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