Sg2, a Vizient company, is the health care industry’s premier provider of market data and information.

Our analytics and expertise help hospitals, health systems and leading suppliers understand market dynamics and capitalize on opportunities for growth.

Sg2 OFFERINGS

Powerful Analytics  Data Resources  Unmatched Expertise and Intelligence  Industry-Leading Consulting
Check-In: The Affordable Care Act and the 2016 Election

Improve Performance to Stay in the Game

• 2015 losses on the exchange market:
  • United HealthCare = $475M
  • HCSC = $1.5B

• National Blues analysis of exchange enrollees:
  • 22% higher medical costs
  • 94% higher rate of diabetes
  • 52% higher rate of depression
  • 38 more admissions per 1,000

HCSC = Health Care Service Corporation.
Confidential and Proprietary © 2016 Sg2
Tiered, Narrow and Exclusive Networks Are Gaining Traction

Premium Advantage of Narrow vs Broad Network Plans

- Tiered/narrow networks made up 70% of the lowest-priced plans in 2016.
- 39% of narrow network plans earned a profit vs 26% of broad plans.
- Cobranded plans have doubled since 2014 (36 → 71).
- 31% of provider-led plans were local price leaders.

Source: McKinsey Center for US Health System Reform. Hospital Networks: Perspective From Three Years of Exchanges. March 5, 2016. Confidential and Proprietary © 2016 Sg2
Blue Cross vs the AMCs of Chicago

- BCBS of Illinois captured 92% of exchange market in 2013; 80% in 2014.
- Parent company reported $1.5B in losses for 2015.
- Northwestern, the University of Chicago, Lurie Children’s Hospital and Rush are excluded from all individual networks for 2016.
- There is no out-of-pocket cap for out-of-network services.
In the Halting March Toward Risk, Markets Move at Radically Different Paces
The Menu of Options is Broad, Complex and Fraught with Hazards
Lessons from the Early ACO Experience

- Economics of shared savings don’t work
- “Leakage” in open access model a fatal flaw
- Attribution methods are complex, elusive
- Idealism mixed up with power politics of local markets

SO NOW WHAT?

- Accelerate toward full-bore risk
- Mixed model?
- Revert to volume-based model?
With MACRA, the Era of Value-Based Payment Has Reached Physicians

2016–2018
2019–2020
2021–2022
2023–2024

QRUR
MIPS
APMs

APM = Alternative Payment Model  MACRA = Medicare Access and CHIP Reauthorization Act; MIPS = Merit-Based Incentive Payment System; QRUR = Quality and Resource Use Report.
Confidential and Proprietary © 2016 Sg2
Taking on Risk Requires Infrastructure, Investment, Scope, Partnerships, a Balance Sheet and Fortitude
SIX FUNDAMENTALS for health system strategy in a time of change and uncertainty
#1: Anticipate Clinical Service Demand and Meet It Where It Lies

**Adult Inpatient Forecast**  
US Market, 2016–2026

- **Discharges**  
  - Millions  
  - 5-Year: +7%  
  - 10-Year: +15%  

- **Volumes**  
  - Billions  
  - 5-Year: +7%  
  - 10-Year: +16%  

- **Note:** Forecast excludes 0–17 age group.

**Sources:** Impact of Change® v16.0; HCUP National Inpatient Sample (NIS); Healthcare Cost and Utilization Project (HCUP), 2013. Agency for Healthcare Research and Quality, Rockville, MD; OptumInsight, 2014; The following 2014 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; The Nielsen Company, LLC, 2016; Sg2 Analysis, 2016.

Confidential and Proprietary © 2016 Sg2
Despite Overall Declines, Many Markets Will Experience Inpatient Growth - Location Matters!

<table>
<thead>
<tr>
<th>Market</th>
<th>3-Year IP Growth</th>
<th>5-Year IP Growth</th>
<th>10-Year IP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austin, TX</td>
<td>+3.4%</td>
<td>+5.5%</td>
<td>+10.8%</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>-0.5%</td>
<td>-0.8%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Chattanooga, TN</td>
<td>-1.1%</td>
<td>-1.8%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Denver, CO</td>
<td>+2.7%</td>
<td>+4.4%</td>
<td>+7.9%</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>-6.8%</td>
<td>-10.8%</td>
<td>-19.1%</td>
</tr>
<tr>
<td>Lafayette, LA</td>
<td>-1.8%</td>
<td>-2.9%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Orlando, FL</td>
<td>+0.1%</td>
<td>+0.3%</td>
<td>+1.4%</td>
</tr>
<tr>
<td>Tacoma, WA</td>
<td>-0.6%</td>
<td>-1.1%</td>
<td>-2.5%</td>
</tr>
</tbody>
</table>
Inpatient Growth is Concentrated Within Key Service Lines - Procedural

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

- Orthopedics and Spine: Sg2 OP Forecast 20%, Population-Based Forecast 16%, Sg2 IP Forecast 3%
- Neurosciences: Sg2 OP Forecast 18%, Population-Based Forecast 16%, Sg2 IP Forecast 8%
- Cancer: Sg2 OP Forecast 20%, Population-Based Forecast 15%, Sg2 IP Forecast 1%
- Gynecology: Sg2 OP Forecast -15%, Population-Based Forecast 6%, Sg2 IP Forecast 6%
- Pediatrics: Sg2 OP Forecast -6%, Population-Based Forecast 2%, Sg2 IP Forecast 2%
- Med/Surg: Sg2 OP Forecast -7%, Population-Based Forecast 16%, Sg2 IP Forecast 21%
- Cardiovascular: Sg2 OP Forecast -12%, Population-Based Forecast 21%, Sg2 IP Forecast 20%

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

- Orthopedics and Spine: Sg2 OP Forecast 14%, Population-Based Forecast 12%, Sg2 IP Forecast 12%
- Neurosciences: Sg2 OP Forecast 15%, Population-Based Forecast 16%, Sg2 IP Forecast 3%
- Cancer: Sg2 OP Forecast 23%, Population-Based Forecast 20%, Sg2 IP Forecast 5%
- Gynecology: Sg2 OP Forecast 5%, Population-Based Forecast 7%, Sg2 IP Forecast 2%
- Pediatrics: Sg2 OP Forecast 16%, Population-Based Forecast 15%, Sg2 IP Forecast 16%
- Med/Surg: Sg2 OP Forecast 15%, Population-Based Forecast 22%
- Cardiovascular: Sg2 OP Forecast 22%, Population-Based Forecast 20%

#2: Build a System of CARE Footprint That Is Relevant and Defensible on Your Local Market Chessboard

- Geographic reach
- System of CARE scope
- Must-have clinical services
- Must-have locations
- Diversified strategy of “primary care”
- Channel strategy matched to your clinical portfolio
#3: Develop a Deep Understanding of Patient Flow

Sg2 Patient Flow

- What are the entry points to my key clinical programs?
- What are the most common patient trajectories?
- Where are the bottlenecks and exit doors?
- Who represents the “swing vote” that I can influence?
#4: Respond to the Access Needs of Consumers

**Forces driving increased role of the consumer in health care:**

1. **PRICE SENSITIVITY:** Consumers are bearing more of the cost of health care.

2. **INFORMATION:** Consumers have more information (much of it poor) about treatment and provider options.

3. **CHOICES:** Consumers have a broader array of options for where to seek care, particularly in the ambulatory arena.

4. **GENERATIONAL SHIFT:** Younger consumers have a different relationship with their physician and a different approach to seeking health care.
Having a Consumer Strategy in Health Care Means Solving for 3 Needs
#5: Build a Progressive Approach to Partnership Development and Management

“Built by Others… Connected to Us”
#6: Pursue Meaningful Scale and Commit to Realizing its Benefits

- Operating Scale
- Balance Sheet Scale
- Local Market Relevance Scale
- “Economies of Skill”
- Clinical Scale
- Covered Lives Scale
How Many Front Doors to My System of CARE Can I Open, and How Wide?
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