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PRVA - Q1 2024 Privia Health Group Inc Conference Call

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PRESENTATION

Operator

Welcome to the Privia Health's first-quarter 2024 conference call. (Operator Instructions)

Again, please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker Robert Borchert, SVP of Investor and Corporate Communication. Please go ahead.

Robert Borchert - Privia Health Group Inc – SVP, Investor & Corporate Communications

Thank you, Tonya, and good morning, everyone. Joining me are Parth Mehrotra, our Chief Executive Officer; and David Mountcastle, our Chief Financial Officer. This call is being webcast and can be accessed in the Investor Relations section of priviahealth.com. Today's financial press release and slide presentation are posted on the Investor Relations pages of priviahealth.com.

Following our prepared comments, we will open the line for questions. We ask that you please limit yourself to one question only and return to the queue if you have a follow-up so we can get to as many questions as possible.

The financial results reported today are preliminary and are not final until our Form 10-Q for the first quarter ended March 31, 2024, is filed with Securities and Exchange Commission. Some of the statements we will make today are forward-looking in nature, based on our current expectations and view of our business as of May 9, 2024.

Such statements, including those related to our future financial and operating performance and future business plans and objectives, are subject to risks and uncertainties that may cause actual results to differ materially. As a result, these statements should be considered along with the cautionary statements in today's press release and the risk factors described in our company's most recent SEC filings.

Finally, we may refer to certain non-GAAP financial measures on the call. Reconciliation of these measures to comparable GAAP measures are included in our press release and the accompanying slide presentation posted on our website.

Now, I'd like to turn the call over to my CEO, Parth Mehrotra.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Thank you, Robert, and good morning, everyone. Privia Health delivered solid first quarter results to start 2024 as we continue to drive towards our long-term vision to build one of the largest ambulatory care delivery networks in the nation. This morning, I'll cover some key highlights and provide a business update, and then David will discuss our recent financial performance and our 2024 guidance outlook before we take your questions.

During the first quarter, Privia Health continued to execute at a very high level with a focus on growth and profitability. As we noted on our February earnings call, we were able to nimbly respond to the changing Medicare Advantage reimbursement environment and protect our earnings power by restructuring certain MA capitation contracts. We believe these actions demonstrate the flexibility, diversity, and differentiation of the Privia business model.

Our Q1 practice collections increased 7.4% year over year, which includes the impact of restructuring certain MA capitation contracts for more favorable terms. Our top-line performance continues to reflect steady growth of same store and new provider additions.

Adjusted EBITDA was up more than 18% as we continue to benefit from operating leverage. This was despite absorbing incremental investment in the new markets we've entered over the past 18 months. We are also being prudent and assuming minimal increase in accrued shared savings in 2024 versus 2023.

Our sales pipeline is strong across all our markets, and we have a robust business development pipeline of new market opportunities. Our strong balance sheet and free cash flow profile allows us the flexibility to take advantage of any dislocations in the physician enablement space.

So overall, we feel really good about our business momentum and operating execution in the current environment. We are closely monitoring medical cost trends and claims data so that we can be proactive in our actions.

We feel very positive about the moves we made in the past two quarters to mitigate downside risk in our Medicare Advantage book and are reiterating our full-year 2024 guidance. The combination of our diversified value-based book and strong underlying fee-for-service business serving the entire physician practice continues to be a key differentiator.

Privia's national footprint continues to expand as we build one of the largest primary care-centric delivery networks in the country. At the end of Q1, we had 4,359 implemented providers caring for over 4.9 million patients in 13 states and the District of Columbia.

As of March 31 of this year, we estimate Privia is serving approximately 1.14 million attributed lives across more than 100 value-based care contracts in commercial and government programs. The total attributed lives increased more than 10% from Q1 a year ago. This positions our business as one of the broadest and most balanced value-based care platforms in the industry.

Our commercial attributed lives increased 8% from last year to 685,000. As we noted last quarter, our ability to earn care management fees and shared savings that are incremental to our highly predictable fee-for-service management fees offers a very unique value proposition to our medical groups in the commercial book of business.

Core to our long-term strategy is to thoughtfully move lives into increased risk arrangements over time, when we are confident it will provide significant opportunities for adjusted EBITDA and free cash flow growth.

Our strong and stable performance is a testament to Privia's proven ability to manage risk across a diverse set of 100-plus value-based contracts. We leverage our clinical operations, performance management, actuarial expertise, and close alignment with our physician partners to manage patients across the risk spectrum.

In aggregate, Privia's ACOs, or risk entities, are managing approximately $9 billion of medical spend in 2024 across commercial, MSSP, Medicare Advantage, and Medicaid four programs. The current environment, scale of our medical spend, and potential variability of shared savings require us to be particularly thoughtful in our risk taking to maintain our earnings power for both our provider partners and our shareholders.

We are well positioned to opportunistically increase our attribution in various risk arrangements over the next 24 months to drive future earnings growth.

Now, I'll ask David to review our Q1 financial results and 2024 guidance outlook.

David Mountcastle - Privia Health Group Inc - Chief Financial Officer

Thank you, Parth. Privia Health delivered another solid quarter of performance in the first three months of 2024. Our implemented provider count of 4,359 was up 17.3% year over year. Solid ambulatory utilization trends, new implemented providers, and additional attributed lives led to practice collections increasing 7.4% from Q1 a year ago to reach $707.7 million.

As we noted in February, the balance and flexibility of our operating model enabled us to shift attributed lives out of capitated agreements for improved contribution margin. Most importantly, we continue to invest in existing and new market growth while generating operating leverage. Our adjusted EBITDA was up 18.1% over Q1 last year to reach $19.9 million.

Following our solid Q1 performance, we are reiterating our full-year 2024 guidance. Our business momentum and diversified book of business has positioned us well to drive organic provider growth, limit downside in risk arrangements, and increase operating leverage for adjusted EBITDA growth in 2024.

Implemented providers are expected to increase 9.2% year over year to reach 4,700 by year-end at the midpoint of our guidance.

As we noted in late February, we are also assuming minimal increase in shared savings year over year as part of our prudent accruals. This implies expected 2024 growth in fee-for-service practice collections of approximately 10%, driven by implemented provider growth in our more mature markets in 2023 as well as early provider growth momentum in newer markets.

Adjusted EBITDA growth of approximately 21% at the midpoint of guidance is expected to be driven by operating leverage in more mature markets, which should more than offset new market entry costs. We also anticipate our newer markets to contribute significant growth in providers, attributed lives and Adjusted EBITDA in the future.

Our full-year guidance assumes a reduction of approximate $198 million in our top line from 2023, given lower-risk exposure from MA capitation agreements. As we continue to invest across our business enterprise, our 2024 adjusted EBITDA guidance absorbs approximately $10 million to $12 million in new market platform investments. We expect to scale our new markets significantly in the coming years as we grow our provider base and attributed lives in these new states.

Our balance sheet and capital position continue to be very strong with cash of $351 million and no debt. Similar to previous years, Q1 is typically our lowest cash flow quarter. Our cash balance declined sequentially due to timing differences in cash received at the end of Q4 with the related outgoing payments occurring in January 2024. We also paid our annual employee cash bonuses in March.

We expect capital expenditures to be less than $1 million this year as part of our capital light operating model. This should lead to approximately 80% of our full-year adjusted EBITDA converting to free cash flow.

Finally, we have an undrawn and available $125 million credit facility, and plan to continue maintaining a conservative balance sheet.

Privia Health remains focused on profitably growing and expanding our business for many years to come, and investing to support this growth as we build our national footprint. We would like to thank our physician partners and employees for their dedication and hard work to deliver consistent, solid results quarter after quarter, especially in the current environment.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) AJ Rice, UBS.

AJ Rice - UBS Equities - Analyst

Thanks. Hi, everybody. I appreciate it. Obviously, you step back from the risk arrangements and trying to provide yourself some more cushion there. Can you just comment, though, on -- obviously, we've got a second tough year funding environment for MA as we look toward 2025.

How about your discussions? How you're looking at that? How your underlying providers are looking at that, and any discussions with the Medicare Advantage plans about adjustments they might be making that will impact you?

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, thanks for the question, AJ. So a few points. Number one, we proactively anticipated this with our slightly contrarian view over the last 18 months. And so whatever changes we've had to make, we've made. And so we feel pretty good about how we execute over the next 12, 24 months.

As you can see, we are managing 197,000 lives in MSSP; 171,000 lives in MA. And we're happy to take all the risk we can downstream as long as we are getting paid, and our providers are getting paid to take that risk. And I think that's where you're going to see some challenges where we clearly see the payers being challenged with the upcoming V28 impact as they revise their bids so on and so forth.

So while they adjust, it's going to be a discussion on how they are going to enable provider entities like ours downstream and are they willing to share some of the upside and economics from us taking risk.

So we are willing and capable of taking as much risk as possible. We just have to be thoughtful and take it as long as we're getting paid to do so. And there's a positive adjusted event on free cash flow impact both for our providers and our shareholders. So we'll keep having those discussions, but we're very well positioned to increase our risk book.

We just have to be thoughtful and take it up as long as we're getting paid to do so. And there's a positive adjusted EBITDA and free cash flow impact both for our providers and our shareholders. So we'll keep having those discussions, but we're really well positioned to increase our risk book.

Operator

Elizabeth Anderson, Evercore ISI.

Sameer Patel - Evercore ISI - Analyst

Hi, guys. This is Sameer Patel on for Elizabeth Anderson and congrats on the solid quarter. Maybe just sticking within competition, just given the mix in contracts. Is the 1Q sort of PMPM, an appropriate way to think about the PMPMs for the rest of the year, sort of in that 1,050 to 1,100 range or how should we think about that for the remaining quarters?

David Mountcastle - Privia Health Group Inc - Chief Financial Officer

Yeah. I mean, obviously, it's still early in the year. But at this point, I would say that's probably a good way to look at it.

Sameer Patel - Evercore ISI - Analyst

Got it. And if I could ask a quick follow up, just within your ongoing contracts, have you guys looked to negotiate any sort of off-cycle rate adjustments or any sort of rate retroactive relief for 2023? I know some of your peers have done that. Do you think there's an opportunity to do so?

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

I mean, we've done whatever we had to as we discussed on our prior earnings call. So at this point, we feel pretty good about '23. We feel pretty good about '24. We've received a lot of the data for '23, as you would expect by May of this year. So that's all reflected in our accrual. So we made all the adjustments we had to.

Operator

Joshua Raskin, Nephron Research.

Joshua Raskin - Nephron Research - Analyst

Hi, thanks. Good morning. I heard you say you were being more prudent around accrued shared savings. I assume that's MSSP and maybe across the book. But what are some of the underlying metrics and saving rates that you're tracking, suggesting? And are you being more conservative than you've been in the past? And I guess last part of that is change healthcare -- any of the outage have anything to do with that?

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah. Thanks, Josh. So on the first part of the question, it's the same process we've followed over the past many years. We get data across our different books of business, and it's not homogenous, as you would expect, between commercial, MSSP, MA, and then Medicaid.

So there are always some nuances on each of these books. I just think even if we get -- we look at the same trends. Effectively, the same underlying operating metrics in terms of utilization, in patient, ED visits, so on and so forth, quality metrics, just by each book.

Overall, I think it's early in the year. So while at this point, we feel pretty good about '23 performance as we've gotten most of the data. For '24, it's still -- we just ended Q1. So I think just given the environment and the utilization trends, I think it's just prudent to be much more thoughtful as to what our accrual estimates are.

And if there's positive and negative variances over the course of the year, we'll just adjust. So I don't think it's any different than what we've done previously.

And then on the second point, yeah, we saw minimal impact from change, and that's reflected in our strong Q1 practice collections. Whatever little impact we had, it was mitigated pretty quickly with our technology partners. And there continues to be no known compromise of previous provider or patient data. So we don't think that, that impacted anything.

Operator

David Larsen, BTIG.

David Larsen - BTIG - Analyst

Hi, Parth. Congratulations on the good quarter. Can you maybe talk a little bit more about your vision for care delivery components of the business? Like, there's a lot going on in the space. Health plans are under pressure with their stars ratings. There's a lot of cost tied to GLP-1s, obesity health. That's having a very significant impact on pharma drug trend.

Just like things like putting winning skills in the home or creating preferred narrow networks. And then just related to that BASS Medical Group in San Fran, I just find it interesting that they're going to be working with a competitor of yours. Just any color on your vision for new products and solutions would be very helpful. Thank you.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Thanks, David, for the questions. So on the first part, look, I mean, we are differentiated because we are -- our business model includes creating a very large medical group with physician governance, pairing that up with a risk entity, and then our full suite of tech and services platform. That is serving every single patient, every single provider in a practice across any reimbursement model.

I just think that is so differentiated because it gets to what you alluded to. We can take that broad network and go to the payers of healthcare and create all kinds of products and services, both to the self-insured employer, to large commercial payers, for profit, not for profit, [blues plan], and then obviously to CMS.

And I think there'll be opportunities for us to help the payers manage risk downstream. It's a community-based physician network, lowest cost setting in the healthcare ecosystem. Best relationship with members of the family, whether it's the child, it's the mother, it's a working-class person, or it's a senior.

And I think we are trying to take risk in the commercial book, which is pretty unique. And then obviously in MSSP, MA, and Medicaid. And then each of those lines will lead us to innovate to better manage care downstream and have much more closer partnerships with the payers.

So I think you'll keep seeing us do different things. But I think that's a true differentiation for us, where we're not just going to only the PCP and offering one single line of product to take risk. It's for the entirety of the practice.

And then for your second question, I mean, we covered this pretty extensively in the last call. We're not in the business of delegating claims and taking risk on specialists and so forth. So there's no impact to our economics or vision for what we have to do in California. We think it's a big opportunity. And we work closely with BASS. So I think we covered all of that in the last call.

Operator

Richard Close, Canaccord Genuity.

Richard Close - Canaccord Genuity - Analyst

Great. Thank you. Congratulations. Parth, there's been a number of news articles and comments, I guess, coming out of Congress and the FTC about healthcare M&A. And also with the change [hack], I guess, Optum has come under a little bit more scrutiny and their competitors. So I'm just curious how you think all that potentially impacts your business, if you're seeing any kind of increased demand in your model. And maybe comments on the quality of the pipeline would be helpful.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, thanks for the question, Richard.

So I think we have a very unique model, just tagging on to the last question that David asked. I think what's underappreciated is we offer a unique model of partnership to physician practices where they can retain their autonomy and yet be part of something bigger, across all lines of business, all patients, every single provider. We're not buying physician practices. We don't have non-competes so on and so forth that restrict them in certain other arrangements.

And every time there's disruption, I think physicians are realizing that Privia can help them in many ways to take better care of the patients, get paid for that, and yet retain their autonomy. And I think that's a very differentiated value proposition.

So we feel really good. As you saw last year, we implemented 699 providers. It was a record year for us. You can see our implemented provider guidance and we feel really good about the pipeline.

The metrics in our mature markets are even better where over 50% of inbounds are referrals from our existing physicians, and the conversion rates on those are extremely high to close. And that's the flywheel that gets into effect once we enter a state, we establish ourselves, we have performance history, and then the snowballing happens.

So I think as we see disruption in the marketplace, as we see private equity stepping back or not able to do deals, and as we see some of the new VC or private equity funded businesses faltering, I think physician practices are looking for a much stable partner. And given a strong balance sheet cash flow position and how we perform now over the past many years, hopefully it makes us a partner of choice.

Operator

Andrew Mok, Barclays.

Andrew Mok - Barclays - Analyst

Hi. Good morning. Can you provide a little bit more detail on the timing related items impacting free cash flow in the quarter? I understand there's some seasonality there, but it looks like the impact was a greater degree than we typically see. And then it sounds like you're paying more cash bonuses in Q1, even though stock-based comp more than doubled in the quarter, I think. So can you give us a sense for what's going on there? Thanks.

David Mountcastle - Privia Health Group Inc - Chief Financial Officer

Yeah. So if you go back and look historically, Q1 is always our low cash flow quarter for the year. It's due to a lot of value-based care agreements paying us late Q3 or late Q4. And so we receive the cash for those in Q4, and then we end up paying out the amount to our physician partners in January. And it just happened timing wise where some of the payment -- maybe a larger percentage of the payments came in later in the year last year. And so a larger percentage of them got paid in January.

And then our annual bonus we pay in March every year. We've done that historically for 10 years. And so that's just an annual cash item for the quarter. We do expect by the end of the quarter to be -- I mean, excuse me, by the end of the year that we should be over $400 million in cash, excluding any business development deals that we do during the year.

Andrew Mok - Barclays - Analyst

It's a stock comp question.

David Mountcastle - Privia Health Group Inc - Chief Financial Officer

Yeah. What was the stock comp question?

Andrew Mok - Barclays - Analyst

It was higher in this quarter.

David Mountcastle - Privia Health Group Inc - Chief Financial Officer

Yeah. So yeah. So from a stock comp perspective, one big difference -- it's effectively a timing difference. Last year, our annual grants occurred in Q2. This year, our annual grants occurred in Q3 -- excuse me, in Q1. And so we got a full year of last year's stock comp in Q1 of this year.

That's why the Q1 of last year over Q1 of this year comparison looks a little bit odd. Going forward, we expect to do our annual grants in Q1, so we don't expect going forward this will be an issue. For the full year, we're expecting stock comp to be in the $55 million to $60 million range. So yeah, our non-cash stock comp.

Operator

Jeff Garro, Stephens.

Jeff Garro - Stephens - Analyst

Yeah. Good morning. Thanks for taking the questions. I'll try to compound a few on business development together. So in terms of potential new anchor practices in new markets, any color you could provide on kind of types of markets, types of practices that you're interested in? And what stages you are in the various processes on that front?

And the second one, the script was specific in calling out potential weakness in the provider enablement space, and you've commented a little bit more on that. But wanted to ask how that fits into the business development pipeline, thinking about kind of potential for horizontal mergers rather than new relationships with new provider practices. Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah. Appreciate the question, Jeff. So look, the pipeline continues to be pretty strong. As you've seen in the past few years, the timing just depends on when we can get the deals done. We're in 13 states, so we have many states to go, and as you saw in the past 18 months, we could -- just given the timing, you could have four or five hit in a pretty short period of time, and then some may not hit.

So, I think over time, our target's the same that we alluded to when we went public three years ago. We're going to target one or two new markets every year. It could be higher or lower, depending on when the deals happen.

On the nature of the deals, it'll be similar, again, as to what you've seen in the past three years from us. Given the three components of our business, we're looking to form integrated medical groups, risk entities, service platforms, and you can see us do each of those three types of deals. Again, it gives us much more flexibility to enter a state than many others.

We've acquired medical groups. So the tax IDs of medical groups previously, like we did in Washington. We've acquired MSO entities, like we did with BASS. And we've acquired risk entities, like we did in Connecticut, an IPA or an ACO entity. Our guidance excludes any new markets, and that's what we've done historically as well. So as we enter any new states, whatever the impact might be, we'll update guidance appropriately.

And then I think to your last half of your question on potential disruption. Look, I think you saw an excess of investment in this space, a lot of venture capital dollars chasing physician practices, private equity dollars chasing them. And I think you're going to see some of that unwind over the next few years as you see pressures in MA specifically that you all are well aware of.

So I think it gives -- whenever disruption happens, we're a proven model, proven unit economics, proven value proposition to the physician practices. So it's just rinse and repeat for us and just being disciplined. And then I think we are in a pretty enviable position to have close to over $400 million of cash, as David outlined, by the end of this year, and no debt. So, I think we're going to be very opportunistic in how we can grow the business.

Operator

Jack Slevin, Jefferies.

Jack Slevin - Jefferies - Analyst

Hey, good morning. Thanks for taking my question. Just want to touch on cadence quickly and how you're thinking about that throughout '24. Just looking at the fee-for-service side, growth running a little bit hotter and looks really good in the first half versus the full-year guide.

And I think on the shared savings side also looks pretty strong, even though I know that the conservative accrual approach is sort of what you're taking. So just want to make sure I have my bases covered in terms of how you're thinking about the progression of both revenue and earnings over the next couple quarters. Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah. Thanks for the question, Jack. So from a seasonality perspective, I think it should be the same as previous years. It's a pretty predictable business on the fee-for-service side with seasonal trends. So you should not expect anything different. It's always good to have solid performance in the first couple of quarters so that it positions us really well for the back half of the year.

It's still early in the year. And we reiterated our guidance, but we feel really good. The variability at this point is really in the value-based book while we are accruing prudently as we say on our slide, it's called risk for a reason. So there can be some elements as we threw up for '24, and we'll see how that plays out over the course of this year, but we feel really good about our guidance and our ability to achieve it.

If you look at the past 12 quarters, we've met or exceeded. So we don't anticipate deviating from that cadence. Hopefully, we'll be able to do the same this year.

Operator

Lisa Gill, JPMorgan.

Cal Sternick – J.P. Morgan - Analyst

Good morning. It's Cal on for Lisa. I wanted to ask about the performance of the capitated MA book and the fee-for-service book. Just any colors you could give on utilization trends within those businesses. And then any update on the ramping of new markets and how the position recruitment is going there. Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah. So on the first half of the question, it's pretty much as expected. We didn't see any big deviations from our accruals or the data we've received was pretty much as expected. We've anticipated whatever utilization trends everybody's seeing, and so that was all factored into our initial guidance and then what we've accrued for. So we feel pretty good about how we've anticipated some of these trends and reflected that. So no major differences to report as is reflected in ourselves.

On the second half, on the position recruitment, again, I mean, we see -- this is just answering the questions we did a couple of questions ago. I mean, we see a pretty good pipeline, and recruiting remains pretty strong, and we feel pretty good about our year-end implemented provider guidance. Every provider, given the five, six-month lag that we have between signing and implementing, is pretty much sold at this point in the year. So we feel pretty confident.

Operator

Jess Tassan, Piper Sandler.

Jess Tassan - Piper Sandler Companies - Analyst

Hi, guys. Nice quarter, and thanks for taking the question. So given the conservative posture around MSSP accruals, can you just break down the sequential growth in shared savings revenue a little bit? I guess just maybe some of that growth is from the shift of lives from full cap to upside-downside. But how did you restructured those MA contracts to make them so much more profitable. And is just some of the sequential growth implying more favorable pricing and commercial value base? Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Thanks for the question, Jess. So on the first part, look, I mean, we restructured the contracts effectively to preserve the EBITDA and earnings power for both our doctors and us. And so that's reflected in underlying benchmark expense, what our MLR targets were, and then how we got paid and so forth, and how we shared the risk with the payer downstream. So the payer has some skin in the game.

So again, it was pretty much as expected, and there was a reason we did that so that you can see, I mean, at the midpoint of our guidance, we're still trying to grow EBITDA over 20%. And in this environment, I think hopefully that's just very differentiating, both for our physicians to keep, preserve that earnings power, and then for our shareholders.

So I think we feel pretty good across both the MA book and then the commercial book is a basket of, you know, different contracts. We are managing close to 700,000 lives in commercial, which is a pretty big pool. And I think, again, the care management fees, and you can see the trend of growing care management fees every quarter, that's becoming a pretty big part of our care margin and our EBITDA profile, and that's a very stable part because you're getting PMPMs.

So, I think that's on top of the fee-for-service reimbursement, and that, again, speaks to our ability to work with the payers, get paid for the work we do downstream, and acts as a hedge to prevent or to mitigate some of the volatility we see in the MA book. So overall, we feel pretty good, you know, across all lines of business.

Operator

Ryan Daniels, William Blair.

Ryan Daniels - William Blair & Companies - Analyst

Yeah, guys, thanks for taking the question. I'm curious if you can dig a little bit deeper into the pipeline. I know we've already talked a lot about this. But a clean quarter, so maybe it makes sense to focus on the future.

And my question is specific to the provider market. We continue to hear about, health systems remaining under pressure. They've done a lot of physician group acquisitions that haven't worked out. And I'm curious if you've seen any change in the volume of pipelines, specifically as it relates to health systems or larger groups. Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, thanks for the question, Ryan. So we continue to have a lot of good dialogue across the spectrum. Obviously, the small practices with our sales team, bigger new market entries with big anchor groups, which could be independent medical groups. But much bigger in size, 100, 200, 300 providers, and then obviously big health systems.

I think every time there's some disruption and it takes time for these to simmer and strategic objectives being redefined, if you will, by senior management teams of these organizations, our hope is that we now have a very good track record for the past 9 or 10 years. And then specifically since we've gone public with a lot of publicly available data, that -- we are hopefully one of the partners of choice that they reach out to.

And our BD teams have their hands full and they're doing a great job reaching out. It just depends on the nature of the deal and discussion specifically with health systems. You need a lot of alignment. There's a lot of discussion around how core the employee group is. There have been many reports written about subsidization of physician compensation and so forth by health systems.

And I think it's really a health-system-by-health-system discussion and the objectives of the senior management team and how strategically we could fit in into a long-term relationship with them.

When we enter a state, we don't act like a vendor or a technology partner just selling one particular product. This is a way of doing business and we are an extension of their physician alignment strategy for hopefully decades to come. So it's a very strategic relationship. And so that just takes time, but we feel pretty good about our positioning and continue to have pretty good dialogue.

Operator

Whit Mayo, Leerink Partners.

Whit Mayo - Leerink Partners - Analyst

Hey, thanks. Good morning. Parth, can you just maybe unpack the growth in attributed lives? It was up 10%, probably places you at the upper end above the guide. How much of this is organic or new panels? And when I look at the growth rate of the attributed lives, it's growing less than the provider growth. And last year, it was growing kind of twice the rate of the provider growth. Maybe this is just lapping the Delaware ACO deal from last year. So just trying to understand this dynamic fix.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah. Thanks for the question, Whit. So there are two or three factors. Number one, we entered Connecticut last year, as you remember. So that was an acquisition of a pretty big IPA in Connecticut. And so we got close to 185,000 lives. So that obviously distorts some of the year-over-year comp.

As you noted, we exited Delaware. So obviously, that gets out of the equation. So I think that also impacts year-over-year comp. And then the rest of the growth is pretty much organic, same store and then new practices that join us in each market.

We are building multi-specialty groups. So provider additions include specialists in addition to primary care or OBGYNs or pediatricians. So attributed lives are obviously only linked to primary care. But it's a pretty good mix.

And obviously, our focus is to double down on primary care. We're trying to consciously build primary-care-centric delivery networks where we get attributed lives. And then we can take that network downstream to the payers, as we just talked about. But those are the puts and takes as to the movement year over year.

Whit Mayo - Leerink Partners - Analyst

Can you just remind me the number of lives in the Delaware ACO, just so that we can reconcile the percentage headwind?

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah. Approximately 12,000.

Operator

Jailendra Singh, Truist.

Jailendra Singh - Truist Securities - Analyst

Yeah. Thank you. This is Jailendra Singh from Truist. So you called out solid ambulatory trends in the quarter. Any particular specialties or pair categories you would call out? Any quantification or directional color that would be helpful? And a quick clarification question, did you share anything on the unfavorable PYD in the quarter? I know it was pretty small.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah. Thanks, Jailendra. So it was pretty broad-based in terms of utilization. So really no specific specialty or pair to call out. We're pretty diverse across 13 states. So I think it was pretty broad across the board, as you're hearing from everybody else too.

And yeah, I don't think there was any major PYD to call out. We've pretty much gotten all data from on '23 now. And so that's all reflected in our accruals and our results. So we feel pretty good about the estimates we made, what we accrued for, and then what the actual results so far have been reflected based on all the data we've gotten for 2023.

Operator

Daniel Grosslight, Citi.

Daniel Grosslight - Citi - Analyst

Hi. It's Daniel Grosslight with Citi. Thanks for taking the question here. I want to go back to some of the comments you made around MA and specifically around capitation as we think about '25 and beyond. And I guess it's really a mechanical question for you. If you see that you get comfortable after the '25 bids that you can take risk in a more conservative way in '25 and beyond, how quickly can you move lives back into capitated contracts? Is that a month, two months, or is it really kind of a 2026 event that we're looking at?

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, I appreciate the question. So two points on this. Number one, it's usually an annual exercise. So you pretty much start January 1. And so you start having those discussions in Q3, Q4.

And then secondly, and I think this is a more important point, we've always held a view that 100% capitation is probably not the best way to take risk downstream. We prefer deals where the payer has skin in the game. We, as the intermediate entity, have skin in the game. And the physician performing in those deals have skin in the game.

And we split our economic 60-40 with our docs. And we prefer, in all instances, ideally, that the payer also has some skin in the game and economics. And that's because then you don't have any irrational factors influencing outcomes.

So I think there's been this notion that 100% capitation is probably the best way to take assumed risk downstream. And we just don't have that viewpoint here. So while we like to keep increasing our risk books, we actually prefer to do deals where we are not 100% capitated and assuming all the risk.

So with that backdrop, as I said earlier, as the payers feel all the pressure from V28 by adjusting their bids, adjusting some of the supplemental benefits, so on and so forth, adjusting some of the new drug costs that may be hitting. Ideally, we factor all that in and have a rational discussion with the payers. And in this environment, you have to be very conscious downstream that you have paid to take risk when you're resuming more risk.

And I think that's been the fallacy. As we've said revenue recognition is all over the place in this particular sector. Even for the same life, if you're an MSSP, you don't recognize gap revenue. If you're an ACO Reach for the same life, you recognize the entire medical spend. Depending on the level of capitation, you can recognize premium revenue or not.

We actually just focus on earnings and free cash flow. Ultimately, that's what matters. Can we generate shared savings? Are we getting paid to take risk? Are doctors taking home more pay for the work that they do? And then we're happy to share that with the payers of healthcare, and I think that's probably the best contract you can enter into.

So we're going to keep seeing opportunities to do that. We have close to 170,000 lives in MA. Sixteen-odd thousand are in capitation today, so there's a huge opportunity to keep increasing the level of risk. But we've got to be patient. We can't wait to do so.

Operator

Adam Ron, Bank of America.

Adam Ron - BofA Global Research - Analyst

Hey, thanks for the question. So we heard commentary from many peers in the space that the 2025 Medicare Advantage rate notice was disappointing due to lower benchmarks and growth rates for trend assumptions from CMS.

And I should probably know this, but how does that actually flow into Medicare shared savings? Like, do we already know the benchmarks for Medicare shared savings in 2025? And if not, what is your read on it based on the data from CMS, and how does it compare versus what you think trend would be and your expectations? Thanks.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Yeah, thanks, Adam. So any physician payment rate expectations and are reflected in our guidance, and we think the impact likely will be a little bit more gradual versus one-time increase. You get updates from CMS, and you see them when we see them. So we have certain expectations, and those are all factored in what we've guided.

There are other things that MSSP updates, and we think they're kind of favorable overall, whether it's the assignment process and the benchmark risk adjustment methodology, whether it's quality reporting and the potential to take on more risk, even more so than the enhanced tracks. You saw some of those updates come from CMS.

We just think it's a really well-run program, very widely adopted, proven results to generate shared savings. And they've strengthened the overall program, and it's one of the best initiatives that they've had over the past many years. So as one of the largest participants, I think we feel pretty good about MSSP, and we'll see how it goes.

Operator

And there are no further questions. Please go ahead, sir.

Parth Mehrotra - Privia Health Group Inc - Chief Executive Officer, Director

Thank you for listening to our call today. We appreciate your continued interest and support of our company. Enjoy the rest of your day.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.