

BUILDING THE HEALTH SYSTEM OF THE FUTURE

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A business of Marsh McLennan

MACROECONOMIC AND GEOPOLITICAL CONCERNS – ON TOP OF FURTHER COVID-19 WAVES – LEAD TO A HIGHLY UNCERTAIN FUTURE



Recession yet to materialize, but predicted, given **inflation reaching of 8.3%** as of April 2022 and a **GDP decline of 1.4%** in Q1 2022¹



Pattern of **localized waves (and new variants) of COVID-19** predicted to continue, driving **high testing and treatment costs**



National **outpatient visits are up 20% from 2019**, **telehealth has leveled out at 8% of those visits**, and **emergency room visits are down 15% from 2019**, suggesting permanent changes in care patterns; deferred procedures have mostly been addressed, but it's not clear what the long-term health affects of deferred care will be^{2,6}



Favorable job market for employees, with just **3.6% unemployment nationwide**, **wages up 5.5%** from April 2021, and **11.4M job openings** as of April 2022³



The Great Resignation has inspired a generation of workers to speak critically — and cynically — about the role of work in their lives; burnout is hitting healthcare workers especially hard, with **55% reporting symptoms of burnout**^{4,5}



In 2021, **health plans experienced near-record profits**, while **not-for-profit health systems experienced negative operating margins** in aggregate due to labor cost and supply chain issues



The US is **more politically divided than ever**, and a hot war in Europe and a burgeoning cold war with China create **geopolitical instability**



Nearly 2x mortality rate continues amongst Black or African Americans as of March 2022, one of many examples of continued health inequality⁷

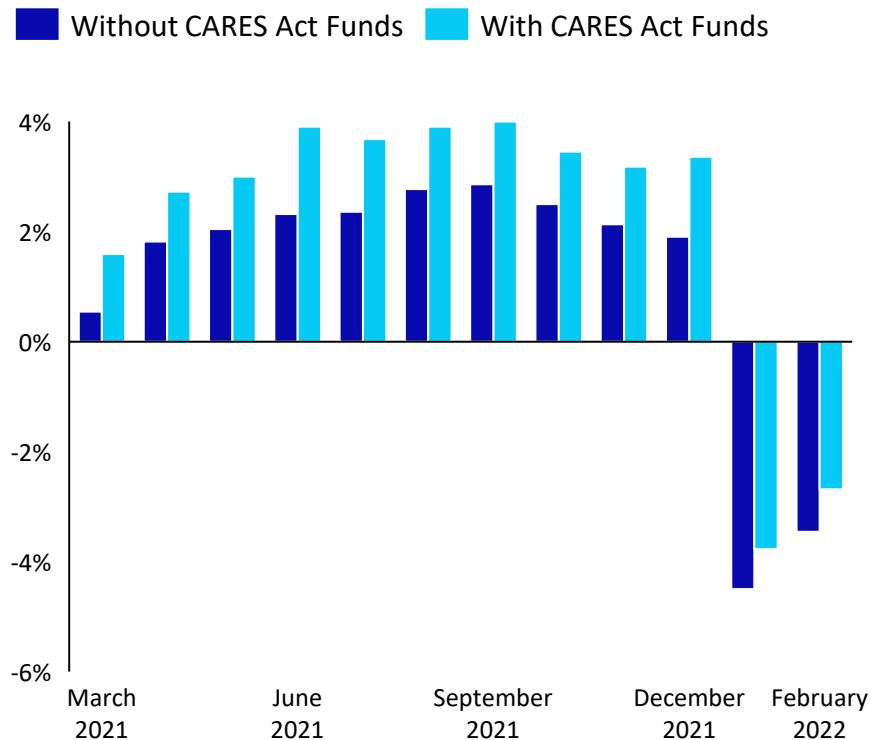
1. Bureau of Economic Analysis, May 2022; 2. Strata Decision Technology analysis of billing encounter data for 209 hospitals from 49 health systems – data points are weekly or monthly averages, April 2022; 3. Bureau of Labor Statistics, May 2022; 4. VOX, Gen Z does not dream of labor, Apr 2022; 5. AAMC, Medical Burnout: Breaking Bad, June 2021; 6. KFF, Outpatient telehealth use soared early in the COVID-19 pandemic but has since receded, Feb 2022; 7. CDC, Risk for COVID-19 Infection, Hospitalization, and Death By Race/Ethnicity, 2021;

INPUT COST INCREASES AND SHIFTS IN DEMAND CONTINUE TO PUT PRESSURE ON HEALTH SYSTEM FINANCES

Delivery system operating margins are being squeezed...

...driven by cost increases, and a shift in demand

Operating margin index YTD by month¹



+19%

Increase in **labor expense** per patient from 2019 to 2021²

+21%

Increase in **supply expense** per patient from 2019 to 2021²

+37%

Increase in **drug expense** per patient from 2019 to 2021²

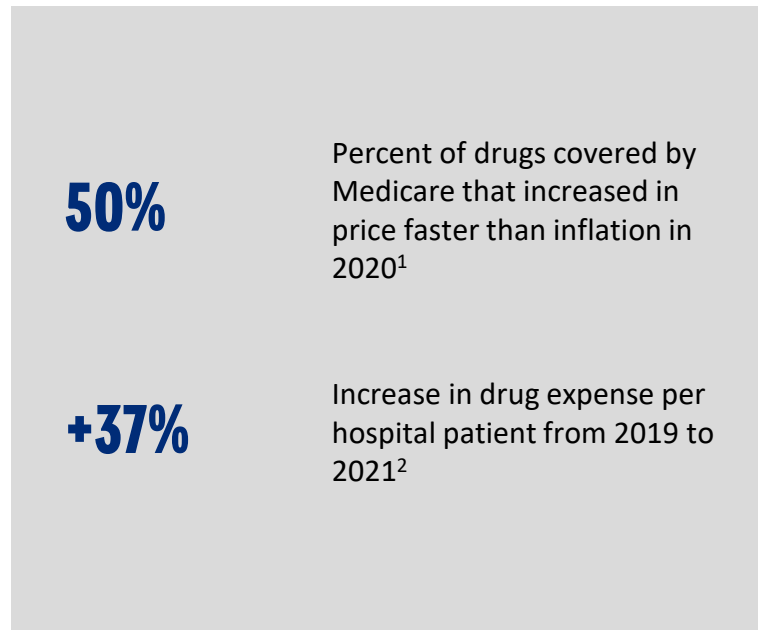
-15%

Decrease in **emergency room utilization**³

1. Kaufman Hall, National Flash Report, March 2022; 2. AHA, Massive Growth in Expenses & Rising Inflation Fuel Financial Challenges for America's Hospitals & Health Systems, Apr 2022; 3. Strata Decision Technology analysis of billing encounter data for 209 hospitals from 49 health systems – data points are weekly or monthly averages.

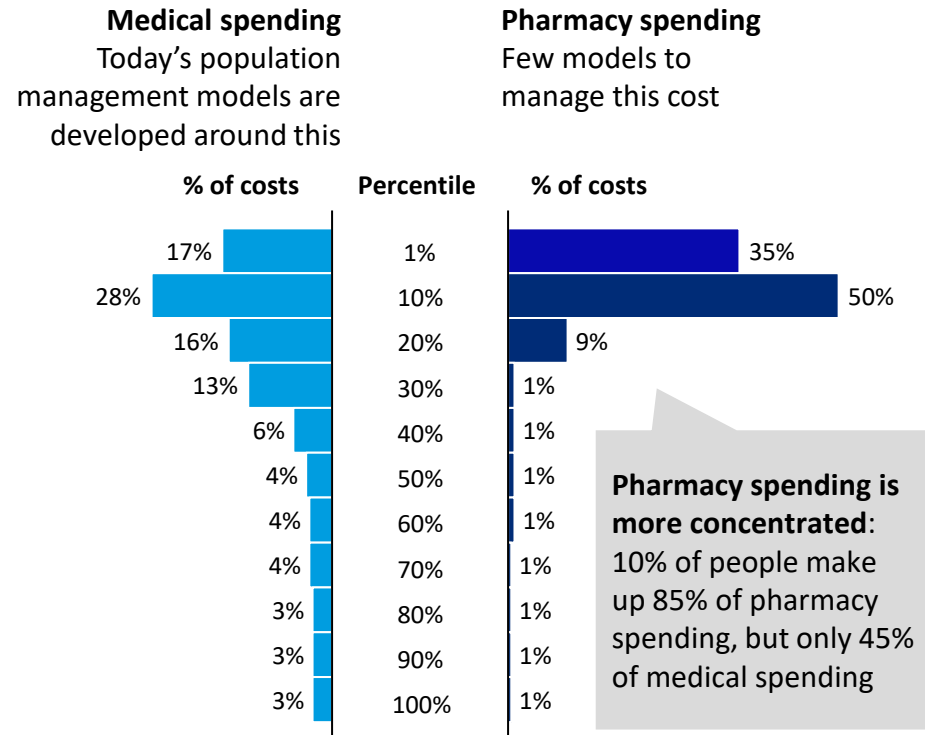
PHARMACY SPENDING IS GROWING FASTER THAN THE REST OF HEALTHCARE, WITH A DIFFERENT PROFILE THAN MEDICAL SPENDING

Pharmacy costs are growing faster than healthcare costs overall



The dramatically higher concentration of spending in pharmacy requires purpose-built models to address

Spending concentration among commercial population for medical and pharmacy spending³

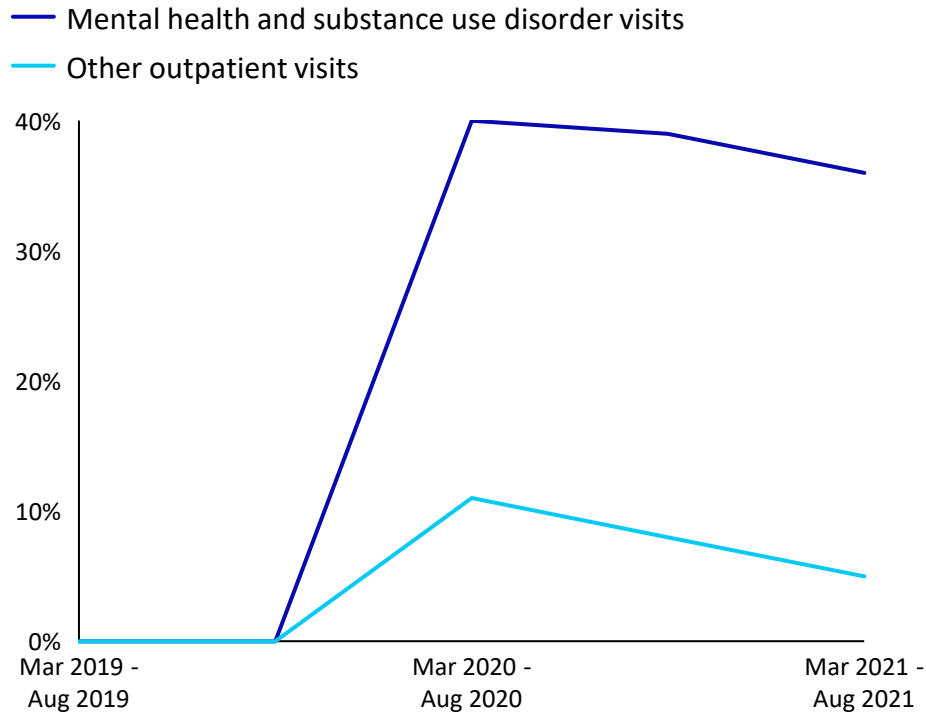


1. KFF, Prices Increased Faster Than Inflation for Half of all Drugs Covered by Medicare in 2020, Feb 2022; 2 AHA, Massive Growth in Expenses & Rising Inflation Fuel Financial Challenges for America's Hospitals & Health Systems, Apr 2022; 3. Oliver Wyman analysis of MarketScan claims data, 2021

FOLLOWING TREMENDOUS GROWTH AT THE OUTSET OF THE PANDEMIC, TELEHEALTH UTILIZATION HAS STABILIZED (FOR NOW)

Telemedicine use is leveling off, but demand for virtual behavioral health remains high

Share of outpatient visits delivered by telehealth
2019-2021¹



31%

Percent of adults who report symptoms of anxiety or depression as of April 2022²

>100M

Americans live in areas that have a shortage of psychiatrists³

40%

Percent of medical and behavioral visits that could be addressed via telehealth⁴

1. Telehealth Has Played an Outsized Role Meeting Mental Health Needs During the COVID-19 Pandemic, March 2022. 2. Mental Health, Household Pulse Survey, CDC, April 2022; 3. Health Resources and Services Administration, 2021; 4. RBC, Teladoc report, February 2022;

THE HEALTHCARE WORKFORCE IS BURNED OUT AND SUSCEPTIBLE TO SWITCHING JOBS; WE ARE ALREADY FEELING THE IMPACT OF THE RESULTING SHORTAGE

Healthcare workers have faced the brunt of pandemic hardships...

60-75%

of clinicians report symptoms of exhaustion, depression, sleep disorders and PTSD¹

...and therefore are exiting the workforce

-100K

decline in total hospital employment from pre-pandemic level²

Those workers who remain face additional challenges...

80%

of healthcare workers say that staff shortages have affected their ability to work safely and satisfy patient needs¹

...leading to a cycle of dissatisfaction and exodus

20-30%

of nurses have accelerated their retirement plans since the start of the pandemic³

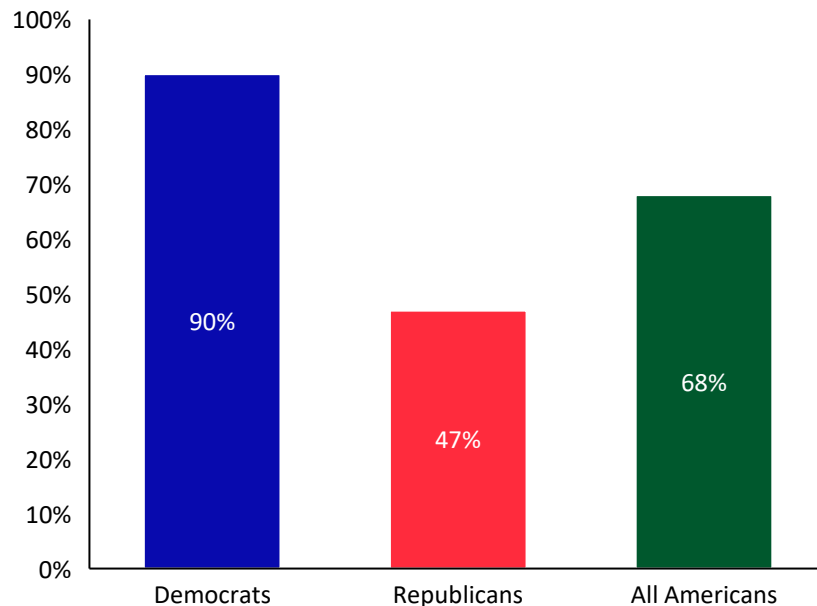
1. U.S. Faces Crisis of Burned-Out Health Care Workers, US News, Nov 2021; 2. AHA, Massive Growth in Expenses & Rising Inflation Fuel Financial Challenges for America's Hospitals & Health Systems, Apr 2022; 3. Healthcare Workers Moving to Gig Work in Record Numbers, OW analysis, Mar 2022.

LOW UNEMPLOYMENT RATES HAVE CHANGED THE POWER DYNAMIC BETWEEN EMPLOYEES AND EMPLOYERS, AND SATISFACTION WITH EMPLOYMENT IS LOW

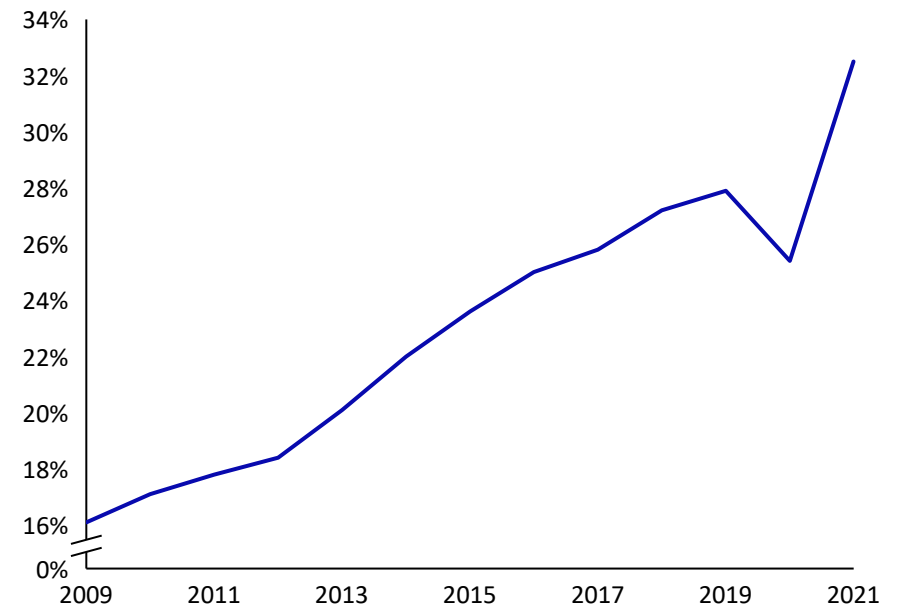
Employee satisfaction is low, leading to the highest approval ratings of unions since 1965, even though only 9% of Americans are union members¹

Low employee satisfaction and new, more flexible work options are leading to higher employee turnover

Labor union approval rating (members and non-members)
August 2021¹



Annual total non-farm quit rate
2009-2021²

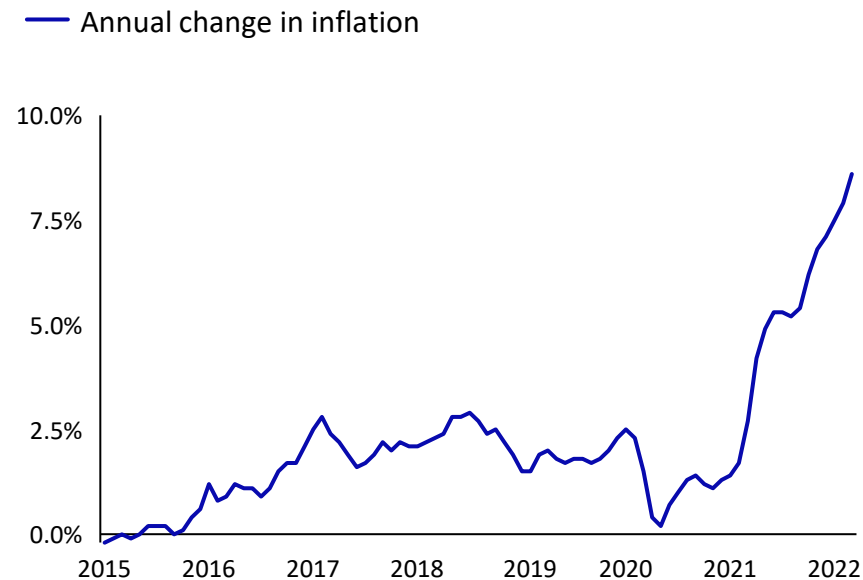


1. Gallup, Approval of Labor Unions at Highest Point Since 1965, Sep 2021; 2. US Bureau of Labor Statistics, 2021

THE IMPACT OF INFLATION ON HEALTH BENEFITS COSTS IS DELAYED; WE EXPECT TO SEE PRESSURE ON BENEFIT DESIGNS AND PRODUCT TYPES IN 1-2 YEARS

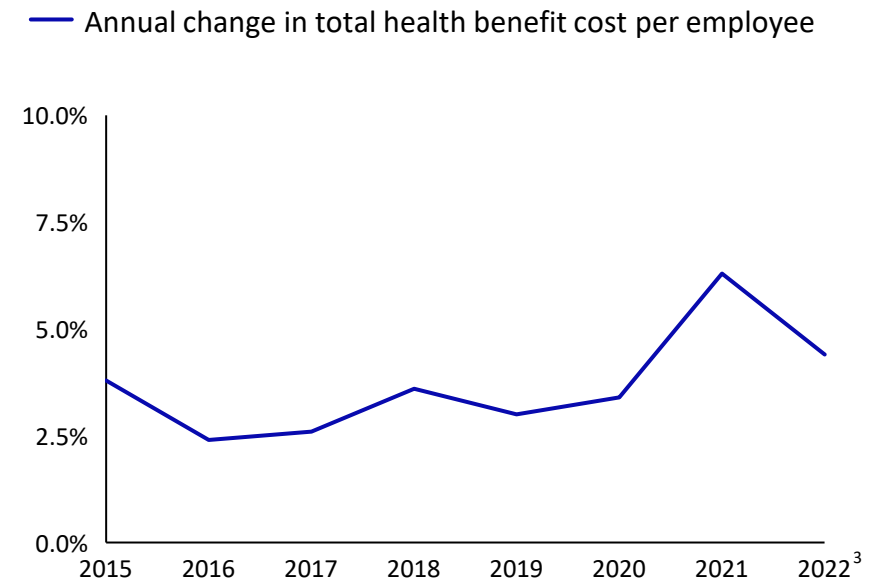
Inflation has reached historic highs, with increases not seen since the early '80s...

Annual U.S. inflation rates¹



...but increases in benefit costs usually lag by 1-2 years

Health benefits annual cost increases²











We expect employers will turn to narrow networks, higher deductibles, and other measure to control benefits cost in 1-2 years, when increases in delivery system costs flow through to premiums

1. Bureau of Labor statistics, Mar 2022; 2. Mercer National Survey of Employer-Sponsored Health Plans, Dec 2021; 3. Projected

COMMERCIAL HEALTH PLAN MARKET SHARE HAS REMAINED RELATIVELY STABLE






Five-year commercial market share changes of top eight commercial payers¹

2016-2021

	2021 total commercial enrollment (M)	Five-year market share change
 Anthem	22.9	-0.5%
 UnitedHealthcare	20.7	-2.0%
 CVS Health	16.3	-0.2%
 Cigna	14.0	0.7%
 HCSC Health Care Service Corporation	13.4	0.4%
 KAISER PERMANENTE	9.6	0.8%
 HIGHMARK	3.8	-0.1%
 Florida Blue	3.8	0.6%

1. DRG, US National Medical Enrollment, July 2016 and July 2021;

SPECIALIZED PLAYERS ARE TARGETING SENIORS WITH DIFFERENT STRATEGIES, AND CONTINUE TO GROW DESPITE DECLINING VALUATIONS

Player	Specialized model	YE2020 size	YE2021 size	% Change	YE2021 market cap. / valuation
 VillageMD	Community clinics, partnered with Walgreens; building out virtual and home care	600,000 patients ¹	1,600,000 patients ¹	167%	~\$8.4B valuation ⁶
 OAK STREET HEALTH	Holistic lifestyle support for those with complex care needs and dual eligibles	97,000 patients ²	154,000 patients ²	58%	\$8.0B market capitalization ⁷
 PRIVIA HEALTH	National technology and services platform to allow medical groups to enter into and perform better in risk-based arrangements, particularly for seniors	680,000 patients ³	786,000 patients ³	16%	\$2.8B market capitalization ⁷
 ALIGNMENT HEALTH PLAN	Integrated plan and care delivery in select markets	68,000 members ⁴	86,000 members ⁴	26%	\$2.6B market capitalization ⁷
 DevotedHealth	MA-only health plan with employed and closely partnered provider groups in select markets	19,000 members ⁵	39,000 members ⁵	113%	~\$12.7B valuation ⁸

1. VillageMD press release, Oct 2021; 2. Oak Street prospectus, 2021; 3. Privia prospectus, 2021; 4. Alignment SEC filings, 2021; 5. DRG, US National Medical Enrollment, July 2020 and July 2021; enrollment numbers are estimates based on DRG covered lives methodology; 6. Fierce Healthcare, Walgreens doubles down on primary care, home health with major investments in VillageMD, CareCentrix, October 2021; 7. Market capitalization as of December 30, 2021; 8. MedCityNews, Devoted Health raises \$1.1B sending valuation soaring past \$12B, October 2021

MAJOR PLAYERS ARE PURSUING DIFFERENT STRATEGIES FOR DIVERSIFICATION

Focus on...

Natural adjacencies

- Moves to grow existing core business value drivers within existing or new geographic markets
- Growth accelerated through acquisitions



Greater relevance and scale for the core

- Investments align with value in the core business, amplifying value creation and capture
- Smaller moves stop short of wholesale reinvention, but can be meaningful



Moving up the value chain

- Big moves to acquire / create new sources of value
- Legacy businesses are at risk (e.g., retail pharmacy)
- Moves into new portions of the healthcare value chain enable new roles and integration across the care continuum



Building a platform

- Outsiders look to extend existing consumer relationships by entering healthcare services
- Aim to grow business by capturing a portion of the ~20% of GDP spent on healthcare
- Success is dependent on network effects



Business model diversification

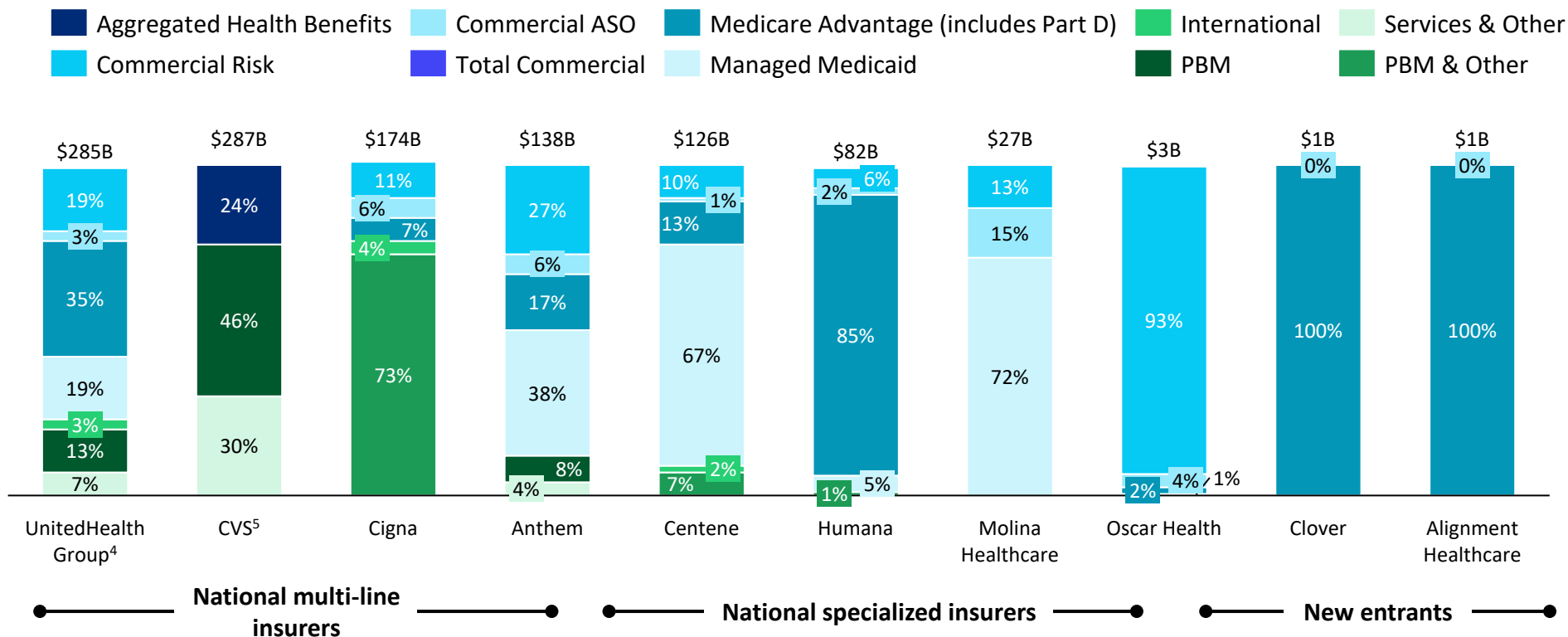
- Optimize revenue in regulated (e.g., insurance) vs. unregulated (e.g., PBM, services) businesses
- Earn higher multiples on non-insurance businesses
- Grow services to diversify business value over time



Most disruptive to core business

LARGE HEALTH PLANS ARE DIVERSIFYING ACROSS SEGMENTS AND BUSINESS MODELS, BECOMING SERIOUS CARE DELIVERY COMPETITORS

2021E revenue by product after accounting for inter-segment eliminations^{1,2,3}



2021E pre-tax earnings, \$B^{6,7}

\$24.0	\$18.0	\$8.4	\$9.1	\$4.1	\$3.5	\$1.1	\$(0.5)	\$(0.6)	\$0.1
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1. Due to rounding not all columns sum to 100%; All revenues are reported after accounting for inter-segment eliminations; 2. BofA Global Research; 3. Company Filings; 4. UHG Annual Reports; 5. CVS Annual Reports; All insurance-related revenues are aggregated into "Aggregated Health Benefits" for CVS; 6. S&P Capital IQ; 7. OW Analysis

M&A ACTIVITY CONTINUES, EVEN AS DEAL FLAWS BEGIN TO REVEAL THEMSELVES; MEDICAL GROUPS AND HOMECARE ARE PARTICULARLY ATTRACTIVE TARGETS

Deal volume surged during the pandemic as companies' balance sheets swelled...

MDLive to be acquired by Cigna's
Evernorth



Centene signs
agreement to acquire
Magellan Health



One Medical to acquire
Iora Health in \$2.1B deal



Humana introduces CenterWell
brand for payer-agnostic
healthcare offerings



Online therapy app Talkspace to go public in
\$1.4B deal with blank check firm



UnitedHealth's Optum concludes deal for
Landmark Health



...and while we are just starting to see which worked
(and which didn't), deals and diversification continue at
a rapid pace

UnitedHealth to Buy Home-Health Firm
LHC Group for \$5.4 Billion



Teladoc slashes
earnings outlook,
takes \$6.6B hit on
Livongo acquisition



U.S. sues to block UnitedHealth's \$8 billion
deal for Change Healthcare

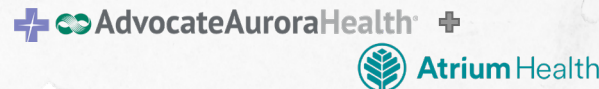


Walmart unveils telehealth offering for
managing diabetes using MeMD acquisition



129 physician
medical group
acquisitions in first
quarter of 2022

Advocate Aurora Health, Atrium Health to
form \$27 billion system

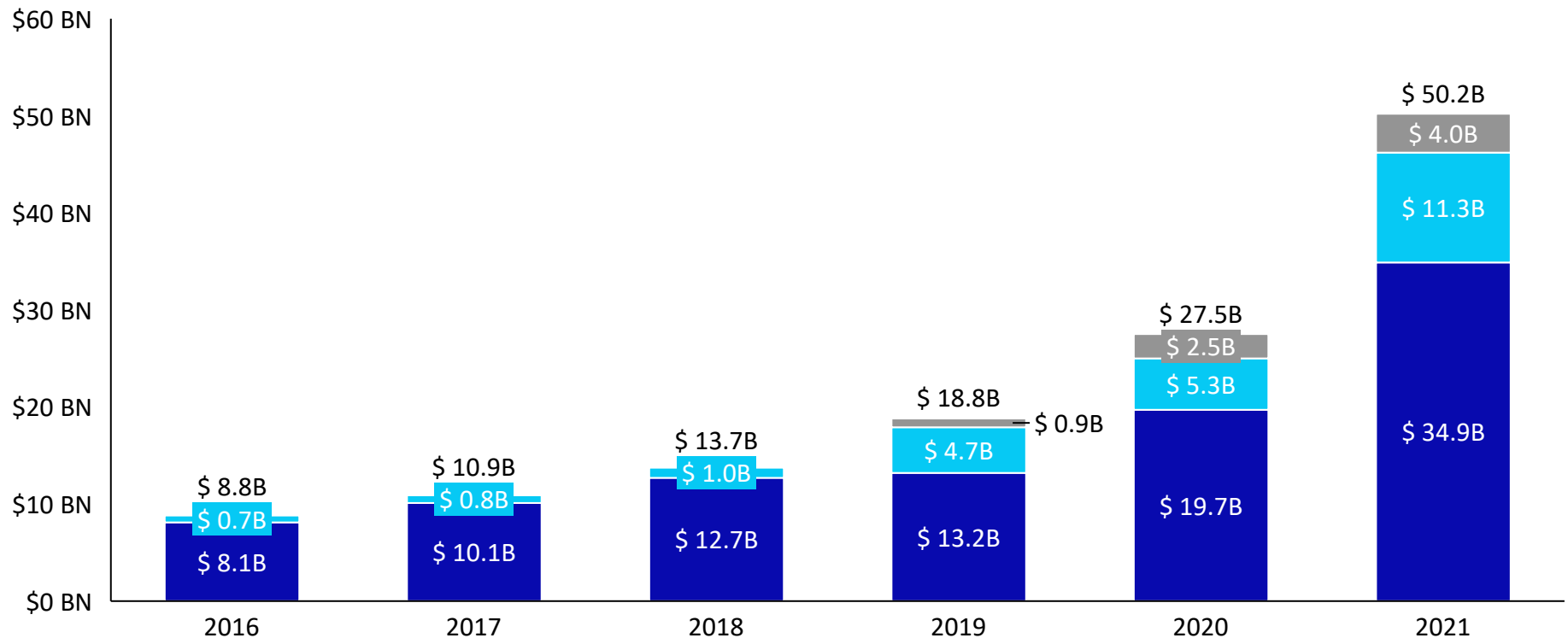


FUNDING FOR NEW HEALTHCARE COMPANIES REACHED RECORD HIGHS IN 2021; WHAT HAPPENS NOW?

Investment in the healthcare industry

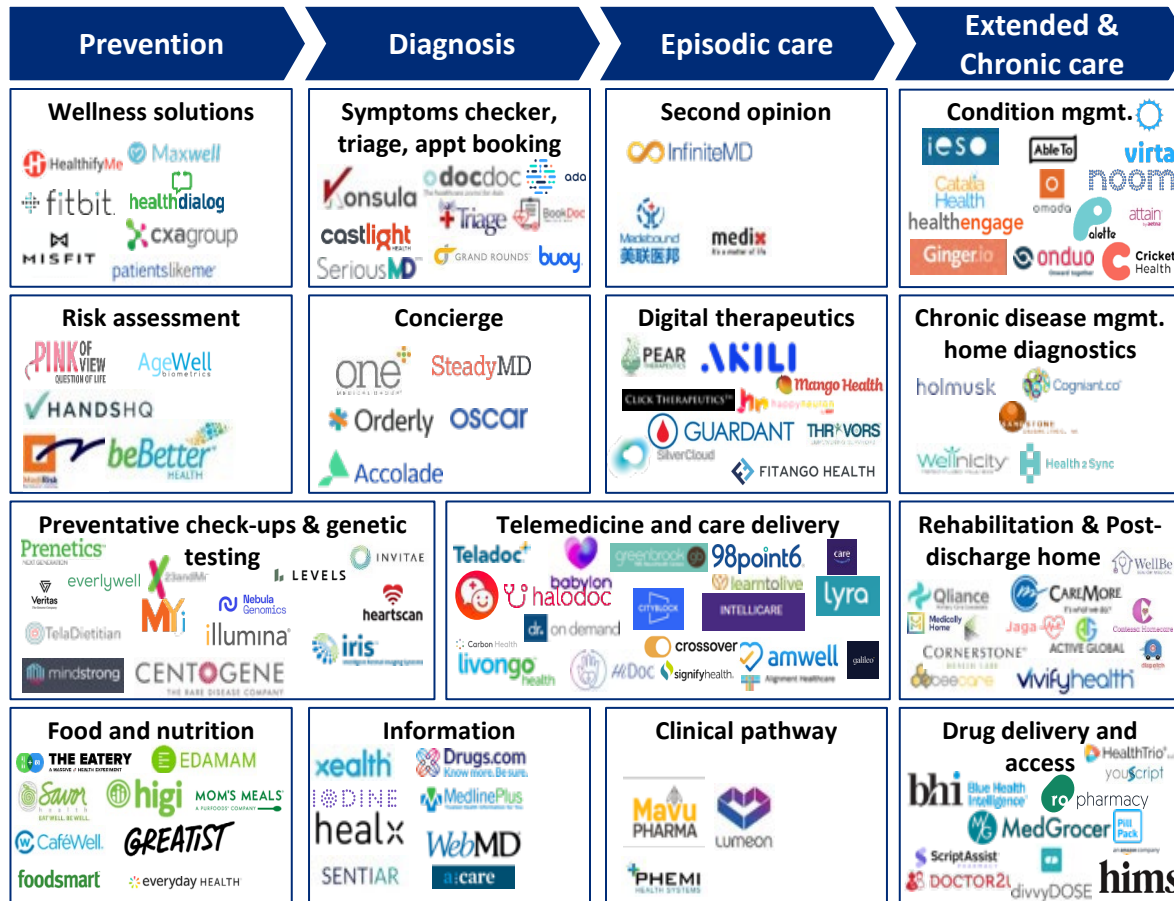
2018-2021, excluding biopharma

■ Special Purpose Acquisition Company (SPAC)¹ ■ Healthcare IPOs² ■ Healthcare venture funding³



1. Company formed strictly to raise capital through an IPO for the purpose of acquiring an existing company, recently gaining popularity in healthcare; SPAC track, SPAC Insider; 2. S&P Global Market Intelligence; 3. PitchBook, US NVCA Venture Monitor Summary, 2021;

YOUR BIGGEST COMPETITOR IS TEN COMPANIES



90%
of these companies will fail

0%
of them want to be a hospital system

100%
of them want to take 1-10% share from you

Source: Oliver Wyman analysis

YES AND YES

Physical	and	Digital
Episodic	and	Continuous
Evidence	and	Empathy
Clinical excellence	and	Operational excellence
Affordable	and	High-Quality
Build, Buy,	and	Partner
Cooperate	and	Compete
Mission	and	Margin

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