
INTEROFFICE MEMORANDUM

TO: SAMANTHA GORDON WEBB, REVELSTOKE CAPITAL PARTNERS
FROM: JOHN MCCARTHY
SUBJECT: TWENTY GOOD QUESTIONS
DATE: JANUARY 3, 2024
CC:

1. Did you find investment management, or did it find you?

Actually, it is a bit of both! Out of college, I entered the management consulting industry, where I joined – at the time – Booz & Company (originally part of Booz Allen Hamilton) and was part of the healthcare services practice. During this time, there was significant transformation and disruption across the payor and provider landscape, and in turn, I found myself working on several client engagements that had a transaction orientation to them – i.e., mergers, divestitures – and was very much drawn to that type of work. After a few years, I pursued my MBA at Columbia University and doubled down on exploring this newfound interest in Finance, where I spent my summer 2011 and full time starting in 2012 in Credit Suisse’s Healthcare M&A group. I really enjoyed getting more experience directly with the transaction side of investment management, but at the end of the day, knew I was truly an operator at heart.

In 2013, I navigated my way back into management consulting, joining BCG’s New York office, and working exclusively in the provider practice, on a mix of strategy, operations, and M&A oriented work. During that time, I found my way to Denver in 2016 in helping establish the BCG Denver office. This is where my path with investment management / financial services converged again. Early in my Denver days, I met my now husband, whose career was in investing and operating mid-market private equity backed companies. I got an inside look into what it meant to work with mid-market companies. I loved how scrappy and resourceful you had to be, as well as how much it was truly around growing and scaling businesses to achieve the desired outcome. It seemed fun! This inspired me to move my career back towards a private equity track, but with an operational and business building spin.

Fortuitously, in 2019 is where Revelstoke Capital Partners (“RCP”) and I found each other. As I was exploring opportunities after my nearly seven years at BCG, RCP had decided to create an in-house value creation team, called the Portfolio Transformation Group (“PTG”), which I was chosen to help develop, build, and deploy for the Firm. Five years later, PTG has become a team of 16 people and is supporting the portfolio in transformational ways.

2. Is healthcare “all weather” or is it cyclical?

I believe healthcare is “all weather”. There will always be a need for healthcare in some form or fashion because, at its core, healthcare is a people-centric sector. People will inevitably get sick or rely on providers and resources to enable and sustain their lives, whether it’s a service, a product, or some sort of technology. Private equity is attracted to healthcare services because of the inherent lack of cyclicity. However, the “weather does change” in healthcare services, given the dynamics around regulatory and compliance standards, medical advancements, and a challenging payor / provider interplay.

Just because healthcare is non-cyclical does not mean it is not dynamic and a challenge to keep up with. The pervasive inefficiency across the US healthcare system has created an environment in which

healthcare remains “on”. Antiquated technology, lack of data availability and transparency, and inertia driven payor and provider behavior has created a long-lived need to bring more efficiency and effectiveness across healthcare. Hence why investment management and client services firms focused on healthcare remain interested and busy pursuing these needs, as well as improvement and scalability opportunities.

Healthcare continues to seep into our everyday lives. Society has also become more driven by health and wellness in their day-to-day lives, whether through fitness concepts, dietary/consumable based options and/or beauty regimens. This is all rooted to a well-being mindset that people associate with health and wellness in their daily lives. And even in times of market downturns and distress, such as Covid, healthcare always remains an essential sector that continues to provide services and innovation that people both require and desire, even when the world shuts down.

3. As health and wellness in day-to-day lives has become more commonplace, is there more consumer cyclical in healthcare?

Building on the prior answer, I do not believe there is materially more consumer cyclical in healthcare as a result of health and wellness becoming more integrated in one’s daily life. The prevalence of fitness, medspa, beauty, dietary, and related concepts has become much more accessible to consumers, but many customers consider these products and services as “necessities” in their lives. In other words, if we had to categorize these areas within health and wellness, they would be more appropriately considered a staple, rather than discretionary, subset of healthcare. Several of these concepts are subscription- or membership-oriented or structured as packages, allaying the impact of economic cycles as well.

4. Put aside science and economics, (big asides), is the delivery of health services becoming more effective?

I do believe the delivery of healthcare services has continued, albeit slowly, to become more effective. On the whole, all constituents continue to push healthcare services into outpatient and retail settings, which accelerated even more after Covid. This could all presumably move faster if it weren’t for the associated behavioral change aspect across the system – i.e., the payor and provider willingness to be more technology-enabled, data oriented, and coordinated with one another. Medical advancement, or science, in the delivery of health services continues to move rapidly and become more effective in treating care, but it’s the administration of healthcare itself that is still much too slow against this pace. Beyond more effective collaboration between payors and providers are the corporate back-office functions that my PTG team spends considerable time on, such as revenue cycle management (“RCM”), field and clinical operations, payor contracting, credentialing, etc. that need to continue to push the limits on efficiency and scalability. There are technology and resources out there to better serve and support these functional areas, but until the payors and providers truly choose to adopt and hardwire these into their organization, the effectiveness will be stymied.

5. What technology enabled initiatives are payors and physicians keen to obtain?

I see healthcare services technology-enabled initiatives likely focused on two areas: 1) automation of key administrative functions or processes, and 2) implementation of greater and more effective access to data.

For #1, both payors and providers need to ensure they are operating in a cost-effective environment, especially in markets like the one we are in today. Many payors and providers of scale are considering automation, whether through robotic process automation (RPA) – e.g, bots – or generative AI type concepts, as a way to achieve efficiencies. The PTG Technology team at Revelstoke spends meaningful time working with our portfolio companies on these types of opportunities, specifically in areas such as RCM, call center operations, back-office functions like enrollment and billing, etc. However, you

do not have to be a large-scale asset to pursue these types of innovations. Simple RPA and bot-based solutions are fairly accessible and cost effective. These solutions are also easily trainable if organizations conduct front-end legwork or assess current states to determine areas with highest potential ROI.

For #2, as mentioned throughout many of my responses, data is important for both payors and providers for a range of reasons, whether it's better understanding prospective or existing consumers, highlighting outcomes and effectiveness of provided services, or having greater visibility into the internal operations of their own organizations, just to name a few. The systems architecture across the healthcare delivery landscape is generally antiquated and not data and analytics friendly, as many of these systems started as clinical documentation systems and have been limited in innovation. Therefore, any sort of technological advancement that helps break down the associated challenges pertaining to data access, consumption, and insights should be of keen interest for maximizing operational efficiencies and providing a higher level of service.

6. In your view, how/what did the pandemic “uncover” in terms of delivering healthcare services?

People can rise to the occasion and still make things happen. The pandemic was unprecedented, yet when society's feet were held to fire, people responded: high priority subsectors were turned back on relatively quickly, a vaccine was developed and commercialized faster than people thought...there were, of course, areas within healthcare that disproportionately hit – e.g., skilled nursing, home health – however, on the whole people found a way to move with urgency and to flip the system back on. In many instances, looking across our portfolio, there were provider organizations who were able to re-engage with their patients with tighter processes, greater technology (e.g., telehealth) and more efficient labor models. Overall, with pressure, leaders were forced to take a step back and think about things differently and enact change in a generally positive way.

7. Excluding GLP-1, in health science, actual therapies, medicines, or devices, what areas are you most excited about in terms impact on human health?

Anything that supports advancements when it comes to fighting and treating cancer would be meaningful to me. While my immediate family and I have been extremely fortunate to stand in good health, I have watched many close to me go through a variety of cancers with differing outcomes. Treatment and options have made strides, but there is still a long way to go. If there comes a day when there is a true treatment for cancer – recognizing there are a lot of forms out there – that stops this disease broadly in its tracks, that would be extremely exciting.

8. What areas are you most excited about in terms of innovation on the cusp of delivery to many people?

The PTG team has been looking into these concepts for the portfolio, and we believe there are automation opportunities that can be easily deployed on select administrative processes, particularly in the areas of RCM and credentialing for payors and providers. There are fairly cost effective and low-lift applications such as bots that can be built and adopted, or at least explored and tested through proof-of-concepts and licenses, that should have a strong ROI given the low investment cost. This is one of the many flavors of AI and a practical starting point for provider businesses looking to explore this evolving aspect of technology in healthcare services.

My PTG team is actively in the process of documenting target functions and processes to explore across RCM, credentialing, and intake for our portfolio, with the goal of prioritizing a select set of areas to test with these resources and concepts. Assuming this works, this can help us create a playbook around low lift and low-cost process and technology enhancements, and ultimately help circumvent longer term technology investment, such as application development for EMRs or practice management systems, or even full EMR replacements themselves.

9. One hears about a shortage of labor, at all levels of skill and specialty, in healthcare. Is this true, and if so, is this a cycle or a long-term shortage, and what can be done to alleviate?

Yes, and I see this happening most prominently around front-line labor and providers. While times like Covid or a recession can ease some of the labor challenges the industry faces, this has been a longstanding challenge in many areas of healthcare services and provider-centric businesses. First and foremost, there are shortages driven by a pure lack of supply in many specialties and subsectors. Demand continues to rise across many healthcare services and specialties, driving the need for more field labor to serve the needs – e.g., nurses, advanced practice providers, nurse practitioners, techs, aides, physical therapists and physical therapy assistants, Doctor of Veterinary Medicine. For example, there are some businesses in the RCP portfolio that have requisitions out for 1000+ of a specific resource type in a given year, and that number will only continue to grow. The actual supply coming out of academic programs today for many of these resources do not reach these levels, and this is not an isolated instance for many specialty provider-based businesses. It will be important for these specialty provider businesses to innovate around their recruiting and retention programs, thinking about incentive compensation differently, partnerships and affiliations with academic programs, new approaches to retention tactics and overall leading with an employer of choice mentality. As a result, this has become a major area of focus for our portfolio companies and a key component of our value creation plans. Until the supply-demand mismatch starts to correct itself, this will likely be a longer-term issue.

10. Do we need to attract more young people into healthcare positions, and get them trained faster, or will technology allow more productivity per position?

I believe it's a combination of both. As noted in my prior responses, many technological applications such as RPA and AI are becoming more prevalent in healthcare, particularly in key administrative and back-office functions that could be improved in their cost-efficiencies. These approaches can be done with high frequency and standardization, which in turn should allow for greater productivity in certain positions.

Healthcare tends to attract candidates on the whole because of the mission-oriented nature of the sector. The more people we can help drive into healthcare positions, especially those earlier in their career, can only help the sector, given the unmet demand of many sub-sectors (e.g., behavioral health), the high turnover in field and clinic-level positions, and overall continued infusion of innovative energy into the industry. Many of our portfolio companies are doubling down on their talent acquisition functions and capabilities because of the supply constraints in their respective sub-sectors, so anything we can do to get more and better trained individuals into these fields will have positive benefits downstream.

11. There has been much debate recently on the disruptive potential of GLP-1. How do you view, from an investment standpoint, the potential new risks and potential new opportunities?

I believe the rise weight-loss drugs to generally have a neutral to positive impact in looking at this from an investment management standpoint. Considering the Revelstoke portfolio for example, there are several areas to look at:

- Increased life expectancy by the contributing factors of GLP-1 drug use across the population could lead to higher demand for primary care as that population ages.
- Alongside the above, diabetes and obesity continue to persist in the US, where these types of weight-loss drugs not only have a meaningful impact on the day to day lives of this higher acuity patient population, but will continue to drive increased volumes of patients presumably to lower acuity / ambulatory settings, where healthcare delivery is already shifting.

- Growing emphasis on weight loss could lead to a heightened focus, or grow in tandem with, with the overall cosmetics / beauty industry, overall furthering the ongoing convergence of wellness into broader healthcare delivery space.
- Even healthcare IT companies could experience tailwinds as payors focus on tracking the utilization and outcomes tied to weight-loss drugs and wellness on the whole.

There are of course potential new risks associated with the development of GLP-1 that should still be explored and further assessed for the consumers themselves. However, for the payors and provider constituents, there are downstream benefits driven by the rise and utilization of these weight-loss drugs, that creates opportunity for investment management.

12. One hears in the press about a “diabetes industrial complex”. Does it exist and will it be disrupted by GLP-1?

Yes, and yes. While the prevalence of diabetes continues to rise globally, adoption and effectiveness of solutions that better support and manage the disease through drugs, clinical protocols, technology, and devices continue to advance for those affected by it. This complex results from benefits to this growing population and greater longevity of life with access to tools that allow those living with diabetes to manage it on a day-to-day basis. Additionally, focusing on the root causes behind the disease becomes important. Obesity is notably and obviously a key contributor to the ongoing rise of diabetes, so anything that helps manage and reduce the impact of obesity on diabetes then furthers this complex. GLP-1s are clearly an approach people are using when it comes to achieving fast, meaningful weight loss and management. Given the trends, it’s hard to imagine the utilization of GLP-1s will decrease in the near term, so in turn it will continue to have some degree of impact on this complex.

13. Consider the growth of “medical spas” as a hybrid between traditional medical services and a luxury service. Is there a trend toward more “consumer discretionary” elements in healthcare?

Healthcare has continued to become more consumer oriented over the years. It is not just about traditional medical care and product development but is now interwoven with wellness and beauty. Beyond the medical spas, you see this through the boutique and at-home fitness concepts, food and dietary oriented businesses and services, and other wellness-based products. There is more discretionary spending going to healthcare as signaled by the way society is rapidly adopting these new end markets, and I believe this will continue to grow for the foreseeable future. Revelstoke, as experienced specialists, has been observing and analyzing this trend for years and building theses around how we can take advantage of this convergence.

14. Consider the average hospital patient in 1964 and the average hospital patient in 2024. What are some of the key differences in your view?

Today’s hospital patient is more educated versus the hospital patient of 1964 just by the sheer availability of information and data with the internet, social media and general advancement in medicine through technology, clinical trials, and overall discovery. The influx of this information to the patient of today more often drives the urgency in which they pursue their care needs, and more highlights the potential issues they might be facing. The growing prominence of wellness and consumer-oriented healthcare concepts, as well as the demand for efficiency and transparency, across the industry has heightened the expectations a patient has for their own experience today versus the patient of the past. This overall consumerization of healthcare is driving to more informed choice and decision-making across the system.

All that being said, I still do not believe today’s society overall is as appropriately educated as they should be when it comes to the healthcare options and decisions for themselves as well as their own families. The complexity of the delivery system, often “ping ponging” patients through their care situations, introduces challenges that cannot be solved by greater information access alone. We need

to continue to simplify the system and drive more consistency in the data and information a patient receives in their care journey so that they are ultimately consuming the relevant services and products more easily and confidently.

15. Assume some new, innovative medical service gets discovered this year. What can be done to help increase the odds that the patient benefits, the physician benefits, and the payor benefits?

Establishing clear targets and metrics tied to the effectiveness of the services or overarching goal(s), whether through a stated ROI, KPIs that can be tracked by the respective stakeholder, and / or longitudinal data to prove the concept over time. Overall, we cannot underestimate the power of showing outcomes data when it comes to innovation, or even day to day care, in the delivery of these services.

16. You spend a lot of time searching for solutions that benefit patients, physicians, and payors simultaneously. Do most of these solutions involve technology?

Yes, and no. PTG is always thinking of tech-enabled, data-oriented solutions for these stakeholder groups that we do project work for. It will be important to continue to push payors and providers in this direction. However, given where Revelstoke invests in the mid-market, many of our companies have foundational needs and challenges that PTG supports, whether it's around organizational or functional redesign, project management, talent assessment and recruitment, systems optimization, strategy development and execution, or partnership and integration-based work. Getting the foundational people, process, data, and systems groundwork and capabilities in place is critical to allowing for sustained and stable scalability of these platforms. Enabling these companies to catch up their infrastructure and development with the pace in which they are experiencing operational and commercial growth is often where PTG gets introduced, and by doing so, they should be well-positioned for downstream, future technological, or data-oriented solutions to have greater success of “sticking” for them.

17. Will Medicare Advantage programs grow faster or slower than GDP growth?

Overall, I believe Medicare Advantage (“MA”) will grow faster than GDP. The potential population entering these programs is rising – i.e., the Baby Boomers – as well as a growing portion of eligible Medicare beneficiaries joining MA plans. For example, in 2023, more than half (51% or 31M) of eligible Medicare beneficiaries enrolled in MA plans, as cited by Kaiser Family Foundation. This share has risen from 19% back in 2007, also as cited by Kaiser Family Foundation. I believe this trajectory will continue in this direction in the near term.

Value-based care continues to be an area of focus for many investment management firms pursuing opportunities in healthcare services and delivery. Many of these platforms and concepts are premised around growth in MA programs. ClareMedica is one company in the Revelstoke portfolio that provides primary care services for the MA population currently in parts of Florida, as an example.

18. Telehealth has been expected to grow. Is it in fact growing?

Telehealth has been a great way to increase access to care and reduce spending. We have seen growth in telehealth, particularly throughout the pandemic, where telehealth services reached 50% or more of all visits at its peak (sourced by CHG Healthcare). Telehealth has since remained at 17% of all visits in 2023 (sourced by CHG Healthcare), and as a result, healthcare delivery organizations are still pursuing strategic approaches to virtual care. In the case of a company like Crossroads Treatment Center, a Revelstoke portfolio company in the OUD/SUD space, telehealth use for behavioral health conditions surged, helping sustain this growth and utilization in telehealth services. Overall, telehealth is helpful in increasing access to care and also reducing spending, but there is ultimately still value in

being in person with a healthcare provider and it is not a total replacement for provider-based business models.

19. Are urgent care centers becoming a key access point for healthcare providers?

Yes, urgent care providers are a key access point for healthcare providers because often times urgent care is the “front door” for patients into the healthcare system. This is quite literally happening in many large health systems that are building out or acquiring their own urgent care clinics to allow easier access to patients with the potential to convert to high acuity referrals into the system. Urgent care centers ultimately allow consumers to treat their needs in a relatively easy and accessible manner, especially today, as many individuals are shifting away from a dedicated primary care provider to more ad hoc support.

Many urgent care centers – like Revelstoke’s Fast Pace Health, a provider of rural urgent care clinics – offer more than primary and urgent care, functioning in a “one stop shop” manner. Fast Pace’s 260+ clinics across its rural communities offer a variety of ancillary services including orthopedics, dermatology, behavioral health, and physical therapy, allowing providers to have more reach with patients in their market and treat a multitude of conditions for patients in rural populations.

20. Exercise programs have long been associated with New Year’s Resolutions. Are exercise programs in fact growing as part of “lifestyle” daily life, and if so, what are some of the big implications for the healthcare sector?

Building upon prior responses across the health and wellness-oriented questions – yes, I see this stemming from a few different drivers. Growth in health and wellness services, increased awareness in today’s society, and expanded access and engagement with these lifestyle-based decisions have allowed exercise and fitness to become a necessity and a key component to one’s lifestyle today. People have the ability to tailor their fitness experience to meet their needs and in real time, whether its popping in the other room in their home to do a 20-minute Peloton ride, joining app-based classes that can be done anywhere with Internet connection, or having greater diversification and variety of fitness types beyond the traditional running or strength training. People have made exercise meet their lifestyle, as opposed to changing up one’s day-to-day life to fit some sort of standard mold around fitness.

In turn, there is a variety of implications to healthcare, both good and challenging: better consumer and patient engagement in their healthcare, greater accessibility to care, continued improvement in many chronic disease states, and a broader range of investment opportunities for those like Revelstoke pursuing opportunities across this realm. This also raises the bar on the interconnectedness and complexity across the healthcare delivery and services landscape, with both more and different stakeholders, more competition, and more need for innovation to keep meeting the needs and lifestyle trends across consumers.