

# Perspectives on US health care systems

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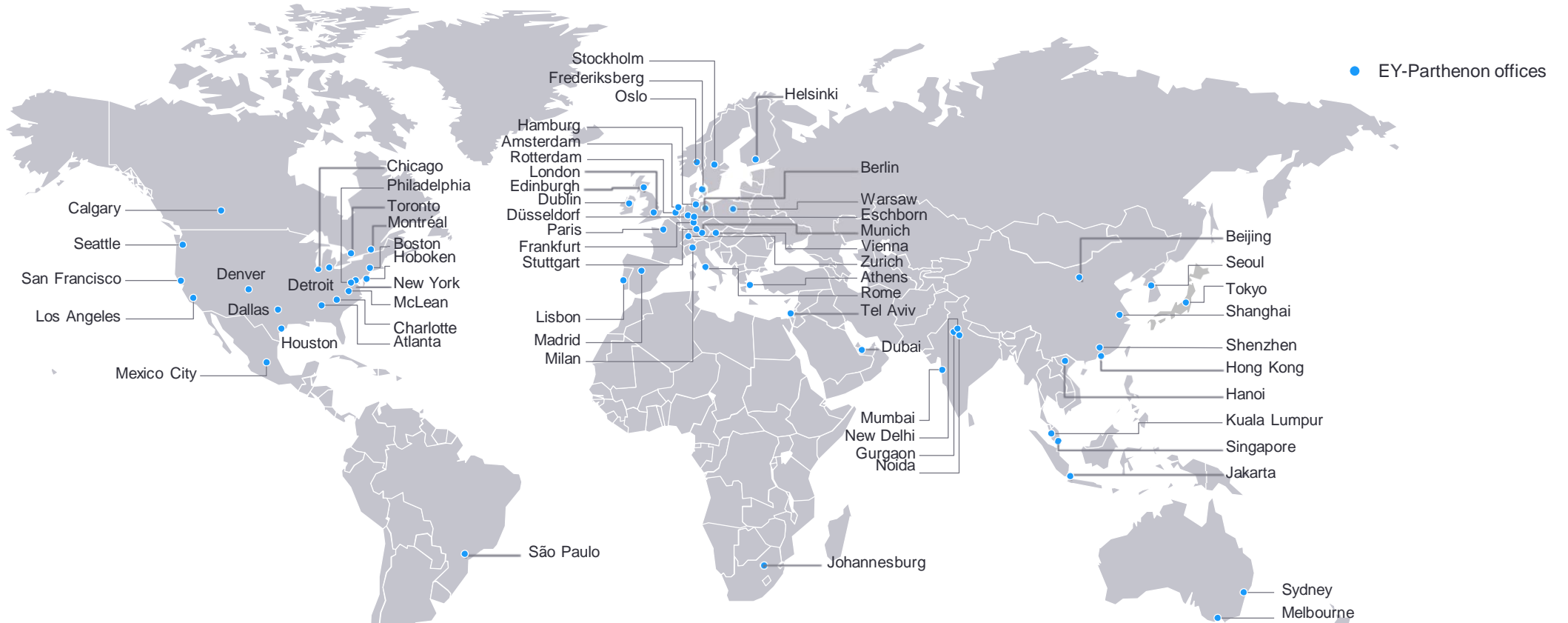
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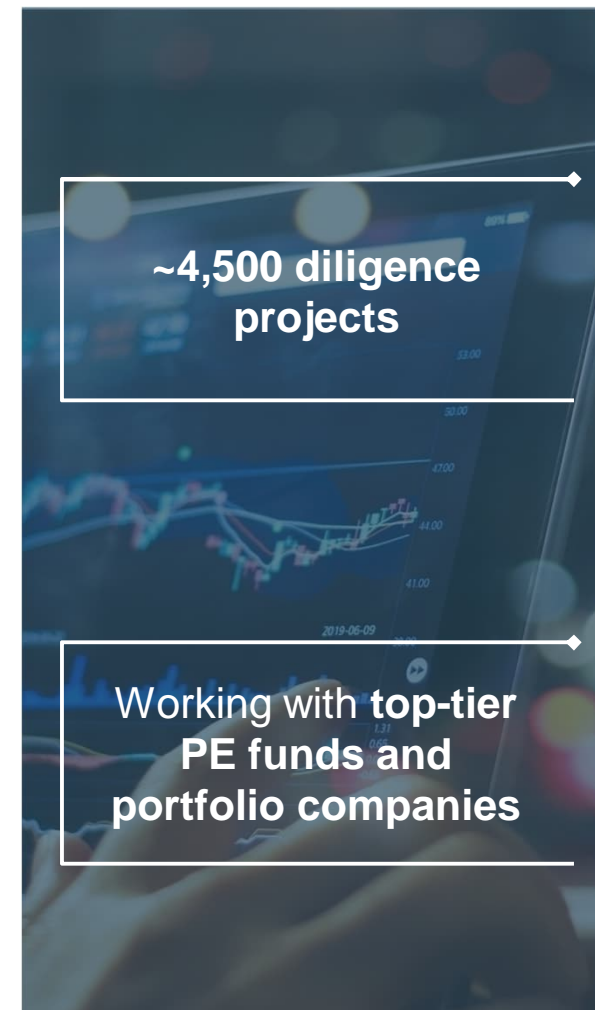
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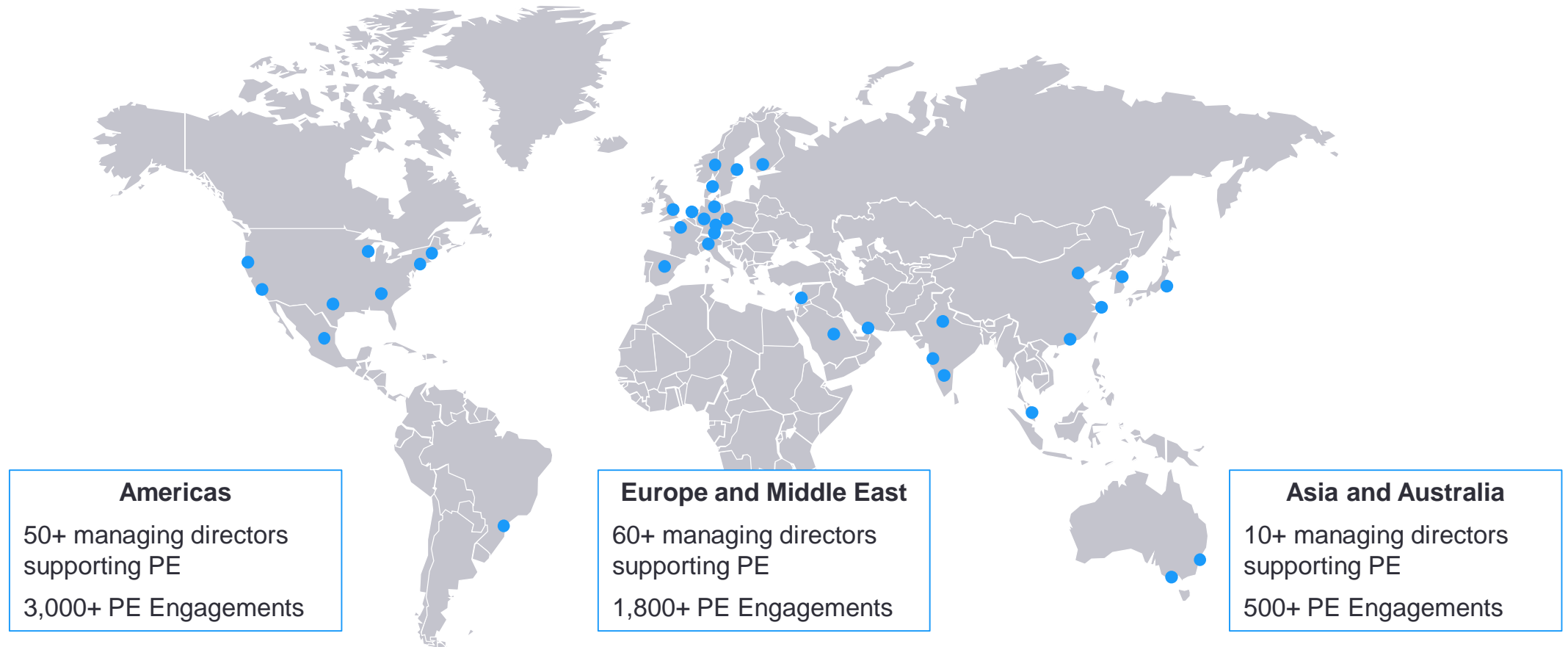
# We work with 92% of Private Equity International's top 25 global private equity firms; our global PE network is made up of more than 11k professionals

## EY work across private equity

<b>Global PE leaders</b>	<b>92%</b> EY works with 92% of Private Equity International's top 25 global private equity firms
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# EY-Parthenon had a global private equity practice with dedicated team members across continents serving 200+ private equity firm clients

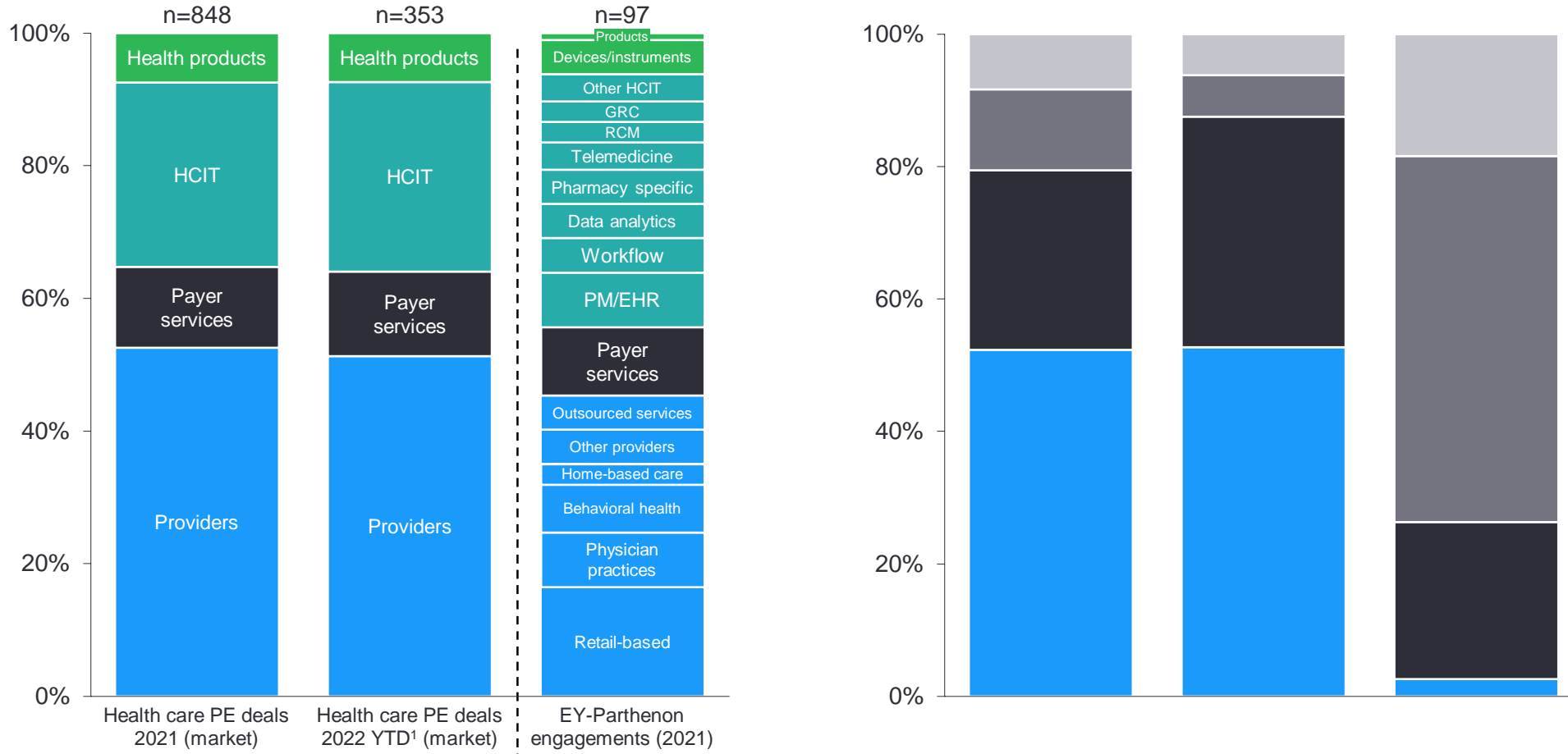


We worked with the vast majority of the global top 20 private equity firms last year, along with more than 200 middle market firms

# Significant deal activity in 2021, followed by continued activity through 1H2022; EY-P engaged in deal activity across the sector, with emphasis on HCIT

Health care PE deals and EY-Parthenon engagements (2021-2022)

## Health care PE deals by subsector (2021-2022)



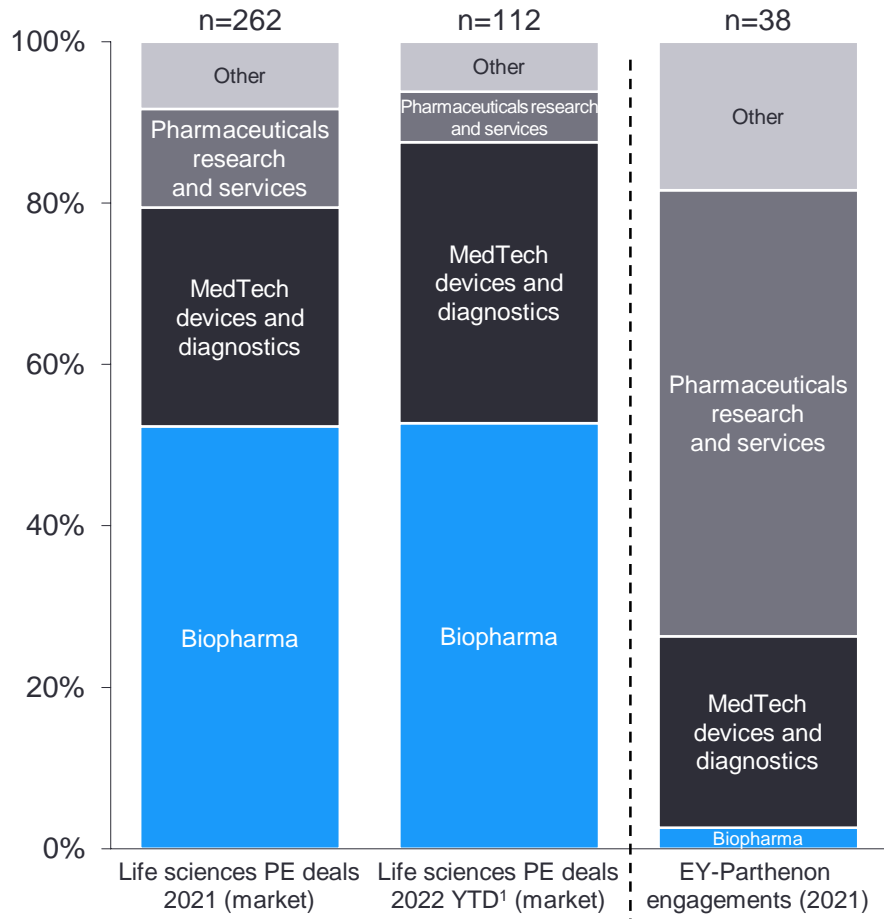
1. Includes data as of August 2022

Source: Refinitiv; Company press releases; Company websites; EY-Parthenon analysis

# Life sciences deal volume was also active in 2021, with continued activity so far in 2022; MedTech devices/diagnostics has seen growing deal volume 2022

Life sciences PE deals and EY-Parthenon engagements (2021-2022)

## Life sciences PE deals by subsector (2021-2022)



1. Includes data as of August 2022

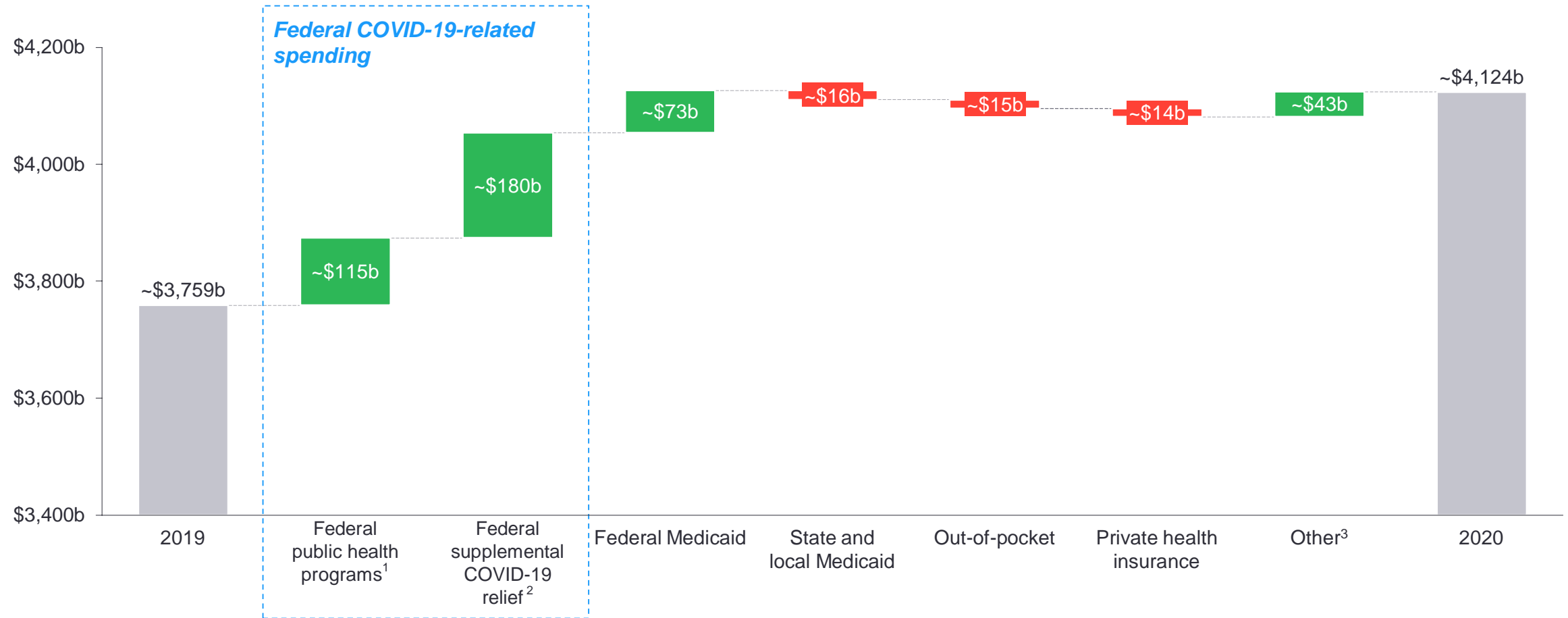
Source: Refinitiv; Company press releases; Company websites; EY-Parthenon analysis

# Agenda

- ▶ **Macro trends**
- ▶ Investment themes

# Federal public health programs and supplemental COVID-19 relief funds accounted for the vast majority of increase in national health expenditures from 2019 to 2020

Change in US national health expenditures by source of spend (2019-2020)



1. Includes COVID-19 related federal public health spending

2. Includes PPP loans and Provider Relief Fund

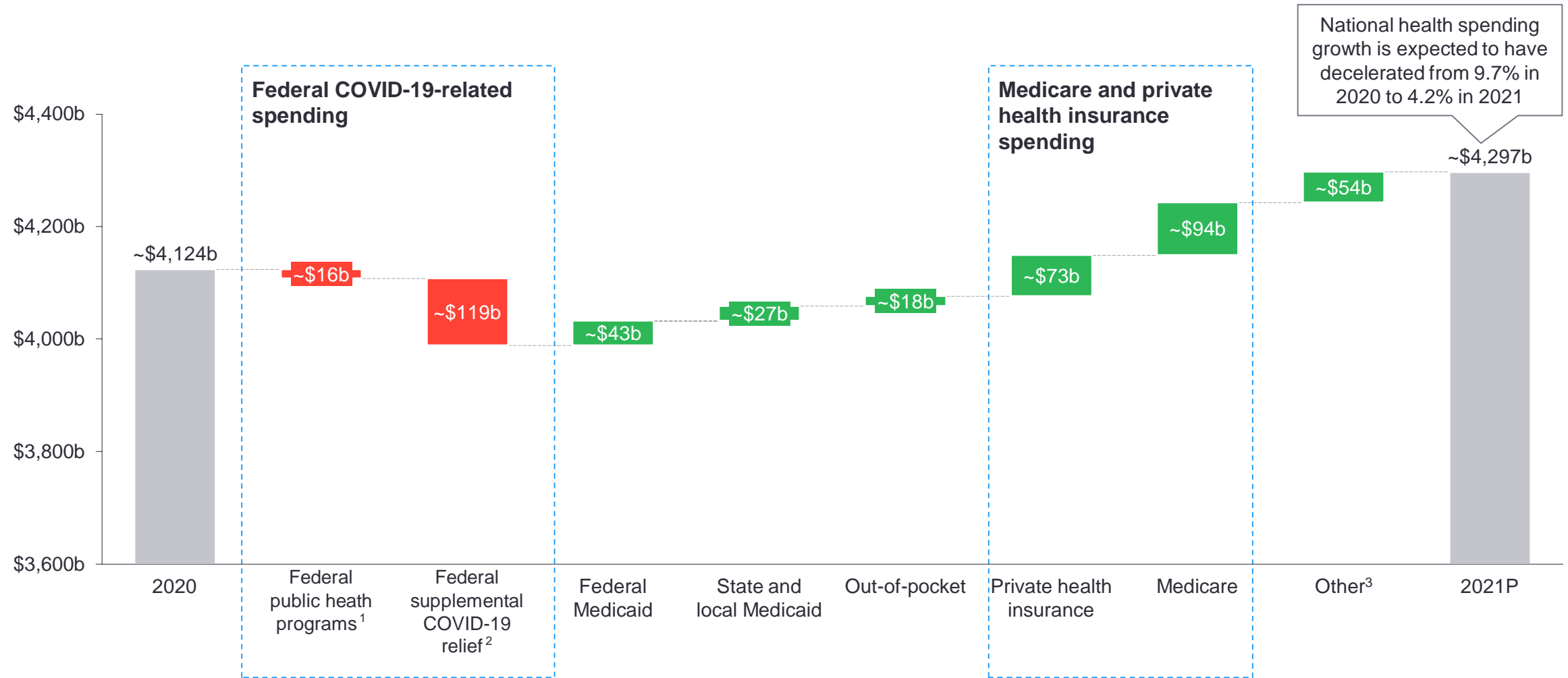
3. Includes state public health programs; Medicare, and other non-federal third-party programs

Source: CMS; Health Affairs



# Medicare/private insurance are key contributors to increased NHE from 2020 to 2021; a significant decrease in federal program and COVID-19 relief funding is expected

Change in US national health expenditures by source of spend (2020-2021P)

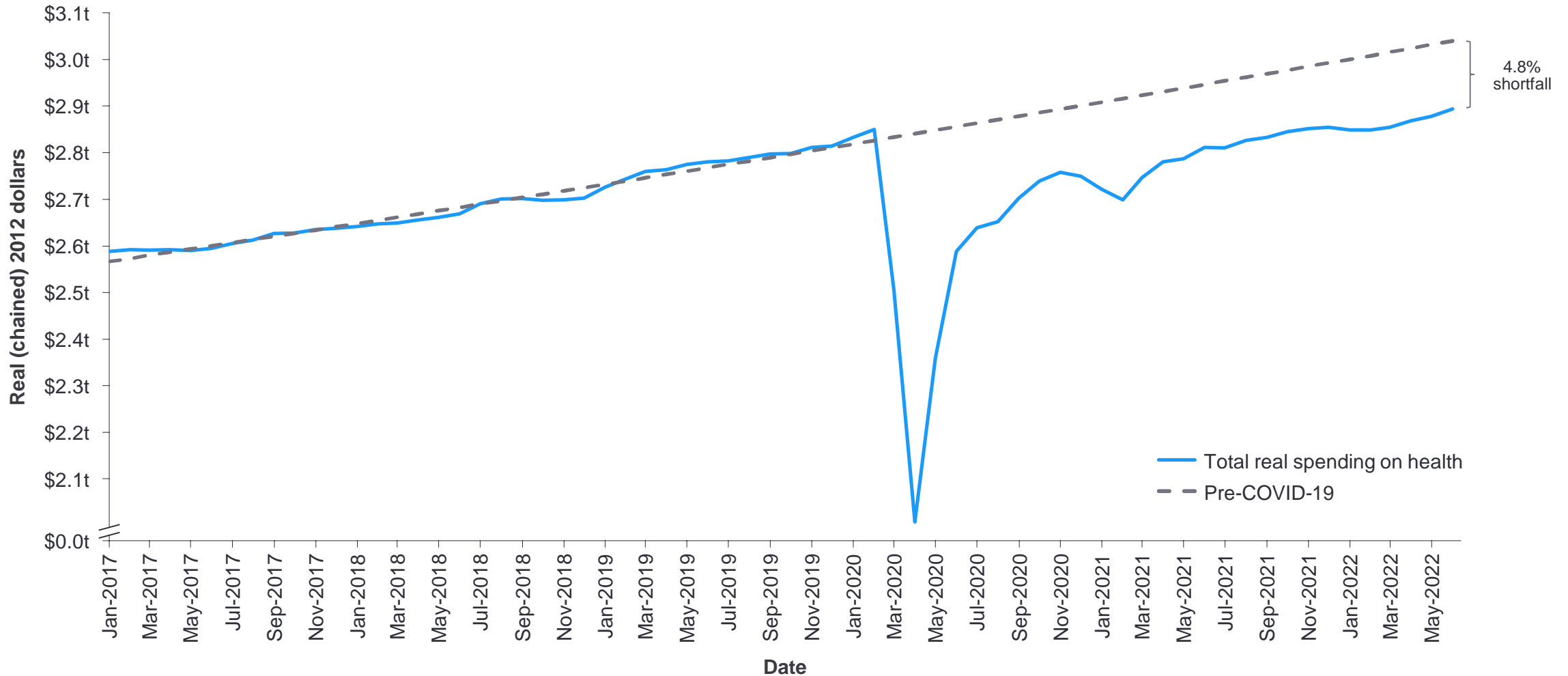


National health spending growth is expected to have decelerated from 9.7% in 2020 to 4.2% in 2021

1. Includes COVID-19 related federal public health spending  
 2. Includes PPP loans and Provider Relief Fund  
 3. Includes state public health programs and other non-federal third-party programs  
 Source: CMS; Health Affairs

# Total real consumer spending on health is close to pre-pandemic levels, but is still almost 5% below its pre-pandemic trend

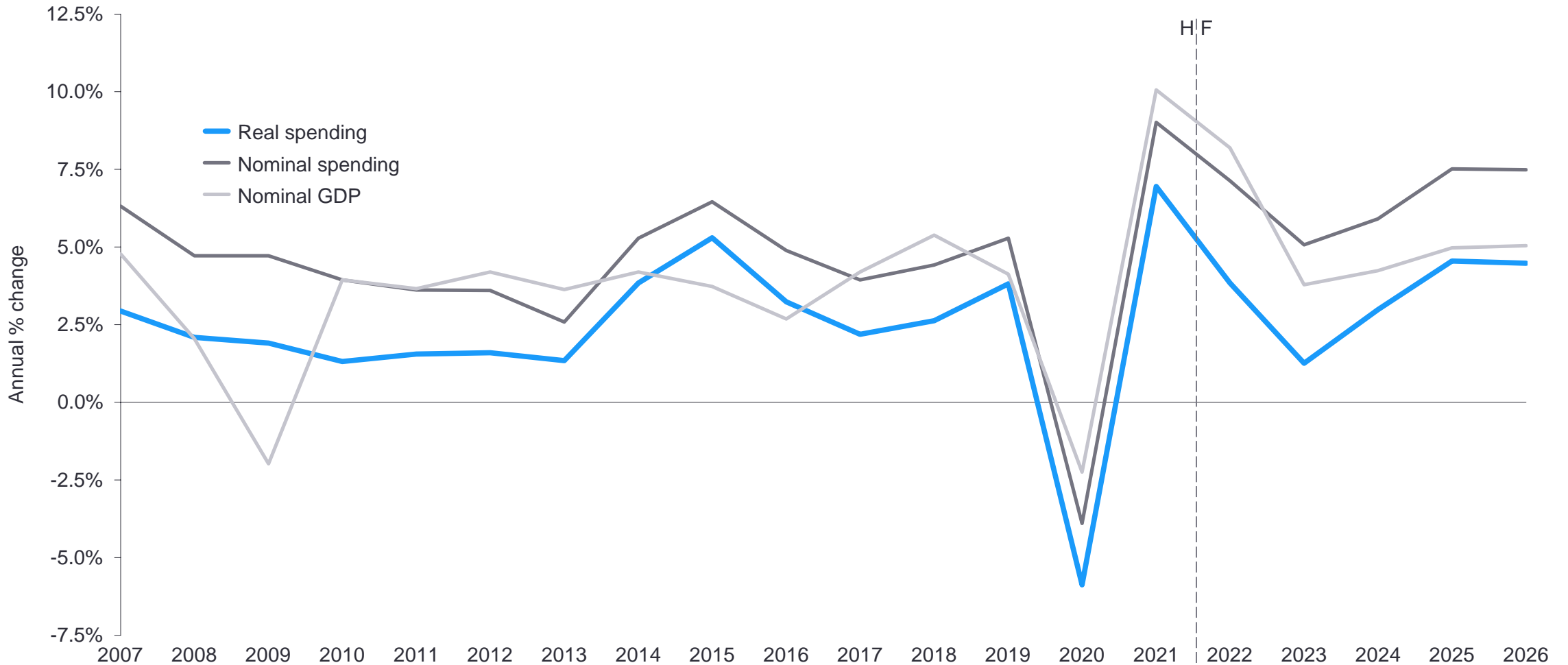
Total **real** spending on health (services + goods) vs. pre-COVID-19 trend<sup>1</sup> (January 2017-June 2022)



1. Includes spending on health services and goods  
 Source: BEA; EY-Parthenon analysis and estimates

# Health care price inflation is expected to become a larger contributor to the nominal consumer health care spending growth outlook once again

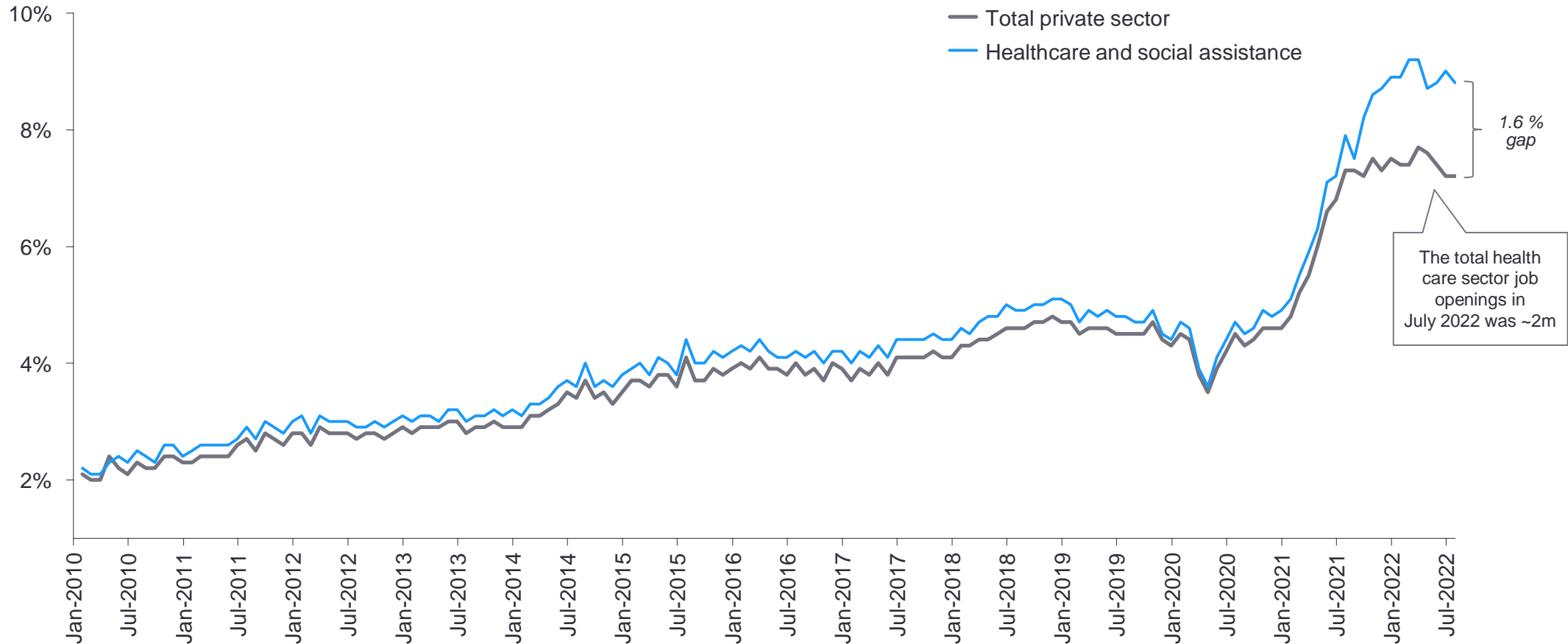
Annual % change of real and nominal health care spending (2007-2026)



# Demand for health care and social assistance workers has not only risen rapidly, but the gap *relative* to total private sector job openings has widened

Comparison of health care job openings to total private sector (2010-2022)

Job openings rate, total private sector vs. health care and social assistance (January 2010–July 2022)



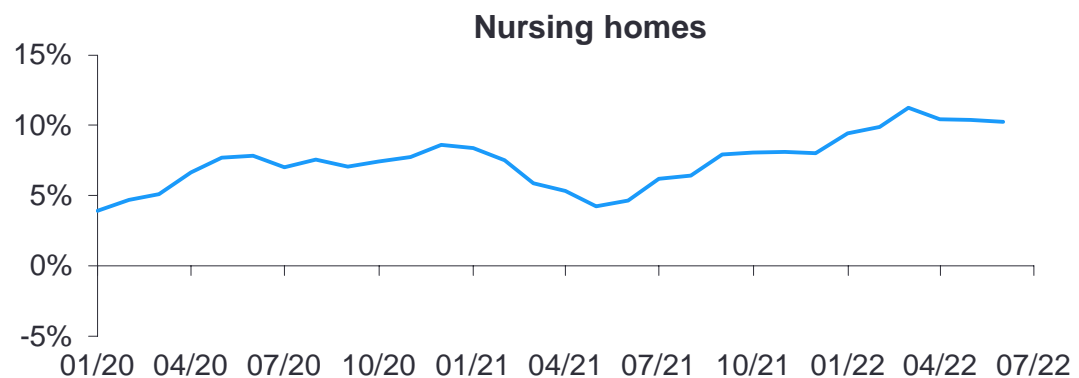
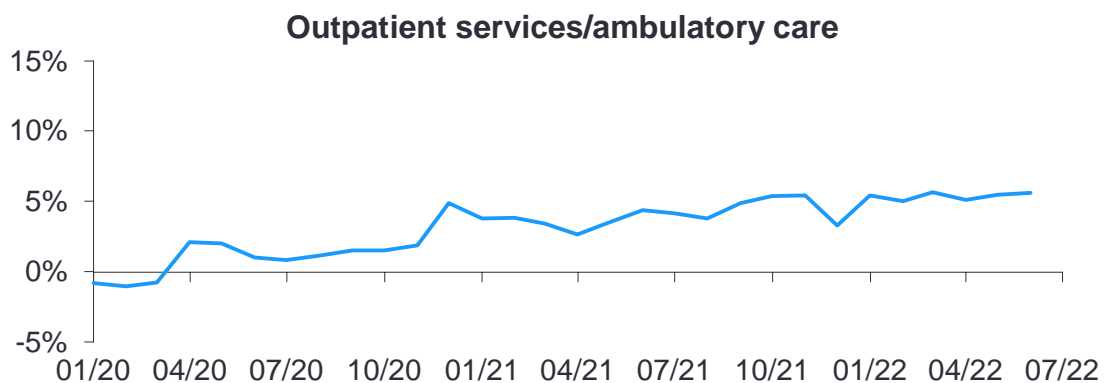
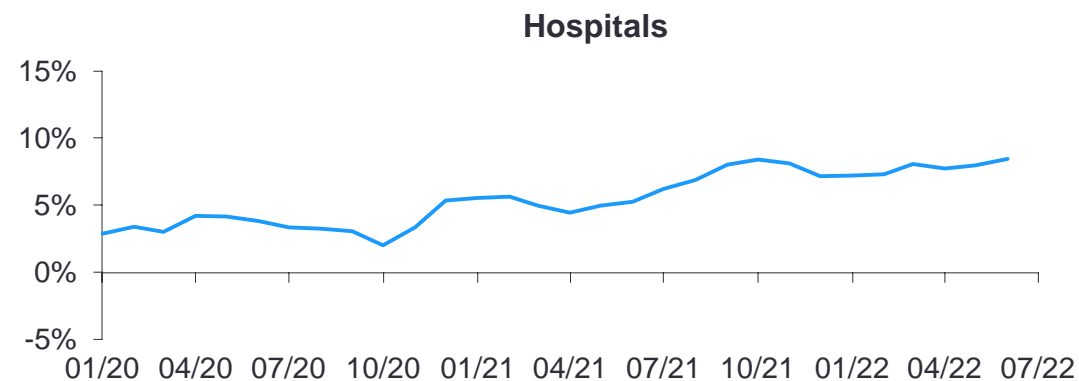
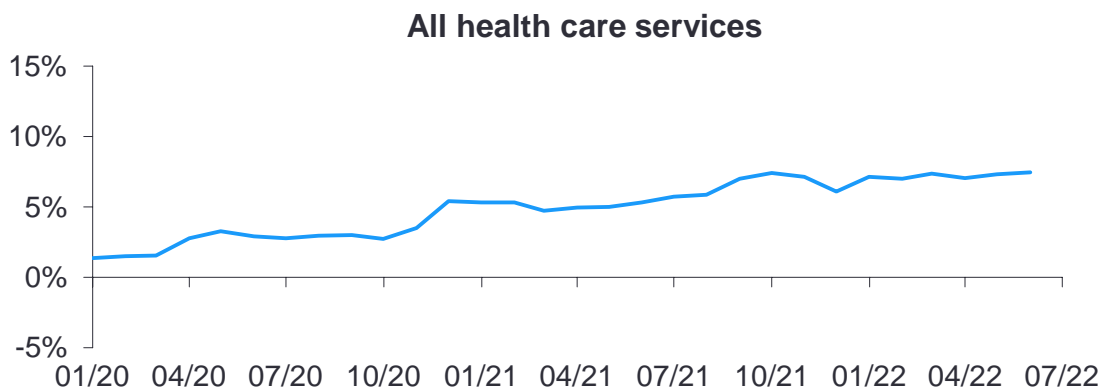
# Average hourly earnings for health care services employees continue to rise, with nursing home employees seeing the greatest upward wage pressure

Change in average hourly earnings by health care setting

## Average hourly employee earnings year-over-year % change in health care services categories

Jan 2020-Jun 2022, seasonally adjusted

— Avg Hourly Earnings % Change YoY



# Amid labor supply constraints, there are several opportunities in care delivery, practice management, and employee experience, education and retention

Labor supply: opportunities within care delivery, practice management, employee experience, education and retention

	Opportunity	Description and rationale
Care delivery	▶ Telemedicine and virtual care	▶ Increase efficiency of patient visits and mitigate physician burnout
	▶ Transition of care technologies	▶ Facilitate data-driven transitions of care to improve outcomes for high-risk populations
	▶ Digital therapeutics	▶ Deliver digital interventions to prevent, manage and treat conditions
	▶ Social determinants of health	▶ Prevent unnecessary care by addressing patient’s needs earlier
	▶ Remote patient monitoring	▶ Prevent high utilization by implementing remote patient monitoring technologies
	▶ Pharmacy automation technologies	▶ Reduce nurse time spent reviewing and dispensing medications
Practice management	▶ Efficiency saving HCIT (e.g., AI-driven scheduling, intelligent credentialing)	▶ Provide data-driven approaches to optimize processes such as staffing and credentialing at the unit/enterprise levels
	▶ Tech-enabled medical staffing	▶ Deploy providers within short timeframes and consolidate back-office needs
	▶ Scaled physician practice management	▶ Develop platform practices with sufficient infrastructure and revenue to rollup
Employee experience, education and retention	▶ Digital employee onboarding platforms	▶ Provide onboarding experiences that drive engagement, satisfaction, retention
	▶ Ongoing training and upskilling platforms	▶ Offer virtual training/upskilling for providers to practice at full extent of licenses
	▶ Omnichannel employee feedback	▶ Collect structured employee feedback to proactively address pain points
	▶ Physician extender education	▶ Support continued growth in supply of nurse practitioners and physician assistants

# Agenda

- ▶ Macro trends
- ▶ **Investment themes**

# Recent investment themes have focused on value within providers and payers while focusing on ... in pharma services

Recent trends in private equity investment in health care

## Value

An increased focus has been given to value creation and the sources of value within providers, both physician practices and multisite providers, and provider services



## Behavioral and physical health

Health care organizations have recognized the impact that behavioral and mental health has on physical health and are pursuing integrated strategies of patient care



## Payer services

A continued focus on value combined with the broader macroeconomic landscape has increased interest in payer services, including member engagement, care navigation and population health management



## Pharma services

Biopharma organizations continue to emphasize spend on outsourced services, particularly within the commercialization process as the product pipeline grows and complexity in bringing drugs to market increases

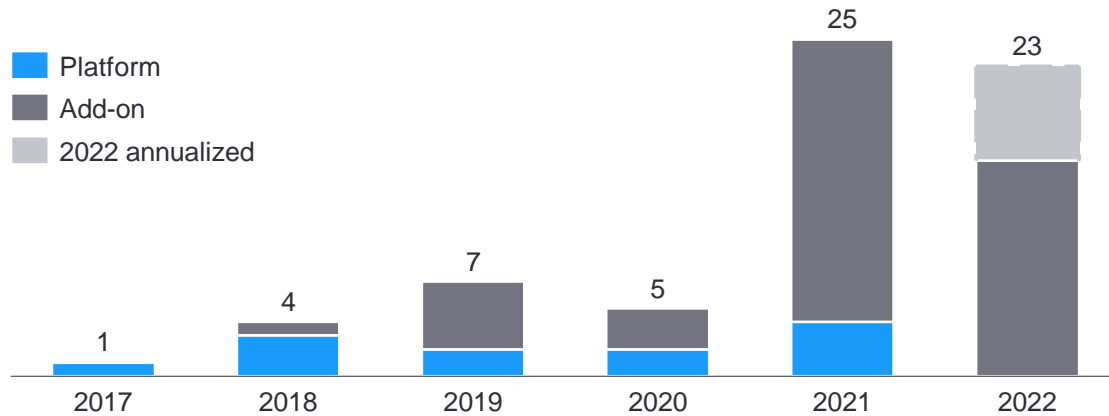


# Private equity investment in orthopedics has accelerated in recent years with more than 20-25 investments in 2021 and 2022

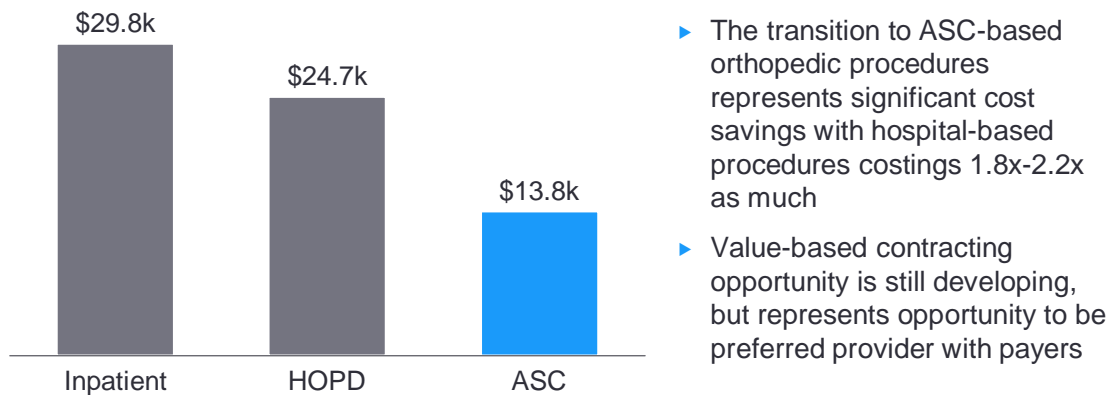
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Payer services
Pharma services

## Orthopedic physician practice management

### Private equity deals in orthopedics (2017-2022)



### Weighted average total cost of care for major orthopedic surgery<sup>1</sup> (2021)



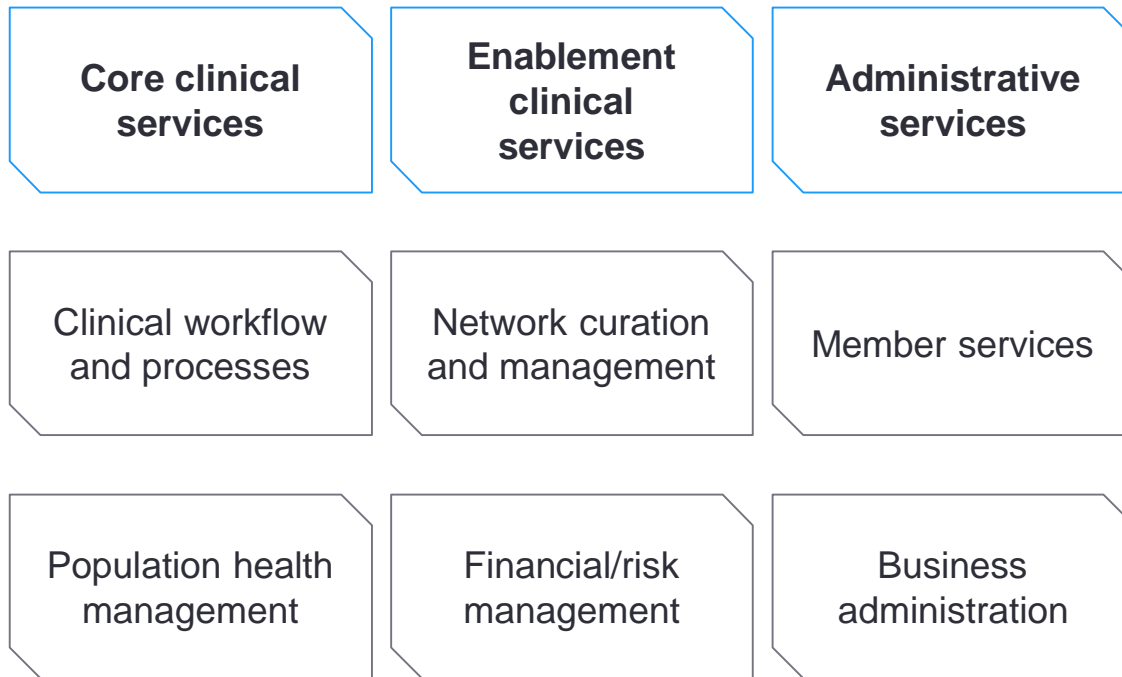
1. Major orthopedic surgeries include total knee replacement and revision, total hip replacement and revision, shoulder rotator cuff repair, and ACL repair  
Source: Pitchbook; AAOS

# The value chain for risk-bearing primary care clinics includes a variety of different services

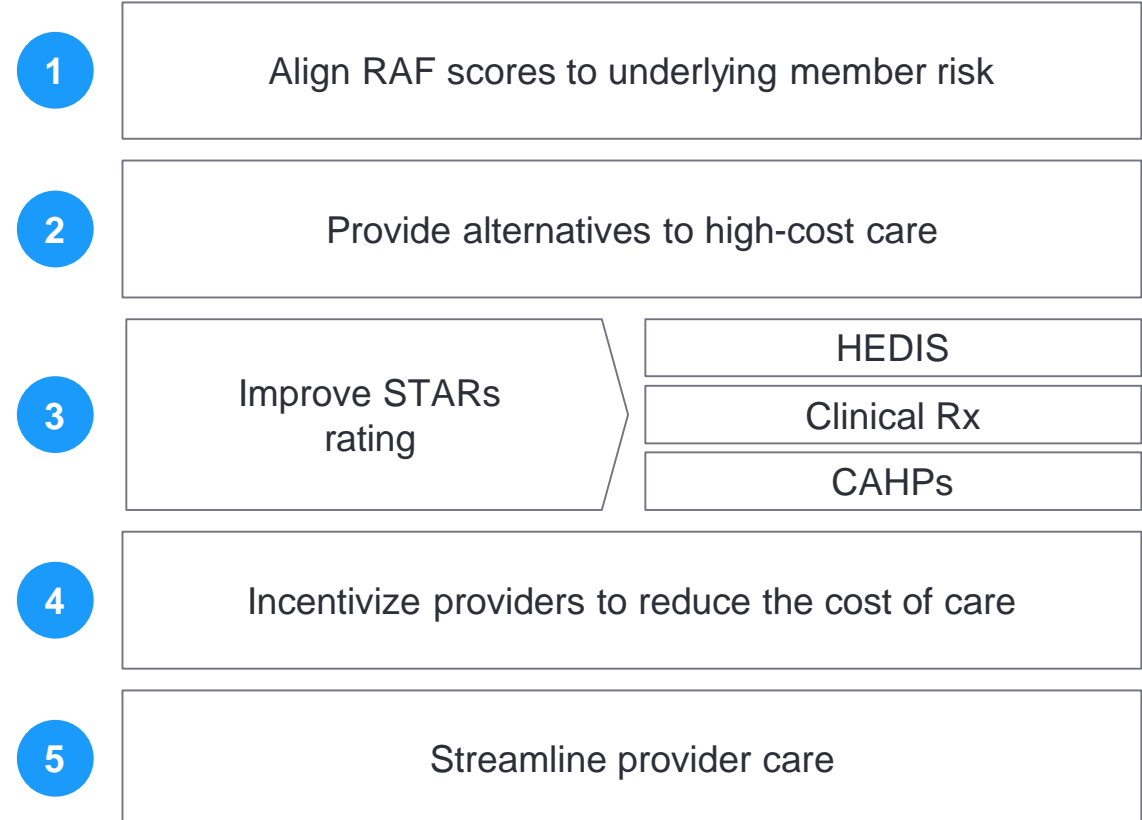
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Risk-bearing primary care value chain and services

## Risk-bearing primary care value chain



## Drivers of success in risk-bearing primary care

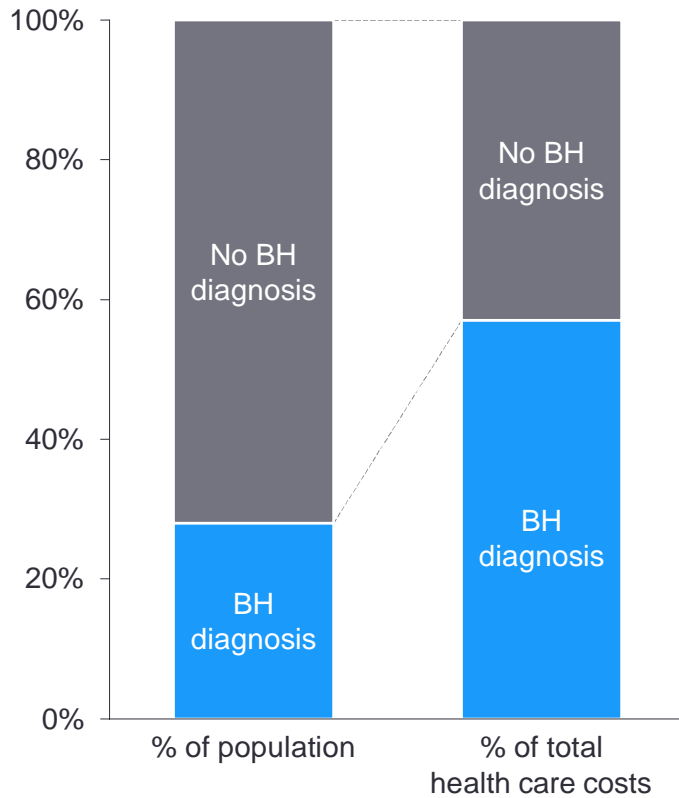


# Though ~25% of Americans have received a BH diagnosis, BH accounts for more than half of health care spend

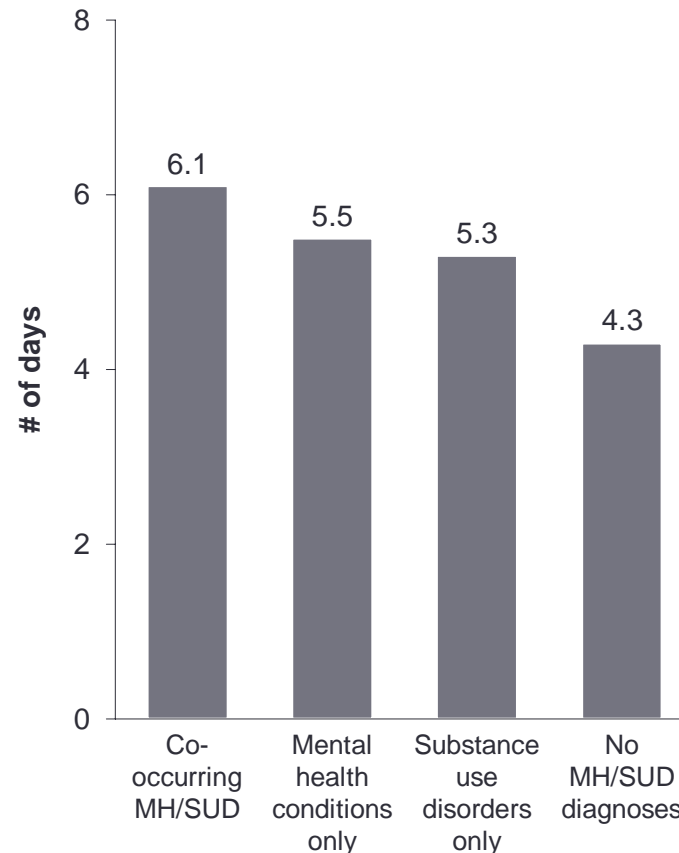
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Impact of BH/MH diagnoses on physical health

**Distribution of total health care costs among segments of the US population (2017)**



**Length of hospital stay by behavioral health diagnosis (Massachusetts, 2020)**



## EY-Parthenon perspectives

- ▶ The share of US health care spending attributable to behavioral health patients signals a need to address BH conditions at the beginning of the care continuum
- ▶ As physicians increasingly shift to risk-bearing models, the onus falls on primary care doctors and other lower acuity providers to effectively triage BH patients to avoid downstream costs
- ▶ To better meet the needs of BH patients, investors have increasingly targeted businesses that include:
  - Behavioral health platforms offering a comprehensive suite of BH services to drive value-based care
  - Patient-facing technological tools deployed at the point of diagnosis and that serve as continuity of care enablers

# Increasing consumerization of behavioral health care has led to innovation in treatment technologies and increased investment

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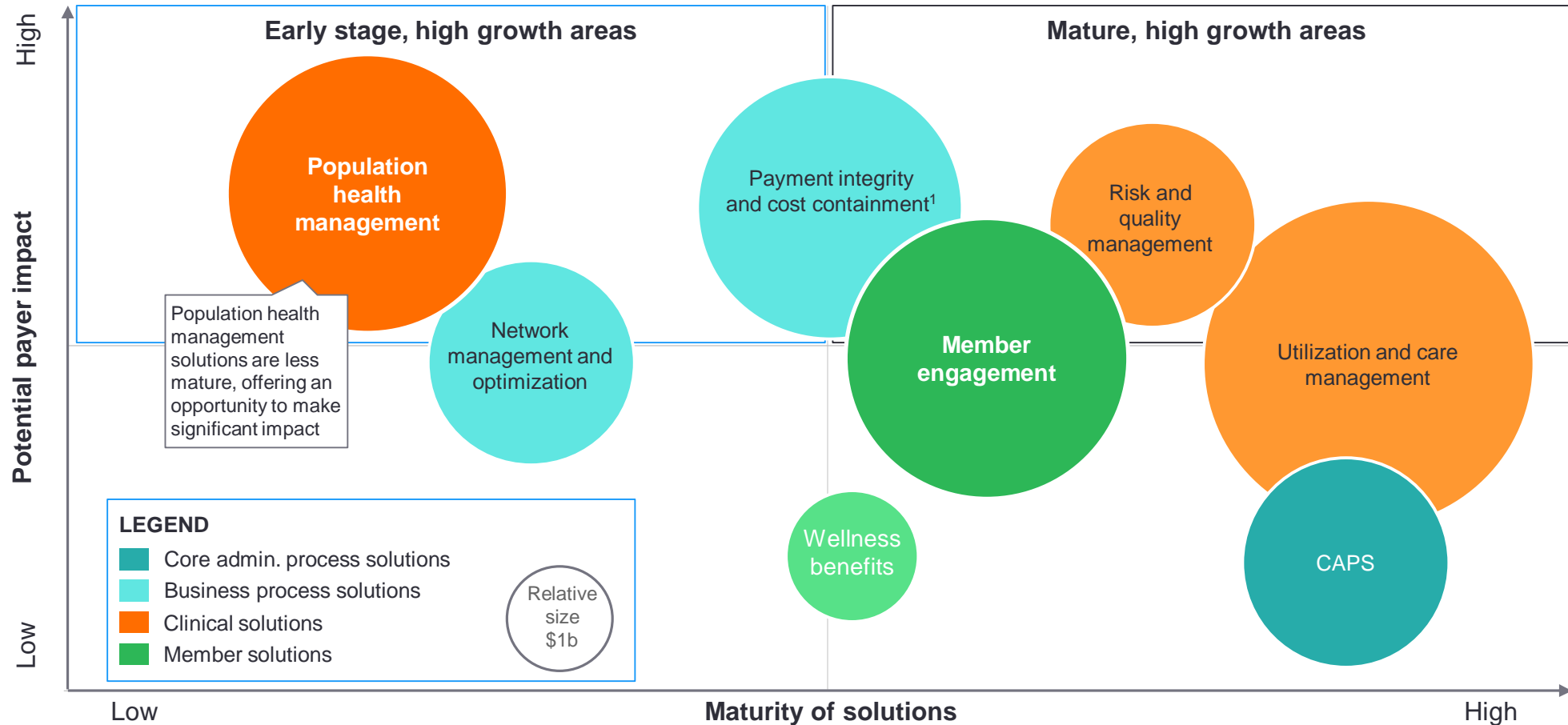
Recent investments and example vendors by BH subsegment

Treatment area		Example vendors	Recent investment
Substance abuse			<ul style="list-style-type: none"> <li>In June 2021, Pear Therapeutics (reSET and Somryst) agreed to go public through a merger with Thimble Point Acquisition Corp in a ~\$1.6b SPAC deal</li> <li>In October 2021 Workit Health raised \$118m of series C venture funding</li> </ul>
Mental health	Self-directed care		<ul style="list-style-type: none"> <li>In March 2021, Happify raised \$73m Series D venture funding</li> <li>In August 2021 Headspace entered into an agreement to acquire Ginger that values the combined company at ~\$3b</li> <li>In September 2021, Meru Health raised \$38m series B financing</li> </ul>
	Online therapy		<ul style="list-style-type: none"> <li>In 2020, AbleTo was acquired by Optum for \$470m</li> </ul>
	Employee assistance programs		<ul style="list-style-type: none"> <li>In September 2021, Spring Health received \$190m in Series C funding to serve the global workforce and build out a family of mental health solutions</li> </ul>

# PHM and member engagement tools have considerable untapped potential to bring payers closer to members and bend the cost curve

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Payer solutions by potential impact and maturity of solutions



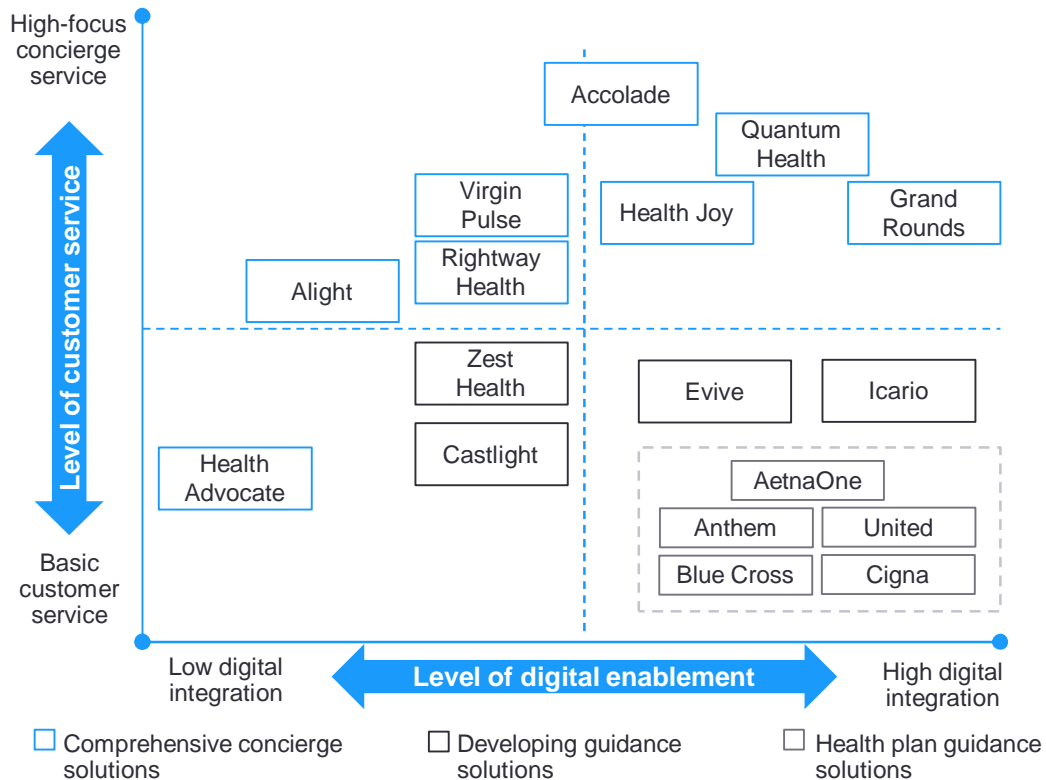
1: Significant variation in potential whitespace exists between legacy payment integrity and emerging cost containment solutions  
 Source: CMG; Fierce Healthcare; Forbes; EY-Parthenon analysis

# Member engagement solutions vary in their level of digital enablement; the top solutions are digitally enabled and offer concierge-level service

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<b>Payer services</b>
Pharma services

## Overview of member engagement solutions

### Landscape of companies offering member engagement solutions



▶ Comprehensive concierge solutions are patient-centric organizations that vary in their digital capabilities due to different levels of emphasis and investment

▶ Developing guidance solutions have relatively high digital integration with their core solutions, but limited capabilities in customer-centric concierge services

▶ Unlike dedicated advocacy vendors (e.g., Accolade, Quantum Health), these vendors have well-known offerings that are not advocacy-specific but are beginning to expand into the advocacy space

▶ Most major carriers are developing advocacy solutions to compete with dedicated providers, though some offerings are considered basic relative to dedicated offerings

▶ “Health plan guidance solutions have access to patient claim data and emphasize digital enablement to drive efficiency, but don’t provide a high touch service experience to patients”

▶ “Carriers are trying to keep from being carved out; they’ll need to expand those operations to create an equal playing field”

▶ “Health plan solutions have the least differentiation between them”



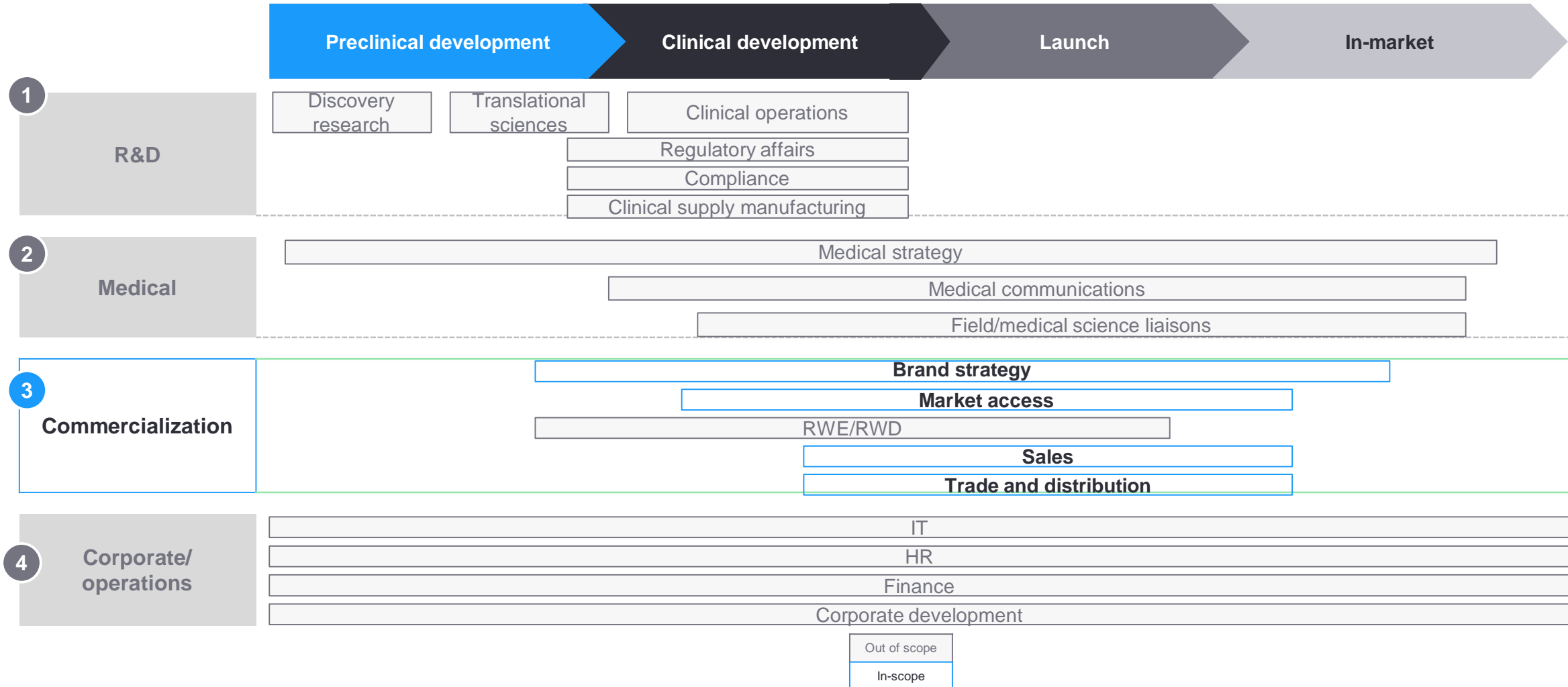
**Comprehensive concierge solutions that are highly digital enabled will win in the member engagement space**

# A drug's lifecycle spans four key processes; the commercialization effort is responsible for maximizing the value of a new drug in market

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Drug lifecycle

ILLUSTRATIVE



# Functional leaders seek to outsource capabilities to commercialization vendors that solve for qualitative and/or quantitative pain points

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<b>Pharma services</b>

## Functional use cases

	Brand strategy/NPP	Market access/HEOR	Insights and analytics	Medical affairs	US brand marketing	Patient access	Sales	Trade and distribution
Overview of needs	▶ High level market data and research to inform product launch and pipeline dev.	▶ Real-world data (e.g., EHR) and market research to support payer value prop./ economic and health outcomes	▶ Datasets and third-party analytical tools to support a range of business functions	▶ Physician research and prescriber/patient data to aid KOL engagement	▶ Omnichannel optimization, market research, market data (e.g., share, customer satisfaction)	▶ Consumer research and reimbursement data to measure patient patterns	▶ Dashboards to measure a range of KPIs, (e.g., sales by customer type, discounts offered, etc.)	▶ Data aggregation across channel partners to gain insight into budget and downstream inventory

### Illustrative uses of vendor by function

		Consulting/marketing agencies	Data providers	Analytical tools and services	Workflow/infrastructure solutions			
Vendor segments	Understand market landscape	Understand competitive landscape	Measure customer sentiment (ATU)	Inform KOL engagement	Develop campaigns and advertising strategy	Develop reimbursement journey	Develop territory alignment	Perform channel analysis
	Gather market data (e.g., competitor market shares)	Analyze competitive pricing	Inform market research findings	Understand existing clinical results	Provide deidentified EHR records to inform targeting	Compile patient outcome data		Offer retail data to inform distribution strategy
	Understand patient flow	Monitor formulary positions	Inform market research findings	Identify KOLs	Analyze ROI of specific campaigns to optimize mix		Develop sales dashboards (e.g., performance predictions)	Support inventory analytics (e.g., demand planning optimization)
					Programmatic ad purchasing	Administer patient assistance	Align incentive compensation	Contract and payment processing automation

High ● ... ○ Low

■ Often use third-party vendor

■ Sometimes use third-party vendor

□ Seldom use third-party vendor



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