Unlocking Value in Cancer Care

Value-Based Specialty Care for the Healthcare Portfolio Company

THE CHARTIS GROUP

The Second Act for VBC Has Started —and It's All About Specialty Care

Oncology is emerging as an investor favorite in the specialty investment space because a unique set of features makes cancer care attractive for value-based transformation.

To date, the value-based investment space has been hyper-focused on primary care, including full-risk Medicare Advantage (MA) primary care platforms like Oak Street Health and Cano Health; pure "pay-vider" platforms like Humana's CenterWell/Conviva and Anthem's CareMore; risk-affiliate platforms like Agilon; and value-based payers like Oscar and Clover. These value-based care (VBC) archetypes all play different variations of the same theme—empowering owned or partnered primary care physician (PCP) practices to flip to MA risk through innovative care management, technology, and contracting expertise. The "risk-on" proposition has resonated with primary care physicians due to their challenging practice economics and span of influence on MA patient utilization.

As investors look to the next chapter of VBC, specialties like oncology, nephrology, neurology, and orthopedics are emerging as core portfolio priorities. This "second act" for VBC is a function of concentrated MA spend in specialty care, and interest from payers and management services organizations (MSOs) in transferring risk to high-value specialists who can manage chronic conditions and acute, high-cost episodes. In this briefing, we explore the unique features that position oncology well for value-based transformation, discussing the status of value-based contracting in oncology and profiling investment archetypes frequently under portfolio company consideration.

Value-Based Care Is Core to the Value-Creation Playbook

The evolving value creation strategy for portfolio companies should take into consideration three key areas: health system and payer partnerships, scalable operational architecture, and the healthcare industry's quest to move toward value-based care (VBC). The value-based investment thesis is bolstered by significant tailwinds for a transition to risk in senior care. The U.S. population is growing and aging into Medicare eligibility, with Medicare Advantage (MA) penetration estimated by Chartis to reach 50% by as early as 2025.[1]

These demographic trends, coupled with intense interest from payers to offload risk and stabilize margins, has produced an investment space awash in MA global capitation players—evidenced by the nearly $60 billion combined market value of new VBC market entrants and the emergence of funds like Valtruis (WCAS) focused exclusively on the value-based space.[2]

Value in Cancer Care Is Winnable, Though Its Path Is Winding

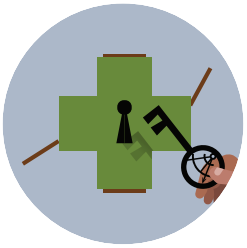
As investors evaluate the VBC oncology thesis, the opportunity is immense. Cancer incidence is growing precipitously, fueled by an aging U.S. population. Total cancer cases are expected to top 2.3 million by 2030, driving over $250 billion in healthcare expense.[3] The care ecosystem is rife with disutility, a function of buy-and-bill drug incentives (and broader fee-for-service hazards), multimodal episodes that often lack central coordination and care management, and avoidable admissions.

With this backdrop, the theory of the VBC case is straightforward: a risk-on oncology practice should be able to meaningfully bend the cancer cost curve through evidence-based practice and a high-touch, value-oriented care model. **So why have leading value-based cancer practices been slow to emerge?**

Many features that make cancer attractive for investment also make it obstinate when it comes to value-based transformation. These include provider scarcity; risk-adoption barriers like disease heterogeneity, span of control, and practice economics; and structural deficiencies in the care model. In various forms, each of these obstacles is being addressed by innovative platforms, explored below through three lenses:

Aligning Providers

Enabling Smarter Risk

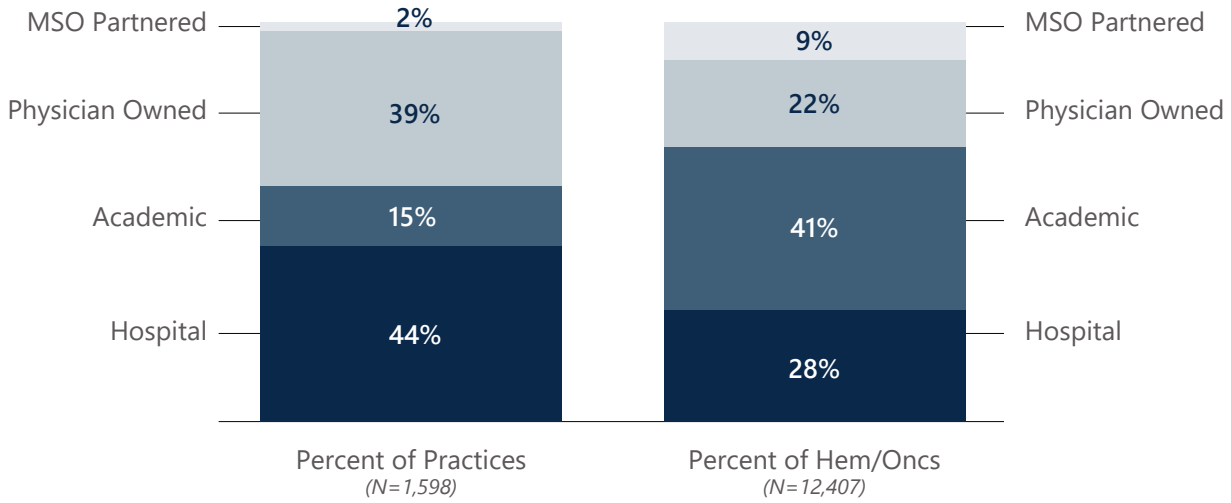


Unlocking More Value

ALIGNING PROVIDERS

Securing medical oncologists for VBC is the most acute challenge for investor-backed platforms. Approximately 65% to 70% of medical oncologists are aligned with community or academic hospitals, the result of a decade-long integration trajectory enabled by site of service differentials and 340B purchasing discounts (Figure 1). The remainder of the marketplace is highly consolidated, with less than 2% of practices representing nearly 10% of oncologists—inclusive of aggregator platforms like US Oncology (McKesson), One Oncology (General Atlantic), Integrated Oncology Network (Silver Oak), and GenesisCare (KKR). The remaining 22% of oncologists belong to physician-owned independent practices that represent a highly fragmented and distributed cohort, with an average practice size of just 3.6 physicians.[4] Taken together, these dynamics represent a significant barrier to entry for aspiring value-based provider organizations.

Figure 1: National Hematology/Oncology Workforce Distribution



Source: Chartis analysis of Medicare Physician Compare Database for hematology/oncology

While market scarcity has driven high acquisition multiples for oncology practices and crowded out some would-be aggregators, it has also propelled innovation in alignment models conducive to VBC:

- **Extraction:** Large-scale hospital practice extraction and "acqui-hire" are increasingly common, as seen in Memphis with One Oncology and The West Clinic (formerly aligned with Methodist Hospital), and in Baton Rouge with One Oncology's recently announced partnership with Mary Bird Perkins Cancer Center (formerly partnered with Our Lady of the Lake Hospital).[5,6]
- **De Novo Build:** Organizations like The Oncology Institute of Hope and Innovation (TOI) are purpose-building, value-based practices in small-format, de novo settings like those recently opened in St. Petersburg, Florida and Tucson, Arizona. TOI represents perhaps the most disruptive entrant given its value-native care model, experience with risk-based contracting in legacy markets, and growth capital unlocked through a recent SPAC public offering with Deerfield Management.[7]
- **Multi-Partner:** Alliance Oncology, recently acquired by Akumin Inc. for $820 million, has pursued an alternative path by partnering directly with hospitals and physician groups in cancer care. These include modality-specific joint ventures, like the radiation therapy center partnership announced with SCL Health in Denver, Colorado. They also include vertically integrated projects like the Singing River Cancer Center in Florence, Alabama, which houses oncologic surgeons, Alliance's radiation therapy, Clearview Cancer Institute medical oncologists, and mammography through Helen Keller Hospital.[8]
- **Pure "Pay-Vider":** While not ubiquitous, we have begun to see examples of wholly owned, payer-managed oncology practices. Optum has been the pioneer in this space. OptumCare Cancer Center's seven locations in Las Vegas offer the full continuum of ambulatory care—chemotherapy, radiation, ambulatory surgery, etc. It remains to be seen whether this model will take hold amongst payers with the same vigor as owned, risk-bearing PCP networks.

Given the pivotal role of the oncologist, we expect to continue seeing creative destruction and new models of oncology alignment, with VBC as an explicit design objective.

ENABLING SMARTER RISK

Two-sided risk has been a *de minimis* component of contemporary alternative payment models (APMs) for cancer care. Examples abound of fee-for-service (FFS) hybrids, including bonuses for pathway compliance, per-member-per-month payments (PMPMs) to support care navigation, and retrospective (one-sided) shared saving payments. The most visible of these hybrids is Center for Medicare and Medicaid Innovation's (CMMI) Oncology Care Model (OCM), a five-year pilot program that uses FFS reimbursement with nominal care coordination payments and shared savings eligibility on six-month, episodic-based, total cost of care targets.[9] Results from the OCM and other APMs have been underwhelming (e.g., $315 million OCM loss), not for a lack of addressable value levers, but for these inherent complexities in cancer care:

- **Heterogeneity:** Cancer represents hundreds of diseases, resulting in natural spend variability amongst practices and challenges to risk-based contracting. This issue is being tackled by technology companies like COTA Healthcare, recently funded with a $34 million Series D led by Baptist Health South Florida and ONC Capital.[10] COTA's platform leverages a "barcode" to identify patients by cancer histology, stage, and genomic signature, enabling data scientists to better cohort patients and enable bundled payment design (e.g., Hackensack/Horizon BCBS' bundled payment model).

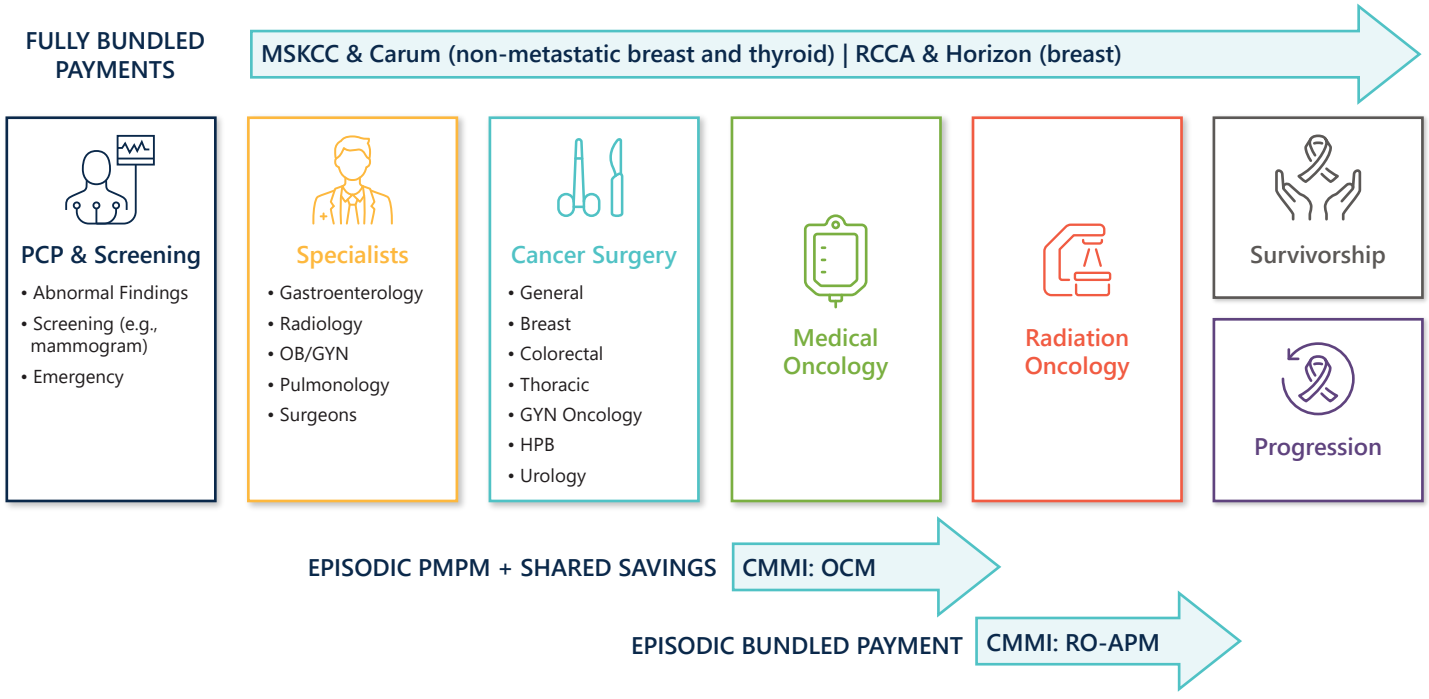
  The heterogeneity issue is also being addressed in the next generation of APMs, like CMMI's Oncology Care First Model (OCFM) through improved stratification by cancer type in total cost of care targets used for its two-sided risk model.[11] Investor-based platforms should learn from the OCM's deficiencies, look to the OCFM's blueprint, and confirm that any contemplated risk-based contracting has sufficient tumor-level specificity.

- **Span of Control:** Oncology is highly multidisciplinary and often lacks a single specialist in the value chain with complete visibility and utilization influence. Patients frequently traverse unaffiliated screening, diagnostic, procedural, medical oncology, and radiotherapy practices, creating a splintered care continuum that complicates full capitation. Span of control is being addressed in two ways, first through vertical integration of the participating cancer specialists—as seen in places like Naples, Florida, where GenesisCare has acquired urologists, breast surgeons, and gynecologic oncologists, and in many US Oncology markets like Minneapolis and Dallas, where practices now include surgery, hematology/oncology, and radiation oncology. These fully integrated models of care, covering diagnosis through all major cancer modalities, have the theoretical advantage if the market moves toward global MA capitation.

  The second approach to solving for span of control is narrowing the risk corridor, either by focusing on a discrete episode within the cancer continuum, or on a narrow disease subset (Figure 2). The former is the model for CMMI's OCM, with 6-month total cost of care episodes triggered at initial infusion, and the upcoming Radiation Oncology APM with prospective bundles in radiotherapy for 15 different cancer types. A fully bundled payment narrowed by disease type has been deployed by Memorial Sloan Kettering Cancer Center (MSKCC) and Carrum Health for two-year treatment bundles in non-metastatic breast and thyroid cancer, and by Astera Cancer Care in partnership with Horizon BCBS for prostate cancer, early stage breast cancer, and locally advanced disease in lung, colorectal, and head and neck cancer.[12,13]

- **Practice Economics:** The final hurdle to risk is the basic economic profile of an oncology practice. At a median salary of $481,000, the specialty is well compensated, creating a friction point with models that introduce downside risk.[14] Of that compensation, approximately 80% is generated by margin on drug buy-and-bill, meaning income is diluted when choosing the cheapest alternative amongst similarly effective chemotherapy regimens. Without compelling shared savings constructs, oncologists and payers have been left in perpetual struggle over drug selection, adjudicated through onerous pre-authorization requirements and frequent delays to patient care.

Figure 2: APMs in Cancer Value Chain



The challenge is compounded by the price of therapeutics, with median prices for newly approved cancer drugs increasing from $1,932 in 1995 to 1999 to nearly $15,000 in 2015 to 2019, driven in part by blockbuster TKI inhibitors and immune effector class therapies (e.g., CAR-T) that cost hundreds of thousands of dollars.[15] The price tag on these drugs and the frequency at which they are emerging creates an actuarial nightmare for practices taking risk on total cost of care or bundled payments. The OCFM attempts to solve for this issue through a partially capitated payment for evaluation and management and infusion administration, while deploying a more robust adjustment mechanism for novel therapies when calculating performance versus historical drug cost targets.

Successfully transitioning to risk will require investor platforms to solve for provider incentives and cost targets that adequately adjust for expensive, emerging classes of drugs. The complexity of this undertaking explains why many practices are seeking partners with core competency in risk-based contracting and oncology decision support, including businesses like Eviti (NantHealth), AIM Specialty Health, and New Century Health (Evolent Health). We expect these benefit management platforms to continue expanding their reach and capability in the value-based cancer space.

UNLOCKING MORE VALUE

If oncologists can be sourced and risk-based contracting can align stakeholder interests, the real test for oncology VBC is practice transformation required to generate value. The levers of value are generally accepted to be pathway compliance, formulary management, early palliation and symptom management, ED and IP avoidance, and care transitions. A host of value-based platforms are seeking to target these domains, including the following categories:

- **Commercial Pathways:** Oncology pathways have carved out a distinct role in enabling VBC, proliferating broadly through platforms like Clinical Path (formerly Via Oncology), Clear Value Plus (US Oncology/Ontada), and Dana-Farber Clinical Pathways (DFCI/Philips). While primarily focused on promoting adherence to evidence-based practice, pathways have also been adopted by Anthem's Cancer Care Quality Program, UnitedHealthcare's Cancer Therapy Pathways Program, and Blue Cross Blue Shield of North Carolina, to encourage cost-effective selection amongst clinically equivalent regimens. In a 12-month pilot, UHC demonstrated 20% savings relative to controls when deploying its pathways with Eviti (NantHealth).[16] We expect pathway adoption to accelerate and begin to expand beyond medical oncology to adjacent oncologic specialties in the continuum.
- **Oncology Medical Homes:** Numerous payer-sponsored medical home models have emerged, grounded in value derived from closer monitoring and enhanced care team access during active cancer treatment. These programs like TN Oncology/BCBS's care coordination incentive model and the Cigna Collaborative Care for Oncology support infrastructure needed for remote monitoring, 24/7 patient access and symptom management, and distress screening. Companies have emerged to serve these functional requirements, including the Appriss Health (Clearlake Capital Group) PatientPing platform that sends real-time notifications to the care team when patients experience a care event (e.g., admission), and TapCloud, an AI-driven patient connectivity tool that collects information on adherence, SDOH issues, and cancer patient well-being.
- **Digitally Enabled Coordination:** A new class of companies is also emerging to address care coordination deficits with digitally enabled care management models. These platforms move upstream to payers, offering their members immediate access to a care navigator when faced with a cancer diagnosis. Thyme Care, recently funded by Andreesen Horowitz with $22 million, is a recent entrant that brings its tech-enabled navigation model to Clover's MA members across New Jersey.[17] A similar model is available to payers through Jasper Health (Redesign Health and 7wire Ventures) via a "smart planner" for cancer care, designed to connect patients with certified oncology social workers and triage symptoms on a timely basis. These solutions serve a critical coordination role but also enable site of care steerage and responsible care transitions in palliative and end of life episodes.

Oncology Is Set to Take Center Stage

We expect to see massive investment in value-based specialty care in the near future. Investor-backed platforms will continue to iterate and overcome traditional roadblocks—securing provider capacity, designing smarter models of risk, and enabling care transformation that unlocks lasting value for patients, providers, and payers. And as this exciting "second act" of VBC seeks out specialties in need of transformation, we expect oncology to take center stage.

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