

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: 001-40159



**InnovAge Holding Corp.**

(Exact name of registrant as specified in its charter)

Delaware

81-0710819

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification Number)

8950 E. Lowry Boulevard

80230

Denver, CO

(Zip Code)

(Address of Principal Executive Offices)

(844) 803-8745

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	INNV	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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  x  
Non-accelerated filer  Smaller reporting company  Emerging growth company  x

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. o

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 6, 2024, there were 135,987,615 of the registrant's common stock outstanding.

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Part I</b>	
<b>Financial Information</b>	
<u>Item 1.</u>	
<u>Financial Statements (Unaudited)</u>	5
<u>Condensed Consolidated Balance Sheets as of March 31, 2024 (Unaudited) and June 30, 2023</u>	5
<u>Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2024 and 2023 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended March 31, 2024 and 2023 (Unaudited)</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2024 and 2023 (Unaudited)</u>	9
<u>Notes to Condensed Consolidated Financial Statements as of March 31, 2024 (Unaudited)</u>	10
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4.</u>	
<u>Controls and Procedures</u>	44
<b>Part II</b>	
<b>Other Information</b>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	45
<u>Item 1A.</u>	
<u>Risk Factors</u>	45
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	45
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	45
<u>Item 5.</u>	
<u>Other Information</u>	45
<u>Item 6.</u>	
<u>Exhibits</u>	46
<u>Exhibit Index</u>	46
<u>Signatures</u>	47

**InnovAge Holding Corp. and Subsidiaries**  
**Quarterly Report on Form 10-Q**  
**For the quarterly period ended March 31, 2024**

***Cautionary Note on Forward-Looking Statements***

Throughout this Quarterly Report on Form 10-Q, we make "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements describe future expectations, plans, results or strategies and can often be identified by the use of terminology such as "may," "will," "estimate," "intend," "plan," "continue," "believe," "expect," "anticipate," "target," "should," "could," "potential," "opportunity," "goal" or similar terminology. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business, including with respect to current audits and legal proceedings and actions, relationships and discussions with regulatory agencies, our expectations with respect to correcting deficiencies raised in audits and other processes, and our expectations to increase the number of participants we serve, to grow enrollment and capacity within existing centers, to build or open de novo centers, and other similar statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are generally located under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Part I, Item 2, and "Risk Factors," included in Part II, Item 1A, but may be found in other locations as well. These statements are based upon management's current expectations, projections, assumptions and estimates and are not guarantees of timing, future results or performance. Therefore, you should not rely on any of these forward-looking statements as predictions of future events. Actual results may differ materially from those contemplated in these statements due to a variety of risks and uncertainties and other factors, including, among other things:

- the viability of our growth strategy, including our ability to obtain licenses to open our de novo centers in Downey and Bakersfield, California, and our ability to ramp up our de novo centers in Florida;
- our ability to identify and successfully complete and integrate acquisitions;
- our ability to attract new participants and retain existing participants and grow our revenue throughout our existing centers;
- the results of periodic inspections, reviews, audits and investigations under the federal and state government programs, such as the audit of our Sacramento, California center and the targeted medical review of our San Bernardino, California center, and our ability to sufficiently cure any new and recurring deficiencies identified by the respective federal and state government programs;
- the adverse impact of inspections, reviews, audits, investigations, legal proceedings, enforcement actions and litigation, including the current civil investigative demands initiated by federal and state agencies, as well as the litigation and other proceedings initiated by, or on behalf, of our stockholders;
- the risk that the cost of providing services will exceed our compensation under the Program of All Inclusive Care for the Elderly ("PACE");
- our increased costs and expenditures in the future and our inability to execute or realize the benefits of our clinical value initiatives;
- the impact on our business from ongoing macroeconomic related challenges, including labor shortages and inflation;
- the dependence of our revenues and operations upon a limited number of government payors;
- the risk that our submissions to government payors may contain inaccurate or unsupportable information, including regarding risk adjustment scores of participants;
- the impact on our business of renegotiation, non-renewal or termination of capitation agreements with government payors;
- our ability to compete in the healthcare industry, including as a result of new or growing market participants;
- the difficulty to predict our future results, which could cause such results to fall below any guidance we provide;
- the impact of state and federal efforts to reduce healthcare spending;
- the effects of a pandemic, epidemic or outbreak of an infectious disease, such as COVID-19;
- our dependence on our senior management team and other key employees;
- the impact of failures by our suppliers or limitations on our ability to access new technology or medical products;
- the concentration of our presence in Colorado;
- our ability to manage our operations effectively, execute our business plan, maintain effective levels of service and participant satisfaction and adequately address competitive challenges;
- our ability to establish a presence in new geographic markets;
- the impact of competition for physicians and other clinical personnel and related increases in our labor costs;

[Table of Contents](#)

- labor relations matters, including unionization efforts;
- the impact on our business of security breaches, loss of data or other disruptions causing the compromise of sensitive information or preventing us from accessing critical information;
- our ability to effectively invest in, implement improvements to and properly maintain the uninterrupted operation and data integrity of our information technology and other business systems;
- our ability to accurately estimate incurred but not reported medical expense or the risk scores of our participants;
- risks associated with our use of "open-source" software;
- the impact on our business of the termination of our leases, increases in rent or inability to renew or extend leases;
- the impact of weather and other factors beyond our control;
- the effect of our relatively limited operating history as a for-profit company on investors' ability to evaluate our current business and future prospects;
- our ability to adhere to complex and changing government laws and regulations in the healthcare industry, including U.S. Healthcare reform, the regulation of the corporate practice of medicine and the Health Information Technology for Economic and Clinical Health Act of 2009 (the "HITECH Act"), and their implementing regulations (collectively, "HIPAA"), the California Consumer Privacy Act ("CCPA") and other privacy laws and regulations in the healthcare industry;
- our status as a "controlled company";
- our ability to maintain effective internal controls over financial reporting and other enhanced requirements of being a public company;
- our ability to maintain and enhance our reputation and brand recognition;
- the impact on our business of disruptions in our disaster recovery systems or business continuity planning;
- impact of negative publicity regarding the managed healthcare industry; and
- other factors disclosed in the section entitled "Risk Factors" in our Annual Report for the year ended June 30, 2023 filed with the Securities and Exchange Commission (the "SEC") on September 12, 2023, and our subsequent filings with the SEC.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date hereof. We undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Unless otherwise specified or unless the context requires otherwise, all references in this Quarterly Report on Form 10-Q to "InnovAge," "the Company," "we," "us," and "our," or similar references, refer to InnovAge Holding Corp. and our consolidated subsidiaries.

PART I—FINANCIAL INFORMATION

**Item 1. Financial Statements**

**INNOVAGE HOLDING CORP. AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets**  
(In thousands, except per share data)  
(Unaudited)

	March 31, 2024	June 30, 2023
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 54,095	\$ 127,249
Short-term investments	45,235	46,213
Restricted cash	14	16
Accounts receivable, net of allowance (\$ 6,757 – March 31, 2024 and \$ 4,161 – June 30, 2023)	36,457	24,344
Prepaid expenses	13,935	17,145
Income tax receivable	3,330	262
<b>Total current assets</b>	<b>153,066</b>	<b>215,229</b>
<b>Noncurrent Assets</b>		
Property and equipment, net	191,190	192,188
Operating lease assets	29,118	21,210
Investments	3,493	5,493
Deposits and other	5,702	3,823
Goodwill	140,083	124,217
Other intangible assets, net	4,703	5,198
<b>Total noncurrent assets</b>	<b>374,289</b>	<b>352,129</b>
<b>Total assets</b>	<b>\$ 527,355</b>	<b>\$ 567,358</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 48,891	\$ 54,935
Reported and estimated claims	49,281	42,999
Due to Medicaid and Medicare	11,412	9,142
Income tax payable	—	1,212
Current portion of long-term debt	3,795	3,795
Current portion of finance lease obligations	4,466	4,722
Current portion of operating lease obligations	4,128	3,530
Deferred revenue	—	28,115
<b>Total current liabilities</b>	<b>121,973</b>	<b>148,450</b>
<b>Noncurrent Liabilities</b>		
Deferred tax liability, net	6,159	6,236
Finance lease obligations	9,898	13,114
Operating lease obligations	27,322	18,828
Other noncurrent liabilities	1,360	1,086
Long-term debt, net of debt issuance costs	62,321	64,844
<b>Total liabilities</b>	<b>229,033</b>	<b>252,558</b>
<b>Commitments and Contingencies (See Note 9)</b>		—
<b>Redeemable Noncontrolling Interests (See Note 4)</b>	11,588	12,708
<b>Stockholders' Equity</b>		
Common stock, \$ 0.001 par value; 500,000,000 authorized as of March 31, 2024 and June 30, 2023; 135,925,305 and 135,639,845 issued shares as of March 31, 2024 and June 30, 2023, respectively	136	136
Additional paid-in capital	336,596	332,107
Retained deficit	( 55,582 )	( 35,944 )
<b>Total InnovAge Holding Corp.</b>	<b>281,150</b>	<b>296,299</b>
Noncontrolling interests	5,584	5,793
<b>Total stockholders' equity</b>	<b>286,734</b>	<b>302,092</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 527,355</b>	<b>\$ 567,358</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**INNOVAGE HOLDING CORP. AND SUBSIDIARIES**

**Condensed Consolidated Statements of Operations**  
**(In thousands, except number of shares and per share data)**  
**(Unaudited)**

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2024	2023	2024	2023
<b>Revenues</b>				
Capitation revenue	\$ 192,756	\$ 172,196	\$ 563,490	\$ 510,268
Other service revenue	315	343	964	945
<b>Total revenues</b>	<b>193,071</b>	<b>172,539</b>	<b>564,454</b>	<b>511,213</b>
<b>Expenses</b>				
External provider costs	99,996	89,805	300,319	279,550
Cost of care, excluding depreciation and amortization	59,078	53,949	168,649	158,881
Sales and marketing	7,179	5,314	18,416	13,502
Corporate, general and administrative	27,549	27,648	81,746	86,646
Depreciation and amortization	5,062	3,992	13,621	11,087
<b>Total expenses</b>	<b>198,864</b>	<b>180,708</b>	<b>582,751</b>	<b>549,666</b>
<b>Operating Loss</b>	<b>( 5,793 )</b>	<b>( 8,169 )</b>	<b>( 18,297 )</b>	<b>( 38,453 )</b>
<b>Other Income (Expense)</b>				
Interest expense, net	( 1,022 )	( 405 )	( 2,619 )	( 1,231 )
Other income (expense)	525	( 101 )	2,043	380
Loss on minority equity interest	( 118 )	—	( 2,000 )	—
Total other expense	( 615 )	( 506 )	( 2,576 )	( 851 )
<b>Loss Before Income Taxes</b>	<b>( 6,408 )</b>	<b>( 8,675 )</b>	<b>( 20,873 )</b>	<b>( 39,304 )</b>
<b>Provision (Benefit) for Income Taxes</b>	<b>( 224 )</b>	<b>( 1,365 )</b>	<b>94</b>	<b>( 7,747 )</b>
<b>Net Loss</b>	<b>( 6,184 )</b>	<b>( 7,310 )</b>	<b>( 20,967 )</b>	<b>( 31,557 )</b>
Less: net loss attributable to noncontrolling interests	( 297 )	( 680 )	( 1,329 )	( 2,061 )
<b>Net Loss Attributable to InnovAge Holding Corp.</b>	<b>\$ ( 5,887 )</b>	<b>\$ ( 6,630 )</b>	<b>\$ ( 19,638 )</b>	<b>\$ ( 29,496 )</b>
<b>Weighted-average number of common shares outstanding - basic</b>				
	135,908,256	135,601,327	135,861,922	135,581,971
<b>Weighted-average number of common shares outstanding - diluted</b>				
	135,908,256	135,601,327	135,861,922	135,581,971
<b>Net loss per share - basic</b>	<b>\$ ( 0.04 )</b>	<b>\$ ( 0.05 )</b>	<b>\$ ( 0.14 )</b>	<b>\$ ( 0.22 )</b>
<b>Net loss per share - diluted</b>	<b>\$ ( 0.04 )</b>	<b>\$ ( 0.05 )</b>	<b>\$ ( 0.14 )</b>	<b>\$ ( 0.22 )</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**INNOVAGE HOLDING CORP. AND SUBSIDIARIES**

**Condensed Consolidated Statements of Stockholders' Equity**  
 (In thousands, except share amounts)  
 (Unaudited)

For the Three Months Ended March 31, 2024

	Capital Stock						Total Stockholders' Equity	Redeemable Noncontrolling Interests	
	Shares		Additional Paid-in Capital		Retained Earnings (Deficit)	Noncontrolling Interests		Permanent	(Temporary Equity)
	Shares	Amount	Capital	(Deficit)	Interests	Stockholders' Equity		(Temporary Equity)	Net Income (Loss)
<b>Balances, December 31, 2023</b>	135,893,070	\$ 136	\$ 335,062	\$ ( 49,695 )	\$ 5,638	\$ 291,141		11,831	
Stock-based compensation	86,234	—	1,551	—	—	1,551		—	
Tax withholding related to net share settlements of stock-based compensation awards	( 53,999 )	—	( 17 )	—	—	( 17 )		—	
Net loss	—	—	—	( 5,887 )	( 54 )	( 5,941 )		( 243 )	( 6,184 )
<b>Balances, March 31, 2024</b>	135,925,305	\$ 136	\$ 336,596	\$ ( 55,582 )	\$ 5,584	\$ 286,734		11,588	

For the Nine Months Ended March 31, 2024

	Capital Stock						Total Stockholders' Equity	Redeemable Noncontrolling Interests	
	Shares		Additional Paid-in Capital		Retained Earnings (Deficit)	Noncontrolling Interests		Permanent	(Temporary Equity)
	Shares	Amount	Capital	(Deficit)	Interests	Stockholders' Equity		(Temporary Equity)	Net Income (Loss)
<b>Balances, June 30, 2023</b>	135,639,845	\$ 136	\$ 332,107	\$ ( 35,944 )	\$ 5,793	\$ 302,092		12,708	
Stock-based compensation	445,635	—	5,140	—	—	5,140		—	
Tax withholding related to net share settlements of stock-based compensation awards	( 160,175 )	—	( 651 )	—	—	( 651 )		—	
Net loss	—	—	—	( 19,638 )	( 209 )	( 19,847 )		( 1,120 )	( 20,967 )
<b>Balances, March 31, 2024</b>	135,925,305	\$ 136	\$ 336,596	\$ ( 55,582 )	\$ 5,584	\$ 286,734		11,588	

For the Three Months Ended March 31, 2023

	For the Three Months Ended March 31, 2023							Redeemable Noncontrolling Interests (Temporary Equity)	Net Income (Loss)		
	Capital Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Noncontrolling Interests	Total Stockholders' Equity	Permanent Stockholders' Equity				
	Shares	Amount									
<b>Balances, December 31, 2022</b>	135,596,225	\$ 136	\$ 329,777	\$ ( 18,137 )	\$ 5,945	\$ 317,721	\$ 317,721	14,054			
Stock-based compensation	6,239	—	1,178	—	—	—	1,178	—	—		
Adjustments to redemption value	—	—	—	—	—	—	—	—	—		
Net loss	—	—	—	( 6,630 )	( 87 )	( 6,717 )	( 6,717 )	( 593 )	( 7,310 )		
<b>Balances, March 31, 2023</b>	135,602,464	\$ 136	\$ 330,955	\$ ( 24,767 )	\$ 5,858	\$ 312,182	\$ 312,182	\$ 13,461	\$		

For the Nine Months Ended March 31, 2023

	For the Nine Months Ended March 31, 2023							Redeemable Noncontrolling Interests (Temporary Equity)	Net Income (Loss)		
	Capital Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Noncontrolling Interests	Total Stockholders' Equity	Permanent Stockholders' Equity				
	Shares	Amount									
<b>Balances, June 30, 2022</b>	135,532,811	\$ 136	\$ 327,499	\$ 4,729	\$ 6,102	\$ 338,466	\$ 338,466	15,278			
Stock-based compensation	69,653	—	3,456	—	—	—	3,456	—	—		
Adjustments to redemption value	—	—	—	—	—	—	—	—	—		
Net loss	—	—	—	( 29,496 )	( 244 )	( 29,740 )	( 29,740 )	( 1,817 )	( 31,557 )		
<b>Balances, March 31, 2023</b>	135,602,464	\$ 136	\$ 330,955	\$ ( 24,767 )	\$ 5,858	\$ 312,182	\$ 312,182	\$ 13,461	\$		

The accompanying notes are an integral part of these condensed consolidated financial statements.

**INNOVAGE HOLDING CORP. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
**(In thousands)**  
**(Unaudited)**

	<b>For the Nine Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Operating Activities</b>		
Net loss	\$ ( 20,967 )	\$ ( 31,557 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Gain (loss) on disposal of assets	( 14 )	482
Provision for uncollectible accounts	5,252	2,319
Depreciation and amortization	13,621	11,087
Operating lease rentals	3,831	3,500
Amortization of deferred financing costs	322	322
Stock-based compensation	5,140	3,456
Loss on minority equity interest investment	2,000	—
Deferred income taxes	( 78 )	( 12,046 )
Other	302	( 726 )
Changes in operating assets and liabilities		
Accounts receivable, net	( 16,802 )	( 609 )
Prepaid expenses	4,382	( 81 )
Income tax receivable	( 3,068 )	7,727
Deposits and other	( 2,350 )	( 836 )
Accounts payable and accrued expenses	( 5,402 )	25,161
Reported and estimated claims	6,171	641
Due to Medicaid and Medicare	2,270	1,870
Income taxes payable	( 1,212 )	—
Operating lease liabilities	( 4,054 )	( 3,625 )
Deferred revenue	( 28,115 )	—
Net cash provided by (used in) operating activities	( 38,771 )	7,085
<b>Investing Activities</b>		
Purchases of property and equipment	( 4,609 )	( 19,329 )
Purchases of short-term investments	( 1,782 )	( 45,000 )
Proceeds from sale of short-term investments	3,000	—
Acquisition of business	( 23,916 )	—
Net cash used in investing activities	\$ ( 27,307 )	\$ ( 64,329 )
<b>Financing Activities</b>		
Payments for finance lease obligations	( 3,581 )	( 2,637 )
Principal payments on long-term debt	( 2,846 )	( 2,843 )
Taxes paid related to net share settlements of stock-based compensation awards	( 651 )	—
Net cash used in financing activities	( 7,078 )	( 5,480 )
<b>DECREASE IN CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH</b>	<b>( 73,156 )</b>	<b>( 62,724 )</b>
<b>CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH, BEGINNING OF PERIOD</b>	<b>127,265</b>	<b>184,446</b>
<b>CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH, END OF PERIOD</b>	<b>\$ 54,109</b>	<b>\$ 121,722</b>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 2,894	\$ 2,826
Income taxes paid	\$ 4,452	\$ 13
Property and equipment included in accounts payable	\$ 432	\$ 1,811
Property and equipment purchased under finance leases	\$ 108	\$ 8,157

The accompanying notes are an integral part of these condensed consolidated financial statements.



INNOVAGE HOLDING CORP. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
(*Unaudited*)

**Note 1: Business**

InnovAge Holding Corp. and its subsidiaries (the "Company") are headquartered in Denver, Colorado. The Company fulfills a broad range of medical and ancillary services for seniors in need of care and support to safely live independently in their communities, including in-center services such as primary care, physical therapy, occupational therapy, speech therapy, dental services, mental health and psychiatric services, meals, and activities; transportation to the Program of All-Inclusive Care for the Elderly ("PACE") center and third-party medical appointments; and care management. The Company manages its business as one reportable segment, PACE.

As of March 31, 2024, the Company served approximately 6,820 PACE participants, making it the largest PACE provider in the United States of America (the "U.S.") based upon participants served, and operated 19 PACE centers across California, Colorado, Florida, New Mexico, Pennsylvania and Virginia.

PACE is a fully-capitated managed care program, which serves the frail elderly, and predominantly dual-eligible, population in a community-based service model. We define dual-eligible seniors as individuals who are 55+ and qualify for benefits under both Medicare and Medicaid. InnovAge provides all needed healthcare services through an all-inclusive, coordinated model of care, and the Company is at risk for 100 % of healthcare costs incurred with respect to the care of its participants. PACE programs receive capitation payments directly from Medicare Parts C and D, Medicaid, Veterans Affairs ("VA"), and private pay sources. Additionally, under the Medicare Prescription Drug Plan, the Centers for Medicare and Medicaid Services ("CMS") share part of the risk for providing prescription medication to the Company's participants.

The Company's common stock is traded on the Nasdaq Stock Market LLC ("NASDAQ") under the ticker symbol "INNV".

**Note 2: Summary of Significant Accounting Policies**

The Company described its significant accounting policies in Note 2, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended June 30, 2023 ("2023 10-K"). With the exception of Recently Adopted Accounting Pronouncements described below, there were no significant changes to those accounting policies during the nine months ended March 31, 2024.

***Basis of Preparation and Principles of Consolidation***

The unaudited interim condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such regulations. These financial statements have been prepared on a basis consistent with the accounting principles applied for the fiscal year ended June 30, 2023. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, variable interest entities ("VIEs") for which it is the primary beneficiary and entities for which it has a controlling interest. All intercompany accounts and transactions have been eliminated in consolidation.

The Company does not have any components of comprehensive income and comprehensive income is equal to net loss reported in the statements of operations for all periods presented.

## **Property and Equipment**

Property and equipment were comprised of the following as of March 31, 2024 and June 30, 2023:

<i>dollars in thousands</i>	<b>Estimated Useful Lives</b>	<b>March 31, 2024</b>	<b>June 30, 2023</b>
Land	N/A	\$ 11,970	\$ 11,970
Buildings and leasehold improvements	10 - 40 years	144,847	124,262
Software	3 - 5 years	30,677	26,656
Equipment and vehicles	3 - 7 years	64,857	57,754
Construction in progress	N/A	23,436	42,223
		275,787	262,865
Less: accumulated depreciation and amortization		( 84,597 )	( 70,677 )
Total property and equipment, net		\$ 191,190	\$ 192,188

Depreciation of \$ 4.9 million and \$ 3.8 million was recorded during the three months ended March 31, 2024 and 2023, respectively. Depreciation of \$ 13.1 million and \$ 9.9 million was recorded during the nine months ended March 31, 2024 and March 31, 2023, respectively.

## **Recently Adopted Accounting Pronouncements**

### **Financial Instruments**

In April 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* ("ASU 2019-04"), which requires entities to use a current expected credit loss ("CECL") model to measure impairment for most financial assets that are not recorded at fair value through net income. Under the CECL model, an entity will estimate lifetime expected credit losses considering available relevant information about historical events, current conditions and supportable forecasts. The CECL model does not apply to available-for-sale debt securities. The CECL model is expected to result in more timely recognition of credit losses. The Company adopted the standard on July 1, 2023. Our adoption of the standard did not have a material impact to the condensed consolidated financial statements. The Company makes estimates of expected credit losses based on a combination of factors, including historical losses adjusted for current market conditions, delinquency trends, aging behaviors of receivables and credit and liquidity indicators, and future market and economic conditions and regularly reviews the adequacy of the allowance for credit losses.

### **Recent Accounting Pronouncements Not Yet Adopted**

#### **Segment Reporting**

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. ASU 2023-07 improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses that are regularly provided to the chief operating decision maker. Additionally, ASU 2023-07 requires that all existing annual segment disclosures be provided on an interim basis and clarifies that single reportable segment entities are subject to the disclosure requirement under Topic 280 in its entirety. ASU 2023-07 will be applied retrospectively and is effective for fiscal years beginning after December 15, 2023 and interim periods beginning after December 15, 2024. Early adoption is permitted. The Company is evaluating the impact of ASU 2023-07 on our condensed consolidated financial statements.

#### **Income Taxes**

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. ASU 2023-09 requires additional disclosures related to rate reconciliation, income taxes paid, and other disclosures. ASU 2023-09 requires public companies to annually (i) disclose specific categories in the rate reconciliation and (ii) provide additional information for reconciling items that meet a quantitative threshold. Additionally, ASU 2023-09 requires public companies to annually disclose the amount of income taxes paid, disaggregated by federal, state, and

## Table of Contents

foreign taxes, as well as the amount of income taxes paid by individual jurisdiction. For public companies, ASU 2023-09 is effective for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact of ASU 2023-09 on our condensed consolidated financial statements.

We do not expect that any other recently issued accounting guidance will have a significant effect on our condensed consolidated financial statements.

### **Note 3: Revenue Recognition**

Revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition, the Company performs the following five steps: (i) Identify the contract(s) with a customer; (ii) Identify the performance obligations in the contract; (iii) Determine the transaction price; (iv) Allocate the transaction price to the performance obligations in the contract; and (v) Recognize revenue as the entity satisfies a performance obligation.

#### *Capitation Revenue and Accounts Receivable*

Our capitation revenue relates to contracts with participants in which our performance obligation is to provide healthcare services to the participants. Revenues are recorded during the period our obligations to provide healthcare services are satisfied as noted below within each service type. The Company contracts directly with Medicare and Medicaid on a per member, per month ("PMPM") basis. We receive 100 % of the pooled capitated payment to directly provide or manage the healthcare needs of our participants.

Fees are recorded gross in revenues because the Company is acting as a principal in providing for or overseeing comprehensive care provided to the participants. Neither the Company nor any of its affiliates is a registered insurance company because state law in the states in which it operates does not require such registration for risk-bearing providers.

In general, a participant enrolls in the PACE program and is considered a customer of InnovAge. The Company considers all contracts with participants as a single performance obligation to provide comprehensive medical, health, and social services that integrate acute and long-term care. The Company identified that contracts with customers in the PACE program have similar performance obligations and therefore groups them into one portfolio. This performance obligation is satisfied as the Company provides comprehensive care to its participants.

Our revenues are based on the estimated PMPM amounts we expect to be entitled to receive from the capitated fees per participant that are paid monthly by Medicaid, Medicare, the VA, and private pay sources. Medicaid and Medicare capitation revenues are based on PMPM capitation rates under the PACE program. VA is included in "Private Pay and other" and is also capitated. Private pay includes direct payments from participants who do not qualify for the full capitated rate and have to pay all or a portion of the capitated rate. Costs to obtain contracts consist of sales commissions for new enrollees and are included in deposits and other on our condensed consolidated balance sheets. These costs are amortized over a three-year period which corresponds to the average time a participant is enrolled in the PACE program. As of March 31, 2024 and June 30, 2023, contract assets included within deposits and other were \$ 2.3 million and \$ 1.0 million, respectively.

The Company disaggregates capitation revenue from the following sources for the nine months ended:

	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
Medicaid	55 %	55 %
Medicare	45 %	45 %
Private pay and other	*%	*%
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

\* Less than 1%

The Company determined the transaction price for these contracts is the amount we expect to be entitled to, which is the most likely amount. For certain capitation payments, the Company is subject to retroactive premium risk adjustments

## Table of Contents

based on various factors. The Company estimates the amount of the adjustment and records it monthly on a straight-line basis. These adjustments are not expected to be material.

The capitation revenues are recognized based on the estimated PMPM transaction price to transfer the service for a distinct increment of the series (i.e. month). We recognize revenue in the month in which participants are entitled to receive comprehensive care benefits during the contract term. As the period between the time of service and time of payment is typically one year or less, the Company elected the practical expedient under ASC 606-10-32-18 and did not adjust for the effects of a significant financing component.

The Company also provides prescription drug benefits in accordance with Medicare Part D. Monthly payments received from CMS and the participants represent the bid amount for providing prescription drug coverage. The portion received from CMS is subject to risk sharing through Medicare Part D risk-sharing corridor provisions. These risk-sharing corridor provisions compare costs targeted in the Company's bid to actual prescription drug costs. The Company estimates and records a monthly adjustment to Medicare Part D revenues associated with these risk-sharing corridor provisions. Medicare Part D comprised 14 % and 12 % of capitation revenues for the three months ended March 31, 2024 and 2023, respectively. Medicare Part D comprised of 13 % and 12 % of capitation revenues for the nine months ended March 31, 2024 and 2023, respectively.

Our accounts receivable as of March 31, 2024 and June 30, 2023 are primarily from capitation revenue arrangements. The concentration of net receivables from participants and third-party payers was as follows:

	March 31, 2024	June 30, 2023
Medicaid	60 %	61 %
Medicare	32 %	29 %
Private pay and other	8 %	10 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

The Company records accounts receivable at net realizable value, which includes an allowance for estimated uncollectible accounts. The allowance for uncollectible accounts reflects the Company's best estimate of probable losses considering eligibility, historical experience, and existing economic conditions. The balance of the allowance for uncollectible accounts was \$ 6.8 million as of March 31, 2024, compared to \$ 4.2 million as of June 30, 2023. Accounts are written off as bad debts when they are deemed uncollectible based on individual credit evaluations and specific circumstances underlying the accounts.

### *Other Service Revenue and Accounts Receivable*

Other service revenue is comprised of rents earned related to Senior Housing and other fee for service revenue. Other service revenue was 0.2 % of total revenue for each of the three months ended March 31, 2024 and 2023. Other service revenue was 0.2 % of total revenue for each of the nine months ended March 31, 2024 and 2023. Accounts receivable related to other service revenue was not significant as of both March 31, 2024 and June 30, 2023.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to change, as well as government review. Failure to comply with these laws can expose the entity to significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. See Note 9, "Commitments and Contingencies."

### **Note 4: Cost Method and Equity Method Investments**

The Company holds cost method and equity method investments as of:

in thousands	March 31, 2024	June 30, 2023
Cost method investments	\$ 2,645	\$ 4,645
Equity method investments	848	848
<b>Total investments</b>	<b>\$ 3,493</b>	<b>\$ 5,493</b>

## **Nonconsolidated Entities**

### **Cost Method Investments**

The Company maintains two investments that are accounted for using the cost method. Our ownership interests are less than 20% of the voting stock of the investments and we do not have the ability to exercise significant influence over the operating and financial policies of the investments. The investments do not have a readily determinable fair value and the Company has elected to record the investments at cost, less impairment, if any, plus or minus any changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. During the three and nine months ended March 31, 2024 we noted indicators of impairment in one of our investments, and recognized impairment loss of \$ 0.1 million and \$ 2.0 million, respectively, and is presented as loss on minority equity interest on our condensed consolidated statements of operations. During the three and nine months ended March 31, 2023, there were no observable price changes or impairments recorded.

#### *Jetdoc*

In August 2021, the Company acquired a minority interest equal to 806,481 shares of the outstanding common stock of Jetdoc, Inc. ("Jetdoc"), a telehealth and virtual urgent care app dedicated to effectively connecting users with medical professionals, for cash consideration of \$ 2.0 million. We determined that indicators of impairment were present as of December 31, 2023, and recognized an impairment loss of \$ 1.9 million during the three months then ended. During the three months ended March 31, 2024, we determined that the remaining balance of our investment in Jetdoc was impaired and recognized an additional impairment loss of \$ 0.1 million. Impairment loss is included in loss on minority equity interest on our condensed consolidated statements of operations. During the three and nine months ended March 31, 2023, there were no observable price changes or impairments recorded.

#### *DispatchHealth*

On June 14, 2019, the Company invested \$ 1.5 million in DispatchHealth Holdings, Inc. ("DispatchHealth"), through the purchase of a portion of its outstanding Series B Preferred Stock. On April 2, 2020, the Company invested an additional \$ 1.1 million through the purchase of a portion of its outstanding Series C Preferred Stock. The balance of the Company's investment as of March 31, 2024 is \$ 2.6 million, which represents the maximum exposure to loss.

### **Equity Method Investments**

#### *Pinewood Lodge*

The Company's operations include a Senior Housing unit that primarily includes the accounts of Continental Community Housing ("CCH"), the general partner of Pinewood Lodge, LLP ("PWD"), which was organized to develop, construct, own, maintain, and operate certain apartment complexes intended for rental to low-income elderly individuals aged 62 or older.

PWD is a VIE, but the Company is not the primary beneficiary. The Company does not have the power to direct the activities that most significantly impact the economic performance of PWD. Accordingly, the Company does not consolidate PWD. PWD is accounted for using the equity method of accounting. The equity earnings of PWD are insignificant. As of March 31, 2024, the balance of the Company's investment in PWD was \$ 0.8 million, which represents the maximum exposure to loss. On March 13, 2024, PWD entered into a Purchase and Sale Agreement for the sale of all of PWD's property, including the Senior Housing unit. The sale closed on May 2, 2024, and as a result, the Company ceased providing senior housing services through PWD. See Note 16 Subsequent Events, below.

### **Noncontrolling Interest**

#### *Senior Housing*

The Company's operations include a 0.01 % partnership interest in InnovAge Senior Housing Thornton, LLC ("SH1"), which was organized to develop, construct, own, maintain, and operate certain apartment complexes intended for rental to low-income elderly individuals aged 62 or older.

SH1 is a VIE. The Company is the primary beneficiary of SH1 and consolidates SH1. The Company is the primary beneficiary of SH1 as it has the power to direct the activities that are most significant to SH1 and has an obligation to absorb losses or the right to receive benefits from SH1. The most significant activity of SH1 is the operation of the senior housing facility. The Company has provided a subordinated loan to SH1 and has provided a guarantee for a convertible term loan held by SH1.

#### **Redeemable Noncontrolling Interest**

##### *InnovAge Sacramento*

On March 18, 2019, in connection with the formation of InnovAge Sacramento, the joint venture with Adventist Health System/West ("Adventist") and Eskaton Properties, Incorporated ("Eskaton"), the Company contributed \$ 9.0 million in cash and land valued at \$ 4.2 million for a 59.9 % membership interest in the joint venture. Further, Adventist contributed \$ 5.8 million in cash and Eskaton contributed \$ 3.0 million in cash for membership interests of 26.4 % and 13.7 %, respectively. In fiscal year 2021, the Company made an additional contribution of \$ 52,000 and obtained an additional 0.1 % membership interest in the joint venture, which resulted in the Company obtaining control and consolidating InnovAge Sacramento as of January 1, 2021.

The InnovAge California PACE-Sacramento LLC Limited Liability Company Agreement (the "JV Agreement") includes numerous provisions whereby, if certain conditions are met, the joint venture may be required to purchase, at fair market value, certain members' interests or certain members may be required to purchase, at fair market value, the interests of certain other members. As of March 31, 2024, none of the conditions specified in the JV Agreement had been met. At the time the Company became a publicly traded company these put rights held by the noncontrolling interests of the joint venture were required to be presented as temporary equity and are recorded as redeemable noncontrolling interests on our condensed consolidated Balance Sheets. Redeemable noncontrolling interest of \$ 11.6 million and \$ 12.7 million were recorded at carrying value as of March 31, 2024 and June 30, 2023, respectively.

#### **Note 5: Fair Value Measurements**

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants, at the measurement date. A fair value hierarchy was established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources outside the reporting entity. Unobservable inputs are inputs that reflect the Company's own assumptions based on market data and assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The sensitivity to changes in inputs and their impact on fair value measurements can be significant.

The three levels of inputs that may be used to measure fair value are:

- Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date
- Level 2** Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs to the valuation techniques that are significant to the fair value measurements of the assets or liabilities

[Table of Contents](#)

The following table shows the Company's cash, cash equivalents and marketable securities by significant investment category as of March 31, 2024 and June 30, 2023:

in thousands	March 31, 2024			
	Amortized Cost	Fair Value	Cash and Cash Equivalents	Short-term Investments
Cash	\$ 20,511	\$ 20,511	\$ 20,511	\$ —
Level 1				
Money market funds	33,584	33,584	33,584	—
Mutual funds	44,958	45,235	—	45,235
Total	\$ 99,053	\$ 99,330	\$ 54,095	\$ 45,235

  

in thousands	June 30, 2023			
	Amortized Cost	Fair Value	Cash and Cash Equivalents	Short-term Investments
Cash	\$ 49,775	\$ 49,775	\$ 49,775	\$ —
Level 1				
Money market funds	77,474	77,474	77,474	—
Mutual funds	46,170	46,213	—	46,213
Total	\$ 173,419	\$ 173,462	\$ 127,249	\$ 46,213

**Recurring Measurements**

The Company's investment in InnovAge Sacramento includes a put right for the noncontrolling interest holders to require the Company to repurchase the interest of the noncontrolling interest holders at fair value, after the initial term of the management services agreement in 2028. As a result, at each fiscal period end the Company reports this put right at the greater of (i) carrying value of the redeemable noncontrolling interest or (ii) fair value of the redeemable noncontrolling interest. Because this asset does not have observable inputs, Level 3 inputs are used to measure fair value. The fair value of the redeemable noncontrolling interest is determined utilizing a discounted cash flow model. As of March 31, 2024 and June 30, 2023, the Company's redeemable noncontrolling interest was recorded at carrying value of \$ 11.6 million and \$ 12.7 million, respectively.

There were no transfers in and out of Level 3 during the nine months ended March 31, 2024 or 2023.

**Note 6: Goodwill and Intangible Assets**

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill amounted to \$ 140.1 million and \$ 124.2 million at each of March 31, 2024 and June 30, 2023, respectively. Goodwill is not amortized.

Pursuant to ASC 350, "Intangibles – Goodwill and Other," we review the recoverability of goodwill annually as of April 1 or whenever significant events or changes occur which might impair the recovery of recorded amounts. For purposes of the annual goodwill impairment assessment, the Company has identified two reporting units. There were no indicators of impairment identified and no goodwill impairments recorded during the nine months ended March 31, 2024 and 2023.

[Table of Contents](#)

Intangible assets consisted of the following as of:

<i>in thousands</i>	<b>March 31, 2024</b>	<b>June 30, 2023</b>
Definite-lived intangible assets	\$ 6,600	\$ 6,600
Indefinite-lived intangible assets	2,000	2,000
<b>Total intangible assets</b>	<b>8,600</b>	<b>8,600</b>
Accumulated amortization	( 3,897 )	( 3,402 )
<b>Balance as of end of period</b>	<b>\$ 4,703</b>	<b>\$ 5,198</b>

Intangible assets consist primarily of customer relationships acquired through business acquisitions. The Company recorded amortization expense of \$ 0.2 million for each of the three months ended March 31, 2024 and 2023. The Company recorded amortization expense of \$ 0.5 million for each of the nine months ended March 31, 2024 and 2023.

We review the recoverability of other intangible assets in conjunction with long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. There were no intangible asset impairments recorded during the nine months ended March 31, 2024 and 2023.

**Note 7: Leases**

*Leasing Arrangements as Lessee*

The Company leases certain property and equipment under various third-party operating and finance lease agreements. The Company determines if an arrangement is or contains a lease at the lease inception date by evaluating whether the arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The leases are noncancelable and expire on various terms from 2024 through 2032. We determine if an arrangement is a lease upon commencement of the contract. If an arrangement is determined to be a long-term lease (greater than 12 months), we recognize a right-of-use ("ROU") asset and lease liability based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Our lease terms may also include options to extend or terminate the lease when it is reasonably certain that we will exercise those options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have elected to apply the short-term lease exception for contracts that have a lease term of twelve months or less and do not include an option to purchase the underlying asset. Therefore, we do not recognize an ROU asset or lease liability for such contracts. We recognize short-term lease payments as expense on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or rate are recognized as expense. Certain leases include escalations based on inflation indexes and fair market value adjustments. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement for such leases.

The following table presents the components of our ROU assets and their classification in our Balance Sheet at March 31, 2024:

<b>Component of Lease Balances</b>	<b>Balance Sheet Line Items</b>	<b>March 31, 2024</b>	<b>June 30, 2023</b>
<i>in thousands</i>			
<b>Assets:</b>			
Operating lease assets	Operating lease assets	\$ 29,118	\$ 21,210
Finance lease assets	Property and equipment, net	13,041	16,378
<b>Total leased assets</b>		<b>\$ 42,159</b>	<b>\$ 37,588</b>

[Table of Contents](#)

The following table presents the components of our lease cost and the classification of such costs in our condensed consolidated statements of operations for the nine months ended March 31:

Component of Lease Cost <i>in thousands</i>	Statements of Operations Line Items	Nine Months Ended March 31,	
		2024	2023
Operating lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	\$ 3,880	\$ 3,334
Finance lease expense:			
Amortization of leased assets	Depreciation and amortization	3,458	2,923
Interest on lease liabilities	Interest expense, net	—	901
Variable lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	70	—
Short-term lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	136	23
<b>Total lease expense</b>		<b>\$ 7,544</b>	<b>\$ 7,181</b>

The following table includes the weighted-average lease terms and discount rates for operating and finance leases as of March 31:

Weighted average remaining lease term:	March 31, 2024		March 31, 2023	
	Operating leases	Finance leases	Operating leases	Finance leases
Operating leases			7.9 years	8.8 years
Finance leases			3.3 years	3.8 years
Weighted average discount rate:	March 31, 2024		March 31, 2023	
	Operating leases	Finance leases	Operating leases	Finance leases
Operating leases			6.86 %	6.61 %
Finance leases			7.94 %	8.76 %

The following table includes the future maturities of lease payments for operating leases and finance leases for periods subsequent to March 31, 2024:

in thousands	Operating	Finance	Total
	Lease	Lease	
Amount remaining in 2024	\$ 1,527	\$ 1,509	\$ 3,036
2025	6,032	5,326	11,358
2026	5,996	4,302	10,298
2027	5,742	3,576	9,318
2028	4,952	1,767	6,719
Thereafter	15,680	—	15,680
Total lease payments	39,929	16,480	56,409
Less liability accretion / imputed interest	( 8,479 )	( 2,116 )	( 10,595 )
Total lease liabilities	31,450	14,364	45,814
Less: Current lease liabilities	4,128	4,466	8,594
<b>Total long-term lease liabilities</b>	<b>\$ 27,322</b>	<b>\$ 9,898</b>	<b>\$ 37,220</b>

**Note 8. Long-Term Debt**

Long-term debt consisted of the following at March 31, 2024 and June 30, 2023:

	March 31, 2024	June 30, 2023
<i>in thousands</i>		
Senior secured borrowings:		
Term Loan Facility	\$ 64,688	\$ 67,500
Convertible term loan	2,251	2,284
<b>Total debt</b>	<b>66,939</b>	<b>69,784</b>
Less: unamortized debt issuance costs	823	1,145
Less: current maturities	3,795	3,795
Noncurrent maturities	<u>\$ 62,321</u>	<u>\$ 64,844</u>

*2021 Credit Agreement*

On March 8, 2021, the Company entered into a credit agreement (as amended, the "2021 Credit Agreement") that replaced its prior credit agreement. The 2021 Credit Agreement consists of a senior secured term loan (the "Term Loan Facility") of \$ 75.0 million principal amount and a revolving credit facility (the "Revolving Credit Facility") of \$ 100.0 million maximum borrowing capacity, each with a maturity date of March 8, 2026. Borrowing capacity under the Revolving Credit Facility is subject to (i) any issued amounts under our letters of credit, which as of March 31, 2024 was \$ 4.0 million, and (ii) applicable covenant compliance restrictions and any other conditions precedent to borrowing. Loans under the 2021 Credit Agreement are secured by substantially all of the Company's assets. Principal on the Term Loan Facility is paid each calendar quarter in an amount equal to 1.25 % of the initial term loan on closing date.

Outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of March 31, 2024, the interest rate on the Term Loan Facility was 7.16 %. Under the terms of the 2021 Credit Agreement, the Revolving Credit Facility fee accrues at 0.25 % of the average daily unused amount and is paid quarterly. As of March 31, 2024, we had no borrowings outstanding, \$ 4.0 million of letters of credit issued, and \$ 96.0 million of remaining capacity under the Revolving Credit Facility.

The 2021 Credit Agreement requires the Company to meet certain operational and reporting requirements, including, but not limited to, a secured net leverage ratio. Additionally, annual capital expenditures and permitted investments, including acquisitions, are limited to amounts specified in the 2021 Credit Agreement. The 2021 Credit Agreement also provides certain restrictions on dividend payments and other equity transactions and requires the Company to make prepayments under specified circumstances. As of March 31, 2024, the Company was in compliance with the covenants of the 2021 Credit Agreement.

The deferred financing costs of \$ 2.0 million are amortized over the term of the underlying debt and unamortized amounts have been offset against long-term debt in the condensed consolidated balance sheets. Total amortization of deferred financing costs was \$ 0.1 million for each of the three months ended March 31, 2024 and 2023. Total amortization of deferred financing costs was \$ 0.3 million for each of the nine months ended March 31, 2024 and 2023.

*Convertible Term Loan*

On June 29, 2015, SH1 entered into a convertible term loan. Monthly principal and interest payments of \$ 0.02 million commenced on September 1, 2015. The loan bears interest at an annual rate of 6.68 %, with the remaining principal balance due upon maturity at August 20, 2030. The loan is secured by a deed of trust to Public Trustee, assignment of leases and rents, security agreements, and SH1's fixture filing.

## **Note 9: Commitments and Contingencies**

### ***Professional Liability***

The Company pays fixed premiums for annual professional liability insurance coverage under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The Company records claim liabilities and expected recoveries, if any, at gross amounts. The Company is not currently aware of any unasserted claims or unreported incidents that are expected to exceed medical malpractice insurance coverage limits.

### ***Litigation***

From time to time, in the normal course of business, the Company is involved in, or subject to, legal proceedings related to its business, including those described below. The Company regularly evaluates the status of claims and legal proceedings in which it is involved in order to assess whether a loss is probable or there is a reasonable possibility that a loss may have been incurred, and to determine whether accruals are appropriate. The Company expenses legal costs as such costs are incurred.

#### **Civil Investigative Demands**

In July 2021, the Company received a civil investigative demand from the Attorney General for the State of Colorado under the Colorado Medicaid False Claims Act. The demand requests information and documents regarding Medicaid billing, patient services and referrals in connection with the Company's PACE program in Colorado. We continue to fully cooperate with the Attorney General and produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

In February 2022, the Company received a civil investigative demand from the Department of Justice ("DOJ") under the Federal False Claims Act on similar subject matter. The demand requests information and documents regarding audits, billing, orders tracking, and quality and timeliness of patient services in connection with the Company's PACE programs in certain states where the Company operates (California, Colorado, New Mexico, Pennsylvania, and Virginia). In December 2022, the Company received a supplemental civil investigative demand requesting supplemental information on the same matters. The Company continues to fully cooperate with the DOJ and produce the requested information and documentation. We are currently unable to predict the outcome of this investigation.

#### **Stockholder Lawsuits**

On October 14, 2021, and subsequently amended on June 21, 2022, the Company was named as a defendant in a putative class action complaint filed in the District Court for the District of Colorado on behalf of individuals who purchased or acquired shares of the Company's common stock during a specified period (the "Securities Action"). Through the complaint, plaintiffs are asserting claims against the Company, certain of the Company's officers and directors, Apax Partners, L.P., Welsh, Carson, Anderson & Stowe and the underwriters in the Company's IPO, alleging violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 for making allegedly inaccurate and misleading statements and omissions in connection with the Company's IPO and subsequent earnings calls and public filings, and seeking compensatory damages, among other things. On September 13, 2022, the Company and the officer and director defendants and Apax Partners, L.P. and Welsh, Carson, Anderson & Stowe filed a motion to dismiss the amended complaint for failure to state a claim upon which relief can be granted. On December 22, 2023, the District Court granted in part and denied in part the motion to dismiss. The action is now in discovery.

On April 20, 2022, the Board of Directors of the Company received a books and records demand pursuant to Section 220 of the Delaware General Corporation Law, from a purported stockholder of the Company, Brian Hall, in connection with the stockholder's investigation of, among other matters, potential breaches of fiduciary duty, mismanagement, self-dealing, corporate waste or other violations of law by the Company's Board with respect to these matters. On May 15, 2023, Mr. Hall filed a lawsuit in the Delaware Court of Chancery asserting derivative claims for breach of fiduciary duty against certain of the Company's current and former officers and directors generally relating to alleged failures by the defendants to take remedial actions to address the matters that resulted in sanctions by CMS at certain of the Company's centers, and alleged misstatements in the Company's public filings relating to those matters. On June 28, 2023, upon stipulation of the parties, the court entered an order staying the litigation pending the resolution of the motion to dismiss in the Securities Action or upon fifteen days' notice by any party to the litigation. On January 22, 2024, upon stipulation of

the parties, the court entered an order further staying the litigation pending the close of fact discovery in the Securities Action.

We are currently unable to predict the outcome of these matters.

#### Other Matters

In the third fiscal quarter of 2023, the Company agreed to settle a wage and hour class action lawsuit in the State of California for a cash payment of \$ 1.2 million. Subsequently, the Company was notified of certain additional individual claims and agreed to include such claims within the class. As a result, in October 2023, the Company agreed to increase the settlement amount to a total of \$ 1.3 million. The Court entered the final approval of the settlement on April 2, 2024 and the payout is expected to occur in the fourth quarter of fiscal 2024.

Because the results of legal proceedings and claims are inherently unpredictable and uncertain, we are currently unable to predict whether the legal proceedings we are involved in will, either individually or in the aggregate, have a material adverse effect on our business, financial condition, or cash flows. The outcomes of legal proceedings and claims could be material to the Company's operating results for any particular period, depending in part, upon the operating results of such period. Regardless of the outcome, litigation has the potential to have an adverse impact on us due to any related defense and settlement costs, diversion of management resources, and other factors.

#### Note 10: Stock-based Compensation

A summary of our aggregate stock-based compensation expense is set forth below. Stock-based compensation expense is included in corporate, general and administrative expenses on our condensed consolidated statements of operations.

	Three months ended March 31,		Nine months ended March 31,	
	2024		2023	
	<i>in thousands</i>		<i>in thousands</i>	
Stock options	\$ 171	\$ 246	\$ 610	\$ 780
Profits interests units	191	205	820	662
Restricted stock units	1,189	757	3,710	2,279
Total stock-based compensation expense	<u>\$ 1,551</u>	<u>\$ 1,208</u>	<u>\$ 5,140</u>	<u>\$ 3,721</u>

#### 2020 Equity Incentive Plan

##### Profits Interests

TCO Group Holdings, L.P. (the "LP"), the Company's largest shareholder and prior to the IPO, the Company's parent, maintains the TCO Group Holdings, L.P. Equity Incentive Plan (the "2020 Equity Incentive Plan") pursuant to which interests in the LP in the form of Class B Units (profits interests) can be granted to employees, directors, consultants, advisers, and other service providers (including partners) of the LP or any of its affiliates, including the Company. A maximum number of 16,162,177 Class B Units are authorized for grant under the 2020 Equity Incentive Plan, and both performance-based and time-based units have been issued under the plan. As of March 31, 2024, a total of 15,222,837 profits interests units had been granted under the 2020 Equity Incentive Plan.

The Company used the Monte Carlo option model to determine the fair value of the profits interests units at the time of the grant. A total of 2,213,700 Class B Units were awarded during the nine months ended March 31, 2024 to the Company's Chief Executive Officer, Chief Financial Officer, and Chief Legal Officer. The assumptions under the Monte Carlo model related to the profits interests units, presented on a weighted-average basis, are provided below:

[Table of Contents](#)

	<b>Nine Months Ended March 31, 2024</b>
Expected volatility	68.0 - 76.0%
Expected life (years) - time vesting units	2.7 - 3.1
Interest rate	4.23 - 4.57%
Dividend yield	—
Weighted-average fair value	\$ 1.59 - 2.17
Fair value of underlying stock	\$ 5.52 - 7.27

A summary of profits interests activity for the nine months ended March 31, 2024 is as follows:

	Number of units	Weighted average grant date fair value
<b>Time-based unit awards</b>		
Outstanding balance, June 30, 2023	1,264,337	\$ 1.28
Granted	1,106,850	\$ 6.21
Forfeited	( 380,679 )	\$ 1.28
Vested	( 703,395 )	\$ 1.28
Outstanding balance, March 31, 2024	<u>1,287,113</u>	<u>\$ 5.52</u>

	Number of units	Weighted average grant date fair value
<b>Performance-based unit awards</b>		
Outstanding balance, June 30, 2023	2,118,558	\$ 0.57
Granted	1,106,850	\$ 1.78
Forfeited	( 1,853,737 )	\$ 0.57
Vested	—	—
Outstanding balance, March 31, 2024	<u>1,371,671</u>	<u>\$ 1.55</u>

The total unrecognized compensation cost related to profits interests units outstanding as of March 31, 2024 was \$ 3.9 million, comprised (i) \$ 1.8 million related to time-based unit awards expected to be recognized over a weighted-average period of 2.8 years and (ii) \$ 2.1 million related to performance-based unit awards, which will be recorded when it is probable that the performance-based criteria will be met.

*2021 Omnibus Incentive Plan*

In March 2021, the compensation committee of our Board of Directors approved the InnovAge Holding Corp. 2021 Omnibus Incentive Plan (the "2021 Omnibus Incentive Plan"), pursuant to which various stock-based awards may be granted to employees, directors, consultants, and advisers. The total number of shares of the Company's common stock authorized under the 2021 Omnibus Incentive Plan is 14,700,000. The Company has issued time-based restricted stock units under this plan to its employees which generally (i) vested on March 4, 2023, the second anniversary of the grant date, or (ii) vest over a three-year period with one-third vesting on each anniversary of the date of grant. Certain other vesting periods have also been used. The grant date fair value of restricted stock units with time based vesting is based on the closing market price of our common stock on the date of grant. Certain awards under this plan vest upon achieving specific share price performance criteria and are determined to have performance-based vesting conditions. The Company has also issued time-based stock options under this plan to its employees which generally vest in equal parts over a three-year period.

[Table of Contents](#)

**Restricted Stock Units**

A summary of time-based vesting restricted stock units activity for the nine months ended March 31, 2024 is as follows:

	Number of awards	Weighted average grant-date fair value per share
<b>Restricted stock units - time based</b>		
Outstanding balance, June 30, 2023	1,873,794	\$ 10.10
Granted	447,269	\$ 5.52
Forfeited	( 137,416 )	\$ 5.39
Vested	( 361,959 )	\$ 5.83
Outstanding balance, March 31, 2024	<u>1,821,688</u>	<u>\$ 10.18</u>

The total unrecognized compensation cost related to time based restricted stock units outstanding as of March 31, 2024 was \$ 5.9 million and is expected to be recognized over a weighted-average period of 1.7 years.

A summary of performance based vesting restricted stock units activity for the nine months ended March 31, 2024 is as follows:

	Number of awards	Weighted average grant-date fair value per share
<b>Restricted stock units - performance based</b>		
Outstanding balance, June 30, 2023	258,767	\$ 5.18
Granted	—	\$ —
Forfeited	—	\$ —
Vested	—	\$ —
Outstanding balance, March 31, 2024	<u>258,767</u>	<u>\$ 5.18</u>

The total unrecognized compensation cost related to performance based vesting restricted stock units outstanding as of March 31, 2024 was \$ 0.5 million and is expected to be recognized over a weighted-average period of 1.7 years.

**Nonqualified Stock Options**

A summary of time-based vesting stock option activity for the nine months ended March 31, 2024 is as follows:

	Number of awards	Weighted average grant-date fair value per share
<b>Stock options - time based</b>		
Outstanding balance, June 30, 2023	716,661	\$ 1.43
Granted	—	\$ —
Forfeited	( 108,108 )	\$ 0.31
Exercised	( 54,054 )	\$ 0.19
Expired	—	\$ —
Outstanding balance, March 31, 2024	<u>554,499</u>	<u>\$ 1.77</u>
Exercisable balance, March 31, 2024	311,904	\$ 0.17

[Table of Contents](#)

The total unrecognized compensation cost related to time-based vesting stock options outstanding as of March 31, 2024 was \$ 0.1 million and is expected to be recognized over a weighted-average period of 1.3 years.

A summary of performance-based vesting stock option activity for the nine months ended March 31, 2024 is as follows:

Stock options - performance based	Number of awards	Weighted average grant-date fair value per share
Outstanding balance, June 30, 2023	776,299	\$ 3.08
Granted	—	\$ —
Forfeited	—	\$ —
Vested	—	\$ —
Outstanding balance, March 31, 2024	<u>776,299</u>	<u>\$ 3.08</u>

The total unrecognized compensation cost related to performance-based vesting stock options outstanding as of March 31, 2024 was \$ 0.9 million and is expected to be recognized over a weighted-average period of 1.8 years.

**Note 11: Acquisitions**

On December 1, 2023, the Company acquired all of the issued and outstanding membership interests of two California-based PACE programs, ConcertoCare PACE of Bakersfield, LLC and ConcertoHealth PACE of Los Angeles, LLC (collectively "Concerto"), from Perfect Health, Inc. d/b/a ConcertoCare, a tech-enabled, value-based provider of at-home, comprehensive care for seniors and other adults with unmet health and social needs, for \$ 23.9 million. We believe the Concerto acquisition complements our California PACE centers. The acquisition was funded through cash on hand. Results of operations from the acquired centers are included in our condensed consolidated statements of operations for the three and nine months ended March 31, 2024 and were not significant to our results. We incurred costs related to the acquisition of approximately \$ 0.1 million during the nine months ended March 31, 2024. Acquisition related costs were expensed as incurred and have been recorded in corporate, general and administrative expenses in our condensed consolidated statements of operations.

The Concerto acquisition was accounted for using the purchase method of accounting. The purchase price has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. During the measurement period, which is up to one year from the acquisition date, we may adjust provisional amounts that were recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The fair values of assets acquired and liabilities assumed may change as the valuation of intangible assets, working capital adjustments, and overall purchase price allocation are being finalized. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill recognized represents the

estimated future economic benefits arising from expected growth opportunities for the Company and is not deductible for income tax purposes.

The following table presents a preliminary allocation of the purchase price to the assets acquired and liabilities assumed as of the acquisition date:

	Preliminary allocation	Measurement period adjustments	Adjusted allocation
<i>in thousands</i>			
Cash Consideration	\$ 23,916	\$ —	\$ 23,916
Total Consideration	\$ 23,916	\$ —	\$ 23,916
Accounts receivable, net	\$ 563	\$ —	\$ 563
Prepaid expenses	330	841	1,171
Property and equipment, net	7,969	—	7,969
Operating lease assets	6,892	641	7,533
Goodwill	17,348	( 1,482 )	15,866
Deposits and other	343	—	343
Accounts payable and accrued expenses	( 353 )	—	( 353 )
Reported and estimated claims	( 111 )	—	( 111 )
Operating lease obligations	( 8,941 )	—	( 8,941 )
Finance lease obligations	( 124 )	—	( 124 )
Fair value of assets and liabilities	\$ 23,916	\$ —	\$ 23,916

As of March 31, 2024, we recognized a measurement period adjustment for lease incentives related to tenant improvements. The adjustment resulted in an increase of \$ 0.8 million to prepaid expenses and \$ 0.6 million to operating lease assets, and a corresponding decrease of \$ 1.5 million to goodwill.

#### **Note 12: Income Taxes**

The Company recorded an income tax benefit of \$ 0.2 million and \$ 1.4 million for the three months ended March 31, 2024 and 2023, respectively. The Company recorded an income tax expense of \$ 0.1 million and an income tax benefit of \$ 7.7 million for the nine months ended March 31, 2024 and 2023, respectively. This represents an effective tax rate of 3.5 % and 17.2 % for the three months ended March 31, 2024 and 2023, respectively, and an effective tax rate of ( 0.5 )% and 19.7 % for the nine months ended March 31, 2024 and 2023, respectively.

The effective rate for the nine months ended March 31, 2024 was different from the federal statutory rate primarily due to the Company's book loss offset partially by disallowed officers' compensation under Internal Revenue Code ("IRC") Section 162(m), disallowed stock options related to the profit interest units, exclusion of losses from entities not subject to tax, lobbying expenses, and the increase in the Company's valuation allowance against net operating losses which occurred during the three-month period.

The Company assesses the valuation allowance recorded against deferred tax assets at each reporting date. The determination of whether a valuation allowance for deferred tax assets is appropriate requires the evaluation of positive and negative evidence that can be objectively verified. Consideration must be given to all sources of taxable income available to realize deferred tax assets, including, as applicable, the future reversal of existing temporary differences, future taxable income forecasts exclusive of the reversal of temporary differences and carryforwards, taxable income in carryback years and tax planning strategies. In estimating income taxes, the Company assesses the relative merits and risks of the appropriate income tax treatment of transactions taking into account statutory, judicial, and regulatory guidance. As of the nine-month period ended March 31, 2024, the Company determined that it is not "more likely than not" that the deferred tax assets associated with certain state net operating losses will be realized and as such continues to maintain a valuation

## [Table of Contents](#)

allowance against these state deferred tax assets. The Company also determined it is not "more likely than not" that the deferred tax assets associated with certain federal net operating losses will be realized and as such has included a valuation allowance against these federal deferred tax assets. The Company has provided \$ 15.4 million at March 31, 2024 and \$ 8.3 million at June 30, 2023, as a valuation allowance against its deferred tax assets for federal and state net operating losses where there is not sufficient positive evidence to substantiate that these deferred tax assets will be realized at a more-likely-than-not level of assurance.

### **Note 13: Earnings per Share**

Basic earnings (loss) per share ("EPS") is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of common shares outstanding during the period, plus the dilutive effect of outstanding options and other awards, using the treasury stock method and the average market price of the Company's common stock during the applicable period. When a loss from continuing operations exists, all dilutive securities and potentially dilutive securities are anti-dilutive and are therefore excluded from the computation of diluted EPS. When net income from continuing operations exists, performance-based units, are omitted from the calculation of diluted EPS until it is determined that the performance criteria has been met at the end of the reporting period. For the three and nine months ended March 31, 2024, 116,222 and 137,627 potentially dilutive securities were excluded from the weighted-average shares used to calculate the diluted net loss per common share, respectively, as they would have an anti-dilutive effect. During the three and nine months ended March 31, 2023, 659,761 and 37,901 potentially dilutive securities were excluded from the weighted average shares used to calculate the diluted net loss per common share, respectively, as they would have an anti-dilutive effect.

The following table sets forth the computation of basic and diluted net loss per common share:

in thousands, except share values	Three months ended March 31,		Nine months ended March 31,	
	2024	2023	2024	2023
Net loss attributable to InnovAge Holding Corp.	\$ ( 5,887 )	\$ ( 6,630 )	\$ ( 19,638 )	\$ ( 29,496 )
Weighted average common shares outstanding (basic)	135,908,256	135,601,327	135,861,922	135,581,971
<b>EPS (basic)</b>	<b>\$ ( 0.04 )</b>	<b>\$ ( 0.05 )</b>	<b>\$ ( 0.14 )</b>	<b>\$ ( 0.22 )</b>
Dilutive shares	—	—	—	—
Weighted average common shares outstanding (diluted)	135,908,256	135,601,327	135,861,922	135,581,971
<b>EPS (diluted)</b>	<b>\$ ( 0.04 )</b>	<b>\$ ( 0.05 )</b>	<b>\$ ( 0.14 )</b>	<b>\$ ( 0.22 )</b>

### **Note 14: Segment Reporting**

The Company applies ASC Topic 280, "*Segment Reporting*," which establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about operations, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the Company's chief executive officer, who is the chief operating decision maker ("CODM"), and for which discrete financial information is available. The Company has determined that it has three operating segments, two of which are related to the Company's PACE offering. The PACE-related operating segments are based on two geographic divisions, which are East and West. Due to the similar economic characteristics, nature of services, and customers, we have aggregated our East and West operating segments into one reportable segment for PACE. The Company's remaining operating segment primarily relates to Senior Housing, which is an immaterial operating segment, and shown below as "Other" along with certain corporate unallocated expenses.

The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the quality of care provided and profitability. The Company does not review assets by segment and therefore assets by segment are not disclosed below. For the periods presented, all of the Company's long-lived assets were located in the United States and all revenue was earned in the United States.

The Company's management uses Center-level Contribution Margin as the measure for assessing performance of its operating segments. Center-level Contribution Margin is defined as total segment revenues less external provider costs and cost of care (excluding depreciation and amortization). The Company allocates corporate level expenses to its segments with a majority of the allocation going to the PACE segment.

[Table of Contents](#)

The following table summarizes the operating results regularly provided to the CODM by reportable segment for the three months ended March 31, 2024 and 2023:

(In thousands)	March 31, 2024			March 31, 2023		
	PACE	All other <sup>(1)</sup>	Totals	PACE	All other <sup>(1)</sup>	Totals
Capitation revenue	\$ 192,756	\$ —	\$ 192,756	\$ 172,196	\$ —	\$ 172,196
Other service revenue	78	237	315	87	256	343
Total revenues	192,834	237	193,071	172,283	256	172,539
External provider costs	99,996	—	99,996	89,805	—	89,805
Cost of care, excluding depreciation and amortization	58,959	119	59,078	53,861	88	53,949
<b>Center-Level Contribution Margin</b>	<b>33,879</b>	<b>118</b>	<b>33,997</b>	<b>28,617</b>	<b>168</b>	<b>28,785</b>
Overhead costs <sup>(2)</sup>	34,727	1	34,728	33,041	( 79 )	32,962
Depreciation and amortization	4,929	133	5,062	3,858	134	3,992
Interest expense, net	( 978 )	( 44 )	( 1,022 )	( 360 )	( 45 )	( 405 )
Other income (expense)	525	—	525	( 101 )	—	( 101 )
Loss on minority equity interest	( 118 )	—	( 118 )	—	—	—
<b>Loss Before Income Taxes</b>	<b>\$ ( 6,348 )</b>	<b>\$ ( 60 )</b>	<b>\$ ( 6,408 )</b>	<b>\$ ( 8,743 )</b>	<b>\$ 68</b>	<b>\$ ( 8,675 )</b>

The following table summarizes the operating results regularly provided to the CODM by reportable segment for the nine months ended March 31, 2024 and 2023:

in thousands	March 31, 2024			March 31, 2023		
	PACE	All other <sup>(1)</sup>	Totals	PACE	All other <sup>(1)</sup>	Totals
Capitation revenue	\$ 563,490	\$ —	\$ 563,490	\$ 510,268	\$ —	\$ 510,268
Other service revenue	232	732	964	263	682	945
Total revenues	563,722	732	564,454	510,531	682	511,213
External provider costs	300,319	—	300,319	279,550	—	279,550
Cost of care, excluding depreciation and amortization	168,227	422	168,649	158,455	426	158,881
<b>Center-Level Contribution Margin</b>	<b>95,176</b>	<b>310</b>	<b>95,486</b>	<b>72,526</b>	<b>256</b>	<b>72,782</b>
Overhead costs <sup>(2)</sup>	100,152	10	100,162	100,148	—	100,148
Depreciation and amortization	13,264	357	13,621	10,739	348	11,087
Interest expense, net	( 2,484 )	( 135 )	( 2,619 )	( 1,095 )	( 136 )	( 1,231 )
Other income (expense)	2,043	—	2,043	380	—	380
Loss on minority equity interest	( 2,000 )	—	( 2,000 )	—	—	—
<b>Income (Loss) Before Income Taxes</b>	<b>\$ ( 20,681 )</b>	<b>\$ ( 192 )</b>	<b>\$ ( 20,873 )</b>	<b>\$ ( 39,076 )</b>	<b>\$ ( 228 )</b>	<b>\$ ( 39,304 )</b>

(1) Center-level Contribution Margin from segments below the quantitative thresholds are primarily attributable to the Senior Housing operating segment of the Company. This segment has never met any of the quantitative thresholds for determining reportable segments.

(2) Overhead consists of the Sales and marketing and Corporate, general and administrative financial statement line items.

**Note 15: Related Party Transactions**

Pursuant to the PWD Amended and Restated Agreement of Limited Partnership, the general partner, which is a subsidiary of the Company (the "General Partner"), funds operating deficits and shortfalls of PWD in the form of a loan. At each of March 31, 2024 and June 30, 2023, \$ 0.7 million was recorded in Deposits and other. Additionally, the General Partner is paid an administration fee of \$ 35,000 per year.

**Note 16: Subsequent Events**

On May 2, 2024, PWD closed on the sale of its Senior Housing property for \$ 9.5 million. Upon completion of the sale, PWD ceased providing senior housing services and plans to dissolve the limited liability limited partnership, to which our wholly owned subsidiary, CCH, is general partner. Following the dissolution, the remaining proceeds from the sale will be distributed in accordance with the partnership agreement and as otherwise agreed by the partners.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. The discussion contains forward-looking statements that are based on the beliefs of management, as well as assumptions made by, and information currently available to our management. Readers are cautioned not to place undue reliance on any forward-looking statements, as forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly due to numerous known and unknown risks and uncertainties, including those discussed below and in the section entitled "Cautionary Note on Forward-Looking Statements." Those known risks and uncertainties include, but are not limited to, the risk factors identified in the section titled "Risk Factors" in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2023 ("2023 10-K").*

### **Overview**

InnovAge Holding Corp. ("InnovAge") became a public company in March 2021. As of March 31, 2024, the Company served approximately 6,820 PACE participants, and operated 19 PACE centers across California, Colorado, Florida, New Mexico, Pennsylvania, and Virginia.

On January 1, 2024, we opened a PACE center in Tampa, Florida, which has opened enrollment to various surrounding counties, and on April 1, 2024, we opened our PACE center in Orlando, Florida.

### **Trends and Uncertainties Affecting the Company**

*Macroeconomic conditions.* During fiscal year 2024, the U.S. continued to wrestle with inflation and increased wages due to labor shortages and increased competition among healthcare professionals. In fiscal years 2022 and 2023, in response to high levels of inflation, we implemented various mitigation strategies to reduce costs of operation, including, consolidating services, price negotiations with providers and vendors and limiting corporate staffing, effecting a reduction in workforce in December 2022. In fiscal year 2023, we launched and conducted several initiatives intended to lower certain of our costs, including limiting corporate staffing, effecting a reduction in workforce in December 2022, and optimizing working capital. The Company has continued these mitigation strategies during the nine months ended March 31, 2024. In October 2023, we conducted an additional planned reduction in workforce involving approximately 1.6% of our workforce. In connection with the planned reduction, we incurred approximately \$0.3 million of charges associated with employee severance and benefits costs during the nine months ended March 31, 2024. The effects of inflation, after accounting for these mitigation strategies, were immaterial to our financial results for the three and nine months ended March 31, 2024. We expect to continue to experience elevated operating expenses for the remainder of fiscal 2024 for similar reasons. Although we expect to continue mitigation efforts, there can be no assurance that our strategies will be sufficient.

*Increased cost of care.* Cost of care and related cost per participant increased for the nine months ended March 31, 2024 compared to 2023, partially as a result of increased salaries, wages and benefits associated with increased headcount and higher wage rates and increased fleet and contract transportation costs due to an increase in external appointments related to growing census. Additionally, external provider costs have increased in the nine month period ended March 31, 2024 compared to 2023 associated with annual increases in assisted living and nursing facility unit cost and general medical inflation. In an effort to mitigate the effects of these rising costs, we have implemented certain clinical value initiatives designed to manage participant expenses and reduce low-value utilization of services, and we have implemented an infrastructure to ensure accurate reimbursement of services. We continue to evaluate increased costs and methods to mitigate or offset such increases.

*Census and capitation revenue.* On May 11, 2023 the President allowed the national emergency and public health emergency declarations related to the COVID-19 pandemic to expire. While states have resumed processing new Medicaid applications and redeterminations of beneficiary eligibility, the healthcare industry, including the Company, has experienced increased delays in the processing of such applications. As a result of such delays, the Company has experienced an increase in gaps of eligibility with redetermination applications. While the participants continue to receive care and remain enrolled with the Company during this time, the effect of such delays temporarily halts Medicaid revenue related to any closed application and simultaneously increases our risk of revenue recovery. In an effort to mitigate these risks, the Company utilizes State approved third-party eligibility partners to expedite applications, escalate delayed cases to State administrators, and pursue safe discharges for individuals who are truly ineligible. There has not been a material

effect on the Company's financial statements or operations due to this situation. The Company is seeing trends of aging report accounts and financial losses normalizing to pre-public health emergency levels.

*Labor market.* The healthcare sector continues to experience a complex set of challenges in hiring additional professionals. We believe these challenges are a result of a combination of factors beyond the direct impact of the COVID-19 pandemic. Specifically, the demand for healthcare services has been steadily increasing due to an aging population and a greater focus on health and wellness in society. In addition, there are systemic challenges related to workforce training and the pipeline of qualified professionals, which have not kept pace with this growing demand. Furthermore, high inflation experienced during fiscal year 2023 and which has continued through fiscal year 2024 has increased the cost of living, and subsequently, wage pressure for healthcare professionals, with a shift towards an employee-centric market with an emphasis on competitive compensation, flexibility and professional growth opportunities, which has contributed to an increasingly competitive labor market. In an effort to mitigate the effects of these challenges, we have adopted strategies to offer competitive compensation packages. Partially as a result of increased competition and other market trends, in conjunction with increased staffing related to compliance and remediation efforts in our centers, there has been an increase in the cost of care for the nine months ended March 31, 2024 compared to the comparable period last year, as discussed in "Results of Operations" below.

Additionally, on October 13, 2023, California passed into law California Senate Bill No. 525 ("SB 525"), which raises the minimum wage for many California healthcare workers, effective as of June 1, 2024. Although PACE centers are not covered by SB 525, many of our contractors and other third-party providers are impacted by SB 525, and due to this and other macroeconomic factors, our California centers have started receiving provider requests to increase rates to cover their increased costs. SB 525 has also had the effect of increasing provider rates from our California housing providers. Competition with other healthcare providers who are required to increase wages under SB 525 could materially increase our labor costs. We will continue to evaluate the impact of this legislation on our business. For the nine months ended March 31, 2024, we did not suffer a material impact to our financial statements or operations related to this trend.

Finally, on October 27, 2023, following a demand from a labor union for the Company to recognize it as the collective bargaining representative of the nurses in our Pennsylvania centers, we filed a petition with the National Labor Relations Board to conduct two elections. The National Labor Relations Board conducted the elections on December 6, 2023, at which the nurses in our Pennsylvania centers voted to unionize. These employees represent approximately 1% of our total workforce. Collective bargaining commenced in late March. While we cannot predict the terms or timing of any resulting collective bargaining agreement, we currently do not expect the impact from any such future negotiated collective bargaining agreements and costs for unionized employees to have a material effect on our costs of labor or operations. However, we cannot predict whether other employees will follow a similar course of action.

For additional information on the various risks posed by macroeconomic events, regulation, and employee matters, please see the section entitled "Risk Factors" included in Part I, Item 1A of our 2023 10-K and in Part II, Item 1A of this Form 10-Q.

#### **Key Factors Affecting Our Performance**

Our historical financial performance has been, and we expect our financial performance in the future to be, driven by the following factors:

- *Our ability to effectively implement post-sanction remediation efforts in our centers as a result of our recent audits and maintain high quality of regulatory compliance.* The Company's priority is to continue to remediate the deficiencies raised in audit processes (including recent and new audits) and to implement post-sanction corrective actions, where required, as well as maintain high quality of regulatory compliance in all its centers. As part of its actions to do so, the Company has worked with the appropriate authorities to make the necessary changes within the Company to improve care coordination and care documentation among our centers, including working to fill critical personnel gaps at our centers, standardizing the process of our Interdisciplinary Care Teams ("IDTs"), strengthening our home care network and reliability, improving timelines of scheduling and coordinating care with providers outside our centers, among others.
- *Our participants.* We focus on providing all-inclusive care to frail, high-cost, dual-eligible seniors. We directly contract with government payors, such as Medicare and Medicaid, through PACE and receive a capitated risk-adjusted payment to manage the totality of a participant's medical care across all settings. InnovAge manages participants that are, on average, more complex and medically fragile than other

Medicare-eligible patients, including those in Medicare Advantage ("MA") programs. As a result, we receive larger payments for our participants compared to MA participants. This is driven by two factors: (i) we manage a higher acuity population, with an average risk adjustment factor ("RAF") score of 2.47 based on InnovAge data as of March 31, 2024; and (ii) we manage Medicaid spend in addition to Medicare. Our participants are managed on a capitated, or at-risk basis, where InnovAge is financially responsible for all of participant medical costs. Our comprehensive care model and globally capitated payments are designed to cover participants from enrollment until the end of life, including coverage for participants requiring hospice and palliative care. For dual-eligible participants, we receive per member, per month ("PMPM") payments directly from Medicare and Medicaid, which provides recurring revenue streams and significant visibility into our revenue. The Medicare portion of our capitated payment is risk-based, taking into account the underlying medical conditions and frailty of each participant. We continue to work on expanding payer capabilities so that our revenue more accurately reflects the acuity of the populations we serve.

- *Our ability to grow enrollment and capacity within existing centers.* We believe all seniors should have access to the type of all-inclusive care offered by the PACE model. Several factors can affect our ability to grow enrollment and capacity within existing centers, including sanctions issued by regulators, such as the ones we were subject to in our Sacramento, California and Colorado centers.
- *Our ability to maintain high participant satisfaction and retention.* We achieved an 86% participant satisfaction rating as of September 30, 2023, measured as composite of participant satisfaction across ten categories, and average participant tenure was 3.1 years as of March 31, 2024, measured as tenure from enrollment to disenrollment, among our centers that have been operated by us for at least five years. Furthermore, we experience low levels of controllable disenrollment, averaging 6.0% annually over the last three fiscal years.
- *Effectively managing the cost of care for our participants.* We receive capitated payments to manage the totality of a participant's medical care across all settings. The risk pool of our population became more acute in fiscal year 2023 as we were not able to replenish our population mix with newer, lower-acuity participants as a result of State sanctions. As a result of this dynamic, together with the factors disclosed above (increased salaries, wages and benefits, increased fleet and contract transportation costs, annual increases in assisted living and nursing facility unit cost and general medical inflation) our external provider costs and cost of care, excluding depreciation and amortization, represented approximately 83% of our revenue in the nine months ended March 31, 2024. While we are liable for potentially large medical claims, our care model focuses on delivering high-quality medical care in cost efficient, community-based settings as a means of avoiding costly inpatient and outpatient services. However, our participants retain the freedom to seek care at sites of their choice, including hospitals and emergency rooms; we do not restrict participant access to care.
- *Center-level Contribution Margin.* As we serve more participants in existing centers, we leverage our fixed cost base at those centers and the value of a center to our business increases over time. For the nine months ended March 31, 2024, census has grown 8.1% compared to the nine months ended March 31, 2023.
- *Our ability to expand via de novo centers within existing and new markets.* Several factors can affect our ability to open de novo centers, including sanctions issued by regulators.

All new PACE centers are subject to annual federal and state audits for the first three years after opening. In October 2023, CMS and the California Department of Health Care Services ("DHCS") conducted a joint routine audit of our Sacramento center. On January 23, 2024, DHCS notified us of their preliminary audit findings at our Sacramento center and that, based on concerns that it had been alerted to, it would be conducting a medical review of our San Bernardino center. In response to both of these matters, DHCS notified us that it was suspending its attestations in support of the planned de novo center in Downey and the recently acquired planned de novo center in Bakersfield. On February 1, 2024, we received the final audit results from DHCS notifying us of identified deficiencies at our Sacramento center, some of which fall under the same categories as those that formed the basis of the enrollment freeze in 2021. On March 4, 2024, we submitted a CAP to DHCS. On March 19, 2024, CMS released us from the approved CAP and officially closed its portion of the Sacramento audit on April 4, 2024. DHCS's process is ongoing. While the planned California de novo centers are precluded from opening at this time, DHCS notified us that it would consider restoring the State Attestations upon our successful remediation of the deficiencies raised in our Sacramento center and its completion of the medical review (and any potential resultant remediation that may be required)

in our San Bernardino center. We believe we have in place the policies, processes and systems to correct the identified deficiencies as we did in connection with the 2021 enrollment freeze.

- *Execute tuck-in acquisitions.* From fiscal year 2019 through fiscal year 2021, we acquired and integrated three PACE organizations, expanding our InnovAge Platform to one new state and four new markets through those acquisitions. Additionally, in the second fiscal quarter of 2024, we completed an acquisition of two PACE programs in California from ConcertoCare, which included one operating center in the Crenshaw neighborhood of Los Angeles and a second program that is a planned de novo in Bakersfield, California. We remain disciplined in our approach to acquisitions and in the past have executed multiple types of transactions, including turnarounds and non-profit conversions. When integrating acquired programs, we work closely with key constituencies, including local governments, health systems and senior housing providers, to enable continuity of high-quality care for participants.
- *Contracting with government payors.* Our economic model relies on our capitated arrangements with government payors, namely Medicare and Medicaid. We view the government not only as a payor but also as a key partner in our efforts to expand into new geographies and access more participants in our existing markets. Maintaining, supporting and growing these relationships in existing markets as well as new geographies, is critical to our long-term success.
- *Investing to support growth.* We intend to continue investing in our centers, value-based care model, and sales and marketing organization to support long-term growth. We expect our expenses to increase in absolute dollars for the foreseeable future to support our growth and due to additional costs we are incurring or expect to incur in connection with our current and future audits to our centers, our post-audit remediation plans and current and potential legal and regulatory proceedings. We plan to invest in future growth judiciously and maintain focus on managing our results of operations. We are building capabilities to increase our sophistication as a payor to drive clinical value, improve outcomes, and manage cost trends. Accordingly, in the short term, we expect the activities noted above to increase our expenses as a percentage of revenue, but in the longer term, we anticipate that these investments will positively impact our business and results of operations.
- *Seasonality of our business.* Our operational and financial results, including medical costs and per-participant revenue true-ups, experience some variability depending upon the time of year in which they are measured. Medical costs vary most significantly as a result of (i) the weather, with certain illnesses, such as the influenza virus, being more prevalent during colder months of the year, which generally increases per-participant costs, and (ii) the number of business days in a period, with shorter periods generally having lower medical costs, all else equal. Per-participant revenue true-ups represent the difference between our estimate of per-participant capitation revenue to be received and actual revenue received by CMS, which is based on CMS's determination of a participant's RAF score as measured twice per year and is based on the evolving acuity of a participant. Where there is a difference between our estimate and the final determination from CMS, we may receive incremental true-up revenue or be required to repay certain amounts. Historically, these true-up payments typically occur between May and August, but the timing of these payments is determined by CMS, and we have neither visibility into nor control over the timing of such payments. The variability of participant enrollments during the open enrollment period has also been impacted by additional offerings by MA and other competitors. We believe that, as a result of these additional offerings, we experienced higher than expected disenrollments during the third quarter of fiscal 2024.

## **Components of Results of Operations**

### **Revenue**

*Capitation Revenue.* In order to provide comprehensive services to manage the totality of a participant's medical care across all settings, we receive fixed or capitated fees per participant that are paid monthly by Medicare, Medicaid, Veterans Affairs ("VA") and private pay sources.

Medicaid and Medicare capitation revenues are based on PMPM capitation rates under the PACE program. The PACE state contracts between us and the respective state Medicaid administering agency are renewed annually each June 30 in all states other than California and Pennsylvania, which contract on a calendar-year basis. We are currently operating in good standing under each of our PACE state contracts. For a discussion of our revenue recognition policies, please see *Critical*

*Accounting Estimates* below and Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2023 10-K.

*Other Service Revenue.* Other service revenue primarily consists of revenues derived from fee-for-service arrangements, state food grants, rent revenues and management fees. For a discussion of our revenue recognition policies, please see *Critical Accounting Estimates* below and Note 2, "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2023 10-K.

#### **Operating Expenses**

*External Provider Costs.* External provider costs consist primarily of the costs for medical care provided by non-InnovAge providers. We separate external provider costs into four categories: inpatient (e.g., hospital), housing (e.g., assisted living and skilled nursing facility), outpatient and pharmacy. In aggregate, external provider costs represent the largest portion of our expenses.

*Cost of Care, Excluding Depreciation and Amortization.* Cost of care, excluding depreciation and amortization, includes the costs we incur to operate our care delivery model. This includes costs related to salaries, wages and benefits for IDT and other center-level staff, participant transportation, medical supplies, occupancy, insurance and other operating costs. IDT employees include medical doctors, registered nurses, social workers, physical, occupational, and speech therapists, nursing assistants, and transportation workers. Other center-level employees include clinic managers, dieticians, activity assistants and certified nursing assistants. Cost of care excludes any expenses associated with sales and marketing activities incurred at a local level as well as any allocation of our corporate, general and administrative expenses. A portion of our cost of care, including our employee-related costs, is directly related to the number of participants cared for in a center. The remainder of our cost of care is fixed relative to the number of participants we serve, such as occupancy and insurance expenses. As a result, as revenue increases due to census growth, cost of care, excluding depreciation and amortization, moderately decreases as a percentage of revenue. As we open new centers, we expect cost of care, excluding depreciation and amortization, to increase in absolute dollars due to higher census and facility related costs.

*Sales and Marketing.* Sales and marketing expenses consist of employee-related expenses, including salaries, commissions, and employee benefits costs, for all employees engaged in marketing, sales, community outreach and sales support. These employee-related expenses capture all costs for both our field-based and corporate sales and marketing teams. Sales and marketing expenses also include local and centralized advertising costs, as well as the infrastructure required to support our marketing efforts. We expect these costs to increase in absolute dollars over time as we grow our participant census. We evaluate our sales and marketing expenses relative to our participant growth and will invest more heavily in sales and marketing from time-to-time to the extent we believe such investment can accelerate our growth without negatively affecting profitability.

*Corporate, General and Administrative.* Corporate, general and administrative expenses include employee-related expenses, including salaries and related costs. In addition, general and administrative expenses include all corporate technology and occupancy costs associated with our corporate office. We expect our general and administrative expenses to increase in absolute dollars due to the additional legal, accounting, insurance, investor relations and other costs that we incur as a public company, as well as other costs associated with compliance and continuing to grow our business. However, we anticipate general and administrative expenses to decrease as a percentage of revenue over the long term, although such expenses may fluctuate as a percentage of revenue from period to period due to the timing and amount of these expenses.

*Depreciation and Amortization.* Depreciation and amortization expenses are primarily attributable to our buildings and leasehold improvements and our equipment and vehicles. Depreciation and amortization are recorded using the straight-line method over the shorter of estimated useful life or lease terms, to the extent the assets are being leased.

For more information relating to the components of our results of operations, see *Results of Operations* below and Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2023 10-K.

## Results of Operations

The following table sets forth our consolidated results of operations for the periods presented:

in thousands	Three Months Ended March 31,		Nine Months Ended March 31,	
	2024	2023	2024	2023
<b>Revenues</b>				
Capitation revenue	\$ 192,756	\$ 172,196	\$ 563,490	\$ 510,268
Other service revenue	315	343	964	945
Total revenues	193,071	172,539	564,454	511,213
<b>Expenses</b>				
External provider costs	99,996	89,805	300,319	279,550
Cost of care, excluding depreciation and amortization	59,078	53,949	168,649	158,881
Sales and marketing	7,179	5,314	18,416	13,502
Corporate, general and administrative	27,549	27,648	81,746	86,646
Depreciation and amortization	5,062	3,992	13,621	11,087
Total expenses	198,864	180,708	582,751	549,666
Operating Loss	\$ (5,793)	\$ (8,169)	(18,297)	(38,453)
<b>Other Income (Expense)</b>				
Interest expense, net	(1,022)	(405)	(2,619)	(1,231)
Other income (expense)	525	(101)	2,043	380
Loss on minority equity interest	(118)	—	(2,000)	—
Total other expense	(615)	(506)	(2,576)	(851)
Loss Before Income Taxes	(6,408)	(8,675)	(20,873)	(39,304)
Provision (Benefit) for Income Taxes	(224)	(1,365)	94	(7,747)
Net Loss	\$ (6,184)	\$ (7,310)	\$ (20,967)	\$ (31,557)
Less: net loss attributable to noncontrolling interests	(297)	(680)	(1,329)	(2,061)
Net Loss Attributable to InnovAge Holding Corp.	\$ (5,887)	\$ (6,630)	\$ (19,638)	\$ (29,496)

### Revenues

	Three Months Ended March 31,		Change		Nine Months Ended March 31,		Change	
	2024	2023	\$	%	2024	2023	\$	%
<i>in thousands</i>								
Capitation revenue	\$ 192,756	\$ 172,196	\$ 20,560	11.9 %	\$ 563,490	\$ 510,268	\$ 53,222	10.4 %
Other service revenue	315	343	(28)	(8.2)%	964	945	19	2.0 %
Total revenues	\$ 193,071	\$ 172,539	\$ 20,532	11.9 %	\$ 564,454	\$ 511,213	\$ 53,241	10.4 %

**Capitation revenue.** Capitation revenue was \$192.8 million for the three months ended March 31, 2024, an increase of \$20.6 million, or 11.9%, compared to \$172.2 million for the three months ended March 31, 2023. This increase was driven by an \$8.8 million, or 4.8%, increase in capitation rates coupled with \$11.8 million, or 6.8%, increase in member months. The increase in capitation rates was primarily driven by (i) a 6.7% annual increase in Medicaid capitation rates as determined by the States and (ii) a 2.7% increase in Medicare capitation rates as a result of increased risk score and county rates. The increase in member months is primarily due to the release from sanctions at our Colorado and Sacramento centers.

Capitation revenue was \$563.5 million for the nine months ended March 31, 2024, an increase of \$53.2 million, or 10.4% compared to \$510.3 million for the nine months ended March 31, 2023. This increase was driven by a \$37.8 million,

or 7.2%, increase in capitation rates coupled with a \$15.4 million, or 3.0%, increase in member months. The increase in capitation rates include a 6.8% annual increase in Medicaid rates and a 7.6% increase in Medicare rates.

**Operating Expenses**

	Three Months Ended March						Nine Months Ended March 31,					
	31,		Change				31,		Change			
	2024	2023	\$	%	2024	2023	\$	%	2024	2023	\$	%
<i>in thousands</i>												
External provider costs	\$ 99,996	\$ 89,805	\$ 10,191	11.3%	\$ 300,319	\$ 279,550	\$ 20,769	7.4%				
Cost of care (excluding depreciation and amortization)	59,078	53,949	5,129	9.5%	168,649	158,881	9,768	6.1%				
Sales and marketing	7,179	5,314	1,865	35.1 %	18,416	13,502	4,914	36.4 %				
Corporate, general, and administrative	27,549	27,648	(99)	(0.4)%	81,746	86,646	(4,900)	(5.7)%				
Depreciation and amortization	5,062	3,992	1,070	26.8%	13,621	11,087	2,534	22.9%				
Total operating expenses	<u>\$ 198,864</u>	<u>\$ 180,708</u>	<u>\$ 18,156</u>		<u>\$ 582,751</u>	<u>\$ 549,666</u>	<u>\$ 33,085</u>					

*External provider costs.* External provider costs were \$100.0 million for the three months ended March 31, 2024, an increase of \$10.2 million, or 11.3%, compared to \$89.8 million for the three months ended March 31, 2023. The increase was primarily driven by an increase of \$4.1 million, or 4.2%, in cost per participant coupled with an increase of \$6.1 million, or 6.8% in member months. The increase in cost per participant was primarily driven by an annual increase in pharmacy cost, an increase in assisted living utilization and unit cost, and an increase in professional services utilization. This was partially offset by a decrease in permanent nursing facility utilization.

External provider costs were \$300.3 million for the nine months ended March 31, 2024, an increase of \$20.8 million, or 7.4%, compared to \$279.6 million for the nine months ended March 31, 2023. This increase was primarily driven by an increase of \$12.3 million, or 4.3%, in cost per participant coupled with an increase of \$8.4 million, or 3.0%, in member months. The increase in cost per participant was primarily driven by an annual increase in pharmacy cost, an increase in assisted living utilization and unit cost, and an increase in professional services utilization. This is partially offset by a decrease in permanent and short stay nursing facility utilization.

*Cost of care (excluding depreciation and amortization).* Cost of care (excluding depreciation and amortization) expense was \$59.1 million for the three months ended March 31, 2024, an increase of \$5.1 million, or 9.5%, compared to \$53.9 million for the three months ended March 31, 2023, primarily due to an increase of \$1.4 million, or 2.5%, in cost per participant coupled with an increase of \$3.7 million, or 6.8%, in member months. The increase was primarily driven by (i) a \$3.2 million increase in salaries, wages and benefits associated with increased headcount and higher wage rates, (ii) \$0.9 million in increased software license fees, and (iii) \$0.4 million in increased fleet expense and contract transportation a result of an increase in external appointments, (iv) \$0.6 million in contract provider expense in California associated with growth, and (v) \$0.8 million in de novo occupancy and administrative expense associated with opening centers in Florida and the Concerto acquisition, partially offset by \$1.1 million reduction in third party audit and compliance support.

Cost of care (excluding depreciation and amortization) expense was \$168.6 million for the nine months ended March 31, 2024, an increase of \$9.8 million, or 6.1%, compared to \$158.9 million for the nine months ended March 31, 2023, primarily due to an increase of \$5.0 million, or 3.0%, in cost per participant coupled with an increase of \$4.8 million, or 3.0%, in member months. The increase was primarily driven by (i) a \$7.8 million increase in salaries, wages and benefits associated with increased headcount and wage rate, (ii) \$1.3 million in increased building maintenance and security, (iii) \$2.2 million in increased fleet expense as a result of an increase in center attendance and an increase in external appointments, (iv) \$1.4 million in contract provider expenses in California associated with growth, and (v) \$0.9 million in software license fees, partially offset by \$3.6 million reduction in third party audit and compliance support.

*Sales and marketing.* Sales and marketing expenses were \$7.2 million for the three months ended March 31, 2024, an increase of \$1.9 million, or 35.1%, compared to \$5.3 million for the three months ended March 31, 2023, primarily due to increased marketing spend and headcount as a result of the sanction release in our Colorado and Sacramento centers.

Sales and marketing expense were \$18.4 million for the nine months ended March 31, 2024, an increase of \$4.9 million, or 36.4%, compared to \$13.5 million for the nine months ended March 31, 2023, primarily due to increased marketing spend and headcount as a result of the sanction release in our Colorado and Sacramento centers.

**Corporate, general and administrative.** Corporate, general and administrative expenses were \$27.5 million for the three months ended March 31, 2024, a decrease of \$0.1 million, or 0.4%, compared to \$27.6 million for the three months ended March 31, 2023. The decrease was primarily due to (i) \$1.7 million reduction in third party legal expense, (ii) \$0.4 million reduction in insurance expense, (iii) \$0.8 million reduction in consulting expense associated with improving organizational capabilities including the transition to a new electronic medical record ("EMR") system, and (iv) \$0.8 million reduction in software license and maintenance expense, inclusive of Epic license fees. These decreases in cost were partially offset by (i) \$0.6 million increase in employee compensation and benefits as the result of an increase in headcount to support compliance and bolster organizational capabilities, (ii) \$0.2 million in consulting costs associated with Sarbanes-Oxley Act of 2002 compliance and internal audit, (iii) \$0.4 million in administrative and travel expense, and (iv) \$2.3 million in bad debt expense.

Corporate, general and administrative expenses were \$81.7 million for the nine months ended March 31, 2024, a decrease of \$4.9 million, or 5.7%, compared to \$86.6 million for the nine months ended March 31, 2023. This decrease was primarily due to (i) \$4.4 million reduction in third party legal expense, (ii) \$1.6 million reduction in insurance expense, (iii) \$3.7 million reduction in consulting expense associated with improving organizational capabilities including the transition to a new EMR, (iv) \$1.3 million reduction in contract staff augmentation, and (v) \$1.3 million reduction in recruiting expense. These decreases were partially offset by (i) \$2.6 million increase in employee compensation and benefits as the result of an increase in headcount, (ii) \$2.9 million in bad debt expense, (iii) \$0.7 million in consulting costs associated with Sarbanes-Oxley Act of 2002 compliance and internal audit, (iv) \$0.4 million in administrative and travel expense, and (iv) \$0.5 million in software license and maintenance expense, inclusive of Epic license fees.

**Other Income (Expense)**

	Three Months Ended March 31,				Nine Months Ended March 31,				Change	
			Change				Change			
	2024	2023	\$	%	2024	2023	\$	%		
<i>in thousands</i>										
Interest expense, net	\$ (1,022)	\$ (405)	\$ (617)	152.3%	\$ (2,619)	\$ (1,231)	\$ (1,388)	112.8%		
Other income (expense)	525	(101)	626	(619.8)%	2,043	380	1,663	437.6%		
Loss on minority equity interest	\$ (118)	\$ —	\$ (118)	100.0%	\$ (2,000)	\$ —	\$ (2,000)	100.0%		
Total other expense	\$ (615)	\$ (506)	\$ (109)		\$ (2,576)	\$ (851)	\$ (1,725)			

**Interest expense, net.** Interest expense, net, consists primarily of interest payments on our outstanding borrowings, net of interest income earned on our cash and cash equivalents and restricted cash. Interest expense, net was \$1.0 million for the three months ended March 31, 2024, an increase of \$0.6 million, or 152.3%, compared to \$0.4 million for the three months ended March 31, 2023. The increase was primarily due to interest expense of \$1.7 million, which was offset by interest income of \$0.7 million from money market funds for the three months ended March 31, 2024. Interest expense of \$1.4 million was offset by interest income of \$1.0 million during the three months ended March 31, 2023.

Interest expense, net was \$2.6 million for the nine months ended March 31, 2024, an increase of \$1.4 million, or 112.8%, compared to \$1.2 million for the nine months ended March 31, 2023. This increase is due to interest expense of \$5.3 million offset by interest income of \$2.7 million from money market accounts during the nine months ended March 31, 2024. During the nine months ended March 31, 2023, interest expense of \$3.5 million was offset by interest income of \$2.3 million.

**Other income (expense).** Other income (expense) consists primarily of the net proceeds received from the sale of or disposal of property and equipment and unrealized gains and losses related to short-term investments. Other income (expense) for the three months ended March 31, 2024 increased \$0.6 million, or 619.8%, when compared to the three months ended March 31, 2023. The increase was primarily due to dividends received from our short-term investments of \$0.6 million for the three months ended March 31, 2024 compared to dividends of \$0.4 million, offset by a loss of \$0.6 million related to the termination of the Germantown, Pennsylvania center lease upon consolidation of the center with other centers, for the three months ended March 31, 2023.

Other income (expense) was \$2.0 million for the nine months ended March 31, 2024, an increase of \$1.6 million, or 437.6%, compared to \$0.4 million for the nine months ended March 31, 2023. This increase was primarily due to dividends

received of \$1.8 million during the nine months ended March 31, 2024 compared to dividends of \$0.7 million, offset by a loss of \$0.6 million due to the termination of the Germantown center lease, for the nine months ended March 31, 2023.

*Loss on minority equity interest.* Loss on minority equity interest was \$0.1 million for the three months ended March 31, 2024, an increase of \$0.1 million, or 100.0%, compared to zero for the three months ended March 31, 2023. We recognized impairment losses of \$2.0 million in conjunction with our minority interest investment in Jetdoc, Inc. ("Jetdoc") during the nine months ended March 31, 2024. No observable price changes or impairments were recorded during the three and nine months ended March 31, 2023.

#### **Provision for Income Taxes**

The Company and its subsidiaries calculate federal and state income taxes currently payable and for deferred income taxes arising from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured pursuant to enacted tax laws and rates applicable to periods in which those temporary differences are expected to be recovered or settled. The impact on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment. The members of InnovAge Senior Housing Thornton, LLC ("SH1") and InnovAge Sacramento have elected to be taxed as partnerships, and no provision for income taxes for SH1 or InnovAge Sacramento is included in these condensed consolidated financial statements.

A valuation allowance is provided to the extent that it is more likely than not that deferred tax assets will not be realized. Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalty expense associated with uncertain tax positions as a component of provision for income taxes.

During the three months ended March 31, 2024 and 2023, we reported a benefit for income taxes of \$0.2 million and \$1.4 million, respectively. During the nine months ended March 31, 2024 and 2023, we reported a provision for income taxes of \$0.1 million and benefit of \$(7.7) million, respectively. The decrease of \$7.8 million is primarily due (i) our pretax book loss recognized during the nine months ended March 31, 2024, as compared to pretax book loss recognized during the nine months ended March 31, 2023 and (ii) the change in our valuation allowance.

#### **Net Loss Attributable to Noncontrolling Interests.**

SH1 is a Variable Interest Entity ("VIE"). The Company is the primary beneficiary of SH1 and consolidates SH1. The Company is the primary beneficiary of SH1 because it has the power to direct the activities that are most significant to SH1 and has an obligation to absorb losses or the right to receive benefits from SH1. The most significant activity of SH1 is the operation of the housing facility. The Company has provided a subordinated loan to SH1 and has provided a guarantee for the convertible term loan held by SH1. The SH1 interest is reflected within equity as noncontrolling interests. Our share of earnings is recorded in the consolidated statements of operations and the share of the other noncontrolling interest holders' earnings are recorded as net loss attributable to noncontrolling interests.

#### **Net Loss**

During the nine months ended March 31, 2024 and 2023, we reported net loss of \$21.0 million and \$31.6 million, respectively, consisting of (i) loss from operations of \$18.3 million and \$38.5 million, respectively, (ii) other expense of \$2.6 million and \$0.9 million, respectively, and (iii) a provision for income taxes of \$0.1 million and benefit of \$7.7 million, respectively, each as described above.

#### **Key Business Metrics and Non-GAAP Measures**

In addition to our GAAP financial information, we review a number of operating and financial metrics, including the following key metrics and non-GAAP measures, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. We believe these metrics provide additional perspective and insights when analyzing our core operating performance from period to period and evaluating trends in historical operating results. These key business metrics and non-GAAP measures should not be considered superior to, or a

[Table of Contents](#)

substitute for, and should be read in conjunction with, the GAAP financial information presented herein. These measures may not be comparable to similarly-titled performance indicators used by other companies.

	Nine months ended March 31,	
	2024	2023
<i>dollars in thousands</i>		
Key Business Metrics:		
Centers <sup>(a)</sup>	19	17
Census <sup>(b)</sup>	6,820	6,310
Total Member Months <sup>(b)</sup>	60,030	58,270
Center-level Contribution Margin	\$ 95,486	\$ 72,782
Center-level Contribution Margin as a % of revenue	16.9 %	14.2 %
GAAP Measures:		
Net loss	\$ (20,967)	\$ (31,557)
Net loss margin	(3.7)%	(6.2)%
Non-GAAP Measures:		
Adjusted EBITDA <sup>(c)</sup>	\$ 13,604	\$ (1,977)
Adjusted EBITDA Margin <sup>(c)</sup>	2.4 %	(0.4)%

(a) The Company operated 19 PACE centers as of March 31, 2024. During the third quarter ended March 31, 2024, the Company opened its Tampa PACE center. During the second quarter ended December 31, 2023, the Company acquired two PACE programs in California from ConcertoCare, one of which is operational. During the third quarter ended March 31, 2023, the Company consolidated its Germantown LIFE center with its Allegheny and Henry Avenue LIFE centers in Pennsylvania.

(b) Amounts are approximate due to rounding.

(c) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP measures. For a definition and reconciliation of these non-GAAP measures to the most closely comparable GAAP measures for the period indicated, see below under "Adjusted EBITDA and Adjusted EBITDA Margin."

#### **Centers**

We define our centers as those centers open for business and attending to participants at the end of a particular period.

#### **Census**

Our census is comprised of our capitated participants for whom we are financially responsible for their total healthcare costs.

#### **Total Member Months**

We define Total Member Months as the total number of participants multiplied by the number of months within a year in which each participant was enrolled in our program. We believe this is a useful metric as it more precisely tracks the number of participants we serve throughout the year.

#### **Center-level Contribution Margin**

The Company's management uses Center-level Contribution Margin as the measure for assessing performance of its operating segments. We define Center-level Contribution Margin as total revenues less external provider costs and cost of care, excluding depreciation and amortization, which includes all medical and pharmacy costs. For purposes of evaluating Center-level Contribution Margin on a center-by-center basis, we do not allocate our sales and marketing expenses or corporate, general and administrative expenses across our centers. Center-level Contribution Margin was \$95.5 million and \$72.8 million for the nine months ended March 31, 2024 and 2023, respectively. The increase in Center-level Contribution

Margin for the nine months ended March 31, 2024 was primarily due to a 10.4% increase in total revenue, offset by a 7.4% increase in external provider costs during the same period. For more information relating to Center-level Contribution Margin, see Note 14 "Segment Reporting" to our condensed consolidated financial statements. A reconciliation of Center-level Contribution Margin to loss before income taxes, the most directly comparable GAAP measure, for each of the periods is as follows:

(In thousands)	Nine Months Ended March 31, 2024			Nine Months Ended March 31, 2023		
	PACE	All other	Totals	PACE	All other <sup>(1)</sup>	Totals
Capitation revenue	\$ 563,490	\$ —	\$ 563,490	\$ 510,268	\$ —	\$ 510,268
Other service revenue	232	732	964	263	682	945
Total revenues	563,722	732	564,454	510,531	682	511,213
External provider costs	300,319	—	300,319	279,550	—	279,550
Cost of care, excluding depreciation and amortization	168,227	422	168,649	158,455	426	158,881
<b>Center-Level Contribution Margin</b>	<b>95,176</b>	<b>310</b>	<b>95,486</b>	<b>72,526</b>	<b>256</b>	<b>72,782</b>
Overhead costs <sup>(a)</sup>	100,152	10	100,162	100,148	—	100,148
Depreciation and amortization	13,264	357	13,621	10,739	348	11,087
Interest expense, net	(2,484)	(135)	(2,619)	(1,095)	(136)	(1,231)
Other income (expense)	2,043	—	2,043	380	—	380
Loss on minority equity interest	(2,000)	—	(2,000)	—	—	—
<b>Loss Before Income Taxes</b>	<b>\$ (20,681)</b>	<b>\$ (192)</b>	<b>\$ (20,873)</b>	<b>\$ (39,076)</b>	<b>\$ (228)</b>	<b>\$ (39,304)</b>
<b>Loss Before Income Taxes as a % of revenue</b>	(3.7)%			(7.7)%		
<b>Center- Level Contribution Margin as a % of revenue</b>	16.9 %			14.2 %		

(a) Overhead consists of the sales and marketing and corporate, general and administrative financial statement line items.

#### **Adjusted EBITDA and Adjusted EBITDA Margin**

We define Adjusted EBITDA as net income (loss) adjusted for interest expense, net, depreciation and amortization, and provision (benefit) for income tax as well as addbacks for non-recurring expenses or exceptional items, including charges relating to management equity compensation, litigation costs and settlements, M&A and de novo center development, business optimization, electronic medical record ("EMR") implementation and loss on minority equity interest investment. Adjusted EBITDA margin is Adjusted EBITDA expressed as a percentage of our total revenue. For the nine months ended March 31, 2024 and 2023, net loss was \$21.0 million and \$31.6 million, respectively, representing a year-over-year decrease of 33.6%. Adjusted EBITDA was \$13.6 million and (\$2.0 million), for the nine months ended March 31, 2024 and 2023, respectively, representing a year-over-year increase of 788.1%. For the nine months ended March 31, 2024, net loss margin was 3.7%, as compared to net loss margin of 6.2% for the nine months ended March 31, 2023. For the nine months ended March 31, 2024, our Adjusted EBITDA margin was 2.4%, as compared to our Adjusted EBITDA margin for the nine months ended March 31, 2023 of negative 0.4%. The increase in Adjusted EBITDA and Adjusted EBITDA margin is primarily from (i) increased capitation rates and (ii) lower corporate, general and administrative costs partially offset by, (i) increased center-level headcount and wage rates associated with a competitive labor market, and (ii) increased housing utilization and unit cost as mandated by the states.

Adjusted EBITDA and Adjusted EBITDA margin are supplemental measures of operating performance monitored by management that are not defined under GAAP and that do not represent, and should not be considered as, an alternative to net income (loss) and net income (loss) margin, respectively, as determined by GAAP. We believe that Adjusted EBITDA and Adjusted EBITDA margin are appropriate measures of operating performance because the metrics eliminate the impact of revenue and expenses that do not relate to our ongoing business performance and certain noncash expenses, allowing us to more effectively evaluate our core operating performance and trends from period to period. We believe that Adjusted

EBITDA and Adjusted EBITDA margin help investors and analysts in comparing our results across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, the analysis of other GAAP financial measures, including net income (loss) and net income (loss) margin. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by the types of items excluded from the calculation of Adjusted EBITDA. The use of the term Adjusted EBITDA varies from others in our industry.

A reconciliation of net loss to Adjusted EBITDA, the most directly comparable GAAP measure, for each of the periods is as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2024	2023	2024	2023
Net loss	\$ (6,184)	\$ (7,310)	\$ (20,967)	\$ (31,557)
Interest expense, net	1,022	405	2,619	1,231
Depreciation and amortization	5,062	3,992	13,621	11,087
Provision (benefit) for income tax	(224)	(1,365)	94	(7,747)
Stock-based compensation	1,551	1,208	5,140	3,721
Litigation costs and settlement <sup>(a)</sup>	897	3,274	2,802	7,839
M&A and de novo center development <sup>(b)</sup>	271	146	964	452
Business optimization <sup>(c)</sup>	738	1,394	3,672	8,418
EMR implementation <sup>(d)</sup>	355	2,045	3,659	4,579
Loss on minority equity interest <sup>(e)</sup>	\$ 118	\$ —	\$ 2,000	\$ —
<b>Adjusted EBITDA</b>	<b>\$ 3,606</b>	<b>\$ 3,789</b>	<b>\$ 13,604</b>	<b>\$ (1,977)</b>

(a) Reflects charges/(credits) related to litigation by stockholders, litigation related to de novo center development, and civil investigative demands. Refer to Note 9, "Commitments and Contingencies" to our condensed consolidated financial statements for more information regarding litigation by stockholders and civil investigative demands. Costs reflected consist of litigation costs considered one-time in nature and outside of the ordinary course of business based on the following considerations which we assess regularly: (i) the frequency of similar cases that have been brought to date, or are expected to be brought within two years, (ii) complexity of the case, (iii) nature of the remedies sought, (iv) litigation posture of the Company, (v) counterparty involved, and (vi) the Company's overall litigation strategy.

(b) Reflects charges related to M&A transaction and integrations, and de novo center developments.

(c) Reflects charges related to business optimization initiatives. Such charges related to one-time investments in projects designed to enhance our technology and compliance systems, improve and support the efficiency and effectiveness of our operations, and third party support to address efforts to remediate deficiencies in audits. For the three months ended March 31, 2024, this includes (i) \$0.4 million of costs associated with third party consultants as we implement our core provider initiatives, assess our risk-bearing payor capabilities, and strengthen our enterprise capabilities and (ii) \$0.3 million related to other non-recurring charges. For the three months ended March 31, 2023, this includes (i) \$0.3 million related to consultants and contractors performing audit and other related services at sanctioned centers, (ii) \$0.2 million of costs associated with third party consultants as we implement our core provider initiatives, assess our risk-bearing payor capabilities, and strengthen our enterprise capabilities, (iii) \$0.6 million in the consolidation of the Germantown, Pennsylvania center, and (iv) \$0.3 million related to other non-recurring projects aimed at reducing costs and improving efficiencies. For the nine months ended March 31, 2024, this includes (i) \$2.6 million of costs associated with third party consultants as we implement our core provider initiatives, assess our risk-bearing payor capabilities, and strengthen our enterprise capabilities (ii) \$0.3 million of costs related to severance and other organizational costs and (iii) \$0.8 million related to charges for technology improvements, environmental, sustainability, and governance reporting, and other non-recurring charges. For the nine months ended March 31, 2023, this includes (i) \$1.5 million related to consultants and contractors performing audit and other related services at sanctioned centers, (ii) \$5.3 million of costs associated with third party consultants as we implement our core provider initiatives, assess our risk-bearing payor capabilities, and strengthen our enterprise capabilities, (iii) \$0.6 million in the consolidation of the Germantown center and (iv) \$1.0 million related to other non-recurring projects aimed at reducing costs and improving efficiencies.

(d) Reflects non-recurring expenses relating to the implementation of a new EMR vendor.

(e) Reflects impairment charges related to our minority equity interest in Jetdoc, Inc.

## Liquidity and Capital Resources

### General

To date, we have financed our operations principally through cash flows from operations and through borrowings under our credit facilities, and from the sale of common stock in our IPO that occurred in March 2021. As of March 31, 2024, we had cash and cash equivalents of \$54.1 million, a decrease of \$73.1 million from June 30, 2023. The decrease in cash and cash equivalents was primarily due to a payment of \$23.9 million for the acquisition of the ConcertoCare PACE centers during the second quarter of fiscal year 2024 and timing of cash receipts for services provided. Our cash and cash equivalents primarily consist of highly liquid investments in demand deposit accounts and cash.

Our capital resources are generally used to fund (i) debt service requirements, the majority of which relate to the quarterly principal payments of the Term Loan Facility (as defined below) due 2026, (ii) finance and operating lease obligations, which are generally paid on a monthly basis and include maturities through 2028 and 2032, respectively, (iii) the operations of our business, including special projects such as our transition to a new EMR vendor, with respect to which we incurred non-recurring implementation costs over the last three months, and expect to incur ongoing costs through 2024 and beyond, and third party support to address remediation efforts, (iv) income tax payments, which are generally due on a quarterly and annual basis, and (v) capital additions, which included costs relating to the acquisition of the ConcertoCare PACE centers that took place during the second quarter of fiscal year 2024, and the development of de novo centers, including those in Florida and California. We also invest and for the foreseeable future expect to continue investing in the effective implementation of post-sanction corrective remediation plans (CAPs) and other corrective initiatives as a result of deficiencies found during audits at some of our centers, and our ability to continually provide necessary and quality services to our participants. Collectively, these obligations are expected to represent a significant liquidity requirement of our Company on both a short-term (next 12 months) and long-term (beyond 12 months) basis.

As of March 31, 2024, we had \$66.9 million of long-term debt outstanding. As of March 31, 2024, we had future minimum operating lease payments under non-cancellable leases through the year 2032 of \$39.9 million. We also had non-cancellable finance lease agreements with third parties through the year 2028 with future minimum payments of \$16.5 million. For additional information, see Note 7, "Leases", Note 8, "Long-Term Debt", and Note 9, "Commitments and Contingencies" in our condensed consolidated financial statements.

We believe that our cash and cash equivalents and our cash flows from operations, available funds, and access to financing sources, including our 2021 Credit Agreement and Revolving Credit Facility (each discussed and defined below), will be sufficient to fund our operating and capital needs for the next 12 months and beyond. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. Our actual results could vary because of, and our future capital requirements will depend on, many factors, including our growth rate, our ability to retain and grow the number of PACE participants, and the expansion of sales and marketing activities and other costs of operating the business. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, results of operations, and financial condition would be adversely affected.

On March 8, 2021, the Company entered into a credit agreement (as amended, the "2021 Credit Agreement") that consists of a senior secured term loan (the "Term Loan Facility") of \$75.0 million principal amount and a revolving credit facility (the "Revolving Credit Facility") of \$100.0 million maximum borrowing capacity. The borrowing capacity under the Revolving Credit Facility is subject (i) any issued amounts under our letters of credit and (ii) applicable covenant compliance restrictions and any other conditions precedent to borrowing. Principal on the Term Loan Facility is paid each calendar quarter in an amount equal to 1.25% of the initial term loan on closing date.

Outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of March 31, 2024, the interest rate on the Term Loan Facility was 7.16%. Under the terms of the 2021 Credit Agreement, the Revolving Credit Facility fee accrues at 0.25% of the average daily unused amount and is paid quarterly. As of March 31, 2024, we had no borrowings outstanding, \$4.0 million of letters of credit issued, and \$96.0 million of remaining borrowing capacity under the Revolving Credit Facility. As of March 31, 2024, we also had \$2.3 million principal amount outstanding under our convertible term loan. Monthly principal and interest payments for the convertible term loan are approximately

\$0.02 million, and the loan bears interest at an annual rate of 6.68%. The remaining principal balance is due upon maturity, which is August 20, 2030.

For more information about our debt, see Note 8 "Long-Term Debt" to our condensed consolidated financial statements.

We currently intend to retain all available funds and any future earnings to fund the development and growth of our business.

**Condensed Consolidated Statements of Cash Flows**

Our condensed consolidated statements of cash flows for the nine months ended March 31, 2024 and 2023 are summarized as follows:

	Nine months ended March 31,		
	2024	2023	\$ Change
<i>in thousands</i>			
Net cash provided by (used in) operating activities	\$ (38,771)	\$ 7,085	\$ (45,856)
Net cash used in investing activities	(27,307)	(64,329)	37,022
Net cash used in financing activities	(7,078)	(5,480)	(1,598)
Net change in cash, cash equivalents and restricted cash	\$ (73,156)	\$ (62,724)	\$ (10,432)

*Operating Activities.* The change in net cash provided (used) by operating activities was primarily due to the net effect of (i) net loss of \$21.0 million in the current year period compared to a net loss of \$31.6 million in the prior year period, as described further above, (ii) impacts of deferred revenue due to the timing of payments received during the prior year, and (iii) an increase in accounts receivable primarily attributable to the timing of receipt of payments for certain Medicaid receivables.

*Investing Activities.* Investing activities were made up of approximately \$23.9 million payment for the acquisition of two PACE programs from ConcertoCare, \$4.6 million in purchases of property and equipment and \$1.8 million for reinvested dividends of short-term investments, consisting primarily of managed income funds invested in investment grade short-term fixed and floating rate debt securities aimed at creating income while maintaining low volatility on principal. Our investment in managed income funds regularly pay dividends which are reinvested into the funds.

*Financing activities.* The increase in net cash used in financing activities was primarily due to an increase in taxes paid related to net share settlements of stock-based compensation awards of \$0.7 million and an increase in principal payments on finance leases of \$0.9 million.

**Emerging Growth Company and Smaller Reporting Company**

We qualify as an "emerging growth company" pursuant to the provisions of the Jumpstart Our Business Startups ("JOBS") Act and a "smaller reporting company" as defined by the Exchange Act. For as long as we are an "emerging growth company" or a "smaller reporting company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" or "smaller reporting companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, only being required to present two years of audited financial statements, plus unaudited condensed consolidated financial statements for applicable interim periods and the related discussion in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements, exemptions from the requirements of holding non-binding advisory "say-on-pay" votes on executive compensation and stockholder advisory votes on golden parachute compensation.

In addition, under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We intend to take advantage of the longer phase-in periods for the adoption of new or revised financial accounting standards under the JOBS Act until we are no longer an emerging growth company. Our election to use the phase-in periods permitted by this election may make it difficult to compare our

financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the longer phase-in periods permitted under the JOBS Act and who will comply with new or revised financial accounting standards. If we were to subsequently elect instead to comply with public company effective dates, such election would be irrevocable pursuant to the JOBS Act.

#### **Critical Accounting Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

Certain accounting estimates involve significant judgments and assumptions by management, which have a material impact on the carrying value of assets and liabilities and the recognition of income and expenses. We consider these accounting estimates to be critical accounting estimates. The estimates and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances.

For a description of our estimates regarding our critical accounting estimates, see "Critical Accounting Estimates" in the 2023 10-K.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure due to potential changes in inflation or interest rates. We do not hold financial instruments for trading purposes.

##### **Interest rate risk**

As of March 31, 2024, we had total outstanding debt of \$64.7 million in principal amount under the Term Loan Facility, \$2.3 million under the convertible term loan, and no outstanding debt under the Revolving Credit Facility (each as defined in Note 8, "Long-Term Debt" to our condensed consolidated financial statements). As of June 30, 2023, we had total outstanding debt of \$67.5 million in principal amount under the Term Loan Facility and \$2.3 million under the convertible term loan. As of March 31, 2024, the interest rate on the Term Loan Facility was 7.16%.

We had cash and cash equivalents of \$54.1 million and \$127.2 million as of March 31, 2024 and June 30, 2023, respectively, which are deposited with high credit quality financial institutions and are primarily in demand deposit accounts.

Our cash and cash equivalents and interest payments in respect of our debt are subject to market risk due to changes in interest rates. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our business, financial condition or results of operations.

We had short-term investments of \$45.2 million and \$46.2 million as of March 31, 2024 and June 30, 2023, respectively, which are primarily invested in managed income funds managed by major financial institutions. The funds mainly invest in investment grade, U.S. denominated short-term fixed and floating rate debt securities. Securities are subject to market risk and sensitive to changes in interest rates. While the instruments held by the funds are generally less sensitive to interest rate changes than instruments with longer maturities due to their short-term nature, the funds may face a heightened level of interest rate risk due to changes in monetary policy. During periods when interest rates are low or negative, the funds yields, and total returns may also be low, or the funds may be unable to maintain positive returns. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on these short-term investments.

## **Inflation risk**

Based on our analysis of the periods presented, we believe that inflation has not had a material effect on our operating results. There can be no assurance that future inflation will not have an adverse impact on our operating results and financial condition.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2024.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in 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.

## PART II — OTHER INFORMATION

### **Item 1. Legal Proceedings**

For information regarding our material pending legal proceedings, refer to Note 9 "Commitments and Contingencies" to our Condensed Consolidated Financial Statements located in Item 1 of Part I of this Quarterly Report on Form 10-Q.

### **Item 1.A Risk Factors**

Except as set forth below, there have been no material changes to the risk factors previously disclosed in our 2023 10-K.

#### ***Labor relations matters could have a material adverse effect on our business, reputation, prospects, results of operations and financial condition.***

On October 27, 2023, following a demand from a labor union for the Company to recognize it as the collective bargaining representative of the nurses in our Pennsylvania centers, we filed a petition with the National Labor Relations Board to conduct two elections. The National Labor Relations Board conducted the elections on December 6, 2024, at which the nurses in our Pennsylvania centers voted to unionize. These employees represent approximately 1% of our total workforce. Even though we are currently unaware of other unionization efforts, it is possible that additional employees in our Pennsylvania centers or in other geographies may follow. As we negotiate collective bargaining agreements for the two new bargaining units at the Pennsylvania centers, and any other units that may organize in the future, employees may threaten and/or engage in work stoppages and strikes, and our labor costs may continue to increase as a result. The unavailability of staff, or the inability of the Company to control labor costs related to these matters and future efforts to unionize, could have a material adverse effect on our business, reputation, prospects, results of operations and financial condition.

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

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

**Item 6. Exhibits**

The following is a list of all exhibits filed or furnished as part of this report:

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	<a href="#">Second Amended and Restated Certificate of Incorporation of InnovAge Holding Corp., filed March 3, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on March 8, 2021).</a>
3.2	<a href="#">Amended and Restated Bylaws of InnovAge Holding Corp., effective March 3, 2021 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on March 8, 2021).</a>
31.1	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1†	<a href="#">Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2†	<a href="#">Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

---

† The certifications furnished in Exhibit 32.1 and Exhibit 32.2 hereto are deemed "furnished" with this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, duly authorized.

**INNOVAGE HOLDING CORP.**

Date: May 7, 2024

By: /s/ Benjamin C. Adams  
Name: Benjamin C. Adams  
Title: Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)

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

I, Patrick Blair, certify that:

1. I have reviewed this quarterly report on Form 10-Q of InnovAge Holding Corp.;
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 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 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.

Date: May 7, 2024

By: /s/ Patrick Blair  
Name: Patrick Blair  
Title: *Chief Executive Officer*

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

I, Benjamin C. Adams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of InnovAge Holding, Corp.;
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 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 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.

Date: May 7, 2024

By:	<u>/s/ Benjamin C. Adams</u>
Name:	Benjamin C. Adams
Title:	<i>Chief Financial Officer</i>

**Certification of Chief Executive Officer**

**Pursuant to Rule 18 U.S.C. Section 1350**

In connection with the Quarterly Report on Form 10-Q of InnovAge Holding Corp. (the "Company") for the fiscal quarter ended March 31, 2024 as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Patrick Blair, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2024

By: /s/ Patrick Blair  
Name: Patrick Blair  
Title: *Chief Executive Officer*

**Certification of Chief Financial Officer**

**Pursuant to Rule 18 U.S.C. Section 1350**

In connection with the Quarterly Report on Form 10-Q of InnovAge Holding Corp. (the "Company") for the fiscal quarter ended March 31, 2024 as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Benjamin C. Adams, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2024

By: /s/ Benjamin C. Adams  
Name: Benjamin C. Adams  
Title: *Chief Financial Officer*