State of the Industry

A Network-Driven Marketplace

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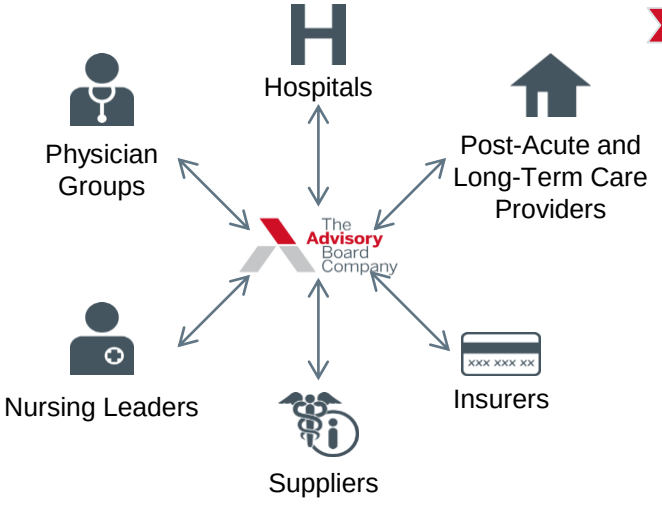
The Advisory Board is Uniquely Positioned

Research and Relationships at the Intersection of a Dynamic Industry



The Advisory Board Difference

We are …

- ✓ Willing to challenge conventional wisdom
- ✓ Devoted to exceeding member expectations at every turn

And we offer …

- ✓ Unique visibility into provider CXOs' world – challenges, priorities, vendor perceptions
- ✓ Direct access to over 500 in-house health care experts

3,000+	200+	1,500+	200+	5,000+
Hospitals and Health Systems	Independent Physician Practices	Post-Acute Care Facilities and Agencies	Health Care Product and Service Companies	CXO Relationships Across the Care Continuum

Road Map

1 A Network-Driven Marketplace

2 The Focus on Cost-Efficient Behavior

3 Meeting a New Set of Mandates

Returning to Our Mission

"Triple Aim" to Improve Health Care

1  Improve the patient experience of care (including quality and satisfaction)

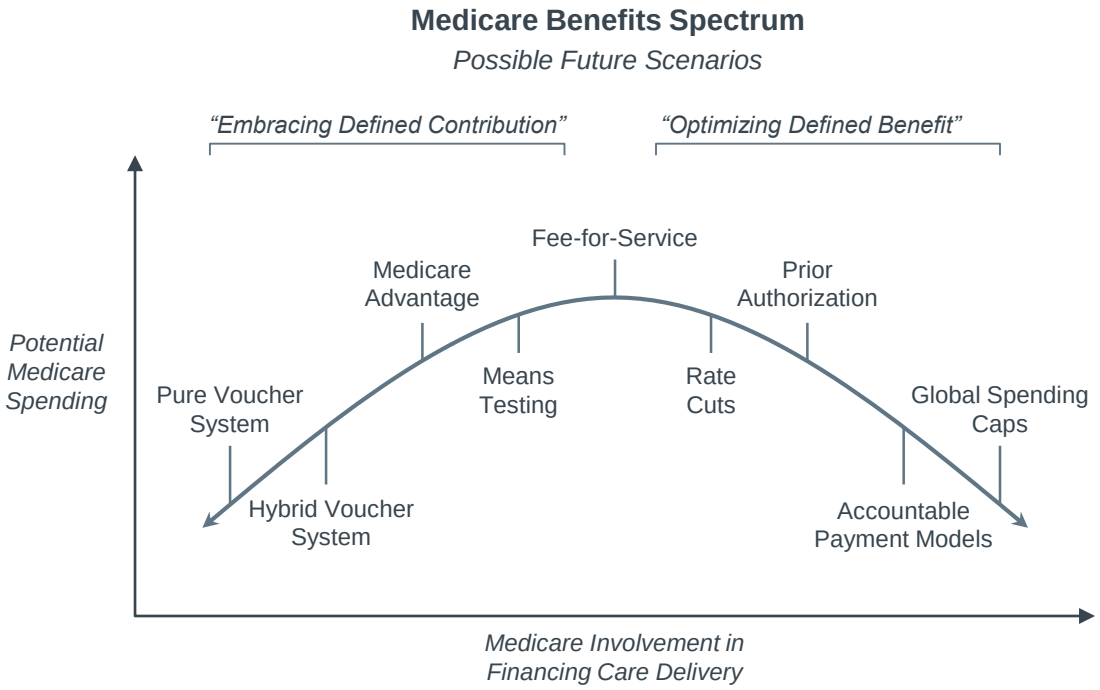
2  Improve the health of populations

3  Reduce the per-capita cost of health care

Source: Institute for Healthcare Improvement, available at: www.ihi.org/engage/initiatives/tripleaim/pages/default.aspx, accessed February 12, 2014; Post-Acute Care Collaborative analysis.

Entitlement Reform Necessary—But Which Direction?

Unable to Remain Stuck in the Middle



Source: Advisory Board interviews and analysis.

ACA Brings[1] Changes in Coverage, Reimbursement

Three Major Components of ACA

Changes in Coverage

Health Insurance Exchanges

Create online marketplace where individuals and small businesses can buy insurance

Medicaid Expansion

Expand Medicaid eligibility to include individuals and families with incomes up to 133% of the FPL[2]

Change in Reimbursement

Risk-Based Payments

Introduce payment and care delivery models that ties reimbursement to cost and quality outcomes

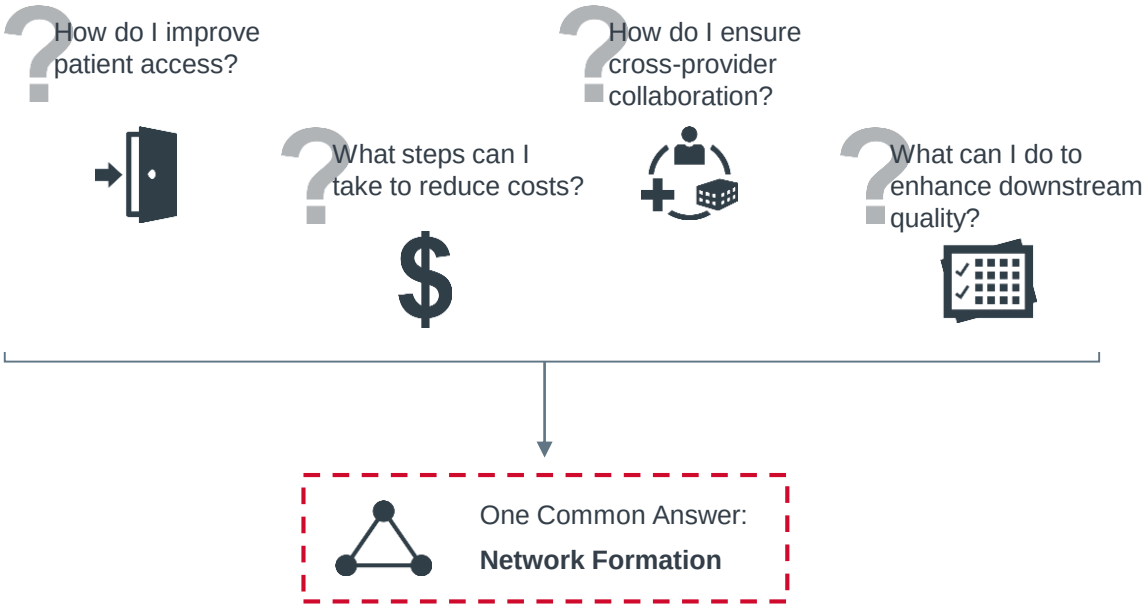
1) Affordable Care Act
2) Federal poverty level

Source: Advisory Board interviews and analysis.

Networks A Popular Solution for Today's Problems

Formation Motivated by a Range of Issues

Variety of Questions Facing Providers, Payers



Source: Post-Acute Care Collaborative interviews and analysis.

Network Emergence a Widespread Trend

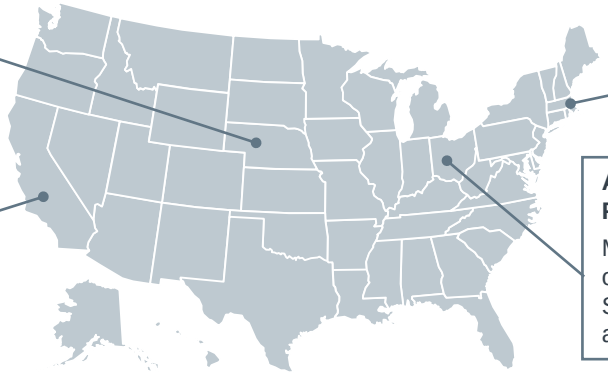
Networks Forming Across the Nation

Accountable Care Alliance

Provider-led ACO, including Methodist Health System and the Nebraska Medical Center

Anthem Blue Cross Vivity

HMO composed of Anthem Blue Cross with 7 California health systems



Massachusetts GIC[1]

Employer-sponsored insurance network for state employees

AARP MedicareComplete Focus

Medicare Advantage plan organized by United with St. Elizabeth and Trihealth as preferred providers

The Ideal Network

"The best narrow plans would avoid high-cost, low-quality providers, while still offering customers the services they need..."

New York Times

Source: "Anthem, Seven California Health Systems Team Up to Form HMO," CaliforniaHealthline, www.californiahealthline.org/articles/2014/9/17/anthem-teams-up-with-seven-calif-health-systems-to-form-hmo; "UnitedHealthcare Introduces New Medicare Advantage Plan for Beneficiaries in Cincinnati and Northern Kentucky," UnitedHealth Group, www.unitedhealthgroup.com/Newsroom/Articles/Feed/UnitedHealthcare/2014/1017UHCNewMAPlan.aspx; Gruber J, McKnight R, "Controlling Health Care Costs Through Limited Network Insurance Plans," *NBER Working Paper Series*, no. 20462 (2014), www.nber.org/papers/w20462.pdf; Sanger-Katz M, "Narrow Health Networks: Maybe They're Not So Bad," The Upshot, September 9, 2014, www.nytimes.com/2014/09/10/upshot/narrow-health-networks-maybe-theyre-not-so-bad.html?abt=0002&abg=0; Post-Acute Care Collaborative interviews and analysis.

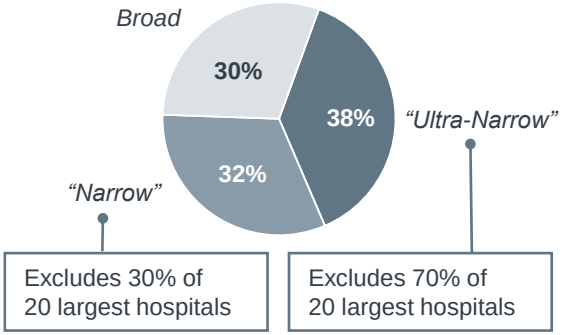
1) Group Insurance Commission.

Public Exchange Plans Mainly Narrow Network

Payers Responding to Anticipated Premium Sensitivity

Majority of Public Exchange Plans Exclude >30% of Largest Hospitals

20 Urban Markets, December 2013



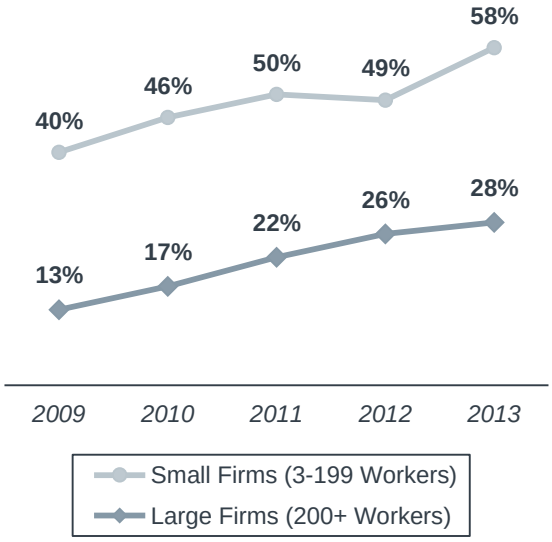
Source: Gottlieb S, "*Hard Data on Trouble You'll Have Finding Doctors in Obamacare*," Forbes, March 8, 2014, www.forbes.com; McKinsey & Company, "Hospital Networks: Configurations on the Exchange and Their Impact on Premiums," December 2013; Medical Group Strategy Council interviews and analysis.

Employer Shifting Risk by Increasing Cost-Sharing

Particularly Severe for Out-of-Network Care

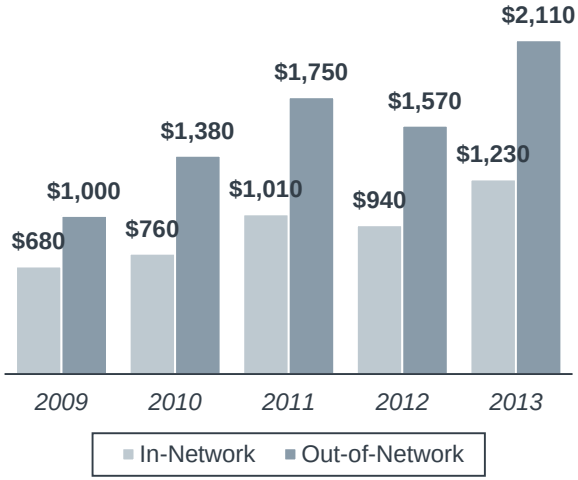
Percent of Covered Workers Enrolled in a Plan with a $1,000+ Deductible by Firm Size

Single Coverage



Average In- and Out-of-Network Deductibles for Group Plans

n = 1,100 employers

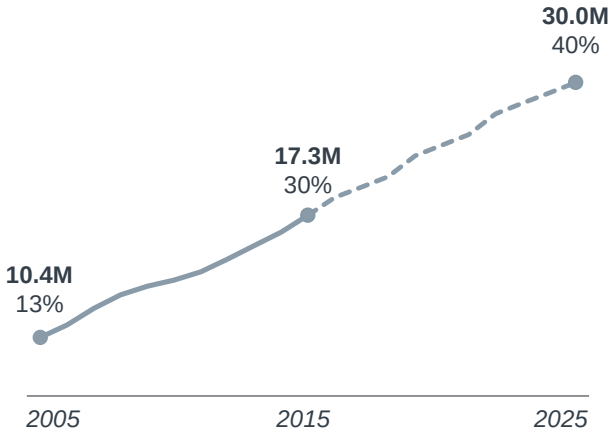


Source: Kaiser Family Foundation and Health Research & Educations Trust, "Employer Health Benefits 2013 Annual Survey," August 2013; PwC, "Medical Cost Trends: Behind the Numbers 2014," June 2013, available at: www.pwc.com; Health Care Advisory Board interviews and analysis.

Medicare Advantage Continues Record Growth

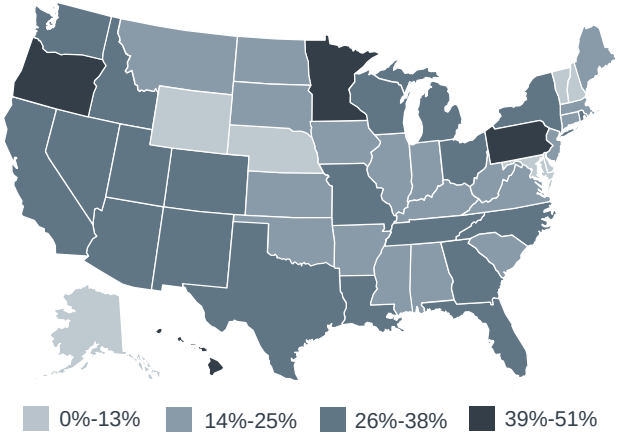
MA Enrollment to Nearly Double by 2025

Total Enrollment and Percentage of Total Medicare Population



MA Penetration Varies by State

Total MA Enrollment as a Percent of Total Medicare Population

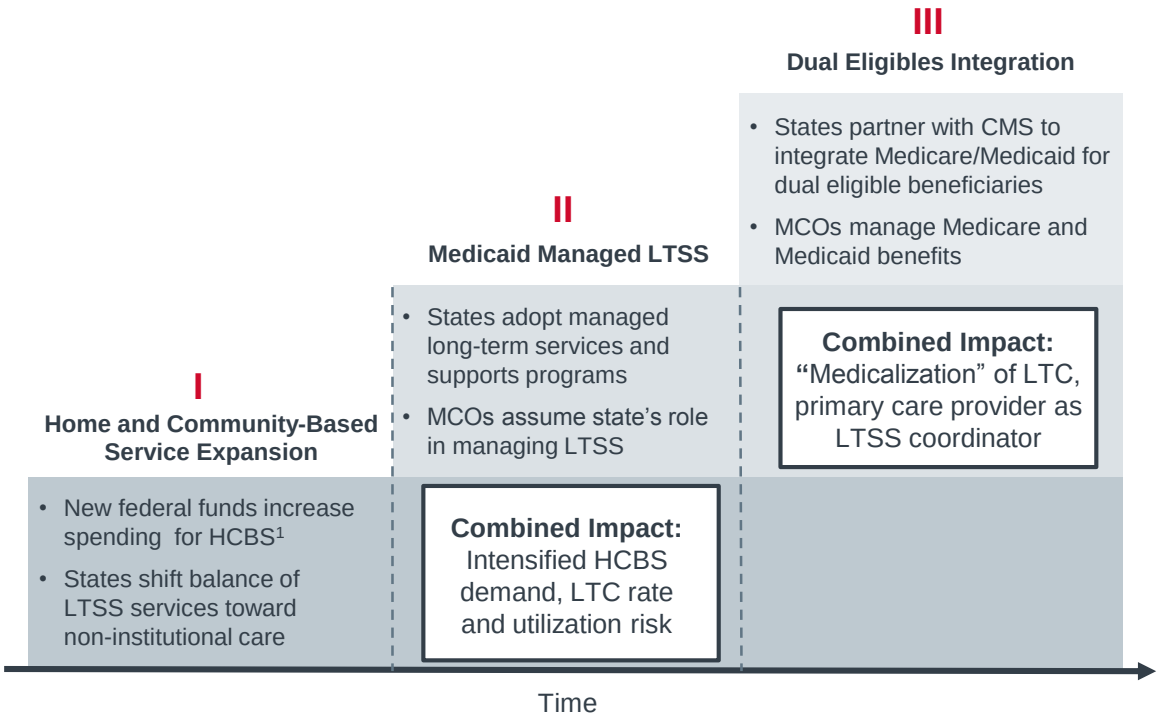


8.0% MA enrollment growth since 2010

Source: http://kff.org/medicare/fact-sheet/medicare-advantage-fact-sheet/; www.cbo.gov/sites/default/files/cbofiles/attachments/44205-2015-03-Medicare.pdf; Mark Farrah & Assocs; http://kff.org/medicare/state-indicator/enrollees-as-a-of-total-medicare-population/#map

The Emerging Medicaid Managed Care Environment

Policy Evolution of Medicaid Long-Term Care



1) Home and Community-Based Services.

Source: Post-Acute Care Collaborative interviews and analysis.

Overview of Accountable Payment Models

Key Attributes	Value-Based Purchasing	Bundled Payments	Accountable Care Organizations (ACOs)
Definition	Pay-for-performance program differentially rewards or punishes hospitals (and likely ASCs, physicians, PAC providers in coming years) based on performance against predefined process and outcomes performance measures	Purchaser disburses single payment to cover certain combination of hospital, physician, post-acute, or other services performed during an inpatient stay or across an episode of care; providers propose discounts, can gain share on any money saved	Network of providers collectively accountable for the total cost and quality of care for a population of patients; ACOs are reimbursed through total cost payment structures, such as the shared savings model or capitation
Purpose	Create material link between reimbursement and clinical quality, patient satisfaction scores	Incent multiple types of providers to coordinate care, reduce expenses associated with care episodes	Reward providers for reducing total cost of care for patients through prevention, disease management, coordination
Advisory Board Assessment	Withhold-earn back model will put significant dollars at risk for all providers, force immediate focus on quality and experience metrics	Increases accountability for cost and quality within episodes of care without removing FFS volume incentive; new lever for financial alignment between independent specialists and hospitals	Long-range goal of CMS to migrate to risk contracting; will spark industry-wide investment in primary care infrastructure to establish narrower networks
Role of CMMI[1]	Dedicating $500M to Partnership for Patients, targeting hospital-acquired infections, readmissions	Accepting providers' proposals to test four different bundled payment models, including one without inpatient care	Accepting providers' proposals to test various payment systems, including both shared savings and partial capitation

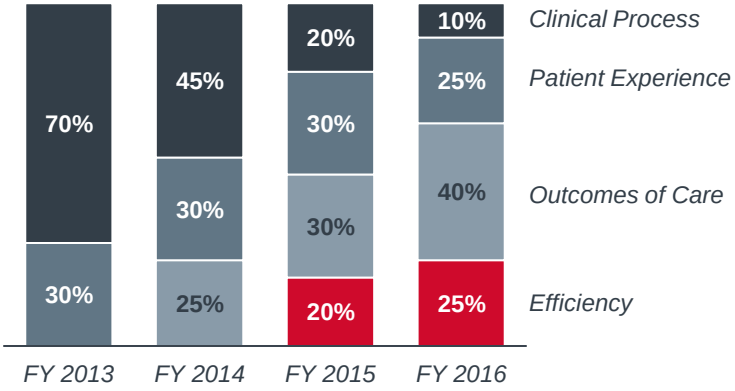
1) Center for Medicare and Medicaid Innovation.

Source: Marketing and Planning Leadership Council interviews and analysis.

CMS Focused on Efficiency, Outcomes

Importance of Clinical Process Weight Continues to Decline

Medicare Hospital VBP[1] Program Domain Weights



1) Value-Based Purchasing.

Source: The Advisory Board Company, "Mortality Rates Are Only One of Many VBP Changes to Come," December 4, 2013, available at: www.advisory.com; CMS, "Request for Information on Specialty Practitioner Payment Model Opportunities," February 2014, available at: www.innovation.cms.gov; Health Care Advisory Board interviews and analysis.

Incenting an Efficient Episode of Care

Introducing CMS's First Mandatory Bundle

Comprehensive Care for Joint Replacement (CJR) Model in Brief

Eligibility

All traditional Medicare, lower extremity joint replacement patients[1] in 67 selected markets are included in the bundle

Accountability

Acute care hospitals will bear financial risk; hospitals participating in BPCI Models 1, 2, or 4 are excluded

Financial Risk

Providers' episodic costs will be compared to a target price; providers would gain added reimbursement or owe CMS based on cost, quality performance

Waivers

Program includes provisions for gainsharing with PAC partners, waivers for 3-day stay rule, home visit and telehealth reimbursement

The CJR Model in Numbers

2
MS-DRGs subject to bundled payment: 469 and 470 (lower extremity joint replacement)

67
Number of markets in which CMS plans to implement mandatory bundling

$343M
Net savings expected by CMS from the program between 2016 and 2020

1) Not already counted in a BPCI model 1, 2, or 4.

Source: "Medicare Program; Comprehensive Care for Joint Replacement Payment Model for Acute Care Hospitals Furnishing Lower Extremity Joint Replacement Services," Centers for Medicare and Medicaid Services, s3.amazonaws.com/public-inspection.federalregister.gov/2015-29438.pdf; Post-Acute Care Collaborative analysis.

Continued Growth in ACO Model

Early Financial Results a Mixed Bag, Indicate Improvement Opportunity

ACOs Continue to Grow

23.5M

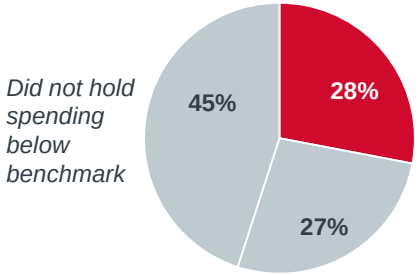
Americans enrolled in or attributed to Medicare, Medicaid, or commercial ACOs

744

ACOs of all types nationwide

ACO Performance in Medicare Shared Savings Program

Performance Year 2014



50%

HHS seeks to tie half of all Medicare payments to provider quality via ACOs or bundled payment arrangements by 2018

Source: Health Affairs, "Growth and Dispersion of Accountable Care Organizations in 2015," http://healthaffairs.org/blog/2015/03/31/growth-and-dispersion-of-accountable-care-organizations-in-2015-2/; HHS, "Better, Smarter, Healthier: In historic announcement, HHS sets clear goals and timeline for shifting Medicare reimbursements from volume to value, http://www.hhs.gov/about/news/2015/01/26/better-smarter-healthier-in-historic-announcement-hhs-sets-clear-goals-and-timeline-for-shifting-medicare-reimbursements-from-volume-to-value.html; CMS, "Medicare ACOs Provide Improved Care While Slowing Cost Growth in 2014," https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2015-Fact-sheets-items/2015-08-25.html; Post-Acute Care Collaborative interviews and analysis.

Road Map

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Market Demands Dictate Utilization Changes

Four Key Actions Necessary for Success Under New Payment Models

Factors Driving Additional Demands Providers

Legislative Forces

- Additional regulatory requirements
- Emerging payment models focused on outcomes and cost

Commercial Forces

- Increasing overlap in payer/provider capabilities
- Rise of consumerism among beneficiaries

Demographic Forces

- Rising complexity, acuity of patient profile
- Rapid growth in elderly population

Suite of Emerging Patient Management Expectations for Providers

1 

Proper Care Setting, Patient Access

2 

Complex Patient Management

3 

Elevated Provision of Cost-Saving Services

4 

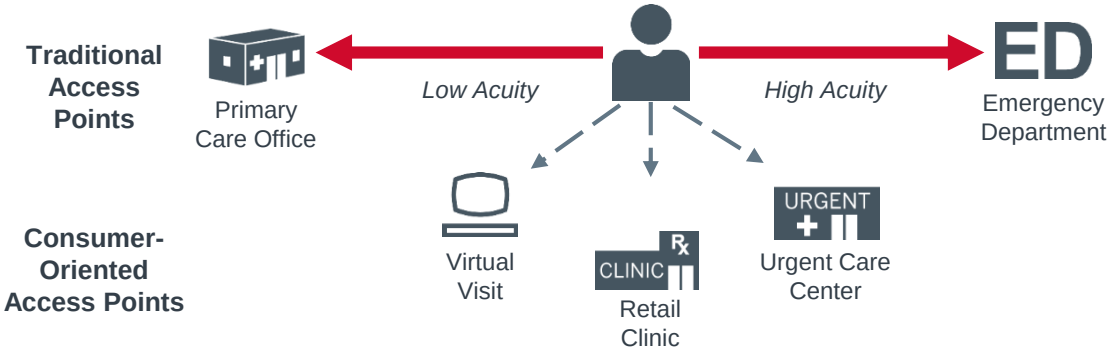
Enhanced Downstream Coordination

Source: Post-Acute Care Collaborative interviews and analysis.

A Growing Network of Immediate Access Choices

Emerging Set of Access Points Prioritize Primary Care

Consumer-Oriented Service Delivery Sites Filling the Gap



Driving Provider Questions:

- *Should we partner to establish **retail clinics**?*
- *Should we build or expand our **urgent care** footprint?*
- *Is **virtual care** something that we should provide?*
- *When should we enter into **partnerships** to meet patient demands?*

Source: Mehrota A et al, "Visits To Retail Clinics Grew Fourfold From 2007 To 2009, Although Their Share Of Overall Outpatient Visits Remains Low," Health Affairs, August 2012; Health Care Advisory Board interviews and analysis.

Encouraging Appropriate Post-Acute Utilization

IMPACT Act of 2014 in Brief

Standardizing Data Reporting…

Required Domains and Sample Metrics

Patient Assessment

- Special services required
- Cognitive function

Quality Measures

- Changes in skin integrity
- Medication reconciliation

Resource Use Measures

- Medicare spending per beneficiary
- Rate of discharge to community

…To Guide Patient Placement

Three Stated Purposes

1. Compare quality across PAC settings
2. Inform hospital discharge planning
3. Create foundation for future PAC payment reform (likely via site-neutral or bundled payments)

New Discharge Planning Requirements

To meet CMS conditions of participation, hospitals[1] and PAC providers must **incorporate PAC quality and resource use data** into discharge planning procedures by January 1, 2016

1) Acute care and critical access.

Source: Senate Committee on Finance, "Improving Medicare Post-Acute Care Transformation Act of 2014," 2014, www.govtrack.us/congress/bills/113/hr4994; House Ways and Means Committee, "Bipartisan, Bicameral Effort Underway to Advance Medicare Post-Acute Reform," 2014, www.finance.senate.gov/newsroom/ ranking /release/? id=c0c98f25-db43-45d8-9055-3959a1c6d997; Post-Acute Care Collaborative interviews and analysis.

Reward Proper Patient Management Behavior

Health Plans Trading Control for Collaboration When Strategic

Anthem Signaling Shift from Vertical Integration

Vertically Integrated Model

- Anthem employs physicians to operate CareMore model
- Difficult to implement nationally

Provider-Contracted, Customized Model

- Partners with capable providers, to operate "CareMore-like" model
- Increases scale, coordination, impact

Skeptical of Vertical Integration's Potential

"I don't believe any insurer, health system, or provider group can acquire or consolidate their way to sustainable success."

CEO, Wellpoint

naviHealth Waiting for PAC to Become the Quarterback

"Post-acute care managers are put in place because current payment models do not incentivize the quarterbacking of a post-acute episode—guiding a patient from hospital back to the community.

So we're putting decision support technology and **care coordination in place out of necessity**."

SVP Business Development, naviHealth

Source: "The CareMore Model," CareMore, http://www.caremore.com/About/How-We-Do-It/The-CareMore-Model.aspx; NaviHealth; Swedish J, "WellPoint's Joseph Swedish argues for collaboration, not integration," *Modern Healthcare*, June 28, 2014, www.modernhealthcare.com/article/20140628/MAGAZINE/306289978/; Post-Acute Care Collaborative interviews and analysis.

Incenting Cohesive Services for Complex Patients

Medicare Offers Payment for Clinician-led Care Coordination

New Medicare Billing Option

- Medicare covers clinician-led[1] care coordination services
- Targets beneficiaries with two or more chronic conditions
- Requires 24/7 clinician availability for urgent chronic care needs

Payment for Coordination

$42 Approximate monthly payment, per patient

20% Approximate patient portion of fee

Care Coordinator Responsibilities

- Arrange smooth transitions from hospital to home or nursing home
- Assess patients' medical, psychological and social needs
- Draft and execute care management plan
- Monitor care provision from other providers
- Improve medication adherence

1) Care Coordinator role can be filled by physician, nurse practitioner, PA, or other health professional.

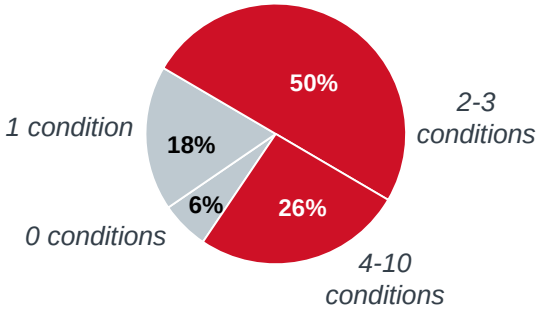
Source: Pear R, "Medicare to Start Paying Doctors Who Coordinate Needs of Chronically Ill Patients," *The New York Times*, August 16, 2014, www.nytimes.com/2014/08/17/us/medicare-to-start-paying-doctors-who-coordinate-needs-of-chronically-ill-patients.html?_r=1; Post-Acute Care Collaborative interviews and analysis.

Service Demands Driven by Demographics

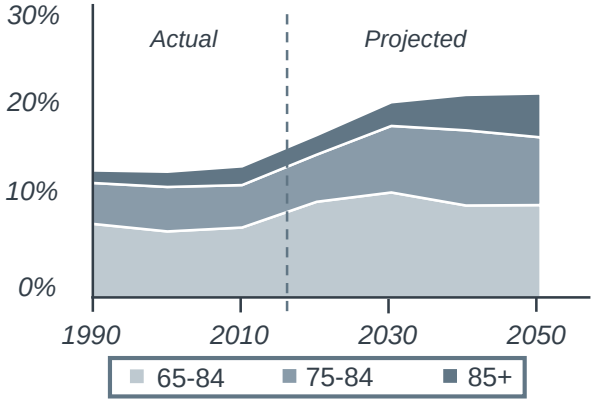
Patients, Residents Older and Sicker

Chronic Disease Prevalence

Residential Care Facilities, 2010



Seniors as a Portion of the US Population



Key Reasons for Higher Patient Acuity and Complexity in Post-Acute Care Settings

Aging Population

Population growing older, with more chronic conditions

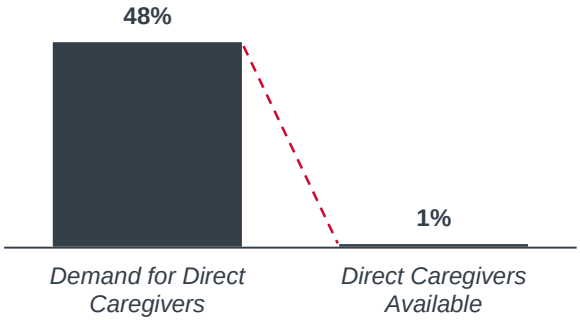
New Payment Models

Reimbursement changes incent shorter LOS, favor lower-cost settings

Source: Administration on Aging, "Projected Future Growth of the Older Population," www.aoa.gov/Aging_Statistics/future_growth/future_growth.aspx#age; Gerace A, "Assisted Living Adapts to Changing Resident Acuity", August 12, 2013, www.seniorhousingnews.com; Post-Acute Care Collaborative interviews and analysis.

Professional and Family Support in Short Supply

Projected Increase in Supply and Demand of Professional Caregivers by 2022



Ratio of Family Caregivers to Every Person Over Age 80

7:1 in 2010

4:1 in 2030

Massive Growth in Caregiver Demand

1.3M Necessary number of new paid caregivers to satisfy demand over the next decade

Source: Graham, Judith, "A Shortage of Caregivers," *The New York Times*, February 26, 2014, http://newoldage.blogs.nytimes.com/2014/02/26/a-shortage-of-caregivers/?_r=1; Miller, Mark, "An army of robots may soon be deployed: to care for the aged," *Reuters*, May 22, 2014, www.reuters.com/article/2014/05/22/us-column-miller-robots-idUSBREA4L0V120140522; Advisory Board interviews and analysis.

Establish Infrastructure to Fill Niche Service Gaps

Training to Address Medically Complex Behavioral Health Patients

HealthEast – Cerenity Senior Care Partnership

Collaborative Hospital-SNF Training

Protocols Around Patient Mental Capacity

Problem: SNF inexperienced assessing capacity for patient decision-making and determining decision-maker

Solution: Hospital shares ethical principles for substituted judgment and beneficence

Clinical Training for Medication Management

Problem: Mandated dose reduction in SNF raises concerns about return of symptoms

Solution: Hospital and SNF physicians discuss procedures for safely tapering medications

Guidance for Addressing Population Needs

Problem: Younger population requires activities atypical of average SNF patient

Solution: Hospital provides input on patient stimulation and socialization

Real-Time Clinical Support

Outpatient Clinic
Patient seen at hospital physician clinic to avoid unnecessary readmission

Physician Support Line
Hospital team available over the phone for on-demand consults

Source: Advisory Board interviews and analysis.

Acknowledging the Value of End-of-Life Care

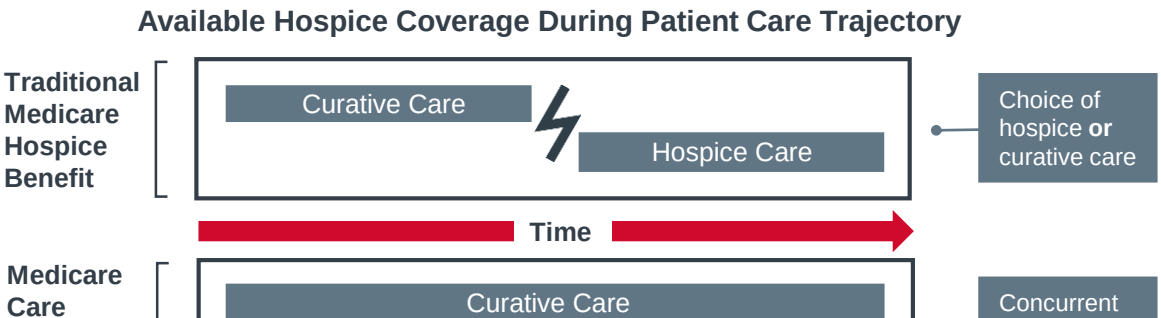
Increased Hospice Utilization Generates Significant Savings for Medicare

$2,309
Average Medicare savings per beneficiary if hospice used in last year of life

47%
Lower Medicare spending during last 14 days of life for patients using hospice

4
Average fewer hospital days during last 30 days of life for beneficiaries using hospice

Available Hospice Coverage During Patient Care Trajectory



Source: Kelly A, et al., "Hospice Enrollment Saves Money for Medicare and Improves Care Quality Across a Number of Different Lengths of Stay," *Health Affairs*, 32, (2013), www.ncbi.nlm.nih.gov/pmc/articles/PMC3655535/; "Medicare Care Choices Model," CMS, www.innovation.cms.gov;Taylor D, et al., "What Length of Hospice Use Maximizes Reduction in Medical Expenditures Near Death in the US Medicare Program?" *Social Science & Medicine*, 65, (2007), www.nhpco.org/sites /default/files/public/Statistics_ Research/Cost_Study_Duke_Oct-2007.pdf; Post-Acute Care Collaborative interviews and analysis.

Remote Solutions Address Access Challenges

Telephonic End-of-Life Care Counseling

Vital Decisions
Your Life • Your Health • Your Choice

Nationwide Access to Palliative Care Experts…

> **For the first time during the course of my illness**, someone took a genuine interest in explaining the delicate topic of possible scenarios that may happen and the choices that are available.
> *Vital Decisions Patient*

…When Patients Need an External Confidant

> I can't talk that way with my son in the room.
> *Vital Decisions Patient*

An Extender for Plan Case Managers

Plan case manager refers patient to counselor

Counselor (e.g. LCSW) reaches out, facilitates ongoing conversations as appropriate

If requested, counselor helps communicate decisions with providers, family

Source: The Atlantic, "A Hotline for End-of-Life Care," August 2014, www.theatlantic.com/health/archive/2014/08/a-hotline-for-end-of-life-care/379212; Post-Acute Care Collaborative interviews and analysis.

Senior Living Key to Supporting the Elderly

Adult Day Oversight a Physician ACO Solution

Populations Excluded from Senior Housing Market Driving Physician Challenges

Low-income seniors

"Frequent Flyers"
More likely to be high-utilizers and non-compliant with medications

Seniors with dementia choosing to age in the community

Office Behavioral Challenges
Disrupt physician office dynamics, physician workflow

Adult Day Care Solutions

Low-Cost Care

- Inexpensive relative to senior living or long-term care
- Does not count toward ACO Medicare distribution

High-Touch Oversight

Contact up to 60 hours a week

Nutrition and hydration

Skilled oversight and health status monitoring

Aligned with core senior living capabilities

Source: Post-Acute Care Collaborative interviews and analysis.

Hospitals Providing Increased Support Post-Discharge

Reliant PACS' Clinically Enhanced Network Management Model

Traditional SNFist Model

SNFists round in facilities to support appropriate utilization

Reliant PACS Expanded Model

Overlay additional services to manage care across continuum

Care Coordination

Hospital-based NP manages transitions, reducing hospital LOS and facilitating in-network placement

Evidence-Based Utilization Management

Build DRG-specific care protocols into EMR to promote cost-effective care

On-Site Clinical Support

Embed therapy and nurse practitioner teams in SNFs to reinforce and enhance care protocols

Source: Reliant Post-Acute Care Solutions; Post-Acute Care Collaborative Interviews and analysis.

The Return of House Calls?

Home Health, Hospice Spending Support Lower Total Costs

Financial Impact of Medstar's Medicare Home-Based Primary Care Demonstration

Mean 2-year spending per patient

Service Category	Intervention	Control	Change
Hospice	**$3,144**	**$1,505**	**109%**
Home Health	**$6,579**	**$4,170**	**58%**
Physician	$4,143	$5,718	(28%)
Skilled nursing	$4,821	$6,098	(20%)
Other[1]	$7,962	$11,392	(30%)
Hospitalization	$17,805	$22,096	(19%)
Total Medicare	**$44,455**	**$50,978**	**(13%)**

HBPC Model

- Primary care team of geriatricians, NPs, social workers, LPNs, office coordinators
- Physicians visit every 3-4 months and provide 24/7 call, NPs visit regularly as needed
- Team conducts weekly care conferences with home health, mental health, pharmacy

1) Diagnostic testing, transportation, Medicare Part B drugs, nonphysician practitioners, durable medical equipment, outpatient facility.

Source: De Jonge, Erik K, et al., "Effects of Home-Based Primary Care on Medicare Costs in High-Risk Elders," *Journal of the American Geriatrics Society,* 2014, http://onlinelibrary.wiley.com/doi/10.1111/jgs.12974/pdf; Post-Acute Care Collaborative interviews and analysis.

Focusing Resources on the Right Patient Population

Stratification by Patient Frailty Intensifies Program Results

Medicare Spending for Home-Based Primary Care by Patient Frailty

Frailty Category (JEN Index)	Proportion of Sample	Intervention	Control	Change	Statistically Significant?
Low (0-3)	20%	$22,611	$19,146	18%	No
Medium (4-6)	43%	$42,223	$43,383	-3%	No
High (7+)	**37%**	**$58,689**	**$76,827**	**-24%**	**Yes ($p < 0.001$)**

With Proper Risk Stratification, Less Can Be More

63% Patients included in the intervention cohort who could have been served with routine care to achieve similar spend reduction results at a lower program cost

Source: De Jonge, Erik K, et al., "Effects of Home-Based Primary Care on Medicare Costs in High-Risk Elders," *Journal of the American Geriatrics Society,* 2014, http://onlinelibrary.wiley.com/doi/10.1111/jgs.12974/pdf; Post-Acute Care Collaborative interviews and analysis.

1 A Network-Driven Marketplace

2 The Focus on Cost-Efficient Behavior

3 Meeting a New Set of Mandates

Market Changes Prompt New Approach

New Realities Require Evolution in Provider Alignment, Service Offerings

Network-Driven Marketplace

Focus on Cost-Efficiency

New Mandates for Success

1 Curate the Right Set of Assets

Bring together necessary services, sectors to address network concerns and extend organizational reach

2 Offer a Differentiated Product

Develop services that rise above the status quo to appeal to network consumers, secure future role

Key Underlying Organizational Commitments

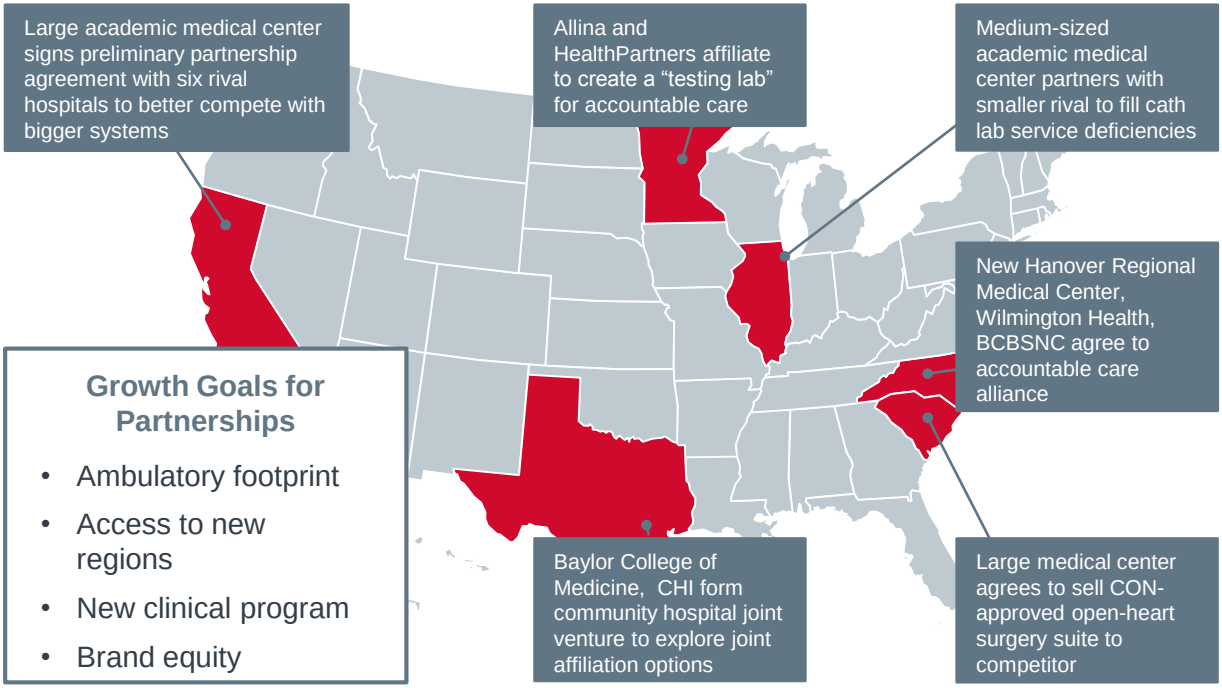
Demonstrate Cost-Conscious Behavior

Provide Coordinated, Patient-Centered Care

Source: Post-Acute Care Collaborative interviews and analysis.

New Partnerships Aim at Integration Without M&A

Partnerships and Affiliations On the Rise



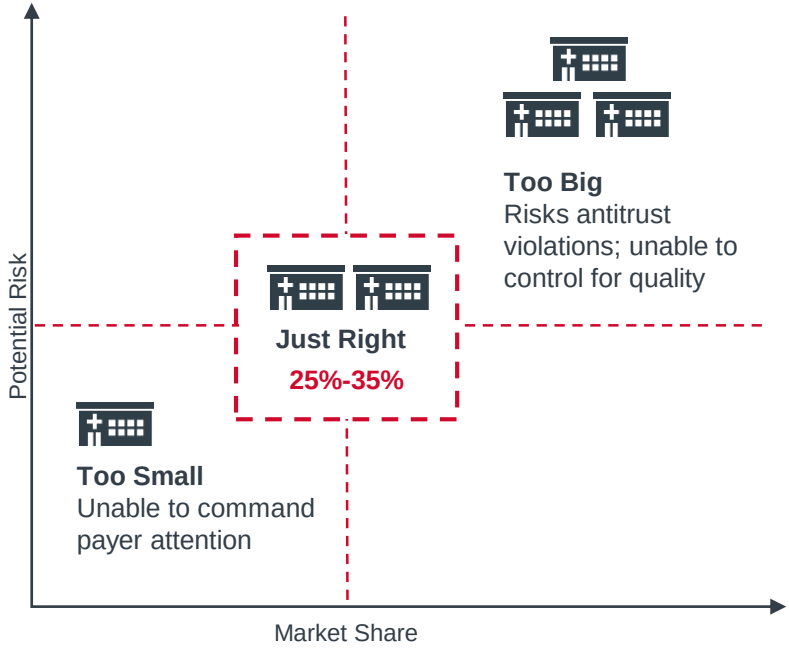
Growth Goals for Partnerships

- Ambulatory footprint
- Access to new regions
- New clinical program
- Brand equity

Source: The Advisory Board Company, "Cardiovascular Regionalization and Network Strategy," Washington, DC; Baylor College of Medicine, "Bold New Alliance Among Houston's Leading Health Care Providers," available at: https://www.bcm.edu/news/expansion/new-partnership-chi-stl-baylor-texas-heart, accessed Oct 2014; BCBSNC, "New Hanover Regional Medical Center, Wilmington Health and BCBSNC Launch NC's First Accountable Care Alliance, available at http://mediacenter.bcbsnc.com/news/new-hanover-regional-medical-center-wilmington-health-and-bcbsnc-launch-ncs-first-accountable-care-alliance, accessed Oct 2014; HealthPartners, "Accountable Care Organization," available at https://www.healthpartners.com/public/about/accountable-care-organization/, accessed Oct 2014; Marketing and Planning Leadership Council interviews and analysis.

Post-Acute Providers Seeking Scale, Capital

Independent Post-Acute Networks Improve Quality, Achieve Noticeability



> "**It's a balancing act** between making sure we have enough capacity to get noticed and we are not so big that we lose control over our quality."
>
> *Director, Health Care Strategic Initiatives, Cincinnati PACN Member Organization*

Source: U.S. Department of Justice and Federal Trade Commission, "Statements of Antitrust Enforcement Policy in Health Care," August 1996; Post-Acute Care Collaborative interviews and analysis.

Delivering on Network Quality Assurance

Interventions Target Underperforming Members

Covenant Health Network's "SWAT Teams"

- Team composed of 3 RNs and 2 administrators
- Dispatched to members underperforming relative to state and national benchmarks

SWAT Team Intervention Process

1. Perform facility review
2. Create report and remedial plan
3. Ensure member implementation of plan
4. Remove member from network if no improvement seen

Network Quality Brings Shared Savings, Premiums on Rates

4.2
Average Medicare five-star quality rating

15-30%
Average premium on Medicaid contract rates

$1M
Annual marginal revenue from shared savings

Source: Covenant Health Network; Post-Acute Care Collaborative interviews and analysis.

Defining True Specialization

What Is Specialization?

Specialization is a business philosophy wherein the organization makes conscious, principled decisions to focus on **specific patient groups** and creates **dedicated, distinct clinical programs** to serve those patients.

Key Components of a Specialty

Organizational Commitment

- Executives, leadership, and clinicians visibly support specialty
- Specialty program is a key organizational strategic priority

Dedicated Resources

- Distinct staff, leadership, and/or equipment dedicated to the specialty
- Additional investments in staffing, training and technology made as necessary

Differentiated Offerings

- Specialty stands out, is sufficiently different from competitors' offerings
- Specialty performance is demonstrably superior to competitors, or is unique in the market

Clinical Excellence

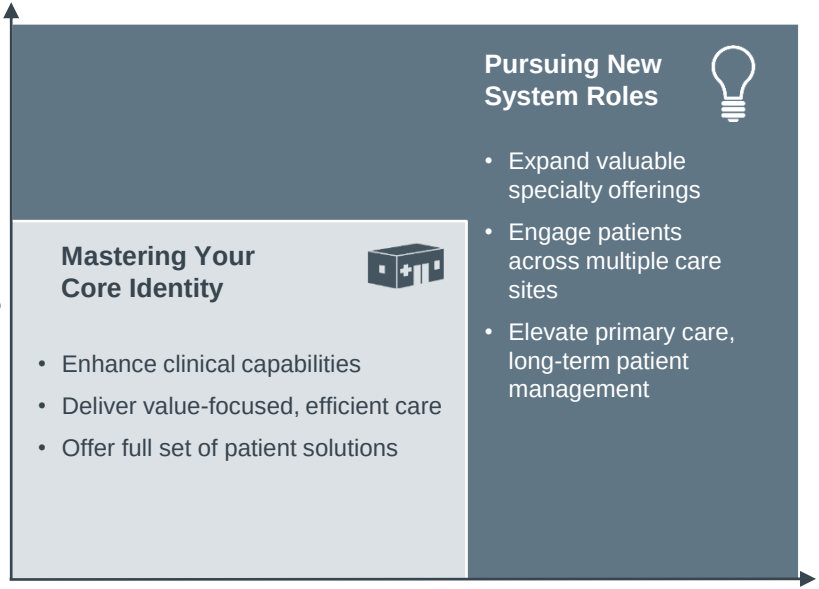
- Staff and leaders committed to delivering excellent clinical outcomes
- Ongoing staff education and protocol development supports quality

Source: Post-Acute Care Collaborative interviews and analysis.

A Dual Approach to an Enhanced Value Proposition

Evolution to Strengthen Core, Expand Business Opportunities

Reinventing the Health Care Identity



Source: Harvard Business Review, "Two Routes to Resilience," available at: http://bit.ly/X6Bb6k, accessed March 25, 2013; Marketing and Planning Leadership Council interviews and analysis.

Recognizing the Potential of Targeted Services

"Solution" Sales on the Rise for Non-Providers

WellTransitions™ Program Components

Case in Brief: Walgreen Co.

- Largest drug retail chain in the United States, with 372 Take Care Clinics and over 700 locations throughout the country
- In 2012, created WellTransitions™ program to help health systems reduce readmissions by offering transitional support for at-risk patients
- Strong initial results include 5 point lower readmission rate over 6 months for patients enrolled in the program versus eligible patients who did not enroll
- Received American Hospital Association endorsement for medication adherence portion of WellTransitions™

Source: "WellTransitions©," Walgreen Co., http://healthcare.walgreens.com/healthcare/business/ProductOffering.jsp?id=wellTransitions; Post-Acute Care Collaborative interviews and analysis.

An Analogous Market Imperative

Disruptive Innovation Swings Share, Shrinks Market

IMAGE CREDIT: AU KIRK, FLICKR

58% P&G[1]'s share of the North American laundry market

$0.25 Unit price of Tide Pods, compared to $0.20 for traditional detergent

(2.1%) Change in total U.S. sales of detergent, 2012-2013

Company in Brief: Proctor & Gamble Co.

- In February 2012, launched Tide Pods capsules
- Fixed-dose product prevents over-utilization, increases customer convenience

"Pod is killing the laundry detergent category…Now, what kind of a new product is good when it's hurting the total category?"

CEO, Church & Dwight
Maker of Arm & Hammer

Source: Ziobro P and Ng S, "Is Innovation Killing the Soap Business?" The Wall Street Journal, April 3, 2013, available at www.online.wsj.com; Branna T, "Where's the Bounce?" *Happi*, January 21, 2013, available at: www.happi.com; Post-Acute Care Collaborative interviews and analysis.

1) Proctor & Gamble Co.