View from the outside: Competitive intelligence quick hits

December, 2024

Recent competitor M&A strategy shift from primary care to home health and specialty

WHAT HAPPENED: In the years following the COVID-19 pandemic, integrated health care companies saw an opportunity to make investments in care-delivery assets, specifically in primary care, as a lever to manage members in low-cost settings, keep patients out of emergency rooms, and, as a result, lower costs and expand margins on those populations. The thought was that owning your own clinics would improve the patient experience and increase touchpoints with high-cost members who might otherwise wind up in the hospital, ultimately leading to improved outcomes. We saw multiple examples of competitors acquiring primary care assets with the above goals in mind, including the following:

+ CVS Health acquired Oak Street for over $10B, projecting more than $500M in synergy potential between the organizations at the time.
+ Walgreens invested $5B in VillageMD, with plans to co-locate VillageMD clinics within Walgreens stores.
+ Walmart opened 51 primary care clinics in their superstores across five states, offering primary, dental and behavioral health care as well as select lab services.

To date, these investments have largely not performed to company expectations, with some of the competitors exiting their position entirely:

+ CVS Health: Oak Street continues to be unprofitable, and it has been acknowledged that the company grossly overpaid for this asset; however, according to leadership, their strategy of continuing to expand Oak Street's clinic footprint is moving forward.
+ Walgreens: Walgreens is attempting to reduce its position in VillageMD after taking a $6B impairment charge on the asset earlier this year. CEO Tim Wentworth said that VillageMD will not be a part of Walgreens' core strategy moving forward.
+ Walmart: Walmart announced it would close all 51 of its clinics and end virtual care offerings, citing the business was unprofitable.

EVERNORTH HEALTH SERVICES

Over the past several quarters, we have seen a notable shift from health services investments in primary care clinic ownership to investments in home health and specialty pharmacy assets. The below visual outlines the home health acquisitions of Humana, Elevance and UnitedHealth while also summarizing Elevance's three deals in specialty pharmacy.

Humana. Elevance Health UNITEDHEALTH GROUP

Investments in Home Care Continue

- Humana: Closed purchase of TX-based ***Intrepid***, a home health, hospice and palliative care services company (30 sites and 200 field clinicians).
- Elevance: Purchasing TN-based ***Carebridge***, a value-based home care provider in 17 states and DC. Tech focused offering in which members can receive an iPad or use smartphone app to engage with care team.
- UnitedHealth Group: Pending deal for ***Amedisys***, provider of home health, hospice and palliative care services in 522 centers in 37 states (currently being challenged by the DOJ).

Takeaway: Health services companies are investing in their home care strategies to as they work to contain cost and generate strong clinical outcomes for those with the most complex chronic health conditions. For both these investments, the audience is those in government-sponsored healthcare.

Elevance Health

Elevance goes on Specialty Spending Spree

- BioPlus: Specialty pharmacy that focuses on complex and chronic conditions like cancer and multiple sclerosis
- Paragon: Serves more than 35K patients at >40 ambulatory infusion centers across 8 states as well as patients' homes
- Kroger: 6th largest dispenser of specialty drugs (largest non-payer owned specialty pharmacy), doing roughly $3.2B revenue in 2023

Takeaway: Specialty medications are a growing percentage of overall pharmacy revenues (~50% of total U.S. pharmacy spend). Elevance is looking to acquire these businesses that focus on complex and chronic conditions as they look to bring more specialty spend in-house (and away from CVS). These deals also add wrap-around services (side-effect management and personalized care) to help treat these complex patients.

Additionally, Elevance continues to prioritize care enablement over ownership of care-delivery assets: it recently launched Mosaic Health, a joint venture with private equity firm Clayton, Dubilier & Rice (CD&R), to bring together care enablement assets of Carelon Health and CD&R portfolio companies Millennium Physician Group and apree health.

EVERNORTH HEALTH SERVICES PERSPECTIVE:

Integrated players will continue to pursue care model improvements, specifically as they relate to managing the costliest members, many of whom have complex chronic conditions. On home health, the audience for these assets is primarily members in government-sponsored programs, including Medicare and Medicaid. As some plans continue to double-down on Medicare and Medicaid, many believe that care in the home at scale will ultimately lead to cost reduction. Competitors continue to view specialty pharmacy as a significant lever for revenue growth and margin expansion. In the case of Elevance, acquiring specialty assets (BioPlus, Paragon and Kroger) coincides with bringing specialty spend in-house—into CarelonRx and away from CVS Specialty. Additionally, these specialty deals add wraparound services that will help manage members with complex chronic conditions.

HEALTH PLAN CONSIDERATIONS:

We expect that integrated players will continue to highlight their flywheel of capabilities, including care delivery and pharmacy assets, when going out to bid to renew existing or win new business. Health plans should continue to emphasize their own value-of-integration story when going to market, along with promoting the capabilities of key strategic partners, including Express Scripts by Evernorth®.