



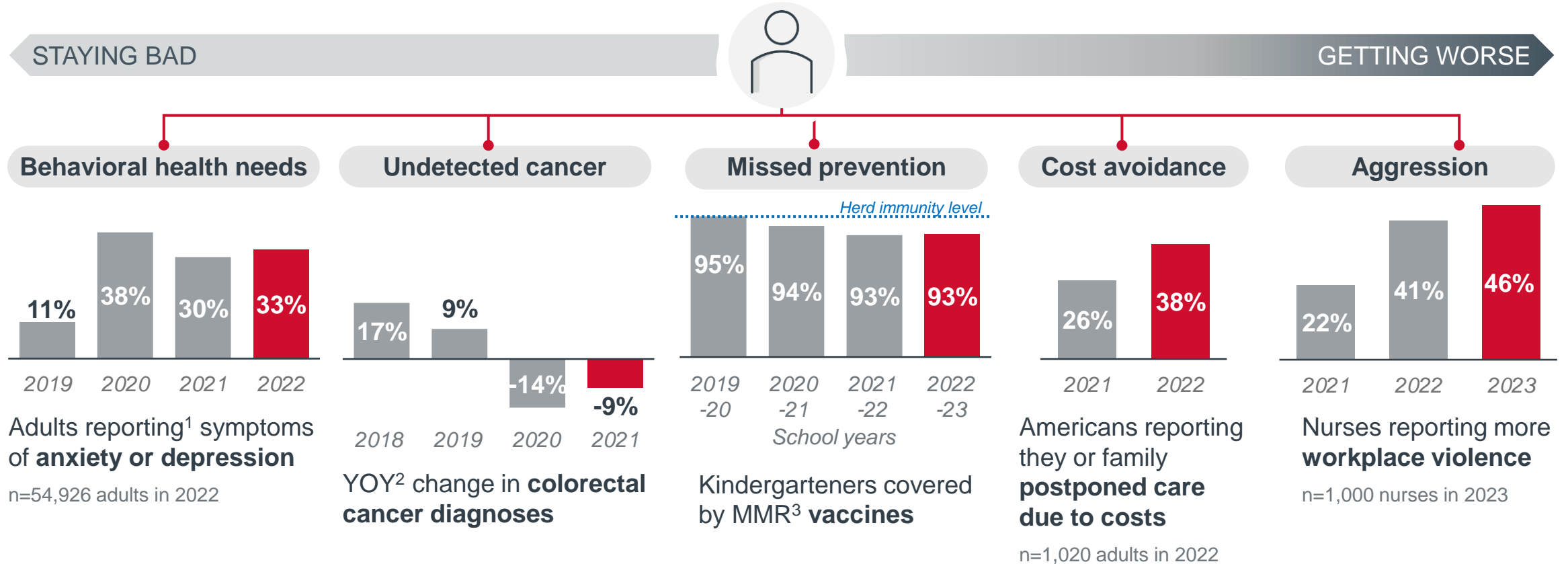
# The State of the Healthcare Industry in 2024

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How to prepare for the future of longstanding paradigm shifts

# The patients are not alright

## Characteristics of the patient emerging from the pandemic era



1. Values pulled from June of each year, except 2019 is January to June.  
 2. Year-over-year.  
 3. Measles, mumps, and rubella.

Source: "Coverage with Selected Vaccines and Exemption from School Vaccine Requirements Among Children in Kindergarten — United States, 2022–23 School Year," CDC, November 2023; "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, 2024; "NNU report shows increased rates of workplace violence experienced by nurses," National Nurses United, February 2024; "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

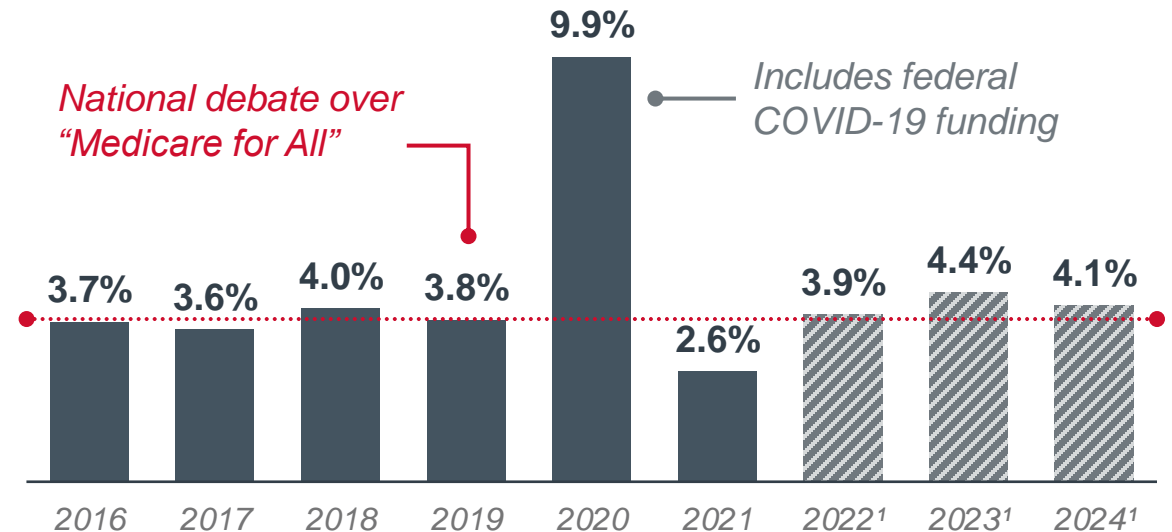
**73%**

Adults believe the healthcare system is **not meeting their needs**

n=2,519 adults in March 2023

## Looming spending pressures

### Annual growth in health expenditures per capita



1. Projected.

Source: "The Pandemic's Consequences: Survey of Registered Nurses," AMN, January 2023; "National Health Expenditure Projections," Health Affairs, June 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

▲ **4.5%**

June 2023 YOY<sup>1</sup>

Employment cost index

### High borrowing costs

▲ **525 BPS**

May 2023 over March 2022

Federal interest rate

### Volatile stock market

**-19.4%**    **+15.9%**

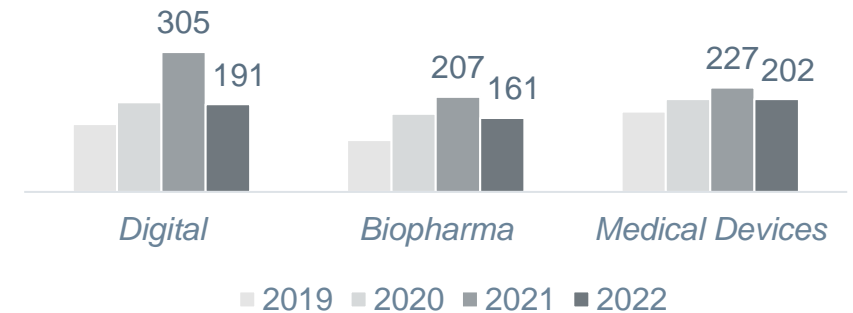
2022 YOY

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.

# Purchaser and payment policy dynamics at a glance



**Medicaid coverage  
whiplash**

**20.1M**

*Medicaid terminations  
completed as of April  
11, 2024*



**Medicare Advantage  
business model squeeze**

**\$4.7B**

*Estimated reduction in  
Medicare Advantage  
plan annual revenues  
from 1.12% effective  
rate cut for 2024*



**Pharmaceutical business  
regulatory overhaul**

**\$98.5B**

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



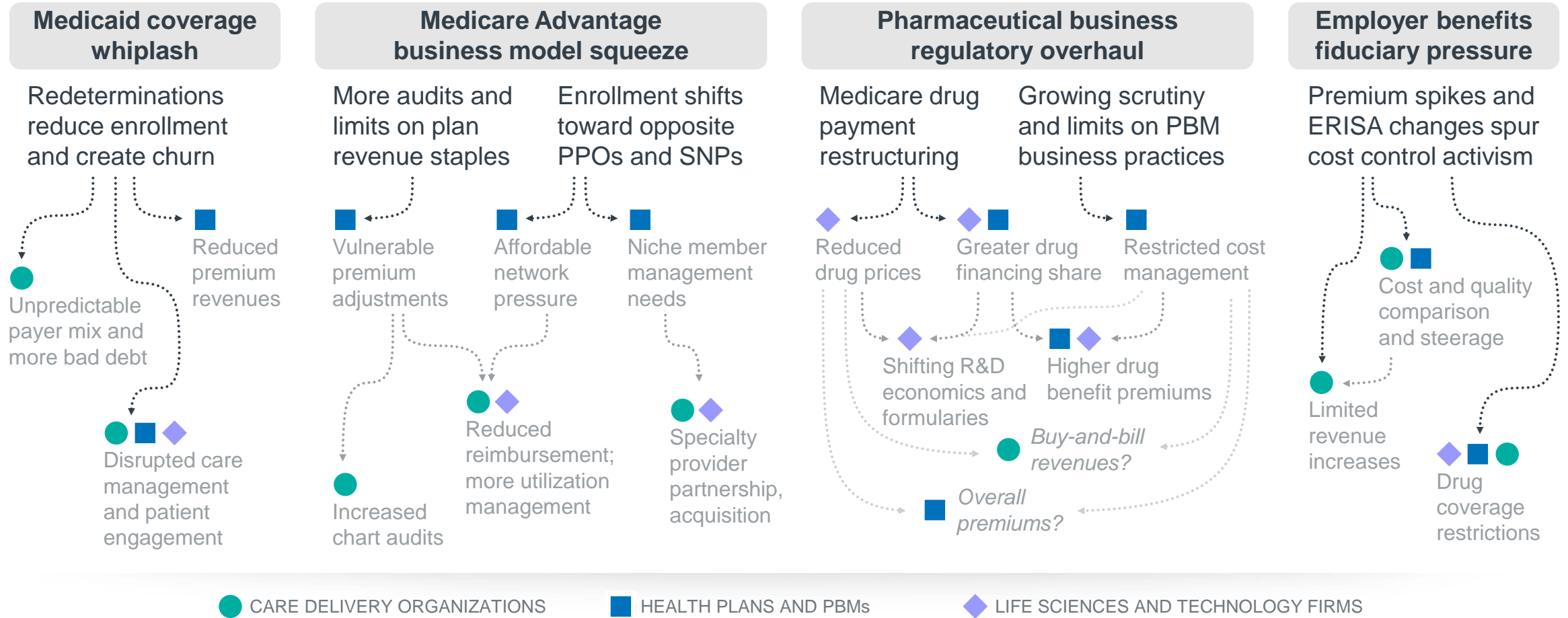
**Employer benefits  
fiduciary pressure**

**8.5%**

*Projected increases  
in health insurance  
costs for employers  
for 2024 benefits*

Source: "Medicaid Enrollment and Unwinding Tracker," KFF, March 2024; Isaacson G et al, "The future of Medicare Advantage," McKinsey & Company, July 2023; Cubanski J et al "Explaining the Prescription Drug Provisions in the Inflation Reduction Act," KFF, January 2023; Leo L and Mandowara K; "US employers to see biggest healthcare cost jump in a decade in 2024," Reuters, September 2023.

# Disruptions will trickle down to all—and raise tensions



# Industry snapshot

## A moment of instability

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- The industry has emerged from a shared catastrophe into a time of instability. Poor patient health, declining clinical quality, and higher overall health spending form a concerning foundation.
- As these factors combine with a tightening economy and impending disruption, healthcare leaders are anxious about changes that lie ahead.

## Government-led scrutiny

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- Despite the pending enrollment mix whiplash, overall public payer coverage share will grow steadily—and with it, scrutiny over the industry’s vulnerabilities.
- Regulators have already made policy steps aiming to tighten the MA business model, heighten employer fiduciary responsibilities, and overhaul the pharmaceutical business —putting the industry in the crosshairs.

# The future of...



## DELIVERY INFRASTRUCTURE

LEGACY MODEL

Hospital-centric service delivery

CURRENT STATE

ACCELERANTS

- Dire hospital finances
- Care delivery M&A

FUTURE OUTLOOK

Ecosystem-directed care management



## CARE TEAM ROLES

Overextended generalists with automation at the margins

ACCELERANTS

- Workforce crisis
- Generative AI

Tech-dependent care teams



## TREATMENT ECONOMICS

Procedure-centric delivery and cost control standards

ACCELERANTS

- Breakthrough drugs
- Finance experiments

Healthcare business defined by bespoke care



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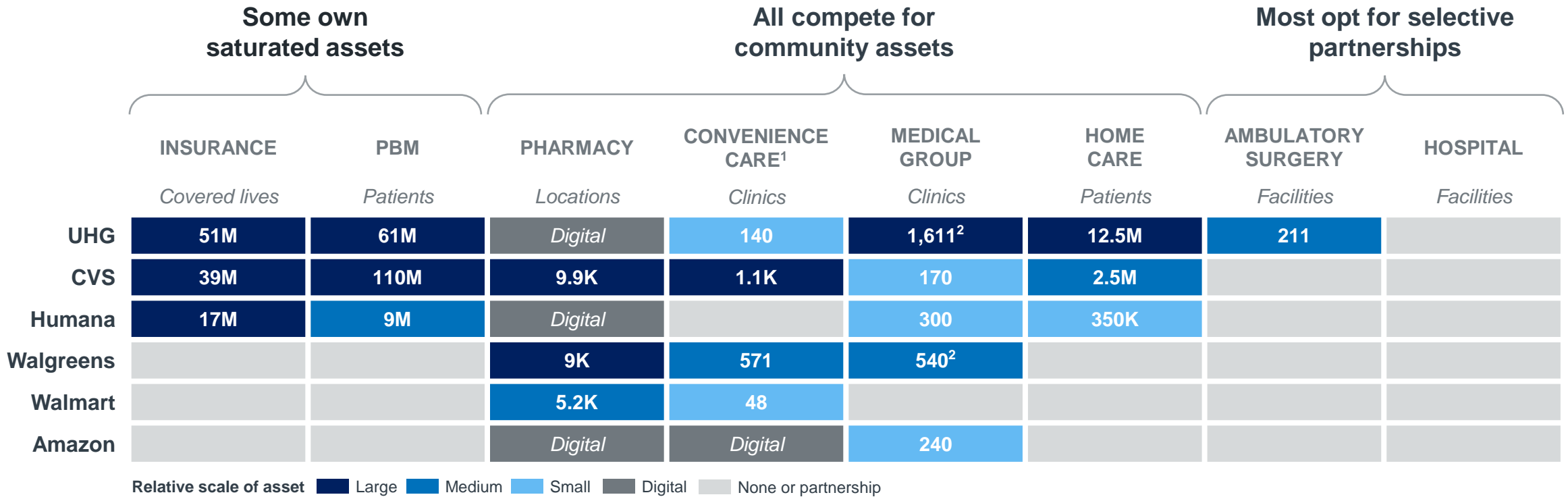
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# Ecosystem players build cross-continuum reach

Corporations pursue selective consolidation across care delivery and financing (as of March 2024)






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

2. Includes primary and specialty care practices. Walgreens' medical group total excludes the 140 clinics they've closed as of 3/28/24.

Sources: See additional sources slide.

# Players draw from mix of assets to serve unique goals

## Top inferred strategic goals of ecosystem players

Ambition	 <b>Cross-sell services</b> <i>Walgreens, Amazon, CVS</i>  Cross-sell across a diverse healthcare portfolio to capture low-acuity care and pharmacy spend	 <b>Capture senior care value</b> <i>Humana, CVS, UHG</i>  Coordinate risk-based care across settings in a market to manage longitudinal senior health	 <b>Oversee network operations</b> <i>UHG, KP (Kaiser Permanente)</i>  Equip value-based physician groups and select hospital operators to steer patients to preferred cost-effective sites
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>

# Corporate strategies adapt to local market dynamics

As of July 2023

## Demographics and population growth attract competing corporate players

36 UHG's OptumCare, LHC Group locations<sup>1</sup>

121 Walgreens' VillageMD locations

63 Humana's CenterWell primary and home health locations<sup>2</sup>

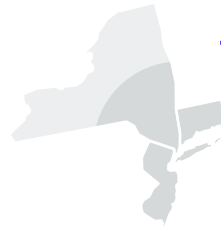
24 Amazon's One Medical and Iora locations<sup>3</sup>

18 CVS' Oak Street Health clinics

4 Walmart's Health clinics



## Pressure for attributed lives pushes aggressive medical group strategy



NYC area

2021 Walgreens partners with Northwell

2022 Walgreens' VillageMD acquires Summit Health-CityMD

2022 Optum acquires 3+ specialty care practices

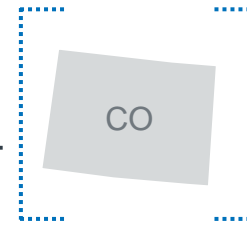
2023 Optum acquires Crystal Run Healthcare; Riverdale Family Practice

## Challenging local delivery finances creates opening for national player entry

2020 Boulder Community Health joins Optum MPP<sup>4</sup>

2023 Walgreens' VillageMD enters CO

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

3. 18 One Medical locations and 6 Iora locations.

2. 26 primary care locations and ~37 home health locations.


4. Market Performance Partnership.


Sources: See additional sources slide.

# Systems' survival strategies leaves access gaps

## Health systems make tough choices...

 **Rationalized services** **165M** Decreases in the number of psychiatric beds  
Americans live in mental healthcare health professional shortage areas, September 2023


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

 **Hospital closures** **150** Rural hospital closures, 2016-2021  
**80%** Rural U.S. areas designated as medically underserved, 2019

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, 2018-July 2023

 **Women's health startups aimed at employers**  
**\$854M** Venture funding of fertility technology start-ups, 2022<sup>1</sup>  
**143%** Increase in PE acquisitions of OB/GYN practices and fertility services companies<sup>2</sup>

 **Rural care limited and often focuses on preventative care**  
**3** Dollar General mobile health clinics to improve rural care, January 2023  
**300+** Projected VillageMD locations in medically underserved communities by 2027

See additional sources slide for sources.

## The future paradigm of **delivery infrastructure**

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While large conglomerates make a final push for remaining assets across the care continuum, health systems seek financial survival pathways through partnerships. These moves will cement a shift away from hospital-centric service delivery toward ongoing care management directed by the ecosystem level—upending performance standards and creating distinct challenges for patient access.

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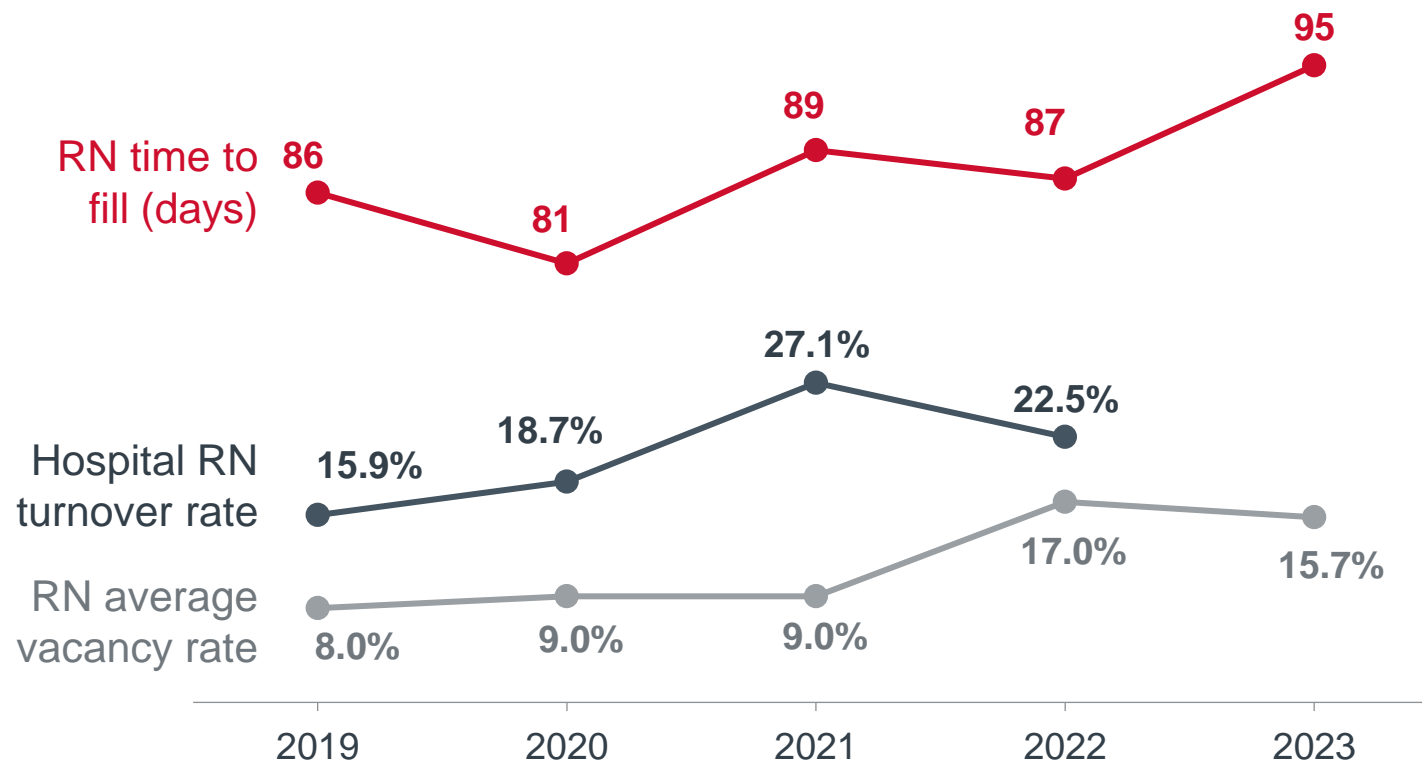
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Healthcare business defined by bespoke care

# Labor challenges persist as AI increases in popularity

## Turnover, vacancy rates, and time to fill remain elevated

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



### AI IN THE NEWS

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

BLOOMBERG, JAN ‘23

“ChatGPT reaches **100 million** users two months after launch”

THE GUARDIAN, FEB ‘23

“Big majority of doctors see upsides to using health care AI”

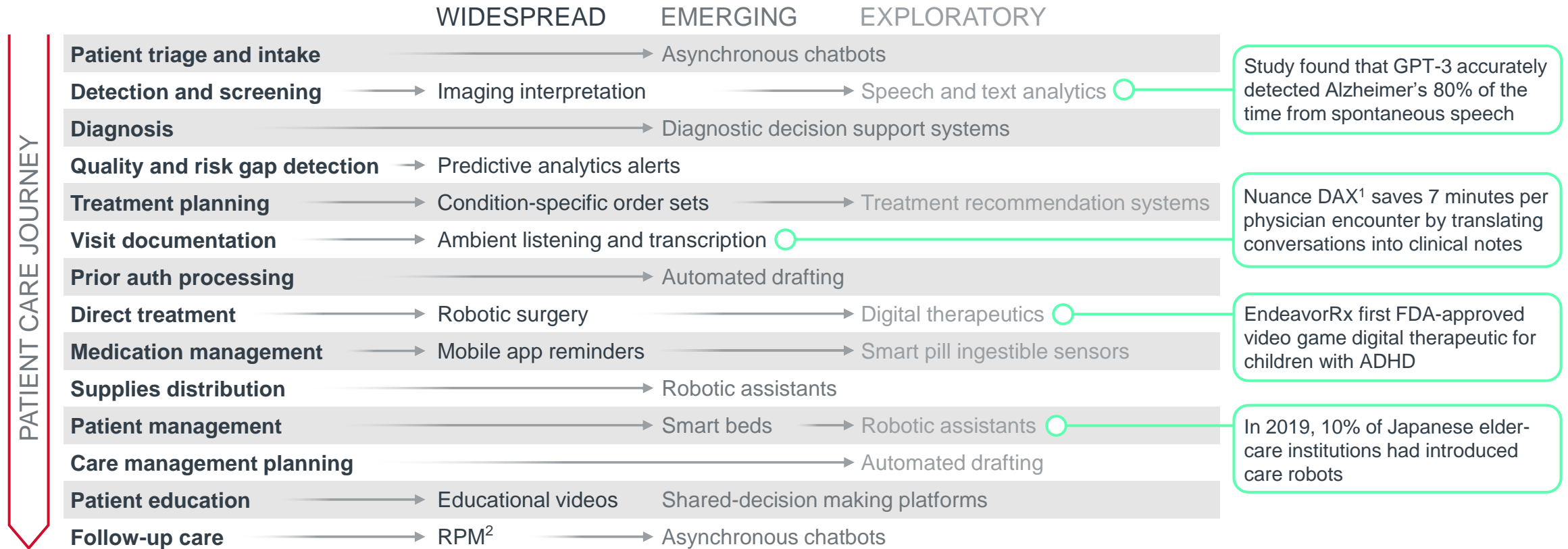
AMA, JAN ‘24

Source: “National Health Care Retention Report,” NSI, 2020, 2021, 2022, 2023; “ChatGPT reaches 100 million users two months after launch,” The Guardian, February 2023; “Microsoft to Invest \$10 Billion in ChatGPT Maker OpenAI (MSFT),” Bloomberg, January 2023; “Big majority of doctors see upsides to using health care AI,” AMA, January 2024.



# 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. On the left, there are six AI capabilities listed in a grid:

- Write a statement of support for social security disability for my patient with bipolar disorder. [Try Prompt →](#)
- Trained in medical terminology and shorthand; knows how to format clinical documentation and common medical correspondence.
- May occasionally generate incorrect information. Confirm any factual references before using clinically.
- Write home care instructions for an 8 y/o with asthma in the style of Dr. Seuss. [Try Prompt →](#)
- Fluency in dozens of languages; can translate documents and produce multilingual patient education.
- Is not HIPAA-compliant; do not include PHI in prompts.

On the right, there is a 'Free Fax to Insurers' panel with a list of insurance providers:

- Aetna**  
833-596-0339
- Anthem**  
800-754-4708
- Cigna**  
615-401-4642
- Health Net**  
800-781-2999

Below the list is a 'Send Fax' button with a fax icon. At the bottom of the panel, it states: 'Doximity members can fax letters directly to insurers using our digital fax service. To enter Doximity's HIPAA compliant'.

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

Source: "Docs GPT," Doximity, 2023.

# 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**?

## The future paradigm of care team roles

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Rapid, chaotic advances in technology (especially AI) create new opportunities to address persistent workforce challenges. In the quest for top-of-license care, clinician roles must evolve—possibly to the point where *clinicians* will complement *technology*. The new era of tech enablement will open the door to greater efficiency, entrench inequities, and shift control over care decisions.

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Healthcare business defined by bespoke care

# Drugs poised to eclipse the strategic focus on procedures



## THERAPEUTIC DRUGS

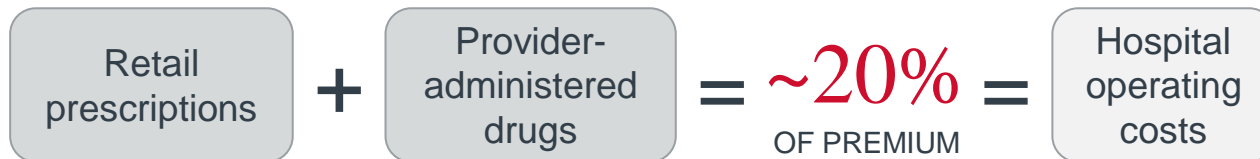
1. Innovation activity targets rare, untreated conditions
2. Drug spend catching up to hospital operating costs



## EPISODIC PROCEDURES

1. Innovation activity enables lower-acuity care
2. Transparency data and outpatient shift pressure rates

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



**58%**

Average price for a procedure in an ASC relative to the same in a HOPD<sup>1</sup>, 2022

Source: Costs for Common Health Care Procedures Significantly Higher When Performed in Hospital Outpatient Departments, Blue Health Intelligence, 2023; "Toolkit Overview: Pipeline," Tufts, December 2020; Advisory Board Market Scenario Planner

1. Hospital outpatient department.

# Weight management drugs driving industry frenzy



## Promising clinical effects

**15-20%** Average total body weight loss on semaglutide<sup>1</sup>



## Rising patient demand

**44%** Of surveyed people with obesity would **change jobs to gain coverage** for obesity treatment



## Financial implications

**142M** Eligible US patient population for semaglutide for weight loss according to FDA criteria<sup>2</sup>

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.

## Variable coverage in 2023-2024

- ✓ **Direct-to-consumer companies Ro and WeightWatchers** enter weight loss medication space
- ? **51%** of surveyed **health plans** do not cover weight loss medications<sup>3</sup>
- ? **Medicaid** covers select weight loss drugs in **16** states
- ? **Medicare Advantage** can cover weight management drugs as an additional benefit,<sup>4</sup> but not common
- ? **Medicare** Modernization Act of 2003 prohibits Part D coverage of weight management drugs for obesity alone, but CMS now allows Part D coverage for cardiovascular treatment

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 List prices and revenues	2 Estimated population size <i>As of 2022</i>	3 Clinical significance	4 Administration logistics and timing	5 Future pipeline developments to watch
GLP-1 agonists for weight loss <sup>1</sup>	<b>\$16.2K</b> per patient <sup>2</sup> <b>\$25B</b> sales est. for 2028	<b>142M</b> (eligible)	<b>Improvement</b> to weight loss treatments	<ul style="list-style-type: none"> <li>• Ongoing weekly injections</li> <li>• Patient-administered</li> </ul>	<ul style="list-style-type: none"> <li>• May be used to reduce BMI to qualify for surgery</li> </ul>
Leqembi (lecanemab) for Alzheimer’s	<b>\$26.5K</b> per patient <sup>3</sup> <b>\$3.1B</b> sales est. for 2028	<b>100K</b> (eligible)	<b>New treatment</b> to slow cognitive and functional decline	<ul style="list-style-type: none"> <li>• Ongoing biweekly infusions</li> <li>• Provider-administered</li> </ul>	<ul style="list-style-type: none"> <li>• Eli Lilly’s Alzheimer’s treatment donanemab pending FDA decision in 2024</li> </ul>
CAR T-cell therapies for blood disorders	<b>\$373K</b> per patient <b>\$6B</b> sales est. for 2026	<b>2,000</b> (treated from 2019 – January 2022)	<b>Improvement</b> in short-term and long-term cancer remission	<ul style="list-style-type: none"> <li>• One-time gene therapy infusion</li> <li>• Provider-administered</li> </ul>	<ul style="list-style-type: none"> <li>• Gene therapy Casgevy approved by FDA to treat sickle cell disease and beta-thalassemia in early 2024</li> </ul>
Hemgenix gene therapy for hemophilia B	<b>\$3.5M</b> per patient <b>\$44M</b> sales est. for 2028	<b>3,300</b> (eligible)	<b>New treatment</b> to replace regular prophylactic infusions	<ul style="list-style-type: none"> <li>• One-time gene therapy infusion</li> <li>• Provider-administered</li> </ul>	<ul style="list-style-type: none"> <li>• Pfizer’s hemophilia B gene therapy fidanacogene elaparvovec pending FDA decision in 2024</li> </ul>

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

2. Annually, for semaglutide.

3. Annually, for lecanemab.

See additional sources slide for sources.



# Envisioning a healthcare business defined by drugs

## Illustrative comparison of business characteristics for procedure and drug treatments



### TRADITIONAL PROCEDURES

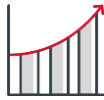
### CATEGORY

### BESPOKE THERAPIES

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

# 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*

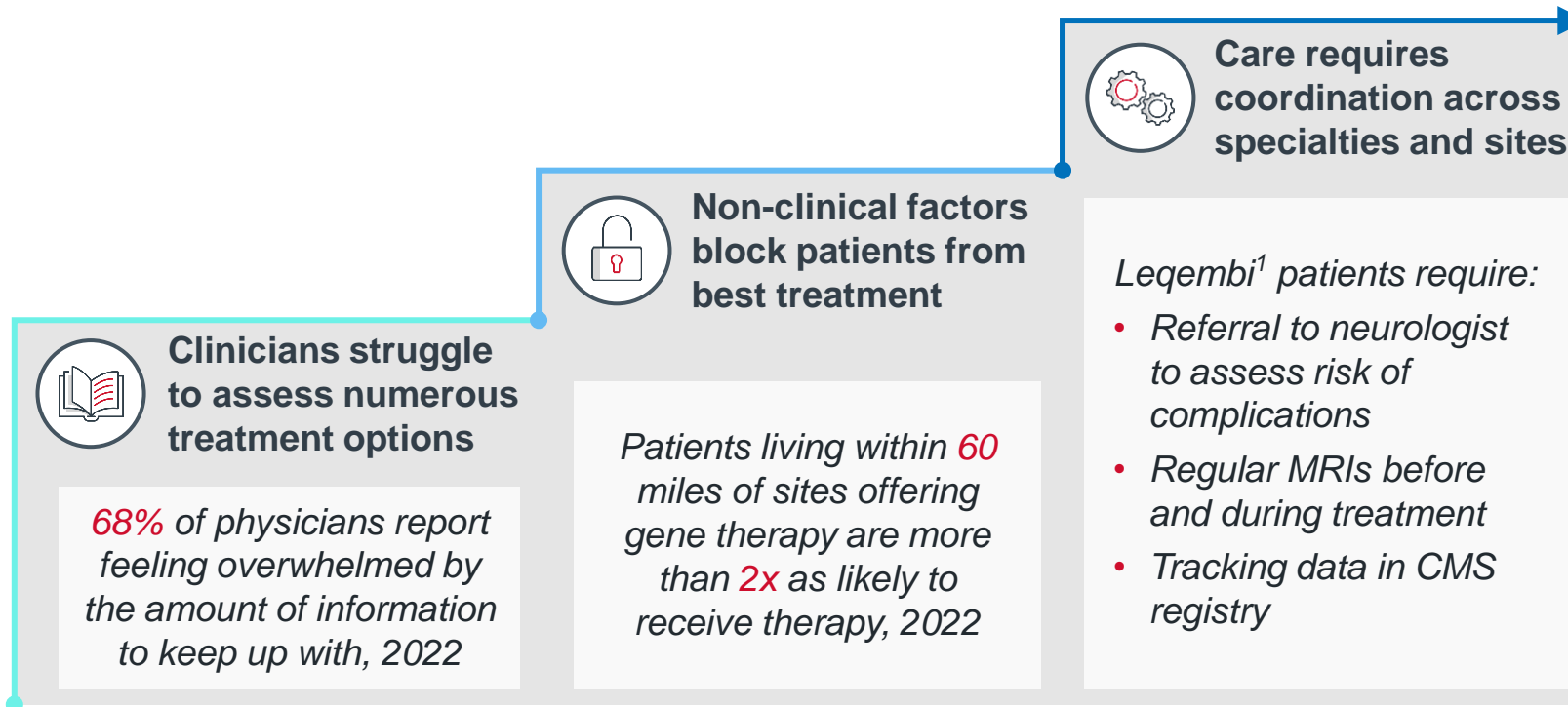
**Heavier scrutiny on coverage decisions**

**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.

# 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.

# The future paradigm of **treatment economics**

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Emerging, diverse drugs with high prices and complicated delivery logistics will require new investments in delivery infrastructure and spur experimental financial models—and ultimately eclipse the legacy focus on procedures. Strategy in a pharmaceutical-based healthcare system will diverge from current tactics, open more paths for power grabs or consolidation, and exacerbate patient access disparities.

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## **Strategic paradigms:** *The future of longstanding shifts*

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Delivery infrastructure will evolve to have an ecosystems focus, care team roles will shift with new tech capabilities, and treatment economics will adapt to high-cost drugs.

These paradigm shifts aren't new, but their recent acceleration gives the industry an opportunity to anticipate the future trajectory—and embrace new, elevated responsibilities to support the broader industry.



## LEGAL CAVEAT

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