REFINITIV

DELTA REPORT

10-Q

INNV - INNOVAGE HOLDING CORP.

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - MARCH 31, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1048
CHANGES	278
DELETIONS	414
ADDITIONS	356

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

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2023 September 30, 2023

or

o **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

1.jpg

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 Denver, CO (Address of Principal Executive Offices)	**80230 (Zip Code)**

(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 x No o

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 x No o

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	o	Accelerated filer	x		
Non-accelerated filer	o	Smaller reporting company	x	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 o No x

As of May 8, 2023 November 6, 2023, there were 135,630,167 135,884,840 of the registrant's common stock outstanding.

TABLE OF CONTENTS

InnovAge Holding Corp. and Subsidiaries
Quarterly Report on Form 10-Q
For the quarterly period ended March 31, 2023 September 30, 2023

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 may be identified by the fact that they do not relate strictly give our current expectations and projections relating to historical or current facts our financial condition, results of operations, plans, objectives, future performance and may include statements about our expectations 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 de novo centers, and other similar statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are generally located in the material set forth 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;
- our ability to identify and successfully complete 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, including our ability to sufficiently cure any 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 effects of a pandemic, epidemic or outbreak of an infectious disease, including the ongoing effects of COVID-19;
- our ability to enroll or attract new participants and grow our revenue throughout our existing centers;
- our ability to establish a presence in new geographic markets, especially as a result of the actions taken by certain states and us in light of our audit processes;
- 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 and COVID-19 related challenges, including labor shortages and inflation;
- the dependence of our revenues and operations upon a limited number of government payors;
- changes in the rules governing the Medicare, Medicaid or PACE programs or applicable licensure requirements, including the effects of the expiration of the national emergency and public health emergency declarations related to the COVID-19 pandemic;
- the risk that our submissions to government payors may contain inaccurate or unsupportable information, including regarding risk adjustment scores of participants;
- the viability of our business strategy and our ability to realize expected results;
- the impact on our business of renegotiation, non-renewal or termination of capitation agreements with government payors;
- 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 impact on our business from effects of a pandemic, epidemic or outbreak of an economic downturn or recession; infectious disease, such as COVID-19;
- our dependence on our senior management team and other key employees;
- the effect of sustained inflation on our business;
- the impact of failures by our suppliers sustained material price increases on supplies or limitations on our ability to access new technology or medical products;
- the effect of our relatively limited operating history as a for-profit company on investors' ability to evaluate our current business and future prospects;
- 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 compete in the healthcare industry;
- 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;
- 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;
- our ability to maintain our corporate culture;
- the impact of negative publicity regarding the managed healthcare industry;
- 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;
- changes in accounting principles impact of negative publicity regarding the managed healthcare industry; and guidance, resulting in unfavorable accounting charges or effects; and
- other factors disclosed in the section entitled "Risk Factors" in our Annual Report for the year ended June 30, 2022 June 30, 2023 filed with the Securities and Exchange Commission (the "SEC") on September 13, 2022 September 12, 2023, and our subsequent filings with the SEC.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other public communications and filings with the SEC. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of these risks and uncertainties.

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, 2023	June 30, 2022		September 30, 2023	June 30, 2023
Assets	**Assets**			**Assets**		
Current Assets	**Current Assets**			**Current Assets**		
Cash and cash equivalents	Cash and cash equivalents	$ 121,706	$ 184,429	Cash and cash equivalents	$ 88,398	$ 127,249
Short-term investments	Short-term investments	45,847	—	Short-term investments	46,833	46,213
Restricted cash	Restricted cash	16	17	Restricted cash	15	16
Accounts receivable, net of allowance ($3,936 – March 31, 2023 and $3,403 – June 30, 2022)		34,197	35,907			
Accounts receivable, net of allowance ($4,492 – September 30, 2023 and $4,161 – June 30, 2023)				Accounts receivable, net of allowance ($4,492 – September 30, 2023 and $4,161 – June 30, 2023)	44,185	24,344
Prepaid expenses	Prepaid expenses	13,924	13,842	Prepaid expenses	16,412	17,145
Income tax receivable	Income tax receivable	254	6,761	Income tax receivable	262	262
Total current assets	Total current assets	215,944	240,956	Total current assets	196,105	215,229
Noncurrent Assets	**Noncurrent Assets**			**Noncurrent Assets**		
Property and equipment, net	Property and equipment, net	192,911	176,260	Property and equipment, net	190,060	192,188
Operating lease assets	Operating lease assets	21,906	—	Operating lease assets	20,454	21,210
Investments	Investments	5,493	5,493	Investments	5,493	5,493
Deposits and other	Deposits and other	3,573	2,812	Deposits and other	4,232	3,823
Goodwill	Goodwill	124,217	124,217	Goodwill	124,217	124,217
Other intangible assets, net	Other intangible assets, net	5,363	5,858	Other intangible assets, net	5,033	5,198
Total noncurrent assets	Total noncurrent assets	353,463	314,640	Total noncurrent assets	349,489	352,129
Total assets	Total assets	$ 569,407	$ 555,596	Total assets	$ 545,594	$ 567,358
Liabilities and Stockholders' Equity	**Liabilities and Stockholders' Equity**			**Liabilities and Stockholders' Equity**		
Current Liabilities	**Current Liabilities**			**Current Liabilities**		
Accounts payable and accrued expenses	Accounts payable and accrued expenses	$ 48,198	$ 50,562	Accounts payable and accrued expenses	$ 46,923	$ 54,935
Reported and estimated claims	Reported and estimated claims	39,095	38,454	Reported and estimated claims	42,322	42,999

Due to Medicaid and Medicare	Due to Medicaid and Medicare	11,001	9,130	Due to Medicaid and Medicare	10,282	9,142
Income tax payable	Income tax payable	1,220	—	Income tax payable	1,212	1,212
Current portion of long-term debt	Current portion of long-term debt	3,795	3,793	Current portion of long-term debt	3,795	3,795
Current portion of finance lease obligations	Current portion of finance lease obligations	4,946	3,368	Current portion of finance lease obligations	4,612	4,722
Current portion of operating lease obligations	Current portion of operating lease obligations	3,402	—	Current portion of operating lease obligations	3,577	3,530
Deferred revenue	Deferred revenue	26,032	—	Deferred revenue	26,090	28,115
Total current liabilities	Total current liabilities	137,689	105,307	Total current liabilities	138,813	148,450
Noncurrent Liabilities	**Noncurrent Liabilities**			**Noncurrent Liabilities**		
Deferred tax liability, net	Deferred tax liability, net	5,714	17,761	Deferred tax liability, net	6,462	6,236
Finance lease obligations	Finance lease obligations	13,381	9,440	Finance lease obligations	12,048	13,114
Operating lease obligations	Operating lease obligations	20,110	—	Operating lease obligations	18,080	18,828
Other noncurrent liabilities	Other noncurrent liabilities	1,183	1,134	Other noncurrent liabilities	1,141	1,086
Long-term debt, net of debt issuance costs	Long-term debt, net of debt issuance costs	65,687	68,210	Long-term debt, net of debt issuance costs	64,003	64,844
Total liabilities	Total liabilities	243,764	201,852	Total liabilities	240,547	252,558
Commitments and Contingencies (See Note 9)	**Commitments and Contingencies (See Note 9)**	-		**Commitments and Contingencies (See Note 9)**	-	
Redeemable Noncontrolling Interests (See Note 4)	**Redeemable Noncontrolling Interests (See Note 4)**	13,461	15,278	**Redeemable Noncontrolling Interests (See Note 4)**	12,138	12,708
Stockholders' Equity	**Stockholders' Equity**			**Stockholders' Equity**		
Common stock, $0.001 par value; 500,000,000 authorized as of March 31, 2023 and June 30, 2022; 135,602,464 and 135,532,811 issued shares as of March 31, 2023 and June 30, 2022, respectively		136	136			
Common stock, $0.001 par value; 500,000,000 authorized as of September 30, 2023 and June 30, 2023; 135,884,840 and 135,639,845 issued shares as of September 30, 2023 and June 30, 2023, respectively				Common stock, $0.001 par value; 500,000,000 authorized as of September 30, 2023 and June 30, 2023; 135,884,840 and 135,639,845 issued shares as of September 30, 2023 and June 30, 2023, respectively	136	136
Additional paid-in capital	Additional paid-in capital	330,955	327,499	Additional paid-in capital	333,316	332,107
Retained earnings (deficit)		(24,767)	4,729			
Retained deficit				Retained deficit	(46,248)	(35,944)
Total InnovAge Holding Corp.	Total InnovAge Holding Corp.	306,324	332,364	Total InnovAge Holding Corp.	287,204	296,299
Noncontrolling interests	Noncontrolling interests	5,858	6,102	Noncontrolling interests	5,705	5,793
Total stockholders' equity	Total stockholders' equity	312,182	338,466	Total stockholders' equity	292,909	302,092

Total liabilities and stockholders’ equity	Total liabilities and stockholders’ equity	$	569,407	$	555,596	Total liabilities and stockholders’ equity	$ 545,594	$ 567,358

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,			Three Months Ended September 30,	
		2023	2022	2023	2022		2023	2022
Revenues	**Revenues**					**Revenues**		
Capitation revenue	Capitation revenue	$ 172,196	$ 176,988	$ 510,268	$ 524,507	Capitation revenue	$ 182,173	$ 170,931
Other service revenue	Other service revenue	343	371	945	1,273	Other service revenue	312	287
Total revenues	Total revenues	172,539	177,359	511,213	525,780	Total revenues	182,485	171,218
Expenses	**Expenses**					**Expenses**		
External provider costs	External provider costs	89,805	103,254	279,550	284,299	External provider costs	99,358	96,237
Cost of care, excluding depreciation and amortization	Cost of care, excluding depreciation and amortization	53,949	46,102	158,881	129,740	Cost of care, excluding depreciation and amortization	55,250	53,557
Sales and marketing	Sales and marketing	5,314	6,144	13,502	19,117	Sales and marketing	5,379	4,413
Corporate, general and administrative	Corporate, general and administrative	27,648	24,682	86,646	74,248	Corporate, general and administrative	28,947	30,181
Depreciation and amortization	Depreciation and amortization	3,992	3,850	11,087	10,435	Depreciation and amortization	4,269	3,433
Total expenses	Total expenses	180,708	184,032	549,666	517,839	Total expenses	193,203	187,821
Operating Income (Loss)		(8,169)	(6,673)	(38,453)	7,941			
Operating Loss						**Operating Loss**	(10,718)	(16,603)
Other Income (Expense)	**Other Income (Expense)**					**Other Income (Expense)**		
Interest expense, net	Interest expense, net	(405)	(709)	(1,231)	(1,930)	Interest expense, net	(661)	(603)
Other income (expense)		(101)	108	380	(358)			
Other income						Other income	643	37
Total other expense	Total other expense	(506)	(601)	(851)	(2,288)	Total other expense	(18)	(566)
Income (Loss) Before Income Taxes		(8,675)	(7,274)	(39,304)	5,653			
Loss Before Income Taxes						**Loss Before Income Taxes**	(10,736)	(17,169)
Provision (Benefit) for Income Taxes	**Provision (Benefit) for Income Taxes**	(1,365)	(4,116)	(7,747)	81	**Provision (Benefit) for Income Taxes**	226	(3,470)
Net Income (Loss)		(7,310)	(3,158)	(31,557)	5,572			
Net Loss						**Net Loss**	(10,962)	(13,699)

Less: net loss attributable to noncontrolling interests	(680)	(337)	(2,061)	(616)	(658)	(626)
Net Income (Loss) Attributable to InnovAge Holding Corp.	$ (6,630)	$ (2,821)	$ (29,496)	$ 6,188		
Net Loss Attributable to InnovAge Holding Corp.					$ (10,304)	$ (13,073)
Weighted-average number of common shares outstanding - basic	135,601,327	135,516,608	135,581,971	135,516,544	135,790,401	135,566,117
Weighted-average number of common shares outstanding - diluted	135,601,327	135,516,608	135,581,971	135,530,793	135,790,401	135,566,117
Net income (loss) per share - basic	$ (0.05)	$ (0.02)	$ (0.22)	$ 0.05		
Net income (loss) per share - diluted	$ (0.05)	$ (0.02)	$ (0.22)	$ 0.05		
Net loss per share - basic					$ (0.08)	$ (0.10)
Net loss per share - diluted					$ (0.08)	$ (0.10)

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

	For the Nine Months Ended March 31, 2023									
	Capital Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Noncontrolling Interests	Total Permanent Stockholders' Equity	Redeemable Noncontrolling Interests (Temporary Equity)		Net Income (Loss)	
	Shares	Amount				Shares		Amount		

For the Three Months			
Capital Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	No

Balances, June 30, 2022	**Balances, June 30, 2022**	135,532,811	$ 136	$ 327,499	$ 4,729	$ 6,102	$ 338,466	15,278		
Stock-based compensation	Stock-based compensation	69,653	—	3,456	—	—	3,456	—		
Adjustments to redemption value		—	—	—	—	—	—	—		
Net loss	Net loss	—	—	—	(29,496)	(244)	(29,740)	(1,817)		(31,557)
Balances, March 31, 2023		135,602,464	$ 136	$ 330,955	$ (24,767)	$ 5,858	$ 312,182	$ 13,461		$

Balances, June 30, 2022	**Balances, June 30, 2022**	135,532,811	$ 136	$ 327,499	$ 4,729	$
	Stock-based compensation	37,267	—	1,209	—	
	Net loss	—	—	—	(13,073)	
Balances, September 30, 2022	**Balances, September 30, 2022**	135,570,078	$ 136	$ 328,708	$ (8,344)	$

		For the Three Months				
		Capital Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	No
		Shares	Amount			
Balances, June 30, 2023	**Balances, June 30, 2023**	135,639,845	$ 136	$ 332,107	$ (35,944)	$
Stock-based compensation	Stock-based compensation	347,849	—	1,823	—	
Tax withholding related to net share settlements of stock-based compensation awards	Tax withholding related to net share settlements of stock-based compensation awards	(102,854)	—	(614)	—	
Net loss	Net loss	—	—	—	(10,304)	
Balances, September 30, 2023	**Balances, September 30, 2023**	135,884,840	$ 136	$ 333,316	$ (46,248)	$

	For the Three Months Ended March 31, 2022							
	Capital Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Noncontrolling Interests	Total Permanent Stockholders' Equity	Redeemable Noncontrolling Interests (Temporary Equity)	Net Income (Loss)
	Shares	Amount						
Balances, December 31, 2021	135,516,513	$ 136	$ 325,501	$ 17,695	$ 6,254	$ 349,586	18,850	
Stock-based compensation	8,493	—	845	—	—	845	—	
Adjustments to redemption value	—	—	—	2,563	—	2,563	(2,563)	
Net income (loss)	—	—	—	(2,821)	(47)	(2,868)	(290)	(3,158)
Balances, March 31, 2022	135,525,006	$ 136	$ 326,346	$ 17,437	$ 6,207	$ 350,126	$ 15,996	$

	For the Nine Months Ended March 31, 2022							
	Capital Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Noncontrolling Interests	Total Permanent Stockholders' Equity	Redeemable Noncontrolling Interests	Net Income (Loss)

	Shares	Amount					(Temporary Equity)	
Balances, June 30, 2021	135,516,513	$ 136	$ 323,760	$ 10,663	$ 6,420	$ 340,979	16,986	
Stock-based compensation	8,493	—	2,586	—	—	2,586	—	
Adjustments to redemption value	—	—	—	586	—	586	(586)	
Net income (loss)	—	—	—	6,188	(213)	5,975	(403)	5,572
Balances, March 31, 2022	135,525,006	$ 136	$ 326,346	$ 17,437	$ 6,207	$ 350,126	$ 15,996	$

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)

		For the Nine Months Ended March 31,			For the Three Months Ended September 30,	
		2023	**2022**		**2023**	**2022**
Operating Activities	**Operating Activities**			**Operating Activities**		
Net income (loss)		$ (31,557)	$ 5,572			
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities						
(Gain) loss on disposal of assets		482	358			
Net loss				Net loss	$ (10,962)	$ (13,699)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities				Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Gain on disposal of assets				Gain on disposal of assets	(18)	(37)
Provision for uncollectible accounts	Provision for uncollectible accounts	2,319	4,834	Provision for uncollectible accounts	1,077	1,571
Depreciation and amortization	Depreciation and amortization	11,087	10,435	Depreciation and amortization	4,269	3,433
Operating lease rentals	Operating lease rentals	3,500	—	Operating lease rentals	1,103	761
Amortization of deferred financing costs	Amortization of deferred financing costs	322	322	Amortization of deferred financing costs	107	107
Stock-based compensation	Stock-based compensation	3,456	2,586	Stock-based compensation	1,823	1,209
Deferred income taxes	Deferred income taxes	(12,046)	81	Deferred income taxes	226	(3,470)
Other	Other	(726)	—	Other	76	—
Changes in operating assets and liabilities	Changes in operating assets and liabilities			Changes in operating assets and liabilities		
Accounts receivable, net	Accounts receivable, net	(609)	(4,157)	Accounts receivable, net	(20,918)	(3,180)
Prepaid expenses	Prepaid expenses	(81)	(4,323)	Prepaid expenses	734	1,678
Income tax receivable	Income tax receivable	7,727	(60)	Income tax receivable	—	1,750

Deposits and other	Deposits and other	(836)	(1,501)	Deposits and other	(591)	246
Accounts payable and accrued expenses	Accounts payable and accrued expenses	25,161	4,705	Accounts payable and accrued expenses	(7,303)	1,155
Reported and estimated claims	Reported and estimated claims	641	2,778	Reported and estimated claims	(676)	(2,480)
Due to Medicaid and Medicare	Due to Medicaid and Medicare	1,870	2,429	Due to Medicaid and Medicare	1,140	1,503
Operating lease liabilities	Operating lease liabilities	(3,625)	—	Operating lease liabilities	(1,048)	(781)
Net cash provided (used) by operating activities		7,085	24,059			
Deferred revenue				Deferred revenue	(2,024)	23,361
Net cash (used) provided by operating activities				Net cash (used) provided by operating activities	(32,985)	13,127
Investing Activities	**Investing Activities**			**Investing Activities**		
Purchases of property and equipment	Purchases of property and equipment	(19,329)	(20,141)	Purchases of property and equipment	(2,571)	(7,666)
Purchases of short-term investments	Purchases of short-term investments	(45,000)	—	Purchases of short-term investments	(570)	—
Purchases of intangible assets		—	(1,437)			
Purchase of cost method investment		—	(2,000)			
Net cash used in investing activities	Net cash used in investing activities	$ (64,329)	$ (23,578)	Net cash used in investing activities	$ (3,141)	$ (7,666)
Financing Activities	**Financing Activities**			**Financing Activities**		
Payments for finance lease obligations	Payments for finance lease obligations	(2,637)	(1,829)	Payments for finance lease obligations	(1,164)	(720)
Principal payments on long-term debt	Principal payments on long-term debt	(2,843)	(2,841)	Principal payments on long-term debt	(948)	(948)
Taxes paid related to net share settlements of stock-based compensation awards				Taxes paid related to net share settlements of stock-based compensation awards	(614)	—
Net cash used in financing activities	Net cash used in financing activities	(5,480)	(4,670)	Net cash used in financing activities	(2,726)	(1,668)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS & RESTRICTED CASH	**INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS & RESTRICTED CASH**	(62,724)	(4,189)	**INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS & RESTRICTED CASH**	(38,852)	3,793
CASH, CASH EQUIVALENTS & RESTRICTED CASH, BEGINNING OF PERIOD	**CASH, CASH EQUIVALENTS & RESTRICTED CASH, BEGINNING OF PERIOD**	184,446	203,700	**CASH, CASH EQUIVALENTS & RESTRICTED CASH, BEGINNING OF PERIOD**	127,265	184,446
CASH, CASH EQUIVALENTS & RESTRICTED CASH, END OF PERIOD	**CASH, CASH EQUIVALENTS & RESTRICTED CASH, END OF PERIOD**	$ 121,722	$ 199,511	**CASH, CASH EQUIVALENTS & RESTRICTED CASH, END OF PERIOD**	$ 88,413	$ 188,239
Supplemental Cash Flows Information	**Supplemental Cash Flows Information**			**Supplemental Cash Flows Information**		
Interest paid	Interest paid	$ 2,826	$ 1,452	Interest paid	$ 404	$ 700
Income taxes paid	Income taxes paid	$ 13	$ 84	Income taxes paid	$ —	$ 13

Property and equipment included in accounts payable	Property and equipment included in accounts payable	$	1,811	$	4,577	Property and equipment included in accounts payable	$	281	$	2,446
Property and equipment purchased under finance leases	Property and equipment purchased under finance leases	$	8,157	$	8,057	Property and equipment purchased under finance leases	$	—	$	80

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 manages, and in many cases directly provides, 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, 2023 September 30, 2023, the Company served approximately 6,310 6,580 PACE participants, making it the largest PACE provider in the United States of America (the “U.S.”) based upon participants served, and operates 17 PACE centers across Colorado, California, New Mexico, Pennsylvania and Virginia. 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.

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 is obligated to provide, and participants receive 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.” “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, 2022 June 30, 2023 (“2022 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 three months ended March 31, 2023 September 30, 2023.

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, 2022 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 InnovAge, 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 income (loss) 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, 2023 September 30, 2023 and June 30, 2022 June 30, 2023:

dollars in thousands	*dollars in thousands*	Estimated Useful Lives	March 31, 2023		June 30, 2022		*dollars in thousands*	Estimated Useful Lives	September 30, 2023		June 30, 2023	
Land	Land	N/A	$	11,969	$	11,980	Land	N/A	$	11,970	$	11,970

Buildings and leasehold improvements	Buildings and leasehold improvements	10 - 40 years	124,231	122,076	Buildings and leasehold improvements	10 - 40 years	124,696	124,262
Software	Software	3 - 5 years	26,594	16,264	Software	3 - 5 years	27,484	26,656
Equipment and vehicles	Equipment and vehicles	3 - 7 years	57,035	47,546	Equipment and vehicles	3 - 7 years	58,523	57,754
Construction in progress	Construction in progress	N/A	40,467	35,479	Construction in progress	N/A	42,122	42,223
			260,296	233,345			264,795	262,865
Less: accumulated depreciation and amortization	Less: accumulated depreciation and amortization		(67,385)	(57,085)	Less: accumulated depreciation and amortization		(74,735)	(70,677)
Total property and equipment, net	Total property and equipment, net		$ 192,911	$ 176,260	Total property and equipment, net		$ 190,060	$ 192,188

Depreciation of $3.8 million $4.1 million and $3.1 million was recorded during both the three months ended March 31, 2023 and 2022. Depreciation of $10.3 million and $9.9 million was recorded during the nine months ended March 31, 2023 September 30, 2023 and 2022, respectively.

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02 *Leases* ("ASU 2016-02"), which was intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees are required to recognize a right-of-use ("ROU") asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than 12 months. Additionally, this guidance requires enhanced disclosures to help investors and other financial statement users to better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. In June 2020, the FASB issued ASU 2020-05 *Revenue from contracts with customers (Topic 606) and leases (Topic 842) – Effective dates for certain entities* which deferred the new lease standard effective date for the Company to interim periods beginning after December 15, 2021, with early adoption permitted.

We adopted the new standard on July 1, 2022 using the modified retrospective transition approach as permitted in ASU 2018-11. In accordance with this approach, the effective date of Topic 842 is also the application date of the new requirements, with prior comparative periods presented in the financial statements with the legacy requirements of ASC Topic 840, Leases. We elected the package of practical expedients which permits us not to reassess under the new lease standard our prior conclusions for lease identification and lease classification on expired or existing contracts and whether initial direct costs previously capitalized would qualify for capitalization under the new lease standard. We also elected to adopt the optional transition method which allows an entity to recognize, if necessary, a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment conclusions on the ROU assets. Comparative periods presented in the financial statements continue to be presented in accordance with GAAP related to leases prior to transitioning to the new lease standard. The adoption of Topic 842 resulted in the recognition of operating lease liabilities and ROU assets of $25.1 million and $23.6 million, respectively, while our accounting for capital leases (now referred to as finance leases) remained substantially unchanged. The impact of adopting Topic 842 was not material to our Statements of Operations and Statements of Cash Flows. See Note 7, "Leases."

Recent Accounting Pronouncements Not Yet Adopted

Financial Instruments

In April 2019, the FASB issued 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. This guidance also expands the required The CECL model is expected to result in more timely recognition of credit loss disclosures and will be applied using a modified retrospective approach by recording a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. ASU 2019-04 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. losses. The Company will adopt this guidance for adopted the annual and interim reporting periods beginning standard on July 1, 2023. The Company has not determined the effect Our adoption of the standard on its 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.

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

Under ASC 606, revenue 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, for arrangements that an entity determines are within the scope of ASC 606, 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. 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, 2023 September 30, 2023 and June 30, 2022 June 30, 2023, contract assets included within deposits and other were $0.7 million $1.4 million and nil, $1.0 million, respectively.

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

		March 31,					September 30,			
		2023		2022			2023		2022	
Medicaid	Medicaid	55	%	53	%	Medicaid	55	%	55	%
Medicare	Medicare	45	%	46	%	Medicare	45	%	45	%
Private pay and other	Private pay and other		*%	1	%	Private pay and other		*%		*%
Total	Total	100	%	100	%	Total	100	%	100	%

* 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 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 12% 13% of capitation revenues for each of the three months ended March 31, 2023 and 2022. Medicare Part D comprised 12% of capitation revenues for each of the nine months ended March 31, 2023 September 30, 2023 and 2022.

Our accounts receivable as of March 31, 2023 September 30, 2023 and June 30, 2022 June 30, 2023 is primarily from capitation revenue arrangements. The concentration of net receivables from participants and third-party payers was as follows:

		March 31, 2023		June 30, 2022			September 30, 2023		June 30, 2023	
Medicaid	Medicaid	41	%	70	%	Medicaid	75	%	61	%

Medicare	Medicare	52	%	22	%	Medicare	19	%	29	%
Private pay and other	Private pay and other	7	%	8	%	Private pay and other	6	%	10	%
Total	Total	100	%	100	%	Total	100	%	100	%

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 $3.9 million $4.5 million as of March 31, 2023 September 30, 2023, compared to $3.4 million $4.2 million as of June 30, 2022 June 30, 2023. Accounts are written off as bad debts when they are deemed uncollectible based upon 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% and 0.2% of total revenue for the three months ended March 31, 2023 September 30, 2023 and 2022, respectively.

Other service revenue was 0.2% and 0.2% of total revenue for the nine months ended March 31, 2023 and 2022, respectively. 2022. Accounts receivable related to other service revenue was not significant as of both March 31, 2023 September 30, 2023 and June 30, 2022 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 equity method and cost method investments as of:

in thousands	*in thousands*		March 31, 2023		June 30, 2022	*in thousands*		September 30, 2023		June 30, 2023
Cost method investments	Cost method investments	$	4,645	$	4,645	Cost method investments	$	4,645	$	4,645
Equity method investments	Equity method investments		848		848	Equity method investments		848		848
Total investments	Total investments	$	5,493	$	5,493	Total investments	$	5,493	$	5,493

Nonconsolidated Entities

Cost Method Investments

The Company maintains two investments that are accounted for using the cost method. 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 nine three months ended March 31, 2023 September 30, 2023 and 2022, 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. The balance of the Company's investment in Jetdoc is $2.0 million which represents the maximum exposure to loss.

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 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, 2023 September 30, 2023, the balance of the Company's investment in PWD was $0.8 million which represents the maximum exposure to loss.

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, InnovAge Sacramento. 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 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, 2023 September 30, 2023, 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. The redeemable Redeemable noncontrolling interest of $13.5 million was $12.1 million and $12.7 million were recorded at carrying value as of March 31, 2023. September 30, 2023 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

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

in thousands	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments
Cash	$ 40,221	$ —	$ —	$ 40,221	$ 40,221	$ —
Level 1						
Money market funds	81,485	—	—	81,485	81,485	—
Mutual funds	45,000	847	—	45,847	—	45,847
Total	$ 166,706	$ 847	$ —	$ 167,553	$ 121,706	$ 45,847

	September 30, 2023			
in thousands	Amortized Cost	Fair Value	Cash and Cash Equivalents	Short-term Investments
Cash	$ 40,004	$ 40,004	$ 40,004	$ —
Level 1				
Money market funds	48,394	48,394	48,394	—
Mutual funds	46,745	46,833	—	46,833
Total	$ 135,143	$ 135,231	$ 88,398	$ 46,833

	June 30, 2023			
in thousands	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, 2023 September 30, 2023 and June 30, 2023, the Company's redeemable noncontrolling interest was recorded at carrying value of $13.5 million. $12.1 million and $12.7 million, respectively.

There were no transfers in and out of Level 3 during the nine three months ended March 31, 2023 September 30, 2023 or 2022.

Note 6: Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill amounted to $124.2 million at each of March 31, 2023 September 30, 2023 and June 30, 2022 June 30, 2023. 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 three reporting units. There were no indicators of impairment identified and no goodwill impairments recorded during the nine three months ended March 31, 2023 September 30, 2023 and 2022.

Intangible assets consisted of the following as of:

in thousands	March 31, 2023	June 30, 2022
Definite-lived intangible assets	$ 6,600	$ 6,600
Indefinite-lived intangible assets	2,000	2,000

in thousands	September 30, 2023	June 30, 2023
Definite-lived intangible assets	$ 6,600	$ 6,600
Indefinite-lived intangible assets	2,000	2,000

Total intangible assets	Total intangible assets	8,600	8,600	Total intangible assets	8,600	8,600
Accumulated amortization	Accumulated amortization	(3,237)	(2,742)	Accumulated amortization	(3,567)	(3,402)
Balance as of end of period	Balance as of end of period	$ 5,363	$ 5,858	Balance as of end of period	$ 5,033	$ 5,198

Intangible assets consist primarily of customer relationships acquired through business acquisitions. The Company recorded amortization expense of $0.2 million and $0.2 million for each of the three months ended March 31, 2023 September 30, 2023 and 2022, respectively. The Company recorded amortization expense of $0.5 million and $0.5 million for the nine months ended March 31, 2023 and 2022, respectively. 2022.

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 three months ended March 31, September 30, 2023 and 2022.

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 2023 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 an 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 a 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.

On March 20, 2023, we consolidated our Germantown center in Pennsylvania with two of our existing centers. Upon consolidation, we terminated our Germantown center lease and recognized lease termination costs of $0.6 million. Lease termination costs are included in other income (expense) on our consolidated statements of operations.

The following table presents the components of our ROU assets and their classification in our Balance Sheet at March 31, 2023 September 30, 2023:

Component of Lease Balances	**Balance Sheet Line Items**	**Nine months ended March 31, 2023**
		in thousands
Assets:		
Operating lease assets	Operating lease assets	$ 21,906
Finance lease assets	Property and equipment, net	16,663
Total leased assets		$ 38,569

Component of Lease Balances	**Balance Sheet Line Items**	**September 30, 2023**	**June 30, 2023**
in thousands			
Assets:			
Operating lease assets	Operating lease assets	$ 20,454	$ 21,210
Finance lease assets	Property and equipment, net	15,276	16,378
Total leased assets		$ 35,730	$ 37,588

The following table presents the components of our lease cost and the classification of such costs in our Statements of Operations for the nine three months ended March 31, 2023 September 30, 2023:

Component of Lease Cost	Statements of Operations Line Items	Nine months ended March 31, 2023
		in thousands
Operating lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	$ 3,334
Finance lease expense:		
Amortization of leased assets	Depreciation and amortization	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	—
Short-term lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	23
Total lease expense		$ 7,181

Component of Lease Cost	Statements of Operations Line Items	Three Months Ended September 30, 2023	2022
in thousands			
Operating lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	$ 1,118	$ 1,025
Finance lease expense:			
Amortization of leased assets	Depreciation and amortization	1,102	769
Interest on lease liabilities	Interest expense, net	33	317
Variable lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	—	—
Short-term lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	38	11
Total lease expense		$ 2,291	$ 2,122

The following table includes the weighted-average lease terms and discount rates for operating and finance leases as of March 31, 2023September 30, 2023:

Weighted average remaining lease term:	March 31, September 30, 2023	September 30, 2022
Operating leases	7.7 years	8.8 years
Finance leases	3.7 years	3.8 years

Weighted average discount rate:	March 31, 2023
Operating leases	6.61 %
Finance leases	8.76 %

Weighted average discount rate:	September 30, 2023	September 30, 2022
Operating leases	6.62 %	6.61 %
Finance leases	7.87 %	8.76 %

The following table includes the future maturities of lease payments for operating leases and finance leases for periods subsequent to March 31, 2023September 30, 2023:

in thousands	*in thousands*	Operating Lease	Finance Lease	Total	*in thousands*	Operating Lease	Finance Lease	Total
Amount remaining in 2023		$ 1,645	$ 1,747	$ 3,392				
2024		4,651	5,828	10,479				
Amount remaining in 2024					Amount remaining in 2024	$ 3,681	$ 4,531	$ 8,212
2025	2025	4,345	5,045	9,390	2025	4,358	5,279	9,637
2026	2026	4,274	4,021	8,295	2026	4,285	4,254	8,539

2027	2027	3,981	3,325	7,306	2027	3,981	3,557	7,538
2028					2028	3,139	1,767	4,906
Thereafter	Thereafter	10,173	1,587	11,760	Thereafter	7,033	—	7,033
Total lease payments	Total lease payments	29,069	21,553	50,622	Total lease payments	26,477	19,388	45,865
Less liability accretion / imputed interest	Less liability accretion / imputed interest	(5,557)	(3,226)	(8,783)	Less liability accretion / imputed interest	(4,820)	(2,728)	(7,548)
Total lease liabilities	Total lease liabilities	23,512	18,327	41,839	Total lease liabilities	21,657	16,660	38,317
Less: Current lease liabilities	Less: Current lease liabilities	3,402	4,946	8,348	Less: Current lease liabilities	3,577	4,612	8,189
Total long-term lease liabilities	Total long-term lease liabilities	$ 20,110	$ 13,381	$ 33,491	Total long-term lease liabilities	$ 18,080	$ 12,048	$ 30,128

The following table includes the future maturities of minimum rental payments that are required to be paid under all non-cancelable operating and capital lease obligations as previously disclosed in our 2022 10-K, prior to the adoption of ASC 842:

in thousands	Operating Lease	Capital Lease
Amount remaining in 2023	$ 4,873	$ 4,405
2024	4,581	3,909
2025	4,122	3,126
2026	4,061	2,092
2027	3,764	1,393
Thereafter	10,265	535
Total minimal rental payments	31,666	15,460
Less: Amount representing interest		(2,652)
Subtotal		12,808
Current portion		3,368
Long-term portion		$ 9,440

Note 8. Long-Term Debt

Long-term debt consisted of the following at March 31, 2023 September 30, 2023 and June 30, 2022 June 30, 2023:

		March 31, 2023	June 30, 2022		September 30, 2023	June 30, 2023
		in thousands			*in thousands*	
Senior secured borrowings:	Senior secured borrowings:			Senior secured borrowings:		
Term Loan Facility	Term Loan Facility	$ 68,438	$ 71,250	Term Loan Facility	$ 66,563	$ 67,500
Convertible term loan	Convertible term loan	2,296	2,327	Convertible term loan	2,273	2,284
Total debt	Total debt	70,734	73,577	Total debt	68,836	69,784
Less: unamortized debt issuance costs	Less: unamortized debt issuance costs	1,252	1,574	Less: unamortized debt issuance costs	1,038	1,145

Less: current maturities	Less: current maturities	3,795	3,793	Less: current maturities	3,795	3,795
Noncurrent maturities	Noncurrent maturities	$ 65,687	$ 68,210	Noncurrent maturities	$ 64,003	$ 64,844

2021 Credit Agreement

On March 8, 2021, the Company entered into a credit agreement (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. The remaining capacity under the Revolving Credit Facility as of March 31, 2023 September 30, 2023 was $97.0 million $97.2 million, subject to (i) any issued amounts under our letters of credit, which as of March 31, 2023 September 30, 2023 was $3.0 million $2.8 million, and (ii) applicable to 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. Proceeds of the Term Loan Facility, together with proceeds from the Company's initial public offering ("IPO"), were used to repay long term debt amounts then outstanding.

Outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of March 31, 2023 September 30, 2023, the interest rate on the Term Loan Facility was 6.60% 7.30%. 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, 2023 September 30, 2023, we had no borrowings outstanding, $3.0 million $2.8 million of letters of credit issued, and $97.0 million $97.2 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, 2023 September 30, 2023, the Company was in compliance with the covenants of the 2021 Credit Agreement.

The deferred financing costs of $1.3 million $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 and $0.3 million for the three and nine months ended March 31, 2023 September 30, 2023 and September 30, 2022, respectively.

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 if accruals are appropriate. The Company expenses legal costs as such costs are incurred.

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. Through the complaint, plaintiffs are asserting claims against the Company, certain of the Company's officers and directors, the Company's former CEO, 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, as amended (the "Exchange Act"), 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 to impose control person liability against the officer and director defendants, Apax Partners, L.P. and Welsh, Carson, Anderson & Stowe. The complaint seeks 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. We are currently unable to predict the outcome of this matter. 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. The Company continues 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 the 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 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. We are currently unable to predict the outcome of this matter. 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. We are currently unable to predict the outcome of this matters.

Other Matters

In the first 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 has 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 agreement is subject to court approval. approval, which we expect to occur in the second half of 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,			Three months ended September 30,	
		2023	2022	2023	2022		2023	2022
		in thousands		*in thousands*			*in thousands*	
Stock options	Stock options	$ 246	$ 269	$ 780	$ 359	Stock options	$ 223	$ 570
Profits interests units	Profits interests units	205	66	662	1,095	Profits interests units	376	254
Restricted stock units	Restricted stock units	757	510	2,279	1,132	Restricted stock units	1,224	476
Total stock-based compensation expense	Total stock-based compensation expense	$ 1,208	$ 845	$ 3,721	$ 2,586	Total stock-based compensation expense	$ 1,823	$ 1,300

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 2020 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) could can be granted to employees, directors, consultants, advisers, and advisers. 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 were are authorized for grant under the 2020 Equity Incentive Plan. Plan, and both performance-based and time-based units have been issued under the plan. As of March 31, 2023 September 30, 2023, a total of 13,009,137 14,972,836 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. There A total of 1,963,700 Class B Units were no grants awarded during the three and nine months ended March 31, 2023. September 30, 2023 to the Company's Chief Executive Officer and Chief Financial Officer. The assumptions under the Monte Carlo model related to the profits interests units, presented on a weighted-average basis, are provided below:

		2023
Expected volatility		74.0-76.0 %
Expected life (years) - time vesting units		3.0 - 3.1
Interest rate		4.52 - 4.57 %
Dividend yield		—
Weighted-average fair value	$	1.95 - 2.17
Fair value of underlying stock	$	5.53 - 7.27

A summary of profits interests activity for the nine three months ended March 31, 2023 September 30, 2023 was as follows:

Time-based unit awards	Time-based unit awards	Number of units		Weighted average grant date fair value	Time-based unit awards	Number of units		Weighted average grant date fair value
Outstanding balance, June 30, 2022		2,158,071	$	1.28				
Outstanding balance, June 30, 2023					Outstanding balance, June 30, 2023	1,264,337	$	1.28
Granted	Granted	—	$	—	Granted	981,850	$	6.30
Forfeited	Forfeited	(49,654)	$	1.28	Forfeited	(380,679)	$	1.28
Vested	Vested	(844,081)	$	1.28	Vested	(680,645)	$	1.28
Outstanding balance, March 31, 2023		1,264,336	$	1.28				
Outstanding balance, September 30, 2023					Outstanding balance, September 30, 2023	1,184,863	$	5.44

Performance-based unit awards	Performance-based unit awards	Number of units		Weighted average grant date fair value	Performance-based unit awards	Number of units		Weighted average grant date fair value
Outstanding balance, June 30, 2022		2,217,865	$	0.57				
Outstanding balance, June 30, 2023					Outstanding balance, June 30, 2023	2,118,558	$	0.57
Granted	Granted	—	$	—	Granted	981,850	$	1.85
Forfeited	Forfeited	(99,307)	$	0.57	Forfeited	(1,853,737)	$	0.57
Vested	Vested	—	$	—	Vested	—	$	—
Outstanding balance, March 31, 2023		2,118,558	$	0.57				
Outstanding balance, September 30, 2023					Outstanding balance, September 30, 2023	1,246,671	$	1.57

The total unrecognized compensation cost related to profits interests units outstanding as of March 31, 2023 September 30, 2023 was $2.3 million $4.6 million, comprised (i) $1.1 million $2.1 million related to time-based unit awards expected to be recognized over a weighted-average period of 0.9 2.8 years and (ii) $1.2 million $2.5 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 vest (i) on March 4, 2023, the second anniversary of the grant date, or (ii) 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 at various intervals over a three-year period. Certain awards under this plan vest upon achieving specific share price performance criteria and are determined to have performance-based vesting conditions.

Restricted Stock Units

A summary of time-based vesting restricted stock units activity for the nine three months ended March 31, 2023 September 30, 2023 was as follows:

Restricted stock units - time based	Restricted stock units - time based	Number of awards		Weighted average grant-date fair value per share	Restricted stock units - time based	Number of awards		Weighted average grant-date fair value per share
Outstanding balance, June 30, 2022		476,768	$	9.69				
Outstanding balance, June 30, 2023					Outstanding balance, June 30, 2023	1,873,794	$	10.10
Granted	Granted	1,048,298	$	6.07	Granted	284,942	$	5.51
Forfeited	Forfeited	(184,141)	$	5.44	Forfeited	(23,493)	$	4.56
Vested	Vested	(124,919)	$	5.23	Vested	(318,155)	$	5.89
Outstanding balance, March 31, 2023		1,216,006	$	6.61				
Outstanding balance, September 30, 2023					Outstanding balance, September 30, 2023	1,817,088	$	10.19

The total unrecognized compensation cost related to time based restricted stock units outstanding as of March 31, 2023 September 30, 2023 was $6.2 million $8.0 million and is expected to be recognized over a weighted-average period of 2.1 years.

A summary of performance based vesting restricted stock units activity for the nine three months ended March 31, 2023 September 30, 2023 was as follows:

Restricted stock units - performance based	Restricted stock units - performance based	Number of awards		Weighted average grant-date fair value per share	Restricted stock units - performance based	Number of awards		Weighted average grant-date fair value per share
Outstanding balance, June 30, 2022		258,767	$	5.18				
Outstanding balance, June 30, 2023					Outstanding balance, June 30, 2023	258,767	$	5.18
Granted	Granted	—	$	—	Granted	—	$	—
Forfeited	Forfeited	—	$	—	Forfeited	—	$	—
Vested	Vested	—	$	—	Vested	—	$	—
Outstanding balance, March 31, 2023		258,767	$	5.18				
Outstanding balance, September 30, 2023					Outstanding balance, September 30, 2023	258,767	$	5.18

The total unrecognized compensation cost related to performance based vesting restricted stock units outstanding as of March 31, 2023 September 30, 2023 was $0.9 million $0.7 million and is expected to be recognized over a weighted-average period of 2.6 2.1 years.

Nonqualified Stock Options

A summary of time-based vesting stock option activity for the nine three months ended March 31, 2023 September 30, 2023 was as follows:

Stock options - time based	Stock options - time based	Number of awards		Weighted average grant-date fair value per share	Stock options - time based	Number of awards		Weighted average grant-date fair value per share
Outstanding balance, June 30, 2022		554,499	$	1.61				
Outstanding balance, June 30, 2023					Outstanding balance, June 30, 2023	716,661	$	1.43
Granted	Granted	162,162	$	0.80	Granted	—	$	—
Forfeited	Forfeited	—	$	—	Forfeited	—	$	—
Exercised	Exercised	—	$	—	Exercised	—	$	—
Expired	Expired	—	$	—	Expired	—	$	—
Outstanding balance, March 31, 2023		716,661	$	1.21				
Outstanding balance, September 30, 2023					Outstanding balance, September 30, 2023	716,661	$	1.43
Exercisable balance, March 31, 2023		173,280	$	0.24				
Exercisable balance, September 30, 2023					Exercisable balance, September 30, 2023	296,105	$	0.19

The total unrecognized compensation cost related to time-based vesting stock options outstanding as of March 31, 2023 September 30, 2023 was $0.4 million $0.3 million and is expected to be recognized over a weighted-average period of 1.9 1.8 years.

The fair value of the time-based stock options granted during the nine months ended March 31, 2023, was based upon the Black-Scholes option pricing model using the assumptions in the following table:

		2023
Expected volatility		34.5 %
Weighted-average expected life (years) - time vesting units		2.9
Interest rate		1.56 %
Dividend yield		0 %
Weighted-average fair values	$	0.80
Fair value of underlying stock	$	3.70

A summary of performance-based vesting stock option activity for the nine three months ended March 31, 2023 September 30, 2023 was as follows:

Stock options - performance based	Stock options - performance based	Number of awards		Weighted average grant-date fair value per share	Stock options - performance based	Number of awards		Weighted average grant-date fair value per share
Outstanding balance, June 30, 2022		776,299	$	3.08				
Outstanding balance, June 30, 2023					Outstanding balance, June 30, 2023	776,299	$	3.08
Granted	Granted	—	$	—	Granted	—	$	—
Forfeited	Forfeited	—	$	—	Forfeited	—	$	—
Vested	Vested	—	$	—	Vested	—	$	—
Outstanding balance, March 31, 2023		776,299	$	3.08				

Outstanding balance, September 30, 2023	Outstanding balance, September 30, 2023	776,299	$	3.08

The total unrecognized compensation cost related to performance-based vesting stock options outstanding as of March 31, 2023 September 30, 2023 was $1.6 million $1.2 million and is expected to be recognized over a weighted-average period of 2.7 2.2 years.

Note 11: Income Taxes

The Company recorded an income tax benefit expense of $1.4 million $0.2 million and an income tax benefit of $4.1 million $3.5 million for the three months ended March 31, 2023 and 2022, respectively. The Company recorded an income tax benefit of $7.7 million and an income tax provision of $0.1 million for the nine months ended March 31, 2023 September 30, 2023 and 2022, respectively. This represents an effective tax rate of 17.2% (2.1)% and 56.6% 20.6% for the three months ended March 31, 2023 and 2022, respectively. This represents an effective tax rate of 19.7% and 1.4% for the nine months ended March 31, 2023 September 30, 2023 and 2022, respectively.

The effective rate for the nine three months ended March 31, 2023 September 30, 2023 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, and lobbying expenses, and the increase in the Company's valuation allowance against Net operating losses which occurred during the three month 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 three-month period ended March 31, 2023 September 30, 2023, the Company has 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 allowance against these state deferred tax assets. The Company has 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 $4.7 $14.8 million at March 31, 2023 September 30, 2023 and $4.1 million $8.3 million at June 30, 2022 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 12: 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, 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 earnings per share. 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, 2023 September 30, 2023, 659,761 and 37,901 348,090 potentially diluted securities respectively, were excluded from the weighted-average shares used to calculate the diluted net loss per common share as they would have an anti-dilutive effect. There were no potentially anti-dilutive shares for the three and nine months ended March 31, 2022.

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

		Three months ended March 31,		Nine months ended March 31,			Three months ended September 30,	
in thousands, except share values	*in thousands, except share values*	2023	2022	2023	2022	*in thousands, except share values*	2023	2022
Net income (loss) attributable to InnovAge Holding Corp.		$ (6,630)	$ (2,821)	$ (29,496)	$ 6,188			
Net loss attributable to InnovAge Holding Corp.						Net loss attributable to InnovAge Holding Corp.	$ (10,304)	$ (13,073)
Weighted average common shares outstanding (basic)	Weighted average common shares outstanding (basic)	135,601,327	135,516,608	135,581,971	135,516,544	Weighted average common shares outstanding (basic)	135,790,401	135,566,117
EPS (basic)	**EPS (basic)**	**$ (0.05)**	**$ (0.02)**	**$ (0.22)**	**$ 0.05**	**EPS (basic)**	**$ (0.08)**	**$ (0.10)**
Dilutive shares	Dilutive shares	—	—	—	14,249	Dilutive shares	—	—

Weighted average common shares outstanding (diluted)	Weighted average common shares outstanding (diluted)	135,601,327	135,516,608	135,581,971	135,530,793	Weighted average common shares outstanding (diluted)	135,790,401	135,566,117
EPS (diluted)	**EPS (diluted)**	**$ (0.05)**	**$ (0.02)**	**$ (0.22)**	**$ 0.05**	**EPS (diluted)**	**$ (0.08)**	**$ (0.10)**

Note 13: 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 five three operating segments, three two of which are related to the Company's PACE offering. The PACE-related operating segments are based on three two geographic divisions, which are West Central, and East. Due to the similar economic characteristics, nature of services, and customers, we have aggregated our West Central, and East operating segments into one reportable segment for PACE. The Company's remaining two operating segments relate segment primarily relates to Homecare and Senior Housing, which are is an immaterial operating segments, segment, and are 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 provision quality of services 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 segments. Center-level Contribution Margin is defined as total segment revenues less external provider costs and cost of care (excluding depreciation and amortization), which includes all medical and pharmacy costs.. The Company allocates corporate level expenses to its segments with a majority of the allocation going to the PACE segment.

The following table summarizes the operating results regularly provided to the CODM by reportable segment for the three months ended March 31, 2023 September 30, 2023 and 2022:

	March 31, 2023			March 31, 2022		
(In thousands)	**PACE**	**All other(1)**	**Totals**	**PACE**	**All other(1)**	**Totals**
Capitation revenue	$ 172,196	$ —	$ 172,196	$ 176,988	$ —	$ 176,988
Other service revenue	87	256	343	166	205	371
Total revenues	172,283	256	172,539	177,154	205	177,359
External provider costs	89,805	—	89,805	103,254	—	103,254
Cost of care, excluding depreciation and amortization	53,861	88	53,949	45,995	107	46,102
Center-Level Contribution Margin	28,617	168	28,785	27,905	98	28,003
Overhead costs(2)	33,041	(79)	32,962	30,911	(85)	30,826
Depreciation and amortization	3,858	134	3,992	3,760	90	3,850
Interest expense, net	(360)	(45)	(405)	(663)	(46)	(709)
Other income (expense)	(101)	—	(101)	108	—	108
Income (Loss) Before Income Taxes	$ (8,743)	$ 68	$ (8,675)	$ (7,321)	$ 47	$ (7,274)

The following table summarizes the operating results regularly provided to the CODM by reportable segment for the nine months ended March 31, 2023 and 2022:

		March 31, 2023			March 31, 2022				September 30, 2023			September 30, 2022		
in thousands		**PACE**	**All other(1)**	**Totals**	**PACE**	**All other(1)**	**Totals**							
(In thousands)								*(In thousands)*	**PACE**	**All other(1)**	**Totals**	**PACE**	**All other(1)**	**Totals**
Capitation revenue	Capitation revenue	$ 510,268	$ —	$ 510,268	$ 524,507	$ —	$ 524,507	Capitation revenue	$ 182,173	$ —	$ 182,173	$ 170,931	$ —	$ 170,931
Other service revenue	Other service revenue	263	682	945	234	1,039	1,273	Other service revenue	86	226	312	77	210	287

Total revenues	Total revenues	510,531	682	511,213	524,741	1,039	525,780	Total revenues	182,259	226	182,485	171,008	210	171,218
External provider costs	External provider costs	279,550	—	279,550	284,299	—	284,299	External provider costs	99,358	—	99,358	96,237	—	96,237
Cost of care, excluding depreciation and amortization	Cost of care, excluding depreciation and amortization	158,455	426	158,881	128,573	1,167	129,740	Cost of care, excluding depreciation and amortization	55,097	153	55,250	53,411	146	53,557
Center-Level Contribution Margin	**Center-Level Contribution Margin**	72,526	256	72,782	111,869	(128)	111,741	**Center-Level Contribution Margin**	27,804	73	27,877	21,360	64	21,424
Overhead costs(2)	Overhead costs(2)	100,148	—	100,148	93,463	(98)	93,365	Overhead costs(2)	34,317	9	34,326	34,574	20	34,594
Depreciation and amortization	Depreciation and amortization	10,739	348	11,087	10,130	305	10,435	Depreciation and amortization	4,157	112	4,269	3,326	107	3,433
Interest expense, net	Interest expense, net	(1,095)	(136)	(1,231)	(1,783)	(147)	(1,930)	Interest expense, net	616	45	661	557	46	603
Other income (expense)		380	—	380	(357)	(1)	(358)							
Income (Loss) Before Income Taxes		$ (39,076)	$ (228)	$ (39,304)	$ 6,136	$ (483)	$ 5,653							
Other income								Other income	(643)	—	(643)	(37)	—	(37)
Loss Before Income Taxes								**Loss Before Income Taxes**	$ (10,643)	$ (93)	$ (10,736)	$ (17,060)	$ (109)	$ (17,169)

(1) Center-level Contribution Margin from segments below the quantitative thresholds are primarily attributable to two the Senior Housing operating segments segment of the Company. Those segments consist of Homecare and Senior Housing. Neither of those segments This segment has ever 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 14: Related Party Transactions

Pursuant to the PWD Amended and Restated Agreement of Limited Partnership, the general partner, who is a subsidiary of the Company (the "General Partner"), funded operating deficits and shortfalls of PWD in the form of a loan. At each of March 31, 2023 September 30, 2023 and June 30, 2022 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 15: Subsequent Events

Effective May 1, 2023, The Company has evaluated subsequent events through the California Department of Health Care Services ("DHCS") released date on which the Company's center in Sacramento, California from enrollment sanction. The action by DHCS follows the previously announced release of sanction by the Centers for Medicare and Medicaid Services in November of 2022. The release of both sanctions permits the Company to resume normal enrollment at the Company's center in Sacramento, California. CMS and DHCS will require the Company to conduct post-sanction corrective action and monitoring activities to address any issues identified during the validation audits. condensed consolidated financial statements were issued.

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, 2022 June 30, 2023 ("2022 2023 10-K").*

Overview

InnovAge Holding Corp. ("InnovAge") became a public company in March 2021. As of March 31, 2023 September 30, 2023, the Company served approximately 6,310 6,580 PACE participants, and operated 17 PACE centers across Colorado, California, New Mexico, Pennsylvania, and Virginia. 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.

Trends and Uncertainties Affecting the Company

During fiscal year 2022, 2023, the U.S. and global economies experienced adverse macroeconomic effects in part resulting from the ongoing effects of the COVID-19 pandemic, as discussed in more detail below. pandemic. These effects included inflation and increased wages due to labor shortages. In fiscal year 2022 and 2023, in response to high levels of inflation, we began to implement various mitigation strategies to reduce costs of operation, including consolidating services and price negotiations with providers and vendors. While inflationary pressures eased slightly significantly during the three and nine months ended March 31, 2023, second half of fiscal 2023, inflation has continued during fiscal 2023 the three months ended September 30, 2023 and is expected to continue through the remainder of the fiscal year. As a result, the Company has continued the mitigation strategies discussed during the nine three months ended March 31, 2023 September 30, 2023. 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, 2023 September 30, 2023. Although we expect to continue mitigation efforts, there can be no assurance that our strategies will be sufficient.

In addition, the increased wage pressure, exacerbated by the labor shortage, increased the cost of providing care and our overall operating expenses during the nine months ended March 31, 2023. The combination of increased wage pressure and labor shortage amongst healthcare personnel, and specifically, trained personnel, has impacted and may continue to impact our expenses and ability to adhere to the complex government laws and regulations that apply to our business.

Furthermore, operating Operating expenses increased $31.8 million $5.4 million, or 6.1% 2.9%, for the nine three months ended March 31, 2023 September 30, 2023 compared to 2022 due to, in part, the to increased cost of care and related cost per participant as a result of increased salaries, wages and benefits associated with increased headcount and higher wage rates third party audit and compliance support, and increased fleet and contract transportation costs due to an increase in average daily attendnace, attendance and external appointments, appointments. In fiscal year 2023, we launched and higher fuel costs. 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. We expect to experience elevated operating expenses for the remainder of fiscal 2023. 2024 for similar reasons.

In October 2023, the Company conducted a planned reduction in workforce. The plan involved the termination of approximately 34 employees, representing approximately 1.6% of the Company's workforce. In connection with the planned reduction, the Company estimates that it will incur approximately $0.3 million to $0.4 million of charges in connection with employee severance and benefits costs, which the Company expects to incur in the second quarter of fiscal year 2024.

We will continue to evaluate increased costs and methods to mitigate or offset such costs.

In March 2023, U.S. regional *Census* and *global banks faced liquidity issues. Even though regulatory agencies intervened to stabilize the banking system, there is uncertainty in the markets regarding its continued stability, and regulatory agencies may not intervene in future crises. If the banks and financial institutions at which we, or our payors, hold our cash enter receivership or become insolvent, our liquidity may be threatened. Our cash and cash equivalents balance as of March 31, 2023 consisted of cash held in depository accounts, short-term treasuries, and money-market funds at global money-center banks invested in high-quality, short-term investments. While we do hold some regional bank exposure, such cash allocations are immaterial.*

Impact of Macroeconomic Conditions and COVID-19

The COVID-19 pandemic altered the behavior of businesses and people, the effects of which, to some extent, continue on federal, state and local economies. capitation revenue. On January 30, 2023 May 11, 2023 the President announced an intention to allow allowed the national emergency and public health emergency declarations related to the COVID-19 pandemic to expire on May 11, 2023. expire. The

declarations have had been in place since early 2020, and in addition to various Congress enacted legislation allowed the federal government flexibility to waive or modify certain requirements in a range of areas, including Medicare and Medicaid. We continue to evaluate how the expiration of these emergency declarations may affect our business outlook.

Census and capitation revenue. At this time, To date, we do have not believe experienced material census attrition will occur as a result of the expiration of the public health emergency declarations related to COVID-19 and the resumption of Medicaid redetermination.Medicaid's redetermination of beneficiary eligibility. The frailty level of PACE participants coupled with the complexity of Medicaid services needed, result results in a comprehensive financial qualifications review compared to the more traditional Medicaid-only population.Additionally, throughout Throughout the public health emergency, the Company has continued to complete annual Medicaid redeterminations with a dedicated team to support these efforts.Our redeterminations. This process enables the Company to provide a high degree of service to participants to monitor eligibility, assist with the redetermination process, address potential issues with eligibility in real time, and track future renewal dates. However, the Company has experienced and

Expenses. The virus has and continues to impact older adults, especially those with chronic illnesses, which describes our participants. The United States experienced supply chain issues with respect to personal protective equipment ("PPE") and other medical supplies during the height of the pandemic. Global logistics network challenges resulted in higher prices for medical supplies we require. While supply chain disruptions have adversely affected, and may expects that state regulatory agencies will continue to adversely have short-term constraints relating to their ability to process new PACE enrollments as they prioritize the need to process Medicaid redeterminations along with other obligations. While the expiration of these emergency declarations have not had a material impact to our financial results, we continue to evaluate how the expiration of these emergency declarations may affect our business and outlook, supply chain disruptions have improved to almost pre-pandemic level during the course of the first nine months of fiscal 2023. As a result, prices for most medical supplies have normalized. outlook.

Labor market. The COVID-19 pandemic has and continues to exacerbate high inflation exacerbated difficulties to hire additional healthcare professionals, causing certain of our centers to be understaffed or staffed with personnel that requires required training. In Labor pressure mostly eased during fiscal year 2022, we experienced workforce and labor shortages, within all of our centers. This labor pressure has eased slightly during the nine months ended March 31, 2023. While the labor pressure and related costs have eased slightly, 2023, however, the Company continues to be affected by the increased competition in the labor market and market adjustments to increase retention and improve our ability to hire. These market adjustments contributed, in part, to an increase in cost of care for the nine three months ended March 31, 2023 September 30, 2023, further impacted by additional staffing related to compliance and remediation efforts. This increase in conjunction with higher headcount has contributed to increased cost of care for the nine three months ended March 31, 2023 September 30, 2023 compared to the nine three months ended March 31, 2022 September 30, 2022 as discussed in "Results of Operations" below. We continue to assess key roles and benchmarks to market while monitoring trends in the labor market.

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 they may renegotiate agreements with our centers to cover the increased labor costs. Additionally, 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.

Finally, on October 27, 2023, we filed a petition with the National Labor Relations Board to conduct an election to determine if the nurses in our Pennsylvania centers wish to be represented for purposes of collective bargaining with the Company. The petition originates from a request by the nurses in our Pennsylvania centers to unionize. These employees represent 1% of our total workforce. Unionization efforts, the negotiation of collective bargaining agreements and costs for unionized employees could materially impact our costs of labor.

For additional information on the various risks posed by macroeconomic events and the ongoing COVID-19 pandemic, regulation, please see the section entitled "Risk Factors" included in Part I, Item 1A of our 2022 2023 10-K.

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. audits and maintain high quality of regulatory compliance.* The Company's priority is to continue to remediate the deficiencies raised in audit processes and to implement post-sanction corrective actions, where required. 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 increase 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. See "Audit Processes and Remediation Efforts" below.

- *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 2.53 2.47 based on InnovAge data as of March 31, 2023 September 30, 2023; 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 on 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. regulators 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 a 74% 86% participant satisfaction rating as of January 1, 2023 September 30, 2023, measured as composite of participant satisfaction across ten categories, and average participant tenure was 3.2 years as of March 31, 2023 September 30, 2023, 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 voluntary disenrollment, averaging 5.7% 5.9% annually over the last three fiscal years. Approximately 75% 71% of our historical disenrollments have been involuntary, due primarily to participant death or otherwise due to participants moving out of our service areas.

- *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. Because our Our participants are among the most frail and medically complex individuals in the U.S. healthcare system, and average acuity rises with the passage of time. 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, and as a result, our external provider costs and cost of care, excluding depreciation and amortization, represented approximately 86% 85% of our revenue in the nine three months ended March 31, 2023 September 30, 2023. 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. The enrollment sanctions in Sacramento, California and Colorado limited our ability to grow our participant census and impact Center-level Contribution Margin in fiscal 2022 and the first half of fiscal 2023. We were fully released from those sanctions in Colorado in January 2023 and in California in May 2023. Although the Company continues post sanction monitoring, the Company is currently able to enroll new participants at its 17 centers.

- *Our ability to expand via acquisition or de novo centers within existing and new markets.* Several factors can affect our ability to open de novo centers, including sanctions issued by regulators opening costs as the ones we were subject to in our Sacramento, California and availability Colorado centers. As a result of qualified and trained personnel. On January 7, 2022, the Department of Health Care Services ("DHCS") of the State of California notified us that it was suspending the State's previously provided assurances that it would enter into a PACE program agreement with the Company ("State Attestations") with respect such sanctions, we were precluded from, or voluntarily suspended efforts to, open de novo centers in Florida, Kentucky and Indiana. Since the State of California until such time as the corrective action plans ("CAPs") and the remediation and validation processes for our Sacramento center have been successfully completed and the enrollment Company was released from sanctions, are lifted. In addition, on February 9, 2022, we received notice from the Cabinet for Health and Family Services of the State of Kentucky informing us that they no longer intend to enter into an agreement with us to be a PACE provider in the State of Kentucky. On February 14, 2022, CMS denied our application to develop the previously announced PACE center in Terre Haute, Indiana, which was projected to open in fiscal year 2024 based on deficiencies detected during CMS' 2021 audits of our Sacramento and Colorado PACE programs. In Florida, we are moving forward with pursuit of have recommenced our efforts to obtain the licensure required to open a PACE center in each of Tampa and Orlando, with Orlando. We are also pursuing the support of the Florida Agency for Health Care Services and CMS. licensure required to open another PACE center in Downey, California.

- *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. Since the Company was released from sanctions, we have recommenced our efforts to pursue tuck-in acquisitions. We are remain disciplined in our approach to acquisitions and in the past have executed multiple types of transactions, including turnarounds and non-profit conversions. Historically, when integrating acquired programs, we worked closely with key constituencies, including local governments, health systems and senior housing providers, to enable continuity of high-quality care for participants. Once restrictions on our ability to open de novo centers are lifted or resolved, we intend to resume execution of tuck-in acquisitions.

- *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 and expect to incur as a public company, including expenses related to compliance with the rules and regulations of the SEC and the listing standards of Nasdaq, additional corporate and director and officer insurance, investor relations and increased legal, audit, reporting and consulting fees. We also expect to incur additional expenses for the foreseeable future in connection with current and future audits to our centers, 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 have begun to invest in 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, will 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, specifically in 2024, we expect to see some increase in inpatient and short stay nursing home utilization as well as increased acuity of our participant mix; 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 Risk Adjustment Factor score as measured twice per year and is based on the evolving acuity of a participant. Based on the 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.

Audit Processes and Remediation Efforts

We are routinely subject to, and will continue to be subject to, various governmental inspections, reviews and audits. Set forth below is a summary of the ongoing audits at our centers and updates on such audit processes.

Colorado. On January 23, 2023, both CMS and Colorado Department of Health Care Policy & Financing ("HCPF") released enrollment sanctions for all Colorado centers and normal enrollment since resumed. CMS and HCPF require that we conduct post-sanction corrective action and monitoring activities to address any issues identified during the validation audits.

California. Effective November 21, 2022, CMS released the enrollment sanction for Medicare-eligible participants, and effective May 1, 2023, the DHCS released the state sanction. CMS and DHCS are requiring the Company to conduct post-sanction corrective action and monitoring activities to address any issues identified during the validation audits. The release of both CMS and DHCS sanctions permits the Company to resume normal enrollment of eligible seniors into its PACE program at its Sacramento, California center.

In January 2022, DHCS notified us that it was suspending the State Attestations with respect to de novo centers in the State of California until such time as its enrollment sanctions are lifted.

New Mexico. On April 14, 2023, CMS closed the audit that it had begun in November 2021.

Kentucky, Indiana and Florida. The States of Kentucky and Indiana have taken actions to suspend our ability to open de novo centers in those states. In Florida, we are moving forward with pursuit of licensure required to open a PACE center in each of Tampa and Orlando, with the support of the Florida Agency for Health Care Services and CMS.

The Company's priority is to return to growth as a company, both for the short- and long-term. We continue to work with the appropriate authorities to make the necessary changes within the Company to increase care coordination and care documentation among our centers.

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 amended annually each June 30 in all states other than California and Pennsylvania, which contract on a calendar-year basis. New amendments have been executed for the periods (i) January 1, 2021 through December 31, 2025 for California and (ii) July 1, 2022 through June 30, 2023 for all other states, except Pennsylvania, for which we We are currently operating in good standing under the 2020 amended agreement while the agency finalizes its current amendment. 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 2022 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. Prior to June 30, 2022 June 30, 2023 we generated fee-for-service revenue from providing home-care services to non-PACE patients in their homes, for which we billed the patient or their insurance plan on a fee-for-service basis. We no longer offer in-home care services. services to non-PACE participants. 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 2022 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 2022 2023 10-K.

Results of Operations

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

		Three Months Ended March 31,		Nine Months Ended March 31,			Three Months Ended September 30,	
in thousands	*in thousands*	2023	2022	2023	2022	*in thousands*	2023	2022
Revenues	**Revenues**					**Revenues**		
Capitation revenue	Capitation revenue	$ 172,196	$ 176,988	$ 510,268	$ 524,507	Capitation revenue	$ 182,173	$ 170,931
Other service revenue	Other service revenue	343	371	945	1,273	Other service revenue	312	287
Total revenues	Total revenues	172,539	177,359	511,213	525,780	Total revenues	182,485	171,218
Expenses	**Expenses**					**Expenses**		
External provider costs	External provider costs	89,805	103,254	279,550	284,299	External provider costs	99,358	96,237
Cost of care, excluding depreciation and amortization	Cost of care, excluding depreciation and amortization	53,949	46,102	158,881	129,740	Cost of care, excluding depreciation and amortization	55,250	53,557
Sales and marketing	Sales and marketing	5,314	6,144	13,502	19,117	Sales and marketing	5,379	4,413

Corporate, general and administrative	Corporate, general and administrative	27,648	24,682	86,646	74,248	Corporate, general and administrative	28,947	30,181
Depreciation and amortization	Depreciation and amortization	3,992	3,850	11,087	10,435	Depreciation and amortization	4,269	3,433
Total expenses	Total expenses	180,708	184,032	549,666	517,839	Total expenses	193,203	187,821
Operating Income (Loss)		$ (8,169)	$ (6,673)	$ (38,453)	$ 7,941			
Operating Loss						**Operating Loss**	$ (10,718)	$ (16,603)
Other Income (Expense)	**Other Income (Expense)**					**Other Income (Expense)**		
Interest expense, net	Interest expense, net	(405)	(709)	(1,231)	(1,930)	Interest expense, net	(661)	(603)
Other income (expense)		(101)	108	380	(358)			
Other income						Other income	643	37
Total other expense	Total other expense	(506)	(601)	(851)	(2,288)	Total other expense	(18)	(566)
Income (Loss) Before Income Taxes		(8,675)	(7,274)	(39,304)	5,653			
Loss Before Income Taxes						**Loss Before Income Taxes**	(10,736)	(17,169)
Provision (Benefit) for Income Taxes	**Provision (Benefit) for Income Taxes**	(1,365)	(4,116)	(7,747)	81	**Provision (Benefit) for Income Taxes**	226	(3,470)
Net Income (Loss)		$ (7,310)	$ (3,158)	$ (31,557)	$ 5,572			
Net Loss						**Net Loss**	$ (10,962)	$ (13,699)
Less: net loss attributable to noncontrolling interests	Less: net loss attributable to noncontrolling interests	(680)	(337)	(2,061)	(616)	Less: net loss attributable to noncontrolling interests	(658)	(626)
Net Income (Loss) Attributable to InnovAge Holding Corp.		$ (6,630)	$ (2,821)	$ (29,496)	$ 6,188			
Net Loss Attributable to InnovAge Holding Corp.						**Net Loss Attributable to InnovAge Holding Corp.**	$ (10,304)	$ (13,073)

Revenues

		Three Months Ended March 31,		Change		Nine Months Ended March 31,		Change			Three Months Ended September 30,		Change	
		2023	2022	$	%	2023	2022	$	%		2023	2022	$	%
in thousands	*in thousands*									*in thousands*				
Capitation revenue	Capitation revenue	$ 172,196	$ 176,988	$ (4,792)	(2.7) %	$ 510,268	$ 524,507	$ (14,239)	(2.7) %	Capitation revenue	$ 182,173	$ 170,931	$ 11,242	6.6 %
Other service revenue	Other service revenue	343	371	(28)	(7.5) %	945	1,273	(328)	(25.8) %	Other service revenue	312	287	25	8.7 %
Total revenues	Total revenues	$ 172,539	$ 177,359	$ (4,820)	(2.7) %	$ 511,213	$ 525,780	$ (14,567)	(2.8) %	Total revenues	$ 182,485	$ 171,218	$ 11,267	6.6 %

Capitation revenue. Capitation revenue was $172.2 million $182.2 million for the three months ended March 31, 2023 a decrease September 30, 2023 an increase of $4.8 million $11.2 million, or 2.7% 6.6%, compared to $177.0 million $170.9 million for the three months ended March 31, 2022 September 30, 2022. This decrease increase was driven

by a 7.6% decrease 7.7% increase in member months capitation rates partially offset by a 5.3% increase in capitation rates. The 1.0% decrease in member months is primarily due to disenrollments and our inability to enroll new participants at our Sacramento, California center as a result of sanctions, minimally offset by the ramp up of enrollments at our Colorado centers as we resumed the enrollment process. months. The increase in capitation rates was primarily driven by an annual increase in both Medicaid capitation rates as determined by the States and Medicare capitation rates as a result of increased risk score and county rates rates. The decrease in member months is primarily due to disenrollments partially offset by the reinstatement ramp up of sequestration. enrollments at our Colorado and Sacramento centers as we resumed the enrollment process. Capitation revenue was $510.3 million for the nine months ended March 31, 2023, a decrease of $14.2 million, or 2.7%, compared to $524.5 million for the nine months ended March 31, 2022. This decrease was driven by a 7.1% decrease in member months partially offset by a 4.7% increase in capitation rates, primarily due to the factors discussed above.

Operating Expenses

		Three Months Ended March 31,		Change		Nine Months Ended March 31,		Change			Three Months Ended September 30,		Change	
		2023	2022	$	%	2023	2022	$	%		2023	2022	$	%
in thousands	*in thousands*									*in thousands*				
External provider costs	External provider costs	$ 89,805	$ 103,254	$ (13,449)	(13.0)%	$ 279,550	$ 284,299	$ (4,749)	(1.7)%	External provider costs	$ 99,358	$ 96,237	$ 3,121	3.2%
Cost of care (excluding depreciation and amortization)	Cost of care (excluding depreciation and amortization)	53,949	46,102	7,847	17.0%	158,881	129,740	29,141	22.5%	Cost of care (excluding depreciation and amortization)	55,250	53,557	1,693	3.2%
Sales and marketing	Sales and marketing	5,314	6,144	(830)	(13.5) %	13,502	19,117	(5,616)	(29.4) %	Sales and marketing	5,379	4,413	966	21.9 %
Corporate, general, and administrative	Corporate, general, and administrative	27,648	24,682	2,966	12.0%	86,646	74,248	12,398	16.7%	Corporate, general, and administrative	28,947	30,181	(1,234)	(4.1)%
Depreciation and amortization	Depreciation and amortization	3,992	3,850	142	3.7%	11,087	10,435	652	6.2%	Depreciation and amortization	4,269	3,433	836	24.4%
Total operating expenses	Total operating expenses	$ 180,708	$ 184,032	$ (3,324)		$ 549,666	$ 517,839	$ 31,827		Total operating expenses	$ 193,203	$ 187,821	$ 5,382	

External provider costs. External provider costs were $89.8 million $99.4 million for the three months ended March 31, 2023 September 30, 2023, a decrease an increase of $13.4 million $3.1 million, or 13.0% 3.2%, compared to $103.3 million $96.2 million for the three months ended March 31, 2022 September 30, 2022. The decrease increase was primarily driven by a decrease an increase of $7.9 million $4.1 million, or 7.6%, in member months coupled with a decrease of $5.6 million, or 5.9% 4.3%, in cost per participant. participant partially offset by a decrease of $1.0 million, or 1.0% in member months. The decrease increase in cost per participant was primarily driven by a $3.6 million decrease associated with lower inpatient cost per admit as a result of the Omicron spike in the prior year and a $1.3 million net decrease associated with lower short stay skilled nursing facility utilization partially offset by an increase in assisted living and permanent nursing facility unit cost, assisted living utilization, and unit pharmacy cost.

External provider costs were $279.5 million for the nine months ended March 31, 2023, a decrease of $4.7 million, or 1.7%, compared to $284.3 million for the nine months ended March 31, 2022. The decrease This is primarily driven by a decrease of $20.2 million, or 7.1%, in member months partially offset by an increase of $15.4 million, or 5.8%, in cost per participant. The increase in cost per participant is primarily driven by a $13.3 million increase associated with increased assisted living and nursing facility utilization and unit cost partially offset by a $3.0 million reduction decrease in inpatient cost per admit associated with fewer COVID admissions. short stay skilled nursing facility utilization.

Cost of care (excluding depreciation and amortization). Cost of care (excluding depreciation and amortization) expense was $53.9 million $55.3 million for the three months ended March 31, 2023 September 30, 2023, an increase of $7.8 million $1.7 million, or 17.0% 3.2%, compared to $46.1 million $53.6 million for the three months ended March 31, 2022 September 30, 2022, primarily due to an increase of $11.4 million $2.2 million, or 26.7% 4.2%, in cost per participant partially offset by a decrease of $3.5 million $0.5 million, or 7.6% 1.0%, in member months. The increase was primarily driven by (i) a $6.2 million $1.5 million increase in salaries, wages and benefits associated with increased headcount and higher wage rates due to the ongoing competitive labor market, and (ii) $0.8 million in third party audit and compliance support, (iii) $0.7 million in increased building maintenance and security, and (iv) $0.4 million $1.4 million in increased fleet expense and contract transportation a result of higher average daily attendance and an increase in external appointments.

Cost of care (excluding depreciation and amortization) expense was $158.9 million for the nine months ended March 31, 2023, an increase of $29.1 million, or 22.5%, compared to $129.7 million for the nine months ended March 31, 2022, primarily due to an increase of $38.4 million, or 31.8%, in cost per participant appointments, partially offset by a decrease of $9.2 million, or 7.1%, in member months. The increase was primarily driven by (i) a $19.4 million increase in salaries, wages and benefits associated with increased headcount and higher wage rates due to the ongoing competitive labor market, (ii) $3.5 million $1.5 million reduction in third party audit and compliance support, (iii) $3.0 million in increased fleet expense and contract transportation as a result of higher average daily attendance, increase in external appointments, and higher fuel costs, (iv)

$1.5 million in increased building maintenance and security and (v) $0.7 million in de novo costs due primarily to rent expense. support.

Sales and marketing. Sales and marketing expenses were $5.3 million $5.4 million for the three months ended March 31, 2023 September 30, 2023, a decrease an increase of $0.8 million $1.0 million, or 13.5% 21.9%, compared to $6.1 million $4.4 million for the three months ended March 31, 2022 September 30, 2022, primarily due to a $0.6 million reduction in costs associated with fewer sales increased marketing spend and headcount as a result of sanctions the sanction release in our Colorado and Sacramento centers partially offset by $0.4 million in one-time costs related to organizational realignment recorded during the three months ended March 31, 2022. centers.

Sales and marketing expenses were $13.5 million for the nine months ended March 31, 2023, a decrease of $5.6 million, or 29.4%, compared to $19.1 million for the nine months ended March 31, 2022, primarily due to (i) a $2.8 million reduction in marketing spend and $2.0 million reduction in costs associated with fewer headcount within the sales department, both as a result of sanctions in our Colorado and Sacramento centers and (ii) a $0.9 million reduction in sales commissions expense due to the deferral of commissions.

Corporate, general and administrative. Corporate, general and administrative expenses were $27.6 million $28.9 million for the three months ended March 31, 2023 September 30, 2023, an increase decrease of $3.0 million $1.2 million, or 12.0% 4.1%, compared to $24.7 million $30.2 million for the three months ended March 31, 2022 September 30, 2022. The increase decrease was primarily due to (i) a $2.7 million $0.5 million decrease in bad debt expense, (ii) a $0.6 million reduction in insurance expense, and (iii) a $1.4 million reduction in consulting expense associated with improving organizational capabilities including the transition to a new electronic medical record ("EMR") system, and (iv) $0.4 million reduction in corporate occupancy costs. 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) $2.7 million $0.3 million in third party legal costs, and (iii) a $2.1 million $1.0 million increase in software license and maintenance expense. These increases in cost are partially offset by (i) a $1.9 million reduction in bad debt expense, and (ii) a $1.0 million reduction in consulting expense associated with improving organizational capabilities.

Corporate, general and administrative expenses were $86.6 million for the nine months ended March 31, 2023, an increase inclusive of $12.4 million, or 16.7%, compared to $74.2 million for the nine months ended March 31, 2022. The increase was primarily due to (i) a $7.8 million increase in employee compensation and benefits as the result of an increase in headcount to support compliance and bolster organizational capabilities, (ii) $6.4 million in third party costs associated with implementing our core provider initiatives, assessing our risk-bearing payor capabilities, and strengthening organizational capabilities including the transition to a new electronic medical record ("EMR"), (iii) $3.5 million in increased legal spend, and (iv) $3.2 million increase in software Epic license and maintenance expense. These increases in cost were partially offset by (i) a $2.5 million reduction in bad debt expense and (ii) $4.1 million in executive severance and recruiting recognized during the nine months ended March 31, 2022. fees.

Other Income (Expense)

		Three Months Ended March 31,		Change		Nine Months Ended March 31,		Change			Three Months Ended September 30,		Change	
		2023	2022	$	%	2023	2022	$	%		2023	2022	$	%
in thousands	*in thousands*									*in thousands*				
Interest expense, net	Interest expense, net	$ (405)	$ (709)	$ 304	(42.8)%	$ (1,231)	$ (1,930)	$ 699	(36.2)%	Interest expense, net	$ (661)	$ (603)	$ (58)	9.6%
Other income (expense)		(101)	108	(209)	(193.3)%	380	(358)	738	(206.1)%					
Other income										Other income	643	37	606	1,637.8%
Total other expense	Total other expense	$ (506)	$ (601)	$ 95		$ (851)	$ (2,288)	$ 1,437		Total other expense	$ (18)	$ (566)	$ 548	

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 $0.4 million for the three months ended March 31, 2023, a decrease of $0.3 million, or 42.8%, compared to $0.7 million for the three months ended March 31, 2022 September 30, 2023, a decrease of $0.1 million, or 9.6%, compared to $0.6 million for the three months ended September 30, 2022. The decrease was primarily due to interest income of $1.0 million $1.1 million from money market funds offsetting interest expense of $1.4 million $1.7 million for the three months ended March 31, 2023 September 30, 2023. Interest expense of $1.0 million was offset by interest income of $0.4 million during the three months ended March 31, 2022 was negligible.

Interest expense, net was $1.2 million for the nine months ended March 31, 2023, a decrease of $0.7 million, or 36.2%, compared to $1.9 million for the nine months ended March 31, 2022 September 30, 2022. The decrease was primarily due to interest income of $2.3 million from money market funds offsetting interest expense of $3.5 million during the nine months ended March 31, 2023. Interest income during the nine months ended March 31, 2022 was negligible. For additional information regarding our outstanding indebtedness, see Note 8, “Long-Term Debt” to our condensed consolidated financial statements.

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, 2023 decreased $0.2 million September 30, 2023 increased $0.6 million, or 193.3% 1637.8%, when compared to the three months ended March 31, 2022 September 30, 2022. The decrease increase is primarily due to a loss of $0.6 million related to the termination of the Germantown, Pennsylvania center lease upon consolidation of the center with other centers, offset by the recognition of $0.4 million in unrealized gains related to dividends received from our short-term investments. Other income (expense) was income of $0.4 million for the nine months ended March 31, 2023, an increase of $0.8 million, or 206.0%, compared to a loss of $0.4 million for the nine months ended March 31, 2022. The increase is due to the recognition of unrealized gains on short-term investments of $0.8 million offset by a loss of $0.6 million due to the termination of the Germantown center lease during the nine months ended March 31, 2023 in addition to the recognition of a loss on disposal of assets of $0.4 million during the nine months ended March 31, 2022 related to the write off of certain assets in conjunction with a move to a new facility at our Roanoke, Virginia center.

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 SH1 and Sacramento have elected to be taxed as partnerships, and no provision for income taxes for SH1 or 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, 2023 September 30, 2023 and 2022, we reported benefit for income taxes of $1.4 million and $4.1 million, respectively. During the nine months ended March 31, 2023 and 2022, we reported benefit for income taxes of $7.7 million and a provision for income taxes of $0.1 million $0.2 million and benefit of $3.5 million, respectively. The decrease of $7.8 million $3.7 million is primarily due (i) our pretax book loss recognized during the nine three months ended March 31, 2023 September 30, 2023, as compared to pretax book income loss recognized during the nine three months ended March 31, 2022 September 30, 2022 and (ii) certain permanent differences between the financial and tax accounting treatment of (a) the Section 162(m) limitation on compensation of five highest paid officers, (b) income from entities not subject to tax, and (c) disallowed stock options related to profit unit interests. change in our valuation allowance.

Net Loss Attributable to Noncontrolling Interests.

InnovAge Senior Housing Thornton, LLC ("SH1") 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 are 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.

Our share of earnings are 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 Income (Loss) Loss

During the nine three months ended March 31, 2023 September 30, 2023 and 2022, we reported net income (loss) loss of ($31.6 million) $11.0 million and $5.6 million $13.7 million, respectively, consisting of (i) income (loss) loss from operations of ($38.5 million) $10.7 million and $7.9 million $16.6 million, respectively, (ii) other expense of $0.9 million $0.0 million and $2.3 million $0.6 million, respectively, and (iii) a benefit provision for income taxes of $7.7 million $0.2 million and provision benefit of $0.1 million $3.5 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 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,			Three months ended September 30,	
		2023	2022		2023	2022
		dollars in thousands			*dollars in thousands*	
Key Business Metrics:	Key Business Metrics:			Key Business Metrics:		
Centers(a)	Centers(a)	17	18	Centers(a)	17	18
Census(b)	Census(b)	6,310	6,800	Census(b)	6,580	6,540
Total Member Months(b)	Total Member Months(b)	58,270	62,730	Total Member Months(b)	19,540	19,740

Center-level Contribution Margin	Center-level Contribution Margin	$	72,782		$	111,741		Center-level Contribution Margin	$	27,877		$	21,424	
Center-level Contribution Margin as a % of revenue	Center-level Contribution Margin as a % of revenue		14.2	%		21.3	%	Center-level Contribution Margin as a % of revenue		15.3	%		12.5	%
GAAP Measures:	GAAP Measures:							GAAP Measures:						
Net income (loss)	Net income (loss)	$	(31,557)		$	5,572		Net income (loss)	$	(10,962)		$	(13,699)	
Net loss margin	Net loss margin		(6.2)	%		1.1	%	Net loss margin		(6.0)	%		(8.0)	%
Non-GAAP Measures:	Non-GAAP Measures:							Non-GAAP Measures:						
Adjusted EBITDA(c)	Adjusted EBITDA(c)	$	(1,977)		$	34,895		Adjusted EBITDA(c)	$	2,226		$	(3,815)	
Adjusted EBITDA Margin(c)	Adjusted EBITDA Margin(c)		(0.4)	%		6.6	%	Adjusted EBITDA Margin(c)		1.2	%		(2.2)	%

(a) 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. 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 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 expense or corporate, general and administrative expenses across our centers. Center-level Contribution Margin was $72.8 million $27.9 million and $111.7 million $21.4 million for the nine three months ended March 31, 2023 September 30, 2023 and 2022, respectively. The increase in Center-level Contribution Margin for the three months ended September 30, 2023 was primarily due to a 6.6% increase in total revenue,

slightly offset by a 3.2% increase in external provider costs during the same period. For more information relating to Center-level Contribution Margin, see Note 13 "Segment Reporting" to our 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:

	September 30, 2023			September 30, 2022		
(In thousands)	PACE	All other	Totals	PACE	All other(1)	Totals
Capitation revenue	$ 182,173	$ —	$ 182,173	$ 170,931	$ —	$ 170,931
Other service revenue	86	226	312	77	210	287
Total revenues	182,259	226	182,485	171,008	210	171,218

External provider costs	99,358	—	99,358	96,237	—	96,237
Cost of care, excluding depreciation and amortization	55,097	153	55,250	53,411	146	53,557
Center-Level Contribution Margin	27,804	73	27,877	21,360	64	21,424
Overhead costs(a)	34,317	9	34,326	34,574	20	34,594
Depreciation and amortization	4,157	112	4,269	3,326	107	3,433
Interest expense, net	616	45	661	557	46	603
Other income	(643)	—	(643)	(37)	—	(37)
Loss Before Income Taxes	$ (10,643)	$ (93)	$ (10,736)	$ (17,060)	$ (109)	$ (17,169)
Loss Before Income Taxes as a % of revenue			(5.9)%			(10.0)%
Center- Level Contribution Margin as a % of revenue			15.3 %			12.5 %

(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, 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, class action litigation costs and settlements, M&A and de novo center development, business optimization, EMR electronic medical record ("EMR") implementation, and facility expansion, relocation and closure. Adjusted EBITDA margin is Adjusted EBITDA expressed as a percentage of our total revenue less any exceptional, one time revenue items. revenue. For the nine three months ended March 31, 2023 September 30, 2023 and 2022, net loss was $31.6 million $11.0 million and net income was $5.6 million $13.7 million, respectively, representing a year-over-year decrease of 666.3% 20.0%. Adjusted EBITDA was ($2.0 million) $2.2 million and $34.9 million ($3.8 million), for the nine three months ended March 31, 2023 September 30, 2023 and 2022, respectively, representing a year-over-year decrease increase of 105.7% 158.3%. For the nine three months ended March 31, 2023 September 30, 2023, net loss margin was 6.2% 6.0%, as compared to net income loss margin of 1.1% 8.0% for the nine three months ended March 31, 2022 September 30, 2022. For the nine three months ended March 31, 2023 September 30, 2023, our Adjusted EBITDA margin was negative 0.4% 1.2%, as compared to our Adjusted EBITDA margin for the nine three months ended March 31, 2022 September 30, 2022 of 6.6% negative 2.2%. The decrease 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 rates unit cost as mandated by the states, and (iii) higher corporate, general, and administrative expenses, primarily attributable to increased headcount to support compliance and to bolster our organizational capabilities. 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 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, to net income, the most directly comparable GAAP measure, for each of the periods is as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2023	2022	2023	2022
			in thousands	
Net income (loss)	$ (7,310)	$ (3,158)	$ (31,557)	$ 5,572
Interest expense, net	405	709	1,231	1,930
Depreciation and amortization	3,992	3,850	11,087	10,435

Provision (benefit) for income tax	(1,365)	(4,116)	(7,747)	81
Stock-based compensation	1,208	845	3,721	2,586
Executive severance and recruitment(a)	—	—	—	4,123
Litigation costs and settlement(b)	3,274	377	7,839	2,820
M&A and de novo center development(c)	146	693	452	1,533
Business optimization(d)	1,394	2,329	8,418	4,720
EMR implementation(e)	2,045	402	4,579	1,095
Adjusted EBITDA	$ 3,789	$ 1,931	$ (1,977)	$ 34,895

	Three months ended September 30,	
	2023	2022
Net loss	$ (10,962)	$ (13,699)
Interest expense, net	661	603
Depreciation and amortization	4,269	3,433
Provision (benefit) for income tax	226	(3,470)
Stock-based compensation	1,823	1,300
Litigation costs and settlement(a)	1,707	1,668
M&A and de novo center development(b)	409	206
Business optimization(c)	2,159	5,554
EMR implementation(d)	1,934	590
Adjusted EBITDA	$ 2,226	$ (3,815)

____

(a) Reflects charges related to executive severance and recruiting.

(b) Reflects a $1.2 million reserve for a wage and hour class action settlement for the three and nine months ended March 31, 2023 and 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.

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

(d) (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, 2023 September 30, 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 $1.8 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 (ii) $0.4 million related to other non-recurring projects aimed at reducing costs and improving efficiencies. For the nine three months ended March 31, 2023 September 30, 2022 this includes (i) $1.5 million $0.7 million related to consultants and contractors performing audit and other related services at sanctioned centers, (ii) $5.3 million $4.3 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, and (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.

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

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, 2023 September 30, 2023, we had cash and cash equivalents of $121.7 million $88.4 million. 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 in Note 8, “Long Term Debt” to the condensed consolidated financial statements) due 2026, (ii) capital finance and operating lease obligations, which are generally paid on a monthly basis and include maturities through 2025 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 expect to incur incurred non-recurring implementation costs over the next last three months, and expect to incur ongoing costs through 2026, 2024 and beyond, and third party support to address remediation efforts, and (iv) income tax payments, which are generally due on a quarterly and annual basis. basis, and (v) capital additions, which included costs relating to the development of de novo centers, including those in Florida and California. We also will 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. We also have used and expect to increase the use of capital resources for capital additions, which include costs relating to the development of de novo centers, including those in Florida. 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.

Our cash obligations consist of repayments of long-term debt and obligations under operating and finance leases. As of March 31, 2023 September 30, 2023, we had $70.7 million $68.8 million of long-term debt outstanding. As of March 31, 2023 September 30, 2023, we had future minimum operating lease payments under non-cancellable leases through the year 2032 of $29.1 million $26.5 million. We also had non-cancellable finance lease agreements with third parties through the year 2027 2028 with future minimum payments of $21.6 million $19.4 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, subject to our ability to effectively remediate deficiencies identified in audits of our centers and the expansion of sales and marketing activities. 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.

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. 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.

Any outstanding Outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of March 31, 2023 September 30, 2023, the interest rate on the Term Loan Facility was 6.60% 7.30%. 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, 2023 September 30, 2023, we had no borrowings outstanding, $3.0 million $2.8 million of letters of credit issued, and $97.0 million $97.2 million of remaining borrowing capacity under the Revolving Credit Facility. As of March 31, 2023 September 30, 2023, 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 consolidated statements of cash flows for the nine three months ended March 31, 2023 September 30, 2023 and 2022 are summarized as follows:

		Nine months ended March 31,				Three months ended September 30,		
		2023	2022	$ Change		2023	2022	$ Change
in thousands	*in thousands*				*in thousands*			
Net cash provided (used) by operating activities		$ 7,085	$ 24,059	$ (16,974)				
Net cash (used) provided by operating activities					Net cash (used) provided by operating activities	$ (32,985)	$ 13,127	$ (46,112)
Net cash used in investing activities	Net cash used in investing activities	(64,329)	(23,578)	(40,751)	Net cash used in investing activities	(3,141)	(7,666)	4,525
Net cash used in financing activities	Net cash used in financing activities	(5,480)	(4,670)	(810)	Net cash used in financing activities	(2,726)	(1,668)	(1,058)
Net change in cash, cash equivalents and restricted cash	Net change in cash, cash equivalents and restricted cash	$ (62,724)	$ (4,189)	$ (58,535)	Net change in cash, cash equivalents and restricted cash	$ (38,852)	$ 3,793	$ (42,645)

REFINITIV

Operating Activities. The change in net cash provided (used) by operating activities was primarily due to the net effect of (i) net loss of $31.6 million $11.0 million in the current year period compared to a net income loss of $5.6 million $13.7 million in the prior year period, as described further above, and (ii) a net decrease an increase in working capital accounts receivable primarily attributable to the timing of receipt of payments for certain Medicaid receivables, and (iii) increased payments for accounts payable and accrued expenses, operating leases and reported and estimated claims.

Investing Activities. Investing activities were made up of approximately $19.3 million $2.6 million in purchases of property and equipment and $45.0 million $0.6 million for purchases 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 $0.6 million and an increase in principal payments on finance leases. leases of $0.4 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 2022 2023 10-K. With the exception of the adoption of ASC 842 – Leases, as more thoroughly described in Note 7 "Leases", there have been no significant changes in our critical accounting policies, estimates, or methodologies to our condensed consolidated financial statements.

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, 2023 September 30, 2023, we had total outstanding debt of $68.4 million $66.6 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, 2022 June 30, 2023, we had total outstanding debt of $71.3 million $67.5 million in principal amount under the Term Loan Facility and $2.3 million under the Convertible Term Loan. As of March 31, 2023 September 30, 2023, the interest rate on the Term Loan Facility was 6.60% 7.30%. We plan to amend amended our 2021 Credit Agreement loan documents during the fourth quarter ended June 30, 2023 to replace the London Interbank Offered Rate ("LIBOR") reference rate with the Secured Overnight Financing Rate ("SOFR") prior to the discontinuance of the London Interbank Offered Rate ("LIBOR"). LIBOR.

We had cash and cash equivalents of $121.7 million $88.4 million and $184.4 million $127.2 million as of March 31, 2023 September 30, 2023 and June 30, 2022 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 $45.8 million $46.8 million and $— million $46.2 million as of March 31, 2023 September 30, 2023 and June 30, 2022 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 these disclosure controls and procedures were effective as of March 31, 2023 September 30, 2023.

Changes to our Internal Controls over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended March 31, 2023 September 30, 2023 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

There Except as set forth below, there have been no material changes to the risk factors previously disclosed in our 2022 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, we filed a petition with the National Labor Relations Board to conduct an election to determine if the nurses in our Pennsylvania centers wish to be represented for purposes of collective bargaining with the Company. The petition originates from a request by the nurses in our Pennsylvania centers 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. If these employees vote in favor of representation, as we negotiate the collective bargaining agreement with these employees or any other employees, work stoppages and strikes may be threatened or occur, and our labor costs may continue to increase. 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

Exhibit No.	Description
3.1	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).
3.2	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).
10.1	Employment Agreement, dated February 28, 2023 as of July 3, 2023, by and between InnovAge Holding Corp. Total Community Options, Inc. and Christine Bent Benjamin C. Adams (incorporated by reference to Exhibit 10.1 to the Company's Company’s Current Report on Form 8-K filed with the SEC on March 1, 2023 July 5, 2023).
10.2	Class B Unit Award Agreement, effective as of July 10, 2023, by and between TCO Group Holdings, L.P. and Benjamin C. Adams (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed with the SEC on July 5, 2023).
10.3	Transition and Separation Agreement, dated as of July 3, 2023, by and between Total Community Options Inc. and Barbara Gutierrez (incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K filed with the SEC on July 5, 2023).
10.4	Letter Agreement relating to Class B Units, dated as of July 3, 2023, by and between TCO Group Holdings, L.P. and Barbara Gutierrez (incorporated by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K filed with the SEC on July 5, 2023).
10.5	Class B Unit Award Agreement, effective August 30, 2023, by and between TCO Group Holdings, L.P. and Patrick Blair (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on September 1, 2023).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	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
32.2†	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
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 9, 2023 November 7, 2023

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

46 43

Exhibit 31.1

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 9, 2023 November 7, 2023

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

Exhibit 31.2

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

I, Barbara Gutierrez, 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 9, 2023 November 7, 2023

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

Exhibit 32.1

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, 2023 September 30, 2023 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 9, 2023 November 7, 2023

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

Exhibit 32.2

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, 2023 September 30, 2023 as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Barbara Gutierrez, 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 9, 2023 November 7, 2023

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

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

REFINITIV