

PNC's Corporate Healthcare Index

Third Quarter 2024

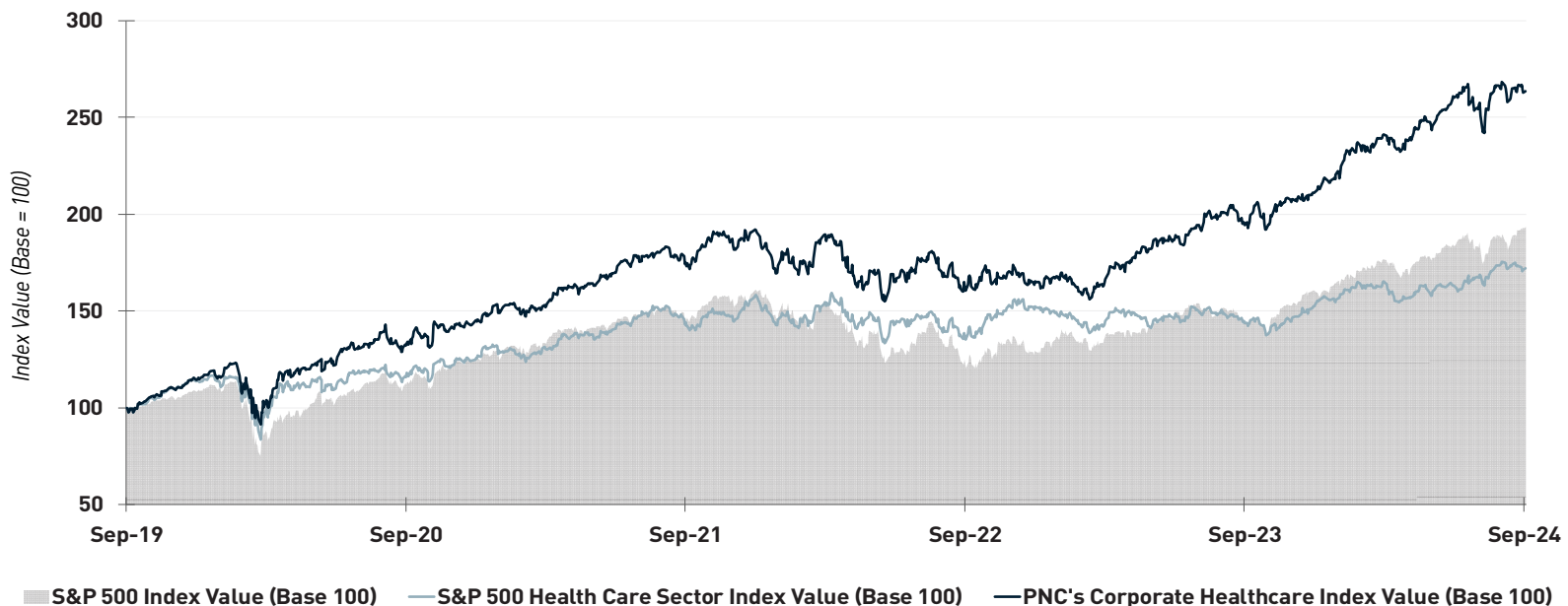


PNC's Corporate Healthcare Index (the "Index") is a tool that examines the performance of—and trends within—the entire healthcare ecosystem. S&P launched the S&P 500 Healthcare Sector Index in 1996, but it is comprised of conventional healthcare entities in traditional subsegments. As healthcare becomes more consumer-centric, PNC's Index takes a modernized, non-traditional view of the healthcare landscape, tracking equity performance of the entire ecosystem based on a broad set of criteria.

Healthcare is the largest industry in the United States with an approximate annual spend of \$4.5T, nearly 18% of GDP.¹ Healthcare is being redefined and reshaped nearly every day in a variety of ways, as new entrants disrupt business models, corporate retailers enter the ecosystem, and healthcare professionals search for new ways to improve the impact and efficiency of care delivery.

- **PNC's Corporate Healthcare Index** examines 40 of the top public companies driving healthcare industry activity within six key categories: Emerging Trends, Health Technology / IT, Payors, Pharmaceuticals & Life Sciences, Providers, and Supply Chain / OEM.
- The Index is calculated on a market capitalization-weighted basis for direct comparison with both the S&P 500 Index and the S&P 500 Healthcare Sector Index.
- Over the last quarter, the Index underperformed compared to both the S&P 500 Healthcare Sector Index and the broader S&P 500. Performance was largely driven by downward pressure within the Emerging Trends and Pharmaceuticals & Life Sciences subsegments (see page 3).

PNC's Corporate Healthcare Index^{2,3}



Market Commentary⁴

Healthcare Industry

As the yield curve continues to normalize and monetary policy shifts, the market is anticipating an uptick in deal flow. The more aggressive 0.50% reduction signals the Fed's desire to maintain the strength of the labor market while inflation has largely been curbed. Healthcare has buoyed this labor market with strong hiring.⁴ On the other hand, healthcare workers are tied for third worst YoY wage growth as of Q2 2024.⁵ Although recent reports suggest a cooling in the healthcare hiring market,⁴ continued strength of the broader jobs market will likely drive further rate cuts at the forecast pace—50 more bps before end of year—possibly accelerating transactions that were shelved for after the presidential election.

Moreover, continued strife in the Middle East and Ukraine has introduced greater uncertainty into the decision-making process likely to ripple through global markets. Not ideal as a potential recession looms, but still expecting a soft landing. Fortunately, a swift conclusion was reached to end the recent Longshoremen's Union strike, a welcome reprieve from some of the volatility. There are some additional themes from Q3 and considerations for Q4 that could have major implications on the healthcare industry:

- Medicare Advantage (MA):** Further regulation, denials / prior authorization issues, and MA plan provider flight are all serving to push market share towards the larger health plans. UHG and Humana will earn roughly half of the \$11.8B in expected quality bonuses this year linked to Star ratings.⁶ However, Humana has also reported that CMS changes to Star Rating calculations in 2025 will crater its share of 4+ Star plans—dropping from 94% this year to 25%—a development we're sure other insurers are navigating as well⁷
 - On the flip side, MA is upending some firms' profitability. With unexpected utilization driving up Medical Loss Ratios, CVS Health has had to adjust its 2024 earnings guidance downward on three occasions this year. It's been reported that leadership and the Board are exploring a potential break-up of CVS' various business units,⁸ a surprising development given the Aetna acquisition was finalized just six years ago. CVS could serve as yet another example of retailers becoming overextended by healthcare acquisitions
- M&A:** Reduced cost of capital and a rosier economic outlook are yielding interesting new transactions; see Cardinal Health's purchase of ION for \$1.1B as one example
- Credit Quality:** Despite improvement in S&P's downgrade-to-upgrade ratio from 3.8 to 3.0, hospitals and health systems are still managing deteriorating credit quality overall⁹
- Cybersecurity:** Cyber threats continue to take a heavy toll on the industry. Roughly \$1.94B is the estimated cost of the CrowdStrike outage in July for the healthcare industry alone¹⁰

Industry Subsectors

Emerging Trends:

- Given cost of capital and Federal and State regulatory scrutiny, there is continued transition within Private Equity from healthcare provider services to pharma and digital health (AI and mental health-focused strategies seem to be favored)
- Uptick in dividend recap requests in the market, illustrating PE's need to return capital to LPs in a muted deal-making environment¹¹
- GE HealthCare partnering with AMZN to train AI models aimed at improving / reshaping clinical workflows, continuing the development of AI for healthcare¹²
- Home health entities continue to grow through acquisition (Agape Care Group, BrightSpring, Compassus)¹³
- Handful of potential take-private transactions on the horizon; e.g., TowerBrook / R1 RCM; Surgery Partners bidders¹⁴

Health Technology / IT:

- McLaren becomes another victim of recent cyber attacks. Legislators are promising regulation and added checks / thresholds for consumer protection¹⁵
- Direct-to-consumer mental health services are gaining traction as part of broader employee benefits packages; i.e., Teladoc's BetterHelp
- For telehealth-at-large, increasing CAC / marketing expenses, coupled with slower uptake post-Covid, are driving lower volumes¹⁶
- Virtual companies begin to focus on disease-specific outcomes and management; i.e., diabetes, COPD, etc. (MD Live, WeightWatchers, Amwell)
- Epic continues to increase market share. At its annual user meeting, the EMR/EHR reported acute care share of 39%, up 3% from last year¹⁶

Payors:

- UHG and Amedisys are getting closer to completing their \$3.3B merger, agreeing to divest select assets amid DOJ scrutiny and anti-trust posture¹⁷
- Both regional and national health plans expect to lose thousands of MA members next year as open enrollment approaches. Aetna and Centene shift strategy / scale back in the wake of rising utilization and costs¹⁶
- Payor / provider tensions continue to brew with disputes over prior authorizations and denials on the rise; e.g., CSH reported solid YoY revenue gain for FY 2024, but most of that gain was eaten up by higher costs from denials and reimbursement delays¹⁶
- CenterWell (Humana) and Elevance (in partnership with Clayton Dubilier & Rice) are pivoting towards primary care, with CenterWell leasing shuttered Walmart Health clinic space to treat seniors.¹⁷ It remains to be seen whether the health plans can succeed in primary care where so many others have failed

Pharmaceuticals & Life Sciences:

- According to Vizient, increased demand for cell & gene therapy, as well as GLP-1s, will drive drug costs up ~4% in 2025.¹⁸ This will likely drive higher costs to employers / premiums as a result. Cost mitigation strategies may stipulate adherence to third party vendors' nutrition / weight loss programming to qualify for GLP-1 coverage
- Novo Nordisk (NVO) has been sending Cease & Desist letters to medspas and clinics who advertise their compounded GLP-1s as comparable to NVO's brand name drugs. These suits will likely continue for the foreseeable future until there is enough brand name supply to preclude compounding altogether¹⁹
- As part of its pivot / rebuild, Walgreens is focusing on clinical trials and integrating patient data as part of its outreach strategy¹⁴

Providers:

- ~21% fewer hospitals earned a 5-star rating from CMS as of July 2024 compared to 2023, demonstrative of the agency's increasing / ever-changing evaluation standards¹⁵
- According to a study by KSM, "co-management arrangements" between independent physician groups and hospitals are on the rise; perhaps a precursor to the pendulum shifting back to the physician employment model
- Various acquisitions and divestitures continue as health systems work to improve market share, defray operating costs, and/or strategically pivot to more ambulatory models; e.g., KP / Risant, Ascension, Novant, UAB, Tenet, etc.
- Baylor, Scott and White and Sentara lead the way for operating margins in the non-profit health system space (~8%) while Tenet, followed by HCA, lead the for-profit arena at ~15% and 13%, respectively²⁰

Supply Chain / OEM:

- Before a deal was reached, some estimates put the cost of the recent Longshoremen's Union strike to the US economy at ~\$4.0B per day.²¹ Thankfully, dockworkers reached an agreement with port operators and have agreed to end the strike, returning to work at America's ports
- Abbott and Medtronic partnering to connect glucose sensor with insulin delivery technology, part of Abbott's broader strategy to streamline diabetes care²²
- Cardinal Health has entered into a definitive agreement to acquire Integrated Oncology Network, bolstering its CV MSO offerings and onboarding over 100 providers in 10 states to join its Navista oncology platform¹⁴

PNC's Corporate Healthcare Index - Index Constituents and Periodic Return Data^{2, 3}

	Periodic Return Data as of End of Trading on 9/30/24						
	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Year-to-Date
S&P 500 Index Value	2.02%	5.53%	9.67%	34.38%	33.78%	93.58%	21.50%
S&P 500 Health Care Sector Index Value	(1.82%)	5.65%	4.21%	19.67%	21.06%	72.18%	11.00%
PNC's Corporate Healthcare Index Value	(1.80%)	1.31%	9.29%	35.71%	52.20%	163.64%	23.96%

Index Constituents:

Emerging Trends

1. 23andMe Holding Co.	10.35%	(11.17%)	(34.68%)	(64.46%)	(96.16%)	-	(61.75%)
2. agilon health, inc.	(3.68%)	(39.91%)	(35.57%)	(77.87%)	(85.01%)	-	(69.61%)
3. Alphabet Inc.	1.51%	(8.95%)	9.89%	26.74%	24.07%	171.63%	20.03%
4. Amazon.com, Inc.	4.39%	(3.58%)	3.30%	46.58%	13.44%	114.68%	24.28%
5. AMN Healthcare Services, Inc.	(20.06%)	(17.26%)	(32.19%)	(50.23%)	(63.06%)	(26.36%)	(45.26%)
6. CVS Health Corporation	9.85%	6.47%	(21.16%)	(9.94%)	(25.90%)	(0.30%)	(22.23%)
7. JPMorgan Chase & Co.	(6.20%)	4.25%	5.27%	45.40%	28.82%	79.17%	22.54%
8. Owens & Minor, Inc.	0.97%	16.22%	(43.38%)	(2.91%)	(49.86%)	170.05%	(18.49%)
9. Walgreens Boots Alliance, Inc.	(3.14%)	(25.92%)	(58.69%)	(59.71%)	(80.96%)	(83.80%)	(66.38%)
10. Walmart Inc.	4.56%	19.26%	34.20%	51.47%	73.81%	104.12%	52.08%

Health Technology / IT

11. Oracle Corporation	20.60%	20.68%	35.66%	60.88%	95.57%	209.65%	63.75%
12. Salesforce, Inc.	8.23%	6.46%	(9.12%)	34.98%	0.92%	84.39%	6.86%
13. Teladoc Health, Inc.	28.03%	(6.13%)	(39.21%)	(50.62%)	(92.76%)	(86.44%)	(58.14%)
14. Veradigm Inc.	(2.51%)	2.11%	25.97%	(26.18%)	(27.45%)	(11.66%)	(9.77%)

Payers

15. Centene Corporation	(4.50%)	13.54%	(4.08%)	9.29%	20.82%	74.02%	(2.02%)
16. The Cigna Group	(4.25%)	4.80%	(4.61%)	21.10%	73.08%	128.24%	11.72%
17. Elevance Health, Inc.	(6.62%)	(4.03%)	0.28%	19.42%	39.48%	116.58%	8.60%
18. Humana Inc.	(10.64%)	(15.23%)	(8.65%)	(34.90%)	(18.61%)	23.89%	(32.62%)
19. UnitedHealth Group Incorporated	(0.94%)	14.81%	18.19%	15.96%	49.63%	169.04%	8.41%

Pharmaceuticals & Life Sciences

20. Biogen Inc.	(5.33%)	(16.38%)	(10.11%)	(24.58%)	(31.50%)	(16.74%)	(27.59%)
21. Cencora, Inc.	(6.05%)	(0.10%)	(7.37%)	25.07%	88.43%	173.39%	7.93%
22. Eli Lilly and Company	(7.72%)	(2.15%)	13.88%	64.94%	283.44%	692.22%	49.60%
23. Johnson & Johnson	(2.29%)	10.88%	2.45%	4.05%	0.35%	25.26%	1.31%
24. Merck & Co., Inc.	(4.13%)	(8.27%)	(13.94%)	10.31%	51.19%	34.90%	0.28%
25. Moderna, Inc.	(13.66%)	(43.72%)	(37.28%)	(35.30%)	(82.64%)	319.79%	(40.60%)
26. Pfizer Inc.	(0.24%)	3.43%	4.29%	(12.75%)	(32.71%)	(19.45%)	(2.66%)
27. Roche Holding AG	(5.78%)	8.46%	17.81%	8.05%	(20.87%)	(6.83%)	10.67%
28. Thermo Fisher Scientific Inc.	0.57%	11.86%	6.43%	22.21%	8.27%	112.37%	13.68%

Providers

29. HCA Healthcare, Inc.	2.74%	26.50%	21.86%	65.23%	67.45%	237.51%	47.62%
30. Surgery Partners, Inc.	0.91%	35.52%	8.08%	10.22%	(23.85%)	336.56%	1.93%
31. Tenet Healthcare Corporation	0.22%	24.93%	58.12%	152.24%	150.15%	651.36%	118.60%

Supply Chain / OEM

32. Cardinal Health, Inc.	(1.95%)	12.41%	(1.23%)	27.30%	123.45%	134.20%	7.70%
33. DaVita Inc.	8.62%	18.30%	18.75%	73.42%	41.00%	187.24%	53.36%
34. GE HealthCare Technologies Inc.	10.65%	20.44%	3.23%	37.93%	-	-	22.89%
35. Hologic, Inc.	0.27%	9.71%	4.49%	17.38%	10.36%	61.34%	12.42%
36. McKesson Corporation	(11.88%)	(15.34%)	(7.90%)	13.70%	147.98%	261.79%	4.44%
37. Medtronic plc	1.64%	14.38%	3.30%	14.89%	(28.18%)	(17.11%)	8.68%
38. Molina Healthcare, Inc.	(1.50%)	15.90%	(16.13%)	5.08%	27.00%	214.04%	(7.26%)
39. Premier, Inc.	(1.82%)	7.12%	(9.50%)	(6.98%)	(48.40%)	(30.84%)	(12.01%)
40. Solventum Corporation	8.75%	31.85%	0.24%	-	-	-	-

Healthcare at PNC Overview

Contact Information

Gyasi Chisley
 Head of Corporate Healthcare
 312.338.2257
 gyasi.chisley@pnc.com

Chris Ditta, CFA
 VP, Corporate Healthcare
 215.883.8937
 christopher.ditta@pnc.com

Brian R. Kelly
 Head of PNC Healthcare
 412.762.2976
 brian.r.kelly@pnc.com

Healthcare at PNC by the Numbers²³

\$38B

*in Capital Commitments
 to Healthcare Companies Across the US*

500+

*Employees Directly Serving
 Our Healthcare Clients*

50,000+

*Healthcare Clients Served through PNC's
 Extensive Suite of Solutions*

30+

*Years of Dedicated Sector Coverage via the
 PNC Healthcare Industry Vertical*

750+

*Relationships with
 Private Equity Firms*

\$13.0B

*Healthcare Client Assets Under
 Management (AUM)²⁴*

Brilliant begins here.



To learn more about how PNC Healthcare can deliver ideas, insights and solutions to help you move your business forward, contact your Relationship Manager or visit pnc.com/healthcare.

1. Centers for Medicare & Medicaid Services
2. Share price data is sourced from S&P CapitalIQ as of October 1, 2024
3. 'PNC's Corporate Healthcare Index Value' is a weighted average of the constituents' share prices as of the end of trading on September 30, 2024. The Index is a market capitalization-weighted equity index. Rebalancing occurs on the last trading day of each fiscal quarter, most recently September 30, 2024. '-' is shown where there is insufficient share price history to calculate a percentage return over the specified time period.
4. US Bureau of Labor Statistics
5. PayScale, US Bureau of Labor Statistics
6. KFF: "Medicare Advantage Quality Bonus Payments Will Total at Least \$11.8 Billion in 2024" - September 11, 2024
7. The Wall Street Journal: "Humana Shares Plunge After Changes in Medicare Star Ratings" - October 2, 2024
8. The Wall Street Journal: "CVS, Considering a Breakup, Will Find It's Hard to Do" - October 1, 2024
9. Becker's Hospital Review: "Hospital Downgrades Keep Outpacing Upgrades: S&P" - August 12, 2024
10. Healthcare Innovation: "\$1.94B in Expected Healthcare Losses Due to CrowdStrike Disruption" - August 13, 2024
11. Pitchbook, PNC Research
12. GE HealthCare Press Release
13. Home Health Care News
14. Fierce Healthcare
15. Becker's Hospital Review
16. Modern Healthcare
17. Healthcare Dive
18. Vizient: "Pharmacy Market Outlook Summer 2024" - July 30, 2024
19. Fierce Pharma
20. Hospitalogy: "2024: The Year of Health System Margin Recovery..." - June 3, 2024
21. JPMorgan
22. Fierce Biotech
23. Data as of September 30, 2024
24. "Healthcare Client Assets Under Management" represents assets managed by PNC Bank, NA and PNC Capital Advisors, LLC, an SEC-registered investment adviser and wholly-owned subsidiary of PNC Bank

Brilliantly Boring Since 1865 is a service mark of The PNC Financial Services Group, Inc.

PNC and PNC Bank are registered marks of The PNC Financial Services Group, Inc. ("PNC").

This newsletter, including the Index was prepared for general information purposes only and is not intended as legal, tax or accounting advice or as recommendations to engage in any specific transaction, including with respect to any securities of PNC, and does not purport to be comprehensive. Under no circumstances should any information contained in this newsletter, including the Index, be used or considered as an offer or commitment, or a solicitation of an offer or commitment, to participate in any particular transaction or strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. Any reliance upon any such information is solely and exclusively at your own risk. Please consult your own counsel, accountant, or other investment professional to discuss, or tailor a financial plan to, your specific situation. Neither PNC Bank nor any other subsidiary of The PNC Financial Services Group, Inc., will be responsible for any consequences of reliance upon any opinion or statement contained here, or any omission.

©2024 The PNC Financial Services Group, Inc. All rights reserved.