FUNDING THE FUTURE:
A WALL STREET VIEW OF THE TRANSFORMATION IN HEALTHCARE

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Please refer to the Disclosure Appendix for Analyst Certification. To access Price Charts and Disclosures specific to Covered Companies, please refer to https://leerink2.bluematrix.com/bluematrix/Disclosure2 or send a request to Leerink Partners Editorial Department, One Federal Street, 37th Floor, Boston, MA 02110. The description of Leerink Partners benchmarks is available by contacting the Leerink Partners Editorial Department.
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Ana Gupte, in the 2016 Institutional Investor All-America Research Team rankings, achieved a Runner-Up ranking in Healthcare Services encompassing Healthcare Facilities & Managed Care. She has previously been recognized as a Top 3 Analyst in the Institutional Investor 2011 and 2012 All America Research Team and Runner-Up in the 2010 Survey. She was awarded the top stock picker within the FT Thomson StarMine Healthcare Providers and Services in 2012.

She earned a B.S in Chemical Engineering from the Bombay University and a M.S. and Ph.D. in Biomedical Engineering from Pennsylvania State University. She has graduated from the two-year Executive Management program at the Wharton Business School.
TODAY’S DISCUSSION

1. Healthcare Cost Drivers: A Matter of Supply and Demand


3. Payors (Demand): Volume Growth + Cost Management = Tremendous ROI

4. Rx Drugs: Specialty Moderation Is Key to Future. Intense Regulatory Focus

5. Tech Enablers: Data Access and First-Mover Advantage. Helping the Ecosystem Become More Efficient
The Ever-Increasing Cost of Care
HEALTHCARE COST DRIVERS: A MATTER OF SUPPLY AND DEMAND

Healthcare Demand ($3.3T Total): Increased Privatization and Cost Management

Healthcare Supply: RX Spend (Specialty) Driving Growth. Continued Shift to Ambulatory

Increased access + improved margins = tremendous ROI

Utilization pressure, but people still need care. Divergence of haves and have-nots

Tech enablers are battling for data access and first-mover advantage, helping the ecosystem become more efficient

Source: CMS National Health Expenditures, 2016
WHAT IS DRIVING THE DRAMATIC GROWTH IN HEALTHCARE SPEND?

U.S. NATIONAL HEALTH EXPENDITURE (B)

HEALTHCARE COST GROWTH BY PRODUCT/SERVICE

HEALTHCARE EXPENSE AS % GDP 2016 (OECD)

Source: CMS NHE; OECD.Org
Providers: Survival of the Fittest
KEY TAKEAWAYS FOR PROVIDERS

• Pressure on Acute Utilization, But People Still Need Care

• Dramatic Shift to Ambulatory Sites of Service: Driven by Cost, Accelerated by Policy

• Survival of the Fittest: Providers Must Adapt to the New Utilization Landscape

• Home Health and Hospice Is Becoming an Increasingly Important Site of Service for End of Life Care

• Investment Opportunities Abound Even in a Difficult Utilization Environment. Private Equity Has Shown a Keen Interest

• Best Positioned: HCA, THC, SGRY, AMED, LHC, UNH
DESPITE AN IMPROVING ECONOMY HOSPITAL ADMISSIONS REMAIN DEPRESSED

Hospital Admission Growth Has Been Declining While Non-Farm Payrolls Are Increasing Around 2%/Yr

Admissions Growth Vs. Change in NFPs

While Admissions Have Also Trailed GDP Growth

Admissions Growth Vs. Change GDP

Source: Company Reports

NASHP Annual State Health Policy Conference

“…we did do a study looking at the effect of the economy on healthcare spending and healthcare volumes… it was probably an 18 to 24 month lag between when an economy started increasing before we started seeing the upside from that.”

-R. Milton Johnson, Chairman & CEO, HCA
Utilization has shifted to the outpatient setting with clear winners from this trend.

**Inpatient Admissions Per 1,000**
1995 – 2016 Average Annual Growth Rate: -0.6%

**Outpatient Visits Per 1,000**
1995 – 2016 Average Annual Growth Rate: 1.8%

**Surgery Site of Care as a Percent of Total**
1995 - 2016

- IP SURGERY
- OP SURGERY

- 1995: 42% IP, 58% OP
- 2016: 33% IP, 67% OP

**Health Insurance Claims Growth (2007-2016)**
- Urgent Care: 1725%
- Retail Clinics: 847%
- ED Claims: 229%

**Ambulatory Winners**
- UNH / OptumCare
- HCA
- THC / USPI
- SGRY

Source: 2018 AHA Chartbook, 2018 Fair Health White Paper, Company Reports (HCA, THC, LPNT, CYH)
AMBULATORY SHIFT ACCELERATED BY FAVORABLE POLICY

CMS PAYMENT HIGHLIGHTS FOR FACILITIES 1H 2018

**IPPS Increase**
1.85%, up 65 bps from FY18 rate.
(+DSH up $1.5 B YoY)

**OPPS Increase**
Proposed 1.25%, down 10 bps from 2018

**Tech Enabled**
Meaningful Use Overhaul, Remote Monitoring, Telehealth Payments

**Site-Neutral**
Proposed Capping HOPD Rates at PFS ($760 MM impact)

**ASC Increase**
Proposed 2.0%, up 30 bps from 2018 (+ added procedures)

FAVORABLE IRF/SNF/IPF RATES

<table>
<thead>
<tr>
<th></th>
<th>FY18 Final Rule</th>
<th>FY19 Final Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient Rehab</td>
<td>0.9%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Skilled Nursing</td>
<td>1.0%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Inpatient Psych</td>
<td>1.0%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

CMS IMPACT ON FACILITIES

- Positive ASC rate and proposed shifting to site-neutral payments benefit providers with large ASC and Ambulatory portfolios like HCA and THC
- Inpatient, volume-dependent entities are likely to face margin pressure

Source: 2018 CMS Rates, Rules, and Guidance
THE HAVES AND HAVE-NOTS: WINNERS HAVE EMERGED IN THE SHIFTING LANDSCAPE

**Same Store Surgeries By Acute Care Provider**

- CYH
- HCA
- LPNT
- THC

HCA’s strong ambulatory footprint, approaching 2,000 access points nationwide (including 122 ASCs and 127 Urgent Care Centers) has driven best in class surgery growth.

**YTD Relative Performance of Acute Care Stocks**

- HCA
- THC
- CYH

HCA and THC have outperformed CYH YTD driven by ambulatory strength and cost management, and are positioned well for continued growth.

Source: FactSet, Company Reports

NASHP Annual State Health Policy Conference
HOME HEALTH AND HOSPICE IS BECOMING AN INCREASINGLY IMPORTANT SITE OF SERVICE FOR END OF LIFE CARE

Home Health & Hospice Volumes

- LHCG - Hospice
- AMED - Home Health
- AMED - Hospice

YTD Stock Performance

- Amedisys (AMED) and LHC Group (LHCG) are the leaders in Home Health

Source: FactSet, Company Reports
INVESTMENT OPPORTUNITIES ABOUND EVEN IN A DIFFICULT UTILIZATION ENVIRONMENT

YTD Index Return

Average EBITDA MARGIN: ASC vs. Acute 2015 - 2018

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean EBITDA: Acute Care</td>
<td>15%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Mean EBITDA: ASC</td>
<td>24%</td>
<td>23%</td>
<td>23%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: FactSet, Company Reports. Note: The large increase in the SP 500 Health Care Facilities Index Was Driven by the LPNT Private Equity (PE) acquisition.
Payors: Increased Volumes + Cost Management
KEY TAKEAWAYS FOR MCOs

• Payors Have Outperformed the Market for the Past 5 Years on Increased Volumes and Cost Containment Strategies

• Wall Street, Main Street, and State Governments Are Fully Aligned to Expand Access, Improve Quality, and Control Costs

• Revenue Growth Driven by Increased Volumes from Privatization

• Exchange Enrollment Is Stabilizing, Providing Another Avenue for Growth

• Star Ratings Have Been Embraced: Payors Are Providing Better Care and Getting Paid for It

• Best Positioned: UNH, ANTM, HUM, CI, WCG, MOH
**PAYORS (MCOs) HAVE OUTPERFORMED THE S&P500 FOR OVER 5 YEARS**

**HEALTHCARE SUBSECTOR PERFORMANCE (2011 - 2017)**

- **NYSE Arca Pharma Index**: 77%
- **SP500**: 110%
- **SP Facilities**: 120%
- **SP Healthcare Services**: 134%
- **SP Healthcare Equipment**: 190%
- **NYSE Arca Biotech Index**: 222%
- **SP Managed Care**: 429%

**HEALTHCARE SUBSECTOR PERFORMANCE (YTD 2018)**

- **SP Facilities**: 36%
- **NYSE Arca Biotech Index**: 17%
- **SP Managed Care**: 14%
- **SP Healthcare Equipment**: 13%
- **SP Healthcare Services**: 5%
- **S&P 500**: 5%
- **NYSE Arca Pharma Index**: 3%

- Managed Care has outperformed both S&P 500 and other healthcare sub-sectors over multiple years.

- Managed Care has been solid in 2018, better than S&P500.

**MANAGED CARE SUBSECTOR PERFORMANCE (YTD)**

- Diversified
- Medicare
- Commercial
- Medicaid
- S&P500

*Source: FactSet*

**NASHP Annual State Health Policy Conference**
ALL CONSTITUENTS ARE FULLY ALIGNED TO EXPAND ACCESS, IMPROVE QUALITY, AND CONTROL COSTS

POLICYMAKERS

PUBLIC HEALTH
Care access is public good

FISCAL RESPONSIBILITY
More budgetary flexibility

STATE PROSPERITY
Better outcomes enable productivity

INCREASE ACCESS TO CARE

MCOs

TOP LINE GROWTH
Increased enrollment in MA & Medicaid

MARGIN EXPANSION
Managing capitation is rewarded

REVENUE OPPORTUNITY
STAR score bonuses & value-based purchasing (VBP) programs
THE INCREASING PRIVATIZATION OF MEDICARE HAS BEEN A SIGNIFICANT GROWTH DRIVER FOR PAYORS

MA RATE NOTICE IS THE BEST IN 8 YEARS...

- Advance Rate
- Final Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Advance Rate</th>
<th>Final Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0.7% (0.2%)</td>
<td>4.9% (5.5%)</td>
</tr>
<tr>
<td>2013</td>
<td>2.5% (5.0%)</td>
<td>6.5% (7.5%)</td>
</tr>
<tr>
<td>2014</td>
<td>3.1% (3.1%)</td>
<td>1.0% (5.5%)</td>
</tr>
<tr>
<td>2015</td>
<td>1.3% (1.0%)</td>
<td>1.4%</td>
</tr>
<tr>
<td>2016</td>
<td>0.9%</td>
<td>0.3% (0.5%)</td>
</tr>
<tr>
<td>2017</td>
<td>0.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>2018</td>
<td>0.5%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

...AND TAILWINDS FROM BABY BOOMER DEMOGRAPHICS AND CMS POLICY SHOULD RESULT IN MA GROWTH OF ~12% PER YEAR

<table>
<thead>
<tr>
<th>Tailwind</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby Boomer Estimated Growth CAGR 2016 – 2025E</td>
<td>2.5%</td>
</tr>
<tr>
<td>MA Policy Tailwinds</td>
<td></td>
</tr>
<tr>
<td>• 2018 Tax Reform</td>
<td></td>
</tr>
<tr>
<td>• 2019 HIPF Delay</td>
<td></td>
</tr>
<tr>
<td>• New Design Flexibility From CMS</td>
<td></td>
</tr>
<tr>
<td>• MIPS Deregulation</td>
<td></td>
</tr>
<tr>
<td>• STAR Score Revenue Bonuses</td>
<td></td>
</tr>
</tbody>
</table>

Estimated MA Enrollment CAGR 2016 – 2025E | 12%

OUR MA PENETRATION FORECAST IS ~50% BY END OF DECADE

MA Penetration

BEST POSITIONED MCOs

Source: Leerink Partners LLC Research Estimates

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**Most of Our Coverage Companies Continue to Have Strong Star Ratings**

- **STAR RATINGS HAVE BEEN EMBRACED: PAYORS ARE IMPROVING QUALITY OF CARE AND GETTING PAID FOR IT**

<table>
<thead>
<tr>
<th>Company</th>
<th>2018 (% above 4 STARS)</th>
<th>2019 (% above 4 STARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WCG</td>
<td>39%</td>
<td>18%</td>
</tr>
<tr>
<td>ANTM</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>HUM</td>
<td>74% 74%</td>
<td>80% 79%</td>
</tr>
<tr>
<td>UNH</td>
<td>92% 88%</td>
<td>60% 65%</td>
</tr>
<tr>
<td>AET</td>
<td>60% 41%</td>
<td>65% 33%</td>
</tr>
<tr>
<td>CI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CNC</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CMS; Leerink Partners LLC Research & Estimates

Source: NASHP Annual State Health Policy Conference

**Probably the most notable item, and the one specific to WellCare, is our improvement in STAR scores and that bid lever that gives us above and beyond the rate update that the industry will enjoy. We get the benefit in 2019 in our bid construction in a meaningful positive move in STAR scores.**

-Andrew Asher EVP & CFO, WellCare Health Plans, Inc (2Q 2018 Earnings Call)

**Quality continues to be strong and rising. Approximately 80% of our Medicare Advantage seniors will be served by four-star rated plans in 2019. And we are looking to improve on that strong base in 2020.**

-David Wichmann CEO & Director, UnitedHealth Group, Inc (2Q 2018 Earnings Call)
MEDICAID EXPANSION AND CONTINUED PRIVATIZATION HAVE BOLSTERED GROWTH

MEDICAID ENROLLMENT HAS CONSISTENTLY INCREASED, RECENTLY DRIVEN BY MEDICAID EXPANSION

Managed Medicaid penetration sharply increases as well and will likely continue, with a new NC program and deliberation in VA

BEST POSITIONED MCOs

Source: CMS; Kaiser; HMA Weekly
EXCHANGE ENROLLMENT IS STABILIZING, PROVIDING ANOTHER AVENUE FOR GROWTH

### OCT 2017
- 10/13 Trump admin stops supporting CSR payments

### APR 2018
- 4/3 HIX enrollment stable, down just 3% YoY

### JUNE 2018
- 6/18 DOL Releases Final Rule for Association Health Plans, Easing Restrictions

### JULY 2018
- 7/20 CMS Reinstates Risk Adj. Payments
- 7/7 CMS Freezes $10.4 B Risk Adj. Payments Based on NM Case

### AUGUST 2018
- 8/1 Final Rule for Short-Term Plans Released

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**EMERGING THEMES**
- 1H2018 marked continued uncertainty for the HIX market driven by Republican CMS
- Enrollment stable compared to expectations, positive for large players CNC, ANTM, and MOH in short-term, but over-exposure from CNC and likely unsustainable margin performance could be a risk given competitive pricing for 2019

**BEST POSITIONED MCOs**
- CENTENE Corporation
- Anthem
- BlueCross BlueShield

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**HIX ENROLLMENT STABILIZED**

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAGR</td>
<td>12.7 MM</td>
<td>12.2 MM</td>
<td>11.8 MM</td>
</tr>
<tr>
<td>Source</td>
<td>CMS; Leerink Partners</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Prescription Drugs: Specialty Moderation Is Key to Future. PBMs Not the Problem
KEY TAKEAWAYS FOR THE DRUG SUPPLY CHAIN

• Prescription Drug Prices, Particularly Specialty Spend, Is the Latest Pressure Point
• Policy Changes Are Coming to the Fore
• PBMs Are in the Crosshairs, but Are Not Where the Problem Lies
• PBMs Are Adapting to Change Through Consolidation With MCOs, Creating Additional Barriers to Entry for Amazon
• Best Positioned: UNH (Optum), ANTM, CI
FOCUS HAS TURNED TO MODERATING PRESCRIPTION DRUG PRICES, PARTICULARLY SPECIALTY SPEND

Specialty spend is projected to grow to 42% of overall drug spend by 2021, up from 17% in 2011.

Source: Drug Channels Institute; Leerink Partners Analysis & Estimates

PHARMACY INDUSTRY Rx REVENUE
TRADITIONAL VS. SPECIALTY

SPECIALTY PHARMACY COMPETITIVE LANDSCAPE
TOTAL = ~$138.2 B, 2017

- CVS Specialty: 25%
- Others: 21%
- Accredo/Freedom (ESRX): 20%
- Alliance (WBA): 12%
- BriovaRx (UNH): 9%
- Diplomat: 3%
- HUM: 2%
- Kroger: 2%
- CI: 1%
- MCK: 1%
- Avella: 1%
- US Bioservices (ABC): 1%
- WMT: 1%
- BioPlus: 1%
- SenderraRx: 1%
- PANTHERx: 0%

Specialty trend projected to continue its rapid growth, largely driven by increased utilization and manufacturer price increases.
WHILE PBMfS FACE HEADLINE RISK FROM REFORM AND AMZN, THEY ARE AGENTS OF CHANGE AND NOT WHERE THE PROBLEM LIES

1H 2018 saw AMZN enter the pharmacy supply chain despite earlier reports to the contrary, while the Republican HHS has moved quickly on pricing reform.

### May 2018
- 5/11 HHS Drug Pricing Blueprint Released
- 5/14 Azar Testimony Before Congress Indicates Bigger and More Immediate Action

### June 2018
- 6/12 T/TWX Merger Closes, Positive Read-Across for MCO/PBM Deals
- 6/28 AMZN Announces PillPack Acquisition

### July 2018
- 7/10 Pfizer Announces Deferral of Price Increases
- 7/19 HHS Proposed Rule to OMB Eliminating Safe Harbor
- 7/26 CMS Proposed OPPS Rule Includes RFI for Part B Competitive Acquisition Program

### August 2018
- 7/31 Part D Premium Rates at 3% Decrease
- 8/6 CA DOI Opposes CVS/AET and Icahn Opposes CI/ESRX
- 8/7 DOJ Indicates No Issue With CVS/AET
- 8/24 CI Shareholder Vote on ESRX Transaction

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**PBMfS Pass Through 95% of Commercial Rebates and 98-100% of Medicare Part D Rebates, For Only ~5% EBITDA Exposure**

**ESRX’s multiple has compressed as PBMs have fallen out of favor. However, PBMs are not the problem**

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**Dark Column: EBITDA FY17**

- ESRX: $7.4 B
- CVS (PBM only): $5.4 B

**Light Column: Retained Rebates**

- ESRX: $400 MM
- CVS (PBM only): $300 MM

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Source: CMS; Leerink Partners, FactSet, Company Transcripts

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EMERGING REFORMS SHIFT FOCUS TO CLINICAL SAFETY AND EFFICACY AND AWAY FROM NON-TRANSPARENT PRICING TOOLS

TRUMP/AZAR DRUG BLUEPRINT ANNOUNCED MAY 2018

<table>
<thead>
<tr>
<th>IMPROVED COMPETITION</th>
<th>BETTER NEGOTIATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Immediate Actions</strong></td>
<td><strong>Further Opportunities</strong></td>
</tr>
<tr>
<td>Preventing manufacturers from gaming REMS</td>
<td>Encourage sharing of samples for generic drug development</td>
</tr>
<tr>
<td>Promoting innovation and competition for biologics</td>
<td>New efforts to promote use of biologics</td>
</tr>
<tr>
<td>Develop proposals to stop Medicaid/ACA from raising prices in private market</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BETTER NEGOTIATION</th>
<th>LOWERING OUT-OF-POCKET COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Immediate Actions</strong></td>
<td><strong>Further Opportunities</strong></td>
</tr>
<tr>
<td>Increase value-based purchasing, indication-based price, LT financing</td>
<td>More measures to inform Medicare Part B and D members about lower cost alternatives</td>
</tr>
<tr>
<td>Ease govt. impediments to value-based purchasing by private payers</td>
<td>Provide better and more frequent cost information on costs to Part D beneficiaries</td>
</tr>
<tr>
<td>Site neutrality in payments</td>
<td></td>
</tr>
</tbody>
</table>

IMMEDIATE ACTIONS

- Value-based purchasing programs
- Reform PDP to give plan sponsors more power to negotiate with manufacturers
- Competitive acquisition program

FURTHER OPPORTUNITIES

- Rebate system reform
- Incentives to discourage price increases in Parts B & D
- Fiduciary status for PBMs
- Regulating drug copay cards

- Remove “gag rule” in Medicare Part D
- Improve PDP benefit statement to include information about drug price increases and lower cost alternatives

Source: Department of Health and Human Services

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PBM ARE ADAPTING TO CHANGE BY CONSOLIDATING WITH MCOs, CREATING BARRIERS TO AMZN AND POTENTIAL TECH DISRUPTORS

PBM are merging with MCOs to moderate trend through integrated medical and pharmacy benefits at scale

EMERGING THEMES FOR 2018

• Vertical Mergers CI/ESRX and AET/CVS follow the UNH/Optum model of moderating trend through integrated medical and pharmacy benefits at scale
A POTENTIAL AMZN GLIDE PATH TO DISRUPT THE DRUG SUPPLY CHAIN, THOUGH CLINICAL CARE LIKELY A BRIDGE TOO FAR

<table>
<thead>
<tr>
<th>Cash Pay Mail Order Pharmacy</th>
<th>Full Service Mail Order Pharmacy for Cash &amp; Third Party Customers</th>
<th>Full Service PBM, Mail Order Pharmacy With Retail Fill</th>
<th>Disruptive Full Service PBM &amp; In-house Bricks &amp; Clicks Pharmacy Powerhouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Largely Possible within 12-18 Months</td>
<td>Near- to Medium-Term Aspiration</td>
<td>Not a Near-Term Threat</td>
<td>Not a Near-Term Threat</td>
</tr>
<tr>
<td>• Mail Order Pharmacy Purchase</td>
<td>• Possible with PBM or Direct to Employer &amp; Health Plan Contracting</td>
<td>• Possible with PBM Purchase or Non-exclusive PBM Partnerships</td>
<td>• Direct to Employer &amp; Health Plan Contracting</td>
</tr>
<tr>
<td>• Select Regional Licenses with Hub &amp; Spoke Mail Order Operation</td>
<td>• Mail Order Pharmacy Purchase</td>
<td>• Direct to Employer &amp; Health Plan Contracting</td>
<td>• Full service PBM capabilities</td>
</tr>
<tr>
<td></td>
<td>• Select Regional Licenses with Hub &amp; Spoke Mail Order Operation</td>
<td>• Mail Order Pharmacy Purchase</td>
<td>• Price Transparent Retail Online One Stop Shopping Experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Select Regional Pharmacy Licenses with Hub &amp; Spoke Mail Order Operation</td>
<td>• Sophisticated Bricks &amp; Clicks Retail</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Mail Order Fulfillment &amp; Customer Servicing Platform</td>
</tr>
</tbody>
</table>

Source: Leerink Partners Analysis & Estimates
TECH ENABLERS: Data Access and First-Mover Advantage
KEY TAKEAWAYS FOR TECH ENABLERS

- Best Funding Environment Ever For Digital Health
- Regulatory Environment Accelerating Telehealth Adoption
- Battle To Own The Healthcare Consumer. Companies Seek Data Access And First-Mover Advantage
- Disruptors Catalyzing Change
THE FUNDING ENVIRONMENT FOR DIGITAL HEALTH HAS NEVER BEEN BETTER

Digital Health Funding Has Expanded Dramatically

- **Capital Raised ($ BN)**
  - 2018 Based off of Annualized 1H Figures
  - Source: Rock Health
  - ~30% CAGR

- **# of Deals**
  - 2018 Based off of Annualized 1H Figures
  - Source: FactSet, Leerink Partners, Rock Health
  - ~25% CAGR

Public Digital Health Companies Have Vastly Outperformed the Market

- Indexed Price
  - Digital Health: +22%
  - S&P 500: +9%
  - S&P 500 HCare: +6%

Source: FactSet, Leerink Partners, Rock Health
WILL REGULATORY CHANGE USHER IN AN ERA OF VIRTUAL HEALTH?

There Has Been a Rapid Adoption of Telehealth...

% of Claims Filed

4% 6% 4% 4% 6% 8% 9% 10% 35% 27% 43% 46%

Source: Fair Health
Green = Rural
Black = Urban
Blue = Total

...With 94% of Employers Saying They Will Offer

94%
16%
78%
34%
26%
22%
16%
16%

Telehealth Onsite Clinic Near-site Clinic Direct Provider Medical Tourism

Planning by 2019
Used in 2017

Source: Willis Towers Watson

The Telehealth Regulatory Environment Has Never Been Better

Telehealth Under the New CMS Rule Change

1. New code for virtual check-in (5-10 min). $14 reimbursement. Must be new patient
2. Biometric monitoring considered remote patient monitoring without restrictions of typical telehealth
3. New code for pre-recorded “store and forward” video or image
4. Separate Payment for inter-professional consultation

Telehealth Under 2018 Bipartisan Budget Act

1. Allows Medicare Advantage plans to offer telehealth benefits in their annual bids
2. Lifts originating site requirements for Telestroke Services
3. Adds renal dialysis facilities and the homes as originating sites for patients with end-stage renal disease receiving dialysis via telehealth
4. Allows ACOs to expand use of telehealth

Source: Leerink Partners, CMS, U.S. Congress

Source: Fair Health
Source: Willis Towers Watson
Source: Leerink Partners, CMS, U.S. Congress
THE BATTLE FOR THE DIGITAL FRONT DOOR INTENSIFIES

Who will own the digital healthcare consumer experience?

**BIG TECH?** Capitalizing on analytics expertise and consumer focus

PAYORS? Sit at the patient/provider fulcrum. Own the data

RETAIL? Heavy foot traffic. Consumer awareness

BROKERS AND NEW ENTRANTS: Best insights into employer market

Source: Leerink Partners, Company Reports
NEW ENTRANTS ARE CATALYZING CHANGE AS THEY COMPETE FOR DATA ASSETS AND FIRST-MOVER ADVANTAGE

Tech Enabled Payor / Payor Services

- Risk sharing with providers via value-based care
- Increased consumerism. NPS scores increasingly important
- Focus on medical cost reduction and STAR Scores/HEDIS Ratings
- Use technology and data to engage with members, manage population health and find payment errors

Tech Enabled Provider / Provider Services

- Risk sharing with payors via value-based care
- Use data to manage and coordinate care before an acute event
- Personalized, high-touch primary care
- Reduce costs, improve outcomes
- Wellness care, not sick care
- Focus on social determinants of health

Examples

Source: Leerink Partners

NASHP Annual State Health Policy Conference
Disclosures Appendix

Analyst Certification

I, Ana Gupte, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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<th>Percent</th>
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**Outperform (Buy):** We expect this stock to outperform its benchmark over the next 12 months.

**Market Perform (Hold/Neutral):** We expect this stock to perform in line with its benchmark over the next 12 months.

**Underperform (Sell):** We expect this stock to underperform its benchmark over the next 12 months.

The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.
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