Industry Currents Driving the Shift to Value

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Agenda

Employer Landscape – Health and Benefit Costs Will Prompt More Employers to Take Action

Payer Environment – Health Plans Are Building Out Capabilities to Better Manage the Total Premium Dollar Spend

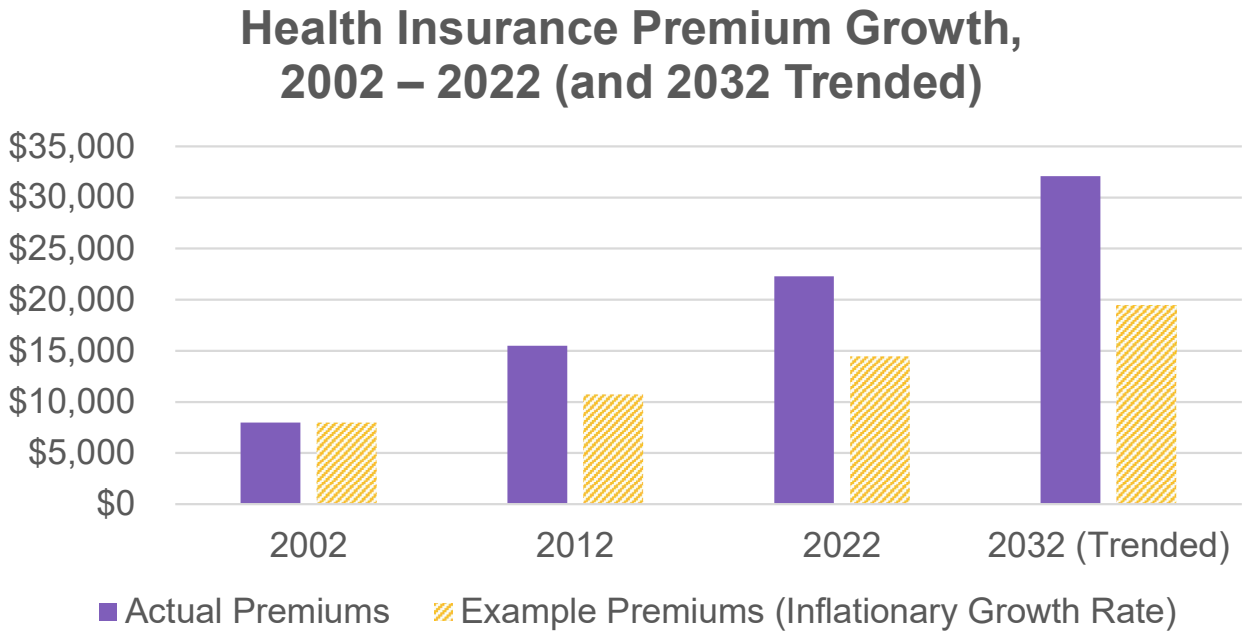
Value-Based Care Trends – Taking a Nuanced Approach to Financial Risk

Summary Comments – Key Learnings and Looking Ahead

Employer Trends

Health and Benefit Costs Will Prompt More Employers to Take Action

Cost Burden on Employer (Commercial) Insurance Is Unsustainable

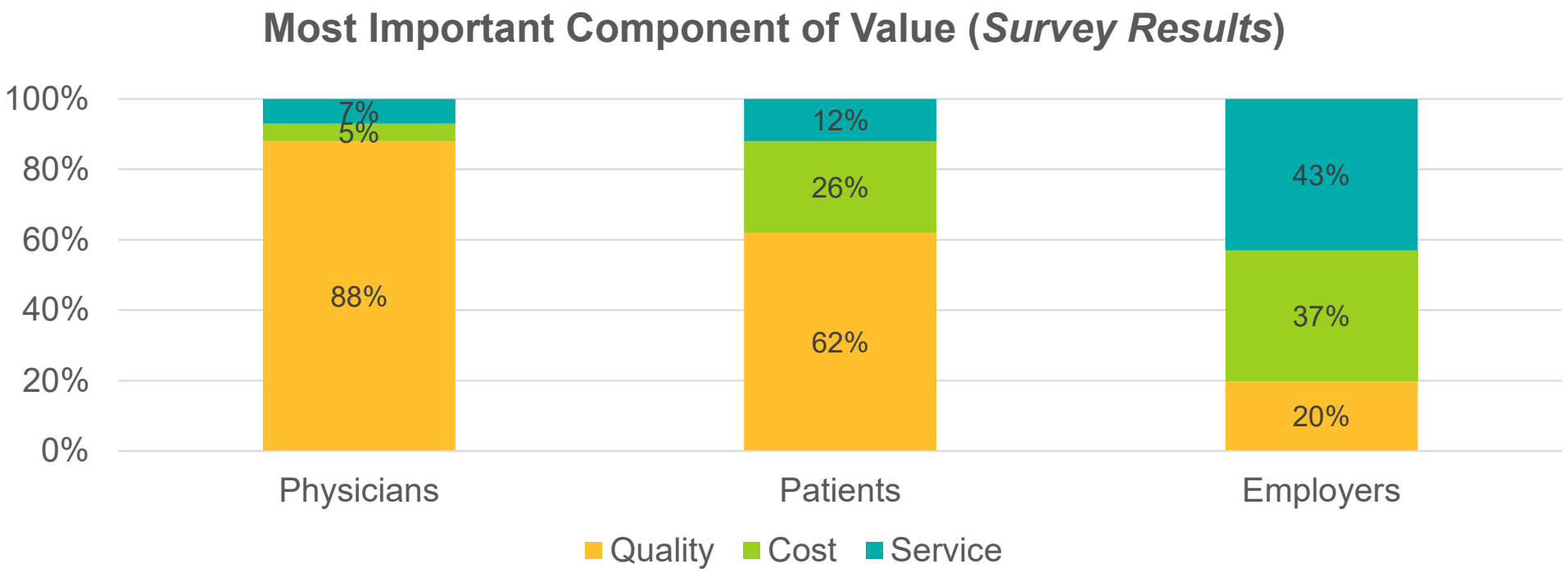


Note: 2032 projection assumes same growth rate from 2022 to 2032 as 2012 to 2022; 3.0% annual inflationary growth rate was used
Source: Kaiser Family Foundation Employer Health Benefits Survey, 2022.

Are health insurance premiums over $30,000 annually sustainable for employers and employees?

If not, something will have to give…

There Is a Pronounced Disconnect Between Employer and Provider Priorities



Note: Quality = efficiency, effectiveness, safety and results or outcomes of care; Cost = amount paid for services; Service = experience being treated as a patient and a customer.
Source: Stat of Value in U.S. Health Care, University of Utah, 2017.

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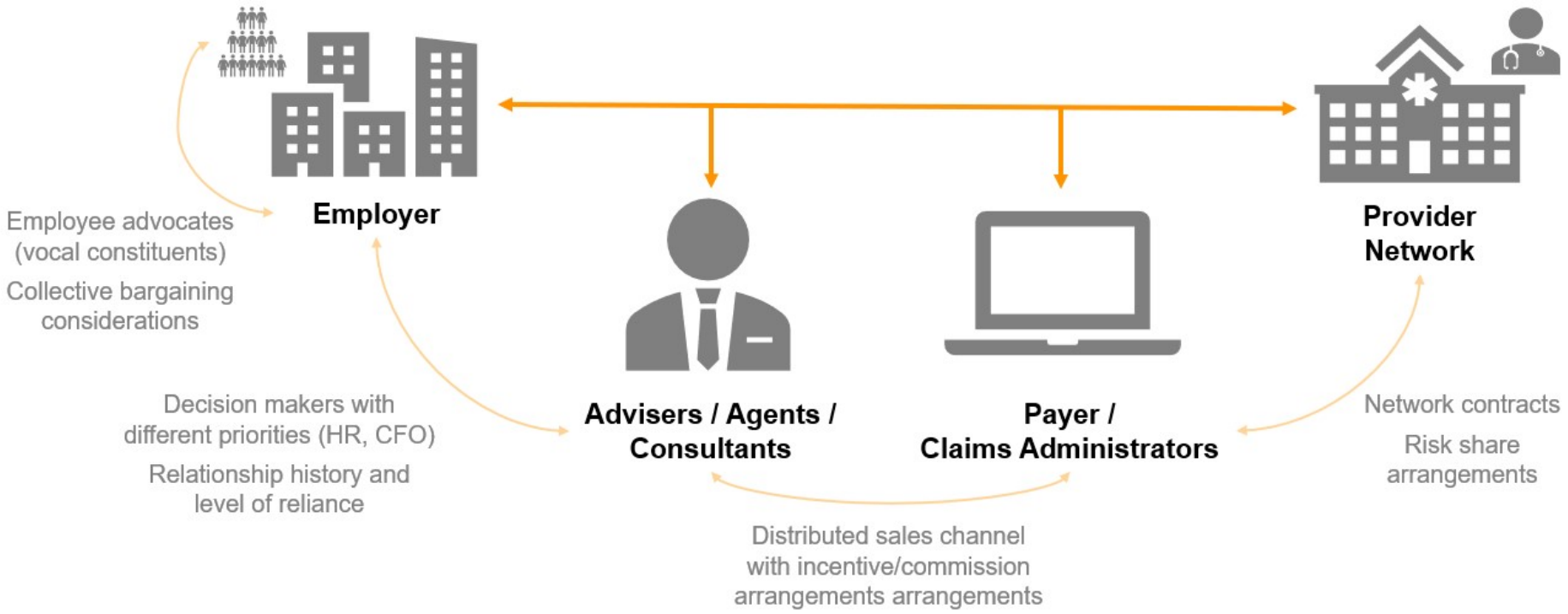
Employer Health Benefits Ecosystem Is Complex



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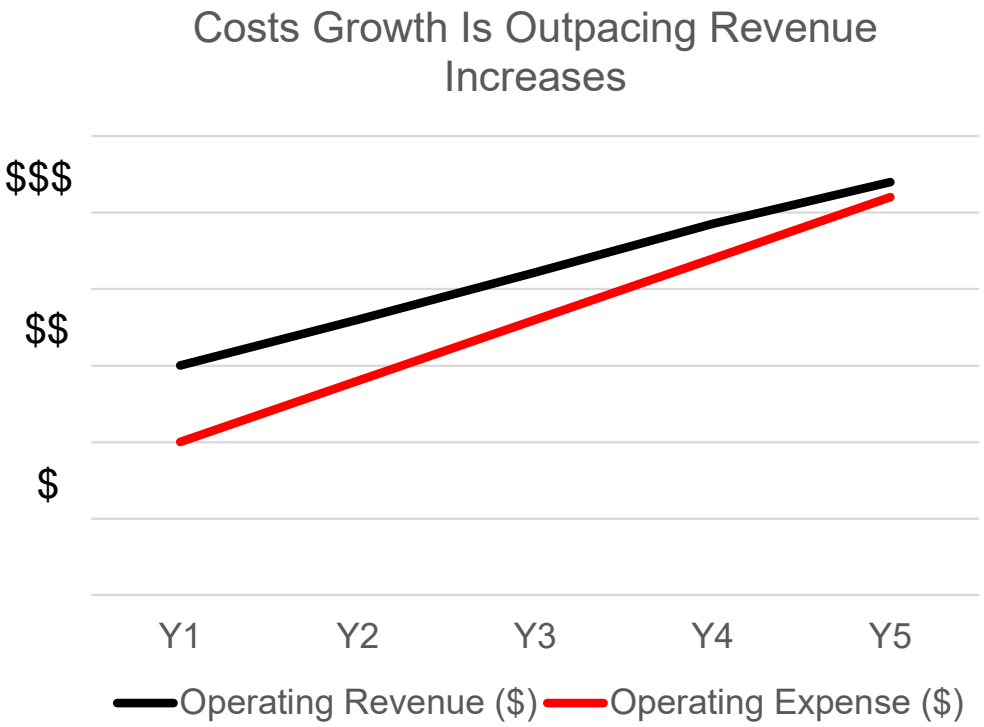
Engaging Directly With Employer Can Drive Impact for Both Health Systems and Employers

ROI Impact	↑ Aligned Lives	↑ Patient Retention (In-network services)	↓ Total Cost-of-Care (Value-Based Care Performance)
Mechanism	Unique access channels	Reduce access friction and create 'stickiness'	Alignment with funders
Measurement	# new lives x $ estimated margin per life	# lives moved from loose to tight alignment x $ margin impact per life	# lives in VBC contract x shared savings per life

Payer Trends

Health Plans Are Building Out Capabilities to Better Manage the Total Premium Dollar Spend

FFS Model is Facing Increasing Headwinds… Health Systems Have Fewer FFS *Levers to Pull*



Revenue Pressures

- Budget pressures from funders (CMS, employers)
- Payers gaining in strength
- Price transparency
- New (for-profit) entrants picking off commercial business

Financial margins

Cost Pressures

- Staffing rate increases
- Increasing capital investment & replacement

FFS = Fee for Service

Payers Are Unwilling Offer Offsetting FFS Rate Increases, Especially With Price Transparency Coming

Providers, insurers poised for 'bloody' negotiations amid inflation

Surging inflation has set the table for heated negotiations between providers and insurers… The inflation spike will ripple throughout the healthcare industry. It may push more providers to cut services or seek merger partners as supply costs rise, wages grow and access to capital drops.

Source: Modern Healthcare, June 2022

Health insurers are now required to post prices they pay to hospitals

Health insurers are now required by the federal government to publicly post the prices they pay to hospitals and doctors. The new rule took effect yesterday. It's another step toward more transparency in our complicated, convoluted health care system.

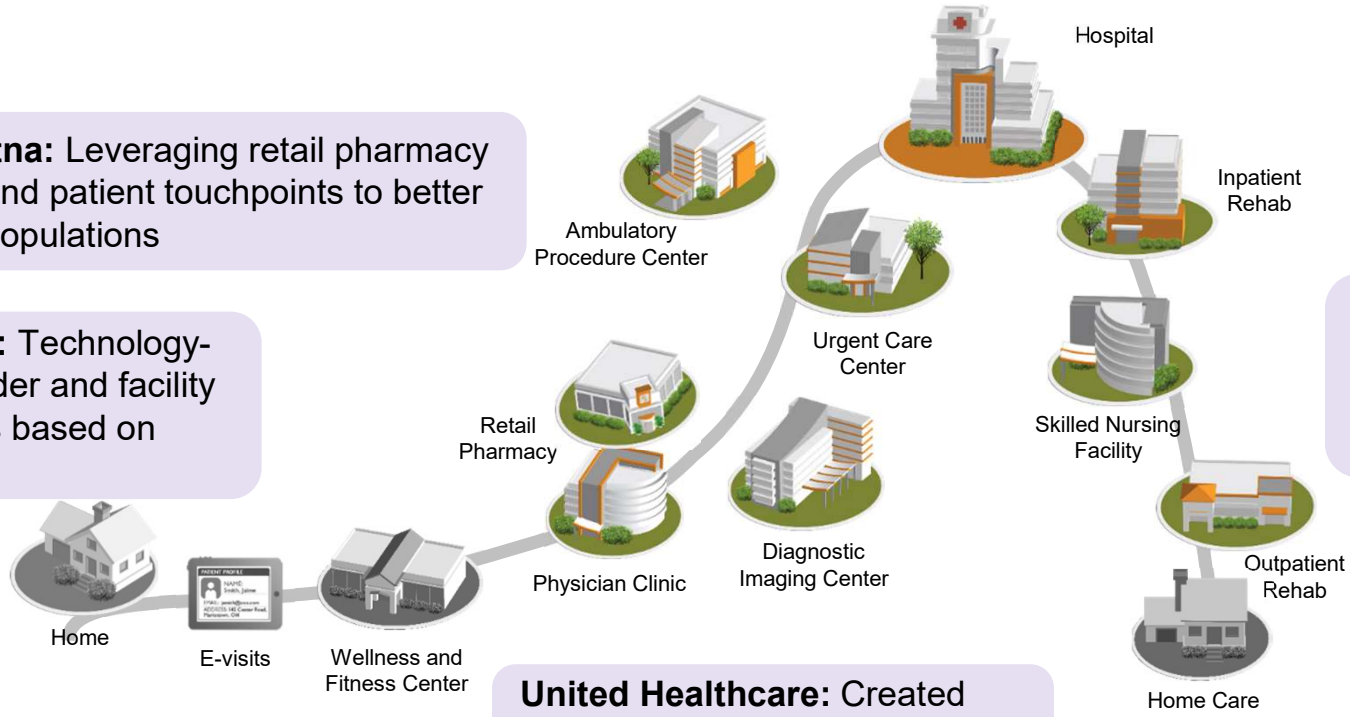
Source: NPR, July 2022

FFS = Fee for Service

Instead, Payers Are Investing In Vertical Integration-- Particularly Primary Care, Home-Based Care and Virtual

CVS / Aetna: Leveraging retail pharmacy footprint and patient touchpoints to better manage populations

Oscar Health: Technology-enabled provider and facility selection tools based on efficiency



Elevance: Scaling MyNexus post-acute and home-based care capabilities

United Healthcare: Created national footprint with 60,000 doctors in Optum Health

CARE = Clinical Alignment & Resource Effectiveness. Source: Sg2 Analysis.
Source: Quarterly investor earnings calls.

Payers View Value-Based Care as a More Stable Long-term Business Model

Payers are using the current environment (especially inflationary pressures) to prioritize opportunities in value-based care and shift the discussion

"We're also taking the opportunity though to change this conversation and make it less a transactional conversation and move to value-based care, which has been the core part of our strategy with all of our providers."

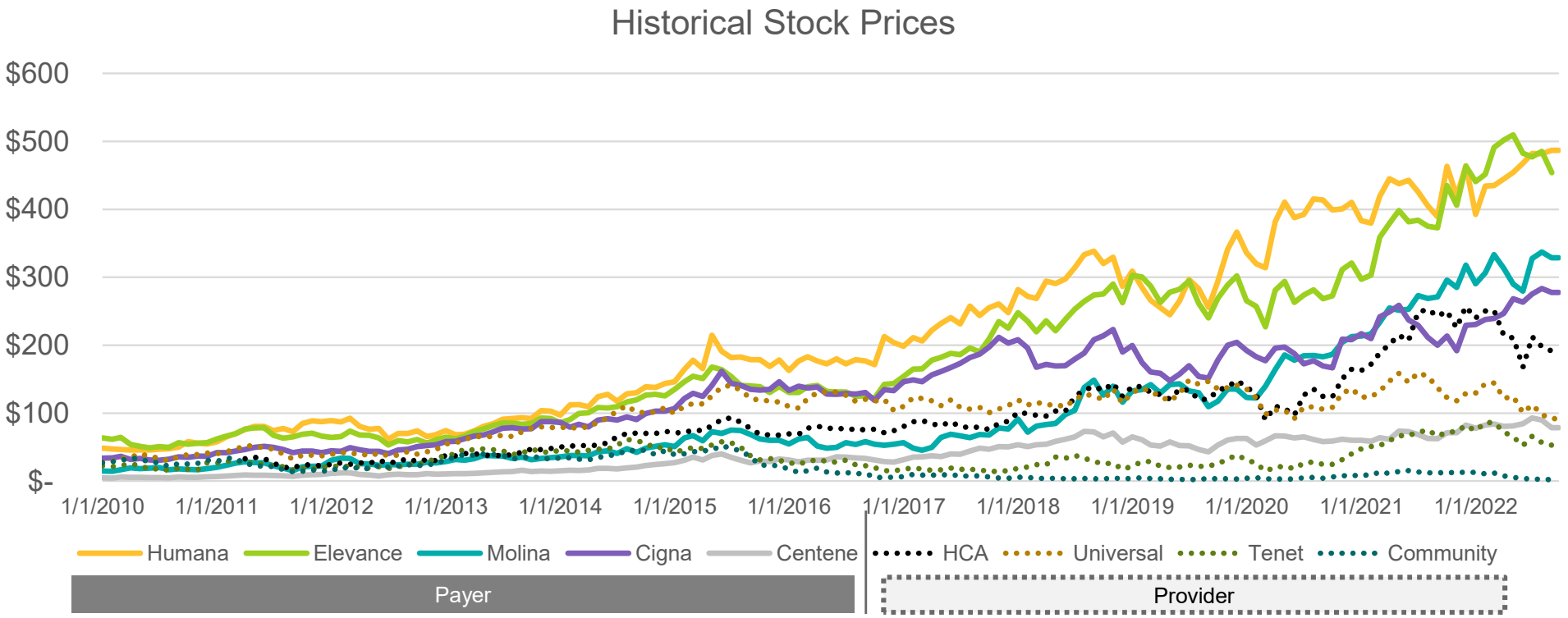
– Gail Boudreaux, *President and CEO, Anthem, May 2022*

"**….**And it's yet another reason why the move more aggressively to align with providers in value-based contracting is a major priority as we go forward."

– Sarah London, Vice Chairman, Centene, May 2022

Sources: 2022 Quarter 1 Earnings Call Transcripts

Food for Thought: Investors Are Much More Optimistic About the Future of the Premium $ Than the FFS $



Source: Yahoo!Finance, accessed September 2022.

Value-Based Care Trends

Taking a Nuanced Approach to Financial Risk

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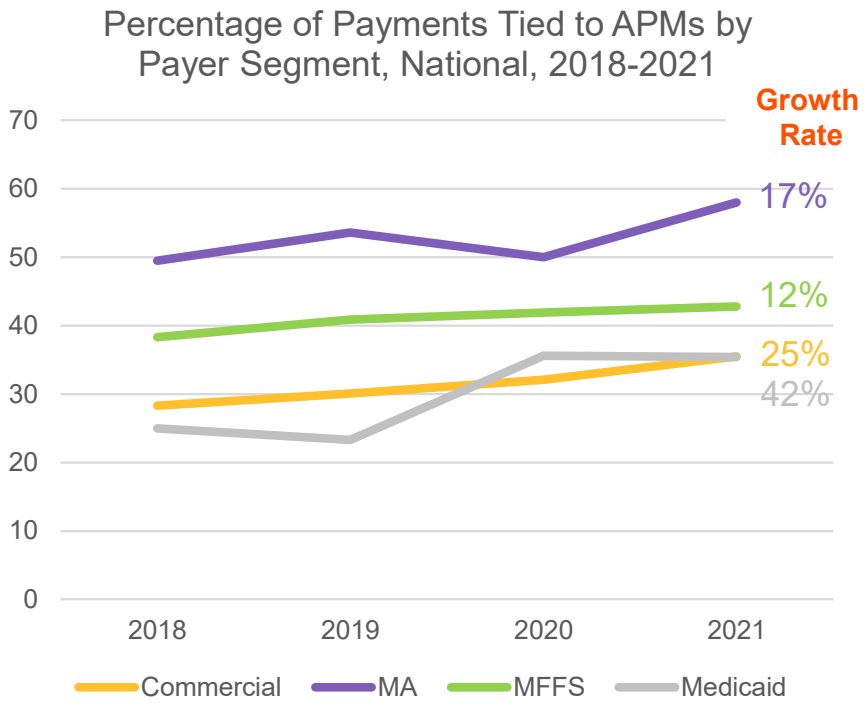
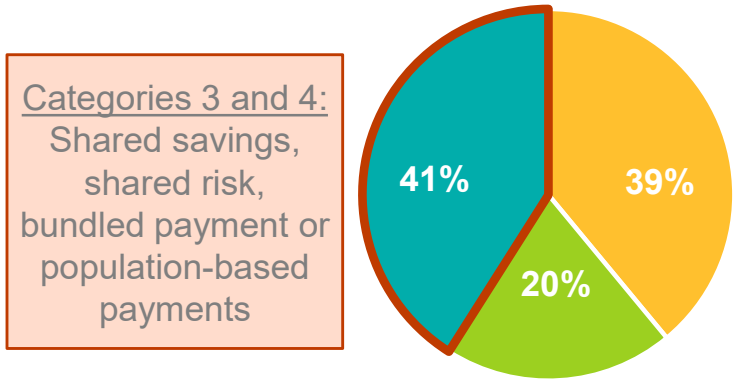
VBC Payments Have Grown Across All Payer Classes



APM = alternative payment model; MA = Medicare Advantage; MFFS = Medicare fee-for-service; Source: https://hcp-lan.org/workproducts/APM_Infographic_2021.pdf

In 2020, 41% of Total US Health Care Payments were Tied to APMs, an Increase from 23% in 2015



Category 2: Pay-for-performance or care coordination fees

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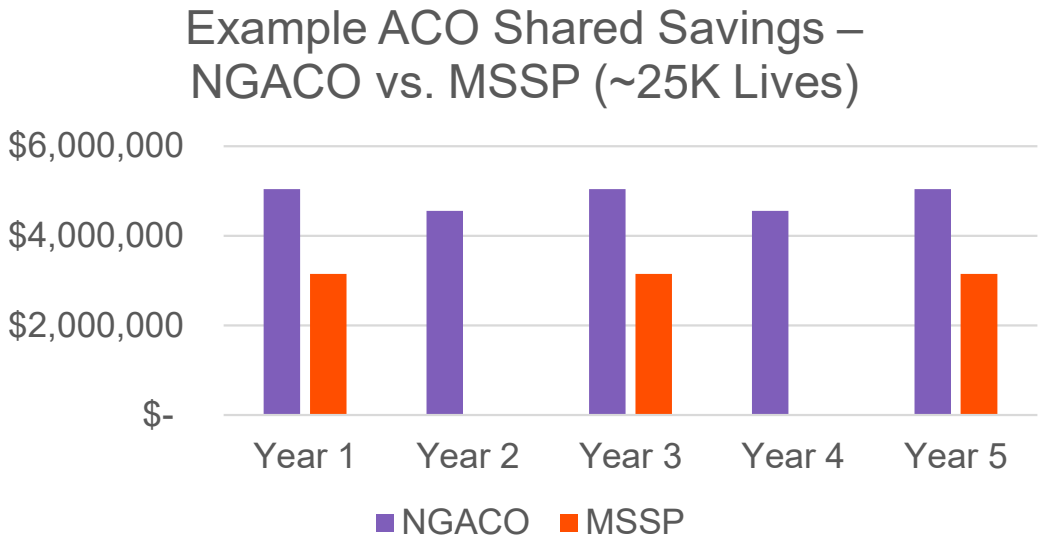
Downside Risk Enabled ACO to Earn Greater Shared Savings (Case Study on Upside of Risk)



	Y1	Y2	Y3	Y4	Y5
Savings Rate	2.1%	1.9%	2.1%	1.9%	2.1%

NGACO

- 80% upside/downside
- $24.2M cumulative savings

MSSP ACO

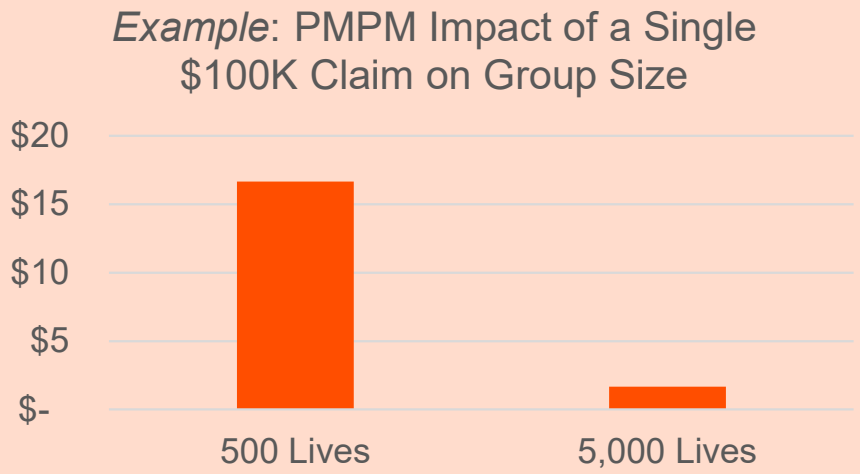
- 50% upside only
- $9.4M cumulative savings

ACO = Accountable Care Organization; MSSP = Medicare Shared Savings Program; NGACO = Next Generation ACO

Downside Risk Does Not Have to Be a Non-Starter… It Just Requires a Strategic Approach

While payers are vertically integrating provider capabilities, providers can also integrate payer thinking

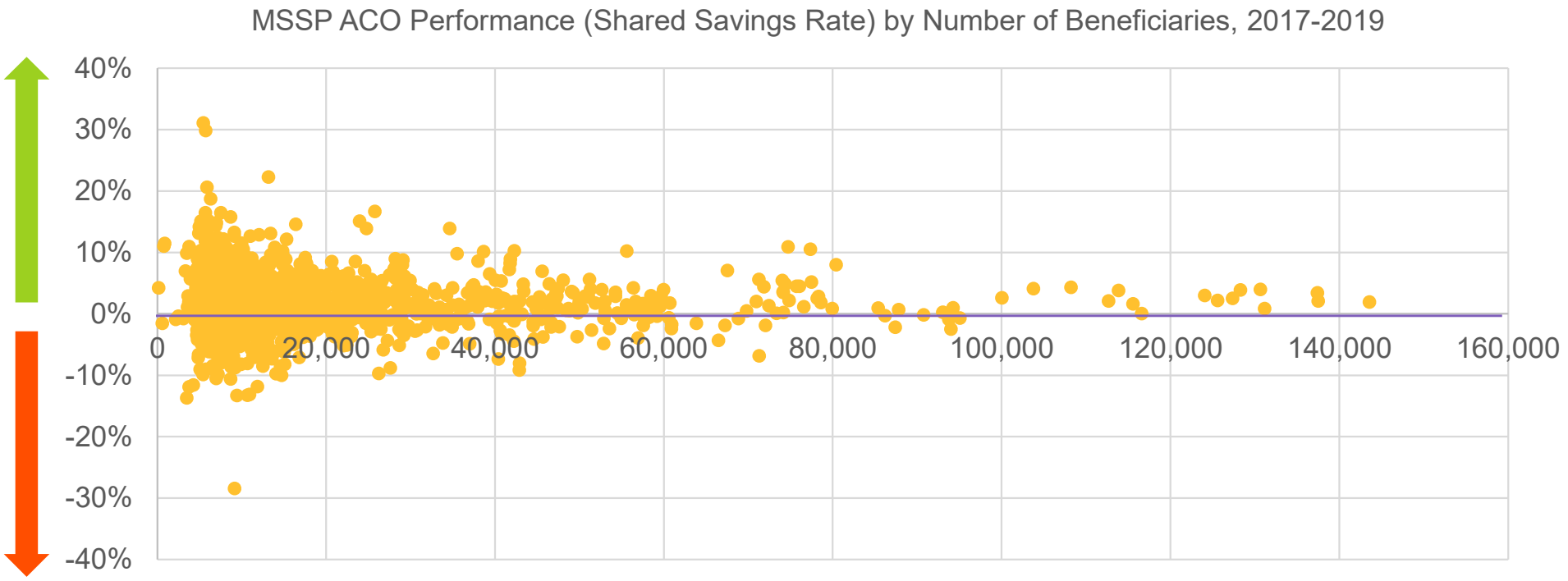
Increasing the number of lives in up/down contracts can reduce risk on a per-life basis



Contracting strategies and terms can also provide downside protections

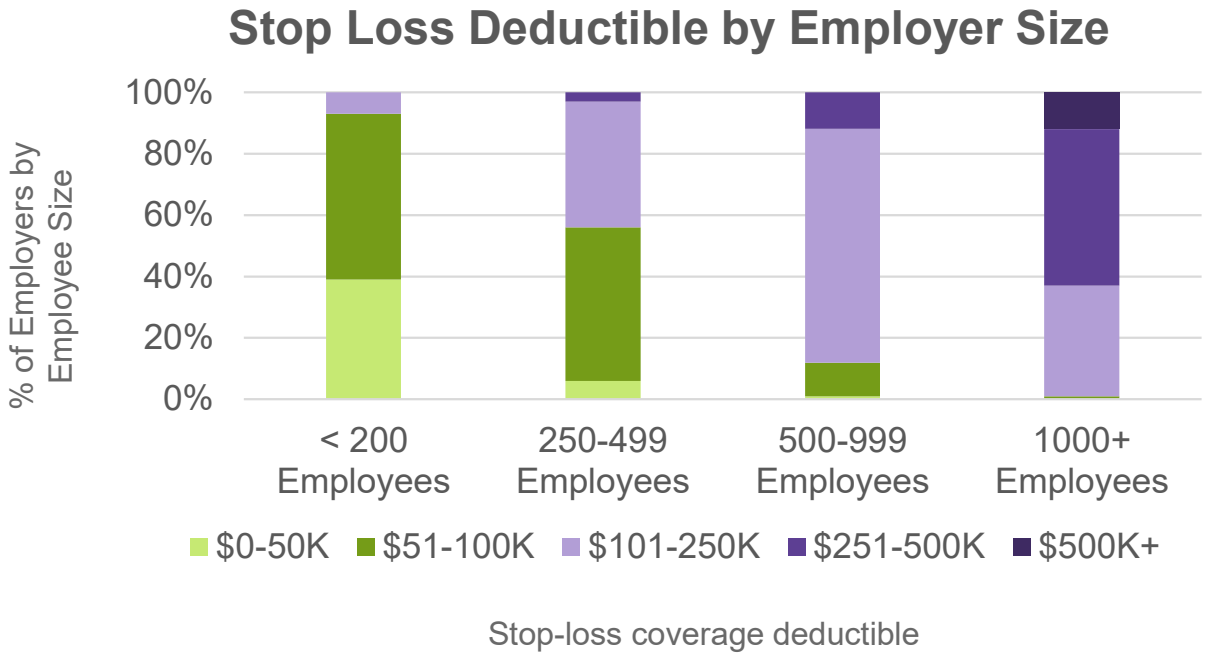
- Stop-loss coverage and thresholds
- Up/down share tiering based on number of lives
- Caps on total downside exposure
- Step-wise implementation over multiple years

Actuarial Risk Declines With Larger Populations Served



Notes: ACO = Accountable Care Organization; MSSP = Medicare Shared Savings; Analysis excludes one ACO with > 150K beneficiaries for visual scaling.
Source: CMS Medicare Shared Savings Program Performance, 2017-2019.

Increasing the Number of Covered Lives Reduces the Cost of Insurance Risk



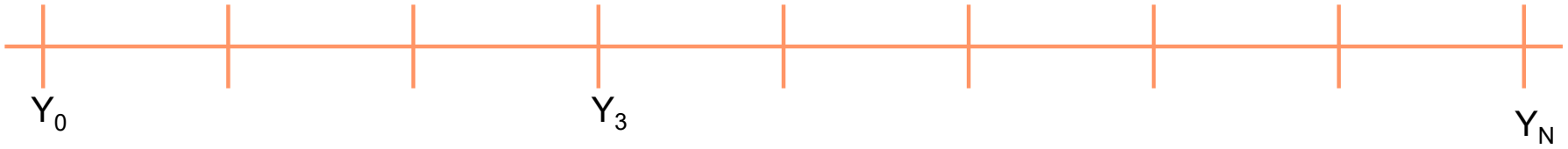
Source: "Sun Life Stop-loss Research Report, High-cost Claims And Injectable Drug Trends," 2018

Larger groups self-insure to higher levels

- 99% of large employers (1,000+ employees) carried stop loss with deductibles over $100K
- 93% of small employers (<200 employees) carried stop loss with deductibles under <$100K

VBC Requires a Multi-Year Horizon to Enable Clinical and Business Model Evolution

VBC conveners, providers, and new entrants demonstrate that returns grow with time and effective implementation



Iora Health (now part of One Medical) highlighted that it takes 3-years per patient to break-even economically

Aledade points to 350%-450% increase in shared savings from Y1 to Y5

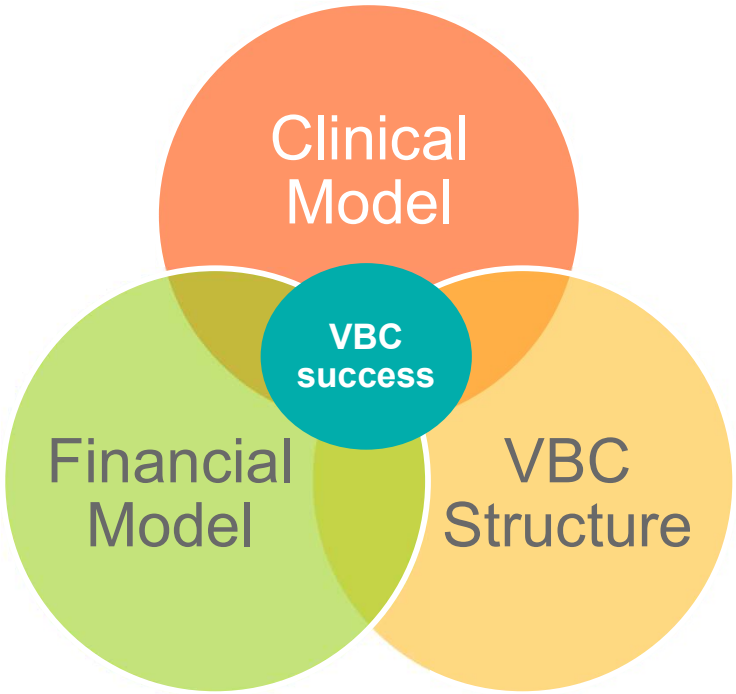
Everside Health employer-engagement services reduce claims by ~17% in year 3 and ~31% by year 5

Source: Aledade presentation to 40th JP Morgan Health Care Conference, January 2022

Summary Comments

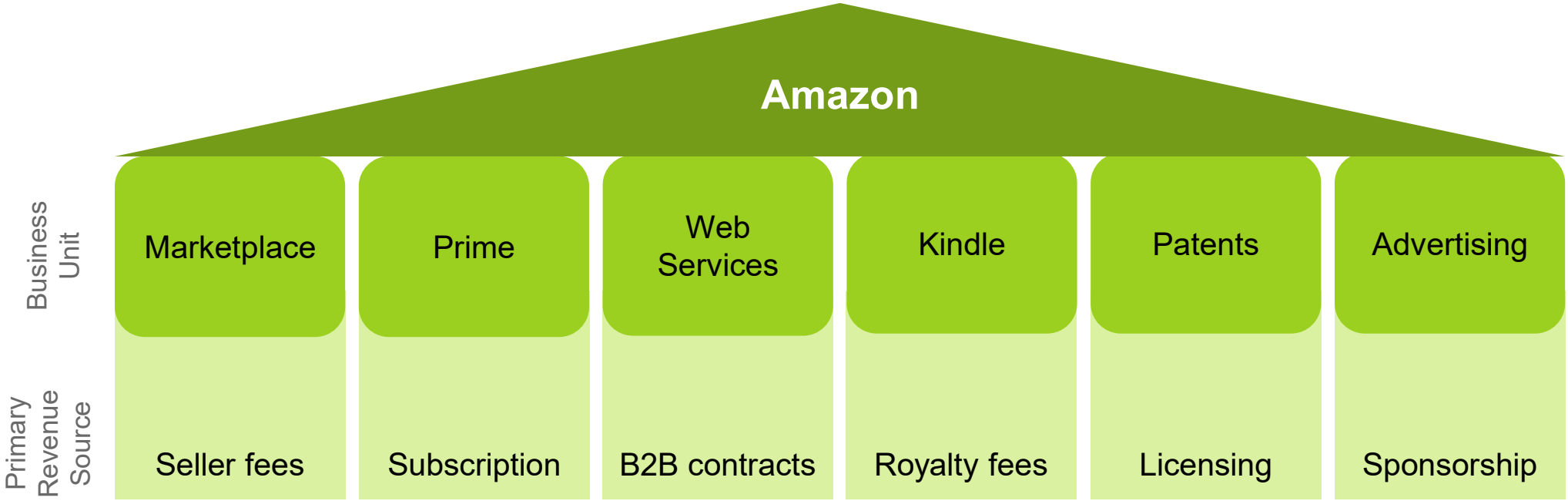
Key Learnings and Looking Ahead

VBC Journey Has Provided a Number of Learnings



1. **VBC is here to stay**, and 'kicking the can down the road' further is creating more vulnerability
2. Organizations that have made progress and encoded learnings are **less vulnerable** to disruption
3. Success is greatest when organizational **decision makers are aligned** around creating value (clinical) and capturing value (financial)
4. Dynamic environment has also created opportunities for new **partnerships**
5. Maintain a **portfolio-level view** to ensure effective value capture, risk mitigation and organizational competency building

Amazon Captures Value Through Multiple Economic Models



Source: "Amazon Business Model," The Business Model Analyst, August 2022

Could Health System's Think More Innovatively About Capturing Value Across Their Portfolios?

Value Capture = **Delivery Value (FFS)** + **Health Value (Non-FFS)**

Health Systems create value today in population health, but the value is often captured outside the system

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Let’s work together

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