Ryan Schmidt, Investor Relations

Good afternoon, everyone. Joining me on our call today to discuss the company's second quarter 2024 results are Andrew Toy, Clover Health's chief executive officer, and Peter Kuipers, the Company's chief financial officer. You can find today's press release and the accompanying supplemental slides in the 'Investor Events & Presentations' section of our website at investors.cloverhealth.com. This webcast is being recorded, and a replay will be available in the Investor Relations section of the Clover Health website.

I'd also like to caution you that we may make forward-looking statements during today's call that are subject to risks and uncertainties, including expectations about future performance. Factors that may cause actual results to differ materially from expectations are detailed in our SEC filings, including in the Risk Factors section of our most recent Annual Report on Form 10-K and other SEC filings.

Information about non-GAAP financial measures referenced, including a reconciliation of those measures to GAAP measures, can be found in the earnings materials available on our website.

With that, I'll now turn the call over to Andrew.

Andrew Toy, Chief Executive Officer

Thank you, Ryan, and thanks to everyone joining our call. Today we're very pleased to report another set of strong financial results as well as improved full-year guidance, driven by meaningful profitability from our core Insurance plan operations. Underlying these strong results is our Assistant care platform that enables physicians to identify and manage chronic disease earlier. We believe that this focus improves outcomes for our members, improves total cost of care and therefore drives our overall financial momentum.

Ultimately that is our goal: at Clover we develop AI and data driven technology that is differentiated at managing the clinical outcomes and total cost of care for people with chronic diseases.

We believe our financial results demonstrate that our model is working with physicians in our own MA plan. Next, we intend to bring our approach, via our Counterpart offering, to physicians who serve other plans as well.

On that note, let me begin with some high-level takeaways from our second quarter performance.

First, we achieved meaningful profitability this quarter, highlighted by our increasing Adjusted EBITDA, as well as positive Net Income for the first time as a public company. We're very proud to have achieved this milestone. Given these results, we fully expect to deliver profitability this year on an Adjusted EBITDA basis, and are happy to update our full-year guidance to reflect this strong performance, which Peter will walk you through later in the call.

Second, we've again delivered double digit top-line revenue growth, with further margin improvement in our core Insurance offering. Our impressive Medicare Advantage performance is driving our ability to deliver consistent, meaningful, Adjusted EBITDA profitability this year.

Third, our performance improves upon our already healthy balance sheet, allowing us to operate from a position of strength. We expect to be able to self-fund meaningful growth in the next phase of our business.

Lastly, our strong first half results continue to highlight our unique ability to operate a profitable Medicare Advantage plan almost entirely on a PPO chassis. Unlike other plans that rely on narrowing their networks within an HMO to funnel patients to specific doctors, our approach is fundamentally different and allows us to meet the needs of more of the total addressable market. Clover Assistant's proprietary and patented technology allows us to work with any doctor, improving both their clinical outcomes and total cost of care.

This capability is crucial for a PPO model. Our vision is to build physician enablement technology that brings great healthcare to all Medicare beneficiaries. This is precisely why our strategy is anchored on wide network PPOs. Put simply, most people want the freedom to choose their own doctors, not have their insurance plans pick their doctors for them.

In contrast, the challenge for the broader industry is that traditional HMO cost management frameworks are not easily executed within PPOs, as there is less network control. Plans used to selecting doctors, definitionally cannot rely on that selective network narrowing to drive value based results in the PPO. This is why we expect other managed care organizations to continue to struggle to balance consumer preference with managing cost pressures.

For Clover, we aim to solve this problem by managing quality not by network narrowing, but by equipping physicians with our proven AI-powered software platform to better manage total cost of care and improve clinical outcomes. We do this through a focus on identifying and managing chronic diseases as early as possible. Coupled with Clover Home Care's high-touch clinical capabilities, we believe that our differentiated care model creates a sustainable growth moat in our business, and uniquely positions us for success despite broader industry challenges from regulatory changes and shifting consumer preferences.

Most importantly, with CA, we are constantly learning from physician interactions, and improving, to drive better clinical results. Since this last quarter, we're very excited about our technology innovation, featuring several capabilities we've developed.

This includes clinical enhancements around heart disease severity and progression, to better help physicians identify and manage CHF.

We’re also streamlining clinician workflows around care gap closure to help them quickly and easily leverage the Assistant’s access to robust data sources beyond what's available in their EHR.

And finally, AI and LLMs allow for quick prototyping and implementation of features, like ambient scribing and document summarization, that allow us to quickly iterate and deploy features focused on physician workflow and quality of life.

With our continued investment in Assistant platform development, we believe that we will continue our momentum in our overall MA business as we both focus on generating sustainable meaningful profitability and returning to top line membership growth.

It’s also important to note that we expect to drive meaningful Adjusted EBITDA profitability this year from our Insurance plan alone. We’re making great progress in building out our Counterpart offering, and any future financial impact will be additive, but is not yet considered in our guidance.

That said, since launching this offering, we have continued to receive strong market interest for our platform, with more potential partnerships in the works. We believe we have a robust pipeline and unique product-market-fit in a broader MA market that has cited utilization issues and other headwinds over the past year.

To this point, the strong MA results in our own plans is a key differentiated advantage that validates our pitch to third party customers. My strong belief is that we've kickstarted a unique and powerful virtuous cycle, with our Clover Insurance offering leveraging our technology to drive quality. That in turn, should drive better results on our internal book of business, which then serves as validation to third party customers for Counterpart. Each piece is both complementary and interconnected, and builds upon the other. We’re continuing to build out this SaaS and tech-enabled services offering, and we plan to share more specific financial guidance and expectations at a later date.

Before handing it to Peter for the financial update, I’ll touch on how we are thinking about MA plan growth. As a reminder, our focus during 2024 has been on retention and margin improvement in our returning member cohorts. We’re executing against this, and our first half results strongly position us to deliver upon these goals for the full year.

For our 2025 growth strategy and bids, we’re holding off on sharing specific details until more industry and competitor information is available. That said, CMS’s recent recalculation of our PPO Star rating up to 3.5 Stars has resulted in an exciting shift in our go-forward approach, as we now have more flexibility to reinvest in plan benefit design to help drive growth. It’s also important to note that we were the only plan in our primary markets to get a Star rating increase from this recalculation. Our intent next year is to continue to grow top-line Insurance revenues in excess of the market, while simultaneously improving our underlying cohort economics to drive increased long-term profitability. Ultimately, we'll have to see how the competitive positioning plays out, but we feel very good about our pricing and how we've positioned our business next year to build on our 2024 performance and momentum.

With that, I will now pass it over to Peter.

Peter Kuipers, Chief Financial Officer

Thank you, Andrew. Before diving into our results, I'd like to share a few quick notes on the Company from my perspective as I have settled into my role. Overall, I'm very pleased to have joined Clover at such an exciting time, and am continually impressed by the industry leading AI powered technology, talent, and general business momentum of the Company. I believe that our business is steadily improving its profitability profile, and I am excited to be a part of a company that has created a unique framework to improve the lives of people with chronic diseases, while simultaneously building an attractive and scalable financial opportunity. I am also excited about the opportunity to expand the use of our proven technology through our Counterpart Health SaaS and tech-enabled services offering.

Getting back into our earnings content, I'll first cover the second quarter financial highlights and then review our improved guidance for full-year 2024.

Clover's core fundamentals are strong. As Andrew mentioned, the second quarter was Clover's first positive GAAP Net Income from continuing operations quarter as a public company. Second quarter GAAP Net Income was a profit of $7 million dollars as compared to a GAAP net loss of $29 million dollars in the second quarter of last year. Similarly, Adjusted EBITDA improved to a profit of $36 million in the second quarter of this year compared to $10 million in the second quarter of last year.

Year-to-date, we've significantly improved our year-over-year profitability profile, driven by strong MA plan momentum and a continued focus on optimizing Adjusted SG&A. As a result, we've incorporated this first half favorability into our full-year outlook to significantly improve our Adjusted EBITDA profitability guide for full-year 2024.

As a reminder, last quarter we shared that we would introduce a new operational metric to further improve transparency in our Insurance performance and to better align with industry standards. This is the Insurance Benefits Expense Ratio, or Insurance BER. We calculate the BER by dividing the sum of total Insurance medical claim expenses and quality improvement costs, by Insurance premiums. The BER does not affect our Adjusted EBITDA calculation in any way, as these quality improvement costs sit within our SG&A. We believe that by also including spend related to enhancing healthcare quality in the numerator of the calculation, we are more accurately reflecting our investment in healthcare quality and member engagement. This ratio better captures the true cost of maintaining and enhancing the quality of care for our members and provides better comparability into our performance versus industry peers.

During the second quarter, Insurance BER improved to 76.1% in 2024 as compared to 82.1% in the second quarter of 2023. MCR also improved to 71.3% in the second quarter from 77.2% in the second quarter of last year. Our strong margin performance was coupled with continued year-over-year top-line organic insurance revenue growth of 11% in the second quarter to $350 million dollars, and 10% growth year-to-date to $692 million dollars, driven by strong member retention, cohort unit economics, and a return to intra-year growth outside of AEP.

On a year-to-date basis, BER was 79.6%, and MCR was 74.5%, both of which represent strong improvements of over 700 basis points year-over-year. During both periods this year, we benefited from the continued maturation of our core MA plan operations and the focus on returning member retention with strong unit economics that Andrew touched upon earlier. We've also experienced prior period development on both revenue and medex, both in 2Q as well as on a year-to-date basis, which has depressed our year-to-date BER to lower levels. That said, we expect our BER to be between 81% and 83% for full-year 2024, and to land in the mid-80s percentage on a full-year, incurred basis after normalizing for the aforementioned prior period development. Of note, our results are still underpinned by elevated IBNR levels. As mentioned during our last call, this was and is due to the Change Healthcare disruption and the transition to our new MA plan ecosystem at the start of 2024. We continue to expect normalization of our IBNR levels by year-end.

On the SG&A front, during the second quarter total SG&A spending was down 4% year-over-year, while Adjusted SG&A of $72 million dollars was modestly higher than the comparable period. On a year-to-date basis, total SG&A was down 12% and Adjusted SG&A of $147 million dollars was down 3% as compared to the same period in 2023. Our year-to-date 2024 results continue to include a temporary accounting reserve of approximately $2.5 million dollars related to the increase in claims inventory estimates we flagged during the first quarter as a result of the Change Healthcare disruption and our internal MA plan operational transition. As our processing visibility continues to normalize throughout the year, we expect this accounting reserve to reverse. Furthermore, both periods continue to see a favorable impact year-over-year from the cost savings initiatives associated with our new operational ecosystem and our workforce rationalization announced last year, partially offset by increased growth costs, driven by strong OEP and SEP growth. Looking ahead, we remain on track to achieve meaningful full-year Adjusted SG&A savings versus last year. That said, and in light of our strong Adjusted EBITDA profitability performance through the first half of the year and the growth opportunity we now have, we expect to strategically reinvest into our business during the second half of the year to build a foundation for long term sustainable growth. As such, we anticipate coming in at the high end of our Adjusted SG&A outlook for the full year, and we believe that any near-term investment in the long-term trajectory of the business will prove to drive strong returns in the future.

Turning to the balance sheet, we ended the second quarter of 2024 with total restricted and unrestricted cash, cash equivalents, and investments totaling $483 million dollars on a consolidated basis, with $201 million dollars at the parent entity and unregulated subsidiary level. Cash flow from operations excluding discontinued operations for the second quarter was $46 million dollars, and I am proud that this has improved the company's already strong balance sheet. We continue to expect that our cash flow from operating activities during the full-year 2024 excluding the impact from discontinued operations, will be positive. Taking this into account, we continue to expect our year-end 2024 unregulated liquidity to be between $145 million dollars and $165 million dollars. Lastly, and as Andrew mentioned earlier, we have strong conviction that this allows us to operate from a position of strength, and we expect to continue to be able to self-fund growth in the next phase of our business.

Additionally, we remain committed to the share repurchase program that we announced in connection with our first quarter earnings. As a reminder, our Board of Directors authorized the Company to buy back up to $20 million dollars of the Company's Class A Common Stock over the next two years. Starting in May this year, we began returning capital to our shareholders, repurchasing approximately $2 million dollars of stock during the quarter. We expect to continue to be nimble and prudently manage our capital allocation strategy to maximize value for our shareholders.

Finally, I will provide an update to our improved full-year 2024 guidance in light of our continued strong business momentum and fundamentals through the first half of the year.

- We are increasing our revenue guidance for the Insurance line of business to now be between $1.35 billion and $1.375 billion dollars.
- We are also introducing full-year guidance for Insurance BER, to be within a range of 81% to 83%. As I mentioned earlier, we expect this operational metric to be in the mid-80% range, on an incurred basis.
- We are improving our Insurance MCR to be within a range of 77% to 79%.
- We are maintaining our Adjusted SG&A outlook to be between $270 million dollars and $280 million dollars.
- We are increasing our full year 2024 Adjusted EBITDA guidance to be between $50 million dollars and $65 million dollars.

As Andrew touched upon, our profitability arc to-date is driven by our strong Insurance plan performance. We've proven this year that we can deliver significant returns with just a 3.5 Star rating, with the opportunity for even better potential results if and when we achieve higher Star ratings. Going beyond our MA plans, I'm particularly excited about what Counterpart can add to our performance in the future as we grow our external solution offerings. Counterpart Health continues to garner strong market reception with its robust pipeline. We expect this to only strengthen our ability to execute and improve the Company's already strong core fundamentals.

In summary, our goal at Clover is to maintain the momentum that we have developed in the last couple of years and continue to improve our business performance. I believe this is exactly what we've done during the first half of the year, positioning us well to achieve our Adjusted EBITDA profitability goals in 2024 and improve our underlying cohort economics in 2025 to increase our long-term profitability capacity.

Now let me turn the call back to Andrew for some closing comments.

Andrew Toy, Chief Executive Officer

Thanks Peter.

In conclusion, I'm very pleased with our performance during the first half of the year, and would like to thank the entire Clover team for their continued efforts in delivering such strong financial results. Before we head to Q&A let me reiterate the key takeaways of the quarter from my perspective.

1.) We delivered positive Net Income for the first time as a public company, and improved our full-year 2024 Adjusted EBITDA outlook.
2.) Business fundamentals are strong, with double-digit top-line revenue growth and industry leading loss ratios.
3.) We improved our already healthy balance sheet, and believe that we have the ability to self-fund future membership growth.
4.) We're well positioned for long-term growth in Medicare Advantage via our PPO-centric approach.
5.) Our strong performance in our own MA plan is driving interest in our Counterpart third party offerings.

Today's results demonstrate that we're able to perform well where others don't. We thrive in fragmented markets and we don't rely on anchor health systems or value-based contracts. For most MA plans, these are challenging dynamics, but our technology centric approach allows us to profitably sustain a benefit-rich, wide-network PPO plan.

We're generating meaningful Adjusted EBITDA profitability at a 3.5 Star rating, positioning us well for even better results if and when we achieve higher ratings.

And, unlike almost every other MA plan, we see ourselves accountable for the total cost of care for our entire book of business, as opposed to others who heavily rely on risk delegation and capitation.

Our strong Insurance fundamentals, coupled with our Counterpart offerings, make for an exciting time to be a part of the Clover Health journey.

Once again, thank you to everyone and I very much look forward to providing more updates later in the year as we continue to execute against our goals.

With that, let's go to questions.

[Q&A]

Andrew Toy, Chief Executive Officer

Alright folks, thanks for all the questions. Just to reiterate, we believe that we are the only technology-powered managed care company in the market that's aiming to deliver better clinical outcomes, better cost of care as well as physician choice. Really, we believe that this is the future of Medicare Advantage, and we look forward to continuing to lead in this aspect via Clover's unique tailwinds and technology-powered care platform. Thank you all again for joining our call today, and I look forward to sharing more on our achievements in the second half of the year.