Health Care 2019: Disruption and Response

Steve Jenkins
Senior Advisor

November 6, 2019
Strange Days, Indeed

Providers Becoming Insurers
- The Old Guard
  - Kaiser Permanente
  - UPMC
  - Presbyterian-Albuquerque

- The New Entrants
  - Northwell
  - Inova-Aetna
  - Partners

Insurers Becoming Providers
- UnitedHealth Group—DaVita
- Anthem—CareMore
- Humana—Kindred
- Highmark—West Penn Allegheny

Potpourri
- Haven
- Amazon
- CVS Health
- WalMart
- One Medical, TelaDoc, American Well, Zipnosis
Twenty-Five Years of Consolidation Has Changed the Face of Health Services Delivery

**Hospital Merger and Acquisition Transactions**

**COMMONSPIRIT HEALTH SYSTEM**
- 139 hospitals
- 700+ care sites
- 159,000 employees
- 25,000 physicians
- $28.4 billion net revenue

National Health Systems Have NOT Been the Main Drivers of Consolidation

1990: Top Systems
Health Spending: $538 BILLION

- Kaiser Permanente
- Mercy Health Services
- Catholic Healthcare West

Top 10 systems in 1990 were responsible for 8.9% of hospital & professional services expenditures.

2017: Top Systems
Health Spending: $2.5 TRILLION

- HCA Healthcare
- Dignity Health
- Sutter Health

Top 10 systems in 2017 were responsible for 9.5% of hospital & professional services expenditures.

Note: National health expenditures include hospital care, professional services: physician and clinical services, and professional services: other professional services.
For-Profit Systems Have NOT Been the Main Drivers of Consolidation

Beds in Health Care Systems by Type of Ownership, as a % of Total

Nonprofit Local and Regional Systems Have Driven Consolidation

30% of hospital referral regions in 2000 were “highly concentrated.”

By 2017, that figure rose to 44%.

The Track Record of Scale in Health Services Delivery Is Mixed at Best

- Real economics of scale have been elusive, to date
- Most health systems exhibit wide performance variation, though some do better than others
- Performance seldom improves over time
- System formation associated with price increases

Tremendous untapped opportunities remain to leverage system scale and scope and generate greater value
What Do Private Equity Investors See in Health Care that We Don’t?

$20B Investment in 2018

- 123 Physician Practices and Services
- 152 Long Term Care
- 28 Rehabilitation
- 12 Pharmacy
- 20 Other
- 9 Managed Care
- 23 Life Science and Pharmaceutical
- Ambulatory Surgery 7
- Behavioral Health 38
- Dental Practice Management 23
- Diagnostic Labs and Imaging 12
- Health Care IT and Software 90
- Health Care Staffing 20
- Home Care and Hospice 44
- Hospital/Health Systems 131

https://www.bna.com/private-equity-investment-n73014482737/
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Your first stop for healthcare

WAYS WE CAN HELP

❤️ Urgent issues like colds, allergies, infections and minor injuries.

🚨 Preventative health consults, vaccines and lab work.

👶 Sexual health services like contraception and sexually transmitted infection (STI) testing.

🔍 General health questions to help manage care for your whole family.
CVS Health

HealthHUB services

Ongoing care
- Diabetes & other conditions
- Preventative care & wellness
- Dietitian services
- Health insurance navigation

Everyday care
- 12+ immunizations
- Sleep assessments
- Primary acute care
- School & sports physicals

Ask our care concierge for more info!

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## Walmart Health

### Summarized Pricing List for Dallas, GA Store #3403

<table>
<thead>
<tr>
<th>Service</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Care Basic Services</strong></td>
<td></td>
</tr>
<tr>
<td>Office Visit</td>
<td>$40.00</td>
</tr>
<tr>
<td>Annual Checkup - Adult</td>
<td>$30.00</td>
</tr>
<tr>
<td>Annual Checkup - Youth</td>
<td>$20.00</td>
</tr>
<tr>
<td><strong>Primary Care Add-ons</strong></td>
<td></td>
</tr>
<tr>
<td>Lipid Test</td>
<td>$10.00</td>
</tr>
<tr>
<td>A1C Test</td>
<td>$10.00</td>
</tr>
<tr>
<td>Pregnancy Test</td>
<td>$10.00</td>
</tr>
<tr>
<td>Flu Test</td>
<td>$20.00</td>
</tr>
<tr>
<td>Strep Test</td>
<td>$20.00</td>
</tr>
<tr>
<td>Mono Test</td>
<td>$20.00</td>
</tr>
<tr>
<td>Stitches &amp; Other</td>
<td>$195.64*</td>
</tr>
<tr>
<td><strong>Counseling Services</strong></td>
<td></td>
</tr>
<tr>
<td>Individual Counseling, Existing Patient (45 minutes)</td>
<td>$45.00</td>
</tr>
<tr>
<td>New Patient Therapy Intake</td>
<td>$60.00</td>
</tr>
<tr>
<td><strong>Dental Services</strong></td>
<td></td>
</tr>
<tr>
<td>Patient Exam (Including X-Rays)</td>
<td>$25.00</td>
</tr>
<tr>
<td>(Starting at) $25.00</td>
<td></td>
</tr>
<tr>
<td>Teeth Cleaning - Adult</td>
<td>$25.00</td>
</tr>
<tr>
<td>(Starting at) $45.00</td>
<td></td>
</tr>
<tr>
<td>Porcelain Crown</td>
<td>$675.00*</td>
</tr>
<tr>
<td>Teeth Whitening, in Office</td>
<td>$225.00</td>
</tr>
<tr>
<td>Deep Cleaning (Per Quad)</td>
<td>$75.00</td>
</tr>
<tr>
<td>Emergency Treatment for Dental Pain</td>
<td>$50.00</td>
</tr>
<tr>
<td>Filling</td>
<td>$75.00 - $25.00</td>
</tr>
<tr>
<td><strong>Optometry Services</strong></td>
<td></td>
</tr>
<tr>
<td>Routine Vision Exam</td>
<td>$45.00</td>
</tr>
<tr>
<td>Contact Lens Fitting</td>
<td>$55.00</td>
</tr>
</tbody>
</table>
One Medical

- $199/year membership
- Services billed to insurance
American Well
Consumer Habits and Expectations in Health Care

Uncaptured market

65% of people age 18 to 34 have a PCP.

Over 70% of consumers see more than 1 PCP in a practice and/or have low switching costs to alternative provider arrangements.

PCP loyalty overblown

PCP = primary care physician.
Disrupters Prey on Our Access and Affordability Gaps

<table>
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<th>Time</th>
<th>Location</th>
<th>Price</th>
</tr>
</thead>
</table>

- Time
- Location
- Price
The health system of the future will be defined by solutions that achieve scale within and across the SoC.
CASE STUDY
Making More Efficient Use of Existing Capacity

JOHNS HOPKINS COMMAND CENTER

- Reduce ED Patient Wait time before admission by 30%
- Decrease Wait Time for outside hospital transfers by 20%
- Reduce Delays in leaving the OR by 20%

GOALS of the Johns Hopkins Capacity Command Center
Extending Hospital Reach Without Adding Beds

MOUNT SINAI HOSPITAL AT HOME PROGRAM

PROGRAM RESULTS

- 800+ patients seen
- Readmission rate cut in half
- Patient satisfaction is 20% higher.
- Cost is 20%–30% lower.

KEYS TO SCALE

- Train designated hospitalists to admit patients.
- Partner to off-load clinical operations and payment administration.

"We needed a partner to build a capitated bundled payment claims model to achieve scale."

—Niyum Gandhi, Executive Vice President and Chief Population Health Officer, Mount Sinai Health System

**RATIONALIZING SERVICE DELIVERY FOR TOTAL JOINT REPLACEMENT**

**FROEDTERT & THE MEDICAL COLLEGE OF WISCONSIN**

### Pre-Consolidation: TJR Performance (FY14)

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Cases</th>
<th>LOS Index</th>
<th>All-Cause Readmissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Memorial</td>
<td>620</td>
<td>0.90</td>
<td>1.5%</td>
</tr>
<tr>
<td>Froedtert Hospital</td>
<td>345</td>
<td>1.00</td>
<td>4.1%</td>
</tr>
<tr>
<td>Saint Joseph’s Hospital</td>
<td>218</td>
<td>1.10</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

### Post-Consolidation: Center of Excellence TJR Performance (First Half of FY15)

<table>
<thead>
<tr>
<th></th>
<th>Cases</th>
<th>LOS Index</th>
<th>Readmissions</th>
<th>Direct Costs</th>
<th>System Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>COE</td>
<td>930</td>
<td>0.72</td>
<td>1.5%</td>
<td>$1.1M</td>
<td></td>
</tr>
<tr>
<td>Froedtert</td>
<td>182</td>
<td>0.94</td>
<td>1.1%</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>SJH</td>
<td>216</td>
<td>1.00</td>
<td>2.8%</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Combined</td>
<td>1,328</td>
<td>0.80</td>
<td>1.7%</td>
<td></td>
<td>12%</td>
</tr>
</tbody>
</table>

SJH = St Joseph’s Hospital.

**Sources:** Sg2 Interview With Froedtert and the Medical College of Wisconsin, March 2015; Medicare.gov website. Accessed January 2015.

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Building Flexible Ambulatory Solutions to Diverse Problems

AURORA

Aurora Germantown Health Center

Expands access to lower-cost, consumer-centric care

Southern Milwaukee County*

Decants ambulatory surgeries for busy tertiary facilities

Aurora Health Center Southern Lakes

Extends life of existing IP facilities

Pleasant Prairie*

Captures employer-driven market growth

Even a Large Academic System Can Solve Consumer Experience

CLEVELAND CLINIC

Consumer Challenges

• Full schedules
• OR wait lists
• Specialty leakage
• No-shows

Results

• Call abandonment near zero
• Increase in visit volume
• 8% same-day PCP visits
• Virtual visits nearly doubled

PCP = primary care provider.
Merge with UnityPoint...

- Joined BJC Collaborative
- Investing in multichannel access to ambulatory services
- Building market relevance through direct-to-employer contracts
- Growing, profitable, focused on execution

...or take another path.
If We Don’t Prove the Value of Scale, Regulators and Disrupters Will Bring Their Own Solutions
Sg2, a Vizient company, is the health care industry’s premier authority on health care trends, insights and market analytics.

Our analytics and expertise help hospitals and health systems achieve sustainable growth and ensure ongoing market relevance through the development of an effective System of CARE.

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