

Evolent Health, Inc.
Form 10-Q
August 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2015

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 001-37415

Evolent Health, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

32-0454912
(I.R.S. Employer
Identification No.)

800 N. Glebe Road, Suite 500, Arlington, Virginia
(Address of principal executive offices)

22203
(Zip Code)

(571) 389-6000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

As of August 3, 2015, there were 41,461,748 shares of the registrant’s Class A common stock outstanding and 17,524,596 shares of the registrant's Class B common stock outstanding.

Evolent Health, Inc.
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EVOLENT HEALTH, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited in thousands, except share data)

	As of June 30, 2015	As of December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$219,367	\$—
Restricted cash	4,397	—
Accounts receivable, net (amounts related to affiliates: 2015 - \$12,165; 2014 - zero)	24,039	—
Prepaid expenses and other current assets	3,179	—
Deferred tax assets, net	658	1,074
Total current assets	251,640	1,074
Restricted cash	2,510	—
Property and equipment, net	8,463	—
Goodwill	608,903	—
Intangible assets, net	168,170	—
Other non-current assets	151	—
Equity method investment	—	37,203
Total assets	\$1,039,837	\$38,277
LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY (DEFICIT)		
Liabilities		
Current liabilities:		
Accounts payable (amounts related to affiliates: 2015 - \$5,874; 2014 - zero)	\$13,530	\$—
Accrued liabilities (amounts related to affiliates: 2015 - \$2,025; 2014 - zero)	20,091	—
Deferred revenue	27,091	—
Other current liabilities	94	—
Total current liabilities	60,806	—
Deferred tax liabilities, net	30,327	1,074
Total liabilities	91,133	1,074
Commitments and Contingencies (See Note 7)		
Redeemable Preferred Stock		
Series A redeemable preferred stock - zero and 7,900,000 shares authorized, issued and outstanding as of June 30, 2015, and December 31, 2014, respectively; liquidation value of zero and \$25,018 as of June 30, 2015, and December 31, 2014, respectively	—	12,847
Series B redeemable preferred stock - zero and 6,467,376 shares authorized, issued and outstanding as of June 30, 2015, and December 31, 2014, respectively; liquidation value of zero and \$27,359 as of June 30, 2015, and December 31, 2014, respectively	—	24,833
Series B-1 redeemable preferred stock - zero and 1,953,124 shares authorized as of June 30, 2015, and December 31, 2014,		

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respectively; zero and 360,420 shares issued and outstanding as of June 30, 2015, and December 31, 2014, respectively;		
liquidation value of zero and \$1,478 as of June 30, 2015, and December 31, 2014, respectively	—	1,593
Total redeemable preferred stock	—	39,273
Shareholders' Equity (Deficit)		
Series A preferred stock - \$0.001 par value; zero and 7,700,000 shares authorized as of June 30, 2015, and December 31, 2014, respectively; zero and 7,400,000 shares issued and outstanding as of June 30, 2015, and December 31, 2014; liquidation value of zero and \$23,200 as of June 30, 2015, and December 31, 2014, respectively	—	2
Class A common stock - \$0.01 par value; 750,000,000 and 33,812,808 shares authorized as of June 30, 2015, and December 31, 2014, respectively; 41,461,748 and 4,047,484 shares issued and outstanding as of June 30, 2015, and December 31, 2014, respectively	415	1
Class B common stock - \$0.01 par value; 100,000,000 and zero shares authorized as of June 30, 2015, and December 31, 2014, respectively; 17,524,596 and zero shares issued and outstanding as of June 30, 2015, and December 31, 2014, respectively	175	—
Additional paid-in-capital	330,833	23,733
Retained earnings (accumulated deficit)	322,787	(25,806)
Total shareholders' equity (deficit) attributable to Evolent Health, Inc.	654,210	(2,070)
Non-controlling interests	294,494	—
Total equity (deficit)	948,704	(2,070)
Total liabilities, redeemable preferred stock and shareholders' equity (deficit)	\$ 1,039,837	\$ 38,277

See accompanying Notes to Condensed Consolidated Financial Statements

1

EVOLENT HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue				
Transformation ⁽¹⁾	\$2,703	\$—	\$2,703	\$—
Platform and operations ⁽¹⁾	7,711	—	7,711	—
Total revenue	10,414	—	10,414	—
Expenses				
Cost of revenue (exclusive of depreciation and amortization presented below) ⁽¹⁾	7,887	—	7,887	—
Selling, general and administrative expenses ⁽¹⁾	13,082	—	13,082	—
Depreciation and amortization expenses	984	—	984	—
Total operating expenses	21,953	—	21,953	—
Operating income (loss)	(11,539)	—	(11,539)	—
Interest income (expense), net	13	—	13	—
Gain on consolidation	414,133	—	414,133	—
Income (loss) from affiliate	(16,846)	(5,939)	(28,165)	(11,381)
Income (loss) before income taxes and non-controlling interests	385,761	(5,939)	374,442	(11,381)
Provision (benefit) for income taxes	29,273	—	29,273	—
Net income (loss)	356,488	(5,939)	345,169	(11,381)
Net income (loss) attributable to non-controlling interests	(3,424)	—	(3,424)	—
Net income (loss) attributable to Evolent Health, Inc.	\$359,912	\$(5,939)	\$348,593	\$(11,381)
Earnings (Loss) Available to Common Shareholders				
Basic	\$359,018	\$(7,210)	\$346,409	\$(13,947)
Diluted	356,488	(7,210)	345,169	(13,947)
Earnings (Loss) per Common Share				
Basic	\$25.69	\$(3.17)	\$40.69	\$(6.51)
Diluted	9.73	(3.17)	10.96	(6.51)
Weighted-Average Common Shares Outstanding				
Basic	13,976	2,272	8,513	2,141
Diluted	36,643	2,272	31,487	2,141

⁽¹⁾ Amounts related to affiliates included above are as follows (see Note 13):

Revenue				
Transformation	\$49	\$—	\$49	\$—
Platform and operations	3,928	—	3,928	—
Expenses				
Cost of revenue (exclusive of depreciation and amortization)	1,833	—	1,833	—
Selling, general and administrative expenses	251	—	251	—

See accompanying Notes to Condensed Consolidated Financial Statements

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EVOLENT HEALTH, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited, in thousands)

	For the Six Months Ended June 30,	
	2015	2014
Cash Flows from Operating Activities		
Net income (loss)	\$345,169	\$(11,381)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on Offering Reorganization	(414,133)	—
Loss from equity method investees	28,165	11,381
Depreciation and amortization	984	—
Stock-based compensation expense	6,154	—
Deferred tax provision	29,273	—
Other	24	—
Changes in assets and liabilities:		
Accounts receivables, net	10,165	—
Prepaid expenses and other current assets	(1,007)	—
Accounts payable	(1,113)	—
Accrued liabilities	(1,717)	—
Deferred revenue	(7,809)	—
Other current liabilities	37	—
Net cash provided by (used in) operating activities	(5,808)	—
Cash Flows from Investing Activities		
Cash acquired upon consolidation of affiliate	13,065	—
Maturities and sales of investments	4,000	—
Purchases of property and equipment	(1,015)	—
Net cash provided by (used in) investing activities	16,050	—
Cash Flows from Financing Activities		
Proceeds from initial public offering, net of offering costs	209,087	—
Proceeds from stock option exercises	38	—
Net cash provided by (used in) financing activities	209,125	—
Net increase (decrease) in cash and cash equivalents	219,367	—
Cash and cash equivalents as of beginning-of-period	—	—
Cash and cash equivalents as of end-of-period	\$219,367	\$—
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Non-cash contribution of common stock to Evolent Health LLC prior to the Offering Reorganization	\$21,810	\$—
Non-cash issuance of Series B-1 preferred shares	—	1,000
Non-cash issuance of Class A common shares	—	279
Effects of the Offering Reorganization:		

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Reclassification of deferred offering costs acquired to additional paid-in capital	3,154	—
Conversion of existing equity as part of the Offering Reorganization	39,014	—
Issuance of Class B common stock	196	—
Assumption of non-controlling interest as a result of merger with TPG affiliate	34,875	—

See accompanying Notes to Condensed Consolidated Financial Statements

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EVOLENT HEALTH, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
 AND REDEEMABLE PREFERRED STOCK
 (unaudited, in thousands)

	Series A Redeemable Preferred Stock		Series B Redeemable Preferred Stock		Series B-1 Redeemable Preferred Stock		Series A Redeemable Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital		Retained Earnings (Accumulated Deficit)		Non-Controlling Interests		Total Equity (Deficit)	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Deficit	Interest	Deficit			
Balance as of December 31, 2013	7,900	\$12,847	6,468	\$24,833	—	\$—	7,700	\$2	3,824	\$—	—	\$—	—	\$13,818	\$ (560)	\$—	\$—	—	—	\$13,260
Issuance of common stock	—	—	—	—	—	—	—	—	272	1	—	—	324	—	—	—	—	—	325	—
Non-cash issuance of common stock to Evolent Health LLC	—	—	—	—	—	—	—	—	—	—	—	—	11,091	—	—	—	—	—	11,091	—
Repurchase of series A preferred stock	—	—	—	—	—	—	(300)	—	—	—	—	—	(1,500)	—	—	—	—	—	—	—