

PNC's Corporate Healthcare Index

Q1 2024

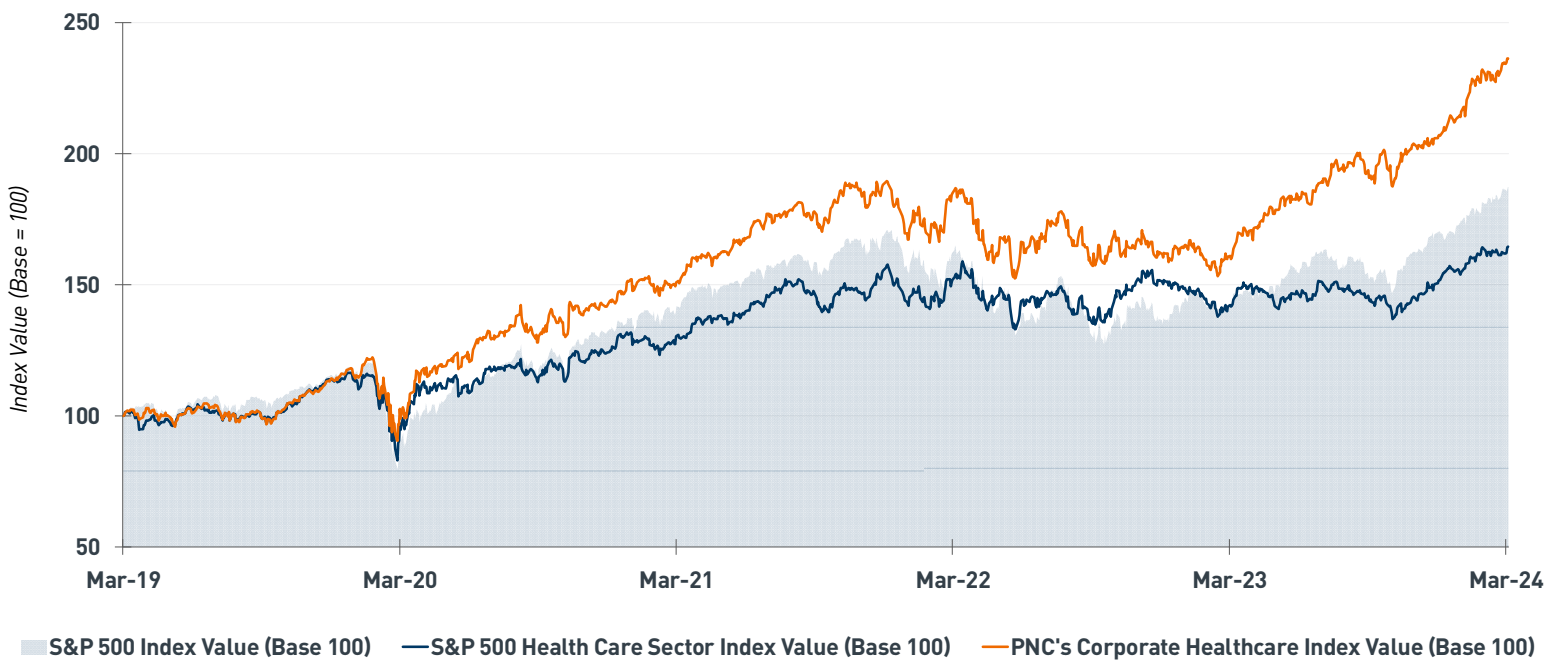


Introducing PNC's Corporate Healthcare Index (the "Index"), a tool that examines the performance of—and trends within—the entire healthcare industry. S&P launched the S&P 500 Healthcare Sector Index in 1996, but it is only comprised of conventional healthcare entities in traditional subsegments. As healthcare 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 significantly outperformed both the S&P 500 Healthcare Sector Index and the broader S&P 500. Each subsector enjoyed strong returns over Q1, however Emerging Trends companies drove much of the Index's outperformance (see page 3).

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



Market Commentary

Healthcare Industry⁵

The elephant in the healthcare industry that will likely shape operational processes and policies for the foreseeable future is the cyberattack on Change Healthcare, a subsidiary of Optum and UnitedHealth Group (UNH), which occurred on Feb. 21. It is estimated that Change Healthcare processes half of all medical claims in the US, about 15 billion⁶. For reference, about a month after the cyberattack, Change had approximately \$14 billion in unprocessed claims⁷. And, as of FQE, Change's platforms are still not fully operational. According to an American Hospital Association survey, 94% of hospitals (n = 1,000) are dealing with the financial impact. 82% have had negative cash flow impacts, with 60% of those citing an effect of at least \$1 million per day⁸.

The cyberattack has placed some downward pressure on UNH's stock price, down 5.2% from close of business on Feb. 21 through the end of the quarter, despite the Q4 earnings beat. While UNH has taken steps to shore up the liquidity of those that are impacted by the attack⁹, it remains to be seen exactly how the effects of this vulnerability being exposed will ripple throughout the ecosystem. There will likely be providers working to further diversify their claims processors and clearinghouse partners to mitigate the damages from future issues, akin to supply chain re-shoring efforts and vertical integration during the pandemic. Meanwhile, UNH / Optum are staying acquisitive, buying up practices and physician networks (e.g. Stewardship Health, The Corvallis Clinic).

Some questions & themes to ponder:

- How will healthcare organizations' attitudes toward liquidity change going forward, especially for smaller operations with fewer days' cash on hand?
- How will the speed of claims processing and remittance be impacted? Will we aim for higher velocity of money within the system?
- Ripple effects on overall healthcare operations: Vendor diversification? Stronger business continuity plans?

While Change Healthcare dominated the headlines over the last several weeks, other trends have strengthened or emerged during Q1:

- Introducing and/or contending with the proliferation of AI across healthcare operations (e.g. Google, GE, Oracle, Salesforce)
- Integrating acquisitions and partnerships effectively, especially on the back of significant M&A activity *and* regulatory scrutiny (e.g. CVS, Elevance)
- Refining operations post acquisition (e.g., Walgreens / VillageMD and cost-cutting initiatives)

Industry Subsectors⁵

<p>Emerging Trends:</p> <ul style="list-style-type: none"> • Walgreens takes \$6B write-down of VillageMD assets, as the retailer continues to shutter clinics, a sign that the integration and "co-location" of primary care within retail pharmacies has been a challenging premise • While selling off acute care assets, Tenet doubles down on ASCs, with investment estimated at \$149 million across 31 facilities in CY 2023 • Diminished PE activity continued in Q1, though we anticipate more deals will be announced over the course of this year and next, as firms have spent too long on the sidelines, and LPs will look for returns of / on capital • AMZN and Philips announced partnership on digital pathology, expanding the eCommerce giant's reach into healthcare 	<p>Health Technology / IT:</p> <ul style="list-style-type: none"> • Epic introduces its software for download within the Apple app store, making it available for use directly on Apple computers. Emory Healthcare has purchased several hundred Apple computers to roll out Epic's software. This could mark another new foray into healthcare for Apple, as enterprise purchases of hardware may tick up for use with Epic • Salesforce announces that generative AI is now a major priority in healthcare during the HIMSS conference, fueling the growing trend. To that end, the company launched its Einstein Copilot AI tool, which will source clinical and nonclinical data to help providers auto-generate patient summaries, locate in-network providers for referrals, and trigger patient workflow tasks (book appointments, revise care plans, etc.)
<p>Payors:</p> <ul style="list-style-type: none"> • Cigna is capping GLP-1 annual cost increases at 15% for participants in Cigna's PBM's weight loss management program. The move will enhance affordability of GLP-1 medications, making them more widely available • The UNH cyberattack opens the door for competitors. We expect Change Healthcare's share of claims processed will reduce as users diversify • For now, insurers who administer Medicare Advantage (MA) plans will see 0.16% rate decreases in 2025, potentially signaling an inflection point in the profitability of MA for payors. Look for an article from PNC Healthcare in the coming months discussing the past, present, and future of MA 	<p>Pharmaceuticals & Life Sciences:</p> <ul style="list-style-type: none"> • A federal appellate court upheld an AR law prohibiting drugmakers from restricting 340B discounts for providers who use contract pharmacies, preserving 340B cost savings. It is unclear if the ruling will be appealed • NVIDIA launches suite of AI services for healthcare and pharma companies • Mark Cuban's Cost Plus announces partnership with Community Health Systems, who will use the company to buy hard-to-find drugs, potentially offering big savings to the for-profit health system • Elevance's CarelonRx scoops up Kroger Specialty Pharmacy, as the grocer re-focuses its healthcare portfolio, a recent trend amongst retailers
<p>Providers:</p> <ul style="list-style-type: none"> • For the first time in its four-year history, CMS noted a YoY decline in ACO REACH participants. CMS also announced a new ACO Primary Care Flex model to promote preventative care and health equity • Steward Health Care is selling its physician network to Optum; Optum bolsters its status as the country's preeminent employer of physicians • Tenet has been selling several hospitals to various buyers, a move to cut costs and re-focus its portfolio around its ASC strategy with USPI • It was reported that Ascension is selling 3 of its MI hospitals as health systems continue to shift assets, consolidate, and close in various markets 	<p>Supply Chain / OEM:</p> <ul style="list-style-type: none"> • GE Healthcare and Mass General Brigham further evolve the exploration and use of AI in their multi-year partnership. The two entities are now planning to integrate medical imaging models into their AI research work • 3M's healthcare spinoff, Solventum, began trading on the NYSE on 3/27 • Medtronic receives FDA approval for next-gen transcatheter aortic valve replacement, furthering its push for minimally invasive solutions • Hologic announces closure of international facilities in the diagnostic division, citing revenue reductions following the pandemic, an ongoing trend among makers of diagnostic products

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

	Periodic Return Data as of End of Trading on 3/28/24						
	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Year-to-Date
S&P 500 Index Value	3.10%	10.16%	22.53%	27.86%	32.26%	85.38%	10.79%
S&P 500 Health Care Sector Index Value	2.23%	8.40%	14.84%	14.11%	26.73%	62.26%	6.52%
PNC's Corporate Healthcare Index Value	3.30%	14.20%	24.31%	44.36%	56.25%	133.51%	13.28%
Index Constituents:							
Emerging Trends							
1. 23andMe Holding Co.	(6.67%)	(41.76%)	(45.59%)	(76.67%)	(94.77%)	-	(41.44%)
2. agilon health, inc.	(0.49%)	(51.39%)	(65.65%)	(74.32%)	-	-	(52.82%)
3. Alphabet Inc.	9.01%	8.05%	15.34%	45.50%	46.35%	156.49%	9.24%
4. Amazon.com, Inc.	2.05%	18.72%	41.90%	74.63%	16.60%	102.59%	20.31%
5. AMN Healthcare Services, Inc.	11.09%	(16.52%)	(26.61%)	(24.65%)	(15.18%)	32.75%	(19.28%)
6. CVS Health Corporation	7.25%	1.01%	14.24%	7.33%	6.02%	47.90%	(1.35%)
7. JPMorgan Chase & Co.	7.65%	17.75%	38.12%	53.71%	31.58%	97.87%	16.40%
8. Owens & Minor, Inc.	13.89%	43.80%	71.47%	90.45%	(26.28%)	575.85%	43.95%
9. Walgreens Boots Alliance, Inc.	2.02%	(16.93%)	(2.47%)	(37.28%)	(60.49%)	(65.72%)	(18.61%)
10. Walmart Inc.	2.66%	14.50%	12.87%	22.42%	32.89%	85.08%	13.32%
Health Technology / IT							
11. Oracle Corporation	12.47%	19.14%	18.59%	35.18%	79.01%	133.87%	20.71%
12. Salesforce, Inc.	(2.47%)	14.46%	48.53%	50.76%	42.15%	90.17%	17.59%
13. Teladoc Health, Inc.	0.13%	(29.93%)	(18.77%)	(41.70%)	(91.69%)	(72.84%)	(31.14%)
14. Veradigm Inc.	28.55%	(26.60%)	(41.40%)	(41.00%)	(48.72%)	(19.29%)	(28.37%)
Payors							
15. Centene Corporation	0.06%	5.75%	13.94%	24.16%	22.80%	47.80%	2.15%
16. The Cigna Group	8.05%	21.29%	26.96%	42.13%	50.24%	125.84%	17.12%
17. Elevance Health, Inc.	3.45%	9.96%	19.09%	12.77%	44.46%	80.69%	8.29%
18. Humana Inc.	(1.03%)	(24.27%)	(28.73%)	(28.58%)	(17.30%)	30.35%	(26.25%)
19. UnitedHealth Group Incorporated	0.22%	(6.03%)	(1.88%)	4.68%	32.96%	100.07%	(8.28%)
Pharmaceuticals & Life Sciences							
20. Biogen Inc.	(0.63%)	(16.67%)	(16.10%)	(22.44%)	(22.92%)	(8.78%)	(19.45%)
21. Cencora, Inc.	3.14%	18.31%	35.02%	51.76%	105.80%	205.57%	16.52%
22. Eli Lilly and Company	3.22%	33.46%	44.84%	126.53%	316.42%	499.54%	31.37%
23. Johnson & Johnson	(1.98%)	0.93%	1.57%	2.06%	(3.75%)	13.16%	(1.11%)
24. Merck & Co., Inc.	3.78%	21.03%	28.17%	24.02%	71.16%	58.65%	16.52%
25. Moderna, Inc.	15.52%	7.15%	3.17%	(30.62%)	(18.63%)	423.64%	(5.28%)
26. Pfizer Inc.	4.48%	(3.61%)	(16.34%)	(31.99%)	(23.41%)	(34.66%)	(6.66%)
27. Roche Holding AG	(0.97%)	(6.05%)	(8.29%)	(11.98%)	(24.80%)	(16.27%)	(6.05%)
28. Thermo Fisher Scientific Inc.	1.93%	9.50%	14.83%	0.84%	27.35%	112.34%	6.81%
Providers							
29. HCA Healthcare, Inc.	7.00%	23.22%	35.59%	26.49%	77.09%	155.81%	21.14%
30. Surgery Partners, Inc.	(3.87%)	(6.75%)	1.98%	(13.46%)	(32.60%)	164.45%	(5.69%)
31. Tenet Healthcare Corporation	13.02%	39.09%	59.52%	76.89%	102.13%	264.46%	38.25%
Supply Chain / OEM							
32. Cardinal Health, Inc.	(0.07%)	11.01%	28.89%	48.21%	84.20%	132.40%	9.04%
33. DaVita Inc.	8.73%	31.78%	46.04%	70.20%	28.10%	154.28%	29.15%
34. GE HealthCare Technologies Inc.	(0.41%)	17.58%	33.61%	10.83%	-	-	19.04%
35. Hologic, Inc.	5.64%	9.11%	12.33%	(3.40%)	4.81%	61.07%	7.59%
36. McKesson Corporation	2.96%	15.96%	23.46%	50.78%	175.25%	358.61%	13.40%
37. Medtronic plc	4.55%	5.79%	11.22%	8.10%	(26.23%)	(4.31%)	5.20%
38. Molina Healthcare, Inc.	4.30%	13.71%	25.30%	53.59%	75.75%	189.40%	10.58%
39. Premier, Inc.	5.94%	(1.16%)	2.79%	(31.73%)	(34.71%)	(35.92%)	(2.77%)
40. Solventum Corporation	-	-	-	-	-	-	-

Healthcare at PNC Overview

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Healthcare at PNC by the Numbers¹⁰**\$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*

\$12.6B

*Healthcare Client Assets Under
Management (AUM)¹¹*

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 March 30, 2024
- 'PNC's Corporate Healthcare Index Value' is a weighted average of the constituents' share prices as of the end of trading on March 28, 2024. The Index is a market capitalization-weighted equity index. Rebalancing occurs on the last trading day of each fiscal quarter, most recently March 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, Solvntum, has replaced 3M on the index. Solvntum began trading on the NYSE on Wednesday, March 27, 2024.
- "Market Commentary" page sources for both industry and subsector commentary: Becker's Healthcare, Centers for Medicare & Medicaid Services, Fierce Healthcare, Healthcare Dive, Healthcare IT News, Modern Healthcare, US Department of Health & Human Services, The Wall Street Journal
- U.S. Department of Health and Human Services
- Modern Healthcare
- American Hospital Association
- UnitedHealth Group: "Information on the Change Healthcare Cyber Response"
- Data as of March 31, 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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