

PNC's Corporate Healthcare Index

Q4 2023

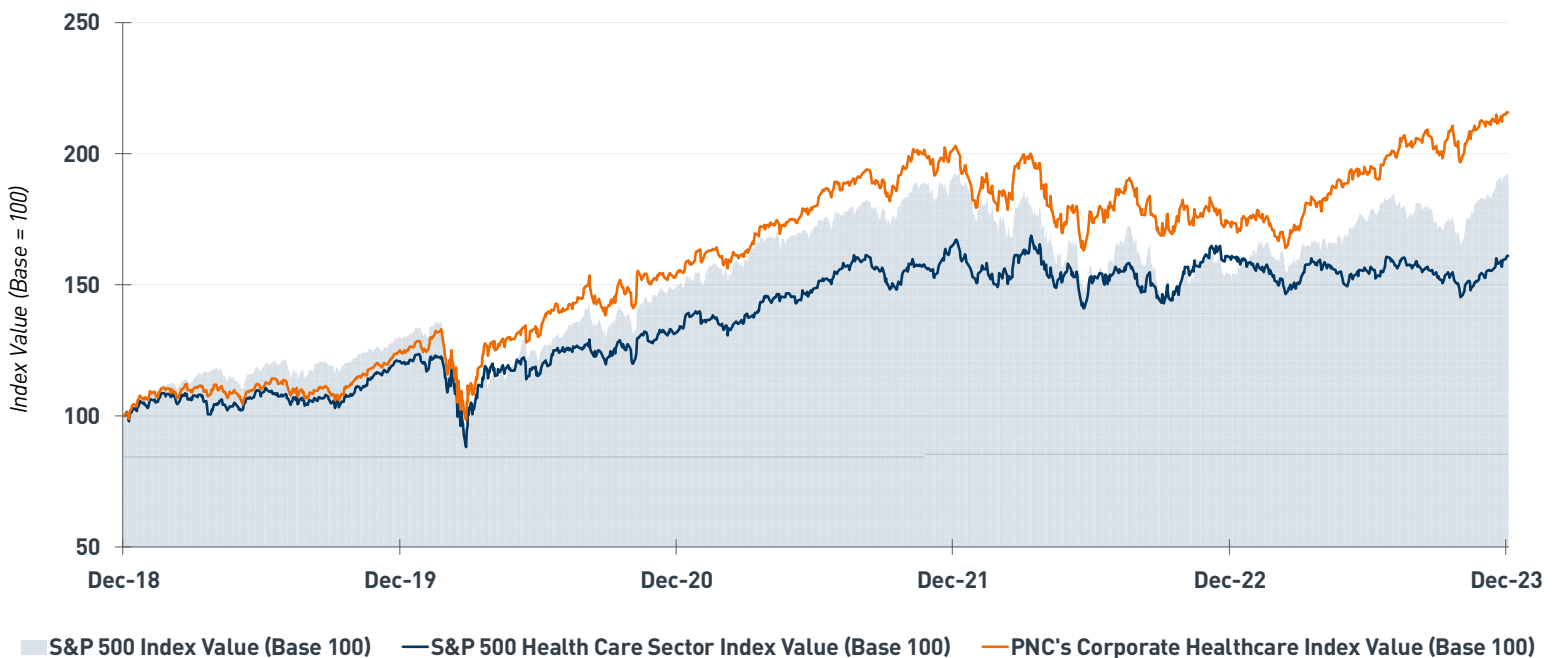


Introducing PNC's Corporate Healthcare Index (the "Index"), a tool that examines the performance of—and trends within—the entire healthcare industry. S&P launched the S&P 500 Healthcare Sector Index in 1996, but it is only comprised of conventional healthcare entities in traditional subsegments. As healthcare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

Healthcare is the largest industry in the United States with an approximate annual spend of \$4.5T, roughly 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 Healthcare Sector Index.
- Over the last quarter, the Index **outperformed the S&P 500 Healthcare Sector Index while underperforming the broader S&P 500**. Performance was driven largely by gains among the Emerging Trends and Health Technology / IT subsegments (see page 3).

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



Market Commentary⁴

Healthcare Industry

Over the course of 2023, the US economy flouted recession expectations, and markets rallied to close out the year with the S&P 500 returning nearly 25%, a welcome result after the market downturn through 2022. Healthcare continues to buoy the economy and job market. Among healthcare employees, the unemployment rate has hovered around 2.0% through October 2023⁵, significantly tighter than the broader 3.7% unemployment rate⁶.

Post-Covid healthcare spending growth normalized in 2022, according to the Centers for Medicare & Medicaid Services ("CMS"). Healthcare spending grew 4.1% in 2022, faster than 2021's 3.2% growth, but notably slower than 2020's 10.6% increase¹. Healthcare spending grew 4.1% to \$4.5T; however, this growth was outpaced by the growth of US GDP, contributing to a reduction of healthcare's overall share of GDP¹. CMS has yet to release its aggregated results for 2023.

- **Looking Back on 2023:** On the heels of the pandemic recovery, payors worked to acquire assets (e.g., Elevance / BCBSLA), though heightened FTC scrutiny under the Biden administration has discouraged some mergers (Cigna / Humana). Overall, payors have been able to increase Medicare Advantage ("MA") participation and bolster value-based care efforts, particularly as ACA enrollment steadies on the back of post-Covid Medicaid redeterminations⁷. Provider outlook has largely been negative in response to lingering pandemic headwinds, but [PNC Healthcare has recently issued a neutral outlook for 2024](#), despite some continued challenges.
- **What's Ahead in 2024:** Looking forward, we expect much of the market to remain "full steam ahead" with increased adoption of generative AI among care providers, significant expansion / prescription of GLP-1 Agonists (as well as payor pushback on coverage for obesity treatment), continued M&A scrutiny from regulators (Final Merger Guidelines issued Dec. 2023), PBM scrutiny from legislators, and the ongoing examination of the patient care continuum, particularly as it relates to where care is delivered and the total cost of care provided.

Industry Subsectors

<p>Emerging Trends:</p> <ul style="list-style-type: none"> ▪ We expect private capital to take advantage of the broader market picture and expected rate cuts in 2024 to seek out exit opportunities ▪ CVS set a \$10B revenue target for its health care delivery group by 2028 (from \$6B at FYE 2023)⁸. The retailer is looking to drive additional traffic via Aetna and pharmacy customers, but this target opens the door for further acquisitions ▪ Employer Direct Healthcare is now valued at \$1B after investments near the end of 2023⁹, highlighting the continued uptake of self-funded plans among employers ▪ Walgreen's closing more VillageMD clinics across the Midwest to cut costs¹⁰. Walgreen's recently downgraded to non-investment grade by Moody's ▪ Weight Watchers launches telehealth and outreach along with GLP-1 prescriptions for customers. Expect competitors to follow suit (e.g., LFMD / MED) 	<p>Health Technology / IT:</p> <ul style="list-style-type: none"> ▪ Burgeoning AI use in clinical settings will continue to grow exponentially (500+ FDA-approved AI medical algorithms), and use-cases for administrative & non-clinical functions will expand rapidly. Questions persist surrounding adoption ▪ "AI fervor" has invited scrutiny from Washington, with President Biden issuing an executive order aimed at AI's use. Expect further regulation in the near-term ▪ Best Buy Health continues to wade into the healthcare space via Home Health and Remote Patient Monitoring, likely growth avenues for other disruptors ▪ Oracle experienced a 12% drop in share value following its Q4 revenue miss, hampered by Cerner's ongoing cloud strategy. With ~50% of Cerner's customers expected to be transitioned to the cloud through Q1, Epic's primary competitor may continue to drag on parent Oracle's consolidated revenues
<p>Payors:</p> <ul style="list-style-type: none"> ▪ Cigna & Humana announced both the initiation and abandonment of merger negotiations in Q4 2023 after failing to agree on price and amid significant antitrust scrutiny in the payor space. The merger would have created an integrated healthcare powerhouse similar in size / scale to UNH and CVS ▪ Elevance continues to look for MA assets to purchase, most recently aiming to pick up Cigna's MA business following the end of Cigna / Humana merger talks. Presently, Cigna is in exclusive talks with HCSC to sell its MA business¹¹ ▪ UNH's MA growth may be muted next year, however, due to a CMS rate notice which is unpopular with insurers, and this may extend to other MA plan providers ▪ Payors will continue to penetrate the ASC, urgent care, and outpatient markets to reinforce lower site of care/service efforts ▪ Medicare Advantage star ratings, Medicaid redeterminations and inflation will pressure health insurance finances in 2024, according to Fitch Ratings 	<p>Pharmaceuticals & Life Sciences:</p> <ul style="list-style-type: none"> ▪ Given the buzz surrounding GLP-1 agonists, several developments through this year and next will gauge the direction of the weight loss and pharmaceutical industries and many questions remain: Will drugs be approved for oral usage? Will increased demand and production invite cost decreases? How will payors navigate coverage for GLP-1 drugs for weight loss? Is there a broader use-case for GLP-1 through the lens of value-based / preventative care? ▪ Phase II clinical trials have opened for the treatment of pancreatic cancer via mRNA vaccine. The FDA has hinted it will review other oncology vaccinations ▪ PBM regulation continues and consolidation will follow. Potential PBM legislation drove the majority of healthcare lobbying spend in 2023 ▪ Beginning in 2024, out-of-pocket insulin costs will be capped at \$35 for eligible patients. Will the cap help or hurt the sector at-large? Will it improve patient outcomes? Will success through "phase 1" of Medicare drug price negotiations invite more sweeping legislation down the line?
<p>Providers:</p> <ul style="list-style-type: none"> ▪ Flattening wage growth, declining turnover, and rising payroll signal the healthcare labor market is stabilizing ▪ Despite scrutiny, we expect hospital / health system mergers to increase following years of post-Covid operating challenges for smaller organizations ▪ For-profit hospital operators strained by physician fees, payor relations in Q3. With the exception of HCA, the largest for-profit U.S. health systems all reported lower year-over-year profits in the third quarter ▪ Moreover, expect to see additional regulation of the Home Health space, given its growth / regulatory leniency since the pandemic 	<p>Supply Chain / OEM:</p> <ul style="list-style-type: none"> ▪ With an increase in provider outsourcing to manage expenses, Group Purchasing Organizations ("GPOs") may expand capabilities / offerings to their clients (i.e., consulting, financial advisory, and/or IT) ▪ Expect the healthcare supply chain to continue to evolve based on Pandemic-induced challenges, focusing on domestic production, vertical integration, AI enablement / purchasing, and smart stockpiling

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

	Periodic Return Data as of End of Trading on 12/29/23						
	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Year-to-Date
S&P 500 Index Value	4.82%	11.24%	8.49%	23.91%	27.98%	91.89%	24.73%
S&P 500 Health Care Sector Index Value	5.45%	5.94%	3.80%	(0.02%)	21.49%	61.05%	0.59%
PNC's Corporate Healthcare Index Value	2.57%	8.15%	11.72%	23.95%	38.72%	115.02%	24.25%

Index Constituents:

Emerging Trends

1. 23andMe Holding Co.	2.00%	(6.57%)	(46.89%)	(57.71%)	(92.15%)	-	(56.50%)
2. agilon health, inc.	17.40%	(29.34%)	(26.82%)	(22.53%)	-	-	(21.76%)
3. Alphabet Inc.	3.48%	6.75%	17.29%	57.93%	58.94%	166.92%	56.74%
4. Amazon.com, Inc.	3.84%	19.52%	18.80%	80.49%	(8.52%)	105.60%	77.04%
5. AMN Healthcare Services, Inc.	9.65%	(12.09%)	(31.20%)	(27.30%)	9.59%	32.53%	(29.36%)
6. CVS Health Corporation	18.03%	13.09%	14.83%	(15.51%)	16.29%	21.12%	(15.01%)
7. JPMorgan Chase & Co.	10.23%	17.29%	18.59%	27.68%	36.07%	75.67%	25.89%
8. Owens & Minor, Inc.	(1.18%)	19.25%	0.89%	(0.87%)	(31.47%)	204.42%	(1.68%)
9. Walgreens Boots Alliance, Inc.	30.68%	17.40%	(7.97%)	(30.32%)	(33.75%)	(61.63%)	(29.79%)
10. Walmart Inc.	1.01%	(1.43%)	2.18%	10.90%	9.25%	71.12%	9.78%

Health Technology / IT

11. Oracle Corporation	(9.28%)	(0.46%)	(10.49%)	29.52%	63.56%	135.23%	25.93%
12. Salesforce, Inc.	14.23%	29.77%	25.05%	98.54%	18.29%	95.38%	95.24%
13. Teladoc Health, Inc.	17.31%	15.92%	(14.65%)	(9.64%)	(89.17%)	(55.48%)	(4.56%)
14. Veradigm Inc.	(10.34%)	(20.17%)	(15.47%)	(41.33%)	(26.49%)	10.89%	(39.08%)

Payors

15. Centene Corporation	5.29%	7.74%	10.78%	(9.19%)	25.72%	31.58%	(6.94%)
16. The Cigna Group	13.92%	4.68%	8.01%	(9.46%)	46.75%	57.07%	(6.85%)
17. Elevance Health, Inc.	1.33%	8.30%	7.15%	(8.06%)	50.02%	82.01%	(6.10%)
18. Humana Inc.	(5.10%)	(5.90%)	3.14%	(10.79%)	12.19%	62.18%	(8.53%)
19. UnitedHealth Group Incorporated	(1.59%)	4.42%	10.50%	(0.64%)	51.57%	113.80%	1.51%

Pharmaceuticals & Life Sciences

20. Biogen Inc.	11.51%	0.68%	(8.28%)	(6.24%)	6.29%	(11.84%)	(5.08%)
21. Cencora, Inc.	2.94%	14.12%	7.80%	23.69%	111.47%	177.69%	25.01%
22. Eli Lilly and Company	(1.51%)	8.52%	25.50%	58.83%	249.93%	410.44%	59.71%
23. Johnson & Johnson	3.04%	0.64%	(4.49%)	(11.73%)	1.69%	23.16%	(12.04%)
24. Merck & Co., Inc.	7.80%	5.90%	(3.98%)	(1.62%)	33.90%	44.65%	(1.91%)
25. Moderna, Inc.	25.87%	(3.72%)	(18.56%)	(44.40%)	(13.06%)	602.83%	(44.44%)
26. Pfizer Inc.	(4.29%)	(13.20%)	(20.29%)	(43.91%)	(22.29%)	(32.98%)	(43.84%)
27. Roche Holding AG	3.43%	(2.38%)	(10.51%)	(16.51%)	(20.35%)	0.45%	(16.78%)
28. Thermo Fisher Scientific Inc.	7.68%	4.86%	3.19%	(4.71%)	14.68%	138.61%	(4.05%)

Providers

29. HCA Healthcare, Inc.	8.67%	10.04%	(9.91%)	12.61%	65.22%	120.95%	11.29%
30. Surgery Partners, Inc.	(0.99%)	9.37%	(29.05%)	16.07%	10.73%	224.11%	21.63%
31. Tenet Healthcare Corporation	12.17%	14.69%	(7.44%)	57.50%	89.07%	336.82%	54.29%

Supply Chain / OEM

32. 3M Company	11.02%	16.77%	10.16%	(9.33%)	(37.12%)	(42.27%)	(10.74%)
33. Cardinal Health, Inc.	(4.27%)	16.10%	7.33%	29.70%	88.41%	126.11%	31.37%
34. DaVita Inc.	5.17%	10.82%	6.00%	39.29%	(9.69%)	107.98%	39.98%
35. GE HealthCare Technologies Inc.	14.19%	13.64%	(1.73%)	33.31%	-	-	38.07%
36. Hologic, Inc.	1.20%	2.95%	(10.77%)	(6.11%)	(0.40%)	76.64%	(5.43%)
37. McKesson Corporation	1.38%	6.47%	10.00%	23.42%	165.81%	320.74%	23.68%
38. Medtronic plc	4.46%	5.13%	(5.06%)	5.87%	(28.72%)	(7.71%)	5.26%
39. Molina Healthcare, Inc.	2.99%	10.19%	22.57%	8.41%	74.26%	217.89%	13.29%
40. Premier, Inc.	8.91%	4.00%	(18.48%)	(36.02%)	(36.11%)	(39.45%)	(36.60%)

Healthcare at PNC Overview

Contact Information

Gyasi C. Chisley

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

Christopher Ditta, CFA

VP, Corporate Healthcare
215.883.8937
christopher.ditta@pnc.com

Brian R. Kelly

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

Healthcare at PNC by the Numbers¹²**\$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*

\$12.6B

*Healthcare Client Assets Under
Management (AUM)¹³*

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 January 1, 2024
- 'PNC's Corporate Healthcare Index Value' is a weighted average of the constituents' share prices as of the end of trading on December 29, 2023. The Index is a market capitalization-weighted equity index. Rebalancing occurs on the last trading day of each fiscal quarter, most recently December 29, 2023. '-' is shown where there is insufficient share price history to calculate a percentage return over the specified time period
- Market Commentary Page Sources: Becker's Hospital Review, Fierce Healthcare, Healthcare Dive, KFF, Modern Healthcare, The Wall Street Journal
- Peterson-KFF: "What are the Recent Trends in Health Sector Employment?" - December 13, 2023
- Bureau of Labor Statistics
- Kaiser Family Foundation: "Medicare Advantage in 2023: Enrollment Update and Key Trends" - August 9, 2023
- Healthcare Innovation: "CVS Execs Set \$10B Healthcare Services Target for 2028" - December 16, 2023
- Modern Healthcare: "Employer Direct Healthcare Valued at \$1B After \$92M Investment" - December 19, 2023
- Modern Healthcare: "Walgreens' VillageMD to Shutter More Clinics in Cost-Cutting Plan" - December 15, 2023
- Wall Street Journal: "Cigna Nears Deal to Offload Medicare Business" - January 3, 2024
- Data as of December 31, 2023
- "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

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

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

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