PiperJaffray®

HEARTLAND SUMMIT

2017 Recap

Panel Participants

- Christina Åkerman, M.D., Ph.D., President, International Consortium for Health Outcomes Measurement
- Joe Almeida, Chairman, President & CEO, Baxter International Inc.
- George Barrett, Chairman & CEO, Cardinal Health, Inc.
- Stanley Bergman, Chairman & CEO, Henry Schein, Inc.
- Robert Bradway, Chairman & CEO, Amgen Inc.
- Jonathan Bush, Chairman, President & CEO, athenahealth, Inc.
- Patrick Conway, M.D., Deputy Administrator for Innovation and Quality and Director, Center for Medicare and Medicaid Innovation, Centers for Medicare & Medicaid Services
- Ajay Dhankhar, Ph.D., Senior Partner, McKinsey & Company
- Gianrico Farrugia, M.D., CEO of Mayo Clinic in Florida and Vice President of Mayo Clinic
- Bill Frist, M.D., Former U.S. Senator, Tennessee; Former Senate Majority Leader
- Ann Gallo, Partner, Global Industry Analyst, Wellington Management Group LLP
- Jason Gorevic, President & CEO, Teladoc, Inc.
- Alex Gorsky, Chairman & CEO, Johnson & Johnson
- John Hammergren, Chairman, President & CEO, McKesson Corporation
- Stephen Hemsley, CEO, UnitedHealth Group Inc.
- Hervé Hoppenot, Chairman, President & CEO, Incyte Corporation
- Omar Ishrak, Ph.D., Chairman & CEO, Medtronic plc
- David King, Chairman, President & CEO, Laboratory Corporation of America® Holdings (LabCorp®)
- Mike Mahoney, Chairman & CEO, Boston Scientific Corporation
- William McKeon, President & CEO, Texas Medical Center
- Larry Merlo, President & CEO, CVS Health Corporation
- John Penshorn, SVP, UnitedHealth Group Inc.
- David Ricks, Chairman, President & CEO, Eli Lilly and Company
- James Robinson, President, Americas Operations, Astellas US LLC
- Stephen Rusckowski, Chairman, President & CEO, Quest Diagnostics Incorporated
- Brent Saunders, Chairman, President & CEO, Allergan plc
- John Schroer, Director, Sector Head, Healthcare, Allianz Global Investors
- John Sculley, Chairman & CMO, RxAdvance, Investor, Former Co-CEO, Pepsico, Inc. and CEO, Apple Inc.
- Joseph Swedish, Chairman, President & CEO, Anthem, Inc.
- Taymour Tamaddon, Portfolio Manager, U.S. Large Cap Growth, T. Rowe Price Group, Inc.
- Kent Thiry, Chairman & CEO, DaVita, Inc.
- Rick Valencia, President, Qualcomm Life, Inc.
- Penny Wheeler, M.D., President & CEO, Allina Health
- David Wichmann, President, UnitedHealth Group Inc.
- Ron Williams, Former Chairman & CEO, Aetna Inc., Board Member, Johnson & Johnson

Piper Jaffray Sixth Annual Heartland Summit Overview

Piper Jaffray's 2017 Heartland Summit gathered some of the most influential CEOs, visionaries and policymakers in healthcare to discuss the biggest areas of challenge, change, progress and opportunity impacting the industry today. The Heartland Summit is constructed as a series of unscripted panel discussions, where healthcare leaders can speak freely without the worry of the media spotlight. Each year, Piper Jaffray shapes the agenda for the Heartland Summit around a timely and topical theme. In 2016, the Heartland Summit focused on 'Value-Based Medicine'. The theme for the 2017 Heartland Summit focused on 'Collaboration in Practice', a particularly relevant topic given the political environment around reform and the sheer complexity of the challenges involving parties from all corners of the healthcare system.

The panelist discussions focused on some of the key areas where collaboration is critical for progress in healthcare.

2017 Heartland Summit Panels

- A Vision for Collaboration in Healthcare
- The Continuing Evolution of Healthcare Delivery
- Bridging the Gaps Toward Healthcare Consumerism
- Collaboration in Practice
- Innovation and Access in Therapeutics
- The Art of Healthcare Portfolio Management
- Moving Healthcare From Reaction to Prevention
- Redefining Business Boundaries in Healthcare
- Seeing Value-Based Solutions in Practice
- Combination as Collaboration
- From ObamaCare to… ObamaCare?

The Heartland Summit kicked-off with a rare address by **UnitedHealth Group Inc. CEO, Stephen Hemsley**. Hemsley provided a rallying note to his CEO colleagues in attendance, reminding them that the U.S. healthcare system remains the "best place to be if you are battling cancer, battling cardiovascular disease, need the most progressive care – if you have a rare disease, this is the place you want to be." Hemsley did not feign naïveté about the hard realities and trade-offs, acknowledging that the U.S. healthcare system "is a high-performing system that costs too much." Collaboration can help bridge these two truths.

Hemsley, who has participated in each Heartland Summit since its inception, spoke of the "hallway partnerships" which he knew took place at these gatherings. He encouraged those in attendance to use the Heartland Summit to engage in direct dialogue to make the healthcare system work better for everyone, rather than waiting for the public sector to mandate a solution. "Leaders in this room," Hemsley implored, "you and your colleagues across the industry are in the best position to drive change. You possess the actual knowledge; your hands are closest to the levers of change. We have vastly more resources, both financial and intellectual, in the right places and our organizations are more adept at driving innovation." Hemsley concluded his remarks by asking Heartland Summit attendees to collaborate and work together toward the collective goal of improving healthcare. "We all share common realities, we all have our businesses to run, investments to run, but we all share a common customer base… What impacts one portion of healthcare impacts the rest."

Hemsley's remarks set an important tone for the day, one that was carried through in each of the panel discussions, and more importantly, one that was echoed in the hallway chatter and dinner conversations that truly make Piper Jaffray's Heartland Summit a unique event.

The Continuing Evolution of Healthcare Delivery

Care delivery continues to move out of the hospital setting, enabled by different models and advances in technology. Unlike traditional industries, de-consolidating and disbursing seem to drive efficiency. While telemedicine has made significant advances, technologies in the lab and diagnostic space that seemed too good to be true… were too good to be true. How will technology continue to alter how we change and substitute care delivery? What are going to be the key drivers and impediments of this change? Is there a most efficient model, and how do we get there?

Panelists: Jonathan Bush, Chairman, President & CEO, athenahealth, Inc.
Gianrico Farrugia, M.D., CEO of Mayo Clinic in Florida and Vice President of Mayo Clinic
Jason Gorevic, President & CEO, Teladoc, Inc.
David King, Chairman, President & CEO, Laboratory Corporation of America® Holdings (LabCorp®)

Moderator: Keith Anderson, Managing Director, Piper Jaffray & Co.

"After all, healthcare is about delivering total care, not just a slice of care."

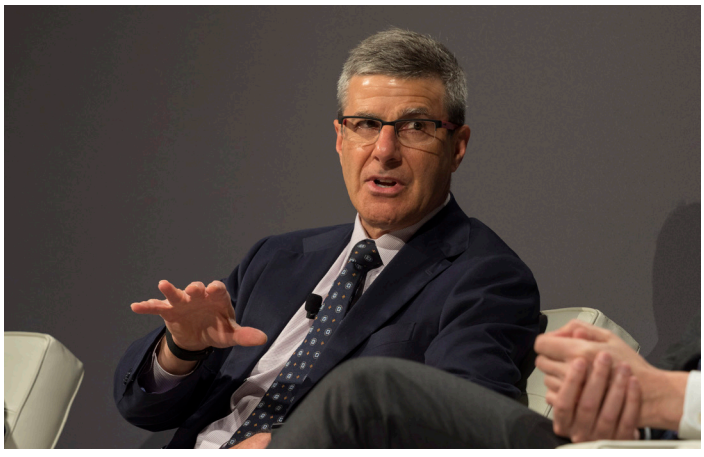
DAVID KING, CHAIRMAN, PRESIDENT & CEO,
LABORATORY CORPORATION OF AMERICA® HOLDINGS (LABCORP®)

Despite healthcare delivery being an industry notorious for its slow adoption of new ideas, it is changing drastically with outpatient service and the increasing possibilities enabled by telemedicine becoming more prevalent. The distinguished panel participants engaged in a robust discussion about these possibilities and the key drivers and enablers. The increasing prevalence of high-deductible healthcare plans is a key driver of this evolution in healthcare delivery and may ultimately have a significant impact on physician-to-patient relationships, but also physician-to-physician relationships.

Gianrico Farrugia, M.D., CEO of Mayo Clinic in Florida started the panel discussing his recent book, "Think Big, Start Small, Move Fast." Dr. Farrugia observed that "the practice of medicine [has been] improving dramatically over the past 25 years, including the precision and accuracy, but the delivery of medicine is stagnated." The Mayo Clinic has been acquiring data over the last 25 years. Using this data, in one example, Mayo found telemedicine reduced the time to administer drugs in an emergency setting by nine minutes, which in turn, drove a 55% reduction in mortality. In addition, the minor adjustment to delivery of care lowered readmissions by 20%-40%. This was discussed as a real example of where modest investments can increase the quality of care while lowering costs.

Panelists grappled with the concept of healthcare delivered through an Uber-type model, such as using an application or website to request healthcare, on demand, at a location of the patient's choosing. Although the idea itself is intriguing, lab testing, reimbursement and quality of care would be large


Gianrico Farrugia, M.D., Mayo Clinic


David King, Laboratory Corporation of America® Holdings (LabCorp®)

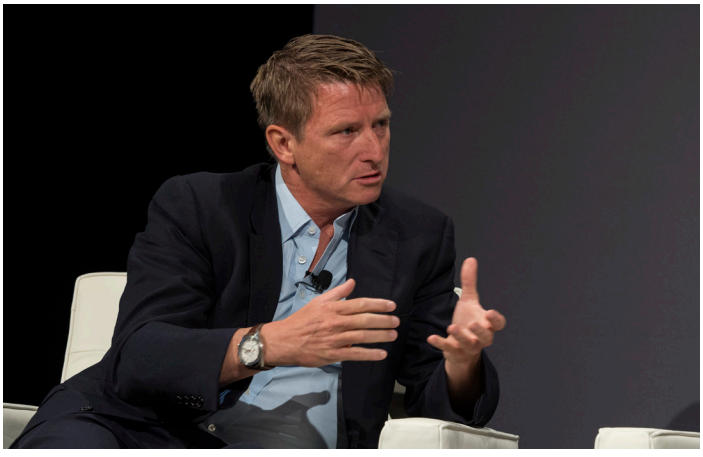
hurdles. **David King, chairman, president & CEO of LabCorp®** stated, “After all, healthcare is about delivering total care, not just a slice of care.”

What pieces need to be in-place to deliver ‘total care’? Seamless communication and record tracking, consumer awareness and pricing transparency were discussed by the panel as key barriers. Inefficiency of medical records was referenced by the panel as a key barrier. According to Dr. Farrugia, 66% of physicians’ time is spent on paperwork. This is a massive burden for physicians that could be better served caring for patients. **Jonathan Bush, chairman, president & CEO of athenahealth, Inc.** proposed the idea of a “medical utopia”, where lab results can be sent to a virtual patient portal, rather than a physician, allowing for faster results and easier access to records for both patients and doctors.

Are consumers aware of all of the care delivery options available to them? “Consumers just don’t know [telemedicine] is an option,” remarked **president & CEO of Teladoc, Inc., Jason Gorevic**. “In response to this lack of awareness, Teladoc is making a concerted effort to drive consumer engagement through social media news feeds, becoming a top hit on Google, and ultimately, growing through positive word-of-mouth with the goal of becoming a brand name among companies who deliver high-quality care.”

Even with the power of search tools and brand awareness, what is fundamentally going to alter consumer behavior to become engaged in selecting and directing their healthcare options? The growth of high-deductible health plans is prompting consumers to be more cost-conscious and demand pricing transparency. However, the panel agreed that consumers are making healthcare decisions “blindfolded” and rarely understand the costs of the care they are receiving. As a personal example, David King shared an anecdote of being charged hospital rates for “a clinic above a delicatessen”.

The technology and tools are largely available to help deliver better care at lower costs. Some of the sticking points in the system will continue to get ironed out, from medical records to on-demand, on-location lab work. Incentives continue to improve and align with the realities of care. Consumers have access to parts of the picture, but need a complete, transparent view to make informed decisions to align with these incentives.



Jonathan Bush, athenahealth, Inc.

Jason Gorevic, Teladoc, Inc.

Bridging the Gaps Toward Healthcare Consumerism

As healthcare increasingly shifts from B2B to B2C, how are health system participants developing better tools to improve decision-making in the face of greater cost sharing? Are there public policy options and private market actions that can help consumers better afford care and navigate this new world of consumerism? What gaps remain to be filled?

Panelists: David Ricks, Chairman, President & CEO, Eli Lilly and Company
John Sculley, Chairman & CMO, RxAdvance, Investor, Former CEO, Pepsico, Inc. and Apple Inc.
Joseph Swedish, Chairman, President & CEO, Anthem, Inc.

Moderator: Sean Wieland, Senior Research Analyst, Piper Jaffray & Co.

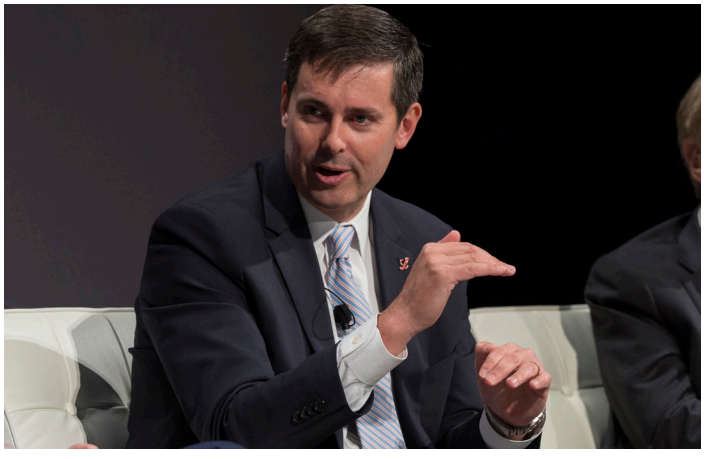
"If we can't give them the enablement tools to make the best choice, we are putting them out in the desert without any ability to make reliable choices."

JOSEPH SWEDISH, CHAIRMAN, PRESIDENT & CEO, ANTHEM, INC.

The second panel of the day picked up right where the first finished. The move to high-deductible healthcare plans and creation of health savings accounts were designed to put consumers in control of their healthcare finances and presumably decrease spend. However, our panelists agreed, these two programs have yet to live up to the promise. **Joseph Swedish, chairman, president & CEO of Anthem, Inc.** acknowledged that healthcare pricing is a black box and that pricing transparency needs to be one of the tools to enable consumerism. "We have to give them the tools as we are putting them in a high-deductible healthcare plan," said Swedish, "and if we can't give them the enablement tools to make the best choice, we are putting them out in the desert without any ability to make reliable choices." **David Ricks, chairman, president & CEO of Eli Lilly and Company** echoed similar sentiments. Speaking from the perspective of a large employer, Ricks said that in general, "we have shifted costs to consumers compared to 20 years ago, but have not shifted support information so consumers can make good choices." Ricks then outlined his work at Eli Lilly to structure his employees' high-deductible healthcare plans differently to continue care adherence despite high deductibles, while making employees more cognitive of their healthcare spend.

Reflecting his Silicon Valley history, **legendary CEO and investor, John Sculley** was quick to also point out that many of the tools at the disposal of some of the largest and most sophisticated healthcare companies are woefully antiquated for the challenges at-hand. Reflecting back as CEO of Apple Inc., Sculley remarked, "[In 1984], the whole computing world was green screen, command line, on a mainframe. In 2017, the PBM world uses green screen and command lines."

Joseph Swedish, Anthem, Inc.



David Ricks, Eli Lilly and Company

Sculley, now chairman of a next-generation PBM platform, RxAdvance, is increasingly looking towards data and analytics to drive consumerism. RxAdvance is building a cloud-based, disruptive PBM, expanding health plan data across the entire care continuum. This model "enables consumers to have access to their own medical records and drug information, empowering consumers." Data and analytics can also reduce unnecessary healthcare expense. "[The] focus [is] on $350 billion of avoidable drug impact, medical costs and related medical procedures tied back to pharma." Sculley believes that data, if harnessed with the right tools, will remove $100 billion in avoidable drug and related spend in 5-7 years.

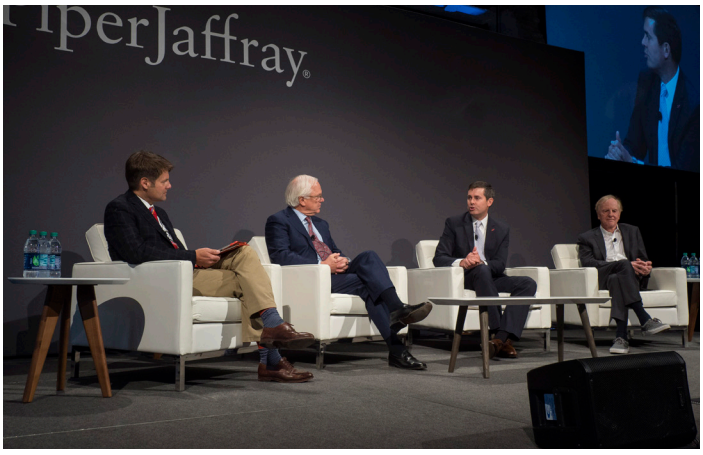
Swedish strongly supported Sculley's perspective, adding that Anthem, Inc. processes 750 million medical claims per year, and that the power of this data aggregation and analytics is about to usher in a new era in healthcare management. "We are literally at the forefront of the opportunity to leverage data to create useful information," said Swedish.

The panel conversation shifted towards payment models that are aligned with what consumers really want – to get healthy – rather than being aligned with activities and units. Panelists noted the trend away from pricing per unit to pricing per outcomes, aligned with value-based measurements. David Ricks remarked that the "industry is increasingly creating more value with products, but the model of paying per unit creates a shock to budgets; costs are not spread out and we are not held as accountable as we should be." Eli Lilly is actively trying to engage and collaborate with payors on fair and transparent pricing. Said Ricks, "We are going to payors with the message, 'we have a new drug, we do not know what it does, but price is based on the value it delivers.'"

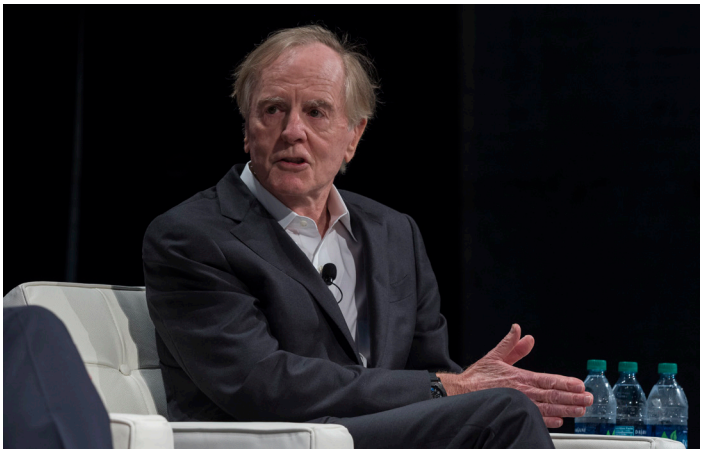
But even with the clear shift towards value-based medicine, Sculley thinks there are still significant shortcomings in the approach for most of the stakeholders involved. "The issue is how do you get the metrics to show the effectiveness of the drugs after used by the patient? Clinical trial data and small samples do not work. We can look back three years with any plan, can show plans data they have never seen before and the amount of money [the plan] could have saved. For each prior drug authorization, we can show what the pre and post change [to the patient] is." Sculley finished his thought by saying, "These are examples of what you can do with data. We are moving into an entirely different era of what is possible with technology, and it will change the whole way how we think about affordable drug impact and medical cost."

Swedish added to the data and outcomes discussion, "Over the last two-and-a-half to three years, we have focused on better managing the total cost-of-care, and I underscore total cost-of-care. Last year, we put efforts into place to improve our cost-of-care position by $1.9 billion – 60% of this was from care delivery based on evidence." But Swedish also added that the move to managing treatment based on outcomes "comes back to data and the receptivity of clinicians to make a change based on the data."

Consumers want three things from their healthcare, or any product and service: transparency, ease of use and convenience. Consumers have come to expect this from nearly every industry with which they interact, except healthcare. Delivering on these expectations is the challenge at-hand, made harder by the fact that care delivery needs to involve parties from end to end. As **former Apple Inc. CEO and Pepsico, Inc. CEO John Sculley** added, "We need to get data away from the green screens and get it into something point-and-click, easy-to-use and on smart phones." By delivering on these expectations, consistently, parts of the healthcare system will create something none of the companies have ever achieved – brand loyalty.



Sean Wieland, Joseph Swedish, David Ricks, John Sculley


John Sculley, RxAdvance

Collaboration In Practice

As the CEO of Johnson & Johnson, Alex Gorsky has a singular perspective across the pharmaceutical, device and consumer health landscape. What are the ways in which he sees technology driving the most substantial impact in healthcare today? Collaboration is critical – how is JNJ working with other companies to solve the most challenge issues in healthcare? How will these collaborations impact healthcare most directly in the future?

Speaker: Alex Gorsky, Chairman & CEO, Johnson & Johnson

Interviewer: Matt Hemsley, Managing Director, Piper Jaffray & Co.

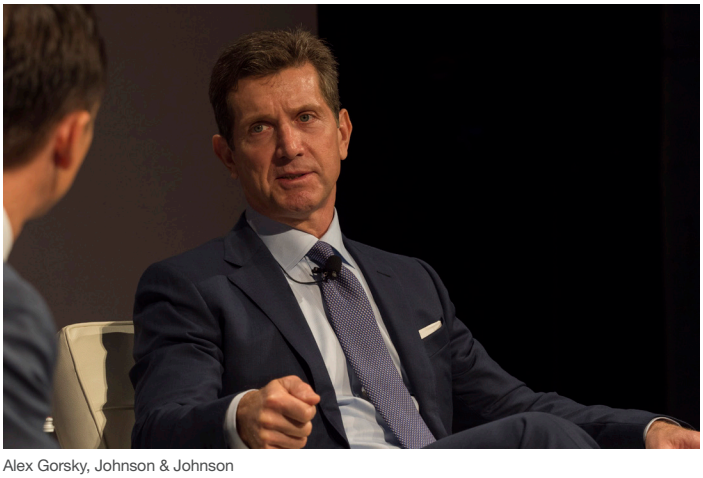
"Collaboration is absolutely essential for what we do in healthcare and what we do in medtech and science today."

ALEX GORSKY, CHAIRMAN & CEO, JOHNSON & JOHNSON

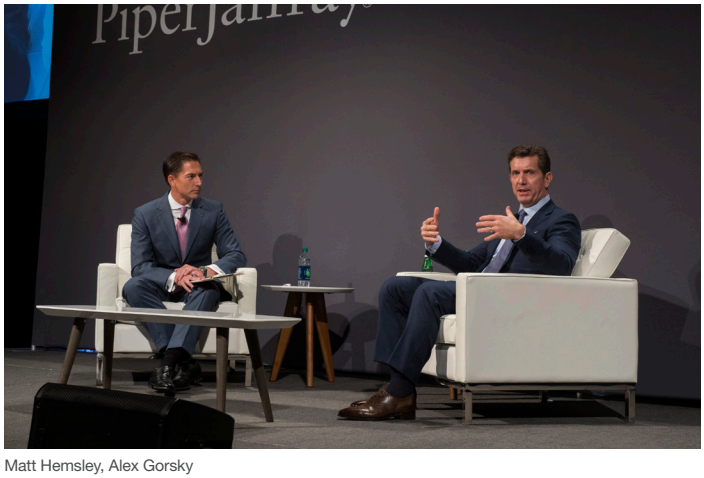
Collaboration has always been an important part of healthcare, but in today's connected world and with the rise of healthcare consumerism, it seems more important than ever. "First of all, I think collaboration is absolutely essential for what we do in healthcare and what we do in medtech and science today," started **Alex Gorsky, chairman & CEO of Johnson & Johnson**. In the past, you had groups of individuals or companies controlling all knowledge of a certain topic, but with the internet and connected nature of the business world today, this notion has changed. "Those days are over," Gorsky told Heartland Summit attendees. "Science takes place at a more rapid pace today. It's much more ubiquitous and viral than any one company. At any given time, if one company says it's going to have the 'be all, end all' solution it's a myth. We find more and more it's not who is the 'best', but where can you go to partner and collaborate and integrate with someone else to frankly make things possible that didn't exist before."

The healthcare system is fragmented, but collaboration opportunities exist between all the players involved. Gorsky shared with attendees that Johnson & Johnson looks to partner with other players in the industry (combo therapies), technology companies (IBM, Verily), the government (CMS, FDA) and internally to create value for the system. On the technology side, Gorsky highlighted the importance of these collaboration initiatives, stating, "Partnering with technology companies is going to be critical for our entire industry. I think a clear secular trend is going to be every healthcare company will be a technology company as well; whether it's AI or robotics or connectivity or imaging, all of these disciplines, these sciences will be converging in a much more comprehensive way."

On several other panels at the Heartland Summit, leaders pointed to big data and informatics as a better way to connect payors, patients and regulatory bodies in the future. With respect to therapeutics, Gorsky echoed the importance of data



Alex Gorsky, Johnson & Johnson



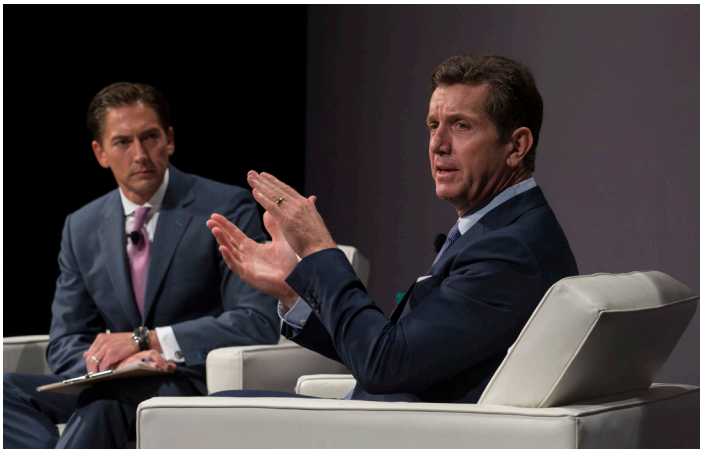
Matt Hemsley, Alex Gorsky

collection both during the clinical trial, but also post-approval to track real-world outcomes. “We are spending a lot more time on outcomes information through the entire clinical development processes, as well as once we have it on the market. It’s not enough anymore to simply have a product approved without clear differentiation on how you’re providing value and how you’re changing outcomes.” With the obvious link between outcome measurement and models of risk sharing, Gorsky described himself as a ‘realistic optimist’ in that risk sharing sounds like a great idea, but is much harder on paper to develop the right constructs and ways to measure performance. He commented on the topic of risk sharing, “It sounds very simple up front but when you actually sit down together it gets a bit more complicated, but yes, I think those are things we have to learn and pilot going forward.”

While companies typically view collaboration as an external exercise, organizations must also look internally. Johnson & Johnson has a unique perspective given their leadership positions in pharmaceuticals, medical devices and consumer health. Gorsky said that he is constantly working to improve internal collaboration to tackle new problems, mentioning, “For example, if I got our pharma side to come up with a solution, they are going to most likely come up with a pill solution and if I go to our device group, they are going to come up with an instrument solution. Well, some of the conditions we are thinking about for the future are going to require a combination approach.” This speaks both to the need to look beyond silos for solutions, but also to why Johnson & Johnson is advantaged in its diversified business approach. In fact, as we have seen in the last several years, more and more of drug/device combos are entering the market, and companies are increasingly diversifying their business approaches.

On collaborating with government, Gorsky believes there is a general desire by entities like the CMS and FDA to partner with industry to tackle healthcare’s challenges. “I actually feel over the last four or five years, the FDA has made a lot of positive moves around breakthrough therapy designation and trying to see if that could be applied more broadly in the device world. So I have seen positive traction there now for several years and am hopeful that will continue.”

Alex Gorsky, Johnson & Johnson



Matt Hemsley, Alex Gorsky

Innovation and Access in Therapeutics

New drugs promise to deliver continued breakthroughs, but not without significant investments. While the topic of drug pricing has been politically charged, the debate has now expanded across the entire drug supply chain. How are all stakeholders working to resolve the apparent conflicts in interests and challenges of getting better therapies in the hands of patients?

Panelists: John Hammergren, Chairman, President & CEO, McKesson Corporation
Larry Merlo, President & CEO, CVS Health Corporation
Brent Saunders, Chairman, President & CEO, Allergan plc

Moderator: Ajay Dhankhar, Ph.D., Senior Partner, McKinsey & Company

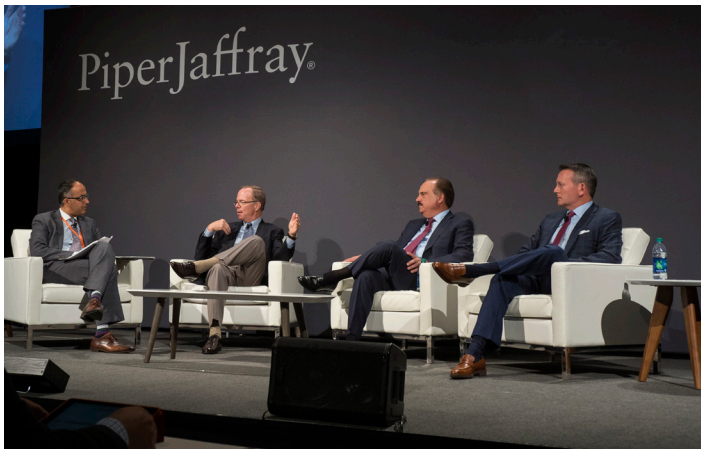
"There needs to be a more constructive, open, collaborative dialogue between participants in healthcare."

BRENT SAUNDERS, CHAIRMAN, PRESIDENT & CEO, ALLERGAN PLC

In the last five years, the U.S. market has seen approval of over 150 new molecular entities or biologics, transforming the treatment of many diseases. However, this innovation has not come without a concurrent increase in investment by industry players and a politically charged conversation on drug pricing and access in which the entire supply chain is implicated. **Brent Saunders, chairman, president & CEO of Allergan plc** argues that while therapeutics are integral to a patient's experience of sickness and health, "the point of access for therapeutics is personal, immediate and a conditional precedent to receiving the treatment." Then, Saunders contended, "Layer on top of that increasing co-pays, increasing costs of treatments and growing gaps on insurance coverage. That has set up for a dynamic that's very difficult."

With a perspective that covers prescription benefits management and a massive consumer health retail chain, **Larry Merlo, president & CEO of CVS Health Corporation** thinks the generics market, which represents 87% of U.S. prescriptions, is actually working admirably with an average cost of $68 per person per year. However, Merlo believes that the remaining 13% of scripts are problematic in terms of expense to patients and commensurate clinical value created, in many cases. Touching on a consistent theme from many of the panels at the Heartland Summit – the shift to consumerism in healthcare – Merlo believes the increased healthcare literacy and potential tools, such as point-of-sale rebates, can help patients have a better experience obtaining and filling a prescription. Adding to Merlo's point, **John Hammergren, chairman, president & CEO of McKesson Corporation** said that tools such as ensuring prior authorizations, as well as coaching medication use and compliance, could also help reduce friction at the pharmacy.

Brent Saunders, Allergan plc



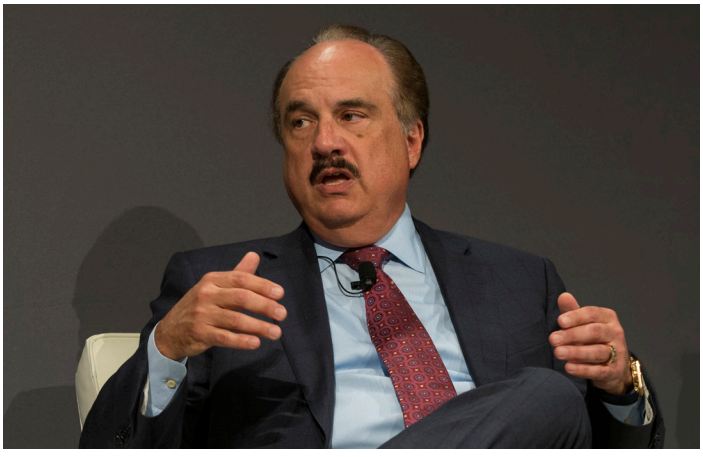
Ajay Dhankhar, Ph.D., John Hammergren, Larry Merlo, Brent Saunders

Hammergren added that economic elements are often lost in this emotional debate. On a patient level, healthcare plans are shifting to high deductibles, which put real costs onto patients and particularly those who use more drugs and services. Healthcare plans can help ease this consumer transition of focus from healthcare premiums to out-of-pocket costs by offering covered medication lists, especially for chronic or preventative medications. And at a system level, using hepatitis C treatments as an example, Hammergren argued that "somewhere in the system there is going to be an economic benefit of having been cured, let alone the lifetime value in the eyes of patients." The panel agreed that no player in the supply chain is acknowledging this value today.

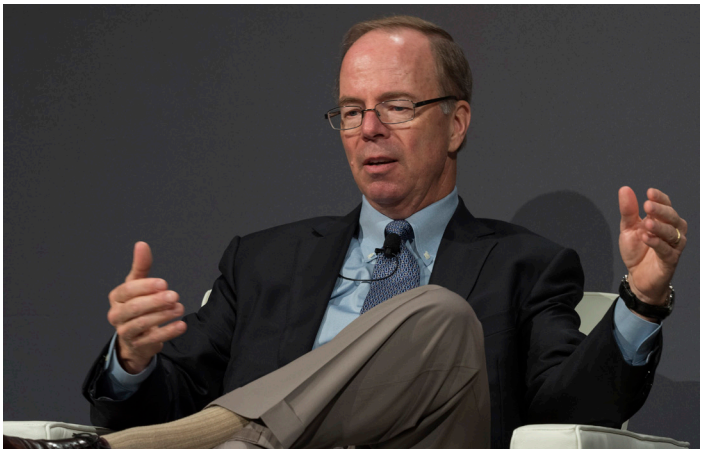
"Moving to a value-based system is inevitable," said Saunders, but this will happen with orphan and oncology markets first and eventually trickle down to more widely used and distributed medications. Connecting a drug price and a patient's clinical result are the ultimate goal in moving to an outcomes-based pricing system, but the challenges, the panel agreed, were numerous. For any given disease, the right outcome and means for measurement must be identified, while incorporating the time lag for the ultimate patient benefit. From there, larger societal questions arise on how to value a life and its quality per time unit. These challenges may sound overwhelming, but panel consensus was that we must begin to tackle these barriers with initial pilot projects in order to see industry progress.

Who has the ultimate responsibility to take the lead to begin tackling these issues and move them forward is an open question. Multiple industry players need to play an active role to, first-off, "collectively define the issue," said Merlo, instead of letting it be defined by a third party. The panel acknowledged that incentives of players in the industry (drug companies, pharmacies, suppliers and insurance companies) are not necessarily transparent or well-aligned. Adding to that mix, the perspectives of patients and motivations of healthcare providers, along with the often politicized voice of the government and CMS, it becomes far from clear how reconciliation will occur.

The first step towards alignment is information transparency to drive accountability. Price transparency would help consumers (prescribers and patients) act in ways that benefit themselves and the system. As mentioned in the day's first panel discussion, a single electronic medical record could also help tremendously with efficiency of delivering and evaluating therapeutics use in the system. But more so than any 'silver bullet' technological or process change, our panel concluded in contrast to many other panels at the Heartland Summit, the biggest barrier is environmental change. According to Brent Saunders, "There needs to be a more constructive, open, collaborative dialogue between participants in healthcare," and that step "would be very powerful."



Larry Merlo, CVS Health Corporation



John Hammergren, McKesson Corporation

The Art of Healthcare Portfolio Management

Private sector capital is a critical resource for the growth and development of the healthcare sector, sponsoring the innovation and creative disruption that drive better results for patients, care providers and the system overall. How do money managers think about capital allocation in healthcare in both the near term, but more strategically as well over longer-term investing cycles of 5 to 10 years? How do healthcare macro and environmental considerations affect asset allocation? Do market dynamics like passive and index investments affect the construction of actively managed portfolios? How do diversification and risk controls affect investment decisions?

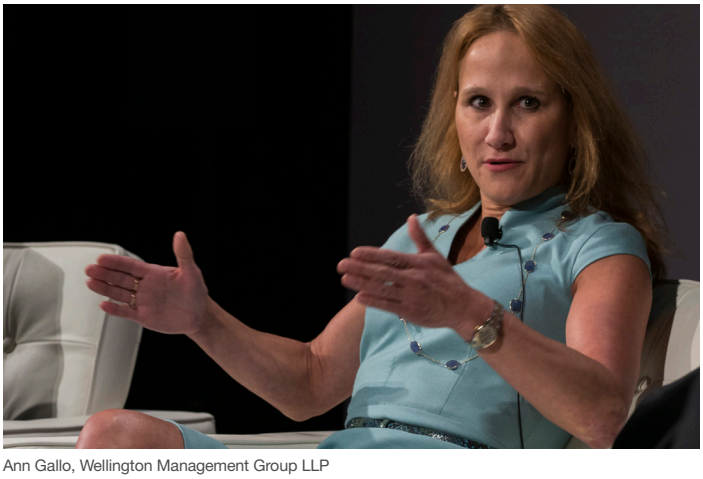
Panelists: Ann Gallo, Partner, Global Industry Analyst, Wellington Management Group LLP
John Schroer, Director, Sector Head, Healthcare, Allianz Global Investors
Taymour Tamaddon, Portfolio Manager, U.S. Large Cap Growth, T. Rowe Price Group, Inc.

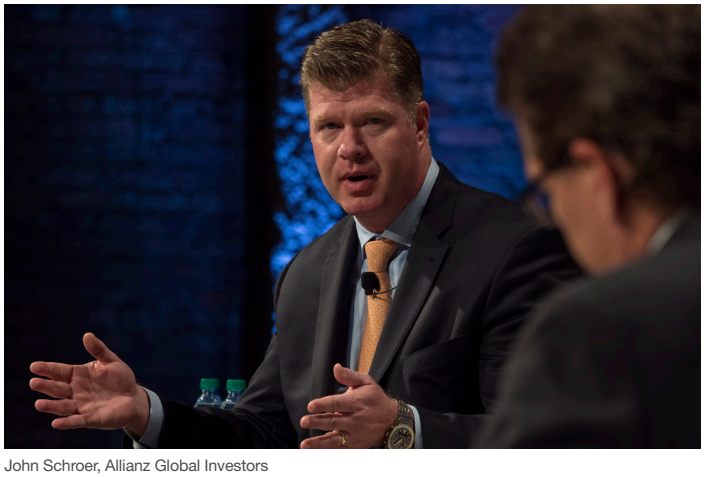
Moderator: John Penshorn, SVP, UnitedHealth Group Inc.

"In a world where demand is high and only going higher with reimbursement and supply of funding only going lower, today the bar is much higher from an innovation and value creation standpoint."

ANN GALLO, PARTNER, GLOBAL INDUSTRY ANALYST,
WELLINGTON MANAGEMENT GROUP LLP

With the shift to passive ETFs and factor-based models making significant headlines in recent years, especially as returns versus active funds seem to hold up, the art of active portfolio management has both come under increasing scrutiny and has also been forced to change in various ways. Today, exchange-traded funds and pure indexing account for around 40% of the total U.S. equity capital under management. The number is actually higher, argues **Ann Gallo, partner & global industry analyst at Wellington Management**, who notes that there is another slice of what is considered active, but is just factor-based modeling. "With what's happening within our industry [shift to passive]," noted Gallo, "I think we are early on with the structural decline of the money management industry, as fundamental investors for better or worse." **John Schroer, director & healthcare sector head at Allianz Global Investors** agreed. "I would say we are early on in this process and passive is going to keep growing as a percent of share," Schroer told Heartland Summit attendees. While the distinguished panelists all agreed that the shift to passive would continue, they also all agreed that active management will always have a role. "It's still our belief, you need a mechanism to set price, you need fundamentals to set price, you can't teach a machine insight or intuition about how to set price or value certain assets. So yes, the flows will continue, but at some point it reaches an equilibrium," believes


Ann Gallo, Wellington Management Group LLP


John Schroer, Allianz Global Investors

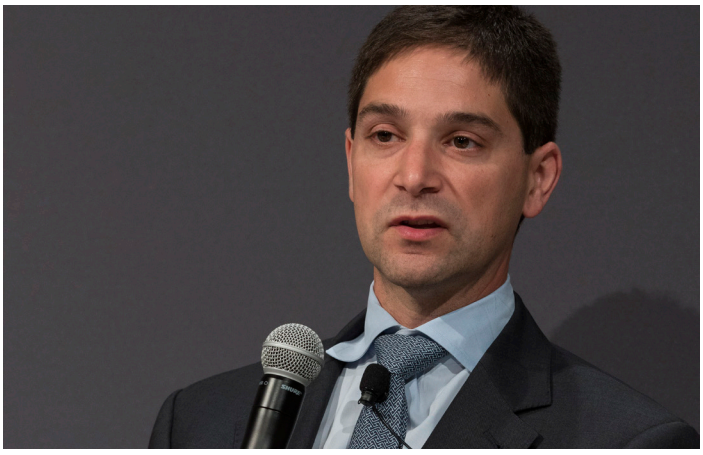
Schroer. Until that equilibrium is reached, active managers are looking for different ways to attract capital. Several examples were given including environmental, social and governance funds and trend-specific funds (with panelists noting robotic and artificial intelligence funds). For Schroer, his suggested strategy is to "extend your time horizon, trade less and focus more on the fundamentals taking more concentrated positions."

The shift to passive exchange-traded funds not only affects the investment community, it also fundamentally impacts healthcare companies. **Taymour Tamaddon, portfolio manager at T. Rowe Price Group, Inc.** advised healthcare executives in the audience, "There are companies and businesses not making money and it's not going to be computers who decide at that moment of significant weakness and pain that capital needs to be allocated. So keep that in mind and how this shift could affect your ability to raise capital in the future."

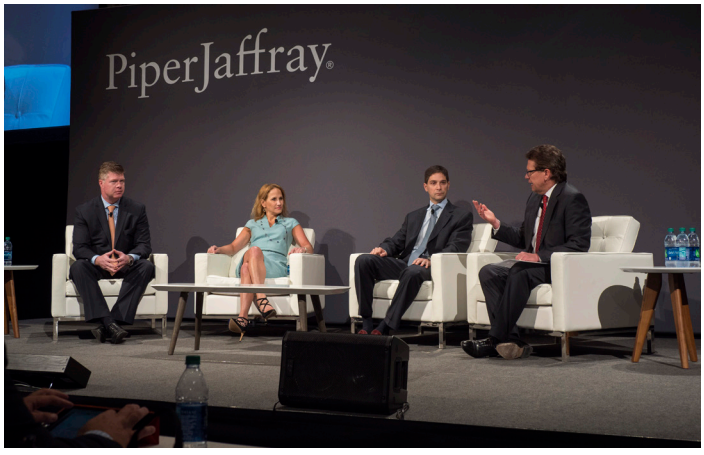
Further, the shift to exchange-traded funds and factor-based models make day-to-day stock price changes harder to interpret for business leaders. The panel counseled healthcare executives in attendance not to live and die by the daily or even weekly movements in their stock prices. Ann Gallo remarked, "Remember, your stock price is just an output. It doesn't always have a lot of near-term information of value." This is also true for the investors themselves. Tamaddon admitted that he does not even check the performance of his funds every day or week and believes this has made him more productive with a focus on the longer-term fundamentals. "I went to checking once a month and everyone on the team knew they couldn't talk to me about how we are performing," stated Tamaddon.

While the panel of fund managers could not speak to specific investments or fund weights for compliance reasons, the general tone was more bearish on therapeutics compared to devices, delivery and services. On the therapeutics space, Tamaddon commented, "My experience has been in the therapeutic industry and what really drives a lot of those stocks are massive innovation and drug launches beating expectations and that's what gives an umbrella to the rest of the sector. I don't see enough of those today." Schroer echoed those comments, stating that "the pipelines are not nearly as robust as before and the products we are seeing today as of four years ago," and added, "on therapeutics you have this constant overhang of pressure with pricing."

Like other panels at the Heartland Summit, the investor panel also weighed in on the inevitable shift from fee-for-service to fee-for-value and the shifting responsibility to consumers. Taymour compared how healthcare is paid for today to the investment world: "The real problem we have today [referring to our healthcare system] is we are paying effectively for quantity instead of real performance. It would be like folks investing in our strategies and not really caring how well we do for our clients; that would be ludicrous!" In addition to closely monitoring the value-based medicine trend, the investor panel also is closely watching the increasing role of the consumer. "One thing that jumps out is the greater share of spending shifting from employer to the individual, so every year you have greater percent in high deductible plans and those plans' deductibles are even higher than the prior year sometimes that continues," said Schroer. Gallo agreed that more is shifting to the consumer and added, "Another trend is more and more [care] in the home and using technology to facilitate that and it seems really, really obvious but still early there." Tamaddon also sees opportunities to better patient outcomes with machine learning and artificial intelligence. "The amount of data being generated and the actual uses of machine learning and AI beyond what everyone is focused on today like translation of language and sorting of images to me are neat and solved some niche problems, but haven't transformed an industry. We think about what can happen on the healthcare side to use that data to really benefit patients; that's going to be one of the main themes I am focused on."



Taymour Tamaddon, T. Rowe Price Group, Inc.



John Schroer, Ann Gallo, Taymour Tamaddon, John Penshorn

Moving Healthcare From Reaction to Prevention

With established and emerging companies using a combination of genetics, genomics, proteomics and remote monitoring devices to assess patient health conditions and treatment risks, the diagnostic and therapeutic paradigm is rapidly shifting. How can the "small data" generated by these diagnostic tools be combined with "big data" produced by payors and providers to not only make more targeted treatment decisions, but to also drive smarter spending on prevention? What role do traditional models of fee-for-service have versus outcomes-based models and the increasing role of individualized and consumer-driven healthcare in this rapidly evolving field?

Panelists: Stephen Rusckowski, Chairman, President & CEO, Quest Diagnostics Incorporated
Rick Valencia, President, Qualcomm Life, Inc.
Penny Wheeler, M.D., President & CEO, Allina Health

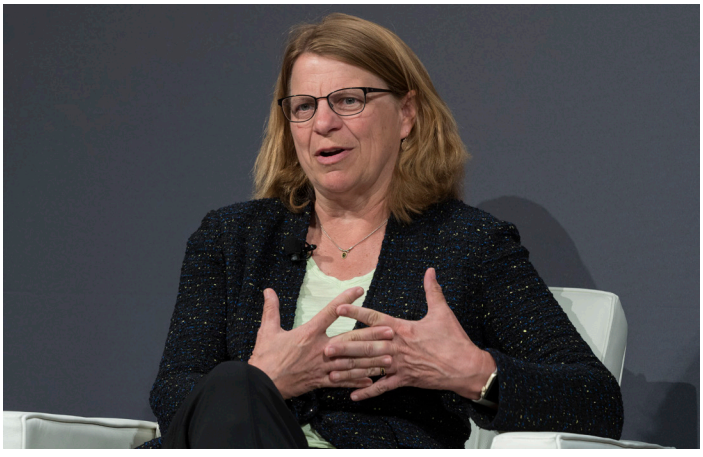
Moderator: Bill Quirk, Senior Research Analyst, Piper Jaffray & Co.

"[Tech] companies have figured out how to get people to run around the country chasing virtual monsters [Pokémon GO]… this knowledge of how to engage a consumer will dramatically help healthcare."

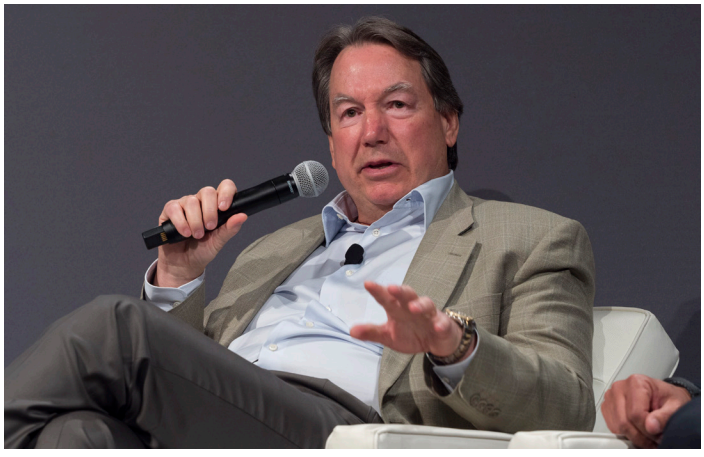
RICK VALENCIA, PRESIDENT, QUALCOMM LIFE, INC.

Healthcare today is more or less a reaction to an illness, rather than a proactive prevention. The premise that prevention could lead to a healthier population, which should ultimately lower costs, was the focus of this panel of healthcare leaders who discussed the various methods to move toward this model.

"[We] need to have the incentives aligned," said **Penny Wheeler, M.D., president & CEO of Allina Health**. "For years, we asked how many patients are in our hospital beds? The question is now: how many people are you keeping out of the hospital?" Wheeler proposed a membership-like service, instead of a revenue-per-treatment model, and said that Allina is testing several value-based models in their system. **Stephen Rusckowski, chairman, president & CEO of Quest Diagnostics Incorporated** believes the fee-for-service model is moving towards an outcomes-based model, and that diagnostics will play a critical role in that transition by providing "more insight, more information upfront, to make those expensive choices better going forward." **Rick Valencia, president of Qualcomm Life, Inc.** shared a similar perspective to Rusckowski, stating that "this move to value is underway and it is not going to stop." Qualcomm Life believes it can help aggregate and integrate healthcare data to improve physician decisions while improving care. But Valencia conceded, "The transition is not going to take place as fast as in other markets.



Penny Wheeler, M.D., Allina Health



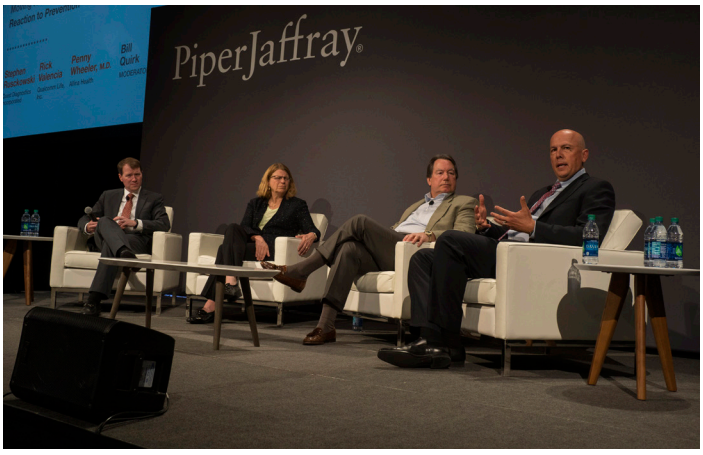
Stephen Rusckowski, Quest Diagnostics Incorporated

We are a tech company and we learned you guys [healthcare industry] do not move quite as fast as we do."

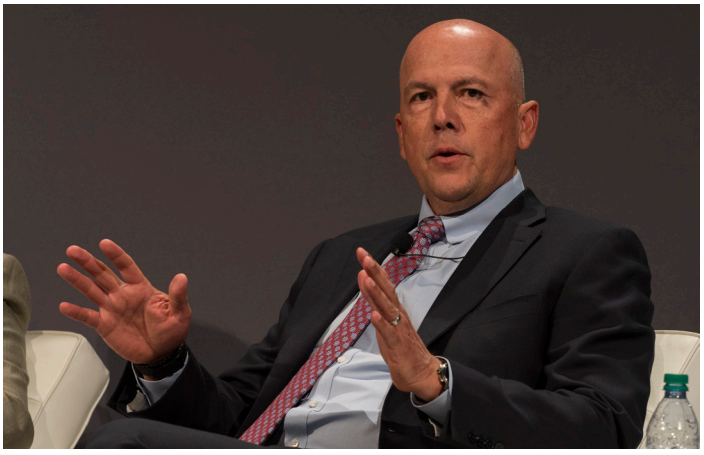
Valencia foresees the future of care moving to easily accessible locations such as the home, with data playing a crucial role. "Care should be delivered where the patient is, not where the doctors are," Rusckowski agreed, and noted that his company's patient service centers "can be incredibly important access points for those of the population you want to see more often." Touching back on the shift to consumerism from an earlier panel, Rusckowski added, "It [consumerism] is happening at a more rapid rate than I've ever seen before." From the increase in high-deductible plans to the generational shift, he is witnessing "people taking more reasonability for their healthcare." Quest Diagnostics recently signed an agreement with Banner Health to create self-directed testing centers in Safeway stores in Arizona and expanding to Colorado. "We found there was a market, consumers wanted to avoid the complexity of healthcare, wanted to regularly check their measures. It turned into a pretty good business," Rusckowski shared. This was clear evidence of the shift to more consumer-friendly and consumer-directed locations for healthcare delivery and prevention.

However, Rusckowski added, "It is also very difficult for consumers to make their own healthcare decisions; it is very difficult to direct care to where you want it. Sometimes physicians will do whatever is most convenient for the consumer versus what the consumer wants or can afford. Transparency, education and awareness are important parts of getting the physician involved." Rusckowski gave an example: Quest Diagnostics charges zero out-of-pocket costs for employees using a Quest service center. However, he found it was very difficult for his wife to direct her care to his company's service centers, noting that if his wife was having a hard time, "I'm sure my phlebotomists, my couriers, my lab techs are having a very difficult time getting the right level of support to make [care] decisions." Valencia believes healthcare needs to learn from technology companies and engage consumers, "[Tech] companies have figured out how to get people to run around the country chasing virtual monsters [Pokémon GO]… this knowledge of how to engage a consumer will dramatically help healthcare." He later noted that payors "need to align incentives [and] give the consumer an incentive to engage in their own health." Valencia views lack of general integration as a challenge in healthcare, but an area where tech companies can help work together with healthcare to find ways to create engagement and integration.

To transition healthcare from reaction to prevention, consumers must be engaged and drive the shift. To be engaged, they need to have better information and aligned incentives. Concluding the panel, Wheeler believes big data may be the answer to changing payment models and aligning incentives, stating "[We are] big on data aggregation and integration. We can combine lab data, wearables, EMR, layer in machine learning on top, pretty excited where it is going." Wheeler continued, "Healthcare needs to show value to the payors. [We] need to create value for the people we serve. Consumer is the fastest growing segment of the payor market; they will push and drive out various policies."



Bill Quirk, Penny Wheeler, Stephen Rusckowski, Rick Valencia


Rick Valencia, Qualcomm Life, Inc.

Redefining Business Boundaries in Healthcare

Healthcare companies traditionally focused in defined verticals (e.g., product providers or service providers) have been expanding their business models to offer customers a bundle of products and services. What are the market forces driving these changes? Is this the natural evolution of the business of healthcare that will play out over a long horizon, or are the forces sufficiently disruptive to drive a revolution of the business model? Where is the tipping point for when a comprehensive bundled solution is a necessity to compete? Which companies have the competitive advantage in this transformation – product or service providers? Does the margin profile benefit or hinder products or services companies in this transformation? Are investors prepared to digest the new financials?

Panelists: George Barrett, Chairman & CEO, Cardinal Health, Inc.
Stanley Bergman, Chairman & CEO, Henry Schein, Inc.
Mike Mahoney, Chairman & CEO, Boston Scientific Corporation
Kent Thiry, Chairman & CEO, DaVita, Inc.

Moderator: J.P. Peltier, Global Group Head, Healthcare Investment Banking, Piper Jaffray & Co.

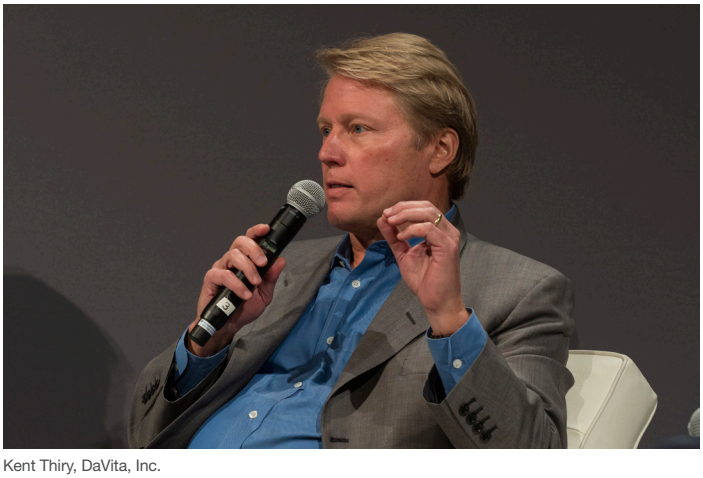
"Having a comprehensive, innovative platform that has real economic value enables customers to partner with you more uniquely."

MIKE MAHONEY, CHAIRMAN & CEO, BOSTON SCIENTIFIC CORPORATION

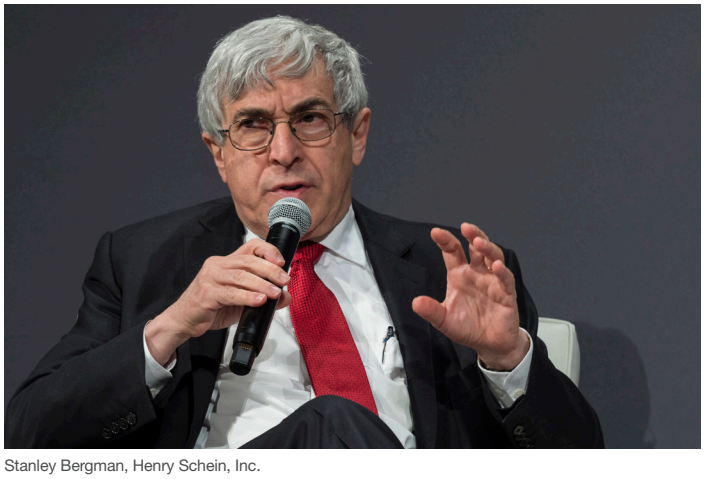
With significant changes redefining boundaries in all verticals of healthcare, our panel of veteran healthcare CEOs tackled the topic by highlighting both the micro and macro forces influencing businesses to adapt and change.

Forces at the micro level clearly play a significant role in how they think about adapting to a changing healthcare environment. Competition is a clear force to consider, but interestingly, it was the competition for purchasing power that the panel addressed, rather than direct competition. None of the panelists discussed direct competitive pressures in great detail, but **Kent Thiry, chairman & CEO of DaVita, Inc.** described the increased horizontal and vertical market shares gained by hospitals as a formidable market force to be reckoned with. In this regard, hospital systems have increased influence and power based on increased economic concentration. Thiry pointed out the rise of active patient decisions as a novel change in his customer base. With so many physicians becoming part of a healthcare system, decision-making has moved to the economic power – the hospital system. Other panelists agreed that the patient is much more involved in the decision-making process in contrast to the past, when the clinician was the main focal point.

On the macro side, panelists emphasized a spectrum of forces for change, such as an aging population, consumer expectations around service and technology, external pressures to tackle the



Kent Thiry, DaVita, Inc.



Stanley Bergman, Henry Schein, Inc.

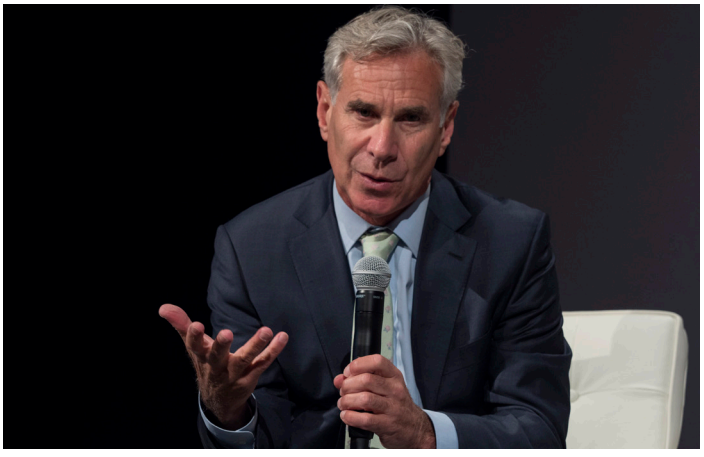
cost of healthcare, and changing modalities in the delivery of care. “Making technology easy and available to our customers is something that is a real challenge,” noted **Stanley Bergman, chairman & CEO of Henry Schein, Inc.** in identifying the market forces affecting his business. Economic value is the primary driver observed by **Mike Mahoney, chairman & CEO of Boston Scientific Corporation** who stressed the need for the continued delivery of great clinical innovations with high safety and effectiveness over the hurdle of reimbursement to drive out costs in a hospital system: “Given the importance of the reimbursement and the tight screening that hospitals are under economically, the economic value that you must show in your products now is more and more important”.

George Barrett, chairman & CEO of Cardinal Health, Inc. agreed with the need to deliver a complete value proposition, but approached the response from the perspective of a total solution to delivering healthcare, rather than innovations that drive better outcomes. Barrett emphasized the need to develop coordinated solutions across device, distribution and delivery necessary to improve the efficiency and quality of the overall system. Innovating on the product and service side is difficult and costly, but applying different approaches to business models within one’s core competencies is more straightforward. Barrett advocated for product bundling, innovation in product development with a focus on a population-wide diagnostic capability, services wrapped around the product, and partnerships with other service providers. Barrett pointed to two recent transactions that were designed to help drive a more comprehensive solution for his customers – his company’s acquisition of Cordis, which showed that Cardinal can deliver a basket of tools to a system based on a fee-for-value premise, and his recently announced transaction acquiring Medtronic’s surgical assets, through which Cardinal aims to provide scaled consumable products.

Bergman elaborated on the idea of an integrated offering that connects different products such as devices and software to drive the business, stating that “a combination of products and technology to help in a clinical delivery of services in the practice – the integration of products and services into one delivery network.” Mahoney added, “Having a comprehensive, innovative platform that has real economic value enables customers to partner with you more uniquely.”

The panel emphasized that business model innovations need to be closely aligned to the core competencies of the business and aligned with the company’s financial profile. In trying to understand the financial implications, Bergman underlined the unique value of solutions to unsolved problems to help achieve margin opportunities. Thiry agreed in conclusion that changes and adaptations in “our product mix and our business mix tend to be altering the margin profile in a favorable way for us.”

Mike Mahoney, Boston Scientific Corporation



George Barrett, Cardinal Health, Inc.

Seeing Value-Based Solutions in Practice

Healthcare does not lack for data and measurement – doctors and clinicians are continually generating information on patients. How does this information translate into measuring actual outcomes for patients? How do we develop a global set of standards by which all parties can agree – device makers, drug developers, data collectors, providers and payors? How do we ensure that doctors are practicing according to best practices so that the right outcomes are achieved? How do we ensure that new therapies and devices are delivering benefits commensurate with their expense?

Panelists: Robert Bradway, Chairman & CEO, Amgen Inc.
Omar Ishrak, Ph.D., Chairman & CEO, Medtronic plc
William McKeon, President & CEO, Texas Medical Center
David Wichmann, President, UnitedHealth Group Inc.

Moderator: Christina Åkerman, M.D., Ph.D., President, International Consortium for Health Outcomes Measurement

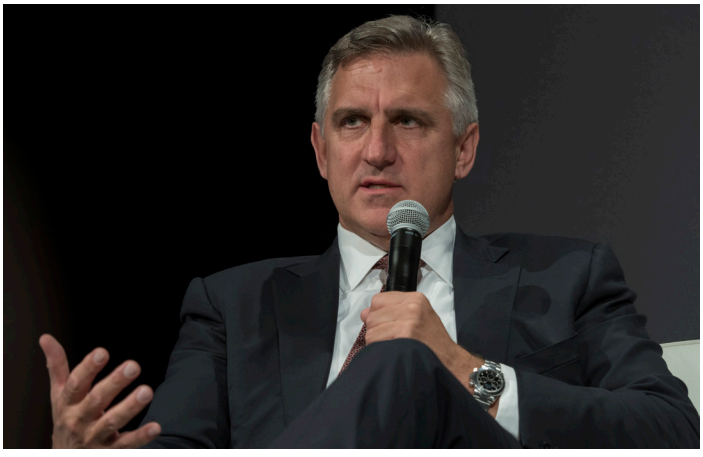
"Our challenge is to bring forward medicines with a big effect size, for which we can demonstrate clear value to the patient, prescriber, payer and ultimately society at-large."

ROBERT BRADWAY, CHAIRMAN & CEO, AMGEN INC.

Healthcare does not lack for data and or the means for measurement. Yet, the industry remains challenged today to translate that data into information that can be utilized to assess patient outcomes and ultimately inform patient care. Nearly everyone in healthcare agrees that innovation is paramount to solving some of the greatest threats to human health. Disagreement occurs when discussing how to measure the impact of these innovations.

Robert Bradway, chairman & CEO of Amgen Inc. sees innovation as the long-term solution to the world's growing healthcare issues, citing cardiovascular disease as one example and using outcomes to measure success of the innovation. He explained, "Our challenge is to bring forward medicines with a big size effect, for which we can demonstrate clear value to the patient, prescriber, payor and ultimately society at-large." Several other developed countries have an established process for demonstrating value of an innovative treatment, which the panel admits is simpler in a single-payor system. The U.S. market is more fragmented, and therefore the process for showing value is more challenging, but from Bradway's perspective, companies need to take responsibility for delivering good outcomes and getting paid (or not) on that.

Omar Ishrak, Ph.D., chairman & CEO of Medtronic plc shared a similar view to Bradway. As one example in practice, Medtronic created a business model where it agrees to pay for its antibacterial device sleeve and also the entire



Robert Bradway, Amgen Inc.

Omar Ishrak, Ph.D., Medtronic plc

procedure if the device fails to work properly (e.g., prevent infection). This has successfully encouraged adoption of the sleeve to improve outcomes by tracking information and aligning the interests of the company, clinical caregiver, hospital and payor. However, Ishrak explained that the idea of assessing value based on outcomes is conceptually easy to understand, but operationalizing it is more difficult: "If you want to operationalize, you have to create accountability that a credible outcome will be reached." Defining the population and outcome are key steps, as well as understanding the key stakeholders with whom to collaborate and potentially create incentive systems around.

The industry most aligned around value and data has long been the health insurance industry. From the payor perspective, **David Wichmann, president of UnitedHealth Group Inc.** shared that they have been measuring quality for at least the last decade. "A lot of what our business is built around is information," Wichmann said. In fact, he thinks payors can uniquely play a critical role in information collection and apply technology to inform the system more broadly. As Wichmann explained, payors have a 360, end-to-end view of patient events, and therefore a huge amount of evidence to mine retrospectively to identify quality outcomes. Wichmann added he believes this work can improve quality of care and also lower healthcare utilization, as well as produce higher patient satisfaction. Other panelists were quick to note that, in contrast to other stakeholders in the healthcare system, payors can leverage massive amounts of existing data without a large upfront investment and learning curve in capabilities.

What about at the point-of-care? Efficiency and quality need to extend to the care setting, especially hospitals. **William McKeon, president and CEO of Texas Medical Center** said he expects to "see increased focus on specialization" to increase operations and efficiency in healthcare settings. This should in turn, free up caregivers and perhaps patient care can then become increasingly data-driven. Ishrak added, "These integrated hospital solutions should become platforms on which we can drive clinical value too." The panelists agreed that this dovetails with the recent trend of research and clinical care moving much closer together with elements like genomics influencing the way drugs are developed and used.

How far are we from outcomes-based versus service-based pricing? The panel concluded it is variable, but the industry has made meaningful progress for certain procedures, or parts of procedures, as well as U.S. geographies. As Wichmann noted, "Significant progress has been made" and "the market is moving in the right direction." But the panel acknowledged there is far to go. The key seems to be both progress in measuring outcomes, driven largely by the payors, as well as companies and providers that are willing to take on the risk of being assessed for outcomes. As the field progresses, companies and providers need to be willing to expand into more complex programs, and continue to listen to the data that is coming in. Even in the face of complexity, the goal is to "find some early fundamental pieces (of data) which begin to move the ball," added Ishrak. Even if we start out with simple or standard measures, holistic patient-centered measures will someday follow.

David Wichmann, UnitedHealth Group Inc.

William McKeon, Texas Medical Center

Combination as Collaboration

Many large pharma and large device companies more closely resemble portfolio management entities than the innovators of their infancy. Notable acquisitions are accompanied by even more notable divestitures and spin-offs. Investors have put R&D spending under increasing pressure, where the IRR of development projects seemingly lags the investment efficiency at more focused companies. Are we seeing a bifurcation between companies that develop products and those that market them? Has Wall Street endorsed this by favoring 'balance sheet arbitrage' in EPS accounting for M&A transactions? Is the prospect of the big M&A exit enough to ensure that the R&D engines at start-ups keep running?

Panelists: Joe Almeida, Chairman, President & CEO, Baxter International Inc.
Hervé Hoppenot, Chairman, President & CEO, Incyte Corporation
James Robinson, President, Americas Operations, Astellas US LLC

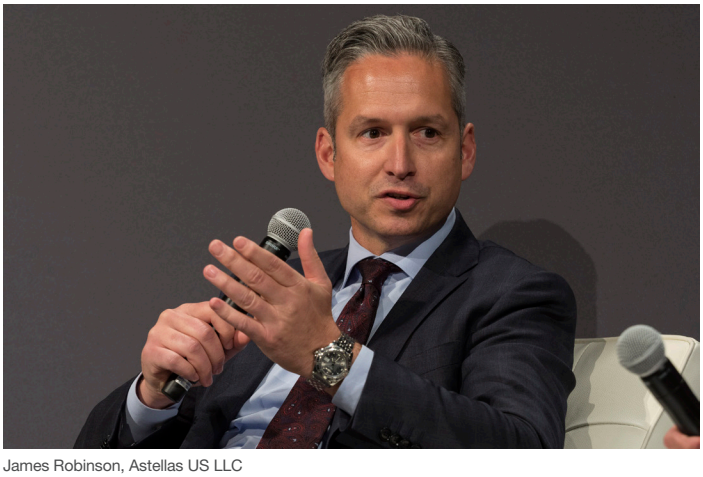
Moderator: Matt Hemsley, Managing Director, Piper Jaffray & Co.

"You are going to have an opportunity with your own organic research and development functions, which will bring the products to the market… When there is a lag, that is when the market is looking for an action."

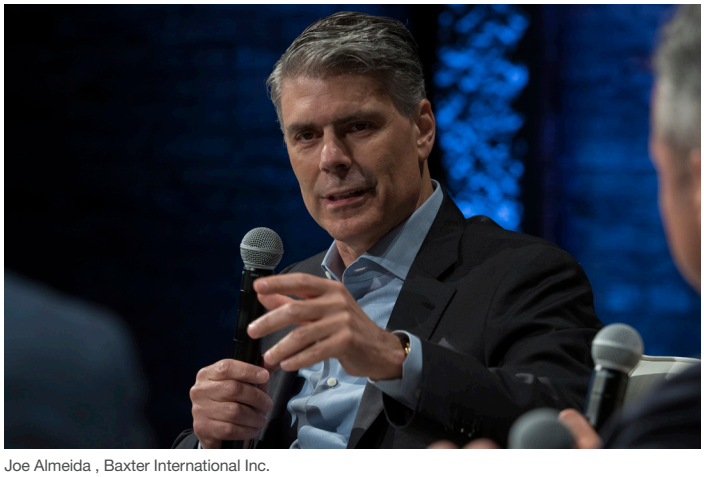
JAMES ROBINSON, PRESIDENT, AMERICAS OPERATIONS, ASTELLAS US LLC

With large pharma and device companies continually looking for growth to augment or smooth out variations in trajectory, this panel focused on the drivers behind inorganic growth through M&A and other partnership arrangements. "Acquisitions are basically a result of a good and well-executed strategy," said **Joe Almeida, chairman, president & CEO of Baxter International Inc.**, a healthcare leader well-known for his M&A success across multiple enterprises. **James Robinson, president, Americas Operations of Astellas US LLC** mirrored this view, saying that internal R&D has to be the core of the business, with external activities done to augment long-term success. "When we look at acquisitions," explained Robinson, "Acquisitions are meant to bolster the organization... It needs to fit clearly and strategically in our organization."

For Baxter, acquisitions are driven by specific opportunities of growth that can transform the top-line margin profile. On the opposite end of the acquisition spectrum, **Incyte Corporation chairman, president & CEO, Hervé Hoppenot** emphasized internal innovation as the core driver of success. Contrary to others, Hoppenot said, "Our goal is to build a biopharma company from the research base investment." At Incyte,



James Robinson, Astellas US LLC



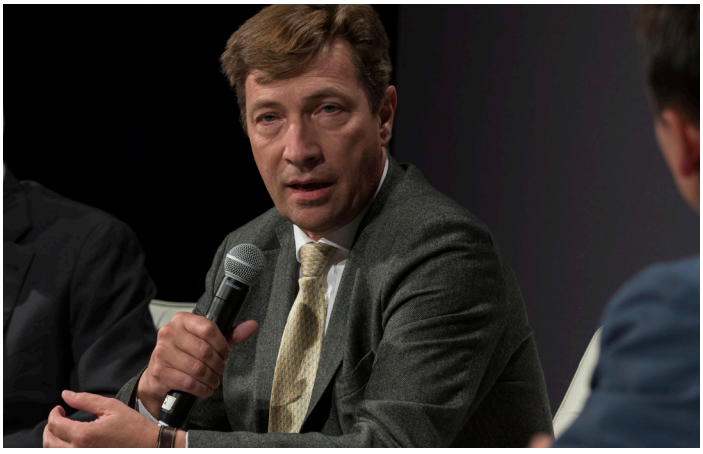
Joe Almeida , Baxter International Inc.

innovation revolves around two R&D strategies – targeted therapy as well as immunotherapy approaches in oncology, and both have been internally driven. Hoppenot pointed at the historical dislocation between the developmental cost and the success of a drug and the errors of cutting cost in R&D to manage EPS. “If you are not ready to live with this long delay between the R&D actions you take and the financial impact of your actions, then there is no reason to be part of this business.”

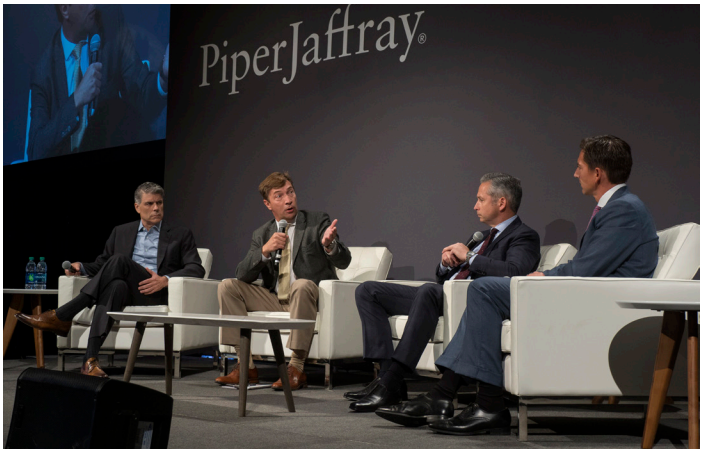
While recognizing the strains faced by R&D budgets, Almeida took a more holistic perspective, considering all dollars of investment – M&A or R&D – equally. What matters is the efficacy of that investment as the true driver of output: “Having the ability to diversify the dollars will give you, by sheer statistical analysis, better output and probability of success.” Almeida said that he simply focuses on the return to shareholders as the central driver, rather than market forces that push for expansion of the business. Robinson said that he thinks about acquisitions as either foundational or transformational, with the overall goal defined as the defense of growth profile. Due to the cyclical nature of growth, Robinson explained, “You are going to have an opportunity with your own organic research and development functions, which will bring the products to the market… When there is a lag, that is when the market is looking for an action.” This perspective is strategic and longer-term, aligned with the culture and philosophy behind many Japan-based companies. The longer-term perspective is not what drives most deals in the pharma sector, noted Hoppenot. Hoppenot expressed his view that, since acquisitions in biopharma do not drive near-term growth or earnings accretion, they ultimately fail to add much real value to the industry. As an example, he contrasted late-stage assets (in cardiovascular indications) with a high rate of success but modest potential returns, versus early-stage products in rapidly evolving therapeutic indications (such as cancer) which promise a higher probability of developing game-changing products. Market potential, clinical risk, time horizon and potential competition are all part of the equation and by the time a premium is paid for the deal, it’s unclear what value is really being created and for whom.

Value is clearly being delivered to those who successfully take on and manage the risk. Venture capitalists are vital to the industry, noted Hoppenot, especially when it comes to oncology where the size, cost and risks are massive. For Incyte Corporation, ventures serve two purposes in the form of partnerships and as a source from which new drugs or platforms are discovered. The same was noted of academic collaborations. Almeida continued on that theme by describing venture capital as essential, not as much as a source of deals, but also as the eyes and ears of the market: “The venture capital arm of Baxter is one that is observing the trends in the market.” In both situations, the importance of the venture community and academic community was strongly emphasized by the panel.

The factors and forces driving M&A in the healthcare market do not appear to be subsiding. The fact that, even among just three healthcare CEOs, so many different perspectives around the motivations and forces driving M&A as a form of collaboration could be discussed points to the continued vitality of the healthcare M&A market. Though ultimate outcomes may not be clearly driving industry value, the strategic and defensive benefits seem to be protecting value at a minimum for those engaged in M&A.



Hervé Hoppenot, Incyte Corporation



Joe Almeida, Hervé Hoppenot, James Robinson, Matt Hemsley

From ObamaCare to…ObamaCare?

Promises of healthcare reform from the Trump Administration are dominating the debate in Washington, D.C. While the House has passed a reform bill, it is unclear if, how and when the Senate will be able to garner majority support to advance it. What are the implications for healthcare during this watchful-waiting period? How will the private sector and government – including HHS, CMS, FDA and other federal regulatory bodies and States – respond, if at all, to healthcare reform efforts?

Panelists: Patrick Conway, M.D., Deputy Administrator for Innovation and Quality and Director, Center for Medicare and Medicaid Innovation, Centers for Medicare & Medicaid Services
Bill Frist, M.D., former U.S. Senator, Tennessee; former Senate Majority Leader
Ron Williams, former Chairman & CEO, Aetna Inc., Board Member, Johnson & Johnson

Moderator: Cory Alexander, Executive Vice President, External Affairs, UnitedHealth Group Inc.

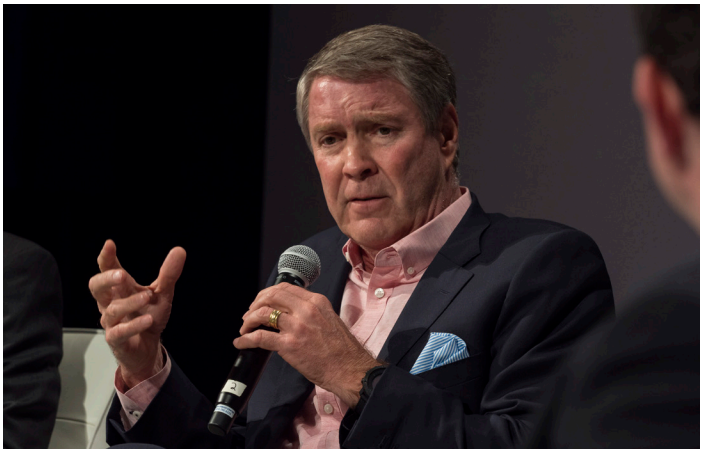
"The bill has a 70% likelihood of passing by August 10 in the Senate and a 60% likelihood a bill is passed by both the House and Senate prior to the SCHIP renewal in September."

BILL FRIST, M.D., FORMER U.S. SENATOR, TENNESSEE;
FORMER SENATE MAJORITY LEADER

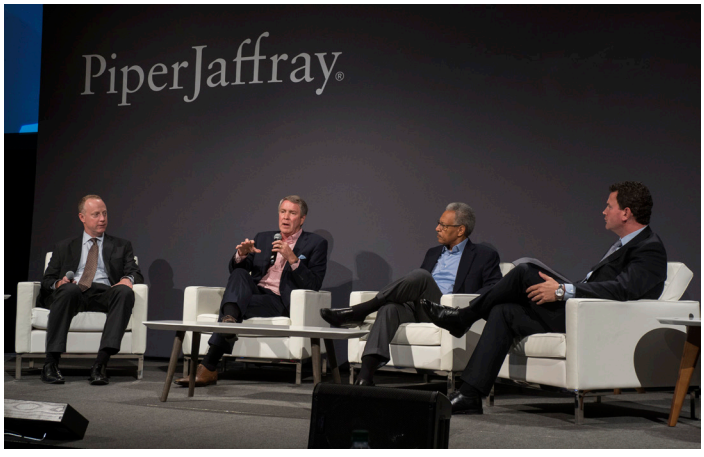
Following 2017 elections, healthcare reform has re-entered the public discourse with President Trump and Republicans vowing to "repeal and replace" the Affordable Care Act (ACA), otherwise known as ObamaCare. However, healthcare reform through the American Health Care Act (AHCA), the current Republican reform bill, continues to encounter difficulties garnering widespread political support even within the Republican Party. With no Democrat support and emerging factions in the Republican Party, the conservative Freedom Caucus and the more moderate Tuesday Group, continue to battle, preventing the AHCA from moving forward as quickly as some Republicans hoped.

However, **former Senate majority leader and surgeon, Bill Frist (R-TN)** remains confident that the AHCA will pass saying, "The bill has a 70% likelihood of passing by August 10 in the Senate and a 60% likelihood a bill is passed by both the House and Senate prior to the SCHIP renewal in September." Republicans are following Congressional reconciliation tools created in the Budget Act of 1974, which introduced budgetary standards, but lower the vote threshold in the Senate from 60 to 50. Senator Frist notes this is important, because Congress can only work on one reconciliation bill at a time, so healthcare reform must come before other Republican efforts, such as tax reform.

If passed, healthcare reform is likely just the beginning with other regulatory bodies (such as the Center for Medicare & Medicaid



Bill Frist, M.D., U.S. Senate



Patrick Conway, M.D., Bill Frist, M.D., Ron Williams, Cory Alexander

Services and Health and Human Services) needing to work out the finer details. **Former chairman & CEO of Aetna Inc. and board member of Johnson & Johnson, Ron Williams** believes "these adjustments will be in a time period that extends past the 2018 election cycle." If the bill does not pass, Williams believes, "the majority of the problems with the ACA can be addressed through the flexibility the bill [AHCA] provides to regulatory agencies."

Many have criticized the lack of bipartisan support for the AHCA. The panel notes this is becoming a major issue for Republicans, given the divisions within their own party. However, Senator Frist suggests that the design and ideology are somewhat separate. An example he gave was Democrats helping design the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), one of then-Senator Frist's major accomplishments. Not one Democrat voted for the bill, as "ideology trumps design." So far, it appears the AHCA has had little Democrat influence, with Senate Republicans keeping the bill private for now.

A big component of the AHCA is the repeal of Medicaid expansion, which now covers 14-15 million people. If cut, **Patrick Conway, M.D., deputy administrator for innovation & quality and director for the Centers for Medicare & Medicaid Services (CMS)**, sees opportunity for innovative private sector companies to take advantage of costs being pushed down the chain from the federal government to states, due to per capita caps or block grants.

Clearly, the cost of healthcare is unsustainable, but Conway believes, "there is an opportunity in the coverage space and value-based payments to bring down the cost of care." Recently, CMS is driving innovation with new value- and risk-based payment models such as accountable care organizations (ACOs) and Bundled Payments for Care Improvement (BPCI). In particular, Conway sees this trend continuing on the managed care/payor side of the market, specifically in Medicare where he believes, "Medicare managed care penetration can move from the current 34% to 50%".

Concluding this year's Piper Jaffray Heartland Summit, the longest-serving deputy administrator in CMS history addressed the need for private sector intervention and innovation and the need for value-based measurements to help align participants in the healthcare marketplace to deliver fair value that lowers costs. Looking ahead to the 2018 Heartland Summit, we likely anticipate more calls for private sector collaboration and measures of healthcare value.

Ron Williams, Johnson & Johnson

Patrick Conway, M.D., Centers for Medicare & Medicaid Services

piperjaffrayheartlandsummit.com