



## Optum-DaVita Profile

### Optum Summary:

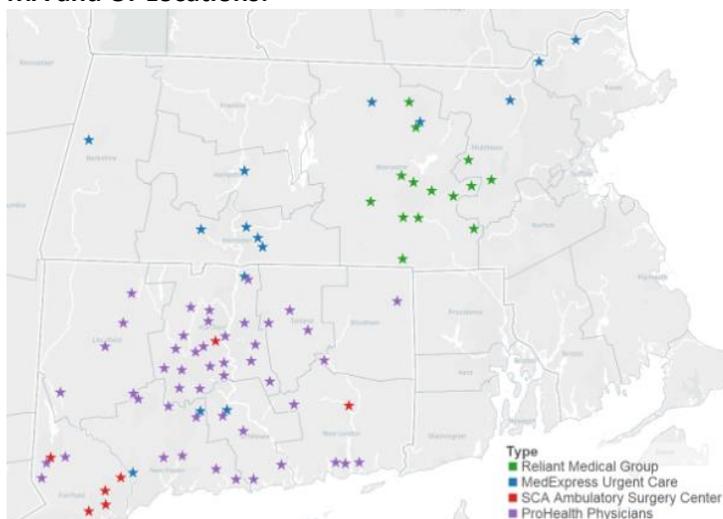
Optum is a technology-enabled healthcare services business serving payers, care providers, employers, governments, life sciences companies and consumers, through its three divisions: **OptumHealth** (care delivery & population health), **OptumInsight** (data & analytics) and **OptumRx** (pharmacy services) businesses. A \$250M **Optum Ventures** (startup investment fund) was recently started. These businesses help improve overall health system performance through optimizing care quality, reducing costs, and improving consumer experience and provider performance in 5 areas: data and analytics, pharmacy care services, population health, health care delivery and health care operations.

A subsidiary of UnitedHealth Group, Optum is an \$83.6B company that employs over 125,000 people worldwide. Optum serves 115 million individuals; 4 out of 5 U.S. hospitals; over 67,000 pharmacies; 100,000+ physicians, practices, and other healthcare facilities; 300 health plans, and government agencies in 34 states and DC. Optum has 15 offices across the U.S. and also maintains operations in South America, Europe, Asia Pacific and the Middle East.

### Mission:

To help people live healthier lives and to help make the health system work better for everyone.

### MA and CT Locations:



#### 6 Western MA MedExpress Locations:

- 1505 Memorial Drive, Chicopee
- 424 Russell Street, Hadley
- 999 Dalton Avenue, Pittsfield
- 1312 Boston Road, Springfield
- 430 Cooley Street, Springfield
- 311 East Main Street, Westfield

### DaVita Summary:

DaVita Inc., a Fortune 500® company, is the parent company of DaVita Kidney Care and **DaVita Medical Group**. As of December 6, 2017, Optum announced that it would acquire DaVita Medical Group for approximately \$4.9 billion in cash, with the transaction expected to close in 2018. **As of March 2018, delays have occurred with regulatory approval timeline.**

**DaVita Medical Group** is a division of DaVita Inc., a Fortune 500® company that operates and manages medical groups and affiliated physician networks in California, Colorado, Florida, Nevada, New Mexico, Pennsylvania and Washington. A leading independent medical group in America, DaVita Medical Group has over two decades of experience providing coordinated, outcomes-based medical care in a cost-effective manner. DaVita Medical Group's clinicians (including 17,000 physicians) provide care for approximately 1.7 million patients per year through nearly 300 medical clinics featuring primary and specialist care. The Group also operates 35 urgent care centers and six outpatient surgery centers.

### Mission:

To be the Provider, Partner, and Employer of Choice

### Core Values:

- **Service Excellence:** Serving others — our reason for existing.
- **Integrity:** We say what we believe, and we do what we say. We are trusted because we are trustworthy.
- **Team:** One for All, and All for One! We work together, sharing a common purpose, a common culture and common goals.
- **Continuous Improvement:** We never stand still; we are never satisfied.
- **Accountability:** We don't say, "It's not my fault," or "It's not my job." We take responsibility for meeting our commitments — our personal ones as well as those of the entire organization. We take ownership of the results.
- **Fulfillment:** We make a difference. We feel rewarded — personally and as a team — because what we do in our jobs is consistent with our goals and dreams.
- **Fun:** We enjoy what we do. We know healthcare is hard work; but even hard work can be fun.



Optum Payer Mix (SCA, consolidated facilities)	2014	2015
Managed Care and other Discount Plans	62%	65%
Medicare	20%	19%
Workers' Compensation	10%	9%
Self-Pay	5%	4%
Medicaid	3%	3%

Source: SCA 10-K: <http://investor.scasurgery.com/secfiling.cfm?filingid=1564590-16-12993&cik=1411574>

Financial Summary (in millions)	2014	2015	2016
Revenue: OptumHealth	11,032	13,927	16,908
Revenue: OptumInsight	5,227	6,196	7,333
Revenue: OptumRx	31,976	48,272	60,440
Total Revenue	47,746	67,604	83,593
Total Earnings from Operations	3,282	4,267	5,623
Operating Margin: OptumHealth	9.9%	8.9%	8.4%
Operating Margin: OptumInsight	19.2%	20.6%	20.6%
Operating Margin: OptumRx	3.7%	3.6%	4.4%
Total Operating Margin	6.9%	6.3%	6.7%
Credit Rating/Outlook (2017)	Moody's A3; Outlook stable		

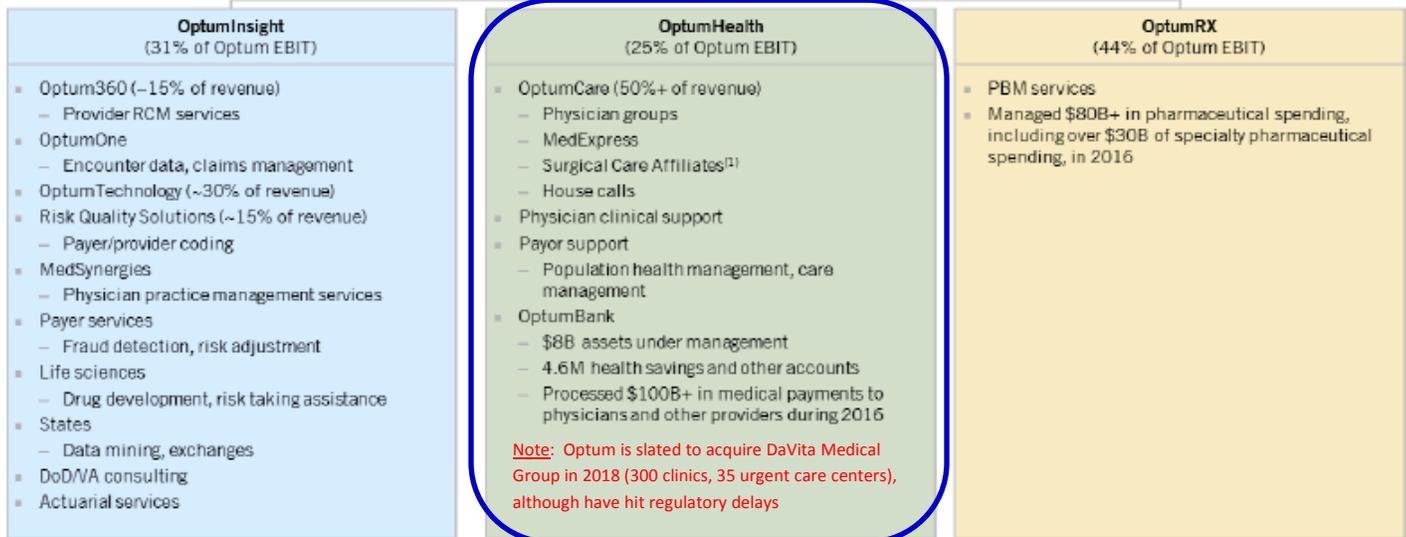
Source: UnitedHealth Group 2016 10-K <http://www.unitedhealthgroup.com/~media/5D60EEEE258F4D2FA4BA765727C41D5C.ashx>

Subsidiaries	Statistics, Notes, Awards
<b>OptumHealth</b> (see middle column below)	<p>OptumHealth focuses on care delivery, care management, wellness and consumer engagement, and health financial services. OptumHealth builds <b>high-performing networks and centers of excellence across the care continuum</b>, by working directly with physicians to advance population health management and by coordinating care for the most medically complex patients. OptumHealth serves patients and care providers through its local ambulatory care services business and has over 30,000 employed, managed and contracted physicians.</p> <ul style="list-style-type: none"> <li>▪ OptumCare includes:               <ul style="list-style-type: none"> <li>➤ Physician practices across 13 states (including 500-provider Reliant Medical Group in Central MA);</li> <li>➤ MedExpress with nearly 200 urgent care centers nationwide;</li> <li>➤ Surgical Care Affiliates (SCA) operates the largest network of independent ASCs and surgical hospitals in the U.S. with 205 outpatient surgery centers (including 7 in CT);</li> <li>➤ HouseCalls program which provides in-home health assessments (which numbered over 1 million in 2016);</li> <li>➤ <b>Announced 12/7/17: DaVita Medical Group, its 300 clinics, 17,000 MDs, 35 urgent care centers and six outpatient surgery centers are slated to be acquired by Optum in 2018</b></li> </ul> </li> <li>▪ Optum Financial Services, through Optum Bank, offers Health Savings and other accounts (\$7 billion in assets under management in 2016).</li> </ul>
<b>OptumInsight</b> (see left column below)	<p>OptumInsight specializes in data and analytics and other health care information technology services and consulting, and delivers operational services and support. OptumInsight offers analytics services to care providers, health plans, governments, and life science companies. This is the arm that just acquired Advisory Board's healthcare services (which includes Crimson Market Advantage, of which Baystate Health is a client).</p>
<b>Optum Ventures</b>	<p>Newly announced \$250M venture fund to invest in healthcare-focused digital startups</p>



## Organizational Structure

Note: Optum Ventures (\$250M venture fund is a new arm)



Source: Jefferies, April 2018 (Reprinted with permission)

## Awards, Recognition, and Leading Programs

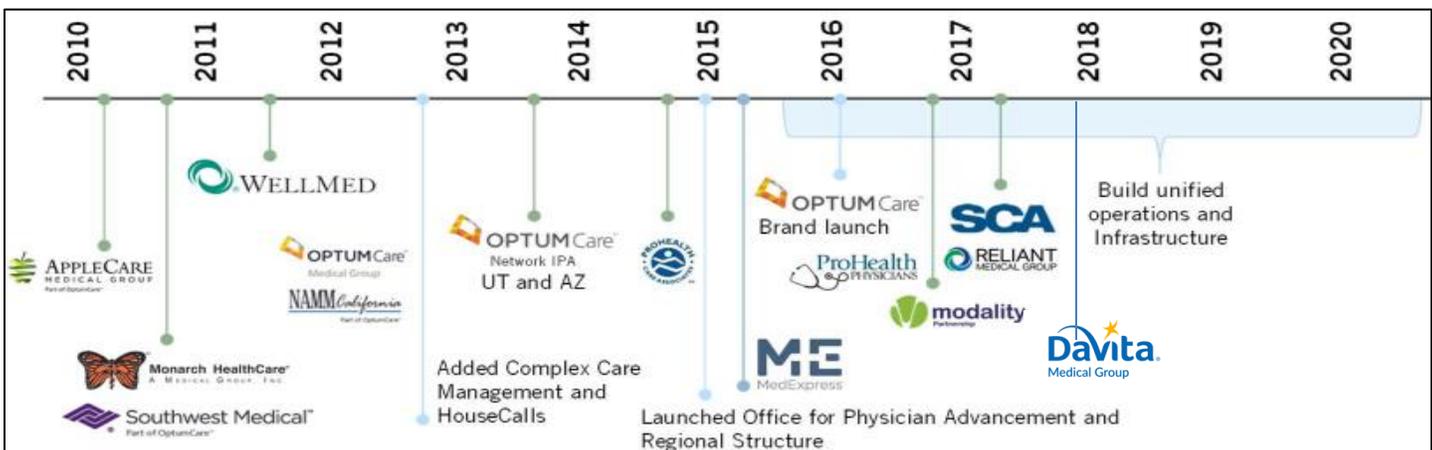
UnitedHealth Group is #1 in the insurance and managed care sector on **Fortune's 2017 "World's Most Admired Companies" list**. This marks the 7<sup>th</sup> consecutive year at #1.

Optum earned **Frost & Sullivan's 2016 North America Company of the Year Award** for population health management.

In 2017, for the third consecutive year, Optum ranked **#1 on the Healthcare Informatics (HCI) 100**, a listing of the top health care IT companies based on U.S. revenues.

Optum360 earned the following recognition in 2016: No. 1 spot for the third consecutive year in the **Black Book Rankings** for revenue cycle management software technology and outsourcing services; Category Leader award for the second consecutive year for computer-assisted coding from **KLAS**, a leading global health care research organization.

OptumRx's specialty pharmacy, BrioRx<sup>®</sup>, received the **Pharmacy Benefit Management Institute Excellence Award** in Quality Improvement for its BrioLive<sup>™</sup> video consultation program.



Source: Jefferies, October 2017 (Reprinted with permission, with manual addition of DaVita following 12/6/17 announcement)



## Select Recent Noteworthy Affiliations & Partnerships

(see longer timeline graph above)

**2017:** Optum announces intent to purchase **DaVita Medical Group** and its **300 clinics**, and **Reliant Medical Group**, a **500-physician group with 26 locations across MA**, focused mainly in the central and metro west regions of the state

**2017:** Optum and **Merck** announce collaboration to advance pharmaceutical value-based contracting

**2017:** Optum purchases the **Advisory Board's** healthcare business (which provides independent research, advisory services and data analytics for more than **4,400 healthcare organizations**) for \$1.3B; to be absorbed by OptumInsight

**2017:** Optum acquires **Surgical Care Affiliates (SCA)**, a group of over **200 outpatient surgery centers**, along with a few surgical hospitals and a sleep center, operating across 33 states

**2017:** **MassHealth** announces that it will cease to contract with UMass for prior authorization services and will instead contract with Optum Government Services. **Optum will serve as a third-party administrator for MassHealth's Long-Term Services and Supports program**

**2017:** **Surgical Care Affiliates** partners with **Western CT Orthopedic Surgery Center**, a 14-physician center in Danbury, expanding its Connecticut portfolio to 7 surgery center locations

**2015:** Optum acquires **ProHealth Physicians**, a **370-physician group**, in Connecticut

**2015:** Optum acquires **national urgent care chain, MedExpress**, which includes 200 urgent care centers nationwide (and **6 locations in Western MA**)

**2014:** Optum announces acquisition of **AlereHealth**, **case management and population company** serving over **200 health plans** across 29 states.

**2014:** Optum acquires **MedSynergies**, a **physician practice management and referral management company**

## TOWS Analysis (Optum-DaVita Perspective)

<p><b>Threats</b></p>	<ul style="list-style-type: none"> <li>▪ Potential repeal of the ACA could negatively impact the demand for ACA-related products and capabilities, and diminish Optum's value proposition</li> <li>▪ Optum provides services to payors participating in government programs. If funding decreases dramatically for these programs, that could adversely impact Optum's business</li> <li>▪ Anthem's launch of a pharmacy manager in partnership with CVS mimics OptumRx model</li> <li>▪ DaVita acquisition faces regulatory approval hurdle (As of March 2018, 30-day delay)</li> </ul>
<p><b>Opportunities</b></p>	<ul style="list-style-type: none"> <li>▪ OptumCare (which includes primary, urgent, ambulatory surgical, and home health care) represents a significant provider of ambulatory care services and alternative vehicle for independent physicians who want to join a non-hospital-centric ACO model</li> <li>▪ Optum aims to provide primary care and ambulatory services in 75 markets, representing about two-thirds of the U.S. population in a model that steers patients to lower-priced care outside of the hospital (currently in 45 markets and is gaining 4-6 new markets per year).               <ul style="list-style-type: none"> <li>➢ Acquisition of primary care practices of significant size (including DaVita Medical Group's 300 clinics and 17,000 physicians)</li> <li>➢ Expansion of MedExpress urgent care since its 2015 acquisition with further likely expansion as patients continue to seek out lower cost sites of care (including DaVita's 35 urgent care centers)</li> <li>➢ Purchase of SCA strengthens its position as a low-cost surgical provider as the market continues to shift from inpatient to outpatient (in addition to DaVita's six ASCs)</li> <li>➢ HouseCalls program could expand to more comprehensive home health services</li> </ul> </li> <li>▪ Uncertainty around healthcare policy could lead to increased need for consulting services, data, and analytics as companies and providers look for support in the changing environment (on its own, the Advisory Board saw the opposite trend occur, but as part of a stronger combined entity, potential clients may see greater value-add)</li> </ul>



<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>▪ Rapid growth through acquisition represents challenges in efficiently and effectively integrating new entities and maintaining quality</li> <li>▪ Given the instability of the insurance market under the current administration, United Healthcare relationship (under the larger umbrella of UnitedHealth Group) may weaken versus strengthen Optum’s position</li> </ul>
<b>Strengths</b>	<ul style="list-style-type: none"> <li>▪ Value-focused competitive disruptor that invests in and aligns with provider networks that demonstrate a capacity and willingness to manage risk</li> <li>▪ Optum revenues grew 24% from 2015 to 2016—driven by growth across all Optum services businesses; revenue increase at OptumHealth primarily due to growth in its health care delivery businesses as well as <u>expansion of behavioral services into new Medicaid markets</u></li> <li>▪ Earnings from operations increased by 32% from 2015 to 2016 (from \$4.3B to \$5.6B)</li> <li>▪ Recent acquisition, SCA, has a highly commercial payor mix; 65% of net patient revenues came from commercial payors</li> </ul>

<b>Optum-DaVita CEO’s Corner</b>	
<b>What We Bring to the Table</b>	<ul style="list-style-type: none"> <li>▪ A comprehensive continuum of healthcare services from analytics, to pharmacy, to primary, urgent and ambulatory surgery care (will be expanded further with pending DaVita acquisition), all without the overhead inherent in hospital health systems that own hospitals</li> <li>▪ Strong financials</li> </ul>
<b>What Keeps Me Up at Night</b>	<ul style="list-style-type: none"> <li>▪ The pressure to maintain double digit revenue growth while pursuing and maintaining organization’s long-term vision</li> <li>▪ Growth plan feasibility of 75 core geographic markets (from current state of 45 markets)</li> </ul>

<b>Baystate Health Value Proposition</b>	
	<ul style="list-style-type: none"> <li>▪ Highest-value system partner that would provide needed key high-quality services and contribute deep regional and population health knowledge to round out care continuum for consumers of a high-value disruptor network</li> </ul>

<b>Baystate Health SWOT</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<p>Baystate Health’s PHO is a population health pioneer, including significant success as a NextGen ACO</p> <p>Baystate Health’s technology innovation center, TechSpring, has helped launch noteworthy innovative products, services, technologies (e.g., PatientPing, etc.)</p> <p>Collaboration with Health New England enables strategic experimentation re: MassHealth Medicaid ACO, telehealth</p> <p>Highest value innovative health system with largest market share in western MA and deep knowledge of the market</p>	<p>Access to Baystate Health is challenging for new patients who now have several options for care</p> <p>Baystate Health is late to the urgent care and ambulatory surgery markets</p> <p>BH access, data tools, EMR, marketing, patient experience, and engagement are not robust</p> <p>Baystate Health’s overhead makes care more costly than that of competitive disruptors</p>
<b>Opportunities</b>	<b>Threats</b>
<p>Baystate Health could serve as the preferred tertiary care and ACO provider in the greater Western MA region as some portion of patients will require inpatient acute care services</p> <p>Baystate Health and Optum could partner in building a differentiated high-value ambulatory care and home care network in the larger region with quality providers</p> <p>Baystate Health, Health New England, Baycare and Optum could collaborate on population health innovations</p>	<p>In addition to expanding its MedExpress clinics, Optum could open up ASCs in the region and hire away the most attractive BMP, Riverbend, and other PC or specialty MDs</p> <p>Optum and other competitive disruptors offer more convenient, easier-to-access, and customer-centric ambulatory and home health services</p> <p>UnitedHealth is directing members toward its acquired MDs</p> <p>Optum could partner with BH competitors</p>