

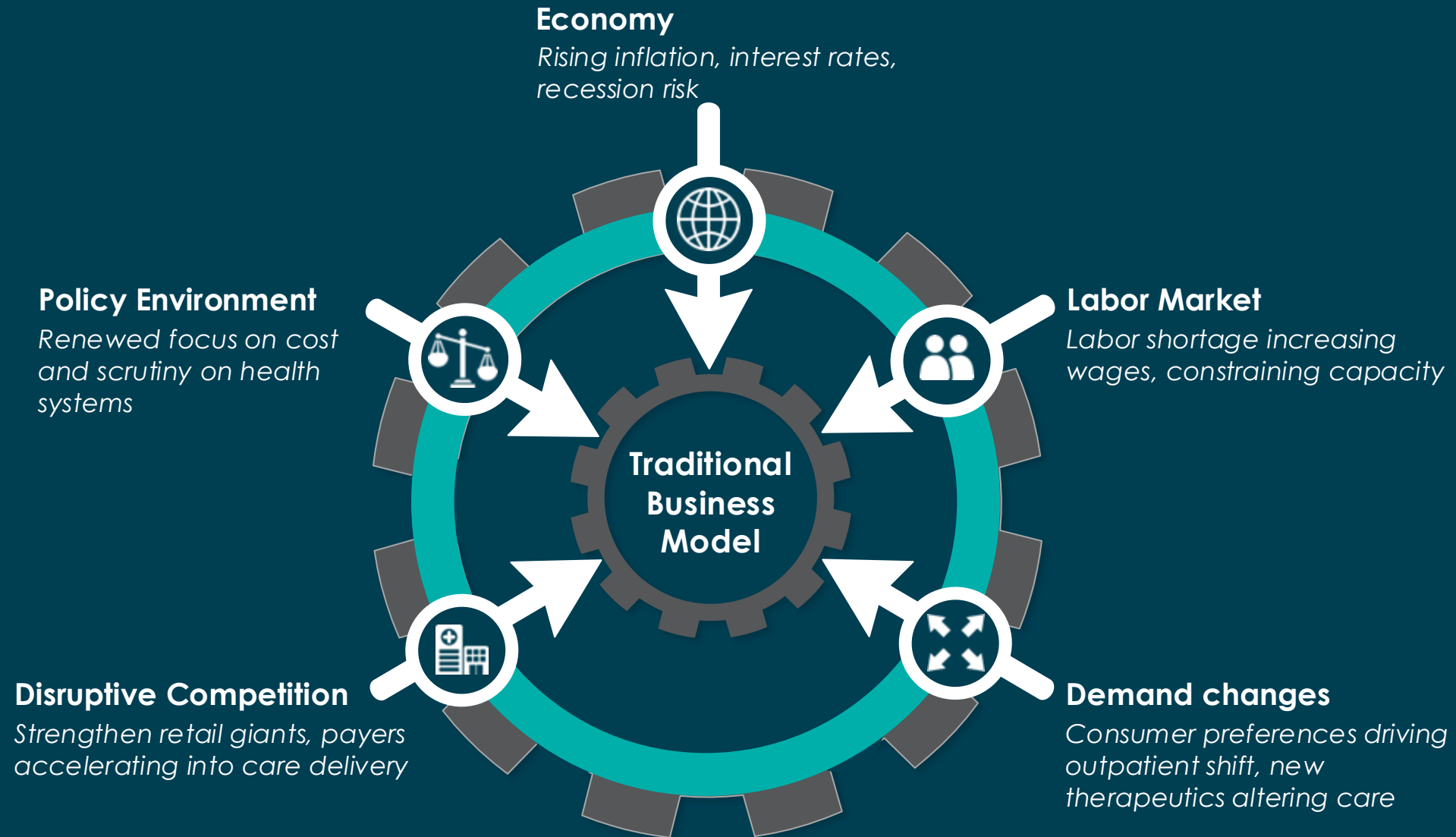
October 15, 2024

HEALTH SYSTEM OF THE FUTURE

Strategy in a Changing Healthcare
Landscape

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Market Forces Pressuring Traditional Healthcare Business Model



Assessing the Impact of the 2024 Elections



Trump

- Return to emphasis on market-driven solutions
- Preference for Medicare Advantage, (heavily) managed Medicaid
- Consumer transparency a key theme
- Emphasis on state-level policies
- Lowering subsidies and support for ACA exchanges



Harris

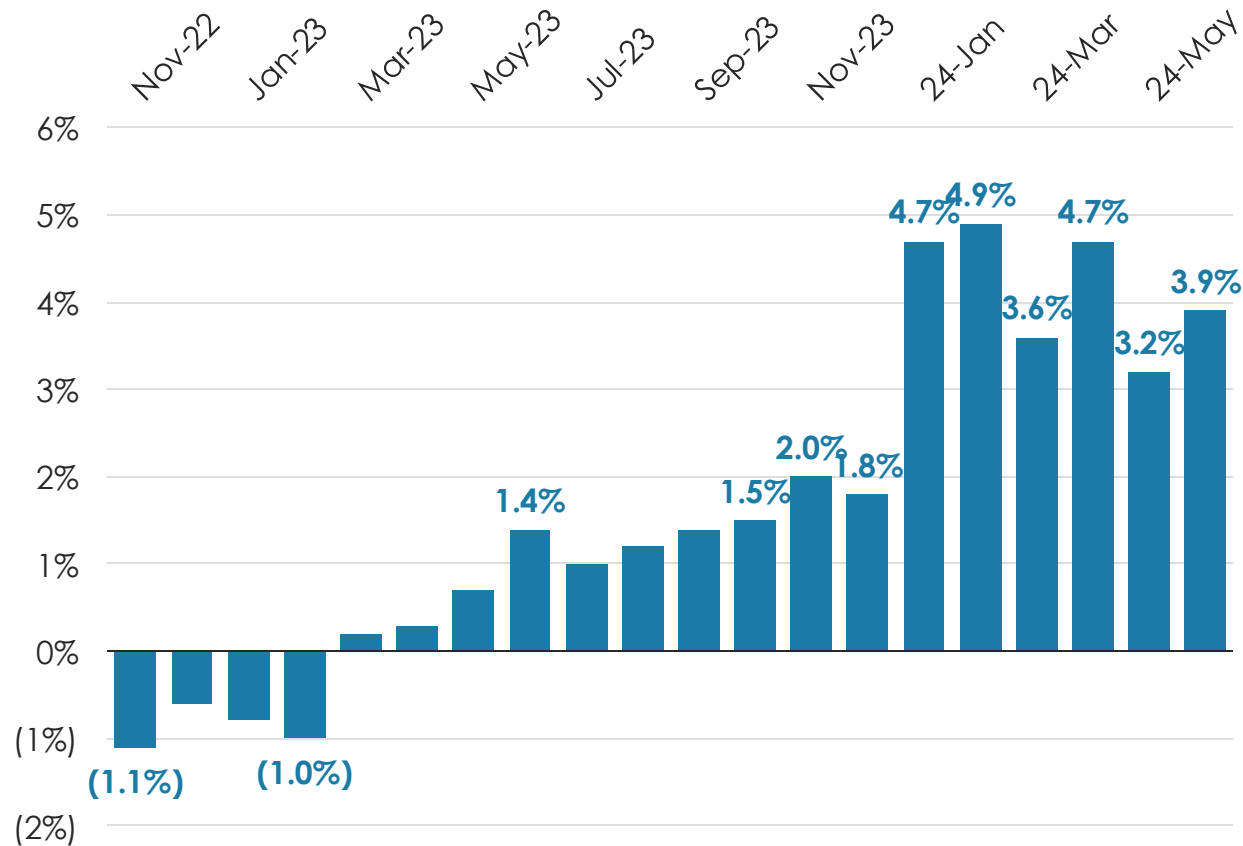
- Greater scrutiny of consolidation, emphasis on antitrust policy
- More focus on bolstering traditional Medicare, expanding home health
- Reference pricing, site-neutral payment, other pricing controls become paramount
- Reproductive rights a key theme

4 Mean Hospital Margins Stabilizing, but Systems without Scale and Depth Still Struggling

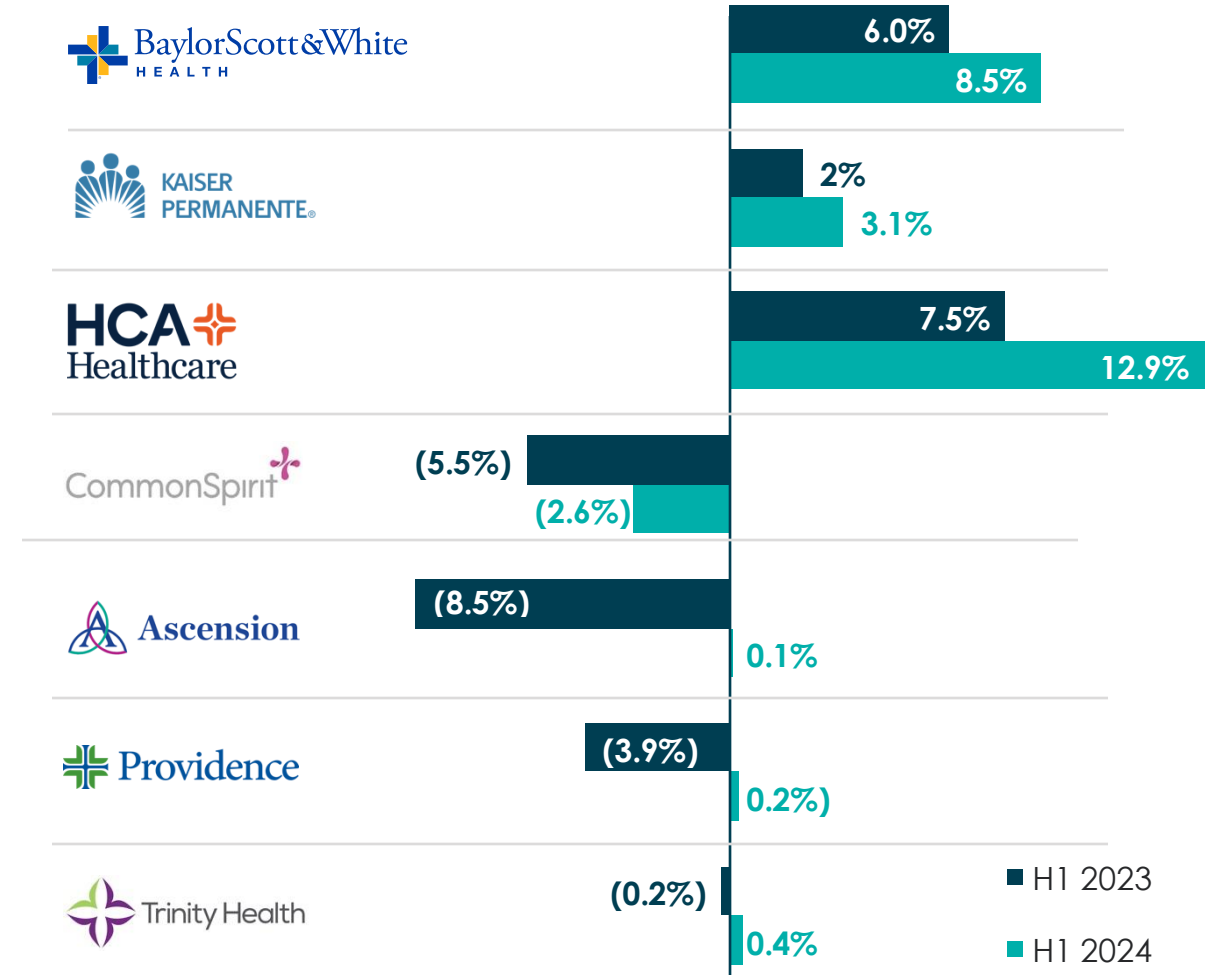
Largest Nonprofit Health Systems Reporting Far Worse Operating Margins Than For-Profit Counterparts

Median Hospital Operating Margin, by Month

n = 1,300+ hospitals



National Health Systems' Operating Margins, H1 2024 v. H1 2023

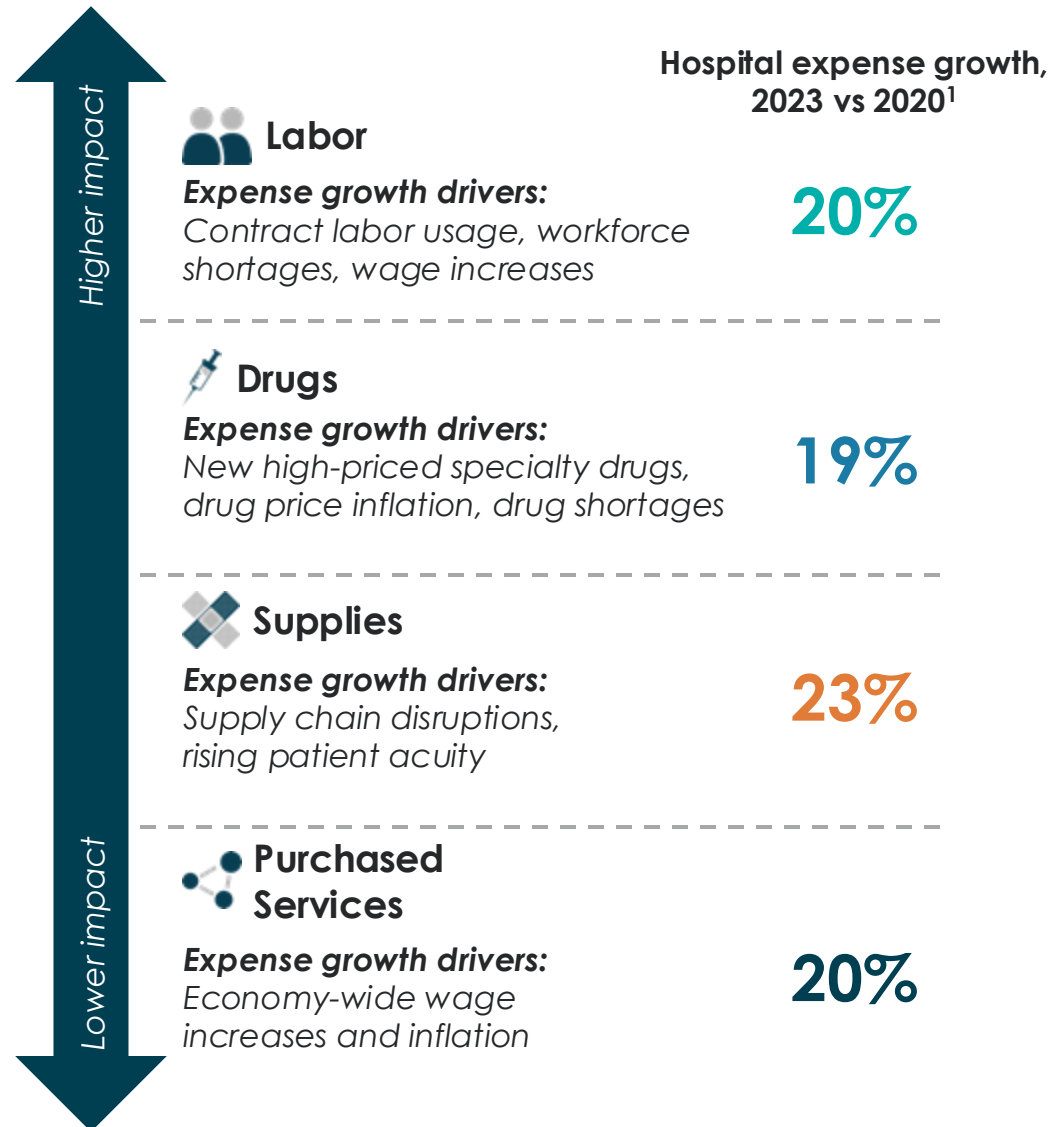


Source: National Hospital Flash Report", Kaufman Hall, January 2023; Publicly available investor forms, various health systems.

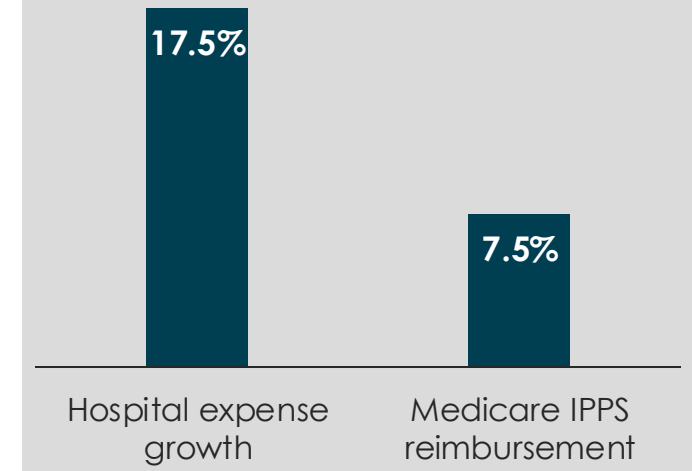
Labor Crisis Abating, but Salaries “Rebased” Across Healthcare

Workforce shortages and historic inflation have driven increases in all major expense categories; while inflation may abate, higher wages set a new floor for health system labor costs

Impact of Expense Growth on Hospital Margins



Cumulative Growth of Hospital Expenses and Medicare IPPS³ Reimbursement 2019-2022



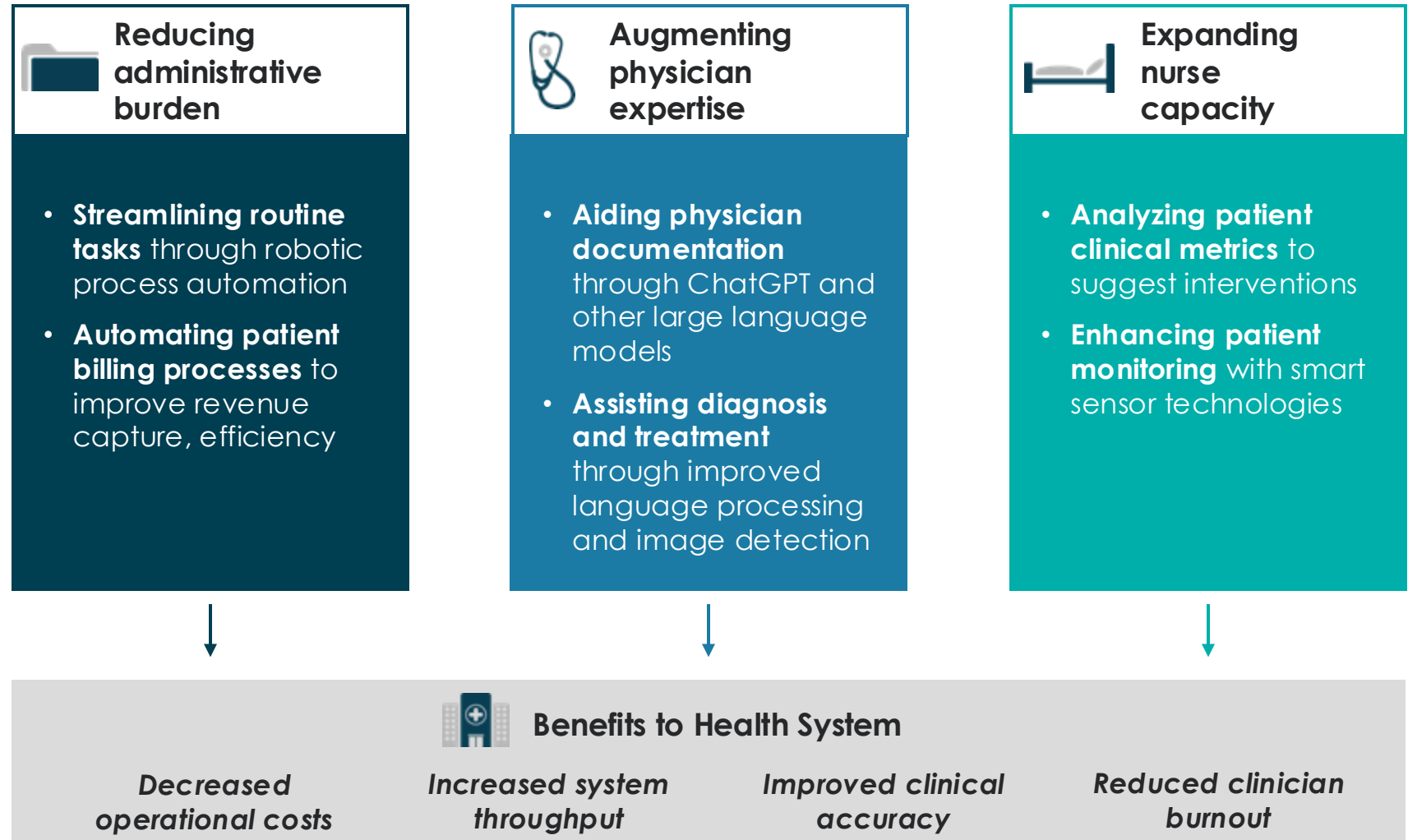
1. Median change in cumulative expenses, Jan.-Nov. of each year.
 2. Includes salaries, wages, and benefits
 3. Inpatient prospective payment system.

Source: Swanson, Erik, "National Hospital Flash Report: December 2023", 8 Jan. 2024; Holloran, Kevin, et al, "Controlling Labor Costs Will be Key to NFP Hospital Margin Improvement", Fitch Ratings, 2 Oct. 2023; "Cost of Caring 2023", American Hospital Association, 1 Apr. 2023; Gist Healthcare analysis.

Looking to AI to Cure Healthcare's "Cost Disease"

Rather than zero-sum competition, the AI race stands to move the healthcare industry collectively toward efficiency, reducing unit costs by improving labor productivity

How AI Can Lower Unit Costs of Care by Improving Health System Productivity



Wildcard: Predicting the Next Era of Pharma Innovation

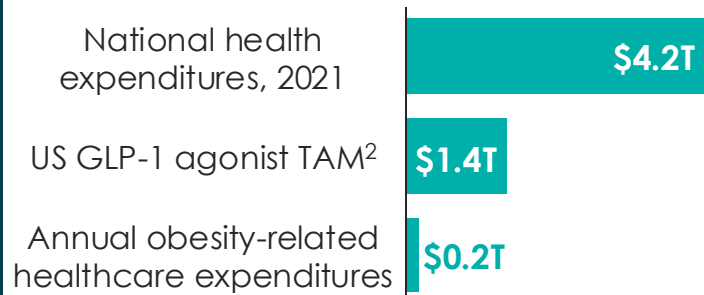
GLP-1 drugs like Novo Nordisk's Wegovy and Eli Lilly's Mounjaro are projected for billions of dollars in sales for obesity alone; their impacts on downstream care are myriad and long-lasting

How Next-Generation Weight Loss Drugs Could Disrupt US Healthcare

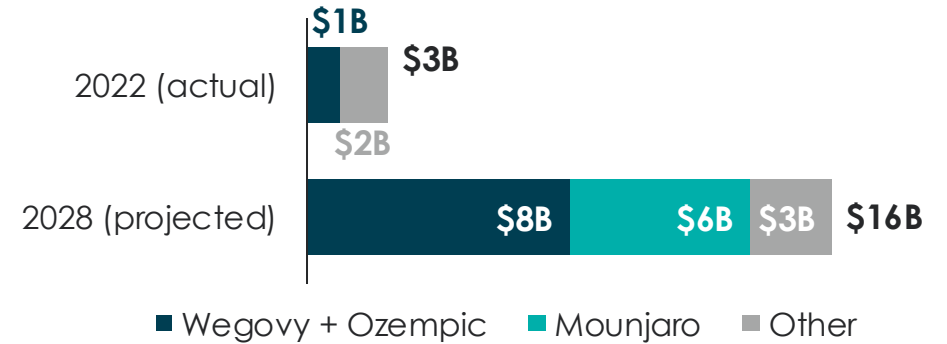
US Total Addressable Market (TAM) for GLP-1 Agonist Weight-Loss Drugs

- 70M** Number of US adults with obesity¹
- \$1.6K** Average retail price for one-month supply of Wegovy
- \$1.4T** Annual cost if every US adult with obesity was prescribed a GLP-1 agonist

Comparing Potential Sales to Current US Healthcare Expenditures



Actual and Projected Drug Sales for Obesity Treatments³



Potential Consequences for Health Systems of the Weight-Loss Drug Revolution



Reduced metabolic disease burden

- Obesity is associated with increased heart disease, type 2 diabetes, and hypertension



Reduced demand for surgeries

- Heavier weight can exacerbate joint degradation, leading to more knee and hip replacements



Rise in diseases of advanced age

- Cancer, Alzheimer's and other diseases of the elderly poised to grow

1. Defined as BMI of 30 or higher.
 2. Total addressable market.
 3. Excludes projected sales for diabetes treatment using these drugs.

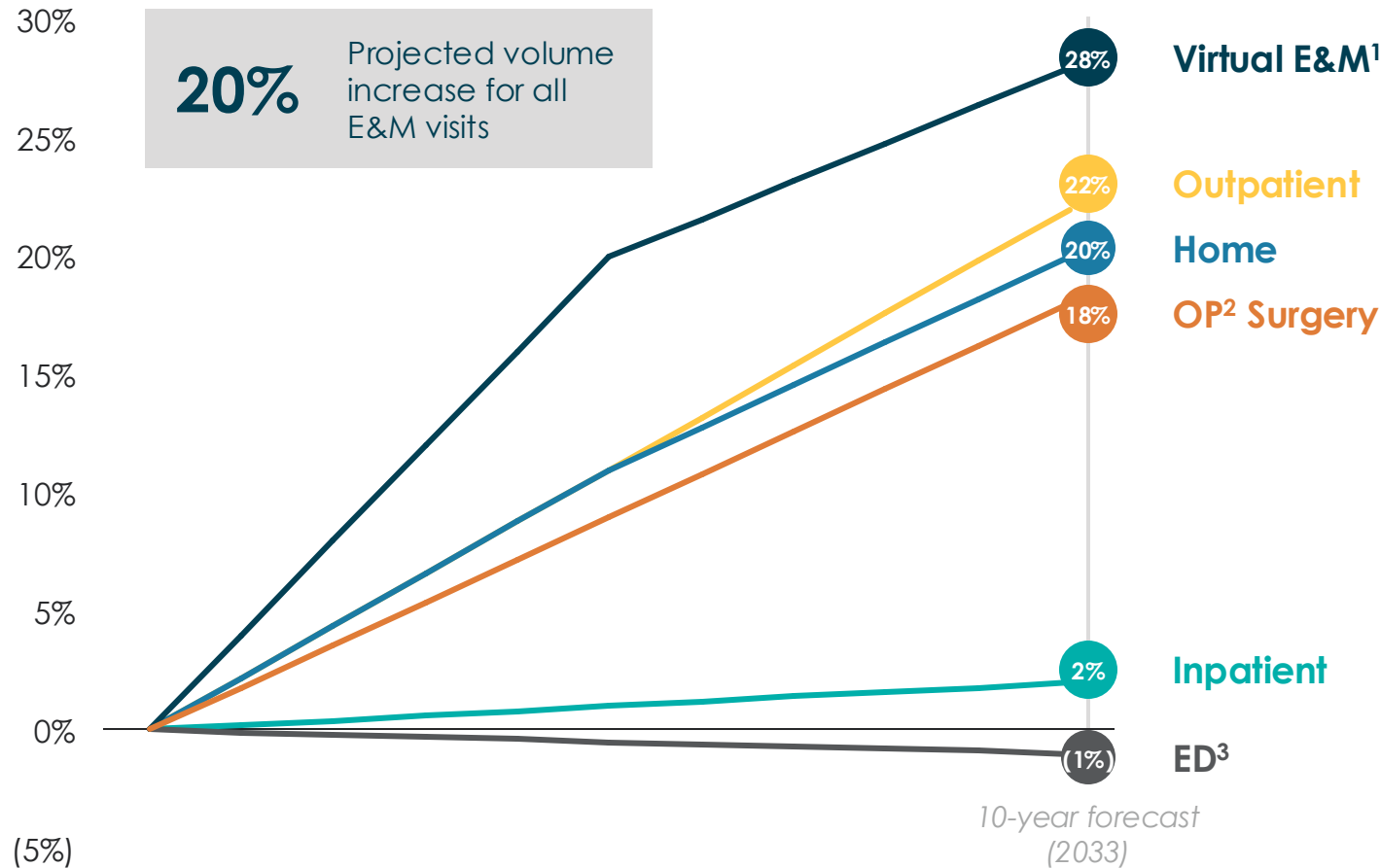
Source: Centers for Disease Control and Prevention. "Adult Obesity Facts". Acc. 14 Apr. 2023; Agosto, Arelis. "Diabetes Management: Massive Addressable Market Spurs Innovative Solutions." *Global X*. 12 Apr. 2023; G&t Healthcare analysis.

DEMAND CHANGES

8 **Forecast: Virtual, Outpatient and Home Projected to be Fastest Growing Sites of Care Over Next Decade**

Outpatient Services Projection Fueled Predominately by ASC Growth

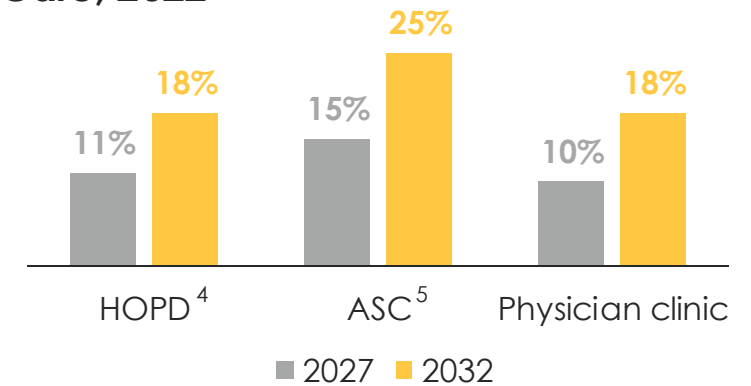
Percentage Change in Adult Healthcare Volumes Forecast, 2023



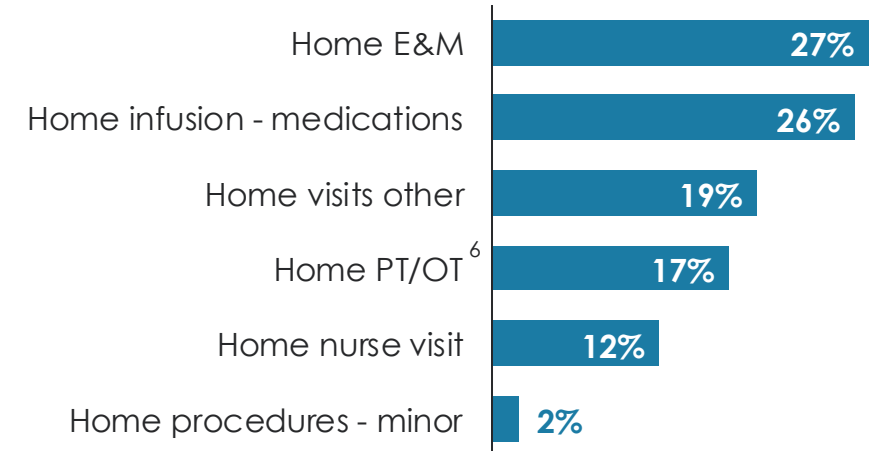
1. Evaluation and management.
2. Outpatient.
3. Emergency department.

4. Hospital outpatient department.
5. Ambulatory surgery center.
6. Physical therapy/ occupational therapy.

Projected Volumes Growth for Outpatient Care, 2022



Ten-Year Forecast for Growth of Home Services, 2023

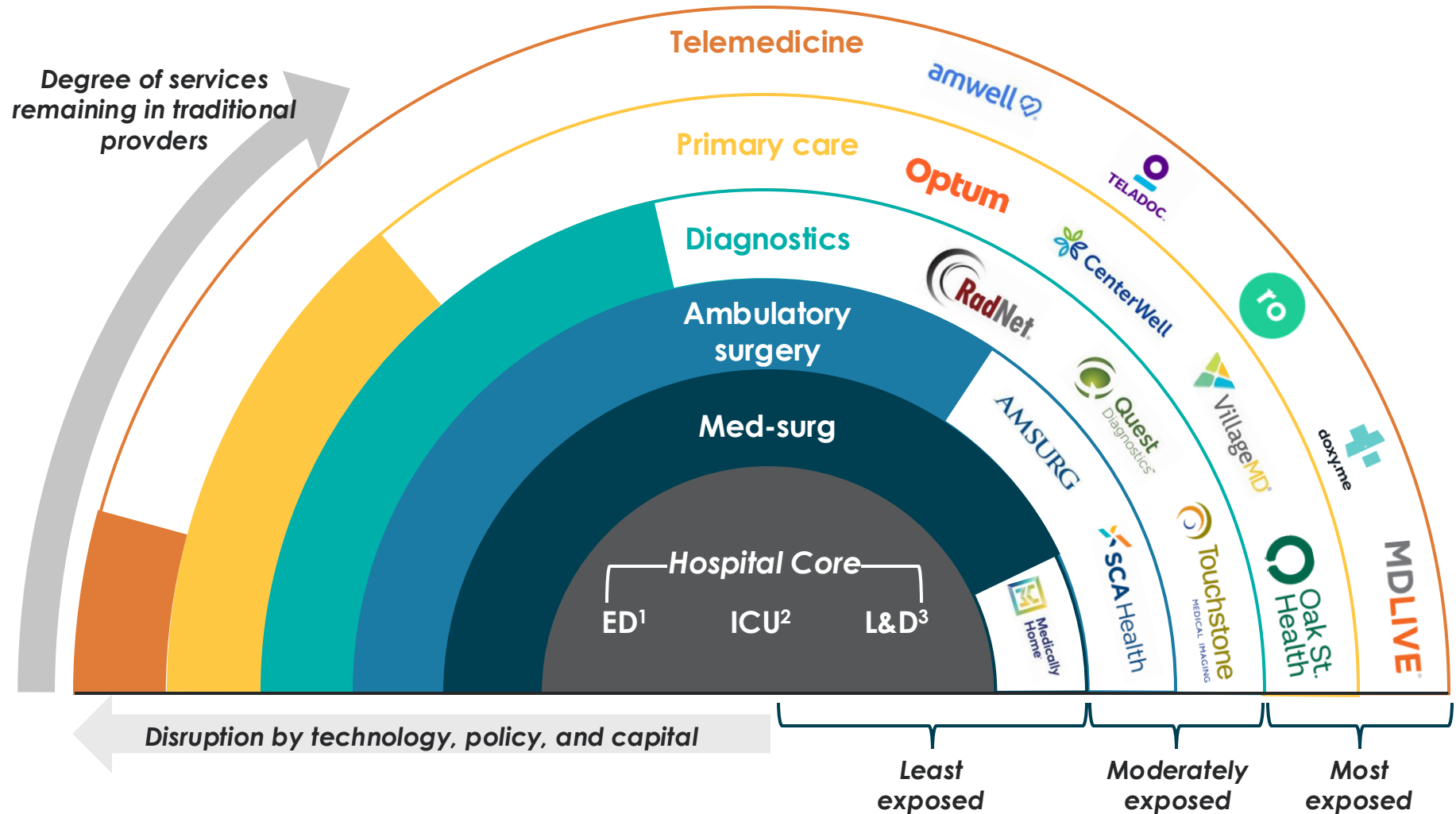


Source: "2023 Impact of Change@ Forecast Report". SG2 Healthcare Intelligence. June 2023; "2022 Impact of Change@ Forecast Report". SG2 Healthcare Intelligence. 7 June 2022; Gist Healthcare analysis.

Competitors Stripping Away Layers of Health System Services

Steady shift of care to other settings, delivered by other players, puts health systems at risk of being left with an economically unsustainable book of business

Health Systems Risk Being Reduced to their Core



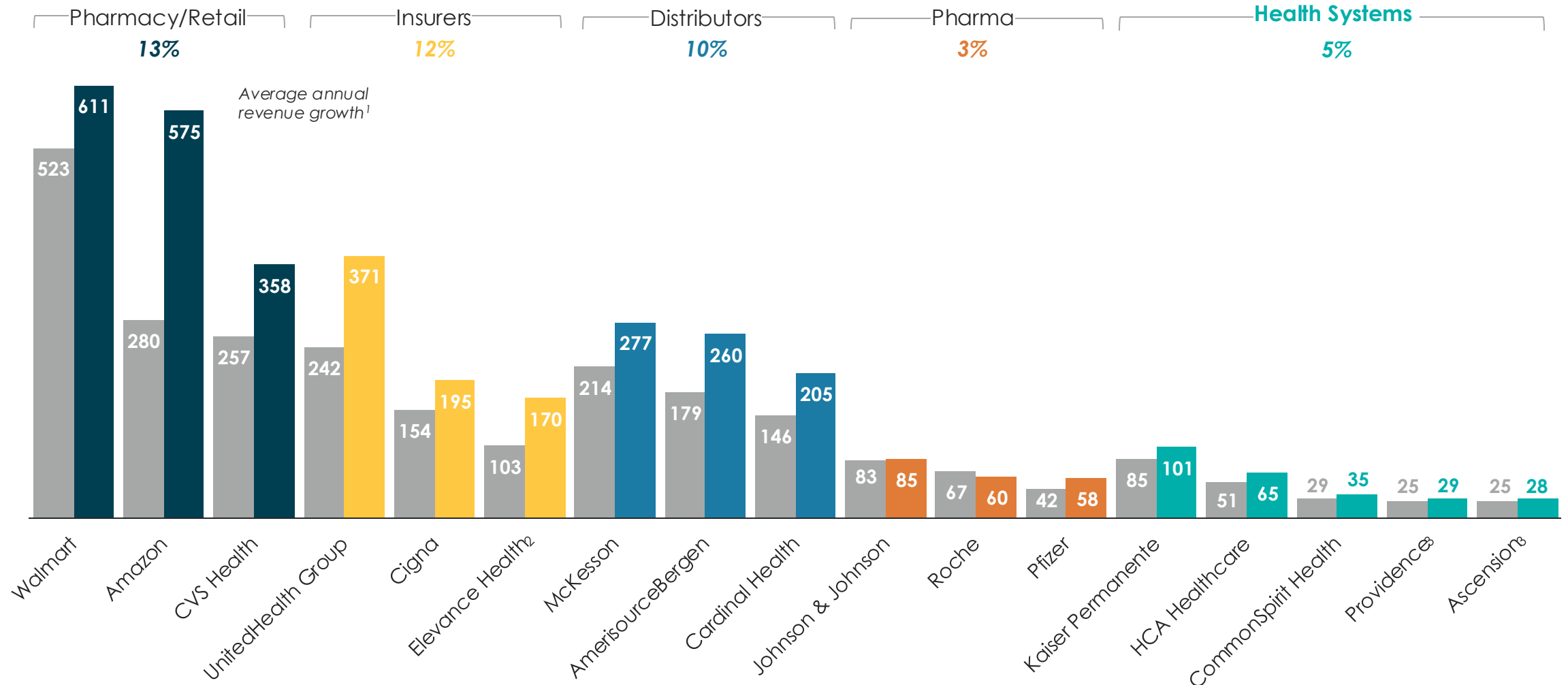
1. Emergency department.
2. Intensive care unit.
3. Labor and delivery.

The New Competitive Landscape for Healthcare

Annual Revenue of Largest Healthcare Companies and Health Systems

Billions of Dollars

■ 2019 ■ 2022



Average annual revenue growth¹

















1. Average of annual revenue growth among companies shown in each segment over 4 years..

Source: Publicly-available financial statements and investor reports; Kaufman Hall. "National Hospital Flash Report". Jan. 2023; Gist Healthcare analysis.

Some Retail Pharmacy Giants Questioning Ambitious Strategies

11

Partnering with Physicians and Expanding Care Services

	Full-Service Primary Care	Retail Health Clinics	Virtual Care Capabilities	Medicare Advantage
	<ul style="list-style-type: none"> Purchased Oak Street Health, with 600 providers at 169 clinics across 21 states 	<ul style="list-style-type: none"> 100+ HealthHUBs for chronic disease management 1,100+ MinuteClinics for low-acuity care 	<ul style="list-style-type: none"> Rolling out virtual services for primary care, mental health via Amwell in 2023 	<ul style="list-style-type: none"> Aetna covers 4M MA¹ beneficiaries, 12% of total market in 2022\4 
	<ul style="list-style-type: none"> Now divesting many VillageMD practices 	<ul style="list-style-type: none"> Opening ~100 Walgreens Health Corners for testing and nurse consultations, partnered with MA provider Clover Clover Health 	<ul style="list-style-type: none"> Walgreens Find Care platform can connect patients to virtual providers 	<ul style="list-style-type: none"> Cobranded MA plans with UHG² as preferred network pharmacy 
	<ul style="list-style-type: none"> Announced closure in April of all 51 full-service primary care Walmart Health Centers 	<ul style="list-style-type: none"> Walmart Care Clinics provide more limited health services within Supercenters 	<ul style="list-style-type: none"> Sold telemedicine provider MeMD to Fabric in July 	<ul style="list-style-type: none"> Ended co-branded plan partnership with UHG targeting MA lives 
	<ul style="list-style-type: none"> Purchased One Medical, with 815K members and 200 physician offices in metropolitan areas 		<ul style="list-style-type: none"> Amazon Clinic offers self-pay, virtual care for 33 conditions, using Amazon Pharmacy prescriptions 	<ul style="list-style-type: none"> Owns Iora Health, primary care provider with 39K MA beneficiaries, now One Medical Senior Care 

Source: Condon, A. "Corporate giants ramp up primary care deals". *Becker's Hospital Review*. May 8, 2023; Tully, Shawn. "CVS is about to turn hundreds of its drugstores into health care super-clinics." *Fortune*. 4 Oct. 2021; Freed, et al. "Medicare Advantage in 2022: Enrollment Update and Key Trends." *Kaiser Family Foundation*. 25 Aug. 2022; Various press releases and investor presentations; Gist Healthcare analysis.

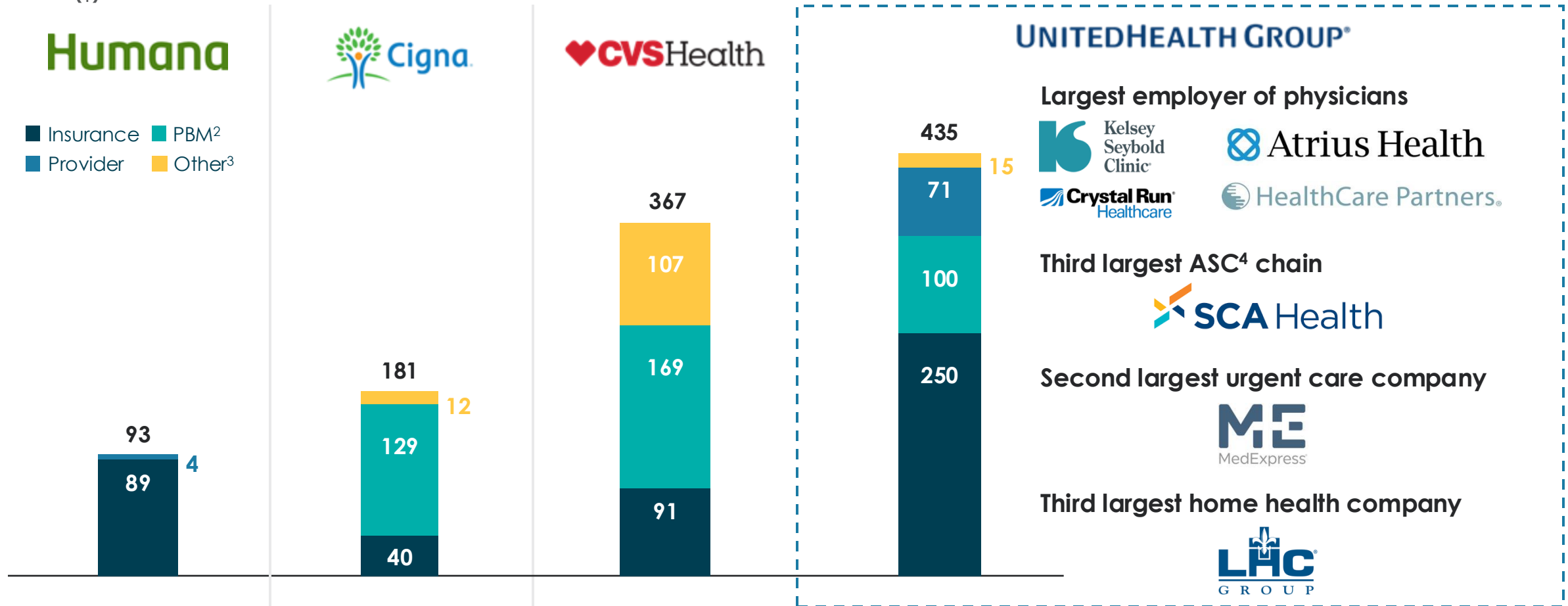
1. Medicare Advantage.
2. UnitedHealth Group.

Large Payers Retooling to Become Full-Stack Healthcare Platforms

Making Significant Investments in Provider Assets

2022 Annual Revenue of Major Payers, by Segment¹

Billions (\$)



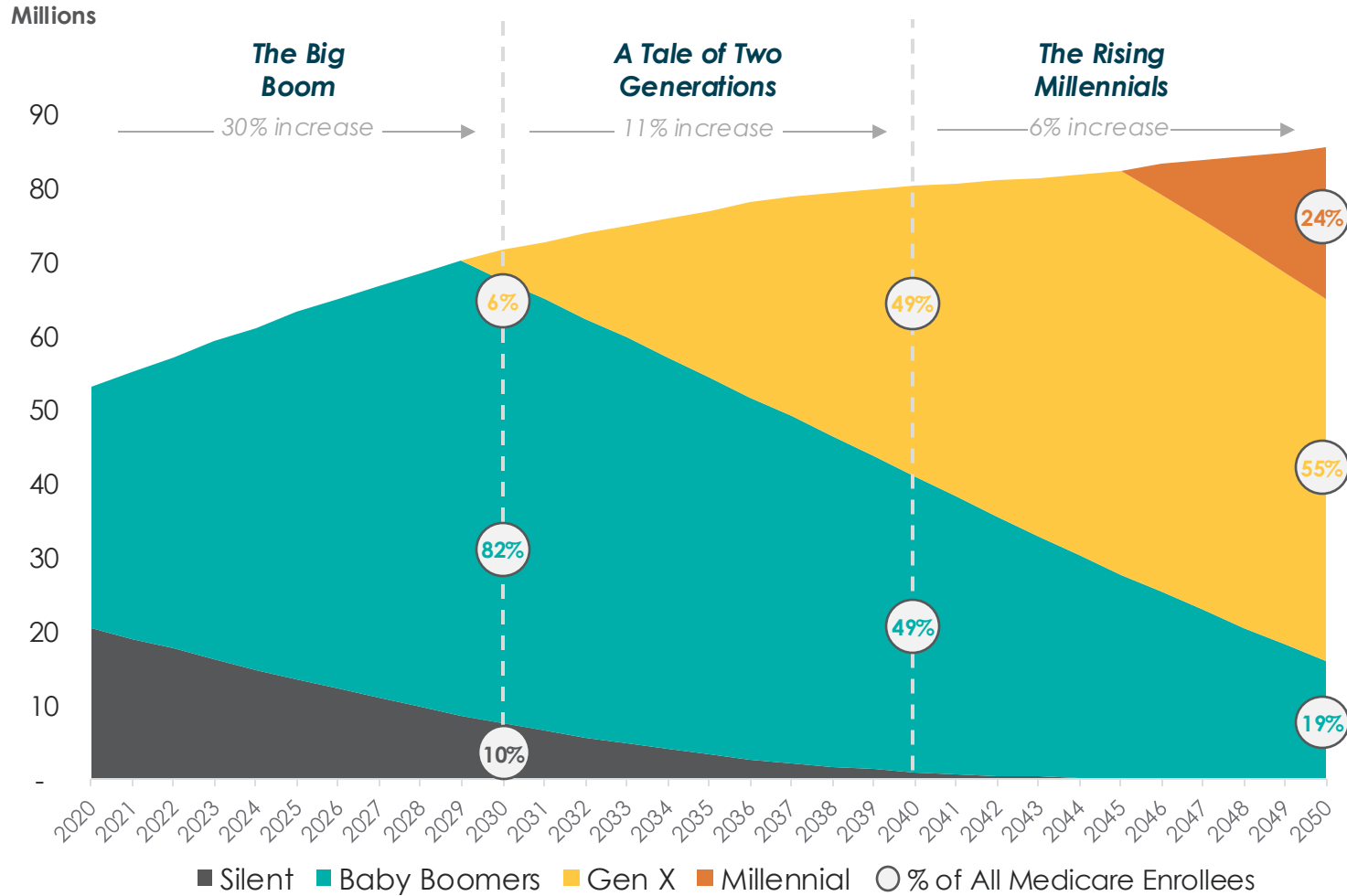
1. Intersegment revenue included.
 2. Pharmacy benefit management.
 3. Other categories: UnitedHealth Group's Optum Insight; CVS's MinuteClinic, retail, and long-term care revenues; Cigna's fees, other revenues, and net investment income; Elevance's integrated health services.
 4. Ambulatory surgery center.

Source: Newitt, P. "Behind Optum's physician acquisition strategy." *Becker's Hospital Review*. Apr. 27, 2023; 2022 Q4 Earnings Report. Various Payers. Jan-Feb 2023; Publicly available press releases; Gist Healthcare analysis.

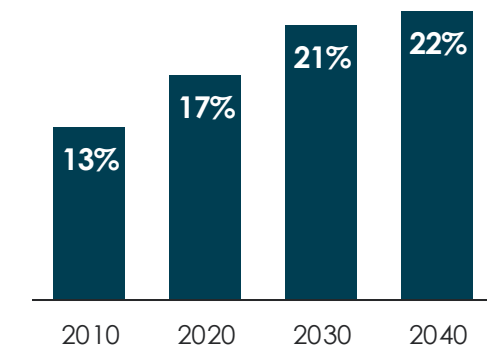
Driven by a Tacit Privatization of the Medicare Program

Medicare Advantage Expected to Grow Substantially Over Next Decade or More

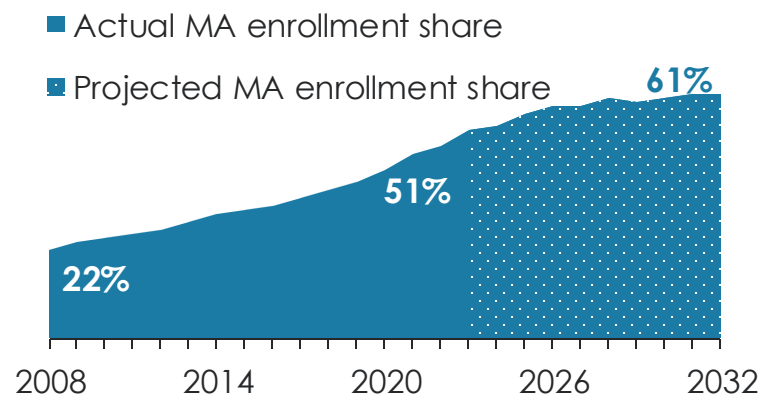
Projected Number of Medicare-Aged Population¹ by Generation²



Percentage of Total Population Over 65



MA³ Share of Total Medicare Enrollment, Actual and Projected



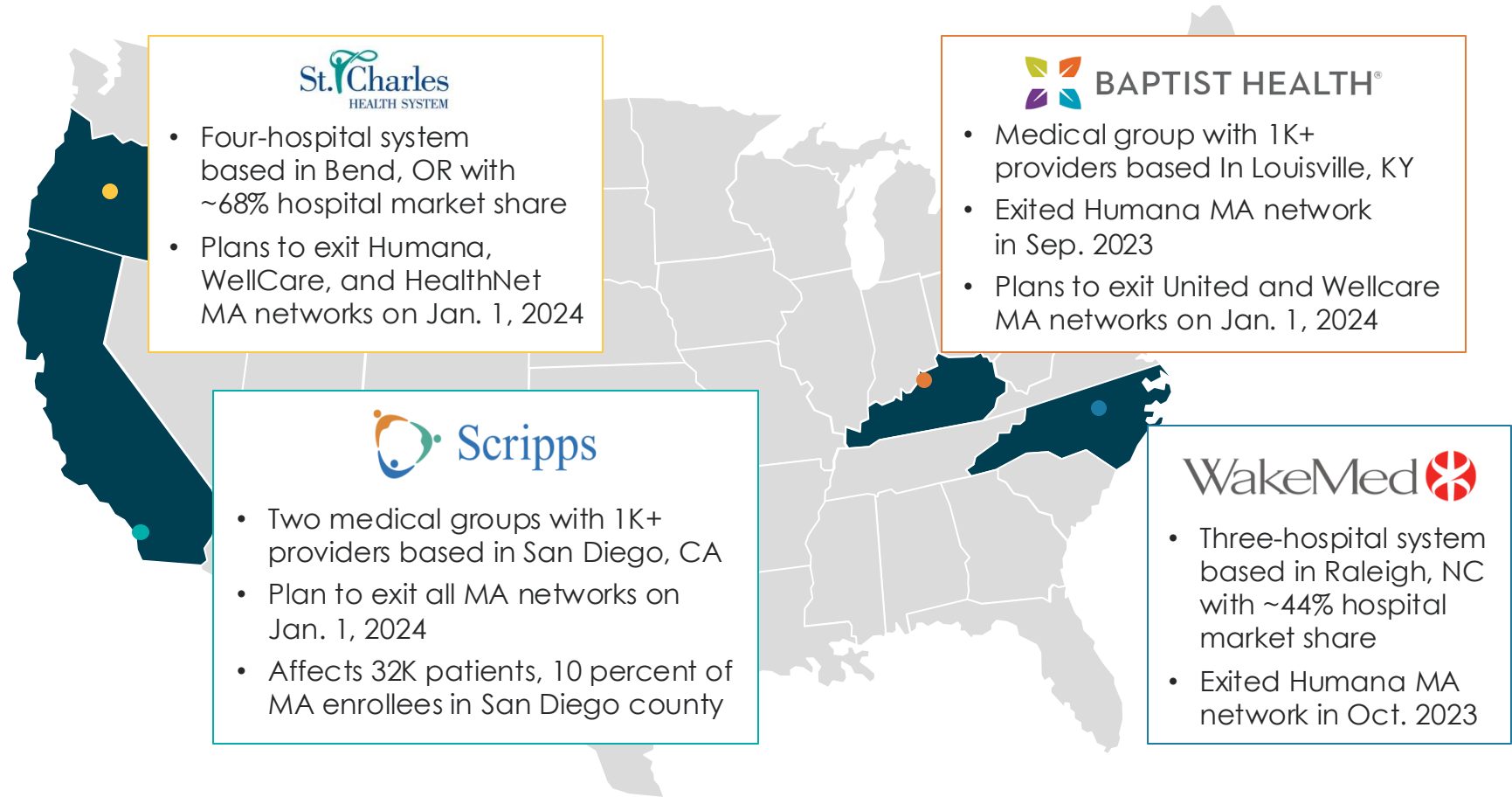
1. Excludes disabled population enrolled in Medicare.
 2. Definition of generations: Silent (1928-45); Boomers (1946-64); Gen X (1965-80); Millennials (1981-96). Gen Z (1997-2012).
 3. Medicare Advantage.

Source: US Census Bureau. "Data." 2017 National Population Projections Datasets. United States Census Bureau, 06 Sept. 2018. Web; 2021 Annual Report of The Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medicare Insurance Trust Funds. Medicare Board of Trustees, 30 Aug. 2021; Freed, M. et al. "Medicare Advantage in 2023: Enrollment Update and Key Trends". 25 Aug. 2022 Gist Healthcare analysis

Providers Exiting Medicare Advantage Networks

An increasing number of prominent health systems and medical groups are exiting Medicare Advantage networks due to financial pressures amid adverse negotiations with payers

Examples of Providers and MA¹ Networks in Contentious Negotiations



Top Health System Complaints re MA plans



Insufficient Reimbursement



Increasing Prior Auth and Denials



Delayed Discharge to Postacute Care




Source: Wallace, C. "ECU Health, WakeMed to Drop Humana Medicare Advantage Plan Members, Becker's ASC Review, 23 Oct. 23; "St. Charles Health System Dropping Three Medicare Advantage Plans; Four Remain in Place for 2024", KTVZ News, 5 Oct. 2023; Henry, K. "Two Scripps Health Groups are Dropping Medicare Advantage Plans in 2024", NBC San Diego, 1 Oct. 2023; Watkins, M. "Baptist Health May Go Out-of-Network with UnitedHealthcare and Wellcare's Medicare Advantage plans", Louisville Public Media, 19 Oct. 2023; Various Fitch Ratings "Health System Analyses, Fitch Ratings, 2021; "Bend, OR Healthcare Charts", Town Charts; Gist Healthcare analysis.

1. Medicare Advantage.

New Combinations Targeting Value Beyond Leverage Alone

With the Biden administration blocking horizontal mergers within markets, health systems have found opportunities to pursue cross-market scale from neighboring regions, states, and beyond

Pursuing Cross-Market M&A

 <p>Intermountain[®] Healthcare SCL Health</p> <p>\$ Over \$14B combined annual revenue</p> <p>33 hospitals in seven states</p> <p>Scaling IM's health plan (SelectHealth) and VBC¹ platform (Castell)</p>	 <p>AdvocateAuroraHealth[®] Atrium Health</p> <p>\$ Over \$27B combined annual revenue</p> <p>67 hospitals in six states</p> <p>Enabling joint, large-scale investments in new capabilities</p>	 <p>UnityPoint Health PRESBYTERIAN</p> <p>\$ Over \$11B combined annual revenue²</p> <p>48 hospitals in four states</p> <p>Growing reach for systems focused on value-based care</p>
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Key attributes:

- No geographic market overlap
- Access to complimentary or higher-growth markets
- Allows for revenue stream diversification
- Systems preserve individual brands

Case in point: Recent Health System "Mega-Mergers"



1. Value-based care platform.
2. Merger has not yet closed.

Source Muoio, D. "UnityPoint Health, Presbyterian Healthcare Set Sights on 40-plus Hospital Merger". *Fierce Healthcare*. Mar. 2023; Liss, S. "Intermountain, SCL Health complete merger, forming \$12B system." *HealthcareDive*. 6 Apr. 2022; Muoio, D. "Nonprofit systems Advocate Aurora Health, Atrium Health announce \$27B, 67-hospital merger." *Fierce Healthcare*. 11 May 2022; Gist Healthcare analysis.

Creating a National “Value” Platform?

Kaiser Permanente's acquisition of Geisinger aimed at launching its Risant subsidiary to unite value-based health systems across the country

Kaiser Permanente Bets on Scaling via New Risant Subsidiary



Kaiser developing national care platform

- Leveraging expertise, resources to strengthen other health systems also focused on value-based care
- Seeking to reshape national healthcare landscape

Geisinger



Geisinger scaling value-based care efforts

- Accessing necessary funding, resources to enable faster path to growth, sustainability
- Maintaining its name and continuing to work with other health plans and providers



Risant Health convening like-minded health systems under a new model

- Nonprofit, separately operated subsidiary organization created by Kaiser Foundation Hospitals
- Looking to add 4-5 health systems across 5 years to reach \$35B total revenue

Risant Health Deal Details¹

\$ Financing

- Kaiser designated **\$5B to support Risant's core capabilities**
- Risant will allocate at least **\$2B to Geisinger for facility, capital upgrades and support**
- Risant will guarantee at least **\$215M to Geisinger to expand its health plan** and research programs

⚙️ Governance

- **Geisinger CEO Jaewon Ryu, MD**, will transition to become Risant's first CEO
- Risant will be **headquartered in Washington, DC**

Case in point: Risant Health

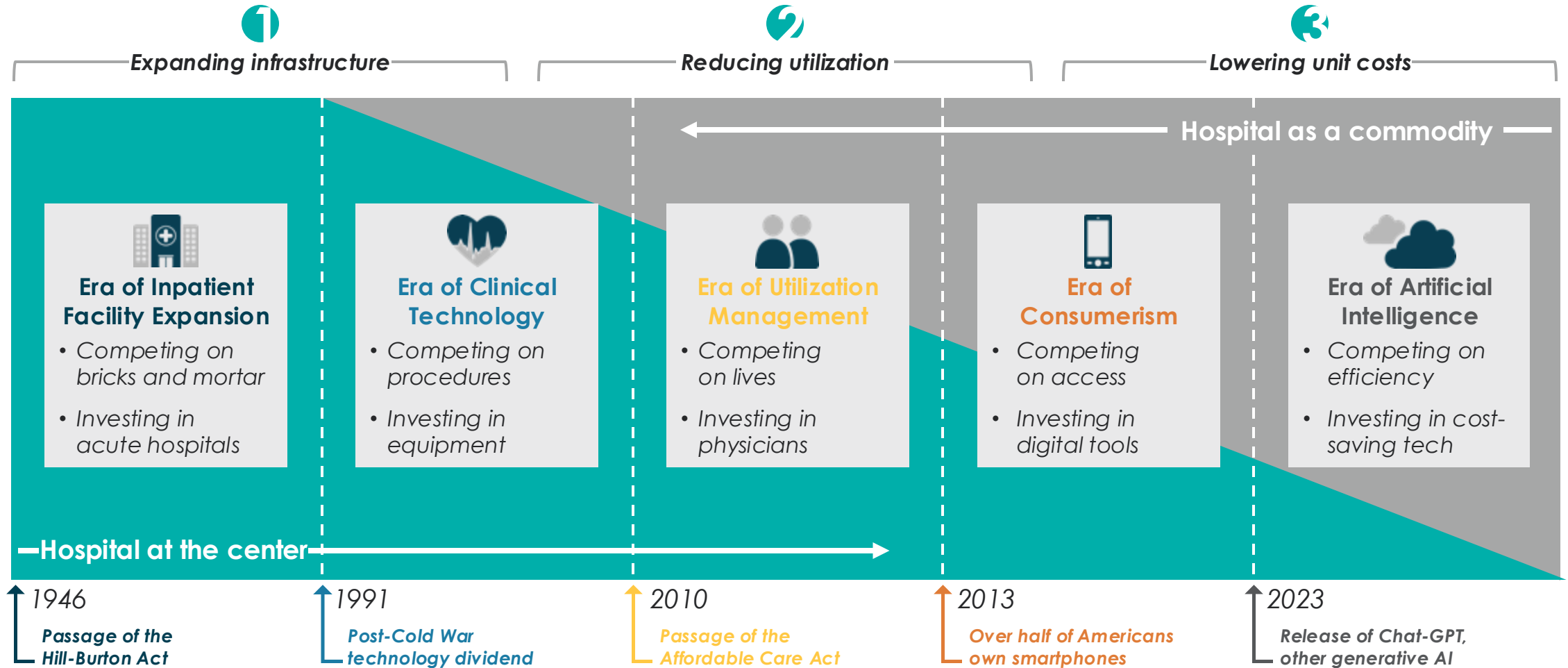


1. Deal not yet finalized.

Source: Muoio, D. "Kaiser Permanente to acquire Geisinger Health in bid to launch multisystem VBC platform". Fierce Healthcare. Apr. 26, 2023; "Risant Health offers value-based care expertise and capabilities to leading community-based health systems with a focus on raising the bar for high-quality and equitable health outcomes". Geisinger. Apr. 26, 2023; G1st Healthcare analysis.

Taking the Long View — Moving Toward a Distributed Care Model

Lower Cost Access Points, Data-Driven Approaches, and “Value” Shifting the Nexus of Care



Key Question: Who Will Act as the Consumer Aggregator?

Three market organizing principles are possible for the future healthcare market; each require health systems to consider whether they wish to assume the role of “subcontractor” or “general contractor”

How Will Healthcare Be Organized in the Future?

Health System Strategy Should Steer Toward a Central Role



1 Health systems without hospitals

- A few vertically-integrated, large health insurers function as “health systems without hospitals”, managing covered lives and care referrals within their owned ambulatory and virtual care delivery
 - **Vertically-integrated payers are the aggregator**
 - Health systems left in role of inpatient and specialty care subcontractors, competing mainly on price
- ▶ **Health system is a “subcontractor”**



2 Free market fragmentation

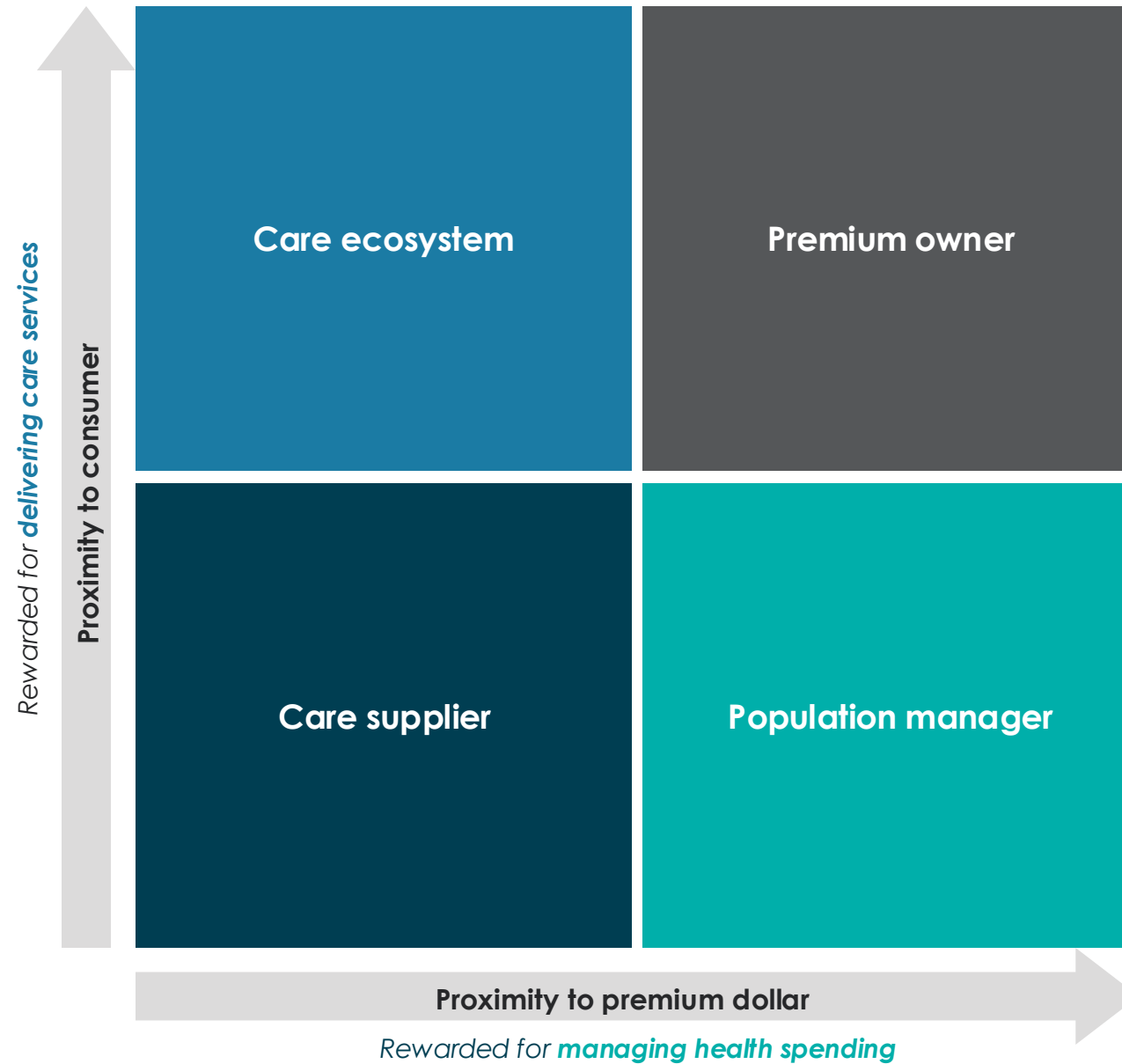
- Myriad point solutions offered by both legacy players and new disruptors, with no one entity offering a comprehensive platform
 - **Consumers are the default aggregator**
 - Health systems suffer “death by a thousand cuts” as providers compete service by service for individual consumer-driven referrals
- ▶ **Health system is “one of many”**



3 Health systems as platforms

- “Market-relevant” health systems create omnichannel population management and consumer loyalty platforms
 - **Regional health systems are the aggregator**
 - Health systems must develop or partner, through M&A if needed, the various competencies and services needed to provide full continuum coverage and manage risk
- ▶ **Health system is the “general contractor”**

Two Dimensions of Competitive Advantage Emerging



Focus on the “AARP” of Healthcare Value

Successful health systems must be able to deliver benefits—accessibility, affordability, reliability, and personalization—to consumers in excess of price paid, at every level of interaction

Adding Value Beyond Baseline Expectations

Providers Must Make Healthcare Accessible, Affordable, Reliable, and Personal

Consumer Value Equals Benefits Minus Price

