

PNC's Corporate Healthcare Index

Second Quarter 2024

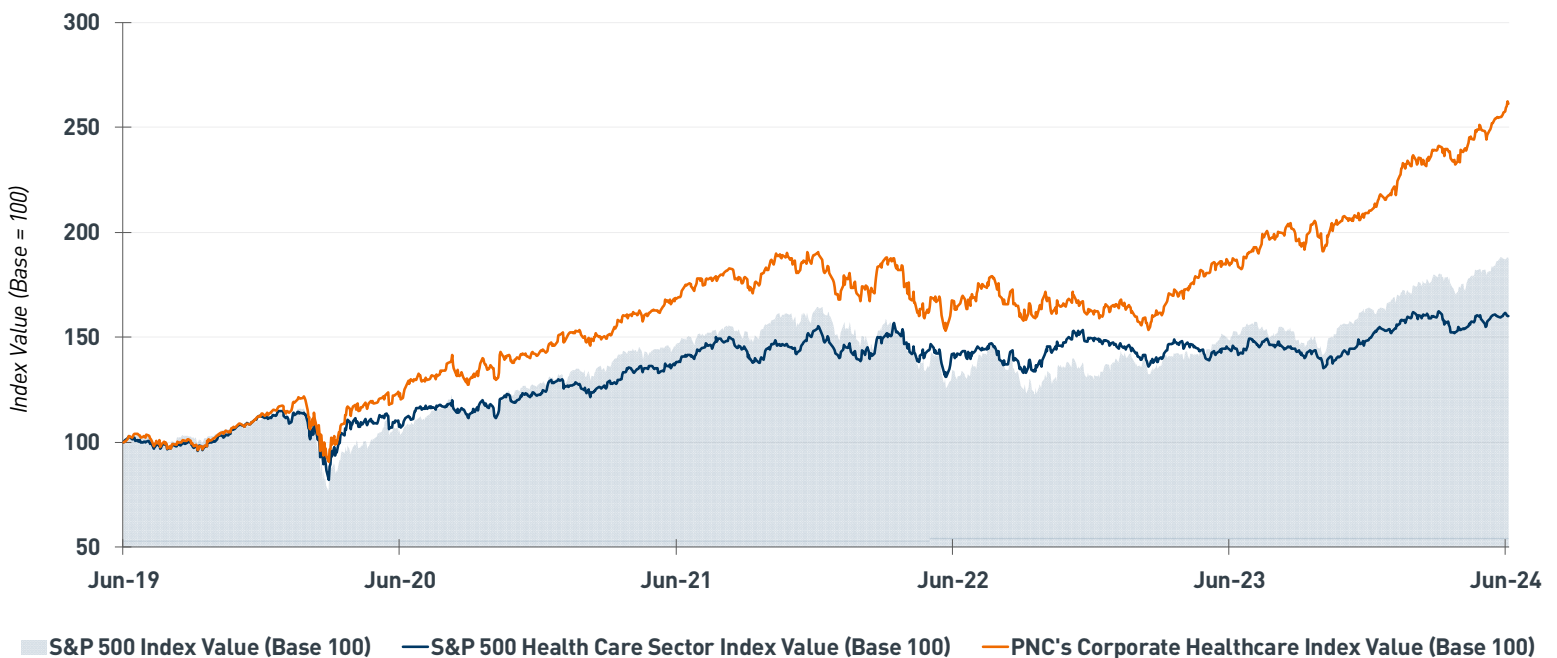


PNC's Corporate Healthcare Index (the "Index") is a tool that examines the performance of—and trends within—the entire healthcare ecosystem. S&P launched the S&P 500 Healthcare Sector Index in 1996, but it is only comprised of conventional healthcare entities in traditional subsegments. As healthcare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

Healthcare is the largest industry in the United States with an approximate annual spend of \$4.5T, more than 17% of GDP¹. 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 Health Care Sector Index.
- Over the last quarter, the Index outperformed both the S&P 500 Health Care Sector Index and the broader S&P 500 Index, mainly due to strong quarterly returns from a few, large companies; namely Alphabet, Amazon, Walmart, and Eli Lilly (see page 3).

PNC's Corporate Healthcare Index^{2, 3, 4}



Market Commentary⁵

Healthcare Industry⁵

PNC Healthcare continues to evaluate the composition of the 40 entities that comprise the Index, largely due to ongoing M&A activity as well as changes in status of various companies. For example, 3M's Q1 spinoff of Solventum predicated its addition to (and 3M's subtraction from) the Index. Recently, there have been announcements of some currently public companies looking to go private (e.g., 23andMe), as well as unconfirmed reports surrounding potential spinoffs (e.g., Teladoc selling BetterHelp, Select Medical selling off Concentra, etc.). We believe these trends are occurring for a variety of reasons, but chief among them include enhancing perceived value and/or shoring up liquidity. Lastly, there appears to be growing interest in transacting among certain pockets of healthcare, even with continued uncertainty around interest rates, inflation, and the presidential election. As the market and its players continue to shift, it will be necessary to further assess the Index's composition.

Consistent with the M&A theme, there has been increased activity within the healthcare middle market space which is becoming increasingly more competitive across subsectors. While strategic and financial buyers amass cash, potential acquisition targets have been improving operations and cash flows in service of generating better multiples. However, buyers are choosy. UnitedHealth reportedly dropped its bid for of Steward's physician group. Further, retailers are continuing to divest primary care assets. Finally, providers continue to consolidate: Risant acquired Cone, UAB purchased 5 Ascension hospitals, and St Peter's in NJ is becoming part of Atlantic Health.

An additional factor that we expect will influence healthcare over the remaining months of 2024 (and into 2025) is the proliferation of AI within healthcare. Its potential impact on the industry is nebulous at this point, but there are major corporations—from Microsoft to NVIDIA to Google to lesser-known outfits—vying for the lead in the race of AI adoption. It's unclear who will emerge as the market share leader, but some studies show that investment estimates could top \$11 billion by the end of the year.⁶

With the second quarter now complete, there are several considerations looming large for the healthcare industry in the second half of 2024:

- Markets and economists are still forecasting some action from the Federal Reserve before the end of the year. While the Fed maintains independence, election outcomes can shift consumer sentiment and behavior, which may alter the runway to Fed rate cuts
- Healthcare continues to buoy the US job market, but consolidation, cost of capital, wage stagnation, and eroding purchasing power may impact employment rates
- The Waystar and Tempus AI IPOs are encouraging for the industry and have given confidence to other companies looking at that route (e.g., Ardent Health)

Industry Subsectors⁵

Emerging Trends:

- The FTC continues to scrutinize M&A, causing Novant Health (NC) to withdraw its bid for 2 Community Health Systems' hospitals. The FTC's noncompete ban may heavily impact the industry, but questions remain as legal challenges mount
- Waystar raises nearly \$1B for its IPO while PACS nets \$450M for its own
- As retail and ancillary clinic ventures continue to struggle, Cigna announces that it will close some Evernorth Clinic operations. Dollar General also nixes plans for retail clinics and a mobile health program. Walgreens will sell off some of its VillageMD stake, reducing its holdings to less than 50%
- CVS joins Walmart and Walgreens in potentially halting its primary care expansion, "shopping" Oak Street Health around for outside investment. Meanwhile, CVS acquires Medicare Advantage broker, Hella+Health

Health Technology / IT:

- The VA and Oracle extended their EHR contract for 11 months despite some patient safety and technical issues throughout the previous year, serving as a lift for the ailing Cerner business
- EPIC continues to capture market share from competitors
- The American Medical Association and HHS are considering a CPT code system expansion to include Remote Patient Monitoring which would increase reimbursement and payment for these types of entities
- Veradigm explores a sale after shaking up its C-Suite
- Confirmed the Ascension cyberattack was the result of phishing tactics. Geisinger, Kaiser Permanente, and Lurie Children's endure data breaches in Q2 as well. Expect investment and growing pains as providers bolster cybersecurity

Payors:

- Medicare Advantage (MA) continues to evolve. [Read PNC's in-depth coverage here](#)
- Some payors are getting surprised by upticks in Medical Loss Ratios (MLRs) in the post-Covid environment. CVS reported \$900M of unexpected costs from higher utilization rates among MA enrollees. Unfortunately, higher MLRs and associated cost may cause payors to rethink MA benefits packages, ultimately limiting future options for seniors
- Oscar Health plans to leverage the ACA exchange to grow its member base. Oscar posted its first ever quarterly profit in Q1

Pharmaceuticals & Life Sciences:

- Amazon's RxPass drug prescription program is now available to Medicare members in 46 states. The company has also inked partnerships with Blue Cross Idaho and Eli Lilly, demonstrating belief in its pharmacy segments
- Amazon and Weight Watchers will offer GLP-1s. Certain companies are charging up to \$1,400 per month for GLP-1 injections while Hims & Hers charges \$199. Hims & Hers' compounded version lacks FDA approval, and production hinges on the continued scarcity of approved versions
- Express Scripts, owned and operated by Cigna, announces partnership to focus on hypertension and diabetes among Medicare beneficiaries

Providers:

- Kaiser's Risant Health national value-based care network has its second entrant: Cone Health in North Carolina
- Studies show that hospitals are treating more patients post-pandemic, yet margins are plateauing among some service lines, and health systems are evaluating offerings in key markets
- Despite tight margins, hospitals and health systems continue to invest in improvements and construction of facilities, particularly by way of Medical Office Buildings (MOBs) and Ambulatory Surgery Centers (ASCs)
- Sound Physicians secures more capital after demonstrating reach in more than 400 hospitals across the US

Supply Chain / OEM:

- Vizient announces its planned purchase of the rest of Kaufman Hall from PE owner Madison Dearborn Partners, part of Vizient's ongoing push towards full-service consultative services
- Intermountain Health is expanding its medical supply warehouse space by 40,000 feet, increasing storage capacity by ~30%, and bringing it closer to the system itself, as US providers continue to find ways to bolster supply chain resiliency
- Moreover, the FDA is advising healthcare providers to shore up supply chains ahead of this year's hurricane season, citing potential for disruption and impacts on patient care

PNC's Corporate Healthcare Index - Index Constituents and Periodic Return Data^{2, 3, 4}

	Periodic Return Data as of End of Trading on 6/28/24						
	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Year-to-Date
S&P 500 Index Value	3.67%	3.92%	14.16%	24.76%	27.06%	85.62%	15.13%
S&P 500 Health Care Sector Index Value	3.27%	(1.37%)	6.95%	11.70%	15.75%	58.54%	5.06%
PNC's Corporate Healthcare Index Value	5.68%	8.29%	24.14%	41.13%	54.53%	160.24%	23.28%
Index Constituents:							
Emerging Trends							
1. 23andMe Holding Co.	(35.76%)	(26.47%)	(57.83%)	(77.12%)	(96.65%)	-	(56.94%)
2. agilon health, inc.	13.54%	7.21%	(47.81%)	(62.50%)	(83.88%)	-	(49.42%)
3. Alphabet Inc.	3.55%	20.69%	29.89%	51.56%	49.19%	236.44%	31.83%
4. Amazon.com, Inc.	6.17%	7.13%	25.99%	49.76%	12.35%	104.11%	28.89%
5. AMN Healthcare Services, Inc.	(5.16%)	(18.05%)	(31.80%)	(52.38%)	(47.17%)	(5.57%)	(33.85%)
6. CVS Health Corporation	10.04%	(25.95%)	(25.21%)	(13.33%)	(29.22%)	8.39%	(26.95%)
7. JPMorgan Chase & Co.	2.09%	0.98%	18.77%	45.94%	30.04%	80.91%	17.54%
8. Owens & Minor, Inc.	(22.28%)	(51.28%)	(31.09%)	(29.80%)	(68.11%)	321.88%	(29.87%)
9. Walgreens Boots Alliance, Inc.	(18.77%)	(44.24%)	(54.53%)	(58.41%)	(77.01%)	(77.88%)	(54.62%)
10. Walmart Inc.	4.30%	12.53%	28.91%	30.77%	44.04%	83.84%	27.52%
Health Technology / IT							
11. Oracle Corporation	14.11%	12.41%	32.89%	21.17%	81.40%	147.85%	35.69%
12. Salesforce, Inc.	(5.35%)	(14.64%)	(3.19%)	21.18%	5.25%	69.45%	0.38%
13. Teladoc Health, Inc.	(12.29%)	(35.23%)	(55.75%)	(61.33%)	(94.12%)	(85.27%)	(55.40%)
14. Veradigm Inc.	0.00%	23.38%	(9.35%)	(20.83%)	(48.68%)	(18.31%)	(11.63%)
Payors							
15. Centene Corporation	(5.96%)	(15.52%)	(10.27%)	0.30%	(9.09%)	26.43%	(13.71%)
16. The Cigna Group	(0.71%)	(8.98%)	10.41%	20.32%	39.44%	109.82%	6.60%
17. Elevance Health, Inc.	7.19%	4.50%	15.62%	23.96%	41.92%	92.01%	13.16%
18. Humana Inc.	8.21%	7.77%	(17.99%)	(16.00%)	(15.60%)	40.84%	(20.52%)
19. UnitedHealth Group Incorporated	5.06%	2.94%	(2.98%)	7.34%	27.18%	108.70%	(5.58%)
Pharmaceuticals & Life Sciences							
20. Biogen Inc.	8.12%	7.51%	(11.04%)	(18.38%)	(33.05%)	(0.88%)	(13.41%)
21. Cencora, Inc.	2.85%	(7.28%)	10.72%	18.75%	96.79%	164.25%	8.04%
22. Eli Lilly and Company	11.56%	16.38%	55.87%	97.38%	294.47%	717.20%	52.88%
23. Johnson & Johnson	1.19%	(7.60%)	(6.65%)	(10.31%)	(11.28%)	4.94%	(8.63%)
24. Merck & Co., Inc.	(1.67%)	(6.18%)	13.82%	10.10%	59.19%	47.64%	9.33%
25. Moderna, Inc.	(19.72%)	11.44%	20.20%	(3.46%)	(49.46%)	711.13%	5.56%
26. Pfizer Inc.	0.58%	0.83%	(2.81%)	(22.90%)	(28.55%)	(35.41%)	(5.89%)
27. Roche Holding AG	8.67%	8.62%	2.91%	(9.19%)	(28.42%)	(9.16%)	2.04%
28. Thermo Fisher Scientific Inc.	(2.52%)	(4.85%)	3.76%	8.40%	9.62%	88.30%	1.63%
Providers							
29. HCA Healthcare, Inc.	(1.18%)	(3.67%)	18.78%	7.26%	55.40%	137.69%	16.69%
30. Surgery Partners, Inc.	(11.07%)	(20.25%)	(26.05%)	(46.61%)	(64.29%)	192.26%	(24.79%)
31. Tenet Healthcare Corporation	1.13%	26.56%	74.47%	66.81%	98.58%	543.90%	74.97%
Supply Chain / OEM							
32. Cardinal Health, Inc.	2.27%	(12.14%)	(1.95%)	4.81%	72.22%	108.75%	(4.19%)
33. DaVita Inc.	(5.54%)	0.38%	32.68%	41.92%	15.06%	146.30%	29.64%
34. GE HealthCare Technologies Inc.	(0.68%)	(14.29%)	0.49%	0.95%	-	-	2.03%
35. Hologic, Inc.	2.57%	(4.76%)	4.20%	(7.43%)	11.29%	54.62%	2.47%
36. McKesson Corporation	4.50%	8.79%	27.66%	40.66%	205.40%	334.59%	23.37%
37. Medtronic plc	(3.41%)	(9.68%)	(4.86%)	(8.86%)	(36.59%)	(19.18%)	(4.99%)
38. Molina Healthcare, Inc.	(5.62%)	(27.63%)	(16.59%)	2.86%	17.48%	107.70%	(19.98%)
39. Premier, Inc.	(0.21%)	(15.52%)	(16.95%)	(31.39%)	(46.34%)	(52.26%)	(17.86%)
40. Solventum Corporation	(11.45%)	(23.97%)	-	-	-	-	-

Healthcare at PNC Overview

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Healthcare at PNC by the Numbers⁷**\$37B**

*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*

\$12.7B

*Healthcare Client Assets Under
Management (AUM)⁸*

READY TO HELP

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.

- Centers for Medicare & Medicaid Services
- Share price data is sourced from S&P CapitalIQ as of July 1, 2024
- 'PNC's Corporate Healthcare Index Value' is a weighted average of the constituents' share prices as of the end of trading on June 28, 2024. The Index is a market capitalization-weighted equity index. Rebalancing occurs on the last trading day of each fiscal quarter, most recently June 28, 2024. '-' is shown where there is insufficient share price history to calculate a percentage return over the specified time period
- Beginning with the Q1 2024 edition of PNC's Corporate Healthcare Index, the spinoff of 3M's healthcare business, Solventum, has replaced 3M within the Index. Solventum began trading on the NYSE on Wednesday, March 27, 2024
- Market Commentary Page Sources: Becker's Hospital Review, Fierce Healthcare, Healthcare Dive, Healthcare Finance News, Modern Healthcare, The Wall Street Journal
- Modern Healthcare: *Healthcare AI Investment is on the Rise: 5 Things to Know*, June 13, 2024
- Data as of June 30, 2024
- "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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