Health Care 2019: Disruption and Response

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Providers Becoming Insurers

The Old Guard

- Kaiser Permanente
- UPMC
- Presbyterian-Albuquerque

The New Entrants

- Northwell
- Inova-Aetna
- Partners

Strange Days, Indeed

Insurers Becoming Providers

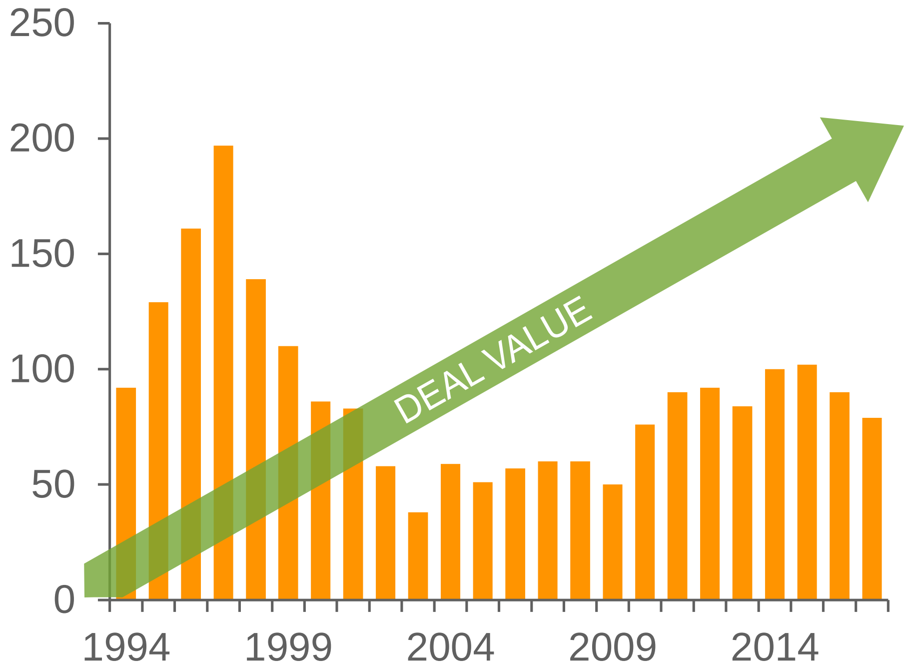
- UnitedHealth Group—DaVita
- Anthem—CareMore
- Humana—Kindred
- Highmark—West Penn Allegheny

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

Sources: Irving Levin Associates, Inc, 1994–2018; Rege A. CHI, Dignity Health to merge into $28.4B nonprofit system: 7 takeaways. Becker's Hospital Review. December 7, 2018; American Hospital Association. Trendwatch Chartbook 2018: Organizational Trends.

National Health Systems Have NOT Been the Main Drivers of Consolidation

1990: Top Systems
Health Spending: $538 BILLION

- Kaiser Permanente

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

- Mercy Health Services
- Catholic Healthcare West

2017: Top Systems
Health Spending: $2.5 TRILLION

- HCA Healthcare

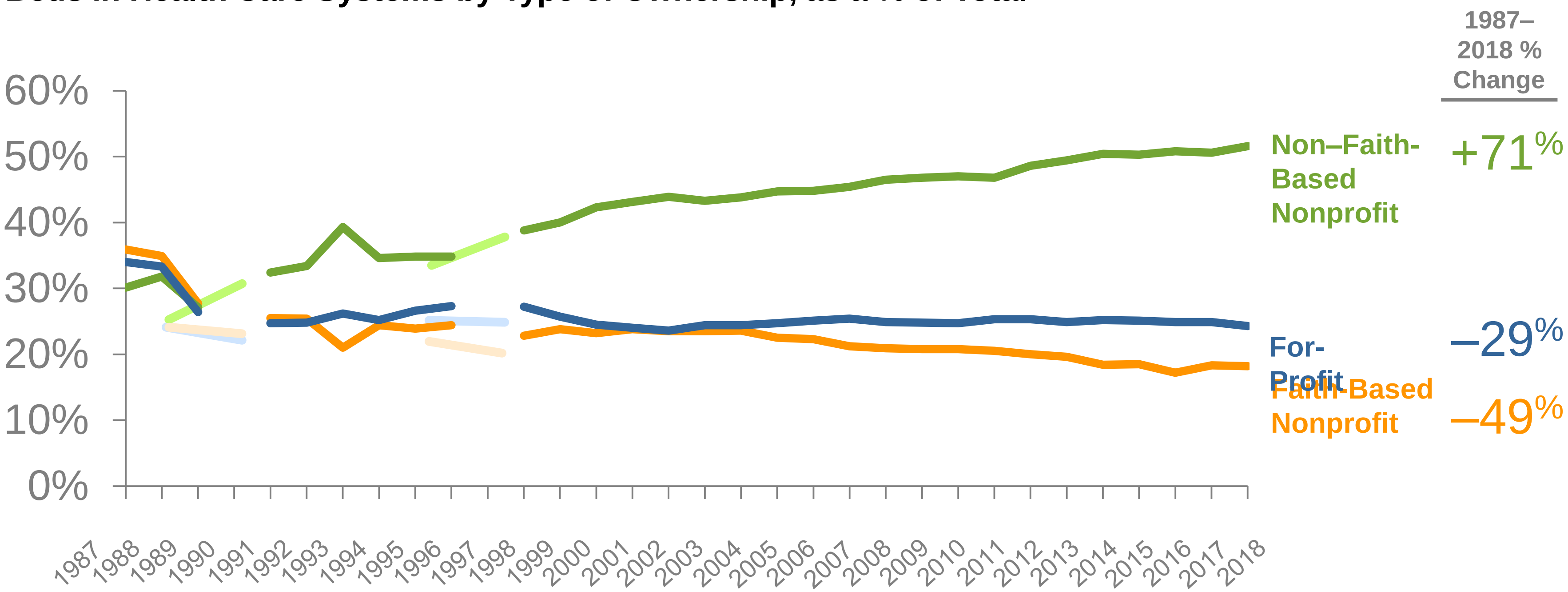
Top 10 systems in 2017 were responsible for 9.5% of hospital & professional services expenditures.

- Dignity Health
- Sutter Health

Note: National health expenditures include hospital care, professional services: physician and clinical services, and professional services: other professional services.
Source: Centers for Medicare & Medicaid Services. National health expenditure data: historical. Last modified December 11, 2018.

For-Profit Systems Have NOT Been the Main Drivers of Consolidation

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



Note: No data available for 1990 and 1997. **Source:** American Hospital Association (AHA). System statistics. *AHA Guide.* AHA: 1987–2018.

Nonprofit Local and Regional Systems Have Driven Consolidation

St Joseph Health

Atrium Health

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

By 2017, that figure rose to **44%**.

Partners HealthCare

Texas Health Resources

Advocate Aurora Health

Source: National Council on Compensation Insurance. The impact of hospital consolidation on medical costs. *NCCI Insights*. July 11, 2018.

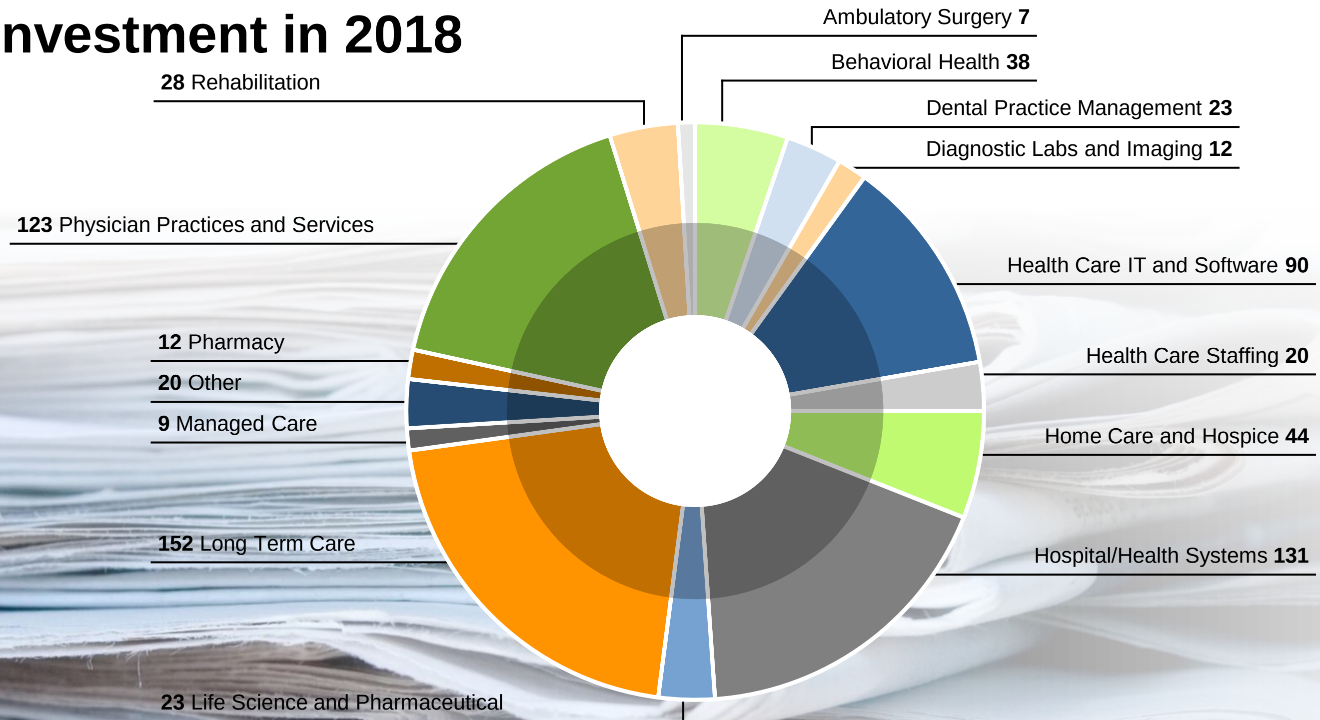
The Track Record of Scale in Health Services Delivery Is Mixed at Best

- 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



https://www.bna.com/private-equity-investment-n73014482737/

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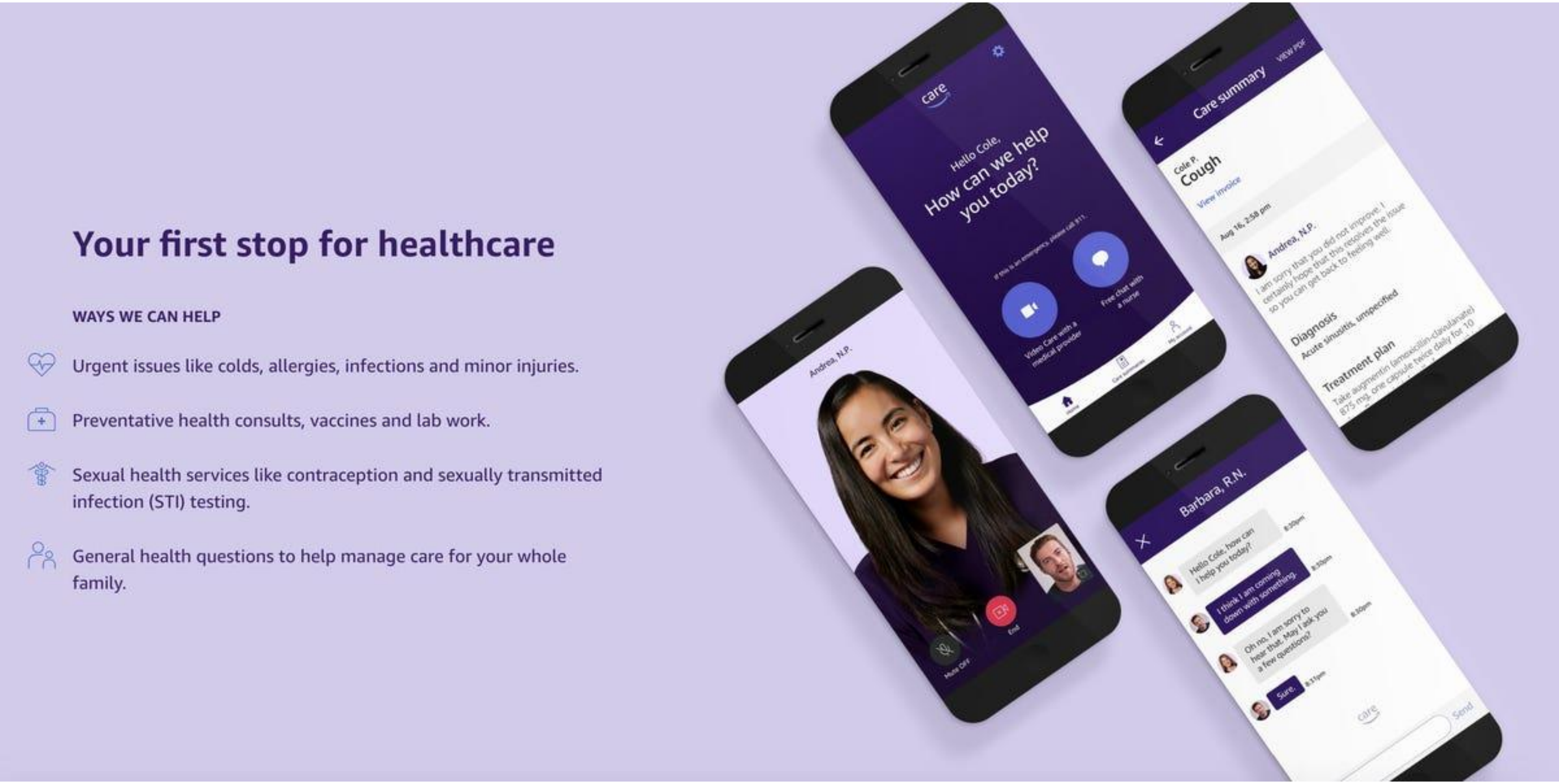
Amazon – Amazon Care, Seattle

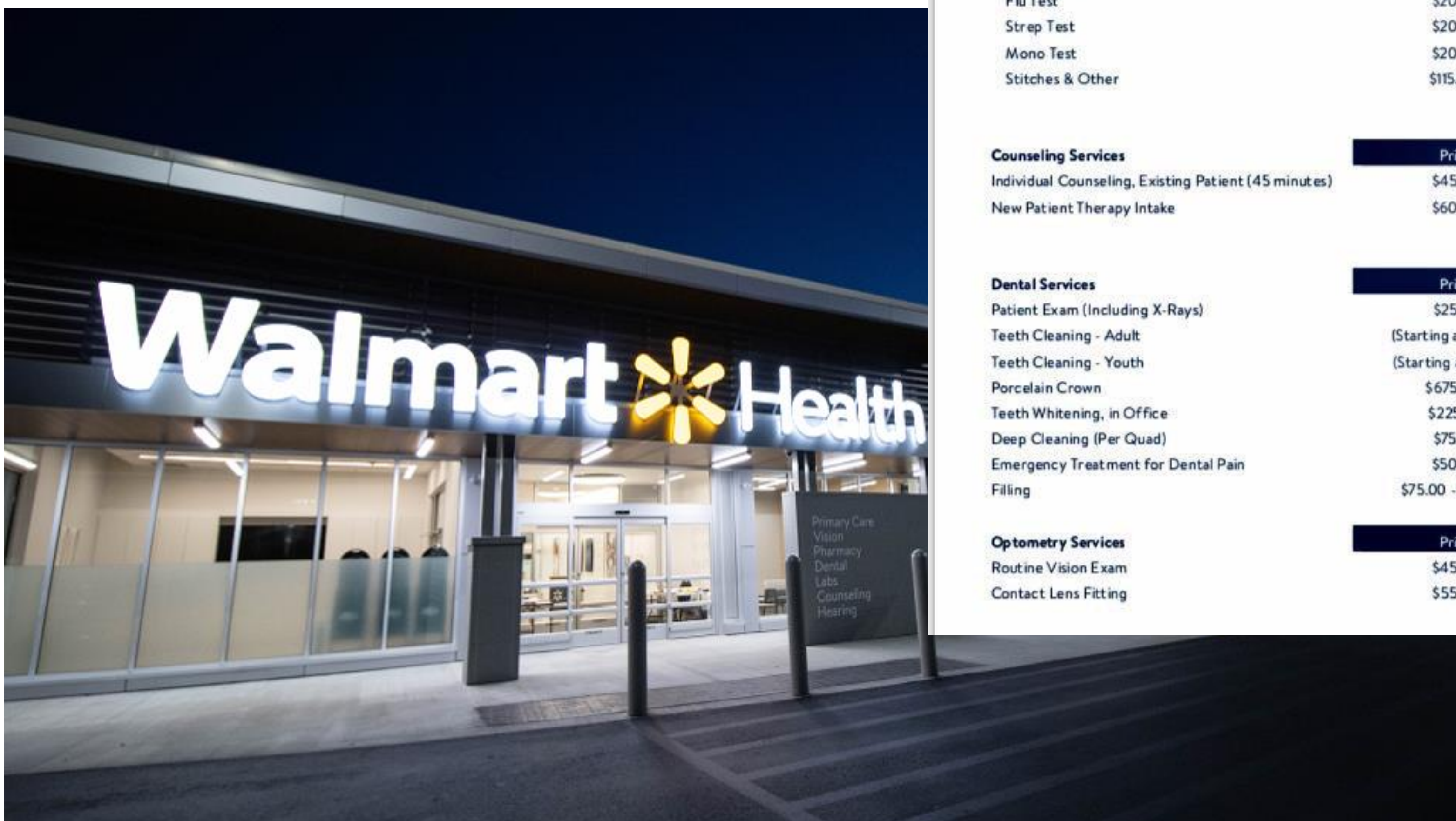


CVS Health


Retail Pharmacy
Retail Clinics
Infusion Services
Long-Term Care Pharmacy
Medical Claims Editing
Clinical Programs
Specialty Pharmacy
Rx Benefits Management
Quality
Access
Cost
Payors
Patients
Providers


HealthHUB
services
Ongoing care
Everyday care
Diabetes & other conditions
12+ immunizations
Preventative care & wellness
Sleep assessments
Dietitian services
Primary acute care
Health insurance navigation
School & sports physicals
Ask our care concierge for
info!
care concierge
I can help.

Walmart Health



Walmart Health

Summarized Pricing List for Dallas, GA Store #3403

Primary Care Basic Services	Price
Office Visit	$40.00
Annual Checkup - Adult	$30.00
Annual Checkup – Youth	$20.00
Primary Care Add-ons	**Price**
Lipid Test	$10.00
A1C Test	$10.00
Pregnancy Test	$10.00
Flu Test	$20.00
Strep Test	$20.00
Mono Test	$20.00
Stitches & Other	$115.64*
Counseling Services	**Price**
Individual Counseling, Existing Patient (45 minutes)	$45.00
New Patient Therapy Intake	$60.00
Dental Services	**Price**
Patient Exam (Including X-Rays)	$25.00
Teeth Cleaning - Adult	(Starting at) $25.00
Teeth Cleaning - Youth	(Starting at) $15.00
Porcelain Crown	$675.00*
Teeth Whitening, in Office	$225.00
Deep Cleaning (Per Quad)	$75.00
Emergency Treatment for Dental Pain	$50.00
Filling	$75.00 - $125.00
Optometry Services	**Price**
Routine Vision Exam	$45.00
Contact Lens Fitting	$55.00

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.

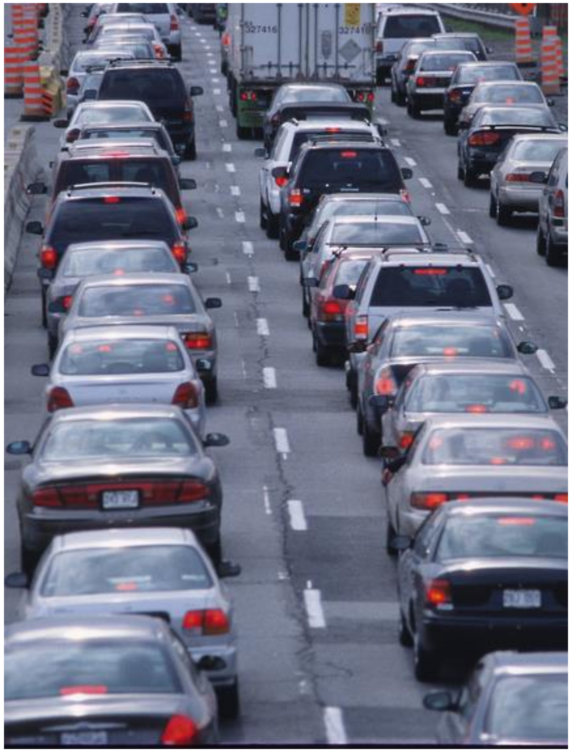
PCP loyalty overblown

PCP = primary care physician.

Disrupters Prey on Our Access and Affordability Gaps

Time

Location



Price

The health system of the future will be defined by solutions that achieve scale within and across the SoC.

CARE = Clinical Alignment and Resource Effectiveness. SoC = System of CARE.

CASE STUDY | Making More Efficient Use of Existing Capacity

JOHNS HOPKINS COMMAND CENTER

Sg2 health care intelligence

CASE STUDY | 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

- **Sources:** Sg2 Interview With Mount Sinai Health System, March 2019; Mount Sinai Health System. Mount Sinai and Contessa partnership. YouTube. October 19, 2018.

CASE STUDY | Rationalizing Service Delivery for Total Joint Replacement

FROEDTERT & THE MEDICAL COLLEGE OF WISCONSIN

Pre-Consolidation: TJR Performance (FY14)			
Hospital	Cases	LOS Index	All-Cause Readmissions
Community Memorial	620	0.90	1.5%
Froedtert Hospital	345	1.00	4.1%
Saint Joseph's Hospital	218	1.10	7.3%

Post-Consolidation: Center of Excellence TJR Performance (First Half of FY15)					
	Cases	LOS Index	Readmissions	Direct Costs	System Growth
COE	930	0.72	1.5%	$1.1M ↓	
Froedtert	182	0.94	1.1%	n/a	
SJH	216	1.00	2.8%	n/a	
Combined	1,328	0.80	1.7%		12% ↑

SJH = St Joseph's Hospital.
Sources: Sg2 Interview With Froedtert and the Medical College of Wisconsin, March 2015; Medicare.gov website. Accessed January 2015.
Photo © iStock/DNY59

CASE STUDY | Building Flexible Ambulatory Solutions to Diverse Problems

AURORA

Aurora Germantown Health Center

Expands access to **lower-cost, consumer-centric care**

Southern Milwaukee County*

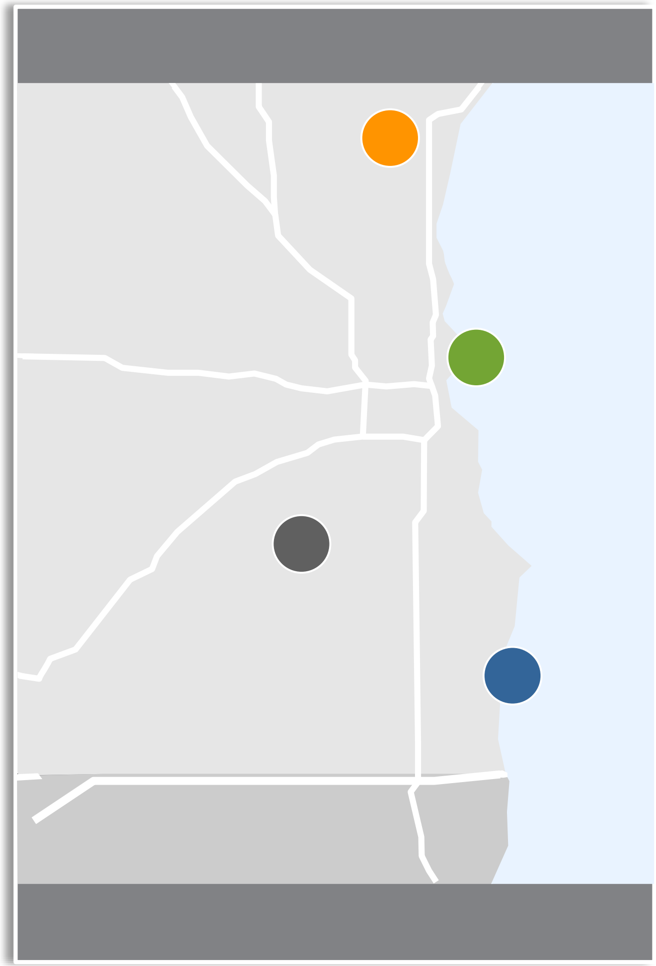
Decants ambulatory surgeries for busy **tertiary facilities**

Aurora Health Center Southern Lakes

Extends life of **existing IP facilities**

Pleasant Prairie*

Captures employer-driven **market growth**



- * Under construction. **Sources:** Sg2 Interview With Advocate Aurora Health, February 2019; Aurora Health Care website. Accessed February 2019.

CASE STUDY | 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.

CASE STUDY | The Counterargument: Building Scale in New Ways

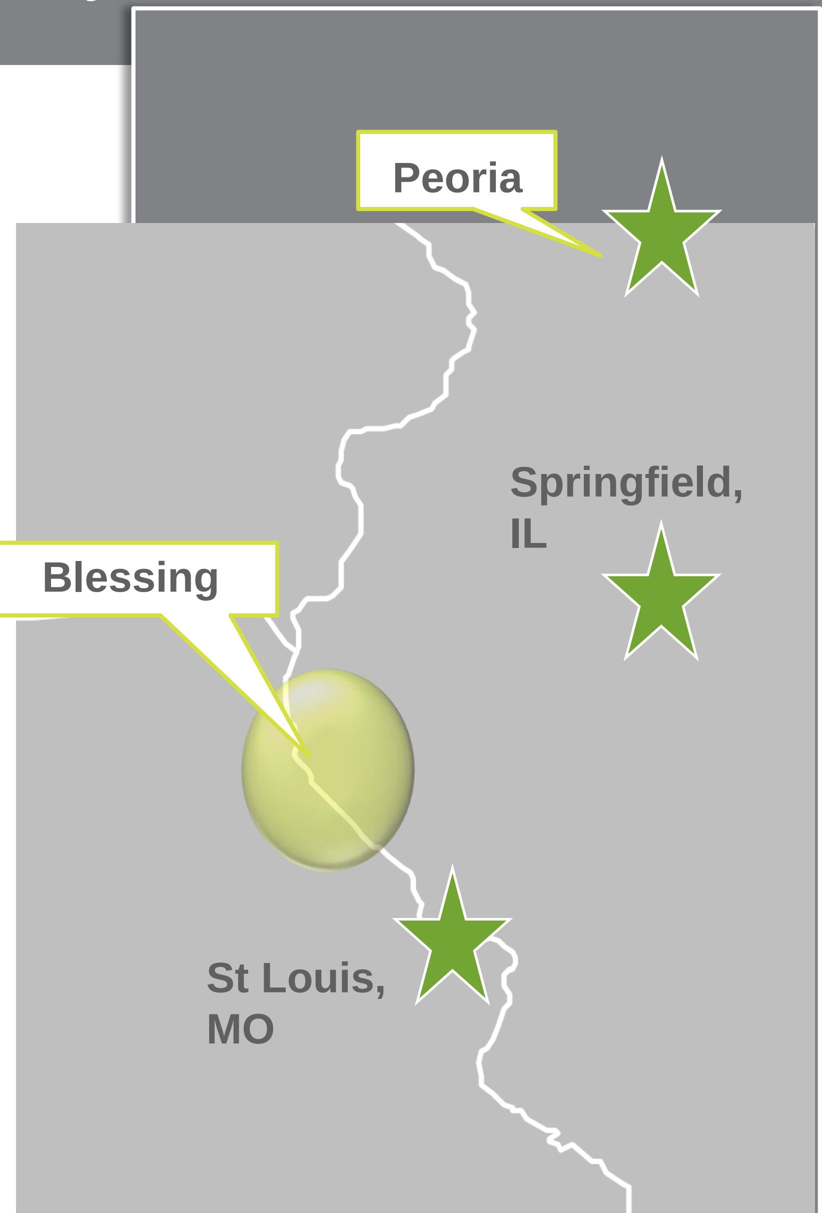
BLESSING HEALTH SYSTEM

Decision Point

Merge with UnityPoint...

…or take another path.

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



If We Don’t Prove the Value of Scale, Regulators and Disrupters Will Bring Their Own Solutions

Disruption

Regulation

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.

Sg2.com 847.779.5300