Advisory Board

The State of the Industry in 2025

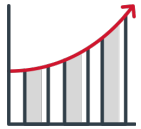
Recalibrating from topline growth
to sustainable margins

Progress?

Industry landscape snapshot heading into 2025

Policy environment

Payment updates

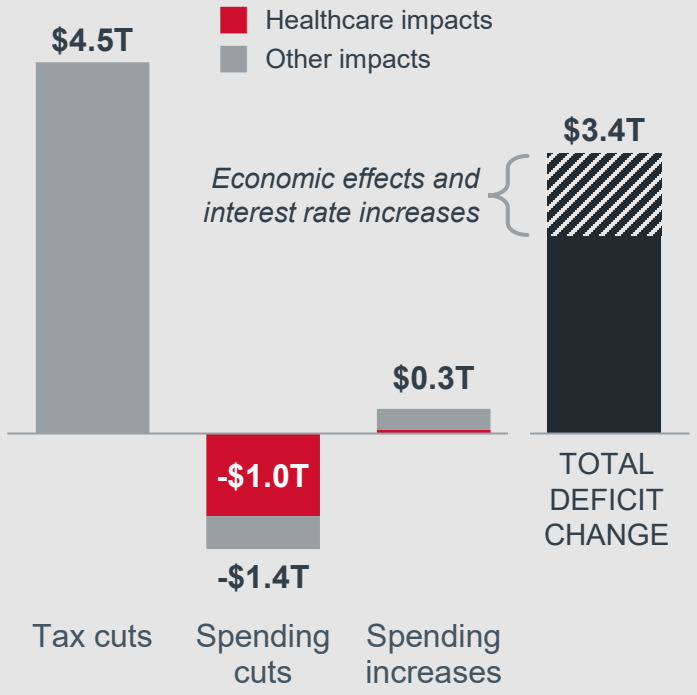


Utilization trends

Final OBBBA at a glance for healthcare leaders

OBBBA[1] deficit impacts[2]

June 27 CBO estimates



Major healthcare policies

- Marketplace tax credit restrictions and Medicaid cost sharing → *reduce affordability*
- Medicaid work requirements → *increase admin burden*
- Medicaid and Marketplace enrollment restrictions and eligibility verification barriers → *increase admin burden*
- State Medicaid financing restrictions → *reduce federal funding to states*
- Medicare sequestration trigger → *reduces federal spending*

Potential healthcare impacts[2]

16M *June 4 estimates*

Projected increase in uninsured people (includes sunset subsidies)

Potential consequences:

- ▲ Uncompensated care
- ▲ Exacerbated health conditions
- ▼ Elective volumes
- ▼ Health plan enrollment

$731B *May 22 estimates*

Estimated reimbursement reduction (includes sequestration cuts)[3]

1. One Big Beautiful Bill Act.
2. Projected 10-year (2025-2034) impacts.
3. Summation of estimated Medicare sequestration impacts and major Medicaid state financing restrictions provisions.

Source: H.R.1. 119th Congress. July 3, 2025; CBO. Estimated Effects on the Number of Uninsured People in 2034 Resulting From Policies Incorporated Within CBO's Baseline Projections and H.R. 1, the One Big Beautiful Bill Act. June 4, 2025; CBO. E&C Reconciliation Recommendations." May 11, 2025; CBO. "Dynamic Estimate: H.R. 1, One Big Beautiful Bill Act. June 18, 2025;

OBBBA implementation over time

Major provision in final version of OBBBA
Effectuated via final rule rather than codified in law
Will occur absent active intervention by Congress

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Medicaid enrollment	● Biden-era rules moratorium		● 6-month re-verification standard ● Able-bodied adults work reporting requirement			● Expansion beneficiary cost-sharing requirements				
Medicaid state financing	● MCO tax requirements			● State-directed payment ceiling annual phase-in Expansion state provider tax threshold max						
				● 5.5%	● 5%	● 4.5%	● 4%	● 3.5%	● 3.5%	● 3.5%
Marketplace enrollment		● Premium adjustment benchmarking change	● Shortened open enrollment period							
				● Require active eligibility re-verification						
Marketplace tax credits		● End APTC[1] for income-based special enrollment period ● End enhanced APTCs								
		● No limits for subsidy overpayment recapture								
					● Limits for lawful immigrant tax credit eligibility					
Other funding changes		Medicare sequestration								
		● 4% cut	● 4% cut	● 4% cut	● 4% cut	● 4% cut	● 4% cut	● 4% cut	● 4% cut	● 4% cut
		Rural health fund disbursement								
		● $10B	● $10B	● $10B	● $10B	● $10B				

1. Advance premium tax credit.

Source: McDermott+. Summary of Health-Related Provisions in the Final Reconciliation Package. July 3, 2025; CBO. Potential Statutory Pay-As-You-Go Effects of a Bill to Provide Reconciliation Pursuant to H. Con. Res 14, the One Big Beautiful Bill Act. May 2025; CMS. 2025 Marketplace Integrity and Affordability Final Rule. June 20, 2025.

The final One Big Beautiful Bill Act

Provision added to final bill
Provision significantly modified from final bill
(*financial impact estimate expected to change)

Largest health provisions (by CBO original estimates of 10-year spending impact) in final reconciliation bill[1]

Medicaid

Increased beneficiary requirements:

- Work requirements: **-$344B***
- Cost sharing for expansion population: **-$8B**

Added eligibility administrative processes:

- End Biden-era eligibility & enrollment rule: **-$167B**
- Added eligibility verification & frequency: **-$81B**

State financing restrictions:

- Lower provider tax max for expansion states: **-$89B***
- Limits on state-directed payment rates: **-$72B***
- Redefine "redistributive" tax requirement: **-$35B**

Delay Biden-era nursing home rule: **-$23B**

Marketplace

Require eligibility re-verification: **-$37B***

Tax credit changes:

- Reduce tax credit eligibility for certain lawful immigrants: **-$124B**
- Cut tax credits for income-based special enrollment: **-$40B**
- Eliminate limits on recapturing subsidy overpayments: **-$17B**

*Sunset enhanced premium subsidies (by omission; would require **$335B** to maintain)*

Medicare

-$535B
PAYGO[2] sequestration

- Update Physician Fee Schedule conversion factor: **$9B***
- Expand drug categories exempt from price negotiation: **$5B**
- Limit Medicare eligibility for certain lawful immigrants: **-$6B**

Additional provisions of note:

- $50B rural hospital fund
- Restrictions on abortion
- Domestic research tax deduction
- reduced charity deductions
- Student loan restrictions

1. Values (rounded) and sources from CBO's estimates from June 4, not including changes in revenues. Some estimates summed for related provisions.
2. Statutory Pay-As-You-Go Act of 2010, requiring sequestration if bill greatly raises deficits.

Source: CBO. "Estimated Budgetary Effects of a Bill to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, the One Big Beautiful Bill Act." May 20, 2025; H.R.1, 119th Congress, May 22, 2025; CBO, Potential Statutory Pay-As-You-Go Effects of a Bill to Provide Reconciliation Pursuant to H. Con. Res 14, the One Big Beautiful Bill Act, May 2025. McDermott+. "Summary of Health-Related Provisions in the Final Reconciliation Package." July 3, 2025.

Federal health agency actions now face greater friction

Loper Bright[1] and other recent Supreme Court administrative law rulings[2] in brief

Past rulings relying on 1984 *Chevron* decision to allow deference to agency expertise don't automatically fall, but can be challenged

Agencies may now face:

- Greater evidentiary burden and scrutiny
- Longer time horizon for challenges
- Less flexibility for punitive actions

Uncertainty about regulatory impact

How much will this burden agencies?

Which regulatory activities are most vulnerable?

ESTABLISHED OPERATIONS	NEW IMPLEMENTATION
Emergency and situational responses	Future industry transformation
Routine operations	Recent industry transformation

Uncertainty about industry response

Lawsuits leveraging Chevron *overturn*

- **JUNE 2024** Hackensack Meridian challenges CMS interpretation of **DSH payments**
- **JULY 2024** 138 hospitals challenge HHS authority for "permanent" **Medicare payment cuts**

Other litigation areas to watch

- *Surprise billing dispute resolution*
- *Medicare Advantage payment*
- *Medicare drug price negotiation*

1. *Loper Bright Enterprises v. Raimondo* and *Relentless v. Department of Commerce.*
2. *Corner Post v. Board of Governors of the Federal Reserve System; SEC v. Jarkesy; and Ohio v. EPA.*

Source: Trebes N, et al. SCOTUS' Chevron decision: How it will impact healthcare. Advisory Board. July 9, 2024; Belloni G. Group of 138 Hospitals Challenge 'Permanent' Medicare Pay Cuts. Bloomberg Law. July 17, 2024; King R, et al. Here's how Chevron's demise is already impacting health care. PoliticoPro. July 17, 2024; Muoio D. Hackensack Meridian Health cites Chevron's demise in new lawsuit over DSH pay formula. Fierce Healthcare. July 2, 2024.

Federal roadblocks cements focus on state activism

Major domains of recent and emerging state health policy actions

Prior authorization (PA) & billing

- 7 states have passed PA reforms to reduce clinician burden and improve timeliness (as of June 2024)

Coverage and benefits

- Public option programs
- Network adequacy
- Mental health parity
- Maternal health requirements

Reproductive care

- 21 states do not restrict mifepristone access (as of March 2024)
- 14 states have restricted abortion at all stages of pregnancy (as of May 2024)

PBMs & pharmacy

- 5 states face legal challenges over laws prohibiting manufacturers from restricting 340B covered entities' use of contract pharmacies (as of June 2024)

Market competition

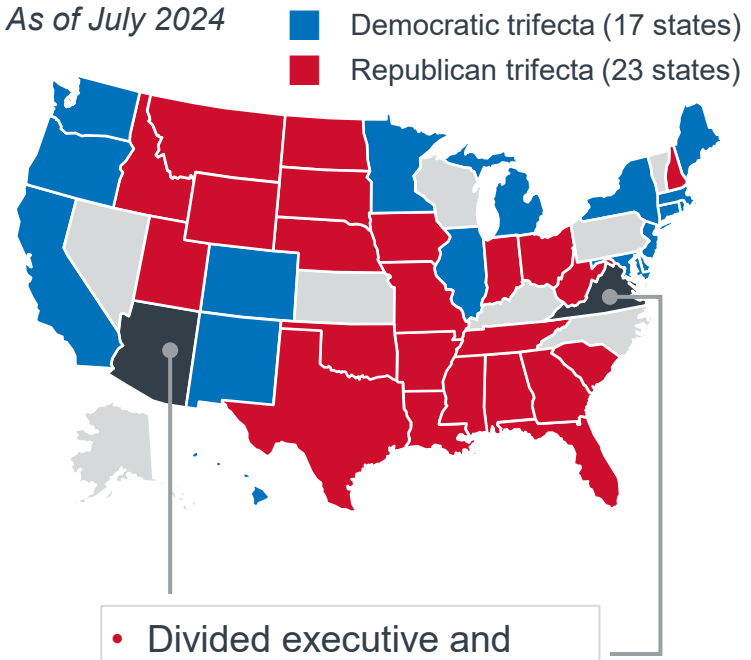
- Site-neutral payment policies related to disclosing or prohibiting facility fees
- Increased state antitrust activity

Health care cost control

- 10 states have implemented cost-growth benchmark programs to try to contain healthcare costs (as of May 2024)

State government "trifecta" status

As of July 2024



- Divided executive and legislative governments
- Narrow majority margins in both legislature chambers

Source: See additional sources slide.

Advisory Board interviews and analysis.

California aims to bring teeth to state-level cost control

Maryland's all-payer rate setting slows spending but not premium growth

1977 Established all-payer rate-setting system for hospitals

2014 Added global budget **cap** for hospitals

- Saved Medicare **$365M** in 2019
- Has not slowed premium prices
- Cap does not cover outpatient care or drug spend

2026 Will participate in CMMI's new multi-payer AHEAD[1] model

Other states and business coalitions struggle to make cost control efforts forceful

"Without policy that has the **teeth** to make change happen, high prices will continue to be an issue due to the **imbalance of power** in the healthcare marketplace."

Executive director
State business coalition

California will broaden enforced spending caps to all stakeholders

2024 California approved its first **cap** on health industry spending

2025 Hospitals, doctors, and health insurers required to limit spend growth to **3.5%**

2029 Stakeholders required to limit spend growth to **3%** and California can enforce penalties

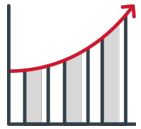
1. Advancing All-Payer Health Equity Approaches and Development.

Source: Kilaru AS, et al. Health Care Leader's Perspectives on the Maryland All-Payer Model. *JAMA Health Forum.* February 2022; Golshan T. The answer to America's health care cost problem might be in Maryland. *Vox*. January 22, 2020; Hwang K. California Regulator Adopts Rule to Restrain Health Care Costs. California Health Care Foundation. May 2, 2024; Murray R, Ryan A. Hospital care costs are out of control. Price caps can help. STAT. April 4, 2024; Advisory Board Interviews.

Industry landscape snapshot heading into 2025

Policy environment

Payment updates

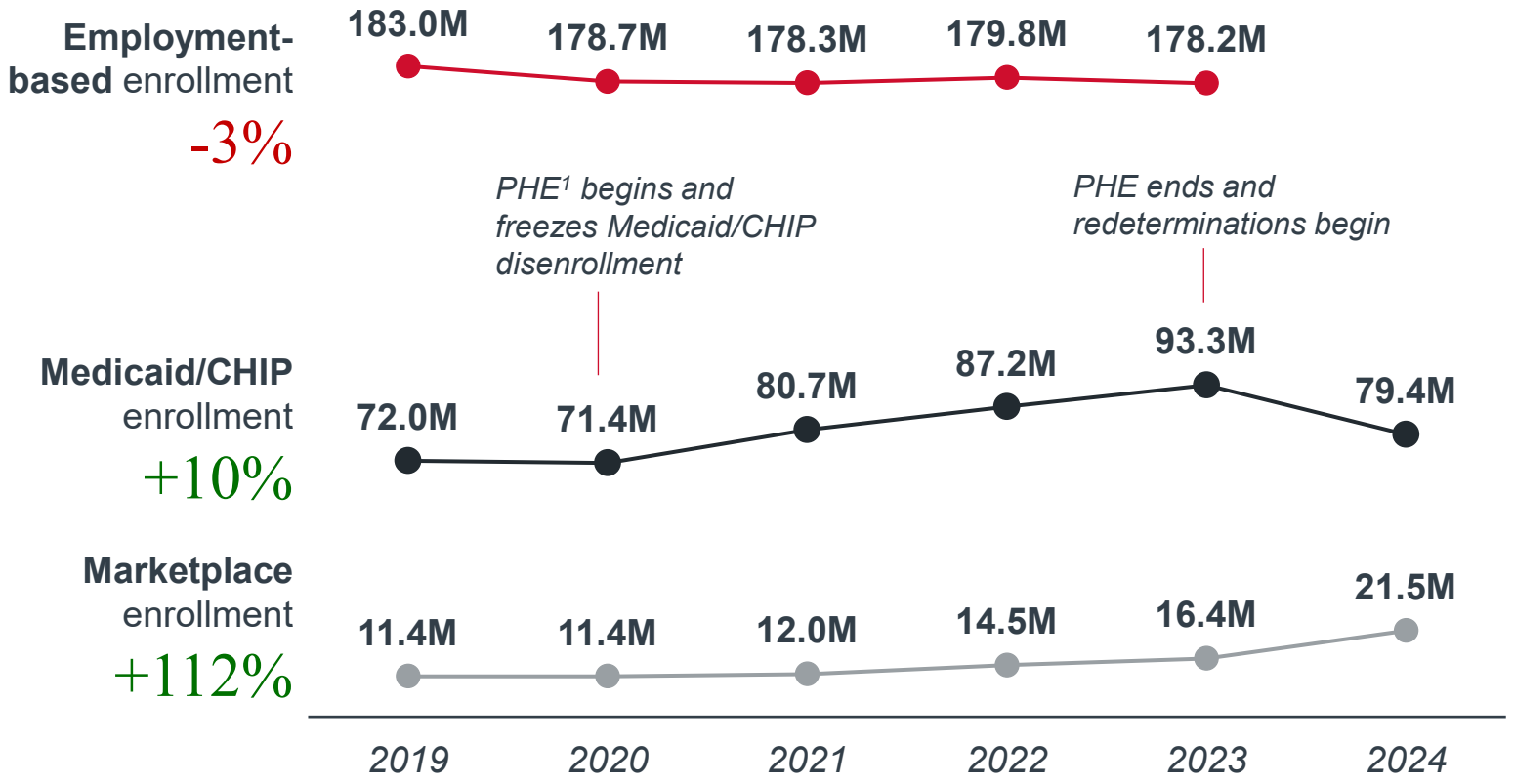


Utilization trends

Coverage whiplash won't return to pre-COVID mix

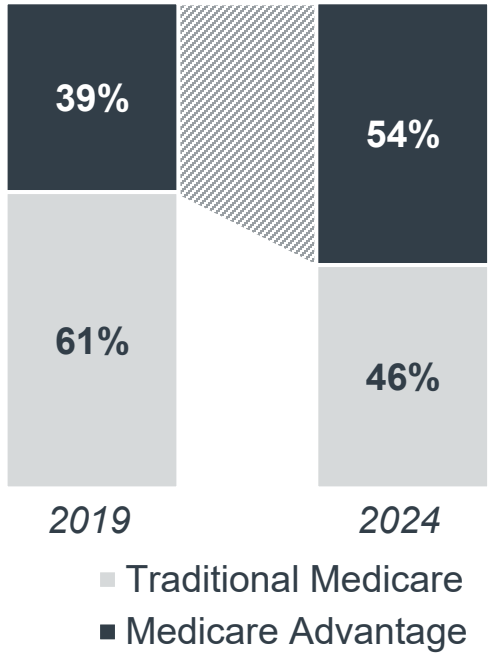
Marketplace enrollment on the rise as Medicaid fluctuates and employer plateaus

Total employer-based, monthly Medicaid/CHIP, and Marketplace insurance enrollment



Medicare Advantage crosses the 50% threshold

Percentage of Medicare beneficiaries enrolled in traditional Medicare and Medicare Advantage



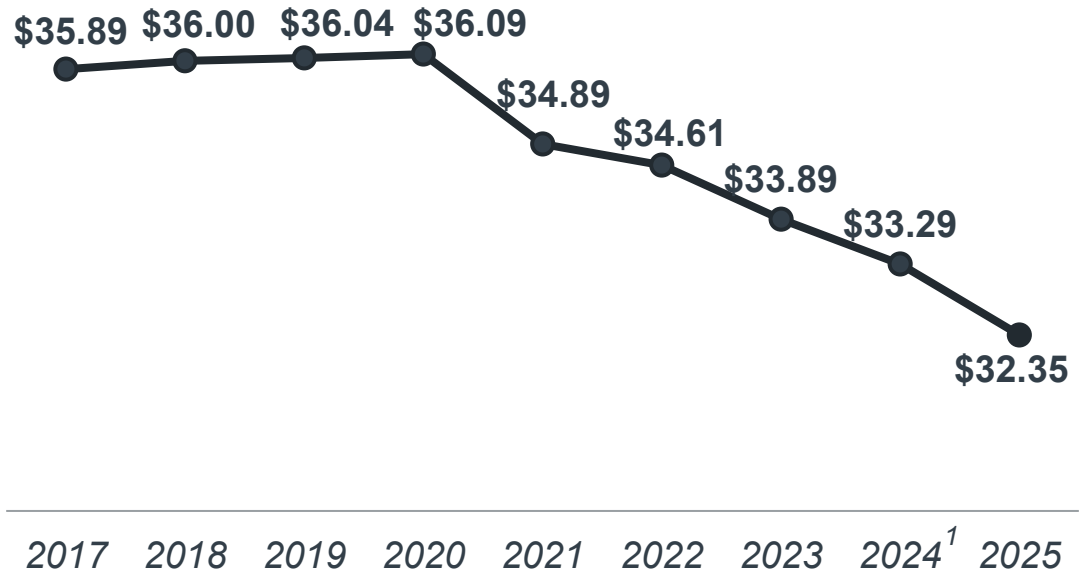
1. Public health emergency.

Source: Marketplace Enrollment, 2014-2024. KFF. 2024; Total Monthly Medicaid & CHIP Enrollment and Pre-ACA Enrollment. KFF. 2024; Freed M, et al. Medicare Advantage in 2024: Enrollment Update and Key Trends. KFF. Aug 2023; Health Insurance in the United States. Tables for 2021, 2022, 2023, and 2024, Census.gov.

Tight payment rate environment across the industry

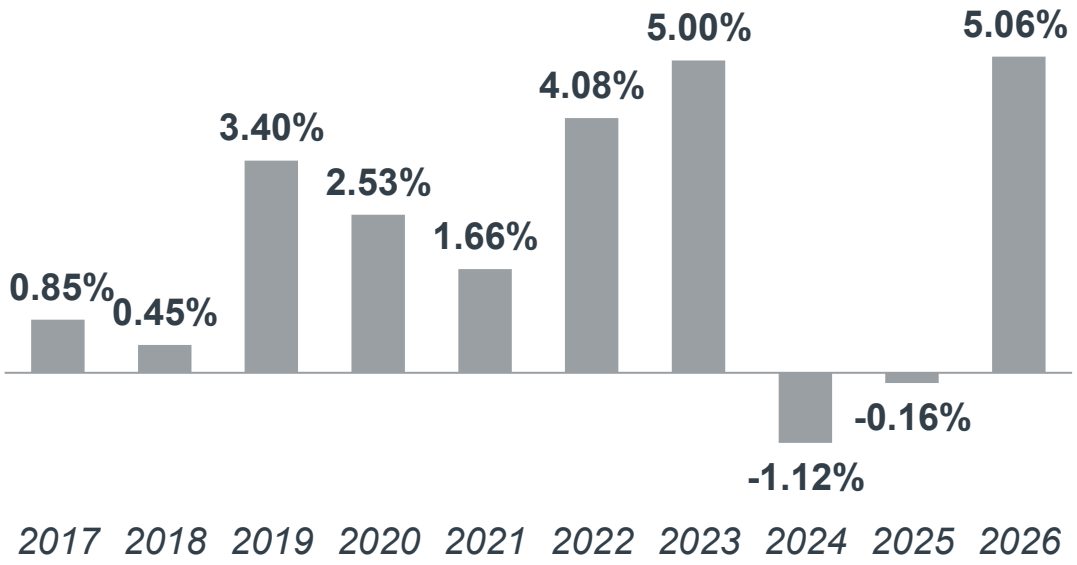
Annual CMS updates to Medicare fee-for-service physician reimbursement

Medicare conversion factor



Annual Medicare Advantage benchmark rate changes

Expected average change in plan revenue in annual CMS rate announcement (after accounting for risk coding trend)

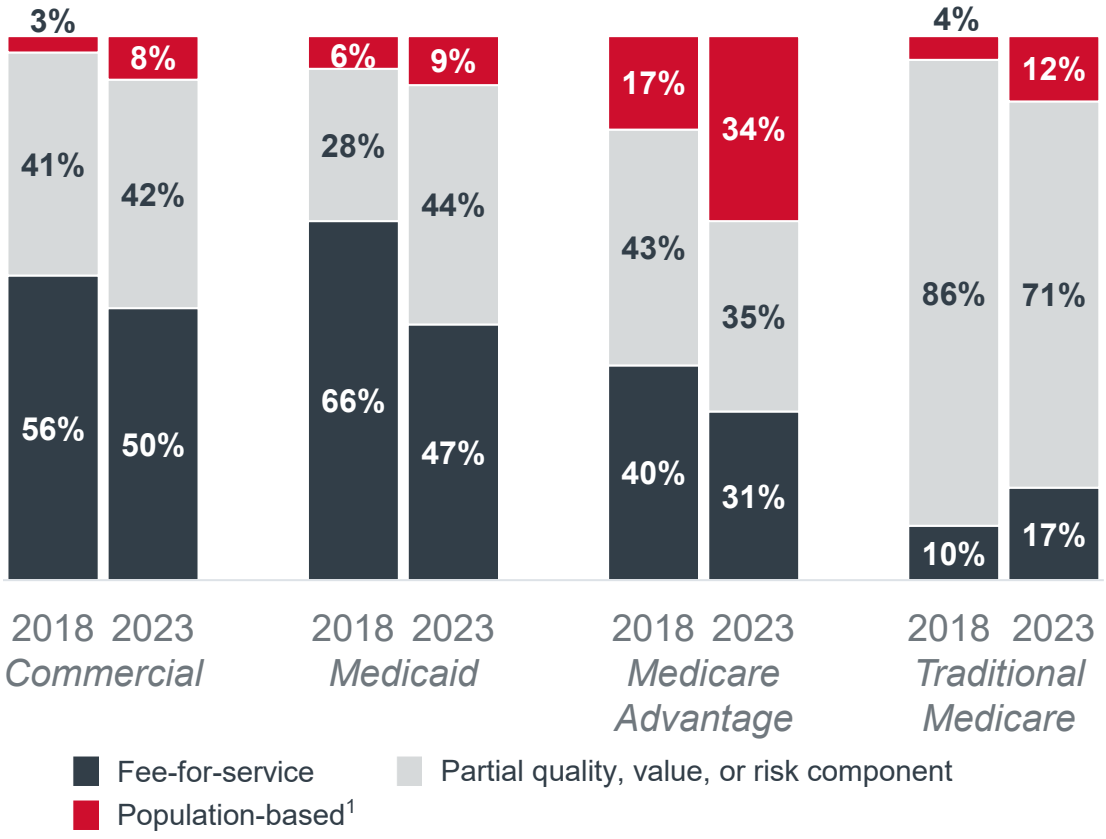


1. Effective March 9, 2024 – December 31, 2024. Conversion factor from January 1, 2024 – March 8, 2024 was $32.74.

Source: CMS Medicare Advantage and Part D Rate Announcement. CMS.gov. 2018-2025; History of Medicare Conversion Factors. AMA. Accessed August 9, 2024; Physician Fee Schedule. Centers for Medicare & Medicaid Services. 2024.

A ‘foot-in-two-boats’ VBC approach is here to stay

Payments made by payer and model type



CMMI’s new episode payment model

Transforming Episode Accountability Model (TEAM)

Mandatory bundled payment model for hospitals paid under Medicare IPPS[2] in **188** selected CBSAs[3] starting in **2026**

Procedures include:

- Coronary artery bypass grafting (CABG)
- Major bowel procedure

1.5% discount benchmark

- Lower extremity joint replacement
- Surgical hip and femur fracture treatment
- Spinal fusion

2% discount benchmark

Note: The Trump administration may alter the mandatory nature of this planned payment model, which was originally finalized under Biden.

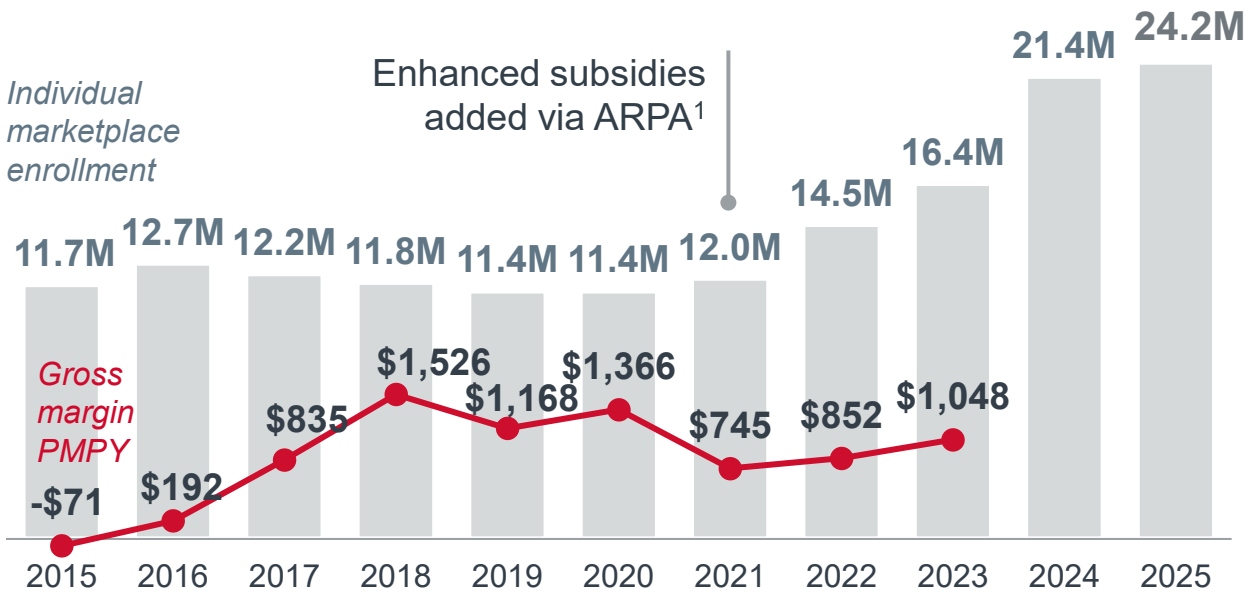
1. Includes condition-specific payments (e.g., PMPM for oncology or mental health), comprehensive population-based payment (e.g., global payments), and integrated finance and delivery systems (e.g., global budgets).
2. Inpatient Prospective Payment System.
3. Core-Based Statistical Areas.

Source: APM Measurement Effort. HCP LAN. 2024 & 2019; Innovation Models. CMS.gov. June 11, 2024; LaPointe J, The Most Successful Alternative Payment Models from CMMI, To Date. RevCycle Intelligence. December 2022; Innovation Models | CMS. CMS.gov. Accessed August 2, 2024.; FY 2024 IPPS Final Rule Home Page. CMS.gov. Accessed August 2, 2024.

Advisory Board interviews and analysis.

The future of Marketplace growth hinges on subsidies

Individual Marketplace enrollment, participation, and margins



Number of carriers (at the state level)

WHAT TO WATCH

Key levers that could shape future Marketplace growth

Enhanced subsidies set to expire in 2025

15-30%
Projected contraction in market

~3.8M
Americans would lose coverage

ICHRAs[2] gaining traction with employers

29%
Increase in ICHRA adoption among employers, 2023 to 2024

"The biggest driver for ICHRAs will be if the individual market becomes cheaper than group plans."

Chief executive, national plan

1. American Rescue Plan Act.
2. Individual coverage health reimbursement arrangements.

Source: Ortaliza J, et al. Health Insurer Financial Performance in 2023. KFF. July 2, 2024; Marketplace Enrollment, 2014-2024. KFF. Accessed August 2, 2024.; CMS says record 24.2 million enrolled in Marketplace coverages for 2025. AHA. January 17, 2025; Chan E, et al. The Individual Health Insurance Market in 2023. McKinsey & Company, April 11, 2023. Growth Trends ICHRA and QSEHRA. HRA Council. Vol 3. 2023-2024; Lukens G. Health Insurance Costs Will Rise Steeply if Premium Tax Credit Improvements Expire. Center on Budget and Policy Priorities. June 4, 2024; Number of Issuers Participating in the Individual Health Insurance Marketplaces. KFF, Accessed August 2, 2024.; Advisory Board Interviews.

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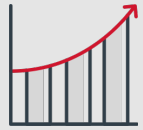


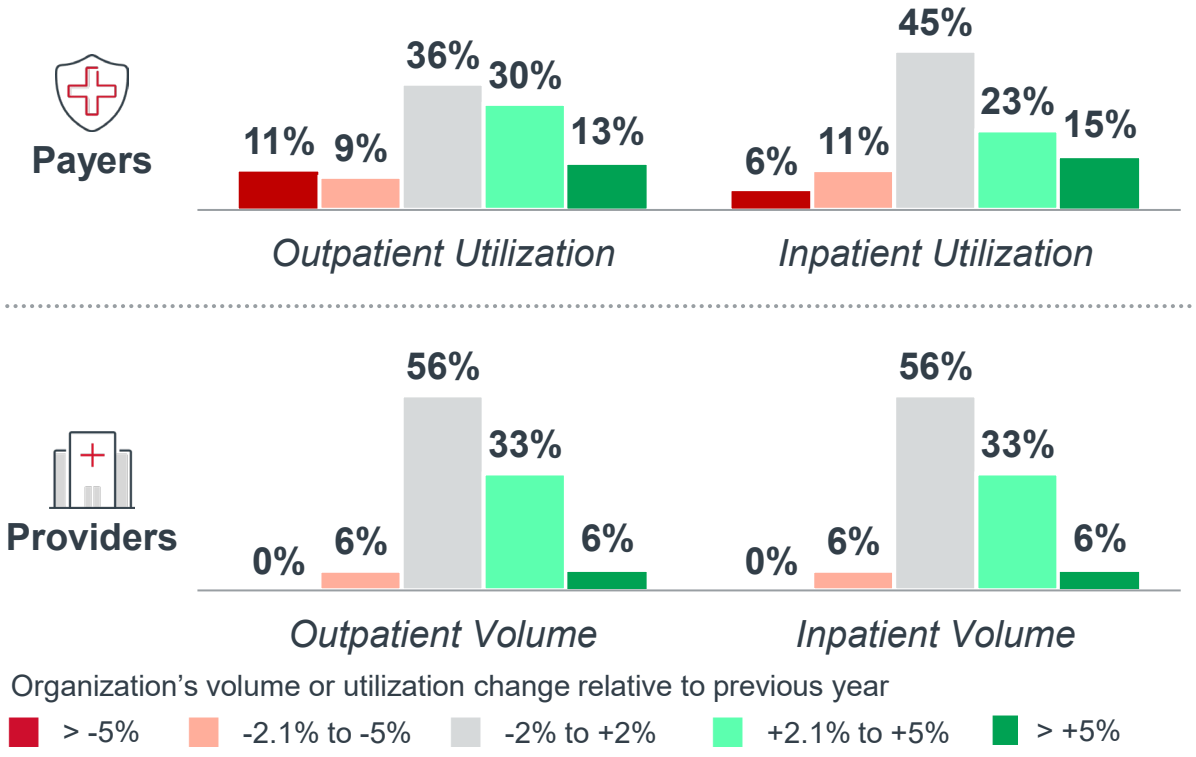
Utilization trends

Advisory Board interviews and analysis.

The recent utilization spike put the industry on high alert

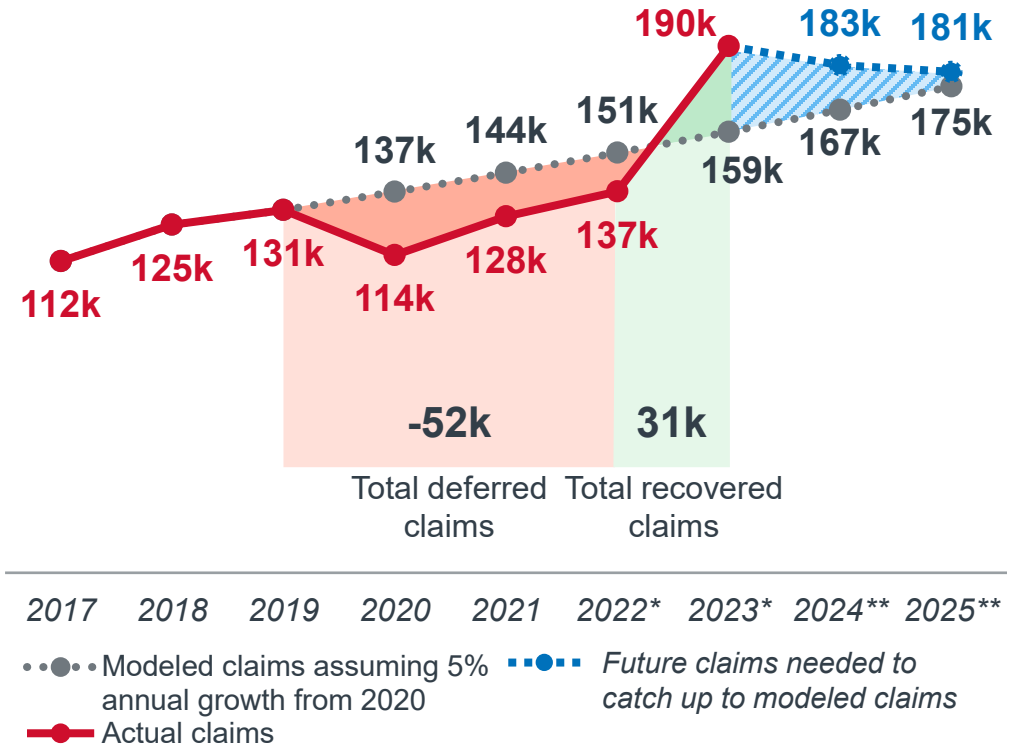
Utilization and volume changes (January 2023-March 2024)

n=53 payer executives; n=18 provider executives



Return of elective volumes due to delayed care

Actual and modeled hip and knee replacement volumes

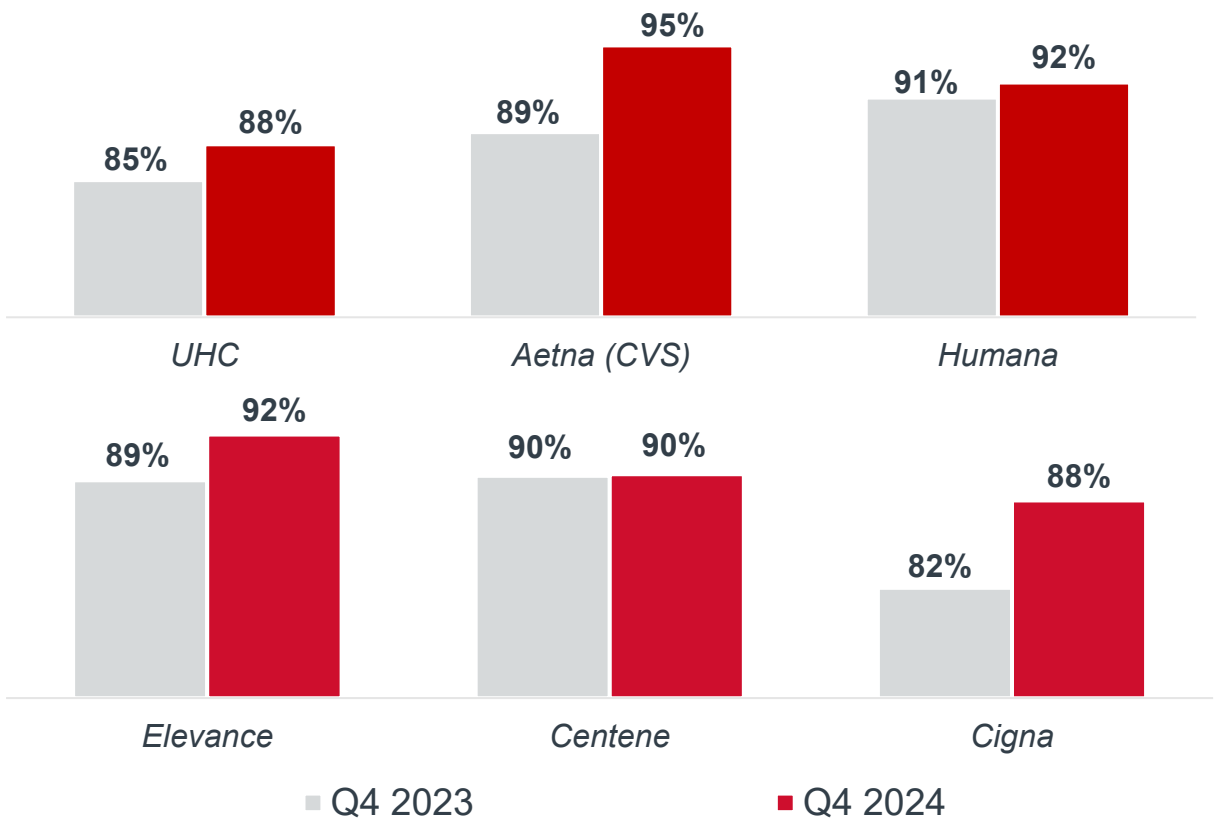


Source: Advisory Board healthcare executive survey, March 2024; Optum de-identified Clinformatics® Datamart Database (2007-2022).

Advisory Board interviews and analysis.

For payers, the spike reverses pandemic-era finances

Largest insurers' quarterly medical loss ratio (MLR)



8.1% Increase in PMPM[1] total medical expense for Medicare Advantage (MA) plans, *Q4 2023 compared to Q4 2022*

1.3pt Greater hospital inpatient revenue growth compared to outpatient revenue growth, *March 2024 year-over-year*

▶ Two-Midnight Rule now in effect in MA

New prior auth limits emerging from discontent

- 2024 CMS Interoperability & Prior Auth rule[2] will require standardized prior auth data sharing
- Almost 90 state prior authorization reform bills introduced across 30 states (as of March 2024)
- Congress considering bipartisan legislation[3] to require prior auth reporting and approval time limits

1. Per member per month.
2. Advancing Interoperability and Improving Prior Authorization Process Rule.
3. Improving Seniors' Timely Access to Care Act of 2024 (proposed bill).

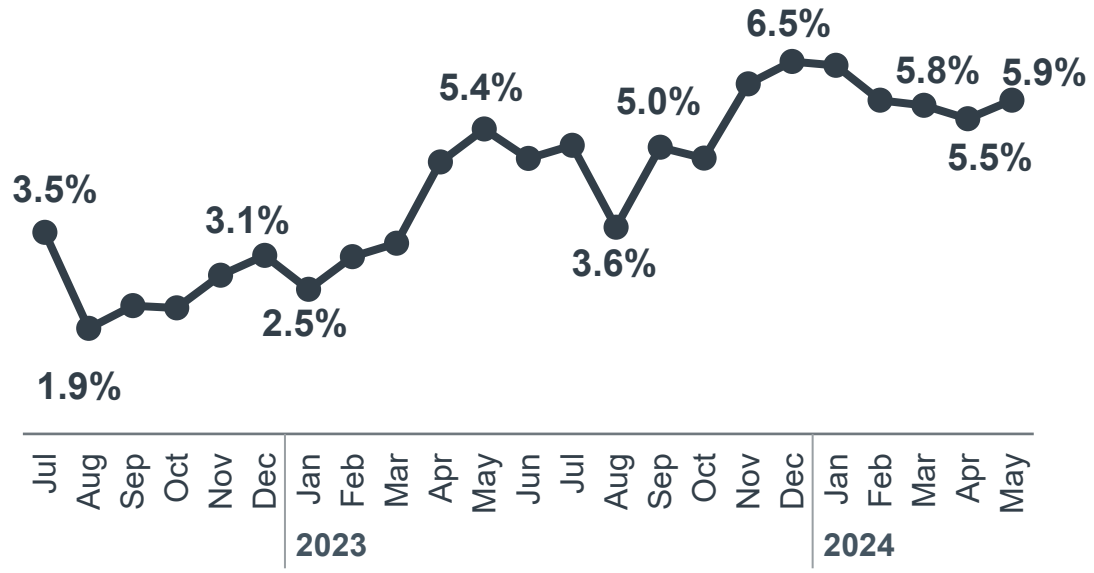
Source: See additional sources slide.

Advisory Board interviews and analysis.

Median hospital margins improve but spread widens

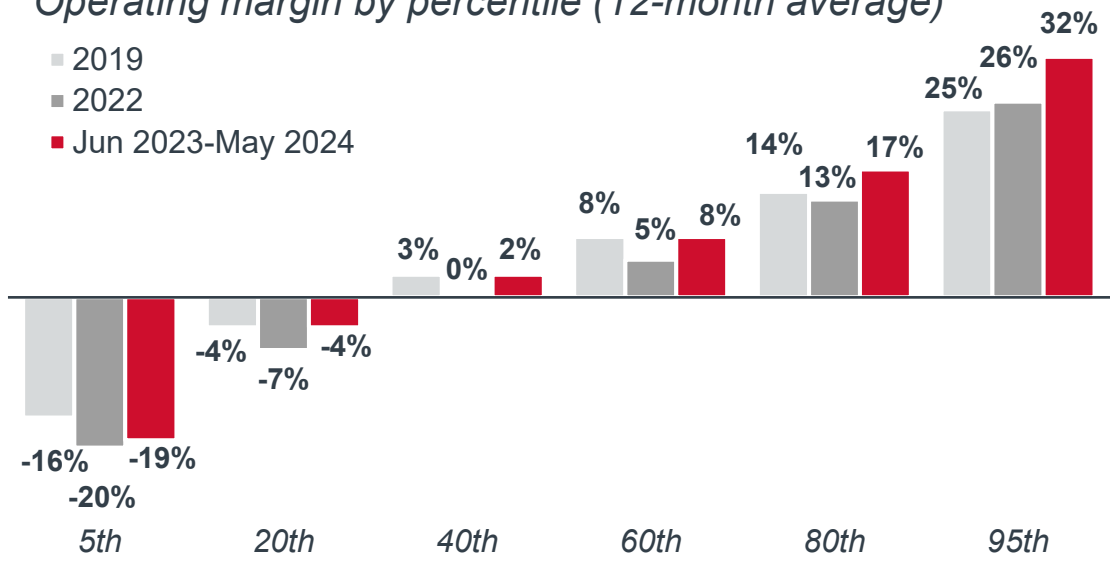
At first glance, hospital margins are improving…

Median hospital monthly operating margin (3-month rolling average)[1]



…but hospital financial experience varies widely

Operating margin by percentile (12-month average)



> "More systems are falling into the extreme ends of the credit rating **trifurcation**."
>
> Managing director, Credit rating organization

1. Certain data used in this study were supplied by Syntellis Performance Solutions. LLC ("Syntellis"). Any analyses, recommendations or advice based on these data are solely that of the author(s) and not Syntellis.

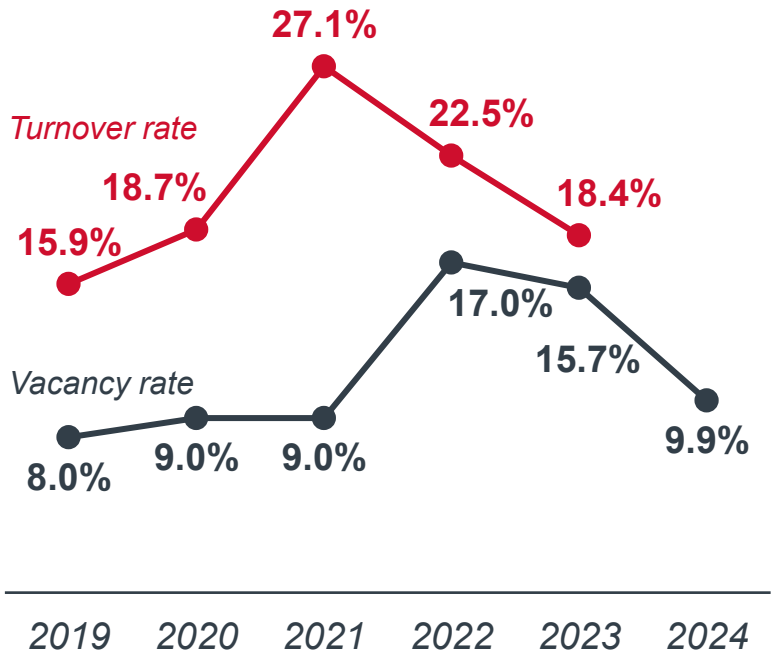
Source: Syntellis Performance Solutions. Accessed July 24, 2024; Bretz A, Zagar P. U.S. Not-For-Profit Health Care System Median Financial Ratios – 2020 vs. 2019. *S&P Global Ratings*. August 30, 2021; Desai S. Preliminary 2023 Medians for U.S. Acute Health Care Providers Indicate Continues Operating Pressures For Many. *S&P Global Ratings*. April 30, 2024; Advisory Board Interviews.

Workforce stabilizing, but not always boosting capacity

Workforce stability is improving...

Hospital RN turnover and vacancy rates

n=164 hospitals (2020), n=226 (2021),
n=272 (2022), n=273 (2023), n=400 (2024)



…but supply not matching demand…

"[We are] consistently at capacity and our biggest challenge is getting **access**… at the pace our patients and market are demanding."

Health System CFO

…due to structural characteristics

Higher workloads

- Added tasks beyond scope
- Too many patients at a time

Reduced collective experience

- Longer times to perform tasks
- Difficulty with clinical complexity

Site-based staffing migration

- Increase in ambulatory staffing
- Decrease in PAC[1] facility staffing

Latent discontent

- Burnout still felt in workforce

Slower throughput and reduced capacity, despite stabilizing staff

1. Post-acute care.

Source: National Health Care Retention Report. *NSI.* 2020, 2021, 2022, 2023, 2024.

Advisory Board interviews and analysis.

Temporary drivers hide structural shifts below surface

Utilization shift drivers

TEMPORARY

Pandemic backlog

Seasonality

Pandemic coverage

STRUCTURAL

Aging population

Sicker younger population

Technology R&D

PCP & post-acute capacity

Insurance mix

Payment policies

8.2% Increase in prevalence of obesity among young adults aged 20-44 (2009 to 2020)

9x Relative increase in death from heart failure in patients <45 years old (2012 to 2019)

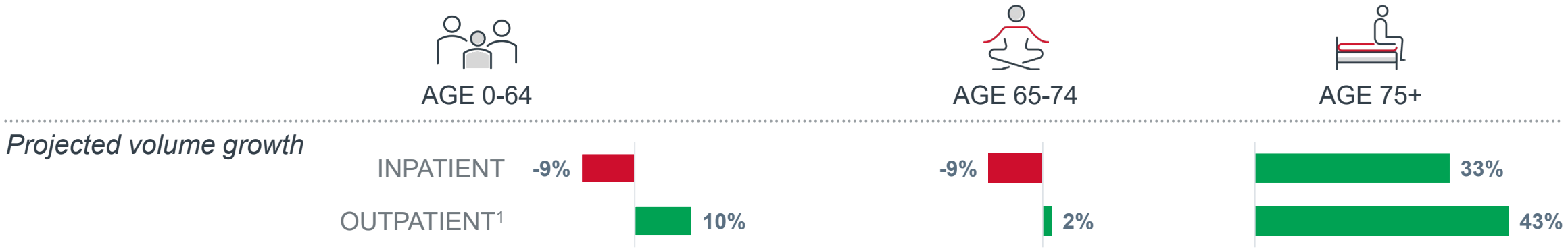
79% Increase in new cancer cases among patients <50 years old (1990 to 2019)

14% Increase in stroke rate in patients in patients aged 18-44 (2011 to 2022)

Advisory Board interviews and analysis.

The utilization shifts ahead

Comparison of major volume segments, 2024 to 2034

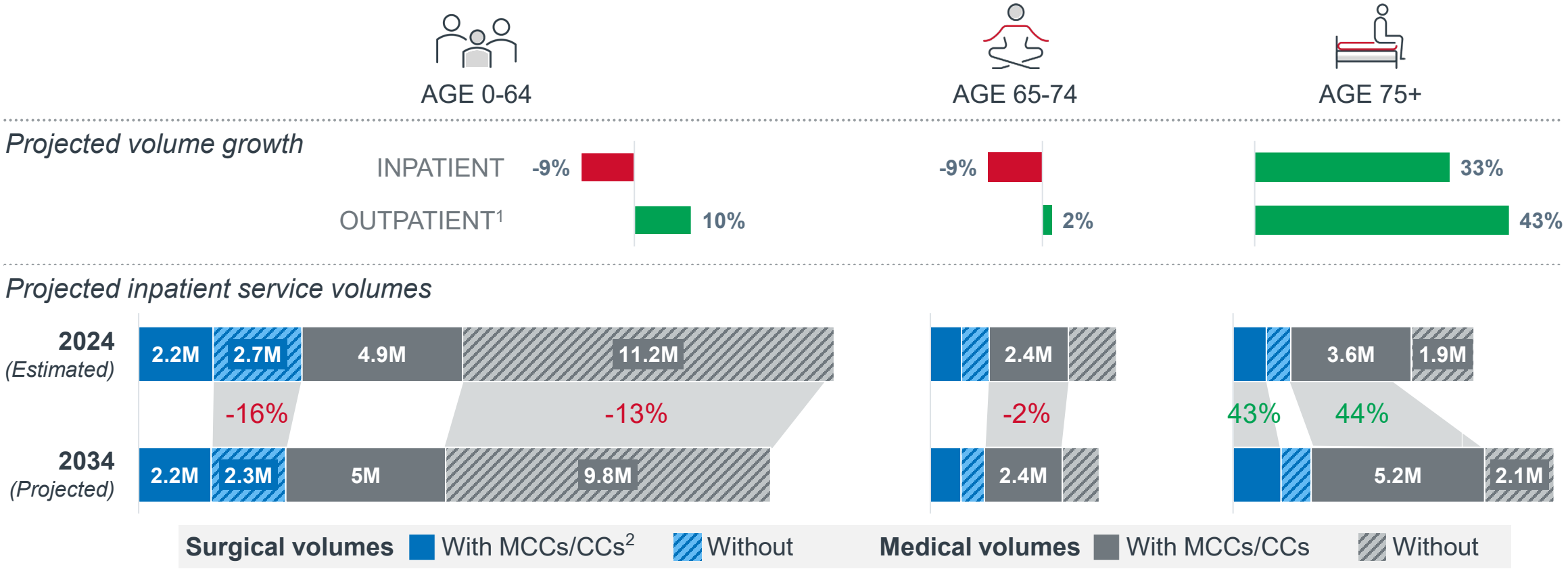


1. Excludes lab, evaluation & management, radiology, physical therapy & rehabilitation, and miscellaneous services.

Source: Market Scenario Planner. Advisory Board. Accessed April 13, 2025.

The utilization shifts ahead

Comparison of major volume segments, 2024 to 2034



1. Excludes lab, evaluation & management, radiology, physical therapy & rehabilitation, and miscellaneous services.
2. Major complications or comorbidities (MCC) or complications and comorbidities (CC).

Source: Market Scenario Planner. Advisory Board. Accessed April 13, 2025.

Utilization will pressure an already poor patient outlook

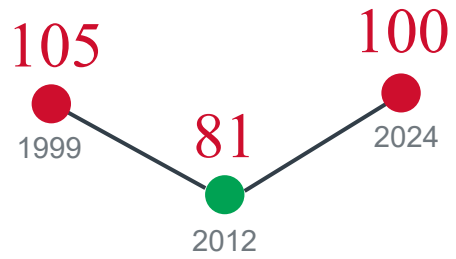
	Provider **access**	Out-of-pocket and premium **costs**	Clinical care **quality**
STRUCTURAL CHALLENGES	• Shortage of providers • Increasing patient demand	• Increasing treatment costs • Continued consolidation • Change in demographics	• Clinician workload and experience • Increasing case complexity

Sample indicators

38 day
wait time for a new patient physician appointment, average across 23 cities in the U.S. (as of 2023)

25%
of adults have skipped or **postponed care** in the past 12 months due to cost (as of August 2023)

Age-adjusted heart failure-related **mortality rates** (per 100,000)



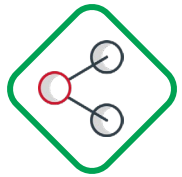
Source: Moody J, et al. The Waiting Game: New-Patient Appointment Access for US Physicians. ECG Management Consultants. 2024; Why Are Americans Paying More For Healthcare. Peter G. Peterson Foundation. January 3, 2024; 2023 Costs of Caring. American Hospital Association. April 2023; Sayed A, et al; National Vital Statistics System, Provisional Mortality on CDC WONDER Online Database. CDC. National Center for Health Statistics Data are from the final Multiple Cause of Death Files, 2018-2023, Accessed February 5, 2025

A closer look at evolving power dynamics

GROWING PRESSURE

PERFORMANCE PIVOT

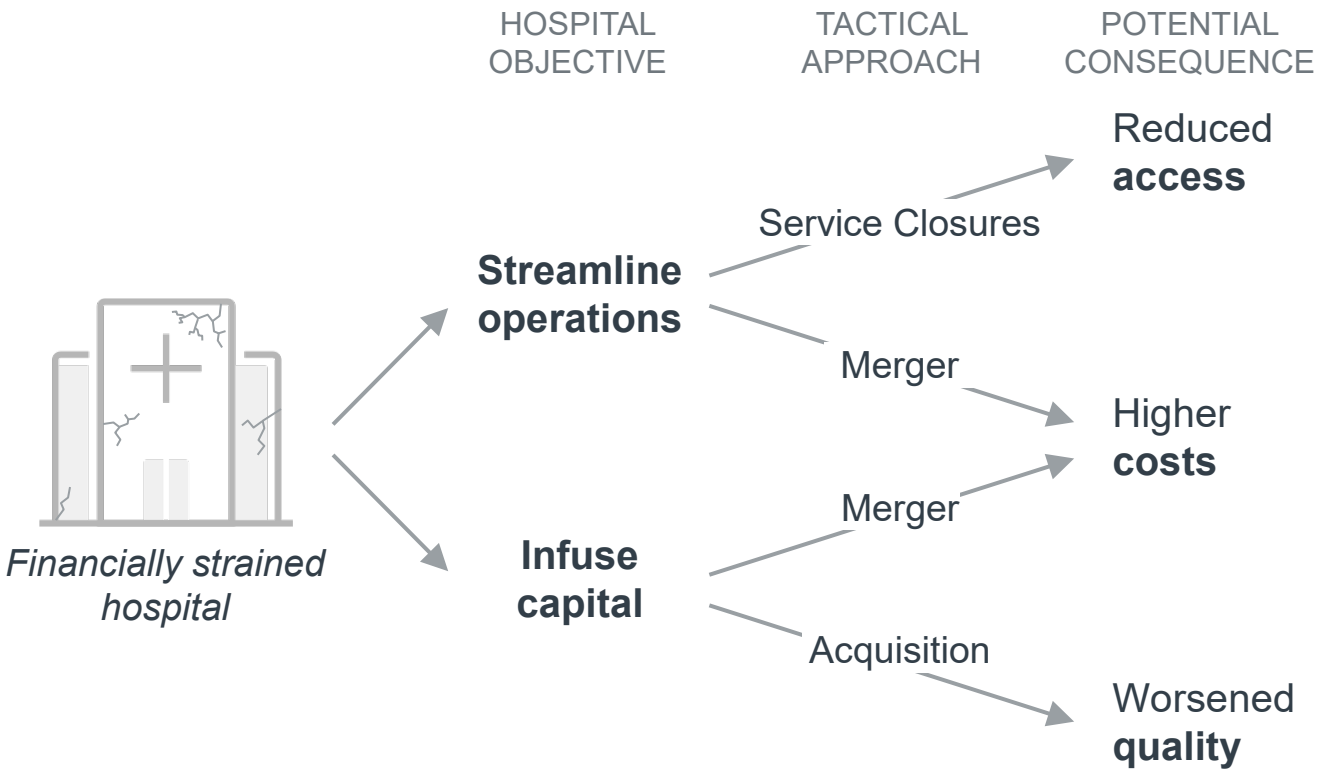
POWER DYNAMIC EVOLUTION

Hospital services	Network design	Drug revenues	Healthcare data
			
Local sustainability or Regional enterprise?	Preferred partner or Commodity cost?	Savings innovation or Revenue defense?	Collaborative asset or Consolidation liability?

Advisory Board interviews and analysis.

Financially fragile hospitals can cause industry strain

Example reactive financial rescue strategies for struggling hospitals



424
Rural hospitals have stopped providing chemotherapy services (2014-2023)[1]

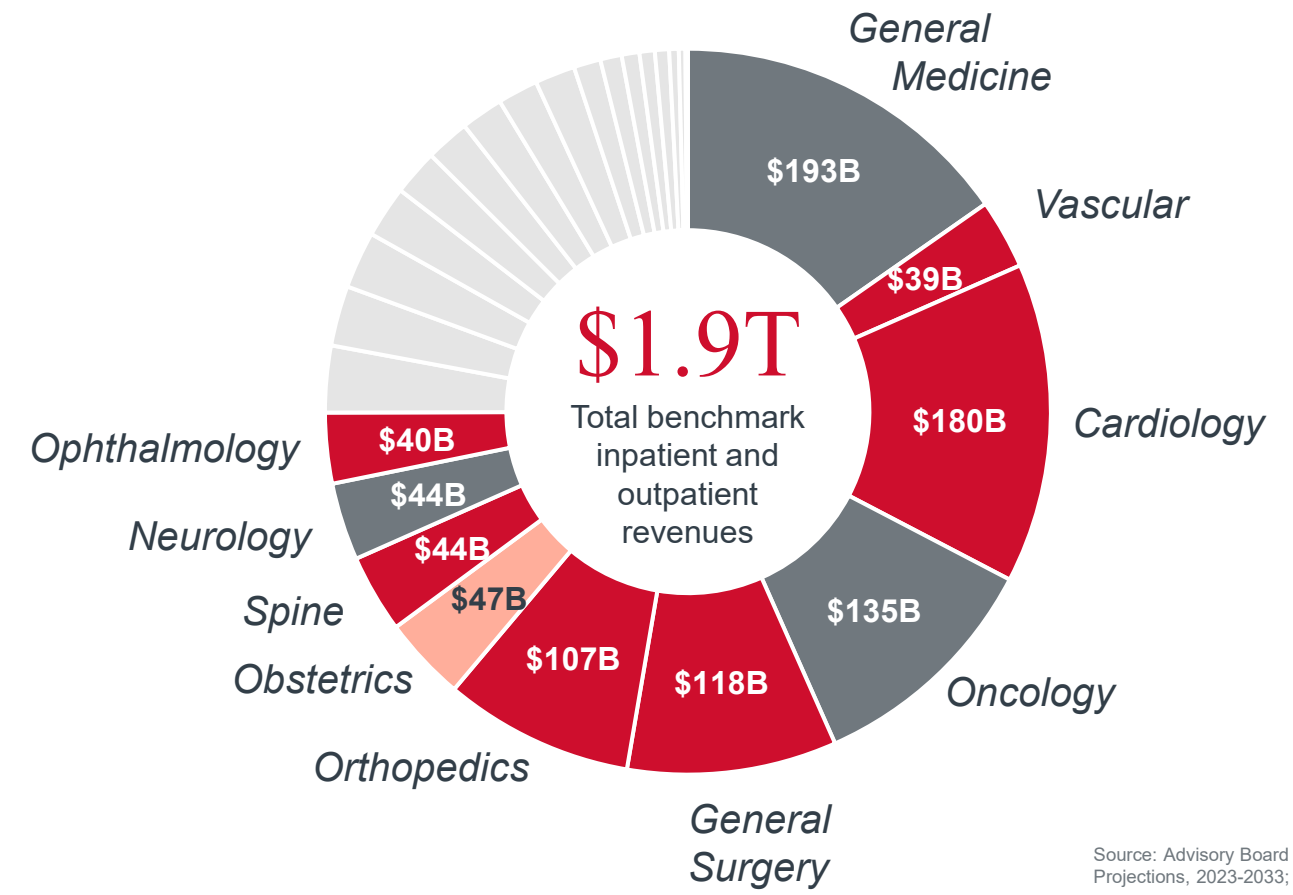
12.9%
Increase in healthcare prices associated with cross-market mergers of hospitals (2009-2017)[2]

25.4%
Increase in hospital-acquired adverse events associated with Medicare patients admitted to PE-acquired hospitals (2009-2019)[3]

Source: (1) Topchik M, et al. 2025 rural health state of the state. Chartis. February 10, 2025.; (2) Arnold DR, King JS, Fulton BD, et al. New evidence on the impacts of cross-market hospital mergers on commercial prices and measures of quality. Wiley Online Library. April 23, 2024.; (3) Private Equity Hospital Purchase Raises Risks for Patients. PNHP. Accessed August 6, 2024.

Procedural care leads today's hospital revenues

Total benchmark revenues by service line (2023 estimates)



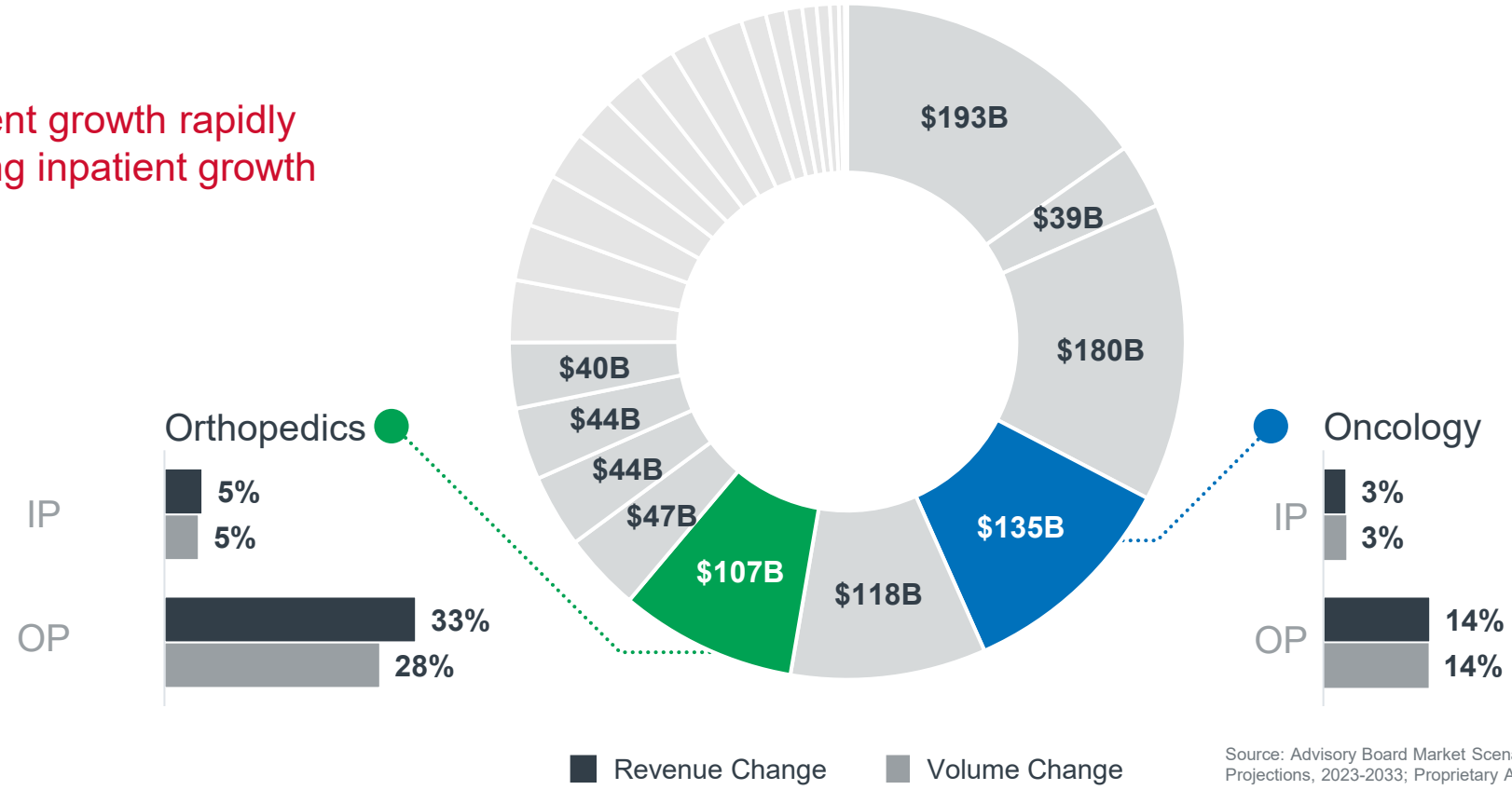
Source: Advisory Board Market Scenario Planner, National Volumes Estimates and Projections, 2023-2033; Proprietary Advisory Board per-case revenue benchmarks.

Advisory Board interviews and analysis.

Competitive care shifts will reshape future revenues

Total benchmark revenues (2023) and growth projections for volumes and revenues (2033), by service line

Outpatient growth rapidly outpacing inpatient growth



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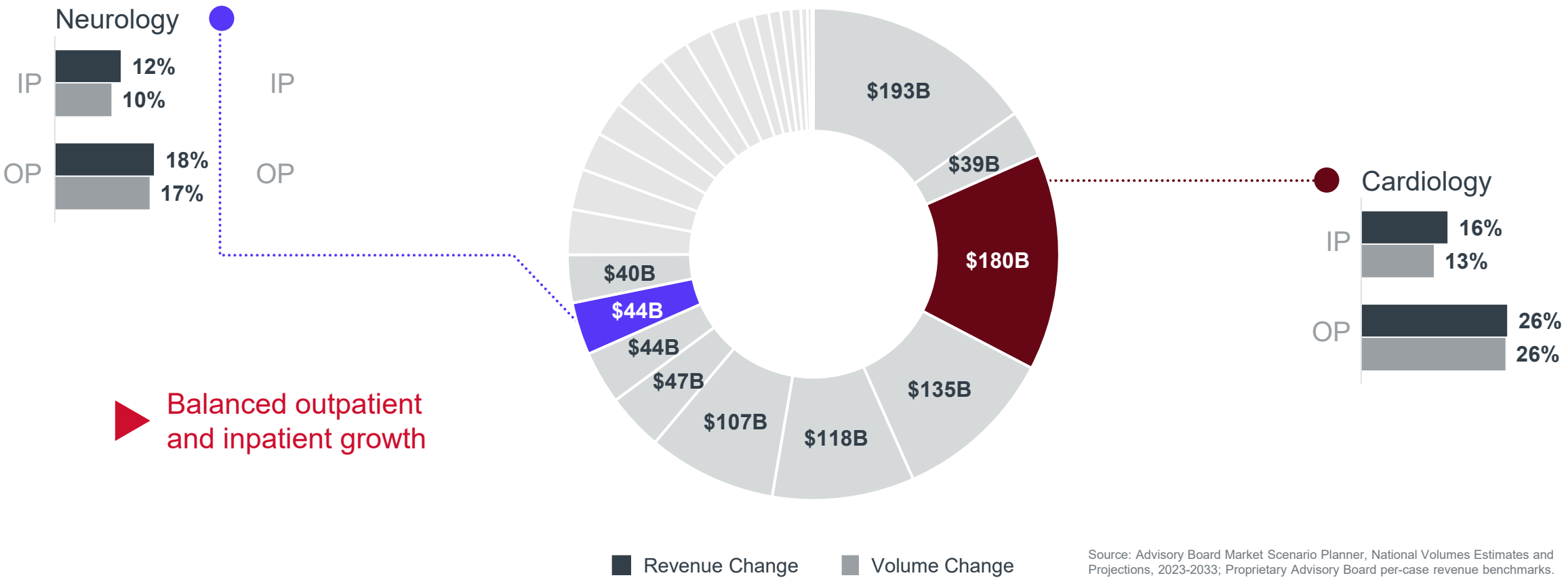

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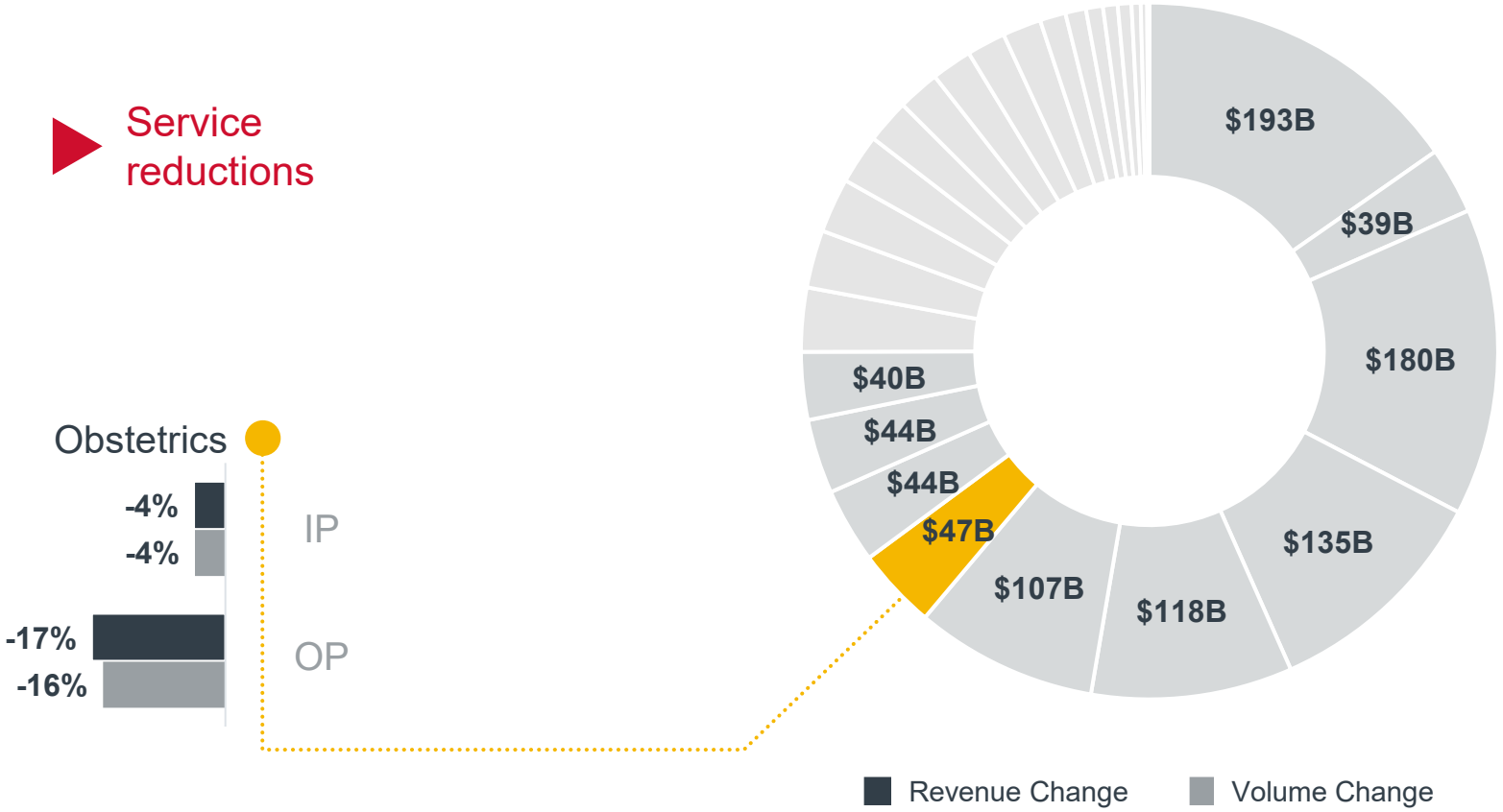

Source: Advisory Board Market Scenario Planner, National Volumes Estimates and Projections, 2023-2033; Proprietary Advisory Board per-case revenue benchmarks.

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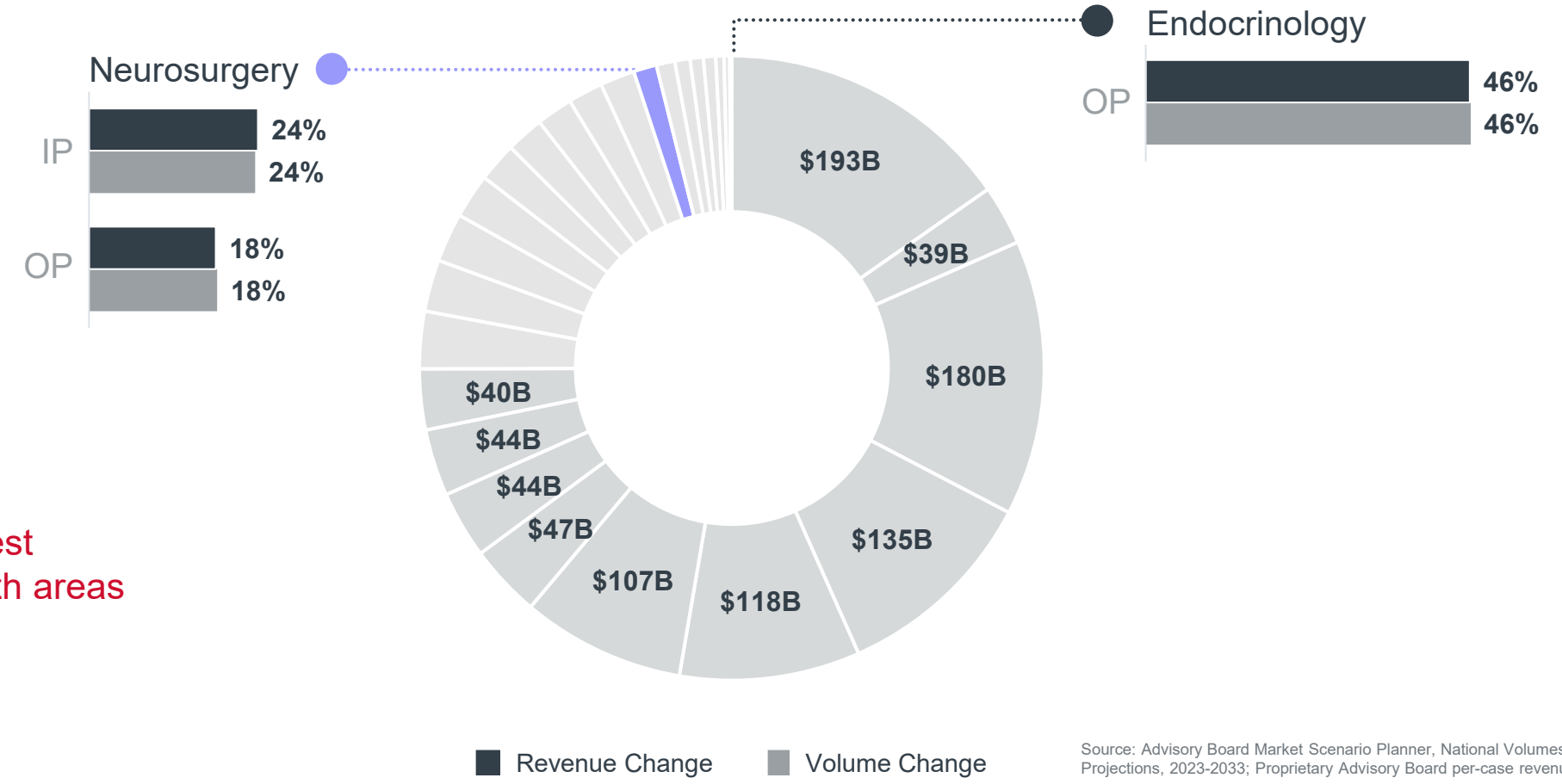

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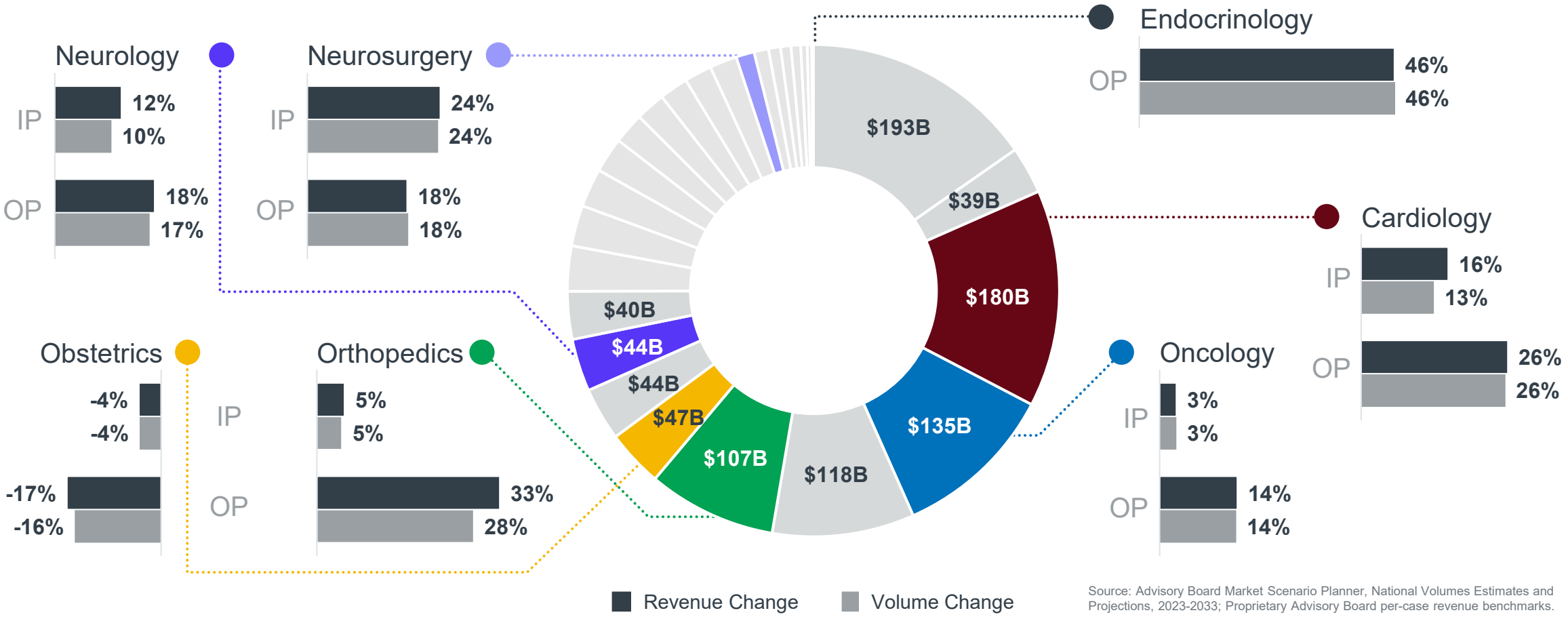
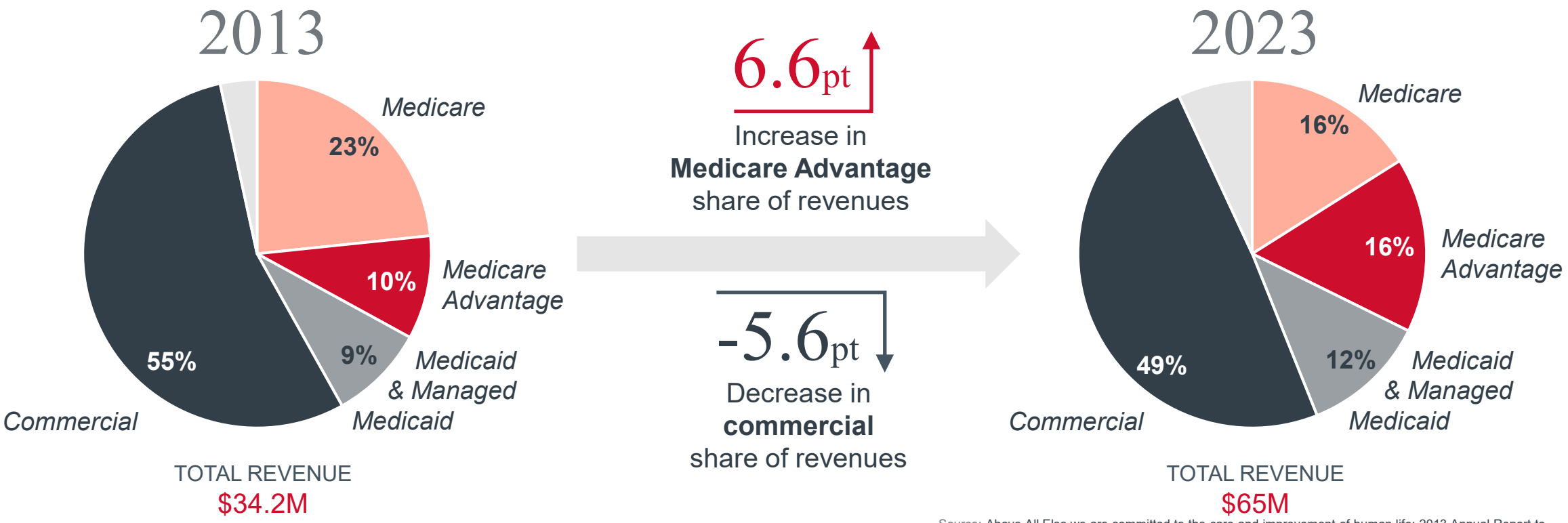


Source: Advisory Board Market Scenario Planner, National Volumes Estimates and Projections, 2023-2033; Proprietary Advisory Board per-case revenue benchmarks.

Advisory Board interviews and analysis.

Medicare Advantage gaining ground in the payer mix

HCA Healthcare patient service revenues by payer mix, 2013-2023



Source: Above All Else we are committed to the care and improvement of human life: 2013 Annual Report to Stockholders. *HCA Holdings*. 2013; 2023 Annual Report to Shareholders. *HCA Healthcare*. 2023.

Advisory Board interviews and analysis.

Legacy hospital system financial supports show cracks

Major hospital financial supplements (beyond core services) and their recent challenges

Increases revenues ← → *Reduces costs*

Investment income adds revenues

- Investment returns helped many systems weather 2022, but exposes providers to wider volatility

Site-based fees boosts rates

- Bipartisan site neutral payment reforms excluded from March 2024 legislation, but may return in end-of-year package

Horizontal M&A grows scale

- Increased FTC enforcement raises barriers to acquire struggling systems
- Fewer attractive medical group targets available

Medicaid rules ease margins

- 340B discounts and enhanced payments are growing shares of operating income
- Scrutiny on 340B entities' savings and contract pharmacies

Non-profit status reduces tax burden

- FTC non-compete ban applies to some non-profits and their owned entities (though preliminary injunction in July postponed rule)

Advisory Board interviews and analysis.

Strategic growth visions have high bars for performance

TRADITIONAL DELIVERY REVENUE

NOVEL REVENUE

TARGETED SPECIALIZATION

MASS STANDARDIZATION

Centers of Excellence (COE)

Guarantee outcomes for select procedures

REQUIREMENTS
- Clinical pathway adherence
- Performance guarantees
- Dedicated purchaser partners

EXAMPLES
- Virginia Mason
- Mount Sinai

Procedural factory

Ensure lean efficiency for major procedures

REQUIREMENTS
- Cost management discipline
- Selective payer contracts
- Mass scale / market power

EXAMPLES
- HCA
- Tenet

Clinical innovator

Disseminate expertise for research and care

REQUIREMENTS
- Brand and clinical reputation
- Innovation incubator
- Amassed capital and expertise

EXAMPLES
- Mayo
- Cleveland Clinic

Population manager (IDN)

Balance premium rates and service revenues

REQUIREMENTS
- Large, integrated health plan
- Multimodal clinical infrastructure
- Mass scale / market power

EXAMPLES
- Kaiser
- Intermountain

Advisory Board interviews and analysis.

Convenient ambulatory care is necessary but insufficient

Recent retrenchment of retail care

March 2024 — **Walgreens** announced plans to close 160 VillageMD clinics

April 2024 — **Walmart** announced plans to shut down all 51 health centers across 5 states and its virtual care services

April 2024 — **Optum** announced plans to close its retail telehealth arm

Primary care profitability routes require overcoming major hurdles

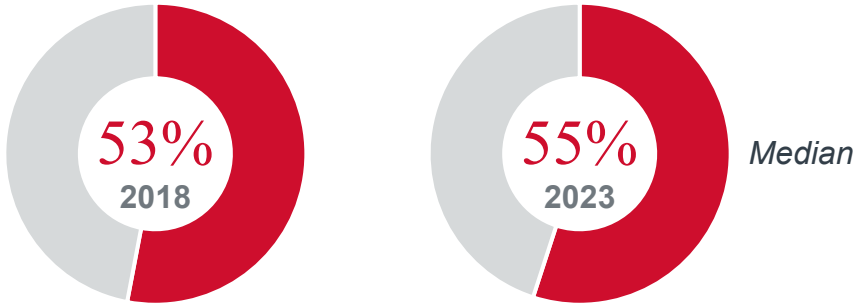
1. Lower costs than competing models

> The challenging reimbursement environment and escalating operating costs create a lack of profitability that make the care business unsustainable for us at this time.
>
> WALMART, INC

2. Capture downstream referral revenues

3. Manage total population cost

*Downstream **referral revenues** kept within owner system*



Source: Advisory Board CMA member data analysis, 2018; Optum de-identified Clinformatics® Datamart Database (2007-2022).

Advisory Board interviews and analysis.

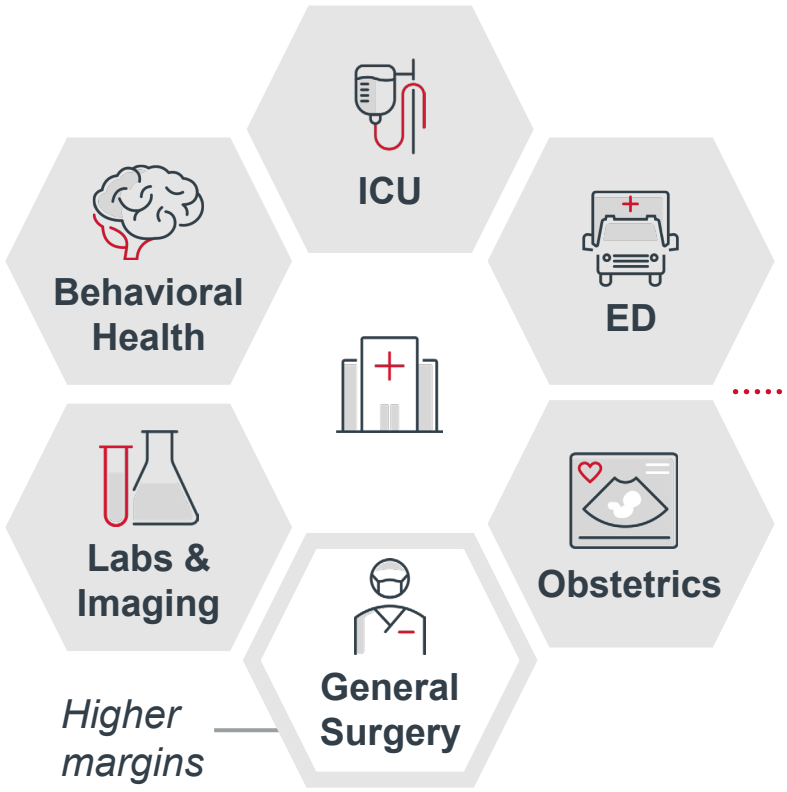
Universal focus on foundational performance priorities

	SYSTEM PRIORITIES	COMMON FOCUSES	CHALLENGES
Workforce support	Talent is *the* key prerequisite for strategy		
Operational efficiency	Essential volume management tactics	• Length of stay • Network integrity • Patient scheduling	
Service rationalization	Individually prioritize service lines	• Orthopedics • Cardiovascular • Oncology	
Ambulatory infrastructure	Invest to catch up with local market	• ASCs • HOPD clinics • Urgent care centers	
Care journey management	Navigate patients within system		*Rarely prioritized by systems*

Advisory Board interviews and analysis.

Few degrees of freedom along the margin-mission line

Core, essential community hospital services are often effectively cost centers



Challenges of a typical community hospital core services portfolio

- Pricing structures out of immediate control
- Community backlash to service closures
- Worsening future patient morbidity from closures
- Limited attention for margin-generating services

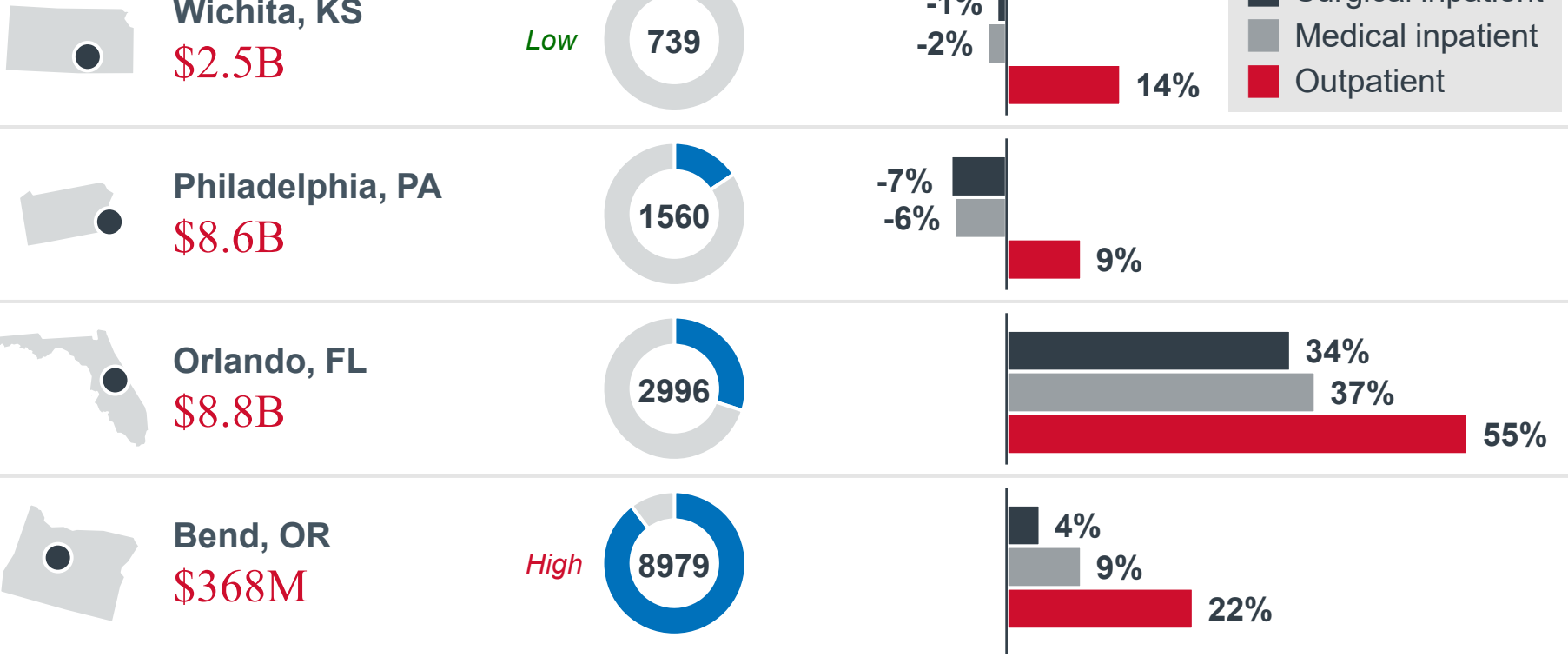
> "It's hard to make money off these services, but we're not going to stop doing them. They're essential services, and no one else is going to provide them."

Senior healthcare executive, safety net system in the Midwest

Advisory Board interviews and analysis.

Market variability will set volume capture potential

Market[1] total hospital revenues 9/2022 – 8/2023	*Market concentration[2]*	*10-year volume growth projections*	*Competitive dynamic*
Wichita, KS $2.5B	*Low* 739	-1% -2% 14%	**Targeted options for outpatient growth**
Philadelphia, PA $8.6B	1560	-7% -6% 9%	**Heated competition for declining volumes**
Orlando, FL $8.8B	2996	34% 37% 55%	**Ample running room for catch-up**
Bend, OR $368M	*High* 8979	4% 9% 22%	**Tight windows for siphoning volumes**



1. Market defined as hospital referral region (HRR).
2. Concentration measured as Herfindahl-Hirschman Index (HHI).

Source: Advisory Board Market Scenario Planner, National Volumes Estimates and Projections, 2023-2033; Proprietary Advisory Board per-case revenue benchmarks; Advisory Board analysis of Optum Market Advantage data, 2024.

Advisory Board interviews and analysis.

Local market must shape hospital growth priorities

Key market characteristics and variables that affect the hospital business outlook

VOLUME POTENTIAL

What future volumes will be available to capture?

- Demographic change
- Population health
- Payer integration
- Market concentration

MARGIN MECHANISM

Why will specific care patterns generate a margin?

- VBC prevalence
- Capacity constraints
- Site of care policies
- Payer and employer mix

CAPTURE CAPABILITY

How will referral patterns be controlled?

- Physician practice alignment
- HMO product design
- Ambulatory infrastructure

Advisory Board interviews and analysis.

Systems must tailor their core management priorities

	CLASSIC PRIORITIES	TAILORED PRIORITIES	RESEARCH HIGHLIGHTS
Workforce support	Broad-based recruitment and retention tactics	Specialized career ladders for top-of-experience care	• Technology to support the workforce • Integrating new care team members • Upskilling clinician experience
Operational efficiency	Delegated frontline improvement approaches	Centralized function looking across continuum	• Systematized management • Continuum-focused culture • Community capacity partnerships
Service line optimization	Individually prioritize service lines for growth	Prioritize intersecting service lines together for market	• Cardiometabolic care models • Future of cancer care • Future of service line management
Ambulatory infrastructure	Reactively invest to catch competitors	Invest for top job-to-be-done for overarching goals	• Metrics and capabilities that matter • Ambulatory access • System ASC strategy
Care journey management	Navigate patients within care episode	Navigate patients within system (and across all complementary care)	• Referrals management • Medical group integration • Sustainable CGT programs

Advisory Board interviews and analysis.

A shift from topline growth to sustainable growth

To achieve long-term sustainability, health systems need to…

Tailor management to achieve operational excellence

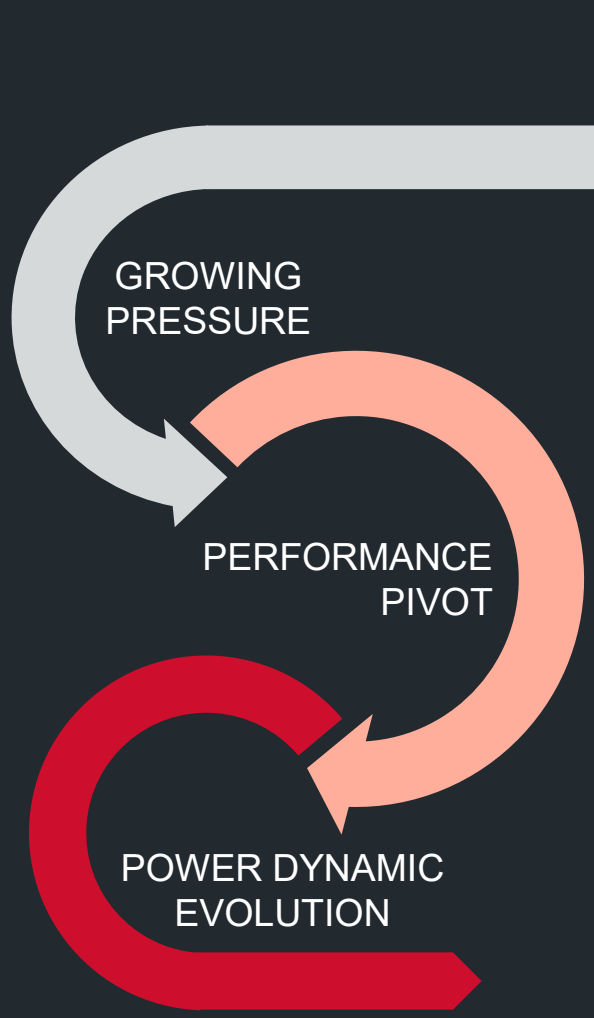
+

Pursue differentiated growth

Grow to get bigger	**Grow to get stronger**
Chase conventional profit pools	**Cultivate comparative advantage**
Preserve all strategic avenues	**Practice principled pruning**

Advisory Board interviews and analysis.

A closer look at evolving power dynamics



Hospital services

Eroding legacy business model

Tailored management and differentiated growth

Local sustainability or Regional enterprise?

STAKEHOLDER IMPLICATIONS TO WATCH

PROVIDERS

- Cracks in the legacy hospital model will force hospitals to reevaluate their growth ambitions
- Systems must focus on operational excellence and differentiated growth that is realistic for them in their market

SUPPLIERS

- As health system strategies become more tailored to markets, partners will need to adapt to different demands
- Life sciences firms must prepare for variation in care pattern shifts across markets

PAYERS

- Stressed hospitals may pursue remedies that raise costs, without local payer support toward sustainability
- Providers may be more open to new payment models, but they must see a path for financial success

Advisory Board interviews and analysis.

Crosswalk to the strategic paradigm shifts (2024 SOI)

DELIVERY INFRASTRUCTURE

Hospital-centric service delivery

Hospital services

Local sustainability or regional enterprise?

Network design

Preferred partner or commodity cost?

Ecosystem-directed care management

CARE TEAM ROLES

Overextended generalists

Healthcare data

Collaborative asset or consolidation liability?

Tech-dependent care teams

TREATMENT ECONOMICS

Procedure-centric standards

Pharmacy revenues

Savings innovation or revenue defense?

Bespoke care business

Advisory Board interviews and analysis.

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