The Road Ahead

Bill Woodson
Senior Vice President, Sg2

May 2016

Market in Motion Challenges Health System “Relevance”

Widening Gap in IP vs OP Demand
Dramatic Stakeholder Consolidation
Unprecedented Margin Pressure
Rising Consumerism
Quickening Pace of Payment Evolution
Four Trends Are Leading Indicators of the Emergence of Value-Based Care in the US

**Consolidation**
- Mergers to form local/regional health systems
- Consolidation of providers and payers

**Consumerism**
- Pressure on consumers to pay for care
- Rise in consumer-directed health plans
- Shift of customers to emerging retail platforms

**Convergence**
- Blurring of the lines between channels
- Health systems starting health plans
- Payers acquiring provider organizations
- Employers working directly with providers

**Cohesion**
- Adoption of value orientation in the health ecosystem
- Expansion and success of value-based models
- Barriers to vs opportunities for value-based care
- Emergence of disruptive technologies

Note: Markets are defined as hospital referral regions, as per the latest edition of Blue Cross Blue Shield's National光荣榜. Source: Sg2 Acuity Readiness Tool, 2015; MapPoint 2015; Sg2 Analysis, 2015.
CMS APM Landscape:
2016 Hospital Participation in CMS Risk

Is This Attainable or Aspirational?

HHS Payment Reform Goals

<table>
<thead>
<tr>
<th>GOALS</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Provider Payments in Alternative Payment Models</td>
<td>30%</td>
<td>50%</td>
</tr>
<tr>
<td>Medicare Fee-for-Service Payments Tied to Quality or Value</td>
<td>85%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Existing Programs

- Medicare ACOs
- Bundled payments
- PCMHs
- Hospital value-based purchasing program
- Hospital readmission reduction program
Medicare Continues Shift to APMs

- 2011: 0% FFS tied to APM
- 2014: 20% FFS tied to APM
- Dec 2016: 30% APM HHS Goals
- Dec 2018: 50% APM HHS Goals
- Jan 2016: 30% FFS tied to APM
- Jan 2019: MACRA
- 2020: IMPACT

HHS = Health & Human Services; MACRA = Medicare Access and CHIP Reauthorization Act; IMPACT = Improving Medicare Post-Acute Care Transformation Act

Utilization Shifts Redefine Growth Opportunities

**Adult Inpatient Forecast**
US Market, 2015–2025

<table>
<thead>
<tr>
<th>Discharges</th>
<th>Million</th>
<th>5-Year</th>
<th>10-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>32</td>
<td>+7%</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>40</td>
<td>+15%</td>
<td></td>
</tr>
</tbody>
</table>

**Adult Outpatient Forecast**
US Market, 2015–2025

<table>
<thead>
<tr>
<th>Volumes</th>
<th>Billion</th>
<th>5-Year</th>
<th>10-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>3.5</td>
<td>+13%</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>4.5</td>
<td>+21%</td>
<td>+16%</td>
</tr>
</tbody>
</table>

Note: Forecast excludes 0–17 age group.
Sources: Impact of Change v15.0, NIS, PharMetrics, CMS, Sg2 Analytics, 2015.
Confidential and Proprietary © 2016 Sg2
Anticipate Clinical Demand and Meet It Where It Lies

**Adult Inpatient Forecast by Impact Factors**
US Market, 2015–2025

<table>
<thead>
<tr>
<th>Population</th>
<th>Epidemiology</th>
<th>Economics</th>
<th>Innovation and Technology</th>
<th>30-Day Readmissions</th>
<th>Potentially Avoidable Admissions</th>
<th>Total Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
<td>-7%</td>
<td>-4%</td>
<td>-5%</td>
<td>-4%</td>
</tr>
</tbody>
</table>

**Inpatient Service Line Growth Rates**
US Market, 2016–2026

- Orthopedics and Spine: 3%
- Neurosciences: 0%
- Cancer: 16%
- Gynecology: 20%
- Pediatrics: -7%
- Med/Surg: -12%
- Cardiovascular: 21%

**Outpatient Service Line Growth Rates**
US Market, 2016–2026

- Orthopedics and Spine: 14%
- Neurosciences: 15%
- Cancer: 23%
- Gynecology: 3%
- Pediatrics: 7%
- Med/Surg: 16%
- Cardiovascular: 22%

**Service Lines Move In Different Directions**

Sources:

Confidential and Proprietary © 2016 Sg2
Sg2 Sites of Care Highlight Growth Opportunities Across the Continuum

2015 Site of Care Volumes and 5-Year Forecast, Adults
US Market, 2015–2020

In 2020, 7% of all E&M visits will be delivered in a virtual care setting.

Note: The analysis excludes 0–17 age group. Other includes nonhospital locations such as OP rehab facilities, psychiatric centers, hospice centers, federally qualified health centers and assisted living facilities. ASC = ambulatory surgery center; E&M = evaluation and management; SNF = skilled nursing facility. Source: Impact of Change v15.0; NIS; PharMetrics; CMS; Sg2 Analysis, 2015.

Build a Progressive Approach to Partnership Development

“Built by Others… Connected to Us”
Consumers Are Voting With Their Feet Toward More Convenient, Cost-Effective Care Options

Time

Location

Price

Consumers Are Voting With Their Feet Toward More Convenient, Cost-Effective Care Options

Recognize the Various Consumer Options Along the Integrated System of CARE

Episodic Care
After-hours Care
Consumer Access

Kiosk
Device
Phone

HIGH TOUCH

E-Visits
Telehealth
Home Visits
On-site Employee Clinic

NO TOUCH

Product Channels

Retail Pharmacy
Urgent Care

Primary Care
Specialty Care/Institutes
Inpatient
Post-Acute Care

National Adult and Influenza Immunization Summit - 5/10/2016
Get Ready For Rapid Growth in Virtual Care

- Tele “SPECIALTY”
  - Virtual conferencing
- Virtual consults
  - Urgent care
  - Specialty care
- Mobile apps
  - Social media
  - Geo-tagged devices
  - Patient web portals
  - Online support groups

Clinician to Clinician
- eICU, eED
- Telesstroke

Clinician to Patient
- Remote monitoring
- Virtual medication management
- Telehealth kiosks

Consumer Driven
- Personal activity monitors
- Patient scheduling apps
- Quality and price transparency tools

Embrace New Approaches to Workforce Deployment

Care Team Maximizers
- Deploy top-of-license practice by expanding acute care roles
- Leverage APs and RNs to demonstrate increased productivity and access

Resource Optimizers
- Redesign patient placement and care process to support appropriate delivery
- Respond to workforce needs through predictive analytics

Compensation Balancers
- Create incentives to balance volume, value and effectiveness
- Emphasize physicians to focus on high-acuity care and APs and RNs to execute protocol-driven care

Service Consolidators
- Utilize telehealth to maximize workforce and improve access
- Improve efficiency and outcomes by centralizing nonclinical processes

eICU = electronic intensive care unit; eED = electronic emergency department.
Confidential and Proprietary © 2016 Sg2
Tailor How You Attract, Engage, Satisfy Patients

**Perpetual Patient**
Patient with a condition that extends over a multiyear period and requires ongoing medical therapy.

**Elective Patient**
Patient with a condition that does not pose a threat of loss of life or substantial loss of functional ability if treatment is delayed.

**Occasional Patient**
Patient with a condition that will resolve in a short period of time and does not require ongoing care.

**Complex Critical Patient**
Patient with a life-threatening condition requiring a hospital stay and potential ICU care. Urgent admissions requiring surgery within 36 hours fulfill this criterion.

Sg2 is the health care industry’s premier provider of market data and information. Our analytics and expertise help hospitals and health systems understand market dynamics and capitalize on opportunities for growth.

Sg2.com  847.779.5300