

REFINITIV

## DELTA REPORT

### 10-Q

INNOVAGE HOLDING CORP.

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

The following comparison report has been automatically generated

TOTAL DELTAS 828

 CHANGES 261

 DELETIONS 233

 ADDITIONS 334

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

FORM 10-Q

(Mark One)

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

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-40159



**InnovAge Holding Corp.**

(Exact name of registrant as specified in its charter)

Delaware

81-0710819

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification Number)

8950 E. Lowry Boulevard

80230

Denver, CO

(Zip Code)

(Address of Principal Executive Offices)

(844) 803-8745

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
			Emerging growth company <input checked="" type="checkbox"/>

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 **November 6, 2023** **February 5, 2024**, there were **135,884,840** **135,899,435** of the registrant's common stock outstanding.

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**InnovAge Holding Corp. and Subsidiaries**  
**Quarterly Report on Form 10-Q**  
**For the quarterly period ended September 30, 2023 December 31, 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 give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business, including with respect to current audits and legal proceedings and actions, relationships and discussions with regulatory agencies, our expectations with respect to correcting deficiencies raised in audits and other processes, and our expectations to increase the number of participants we serve, to grow enrollment and capacity within existing centers, to build or open de novo centers, and other similar statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are generally located 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**; strategy, including our ability to obtain licenses to open our de novo centers in Downey and Bakersfield, California;
- our ability to identify and successfully complete and integrate acquisitions;
- our ability to attract new participants and retain existing participants and grow our revenue throughout our existing centers;

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

- labor relations matters, including unionization efforts;
- the impact on our business of security breaches, loss of data or other disruptions causing the compromise of sensitive information or preventing us from accessing critical information;

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

We 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)

		September			
		30,	June 30,		
		2023	2023		
		December 31, 2023		December 31, 2023	
<b>Assets</b>	<b>Assets</b>				June 30, 2023
<b>Current Assets</b>	<b>Current Assets</b>				
Current Assets					
Current Assets					
Cash and cash equivalents					
Cash and cash equivalents					
Cash and cash equivalents	Cash and cash equivalents	\$ 88,398	\$ 127,249		
Short-term investments	Short-term investments	46,833	46,213		
Restricted cash	Restricted cash	15	16		
Accounts receivable, net of allowance (\$4,492 – September 30, 2023 and \$4,161 – June 30, 2023)		44,185	24,344		
Accounts receivable, net of allowance (\$5,134 – December 31, 2023 and \$4,161 – June 30, 2023)					
Prepaid expenses	Prepaid expenses	16,412	17,145		
Income tax receivable	Income tax receivable	262	262		
Total current assets	Total current assets	196,105	215,229		
<b>Noncurrent Assets</b>	<b>Noncurrent Assets</b>				
Property and equipment, net	Property and equipment, net	190,060	192,188		
Operating lease assets	Operating lease assets	20,454	21,210		
Investments	Investments	5,493	5,493		
Deposits and other	Deposits and other	4,232	3,823		
Goodwill	Goodwill	124,217	124,217		
Other intangible assets, net	Other intangible assets, net	5,033	5,198		

Total noncurrent assets	Total noncurrent assets	349,489	352,129
Total assets	Total assets	\$ 545,594	\$ 567,358
<b>Liabilities and Stockholders' Equity</b>	<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>	<b>Current Liabilities</b>		
Accounts payable and accrued expenses	Accounts payable and accrued expenses	\$ 46,923	\$ 54,935
Reported and estimated claims	Reported and estimated claims	42,322	42,999
Due to Medicaid and Medicare	Due to Medicaid and Medicare	10,282	9,142
Income tax payable	Income tax payable	1,212	1,212
Current portion of long-term debt	Current portion of long-term debt	3,795	3,795
Current portion of finance lease obligations	Current portion of finance lease obligations	4,612	4,722
Current portion of operating lease obligations	Current portion of operating lease obligations	3,577	3,530
Deferred revenue	Deferred revenue	26,090	28,115
<b>Total current liabilities</b>	<b>Total current liabilities</b>	<b>138,813</b>	<b>148,450</b>
<b>Noncurrent Liabilities</b>	<b>Noncurrent Liabilities</b>		
Deferred tax liability, net	Deferred tax liability, net	6,462	6,236
Finance lease obligations	Finance lease obligations	12,048	13,114
Operating lease obligations	Operating lease obligations	18,080	18,828
Other noncurrent liabilities	Other noncurrent liabilities	1,141	1,086
Long-term debt, net of debt issuance costs	Long-term debt, net of debt issuance costs	64,003	64,844
<b>Total liabilities</b>	<b>Total liabilities</b>	<b>240,547</b>	<b>252,558</b>
<b>Commitments and Contingencies (See Note 9)</b>	<b>Commitments and Contingencies (See Note 9)</b>		
Redeemable Noncontrolling Interests (See Note 4)	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 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	
Common stock, \$0.001 par value; 500,000,000 authorized as of December 31, 2023 and June 30, 2023; 135,893,070 and 135,639,845 issued shares as of December 31, 2023 and June 30, 2023, respectively			
Additional paid-in capital	333,316	332,107	
Retained deficit	(46,248)	(35,944)	
<b>Total</b>			
InnovAge			
Holding Corp.	Holding Corp.	287,204	296,299
Noncontrolling interests	Noncontrolling interests	5,705	5,793
<b>Total stockholders' equity</b>		292,909	302,092
<b>Total liabilities and stockholders' equity</b>		\$ 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 September 30,				Three Months Ended December 31,		Six Months Ended December 31,	
		2023	2022			2023	2022
<b>Revenues</b>	<b>Revenues</b>						
Capitation revenue							
Capitation revenue							
Capitation revenue	Capitation revenue	\$ 182,173	\$ 170,931				
Other service revenue	Other service revenue	312	287				

Total revenues	Total revenues	182,485	171,218
<b>Expenses</b>	<b>Expenses</b>		
External provider costs	External provider costs		
External provider costs	External provider costs	99,358	96,237
Cost of care, excluding depreciation and amortization	Cost of care, excluding depreciation and amortization	55,250	53,557
Sales and marketing	Sales and marketing	5,379	4,413
Corporate, general and administrative	Corporate, general and administrative	28,947	30,181
Depreciation and amortization	Depreciation and amortization	4,269	3,433
<b>Total expenses</b>	<b>Total expenses</b>	<b>193,203</b>	<b>187,821</b>
<b>Operating Loss</b>	<b>Operating Loss</b>	<b>(10,718)</b>	<b>(16,603)</b>
<b>Other Income (Expense)</b>	<b>Other Income (Expense)</b>		
Interest expense, net	Interest expense, net		
Interest expense, net	Interest expense, net	(661)	(603)
Other income	Other income	643	37
<b>Other expense</b>			
<b>Total other expense</b>	<b>Total other expense</b>	<b>(18)</b>	<b>(566)</b>
<b>Loss Before Income Taxes</b>	<b>Loss Before Income Taxes</b>	<b>(10,736)</b>	<b>(17,169)</b>
<b>Provision (Benefit) for Income Taxes</b>	<b>Provision (Benefit) for Income Taxes</b>	<b>226</b>	<b>(3,470)</b>
<b>Net Loss</b>	<b>Net Loss</b>	<b>(10,962)</b>	<b>(13,699)</b>
Less: net loss attributable to noncontrolling interests	Less: net loss attributable to noncontrolling interests	(658)	(626)
<b>Net Loss</b>	<b>Net Loss</b>		
<b>Attributable to InnovAge Holding Corp.</b>	<b>Attributable to InnovAge Holding Corp.</b>	<b>\$ (10,304)</b>	<b>\$ (13,073)</b>
<b>Weighted-average number of common shares outstanding - basic</b>	<b>Weighted-average number of common shares outstanding - basic</b>	<b>135,790,401</b>	<b>135,566,117</b>

Weighted-average number of common shares outstanding - basic					
Weighted-average number of common shares outstanding - basic		135,887,613	135,578,888	135,839,007	135,572,503
Weighted-average number of common shares outstanding - diluted	Weighted-average number of common shares outstanding - diluted	135,790,401	135,566,117	135,887,613	135,572,503
Net loss per share - basic	Net loss per share - basic	\$ (0.08)	\$ (0.10)		
Net loss per share - basic					
Net loss per share - diluted	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 December 31, 2023							
	Capital Stock	Capital			Total	Noncontrolling		
		Stock	Additional	Retained		Permanent	Interests	Net
			Paid-in	Earnings	Stockholders'	Stockholders'	(Temporary	Income
			Capital	(Deficit)	Equity	Equity	Equity)	(Loss)
Balances, September 30, 2023								
Balances, September 30, 2023								
Balances, September 30, 2023								
Stock-based compensation								
Stock-based compensation								
Stock-based compensation								

Tax  
withholding  
related to net  
share  
settlements of  
stock-based  
compensation  
awards

Tax  
withholding  
related to net  
share  
settlements of  
stock-based  
compensation  
awards

Tax  
withholding  
related to net  
share  
settlements of  
stock-based  
compensation  
awards

Net loss

Net loss

Net loss

**Balances,**  
**December**  
**31, 2023**

For the Six Months Ended December 31, 2023

For the Six Months Ended December 31, 2023

For the Six Months Ended December 31, 2023

**Capital Stock**

**Shares**

**Balances,**  
**June 30,**  
**2023**

**Balances,**  
**June 30,**  
**2023**

**Balances,**  
**June 30,**  
**2023**

Stock-based  
compensation

Stock-based  
compensation

Stock-based  
compensation

Capital Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Noncontrolling Stockholders' Equity	Total Permanent Stockholders' Equity	Redeemable Noncontrolling Interests		Net Income (Loss)
					Noncontrolling Stockholders' Equity	(Temporary Equity)	

Tax  
withholding  
related to net  
share  
settlements of  
stock-based  
compensation  
awards  
Tax  
withholding  
related to net  
share  
settlements of  
stock-based  
compensation  
awards  
Tax  
withholding  
related to net  
share  
settlements of  
stock-based  
compensation  
awards  
Net loss  
Net loss  
Net loss  
**Balances,**  
**December**  
**31, 2023**

For the Three Months Ended September 30, 2022								
	Redeemable							
	Capital Stock		Additional Retained		Total		Noncontrolling	
	Shares	Amount	Paid-in Capital	Earnings (Deficit)	Noncontrolling Interests	Stockholders' Equity	Interests (Temporary Equity)	Net Income (Loss)
<b>Balances,</b> <b>June 30,</b> <b>2022</b>	135,532,811	\$ 136	\$ 327,499	\$ 4,729	\$ 6,102	\$ 338,466	15,278	
Stock-based compensation	37,267	—	1,209	—	—	1,209	—	
Net loss	—	—	—	(13,073)	(82)	(13,155)	(544)	(13,699)
<b>Balances,</b> <b>September</b> <b>30, 2022</b>	135,570,078	\$ 136	\$ 328,708	\$ (8,344)	\$ 6,020	\$ 326,520	\$ 14,734	
For the Three Months Ended September 30, 2023								
	Redeemable							
	Capital Stock		Additional Retained		Total		Noncontrolling	
	Shares	Amount	Paid-in Capital	Earnings (Deficit)	Noncontrolling Interests	Stockholders' Equity	Interests (Temporary Equity)	Net Income (Loss)
<b>Balances,</b> <b>June 30,</b> <b>2023</b>	135,639,845	\$ 136	\$ 332,107	\$ (35,944)	\$ 5,793	\$ 302,092	12,708	
Stock-based compensation	347,849	—	1,823	—	—	1,823	—	

Tax withholding related to net share settlements of stock-based compensation awards	(102,854)	—	(614)	—	—	(614)	—
Net loss	—	—	—	(10,304)	(88)	(10,392)	(570) (10,962)
<b>Balances, September 30, 2023</b>	<b>135,884,840</b>	<b>\$ 136</b>	<b>\$ 333,316</b>	<b>\$ (46,248)</b>	<b>\$ 5,705</b>	<b>\$ 292,909</b>	<b>\$ 12,138</b>

For the Three Months Ended December 31, 2022								
	Capital Stock		Additional Paid-in Capital	Retained Earnings (Deficit)		Noncontrolling Interests	Total Stockholders' Equity	Redeemable
	Shares	Amount		(Deficit)	Interest			Noncontrolling Equity)
								Net Income (Loss)
<b>Balances, September 30, 2022</b>	<b>135,570,078</b>	<b>\$ 136</b>	<b>\$ 328,708</b>	<b>\$ (8,344)</b>	<b>\$ 6,020</b>	<b>\$ 326,520</b>	<b>14,734</b>	
Stock-based compensation	26,147	—	1,069	—	—	1,069	—	
Adjustments to redemption value	—	—	—	—	—	—	—	
Net loss	—	—	—	(9,793)	(75)	(9,868)	(680)	(10,547)
<b>Balances, December 31, 2022</b>	<b>135,596,225</b>	<b>\$ 136</b>	<b>\$ 329,777</b>	<b>\$ (18,137)</b>	<b>\$ 5,945</b>	<b>\$ 317,721</b>	<b>\$ 14,054</b>	
For the Six Months Ended December 31, 2022								
	Capital Stock		Additional Paid-in Capital	Retained Earnings (Deficit)		Noncontrolling Interests	Total Stockholders' Equity	Redeemable
	Shares	Amount		(Deficit)	Interest			Noncontrolling Equity)
								Net Income (Loss)
<b>Balances, June 30, 2022</b>	<b>135,532,811</b>	<b>\$ 136</b>	<b>\$ 327,499</b>	<b>\$ 4,729</b>	<b>\$ 6,102</b>	<b>\$ 338,466</b>	<b>15,278</b>	
Stock-based compensation	63,414	—	2,278	—	—	2,278	—	
Adjustments to redemption value	—	—	—	—	—	—	—	
Net loss	—	—	—	(22,866)	(157)	(23,023)	(1,224)	(24,247)
<b>Balances, December 31, 2022</b>	<b>135,596,225</b>	<b>\$ 136</b>	<b>\$ 329,777</b>	<b>\$ (18,137)</b>	<b>\$ 5,945</b>	<b>\$ 317,721</b>	<b>\$ 14,054</b>	

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 Three  
Months Ended  
September 30,

	2023	2022		
For the Six Months Ended December 31,			For the Six Months Ended December 31,	
	2023		2023	2022
<b>Operating Activities</b>	<b>Operating Activities</b>			
Net loss	Net loss	\$(10,962)	\$(13,699)	
Adjustments to reconcile net loss to net cash provided by (used in) operating activities				
Net loss				
Net loss				
Adjustments to reconcile net loss to net cash provided by (used in) operating activities				
		Adjustments to reconcile net loss to net cash used in operating activities		
Gain on disposal of assets	Gain on disposal of assets	(18)	(37)	
Provision for uncollectible accounts	Provision for uncollectible accounts	1,077	1,571	
Depreciation and amortization	Depreciation and amortization	4,269	3,433	
Operating lease rentals	Operating lease rentals	1,103	761	
Amortization of deferred financing costs	Amortization of deferred financing costs	107	107	
Stock-based compensation	Stock-based compensation	1,823	1,209	
Loss on minority equity interest investment				
Deferred income taxes	Deferred income taxes	226	(3,470)	
Other	Other	76	—	
Changes in operating assets and liabilities	Changes in operating assets and liabilities			
Accounts receivable, net	Accounts receivable, net	(20,918)	(3,180)	
Prepaid expenses	Prepaid expenses	734	1,678	
Income tax receivable	Income tax receivable	—	1,750	
Deposits and other	Deposits and other	(591)	246	

Accounts payable and accrued expenses	Accounts payable and accrued expenses	(7,303)	1,155
Reported and estimated claims	Reported and estimated claims	(676)	(2,480)
Due to Medicaid and Medicare	Due to Medicaid and Medicare	1,140	1,503
Operating lease liabilities	Operating lease liabilities	(1,048)	(781)
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
Net cash used by operating activities			
<b>Investing Activities</b>	<b>Investing Activities</b>		<b>Investing Activities</b>
Purchases of property and equipment	Purchases of property and equipment	(2,571)	(7,666)
Purchases of short-term investments	Purchases of short-term investments	(570)	—
Proceeds from sale of short-term investments			
Acquisition of business			
Net cash used in investing activities	Net cash used in investing activities	\$ (3,141)	\$ (7,666)
<b>Financing Activities</b>	<b>Financing Activities</b>		
Payments for finance lease obligations	Payments for finance lease obligations		
Payments for finance lease obligations	Payments for finance lease obligations	(1,164)	(720)
Principal payments on long-term debt	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	(2,726)	(1,668)
<b>INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH</b>			
<b>RESTRICTED CASH</b>	(38,852)	3,793	
<b>DECREASE IN CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH</b>			
<b>DECREASE IN CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH</b>			
<b>DECREASE IN CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH</b>			
<b>CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH, BEGINNING OF PERIOD</b>	<b>CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH, BEGINNING OF PERIOD</b>	127,265	184,446
<b>CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH, END OF PERIOD</b>	<b>CASH, CASH EQUIVALENTS &amp; RESTRICTED CASH, END OF PERIOD</b>	\$ 88,413	\$ 188,239
<b>Supplemental Cash Flows Information</b>			
<b>Supplemental Cash Flows Information</b>			
Supplemental Cash Flows Information	Supplemental Cash Flows Information		
Interest paid	Interest paid	\$ 404	\$ 700
Income taxes paid	Income taxes paid	\$ —	\$ 13
Property and equipment included in accounts payable	Property and equipment included in accounts payable	\$ 281	\$ 2,446
Property and equipment purchased under finance leases	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 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 **September 30, 2023** **December 31, 2023**, the Company served approximately **6,580** **6,780** PACE participants, making it the largest PACE provider in the United States of America (the "U.S.") based upon participants served, and **operates 17** **operated 18** PACE centers across **California, Colorado, California**, New Mexico, Pennsylvania and Virginia.

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

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

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

The Company described its significant accounting policies in Note 2, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended June 30, 2023 ("2023 10-K"). With the exception of Recently Adopted Accounting Pronouncements described below, there were no significant changes to those accounting policies during the **three** **six** months ended **September 30, 2023** **December 31, 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, 2023. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, variable interest entities ("VIEs") for which it is the primary beneficiary and entities for which it has a controlling interest. All intercompany accounts and transactions have been eliminated in consolidation.

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

#### **Property and Equipment**

Property and equipment were comprised of the following as of **September 30, 2023** **December 31, 2023** and June 30, 2023:

Estimated Useful Lives	September 30, 2023	June 30, 2023	Estimated Useful Lives	December 31, 2023	June 30, 2023
Land	Land	N/A	\$ 11,970	\$ 11,970	
Buildings and leasehold improvements	Buildings and leasehold improvements	10 - 40 years	124,696	124,262	
Software	Software	3 - 5 years	27,484	26,656	
Equipment and vehicles	Equipment and vehicles	3 - 7 years	58,523	57,754	
Construction in progress	Construction in progress	N/A	42,122	42,223	
			264,795	262,865	
		275,706			
Less: accumulated depreciation and amortization	Less: accumulated depreciation and amortization		(74,735)	(70,677)	

Total property and equipment, net	Total property and equipment, net	\$190,060	\$192,188
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Depreciation of \$4.1 million and **\$3.1 million** \$3.3 million was recorded during the three months ended **September 30, 2023** December 31, 2023 and 2022, respectively. Depreciation of \$8.2 million and \$6.5 million was recorded during the six months ended December 31, 2023 and December 31, 2022, respectively.

#### **Recently Adopted Accounting Pronouncements**

##### **Financial Instruments**

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

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

###### **Segment Reporting**

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

###### **Income Taxes**

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

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

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

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

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

###### **Capitation Revenue and Accounts Receivable**

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

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

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

Our revenues are based on the estimated PMPM amounts we expect to be entitled to receive from the capitated fees per participant that are paid monthly by Medicaid, Medicare, the VA, and private pay sources. Medicaid and Medicare capitation revenues are based on PMPM capitation rates under the PACE program. VA is included in "Private Pay and other" and is also capitated. Private pay includes direct payments from participants who do not qualify for the full capitated rate and have to pay all or a portion of the capitated rate. Costs to obtain contracts consist of sales commissions for new enrollees and are included in deposits and other on our condensed consolidated balance sheets. These costs are amortized over a three-year period which corresponds to the average time a participant is enrolled in the PACE program. As of **September 30, 2023** **December 31, 2023** and June 30, 2023, contract assets included within deposits and other were **\$1.4 million** **\$1.9 million** and **\$1.0 million**, respectively.

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

		September 30,			
		2023	2022		
December 31,					
Medicaid	Medicaid	55 %	55 %	Medicaid	55 %
Medicare	Medicare	45 %	45 %	Medicare	45 %
Private pay and other	Private pay and other	*%	*%	Private pay and other	*%
Total	Total	100 %	100 %	Total	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 **13%** **12%** of capitation revenues for each of the three months ended **September 30, 2023** **December 31, 2023** and 2022. Medicare Part D comprised of 12% of capitation revenues for each of the six months ended December 31, 2023 and 2022.

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

		September	June		
		30,	30,		
		2023	2023		
December 31,					
2023					
Medicaid	Medicaid	75 %	61 %	Medicaid	57 %
Medicare	Medicare	19 %	29 %	Medicare	36 %
Private pay and other	Private pay and other	6 %	10 %	Private pay and other	7 %
Total	Total	100 %	100 %	Total	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 **\$4.5 million** **\$5.1 million** as of **September 30, 2023** **December 31, 2023**, compared to \$4.2 million as of 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% of total revenue for each of the three months ended **September 30, 2023** **December 31, 2023** and 2022. Other service revenue was 0.2% of total revenue for each of the six months ended December 31, 2023 and 2022. Accounts receivable related to other service revenue was not significant as of both **September 30, 2023** **December 31, 2023** and June 30, 2023.

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

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

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

in thousands	September		December 31, 2023	June 30, 2023
	30, 2023	June 30, 2023		
Cost method investments	Cost method investments	\$ 4,645	\$ 4,645	
Equity method investments	Equity method investments	848	848	
Total investments	Total investments	\$ 5,493	\$ 5,493	

#### Nonconsolidated Entities

##### Cost Method Investments

The Company maintains two investments that are accounted for using the cost method. Our ownership interests are less than 20% of the voting stock of the investments and we do not have the ability to exercise significant influence over the operating and financial policies of the investments. The investments do not have a readily determinable fair value and the Company has elected to record the investments at cost, less impairment, if any, plus or minus any changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. During the three and six months ended **September 30, 2023** **December 31, 2023** we noted indicators of impairment in one of our investments, and **2022**, recognized impairment loss of \$1.9 million, respectively, and is presented as other expense on our condensed consolidated Statements of Operation. During the three and six months ended December 31, 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. Subsequent to December 31, 2023, we noted indicators of impairment in our minority equity investment. We determined that indicators were present as of the reporting date and recognized impairment loss of \$1.9 million during the three and six months ended December 31, 2023, which are presented as other expense on our condensed consolidated Statements of Operation. During the three and six months ended December 31, 2022, there were no observable price changes or impairment recorded. The balance of the Company's investment in Jetdoc as of December 31, 2023 is \$2.0 million \$0.1 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 as of December 31, 2023 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 **September 30, 2023** **December 31, 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, venture. Further, Adventist contributed \$5.8 million in cash and Eskaton contributed \$3.0 million in cash for membership interests of 26.4% and 13.7%, respectively. In fiscal year 2021, the Company made an additional contribution of \$52,000 and obtained an additional 0.1% membership interest in the joint venture, which resulted in the Company obtaining control and consolidating InnovAge Sacramento as of January 1, 2021.

The InnovAge California PACE-Sacramento LLC Limited Liability Company Agreement (the "JV Agreement") includes numerous provisions whereby, if certain conditions are met, the joint venture may be required to purchase, at fair market value, certain members' interests or certain members may be required to purchase, at fair market value, the interests of certain other members. As of **September 30, 2023** December 31, 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, equity and are recorded as redeemable noncontrolling interests on our condensed consolidated Balance Sheets. Redeemable noncontrolling interest of **\$12.1 million** \$11.8 million and \$12.7 million were recorded at carrying value as of **September 30, 2023** December 31, 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 **September 30, 2023** December 31, 2023 and June 30, 2023:

		September 30, 2023							
		December 31, 2023							
		December 31, 2023							
		December 31, 2023							
<i>in thousands</i>									
<i>in thousands</i>									
<i>in thousands</i>		Amortized	Fair	Cash and	Short-				
<i>in thousands</i>		Cost	Value	Cash Equivalents	term Investments				
Cash	Cash	\$ 40,004	\$ 40,004	\$ 40,004	\$ —				

Cash						
Cash						
Level 1						
Level 1						
Level 1	Level 1					
Money market funds	Money market funds	48,394	48,394	48,394	—	
Money market funds						
Money market funds						
Mutual funds						
Mutual funds						
Mutual funds	Mutual funds	46,745	46,833	—	46,833	
Total	Total	\$ 135,143	\$ 135,231	\$ 88,398	\$ 46,833	
Total						
Total						
			June 30, 2023			
			June 30, 2023			
			June 30, 2023			
			June 30, 2023			
in thousands						
in thousands						
in thousands	in thousands	Amortized Cost	Fair Value	Cash and Cash Equivalents	Short-term Investments	
Cash	Cash	\$ 49,775	\$ 49,775	\$ 49,775	\$ —	
Cash						
Cash						
Level 1						
Level 1						
Level 1	Level 1					
Money market funds	Money market funds	77,474	77,474	77,474	—	
Money market funds						
Money market funds						
Mutual funds						
Mutual funds						
Mutual funds	Mutual funds	46,170	46,213	—	46,213	
Total	Total	\$ 173,419	\$ 173,462	\$ 127,249	\$ 46,213	
Total						
Total						

#### 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~~ 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 ~~September 30, 2023~~ December 31, 2023 and June 30, 2023, the Company's redeemable noncontrolling interest was recorded at carrying value of ~~\$12.1 million~~ \$11.8 million and \$12.7 million, respectively.

There were no transfers in and out of Level 3 during the ~~three~~ six months ended ~~September 30, 2023~~ December 31, 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 ~~\$141.6 million~~ and \$124.2 million at each of ~~September 30, 2023~~ December 31, 2023 and 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 **three** months ended **September 30, 2023** **December 31, 2023** and 2022.

Intangible assets consisted of the following as of:

in thousands	September		in thousands	December 31, 2023	June 30, 2023
	30, 2023	June 30, 2023			
Definite-lived intangible assets	Definite-lived intangible assets	\$ 6,600	\$ 6,600		
Indefinite-lived intangible assets	Indefinite-lived intangible assets	2,000	2,000		
Total intangible assets	Total intangible assets	8,600	8,600		
Accumulated amortization	Accumulated amortization	(3,567)	(3,402)		
Balance as of end of period	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** **\$0.2 million** for each of the three months ended **September 30, 2023** **December 31, 2023** and 2022. The Company recorded amortization expense of **\$0.3 million** for each of the six months ended **December 31, 2023** and 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 **three** months ended **September 30, 2023** **December 31, 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** **2024** through 2032. We determine if an arrangement is a lease upon commencement of the contract. If an arrangement is determined to be a long-term lease (greater than 12 months), we recognize an ROU right-of-use ("ROU") asset and lease liability based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Our lease terms may also include options to extend or terminate the lease when it is reasonably certain that we will exercise those options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

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

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

Component of Lease	Component Balance Sheet	September 30, 2023	Component of Lease Balances	Balance Sheet Line Items	December 31, 2023	June 30, 2023
of Lease Balances	Balances	Line Items	2023			
in thousands	in thousands					
Assets:	Assets:					

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

		Three Months Ended September 30,		Six Months Ended December 31,	
Component of Lease Cost	Component of Lease Cost	Statements of Operations Line Items	Component of Lease Cost	Statements of Operations Line Items	Six Months Ended December 31,
<i>in thousands</i>	<i>in thousands</i>				
		Cost of care excluding depreciation and amortization and Corporate, general and administrative			
Operating lease cost	Operating lease cost	\$1,118	\$1,025		
Operating lease cost					
Operating lease cost					
Finance lease expense:	Finance lease expense:				
Amortization of leased assets					
Amortization of leased assets					
Amortization of leased assets	Amortization of leased assets	Depreciation and amortization	1,102	769	
Interest on lease liabilities	Interest on lease liabilities	Interest expense, net	33	317	

Variable lease cost	Variable lease cost	Cost of care excluding depreciation and amortization and Corporate, general and administrative	—	—
		Cost of care excluding depreciation and amortization and Corporate, general and administrative	—	—
Short-term lease cost	Short-term lease cost	general and administrative	38	11
<b>Total lease expense</b>	<b>Total lease expense</b>		<b>\$2,291</b>	<b>\$2,122</b>

The following table includes the weighted-average lease terms and discount rates for operating and finance leases as of **September 30, 2023**; **December 31, 2023**; **September 30, 2022**; and **December 31, 2022**:

**Weighted average remaining lease term:**

		September 30, 2023	September 30, 2022
Operating leases		<b>14.7</b> years	8.8 years
Finance leases		<b>3.5</b> years	3.8 years
<b>Weighted average discount rate:</b>	<b>Weighted average discount rate:</b>		
Operating leases	Operating leases	6.62 %	6.61 %
Finance leases	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 **September 30, 2023**; **December 31, 2023**; **September 30, 2022**; and **December 31, 2022**:

in thousands	in thousands	Operating Lease	Finance Lease	Total	in thousands	Operating Lease	Finance Lease	Total
Amount remaining in 2024	Amount remaining in 2024	\$ 3,681	\$ 4,531	\$ 8,212				
2025	2025	4,358	5,279	9,637				
2026	2026	4,285	4,254	8,539				
2027	2027	3,981	3,557	7,538				
2028	2028	3,139	1,767	4,906				
Thereafter	Thereafter	7,033	—	7,033				
Total lease payments	Total lease payments	26,477	19,388	45,865				
Less liability accretion / imputed interest	Less liability accretion / imputed interest	(4,820)	(2,728)	(7,548)				
Total lease liabilities	Total lease liabilities	21,657	16,660	38,317				

Less:	Less:			
Current	Current			
lease	lease			
liabilities	liabilities	3,577	4,612	8,189
<b>Total</b>	<b>Total</b>			
long-term	long-term			
lease	lease			
liabilities	liabilities	<b>\$18,080</b>	<b>\$12,048</b>	<b>\$30,128</b>

#### Note 8. Long-Term Debt

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

		September					
		30, 2023	June 30, 2023				
		in thousands					
		December 31, 2023					
		in thousands					
Senior	Senior						
secured	secured						
borrowings:	borrowings:						
Term Loan Facility							
Term Loan Facility							
Term Loan	Term Loan						
Facility	Facility	\$ 66,563	\$67,500				
Convertible	Convertible						
term loan	term loan	2,273	2,284				
<b>Total debt</b>	<b>Total debt</b>	<b>68,836</b>	<b>69,784</b>				
Less:	Less:						
unamortized	unamortized						
debt	debt						
issuance	issuance						
costs	costs	1,038	1,145				
Less:	Less:						
current	current						
maturities	maturities	3,795	3,795				
Noncurrent	Noncurrent						
maturities	maturities	\$ 64,003	\$64,844				

#### 2021 Credit Agreement

On March 8, 2021, the Company entered into a credit agreement (the (as amended, the "2021 Credit Agreement") that replaced its prior credit agreement. The 2021 Credit Agreement consists of a senior secured term loan (the "Term Loan Facility") of \$75.0 million principal amount and a revolving credit facility (the "Revolving Credit Facility") of \$100.0 million maximum borrowing capacity, each with a maturity date of March 8, 2026. The remaining Borrowing capacity under the Revolving Credit Facility as of September 30, 2023 was \$97.2 million, is subject to (i) any issued amounts under our letters of credit, which as of September 30, 2023 December 31, 2023 was \$2.8 million \$3.1 million, and (ii) applicable covenant compliance restrictions and any other conditions precedent to borrowing. Loans under the 2021 Credit Agreement are secured by substantially all of the Company's assets. Principal on the Term Loan Facility is paid each calendar quarter in an amount equal to 1.25% of the initial term loan on closing date. 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 **September 30, 2023** **December 31, 2023**, the interest rate on the Term Loan Facility was 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 **September 30, 2023** **December 31, 2023**, we had no borrowings outstanding, \$2.8 million \$3.1 million of letters of credit issued, and \$97.2 million \$96.9 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 **September 30, 2023** **December 31, 2023**, the Company was in compliance with the covenants of the 2021 Credit Agreement.

The deferred financing costs of \$2.0 million are amortized over the term of the underlying debt and unamortized amounts have been offset against long-term debt in the condensed consolidated balance sheets. Total amortization of deferred financing costs was \$0.1 million and \$0.3 million for each of the three months ended **September 30, 2023** **December 31, 2023** and **September 30, 2022**, respectively. Total amortization of deferred financing costs was \$0.2 million for each of the six months ended December 31, 2023 and 2022.

#### **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 whether accruals are appropriate. The Company expenses legal costs as such costs are incurred.

#### **Civil Investigative Demands**

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

In February 2022, the Company received a civil investigative demand from the Department of Justice ("DOJ") under the Federal False Claims Act on similar subject matter. The demand requests information and documents regarding audits, billing, orders tracking, and quality and timeliness of patient services in connection with the Company's PACE programs in 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 December 22, 2023, the District Court granted in part and denied in part the motion to dismiss. The action is now proceeding to discovery.

On April 20, 2022, the Board of Directors of the Company received a books and records demand pursuant to Section 220 of the Delaware General Corporation Law, from a purported stockholder of the Company, Brian Hall, in connection with the stockholder's investigation of, among other matters, potential breaches of fiduciary duty, mismanagement, self-dealing, corporate waste or other violations of law by the Company's Board with respect to these matters. 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. On January 22, 2024, upon stipulation of the parties, the court entered an order further staying the litigation pending the close of fact discovery in the Securities Action.

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

## Other Matters

In the third fiscal quarter of 2023, the Company agreed to settle a wage and hour class action lawsuit in the State of California for a cash payment of \$1.2 million. Subsequently, the Company was notified of certain additional individual claims and 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, which we expect to occur in the second half of fiscal 2024.

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

## Note 10: Stock-based Compensation

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

	Three months ended		Three months ended December 31,		Six months ended December 31,							
	December 31,		2023		2023							
	2023		2022		2022							
in thousands												
in thousands												
Stock options	Three months ended		Three months ended December 31,		Six months ended December 31,							
Stock options	September 30,		2023		2023							
Stock options	2023	2022	2023	2022	2023	2022						
Stock options	in thousands		in thousands		in thousands							
Stock options	\$ 223	\$ 570										
Profits interests units	376	254										
Restricted stock units	1,224	476										
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 TCO Group Holdings, L.P. Equity Incentive Plan (the "2020 Equity Incentive Plan") pursuant to which interests in the LP in the form of Class B Units (profits interests) can be granted to employees, directors, consultants, advisers, and other service providers (including partners) of the LP or any of its affiliates, including the Company. A maximum number of 16,162,177 Class B Units are authorized for grant under the 2020 Equity Incentive Plan, and both performance-based and time-based units have been issued under the plan. As of September 30, 2023 December 31, 2023, a total of 14,972,836 15,222,837 profits interests units had been granted under the 2020 Equity Incentive Plan.

The Company used the Monte Carlo option model to determine the fair value of the profits interests units at the time of the grant. A total of 1,963,700 2,213,700 Class B Units were awarded during the three six months ended September 30, 2023 December 31, 2023 to the Company's Chief Executive Officer, Chief Financial Officer, and Chief Financial Legal 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 **three** **six** months ended **September 30, 2023** was **December 31, 2023** is 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
				Number	Weighted average grant date fair value		
Outstanding balance, June 30, 2023							
Granted	Granted	981,850	\$ 6.30				
Forfeited	Forfeited	(380,679)	\$ 1.28				
Vested	Vested	(680,645)	\$ 1.28				
Outstanding balance, September 30, 2023		<u>1,184,863</u>	\$ 5.44				
Outstanding balance, December 31, 2023							
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
				Number	Weighted average grant date fair value		
Outstanding balance, June 30, 2023							
Granted	Granted	981,850	\$ 1.85				
Forfeited	Forfeited	(1,853,737)	\$ 0.57				
Vested	Vested	—	\$ —				
Outstanding balance, September 30, 2023		<u>1,246,671</u>	\$ 1.57				
Outstanding balance, December 31, 2023							

The total unrecognized compensation cost related to profits interests units outstanding as of **September 30, 2023** **December 31, 2023** was **\$4.6 million** **\$4.0 million**, comprised (i) **\$2.1 million** **\$1.8 million** related to time-based unit awards expected to be recognized over a weighted-average period of **2.8** **2.9** years and (ii) **\$2.5 million** **\$2.2 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.

#### Restricted Stock Units

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

Restricted stock units - time based	Restricted stock units - time based	Weighted average grant-date fair value per share	Number of awards	Weighted average grant-date fair value per share
Outstanding balance, June 30, 2023	Outstanding balance, June 30, 2023	1,873,794 \$ 10.10		
Granted	Granted	284,942 \$ 5.51		
Forfeited	Forfeited	(23,493) \$ 4.56		
Vested	Vested	(318,155) \$ 5.89		
Outstanding balance, September 30, 2023		<u>1,817,088</u> \$ 10.19		
Outstanding balance, December 31, 2023				

The total unrecognized compensation cost related to time based restricted stock units outstanding as of **September 30, 2023** **December 31, 2023** was **\$8.0 million** **\$7.6 million** and is expected to be recognized over a weighted-average period of **2.1** **1.9** years.

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

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

Outstanding  
balance,  
December  
31, 2023

The total unrecognized compensation cost related to performance based vesting restricted stock units outstanding as of **September 30, 2023** **December 31, 2023** was **\$0.7 million** **\$0.6 million** and is expected to be recognized over a weighted-average period of **2.11.9** years.

**Nonqualified Stock Options**

A summary of time-based vesting stock option activity for the **three** **six** months ended **September 30, 2023** **was December 31, 2023** is 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, 2023						
Outstanding balance, June 30, 2023						
Outstanding balance, June 30, 2023	Outstanding balance, June 30, 2023	716,661	\$ 1.43			
Granted	Granted	—	\$ —			
Forfeited	Forfeited	—	\$ —			
Exercised	Exercised	—	\$ —			
Expired	Expired	—	\$ —			
Outstanding balance, September 30, 2023	Outstanding balance, September 30, 2023	716,661	\$ 1.43			
Outstanding balance, December 31, 2023						
Exercisable balance, September 30, 2023	Exercisable balance, September 30, 2023	296,105	\$ 0.19			
Exercisable balance, December 31, 2023						
Exercisable balance, December 31, 2023						
Exercisable balance, December 31, 2023						

The total unrecognized compensation cost related to time-based vesting stock options outstanding as of **September 30, 2023** **December 31, 2023** was **\$0.3 million** **\$0.2 million** and is expected to be recognized over a weighted-average period of 1.8 years.

A summary of performance-based vesting stock option activity for the **three** **six** months ended **September 30, 2023** **was December 31, 2023** is 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, 2023	Outstanding balance, June 30, 2023	776,299	\$ 3.08
Outstanding balance, June 30, 2023			
Outstanding balance, June 30, 2023			
Granted	Granted	—	\$ —
Forfeited	Forfeited	—	\$ —
Vested	Vested	—	\$ —
Outstanding balance, September 30, 2023		776,299	\$ 3.08
Outstanding balance, December 31, 2023			

The total unrecognized compensation cost related to performance-based vesting stock options outstanding as of **September 30, 2023** **December 31, 2023** was **\$1.2 million** **\$1.1 million** and is expected to be recognized over a weighted-average period of **2.2 years**.

#### Note 11: Acquisitions

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

The Concerto acquisition was accounted for using the purchase method of accounting. The purchase price has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The fair values of assets acquired and liabilities assumed may change as the valuation of intangible assets and overall purchase price allocation is being finalized. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill recognized represents the estimated future economic benefits arising from expected growth opportunities for the Company and is not deductible for income tax purposes.

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

	December 1, 2023
	<i>in thousands</i>
Cash Consideration	\$ 23,916
Total Consideration	<u>\$ 23,916</u>
Accounts receivable, net	\$ 563
Prepaid expenses	330
Property and equipment, net	7,969
Operating lease assets	6,892
Goodwill	17,348
Deposits and other	343
Accounts payable and accrued expenses	(353)
Reported and estimated claims	(111)
Operating lease obligations	(8,941)
Finance lease obligations	(124)
Fair value of assets and liabilities	<u>\$ 23,916</u>

#### Note 12: Income Taxes

The Company recorded an income tax expense of **\$0.2 million** **\$0.1 million** and an income tax benefit of **\$3.5 million** **\$2.9 million** for the three months ended **September 30, 2023** **December 31, 2023** and 2022, respectively. The Company recorded an income tax expense of **\$0.3 million** and an income tax benefit of **\$6.4 million** for the six months ended

December 31, 2023 and 2022, respectively. This represents an effective tax rate of (2.1) (2.5)% and 20.6% 20.9% for the three months ended September 30, 2023 December 31, 2023 and 2022, respectively. This represents an effective tax rate of (2.2)% and 20.9% for the six months ended December 31, 2023 and 2022, respectively.

The effective rate for the three six months ended September 30, 2023 December 31, 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, lobbying expenses, and the increase in the Company's valuation allowance against Net operating losses which occurred during the three-month period.

The Company assesses the valuation allowance recorded against deferred tax assets at each reporting date. The determination of whether a valuation allowance for deferred tax assets is appropriate requires the evaluation of positive and negative evidence that can be objectively verified. Consideration must be given to all sources of taxable income available to realize deferred tax assets, including, as applicable, the future reversal of existing temporary differences, future taxable income forecasts exclusive of the reversal of temporary differences and carryforwards, taxable income in carryback years and tax planning strategies. In estimating income taxes, the Company assesses the relative merits and risks of the appropriate income tax treatment of transactions taking into account statutory, judicial, and regulatory guidance. As of the three-month six-month period ended September 30, 2023 December 31, 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 \$14.8 \$16.8 million at September 30, 2023 December 31, 2023 and \$8.3 million at June 30, 2023, as a valuation allowance against its deferred tax assets for federal and state net operating losses where there is not sufficient positive evidence to substantiate that these deferred tax assets will be realized at a more-likely-than-not level of assurance.

#### Note 12: 13: Earnings per Share

Basic earnings (loss) per share ("EPS") is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of common shares outstanding during the period, plus the dilutive effect of outstanding options, 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. EPS. When net income from continuing operations exists, performance-based units, are omitted from the calculation of diluted EPS until it is determined that the performance criteria has been met at the end of the reporting period. For the three and six months ended September 30, 2023 December 31, 2023, 348,090 391,598 and 377,025 potentially diluted securities were excluded from the weighted-average shares used to calculate the diluted net loss per common share, respectively, as they would have an anti-dilutive effect. During the three and six months ended December 31, 2022, 424,316 and 14,076 potentially dilutive securities were excluded from the weighted average shares used to calculate the diluted net loss per common share, respectively, as they would have an anti-dilutive effect.

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

		Three months ended September 30,			
		Three months ended December 31,			
		Three months ended December 31,			
Three months ended December 31,					
in thousands, except share values					
in thousands, except share values					
in thousands, except share values	in thousands, except share values	2023	2022		
Net loss attributable to InnovAge Holding Corp.	Net loss attributable to InnovAge Holding Corp.	\$ (10,304)	\$ (13,073)		
Net loss attributable to InnovAge Holding Corp.	Net loss attributable to InnovAge Holding Corp.				
Weighted average common shares outstanding (basic)	Weighted average common shares outstanding (basic)	135,790,401	135,566,117		
Weighted average common shares outstanding (basic)	Weighted average common shares outstanding (basic)				
<b>EPS (basic)</b>					
<b>EPS (basic)</b>					
EPS (basic)	EPS (basic)	\$ (0.08)	\$ (0.10)		
Dilutive shares	Dilutive shares	—	—		
Dilutive shares					

Dilutive shares						
Weighted average common shares outstanding (diluted)						
Weighted average common shares outstanding (diluted)						
Weighted average common shares outstanding (diluted)	Weighted average common shares outstanding (diluted)			135,790,401		135,566,117
<b>EPS (diluted)</b>	<b>EPS (diluted)</b>	\$	<b>(0.08)</b>		\$	<b>(0.10)</b>
<b>EPS (diluted)</b>						
<b>EPS (diluted)</b>						

**Note 13: 14: Segment Reporting**

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

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

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

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

	September 30, 2023			September 30, 2022				December 31, 2023			December 31, 2022				
	December 31, 2023			December 31, 2022				(In thousands)	PACE	All other <sup>(1)</sup>	Totals	(In thousands)	PACE	All other <sup>(1)</sup>	Totals
	(In thousands)	PACE	other <sup>(1)</sup>	Totals	PACE	other <sup>(1)</sup>	Totals								
Capitation revenue	Capitation revenue	\$182,173	\$ —	\$182,173	\$170,931	\$ —	\$170,931								
Other service revenue	Other service revenue	86	226	312	77	210	287								
Total revenues	Total revenues	182,259	226	182,485	171,008	210	171,218								
External provider costs	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	55,097	153	55,250	53,411	146	53,557								
Center-Level Contribution Margin	Center-Level Contribution Margin	27,804	73	27,877	21,360	64	21,424								

Overhead costs <sup>(2)</sup>	Overhead costs <sup>(2)</sup>	34,317	9	34,326	34,574	20	34,594
Depreciation and amortization	Depreciation and amortization	4,157	112	4,269	3,326	107	3,433
Interest expense, net	Interest expense, net	616	45	661	557	46	603
Other income	Other income	(643)	—	(643)	(37)	—	(37)
Other expense							
<b>Loss Before Income Taxes</b>	<b>Loss Before Income Taxes</b>	<b><u>\$(10,643)</u></b>	<b><u>\$(93)</u></b>	<b><u>\$(10,736)</u></b>	<b><u>\$(17,060)</u></b>	<b><u>\$(109)</u></b>	<b><u>\$(17,169)</u></b>

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

in thousands	December 31, 2023			December 31, 2022		
	PACE		Totals	PACE		Totals
	All other <sup>(1)</sup>			All other <sup>(1)</sup>		
Capitation revenue	\$ 370,734	\$ —	\$ 370,734	\$ 338,071	\$ —	\$ 338,071
Other service revenue	153	495	648	176	427	603
<b>Total revenues</b>	<b>370,887</b>	<b>495</b>	<b>371,382</b>	<b>338,247</b>	<b>427</b>	<b>338,674</b>
External provider costs	200,322	—	200,322	189,744	—	189,744
Cost of care, excluding depreciation and amortization	109,267	303	109,570	104,595	338	104,933
<b>Center-Level Contribution Margin</b>	<b>61,298</b>	<b>192</b>	<b>61,490</b>	<b>43,908</b>	<b>89</b>	<b>43,997</b>
Overhead costs <sup>(2)</sup>	65,425	9	65,434	67,107	79	67,186
Depreciation and amortization	8,334	225	8,559	6,881	214	7,095
Interest expense, net	1,506	90	1,596	735	91	826
Other income	(1,517)	—	(1,517)	(480)	—	(480)
Other expense	1,882	—	1,882	—	—	—
<b>Income (Loss) Before Income Taxes</b>	<b>\$ (14,332)</b>	<b>\$ (132)</b>	<b>\$ (14,464)</b>	<b>\$ (30,335)</b>	<b>\$ (295)</b>	<b>\$ (30,630)</b>

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

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

#### Note 14: Related Party Transactions

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

#### Note 15: Subsequent Events

The Company has evaluated subsequent events through the date on which the 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, 2023 ("2023 10-K").

## Overview

InnovAge Holding Corp. ("InnovAge") became a public company in March 2021. As of **September 30, 2023** **December 31, 2023**, the Company served approximately **6,580** **6,780** PACE participants, and operated **17** **18** PACE centers across California, Colorado, California, New Mexico, Pennsylvania, and Virginia.

## Trends and Uncertainties Affecting the Company

**Macroeconomic conditions.** During fiscal year **2023**, the U.S. and global economies experienced adverse macroeconomic effects in part resulting from the ongoing effects of the COVID-19 pandemic. These effects included continued to wrestle with inflation and increased wages due to labor shortages, shortages and increased competition among healthcare professionals. In fiscal year 2022 and 2023, in response to high levels of inflation, we began to implement implemented various mitigation strategies to reduce costs of operation, including, consolidating services, and price negotiations with providers and vendors. While inflationary pressures eased significantly during the second half of fiscal 2023, inflation has continued during the three months ended September 30, 2023 vendors and is expected to continue through the remainder of the fiscal year. As limiting corporate staffing, effecting a result, the Company has continued the mitigation strategies discussed during the three months ended September 30, 2023. The effects of inflation, after accounting for these mitigation strategies, were immaterial to our financial results for the three months ended September 30, 2023. Although we expect to continue mitigation efforts, there can be no assurance that our strategies will be sufficient.

Operating expenses increased \$5.4 million, or 2.9%, for the three months ended September 30, 2023 compared to 2022 due to, reduction in part, 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 and increased fleet and contract transportation costs due to an increase workforce in average daily attendance and external appointments. In December 2022. For example, in fiscal year 2023, we launched and conducted several initiatives intended to lower certain of our costs, including limiting corporate staffing, effecting a reduction in workforce in December 2022, and optimizing working capital. The Company has continued these mitigation strategies during the six months ended December 31, 2023. For example, in October 2023, we conducted an additional planned reduction in workforce involving approximately 1.6% of our workforce. In connection with the planned reduction, we incurred approximately \$0.3 million of charges associated with employee severance and benefits costs during the three months ended December 31, 2023. The effects of inflation, after accounting for these mitigation strategies, were immaterial to our financial results for the three and six months ended December 31, 2023. We expect to continue to experience elevated operating expenses for the remainder of fiscal 2024 for similar reasons. Although we expect to continue mitigation efforts, there can be no assurance that our strategies will be sufficient.

In October 2023, **Increased cost of care.** Cost of care and related cost per participant increased for the Company conducted six months ended December 31, 2023 compared to 2022, partially as a planned reduction in workforce. The plan involved the termination result 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 increased salaries, wages and benefits associated with increased headcount and higher wage rates and increased fleet and contract transportation costs which the Company expects due to incur an increase in center attendance and external appointments as well as increased costs related to growing census. Additionally, external provider costs have increased in the second quarter of fiscal year 2024.

six month period ended December 31, 2023 compared to 2022 associated with annual increases in assisted living and nursing facility unit cost and general medical inflation. We will continue to evaluate increased costs and methods to mitigate or offset such costs, increases.

**Census and capitation revenue.** On May 11, 2023 the President allowed the national emergency and public health emergency declarations related to the COVID-19 pandemic to expire. The declarations had been in place since early 2020, While states have resumed processing new Medicaid applications 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. To date, we have not experienced material census attrition as a result of the expiration of the public health emergency declarations and the resumption of Medicaid's redetermination redeterminations of beneficiary eligibility, the healthcare industry has experienced increased delays in the processing of such applications. The frailty level of PACE participants coupled with the complexity of Medicaid services needed, results in a comprehensive financial qualifications review compared to the more traditional Medicaid-only population. Throughout the public health emergency, the Company continued to complete completes annual Medicaid redeterminations. This process redeterminations, which enables the Company to monitor ongoing eligibility status, assist with Participant's through the redetermination process, address potential issues with eligibility in real time, and track future renewal dates. However, as a result of the aforementioned delays, the Company has experienced an increase in gaps of eligibility with redetermination applications. While the participants continue to receive care and remain enrolled with the Company during this time, the effect of such delays temporarily halts Medicaid revenue related to any closed application and simultaneously increases our risk of revenue recovery. In an effort to mitigate these risks, the Company continues to utilize State approved third-party eligibility partners to expedite applications, escalate delayed cases to State administrators, and pursue safe discharges for individuals who are truly ineligible. Being eight months into the public health emergency unwind period, there has not been a material effect on the Company's financial statements or operations. The Company is seeing trends of aging report accounts and financial losses normalizing to pre-public health emergency levels. We expect these trends to continue for the remainder of fiscal year 2024.

expects that state regulatory agencies will continue to 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 outlook.

**Labor market.** The healthcare sector is currently experiencing a complex set of challenges in hiring additional professionals. We believe these challenges are a result of a combination of factors beyond the direct impact of the COVID-19 pandemic. Specifically, the demand for healthcare services has been steadily increasing due to an aging population and a greater focus on health and wellness in society. In addition, there are systemic challenges related to workforce training and the pipeline of qualified professionals, which have not kept pace with this growing demand. Furthermore, high inflation exacerbated difficulties to hire additional healthcare professionals, causing certain of our centers to be understaffed or staffed with personnel that required training. Labor pressure mostly eased experienced during fiscal year 2023 however, and which has continued through fiscal year 2024 has increased the Company continues cost of living, and subsequently, wage pressure for healthcare professionals, with a shift towards an employee-centric market with an emphasis on competitive compensation, flexibility and professional growth opportunities, which has contributed to be affected by an increasingly competitive labor market. In an effort to mitigate the effects of these challenges, we have adopted strategies to offer competitive compensation packages. Partially as a result of increased competition and other market trends, in 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 three months ended September 30, 2023, further impacted by additional conjunction with increased staffing related to compliance and remediation efforts. This efforts in our centers, there has been an increase in conjunction with higher headcount has contributed to increased the cost of care for the three six months ended September 30, 2023 December 31, 2023 compared to the three months ended September 30, 2022 comparable period last year, as discussed in "Results" "Results of Operations" 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 their 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, following a demand from a labor union for the Company to recognize it as the collective bargaining representative of the nurses and certified nurse assistants in our Pennsylvania centers, we filed a petition with the National Labor Relations Board to conduct an election to determine if two elections. The National Labor Relations Board conducted the elections on December 6, 2023, at which the nurses and certified nurse assistants 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 voted to unionize. These employees represent approximately 1% of our total workforce. Unionization efforts, Collective bargaining has not yet commenced. While we cannot predict the negotiation terms or timing of any resulting collective bargaining agreement, we currently do not expect the impact from any such future negotiated collective bargaining agreements and costs for unionized employees could materially impact to have a material effect on our costs of labor, labor or operations. However, we cannot predict whether other employees will follow a similar course of action.

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

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

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

- Our ability to effectively implement post-sanction remediation efforts in our centers as a result of our recent audits and maintain high quality of regulatory compliance. The Company's priority is to continue to remediate the deficiencies raised in audit processes (including recent and new audits) and to implement post-sanction corrective actions, where required, as well as maintain high quality of regulatory compliance in all its centers. As part of its actions to do so, the Company has worked with the appropriate authorities to make the necessary changes within the Company to improve care coordination and care documentation among our centers, including working to fill critical personnel gaps at our centers, standardizing the process of our Interdisciplinary Care Teams ("IDTs"), strengthening our home care network and reliability, improving timelines of scheduling and coordinating care with providers outside our centers, among others.
- Our participants. We focus on providing all-inclusive care to frail, high-cost, dual-eligible seniors. We directly contract with government payors, such as Medicare and Medicaid, through PACE and receive a capitated risk-adjusted payment to manage the totality of a participant's medical care across all settings. InnovAge manages participants that are, on average, more complex and medically fragile than other Medicare-eligible patients, including those in Medicare Advantage ("MA") programs. As a result, we receive larger payments for our participants compared to MA participants. This is driven by two factors: (i) we manage a higher acuity population, with an average risk adjustment factor ("RAF") score of 2.47 2.42 based on InnovAge data as of September 30, 2023 December 31, 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 taking into account the underlying medical conditions and frailty of each participant. We continue to work on expanding payer capabilities so that our revenue more accurately reflects the acuity of the populations we serve.

- *Our ability to grow enrollment and capacity within existing centers.* We believe all seniors should have access to the type of all-inclusive care offered by the PACE model. Several factors can affect our ability to grow enrollment and capacity within existing centers, including sanctions issued by regulators, such as the ones we were subject to in our Sacramento, California and Colorado centers.
- *Our ability to maintain high participant satisfaction and retention.* We achieved a 86% participant satisfaction rating as of September 30, 2023, measured as composite of participant satisfaction across ten categories, and average participant tenure was 3.2 years as of September 30, 2023 December 31, 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 5.9% annually over the last three fiscal years. Approximately 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. 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 85% 84% of our revenue in the three six months ended September 30, 2023 December 31, 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 impacted 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 The Company continues post sanction post-sanction monitoring, the Company and is currently able to enroll new participants at all of its 17 centers. For the six months ended December 31, 2023, census has grown 1.2% compared to the six months ended December 31, 2022.
- *Our ability to expand via de novo centers within existing and new markets.* Several factors can affect our ability to open de novo centers, including sanctions issued by regulators, such as the ones we were subject to in imposed on our Sacramento, California and Colorado centers. centers in 2021. As a result of such sanctions, we were precluded from, or voluntarily suspended efforts to, open de novo centers.

On January 1, 2024, we opened a PACE center in Tampa, Florida, Kentucky which has opened enrollment to various surrounding counties, and Indiana. Since the Company was released from sanctions, in Florida, we have recommenced continue our efforts to obtain the licensure required to open a PACE center in each Orlando, Florida.

All new PACE centers are subject to annual federal and state audits for the first three years after opening. In October 2023, CMS and the California Department of Tampa Health Care Services ("DHCS) conducted a joint routine audit of our Sacramento center. On December 27, 2023, we received the final audit report from CMS for which we submitted a routine corrective action plan (CAP) that follows every audit. On January 22, 2024, CMS approved that CAP. On January 23, 2024, DHCS notified us of their preliminary audit findings at our Sacramento center and Orlando. We are also pursuing that, based on concerns that it had been alerted to, it will be conducting a medical

review of our San Bernardino center. In response to both of these matters, DHCS notified us that it is suspending its attestations in support of the licensure required to open another PACE planned de novo center in Downey California, and the recently acquired planned de novo center in Bakersfield. On February 1, 2024, we received the final audit results from DHCS notifying us of identified deficiencies at our Sacramento center, some of which fall under the same categories as those that formed the basis of the enrollment freeze in 2021. While these de novo centers are precluded from opening at this time, DHCS notified us that it would consider restoring the State Attestations upon our successful remediation of the deficiencies raised in our Sacramento center and its completion of the medical review (and any potential resultant remediation that may be required) in our San Bernardino center. We believe we have in place the policies, processes and systems to correct the identified deficiencies as we did in connection with the 2021 enrollment freeze.

- *Execute tuck-in acquisitions.* From fiscal year 2019 through fiscal year 2021, we acquired and integrated three PACE organizations, expanding our InnovAge Platform to one new state and four new markets through those acquisitions. Since Additionally, in the Company was released second fiscal quarter of 2024, we completed an acquisition of two PACE programs in California from sanctions, we have recommenced our efforts to pursue tuck-in acquisitions. ConcertoCare, which included one operating center in the Crenshaw neighborhood of Los Angeles and a second program in the process of its application for licensure in Bakersfield, California. We remain disciplined in our approach to acquisitions and in the past have executed multiple types of transactions, including turnarounds and non-profit conversions. Historically, when When integrating acquired programs, we worked work closely with key constituencies, including local governments, health systems and senior housing providers, to enable continuity of high-quality care for participants.
- *Contracting with government payors.* Our economic model relies on our capitated arrangements with government payors, namely Medicare and Medicaid. We view the government not only as a payor but also as a key partner in our efforts to expand into new geographies and access more participants in our existing

markets. Maintaining, supporting and growing these relationships in existing markets as well as new geographies, is critical to our long-term success.

- *Investing to support growth.* We intend to continue investing in our centers, value-based care model, and sales and marketing organization to support long-term growth. We expect our expenses to increase in absolute dollars for the foreseeable future to support our growth and due to additional costs we are incurring or expect to incur in connection with our current and future audits to our centers, our post-audit remediation plans and current and potential legal and regulatory proceedings. We plan to invest in future growth judiciously and maintain focus on managing our results of operations. We have begun to invest in are building capabilities to increase our sophistication as a payor to drive clinical value, improve outcomes, and manage cost trends. Accordingly, in the short term, we expect the activities noted above to increase our expenses as a percentage of revenue, but in the longer term, we anticipate that these investments will positively impact our business and results of operations.
- *Seasonality of our business.* Our operational and financial results, including medical costs and per-participant revenue true-ups, 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 RAF score as measured twice per year and is based on the evolving acuity of a participant. Based on the Where there is a difference between our estimate and the final determination from CMS, we may receive incremental true up 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.

## 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. We are currently operating in good standing under each of our PACE state contracts. For a discussion of our revenue recognition policies, please see *Critical Accounting Estimates* below and Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2023 10-K.

*Other Service Revenue.* Other service revenue primarily consists of revenues derived from fee-for-service arrangements, state food grants, rent revenues and management fees. Prior to June 30, 2023 June 30, 2022, 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 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 2023 10-K.

### Operating Expenses

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

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

*Sales and Marketing.* Sales and marketing expenses consist of employee-related expenses, including salaries, commissions, and employee benefits costs, for all employees engaged in marketing, sales, community outreach and sales support. These employee-related expenses capture all costs for both our field-based and corporate sales and marketing teams. Sales and marketing expenses also include local and centralized advertising costs, as well as the infrastructure required to support our marketing efforts. We

expect these costs to increase in absolute dollars over time as we grow our participant census. We evaluate our sales and marketing expenses relative to our participant growth and will invest more heavily in sales and marketing from time-to-time to the extent we believe such investment can accelerate our growth without negatively affecting profitability.

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

although such expenses may fluctuate as a percentage of revenue from period to period due to the timing and amount of these expenses.

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

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

## Results of Operations

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

		Three Months Ended September 30,		Three Months Ended December 31,		Six Months Ended December 31,	
		Three Months Ended December 31,		2022		2023	
in thousands	in thousands	2023	2022	in thousands	2022	in thousands	2022
<b>Revenues</b>	<b>Revenues</b>						
Capitation revenue							
Capitation revenue							
Capitation revenue	Capitation revenue	\$182,173	\$170,931				
Other service revenue	Other service revenue	312	287				
Total revenues	Total revenues	182,485	171,218				
<b>Expenses</b>	<b>Expenses</b>						
External provider costs							
External provider costs							
External provider costs	External provider costs	99,358	96,237				
Cost of care, excluding depreciation and amortization	Cost of care, excluding depreciation and amortization	55,250	53,557				
Sales and marketing	Sales and marketing	5,379	4,413				
Corporate, general and administrative	Corporate, general and administrative	28,947	30,181				
Depreciation and amortization	Depreciation and amortization	4,269	3,433				

Total expenses	Total expenses	193,203	187,821
<b>Operating Loss</b>	<b>Operating Loss</b>	\$ (10,718)	\$ (16,603)
<b>Other Income (Expense)</b>	<b>Other Income (Expense)</b>		
Interest expense, net			
Interest expense, net			
Interest expense, net	Interest expense, net	(661)	(603)
Other income	Other income	643	37
<b>Other expense</b>			
Total other expense	Total other expense	(18)	(566)
<b>Loss Before Income Taxes</b>	<b>Loss Before Income Taxes</b>	(10,736)	(17,169)
<b>Provision (Benefit) for Income Taxes</b>	<b>Provision (Benefit) for Income Taxes</b>	226	(3,470)
<b>Net Loss</b>	<b>Net Loss</b>	\$ (10,962)	\$ (13,699)
Less: net loss attributable to noncontrolling interests	Less: net loss attributable to noncontrolling interests	(658)	(626)
<b>Net Loss Attributable to InnovAge Holding Corp.</b>	<b>Net Loss Attributable to InnovAge Holding Corp.</b>	<u>\$ (10,304)</u>	<u>\$ (13,073)</u>

#### Revenues

Three Months Ended				Three Months Ended				Six Months Ended				
September 30,		Change		December 31,		December 31,		December 31,		December 31,		
2023	2022	\$	%	2023	2022	\$	%	2023	2022	\$	%	
<b>Three Months Ended</b>												
in thousands	in thousands			2023	2023	2023	2023	2023	2023	2023	2023	
Capitation revenue												
Capitation revenue												
Capitation revenue	Capitation revenue	\$ 182,173	\$ 170,931	\$ 11,242	6.6 %	\$ 188,561	\$ 167,140	\$ 21,421	12.8	12.8 %	\$ 370,734	\$ 338,071
Other service revenue	Other service revenue	312	287	25	8.7 %	337	316	21	6.6	6.6 %	648	603
Total revenues	Total revenues	\$ 182,485	\$ 171,218	\$ 11,267	6.6 %	\$ 188,898	\$ 167,456	\$ 21,442	12.8	12.8 %	\$ 371,382	\$ 338,674

Capitation revenue. Capitation revenue was \$182.2 million \$188.6 million for the three months ended September 30, 2023 December 31, 2023 an increase of \$11.2 million \$21.4 million, or 6.6% 12.8%, compared to \$170.9 million \$167.1 million for the three months ended September 30, 2022 December 31, 2022. This increase was driven by a 7.7% \$15.8 million, or 9.1%, increase in capitation rates partially offset by a 1.0% decrease coupled with \$5.6 million, or 3.4%, increase in member months. The increase in capitation rates was primarily driven by an (i) a 7.0% annual increase in both Medicaid capitation rates as determined by the States and (ii) an 11.8% increase in Medicare capitation rates as a result of

increased risk score and county rates, rates coupled with a one-time true up outside of the regular payment cycle. The decrease in member months is primarily due to disenrollments partially offset by the ramp up of enrollments release from sanctions at our Colorado and Sacramento centers as we resumed centers.

Capitation revenue was \$370.7 million for the enrollment process.

six months ended December 31, 2023, an increase of \$32.7 million, or 9.7% compared to \$338.1 million for the six months ended December 31, 2022. This increase was driven by a \$28.7 million, or 8.4%, increase in capitation rates coupled with a \$3.9 million, or 1.2%, increase in member months. The increase in capitation rates include a 6.9% annual increase in Medicaid rates and a 10.3% increase in Medicare rates.

#### Operating Expenses

		Three Months Ended						Three Months Ended				Six Months Ended	
		September 30,		Change				December 31,		Change		December 31,	
		2023	2022	\$	%			2023	2022	\$	%	2023	2022
in thousands	in thousands												
External provider costs	External provider costs												
External provider costs	External provider costs	\$ 99,358	\$ 96,237	\$ 3,121	3.2%	\$ 100,964	\$ 93,507	\$ 7,457	8.0%	\$ 200,322	\$ 189,744	\$ 10,578	
Cost of care (excluding depreciation and amortization)	Cost of care (excluding depreciation and amortization)	55,250	53,557	1,693	3.2%	54,321	51,376	2,945	5.7%	109,570	104,933	4,640	
Sales and marketing	Sales and marketing	5,379	4,413	966	21.9%	5,859	3,774	2,085	55.2%	11,237	8,187	3,046	
Corporate, general, and administrative	Corporate, general, and administrative	28,947	30,181	(1,234)	(4.1)%	25,249	28,817	(3,568)	(12.4)%	54,197	58,999	(4,802)	
Depreciation and amortization	Depreciation and amortization	4,269	3,433	836	24.4%	4,290	3,662	628	17.1%	8,559	7,095	1,464	
Total operating expenses	Total operating expenses	\$ 193,203	\$ 187,821	\$ 5,382									

**External provider costs.** External provider costs were \$99.4 million for the three months ended September 30, 2023 December 31, 2023, an increase of \$3.1 million \$7.5 million, or 3.2% 8.0%, compared to \$96.2 million \$93.5 million for the three months ended September 30, 2022 December 31, 2022. The increase was primarily driven by an increase of \$4.1 million \$4.3 million, or 4.3% 4.4%, in cost per participant partially offset by a decrease coupled with an increase of \$1.0 million \$3.2 million, or 1.0% 3.4% in member months. The increase in cost per participant was primarily driven by an annual increase in pharmacy cost, an increase in assisted living utilization and unit cost, and an increase in outpatient services utilization. This was partially offset by a decrease in permanent nursing facility unit utilization.

External provider costs were \$200.3 million for the six months ended December 31, 2023, an increase of \$10.6, or 5.6%, compared to \$189.7 for the six months ended December 31, 2022. This increase was primarily driven by an increase of \$8.4 million, or 4.4%, in cost per participant coupled with an increase of \$2.2 million, or 1.2%, in member months. The increase in cost per participant was primarily driven by an annual increase in pharmacy cost, an increase in assisted living utilization and pharmacy cost unit cost, and an increase in outpatient services utilization. This is partially offset by a decrease in permanent and short stay skilled nursing facility utilization.

**Cost of care (excluding depreciation and amortization).** Cost of care (excluding depreciation and amortization) expense was \$55.3 million \$54.3 million for the three months ended September 30, 2023 December 31, 2023, an increase of \$1.7 million \$2.9 million, or 3.2% 5.7%, compared to \$53.6 million \$51.4 million for the three months ended September 30, 2022 December 31, 2022, primarily due to an increase of \$2.2 million \$1.2 million, or 4.2% 2.3%, in cost per participant partially offset by a decrease coupled with an increase of \$0.5 million \$1.7 million, or 1.0% 3.4%, in member months. The increase was primarily driven by (i) a \$1.5 million \$3.1 million increase in salaries, wages and benefits associated with increased headcount and higher wage rates, (ii) \$0.9 million in increased building maintenance and (ii) \$1.4 million security, and (iii) \$0.4 million in increased fleet expense and contract transportation a result of higher average daily an increase in center attendance and an increase in external appointments, partially offset by \$1.5 million \$1.0 million reduction in third party audit and compliance support.

Cost of care (excluding depreciation and amortization) expense was \$109.6 million for the six months ended December 31, 2023, an increase of \$4.6 million, or 4.4%, compared to \$104.9 million for the six months ended December 31, 2022, primarily due to an increase of \$3.4 million, or 3.2%, in cost per participant coupled with an increase of \$1.2 million,

or 1.2%, in member months. The increase was primarily driven by (i) a \$4.5 million increase in salaries, wages and benefits associated with increased headcount and wage rate, (ii) \$1.5 million in increased building maintenance and security, and (iii) \$1.8 million in increased fleet expense as a result of an increase in center attendance and an increase in external appointments, partially offset by \$2.5 million reduction in third party audit and compliance support.

**Sales and marketing.** Sales and marketing expenses were \$5.4 million for the three months ended September 30, 2023 December 31, 2023, an increase of \$1.0 million \$2.1 million, or 21.9% 55.2%, compared to \$4.4 million \$3.8 million for the three months ended September 30, 2022 December 31, 2022, primarily due to increased marketing spend and headcount as a result of the sanction release in our Colorado and Sacramento centers.

Sales and marketing expense were \$11.2 million for the six months ended December 31, 2023, an increase of \$3.1 million, or 37.3%, compared to \$8.2 million for the six months ended December 31, 2022, primarily due to increased marketing spend and headcount as a result of the sanction release in our Colorado and Sacramento centers.

**Corporate, general and administrative.** Corporate, general and administrative expenses were \$28.9 million for the three months ended September 30, 2023, a decrease of \$1.2 million or 4.1%, compared to \$30.2 million for the three months ended September 30, 2022. The decrease was primarily due to (i) a \$0.5 million decrease in bad debt third party legal 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, (iv) \$1.0 million reduction in contract staff augmentation, and (iv) \$0.4 million reduction in corporate occupancy costs, recruiting expense. 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) \$1.1 million in bad debt expense, and (iii) \$0.3 million in license fees.

Corporate, general and administrative expenses were \$54.2 million for the six months ended December 31, 2023, a decrease of \$4.8 million, or 8.1%, compared to \$59.0 million for the six months ended December 31, 2022. This decrease was primarily due to (i) a \$2.7 million reduction in third party legal expense, (ii) \$1.2 million reduction in insurance expense, (iii) \$2.9 million reduction in consulting expense associated with improving organizational capabilities including the transition to a new EMR, (iv) \$1.2 million reduction in contract staff augmentation, and (v) \$1.4 million reduction in recruiting expense. These decreases were partially offset by (i) a \$2.1 million increase in employee compensation and benefits as the result of an increase in headcount, (ii) \$0.6 million in bad debt expense, (iii) \$0.5 million in consulting costs associated with Sarbanes-Oxley Act of 2002 compliance and (iv) a \$1.0 million increase internal audit, and (iv) \$1.2 million in software license and maintenance expense, inclusive of Epic license fees.

### ***Other Income (Expense)***

*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 \$0.7 million \$0.9 million for the three months ended September 30, 2023 December 31, 2023, a decrease an increase of \$0.1 million \$0.7 million, or 9.6% 319.3%, compared to \$0.6 million \$0.2 million for the three

months ended September 30, 2022 December 31, 2022. The decrease increase was primarily due to interest income of \$1.1 million \$0.9 million from money market funds offsetting interest expense of \$1.7 million \$1.8 million for the three months ended September 30, 2023 December 31, 2023. Interest expense of \$1.0 million \$1.1 million was offset by interest income of \$0.4 million \$0.8 million during the three months ended September 30, 2022 December 31, 2022.

Interest expense, net was \$1.6 million for the six months ended December 31, 2023, an increase of \$0.8 million, or 93.2%, compared to \$0.8 million for the six months ended December 31, 2022. This increase is due to interest expense of \$3.6 million offset by interest income of \$2.0 million from money market accounts during the six months ended December 31, 2023. During the six months ended December 31, 2022, interest expense of \$2.1 million was offset by interest income of \$1.2 million.

**Other income (expense), income.** 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 for the three months ended September 30, 2023 December 31, 2023 increased \$0.6 million \$0.4 million, or 1637.8% 96.8%, when compared to the three months ended September 30, 2022 December 31, 2022. The increase is was primarily due to dividends received from our short-term investments. investments of \$0.6 million for the three months ended December 31, 2023 compared to dividends of \$0.2 million for the three months ended December 31, 2022.

Other income was \$1.5 million for the six months ended December 31, 2023, an increase of \$1.0 million, or 216.0%, compared to \$0.5 million for the six months ended December 31, 2022. This increase was primarily due to dividends received of \$1.2 million during the six months ended December 31, 2023 compared to dividends of \$0.2 million for the six months ended December 31, 2022.

**Other expense.** Other expense was \$1.9 million for the three and six months ended December 31, 2023, an increase of \$1.9 million, or 100.0%, compared to zero for the three and six months ended December 31, 2022. Subsequent to December 31, 2023, we noted indicators of impairment in our minority equity investment of Jetdoc. We determined that indicators were present as of the reporting date, and recognized impairment losses of \$1.9 million during the three and six months ended December 31, 2023. No observable price changes or impairments were recorded during the three and six months ended December 31, 2022.

#### 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 InnovAge Senior Housing Thornton, LLC ("SH1") and InnovAge Sacramento have elected to be taxed as partnerships, and no provision for income taxes for SH1 or InnovAge Sacramento is included in these condensed consolidated financial statements.

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

During the three months ended September 30, 2023 December 31, 2023 and 2022, we reported provision for income taxes of \$0.2 million \$0.1 million and benefit of \$3.5 million \$2.9 million, respectively. During the six months ended December 31, 2023 and 2022, we reported a provision for income taxes of \$0.3 million and benefit of \$(6.4) million, respectively. The decrease of \$3.7 million \$6.7 million is primarily due (i) our pretax book loss recognized during the three six months ended September 30, 2023 December 31, 2023, as compared to pretax book loss recognized during the three six months ended September 30, 2022 December 31, 2022 and (ii) the change in our valuation allowance.

#### Net Loss Attributable to Noncontrolling Interests.

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

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 Loss

During the three six months ended September 30, 2023 December 31, 2023 and 2022, we reported net loss of \$11.0 million \$14.8 million and \$13.7 million \$24.2 million, respectively, consisting of (i) loss from operations of \$10.7 million \$12.5 million and \$16.6 million \$30.3 million, respectively, (ii) other expense of \$0.0 million \$2.0 million and \$0.6 million \$0.3 million, respectively, and (iii) a provision for income taxes of \$0.2 million \$0.3 million and benefit of \$3.5 million \$6.4 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.

		Three months ended September 30,					
		2023	2022				
		dollars in thousands					
		Six months ended December 31,					
2023				2023	2022		
		dollars in thousands					
Key Business Metrics:	Key Business Metrics:						
Centers <sup>(a)</sup>							
Centers <sup>(a)</sup>	Centers <sup>(a)</sup>	17	18	18	18		
Census <sup>(b)</sup>	Census <sup>(b)</sup>	6,580	6,540	6,780	6,460		
Total Member Months <sup>(b)</sup>	Total Member Months <sup>(b)</sup>	19,540	19,740	39,670	39,210		
Center-level Contribution Margin	Center-level Contribution Margin	\$ 27,877	\$ 21,424				
Center-level Contribution Margin	Center-level Contribution Margin						
Center-level Contribution Margin as a % of revenue	Center-level Contribution Margin as a % of revenue	15.3 %	12.5 %	16.6 %	13.0 %		
GAAP Measures:	GAAP Measures:						
Net income (loss)	Net income (loss)						
Net income (loss)	Net income (loss)	\$(10,962)	\$(13,699)				
Net loss margin	Net loss margin	(6.0)%	(8.0)%	Net loss margin	(4.0) % (7.2) %		
Non-GAAP Measures:	Non-GAAP Measures:						
Adjusted EBITDA <sup>(c)</sup>	Adjusted EBITDA <sup>(c)</sup>						
Adjusted EBITDA <sup>(c)</sup>	Adjusted EBITDA <sup>(c)</sup>	\$ 2,226	\$ (3,815)				
Adjusted EBITDA Margin <sup>(c)</sup>	Adjusted EBITDA Margin <sup>(c)</sup>	1.2 %	(2.2)%	Adjusted EBITDA Margin <sup>(c)</sup>	2.7 % (1.7) %		

(a) During the second quarter ended December 31, 2023, the Company acquired two PACE programs in California from ConcertoCare, one of which is operational. With the addition of the operational ConcertoCare PACE program, the Company operated 18 PACE centers as of December 31, 2023. During the third quarter ended March 31, 2023, the Company consolidated its

Germantown LIFE center with its Allegheny and Henry Avenue LIFE centers in Pennsylvania.

(b) Amounts are approximate due to rounding.

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

#### **Centers**

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

#### **Census**

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

#### **Total Member Months**

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

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

The Company's management uses Center-level Contribution Margin as the measure for assessing performance of its **operating** segments. We define Center-level Contribution Margin as total revenues less external provider costs and cost of care, excluding depreciation and amortization, which includes all medical and pharmacy costs. For purposes of evaluating Center-level Contribution Margin on a center-by-center basis, we do not allocate our sales and marketing **expense** **expenses** or corporate, general and administrative expenses across our centers. Center-level Contribution Margin was **\$27.9 million** **\$61.5 million** and **\$21.4 million**

**\$44.0 million** for the **three** **six** months ended **September 30, 2023** **December 31, 2023** and 2022, respectively. The increase in Center-level Contribution Margin for the **three** **six** months ended **September 30, 2023** **December 31, 2023** was primarily due to a **6.6%** **9.7%** increase in total revenue,

**slightly** offset by a **3.2%** **5.6%** increase in external provider costs during the same period. For more information relating to Center-level Contribution Margin, see Note **13** **14** "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								
		Six Months Ended December 31, 2023			Six Months Ended December 31, 2023			Six Months Ended December 31, 2022					
(In thousands)	(In thousands)	All	All	(In thousands)	All	All	(In thousands)	PACE	other	Totals	PACE	other	Totals
Capitation revenue	Capitation revenue	\$182,173	\$ —	\$182,173	\$170,931	\$ —	\$170,931						
Other service revenue	Other service revenue	86	226	312	77	210	287						
Total revenues	Total revenues	182,259	226	182,485	171,008	210	171,218						
External provider costs	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	55,097	153	55,250	53,411	146	53,557
<b>Center-Level Contribution Margin</b>	<b>Center-Level Contribution Margin</b>						
Overhead costs <sup>(a)</sup>	Overhead costs <sup>(a)</sup>	34,317	9	34,326	34,574	20	34,594
Depreciation and amortization	Depreciation and amortization	4,157	112	4,269	3,326	107	3,433
Interest expense, net	Interest expense, net	616	45	661	557	46	603
Other income	Other income	(643)	—	(643)	(37)	—	(37)
Other expense							
<b>Loss Before Income Taxes</b>	<b>Loss Before Income Taxes</b>						
Loss Before Income Taxes as a % of revenue	Loss Before Income Taxes as a % of revenue	(5.9)%		(10.0)%	<b>Loss Before Income Taxes as a % of revenue</b>	(3.9) %	(9.0)%
Center-Level Contribution Margin as a % of revenue	Center-Level Contribution Margin as a % of revenue	15.3 %		12.5 %	<b>Center- Level Contribution Margin as a % of revenue</b>	16.6 %	13.0 %

(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, litigation costs and settlements, M&A and de novo center development, business optimization, electronic medical record ("EMR") implementation and facility expansion, relocation and closure, loss on minority equity interest investment. Adjusted EBITDA margin is Adjusted EBITDA expressed as a percentage of our total revenue. For the three six months ended September 30, 2023 December 31, 2023 and 2022, net loss was \$11.0 million \$14.8 million and \$13.7 million \$24.2 million, respectively, representing a year-over-year decrease of 20.0% 39.0%. Adjusted EBITDA was \$2.2 million \$10.0 million and (\$3.8) \$5.8 million, for the three six months ended September 30, 2023 December 31, 2023 and 2022, respectively, representing a year-over-year increase of 158.3% 273.3%. For the three six months ended September 30, 2023 December 31, 2023, net loss margin was 6.0% 4.0%, as compared to net loss margin of 8.0% 7.2% for the three six months ended September 30, 2022 December 31, 2022. For the three six months ended September 30, 2023 December 31, 2023, our Adjusted EBITDA margin was 1.2% 2.7%, as compared to our Adjusted EBITDA margin for the three six months ended September 30, 2022 December 31, 2022 of negative 2.2% 1.7%. The increase in Adjusted EBITDA and Adjusted EBITDA margin is primarily from (i) increased capitation rates and (ii) lower corporate, general and administrative costs partially offset by, (i) increased center-level headcount and wage rates associated with a competitive labor market, and (ii) increased housing utilization and unit cost as mandated by the states.

Adjusted EBITDA and Adjusted EBITDA margin are supplemental measures of operating performance monitored by management that are not defined under GAAP and that do not represent, and should not be considered as, an alternative to net income (loss) and net income (loss) margin, respectively, as determined by GAAP. We believe that Adjusted EBITDA and Adjusted EBITDA margin are appropriate measures of operating performance because the metrics eliminate the impact of revenue and expenses that do not relate to our ongoing business performance and certain noncash expenses, allowing us to more effectively evaluate our core operating performance and trends from period to period. We believe that Adjusted EBITDA and Adjusted EBITDA margin help investors and analysts in comparing our results across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. These non-

**GAAP** non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, the analysis of other GAAP financial measures, including net income (loss) and net income (loss) margin. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by the types of items excluded from the calculation of Adjusted EBITDA. The use of the term Adjusted EBITDA varies from others in our industry.

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

	Three months ended		Three months ended December 31,		Six months ended December 31,	
	December 31,		2023		2022	
			September 30,			
Net loss			2023	2022		
Net loss	Net loss		\$(10,962)	\$(13,699)		
Interest expense, net	Interest expense, net		661	603		
Depreciation and amortization	Depreciation and amortization		4,269	3,433		
Provision (benefit) for income tax	Provision (benefit) for income tax		226	(3,470)		
Stock-based compensation	Stock-based compensation		1,823	1,300		
Litigation costs and settlement <sup>(a)</sup>	Litigation costs and settlement <sup>(a)</sup>		1,707	1,668		
M&A and de novo center development <sup>(b)</sup>	M&A and de novo center development <sup>(b)</sup>		409	206		
Business optimization <sup>(c)</sup>	Business optimization <sup>(c)</sup>		2,159	5,554		
EMR implementation <sup>(d)</sup>	EMR implementation <sup>(d)</sup>		1,934	590		
Loss on minority equity interest <sup>(e)</sup>						
Adjusted EBITDA	Adjusted EBITDA		\$ 2,226	\$ (3,815)		

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

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

(c) Reflects charges related to business optimization initiatives. Such charges related to one-time investments in projects designed to enhance our technology and compliance systems, improve and support the efficiency and effectiveness of our operations, and third party support to address efforts to remediate deficiencies in audits. For the three months ended September 30, 2023 December 31, 2023 this includes (i) \$1.8 million \$0.3 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 (ii) \$0.3 million of costs related to severance and (ii) \$0.4 million other organizational costs and (iii) \$0.2 million related to other non-recurring projects aimed at reducing costs and improving efficiencies. For the three months ended September 30, 2022 December 31, 2022 this includes (i) \$0.7 million \$0.5 million related to consultants and contractors performing audit and other related services at sanctioned centers, (ii) \$4.3 million \$0.8 million of costs associated with third party consultants as we implement our core provider initiatives, assess our risk-bearing capabilities, and strengthen our enterprise capabilities and (iii) \$0.1 million for related to other non-recurring projects aimed at reducing costs and improving efficiencies. For the six months ended December 31, 2023 this includes (i) \$2.1 million of costs associated with third party consultants as we implement our core provider initiatives, assess our risk-bearing payor capabilities, and strengthen our enterprise capabilities (ii) \$0.3 million of costs related to severance and other organizational costs and (iii) \$0.5 million related to charges for technology improvements, environmental, sustainability, and governance reporting, and other non-recurring charges. For the six months ended December 31, 2022 this includes (i) \$1.2 million related to consultants and contractors performing audit and other related services at sanctioned centers, (ii) \$5.1 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 \$0.7 million related to other non-recurring projects aimed at reducing costs and improving efficiencies.

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

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

## Liquidity and Capital Resources

### General

To date, we have financed our operations principally through cash flows from operations and through borrowings under our credit facilities, and from the sale of common stock in our IPO that occurred in March 2021. As of **September 30, 2023** December 31, 2023, we had cash and cash equivalents of **\$88.4 million** **\$54.1 million**, a decrease of **\$73.1 million** from June 30, 2023. The decrease in cash and cash equivalents was primarily due to a payment of **\$23.9 million** for the acquisition of the ConcertoCare PACE centers during the second quarter of fiscal year 2024 and timing of cash receipts for services provided. Our cash and cash equivalents primarily consist of highly liquid investments in demand deposit accounts and cash.

Our capital resources are generally used to fund (i) debt service requirements, the majority of which relate to the quarterly principal payments of the Term Loan Facility (as defined in Note 8, "Long Term" "Long-Term Debt" to the condensed consolidated financial statements) due 2026, (ii) finance and operating lease obligations, which are generally paid on a monthly basis and include maturities through 2028 and 2032, respectively, (iii) the operations of our business, including special projects such as our transition to a new EMR vendor, with respect to which we incurred non-recurring implementation costs over the last three months, and expect to incur ongoing costs through 2024 and beyond, and third party support to address remediation efforts, (iv) income tax payments, which are generally due on a quarterly and annual basis, and (v) capital additions, which included costs relating to the acquisition of the ConcertoCare PACE centers that took place during the second quarter of fiscal year 2024, and the development of de novo centers, including those in Florida and California. We also **will** invest and for the foreseeable future expect to continue investing in the effective implementation of post-sanction corrective remediation plans (CAPs) and other corrective initiatives as a result of deficiencies found during audits at some of our centers, and our ability to continually provide necessary and quality services to our participants. Collectively, these obligations are expected to represent a significant liquidity requirement of our Company on both a short-term (next 12 months) and long-term (beyond 12 months) basis.

As of **September 30, 2023** December 31, 2023, we had **\$68.8 million** **\$67.9 million** of long-term debt outstanding. As of **September 30, 2023** December 31, 2023, we had future minimum operating lease payments under non-cancellable leases through the year 2032 of **\$26.5 million** **\$37.5 million**. We also had non-cancellable finance lease agreements with third parties through the year 2028 with future minimum payments of **\$19.4 million** **\$18.3 million**. For additional information, see Note 7, "Leases", Note 8, "Long Term" "Long-Term Debt", and Note 9, "Commitments and Contingencies" in our condensed consolidated financial statements.

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

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

Outstanding principal amounts under the 2021 Credit Agreement accrue interest at a variable interest rate. As of **September 30, 2023** December 31, 2023, the interest rate on the Term Loan Facility was 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 **September 30, 2023** December 31, 2023, we had no borrowings outstanding, **\$2.8 million** **\$3.1 million** of letters of credit issued, and **\$97.2 million** **\$96.9 million** of remaining borrowing capacity under the Revolving Credit Facility. As of **September 30, 2023** December 31, 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 **three** **six** months ended **September 30, 2023** December 31, 2023 and 2022 are summarized as follows:

Three months ended September 30,	2023	2022	\$ Change

Six months ended				\$ Change	
December 31,					
		2023			
		2023			
		2023			
in thousands		in thousands			
Net cash (used) provided by operating activities		\$(32,985)	\$ 13,127	\$(46,112)	
Net cash used by operating activities					
Net cash used by operating activities					
Net cash used by operating activities					
Net cash used in investing activities	Net cash used in investing activities	(3,141)	(7,666)	4,525	
Net cash used in financing activities	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	\$(38,852)	\$ 3,793	\$(42,645)	

**Operating Activities.** The change in net cash provided (used) by operating activities was primarily due to the net effect of (i) net loss of \$11.0 million \$14.8 million in the current year period compared to a net loss of \$13.7 million \$24.2 million in the prior year period, as described further above, and (ii) an increase in accounts receivable primarily attributable to the timing of receipt of payments for certain Medicaid receivables, and (iii) increased impacts of deferred revenue due to the timing of payments for accounts payable and accrued expenses, operating leases and reported and estimated claims received during prior year.

**Investing Activities.** Investing activities were made up of approximately \$2.6 million \$23.9 million payment for the acquisition of two PACE programs from ConcertoCare, \$4.2 million in purchases of property and equipment and \$0.6 million \$1.2 million for purchases reinvested dividends of short-term investments, consisting primarily of managed income funds invested in investment grade short-term fixed and floating rate debt securities aimed at creating income while maintaining low volatility on principal. Our investment in managed income funds regularly pay dividends which are reinvested into the funds.

**Financing activities.** The increase in net cash used in financing activities was primarily due to an increase in taxes paid related to net share settlements of stock-based compensation awards of \$0.6 million and an increase in principal payments on finance leases of \$0.4 million \$0.7 million.

#### Emerging Growth Company and Smaller Reporting Company

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

In addition, under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We intend to take advantage of the longer phase-in periods for the adoption of new or revised financial accounting standards under the JOBS Act until we are no longer an emerging growth company. Our election to use the phase-in periods permitted by this election may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the longer phase-in periods permitted under the JOBS Act and who will comply with new or revised financial accounting standards. If we were to subsequently elect instead to comply with public company effective dates, such election would be irrevocable pursuant to the JOBS Act.

#### Critical Accounting Estimates

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

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

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

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

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

#### **Interest rate risk**

As of **September 30, 2023** **December 31, 2023**, we had total outstanding debt of **\$66.6 million** **\$65.6 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, 2023, we had total outstanding debt of \$67.5 million in principal amount under the Term Loan Facility and \$2.3 million under the **Convertible Term Loan**. **convertible term loan**. As of **September 30, 2023** **December 31, 2023**, the interest rate on the Term Loan Facility was 7.30%. We amended our 2021 Credit Agreement 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 LIBOR.

We had cash and cash equivalents of **\$88.4 million** **\$54.1 million** and \$127.2 million as of **September 30, 2023** **December 31, 2023** and June 30, 2023, respectively, which are deposited with high credit quality financial institutions and are primarily in demand deposit accounts.

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

We had short-term investments of **\$46.8 million** **\$44.7 million** and \$46.2 million as of **September 30, 2023** **December 31, 2023** and June 30, 2023, respectively, which are primarily invested in managed income funds managed by major financial institutions. The funds mainly invest in investment grade, U.S. denominated short-term fixed and floating rate debt securities. Securities are subject to market risk and sensitive to changes in interest rates. While the instruments held by the funds are generally less sensitive to interest rate changes than instruments with longer maturities due to their short-term nature, the funds may face a heightened level of interest rate risk due to changes in monetary policy. During periods when interest rates are low or negative, the funds yields, and total returns may also be low, or the funds may be unable to maintain positive returns. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on these short-term investments.

#### **Inflation risk**

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

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

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

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that **these** **our** disclosure controls and procedures were effective as of **September 30, 2023** **December 31, 2023**.

#### **Changes to our in Internal Controls over Financial Reporting**

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

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

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

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

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

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

### Item 6. Exhibits

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

#### EXHIBIT INDEX

Exhibit No.	Description
3.1	<a href="#">Second Amended and Restated Certificate of Incorporation of InnovAge Holding Corp., filed March 3, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on March 8, 2021).</a>
3.2	<a href="#">Amended and Restated Bylaws of InnovAge Holding Corp., effective March 3, 2021 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on March 8, 2021).</a>
10.1	<a href="#">Employment Class B Unit Award Agreement, dated as of July 3, 2023 December 18, 2023, by and between Total Community Options, Inc. TCO Group Holdings, L.P. and Benjamin C. Adams Nicole D'Amato (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 5, 2023 December 19, 2023).</a>
10.2	<a href="#">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).</a>
10.3	<a href="#">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).</a>
10.4	<a href="#">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).</a>
10.5	<a href="#">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).</a>
31.1	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1†	<a href="#">Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2†	<a href="#">Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document

104 Cover Page  
 Interactive Data  
 File (formatted  
 in Inline XBRL  
 and contained  
 in Exhibit 101)

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

#### SIGNATURES

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

**INNOVAGE HOLDING CORP.**

Date: **November 7, 2023** **February 6, 2024**

By: **/s/ Benjamin C. Adams**

Name: **Benjamin C. Adams**

Title: **Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)**

**4347**

**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: **November 7, 2023** **February 6, 2024**

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, 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: **November 7, 2023** February 6, 2024

By: /s/ Benjamin C. Adams  
Name: 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 **September 30, 2023** December 31, 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: November 7, 2023 February 6, 2024

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 September 30, 2023 December 31, 2023 as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Benjamin C. Adams, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: November 7, 2023 February 6, 2024

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

#### DISCLAIMER

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