

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 March 31, 2024

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)

<u>Delaware</u>	<u>32-0454912</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<u>1812 N. Moore Street, Suite 1705, Arlington, Virginia</u>	<u>22209</u>
(Address of principal executive offices)	(Zip Code)

(571) 389-6000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock of Evolent Health, Inc., par value \$0.01 per share	EVH	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ☐

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 May 1, 2024, there were 116,213,123 shares of the registrant's Class A common stock outstanding.

Evolent Health, Inc.
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Explanatory Note

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, “Evolent,” the “Company,” “we,” “our” and “us” refer to Evolent Health, Inc. and its consolidated subsidiaries. Evolent Health LLC, a subsidiary of Evolent Health, Inc. through which we conduct our operations, has owned all of our operating assets and substantially all of our business since inception. Evolent Health, Inc. is a holding company and its principal asset is all of the Class A common units of Evolent Health LLC.

FORWARD-LOOKING STATEMENTS - CAUTIONARY LANGUAGE

Certain statements made in this report and in other written or oral statements made by us or on our behalf are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”). A forward-looking statement is a statement that is not a historical fact and, without limitation, includes any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like: “believe,” “anticipate,” “expect,” “estimate,” “aim,” “predict,” “potential,” “continue,” “plan,” “project,” “will,” “should,” “shall,” “may,” “might” and other words or phrases with similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to our ability to grow our impact significantly throughout this year and beyond, future actions, trends in our businesses, prospective services, new partner additions/expansions, the adoption and launch of a unified brand, our guidance and business outlook and future performance or financial results, and the closing of pending transactions and the outcome of contingencies, such as legal proceedings. We claim the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

These statements are only predictions based on our current expectations and projections about future events. Forward-looking statements involve risks and uncertainties that may cause actual results, level of activity, performance or achievements to differ materially from the results contained in the forward-looking statements. Risks and uncertainties that may cause actual results to vary materially, some of which are described within the forward-looking statements, include, among others:

- risks relating to our ability to efficiently integrate NIA into our operations;
 - the significant portion of revenue we derive from our largest partners, and the potential loss, non-renewal, termination or renegotiation of our relationship or contract with any significant partner, or multiple partners in the aggregate;
 - our ability to terminate certain leases and recognize impairment charges in connection with our repositioning plan;
 - evolution of the healthcare regulatory and political framework;
 - uncertainty in the health care regulatory framework, including the potential impact of policy changes;
 - our ability to offer new and innovative products and services and our ability to keep pace with industry standards, technology and our partners’ needs;
 - risks related to completed and future acquisitions, investments, alliances and joint ventures, which could divert management resources, result in unanticipated costs or dilute our stockholders;
 - the growth and success of our partners and certain revenues from our engagements, which are difficult to predict and are subject to factors outside of our control, including governmental funding reductions and other policy changes;
 - risks relating to our ability to maintain profitability for our total cost of care and performance-based contracts and products, including capitation and risk-bearing contracts;
 - our ability to effectively manage our growth and maintain an efficient cost structure, and to successfully implement cost cutting measures;
 - changes in general economic conditions nationally and regionally in our markets, including increasing inflationary pressures and economic and business conditions and the impact thereof on the economy resulting from public health emergencies, epidemics, pandemics or contagious diseases;
 - risks related to the failure of any bank in which we deposit our funds, which could reduce the amount of cash we have available to meet our cash commitments and make additional investments;
 - our ability to recover the significant upfront costs in our partner relationships and develop our partner relationships over time;
 - our ability to attract new partners and successfully capture new opportunities;
 - the increasing number of risk-sharing arrangements we enter into with our partners could limit or negatively impact our profitability;
 - our ability to estimate the size of our target markets for our services;
 - our ability to maintain and enhance our reputation and brand recognition;
 - consolidation in the health care industry;
 - competition which could limit our ability to maintain or expand market share within our industry;
-

- risks related to audits by CMS and other governmental payers and actions, including whistleblower claims under the False Claims Act;
- our ability to partner with providers due to exclusivity provisions in our contracts in some of our partner and founder contracts;
- risks related to managing our offshore operations and cost reduction goals;
- our ability to contain health care costs, implement increases in premium rates on a timely basis, maintain adequate reserves for policy benefits or maintain cost effective provider agreements;
- our dependency on our key personnel, and our ability to attract, hire, integrate and retain key personnel;
- the impact of additional goodwill and intangible asset impairments on our results of operations;
- our indebtedness, our ability to service our indebtedness, and our ability to obtain additional financing on favorable terms or at all;
- our ability to achieve profitability in the future;
- the impact of litigation proceedings, government inquiries, reviews, audits or investigations;
- material weaknesses in the future may impact our ability to conclude that our internal control over financial reporting is not effective and we may be unable to produce timely and accurate financial statements;
- restrictions on the manner in which we access personal data and penalties as a result of privacy and data protection laws;
- liabilities and reputational risks related to our ability to safeguard the security and privacy of confidential data;
- data loss or corruption due to failures or errors in our systems and service disruptions at our data centers;
- adequate protection of our intellectual property, including trademarks;
- risks related to legal proceedings related to any alleged infringement, misappropriation or violation of third-party intellectual property rights;
- our use of “open source” software;
- our ability to protect the confidentiality of our trade secrets, know-how and other proprietary information;
- our reliance on third parties and licensed technologies;
- restrictions on our ability to use, disclose, de-identify or license data and to integrate third-party technologies;
- our reliance on Internet infrastructure, bandwidth providers, data center providers, other third parties and our own systems for providing services to our partners and operating our business;
- our reliance on third-party vendors to host and maintain our technology platform;
- our obligations to make material payments to certain of our pre-IPO investors for certain tax benefits we may claim in the future;
- our ability to utilize benefits under the tax receivables agreement described herein;
- our obligations to make payments under the tax receivables agreement that may be accelerated or may exceed the tax benefits we realize;
- the terms of agreements between us and certain of our pre-IPO investors may contain different terms than comparable agreement we may enter into with unaffiliated third parties;
- the conditional conversion features of the 2025 Notes and the 2029 Notes (as defined below), which, if triggered, may adversely affect our financial condition and operating results;
- interest rate risk under the Credit Agreement (as defined below) and the terms of our Cumulative Series A Convertible Preferred Shares, par value \$0.01 per share (“Series A Preferred Stock”);
- our debt following the NIA acquisition and our ability to meet our obligations;
- our ability to service our debt and pay dividends on our Series A Preferred Stock;
- the potential volatility of our Class A common stock price;
- the potential decline of our Class A common stock price if a substantial number of shares are sold or become available for sale, including those issuable upon conversion of our Series A Preferred Stock;
- our Series A Preferred Stock has rights, preferences and privileges that are not held by and are preferential to the rights of holders of our Class A common stock, and could in the future substantially dilute the ownership interest of holders of our Class A common stock;
- provisions in our certificate of incorporation and by-laws and provisions of Delaware law that discourage or prevent strategic transactions, including a takeover of us;
- the ability of certain of our investors to compete with us without restrictions;
- provisions in our certificate of incorporation which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees; and
- our intention not to pay cash dividends on our Class A common stock.

The risks included here are not exhaustive. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Our Annual Report on Form 10-K for the year ended December 31, 2023 (the “2023 Form 10-K”) and other documents filed with the SEC include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

Further, it is not possible to assess the effect of all risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we undertake no obligation to publicly update any forward-looking statements to reflect events or circumstances that occur after the date of this report except to the extent expressly required by law.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EVOLENT HEALTH, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2024	December 31, 2023
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 165,147	\$ 192,825
Restricted cash and restricted investments	51,594	13,768
Accounts receivable, net ⁽¹⁾	427,739	446,749
Prepaid expenses and other current assets	24,766	30,331
Total current assets	669,246	683,673
Restricted cash and restricted investments	16,737	16,864
Investments and equity method investees	8,197	4,895
Property and equipment, net	76,044	78,194
Right-of-use assets - operating	10,790	11,983
Prepaid expenses and other noncurrent assets	2,304	4,028
Contract cost assets	12,471	12,120
Intangible assets, net	731,345	752,009
Goodwill	1,116,539	1,116,542
Total assets	\$ 2,643,673	\$ 2,680,308
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities:		
Accounts payable ⁽¹⁾	\$ 77,346	\$ 48,246
Accrued liabilities ⁽¹⁾	165,099	149,849
Operating lease liability - current	12,696	9,738
Accrued compensation and employee benefits	29,106	56,385
Deferred revenue	6,136	5,976
Reserve for claims and performance - based arrangements	368,639	404,048
Total current liabilities	659,022	674,242
Long-term debt, net	597,901	597,049
Other long-term liabilities	3,568	3,637
Tax receivables agreement liability	108,105	107,932
Operating lease liabilities - noncurrent	32,469	38,009
Deferred tax liabilities, net	13,378	13,311
Total liabilities	1,414,443	1,434,180
Commitments and Contingencies (See Note 10)		
Mezzanine Equity		
Preferred class A common stock - \$0.01 par value; 50,000,000 shares authorized; 175,000 issued, respectively	181,294	178,427
Shareholders' Equity		
Class A common stock - \$0.01 par value; 750,000,000 shares authorized; 116,195,270 and 115,424,833 shares issued, respectively	1,162	1,154
Additional paid-in-capital	1,805,679	1,808,121
Accumulated other comprehensive loss	(1,308)	(1,257)
Retained earnings (accumulated deficit)	(736,474)	(719,194)
Treasury stock, at cost; 1,537,582 shares issued, respectively	(21,123)	(21,123)

Total shareholders' equity	1,047,936	1,067,701
Total liabilities, mezzanine equity and shareholders' equity	\$ 2,643,673	\$ 2,680,308

⁽¹⁾ See Note 18 for amounts attributable to related parties included in these line items.

See accompanying Notes to Consolidated Financial Statements

EVOLENT HEALTH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share data)

	For the Three Months Ended March 31,	
	2024	2023
Revenue⁽¹⁾	\$ 639,653	\$ 427,690
Expenses		
Cost of revenue ⁽¹⁾	535,547	310,475
Selling, general and administrative expenses ⁽¹⁾	79,104	89,726
Depreciation and amortization expenses	29,503	29,275
Change in fair value of contingent consideration	8,908	8,569
Total operating expenses	653,062	438,045
Operating loss	(13,409)	(10,355)
Interest income	2,550	1,060
Interest expense	(5,997)	(12,895)
Gain from equity method investees	306	423
Change in tax receivables agreement liability	(173)	(66,184)
Other income (expense), net	8	(220)
Loss before income taxes	(16,715)	(88,171)
Provision for (benefit from) income taxes	565	(68,189)
Loss before preferred dividends and accretion of Series A Preferred Stock	(17,280)	(19,982)
Dividends and accretion of Series A Preferred Stock	(7,945)	(6,276)
Net loss attributable to common shareholders of Evolent Health, Inc.	\$ (25,225)	\$ (26,258)
Loss per common share		
Basic and diluted	\$ (0.22)	\$ (0.24)
Weighted-average common shares outstanding		
Basic and diluted	114,141	107,783
Comprehensive loss		
Net loss attributable to common shareholders of Evolent Health, Inc.	\$ (25,225)	\$ (26,258)
Other comprehensive loss, net of taxes, related to:		
Foreign currency translation adjustment	(51)	56
Total comprehensive loss attributable to common shareholders of Evolent Health, Inc.	\$ (25,276)	\$ (26,202)

⁽¹⁾ See Note 18 for amounts attributable to unconsolidated related parties included in these line items.

See accompanying Notes to Consolidated Financial Statements.

EVOLENT HEALTH, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN MEZZANINE AND SHAREHOLDERS' EQUITY
(unaudited, in thousands)

For the Three Months Ended March 31, 2024

	Mezzanine Equity		Shareholders' Equity						
	Series A		Class A Common		Additional	Accumulated	Retained	Treasury	Total
	Preferred Stock		Stock	Other		Earnings			
	Shares	Amount	Shares	Amount		Paid-In	Comprehensive		
					Capital	Income (Loss)	Deficit)	Stock	Shareholders'
									Equity
Balance as of December 31, 2023	175	\$178,427	115,425	\$ 1,154	\$1,808,121	\$ (1,257)	\$ (719,194)	\$(21,123)	\$ 1,067,701
Stock-based compensation expense	—	—	—	—	18,786	—	—	—	18,786
Exercise of stock options	—	—	96	1	1,058	—	—	—	1,059
Restricted stock units vested, net of shares withheld for taxes	—	—	469	5	(9,775)	—	—	—	(9,770)
Performance stock units vested, net of shares withheld for taxes	—	—	205	2	(4,566)	—	—	—	(4,564)
Foreign currency translation adjustment	—	—	—	—	—	(51)	—	—	(51)
Net loss attributable to common shareholders of Evolent Health, Inc.	—	2,867	—	—	(7,945)	—	(17,280)	—	(25,225)
Balance as of March 31, 2024	175	\$181,294	116,195	\$ 1,162	\$1,805,679	\$ (1,308)	\$ (736,474)	\$(21,123)	\$ 1,047,936

For the Three Months Ended March 31, 2023

	Mezzanine Equity		Shareholders' Equity							
	Series A Preferred Stock		Class A Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Shareholders' Equity	
	Shares	Amount	Shares	Amount						
Balance as of December 31, 2022	—	\$ —	101,501	1,015	\$1,486,857	\$ (1,178)	\$ (606,154)	\$(21,123)	\$ 859,417	
Stock-based compensation expense	—	—	—	—	10,710	—	—	—	10,710	
Exercise of stock options	—	—	330	3	1,578	—	—	—	1,581	
Restricted stock units vested, net of shares withheld for taxes	—	—	434	4	(8,636)	—	—	—	(8,632)	
Performance stock units vested, net of shares withheld for taxes	—	—	202	2	(3,977)	—	—	—	(3,975)	
Leveraged stock units vested, net of shares withheld for taxes	—	—	760	8	(8)	—	—	—	—	
Shares issued for acquisition	—	—	8,475	85	261,186	—	—	—	261,271	
Class A common stock issued for payment of earn-outs	—	—	850	8	27,565	—	—	—	27,573	
Issuance of series A preferred stock, net of issuance costs	175	168,000	—	—	—	—	—	—	—	
Foreign currency translation adjustment	—	—	—	—	—	56	—	—	56	
Net income attributable to common shareholders of Evolent Health, Inc.	—	2,625	—	—	(6,276)	—	(19,982)	—	(26,258)	
Balance as of March 31, 2023	175	\$170,625	112,552	\$ 1,125	\$1,768,999	\$ (1,122)	\$ (626,136)	\$(21,123)	\$ 1,121,743	

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended March 31,	
	2024	2023
Cash Flows Provided by (Used In) Operating Activities		
Net loss before preferred dividends and accretion of Series A preferred stock	\$ (17,280)	\$ (19,982)
Adjustments to reconcile net loss to net cash and restricted cash provided by (used in) operating activities:		
Change in fair value of contingent consideration	8,908	8,569
Gain from equity method investees	(306)	(423)
Depreciation and amortization expenses	29,503	29,275
Stock-based compensation expense	18,786	10,710
Deferred tax provision	181	(68,728)
Amortization of contract cost assets	1,205	2,290
Amortization of deferred financing costs	882	911
Change in tax receivables agreement liability	173	66,184
Right-of-use operating assets	1,193	4,620
Other current operating cash outflows, net	6	(56)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net and contract assets	19,009	19,832
Prepaid expenses and other current and non-current assets	7,166	(13,758)
Contract cost assets	(1,556)	(1,326)
Accounts payable	(8,421)	(13,585)
Accrued liabilities	10,635	4,785
Operating lease liabilities	(2,582)	(4,250)
Accrued compensation and employee benefits	(27,279)	(31,401)
Deferred revenue	160	1,169
Reserve for claims and performance-based arrangements	(35,409)	(2,533)
Other long-term liabilities	(65)	(277)
Net cash and restricted cash provided by (used in) operating activities	4,909	(7,974)
Cash Flows Used In Investing Activities		
Cash paid for asset acquisitions and business combinations	(1,385)	(386,724)
Return of equity method investments	—	786
Purchases of investments	(3,000)	—
Investments in internal-use software and purchases of property and equipment	(5,347)	(9,055)
Net cash and restricted cash used in investing activities	(9,732)	(394,993)
Cash Flows Provided by Financing Activities		
Changes in working capital balances related to claims processing	37,520	7,576
Payment of contingent consideration	(3,755)	—
Proceeds from stock option exercises	1,058	1,581
Proceeds from issuance of long-term debt, net of offering costs	(529)	256,330
Repayment of long-term debt	—	(37,500)
Proceeds from issuance of preferred stock, net of offering costs	—	168,000
Payment of preferred dividends	(5,078)	(3,651)
Taxes withheld and paid for vesting of equity awards	(14,334)	(12,607)
Net cash and restricted cash provided by financing activities	14,882	379,729
Effect of exchange rate on cash and cash equivalents and restricted cash	(38)	50
Net increase (decrease) in cash and cash equivalents and restricted cash	10,021	(23,188)

See accompanying Notes to Consolidated Financial Statements

	For the Three Months Ended March 31,	
	2024	2023
Cash and cash equivalents and restricted cash as of beginning-of-period	223,457	215,158
Cash and cash equivalents and restricted cash as of end-of-period	<u>\$ 233,478</u>	<u>\$ 191,970</u>

See accompanying Notes to Consolidated Financial Statements

EVOLENT HEALTH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Evolent Health, Inc. was incorporated in December 2014 in the state of Delaware and through its subsidiaries is a market leader in connecting care for people with complex conditions like cancer, cardiovascular disease, and musculoskeletal diagnoses. We work on behalf of health plans and other risk-bearing entities and payers (our customers) to support physicians and other healthcare providers (our users) in providing the best evidence-based care to their patients. We believe adherence to the best evidence supports better outcomes for patients, a better experience for physicians, and lower costs for the healthcare system overall.

As of March 31, 2024, the Company had unrestricted cash and cash equivalents of \$ 165.1 million. The Company believes it has sufficient liquidity for at least the next twelve months as of the date the financial statements were available to be issued.

The Company's headquarters is located in Arlington, Virginia.

Evolent Health LLC Governance

Our operations are conducted through Evolent Health LLC. Evolent Health, Inc. is a holding company whose only business is to act as the sole managing member of Evolent Health LLC. As such, it controls Evolent Health LLC's business and affairs and is responsible for the management of its business.

Note 2. Basis of Presentation, Summary of Significant Accounting Policies and Change in Accounting Principles

Basis of Presentation

In our opinion, the accompanying unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to fairly state our financial position, results of operations and cash flows. The interim consolidated results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain footnote disclosures normally included in financial statements prepared in accordance with United States of America generally accepted accounting principles ("GAAP") have been omitted pursuant to instructions, rules and regulations prescribed by the United States Securities and Exchange Commission ("SEC"). The disclosures provided herein should be read in conjunction with the audited financial statements and notes thereto included in our 2023 Form 10-K.

Summary of Significant Accounting Policies

Certain GAAP policies that significantly affect the determination of our financial position, results of operations and cash flows, are summarized below. See "Part II - Item 8. Financial Statements and Supplementary Data - Note 2" in our 2023 Form 10-K for a complete summary of our significant accounting policies.

Accounting Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. In the accompanying unaudited interim consolidated financial statements, estimates are used for, but not limited to, the valuation of assets (including intangibles assets, goodwill and long-lived assets), liabilities, consideration related to business combinations and asset acquisitions, revenue recognition (including variable consideration), estimated selling prices for performance obligations in contracts with multiple performance obligations, reserves for claims and performance-based arrangements, credit losses, depreciable lives of assets, impairment of long-lived assets, stock-based compensation, deferred income taxes and valuation allowance, contingent liabilities, purchase price allocation in taxable stock transactions and useful lives of intangible assets.

Principles of Consolidation

The unaudited interim consolidated financial statements include the accounts of Evolent Health, Inc. and its subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents. The Company holds materially all of our cash in bank deposits with FDIC participating banks, at cost, which approximates fair value.

Restricted Cash and Restricted Investments

Restricted cash and restricted investments include cash and investments used to collateralize various contractual obligations (in thousands) as follows:

	March 31, 2024	December 31, 2023
Collateral for letters of credit for facility leases ⁽¹⁾	\$ 2,219	\$ 2,132
Collateral with financial institutions ⁽²⁾	16,331	16,237
Claims processing services ⁽³⁾	49,781	12,263
Total restricted cash and restricted investments	<u>\$ 68,331</u>	<u>\$ 30,632</u>
Current restricted cash	51,594	\$ 13,768
Total current restricted cash and restricted investments	<u>\$ 51,594</u>	<u>\$ 13,768</u>
Non-current restricted cash	\$ 16,737	\$ 16,864
Total non-current restricted cash and restricted investments	<u>\$ 16,737</u>	<u>\$ 16,864</u>

⁽¹⁾ Represents restricted cash related to collateral for letters of credit required in conjunction with lease agreements. See Note 11 for further discussion of our lease commitments.

⁽²⁾ Represents collateral held with financial institutions for risk-sharing and other arrangements which are held in a FDIC participating bank account. See Note 17 for discussion of fair value measurement.

⁽³⁾ Represents cash held by the Company related to claims processing services on behalf of partners. These are pass-through amounts and can fluctuate materially from period to period depending on the timing of when the claims are processed.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statements of cash flows (in thousands):

	March 31,	
	2024	2023
Cash and cash equivalents	\$ 165,147	\$ 157,519
Restricted cash and restricted investments	68,331	34,451
Total cash and cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 233,478</u>	<u>\$ 191,970</u>

Business Combinations

Companies acquired during each reporting period are reflected in the results of the Company effective from their respective dates of acquisition through the end of the reporting period. The Company allocates the fair value of purchase consideration to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Critical estimates used to value certain identifiable assets include, but are not limited to, expected long-term revenues, future expected operating expenses, cost of capital and appropriate discount rates.

The excess of the fair value of purchase consideration over the fair value of the assets acquired and liabilities assumed in the acquired entity is recorded as goodwill. If the Company obtains new information about facts and circumstances that existed as of the acquisition date during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded on the Company's consolidated statements of operations and comprehensive income (loss).

For contingent consideration recorded as a liability, the Company initially measures the amount at fair value as of the acquisition date and adjusts the liability, if needed, to fair value at each reporting period. Changes in the fair value of contingent consideration, other than measurement period adjustments, are recognized as operating income or expense. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred. See Note 4 for additional discussion regarding business combinations.

Goodwill

We recognize the excess of the purchase price, plus the fair value of any non-controlling interests in the acquiree, over the fair value of identifiable net assets acquired as goodwill. Goodwill is not amortized, but is reviewed at least annually for indications of impairment, with consideration given to financial performance and other relevant factors. We perform impairment tests of goodwill at a reporting unit level on October 31 of each year. We perform impairment tests between annual tests if an event occurs, or circumstances change, that we believe would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Our goodwill impairment analysis first assesses qualitative factors to determine whether events or circumstances existed that would lead the Company to conclude it is more likely than not that the fair value of its reporting unit is below its carrying amount. If the Company determines that it is more likely than not that the fair value of its reporting unit is below the carrying amount, a quantitative goodwill assessment is required. In the quantitative evaluation, the fair value of our reporting unit is determined and compared to the carrying value. If the fair value is greater than the carrying value, then the carrying value is deemed to be recoverable and no further action is required. If the fair value estimate is less than the carrying value, goodwill is considered impaired for the amount by which the carrying amount exceeds our reporting unit's fair value and a charge is reported in goodwill impairment on our consolidated statements of operations and comprehensive income (loss). See Note 8 for additional discussion regarding the goodwill impairment tests conducted during 2023.

Intangible Assets, Net

Identified intangible assets are recorded at their estimated fair values at the date of acquisition and are amortized over their respective estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are used.

The following summarizes the estimated useful lives by asset classification:

Corporate trade name	1 year
Customer relationships	11 - 25 years
Technology	5 years
Provider network contracts	3 - 5 years

As part of the organizational changes as a result of growth in our value-based specialty care business, we will sunset several corporate trade names and replace them with Evolent signifying our adoption and launch of a unified brand. As a result, we re-evaluated the useful lives of our intangible assets and accelerated amortization such that all corporate trade names will be fully amortized by December 2024.

Intangible assets are reviewed for impairment if circumstances indicate the Company may not be able to recover the asset's carrying value. The Company evaluates recoverability by determining whether the undiscounted cash flows expected to result from the use and eventual disposition of that asset or group exceed the carrying value at the evaluation date. If the undiscounted cash flows are not sufficient to cover the carrying value, the Company measures an impairment loss as the excess of the carrying amount of the long-lived asset or group over its fair value. See Note 8 for additional discussion regarding our intangible assets.

Research and Development Costs

Research and development costs consist primarily of personnel and related expenses (including stock-based compensation and employee taxes and benefits) for employees engaged in research and development activities as well as third-party fees. All such costs are expensed as incurred. We focus our research and development efforts on activities that support our technology infrastructure, clinical program development, data analytics and network development capabilities. Research and development costs are recorded within cost of revenue and selling, general and administrative expenses on our consolidated statements of operations and comprehensive income (loss).

Reserves for Claims and Performance-based Arrangements

Reserves for claims and performance-based arrangements reflect estimates of payments under performance-based arrangements and the ultimate cost of claims that have been incurred but not reported, including expected development on reported claims, those that have been reported but not yet paid (reported claims in process) and other medical care expenses and services payable that are primarily composed of accruals for incentives and other amounts payable to health care professionals and facilities. The Company uses actuarial principles and assumptions that are consistently applied in each reporting period and recognizes the actuarial best estimate of the ultimate liability along with a margin for adverse deviation. This approach is consistent with actuarial standards of practice that the liabilities be adequate under moderately adverse conditions.

The process of estimating reserves involves a considerable degree of judgment by the Company and, as of any given date, is inherently uncertain. The methods for making such estimates and for establishing the resulting liability are continually reviewed and adjustments are reflected in current results of operations in the period in which they are identified as experience develops or new information becomes known. See Note 20 for additional discussion regarding our reserves for claims and performance-based arrangements.

Right of Offset

Certain customer arrangements give the Company the legal right to net payment for amounts due from customers and claims payable. As of March 31, 2024 and December 31, 2023, approximately 63% and 57%, respectively, of gross accounts receivable has been netted against claims payable in lieu of cash receipt. Furthermore, as of March 31, 2024, approximately 22% of our accounts receivable, net could ultimately be settled on a net basis, once the criteria for netting have been met. Additionally, the Company offsets its accounts receivable and claims reserve under its total cost of care management solution.

Leases

The Company enters into various office space, data center and equipment lease agreements in conducting its normal business operations. At the inception of any contract, the Company evaluates the agreement to determine whether the contract contains a lease. If the contract contains a lease, the Company then evaluates the term and whether the lease is an operating or finance lease. Most leases include one or more options to renew or may have a termination option. The Company determines whether these options are reasonably certain to be exercised at the inception of the lease. The rent expense is recognized on a straight-line basis in the consolidated statements of operations and comprehensive income (loss) over the terms of the respective leases. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Further, the Company treats all lease and non-lease components as a single combined lease component for all classes of underlying assets.

The Company also enters into sublease agreements for some of its leased office space. Rental income attributable to subleases is immaterial and is offset against rent expense over the terms of the respective leases.

The Company reviews long-lived assets, which include operating lease right-of-use asset assets, for impairment when facts or circumstances indicate the carrying amount of an asset or asset group may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets, the carrying values are reduced to the estimated fair value. Fair values are determined based on quoted market values, discounted cash flows and external market data, as applicable.

The Company terminated a portion of its previous headquarters lease in Arlington, VA effective December 31, 2023 and recognized the impact of a \$6.5 million termination penalty in its operating lease liability - current on its consolidated balance sheet. The termination payment consisted of two payments of \$3.25 million, one payment was paid on October 1, 2023 and the other was paid on April 1, 2024. In addition, the Company terminated the remainder of its previous headquarters lease in Arlington, VA effective March 27, 2024 and recognized the impact of a \$3.5 million termination penalty in its operating lease liability - current on its consolidated balance sheet. The termination payment of \$3.5 million was paid on April 1, 2024.

Refer to Note 11 for additional lease disclosures.

Revenue Recognition

Our revenue contracts are typically multi-year arrangements with customers to provide solutions designed to lower the medical expenses of our partners and include our total cost of care management and specialty care management services solutions, provide comprehensive health plan operations and claims processing services, and also include transition or run-out services to customers.

We use the following 5-step model, outlined in Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), to determine revenue recognition from our contracts with customers:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to performance obligations
- Recognize revenue when (or as) the entity satisfies a performance obligation

See Note 5 for further discussion of our policies related to revenue recognition.

Series A Senior Convertible Preferred Shares

In accordance with ASC 480, Distinguishing Liabilities from Equity, the shares of Series A Senior Convertible Preferred Shares are classified within temporary equity, as events outside the Company's control triggers such shares to become redeemable. Costs associated with the issuance of redeemable preferred stock are presented as discounts to the fair value of the redeemable preferred stock and are amortized using the effective interest method, over the term of the respective series of preferred shares. Refer to Note 12 - Convertible Preferred Equity for further discussion.

Note 3. Recently Issued Accounting Standards

Adoption of New Accounting Standards

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"), which enhances the disclosures required for operating segments in the Company's annual and interim consolidated financial statements, including those companies with a single operating segment. ASU 2023-07 is effective retrospectively for fiscal years beginning after December 15, 2023 and for interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of this standard on our disclosures.

In December 2023, the FASB issued ASU 2023-09, Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 includes requirements that an entity disclose specific categories in the rate reconciliation and provide additional information for reconciling items that are greater than five percent of the amount computed by multiplying pretax income (or loss) by the applicable statutory income tax rate. The standard also requires that entities disclose income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) each disaggregated between domestic and foreign. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. The Company is currently assessing the impact of ASU 2023-09 on its disclosures.

Note 4. Transactions

Business Combinations

National Imaging Associates Inc.

On January 20, 2023, the Company completed its acquisition of NIA, including all of the issued and outstanding shares of capital stock of NIA as well as certain assets held by Magellan Health, Inc. ("Magellan") and certain of its subsidiaries that were used in the Magellan Specialty Health division. NIA is a specialty benefit management organization that focuses on managing cost and quality in the areas of radiology, musculoskeletal, physical medicine and genetics. The transaction is expected to accelerate our strategy to become a leading provider of value-based specialty care solutions as well as diversify our revenue streams with a larger customer portfolio.

Total acquisition consideration, net of cash on hand and certain closing adjustments, was \$ 715.7 million, based on the closing price of the Company's Class A common stock on the NYSE on January 20, 2023. The acquisition consideration consisted of approximately \$387.8 million of cash consideration (inclusive of certain post-closing adjustments), 8.5 million shares of the Company's Class A common stock, fair valued at \$ 261.3 million as of January 20, 2023, and an earn-out consisting of additional consideration of up to \$150.0 million payable in cash and, at the Company's election, up to 50% in shares of the Company's Class A common stock (the "Contingent Consideration"). As of January 20, 2023, the Contingent Consideration was fair valued at \$66.6 million. See Note 17 for additional information regarding the fair value determination of the earn-out consideration.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of January 20, 2023, as follows (in thousands):

Purchase consideration:	
Cash	\$ 387,823
Fair value of Class A common stock issued	261,271
Fair value of contingent consideration	66,600
Total consideration	<u>\$ 715,694</u>
Tangible assets acquired:	
Accounts receivable	\$ 28,065
Prepaid expenses and other current assets	675
Total tangible assets acquired	<u>28,740</u>
Identifiable intangible assets acquired:	
Customer relationships	345,100
Technology	50,700
Corporate trade name	8,200
Total identifiable intangible assets acquired	<u>404,000</u>
Liabilities assumed:	
Accrued liabilities	5,409
Accrued compensation and employee benefits	6,173
Deferred tax liabilities, net	100,486
Deferred revenue	142
Total liabilities assumed	<u>112,210</u>
Goodwill ⁽¹⁾	<u>395,164</u>
Net assets acquired	<u>\$ 715,694</u>

⁽¹⁾ Goodwill acquired does not include \$1.0 million of measurement period adjustments or of \$2.4 million in reductions due to goodwill written off upon disposal of non-strategic assets subsequent to March 31, 2023.

The fair value of the receivables acquired, as shown in the table above, approximates the gross contractual amounts and is expected to be collectible in full. Identifiable intangible assets associated with customer relationships, technology and the corporate trade name will be amortized on a straight-line basis over their preliminary estimated useful lives of 15 years, 5 years, and 2 years, respectively. The customer relationships are primarily attributable to existing contracts with current customers. The technology consists primarily of proprietary software that supports NIA's core business applications and specialty business. The corporate trade name reflects the value that we believe the NIA brand name carries in the market, however due to organization changes we will retire the NIA trade name by December 2024. The fair value of the intangible assets was determined using the income approach and the relief from royalty approach. The income approach estimates fair value for an asset based on the present value of cash flows projected to be generated by the asset. Projected cash flows are discounted at a required rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The relief from royalty approach estimates the fair value of an asset by calculating how much an entity would have to spend to lease a similar asset. Goodwill is calculated as the difference between the acquisition date fair value of the total consideration and the fair value of the net assets acquired and represents the future economic benefits that we expect to achieve as a result of the acquisition. The Company received carryover tax basis in the assets and liabilities acquired; accordingly, the Company recognized net deferred tax liabilities associated with the difference between the book basis and the tax basis for the assets and liabilities acquired. The goodwill is not deductible for tax purposes. Additionally, a tax benefit of \$ 56.1 million was recorded in the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2023, to account for the valuation allowance release primarily related to the acquired intangible assets, which resulted in a deferred tax liability that provided a source of income supporting realization of other deferred tax assets.

Pro forma financial information (unaudited)

The following unaudited condensed pro forma information presents combined financial information as if the acquisition of NIA had been effective as of January 1, 2022, the beginning of the 2022 fiscal year. The unaudited pro forma financial information includes adjustments to historical amounts including amortization of acquired intangible assets, depreciation of acquired property and equipment, interest expense for the financing of the transaction, alignment of NIA's revenue recognition policy, and the associated income tax effects as if NIA had been included in the Company's results of operations.

This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations or of the results that would have occurred had the transactions described above occurred in the specified prior periods. The pro forma adjustments are based on available information and assumptions that the Company believes are reasonable to reflect the impact of these transactions on the Company's historical financial information on a pro forma basis (in thousands).

	For the Three Months Ended March 31,	
	2024	2023
Revenue	\$ —	\$ 446,740
Net loss attributable to common shareholders of Evolent Health, Inc.	—	(15,730)

Note 5. Revenue Recognition

Our revenue contracts are typically multi-year arrangements with customers to provide solutions designed to lower the medical expenses of our partners and include our total cost of care management and specialty care management services solutions, provide comprehensive health plan operations and claims processing services, and also include transition or run-out services to customers.

Our performance obligation in these arrangements is to provide an integrated suite of services, including access to our platform that is customized to meet the specialized needs of our partners and providers. Generally, we will apply the series guidance to the performance obligation as we have determined that each time increment is distinct. We primarily utilize a variable fee structure for these services that typically includes a monthly payment that is calculated based on a specified per member per month rate, multiplied by the number of members that our partners are managing under a value-based care arrangement or a percentage of plan premiums. Our arrangements may also include other variable fees related to service level agreements, shared medical savings arrangements and other performance measures. Variable consideration is estimated using the most likely amount based on our historical experience and best judgment at the time. Due to the nature of our arrangements, certain estimates may be constrained if it is probable that a significant reversal of revenue will occur when the uncertainty is resolved. We recognize revenue over time using the time elapsed output method. Fixed consideration is recognized ratably over the contract term. In accordance with the series guidance, we allocate variable consideration to the period to which the fees relate. Our revenue includes certain services which are billed on a per-case basis.

Contracts with Multiple Performance Obligations

Our contracts with customers may contain multiple performance obligations, primarily when the partner has requested both administrative services and other services such as our specialty care management or total cost of care management services as these services are distinct from one another. When a contract has multiple performance obligations, we allocate the transaction price to each performance obligation based on the relative standalone selling price using the expected cost margin approach. This approach requires estimates regarding both the level of effort it will take to satisfy the performance obligation as well as fees that will be received under the variable pricing model. We also take into consideration customer demographics, current market conditions, the scope of services and our overall pricing strategy and objectives when determining the standalone selling price.

Principal vs. Agent

We use third parties to assist in satisfying our performance obligations. In order to determine whether we are the principal or agent in the arrangement, we review each third-party relationship on a contract-by-contract basis. As we integrate goods and services provided by third parties into our overall service, we control the services provided to the customer prior to its delivery. As such, we are the principal and we will recognize revenue on a gross basis. In certain cases, we do not control the services from third parties before it is delivered to the customer, thereby recognizing revenue on a net basis.

Disaggregation of Revenue

The following table represents Evolent's revenue disaggregated by end-market and product type (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Medicaid	\$ 215,124	\$ 183,034
Medicare	286,960	127,669
Commercial and other	137,569	116,987
Total	<u>\$ 639,653</u>	<u>\$ 427,690</u>
Performance Suite	\$ 448,218	\$ 239,873
Specialty Technology and Services Suite	89,003	65,316
Administrative Services	58,569	83,067
Cases	43,863	39,434
Total	<u>\$ 639,653</u>	<u>\$ 427,690</u>

Transaction Price Allocated to the Remaining Performance Obligations

For contracts with a term greater than one year, we have allocated approximately \$ 38.6 million of transaction price to performance obligations that are unsatisfied as of March 31, 2024. We do not include variable consideration that is allocated entirely to a wholly unsatisfied performance obligation accounted for under the series guidance in the calculation. As a result, the balance represents the value of the fixed consideration in our long-term contracts that we expect will be recognized as revenue in a future period and excludes the majority of our revenue, which is primarily derived based on variable consideration as discussed in Note 2. We expect to recognize revenue on approximately 53% and 100% of these remaining performance obligations by December 31, 2024 and 2025, respectively. However, because our existing contracts may be canceled or renegotiated including for reasons outside our control, the amount of revenue that we actually receive may be more or less than this estimate and the timing of recognition may not be as expected.

Contract Balances

Contract balances consist of accounts receivable, contract assets and deferred revenue. Contract assets are recorded when the right to consideration for services is conditional on something other than the passage of time. Contract assets relating to unbilled receivables are transferred to accounts receivable when the right to consideration becomes unconditional. We classify contract assets as current or non-current based on the timing of our rights to the unconditional payments. Our contract assets are generally classified as current and recorded within prepaid expenses and other current assets on our consolidated balance sheets. Our current accounts receivables are classified within accounts receivable, net on our consolidated balance sheets and our non-current accounts receivable are classified within prepaid expenses and other non-current assets on our consolidated balance sheets.

Deferred revenue includes advance customer payments and billings in excess of revenue recognized. We classify deferred revenue as current or non-current based on the timing of when we expect to recognize revenue. Our current deferred revenue is recorded within deferred revenue on our consolidated balance sheets and non-current deferred revenue is recorded within other long-term liabilities on our consolidated balance sheets.

The following table provides information about receivables, contract assets and deferred revenue from contracts with customers as of March 31, 2024 and December 31, 2023 (in thousands):

	March 31, 2024	December 31, 2023
Short-term receivables ⁽¹⁾	\$ 426,561	\$ 446,220
Short-term deferred revenue	6,136	5,976
Long-term deferred revenue	879	1,173

⁽¹⁾ Excludes pharmacy rebate receivable and pharmacy claims receivable.

Changes in deferred revenue for the three months ended March 31, 2024 are as follows (in thousands):

Deferred revenue	
Balance as of beginning-of-period	\$ 7,149
Reclassification to revenue, as a result of performance obligations satisfied	(3,277)
Cash received in advance of satisfaction of performance obligations	3,143
Balance as of end of period	<u>\$ 7,015</u>

The amount of revenue, excluding customer discounts of \$ 1.3 million, recognized from performance obligations satisfied (or partially satisfied) in a previous period was \$18.0 million for the three months ended March 31, 2024 due primarily to net gain share as well as changes in other estimates.

Contract Cost Assets

Certain bonuses and commissions earned by our sales team are considered incremental costs of obtaining a contract with a customer that we expect to be recoverable. The capitalized contract acquisition costs are classified as non-current assets and recorded within contract cost assets on our consolidated balance sheets. Amortization expense is recorded within selling, general and administrative expenses on the accompanying consolidated statements of operations and comprehensive income (loss). As of March 31, 2024 and December 31, 2023, the Company had \$3.1 million and \$2.8 million, respectively, of contract acquisition cost assets, net of accumulated amortization recorded in contract cost assets on the consolidated balance sheets. In addition, the Company recorded amortization expense of \$0.3 million for the three months ended March 31, 2024 and 2023, respectively.

In our revenue contracts, we incur certain costs related to the implementation of our platform before we begin to satisfy our performance obligation to the customer. The costs, which we expect to recover, are considered costs to fulfill a contract. Our contract fulfillment costs primarily include our employee labor costs and third-party vendor costs. The capitalized contract fulfillment costs are classified as non-current and recorded within contract cost assets on our consolidated balance sheets. Amortization expense is recorded within cost of revenue on the accompanying consolidated statements of operations and comprehensive income (loss). As of March 31, 2024 and December 31, 2023, the Company had \$9.4 million and \$9.3 million, respectively, of contract fulfillment cost assets, net of accumulated amortization recorded in contract cost assets on the consolidated balance sheets. In addition, the Company recorded amortization expense including the acceleration of amortization of contract costs for certain customers of \$0.9 million and \$2.0 million for the three months ended March 31, 2024 and 2023, respectively.

These costs are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be the shorter of the contract term or five years. The period of benefit is based on our technology, the nature of our partner arrangements and other factors.

Note 6. Credit Losses

We are exposed to credit losses primarily through our accounts receivable from revenue transactions, investments held at amortized cost and other notes receivable. We estimate expected credit losses based on past events, current conditions and reasonable and supportable forecasts. Expected credit losses are measured over the remaining contractual life of these assets. As part of our consideration of current and forward-looking economic conditions, current inflationary pressures on our customers' and other third parties' ability to pay, we did observe notable decreases in delinquencies with certain partners' mainly due to timing of payments which resulted in a lower provision for credit losses of during the three months ended March 31, 2024.

Accounts Receivable from Revenue Transactions

Accounts receivable represent the amounts owed to the Company for goods or services provided to customers or third parties. Current accounts receivables are classified within accounts receivable, net on the Company's consolidated balance sheets, while non-current accounts receivables are classified within prepaid expenses and other noncurrent assets on the Company's consolidated balance sheets.

We monitor our ongoing credit exposure through active review of counterparty balances against contract terms, due dates and business strategy. Our activities include timely account reconciliation, dispute resolution and payment confirmation. In addition, the Company will establish a general reserve based on delinquency rates. Historical loss rates are determined for each delinquency bucket in 30-day past-due intervals and then applied to the composition of the reporting date balance based on delinquency. The allowance implied from application of the historical loss rates is then adjusted, as necessary, for current conditions and reasonable and supportable forecasts.

The following table compiles the percentages of outstanding accounts receivable based on our aging analysis of our trade accounts receivable, non-trade accounts receivable and contract assets (in thousands):

	March 31, 2024	December 31, 2023
Current	58 %	54 %
Past due less than 60 days	16 %	17 %
Past due less than 120 days	26 %	26 %
Accounts receivable, net of allowance	\$ 430	\$ 472

The following table summarizes the changes in allowance for credit losses on our accounts receivables, certain non-trade accounts receivable and contract assets (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Balance as of beginning of period	\$ (16,361)	\$ (10,180)
Acquisitions	—	(240)
Provision for credit losses	2,397	(5,482)
Charge-offs ⁽¹⁾	2,133	829
Balance as of end of period	<u>\$ (11,831)</u>	<u>\$ (15,073)</u>

⁽¹⁾ Charge offs for the three months ended March 31, 2024 and 2023 are due primarily to balances written-off that were previously reserved.

Note 7. Property and Equipment, Net

The following summarizes our property and equipment (in thousands):

	March 31, 2024	December 31, 2023
Computer hardware	\$ 14,055	\$ 21,501
Furniture and equipment	1,424	1,297
Internal-use software development costs	217,764	212,913
Leasehold improvements	1,035	1,052
Total property and equipment	234,278	236,763
Accumulated depreciation expense	(158,234)	(158,569)
Total property and equipment, net	<u>\$ 76,044</u>	<u>\$ 78,194</u>

The Company capitalized \$4.5 million and \$8.1 million for the three months ended March 31, 2024 and 2023 respectively, of internal-use software development costs. The net book value of capitalized internal-use software development costs was \$69.4 million and \$70.9 million as of March 31, 2024 and December 31, 2023, respectively.

Depreciation expense related to property and equipment was \$ 7.5 million and \$8.1 million for the three months ended March 31, 2024 and 2023 respectively, of which amortization expense related to capitalized internal-use software development costs was \$6.3 million and \$6.7 million for the three months ended March 31, 2024 ,and 2023 respectively.

Note 8. Goodwill and Intangible Assets, Net

Goodwill

Goodwill has an estimated indefinite life and is not amortized; rather, it is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Our annual goodwill impairment review occurs on October 31 of each fiscal year. We evaluate qualitative factors that could cause us to believe the estimated fair value of our reporting unit may be lower than the carrying value and trigger a quantitative assessment, including, but not limited to (i) macroeconomic conditions, (ii) industry and market considerations, (iii) our overall financial performance, including an analysis of our current and projected cash flows, revenues and earnings, (iv) a sustained decrease in share price and (v) other relevant entity-specific events including changes in management, strategy, partners, or litigation.

We did not identify any qualitative factors that would trigger a quantitative goodwill impairment test during the three months ended March 31, 2024 . We will perform our annual impairment test of October 31, 2024.

2023 Goodwill Impairment Test

On October 31, 2023, the Company performed its annual goodwill impairment review for fiscal year 2023. In addition, the Company underwent organizational changes which required a reassessment of reporting units. As a result, the Company determined it has one reporting unit due to the economic similarity of the services provided to our partners. Based on our qualitative assessment, we did not identify sufficient indicators of impairment that would suggest the fair value of our reporting unit was below its respective carrying values. As a result, a quantitative goodwill impairment analysis was not required.

Change in Goodwill

The following table summarizes the changes in the carrying amount of goodwill, for the periods presented (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Balance, beginning of period	\$ 1,116,542	\$ 722,774
Goodwill acquired ⁽¹⁾	—	395,164
Foreign currency translation	(3)	7
Balance, end of period	<u>\$ 1,116,539</u>	<u>\$ 1,117,945</u>

⁽¹⁾ Goodwill acquired from the addition of NIA in January 2023

Intangible Assets, Net

Details of our intangible assets (in thousands, except weighted-average useful lives) are presented below:

	March 31, 2024				December 31, 2023			
	Weighted-Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Corporate trade name	0.8	\$ 51,965	\$ 35,954	\$ 16,011	1.0	\$ 51,965	\$ 30,288	\$ 21,677
Customer relationships	14.2	806,668	150,928	655,740	14.5	806,668	139,150	667,518
Technology	3.5	162,015	105,495	56,520	3.8	162,015	101,566	60,449
Below market lease, net	0.0	1,218	1,218	—	0.0	1,218	1,218	—
Provider network contracts	1.5	19,394	16,320	3,074	1.1	18,054	15,689	2,365
Total intangible assets, net		<u>\$1,041,260</u>	<u>\$ 309,915</u>	<u>\$ 731,345</u>		<u>\$1,039,920</u>	<u>\$ 287,911</u>	<u>\$ 752,009</u>

Amortization expense related to intangible assets was \$ 22.0 million and \$21.1 million for the three months ended March 31, 2024 and 2023, respectively.

Future estimated amortization of intangible assets (in thousands) as of March 31, 2024, is as follows:

2024	\$ 65,129
2025	63,288
2026	63,038
2027	60,296
2028	48,362
Thereafter	431,232
Total future amortization of intangible assets	<u>\$ 731,345</u>

As part of the organizational changes as a result of growth in our value-based specialty care business, we will sunset several corporate trade names and replace them with Evolent signifying our adoption and launch of a unified brand. As a result, we accelerated amortization such that all corporate trade names will be fully amortized by December 2024.

Intangible assets are reviewed for impairment if circumstances indicate the Company may not be able to recover the assets' carrying value. We did not identify any circumstances during the three months ended March 31, 2024, that would require an impairment test for our intangible assets.

Note 9. Long-term Debt

Terms of Convertible Senior Notes

The Company issued \$117.1 million aggregate principal amount of its 3.50% Convertible Senior Notes due 2024 in August 2020 (the "2024 Notes") in privately negotiated exchange and/or subscription agreements, \$172.5 million aggregate principal amount of its 1.50% Convertible Senior Notes due 2025 in October 2018 (the "2025 Notes") in private placements to qualified institutional buyers within the meaning of Rule 144A under the Securities Act and \$402.5 million aggregate principal amount of its 3.50% Convertible Senior Notes due 2029 in December 2023 (the "2029 Notes," and together with the 2024 Notes and 2025 Notes, the "Convertible Senior Notes"), in private placements to qualified institutional buyers within the meaning of Rule 144A under the Securities Act. All 2025 Notes and 2029 Notes will mature on the date in the table below, unless earlier repurchased, redeemed or converted in accordance with their respective terms prior to such date. As of October 13, 2023, no 2024 Notes remained outstanding.

The Convertible Senior Notes are recorded on our accompanying consolidated balance sheets at their net carrying values. All of our Convertible Senior Notes also have embedded conversion options and contingent interest provisions, which have not been recorded as separate financial instruments and their fair values are Level 2 inputs. Refer to Note 17 for additional discussion on the fair value classifications of our Convertible Senior Notes.

The 2025 Notes and 2029 Notes are convertible into cash, shares of the Company's Class A common stock, or a combination of cash and shares of the Company's Class A common stock, at the Company's election, based on an initial conversion rate of Class A common stock per \$1,000 principal amount of the 2025 Notes and 2029 Notes, which is equivalent to an initial conversion price of the Company's Class A common stock. In the aggregate, the 2025 Notes and 2029 Notes are initially convertible into 20.3 million shares of the Company's Class A common stock. The conversion rate may be adjusted under certain circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash or shares of the Company's Class A common stock, or a combination of cash and shares of the Company's Class A common stock, at the Company's election.

The following table summarizes the terms of our Convertible Senior Notes as of March 31, 2024 (in thousands, except per share conversion rates and prices):

	2025 Notes		2029 Notes	
Aggregate principal amount at issuance	\$	172,500	\$	402,500
Interest rate per annum		1.5 %		3.5 %
Debt issuance costs	\$	5,929	\$	11,598
Net proceeds	\$	166,571	\$	390,902
Issuance date		October 22, 2018		December 8, 2023
Maturity date		October 15, 2025		December 1, 2029
Interest payment dates ⁽¹⁾		April 15 and October 15		June 1 and December 1
Conversion rate per \$1,000 of principal	\$	29.9135	\$	26.3125
Conversion price	\$	33.43	\$	38.00
Shares issuable upon conversion ⁽²⁾		5,160		10,592
Carrying value	\$	170,494	\$	391,503
Unamortized debt discount and issuance costs		2,006		10,997
Outstanding principal	\$	172,500	\$	402,500
Remaining amortization period (years)		1.5		5.7
Fair value ⁽³⁾	\$	194,911	\$	440,637

⁽¹⁾ Holders of the Convertible Senior Notes are entitled to cash payments, which are payable semiannually in arrears on the dates indicated above.

⁽²⁾ Measured in shares of the Company's Class A common stock and represents the number of shares of the Company's Class A common stock that the Convertible Senior Notes are convertible into as of March 31, 2024. Upon conversion, the Company will pay or deliver, as the case may be, cash or shares of the Company's Class A common stock, or a combination of cash and shares of the Company's Class A common stock, at the Company's election.

⁽³⁾ Fair values for notes are derived from available trading prices closest to the respective balance sheet date.

Holders of the 2025 Notes and 2029 Notes may require the Company to repurchase all or part of their notes upon the occurrence of a fundamental change at a price equal to 100.0% of the principal amount of the notes being repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. The Company may redeem for cash all or any portion of the 2025

Notes, at its option if the last reported sale price of the Company's Class A common stock has been at least 130.0% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption, at a redemption price equal to 100.0% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Prior to the close of business on the business day immediately preceding April 15, 2025, the 2025 Notes will be convertible at the option of the holders only upon the satisfaction of certain conditions. At any time on or after April 15, 2025, until the close of business on the business day immediately preceding the maturity date, holders of the 2025 Notes may convert, at their option, all or any portion of their 2025 Notes at the conversion rate.

The Company may not redeem the 2029 Notes prior to December 6, 2026. The Company may redeem for cash all or any portion of the 2029 Notes, at its option, on or after December 6, 2026, if the last reported sale price of the Company's Class A common stock has been at least 130.0% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption, at a redemption price equal to 100.0% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Prior to the close of business on the business day immediately preceding September 1, 2029, the 2029 Notes will be convertible at the option of the holders only upon the satisfaction of certain conditions. At any time on or after September 1, 2029, until the close of business on the business day immediately preceding the maturity date, holders of the 2029 Notes may convert, at their option, all or any portion of their 2029 Notes at the conversion rate.

2024 Notes Exchange and Redemption

On August 2, 2023, the Company issued a notice of redemption to the holders of its outstanding 2024 Notes, pursuant to which it redeemed the outstanding 2024 Notes for cash at a price of 100% of the principal amount of the 2024 Notes, plus accrued and unpaid interest, if any, on October 13, 2023 (the "Redemption Date"). Prior to the Redemption Date, holders of the 2024 Notes were entitled to convert to shares of the Company's Class A Common Stock at a rate of 55.6153 shares per \$1,000 principal amount of 2024 Notes.

During the year ended December 31, 2023, holders of the 2024 Notes converted \$ 23.3 million in aggregate principal amount of such notes to \$1.3 million shares of the Company's Class A common stock and the Company repaid the remaining \$1.0 million balance in cash, satisfying all of the Company's remaining payment obligations under the 2024 Notes on the Redemption Date.

2029 Notes Issuance

In December 2023, the Company issued \$402.5 million aggregate principal amount of its 2029 Notes in a private placement to qualified institutional buyers within the meaning of Rule 144A of the Securities Act. The 2029 Notes were issued at an issue price of 100.00% of par for net proceeds of approximately \$390.9 million, after deducting fees and estimated expenses. We incurred \$11.6 million of debt issuance costs in connection with the 2029 Notes.

2022 Credit Agreement

On August 1, 2022 (the "IPG Closing Date"), the Company entered into a credit agreement, by and among the Company, Evolent Health LLC, as the borrower (the "Borrower"), certain subsidiaries of the Company, as guarantors, the lenders from time to time party thereto, and Ares Capital Corporation ("Ares"), as administrative agent, collateral agent and revolver agent (the "Existing Credit Agreement" and as modified by the Amendment (defined below), the "Credit Agreement"), pursuant to which the lenders agreed to extend credit to the Borrower in the form of (i) initial term loans in an aggregate principal amount of \$175.0 million (the "Initial Term Loan Facility") and (ii) revolving credit commitments in an aggregate principal amount of \$50.0 million (the "Initial Revolving Facility"), the availability of which shall be determined by reference to the lesser of \$50.0 million and a borrowing base calculation. The Borrowers borrowed full amount under the Initial Term Loan Facility and the Initial Revolving Facility on the IPG Closing Date.

A closing fee of (a) 2.00% of the aggregate amount of the commitments in respect of the Initial Term Loan Facility and (b) 2.00% of the aggregate amount of the commitments in respect of the Initial Revolving Facility was paid as of the IPG Closing Date.

On January 20, 2023, ("the NIA Closing Date"), the Company entered into Amendment No. 1 to the Credit Agreement (the "Amendment"), pursuant to which the lenders agreed to extend credit to the Borrower in the form of (i) additional revolving commitments in an aggregate principal amount equal to \$25.0 million (the "Incremental Revolving Facility" and together with the Initial Revolving Facility, the Revolving Facility"), and (ii) additional term loans in an aggregate principal amount equal to \$240.0 million, (the "Incremental Term Loan Facility" and together with the Initial Term Loan Facility, the "Term Loan Facility"; the Revolving Facility and the Term Loan Facility are collectively referred to herein as the "Credit Facilities"). The Borrowers borrowed the full amount under the Incremental Term Loan Facility and the Incremental Revolving Facility on the NIA Closing Date to finance, together with the proceeds from the sale of the Series A Preferred Stock, the cash consideration payable in connection with the NIA acquisition on the NIA Closing Date and pay transaction fees and expenses. A closing fee of (a) 3.00% of the aggregate amount of the commitments in respect of the Incremental Term Loan Facility and (b) 3.00% of the aggregate amount of the commitments in respect of the Incremental Revolving Facility was paid as of the NIA Closing Date.

On December 5, 2023, the Company entered into Amendment No. 2 to the Credit Agreement pursuant to which the lenders agreed to certain mechanical changes necessary to permit issuance by the Company of additional unsecured convertible notes.

The Credit Facilities are guaranteed by the Company and the Company's domestic subsidiaries, subject to certain customary exceptions. The Credit Facilities are secured by a first priority security interest in all of the capital stock of each borrower and guarantor (other than the Company) and substantially all of the assets of each borrower and guarantor, subject to certain customary exceptions.

All loans under the Credit Facilities will mature on the date that is the earliest of (a) the sixth anniversary of the NIA Closing Date, (b) the date on which the commitments are voluntarily terminated pursuant to the terms of the Credit Agreement, (c) the date on which all amounts outstanding under the Credit Agreement have been declared or have automatically become due and payable under the terms of the Credit Agreement and (d) the date that is ninety-one (91) days prior to the maturity date of any Junior Debt (as defined in the Existing Credit Agreement) unless certain liquidity conditions are satisfied.

The interest rate for the Loans is calculated, at the option of the Borrowers, (a) in the case of the Term Loan Facility, at either the Adjusted Term SOFR Rate (as defined in the Credit Agreement) plus 6.00%, or the base rate plus 5.00% and (b) in the case of the Revolving Facility, at either the Adjusted Term SOFR Rate plus 4.00%, or the base rate plus 3.00%.

Amounts outstanding under the Credit Facilities may be prepaid at the option of the Company, subject to the following prepayment premium (the "Prepayment Premium") (subject to certain thresholds and carve outs): (1) 3.00% of the principal amount so prepaid after the NIA Closing Date but prior to the first anniversary of the NIA Closing Date; (2) 2.00% of the principal amount so prepaid after the first anniversary of the closing but prior to the second anniversary of the NIA Closing Date; (3) 1.00% of the principal amount so prepaid after the second anniversary of the NIA Closing Date but prior to the third anniversary of the NIA Closing Date; and (4) 0.00% of the principal amount so prepaid on or after the third anniversary of the NIA Closing Date. Amounts outstanding under the Credit Facility are subject to mandatory prepayment upon the occurrence of certain events and conditions, including non-ordinary course asset dispositions, receipt of certain casualty proceeds, issuances of certain debt obligations and a change of control transaction, in each case, subject to application of the Prepayment Premium. The Prepayment Premium is also applicable upon any voluntary prepayment of the Term Loan Facility and any voluntary reduction or termination in the Revolving Facility.

The Borrowers will pay an unused line fee equal to 0.50% times the result of (i) the aggregate amount of the Revolving Facility, less (ii) the average Revolving Facility usage during the immediately preceding month (or portion thereof), which fee shall be due and payable quarterly in arrears, on the first day of each calendar quarter from and after the IPG Closing Date and on the date on which (X) the Credit Facilities are paid in full in cash and (y) the Revolving Facility is otherwise terminated in accordance with the terms of the Credit Agreement.

The Credit Facilities contain customary borrowing conditions, affirmative, negative and reporting covenants, representations and warranties, and events of default, including cross-defaults to other material indebtedness. If an event of default occurs, the lenders would be entitled to take enforcement action, including foreclosure on collateral and acceleration of amounts owed under the Loans. We incurred \$14.6 million of debt issuance costs in connection with the Loans, which was included in long-term debt, net of discount on our consolidated balance sheets and amortized into interest expense over the life of the Credit Agreement.

During the year ended December 31, 2023, the Company prepaid \$37.5 million under the Revolving Facility and \$415.0 million of the Term Loan Facility that was utilized to acquire IPG and NIA. The total amount paid to Ares under the Credit Agreement in connection with the prepayment was \$434.8 million, which included \$415.0 million of principal, \$9.1 million in accrued interest and \$10.7 million in prepayment premium. As of March 31, 2024, there is \$37.5 million outstanding under the Company's Revolving Facility.

Interest Expense

Interest expense and amortization of debt issuance costs activity were as follows (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
2029 Notes		
Interest expense	\$ 3,522	\$ —
Amortization of debt issuance costs	480	—
Interest expense for 2029 Notes	\$ 4,002	\$ —
2022 Credit Agreement		
Interest expense	\$ 946	\$ 11,124
Amortization of debt issuance costs	79	544
Interest expense for 2022 Credit Agreement	\$ 1,025	\$ 11,668
2024 Notes		
Interest expense	\$ —	\$ 213
Amortization of debt issuance costs	—	46
Interest expense for 2024 Notes	\$ —	\$ 259
2025 Notes		
Interest expense	\$ 647	\$ 647
Amortization of debt issuance costs	323	321
Interest expense for 2025 Notes	\$ 970	\$ 968

Note 10. Commitments and Contingencies

Commitments

Letters of Credit

As of March 31, 2024 and December 31, 2023, the Company was party to irrevocable standby letters of credit with a bank for \$ 18.0 million and \$17.9 million, respectively, for the benefit of regulatory authorities, real estate and risk-sharing agreements. As such, we held \$ 18.6 million and \$18.4 million, respectively, in restricted cash and restricted investments as collateral as of March 31, 2024 and December 31, 2023, respectively, inclusive of accrued interest. The letters of credit have current expiration dates between November 2024 and December 2025 and will automatically extend without amendment for an additional one-year period and will continue to automatically extend after each one-year term from the expiry date unless the bank elects not to extend beyond the initial or any extended expiry date.

Indemnifications

The Company's customer agreements generally include a provision by which the Company agrees to defend its partners against third-party claims (a) for death, bodily injury, or damage to personal property caused by Company negligence or willful misconduct, (b) by former or current Company employees arising from such managed service agreements, (c) for intellectual property infringement under specified conditions and (d) for Company violation of applicable laws, and to indemnify them against any damages and costs awarded in connection with such claims. To date, the Company has not incurred any material costs as a result of such indemnities and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

Guarantees

On July 16, 2020, EVH Passport, Evolent Health LLC and Molina Healthcare, Inc. ("Molina") entered into an Asset Purchase Agreement (the "Molina APA"), which contemplated the sale by EVH Passport to Molina of certain assets, including certain intellectual property rights of EVH Passport and EVH Passport's rights under the UHC's Kentucky Medicaid Contract (the "Passport Medicaid Contract"). On September 1, 2020, EVH Passport and Molina consummated the transactions contemplated by the Molina APA (the "Molina Closing") and the Passport Medicaid Contract was novated to Molina. In connection with the Molina Closing, the Company continued to provide administrative support services relating to the Passport Medicaid Contract to Molina through the end of 2020. Following the Molina Closing, EVH Passport began working with regulatory authorities including the Kentucky Department of Insurance ("KY DOI") regarding the wind down of its operations throughout 2021, 2022 and a portion of 2023. The wind down process is now complete and on October 10, 2023, the KY DOI approved our application to surrender our certificate of authority. As part of that wind down process, the Company, as the parent of EVH Passport, entered into a guarantee for the benefit of the KY DOI to satisfy any EVH Passport liability or obligation in the event EVH Passport is not able to meet its wind down liabilities or obligations. As of March 31, 2024, no amounts have been funded under this guarantee.

UPMC Reseller Agreement

The Company and UPMC are parties to a reseller, services and non-competition agreement, dated August 31, 2011, which was amended and restated by the parties on June 27, 2013 (as amended through the date hereof, the "UPMC Reseller Agreement"). Under the terms of the UPMC Reseller Agreement, UPMC has appointed the Company as a non-exclusive reseller of certain services, subject to certain conditions and limitations specified in the UPMC Reseller Agreement. In consideration for the Company's obligations under the UPMC Reseller Agreement and subject to certain conditions described therein, UPMC has agreed not to sell certain products and services directly to a defined list of 20 of the Company's customers.

Tax Receivables Agreement

In connection with the Offering Reorganization, the Company entered into the Tax Receivables Agreement (the "TRA") with certain of its investors, which provides for the payment by the Company to these investors of 85% of the amount of the tax benefits, if any, that the Company is deemed to realize as a result of increases in our tax basis related to exchanges of Class B common units as well as tax benefits attributable to the future utilization of pre-IPO NOLs.

The Company recognized a TRA liability of \$ 108.1 million and \$107.9 million as of March 31, 2024 and December 31, 2023, respectively, which represents the Company's estimate of the aggregate amount that it will pay under the TRA. During the three months ended March 31, 2024, we recorded an immaterial increase in the TRA liability.

We will assess the realizability of the deferred tax assets at each reporting period, and a change in our estimate of our liability associated with the tax receivable agreement may result as additional information becomes available, including results of operations in future periods. The total amount of the TRA liability may vary due to changes in federal and state income tax rates and availability of net operating losses.

Contingencies

Litigation Matters

We are engaged from time to time in certain legal disputes arising in the ordinary course of business, including employment claims. When the likelihood of a loss contingency becomes probable and the amount of the loss can be reasonably estimated, we accrue a liability for the loss contingency. We continue to review accruals and adjust them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. To the extent new information is obtained, and our views on the probable outcomes of claims, suits, assessments, investigations or legal proceedings change, changes in our accrued liabilities would be recorded in the period in which such determination is made.

On June 8, 2021, a shareholder of the Company filed a derivative action in the Delaware Chancery Court against some current and former Board members and against the Company as a nominal defendant, alleging that the Company's Board was negligent in its oversight of the Company's relationship with University Healthcare, Inc d/b/a Passport Health Plan. The case is *Lincolnshire Police Pension Fund, derivatively on behalf of Evolent Health, Inc., v. Blackley, Williams, Scott, Holder, Farner, D'Amato, Duffy, Felt, Samet, Hobart, and Payson, and Evolent Health, Inc.* ("Derivative Action"). The Company and the Director-Defendants filed a motion to dismiss the complaint on August 27, 2021, and Plaintiffs responded by filing an amended complaint on October 26, 2021. Defendants filed a motion to dismiss the amended complaint on December 17, 2021. Plaintiffs filed a motion to dismiss the case without prejudice, which was granted by the Delaware Chancery Court on January 5, 2023. On April 6, 2023, a shareholder of the Company sent a letter to the Company's Board (the "Demand") requesting that the Company's Board of Directors (the "Board"),

among other things, investigate alleged wrongdoing and commence litigation for breach of fiduciary duty against the individuals named as defendants in the Derivative Action. The Board considers it appropriate to investigate, evaluate, and consider the issues and matters raised in the Demand, and are working with outside counsel to do so. On February 15, 2024, the Board, following careful deliberation, responded that it was in the best interests of the Company and its stockholders to refuse to take the actions, including commencing litigation, that were made in the Demand. The Company cannot currently estimate the loss or the range of possible losses it may experience in connection with this request.

Credit and Concentration Risk

The Company is subject to significant concentrations of credit risk related to cash and cash equivalents and accounts receivable. As of March 31, 2024, approximately 98.6% of our \$233.5 million of cash and cash equivalents, restricted cash and restricted investments were held in either bank deposits with FDIC participating banks or overnight sweep accounts invested in money-market funds and approximately 1.4% were held in international banks. While the Company maintains its cash and cash equivalents with financial institutions with high credit ratings, it often maintains these deposits in federally insured financial institutions in excess of federally insured limits. The Company is closely monitoring ongoing events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions or other companies in the financial services industry or the financial services industry generally. The Company has not experienced any realized losses on cash and cash equivalents to date; however, no assurances can be provided.

The Company is also subject to significant concentration of accounts receivable risk as a substantial portion of our trade accounts receivable is derived from a small number of our partners. The following table summarizes the partners who represented at least 10.0% of our consolidated short-term trade accounts receivable, excluding pharmacy claims receivable and premiums receivable:

	March 31, 2024	December 31, 2023
Cook County Health and Hospitals System	43.3%	46.9%
Center for Medicare & Medicaid Services	10.6%	*

* Represents less than 10.0% of the respective balance.

In addition, the Company is subject to significant concentration of revenue risk as a substantial portion of our revenue is derived from a small number of contractual relationships with our partners.

The following table summarizes those partners who represented at least 10.0% of our consolidated revenue:

	For the Three Months Ended March 31,	
	2024	2023
Humana Insurance Company	21.6%	*
Florida Blue Medicare, Inc.	12.7%	11.9%
Cook County Health and Hospitals System	11.4%	17.2%
Molina Healthcare, Inc.	11.2%	13.2%

* Represents less than 10.0% of the respective balance

We derive a significant portion of our revenues from our largest partners. The loss, termination or renegotiation of our relationship or contract with any significant partner or multiple partners in the aggregate could have a material adverse effect on the Company's financial condition and results of operations.

Note 11. Leases

The Company enters into various office space, data center, and equipment lease agreements in conducting its normal business operations. At the inception of any contract, the Company evaluates the agreement to determine whether the contract contains a lease. If the contract contains a lease, the Company then evaluates the term and whether the lease is an operating or finance lease. Most leases include one or more options to renew or may have a termination option. The Company determines whether these options are reasonably certain to be exercised or not at the inception of the lease. In addition, some leases contain escalation clauses. The rent expense is recognized on a straight-line basis in the consolidated statements of operations and comprehensive income (loss) over the term of the lease. Leases with an initial term of 12 months or less are not recorded on our consolidated balance sheets.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Further, the Company treats all lease and non-lease components as a single combined lease component for all classes of underlying assets. The Company also enters into sublease agreements for some of its leased office space. Immaterial rental income attributable to subleases is offset against rent expense over the terms of the respective leases.

The Company leases office space and computer and other equipment under operating lease agreements expiring at various dates. Under the lease agreements, in addition to base rent, the Company is generally responsible for operating and maintenance costs and related fees. Several of these agreements include tenant improvement allowances, rent holidays or rent escalation clauses. When such items are included in a lease agreement, we record such items in right-of-use assets and operating lease liabilities on our consolidated balance sheets equal to the difference between rent expense and future minimum lease payments due. The rent expense related to these items is recognized on a straight-line basis over the terms of the leases. Effective January 1, 2024, the Company's primary office location is in Arlington, Virginia with a lease that expires in December 2030.

In connection with various lease agreements, the Company is required to maintain \$ 2.2 million and \$2.1 million in letters of credit as of March 31, 2024 and December 31, 2023, respectively. As of March 31, 2024 and December 31, 2023, the Company held \$2.2 million and \$2.1 million in restricted cash and restricted investments on the consolidated balance sheet as collateral for the letters of credit, respectively.

The Company terminated a portion of its previous headquarters lease in Arlington, VA effective December 31, 2023 and recognized the impact of a \$6.5 million termination penalty in its operating lease liability - current on its consolidated balance sheet. The termination payment consisted of two payments of \$3.25 million that were paid on October 1, 2023 and April 1, 2024. In addition, the Company terminated the remainder of its previous headquarters lease in Arlington, VA effective March 27, 2024 and recognized the impact of a \$3.5 million termination penalty in its operating lease liability - current on its consolidated balance sheet. The termination payment of \$3.5 million was paid on April 1, 2024.

The following table summarizes our primary office leases as of March 31, 2024 (in thousands, other than term):

Location	Lease Termination Term (in years)	Future Minimum Lease Commitments	Letter of Credit Amount Required
Arlington, VA ⁽¹⁾	6.8	\$ 3,258	\$ 1,579
Edison, NJ	2.1	1,104	222
Makati City, Philippines	4.2	2,825	—
Alpharetta, GA	1.5	716	—
Pune, India	4.0	2,334	—
Brea, CA	3.2	3,083	—

⁽¹⁾ Amounts required under the letter of credit for our previous headquarters' lease in Arlington, VA until December 2024.

The following table summarizes the components of our lease expense (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Operating lease cost	\$ 103	\$ 1,940
Variable lease cost	1,425	1,556
Total lease cost	\$ 1,528	\$ 3,496

Maturity of lease liabilities (in thousands) is as follows:

	Operating lease expense
2024	\$ 13,024
2025	8,338
2026	7,566
2027	6,955
2028	5,808
Thereafter	12,428
Total lease payments	54,119
Less:	
Interest	8,954
Present value of lease liabilities	\$ 45,165

Our weighted-average discount rate and our weighted remaining lease terms (in years) are as follows:

	March 31, 2024
Weighted average discount rate	7.07 %
Weighted average remaining lease term	5.1

Note 12. Convertible Preferred Equity

In connection with the NIA closing, on January 20, 2023, the Company entered into a Securities Purchase Agreement (Series A Convertible Preferred Shares) with the Purchasers listed on Schedule I thereto (the "Securities Purchase Agreement") pursuant to which the Company offered and sold to the Purchasers an aggregate 175,000 shares of the Series A Preferred Stock, par value \$ 0.01 (the "Series A Preferred Stock"), at a purchase price of \$960.00 per share, resulting in total gross proceeds to the Company of \$ 168.0 million. The proceeds from the offer and sale of the Series A Preferred Stock were used, together with the proceeds from the Incremental Revolving Facility and Incremental Term Loan Facility, to finance the cash consideration payable at Closing and pay transaction fees and expenses.

The Series A Preferred Stock ranks senior with respect to dividend and liquidation rights to the Company's Class A common stock, par value \$ 0.01 per share and all future series of the Company's preferred stock. Each share of Series A Preferred Stock has an initial liquidation preference of \$1,000.00 per share.

Regular dividends on the Series A Preferred Stock will be paid quarterly in cash in arrears at a rate per annum equal to Adjusted Term SOFR (as defined in the Certificate of Designation of the Series A Preferred Stock filed by the Company with the Delaware Secretary of State on January 19, 2023 (the "Certificate of Designation")) plus 6.00%. The liquidation preference of the Series A Preferred Stock will increase on the last day of each calendar quarter by the amount of any accrued and unpaid regular dividends that have not been paid in cash on the relevant dividend payment date. The regular dividend rate will also increase by 2.0% per annum upon the occurrence and during the continuance of certain triggering events, including a breach of the protective covenants contained in the Investor Rights Agreement or the Company's failure to pay any regular dividends in cash. Holders of Series A Preferred Stock are also entitled to participate in and receive any dividends declared or paid on the Class A Common Stock on an as-converted basis.

Each holder of Series A Preferred Stock has the right, at its option, to convert its shares of Series A Preferred Stock into shares of Class A Common Stock at an initial conversion price per share of \$40.00 of the then-current liquidation preference per share, subject to customary anti-dilution adjustments.

Holders of Series A Preferred Stock are not entitled to vote on any matters, except as required by law and for certain consent rights set forth in the Certificate of Designation.

The Company may not redeem the Series A Preferred Stock at its option prior to January 20, 2025. At any time on or after January 20, 2025, the Company may redeem any or all of the Series A Preferred Stock then outstanding for cash at a redemption price per share equal to 165.00% of the then-current liquidation preference of the Series A Preferred Stock, plus all accrued and unpaid dividends on the Series A Preferred Stock being redeemed.

If not earlier redeemed, at any time on or after January 20, 2030, at the request of the holders of a majority of the convertible preferred stock, the Company will redeem all shares of Series A Preferred Stock then outstanding for cash at a redemption price per share equal to 150.00% of the then-current liquidation preference per share of the Series A Preferred Stock, plus all accrued and unpaid dividends on the Series A Preferred Stock being redeemed.

Upon the occurrence of a refinancing or replacement of the entirety of the indebtedness under the Credit Agreement prior to its maturity that is provided solely by lenders who are not affiliates or approved funds of Ares, the Company will be required to redeem all shares of Series A Preferred Stock then outstanding for cash at a redemption price per share equal to 165.00% of the then-current liquidation preference of the Series A Preferred Stock, plus all accrued and unpaid dividends on the Series A Preferred Stock being redeemed, plus, solely in the event such refinancing or replacement is consummated prior to January 20, 2025, the aggregate amount of dividends per share which would have otherwise been payable on the Series A Preferred Stock from the date of redemption until January 20, 2025.

If the Company undergoes a Change of Control (as defined in the Credit Agreement), the Company will be required to redeem all shares of Series A Preferred Stock then outstanding for cash at a price per share equal to the greater of (x) 150.00% of the then-current liquidation preference per share of the Series A Preferred Stock, if such redemption occurs prior to January 20, 2025, and 135.00% of the then-current liquidation preference per share of the Series A Preferred Stock, if such redemption occurs on or after January 20, 2025, and (y) the value of the Class A Common Stock issuable upon conversion of a share of Series A Preferred Stock, which value shall be determined based on the value attributed to the Class A Common Stock in connection with such Change of Control.

In connection with the NIA closing, the Company entered into an Investors Rights Agreement with the Purchasers named in Schedule I thereto (the "Investors Rights Agreement"). The Investors Rights Agreement contains certain restrictions on the transfer of the Series A Preferred Stock and certain protective covenants in favor of the Purchasers. These covenants include, among other things, covenants limiting the incurrence of Funded Debt (as defined in the Investors Rights Agreement), the ability to make restricted payments and the ability to issue additional indebtedness senior to the Series A Preferred Stock. Each of these covenants is subject to certain exceptions set forth in the Investors Rights Agreement.

In connection with the NIA closing, on January 20, 2023, the Company entered into a Registration Rights Agreement with the Stockholders named in Schedule I thereto, which granted certain registration rights to Ares in respect of the shares of the Company's Class A Common Stock issuable upon conversion of the Series A Preferred Stock.

The Company accreted \$2.9 million of deferred issuance costs and redemption value in excess of par value in additional paid-in- capital on the consolidated balance sheets for the three months ended March 31, 2024.

The Company paid dividends related to the Series A Preferred Stock as presented below during the three months ended March 31, 2024:

For the Three Month Period Ended	Payment Date	Dividends Per		Total Amount Paid
		Share		
March 31, 2024	3/28/2024	\$ 29.02	\$	5,078,500
March 31, 2023	3/28/2023	20.86		3,650,500

Note 13. Loss Per Common Share

The following table sets forth the computation of basic and diluted earnings per share available for common stockholders (in thousands, except per share data):

	For the Three Months Ended March 31,	
	2024	2023
Loss before preferred dividends and accretion of Series A Preferred Stock	\$ (17,280)	\$ (19,982)
Dividends and accretion of Series A Preferred Stock	(7,945)	(6,276)
Net loss attributable to common shareholders of Evolent Health, Inc.	<u>\$ (25,225)</u>	<u>\$ (26,258)</u>
Weighted-average common shares outstanding - basic and diluted	<u>114,141</u>	<u>107,783</u>
Loss per common share		
Basic and diluted	\$ (0.22)	\$ (0.24)

Basic net loss per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted net earnings per common share, if any, gives effect to diluted stock options (calculated based on the treasury stock method), shares issuable upon debt conversion (calculated using an as-if converted method).

Anti-dilutive shares excluded from the calculation of weighted-average common shares presented above are presented below (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Restricted stock units ("RSUs"), performance-based RSUs ("PSUs") and leveraged stock units ("LSUs")	1,222	1,923
Stock options	410	1,260
Series A Preferred Stock	4,375	4,375
Convertible senior notes	20,252	6,188
Total	<u>26,259</u>	<u>13,746</u>

Note 14. Stock-based Compensation

Total compensation expense by award type and line item in our consolidated financial statements was as follows (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Award Type		
Stock options	\$ —	\$ 60
RSUs	7,468	7,489
LSUs	—	284
PSUs	11,318	2,877
Total compensation expense by award type	<u>\$ 18,786</u>	<u>\$ 10,710</u>
Line Item		
Cost of revenue	\$ 1,005	\$ 1,540
Selling, general and administrative expenses	17,781	9,170
Total compensation expense by financial statement line item	<u>\$ 18,786</u>	<u>\$ 10,710</u>

No stock-based compensation was capitalized as software development costs during the three months ended March 31, 2024 and 2023, respectively.

Stock-based awards were granted as follows (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
RSUs	955	996
PSUs	808	424

Note 15. Income Taxes

We have historically calculated the provision (benefit) for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full year to ordinary income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. We have used a discrete effective tax rate method to calculate taxes for the three months ended March 31, 2024. We determined that since small changes in estimated ordinary income would result in significant changes in the estimated annual effective tax rate, the historical method would not provide a reliable estimate for the three months ended March 31, 2024.

An income tax provision (benefit) of \$0.6 million and \$(68.2) million was recognized for the three months ended March 31, 2024 and 2023 respectively, which resulted in effective tax rates of (3.4)% and 77.3%, respectively. The income tax expense recorded during the three months ended March 31, 2024 primarily relates to state and foreign taxes. The income tax benefit recorded during the three months ended March 31, 2023, primarily relates to the reduction in the valuation allowance resulting from deferred tax liabilities established as part of the NIA acquisition accounting, partially offset by state and foreign taxes.

As of March 31, 2024, the Company had unrecognized tax benefits of \$2.7 million that, if recognized, would affect the overall effective tax rate. The Company is not currently subject to income tax audits in any U.S., state, or foreign jurisdictions for any tax year.

Tax Receivables Agreement

In connection with the Offering Reorganization, the Company entered into the TRA with certain of its investors, which provides for the payment by the Company to these investors of 85% of the amount of the tax benefits that the Company is deemed to realize as a result of increases in our tax basis related to exchanges of Class B common units as well as tax benefits attributable to the future utilization of pre-IPO NOLs. See Note 10 above for discussion of our TRA.

Note 16. Investments and Equity Method Investees

The Company holds ownership interests in joint ventures and other entities which are accounted for under the equity method. Our joint ventures may include put or call features under which we could be forced to extend purchase or buy interests from our joint venture partner. The Company evaluates its interests in these entities to determine whether they meet the definition of a VIE and whether the Company is required to consolidate these entities. A VIE is consolidated by its primary beneficiary, which is the party that has both (i) the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) a variable interest that could potentially be significant to the VIE. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of the Company's involvement with the VIE. The Company has determined that its interests in these entities meet the definition of a variable interest, however, the Company is not the primary beneficiary since it does not have the power to direct activities, therefore, the Company did not consolidate the VIEs.

As of March 31, 2024 and December 31, 2023, the Company's economic interests in its equity method investments ranged between 4% and 34%, and voting interests in its equity method investments ranged between 25% and 34%. The Company determined that it has significant influence over these entities but that it does not have control over any of the entities. Accordingly, the investments are accounted for under the equity method of accounting and the Company is allocated its proportional share of the entities' earnings and losses for each reporting period. The Company's proportional share of the gain from these investments was approximately \$0.3 million and \$0.4 million for the three months ended March 31, 2024 and 2023, respectively.

The Company signed services agreements with certain of the aforementioned entities to provide certain management, operational and support services to help manage elements of their service offerings. Revenue related to these services agreements were \$3.8 million and \$4.8 million for the three months ended March 31, 2024 and 2023, respectively.

Investments

During the quarter ended March 31, 2024, the Company entered into an agreement to invest \$ 3.0 million in future equity notes. Investment in future equity notes without readily determinable fair values are accounted for as cost method investments. The Company has elected to apply the measurement alternative to measure the investment at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer.

For the three months ended March 31, 2024, the Company did not record any unrealized gains or losses resulting from observable price changes of future equity notes without readily determinable fair values. As of March 31, 2024, the carrying amount of the investment was \$3.0 million.

Note 17 . Fair Value Measurement

GAAP defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) assuming an orderly transaction in the most advantageous market at the measurement date. GAAP also establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. These tiers include:

- Level 1 - inputs to the valuation methodology are quoted prices available in active markets for identical instruments as of the reporting date;
- Level 2 - inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date and the fair value can be determined through the use of models or other valuation methodologies; and
- Level 3 - inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the particular asset or liability being measured. These items are recorded in accrued liabilities on our consolidated balance sheets.

Recurring Fair Value Measurements

In accordance with GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The following table summarizes the Company's assets and liabilities measured at fair value on a recurring basis (in thousands):

March 31, 2024				
	Level 1	Level 2	Level 3	Total
Liabilities				
Contingent consideration ⁽¹⁾	\$ —	\$ —	\$ 88,753	\$ 88,753
Total fair value of liabilities measured on a recurring basis	\$ —	\$ —	\$ 88,753	\$ 88,753

December 31, 2023				
	Level 1	Level 2	Level 3	Total
Liabilities				
Contingent consideration	\$ —	\$ —	\$ 83,600	\$ 83,600
Total fair value of liabilities measured on a recurring basis	\$ —	\$ —	\$ 83,600	\$ 83,600

⁽¹⁾ Represents the earn-out consideration related to the NIA transaction as described in Note 4 and was paid in cash in April 2024.

The Company recognizes any transfers between levels within the hierarchy as of the beginning of the reporting period. There were no transfers between fair value levels during the three months ended March 31, 2024.

In the absence of observable market prices, the fair value is based on the best information available and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks.

The acquisition of NIA includes a provision for additional equity consideration, at the Company's option, contingent upon the Company obtaining certain performance metrics. The earnout period for the NIA contingent consideration is the year ending December 31, 2023 and the earnout was paid in cash during the second quarter of 2024.

The changes in our liabilities measured at fair value for which the Company uses Level 3 inputs to determine fair value are as follows (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Balance as of beginning of period	\$ 83,600	\$ 78,000
Additions	—	69,761
Settlements	(3,755)	(29,961)
Total (gain) loss, net	8,908	4,300
Balance as of end of period	<u>\$ 88,753</u>	<u>\$ 122,100</u>

The following table summarizes the fair value (in thousands), valuation techniques and significant unobservable inputs of our Level 3 fair value measurements as of the periods presented:

	March 31, 2024			
	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Contingent consideration	\$ 88,753	N/A	Contractual terms	\$ 88,753

	December 31, 2023			
	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Contingent consideration	\$ 83,600	N/A	Contractual terms	\$ 83,600

Nonrecurring Fair Value Measurements

In addition to the assets and liabilities that are recorded at fair value on a recurring basis, the Company records certain assets and liabilities at fair value on a nonrecurring basis as required by GAAP. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. This includes assets and liabilities recorded in business combinations or asset acquisitions, goodwill, intangible assets, property, plant and equipment, held-to-maturity investments and equity method investments. While not carried at fair value on a recurring basis, these items are continually monitored for indicators of impairment that would indicate current carrying value is greater than fair value. In those situations, the assets are considered impaired and written down to current fair value.

Other Fair Value Disclosures

The carrying amounts of cash and cash equivalents (those not held in a money market fund), restricted cash, receivables, prepaid expenses, accounts payable, accrued liabilities and accrued compensation approximate their fair values because of the relatively short-term maturities of these items and financial instruments.

See Note 9 for information regarding the fair value of the 2025 and 2029 Notes.

Note 18. Related Parties

The entities described below are considered related parties and the balances and/or transactions with them are reported in our consolidated financial statements.

The Company had an economic relationship through the ordinary course of business with an entity whose President and Chief Executive Officer was a member of our Board until his retirement from the Board in February 2024, that accounted for the majority of our related party revenue and cost of revenue for the three months ended March 31, 2024 and 2023, respectively.

As discussed in Note 16, the Company had economic interests in several entities that are accounted for under the equity method of accounting. The Company has allocated its proportional share of the investees' earnings and losses each reporting period. In addition, Evolent has entered into services agreements with certain of the entities to provide certain management, operational and support services to help the entities manage elements of their service offerings.

The following table presents assets and liabilities attributable to our related parties (in thousands):

	March 31, 2024	December 31, 2023
Assets		
Accounts receivable, net	\$ 3,666	\$ 8,045
Liabilities		
Accounts payable	\$ 541	\$ 390

The following table presents revenues and expenses attributable to our related parties (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Revenue	\$ 30,784	\$ 54,721
Expenses		
Cost of revenue	26,914	47,506
Selling, general and administrative expenses	—	242

Note 19. Repositioning and Other Changes

We continually assess opportunities to improve operational effectiveness and efficiency to better align our expenses with revenues, while continuing to make investments in our solutions, systems and people that we believe are important to our long-term goals.

During the second quarter of 2023, the Company implemented a broad set of repositioning initiatives designed to further align the Company's assets and talent towards the value-based specialty care opportunity, with the intent of streamlining its operations and supporting the goal of realizing long-term sustainable earnings growth (the "2023 Repositioning Plan"). These initiatives include making organizational changes across the business that resulted in severance, terminated benefits and related payroll taxes and dedicated employee costs associated with recent acquisitions as well as third-party professional fees. Dedicated employee costs primarily include project management and technology staff costs needed to migrate acquired businesses to Evolent's integrated technology platform and costs related to the consolidation of brands, internal operations, strategies, processes and platforms. Dedicated employee costs are limited to employees that will have no role in ongoing operations and have no planned role at Evolent once the repositioning activities are completed. Professional services costs primarily relate to services provided by a third-party vendor to review our operating model and organizational design in order to improve our profitability, create value through our solutions and invest in strategic opportunities in future periods. Office space consolidation includes early termination penalties and associated expenses.

As of March 31, 2024, the Company estimates total repositioning charges of \$ 48.8 million to be incurred during the life of "the 2023 Repositioning Plan" which will be recorded in selling, general and administrative expenses on the consolidated statements of operations and comprehensive income (loss). The repositioning program is anticipated to be substantially complete by the end of the second quarter of 2024.

The following table provides a summary of our total costs associated with our repositioning plans for the three months ended March 31, 2024, by major type of cost (in thousands):

	For the Three Months Ended March 31, 2024	Cumulative Amount Incurred Through March 31, 2024	Total Amount Expected to be Incurred in the 2023 Repositioning Plan
Severance and termination benefits	\$ 1,804	\$ 10,368	\$ 12,368
Dedicated employee costs	1,185	8,085	8,229
Professional services	3,488	16,399	17,865
Office space consolidation	3,452	10,314	\$ 10,314
Total	\$ 9,929	\$ 45,166	\$ 48,776

Note 20. Reserve for Claims and Performance-Based Arrangements

The Company maintains reserves for its liabilities related to payments to providers and pharmacies under performance-based arrangements related to its specialty care management services solutions.

Reserves for claims and performance-based arrangements reflect actual payments under performance-based arrangements and the ultimate cost of claims that have been incurred but not reported, including expected development on reported claims, those that have been reported but not yet paid (reported claims in process), and other medical care expenses and services payable that are primarily composed of accruals for incentives and other amounts payable to health care professionals and facilities.

The Company uses actuarial principles and assumptions that are consistently applied each reporting period and recognizes the actuarial best estimate of the ultimate liability along with a margin for adverse deviation. This approach is consistent with actuarial standards of practice that the liabilities be adequate under moderately adverse conditions.

This liability predominately consists of incurred but not reported amounts and reported claims in process including expected development on reported claims. The liability for reserves related to its specialty care management services is calculated using "completion factors" developed by comparing the claim incurred date to the date claims were paid. Completion factors are impacted by several key items including changes in: 1) electronic (auto-adjudication) versus manual claim processing, 2) provider claims submission rates, 3) membership and 4) the mix of products.

The Company's policy for reserves related to its specialty care management services solutions is to use historical completion factors combined with an analysis of current trends and operational factors to develop current estimates of completion factors. The Company estimates the liability for claims incurred in each month by applying the current estimates of completion factors to the current paid claims data. This approach implicitly assumes that historical completion rates will be a useful indicator for the current period.

For more recent months, and for newer lines of business where there is not sufficient paid claims history to develop completion factors, the Company expects to rely more heavily on medical cost trend and expected loss ratio analysis that reflects expected claim payment patterns and other relevant operational considerations, or authorization analysis. Medical cost trend is primarily impacted by medical service utilization and unit costs that are affected by changes in the level and mix of medical benefits offered, including inpatient, outpatient and pharmacy, the impact of copays and deductibles, changes in provider practices and changes in consumer demographics and consumption behavior. Authorization analysis projects costs based on authorizations per thousand members basis and assigning an average cost per authorization. This is also adjusted for the impact of copays, deductibles, unit cost and historic discontinuation rates for treatment are considered.

For each reporting period, the Company compares key assumptions used to establish the reserves for claims and performance-based arrangements to actual experience. When actual experience differs from these assumptions, reserves for claims and performance-based arrangements are adjusted through current period net income. Additionally, the Company evaluates expected future developments and emerging trends that may impact key assumptions. The process used to determine this liability requires the Company to make critical accounting estimates that involve considerable judgment, reflecting the variability inherent in forecasting future claim payments. These estimates are highly sensitive to changes in the Company's key assumptions, specifically completion factors and medical cost trends.

Activity in reserves for claims and performance-based arrangements related to specialty care management services solution was as follows (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Balance, beginning of period	\$ 404,048	\$ 199,730
Incurred health care costs:		
Current year to date period	374,879	180,675
Prior year to date period	(15,186)	(19,914)
Total claims incurred	359,693	160,761
Claims paid related to:		
Current year to date period	(146,399)	(64,870)
Prior year to date period	(248,703)	(98,424)
Total claims paid	(395,102)	(163,294)
Balance, end of period	\$ 368,639	\$ 197,197

Note 21. Supplemental Cash Flow Information

The following represents supplemental cash flow information (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Accrued property and equipment purchases	\$ (34)	\$ 30
Class A common stock issued in connection with business combinations	—	261,271
Accrued net working capital adjustment with business combinations	2,712	1,098
Effects of Leases		
Operating cash flows from operating leases	(3,253)	3,528
Leased assets disposed of (obtained in) exchange for operating lease liabilities	(185)	(3,076)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the Company's financial condition and results of operations. The MD&A is provided as a supplement to, and should be read in conjunction with our interim consolidated financial statements and the accompanying notes to our interim consolidated financial statements presented in "Part I – Item 1. Financial Statements" of this Form 10-Q; our 2023 Form 10-K, including the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and our current reports on Form 8-K filed in 2024.

INTRODUCTION

Business Overview

We are a market leader in connecting care for people with complex conditions like cancer, cardiovascular disease, and musculoskeletal diagnoses. We work on behalf of health plans and other risk-bearing entities and payers (our customers) to support physicians and other healthcare providers (our users) in providing high quality evidence-based care to their patients. We believe adherence to evidence-based clinical pathways supports better outcomes for patients, a better experience for physicians, and lower costs for the healthcare system overall.

Specialty care represents a significant and fast-growing portion of healthcare costs in the U.S., driven in part by the pace of development of new therapies and treatments. To manage these increasing costs, some health plans and other risk-bearing entities historically deployed cost containment strategies that can limit access to care and operate in narrow silos (for example, prior authorization for radiological studies being considered independently from a comprehensive chemotherapy regimen). We believe Evolent can bring an integrated approach to a patient's condition across multiple specialties, using technology to recommend our evidence-based clinical pathways in a way that provides rapid feedback to the provider, seeks to remove barriers to care, and aligns financial incentives with the best evidence.

We were an early innovator in value-based care, founded in 2011 by members of our management team, UPMC, an integrated delivery system based in Pittsburgh, Pennsylvania, and The Advisory Board Company.

All of our revenue is recognized in the United States and substantially all of our long-lived assets are located in the United States.

Recent Events

Impact of Inflation

We experience pricing pressures in the form of competitive prices in addition to rising costs for certain inflation-sensitive operating expenses such as labor, employee benefits and facility leases. We do not believe these impacts were material to our revenues or net income during the three months ended March 31, 2024. However, significant sustained inflation driven by the macroeconomic environment or other factors could negatively impact our margins, profitability and results of operations in future periods.

Customers

The following table summarizes those partners who represented at least 10.0% of our consolidated revenue:

	For the Three Months Ended March 31,	
	2024	2023
Humana Insurance Company	21.6%	*
Florida Blue Medicare, Inc.	12.7%	11.9%
Cook County Health and Hospitals Systems	11.4%	17.2%
Molina Healthcare, Inc.	11.2%	13.2%

* Represents less than 10.0% of the respective balance.

Repositioning Costs

During the second quarter of 2023, the Company implemented a broad set of repositioning initiatives designed to further align the Company's assets and talent towards the value-based specialty care opportunity, with the intent of streamlining its operations and supporting the goal of realizing long-term sustainable earnings growth (the "2023 Repositioning Plan"). These initiatives include making organizational changes across the business that resulted in severance, terminated benefits and related payroll taxes and dedicated employee costs associated with recent acquisitions as well as third-party professional fees. Dedicated employee costs primarily include project management and technology staff costs needed to migrate acquired businesses to Evolent's integrated technology platform and costs related to the consolidation of brands, internal operations, strategies, processes and platforms. Dedicated employee costs are limited to employees that will have no role in ongoing operations and have no planned role at Evolent once the repositioning activities are completed. Professional services costs primarily relate to services provided by a third-party vendor to review our operating model and organizational design in order to improve our profitability, create value through our solutions and invest in strategic opportunities in future periods. Office space consolidation includes early termination penalties and associated expenses.

As of March 31, 2024, the Company estimates total repositioning charges of \$48.8 million to be incurred during the life of "the 2023 Repositioning Plan" which will be recorded in selling, general and administrative expenses on the consolidated statements of operations and comprehensive income (loss). The repositioning program is anticipated to be substantially complete by the end of the second quarter of 2024.

The following table provides a summary of our total costs associated with our repositioning plans for the three months ended March 31, 2024, by major type of cost (in thousands):

	For the Three Months Ended March 31, 2024	Cumulative Amount Incurred Through March 31, 2024	Total Amount Expected to be Incurred in the 2023 Repositioning Plan
Severance and termination benefits	\$ 1,804	\$ 10,368	\$ 12,368
Dedicated employee costs	1,185	8,085	8,229
Professional services	3,488	16,399	17,865
Office space consolidation	3,452	10,314	10,314
Total	<u>\$ 9,929</u>	<u>\$ 45,166</u>	<u>\$ 48,776</u>

Critical Accounting Policies and Estimates

Certain GAAP policies that significantly affect the determination of our financial position, results of operations and cash flows, are summarized below. See "Part II - Item 8. Financial Statements and Supplementary Data - Note 2" in our 2023 Form 10-K for a complete summary of our significant accounting policies.

Goodwill

We recognize the excess of the purchase price plus the fair value of any non-controlling interests in the acquiree over the fair value of identifiable net assets acquired as goodwill. Goodwill is not amortized, but is reviewed at least annually for indications of impairment, with consideration given to financial performance and other relevant factors. We perform impairment tests of goodwill at a reporting

unit level. We perform impairment tests between annual tests if an event occurs, or circumstances change, that we believe would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Our goodwill impairment analysis first assesses qualitative factors to determine whether events or circumstances existed that would lead the Company to conclude it is more likely than not that the fair value of our reporting unit is below its carrying amount. Qualitative factors include macroeconomic, industry and market considerations, overall financial performance, industry, legal and other relevant events and factors affecting the reporting unit. Additionally, as part of this assessment, we may perform a quantitative analysis to support the qualitative factors above by applying sensitivities to assumptions and inputs used in measuring our reporting unit's fair value.

If the Company determines that it is more likely than not that the fair value of our reporting unit is below the carrying amount, a quantitative goodwill assessment is required. In the quantitative evaluation, the fair value is determined and compared to the carrying value. If the fair value is greater than the carrying value, then the carrying value is deemed to be recoverable and no further action is required. If the fair value estimate is less than the carrying value, goodwill is considered impaired for the amount by which the carrying amount exceeds the reporting unit's fair value and a charge is reported in goodwill impairment on our consolidated statements of operations and comprehensive income (loss). We use both a discounted cash flow analysis and market multiple analysis in order to estimate our reporting units fair value. The discounted cash flow analysis relies on significant judgement and assumptions about expected future cash flows, weighted-average cost of capital, discount rates, expected long-term growth rates and operating margins. These assumptions are based on estimates of future revenue and earnings after considering such factors as general economic and market conditions which drive key assumptions of revenue growth rates, operating margins, capital expenditures and working capital requirements. The weighted average cost of capital is based on market-based factors/inputs but also considers the specific risk characteristics of the reporting unit's cash flow forecast. A significant change to these estimates and assumptions could cause the estimated fair values of our reporting unit and intangible assets to decline and increase the risk of an impairment charge to earnings. Intangible assets with finite lives are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

On October 31, 2023, the Company performed its annual goodwill impairment review for fiscal year 2023. In addition, the Company underwent organizational changes which required a reassessment of reporting units. As a result, the Company determined it has one reporting unit due to the economic similarity of the services provided to our partners. Based on our qualitative assessment, we did not identify sufficient indicators of impairment that would suggest the fair value of our reporting unit was below its respective carrying values. As a result, a quantitative goodwill impairment analysis was not required. We did not identify any qualitative factors that would trigger a quantitative goodwill impairment test during the three months ended March 31, 2024. We will perform our annual impairment test of October 31, 2024.

Adoption of New Accounting Standards

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This ASU clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with ASC Topic 606, Revenue from Contracts with Customers. The Company adopted this standard starting in the first quarter of 2023, which did not have a material impact on our consolidated financial statements.

RESULTS OF OPERATIONS

Evolent Health, Inc. is a holding company and its principal asset is all of the Class A common units in Evolent Health LLC, which has owned all of our operating assets and substantially all of our business since inception. The financial results of Evolent Health LLC are consolidated in the financial statements of Evolent Health, Inc.

Key Components of our Results of Operations

Revenue

Our revenue contracts are typically multi-year arrangements with customers to provide solutions designed to lower the medical expenses of our partners and include our total cost of care management and specialty care management services solutions, provide comprehensive health plan operations and claims processing services, and also include transition or run-out services to customers.

Our performance obligation in these arrangements is to provide an integrated suite of services, including access to our platform that is customized to meet the specialized needs of our partners and providers. Generally, we will apply the series guidance to the performance obligation as we have determined that each time increment is distinct. We primarily utilize a variable fee structure for these services that typically includes a monthly payment that is calculated based on a specified per member per month rate, multiplied

by the number of members that our partners are managing under a value-based care arrangement or a percentage of plan premiums. Our arrangements may also include other variable fees related to service level agreements, shared medical savings arrangements and other performance measures. Variable consideration is estimated using the most likely amount based on our historical experience and best judgment at the time.

We also deploy our services in capitation arrangements under our specialty care management solution and total cost of care solution, which we call the "Performance Suite." Capitation arrangements under the Performance Suite may include performance-based arrangements and/or gainshare features. We occasionally use third parties to assist in satisfying our performance obligations. In order to determine whether we are the principal or agent in the arrangement, we review each third-party relationship on a contract-by-contract basis. As we integrate goods and services provided by third parties into our overall service, we control the services provided to the customer prior to its delivery. As such, we are the principal and we will recognize revenue on a gross basis. In certain cases, we act as an agent and do not control the services from third parties before it is delivered to the customer, thereby recognizing revenue on a net basis.

Due to the nature of our arrangements, certain estimates may be constrained if it is probable that a significant reversal of revenue will occur when the uncertainty is resolved. We recognize revenue from services over time using the time elapsed output method. Fixed consideration is recognized ratably over the contract term. In accordance with the series guidance, we allocate variable consideration to the period to which the fees relate.

Contracts with Multiple Performance Obligations

Our contracts with customers may contain multiple performance obligations, primarily when the partner has requested both administrative services and other services such as our specialty care management or total cost of care management services as these services are distinct from one another. When a contract has multiple performance obligations, we allocate the transaction price to each performance obligation based on the relative standalone selling price using the expected cost margin approach. This approach requires estimates regarding both the level of effort it will take to satisfy the performance obligation as well as fees that will be received under the variable pricing model. We also take into consideration customer demographics, current market conditions, the scope of services and our overall pricing strategy and objectives when determining the standalone selling price.

Cost of Revenue (exclusive of depreciation and amortization)

Our cost of revenue includes direct expenses and shared resources that perform services in direct support of our partners. Costs consist primarily of claims expense, employee-related expenses (including compensation, benefits and stock-based compensation), expenses recorded as part of a Medicare shared savings program and other services, as well as other professional fees. In certain cases, our cost of revenue also includes claims and capitation payments to providers and payments for pharmaceutical treatments and other health care expenditures through performance-based arrangements.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist of employee-related expenses (including compensation, benefits and stock-based compensation) for selling and marketing, corporate development, finance, legal, human resources, corporate information technology, professional fees and other corporate expenses associated with these functional areas. Selling, general and administrative expenses also include costs associated with our centralized infrastructure and research and development activities to support our network development capabilities, claims processing services, including PBM administration, technology infrastructure, clinical program development and data analytics.

Depreciation and Amortization Expense

Depreciation and amortization expenses consist of the amortization of intangible assets associated with the step up in fair value of Evolent Health LLC's assets and liabilities for the Offering Reorganization, amortization of intangible assets recorded as part of our various business combinations and asset acquisitions and depreciation of property and equipment, including the amortization of capitalized software.

Lives on Platform and PMPM Fees

Performance Suite Lives on Platform are calculated by summing monthly members covered for specialty care services for contracts not under ASO arrangements, plus members managed by Complex Care in risk arrangements and divided by the number of months in the period. Specialty Technology and Services Suite Lives on Platform are calculated by summing monthly members covered for oncology, cardiology, musculoskeletal, advanced imaging and other diagnostics specialty care services for contracts under ASO arrangements divided by the number of months in the period. Administrative Services Lives on Platform are calculated by summing monthly members covered for administrative services implementation and core performance services divided by the number of months in the period. Cases are calculated by summing the number of individuals receiving services through our surgery management and advanced care planning programs in a given period. Members covered for more than one category are counted in each category.

Performance Suite Average PMPM fee is defined as revenue pertaining to our Performance Suite during the period reported divided by Performance Suite Lives on Platform for the period divided by the number of months in the period. Specialty Technology and Services Suite Average PMPM fee is defined as revenue pertaining to the Specialty Technology and Services Suite during the period reported divided by Specialty Technology and Services Suite Lives on Platform for the period divided by the number of months in the period. Administrative Services Average PMPM fee is defined as revenue pertaining to the Administrative Services during the period reported divided by the Administrative Services Lives on Platform for the period divided by the number of months in the period. Revenue per Case is calculated by the revenue pertaining to surgery management and advanced care planning programs divided by the number of cases for a given period.

Average Unique Members are calculated by summing members covered by our Performance Suite, Specialty Technology and Services Suite and Administrative Services. In cases where partners cross between multiple solutions, we only capture members from the solution with the maximum number of members.

Management uses Lives on Platform, PMPM fees, Cases, Revenue per Case and Average Unique Members because we believe that they provide insight into the unit economics of our services. We believe that these measures are also useful to investors because they allow further insight into the period over period operational performance.

Consolidated Results

	For the Three Months Ended		Change Over Prior Period	
	March 31,			
(in thousands, except percentages)	2024	2023	\$	%
Revenue	\$ 639,653	\$ 427,690	\$ 211,963	49.6%
Expenses				
Cost of revenue	535,547	310,475	225,072	72.5%
Selling, general and administrative expenses	79,104	89,726	(10,622)	(11.8)%
Depreciation and amortization expenses	29,503	29,275	228	0.8%
Change in fair value of contingent consideration	8,908	8,569	339	4.0%
Total operating expenses	653,062	438,045	215,017	49.1%
Operating loss	\$ (13,409)	\$ (10,355)	\$ (3,054)	(29.5)%
Cost of revenue as a % of revenue	83.7 %	72.6 %		
Selling, general and administrative expenses as a % of revenue	12.4 %	21.0 %		

Comparison of the Results for Three Months Ended March 31, 2024 to 2023

Revenue

Total revenue increased by \$212.0 million, or 49.6%, to \$639.7 million for the three months ended March 31, 2024, as compared to 2023. This increase is primarily due to \$208.5 million from the expansion of new services to existing partners across both our Technology and Services suite and Performance Suite, \$13.6 million increase in revenue from a full quarter of NIA, partially offset by a decline of \$24.5 million in our administrative services revenue. In addition, the Company recorded \$18.1 million and \$3.7 million of revenue from gainshare agreements recorded as part of a Medicare shared savings program for the three months ended March 31, 2024 and 2023, respectively.

The following table represents Evolent's revenue disaggregated by end-market (in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Medicaid	\$ 215,124	\$ 183,034
Medicare	286,960	127,669
Commercial and other	137,569	116,987
Total	<u>\$ 639,653</u>	<u>\$ 427,690</u>

The following table represents the Company's Lives on Platform, Cases, PMPM fees and revenue per case for the three months ended March 31, 2024 and 2023 (Lives on Platform in thousands):

	Average Lives on Platform/ Cases		Average PMPM Fees / Revenue per Case	
	For the Three Months Ended March 31,		For the Three Months Ended March 31,	
	2024	2023	2024	2023
Performance Suite	7,050	3,242	\$ 21.19	\$ 24.66
Specialty Technology and Services Suite	72,302	60,503	0.41	0.36
Administrative Services	1,254	1,857	15.57	14.91
Cases	15	15	2,849	2,555
Average Unique Members	39,888	41,268		

Cost of Revenue

Cost of revenue increased by \$225.1 million, or 72.5%, to \$535.5 million for the three months ended March 31, 2024, as compared to 2023, as a result of the growth in our revenue as well as \$214.9 million from higher claims cost from acquisitions and transition from ASO to risk based contracts for certain customers. In addition, the Company recorded \$13.7 million in partner gainshare expense recorded as part of a Medicare shared savings program for the three months ended March 31, 2024. A portion of the increase in cost of revenue for the three months ended March 31, 2024 was attributable to an increase in our reserve for claims arising from timing of new Performance Suite risk contract go-live, lower claims visibility from partners in part due to the Change Healthcare cyber-attack, elevated authorization volumes and costs for specialty services during the three months ended March 31, 2024, as compared to the three months ended March 31, 2023.

Approximately \$1.0 million and \$1.5 million of total personnel costs in costs of revenue was attributable to stock-based compensation expense for the three months ended March 31, 2024, and 2023, respectively. Cost of revenue represented 83.7% and 72.6% of total revenue for the three months ended March 31, 2024, and 2023, respectively. The majority of the increase in cost of revenue as a percentage of revenue was due to the rapid growth of our Performance Suite, which has a lower gross margin than our other product types.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses decreased by \$10.6 million, or (11.8)%, to \$79.1 million for the three months ended March 31, 2024, as compared to 2023, principally as a result of a reductions in bad debt expense of \$7.6 million from the collection of previously reserved accounts, \$1.6 million in leasing expense from our office consolidation efforts as well as \$1.4 million reduction in legal expenses.

Approximately \$17.8 million and \$9.2 million of total personnel costs were attributable to stock-based compensation expense for the three months ended March 31, 2024, and 2023, respectively. Acquisition and severance costs accounted for approximately \$0.4 million and \$12.3 million of total selling, general and administrative expenses for the three months ended March 31, 2024, and 2023, respectively. Selling, general and administrative expenses represented 12.4% and 21.0% of total revenue for the three months ended March 31, 2024, as compared to 2023, respectively.

Change in Fair Value of Contingent Consideration

We recorded a loss on change in fair value of contingent consideration of \$8.9 million for the three months ended March 31, 2024 related to liabilities acquired as a result of the acquisition of NIA and \$8.6 million for the three months ended March 31, 2023, related to the liabilities acquired as a result of the acquisition of NIA and IPG. We paid the NIA earnout, which was \$88.7 million, in cash in April 2024. See "Part I - Item 1. Financial Statements - Note 17" in this Form 10-Q for more information related to changes in the fair value of contingent consideration.

Discussion of Non-Operating Results

Interest Expense

Our interest expense in the three months ended March 31, 2024, is attributable to our Credit Agreement with Ares, 2029 Notes and 2025 Notes. We recorded interest expense (including amortization of deferred financing costs) of approximately \$6.0 million and \$12.9 million for the three months ended March 31, 2024 and 2023, respectively. The decrease is primarily due to a \$10.0 million decrease from the repayment of the Term Loan Facility of the Credit Agreement in a prior period offset by \$4.0 million of interest expense from the new 2029 Notes. We expect interest expense to decrease in future periods after we repaid our floating rate Term Loan Facility offset by issuance of our 2029 Notes. In addition, we are focused on deleveraging the balance sheet in the long-term thereby decreasing interest expense. See "Part I - Item 1. Financial Statements and Supplementary Data - Note 9" in this Form 10-Q for more information related to interest expense by debt issuance.

Change in Tax Receivable Agreement Liability

Due to the reduction in the Company's valuation allowance primarily resulting from deferred tax liabilities established as part of the NIA acquisition, the Company has recorded the remaining TRA liability of \$108.1 million for the three months ended March 31, 2024.

Provision for (Benefit from) Income Taxes

An income tax provision (benefit) of \$0.6 million and \$(68.2) million was recognized for the three months ended March 31, 2024 and 2023, respectively, which resulted in effective tax rates of (3.4)% and 77.3%, respectively. The decrease in benefits from income taxes was driven primarily by a reduction in the Company's valuation allowance primarily resulting from deferred tax liabilities established as part of the NIA acquisition in January 2023.

Dividends and Accretion of Series A Preferred Stock

We pay quarterly regular cash dividends on the Series A Preferred Stock at a rate per annum equal to Adjusted Term SOFR (as defined in the Certificate of Designation) plus 6.00%. In addition, we accrete deferred financing costs and the redemption value in excess of par value in additional paid-in-capital on the consolidated balance sheets. The Company paid \$5.1 million of dividends and accreted \$2.9 million of deferred issuance costs and redemption value during the three months ended March 31, 2024.

REVIEW OF CONSOLIDATED FINANCIAL CONDITION

Liquidity and Capital Resources

The Company reported net loss attributable to common shareholders of Evolent Health, Inc. of \$25.2 million and \$26.3 million for the three months ended March 31, 2024 and 2023, respectively. As of March 31, 2024, the Company had \$165.1 million of cash and cash equivalents and \$68.3 million in restricted cash and restricted investments.

We believe our current cash and cash equivalents will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities and the timing and extent of our spending to support our investment efforts and expansion into other markets. We may also seek to invest in, or acquire complementary businesses, applications or technologies, which may require us to seek sources of financing.

Cash Flows

The following summary of cash flows (in thousands) has been derived from our financial statements included in "Part I - Item 1. Financial Statements and Supplementary Data - Consolidated Statements of Cash Flows:"

	For the Three Months Ended March 31,	
	2024	2023
Net cash and restricted cash provided by (used in) operating activities	\$ 4,909	\$ (7,974)
Net cash and restricted cash used in investing activities	(9,732)	(394,993)
Net cash and restricted cash provided by financing activities	14,882	379,729

Operating Activities

Cash flows from operating activities primarily represent inflows and outflows associated with our operations. Primary activities include net income from operations adjusted for non-cash transactions, working capital changes and changes in other assets and liabilities.

Cash flows provided by operating activities of \$4.9 million for the three months ended March 31, 2024 were affected by decreases in accounts receivable from timing of our partner and vendor payments including higher cash receipts from certain performance-based customers as well as an increase of \$8.9 million from contingent consideration, which was more than offset by payment for claims and performance-based arrangements of \$(35.4) million and a reduction of our accrued compensation and employee benefits due to end of year bonus payments of \$(27.3) million.

Cash flows used in operating activities of \$8.0 million for the three months ended March 31, 2023 were primarily due to our net loss of \$20.0 million, non-cash items including depreciation and amortization expenses of \$29.3 million, stock-based compensation expense of \$10.7 million, deferred tax benefit of \$(68.7) million, amortization of contract cost assets of \$2.3 million, change in fair value of contingent consideration of \$8.6 million and change in our tax receivable liability of \$66.2 million. Our operating cash outflows were affected by the timing of our customer and vendor payments primarily driven by cash receipts from certain customers of approximately \$39.8 million and a reduction of our accrued compensation and employee benefits due to end of year bonus payments and severance of \$31.4 million, offset in part by increases in accounts receivable from our acquisition of NIA of \$28.1 million.

Investing Activities

Cash flows used in investing activities of \$9.7 million in the three months ended March 31, 2024 were primarily attributable to a purchase of investments for \$3.0 million and \$5.3 million of investments in internal-use software and purchases of property and equipment.

Cash flows used in investing activities of \$395.0 million in the three months ended March 31, 2023 were primarily attributable to \$386.7 million paid for acquisitions and \$9.1 million of investments in internal-use software and purchases of property and equipment.

Financing Activities

Cash flows provided by financing activities of \$14.9 million in three months ended March 31, 2024, were primarily related to \$37.5 million of restricted cash inflows from working capital related to claims processing offset, in part by \$3.8 million from the payment of contingent consideration, \$5.1 million of preferred dividends paid on our Series A Preferred Stock and \$14.3 million from withholding taxes paid in respect of vested restricted stock units that were net settled.

Cash flows provided by financing activities of \$379.7 million in the three months ended March 31, 2023, were primarily related to \$256.3 million received from our Acquisition Facilities in connection with our Credit Agreement and \$168.0 million from the issuance of preferred equity, offset in part, by \$37.5 million of cash outflows related to the payment on our Revolving Facility, \$3.7 million of preferred dividends paid on our Series A Preferred Stock and \$12.6 million from taxes withheld for restricted stock unit vesting.

Contractual and Other Obligations

We believe that the amount of cash and cash equivalents on hand and cash flows from operations will be adequate for us to execute our business strategy and meet anticipated requirements for lease obligations, capital expenditures working capital and debt service for the next twelve months. Our estimated known contractual obligations (in thousands) as of March 31, 2024, were as follows:

	2024	2025-2026	2027-2028	2029+	Total
Operating leases for facilities	\$ 13,024	\$ 15,904	\$ 12,764	\$ 12,427	\$ 54,119
Purchase obligations related to vendor contracts	12,723	18,095	935	—	31,753
Convertible notes interest payments	16,401	30,763	28,175	14,088	89,427
Convertible notes principal repayment	—	172,500	—	402,500	575,000
Contingent consideration ⁽¹⁾	88,753	—	—	—	88,753
Total known contractual obligations	<u>\$ 130,901</u>	<u>\$ 237,262</u>	<u>\$ 41,874</u>	<u>\$ 429,015</u>	<u>\$ 839,052</u>

⁽¹⁾ Contingent consideration reflects the earnout payable in connection with our acquisition of NIA and was paid in cash during April 2024.

In addition, as of March 31, 2024, we had \$37.5 million of aggregate principal amount in a secured revolving credit facility which will mature in 2029. The interest rate for the secured revolving credit facility will be calculated, at the option of the borrowers at either the Adjusted Term SOFR Rate (as defined in the Credit Agreement) plus 4.00%, or the base rate plus 3.00%.

Also, as of March 31, 2024, we had 175,000 shares of the Series A Preferred Stock outstanding. Regular dividends on the Series A Preferred Stock are paid quarterly in cash in arrears at a rate per annum equal to Adjusted Term SOFR (as defined in the Certificate of Designation) plus 6.00%. The regular dividend rate will also increase by 2.0% per annum upon the occurrence and during the continuance of certain triggering events.

Accounts Receivable, net

Accounts receivable are recorded and carried at the original invoiced amount less an allowance for any potential uncollectible amounts. During the three months ended March 31, 2024, accounts receivable, net, decreased primarily due to the timing of cash receipts from certain customers.

Restricted Cash and Restricted Investments

Restricted cash and restricted investments of \$68.3 million is carried at cost and includes cash held on behalf of other entities for pharmacy and claims management services of \$49.8 million, collateral for letters of credit required as security deposits for facility leases of \$2.2 million, amounts held with financial institutions for risk-sharing arrangements of \$16.3 million as of March 31, 2024. See "Part I - Item 1. Financial Statements and Supplementary Data - Note 2" for further details of the Company's restricted cash balances.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are carried at cost and includes prepaid expenses and non-trade accounts receivable. During the three months ended March 31, 2024, prepaid insurance increased as a result of higher premiums.

Uses of Capital

Our principal uses of cash are in the operation and expansion of our business, payment of interest on our convertible debt and secured borrowings and payment of preferred dividends. The Company does not anticipate paying a cash dividend on our Class A common stock in the foreseeable future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates.

Interest Rate Risk

As of March 31, 2024, the Company had cash and cash equivalents and restricted cash and restricted investments of \$233.5 million, which consisted of bank deposits with FDIC participating banks of \$230.1 million and bank deposits in international banks of \$3.4 million.

Changes in interest rates affect the interest earned on our cash and cash equivalents (including restricted cash). We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure.

As of March 31, 2024, we had \$575.0 million of aggregate principal amount of convertible notes outstanding, which are fixed rate instruments and not subject to fluctuations in interest rates. In addition, as of March 31, 2024, we have \$37.5 million of aggregate principal amount in a secured revolving credit facility and \$175.0 million shares of Series A Preferred Stock outstanding, all of which are floating rate instruments based on the SOFR and subject to fluctuations in interest rates. In the case of (a) the revolving loan, interest is calculated at either the Adjusted Term SOFR Rate (as defined in the Certificate of Designation) plus 4.00%, or the base rate plus 3.00% and (b) the Series A Preferred Stock, dividends are to be paid quarterly in cash in arrears at a rate per annum equal to Adjusted Term SOFR (as defined in the Certificate of Designation) plus 6.00%. For every 1% increase in SOFR, the Company would record additional interest expense of \$0.4 million per annum and preferred dividends of \$1.8 million per annum.

Refer to the discussion in "Part I - Item 1. Financial Statements and Supplementary Data - Note 9" for additional information on our long-term debt.

Foreign Currency Exchange Risk

We have foreign currency risks related to our operating expenses denominated in currencies other than the U.S. dollar, primarily the Indian Rupee and the Philippine Peso. In general, we are a net payer of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may, in the future, negatively affect our operating results as expressed in U.S. dollars. At this time, we have not entered into, but in the future, we may enter into, derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the effect hedging activities would have on our results of operations. We recognized a foreign currency translation gain (loss) of \$(0.1) million and \$0.1 million for the three months ended March 31, 2024 and 2023, respectively.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2024, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II

Item 1. Legal Proceedings

The discussion of legal proceedings included within "Part I – Item 1. Financial Statements - Note 10 - Commitments and Contingencies - Litigation Matters" is incorporated by reference into this Item 1.

Item 1A. Risk Factors

Our significant business risks are described in Part I, Item 1A. "Risk Factors" to our 2023 Form 10-K. These risk factors are supplemented for the item described below. The risks and uncertainties we describe are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business or operations. Any adverse effect on our business, financial condition or operating results could result in a decline in the value of our securities and the loss of all or part of your investment.

We rely on Internet infrastructure, bandwidth providers, data center providers, other third parties and our own systems for providing services to our partners and operating our business, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation, negatively impact our relationships with partners, adversely affect our brand and our business.

Our ability to deliver our solutions, particularly our cloud-based solutions, is dependent on the development and maintenance of the infrastructure of the Internet and other telecommunications services by third parties. This includes maintenance of a reliable network connection with the necessary speed, data capacity and security for providing reliable Internet access and services and reliable telephone and facsimile services. As a result, our information systems require an ongoing commitment of significant resources to maintain and enhance existing systems and develop new systems in order to keep pace with continuing changes in information technology, emerging cybersecurity risks and threats, evolving industry and regulatory standards and changing preferences of our partners.

Our services are designed to operate without interruption in accordance with our service level commitments. However, we have experienced limited interruptions in these systems in the past, including server failures that temporarily slow down the performance of our services, and we may experience more significant interruptions in the future. We rely on internal systems as well as third-parties, including bandwidth and telecommunications equipment providers, to provide our services and operate our business. We do not maintain redundant systems or facilities for some of these services. Interruptions in these systems, whether due to system failures, computer viruses, physical or electronic break-ins or other catastrophic events, could affect the security or availability of our services and prevent or inhibit the ability of our partners to access our services. These systems may be at greater risk of interruption as a result of increased use of mobile and cloud technologies, including as a result of the shift to work from home arrangements as a result of the COVID-19 pandemic.

In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could result in substantial costs to remedy those problems or negatively impact our relationship with our partners, our business, results of operations and financial condition. To operate without interruption, both we and our service providers must guard against:

- damage from fire, power loss and other natural disasters;
- telecommunications failures;
- software and hardware errors, failures and crashes;
- security breaches, computer viruses and similar disruptive problems; and
- other potential interruptions.

Any disruption in the network access, telecommunications or co-location services provided by third-party vendors or any failure of or by third-party vendors' systems or our own systems to handle current or higher volume of use could significantly harm our business. Similarly, disruptions of service to other third parties or to our customers can negatively impact our ability to serve our clients and run our business. For example, in February 2024, Change Healthcare, a subsidiary of UnitedHealth Group and the largest clearinghouse for medical claims in the U.S., was the subject of a cyberattack that required it to take offline its computer systems that handled electronic payments and insurance claims. As a result of the outage, we had reduced visibility into setting our claims reserve for the three months ended March 31, 2024. Similar events could occur in the future, and the impact to our business could be material.

We exercise limited control over third-parties, which increases our vulnerability to problems with services they provide. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and information services or our own systems could negatively impact our relationships with partners and adversely affect our business and could expose us to third-party liabilities. Although we maintain insurance for our business, the coverage under our policies may not be adequate to compensate us for

all losses that may occur. In addition, we cannot provide assurance that we will continue to be able to obtain adequate insurance coverage at an acceptable cost.

The reliability and performance of our Internet connection may be harmed by increased usage or by denial-of-service attacks. The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the availability of the Internet to us for delivery of our Internet-based services.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On February 29, 2024, Seth Blackley, the Company's Chief Executive Officer and a member of the Company's Board of Directors, adopted a new trading plan for the sale of securities that is intended to satisfy the affirmative defense conditions of Rule 10b5-1 of the Securities Exchange Act of 1934 (the "Blackley Plan"). The first possible trade date under the Blackley Plan is June 17, 2024 and the end date of the Blackley Plan is December 2, 2024. The aggregate amount of securities that may be sold under the Blackley Plan is 238,462 shares.

On March 1, 2024, John Johnson, the Company's Chief Financial Officer, adopted a new trading plan for the sale of securities that is intended to satisfy the affirmative defense conditions of Rule 10b5-1 of the Securities Exchange Act of 1934 (the "Johnson Plan"). The first possible trade date under the Johnson Plan is June 10, 2024 and the end date of the Johnson Plan is January 31, 2025. The aggregate amount of securities that may be sold under the Johnson Plan is 54,693 shares.

On March 1, 2024, Daniel McCarthy, the Company's President, adopted a new trading plan for the sale of securities that is intended to satisfy the affirmative defense conditions of Rule 10b5-1 of the Securities Exchange Act of 1934 (the "McCarthy Plan"). The first possible trade date under the McCarthy Plan is May 31, 2024 and the end date of the McCarthy Plan is February 20, 2025. The aggregate amount of securities that may be sold under the McCarthy Plan is 61,388 shares.

On March 8, 2024, Emily Rafferty, the Company's Chief Operating Officer, adopted a new trading plan for the sale of securities that is intended to satisfy the affirmative defense conditions of Rule 10b5-1 of the Securities Exchange Act of 1934 (the "Rafferty Plan"). The first possible trade date under the Rafferty Plan is June 17, 2024 and the end date of the Rafferty Plan is December 31, 2024. The aggregate amount of securities that may be sold under the Rafferty Plan is 8,861 shares.

On February 28, 2024, Jonathan Weinberg, the Company's General Counsel, adopted a new trading plan for the sale of securities that is intended to satisfy the affirmative defense conditions of Rule 10b5-1 of the Securities Exchange Act of 1934 (the "Weinberg Plan"). The first possible trade date under the Weinberg Plan is May 29, 2024 and the end date of the Weinberg Plan is January 31, 2025. The aggregate amount of securities that may be sold under the Weinberg Plan is 58,395 shares.

Item 6. Exhibits

EVOLENT HEALTH, INC

Exhibit Index

<u>10.1+</u>	<u>Form of Performance Stock Unit Award Agreement under the Evolent Health, Inc. 2015 Omnibus Incentive Compensation Plan.</u>
<u>31.1</u>	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

[32.2](#) [Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

104 The cover page from this Annual Report on Form 10-K, formatted as Inline XBRL

+ Constitutes a management contract or other compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EVOLENT HEALTH, INC.

Registrant

By: /s/ John Johnson

Name: **John Johnson**

Title: **Chief Financial Officer**

By: /s/ Aammaad Shams

Name: **Aammaad Shams**

Title: **Chief Accounting Officer and Controller**

Dated: May 9, 2024

**EVOLENT HEALTH, INC.
2015 OMNIBUS INCENTIVE COMPENSATION PLAN**

PERFORMANCE STOCK UNIT AWARD AGREEMENT

PERFORMANCE STOCK UNIT award agreement under the EVOLENT HEALTH, INC. 2015 Omnibus Incentive Compensation Plan, dated as of [DATE] between EVOLENT HEALTH, INC., a Delaware corporation (the "Company"), and _____.

This Performance Stock Unit Award Agreement (this "Award Agreement") sets forth the terms and conditions of an award for a target number of _____ (such number, the "Target Number") performance stock units (this "Award") (each such performance stock unit, a "PSU") that are granted to you under the Amended and Restated Evolent Health, Inc. 2015 Omnibus Incentive Compensation Plan, as further amended (the "Plan"). This Award constitutes an unfunded and unsecured promise of the Company to deliver (or to cause to be delivered) to you, subject to the terms of this Award Agreement, one share of the Company's Class A Common Stock, \$0.01 par value (each, a "Share"), or cash equal to the Fair Market Value of one Share, for each PSU ultimately earned by you, as set forth in this Award Agreement.

THIS AWARD IS SUBJECT TO ALL TERMS AND CONDITIONS OF THE PLAN AND THIS AWARD AGREEMENT, INCLUDING THE DISPUTE RESOLUTION PROVISIONS SET FORTH IN SECTION 13 OF THIS AWARD AGREEMENT. BY SIGNING YOUR NAME BELOW, YOU SHALL HAVE CONFIRMED YOUR ACCEPTANCE OF THE TERMS AND CONDITIONS OF THIS AWARD AGREEMENT.

SECTION 1. The Plan. This Award is made pursuant to the Plan, all the terms of which are hereby incorporated in this Award Agreement. In the event of any conflict between the terms of the Plan and the terms of this Award Agreement, the terms of the Plan shall govern.

SECTION 2. Definitions. Capitalized terms used in this Award Agreement that are not defined in this Award Agreement have the meanings as used or defined in the Plan. As used in this Award Agreement, the following terms have the meanings set forth below:

"Business Day" means a day that is not a Saturday, a Sunday or a day on which banking institutions are legally permitted to be closed in the City of New York.

"Company Value" has the meaning set forth in Section 3(b) and (c).

"Cumulative Adjusted EBITDA" for a Performance Period means the Company's cumulative earnings for the applicable Performance Period before interest, taxes, depreciation and amortization, and before stock-based compensation, acquisition expenses and similar non-recurring and other items, in a manner consistent with the Company's publicly-reported adjusted EBITDA (for any period, the "Adjusted EBITDA").

"Disability" means: (a) for Awards that are not subject to Section 409A, "Disability" shall have the meaning set forth in the long-term disability insurance plan or program of the

Company or any Subsidiary then covering you or, in the absence of such a plan or program, as determined by the Committee, provided, that, with respect to Awards that are not subject to Section 409A, if you are a party to an effective employment, severance, or other services agreement with the Company or any Subsidiary, "Disability" shall have the meaning, if any, specified in such agreement, and (b) for Awards that are subject to Section 409A, "Disability" shall have the meaning set forth in Section 409A(a)(2)(c).

"First Performance Period" means the period commencing on [.] and ending on [.]

"First Tranche" means 50% of your Target Number, which will vest and be earned over the First Performance Period.

"Good Reason" means the occurrence, without your written consent, of any of the events or circumstances set forth in clauses (a) through (d) below:

(a) a material reduction in your annual base salary or target bonus opportunity as the same may be increased from time to time;

(b) your assignment to duties inconsistent in any material respect with your position, authority or responsibilities with the Company, or any other action or omission by the Company, which results in each case in a material diminution of your position, authority or responsibilities;

(c) a relocation of your principal work location by more than 50 miles from such location as of immediately prior to the Change of Control; or

(d) any material breach of this Award Agreement by the Company.

Good Reason shall not exist unless you give the Company notice of the event giving rise to Good Reason within 60 days of the date you have knowledge of such event. Such notice shall specifically delineate such claimed breach and shall inform the Company that it is required to cure such breach (if curable) within 90 days (the "Cure Period") after such notice is given in accordance with Section 15 of this Award Agreement. If such breach is not so cured (or is not curable), you may resign for Good Reason within three months following the end of the Cure Period. If such breach is cured within the Cure Period or if such breach is not cured but you do not resign for Good Reason within three months following the end of the Cure Period, Good Reason shall not exist hereunder.

"Performance Period" means the First Performance Period or the Second Performance Period, as applicable.

"Replacement Award" means an award, which, upon a Change of Control, is provided to you as a replacement or substitution for this Award and which: (a) is of the same type as this Award (or a different type from this Award, provided that the Committee, as constituted immediately prior to the Change of Control, finds such type acceptable); (b) has an intrinsic value at least equal to the value of this Award; (c) relates to publicly traded equity securities of the Company or its successor in the Change of Control or another entity that is affiliated with the Company or its successor following the Change of Control; (d) has terms and conditions that

comply with the provisions of Section 6(c) of this Agreement; (e) has vesting conditions that continue on the same terms as set forth in this Award; and (f) has other terms and conditions that are not less favorable to you than the terms and conditions of this Award (including the provisions that would apply in the event of a subsequent Change of Control). Without limiting the generality of the foregoing, a Replacement Award may take the form of a continuation of this Award if the requirements of the preceding sentence are satisfied. The determination of whether the conditions set forth in clauses (a) through (f) are satisfied shall be made by the Committee, as constituted immediately before the Change of Control, in its sole discretion.

“Revenue” means the Company’s publicly-reported Revenue for an applicable period.

“Revenue Ratio” means the lesser of (a) [.] and (b) (i) for the First Performance Period, the Revenue of the Company for the Company’s [.] fiscal year divided by the Revenue of the Company for the Company’s [.] fiscal year, and (ii) for the Second Performance Period, the Revenue of the Company for the Company’s [.] fiscal year divided by the Revenue of the Company for the Company’s [.] fiscal year. The Revenue of the Company for the [.] fiscal year was \$[.].

“Second Performance Period” means the period commencing on [.]and ending on [.].

“Second Tranche” means 50% of your Target Number, which will vest and be earned over the Second Performance Period.

“Section 409A” means Section 409A of the Code and the regulations and other interpretive guidance promulgated thereunder, as in effect from time to time.

“Stock Price” means the closing price of one Share of the Company’s Class A common stock on the New York Stock Exchange.

“TSR” means the Company’s total shareholder return, calculated as set forth in Appendix A hereto.

SECTION 3. Performance Goals.

(a) Subject to the service-vesting provisions set forth in Section 4 of this Award Agreement, (i) the total number of PSUs you earn for the First Tranche will be determined at the end of the First Performance Period based on the level of Company Value achieved in the First Performance Period, as adjusted pursuant to Absolute TSR Modifier Percentage, as set forth on Appendix A, and (ii) the total number of PSUs you earn for the Second Tranche will be determined at the end of the Second Performance Period based on the level of Company Value achieved in the Second Performance Period, as adjusted pursuant to Absolute TSR Modifier Percentage, as set forth on Appendix A.

(b) Except as set forth in Section 3(c), “Company Value” means (i) for the First Performance Period, the product of (A) the Cumulative Adjusted EBITDA for the First Performance Period, (B) the Revenue Ratio, and (C) [.], and (ii) for the Second Performance Period, the product of (x) the Cumulative Adjusted EBITDA for the Second Performance Period, (y) the Revenue Ratio, and (z) [.].

(c) In determining the portion of the Company Value attributable to any business that is acquired by the Company and becomes part of the Company during either Performance Period ("Acquired Business"), the following rules shall apply:

(i) The Company Value shall first be determined without regard to the Acquired Business based on the Cumulative Adjusted EBITDA and Revenue Ratio for the Company (without taking the Acquired Business into account) in accordance with Section 3(b).

(ii) The value of the Acquired Business shall be determined as follows:

(A) The Cumulative Adjusted EBITDA attributable to the Acquired Business shall be determined by adding all Adjusted EBITDA referable to the Acquired Business from the date of acquisition by the Company through to the end of the applicable Performance Period.

(B) The Revenue Ratio for the Acquired Business shall be the lesser of (1) [.] and (2) the Revenue attributable to the Acquired Business for (x) in the case of the First Performance Period, the [.] fiscal year of the Company *divided by* the annualized Revenue of the Acquired Business for the most recent completed fiscal year of the Acquired Business prior to the date of acquisition by the Company or (y) in the case of the Second Performance Period, the [.] fiscal year of the Company *divided by* the annualized Revenue of the Acquired Business for the most recent completed fiscal year of the Acquired Business prior to the date of acquisition by the Company.

(C) Multiply the product of (A) and (B) above by (1) [.] in the case of determinations relating to the First Performance Period and (2) [.] in the case of determinations relating to the Second Performance Period.

(D) The value determined in (C) shall be reduced by (1) in the case of the First Performance Period, the product of the purchase price to the Company of the Acquired Business and the fraction obtained by dividing the number of full months in the First Performance Period that follow the date of the acquisition of the Acquired Business by [.] and (2) in the case of the Second Performance Period, the product of the purchase price to the Company of the Acquired Business and the fraction obtained by dividing the number of full months in the Second Performance Period that follow the date of the acquisition of the Acquired Business by [.]

(iii) The Company Value, including the value of the Acquired Company, for the Performance Period shall be the sum of the amounts in Section 3(c)(i) and Section 3(c)(ii)(D).

(iv) In the event of a Change of Control of the Acquired Business following the date of the Company's acquisition of the Acquired Business and prior to the last day of the Performance Period, the value attributable to the Acquired Business (prior to reduction for a portion of the purchase price to the Company of the Acquired

Business in accordance with Section 3(c)(ii)(D)), shall be determined in accordance with Section 6(b); provided, however that the target Cumulative Adjusted EBITDA and the target Revenue for the Acquired Business for any fiscal quarter that has not been completed through the date of the Change of Control shall be determined by the Committee in good faith, taking into account, among other things, any internal business targets for the Acquired Business established by the Company for the applicable Performance Period in connection with the acquisition of the Acquired Business.

(d) No later than 50 days following the end of each Performance Period, the Committee will review and certify in writing (i) the level of Company Value achieved for the applicable Performance Period, (ii) the Absolute TSR Modifier Percentage for the applicable Performance Period as set forth on Appendix A, and (iii) the number of PSUs that you have earned, if any, for the applicable Performance Period. The Committee's certification shall be final, conclusive and binding on you, and on all other persons, to the maximum extent permitted by law.

(e) Notwithstanding the foregoing, the Committee shall, to the extent and in such matter as it deems appropriate, adjust or modify the Performance Goals set forth in Appendix A for either Performance Period (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development affecting the Company, or any of its Affiliates, Subsidiaries, divisions or operating units (to the extent applicable to such Performance Goal), (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company or any of its Affiliates, Subsidiaries, divisions or operating units (to the extent applicable to such Performance Goal), or the financial statements of the Company or any of its Affiliates, Subsidiaries, divisions or operating units (to the extent applicable to such Performance Goal), or (iii) in recognition of changes in applicable rules, rulings, regulations or other requirements of any governmental body or securities exchange, accounting principles, law or business conditions.

SECTION 4. Service Vesting. The PSUs are subject to forfeiture until vested, as described in this Award Agreement. Except as otherwise provided in Section 6 below, your First Tranche and your Second Tranche will vest and become nonforfeitable on the vesting date noted in the table below, provided that you remain continuously employed by the Company or any of its Subsidiaries from the grant date of this Award through the vesting date noted in the table below.

Tranche	Vesting Date
First Tranche	[.]
Second Tranche	[.]

SECTION 5. Termination; Forfeiture of PSUs.

(a) Except as set forth in Section 6, (i) if your service with the Company and all of its Subsidiaries terminates for any reason other than due to your death or Disability before [], the First Tranche of your PSUs shall be immediately forfeited and you shall be entitled to no further payments or benefits with respect thereto, and (ii) if your service with the Company and all of its Subsidiaries terminates for any reason other than due to your death or Disability before [], the Second Tranche of your PSUs shall be immediately forfeited and you shall be entitled to no further payments or benefits with respect thereto. Further, if you breach any restrictive covenant contained in any arrangements with the Company or a Subsidiary (including this Award Agreement) to which you are subject, all your unvested PSUs shall be immediately forfeited, and you shall be entitled to no further payments or benefits with respect thereto. Furthermore, any PSUs awarded pursuant to this Award Agreement and any Shares issued to you or cash paid to you under this Award Agreement upon settlement of such PSUs shall be subject to any recoupment or clawback policy the Company maintains, as in effect from time to time.

(b) Notwithstanding anything herein to the contrary, if your service with the Company and all of its Subsidiaries terminates due to your death or Disability before the end of the Performance Period, (i) for purposes of the service vesting requirements of Section 4, you shall be deemed to have completed an additional twelve (12) months of employment following the date of your termination due to your death or Disability, and (ii) the number of PSUs earned shall be determined at the end of the Performance Period based on actual performance through the end of the Performance Period, pro-rated based on (A) the number of days you were employed by the Company during the applicable Performance Period through the date of your termination plus twelve (12) months (but not to exceed the total days in the applicable Performance Period) over (B) the number of days in the applicable Performance Period.

SECTION 6. Change of Control.

(a) If a Change of Control occurs during the First Performance Period or the Second Performance Period, as applicable, and your Award does not remain outstanding following the Change of Control and the acquiror or successor entity neither assumes nor provides a substitute for your Award that meets the requirements of a Replacement Award, then you will be deemed to have earned that number of PSUs as described in Section 6(b) below, effective as of the date of the Change of Control, and (i) the First Tranche of your Award shall become vested and nonforfeitable pursuant to Section 4 on [], provided that, except as set forth in Section 6(c) or (d) below, you remain continuously employed by the Company or any of its Subsidiaries through [] and (ii) the Second Tranche of your Award shall become vested and nonforfeitable pursuant to Section 4 on [], provided that, except as set forth in Section 6(c) or (d) below, you remain continuously employed by the Company or any of its Subsidiaries through [].

(b) The number of PSUs earned shall be determined in accordance with Appendix A, based on the Company Value and Absolute TSR Modifier Percentage determined as of the date of the Change of Control, as follows:

(i) For any fiscal quarter in the Performance Period that has been completed as of the date of the Change of Control, Company Value shall be determined, in the case of each of Adjusted EBITDA and Revenue, based on the greater of (A) the

actual achievement of the metric as reported for each such quarter and (B) the Target for each such quarter, as set forth in Appendix B hereto;

(ii) For any fiscal quarter in the Performance Period that has not been completed as of the date of the Change of Control, Company Value shall be determined, in the case of each of Adjusted EBITDA and Revenue, based on the greater of (A) the Target for each such quarter, as set forth in Appendix B hereto and (B) the average of actual performance of the metric for all quarters during the Performance Period completed prior to the date of the Change of Control; and

(iii) The Absolute TSR Modifier Percentage shall be determined as set forth on Appendix A.

(c) If you are not subject to a Severance and Change-in-Control Agreement with the Company, and if, within twelve (12) months following the date of the Change of Control but prior to [], your employment is terminated by the Company or the acquiror or successor entity without Cause or by you for Good Reason, the service vesting requirements of Section 4 shall automatically be deemed satisfied, and all restrictions and forfeiture provisions related thereto shall lapse as of the date of such termination.

(d) If you are subject to a Severance and Change-in-Control Agreement with the Company and, within the Change of Control Protection Period, as defined in your Severance and Change-in-Control Agreement, but prior to [], your employment is terminated by the Company or the acquiror or successor entity without Cause or by you for Good Reason, as those terms are defined in your Severance and Change-in-Control Agreement, then, subject to satisfaction of the release and other requirements of your Severance and Change-in-Control Agreement, the service vesting requirements of Section 4 shall automatically be deemed satisfied, and all restrictions and forfeiture provisions related thereto shall lapse as of the date of such termination. For the avoidance of doubt, notwithstanding anything in your Severance and Change-in-Control Agreement to the contrary, any PSUs not earned at the time of the Change of Control pursuant to Section 6(b) above shall be forfeited at the time of the Change of Control.

SECTION 7. Settlement of PSUs. Settlement of PSUs earned under this Award Agreement shall be, at the Committee's sole discretion, either (a) in Shares, which the Company shall deliver to you or your legal representative, (b) in an amount in cash equal to the Fair Market Value (which shall either have the meaning set forth in the Plan or shall have such other meaning as determined by the Committee in accordance with applicable withholding requirements) of the Shares to be delivered in satisfaction of the PSUs, or (c) in a combination of Shares and cash. Settlement shall take place within sixty (60) days following the end of the Performance Period, or, in the event of a termination of employment described in Sections 5(b), 6(c) or 6(d), within sixty (60) days following your termination date. Notwithstanding anything herein to the contrary, PSUs subject to Section 409A that are to be paid to you upon your separation from service (within the meaning of Section 409A) pursuant to Sections 5(b), 6(c) and 6(d) on any date when you are a specified employee (within the meaning of Section 409A) shall not be paid before the date that is six (6) months following your separation from service or, if earlier, your death.

SECTION 8. No Rights as a Stockholder. You shall not have any rights or privileges of a stockholder with respect to the PSUs subject to this Award Agreement unless and until certificates representing such Shares are actually issued to you or your legal representative or an entry is recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator) in settlement of this Award.

SECTION 9. Non-Transferability of PSUs. Unless otherwise provided by the Committee in its discretion, PSUs may not be sold, assigned, alienated, transferred, pledged, attached or otherwise encumbered except as provided in Section 9(a) of the Plan. Any purported sale, assignment, alienation, transfer, pledge, attachment or other encumbrance of PSUs in violation of the provisions of this Section 9 and Section 9(a) of the Plan shall be void.

SECTION 10. Withholding, Consents and Legends.

(a) Withholding. The delivery of Shares or cash pursuant to Section 7 of this Award Agreement is conditioned on satisfaction of any applicable withholding taxes in accordance with this Section 10 and Section 9(d) of the Plan. No later than the date as of which an amount first becomes includible in your gross income for Federal, state, local or foreign income tax purposes with respect to any PSUs you shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal, state, local and foreign taxes that are required by applicable laws and regulations to be withheld with respect to such amount. In the event that there is withholding tax liability in connection with the settlement of the PSUs you may satisfy, in whole or in part, any withholding tax liability by having the Company withhold from the number of Shares or cash you would be entitled to receive upon settlement of the PSUs an amount in cash or a number of Shares having a Fair Market Value (which shall either have the meaning set forth in the Plan or shall have such other meaning as determined by the Committee in accordance with applicable withholding requirements) equal to such withholding tax liability.

(b) Consents. Your rights in respect of the PSUs are conditioned on the receipt to the full satisfaction of the Committee of any required consents that the Committee may determine to be necessary or advisable (including your consent to the Company's supplying to any third-party recordkeeper of the Plan such personal information as the Committee deems advisable to administer the Plan).

(c) Legends. The Company may affix to certificates for Shares issued pursuant to this Award Agreement any legend that the Committee determines to be necessary or advisable (including to reflect any restrictions to which you may be subject under any applicable securities laws). The Company may advise the transfer agent to place a stop order against any legended Shares.

SECTION 11. Successors and Assigns of the Company. The terms and conditions of this Award Agreement shall be binding upon and shall inure to the benefit of the Company and its successors and assigns.

SECTION 12. Committee Discretion. The Committee shall have full and plenary discretion with respect to any actions to be taken or determinations to be made in

connection with this Award Agreement, and its determinations shall be final, binding and conclusive.

SECTION 13. Dispute Resolution.

(a) Jurisdiction and Venue. You and the Company irrevocably submit to the exclusive jurisdiction of (i) the United States District Court for the Eastern District of Virginia and (ii) the courts of the State of Virginia for the purposes of any suit, action or other proceeding arising out of this Award Agreement or the Plan. You and the Company agree to commence any such action, suit or proceeding either in the United States District Court for the Eastern District of Virginia or, if such suit, action or other proceeding may not be brought in such court for jurisdictional reasons, in the courts of the State of Virginia. You and the Company further agree that service of any process, summons, notice or document by U.S. registered mail to the other party's address set forth below shall be effective service of process for any action, suit or proceeding in Virginia with respect to any matters to which you have submitted to jurisdiction in this Section 13(a). You and the Company irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Award Agreement or the Plan in (A) the United States District Court for the Eastern District of Virginia or (B) the courts of the State of Virginia, and hereby and thereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) Waiver of Jury Trial. You and the Company hereby waive, to the fullest extent permitted by applicable law, any right either of you may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Award Agreement or the Plan.

(c) Confidentiality. You hereby agree to keep confidential the existence of, and any information concerning, a dispute described in this Section 13, except that you may disclose information concerning such dispute to the court that is considering such dispute or to your legal counsel (provided that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

SECTION 14. Restrictive Covenants. In consideration of the grant of PSUs under this Award Agreement and as a condition to the receipt of the PSUs pursuant to this Award Agreement, you agree that:

(a) Confidential Information.

(i) You acknowledge that the Company and its Affiliates continually develop Confidential Information (as defined below), that you may develop Confidential Information for the Company or its Affiliates and that you may learn of Confidential Information during the course of your employment. You will comply with the policies and procedures of the Company and its Affiliates for protecting Confidential Information and shall not disclose to any person or use, other than as required by applicable law or for the proper performance of your duties and responsibilities to the Company and its

Affiliates, any Confidential Information obtained by you incident to your employment or other association with the Company or any of its Affiliates. You understand that this restriction shall continue to apply after your employment terminates, regardless of the reason for such termination. The confidentiality obligation under this Section 14 shall not apply to information which is generally known or readily available to the public at the time of disclosure or becomes generally known through no wrongful act on the part of you or any other person having an obligation of confidentiality to the Company or any of its Affiliates or is required to be disclosed in order to enforce this Award Agreement.

(ii) All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company or its Affiliates and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by the you, shall be the sole and exclusive property of the Company and its Affiliates. You shall safeguard all Documents and shall surrender to the Company at the time your employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents then in your possession or control.

(iii) "Confidential Information" means any and all information of the Company and its Affiliates that is not generally known by those with whom the Company or any of its Affiliates competes or does business, or with whom the Company or any of its Affiliates plans to compete or do business, and any and all information, whether or not publicly known in whole or in part, which, if disclosed by the Company or any of its Affiliates, would assist in competition against them. Confidential Information includes without limitation such information relating to (A) the development, research, testing, manufacturing, marketing and financial activities of the Company and its Affiliates, (B) the products and services of the Company and its Affiliates, (C) the costs, sources of supply, financial performance and strategic plans of the Company and its Affiliates, (D) the identity and special needs of the customers of the Company and its Affiliates and (E) the people and organizations with whom the Company and its Affiliates have business relationships and the nature and substance of those relationships. Confidential Information also includes any information that the Company or any of its Affiliates has received, or may receive hereafter, belonging to customers or others with any understanding, express or implied, that the information would not be disclosed.

(b) Non-Competition and Non-Solicitation.

(i) You agree and acknowledge that the business (the "Business") of the Company is any business activity engaged in, or actively contemplated by the Company (or any Subsidiary) to be engaged in, by the Company (or any Subsidiary) and with which you are or were involved on or prior to your date of termination.

(ii) You agree that, except as the Company expressly agrees in writing, during your employment with the Company and for the 12-month period following termination of your employment for any reason, you shall not within the Territory (defined below), directly or indirectly, as an owner, partner, affiliate, stockholder, joint venturer, director, employee, consultant, contractor, principal, trustee or licensor, or in any other similar capacity whatsoever, of or for any person or entity (other than for the Company):

(A) engage in, own, manage, operate, sell, finance, control, advise or participate in the ownership, management, operation, sales, finance or control of, be employed or employed by, or be connected in any manner with, any business that competes with (1) the Business or (2) if you have provided services directly to any health maintenance organization, health insurance company or similar health insurance plan, owned or operated by a customer of the Company, during the twelve-month period preceding the termination of your employment with the Company, such customer (each, a "Competitor"). Notwithstanding this Section 14(b)(ii)(A), you may accept employment with a Competitor whose business is diversified, provided that (I) such employment is with a portion of the Competitor's business that does not provide products or services that are the same as, are similar to, or compete with the Company's products or services ("Competing Products or Services") and (II) prior to your acceptance of such employment with Competitor, the Company receives separate written assurances satisfactory to the Company from such Competitor and from you that you will not provide any Competing Products or Services;

(B) approach, solicit, divert, interfere with, or take away, the business or patronage of any of the actual or prospective members, customers, or clients of the Company, for a purpose that is competitive with the Business; or

(C) contact, recruit, solicit, hire, retain, or employ (whether as an employee, consultant, agent, independent contractor, or otherwise) any person who is, or who at any time during the 6-month period prior to your date of termination had been, employed or engaged by the Company, or induce or take any action which is intended to induce any such person to terminate his or her employment or relationship, or otherwise cease his or her relationship, with the Company, or interfere in any manner with the contractual or employment relationship between the Company and any employee of or any other person engaged by the Company.

"Territory" shall mean the United States of America and any other country with respect to which you have been involved on behalf of the Company.

(iii) Notwithstanding anything to the contrary in Section 14(b)(ii) of this Award Agreement, you are permitted to own, individually, as a passive investor (with no director designation rights, voting rights or veto rights or other special governance or voting rights), up to a one percent (1%) interest in any publicly traded entity that is a Competitor.

(iv) You shall disclose in writing all of your relationships as a director, employee, consultant, contractor, principal, trustee, licensor, agent, or otherwise, with a Competitor or other business entity, to the Company for the 12-month period after your date of termination. You shall not disparage the Company or any of its officers, directors, or employees; provided, however, that this Section 14(b)(iv) shall not prohibit or constrain truthful testimony by you compelled by any valid legal process or valid legal

dispute resolution process. Notwithstanding anything herein to the contrary, nothing in this Section 14 shall prevent either party hereto from enforcing such party's rights or remedies hereunder or that such party may otherwise be entitled to enforce or assert under any other agreement or applicable law, or shall limit such rights or remedies in any way.

(v) During the 12-month period following your date of termination, you shall notify in writing any prospective new employer or entity otherwise seeking to engage you that the provisions of this Section 14 exist prior to accepting employment or such other engagement.

(c) Enforcement. The terms of this Section 14 are reasonable and necessary in light of your position with the Company and responsibility and knowledge of the operations of the Company and its Subsidiaries and are not more restrictive than necessary to protect the legitimate interests of the parties hereto. In addition, any breach of the covenants contained in this Section 14 would cause irreparable harm to the Company, its Subsidiaries and Affiliates, and there would be no adequate remedy at law or in damages to compensate the Company, its Subsidiaries and Affiliates for any such breach.

(d) Protected Rights: Defend Trade Secrets Act

(i) Notwithstanding the foregoing, this Award Agreement is not intended to, and shall be interpreted in a manner that does not, limit or restrict you from exercising any legally protected whistleblower rights (including pursuant to Rule 21F under the Exchange Act).

(ii) Under the Defend Trade Secrets Act: (A) no person will be held criminally or civilly liable under federal or state trade secret law for disclosure of a trade secret (as defined in the Economic Espionage Act) that is: (1) made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and made solely for the purpose of reporting or investigating a suspected violation of law, or, (2) made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal so that it is not made public, and (B) a person who pursues a lawsuit for retaliation by an employer for reporting a suspected violation of the law may disclose the trade secret to the attorney of the person and use the trade secret information in the court proceeding, if the person files any document containing the trade secret under seal, and does not disclose the trade secret, except as permitted by court order.

SECTION 15. Notice. All notices, requests, demands and other communications required or permitted to be given under the terms of this Award Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or overnight courier or three Business Days after they have been mailed by U.S. certified or registered mail, return receipt requested, postage prepaid, addressed to the other party as set forth below:

If to Company: Evolent Health, Inc.
1812 N. Moore Street, Suite 1705
Arlington, VA 22209
Attention: General Counsel

If to you: To your address as most recently supplied to the
Company and set forth in the Company's records

The parties may change the address to which notices under this Award Agreement shall be sent by providing written notice to the other in the manner specified above.

SECTION 16. Governing Law. This Award Agreement shall be deemed to be made in the State of Delaware, and the validity, construction and effect of this Award Agreement in all respects shall be determined in accordance with the laws of the State of Delaware, without giving effect to the conflict of law principles thereof.

SECTION 17. Headings and Construction. Headings are given to the Sections and subsections of this Award Agreement solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Award Agreement or any provision thereof. Whenever the words "include", "includes" or "including" are used in this Award Agreement, they shall be deemed to be followed by the words "but not limited to". The term "or" is not exclusive.

SECTION 18. Amendment of this Award Agreement The Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate this Award Agreement prospectively or retroactively; provided, however, that, except as set forth in Section 19(d) of this Award Agreement, any such waiver, amendment, alteration, suspension, discontinuance, cancelation or termination that would impair your rights under this Award Agreement shall not to that extent be effective without your consent (it being understood, notwithstanding the foregoing proviso, that this Award Agreement and the PSUs shall be subject to the provisions of Section 7(c) of the Plan).

SECTION 19. Section 409A.

(a) It is intended that the provisions of this Award Agreement be exempt from or comply with Section 409A, and all provisions of this Award Agreement shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A.

(b) Neither you nor any of your creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A) payable under this Award Agreement to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to you or for your benefit under this Award Agreement may not be reduced by, or offset against, any amount owing by you to the Company or any of its Affiliates.

(c) If, at the time of your separation from service (within the meaning of Section 409A), (i) you shall be a specified employee (within the meaning of Section 409A and

using the identification methodology selected by the Company from time to time) and (ii) the Company shall make a good faith determination that an amount payable hereunder constitutes deferred compensation (within the meaning of Section 409A) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A in order to avoid taxes or penalties under Section 409A, then the Company shall not pay such amount on the otherwise scheduled payment date but shall instead pay it, without interest, on the first Business Day after such six-month period.

(d) Notwithstanding any provision of this Award Agreement to the contrary, in light of the uncertainty with respect to the proper application of Section 409A, the Company reserves the right to make amendments to this Award Agreement as the Company deems necessary or desirable to avoid the imposition of taxes or penalties under Section 409A. In any case, you shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on you or for your account in connection with this Award Agreement (including any taxes and penalties under Section 409A), and neither the Company nor any of its Affiliates shall have any obligation to indemnify or otherwise hold you harmless from any or all of such taxes or penalties.

SECTION 20. Counterparts. This Award Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. You and the Company hereby acknowledge and agree that signatures delivered by facsimile or electronic means (including by "pdf") shall be deemed effective for all purposes.

APPENDIX A

APPENDIX B

**Certification Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002**

I, Seth Blackley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Evolent Health, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2024

/s/ Seth Blackley

Name: Seth Blackley

Title: Chief Executive Officer

**Certification Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002**

I, John Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Evolent Health, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2024

/s/ John Johnson

Name: John Johnson

Title: Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906
Of the Sarbanes-Oxley Act of 2002**

I, Seth Blackley, Chief Executive Officer of Evolent Health, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2024 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2024

/s/ Seth Blackley

Name: Seth Blackley

Title: Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906
Of the Sarbanes-Oxley Act of 2002**

I, John Johnson, Chief Financial Officer of Evolent Health, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2024 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2024

/s/ John Johnson

Name: John Johnson

Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.