

PNC's Corporate Healthcare Index

Fourth Quarter 2024

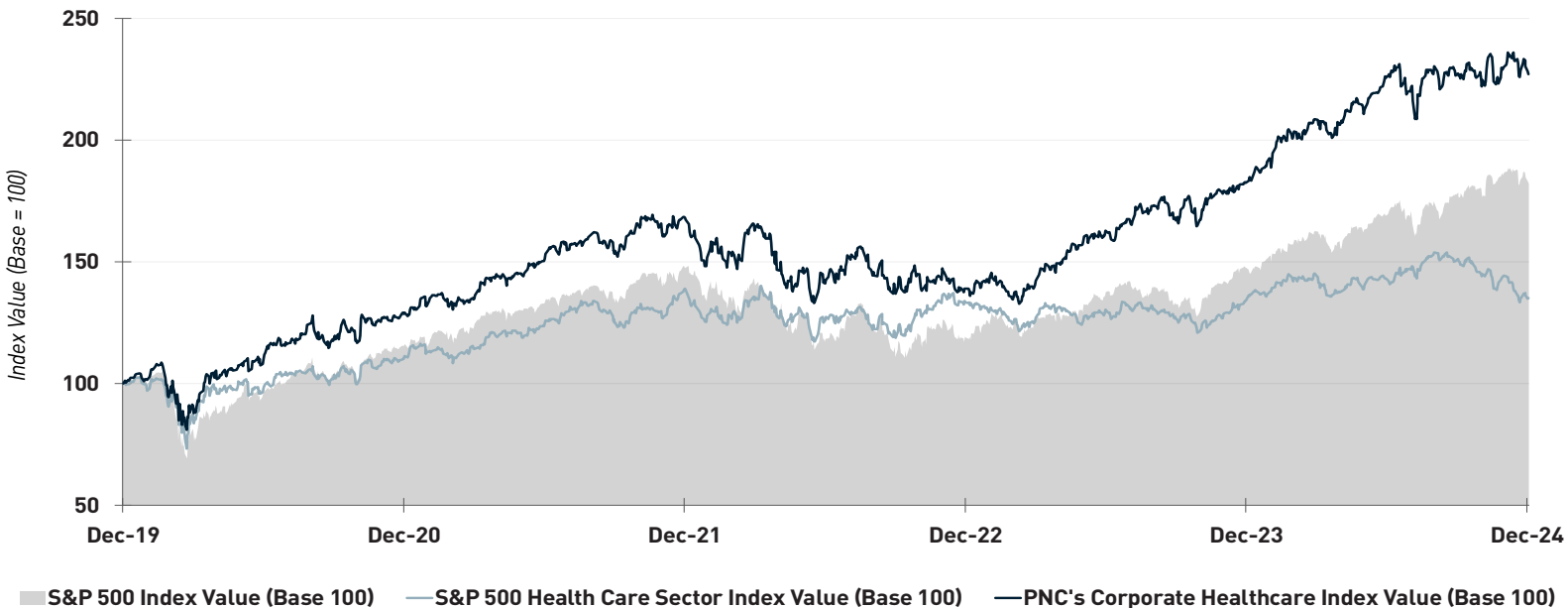


PNC's Corporate Healthcare Index (the "Index") is a tool that examines the performance of—and trends within—the entire healthcare ecosystem. S&P launched the S&P 500 Healthcare Sector Index in 1996, but it is comprised of conventional healthcare entities in traditional subsegments. As healthcare becomes 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 spend of \$4.9T for 2023, 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.
- In the final stretch of 2024, the Index slightly underperformed the S&P 500 while outperforming the broader S&P 500 Healthcare Sector Index. Share price declines across subsectors were partially mitigated by gains among Emerging Trends companies (see page 3).

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



Market Commentary⁴

Healthcare Industry

Amidst all the change within healthcare during the past year—including (though not limited to) cyberattacks, workforce challenges, payor-provider tensions over care denials and prior authorizations, market fluctuations, renewed sensitivity to inflation, and the pending transition of a new Administration and Republican-led Congress—the industry has had quite a year!

In fact, healthcare continues to grapple with consumerism and affordability. As Baby Boomers age and Gen Z’s care needs evolve, HFMA reports that more Americans fear paying for a health-related bill they can ill-afford vs. contracting a disease and accessing the care needed to treat it.⁵ The call for convenience and transparency, particularly through technological advancement (telehealth) and site-of-care shifts (home, outpatient), may (finally) bend the healthcare curve toward the consumer and even improve primary care engagement. While the provider arena has generated a myriad of activity in Q4, other Index subsectors have been impacted by uncertainty and will be influenced through 2025 by the following:

- **Private Equity Pivots (in Healthcare):** Firms like KKR, Thoma Bravo, etc. are hedging their long-term investments within healthcare services / care delivery with other healthcare tech and healthcare-adjacent companies that may turn/exit quicker than healthcare services.⁶ California is the latest state to invoke PE oversight legislation that impacts healthcare services transactions, though, that legislation has stalled.⁷ With the new Administration, any regulatory impacts on PE transactions will likely be enforced at the State level.
- **Primary Care Paradox:** While Walmart and Walgreens divest from primary care, Amazon, Kroger, and (to an extent) CVS are forging ahead with their primary care strategies.⁸ The industry is also undergoing a recent, but familiar, trend from independent physicians to practices that are employed / supported by other healthcare entities (e.g., health systems).⁹ Still, consumers may yet demand primary care services at home and/or digitally, which would account for further site-of-care shifts.
- **Workforce Woes:** Following the December rate cut, jobs reports for the early part of 2025 will be revealing, especially for the healthcare and government-related sectors. Should employment remain steady, and wage / supply inflation prove more persistent than expected, we will likely see the Federal Reserve take their collective foot off the rate-cut gas.
- **Forecast Foresight:** Apart from healthcare delivery, some major publicly-traded healthcare companies are reporting shakier outlooks for 2025, predicated on higher utilization and cost, and diminished bonus payments from the Star Ratings program. Managing earnings expectations has led to some share price decline through the fourth quarter, but the ultimate cost impacts from changes in Star Ratings remain to be seen. However, most major insurers are suing CMS to recalculate the ratings with the hopes of recouping some of those potential losses. Some efforts have already proven successful.¹⁰
- **Regulatory Risk:** Added and rigorous regulation was introduced by the Biden Administration surrounding cybersecurity, M&A activity, private equity, investment disclosures, tax exemption, Medicare Advantage, etc. However, as the new White House Cabinet coalesces, questions remain on which pieces of legislation will be pursued, and which will either be eased or be eradicated altogether. Consensus is that the new administration will be less restrictive on M&A, prompting more deal flow.

Industry Subsectors

Emerging Trends:

- Walgreens’ potential sale to Sycamore Partners signals further potential split of integrated care delivery from retailers.¹¹ CVS eliminates 2,900 jobs and pivots on Oak Street strategy amid leadership changes¹²
- Baylor Scott and White, Memorial Hermann, Novant, and Providence come together to form Longitude Health, aimed at improving operations and system performance¹³
- Tenet continues pivot away from acute care to more outpatient, receiving ~\$5B from 14 hospital sales in 2024.¹⁴ Sutter lays out plan for \$800M outpatient facility.¹⁵ Advocate invests heavily in extant and adjacent service areas: Atlanta, GA and Chicago, IL for \$70M and \$1B, respectively¹⁶
- Anthem walks back anesthesia policy on public backlash¹⁷
- Corporate Venture Capital arms are on the rise and investing in various companies (e.g., Cone Health Ventures / Centivo)¹⁸
- Citi and Apollo join forces to create a \$25B private credit program for healthcare¹⁹

Health Technology / IT:

- While the telehealth and home health pandemic legislation extensions passed, it appears that there will be downstream regulatory risk for both sectors within healthcare. Like many of our peers, we’re keeping a close watch for hints on approach from the new Administration
- Remote Patient Monitoring surged during and after Covid but faces additional challenges from coding and billing inconsistencies²⁰
- Microsoft, EPIC partner with health systems leveraging AI to reduce burnout²¹
- Hinge Health teams with Amazon to focus on musculoskeletal medicine underscoring the significance of disease-specific care²²
- Various health systems and other healthcare providers are seeking consults and special “builds” from Salesforce, EPIC, and other CRMs as patient experience continues to be a focus of CMS²³

Payors:

- Some health Insurers (e.g., Cigna) are cutting Medicare Advantage (MA) in certain markets due to overexposure and regulatory pressure. MA is also driving payor share price fluctuation, as Star Ratings yield lawsuits and expected revenue drops in 2025¹⁰
- Major health plans are leaning into Dual-Eligible Special Needs Plans (D-SNPs) to claw-back some MA margin²⁴
- On-/ off-again M&A rumors fuel speculative discussions surrounding scale, leverage, and landscape but lack operational detail, falling short (e.g., Cigna / Humana)²⁵
- With more states adopting and ratifying Medicaid expansion, Medicaid reimbursement rate increases are also planned for next year²⁶

Pharmaceuticals & Life Sciences:

- Intensified regulatory pressure (PBM Act) from FTC and Congress spark fluctuation in the equities market and even facilitate a structural redesign for large PBMs (CVS, UNH, etc.).²⁷ New uncertainty emerges as Republicans torpedo the Stoppag spending bill two days before the 12/20 deadline
- GLP 1s: accusations of “over-prescriptions” by payors force partnerships between employers and benefits design managers to decrease costs²⁸
- Both Labcorp and Quest are in acquisition mode as hospitals continue the sale of lab assets, decreasing costs and freeing up capital for alternative investment²⁹
- More payors view specialty pharmacy as the next viable revenue generator as other programs (like MA) face uncertainty³⁰

Providers:

- ~70% of hospitals will receive readmission penalties less than 1% for the upcoming year, compared with 67% in 2023. Particularly, as Covid-era data is included in the analysis, higher rates of penalties may become more commonplace³¹
- Major credit rating agencies are docking system outlooks to account for cyberattack vulnerability (e.g., Ascension)³²
- Through the lens of value-based care, some systems are creating joint ventures to improve access, care, and affordability (e.g., Henry Ford / Ascension (MI))³³

Supply Chain / OEM:

- Stanford, Essentia, Winona, and Boulder Community have joined Civica, a generics purchasing consortium of hospitals and health systems focused on reducing shortages through longer-term purchasing contracts with manufacturers³⁴
- Providers are continuing to navigate the IV fluid shortage caused by Hurricane Helene’s destruction of a Baxter International production facility. As a result, many are rethinking their approaches to IV Bag use and may ultimately drive down go-forward demand for the product³⁵
- PE-backed Medline files for IPO, a signal that public exits are attractive for 2025³⁶

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

	Periodic Return Data as of End of Trading on 12/31/24						
	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Year-to-Date
S&P 500 Index Value	(2.50%)	2.07%	7.71%	23.31%	22.71%	82.05%	23.31%
S&P 500 Health Care Sector Index Value	(6.36%)	(10.67%)	(5.62%)	0.90%	(2.61%)	35.06%	0.90%
PNC's Corporate Healthcare Index Value	(1.32%)	(0.18%)	0.71%	24.50%	34.74%	127.06%	24.50%

Index Constituents:

Emerging Trends

1. 23andMe Holding Co.	(8.45%)	(53.24%)	(58.46%)	(82.21%)	(97.52%)	-	(82.21%)
2. agilon health, inc.	(9.09%)	(51.65%)	(70.95%)	(84.86%)	(92.90%)	-	(84.86%)
3. Alphabet Inc.	12.04%	14.14%	3.93%	35.51%	29.08%	182.67%	35.51%
4. Amazon.com, Inc.	5.53%	17.74%	13.53%	44.39%	29.66%	137.46%	44.39%
5. AMN Healthcare Services, Inc.	(8.11%)	(43.57%)	(53.31%)	(68.06%)	(80.39%)	(61.61%)	(68.06%)
6. CVS Health Corporation	(25.00%)	(28.61%)	(23.99%)	(43.15%)	(56.71%)	(39.57%)	(43.15%)
7. JPMorgan Chase & Co.	(4.01%)	13.68%	18.52%	40.92%	51.18%	71.96%	40.92%
8. Owens & Minor, Inc.	(2.97%)	(16.70%)	(3.19%)	(32.17%)	(70.02%)	152.80%	(32.17%)
9. Walgreens Boots Alliance, Inc.	3.44%	4.13%	(22.86%)	(64.27%)	(82.14%)	(84.18%)	(64.27%)
10. Walmart Inc.	(2.32%)	11.89%	33.44%	71.93%	89.93%	128.08%	71.93%

Health Technology / IT

11. Oracle Corporation	(9.85%)	(2.21%)	18.02%	58.06%	88.91%	214.53%	58.06%
12. Salesforce, Inc.	1.32%	22.15%	30.04%	27.05%	31.35%	105.56%	27.05%
13. Teladoc Health, Inc.	(24.12%)	(0.98%)	(7.06%)	(57.82%)	(89.91%)	(89.14%)	(57.82%)
14. Veradigm Inc.	(6.25%)	0.52%	2.63%	(7.05%)	(47.33%)	(0.66%)	(7.05%)

Payors

15. Centene Corporation	0.97%	(19.53%)	(8.63%)	(18.37%)	(28.07%)	(3.64%)	(18.37%)
16. The Cigna Group	(18.25%)	(20.29%)	(16.47%)	(7.78%)	19.21%	35.04%	(7.78%)
17. Elevance Health, Inc.	(9.35%)	(29.06%)	(31.92%)	(21.77%)	(21.12%)	22.14%	(21.77%)
18. Humana Inc.	(14.40%)	(19.90%)	(32.10%)	(44.58%)	(45.91%)	(30.78%)	(44.58%)
19. UnitedHealth Group Incorporated	(17.10%)	(13.48%)	(0.67%)	(3.91%)	0.06%	72.07%	(3.91%)

Pharmaceuticals & Life Sciences

20. Biogen Inc.	(4.80%)	(21.11%)	(34.04%)	(40.91%)	(40.80%)	(48.46%)	(40.91%)
21. Cencora, Inc.	(10.68%)	(0.18%)	(0.28%)	9.40%	68.50%	164.27%	9.40%
22. Eli Lilly and Company	(2.94%)	(12.86%)	(14.73%)	32.44%	177.28%	487.38%	32.44%
23. Johnson & Johnson	(6.70%)	(10.76%)	(1.05%)	(7.73%)	(15.70%)	(0.86%)	(7.73%)
24. Merck & Co., Inc.	(2.13%)	(12.40%)	(19.64%)	(8.75%)	29.28%	9.38%	(8.75%)
25. Moderna, Inc.	(3.44%)	(37.78%)	(64.99%)	(58.19%)	(83.23%)	112.58%	(58.19%)
26. Pfizer Inc.	1.22%	(8.33%)	(5.18%)	(7.85%)	(53.92%)	(32.29%)	(7.85%)
27. Roche Holding AG	0.00%	(5.58%)	2.40%	4.50%	(32.92%)	(18.63%)	4.50%
28. Thermo Fisher Scientific Inc.	(1.77%)	(15.90%)	(5.93%)	(1.99%)	(21.50%)	60.13%	(1.99%)

Providers

29. HCA Healthcare, Inc.	(8.27%)	(26.15%)	(6.58%)	10.89%	16.12%	103.06%	10.89%
30. Surgery Partners, Inc.	(11.20%)	(34.34%)	(11.01%)	(33.82%)	(60.30%)	35.23%	(33.82%)
31. Tenet Healthcare Corporation	(11.53%)	(24.05%)	(5.11%)	67.04%	56.94%	231.92%	67.04%

Supply Chain / OEM

32. Cardinal Health, Inc.	(3.25%)	7.01%	20.29%	17.33%	127.22%	133.83%	17.33%
33. DaVita Inc.	(10.00%)	(8.77%)	7.92%	42.75%	31.84%	99.32%	42.75%
34. GE HealthCare Technologies Inc.	(6.06%)	(16.70%)	0.33%	1.11%	-	-	1.11%
35. Hologic, Inc.	(9.32%)	(11.50%)	(2.91%)	0.90%	(4.00%)	38.08%	0.90%
36. McKesson Corporation	(9.32%)	15.27%	(2.42%)	23.10%	129.38%	312.02%	23.10%
37. Medtronic plc	(7.70%)	(11.27%)	1.49%	(3.03%)	(23.16%)	(29.59%)	(3.03%)
38. Molina Healthcare, Inc.	(2.30%)	(15.53%)	(2.10%)	(19.45%)	(10.41%)	114.50%	(19.45%)
39. Premier, Inc.	(7.42%)	6.00%	13.55%	(5.19%)	(48.77%)	(44.03%)	(5.19%)
40. Solventum Corporation	(7.62%)	(5.25%)	24.92%	-	-	-	-

Healthcare at PNC Overview

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Healthcare at PNC by the Numbers³⁷

\$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)³⁸*

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 Capital IQ as of January 1, 2025
3. 'PNC's Corporate Healthcare Index Value' is a weighted average of the constituents' share prices as of the end of trading on December 31, 2024. The Index is a market capitalization-weighted equity index. Rebalancing occurs on the last trading day of each fiscal quarter, most recently December 31, 2024. '-' is shown where there is insufficient share price history to calculate a percentage return over the specified time period.
4. Market Commentary Page Sources: Becker's Hospital Review, Bloomberg, Fierce Healthcare, Healthcare Dive, HFMA, Modern Healthcare, Physicians Advocacy Institute, Pitchbook, Press Releases, Reuters, The Wall Street Journal
5. HFMA: "David Johnson: 10 Forces Are Combining to Disrupt Healthcare's Status Quo" - September 19, 2024
6. Pitchbook: "Q3 2024 Healthcare Services PE Update" - November 7, 2024
7. Modern Healthcare: "How Stalled Private Equity Oversight Bills May Sway M&A" - October 4, 2024
8. Modern Healthcare: "Why Big Retailers Are Hitting Roadblocks in Senior Care" - November 11, 2024
9. Physicians Advocacy Institute: "PAI-Avalere Report on Physician Employment Trends and Acquisitions of Medical Practices: 2019-2023" - April 2024
10. Healthcare Dive: "CMS Ordered to Recalculate UnitedHealthcare's 2025 MA Stars" - November 25, 2024
11. The Wall Street Journal: "Walgreens is in Talks to Sell Itself to Private-Equity Firm Sycamore Partners" - December 11, 2024
12. Reuters: "CVS Health to Lay Off Nearly 2,900 Employees in Cost-Cutting Push" - October 1, 2024
13. "With Unveiling of Longitude PHM, Execs Discuss Value-Based Care Goals" - December 16, 2024
14. Becker's: "Tenet Receives \$4.8B from 14 Hospital Sales" - October 31, 2024
15. Modern Healthcare: "Sutter Health Lays Out \$800 Million Outpatient Project" - December 17, 2024
16. Fierce Healthcare
17. Becker's: "Anthem BCBS Walks Back Controversial Anesthesia Reimbursement Policy" - December 5, 2024
18. Modern Healthcare: "Why Health Systems Are Teaming Up to Create Companies" - October 11, 2024
19. Bloomberg: "Citi, Apollo Join Forces in \$25 Billion Private Credit Push" - September 26, 2024
20. Fierce Healthcare: "AMA Panel Changes Major Reporting Requirement for Remote Monitoring, Removing Barriers for the Industry" - October 29, 2024
21. Kaiser Family Foundation: "Microsoft, Epic to Build New AI Tool Targeting Nurses' Workload" - October 11, 2024
22. Hinge Health Press Release
23. Modern Healthcare: "Salesforce, Epic and the Rise of CRM Programs" - December 13, 2024
24. Modern Healthcare: "Medicare Advantage Insurers Bank on Special Needs Plans in 2025" - October 9, 2024
25. Modern Healthcare: "What a Cigna-Humana Merger Could Look Like" - October 22, 2024
26. Modern Healthcare: "Medicaid Rate Hikes Boost Molina Healthcare" - October 24, 2024
27. Modern Healthcare: "Warren, Hawley Propose PBM Act to Break Up CVS, UnitedHealth" - December 11, 2024
28. Modern Healthcare: "GLP-1 Costs Drive Employers to Specialty Benefits Vendors" - September 25, 2024
29. Modern Healthcare: "Why Labcorp, Quest Diagnostics are Buying Hospital Labs" - October 2, 2024
30. Modern Healthcare: "Elevance, Cigna, CVS Accelerate Push Into Specialty Pharmacy" - October 30, 2024
31. Modern Healthcare: "More Hospitals to be Charged Readmissions Penalties: CMS" - September 15, 2023
32. Modern Healthcare: "Ascension Cyberattack Prompts Revised Outlook from Moody's" - September 26, 2024
33. Henry Ford Health Press Release
34. Modern Healthcare: "Stanford, Essentia and Other Health Systems Join Civica" - December 5, 2024
35. Modern Healthcare: "IV Fluid Shortage Has Hospitals Rethinking Patient Hydration" - November 29, 2024
36. Modern Healthcare: "Medline Submits Confidential Filing for Potentially Huge IPO" - December 19, 2024
37. Data as of December 31, 2024, except for Healthcare Client AUM data which is as of September 30, 2024
38. "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

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