



The State of the Healthcare Industry Heading Into 2024

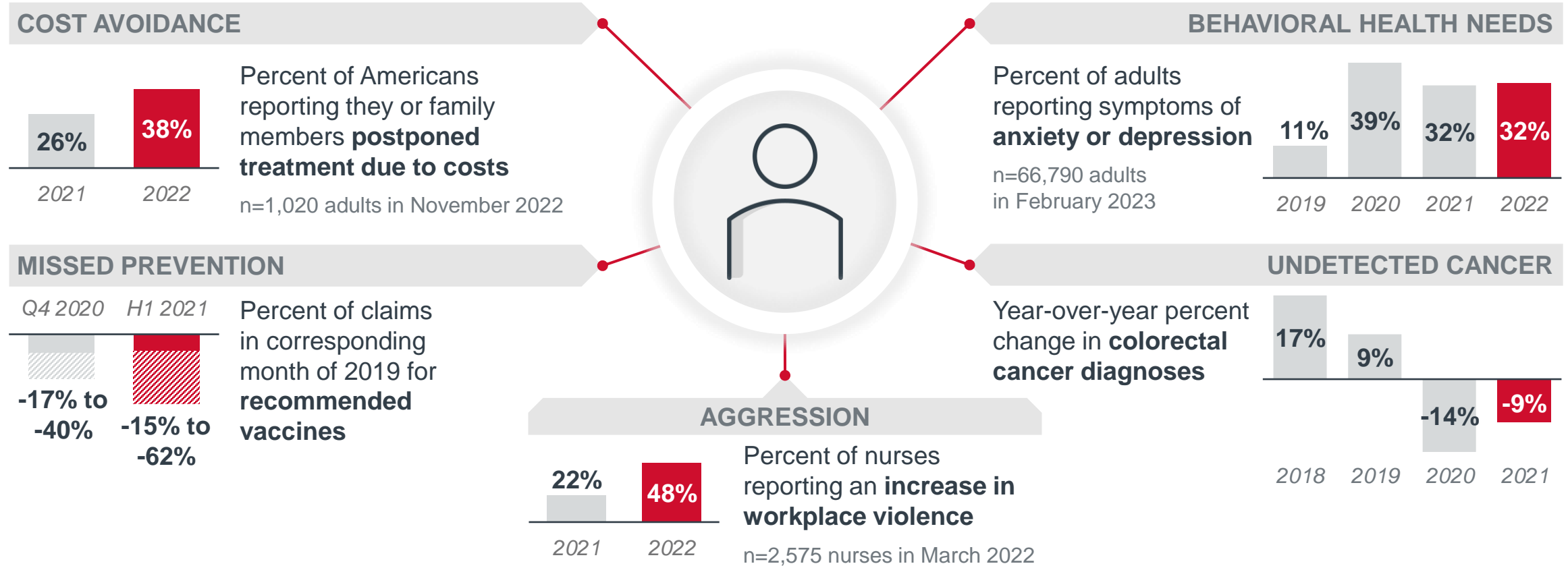
How to prepare for the future of longstanding paradigm shifts

Perhaps his best
decision.....



The patients are not alright

Characteristics of the patient emerging from the pandemic era



Source: "Declines in Routine Adult and Teen Vaccinations Continued in 2021," Avalere Health, January 2022; "Updated Analysis Finds Sustained Drop in Routine Vaccines Through 2020," Avalere Health, June 2021; "Record High in U.S. Put Off Medical Care Due to Cost in 2022," Gallup, January 2023; "Adults Reporting Symptoms of Anxiety or Depressive Disorder During COVID-19 Pandemic," KFF, 2023; "National nurse survey reveals significant increases in unsafe staffing, workplace violence, and moral distress," National Nurses United, April 2022; "Declining Cancer Screenings Suggest Increased Burden of Disease," Trilliant Health, April 2022.

A poor report card for our overall performance

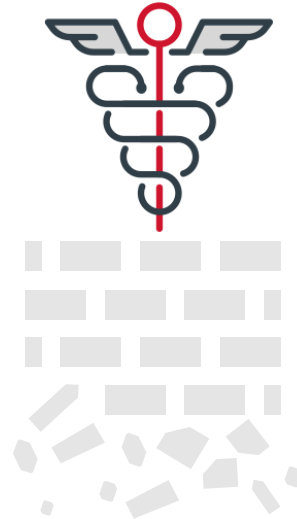
Declining quality outlook

19%
2021 to 2022
Increase in **adverse events** resulting in permanent/severe harm or death

38%
2020 to 2021
Increase in **maternal mortality** deaths per 100,000 live births

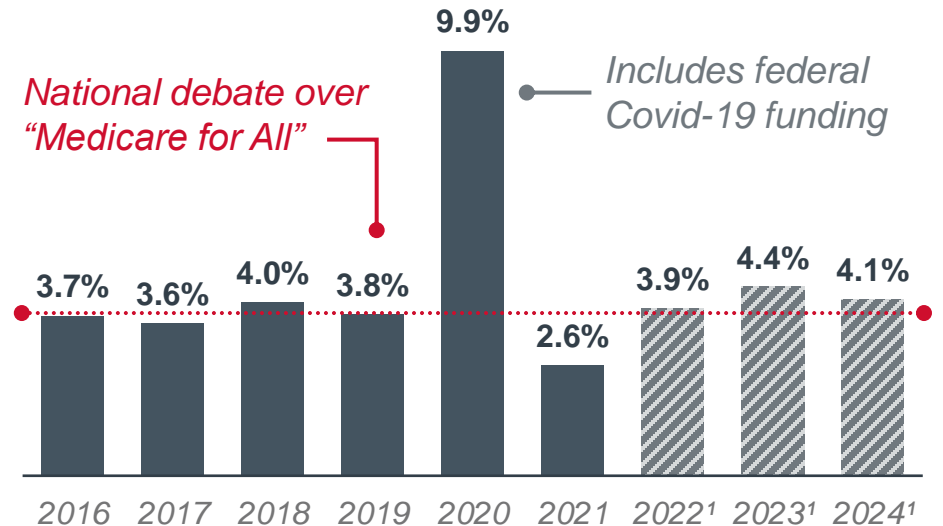
11PT
2021 to 2022
Increase in percent of nurses who are not satisfied with the **quality of care** they can provide in their current job
n=18,226 RNs in January 2023

73%
Adults believe the healthcare system is **not meeting their needs**
n=2,159 adults in March 2023



Looming spending pressures

Annual growth in health expenditures per capita



1. Projected.

Source: AAPA survey "The Patient Experience: Perspectives on Today's Healthcare," AAPA, April 2023; "The Pandemic's Consequences: Survey of Registered Nurses," AMN, January 2023; "Maternal Mortality Rates in the United States, 2021," CDC, 2023; "National Health Expenditure Projections," Health Affairs, June 2023; "Americans Sour on U.S. Healthcare Quality," Gallup, January 2023; "Sentinel Event Data 2022 Annual Review," The Joint Commission, 2023.

Tough economic climate even less forgiving

Difficult economic context for businesses in general

High operating costs

▲ **4.8%**

March 2023 YOY¹

Employment cost index

High borrowing costs

▲ **525 BPS**

May 2023 over March 2022

Federal interest rate

Volatile stock market

-19.4% **+15.9%**

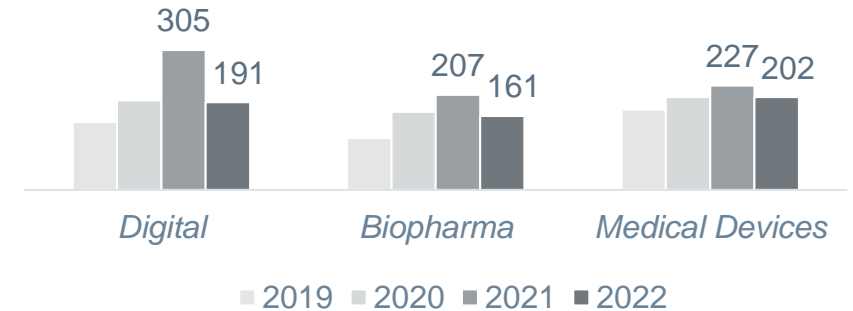
2022 YOY

2023 YTD to June

Change in S&P 500 value

Tough capital culls ventures

Number of strategic investment deals



Cumulative impact on healthcare incumbents

1 Continued investment income losses

▼ **185%**

Decline in investment income for 10 large nonprofit health systems (2022 YOY)

2 Capital and labor costs challenge traditional growth mechanisms

3 Ventures desperately seek established partners to prove business viability

1. Year-over-year..

Source: "ECL," BLS, April 2023; "2023 Q1 digital health funding," Rock Health, April 2023; "What's Behind Losses At Large Nonprofit Health Systems?" Health Affairs, March 2023; "2023 Healthcare and Life Sciences Investment Outlook," KPMG, January 2023; "Bright Health to sell Medicare Advantage arm, focus on NeueHealth," Modern Healthcare, April 2023; "Pear Therapeutics sold for parts at \$6 million auction," STAT, May 2023; NYSE 2023.

The fleeting inconsistencies of today and tomorrow

Hot labor market in a tightening economy



3.8M

Total number of jobs added in 12-month period following June 2022

Returning service volumes cause a financial frenzy



\$53B

Market cap loss in managed care stocks in a single day in 2023 following major insurers announcement of unexpected volume increases

The AI Pandora's box races past the speed of governance



1.5B

Total number of AI chatbot users globally in 2022

Bipartisanship in scrutinizing the healthcare industry



\$100B

Expected Medicare savings from drug price negotiation over the next ten years



“This is the first time in my 30-year career during which my beds are full, and I have no margin.”

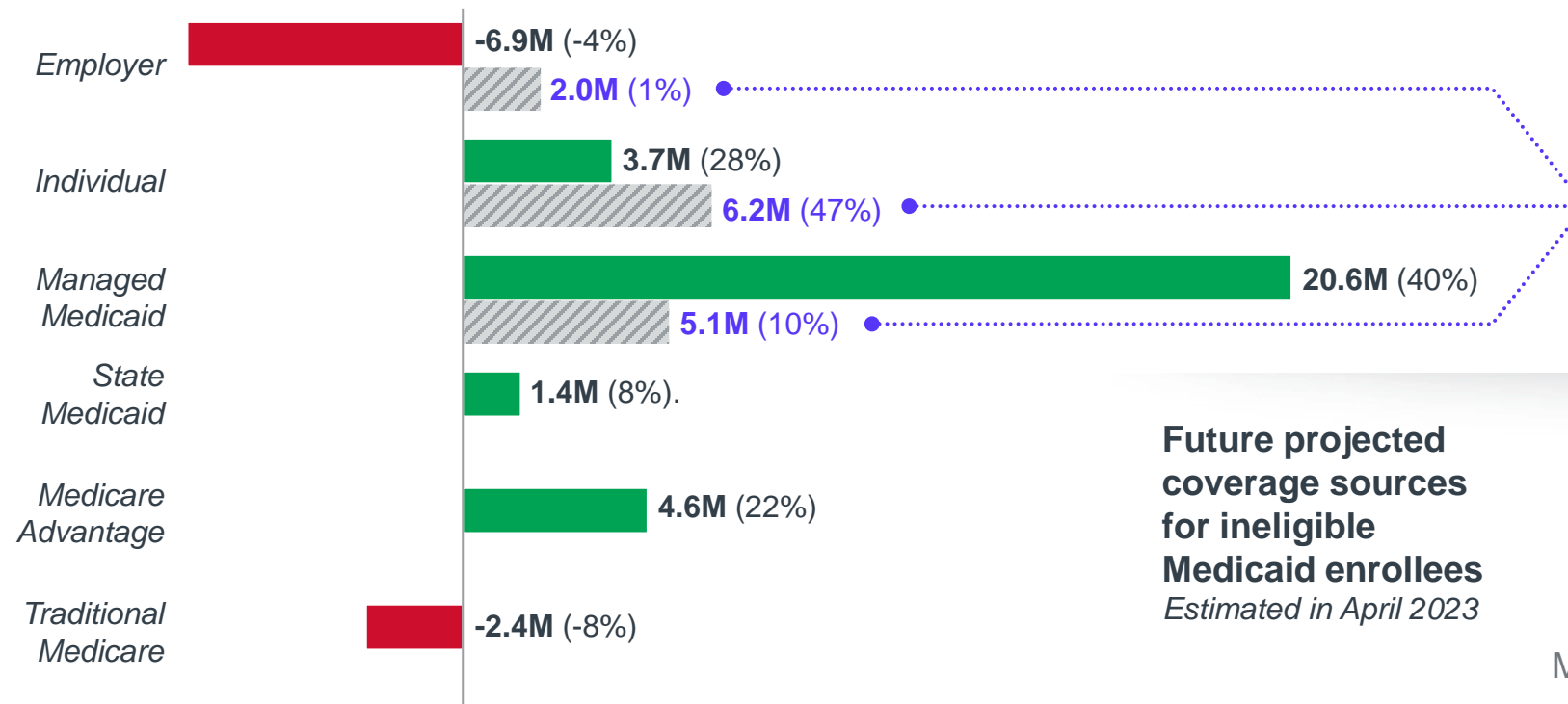
HEALTH SYSTEM CEO
Q2 2023

Source: "Current Employment Statistics," BLS, June 2023; "2Q 2023 Update on Healthcare Trends," Paul Mango, June 2023; "How Medicare Price Negotiations Work Under New Law," AARP, August 2022; "The Future of Chatbots: 80+ Chatbot Statistics for 2023," Tidio, April 2023; "Health insurers slammed after UnitedHealth says more surgeries driving up costs," Reuters, June 2023.

Coverage whiplash ahead, but not fully to pre-Covid mix

Insurance segment growth changes, historically and projected

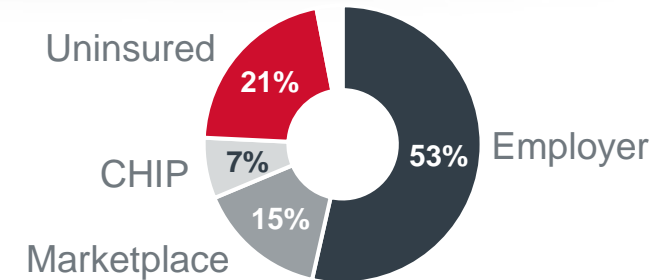
Total change¹ (and percentage change) in enrollment, 2019 Q4 to 2022 Q4



Possible future enrollment growth after Medicaid shifts unfold:

- Losses from **redeterminations**
- Shifts to **employer and individual** coverage after losing Medicaid eligibility
- Medicaid **expansion** in North Carolina and South Dakota

Future projected coverage sources for ineligible Medicaid enrollees
Estimated in April 2023



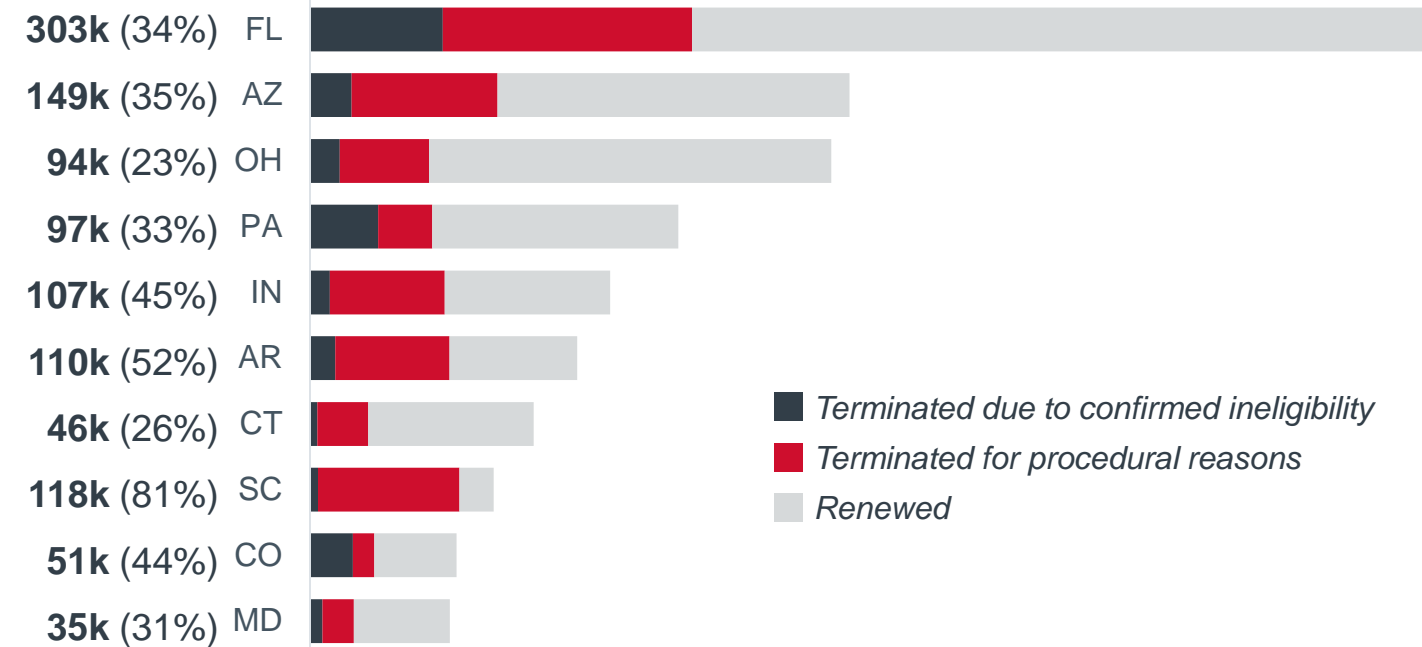
1. Shaded bars represent estimated shifts accounting for Medicaid eligibility changes but not population growth or economic shifts. Assumes all eligibility changes apply to managed Medicaid only.

Source: AIS Directory of Health Plans, 2019 Q4 & 2022 Q4; "How Many People Might Lose Medicaid When States Unwind Continuous Enrollment?", KFF, April 2023; "NCDHHS Releases Statement on Medicaid Expansion," NCDHHS, March 2023; Norris L, "Medicaid eligibility and enrollment in South Dakota," HealthInsurance.org, March 2023; NORC at the University of Chicago analysis of Urban Institute estimates as cited in Tepper N, "A state-by-state look at the impact of Medicaid determinations," Modern Healthcare, March 2023.

Rapid Medicaid drops mostly due to paperwork burdens

Medicaid coverage status changes by state

Total number of Medicaid beneficiaries whose eligibility was redetermined, for states with the most reviewed beneficiaries, as of June 2023



▲ Total terminations (with percentage of total reviewed beneficiaries)

Disenrollment rates (so far) are greater than predicted

PROJECTED

18%

Proportion of enrollees projected to lose Medicaid (March 2023)

ACTUAL

39%

Median Medicaid disenrollment rate¹ (June 2023)

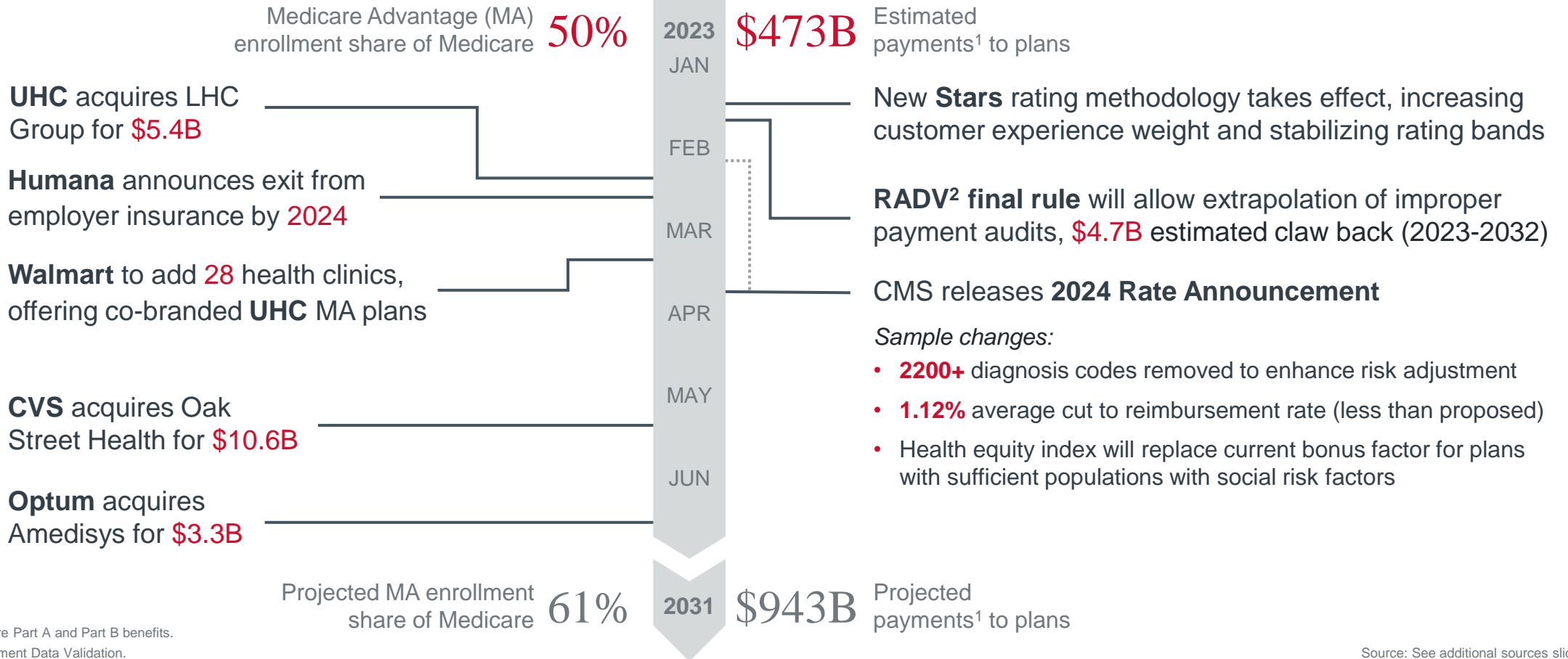
1. Calculated using KFF-collected data, June 29, 2023. Only includes states with publicly-reported data.

Source: "The Impact of the COVID-19 Public Health Emergency Expiration on All Types of Health Coverage," Urban Institute/Robert Wood Johnson Foundation, December 2022; Recht H, "Medicaid Enrollment and Unwinding Tracker," KFF, June 2023; "What Do the Early Medicaid Unwinding Data Tell Us?," KFF, May 2023; "How Many People Might Lose Medicaid When States Unwind Continuous Enrollment?," KFF, April 2023.

MA business model is still lucrative, but getting harder

Corporate players double down on MA...

...despite increased scrutiny on MA business model

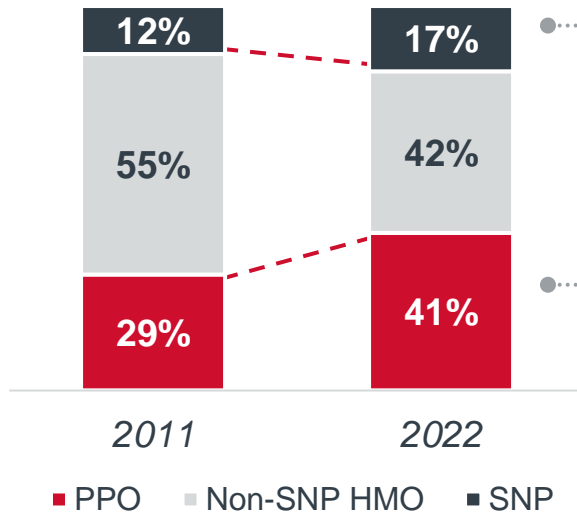


1. For Medicare Part A and Part B benefits.
2. Risk Adjustment Data Validation.

Source: See additional sources slide.

Margin management harder as MA products diversify

Medicare Advantage (MA) enrollment in product types
Percent of total MA enrollment



Relative to general HMO plans...

Special Needs Plans (SNPs) have higher margins, but harder to execute efficiently

- Target patients with most challenging healthcare needs, requires significant administrative resources
- Higher margins for D-SNPs compared to average MA plan margin

PPO plans are easier to sell, but harder to manage members

- Target patients who want physician choice
- Physicians less likely to take on risk



DATA SPOTLIGHT

23%

Of beneficiaries switched plans within less than one year of joining¹

Predictions for what's next

1

Control specialist spend
Attempts to financially align with specialists

2

Shifts in plan design
Enticements to shift enrollees into managed care

3

Continued asset consolidation
Acquisitions to support MA care delivery

1. Advisory Board analysis of Optum's de-identified Clinformatics® Data Mart Database (2007-2022).

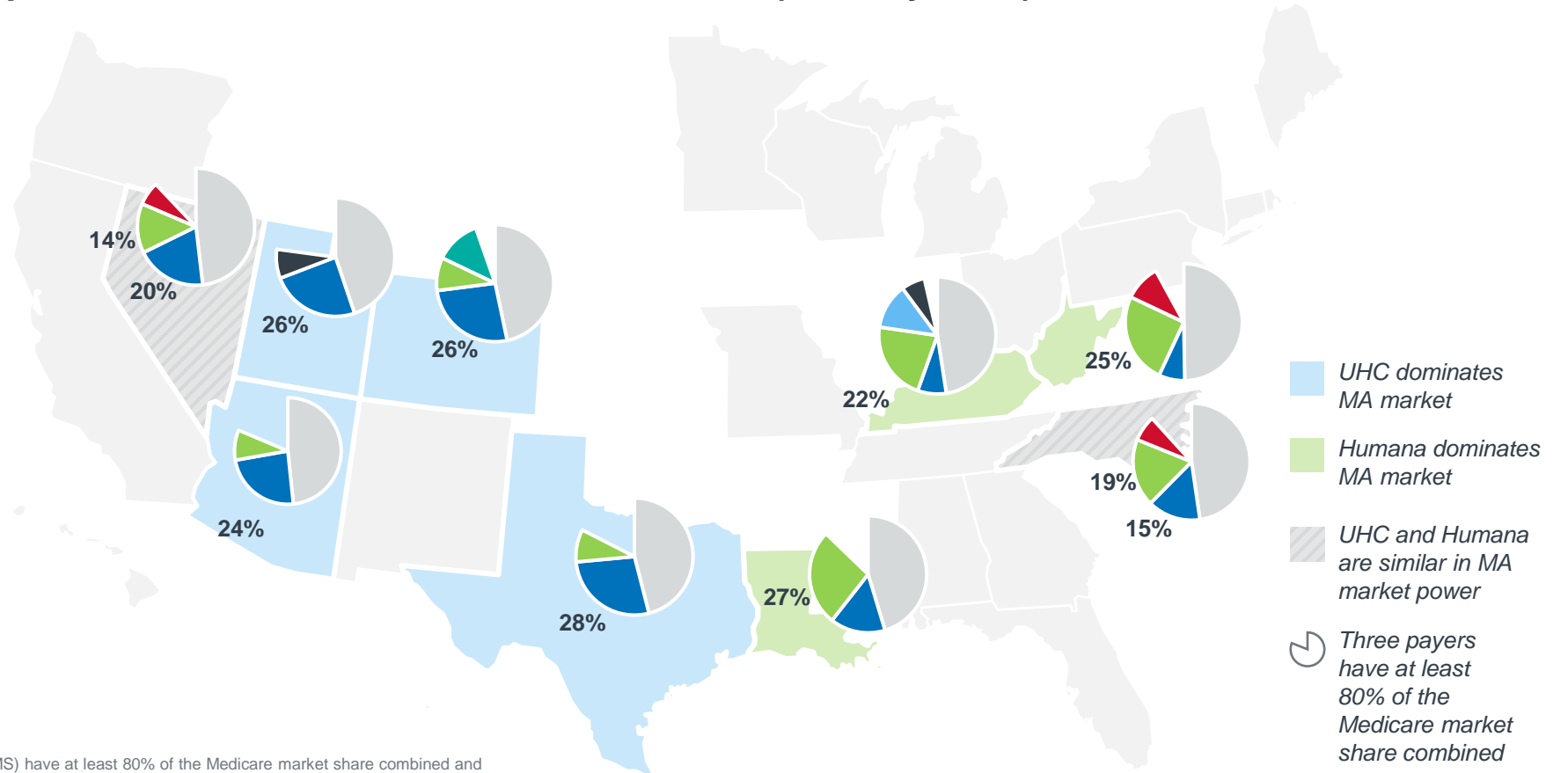
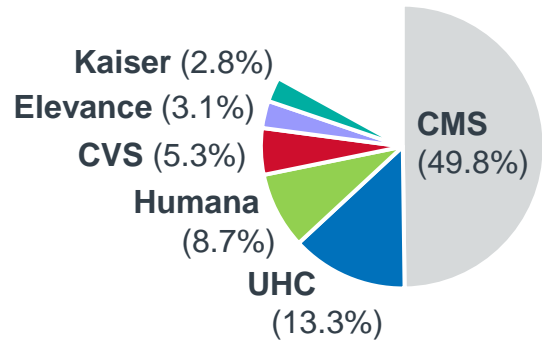
Source: "Medicare Payment Policy," MedPac, 2012 – 2023; The Optum de-identified Clinformatics® Data Mart Database (2007 – 2022).

As MA beats 50%, local power will affect partnerships

Medicare market share composition¹ within most concentrated states² (January 2023)

States depicted have over 50% Medicare Advantage penetration

National Medicare market share composition



1. Pie charts show states where the top three payers (including CMS) have at least 80% of the Medicare market share combined and depict payers with at least 5% of the market share. Black indicates an MA plan other than UHC, Humana, CVS, Elevance, or Kaiser.
 2. Map shows states where CMS has less than 50% of the Medicare market share.

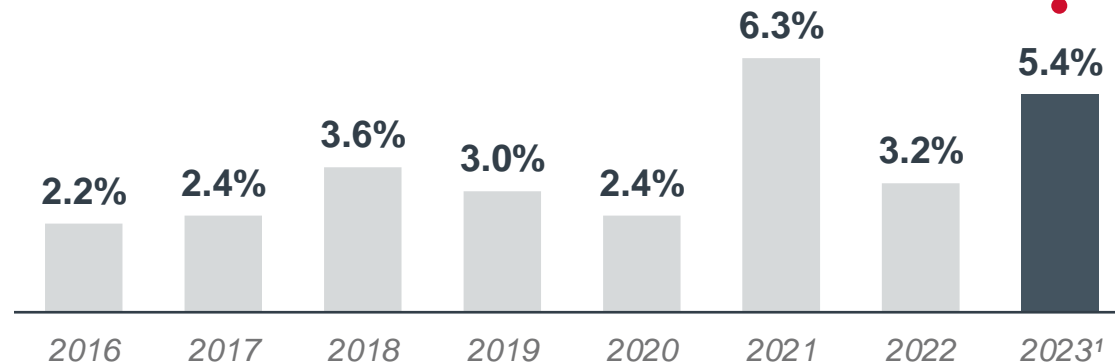
Source: Advisory Board analysis of CMS MA enrollment by SCC-October 2017- 2022 and Medicare Monthly Enrollment data sets.

Employers feel cost pressure and face new rules

Annual change in total health benefit cost per employee

Factors driving the cost landscape for employers:

- **Inflation:** Wage growth and looming network rate increases
- **Hospital consolidation:** Fewer options and higher spend
- **High-cost claimants:** Million-dollar claims are increasing, leading to a rise in stop-loss insurance costs
- **Innovative drugs:** New treatments needing coverage decisions



New developments may prompt employer action



Price benchmarking data

Growing number of vendors ingest newly-disclosed payer and provider rate transparency data



Expanded fiduciary obligations

With ERISA² updates, self-funded employers risk fines or class action suits if they do not ensure that they:

- Pay only “reasonable” compensation
- Receive disclosures of indirect compensation arrangements
- Can access deidentified encounters, claims, and provider data
- Report data on drug spending, rebates, and utilization

RECENT ERISA CASES DISPUTE FIDUCIARY ROLE

- **Mass. Laborers’ Fund v BCBSMA:** BCBSMA found not liable
- **Bricklayers v Elevance:** Not yet decided
- **Peters v Aetna and OptumHealth:** Lawsuit reintroduced

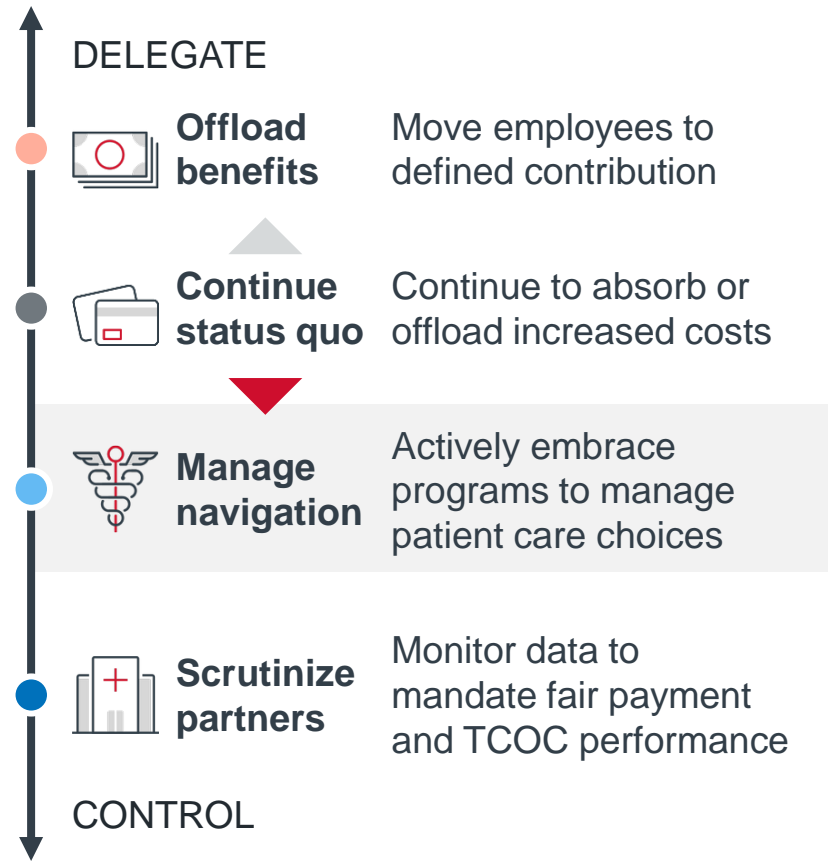
1. Estimated.

2. As modified by the Consolidated Appropriations Act, 2021.

Source: “Employment Cost Index,” BLS, 2023; “[The gathering storm: The threat to employee healthcare benefits.](#)” McKinsey, October 2022; “[National Survey of Employer-Sponsored Health Plans.](#)” Mercer, 2022; “[Nominal Wage Tracker.](#)” Economic Policy Institute, 2023; “[Aetna, Optum to face revived ‘dummy code’ lawsuit.](#)” Modern Healthcare, June 2023; “[Unions suing Elevance Health for allegedly restricting access to claims data.](#)” Becker’s, December 2022; “[Blue Cross Blue Shield of Massachusetts prevails in First Circuit on ERISA claims brought by Massachusetts Laborers’ Health and Welfare Fund.](#)” Jones Day, April 2023.

Managed navigation strategies are the compromise pick

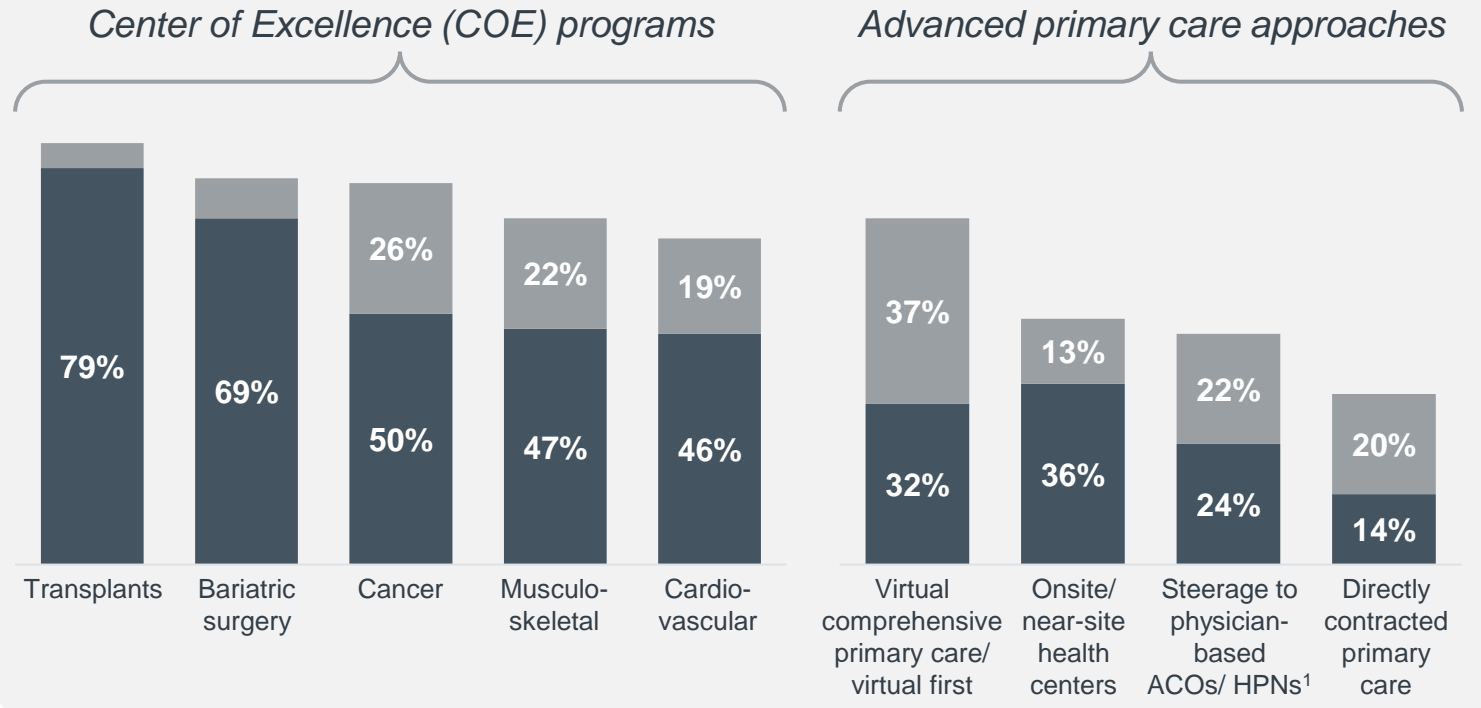
Possible employer approaches to benefits strategy



Large employer benefit strategy offerings

n=135 large employers, covering over 18M lives

■ Offered in 2023
■ Planning to offer in 2024/2025





1. High-performance networks.

Source: "2023 Large Employers' Health Care Strategy and Plan Design Survey," Business Group on Health, August 2022.

Coalitions chase a new health spending “arch”


Midwest Health Initiative leads plans and providers to self-imposed cost control


 **Ongoing stakeholder meetings** to set PMPM¹ targets and quality measures

 **Voluntary consensus** across participating plans, employers, and health services companies

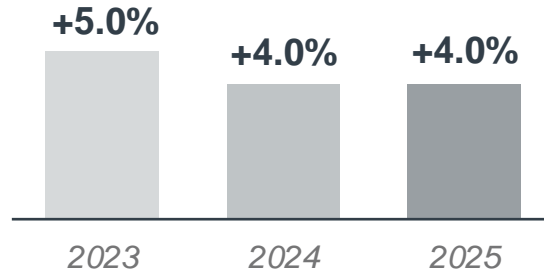
Sample workgroup participants

- **Plans:** Aetna, Cigna, Elevance, Missouri Consolidated Health Care Plan, UHC
- **Employers:** Anheuser-Busch, Bayer, Boeing, Bass Pro Shops, Panera, United Food & Commercial Workers Union
- **Healthcare services:** BJC HealthCare, Mercy, SSM Health, Esse Health

 Midwest Health Initiative will **publicly release data** in 2024

 **Set maximum spending growth goals** using database of 2M individuals

Max spending growth goals



CASE EXAMPLE



Midwest Health Initiative

Nonprofit organization •
St. Louis, Missouri

- Aim to improve quality and affordability via expertise sharing and data collection
- Funded by St. Louis Business Health Coalition
- Collectively set maximum growth goals for commercial health spend via the REACH² workgroup

1. Cost per member per month.

2. Realizing Effective and Affordable Change in Health Care.

Sources: "Runaway Health Spending Targeted by Midwest Business Coalition," Bloomberg Law, March 2023; "REACH," Midwest Health Initiative, January 2023; "St. Louis Area Business Health Coalition," Primary Care Collaborative, October 2019.

Landmark IRA drug cost action is not a policy outlier

Recent and emerging regulatory activity on drug costs points toward systemic overhaul

Manufacturer prices

Medicare can **negotiate a “maximum fair price”** for certain high-spend, older drugs without alternatives

First negotiated prices take effect in 2026

Manufacturers must **pay a rebate** if certain Medicare drug prices increase above the rate of inflation

In effect as of 2023

Drug benefits coverage

Part D benefits now lower the beneficiary cost cap and **shift catastrophic coverage** across plans and manufacturers

Full changes take effect in 2025



Pharmacy sourcing

States are pursuing pharmacy choice laws to **restrict white bagging mandates**

EMERGING

PBM business activities

- FTC demands **disclosures** from six of the largest PBMs and three affiliated GPOs
- Congressional committees advance bipartisan bills aiming to address **spread pricing** and require **transparency** reporting from PBMs, building on CAA¹
- General exploration of changes to 340B program

Spillover impacts to watch

- Manufacturer launch prices
- Medicare premiums
- Manufacturer R&D portfolios
- Utilization management protocols
- Provider buy-and-bill economics

1. Consolidated Appropriations Act of 2021.
2. Promoting Access to Treatments and Increasing Extremely Needed Transparency Act.

Source: McDermott+Consulting; Cubanski J et al, “Explaining the Prescription Drug Provisions in the Inflation Reduction Act,” KFF, January 2023; Fein A, “The Inflation Reduction Act: 10 Predictions About Market Access and Drug Channels,” Drug Channels, April 2023.

Bring on the Roaring Twenties



The state of the healthcare industry heading into 2024

1

Industry snapshot

A moment of instability

- Poor outlook for patient health and industry performance
- Challenging business operating environment

2

Purchaser disruption

Government-led scrutiny

- Overall public coverage growth despite Medicaid whiplash
- Tightening MA business model
- Employer coverage balancing act harder with fiduciary rules
- Sweeping policy changes to pharmaceutical business



TODAY'S
QUESTION

How will
the industry
prepare
versus
react?

3

Strategic paradigms

The future of longstanding shifts

- A. Delivery infrastructure** will evolve into ecosystems focus
- B. Care team roles** will shift with new tech capabilities
- C. Treatment economics** will adapt to high-cost drugs

The future of...



DELIVERY INFRASTRUCTURE

LEGACY MODEL

Hospital-centric service delivery

CURRENT STATE

ACCELERANTS

- Dire hospital finances
- Care delivery M&A

FUTURE OUTLOOK

Ecosystem-based partnerships for care

EXTREME FRONTIER

Ecosystem-controlled care management



CARE TEAM ROLES

Overextended generalists with automation at the margins

ACCELERANTS

- Workforce crisis
- Generative AI

Tech-enabled top-of-license care

Clinicians as complements to technology



TREATMENT ECONOMICS

Procedure-centric cost control relies on standardized comparison and steerage

ACCELERANTS

- Breakthrough drugs
- Finance experiments

Complex new drugs invite variable payment and delivery models

Healthcare business defined by drugs

The future of...



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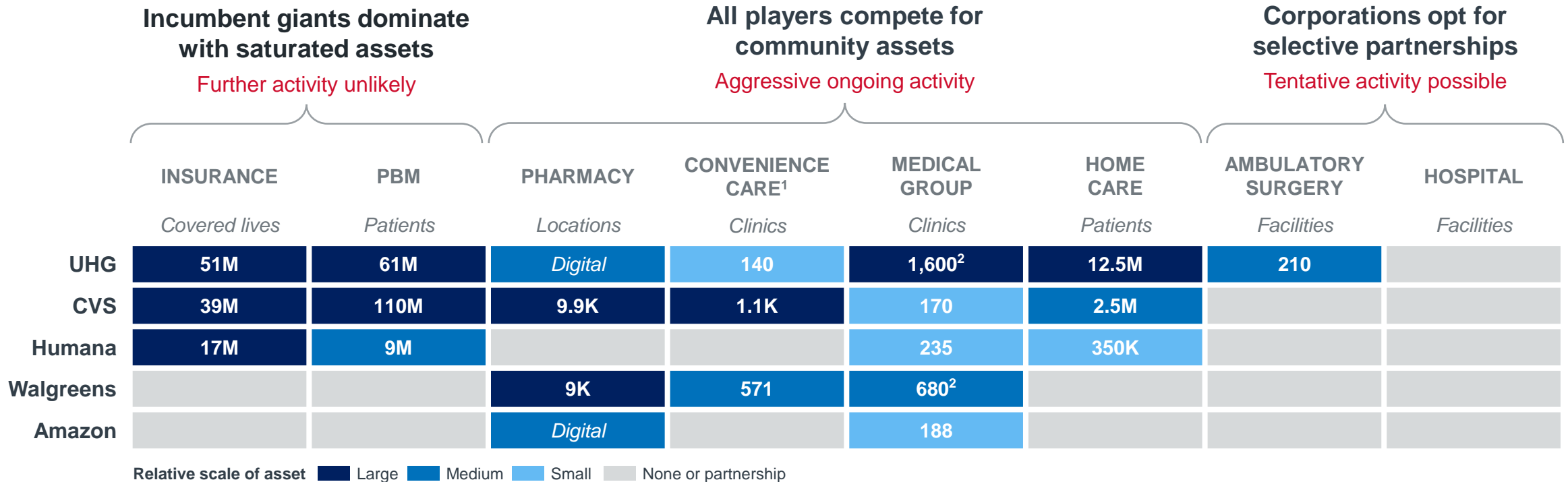
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Complex new drugs invite variable payment and delivery models

Healthcare business defined by drugs

National players build cross-continuum reach

Giants pursue selective consolidation across care delivery and financing






1. Convenience care includes retail care and urgent care centers.

2. Includes primary and specialty care practices.

Sources: See additional sources slide.


Giants draw from mix of assets to serve unique ambitions

Sample strategic ambitions of corporate players poised to have ripple effects on the industry

	 Cross-sell adjacent services <i>Walgreens, Amazon, CVS</i>	 Contain senior care value <i>Humana, CVS, UHG</i>	 Control network operations <i>UHG, KP (Kaiser Permanente)</i>
Corporate ambition	Cross-sell across a diverse healthcare portfolio to capture low-acuity care and pharmacy spend	Coordinate risk-based care across settings in a market to manage longitudinal senior health and capture data	Equip value-based physician groups and select hospital operators to steer patients to preferred cost-effective providers
Hurdles to overcome	<i>Patient conversion, reimbursement economics, partner coordination</i>	<i>Patient attribution, clinician enablement, scaling, government scrutiny, quality</i>	<i>Patient engagement, multi-payer partnerships, referral discipline, cost management, antitrust</i>
Impact on industry	<ul style="list-style-type: none"> • Consumer data: Insights and cross-sell opportunities increase value of data as a product (and invite scrutiny) • Top-of-license care: Pharmacist and APP roles expand to connect care • Community hubs: Retail becomes an essential ambulatory partner 	<ul style="list-style-type: none"> • Attributed lives: Competition forces offensive moves by systems and plans • Care continuum assets: Bidding war from pressure to exert vertical control • Payment models: Virtuous cycle reinforces value-based care adoption • Entangling alliances: Market leaders demand partnerships that exclude rivals 	<ul style="list-style-type: none"> • Mergers and coalitions: Reactionary consolidation by local systems and plans • Performance scrutiny: Cost and quality data integration enable targeted referrals • Volumes redistribution: Network managers swing provider market share depending on strategic partner alignment

Corporate strategies adapt to local market dynamics

Demographics and population growth attract competing corporate players



36 UHG's OptumCare, LHC Group locations ¹

121 Walgreens' VillageMD locations

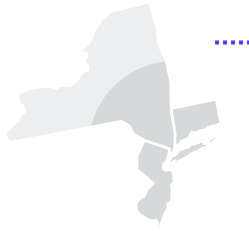
63 Humana's CenterWell primary and home health locations²

24 Amazon's One Medical and Iora locations³

18 CVS' Oak Street Health clinics

4 Walmart's Health clinics

Pressure for attributed lives pushes aggressive medical group strategy



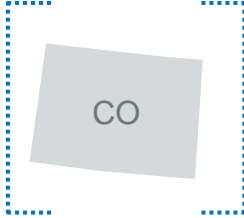
2021 Walgreens partners with Northwell

2022 Walgreens' VillageMD acquires Summit Health-CityMD

2022 Optum acquires 3+ specialty care practices

2023 Optum acquires Crystal Run Healthcare; Riverdale Family Practice

Challenging local delivery finances creates opening for national player entry



2020 Boulder Community Health joins Optum MPP⁴

2022 Intermountain-SCL Health merger, brings Select Health to CO

2023 Walgreens' VillageMD enters CO

2023 Kaiser invests \$10M to help safety-net hospital

2023 Common Spirit and Advent break up

MARKET FACTORS

- Self-contained market with high patient churn
- Growing senior demographic well-positioned for Medicare Advantage strategy
- Consolidated physician market
- Prevalence of sophisticated risk-based physician practices
- Fragile health system finances
- State pressure on spend and access
- Limited risk-based payment

1. 27 LHC Group locations and 9 Optum Care locations.
2. 26 primary care locations and ~37 home health locations.

3. 18 One Medical locations and 6 Iora locations.
4. Market Performance Partnership.

Sources: See additional sources slide.

Regional health plans respond to new urgency for scale

Range of health plan consolidation activity amid growth of large nationals and difficult economic climate



Specialized health plan mergers

Similarly sized health plans with unique expertise and relationships merge to amass scale, develop new-in-kind offerings, and maintain autonomy



Independent health plan partnerships

Regional plans collaborate to scale individual expertise, innovation, and maximize investments while protecting market share

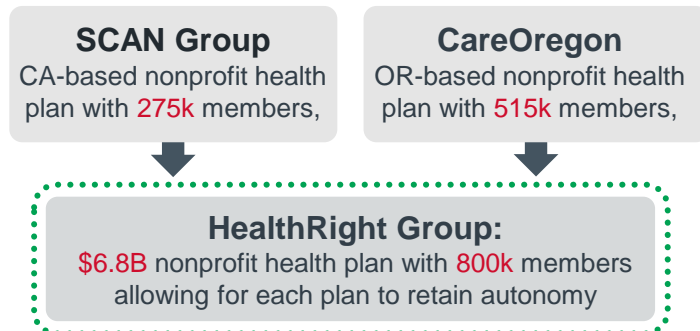


Traditional acquisition

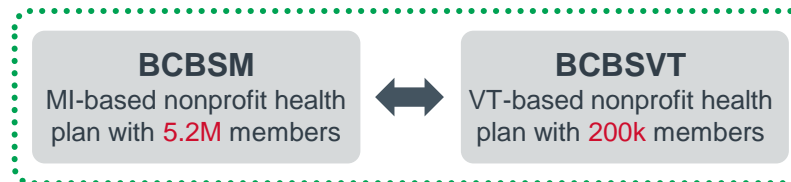
Smaller plans remain competitive by aligning with a larger operator to strengthen market share

EXAMPLES

SCAN and CareOregon to form HealthRight Group

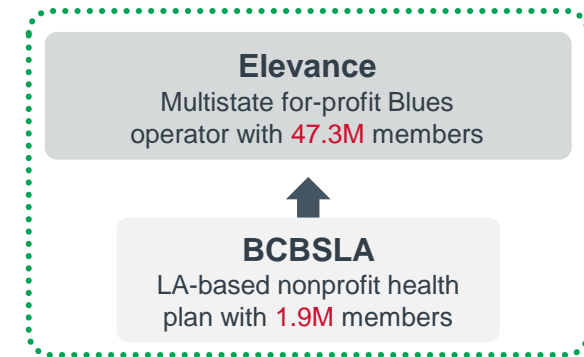


BCBSVT to affiliate with BCBSM group of companies



BCBS Association antitrust settlement's removal of National Best Efforts clause changes Blues competitive landscape

Elevance to acquire BCBSLA



Sources: "Blue Cross and Blue Shield of Vermont and Blue Cross Blue Shield of Michigan Pursue Affiliation," BCBS VT, May 2023; and "Blue Cross and Blue Shield of Vermont to affiliate with Michigan counterpart," VTDigger, May 2023; "SCAN Group, CareOregon plan merger into HealthRight Group," Modern Healthcare, December 2022; "Elevance Health To Buy Louisiana Blue Cross Plan," Forbes, January 2023.

Systems face unrelenting financial struggle

Core challenges to hospital-based care finances

Rising staffing and supply complexity

48,500

Healthcare workers participating in **strikes** with 1,000+ workers, leading to wage and staffing level increases

January 2022 to May 2023

Common hospital supply chain inefficiencies:

- Unfixed shipping costs
- Excessive deliveries
- Distributed contracting authority
- Inventory management

Persistent capacity constraints

11%

Increase in average **length of stay**

December 2019 to December 2022

48% ORTHOPEDIC SURGERY

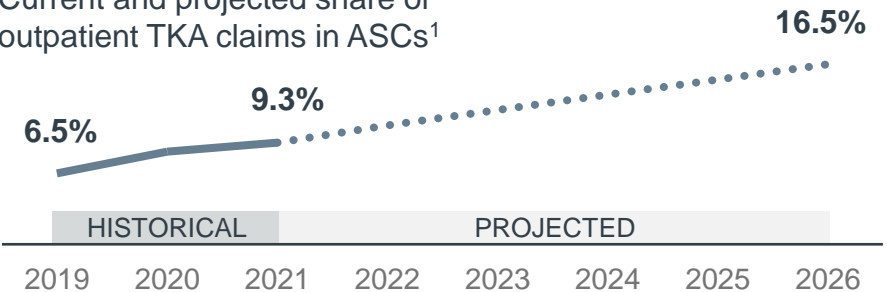
26% CARDIOLOGY

Increase in average **wait times** for new patient appointments

2017 to 2022

Inpatient revenue erosion

Current and projected share of outpatient TKA claims in ASCs¹



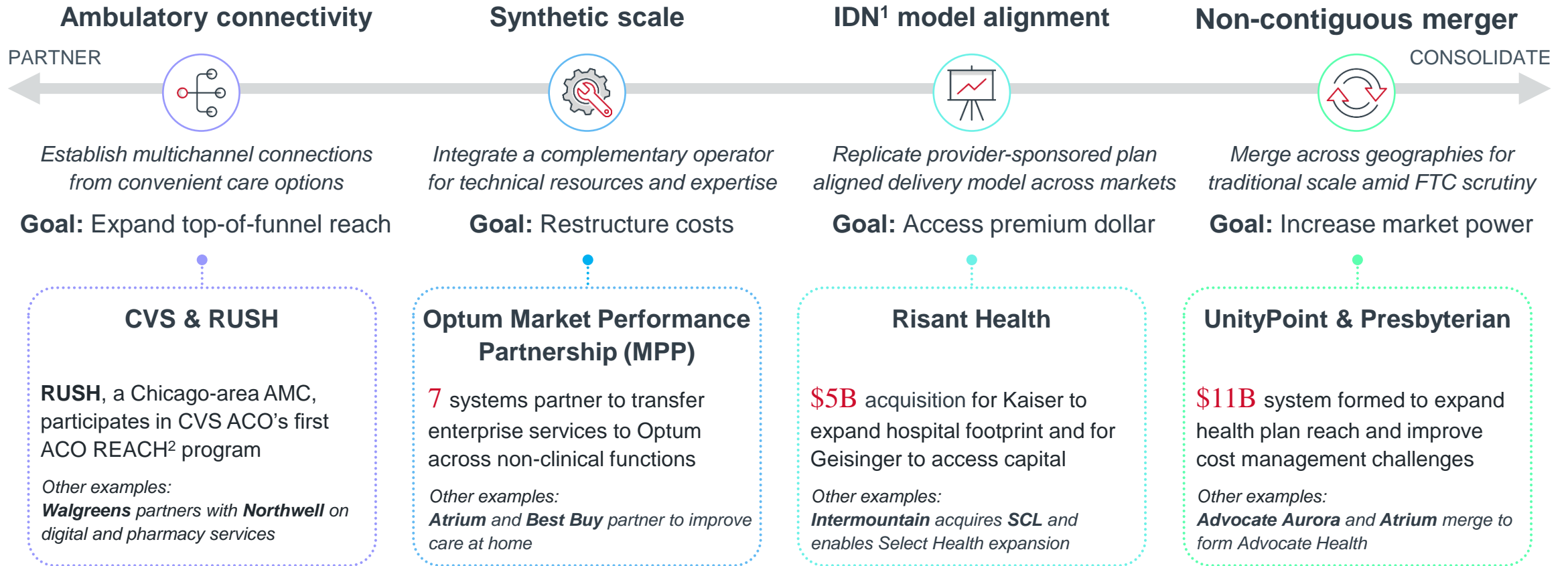
Deteriorating legacy subsidies

- **Site neutral payments:** Congress drafting Medicare payment bill
- **340B drug discounts program:** Appellate Court allows manufacturers to restrict contract pharmacy 340B access
- **Not-for-profit status:** Congress drafting bill to expand FTC authority over non-profits

1. Advisory Board analysis and modeling of Optum's de-identified Clinformatics® Data Mart Database (2007-2022).

See additional sources slide for sources.

Strategic lifelines emerge for system partners

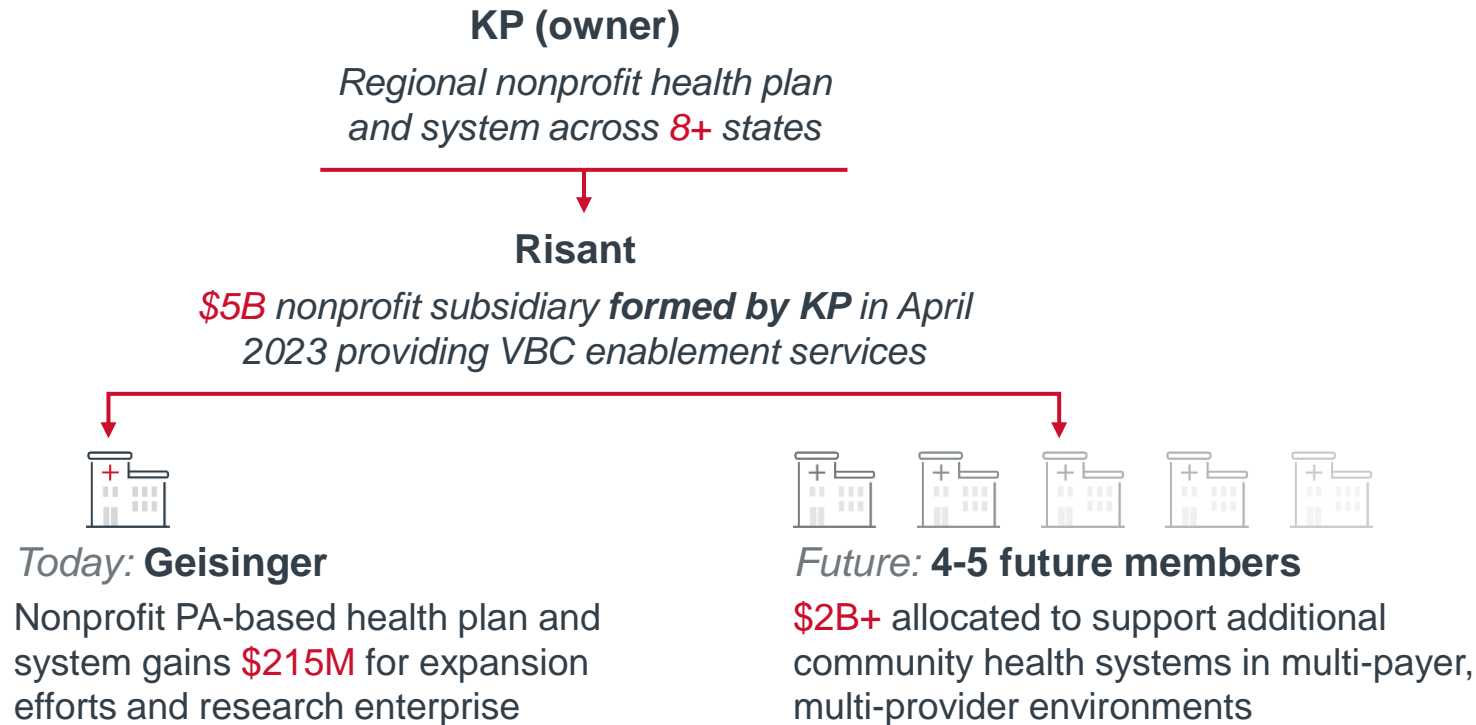


1. Integrated delivery network.
 2. ACO Realizing Equity, Access, and Community Health Model.

Source: "CVS Health and RUSH collaborate to increase health care access for Chicago-area Medicare patients," CVS, January 2023; "The Hospital Strikes Back: Why Kaiser Permanente Formed Risant Health," Work Week, May 2023; "Presbyterian Healthcare-UnityPoint Health merger moves forward," Modern Healthcare, April 2023.

A new strategy: combine (and coordinate) VBC entities

KP (Kaiser Permanente) offers a new option for not-for-profit health systems: VBC enablement and health plan partner



ADVISORY BOARD'S TAKE

► Why it's different

- **VBC enablement services** by a provider organization, not a consulting company
- Attempt to **shape national VBC adoption** to extend health plan footprint, not a pure economies of scale play


► What to watch

- Will the FTC intervene?
- Which health systems will Risant target next?
- How open is Risant to working with national plans?


Source: "[Fast facts](#)," Kaiser Permanente, 2023; "[What Kaiser's Acquisition Of Geisinger Means For Us All](#)," Forbes, May 2023; "[The Hospital Strikes Back: Why Kaiser Permanente Formed Risant Health](#)," Work Week, May 2023.

Systems' survival strategies leaves access gaps

Health systems make tough choices...

 **Rationalized services** **163M** Decreases in the number of psychiatric beds
Americans live in mental healthcare health professional shortage areas


 **Service line closures** **217** Hospitals closed their labor and delivery departments, 2011-2022
7M Women of childbearing age live in maternity care deserts

 **Hospital closures** **150** Rural hospital closures, 2016-2021
80% Rural U.S. areas designated as medically underserved


1. Compared to \$306M in 2017.

2. From 7 acquisitions in 2010-2017 to 17 in 2017-2019.

...other sectors step in with patchwork solutions

 **Behavioral health solutions focused on low-acuity patients**
\$12B Venture funding in digital behavioral health, 2018-2022
1k Behavioral health startup companies created since 2018

 **Women's health startups aimed at employers**
\$854M Venture funding of fertility technology start-ups in 2022¹
143% Increase in PE acquisitions of OB/GYN practices and fertility services companies²

 **Rural care limited and often focuses on preventative care**
3 Dollar General locations test mobile health clinics to improve rural care
300+ VillageMD locations in medically underserved communities by 2027

See additional sources slide for sources.

The future of...



DELIVERY INFRASTRUCTURE

LEGACY MODEL

Hospital-centric service delivery

CURRENT STATE

ACCELERANTS

- Dire hospital finances
- Care delivery M&A

FUTURE OUTLOOK

Ecosystem-based partnerships for care

EXTREME FRONTIER

Ecosystem-controlled care management



CARE TEAM ROLES

Overextended generalists with automation at the margins

ACCELERANTS

- Workforce crisis
- Generative AI

Tech-enabled top-of-license care

Clinicians as complements to technology



TREATMENT ECONOMICS

Procedure-centric cost control relies on standardized comparison and steerage

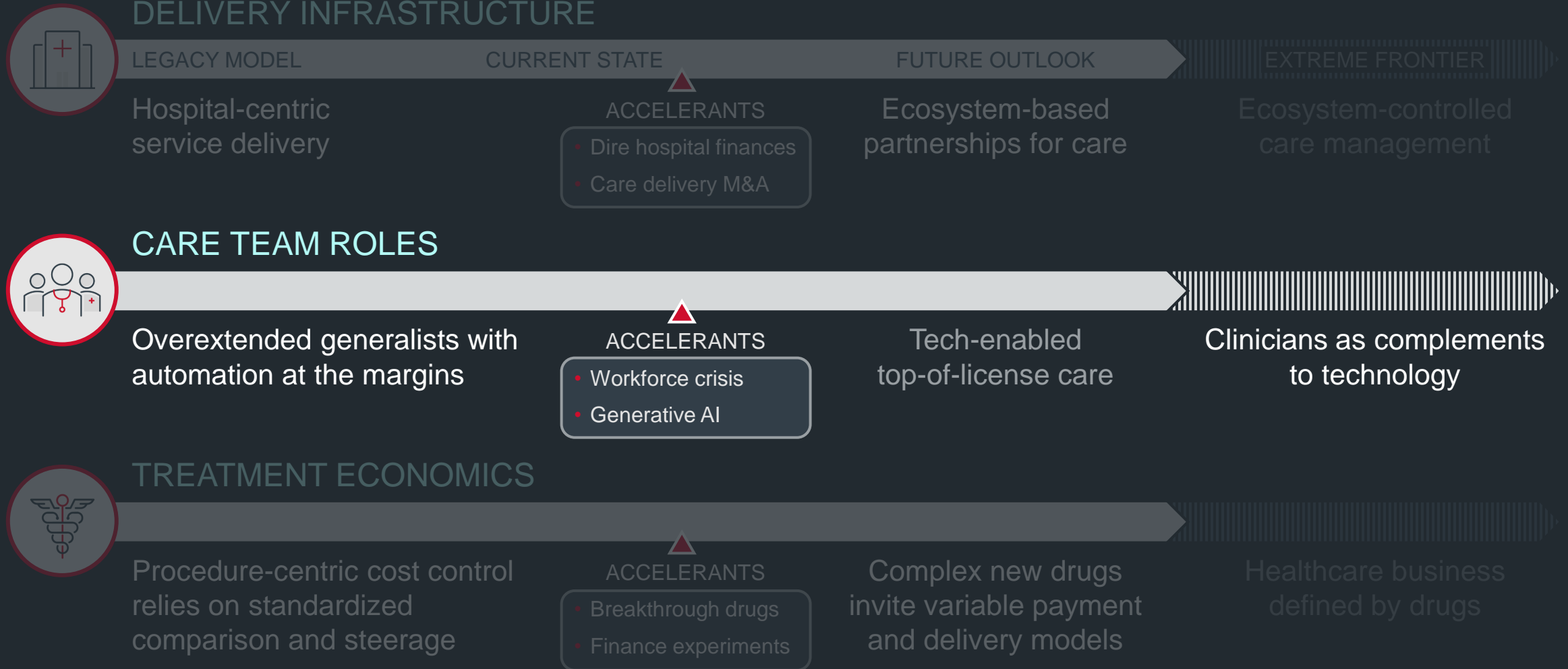
ACCELERANTS

- Breakthrough drugs
- Finance experiments

Complex new drugs invite variable payment and delivery models

Healthcare business defined by drugs

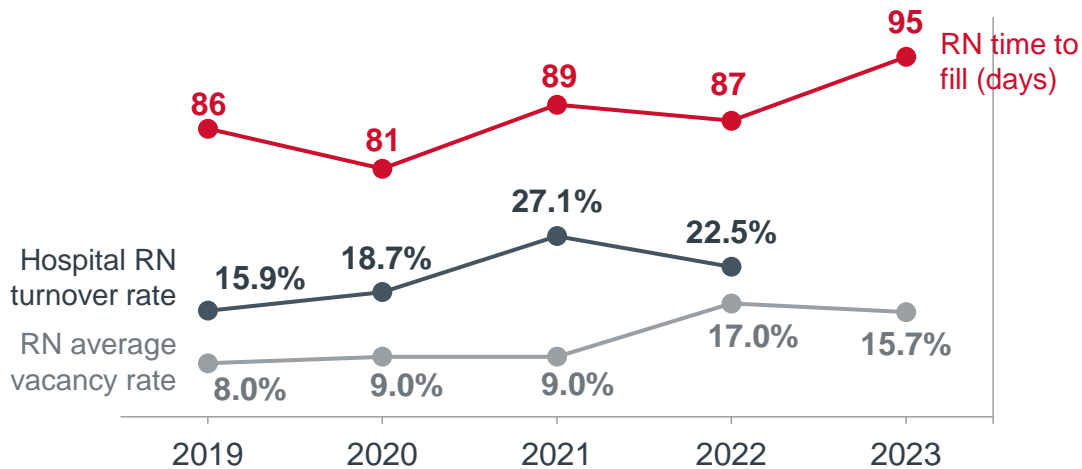
The future of...



Labor challenges persist as AI explodes in popularity

Turnover, vacancy rates, and time to fill remain elevated

n=164 hospitals (2020), n=226 (2021), n=272 (2022), n=273 (2023)



- **Turnover and vacancy rates** remain significant problems despite recent gains
- **Increased burnout, reduced loyalty, and evolving employee expectations** contribute to elevated turnover rates
- **Shortage of talent** to fill roles means it's not possible to hire out of the problem



AI IN THE NEWS

“ChatGPT reaches 100 million users two months after launch”

THE GUARDIAN

“AI Adoption Skyrocketed Over the Last 18 Months”

HBR

“Microsoft Invests \$10 Billion in ChatGPT Maker OpenAI”

BLOOMBERG

What changed?

- ✓ Increases in computing power
- ✓ Faster and more cost-effective training on vast amounts of data
- ✓ Powerful, accessible AI models that can generate new outputs and respond to simple language prompts

Source: “National Health Care Retention Report,” NSI, 2020, 2021, 2022, 2023; “ChatGPT reaches 100 million users two months after launch,” The Guardian, February 2023; “AI Adoption Skyrocketed Over the Last 18 Months,” HBR, September 2021; “Microsoft to Invest \$10 Billion in ChatGPT Maker OpenAI (MSFT),” Bloomberg, January 2023.

What is AI, *really*?



MYTH: AI is magic

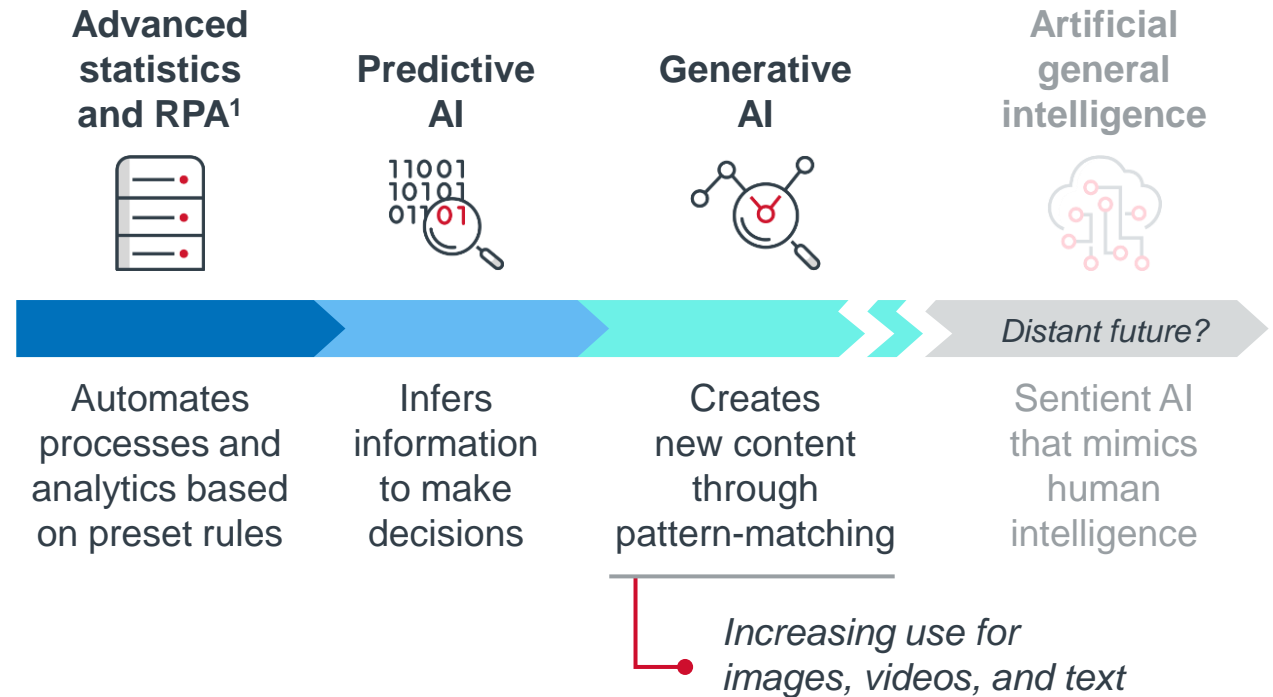
AI is *sentient* and can *autonomously* perform a *wide variety* of tasks with *limited* guidance



REALITY: AI is a range of specialized tools

- Performs **specific tasks** that normally require human intelligence by using algorithms, pattern matching, and other techniques
- Must be **trained**, and can only learn from data it has access to
- **Continuously improves** accuracy of predictions and pattern matching with more interactions
- Each AI model has **limited utility** outside of the task for which it was designed, though generative AI will enable easier translation

Advances in technology pushing the limits of AI

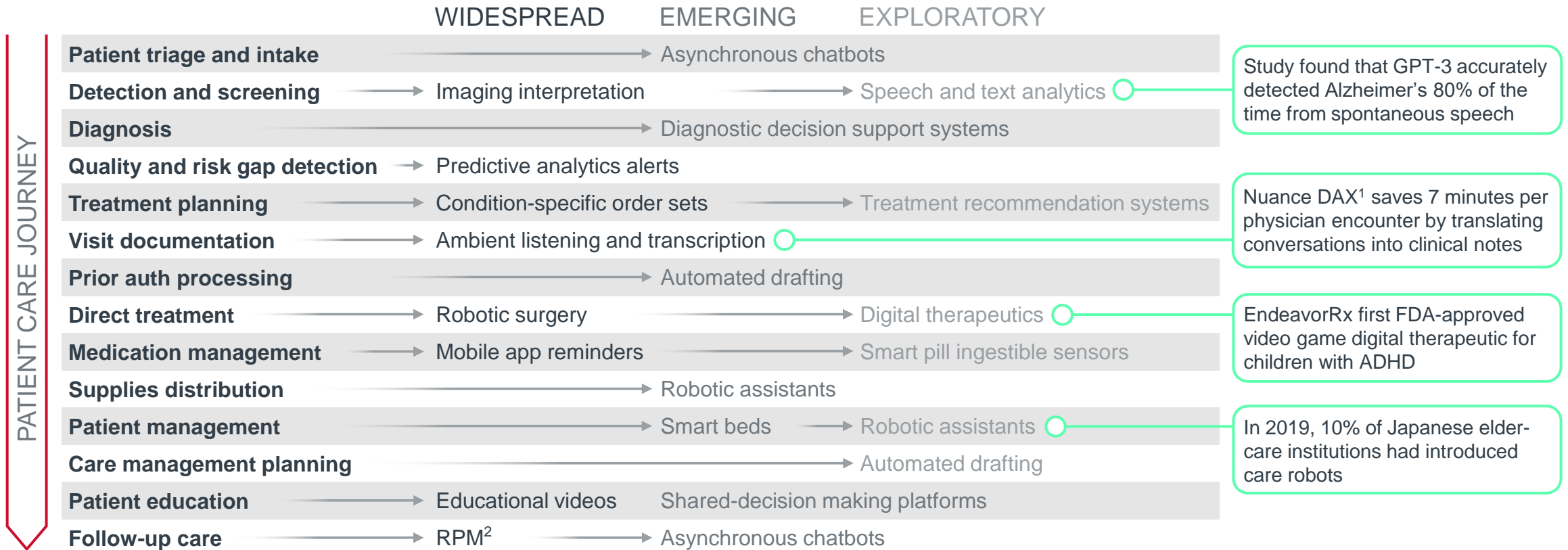


1. Robotic process automation.

Source: "[AI in health care](#)," Advisory Board, March 2022; "[Generative artificial intelligence](#)," Advisory Board, March 2023.

Tech increasingly capable of more tasks, often with AI

Adoption of select clinical workforce technologies across the patient care journey



1. Dragon Ambient eXperience.
2. Remote patient monitoring.

Source: ["Ambient Clinical Intelligence,"](#) Nuance, 2023; ["Inside Japan's long experiment in automating eldercare,"](#) MIT, January 2023; ["FDA Permits Marketing of First Game-Based Digital Therapeutic to Improve Attention Function in Children with ADHD,"](#) FDA, June 2020; ["Predicting dementia from spontaneous speech using large language models,"](#) PLOS Digital Health, December 2022; ["ChatGPT's AI Could Help Catch Alzheimer's Early,"](#) WebMD, February 2023.

Sci-fi ambitions handcuffed to fax machine reality

Doximity generative AI platform

Provides physicians an **easy way to accelerate** and complete administrative and clinical tasks...

The screenshot displays the DocsGPT BETA interface. The main content area features six cards describing AI capabilities: writing social security disability statements, medical terminology training, potential for incorrect information, home care instructions, multilingual fluency, and HIPAA compliance status. A sidebar on the right titled 'Free Fax to Insurers' lists Aetna, Anthem, Cigna, and Health Net with their respective phone numbers and a 'Send Fax' button. Below the list, it states that Doximity members can fax letters directly to insurers using a digital fax service.

...but also offers **free fax service**, because most communication between providers and payers still relies on fax machines

Source: "Docs GPT," Doximity, 2023.

Can't leap forward with tech until we nail the essentials

Resist **magical** thinking.

“A lot of organizations are susceptible to ‘magical thinking’ where they gravitate towards new technology. This results in them looking past a lot of the **basic foundational technology.**”

CIO
Large health system in Midwest



Prioritize technology **building blocks.**

Top 3 “back to basics” provider strategies seen in 2023

- 01** Maximize **value of existing systems**
(i.e., are you using all the functionality built into the EHR¹?)
- 02** Make basic functions like order sets as **accurate, effective, and easy** to execute as possible
- 03** Prioritize **clinical staff needs**—not “shiny things”—for technology investment

1. Electronic health record.

“Should” depends on the stakeholder and the goal

Sample goal and related problem inform technology investment decisions

Goal	Root causes of challenge	Technology investment	Implementation tensions
Retain nursing staff	<ul style="list-style-type: none">• Lack of schedule flexibility▶ Undesirable task mix• Feeling unsafe at work	Use predictive analytics to streamline scheduling, reducing nurse manager time spent on administrative tasks	• Temptation to add other undesirable tasks to reallocate newly available nurse time
Increase capacity	<ul style="list-style-type: none">▶ Inappropriate admissions• Delays in discharges• Misallocation of physician time	Use remote patient monitoring to enable outpatient management for lower acuity patients	• Requires structured intake and triage process , as well as new clinician roles to oversee home-based management
Improve patient experience	<ul style="list-style-type: none">• Unclear discharge information• Long wait times▶ Feeling unheard	Leverage ambient listening and automated note summaries to allow clinicians to prioritize patient interactions	• Difficult to measure level of impact of unstructured conversations with patients

Tech can't replace humans, but it will change their roles

As technology becomes a member of the care team, the rest of the care team must evolve

ROLE

Who does what tasks?

- As technology makes some tasks **faster**, what will clinicians spend **more time** on?
- Will we need to **add** new roles or **repurpose** existing ones?
- How will clinicians engage with **patients** as consumer access to AI-powered diagnostic tools grows?



TRAINING

Where does learning happen?

- How will clinicians gain **experience** and **expertise** as technology takes on **simple** tasks?
- When will schools, employers, and accreditors standardize training on **working with technology**?
- Will technology enable clinicians to take on some responsibilities with **less training**?

COMPENSATION

How do we value work?

- How will compensation models shift to **incentivize** performance that is **blended** with technology?
- Will compensation **levels** vary to reflect shifting **training** requirements?

Who will make decisions **proactively** – and who will be forced to **respond**?

AI's business impact will go beyond workforce

As AI becomes more prevalent and less expensive in healthcare, watch for possible consequences



Uneven progress across individuals and organizations

"The rich get richer"

- Early adopters skew representative training datasets and outpace peers in efficiency gains
- Varying clinician adoption alters outcomes, compensation, and patient experience



Replicating existing challenges and inequities

"Doomed to repeat the past"

- Automating single tasks entrenches ineffective workflows and prevents structural redesign
- Models inadvertently reinforce health inequities found in data, complicating quality efforts



New power levers for the owners of data and algorithms

"More cooks in the kitchen"

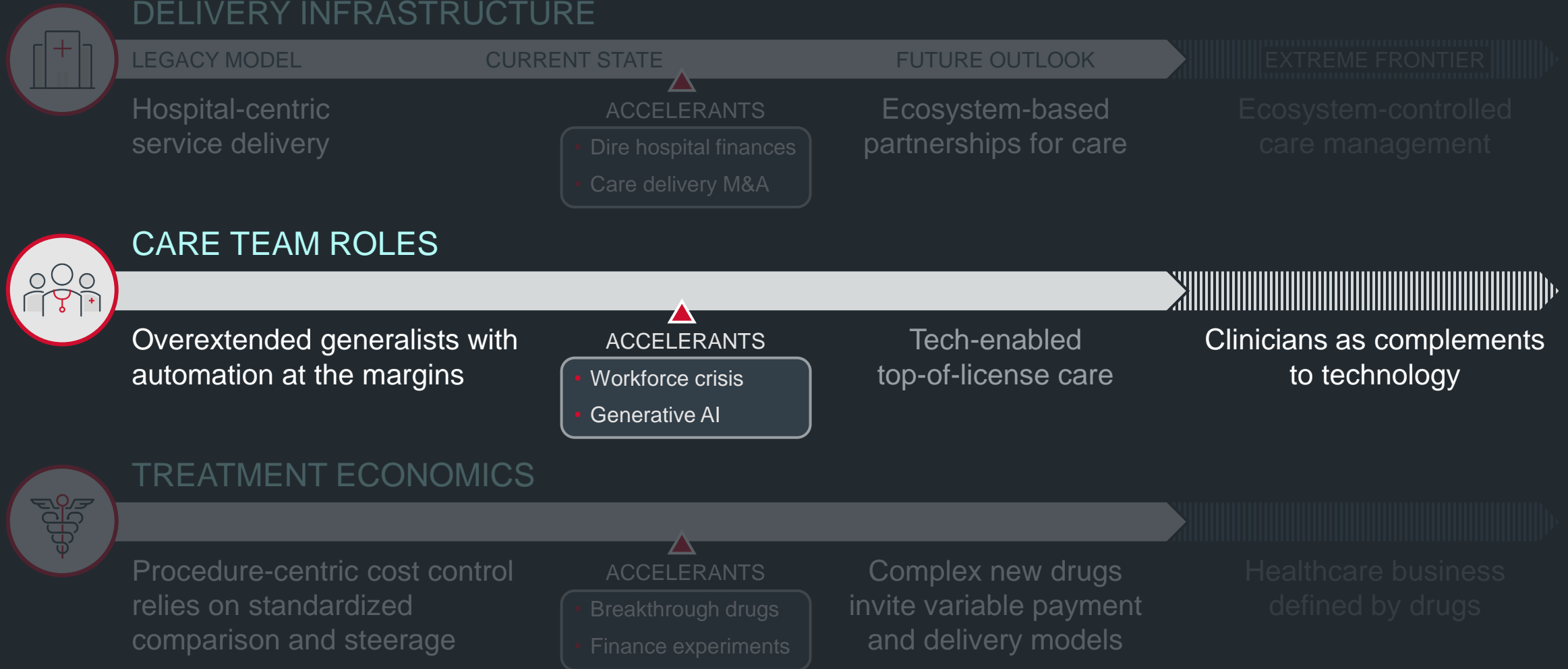
- Reliance on vendors changes supply contract structures and competitive data ownership
- Owners of AI solutions have new entry points to control patient pathways

EXAMPLE

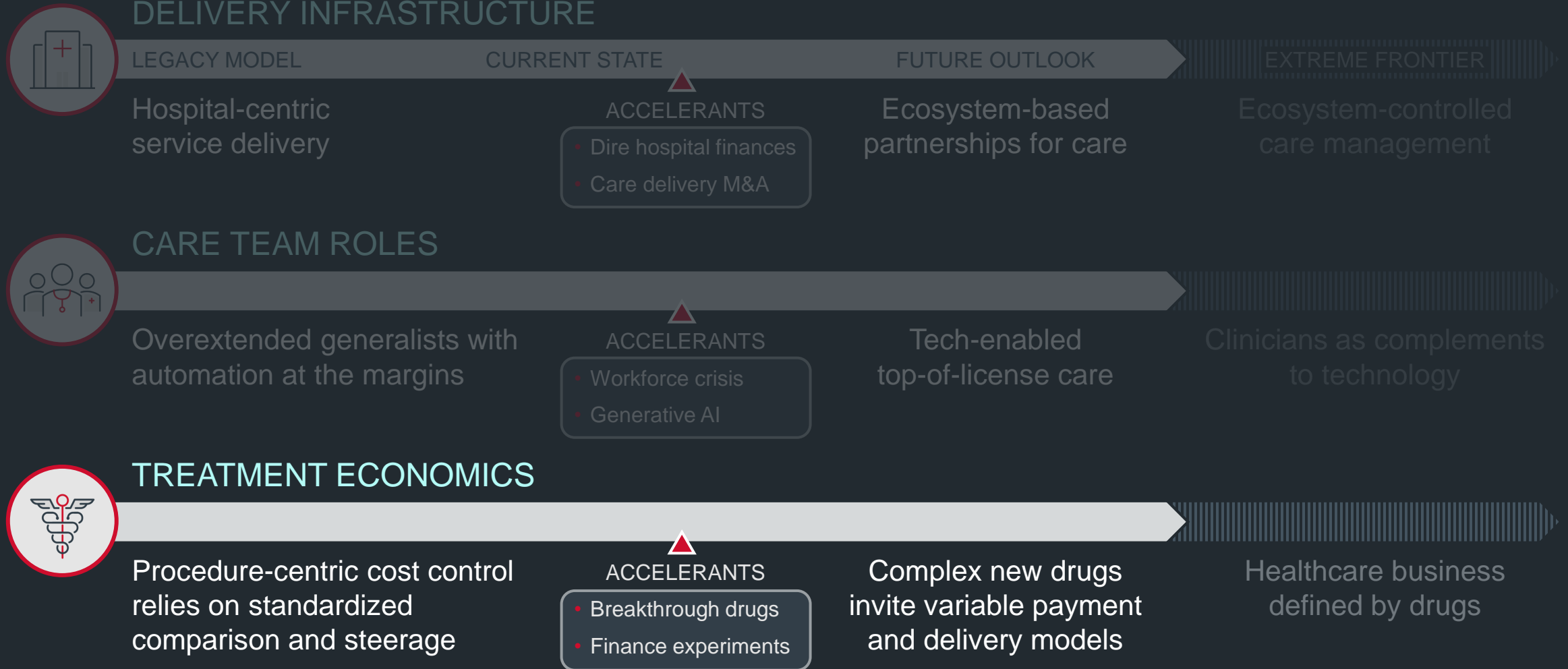
Estimated **62%** percent fewer Black patients flagged to receive care management resources than appropriate by Optum algorithm using historical spending data to estimate relative health risk

Source: ["Leveraging AI/ML to identify more at-risk,"](#) IQVIA, 2023; ["Doctors Are Using ChatGPT to Improve How They Talk to Patients,"](#) NY Times, June 2023; ["Algorithmic Bias In Health Care: A Path Forward,"](#) Health Affairs, November 2019; Obermeyer Z et al, ["Dissecting racial bias in an algorithm used to manage the health of populations,"](#) *Science*, October 2019, Vol 366, Issue 6464; Akhtar A, ["An Algorithm Gave Treatment to White Patients Over Sicker Black Ones,"](#) Business Insider, October 2019.

The future of...




The future of...



Drugs poised to eclipse the strategic focus on procedures

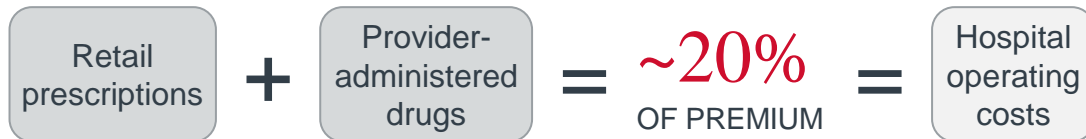


Innovation activity targets rare, untreated conditions

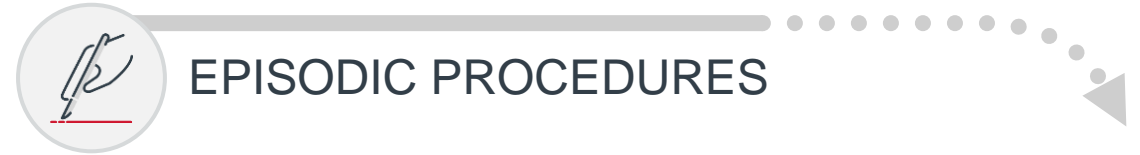
 **54-74**
New cell and gene therapies
expected in the market **by 2030**

Drug spend catching up to hospital operating costs

One provider-sponsored plan's experience with drug costs in 2022:



1. Hospital outpatient department.



Innovation activity enables lower-acuity care

Projected overall procedure utilization change
2021 to 2026

-2.8%	+7.3%
Inpatient	Outpatient

Transparency data and outpatient shift pressure rates

95% 2023	Commercially-insured lives represented by payer transparency data, for all sites	69% 2019	Average price for a procedure in an ASC relative to the same in a HOPD ¹
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Source: "Shifting Common Outpatient Procedures to ASCs" Can Save Consumers More than \$680 per Procedure," UHG, September 2021; "Impact Report - Q1," Turquoise Health, March 2023; "Toolkit Overview: Pipeline," Tufts, December 2020; Advisory Board Market Scenario Planner

Weight management drugs driving industry frenzy



Promising clinical effects

15-20%

Average **total body weight loss** on semaglutide¹

20

Cardiovascular outcome measures included in SELECT trial



Rising patient demand

111%

Increase in Ozempic **prescriptions** from February 2022 to February 2023

44%

Of surveyed people with obesity would **change jobs to gain coverage** for obesity treatment



Financial implications

\$13,618

Average **annual per capita price** of Wegovy (semaglutide)

142M

Eligible US patient population for semaglutide for weight loss according to FDA criteria²

Variable coverage in 2023



Direct-to-consumer companies Ro and WeightWatchers enter weight loss medication space



51% of surveyed **health plans** do not cover weight loss medications³



Medicaid covers select weight loss drugs in **16** states



Medicare Advantage can cover weight management drugs as an additional benefit,⁴ but not common



Medicare Modernization Act of 2003 prohibits Part D coverage of weight management drugs

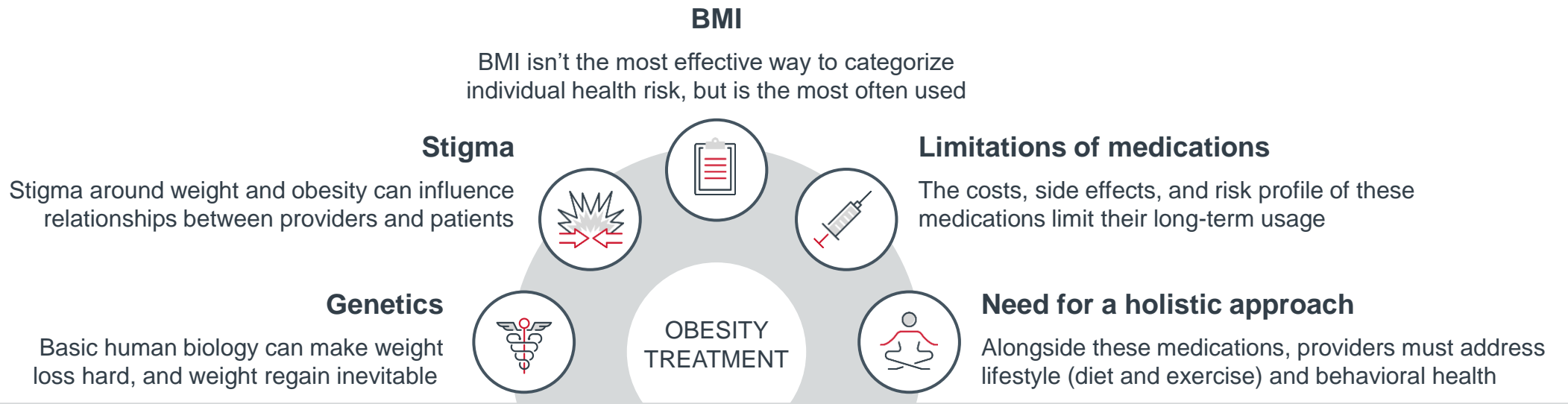
1. Medication indicated for treatment of type 2 diabetes and obesity.
2. BMI >30 or BMI >27 with a pre-existing condition such as diabetes.

3. 31% are considering adding coverage in the next 1-2 years.
4. Through flexible benefits and formularies that meet CMS requirements.


See additional sources slide for sources.


Drugs not a silver bullet for the obesity epidemic


Factors that influence obesity treatment, driving need for personalized care solutions



WHERE WE CAN MAKE EFFECTIVE CHANGE

 **Improve risk stratification** to include factors beyond BMI, such as including percent body fat or presence of metabolic syndrome

 **Train providers to deliver destigmatized obesity care** that acknowledges the long-term, complex journey of weight management

 **Optimize benefit models** to increase access to medications for the patients who would benefit the most

Source: "[House of Delegates Handbook and Addendum](#)," AMA, 2023; "[Management of obesity](#)," The Lancet, February 2016; "[Addressing Medicine's Bias Against Patients Who Are Overweight](#)," JAMA, February 2029.

CGTs bring clinical breakthroughs, but don't come cheap



IN THE NEWS

Cell and gene therapies (CGTs) celebrated for clinical capabilities...

“Zolgensma demonstrates ‘remarkable’ long-term results for children with SMA¹”

HEALIO

“The FDA approved a gene therapy that can reverse a form of childhood blindness”

QUARTZ

“Last-resort cancer therapy holds back disease for more than a decade”

NATURE

...but high costs bring debate over prices and financing

“FDA approves \$3.5 million treatment for hemophilia, now the most expensive drug in the world”

CNN

“A Dilemma for Governments: How to Pay for Million-Dollar Therapies”

THE NEW YORK TIMES

“At \$850,000, price for new childhood blindness gene therapy four times too high, analysis says”

PBS

1.09M

Estimated patients treated by gene therapy between 2020-2035

\$25.3B

Estimated annual spend on gene therapies in 2026²

0.5%

Predicted gene therapy spend as a percent of estimated national health expenditure in 2026²

1. Spinal muscular atrophy.

2. 2026 is projected to be the peak in spend on gene therapies between 2020 and 2035.

See additional sources slide for sources.

All “high-cost drugs” are not the same

Key characteristics to evaluate the impact of specific emerging high-cost drugs

EXAMPLES	1 Prices and revenues	2 Estimated population size	3 Clinical significance	4 Administration logistics and timing	5 Future pipeline developments to watch
GLP-1 agonists for weight loss ¹	\$13.6k / patient ² \$25B sales est. for 2028	142M (eligible)	Improvement to weight loss treatments	<ul style="list-style-type: none"> • Ongoing weekly injections • Patient-administered 	<ul style="list-style-type: none"> • May be used to reduce BMI to qualify for surgery • FDA approval for oral versions likely by end of 2023
Leqembi (lecanemab) for Alzheimer’s	\$26.5k / patient ³ \$3.1B sales est. for 2028	100k (eligible)	New treatment to slow cognitive and functional decline	<ul style="list-style-type: none"> • Ongoing biweekly infusions • Provider-administered 	<ul style="list-style-type: none"> • Eli Lilly expected to submit bid for approval of Alzheimer’s treatment donanemab in 2023
CAR T-cell therapies for blood disorders	\$373k / patient \$6B sales est. for 2026	2,000 (treated from 2019 – January 2022)	Improvement in short-term and long-term cancer remission	<ul style="list-style-type: none"> • One-time gene therapy infusion • Provider-administered 	<ul style="list-style-type: none"> • Decision on cell-based gene therapy to treat sickle cell disease and beta thalassemia expected in early 2024
Hemgenix gene therapy for hemophilia B	\$3.5M / patient \$44M sales est. for 2028	3,300 (eligible)	New treatment to replace regular prophylactic infusions	<ul style="list-style-type: none"> • One-time gene therapy infusion • Provider-administered 	<ul style="list-style-type: none"> • Gene therapy Roctavian approved by FDA in June 2023 for adults with severe hemophilia A

1. Such as Saxenda (liraglutide), Wegovy (semaglutide).



2. Annually, for semaglutide.

3. Annually, for lecanemab.

See additional sources slide for sources.

Drug categories favor different players and capabilities

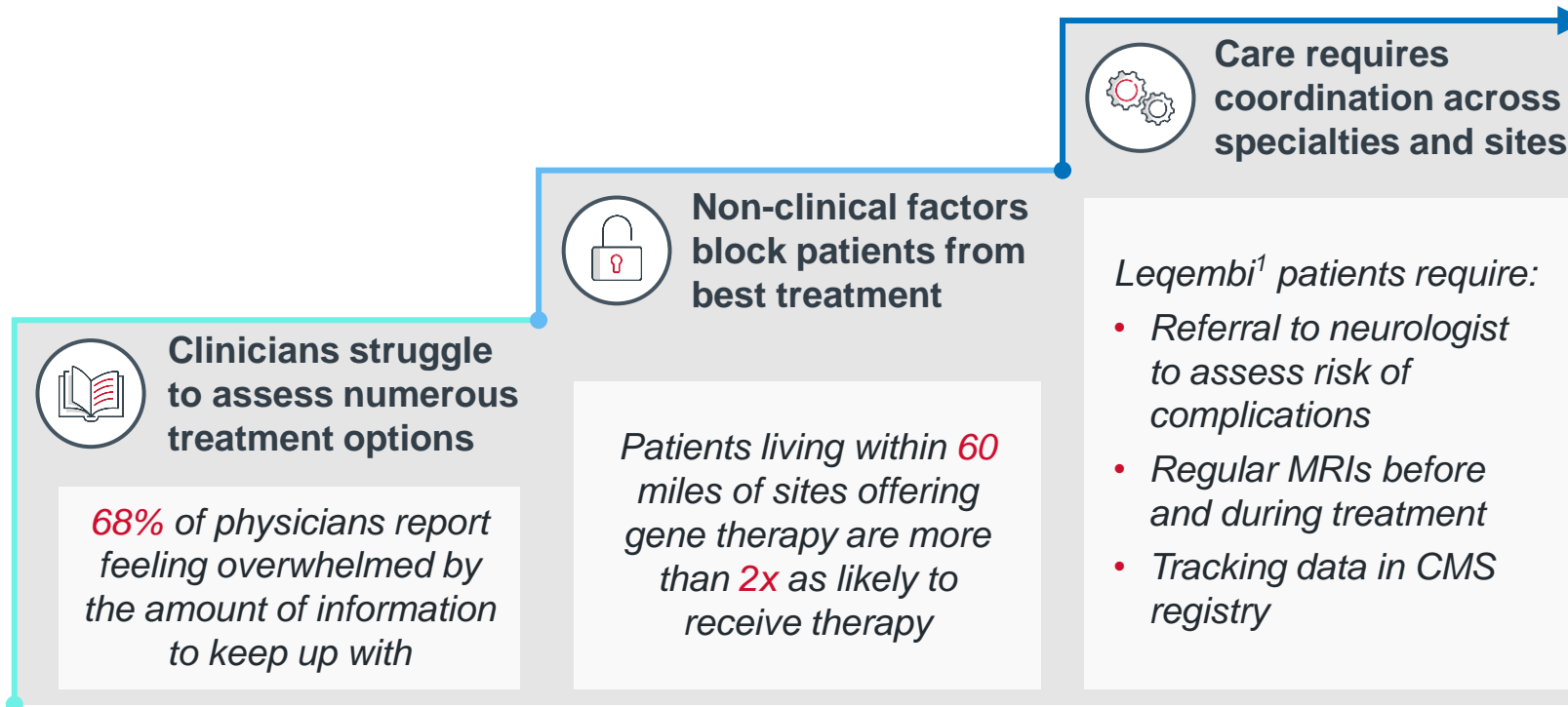
Array of delivery and competitive considerations for sample emerging high-cost drugs

EXAMPLES	Capabilities needed for delivery	Business dynamics to watch	
GLP-1 agonists for weight loss	<ul style="list-style-type: none"> • Treatment planning: Prescribing support to help providers navigate demand • Care management: Coordination of behavioral and nutritional support; weight management support if patient discontinues drug 	B2C digital health vendors such as Ro and Sequence advertise coaching and ability to work with consumer's insurance for coverage	 <p>Non-traditional players circle business opportunities</p>
Leqembi (lecanemab) for Alzheimer's	<ul style="list-style-type: none"> • Care monitoring: Coordination of regular MRIs to monitor for brain swelling • Data collection: Infrastructure to collect data on drug's performance to obtain Medicare reimbursement 	Growth in private equity investment in infusion centers potentially indicative of increased competition for drug administration	
CAR T-cell therapies for blood disorders	<ul style="list-style-type: none"> • Specialized care: Acute care to manage risks and complications • Referral management: Referral pathways into specialized cancer centers 	Specialized cancer centers needed to manage complications and often serve as clinical trial sites	 <p>Scale of complexity and cost requires specialized access management</p>
Hemgenix gene therapy for hemophilia B	<ul style="list-style-type: none"> • Care management: Coordination of weekly follow-up to monitor liver enzymes and factor IX activity • Specialized care: Designation as Hemgenix administration center 	Manufacturer, payer, and provider will need to designate entity to gather data to execute outcomes-based contracts offered by manufacturer	

See additional sources slide for sources.

Clinicians face increasing complexity in decision-making

Personalized medicine becoming more clinically possible, but operationally difficult



LEARNINGS FROM MEDICAL ONCOLOGY

Infrastructure we're likely to see more of

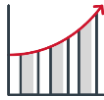
- Organizational governance for formulary decisions, prescribing guidelines, and clinical pathways
- Emphasis on real world evidence
- Clinical decision-support technology
- Shared decision-making tools
- Expert consults and hardwired referral pathways
- Patient navigation and coordination

1. Medication used to treat Alzheimer's disease.

See additional sources slide for sources.

Treatments getting harder for purchasers to manage

Plan sponsors grapple with challenges that come with emerging high-cost therapies



Over-use concerns

Purchaser concerns

How can I counter over-optimism and experimental use cases to target only beneficiaries most likely to benefit?



Performance uncertainty

How do I know the effects of this expensive treatment will last when it's relatively new?



Actuarial uncertainty

How can I predict which rare diseases with costly treatments will show up in my beneficiary pool when the populations are so small?



Payment timing

What if I pay a large upfront cost for a medication and the beneficiary leaves my pool before I see any TCOC reductions?

Purchaser strategies

Heavier scrutiny on coverage decisions

Exploring alternative financing models

Source: "Out of Reach? New models for financing and providing rare disease treatment could make for a sustainable system for patients and employers," Leaders Edge, May 2020.

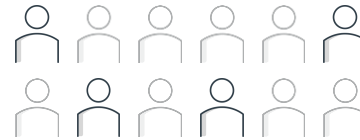
Purchasers turn to old tools to balance access and cost...

Greater scrutiny on evidence, outcomes, and cost expand use of familiar strategies to regulate access



Formulary exclusions

What do we cover?



Utilization management

Who do we cover it for?

10x Increase in unique products excluded by top three PBMs

2014 to 2022

47% Excluded medicines with no therapeutically equivalent drugs on the market

2022

9 of 17 Largest insurers restrict Wegovy¹ beyond FDA label

December 2022

14 of 19 Medicaid coverage policies reviewed restrict Zolgensma² beyond FDA label

June 2023

Coverage restrictions by largest commercial health plans

Percent of policies in April 2020

Other orphan products

30%

Cell and gene therapies

67%

Expect more variation ahead



As purchasers interpret evidence, calculate value, and weigh sources of information differently, several distinct variable categories of coverage for a given treatment will **emerge across purchasers** (rather than one coverage standard for each new treatment)

1. Semaglutide (weight management medication).
2. Prescription gene therapy for children under two with spinal muscular atrophy.

Sources: 2023 Benefit Design Report, PSG, June 2023; "Medicare Officially Limits Coverage of Aduhelm to Patients in Clinical Trials," NY Times, April 2022; "Variation in market access decisions for cell and gene therapies across the United States, Canada, and Europe," Tunis et al., December 2021; "Medicaid coverage practices for approved gene and cell therapies: Existing barriers and proposed policy solutions," Allen et al., June 2023; "PBMs, insurers restrict Ozempic, Wegovy, weight loss drug access," Modern Healthcare, May 2023.

...but explore alternative models to manage drug costs

	Stop-loss insurance	Care management add-ons	Outcomes-based agreements	Specialty pharmacy carve-outs
GOAL	Protect against catastrophic or unpredictable financial losses by sharing risk with a larger pool	Reduce total cost of care by improving care coordination and optimizing medication regimens	Protect against uncertain drug performance by structuring rebates or payments based on milestone achievements	Exclude (carve out) some or all specialty drugs from PBM ² coverage and lower drug spend through a variety of mechanisms
CHALLENGE	Unsustainable and full of holes	Unclear return on investment	Difficult to execute	Contributes to fragmentation
EMERGING MODELS		Proposed CMMI Accelerating Clinical Evidence Model would adjust CMS payments for drugs approved under the Accelerated Approval Program to incentivize manufacturers to complete confirmatory trials	CMMI developing CGT¹ Access Model for state Medicaid agencies to assign CMS to negotiate multi-state, outcomes-based agreements with manufacturers	Large PBMs offering new CGT carve-out models that attempt to combine risk-pooling, care management, and outcomes-based agreements for specific CGTs

1. Cell and gene therapy.
2. Pharmacy benefit manager.

Source: "CMMI Drug Pricing Model Concepts," Avalere, February 2023.

Unique drug dynamics intensify our usual challenges



Emerging drugs exacerbate evergreen healthcare challenges



Two-tiered patient access

Consumer access to drugs increasingly determined by:

- Employer and state coverage decisions
- Ability to absorb higher cost sharing or pay OOP
- Access to providers with specialized capabilities



Consolidated utilization control

- Massive scale required to finance high-cost risk
- More benefits enrollees enables more influence over drug sourcing from owned specialty pharmacies
- Cumulative cost advantage forces more PBM and payer consolidation



Hurdles to payment transformation

Alternative payment models (APMs) unready for:

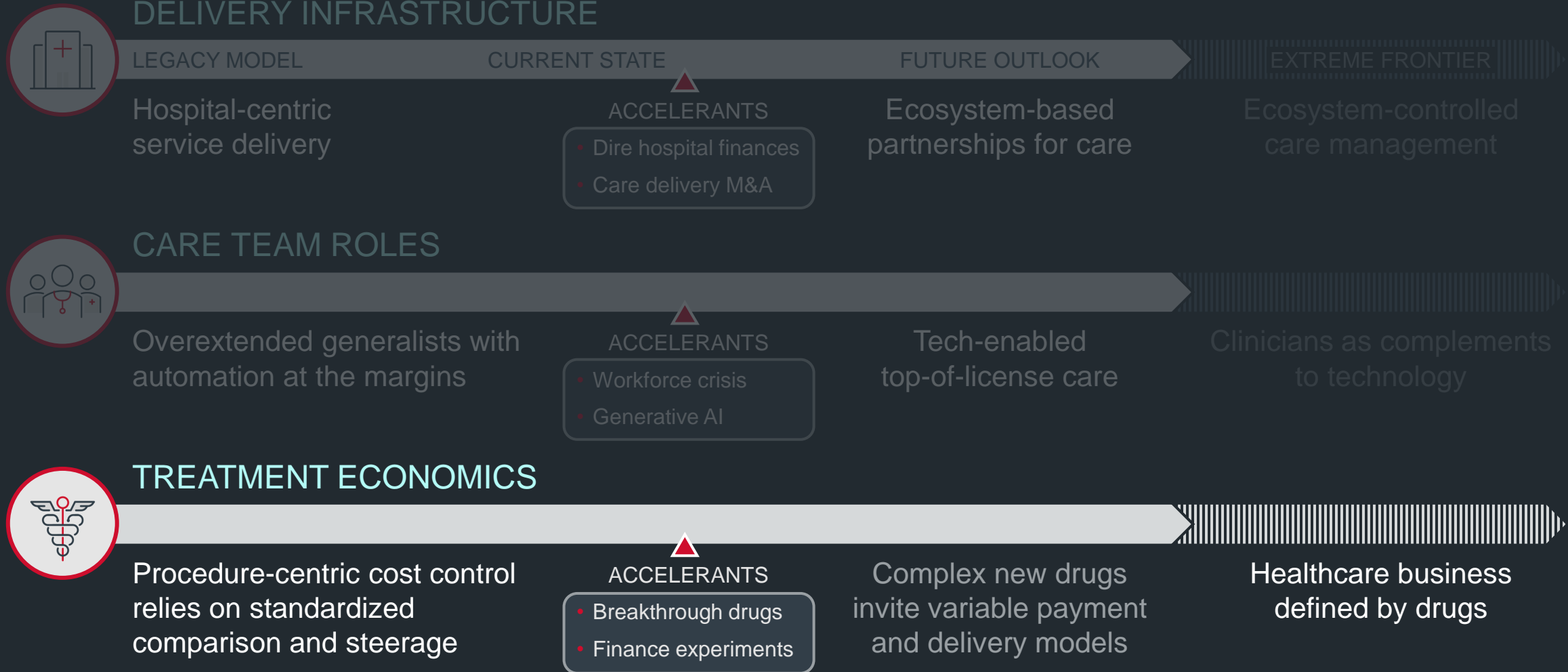
- Quality metrics and outcomes on a gradient
- Multi-stakeholder care coordination complexity
- Past carve-outs of pharmacy from APMs

Envisioning a healthcare business defined by drugs

Illustrative comparison of business characteristics for procedure and drug treatments

Episodic Procedures	Category	Therapeutic Drugs
<ul style="list-style-type: none"> • Improve safety and reduce invasiveness • IP/OP, ASC, surgical specialty office 	Clinical impact of innovation	<ul style="list-style-type: none"> • Address conditions without available or effective treatments
<ul style="list-style-type: none"> • Pre-operative consults and prep, rehab, ongoing monitoring 	Delivery options	<ul style="list-style-type: none"> • IP/OP, infusion center, home delivery, patient administration, medical specialty office
<ul style="list-style-type: none"> • Relatively binary with predictable benchmarks established • Market-based competition over efficiency 	Wraparound care	<ul style="list-style-type: none"> • Pre-treatment diagnostic testing, concurrent symptom and side effect care, ongoing treatment, ongoing monitoring and care management
<ul style="list-style-type: none"> • Cost and quality competition 	Cost and quality competition	<ul style="list-style-type: none"> • Standards still unfolding on a gradient • Experimentation with new models and new players
<ul style="list-style-type: none"> • Prior authorization • Provider selection 	Cost management strategies	<ul style="list-style-type: none"> • Prior authorization or formulary design • Provider selection • Drug/dose/modality selection • Drug sourcing mandates
<ul style="list-style-type: none"> • One-time • Provider payment • (Increasingly) bundled patient cost sharing 	Financing	<ul style="list-style-type: none"> • Ongoing or one-time • Provider, pharmacy, and PBM payment • Ongoing patient cost sharing

The future of...



The future of...



DELIVERY INFRASTRUCTURE

LEGACY MODEL

Hospital-centric service delivery

CURRENT STATE

ACCELERANTS

- Dire hospital finances
- Care delivery M&A

FUTURE OUTLOOK

Ecosystem-based partnerships for care

EXTREME FRONTIER

Ecosystem-controlled care management



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Overextended generalists with automation at the margins

ACCELERANTS

- Workforce crisis
- Generative AI

Tech-enabled top-of-license care

Clinicians as complements to technology



TREATMENT ECONOMICS

Procedure-centric cost control relies on standardized comparison and steerage

ACCELERANTS

- Breakthrough drugs
- Finance experiments


Complex new drugs invite variable payment and delivery models

Healthcare business defined by drugs


The (heightened) responsibilities of the future

In a future with...


Stakeholders must embrace their responsibility to...



DELIVERY INFRASTRUCTURE
Ecosystem-controlled care management



CARE TEAM ROLES
Clinicians as complements to technology



TREATMENT ECONOMICS
Healthcare business defined by drugs

Set priorities

EMPLOYERS

Decide standards for the scope of covered healthcare services, care access, and consumer autonomy

DIGITAL HEALTH

Focus technology and service offerings on unmet, pervasive population care and team workflow needs

Expand coordination

PLANS

Track care coordination and financing across stakeholders, for partner accountability and longitudinal cost pooling

MEDICAL GROUPS

Manage patients longitudinally across a complex continuum by designing and deploying holistic care teams

Protect access

HEALTH SYSTEMS

Balance the need to standardize service operations with collaborating on patient access, supporting personalization, and enabling clinical autonomy

LIFE SCIENCES

Build practical payment models and education, to scale product access commensurate with specialized delivery needs and clinical breakthroughs

The state of the healthcare industry heading into 2024

1

Industry snapshot

A moment of instability

- Poor outlook for patient health and industry performance
- Challenging business operating environment

2

Purchaser disruption

Government-led scrutiny

- Overall public coverage growth despite Medicaid whiplash
- Tightening MA business model
- Employer coverage balancing act harder with fiduciary rules
- Sweeping policy changes to pharmaceutical business



TODAY'S
QUESTION

How will
the industry
prepare
versus
react?

3

Strategic paradigms

The future of longstanding shifts

- **Delivery infrastructure** will evolve into ecosystems focus
- **Care team roles** will shift with new tech capabilities
- **Treatment economics** will adapt to high-cost drugs



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