For those of you who know me, I like to have fun with my Zoom backgrounds – choosing photos of interesting scenery or changing them mid-call to reflect my mood or negotiating strategy. Sitting in front of my computer this year for the first day of the 2022 J.P. Morgan Annual Healthcare Conference (the 40th annual!), I was lamenting the bland, boring backgrounds of the presenters who were using low-quality stock shots or empty office views until I realized that I was looking at the wrong thing. I really had to look at the shadows and not the backgrounds. There are a LOT of shadows over this year’s J.P. Morgan Conference – COVID-19, the jittery stock market, the future of Medicare Advantage and recent industry changes.

The reason I was stuck in my home office for the second year, instead of being
crushed in the rolling mosh pit of investors, executives and analysts from all over
the world in the escape room environment of the Westin St. Francis in San Francisco,
is of course COVID and specifically the Omigod variant (sorry, couldn’t resist; we all
know that it’s really that Marvel Universe spinoff, Omicron). So, let’s start there.

During today’s sessions, a number of health plans, health systems and physician
organizations spoke to the current situation with COVID-19. Centene reported that
their December 31, 2021 data, on a rolling seven-day basis, showed Omicron was
running on average at about 60% of the inpatient utilization trend as compared to
the Delta variant during its surge. Centene noted that for Centene Medicare
members, the inpatient utilization trend was higher than 60%, but lower than 60% for Medicaid and Marketplace members. According to Lloyd Dean, CommonSpirit Health CEO, CommonSpirit Health’s COVID census was nearing what it had been at the Delta peak. agilon health noted modest COVID-related Medicare Advantage
inpatient utilization, partially offset with a pronounced shift to outpatient care,
based upon agilon’s latest data. Multiple presentations also noted that there did
not seem to be a lot of built-up deferred medical demand carrying over from 2021
into 2022. Healthcare service utilization seemed to be sufficient in 2021 to address
much of the 2021 demand and carryover demand from 2020.

Moderna presented as well today, but there were no blockbuster announcements –
just confirmation from Moderna CEO, Stéphane Bancel, that Moderna’s initial data
seems to indicate that the Moderna vaccine is generally protective against
hospitalizations and death. Pfizer is expecting to release its hybrid booster covering
Omicron and earlier variants as soon as March. Moderna is still looking at whether
an Omicron-specific booster is necessary or whether the existing vaccine will work
well enough. Interestingly, Moderna is working with Canada and Australia (to be
followed by other countries) on creating in-country vaccine manufacturing facilities
and shortening the dreaded global supply chain. Moderna is also considering a $500
million manufacturing facility to be built in Africa, but the host country has not yet
been selected.

Moderna has its eyes on a more comprehensive approach to vaccination using mRNA
technology. Moderna aims to create a pan-respiratory annual booster that will not
only provide protection against COVID-19 (and hopefully covering any then-prevalent
variant) but will also provide protection against the flu, RSV (Respiratory Syncytial
Virus) and other similar viruses. Although we don’t claim to be mRNA experts, all
indications are that mRNA technology is an incredibly powerful tool in addressing
the vaccination needs of a global population. Pfizer certainly views mRNA as the
“future of infectious disease treatment” and is even working on cancer vaccines
based upon mRNA technology.

Not to be left out of the conversation, Sinovac, China’s leading vaccine manufacturer
and producer of an inactivated vaccine for COVID-19 – as opposed to the Pfizer and
Moderna mRNA vaccines – had a tremendous 2021. While Sinovac primarily
addresses the Chinese market, Sinovac has expanded globally and produces the most
widely utilized COVID vaccine, accounting for approximately 40% of all COVID
vaccine doses administered worldwide. Sinovac’s inactivated COVID vaccine has
been approved for use in some countries for children as young as 3 and is similar to
other common vaccines such as those administered for the flu, Hepatitis A, Polio and
Rabies.

While all of the COVID-19 vaccine manufacturers have had astounding financial success (a global customer base will do that), the numbers are jaw dropping. Sinovac went from net income slightly in the red in the first ½ of 2020 to $5.1 billion in net income in the first ½ of 2021. Moderna generated sales of $17.5 billion in 2021 (unaudited estimate). It’s generally accepted that COVID will not go away and these vaccine manufacturers will continue to produce boosters we can all expect to be receiving over the long haul.

Farewell and Hello

There also were some CEO shadows over the conference. With the recent announcement this past month that Michael Neidorff of Centene will be stepping down as CEO, this year’s JP Morgan Conference was the first Conference in many years without a Michael Neidorff presentation. Sarah London, Centene’s Vice-Chair, and Drew Asher, Centene’s EVP and CFO, led the Centene presentation effectively. London also announced that Jim Murray was transitioning from Centene’s newly acquired subsidiary Magellan Health to Centene’s Value Creation Office. London and Asher noted as to Medicare Advantage that Centene’s Health Benefit Ratio (HBR) – a plan’s medical benefit expenses expressed as a percentage of its premium revenue (also known as medical loss ratio (MLR) in a provider context) – has been stable, with Medicare Advantage membership growth in the latest annual enrollment period. As reported during the Centene presentation, Centene anticipates the expansion of Medicare Advantage margins starting in 2023. Moreover, Centene hopes to have 50% of its Medicare Advantage members in 4 Star plans by then as well.

At this point you may be asking yourself, “Why are Centene’s latest Medicare Advantage results interesting?” Certainly, they appear to be solid and expected. The answer of course is the other significant shadow that was looming over today’s J.P. Morgan Conference.

Humana’s Interesting Last Week

Humana stock took a significant tumble last week, falling almost 20% after Humana reported that its individual Medicare Advantage membership growth expected for 2022 would only be 150,000 – 200,000 down from Humana’s previous growth estimate of 325,000 to 375,000. Last Thursday at a Goldman Sachs conference, Humana’s CEO, Bruce Broussard, tried to emphasize, per media reports, that the lowered Medicare Advantage enrollment outlook was a retention issue, as sales were “very close” to expectations. Broussard drew attention to the telephonic marketing channel and was reported to say that the “marketplace was becoming commoditized.” Humana’s announcement and Broussard’s explanation sent quite a ripple through the stock prices of both Medicare Advantage health plans and provider organizations as Wall Street tried to decide if the Medicare Advantage heyday of the last few years had come and gone already – a scary thought given that a significant number of IPOs in 2021 were premised on the future growth of Medicare Advantage enrollment.
In light of last week’s Medicare Advantage news, every single Day One-presenting company that even knew how to say “Medicare Advantage” was asked in some way about the outlook for Medicare Advantage. Generally, the common answer was pretty rosy, which only focused the spotlight further on Humana. Broussard and Humana’s new CFO, Susan Diamond, then stepped onto the stage to set the record straight.

I have to say I really felt for Broussard, as he sat there explaining his comments from last week. He looked like someone waiting for his life-changing lab results to come back, repeatedly licking his lips, looking pale and at one point clasping his hands together, as if in prayer. In summary, Broussard directed his audience to look for a return to Humana’s value proposition in 2023, as Humana had made the decision to conservatively price so as to protect its margin this year (2022). Interestingly, the member retention issue that triggered the stock drop last week was identified as significantly involving members with one year or less tenure with Humana. And Broussard’s comment last week was not that the Medicare Advantage industry itself was commoditizing (and therefore reducing the margin prospects for Medicare Advantage in the future), but that the telephonic sale channel was looking primarily toward pricing and ignoring other value proposition elements, such as social determinants of health support or non-cash benefits.

**FMO or FOMO?**

And that’s one of the key takeaways we’ve seen in the industry generally in the last few years. Field marketing organizations (FMOs), e-brokers and field marketing agents have been able to rapidly shift – for better or for worse – Medicare Advantage membership in and out of plans based upon pricing and commissions. Their role and importance has continued to grow in the industry. Although in this case it was Humana that got hit with the short end of the stick, FMOs have the ability to cause similar issues – or prop up the membership numbers – for other Medicare Advantage health plans and providers. With the pressure that both publicly traded Medicare Advantage health plans and provider companies have to show Medicare Advantage membership growth, the FMO is one of the industry tools that can be a “quick fix” for short-term membership growth. It’s an area of the industry with little visibility but a lot of short-term impact.

It’s also an area of growing concern for the the federal government. As an example, Oak Street Health, an operator of full risk value-based Medicare Advantage clinics and a presenter on Day One of the Conference, received a civil investigative demand (CID) from the US Department of Justice on November 1, 2021. Per Oak Street’s public filings, the DOJ is investigating whether, among other things, the Oak Street Health relationship with third-party marketing agents may have violated the federal False Claims Act. Oak Street did not have a substantive update on the CID during its presentation (other than to note that its FMO program was new and affected less than 10% of its new patients). Oak Street’s presentation focused instead on Oak Street’s center-based growth strategy.

**Dueling Risk Models**

During its presentation, Oak Street reported that it had opened up 50 new clinic
centers in 2021 and expected to open another 70 in 2022. Oak Street also took investors through the center results by vintage year (launch year). According to Oak Street, its 10 most mature centers were each generating on average about $8 million in margin. Oak Street also reported that its center opening process was accelerating with 2022 centers expected to open two months earlier than earlier vintage centers. Oak Street also featured the clinical results of its model, with an Oak Street physician typically seeing an average of ten patients a day (versus the more common 20-30) with average visits of 30 minutes, and approximately eight visits per year for their Medicare Advantage seniors. This model was reported to result in a 51% decrease in hospital emergency room visits, which obviously drives significant reductions in total cost of care. These numbers are credible and are seen in other clinic or center-based models. Other leading operators using this center model include ChenMed’s Dedicated clinics and Humana’s CenterWell clinics (formerly Partners in Primary Care).

In a different clinic approach, VillageMD has partnered to create full-service primary care clinics co-located with Walgreens locations. There are 80 such collocated facilities in existence today and they plan for 1,000 more. With close integration of the primary care facility and a brand name pharmacy, VillageMD has targeted a broader patient population, but with a focus on patients requiring treatment for chronic conditions. VillageMD is now generating 80% of its revenue from value-based reimbursement contracts. VillageMD’s aim is to change the care delivery model from clinic-based reactionary care to a 24/7 high touch technology-driven model. VillageMD has built its own care team applications and patient applications which allow patients to easily and frequently connect with their providers. This ease of access evidently has resulted in happy patients and happy providers – VillageMD has a 90% patient retention rate and a 98% provider retention rate. By facilitating an easy connection between patient and provider, VillageMD estimates a savings of $2,300 per patient in its high acuity population.

tagilon health takes a very different approach, but also has striking results. agilon health’s strategy is focused on partnering with existing local physician anchor groups rather than building new centers or clinics, resulting in a capital-lite growth model. Like Oak Street, agilon focuses on Medicare Advantage and Medicare direct contracting. The agilon model involves physicians in governance and aligns with the physicians financially to participate in improved member quality and outcomes and in reductions in total cost of care. The agilon model also improves with economies of scale, as it allows for more data, more integration of specialist referral networks and more management of care touchpoints outside the primary care physician’s office. agilon has been wrapping around its core offering of member risk stratification and a multi-disciplinary care team (social workers, nurse practitioners, pharmacists, etc.) a range of effective initiatives, such as placing nurses in emergency departments to evaluate care alternatives, identifying the highest quality specialists with higher volume referrals to such doctors, establishing end-of-life programs and conducting data analysis to solve facility-specific and/or marketwide readmission issues.

Using the Akron, Ohio market as an example, agilon was able to identify that it was achieving 90% compliance for cholesterol, hypertension and diabetes medication, and that the use of high-quality Tier I cardiologists was resulting in on average $100
per member per month cost savings. Considering that in many markets, the global risk premium in Medicare Advantage available to providers is in the $825 – $850 range, that type of cost savings is very strong. agilon also shared that its Ohio market medical margin per-member-per-month savings had moved from $40 in Year 1 to a preliminary level of $160 PMPM in year 3 (again, as compared to an ~$825 total premium PMPM paid). Steven Sell, CEO of agilon, explained that under the agilon model the doctors receive half the savings, resulting in an effective economic alternative for physician groups that are otherwise considering a sale to a hospital system, to a strategic aggregator (like an Optum) or to private equity. agilon also reported that the cost of customer acquisition is low in its model (approximately $400 per member) with such costs being typically recouped in full within the first one to two years. So, without a clinic model that requires a multi-million dollar buildout, recruiting physicians to staff new centers (as agilon teams with existing physician groups) and a low cost of customer acquisition, the return on investment can accelerate.

Even Privia, which uses a non-owned multiple line of business management model has started to take full risk, announcing that it has approximately 23,000 members in such line of business. Who’s next?

So with all of these companies competing for the risk dollars, is the Medicare risk market oversaturated or commoditized? The answer today across the board was “NO!”

Mike Pykosz, CEO of Oak Street, indicated that it would take 10,000 Oak Street centers to fulfill the demand today for Medicare Advantage (remember that they are opening up 70 centers in all of 2022). agilon's Steven Sell reminded the audience that 30 million incremental Medicare members will need to move into risk or value-based care (VBC) arrangements by 2030 to meet the goal set by CMS. As Humana’s Bruce Broussard shared, the market is early on Medicare Advantage primary care on a risk basis. So, there’s evidently room to run.

**Phrase of the Day**

“Land and expand” was the phrase of the day, with multiple companies describing that approach to customer acquisition and revenue and EBITDA growth. Telehealth provider Teladoc sees the land and expand strategy as well suited for increasing patient engagement and revenue per member. Teladoc CEO, Jason Gorevic, made the interesting point that consumers now expect virtual care to be provided holistically and to be similar to digital experiences in the rest of their lives. That thinking drove the acquisition by Teladoc of chronic care/diabetes management company Livongo by Teladoc. Gorevic also reported that health plans are now conceptualizing telehealth and digital health as an “entry ramp” to chronic care management for many consumers. That opportunity then can lead to VBC and risk arrangements for Teladoc.

A relative newcomer in the primary care space, Carbon Health, founded by Eren Bali who previously founded Udemy (the largest online education platform in the world) has a goal of bringing accessible healthcare to the masses in a tech-enabled environment. Carbon is hyper-focused on the technology aspects of the healthcare
experience, building its entire technology platform from the ground up (from EMR to its own patient facing applications). Carbon’s focus is “Omnichannel healthcare” meeting patients wherever they are by combining clinics and urgent care with a first-rate virtual care platform. Carbon has some lofty ambitions. Rather than focusing on particular patient populations, Carbon aims to be a healthcare provider for everyone and has had some early success ramping from $7 million in revenue in 2019 to $225 million in revenue in 2021. Interestingly, Carbon did not talk about any value-based care approaches in its presentation. The company’s payer mix is ¼ self-pay. It will be interesting to see how Carbon is able to utilize what appears to be a first-rate patient experience as VBC becomes more ubiquitous in the US healthcare market.

And since we’re talking telehealth, CommonSpirit used Day One to report that it is rolling out a virtual nursing program in multiple locations. It will be interesting to see the results of that initiative.

How’s the Cash?

A quick check of multiple health system presentations today showed that the presenting health systems successfully were continuing to maintain significant days’ cash on hand, typically at or above 200 to 300 days. A word of warning – the smaller hospitals were not presenting, so don’t take this as gospel across the entire hospital sector. Furthermore, while Omicron will delay things, there still may be a reckoning for the Medicare advance payments that still are required to be paid back at some point.

Is There Still Room for More Disruptive Companies?

We have been seeing many interesting and innovative start-ups and emerging growth companies in healthcare. Will large companies continue to want to partner with these potential market disruptors? The answer today was yes, as presentation after presentation showcased innovation partnerships. Centene noted that it is using its 29 health plans to pilot programs and test relationships with start-up companies that can be useful to the health plan or its members. While not discussed at today’s conference, our firm also has recently seen a wave of health plans investing in start-ups and formalizing such investment activities into health plan-led venture entities or programs.

At Least Someone’s Tail is Wagging

Animal health company Zoetis noted that the pandemic has been beneficial for the company in multiple ways. With lockdowns and work from home, there has been a strong growth of companion animal/pet adoptions. In turn, as people spend more time with their pets at home, they also spend more on their pets. There is a strong and growing market for a full range of pharmaceuticals, diagnostics and therapeutics aimed at both the companion animal and the livestock sectors. Areas to watch in the upcoming years include immunotherapies for both livestock and companion animals, preventative products for animal health, and more products aimed at oncology and osteoarthritis, among others.