Unlocking value in cancer care

Rising trends in payer reform, site-of-service evolution, and risk enablement

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Summary

The cost of cancer care is quickly becoming the most critical issue in the oncology industry. Cancer is a $200 billion market, growing 5% annually, driven primarily by increases in the cost of drugs (with median prices up seven times since 2003), and the mark-up on those drugs applied throughout the cancer value chain.[1]

From a macro level, cancer spend threatens to consume the budgets of governmental payers and other purchasers. On a personal level, the cost of cancer care frequently exceeds median US household income, doubles a patient's risk of bankruptcy and—worst still—often leads to treatment avoidance. Solving for rapidly increasing cost will be the defining challenge of the next decade in cancer care. It will also serve as a major opportunity for innovative payers, providers, and investor-backed platforms.

The question of *how* to reign in cost has been a vexing challenge for the cancer industry. Our team published reports in 2022 and 2023 that explore both the promise and peril of value-based transformation in oncology. The promise is self-evident, given the magnitude of medical expense (and waste) in the cancer ecosystem. Value-based care is supported by favorable tailwinds in Medicare Advantage (MA) enrollment and the flow of capital into digital and risk-enablement platforms. The perils have emerged in early struggles with value-based reimbursement, owing to cancer's disease heterogeneity, oft-fragmented care model, and the inherent hazards of drug buy-and-bill.

As we reflect on oncology's progress, it is evident that value-based cancer care (VBCC) remains an imperative, even as scalable solutions remain elusive. We believe the space will continue to evolve along three vectors:

1. Reform from the Centers for Medicare & Medicaid Services (CMS) as the largest payer
2. Site of service diversification and growing office-based platforms
3. The proliferation—and eventual value realization—of risk-enablement tools

1. Medicare's oncology APM: A smaller sequel

Last year's headlines on alternative payment models (APMs) pointed to an uncertain future after CMS announced a $300 million loss in its first-generation Oncology Care Model (OCM) and plans for its successor. The Enhanced Oncology Model (EOM), designed to reduce payments to practices and mandate two-sided risk, was received with less enthusiasm than the OCM. Only 41 organizations participated in the first performance period, down from the 126 in the OCM.[2]

A survey conducted by Community Oncology Alliance in May 2023 revealed widespread concern that CMS did not adequately address issues from the OCM to the EOM. Top concerns cited included unpredictable drug prices in a model that exposes oncologists to immediate downside risk and feedback from previous OCM participants that they were being asked to "do more for less" in the EOM.[3]

Despite these industry misgivings, 41 participants (totaling more than 550 individual practice locations) voluntarily signed up for the EOM and are presumably well positioned to realize savings based on previous experience in the OCM. EOM membership is almost exclusively independent practices, with the vast majority aligned to one of the major management services organizations (MSOs), such as McKesson US Oncology (USON), OneOncology, and American Oncology Network (AON). Many of these MSOs reported significant financial success in the OCM and likely can scale their EOM investments across other agreements with risk-bearing entities in the MA space.

Because the EOM is scheduled to run for 5 more years, its effectiveness and Medicare's broader blueprint for a transition away from fee-for-service (FFS) oncology will be enduring questions.

2. Consolidation continues

While the healthcare sector overall had a relatively quiet deal year in 2023, investment activity in cancer was prolific. Most activity occurred in the MSO platform space, including the blockbuster acquisition of OneOncology by TPG and Cencora (formerly known as AmerisourceBergen) in April 2023. The transaction, valued at $2.1 billion, is one of the largest in the history of the oncology industry and represents a massive bet by Cencora, mirroring the vertically integrated pharma-medical oncology value chain created by McKesson and USON. OneOncology's platform also continued expansion in 2023 with the additions of Coastal Cancer Center in Myrtle Beach, South Carolina; Pacific Cancer Care in Monterey, California; and Mid Florida Cancer Centers in Orange City, Florida.

While OneOncology dominated headlines, other MSOs were active in 2023.

Multistate regional oncology practice Regional Cancer Care Associates (RCCA) aligned with USON. The RCCA deal, which includes nearly 160 providers across New Jersey, Connecticut, and Maryland, represents a resurgence for McKesson/USON after a few years of relative quiet and practice extractions by other PPMs.

Elsewhere, Optum continued its inexorable (albeit indirect) march toward becoming a major oncology player via multispecialty practice acquisition, including alignment of 400 physicians (and eight oncologists) at Crystal Run Healthcare. These physicians join a growing cohort of cancer providers housed within the largest physician employment vehicle in the US.

Rounding out the medical oncology PPM space was AON, which completed a special purposes acquisition with Digital Transformation Opportunities Corp., selling $65 million in Class C units and listing on the NASDAQ.

One setback in an otherwise positive 2023 environment was the second bankruptcy of the radiotherapy network managed by GenesisCare, and formerly 21st Century.[4] In June, the KKR- and China Resources Group-backed cancer treatment company announced plans to sell its 130 US-based practices. It also announced several divestitures throughout Q3 and Q4 to places like UCI Health.

Taken together, these investments in oncology MSOs represent a powerful tailwind for physician-office-based medical oncology and infusion, a critical channel for payers as they seek to optimize VBCC for site of service and direct patients outside of hospital-based cancer settings.

3. VBCC business: The building continues

The pure-play VBCC players, which include provider platforms and value-enablement companies, represent a small segment of the cancer investment space. These companies have spent the past 3 to 5 years quietly building platforms to test the thesis that oncology's run-away spending can be controlled through high-value clinical choices and high-touch care management.

On the provider side, companies like The Oncology Institute of Hope and Innovation (TOI) and Oncology Care Partners (OCP) remain the only purpose-built, risk-based medical oncology platforms. TOI continued to scale in 2023 with the acquisition of Southland Radiation Oncology Network, onboarding five additional radiation oncology clinics to TOI's southern California market presence in the eastern San Gabriel Valley and Inland Empire. Backed by WCAS' Valtruis fund, OCP launched a new practice location in Hollywood, Florida, complementing a 2023 acquisition in Miami-Dade County.

In the value-enablement space, a host of players continue to develop the toolsets needed to drive value in cancer. In August 2023, Thyme Care secured $60 million in Series B funding to continue building its analytics and virtual patient engagement suite. The effectiveness of the Thyme Care approach was on full display at the 2023 ASCO Quality Care Symposium, where research demonstrated a $594 reduction in total costs per month for each virtually navigated patient versus an unmanaged control groups.[5] In coming months, the company will roll out Thyme Care Oncology Partners (TCOP), which will organize value-based initiatives for patients covered by risk-bearing entities, with Thyme Care assuming downside risk on behalf of their partners.

Reimagine Care, an early stage venture capital (VC)-backed company, reported promising interim results to the American Society of Hematology on the company's technology-assisted in-home oncology care program of bone marrow transplant (BMT) and chimeric antigen receptor T-cell therapy (CAR-T) among patients at the University of Colorado. The study demonstrated an 80% compliance rate with wearing remote patient monitoring devices and responding to chatbot engagement prompts. This resulted in 184 outpatient alerts over 5 months, including five alerts that required in-person follow-up care.[6] The company also extended its collaborations in 2023, including a direct investment from Texas-based Memorial Hermann Health System, an in-home care complement offered through DispatchHealth, and expansion of its stem-cell transplant at home monitoring program with California-based City of Hope.

These digital companies, and others profiled in our previous market maps, offer a powerful validation: Targeted and personal interventions in the care journey can radically improve the experience for patients and their families. They can also create a compelling VBCC economic rationale for health plans, employers, and risk-bearing providers who partner with these companies.

What comes next

As we move through 2024, we will be tracking a few key dynamics, including:

- **Scalability of VBCC provider platforms:** The purpose-built medical oncology platforms like TOI and OCP have experienced a slow growth path as they seek to enter new markets and enter risk-based agreements for the Medicare Advantage population. We will watch how these platforms find a path to scale, including whether national risk-bearing primary care platforms seek national solutions for high-cost areas like oncology or source in-market solutions with MSOs.

- **MSO value trajectory:** The national MSOs have not needed to take on material value-based risk, except those participating in the EOM. The rationale for the VBCC transition is muddied by the reality that these practices often are already the most cost-efficient options in markets otherwise served by hospital-based cancer programs. We are watching the MSOs' approach to taking on risk in other populations. This includes Medicare Advantage and commercial payers, as payers and providers are already able to leverage the MSOs' solutions through referral access or benefit design. The implementation of new value-based contracting initiatives, such as TCOP, may provide a powerful impetus for MSOs and their member practices to extend their use of value-based contracting.

- **The role of hospitals:** While strong lock-in mechanisms exist for hospital-based sites of service (e.g., 340B drug discounts), we expect forward-thinking hospitals to evaluate their own path to value-based cancer care. Many hospitals are addressing care variability through clinical pathways and tackling avoidable Part A spend through symptom management. We are watching to see whether large health systems and/or NCI centers pursue meaningful risk-based reimbursement models with purchasers (like the payment bundling performed by Memorial Sloan Kettering Cancer Center and City of Hope through Carrum Health).

The value opportunity

As the cancer industry continues to rapidly change, we expect value-based care to remain a central issue. It will manifest in continued pressure from CMS, proliferation of lower-cost care settings, and enhanced tools for measuring and managing risk. While a global, scalable solution for risk-based contracting in cancer has not yet emerged, we expect innovators to be the principal beneficiaries when it does. The current moment is a critical one for providers, their corporate partners, and payers to become fluent in the language of VBCC and demonstrate an ability to bend the cancer cost curve through innovative care models, digital tools, and alignment of incentives and shared risk.

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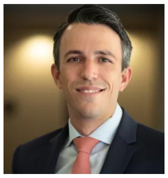

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