Clover Health

Ryan Schmidt, Investor Relations

Good afternoon, everyone. Joining me on our call today to discuss the company's first quarter 2024 results are Andrew Toy, Clover Health's chief executive officer, and Terry Ronan, the Company's interim 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. Clover is off to a strong start to 2024 and I'm very excited to share our results and improved full-year guidance with you all today. Overall, first quarter Insurance revenue and Adjusted EBITDA performance exceeded our expectations. We believe this is evidence that our strategy and strong fundamentals are preparing us well for the future of the Medicare Advantage program. Let's begin with the overarching themes of our results today.

Firstly, Clover was profitable in Q1 on an Adjusted EBITDA basis, and we also have high confidence in achieving full year 2024 Adjusted EBITDA profitability.

Secondly, we have grown revenues in our profitable Insurance business by 8% year-over-year.

Thirdly, given our favorable business outlook, we feel very comfortable in our strong liquidity position, and we maintain our view that Clover has sufficient capital for our operating and growth needs. As such, we are pleased to announce that our Board of Directors has authorized a share repurchase program of up to $20 million dollars of the Company's Class A Common Stock over the next two years.

Fourthly, we believe our strong performance continues to highlight our unique ability to operate a profitable Medicare Advantage plan on a wide network PPO chassis, powered by our clearly differentiated care model, leveraging Clover Assistant's patented technology and Clover Home Care's high-touch clinical capabilities.

Next, I'd like to give more color on our core profitability metric, Adjusted EBITDA. During the first quarter of 2024 we delivered $7 million dollars of positive Adjusted EBITDA. We expect this momentum to continue, and feel very confident that we will deliver full year Adjusted EBITDA profitability. We have therefore significantly improved our guidance for the full year 2024 to a range of positive $10 million - $30 million dollars.

Our profitability performance was driven by continued outperformance in our Insurance offering fundamentals, including revenue growth and medex management, as well as durable reductions in our Adjusted SG&A.

For Insurance revenue, we are proud that we delivered strong year-over-year revenue growth of 8% while also simultaneously expanding margins. This is a continued step forward in our commitment to grow revenues in a sustainable way. Improvements came from a strong focus on Clover Assistant product advancements, operational enhancements to improve the accuracy of our risk adjustment submissions, and a focus on member retention. We're proud of these improvements, and as a result we are also raising our full-year Insurance Revenue guidance to be between $1.30 billion - $1.35 billion dollars. In addition, given our software-centric approach, we strongly believe that we are well positioned to move with agility against the backdrop of industry headwinds, including a lower MA rate environment and the continued phase in of the new HCC v28 coding rules, to sustain Insurance revenue growth in the years to come.

Going into more detail on the HCC v28 model changes, we feel good about our current and go-forward posture. We have three reasons for this.

Firstly, Clover Assistant has always been focused on chronic disease management and treatment, with accurate risk adjustment coming as a by-product. As a result, we support CMS focus on removing codes that may not reflect current costs associated with diseases, conditions, and demographics.

Secondly, we are always launching new features for Clover Assistant - many based on feedback from our clinician users, and many using advancements in ML and AI - and these enhancements are constantly furthering our mission of early disease identification and management.

Thirdly, we believe that long-term, we'll see continuous improvements in outcomes, much like those detailed in our Clover Assistant whitepapers. For example, a year ago, our CKD whitepaper showed CA usage was associated with the early detection and management of CKD, with an average GFR of 52.6 at diagnosis. Extending the study through April 2023, that average GFR has improved to 55, meaning CKD is now identified even earlier. The original study indicated CA use was associated with diagnosing CKD around 17 months earlier, but the updated data extends that to around 23 months earlier. We're excited about this progress and encourage you to review our CKD paper and other CA whitepapers on our investor relations website.

Overall, we feel confident that our approach not only helps us lessen the impact of these market headwinds that are affecting our competitors, but we feel we are well aligned with the spirit of CMS changes and have already mitigated the eventual impact of HCC v28 via Clover Assistant.

Let’s turn now to Medical expenses. You’ll recall that during our Q4’23 earnings we indicated that, unlike other industry participants, we did not believe we were seeing any increased utilization trend. We continue to hold this view, as during the early part of Q1’24, our 2023 claims experience developed quite favorably against prior expectations at year-end 2023. When accounting for that favorable base period development for our 2024 forecast, we now have significant confidence in our ability to deliver 2024 results above our previously issued guidance.

That said, we are currently holding a significant amount of IBNR related to early claims volume in the first quarter 2024 primarily as a result of two factors. First, as we completed the transition of our claims processing systems to our new MA plan operational ecosystem during Q1 2024, we’ve been extremely diligent with claims adjudication to ensure claims are being processed and paid accurately. As such, this resulted in a slowdown in payments and an increase to claims inventory at the end of the quarter.

Also during the course of this internal implementation, we experienced the unexpected industry wide impact of the Change Healthcare cyber-attack that directly impacted us as we relied on Change Healthcare as our primary claims clearinghouse. We quickly pivoted to allow our providers to submit claims through alternate pathways but claims receipt volume and processing volume remained very low during the second half of Q1. As a result of this, we’ve included a conservative buffer in our reserving. We have actively monitored this throughout the second quarter and are pleased to say that claim submissions are returning to normal, and we expect our IBNR and claims inventory to normalize over the next few quarters.

When accounting for the favorable development in our base 2023 claims experience, coupled with favorable revenue development, we are improving our 2024 MCR guidance to be within a range of 79% - 81%. That said, our historic MCR has been calculated purely on medical, pharmacy, and supplemental benefit expenses, whereas industry standard for Medicare Advantage is generally to also include Quality Improvement costs in the loss ratio calculation. This is particularly important for Clover as we invest heavily in healthcare quality via our technology and services, as well as clinically-focused member rewards.

As such, to further improve transparency in our disclosures, in the future we intend to also share a new calculation that aligns better with industry standard and includes these other costs in the numerator, that we refer to as the Benefits Expense Ratio or BER. While we are not providing the BER this quarter, we expect this to be in the low-to-mid 80s for the year given the significant investments we make in Quality. I would also note that these costs are currently included in our SG&A, so the BER metric would not affect our Adjusted EBITDA calculation, but instead provide better clarity into our performance vs industry peers.

Given the strong business momentum, I'd like to summarize the improved 2024 guidance we are issuing today:

- Revenue for the Insurance line of business to be between $1.30 billion and $1.35 billion dollars.
- Insurance MCR to be within a range of 79% - 81%.
- Adjusted SG&A to be between $270 million - $280 million dollars.
- Full-year 2024 Adjusted EBITDA profitability between positive $10 million - $30 million dollars.

We'd also like to clarify the effect of this improved business performance on our cash position, and would direct you to slide 14 of our supplemental slides as a reference. First off, we expect to be break-even or be slightly positive in our cash flow from operating activities for the full-year 2024, excluding the impact from discontinued operations.

As a reminder, last year we announced that we are no longer participating in the ACO Reach program as of January 1, 2024, and as of that date it is being treated as discontinued operations in our reporting. That said, we expect to pay CMS around $39 million dollars in the second half of 2024 relating to our prior ACO Reach participation, which is fully accrued as of March 31, 2024. We estimate our year-end 2024 total restricted and unrestricted cash, cash equivalents, and investments to be between $388 million - $408 million dollars.

As a reminder, we ended 2023 with unregulated liquidity of $137 million dollars, as well as an incremental $74 million dollars of capital and surplus in excess of minimum risk-based capital requirements. This equates to a pro-forma year-end 2023 unregulated liquidity of $211 million dollars.

On the same basis, we expect pro-forma year-end 2024 unregulated liquidity of between $145 million - $165 million dollars.

Overall - I believe Clover is very well positioned to succeed in both 2024 as well as into 2025 and beyond. Our strategy - while historically seen as unusual - is now arguably generating significantly better financial and clinical results than the traditional incumbents, and in a way that is sustainably differentiated.

I'd like to thank the Clover team who has worked very hard to deliver a profitable first quarter on an Adjusted EBITDA basis, and position us well to build upon this and achieve Adjusted EBITDA profitability for the full year 2024, a goal we have been working towards for several years now. I'm incredibly grateful and proud to be a Cloverite.

Finally, I'm happy to announce that we've strengthened our leadership team this past quarter, as we've hired Peter Kuipers as our permanent CFO. He's officially joining the Clover team as CFO this week, so we've spared him from joining us on the call today, but I look forward to introducing him properly during our next earnings call.

With that, I'll turn it over to Terry for the financial update.

Terry Ronan, Interim Chief Financial Officer

Thanks, Andrew. The first quarter of 2024 was first and foremost highlighted by significant year-over-year progress to our GAAP net loss from continuing operations, which improved $57 million dollars to a net loss from continuing operations of $23 million dollars from $80 million dollars, and Adjusted EBITDA improving from a loss of $38 million dollars in Q1 of 2023 to a profit of $7 million dollars during Q1 2024. Both of these results reflect Clover continuing to make impressive progress on its path to full-year 2024 Adjusted EBITDA profitability driven by solid Insurance results and better management of spend in adjusted SG&A.

Starting with our Insurance performance, MCR improved to 77.9% this quarter from 86.6% in Q1 of last year, with Insurance revenue growing 8% year-over-year to $342 million dollars. As a reminder, our MCR does not include the quality improvement expenses that Andrew mentioned earlier, and we intend in the future to improve our transparency here to align better with industry standard loss ratio calculations. That said, this MCR improvement of nearly 900 basis points and incremental revenue growth was driven by a continued focus on optimizing operations, maturing processes to increase the accuracy of claims payment and risk adjustment, the added benefit of our transformation to refine and re-platform our Insurance operations, and also impacted by favorable prior period development flowing in from our strong 2023 performance. We have also focused on significantly increasing value delivered through our care management platform, underpinned by Clover Assistant and Clover Home Care, which helps us deliver proactive care management at scale and bends the cost curve for our sickest members.

On the Adjusted SG&A front, I'm equally excited about the durable progress we've shown in our operating expenses, generating a year-over-year reduction in Adjusted SG&A of 12% this quarter, to $75 million dollars, as compared to Q1 of 2023. Before I touch on the improvements that drove this large optimization, I do want to briefly call out that we've booked a higher claims adjustment expense than is typical -- with $3 million dollars this quarter compared to an immaterial impact during the first quarter of 2023. This year's increase is due to the claims payment related disruptions that Andrew touched on, and its increase on our IBNR and claims inventory estimates. To be clear, this is simply an accounting reserve, rather than a cash expense, that temporarily elevated our reported Q1 Adjusted SG&A, and is an expense that we expect to reverse as we resolve the claims backlog associated with this disruption. That said, our SG&A improvement this quarter was driven primarily by our previously mentioned shift to our new MA plan operational ecosystem that we've successfully implemented, our workforce rationalization announced last year, and our exit from the Non-Insurance ACO program. Our Q1 result gives us confidence we will meet our full-year Adjusted SG&A guidance.

Turning to the balance sheet, we ended Q1 2024 with total restricted and unrestricted cash, cash equivalents, and investments totaling $440 million dollars on a consolidated basis, with $133 million dollars at the parent entity and unregulated subsidiary level. To provide a little more context into the expected $39 million dollar cash settlement to CMS for our 2023 ACO Reach performance that Andrew mentioned - you're able to calculate this by subtracting the assets related to discontinued operations from the liabilities related to discontinued operations line items from our consolidated balance sheet within our quarterly 10-Q filing. This expected cash outflow includes both our shared loss and a repayment of working capital obligations associated with the program, and will impact both consolidated and unregulated balances. Once settled, this will be the final cash outflow we expect to pay in connection with the ACO Reach program. Lastly to reiterate Andrew's earlier comments, we believe we will be breakeven to slightly positive cash flow from operating activities during the full-year 2024 excluding the impact from discontinued operations, and as such we maintain our view that Clover has sufficient capital for our operating and growth needs.

I hope that this added clarification gives you all a sense of the confidence we have in our liquidity position, that we will continue to prudently manage.

In summary, I'd like to emphasize that Clover delivered impressive progress on its path to profitability this quarter, with great year-over-year improvement in each of its key operating metrics. We look forward to sharing more updates on our financial progress in the coming quarters. With that, I'll turn the call back to Andrew for some closing comments.

Andrew Toy, Chief Executive Officer

Thanks Terry. Before we head to Q&A let me summarize the key points of the quarter and give some high-level forward-looking commentary.

1.) We exceeded our expectations on Adjusted EBITDA, and were Adjusted EBITDA profitable in Q1, and have high conviction that we will be profitable for the full year 2024 and as such, we have significantly increased our full year 2024 Adjusted EBITDA guidance.

2.) In the first quarter, we also exceeded our expectations for Insurance Revenue, which we grew by 8% year-over-year, and we improved our full-year Insurance revenue outlook.

3.) We feel good about our balance sheet and liquidity profile and believe we do not need additional capital at this time.

Given the tremendous improvement in our fundamental Insurance operations and profitability arc, I'd like to give some commentary around our forward-looking strategy, particularly in light of some recent regulatory shifts.

Firstly, we are in the middle of planning for a critical 2025 year. There are a number of changes in the industry including the continued phase in of the HCC v28 changes I mentioned earlier, the introduction of the IRA changes to Part D, as well as having a 3 Star plan year for Clover.

Overall, I believe that we are in a good position regarding these changes. As I said before, our Clover Assistant platform already conforms with many of the v28 changes, so we feel we are better positioned than others in the industry in that regard. With respect to Part D, we believe we have a powerful asset in Clover Home Care which already services our most vulnerable members. These are the same at-risk members who often have very high Part D costs and enter the catastrophic phase. As such we are already looking at ways to serve this population even better.

Given that our unique care management platform has always been anchored on the earlier identification and management of disease, we feel better positioned to sail upwind into these changes in a way other plans probably cannot, in particular those who have rapidly expanded their presence in the PPO market in recent years. Additionally, we are not yet fully optimized on the platform. Throughout the rest of this year, we plan to continue to release new Clover Assistant features to better identify and service our riskiest members. We also have been absolutely focused on Star rating measures. We've seen tremendous improvements in certain areas such as HEDIS measures, and we're investing in additional capabilities to support CA providers for even further improved stars and quality performance.

To help drive all these care platform improvements, we are also adjusting our operating structure. Starting last month, we established an affiliate entity for the purpose of unifying Clover Health's non-clinical quality improvement services offerings. This affiliate will begin by servicing our health plan in New Jersey and, in the future, will also service third-parties. Our goal here is twofold: first, we believe this structure will drive higher quality and better health outcomes for our members in New Jersey and, second, by unifying management of our health information technology and care coordination services, we will drive deeper focus on our partnerships with local physicians.

Turning now to core operational SG&A, I would note that the advent of ML and AI has traditionally been focused on our CA platform but I thoroughly believe in the transformative power of AI on core operational efficiency and SG&A improvement. As such, we are very focused within Clover on helping bring AI into our operations. Here, I'm talking about places where we can add to member delight while significantly reducing costs - for example, in the areas of customer service, care coordination, and claims processing. We will therefore be maintaining a focus on pursuing SG&A opportunities through this year and next.

Given all this, our top-level goal at Clover is to maintain the momentum that we have developed in the last couple years and keep on refining our core fundamentals.

We expect our strong anticipated Adjusted EBITDA and MA plan performance in 2024, as well as the opportunity to continue to deliver SG&A optimization, to provide us a great starting point for 2025 and put us in a much better position than our peers to handle the various industry headwinds. During the last two bid seasons we've employed a disciplined approach to benefit design, as evidenced by our strong 2023 performance and improved guidance for 2024. This disciplined approach has allowed our MA plan to experience a stable membership base allowing for better line of sight into revenue and medex drivers as we manage our cohorts. We plan to continue this approach into 2025 and feel that it positions us well compared to competitors.

It is too early in the year to provide anything more specific, as we are in the midst of preparing our 2025 bids, but we believe that we have a strong plan in place to address the various industry and Star rating challenges through continued discipline in our plan design.

Regarding revenue growth, for 2025 we will maintain our plan design discipline and focus on once again delivering top-line revenue growth of high single digits even at 3 Stars for 2025.

With medex, we intend to maintain our focus on medex in both Part C and Part D.

And on the SG&A front I would look for us to deliver significant SG&A efficiencies, as evidenced by our guide, that will fall directly to our bottom line. I believe these changes have the opportunity to be quite sizable and could be commensurate with the improvements we have delivered each year in the last couple years.

We look forward to providing an update here later in the year, as we aim to continue to improve our Clover Assistant software, enhance our robust Home Care capabilities for our sickest members, and execute upon initiatives to improve our business model to provide better care management for our members.

Once again, thank you to everyone and I very much look forward to delivering an Adjusted EBITDA profitable Clover for full-year 2024.

On that note, let's go to questions.

[Q&A]

Andrew Toy, Chief Executive Officer

Alright, well thank you for the questions, appreciate them as always. So to close, we believe that Clover Health as it stands today, is really at an inflection point. In summary:

- Firstly, we exceeded our expectations for Q1 results on Insurance Revenue and Adjusted EBITDA.
- Secondly, we've improved our Insurance Revenue and Adjusted EBITDA guidance for Full-year 2024.

- And lastly, we announced that our Board of Directors has authorized a share repurchase program of up to $20 million dollars of the Company's Class A Common Stock over the next two years.

We believe that we are the only technology-powered managed care company, via our differentiated care management platform in Clover Assistant and Clover Home Care, that aims to deliver better care on a wide-network PPO chassis. This is the future of Medicare Advantage, and we look forward to continuing to lead in this aspect. Thank you all for your continued interest in our Company, and I look forward to updating you on our progress towards achieving our goals in the coming quarters. Thanks again.