

# Healthcare Disruptive Technologies & Innovations

## Cedar Gate Technologies Story As Narrated by Founder/CEO

Healthcare Technology & Distribution | Expert Insights

Last week, as part of our “Healthcare Disruptive Technologies & Innovations” series with hosted David Snow, Cedar Gate Technologies (CGT) Founder/CEO, for a small group investor meeting in New York City.

- **A Leading Value-Based Care Performance Management Company.** Founded in 2014, Cedar Gate Technologies (CGT) is a leading value-based care performance management company that provides high-performance analytic, technological and advisory services to providers, payers and self-insured employers to enable them to meet and exceed the performance thresholds of value-based care contracts, networks and programs. CGT systems are helping clients realize value from over \$91 billion of medical spend associated with risk-based contracts and programs that affect 3.2 million covered lives. The company is also the leading provider of prospective bundled payment solutions with 20+ years of experience and having processed more than 2.25 million distinct bundles. The company currently serves more than 1,000 healthcare providers and payers operating value-based alternative payment programs and clinical Centers of Excellence. In 2018, Ascension Ventures became part of the ownership group.
- **Business Model & Client Contracting.** Under the Cedar Gate model, providers are incentivized depending on the trigger point of the bundle, which can be set up in many ways. There are two pieces to how Cedar Gate gets paid: for the analytics, it is based off of an annual subscription fee, and for the administrative side (prospective bundles), the company collects a percentage of billed claims. It takes about 90 days from the time the company collects the certified data to the time it does the executive rollout stream. Cedar Gate contracts (with both the providers and payors) are typically structured for three years and the company has seen strong renewal rates (only losing one client, which was a small provider that was not very committed to value based).
- **Acquisition of Global Health Alliance (GHA) Resulted in a Strong Complementary Combination.** CGT's acquisition of GHA in October of 2018 enabled Cedar Gate to build custom bundled programs in a variety of industries to both providers and payors. Established more than 20 years ago, GHA built a proprietary SaaS claims adjudication technology, Axia that automates the conversion of fee-for-service claims into a single, bundled claim, and facilitates and manages payments between payers and providers. It enables healthcare entities to successfully manage prospective bundled payment programs for multiple clinical specialties. The GHA acquisition enhanced Cedar Gate's ability to perform services on any value based contract and complete all the analytics and monitoring from the administration side.

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## Detailed Meeting Review

Last week, as part of our “**Healthcare Disruptive Technologies & Innovations**” series with hosted David Snow, Cedar Gate Technologies (CGT) Founder/CEO, for a small group investor meeting in New York City. David founded Cedar Gate Technologies in February 2014. Cedar Gate is a leading value-based care performance management technology company. The company serves more than 1,000 healthcare providers and payers operating value-based alternative payment programs and clinical Centers of Excellence. David’s prior experiences included Chairman and CEO position at Medco Health Solutions from 2003 to 2012. Prior to Medco, David was President and COO at Empire BCBS from 1999 to 2002 and Executive Vice President at Oxford Health Plans from 1993 to 1998.

### Business Model

Mr. Snow started Cedar Gate Technologies on the belief that the healthcare needed to move away from a fee for service model and to a value based care model. Mr. Snow’s extensive experience in the risk based business (over 30 years) played a pivotal role in helping him design a delivery system that needed to be successful in the value based world. Cedar Gate has built a value-based care performance analytic platform ISAAC, an acronym for: Intelligence System for Advanced Analytic Computing. It serves the needs of providers, payers and self-insured employers who are at-risk for the healthcare dollar and desire greater success under the new payment and delivery contracts. In August 2014, Cedar Gate began to build the technology platform that the company still uses today. The model was first delivered to the market in the first quarter of 2016, and the company also expanded its offering through an acquisition of Global Healthcare Alliance in 2018.

Mr. Snow believes that the term “population health” is grossly misused and is the area which Cedar Gate does not compete for a variety of reasons, mainly because the gap in care and analytics are usually coming from the EMR, which is fundamentally incomplete in terms of data. For instance, Mr. Snow notes that in the event of a leakage (where a patient leaves the system and goes off another facility to get care), it creates false positives which may be viewed as a gap in care because the patients are off the original company’s EHR. Providers then waste money and time chasing these individuals to close these gaps that don’t exist. Cedar Gate, instead, focuses on enterprise performances by comparing companies on a risk adjusted basis. The company focuses on delivery systems performance within clinical pathways in more finite way within a bundle.

According to Mr. Snow, there are risk adjusted bell curves which take into account both cost and quality of the service. The goal of Cedar Gates technology is to focus on what drives the stronger performers to the left of the mean while reducing the variability of the curve (narrowing the bell curve) and moving the mean to the left over time. By doing this, it creates structural change, thus by implementing one decision has the ability to affect hundreds of patients and millions of dollars (compared to one patient at a time). This makes these decisions much more effective in addressing the medical loss ratio. Cedar Gate’s analytics have the capabilities to do that and the company created a work engine that help customers execute on their findings.

Typically, for a Medicare population Cedar Gate finds anywhere from 15%-20% medical savings, while for the commercial population the company typically sees around 10%-12% of medical cost savings. CGT systems are helping clients realize value from over \$91 billion of medical spend associated with risk-based contracts and programs that affect 3.2 million covered lives.

### Acquisition of Global Health Alliance and Addition of Bundling Capabilities

On the platform Cedar Gate built, the company is able to handle any upside or downside risk order based contract, in addition to any global capitalization contract. When Mr. Snow built Cedar Gate, one thing that he did not want to build was a prospective bundles capability.

However, the acquisition of Global Health Alliance (GHA) in October of 2018 enabled Cedar Gate to build custom bundled programs in a variety of industries to both providers and payors. Established more than 20 years ago, GHA built a proprietary SaaS claims adjudication technology, Axia, which automates the conversion of fee-for-service claims into a single, bundled claim, and facilitates and manages payments between payers and providers. It enables healthcare entities to successfully manage prospective bundled payment programs for multiple clinical specialties.

According to Mr. Snow, Cedar Gate's stronger analytic platform (ISAAC) and GHA's Axia administration platform together created a very strong complementary combination. The GHA acquisition enhanced Cedar Gate's ability to perform services on any value based contract and complete all the analytics and monitoring from the administration side. Serving payers, providers and self-insured employers, Cedar Gate has developed over 100 distinct bundled programs and administered over 2.25 million distinct bundles. It provides clients with a comprehensive set of analytic, implementation and administration capabilities to enable the successful launch of bundled payment programs, at scale, for cardiology, neurosurgery, orthopedics, and other clinical specialties.

Payers, providers and self-insured employers use bundled payment programs to control and manage high cost, high frequency episodes of care such as cardiology, neurosurgery, orthopedics, and other clinical specialties. These programs facilitate the development of "Centers of Excellence" by setting a single bundled payment rate for an episode of care, which is then shared by the hospitals, physicians, laboratories and post-acute facilities that provide care. The single bundled rate aligns incentives among providers to coordinate care and lower the total cost of care.

According to Mr. Snow, Medicare still does retrospective bundles, while commercial carriers and employers prefer prospective bundles because it is hard for a delivery system to learn from a retrospective bundle. Cedar Gate is already on its third generation prospective bundle engine. Mr. Snow views this as a great competitive advantage because a lot of companies want to do what Cedar Gate does but don't have the engine and would have to build a complicated engine from scratch.

Denton Cooley (the founder of GHA) was the first person to begin doing prospective bundles in 2000. Since then, CMS decided to stop doing prospective bundles and shift to retrospective bundles, so Denton Cooley spent a lot of time helping CMS to pioneer the industry. As a result, Cedar Gate has strong expertise in the bundle area. The company's current Chief Bundled Officer was one of the original founders with Denton Cooley.

## Client Based Approach

Cedar Gate's approach to servicing payors, providers and employers changes depending on the clients' own readiness. Mr. Snow notes that some customers begin to shift to a value based model but still continue to prefer the fee for service model. The CMS has become frustrated because they want people to move out of the risk paradigm, but if companies are not executing or managing the change properly then it efficiently has little to no impact. This is why CMS has taken more action to enforce the change.

Under the Cedar Gate model, providers are incentivized depending on the trigger point of the bundle, which can be set up in many ways. Bundles are structured to manage disincentives, for example, a total knee replacement is not urgent, and the bundles are structured to try to manage this. Another common example is lower back pain where most cases the patients do not need surgery but in fee for service model, doctors are incentivized to do it. Mr. Snow believes that the way change can be driven is by doing a blended rate for total pay for inpatient and outpatient. Thus, doctors will make more money to perform a procedure in an outpatient setting while saving the patient a ton of money.

Cedar Gate is currently in the process of implementing a value-based model with a large facility owned by one of the major hospital operators in Texas. Mr. Snow notes that if all goes well, the company has talked about expanding the model beyond Texas. At first, this health system was

slightly risk adverse, but it then realized how much business it lost to one of its competitors, who Cedar Gate works very closely with. In Texas, Cedar Gate is doing a lot of bundles through the doctors. The company gets paid well because it contracts with the best doctors. However, there still is a risk pool of the outliers, so GHA does a distribution of the risk pool annually.

There are two pieces to how Cedar Gate gets paid: for the analytics, it is based off of an annual subscription fee, and for the administrative side (prospective bundles), the company collects a percentage of billed claims (more like an RCM). Some companies have asked Cedar Gate to get paid based of the amount of money that they save their customers, but Cedar Gate does not want to be exposed to poor execution.

It takes about 90 days from the time the company collects the certified data to the time it does the executive rollout stream. In terms of actually getting the savings, it becomes more complicated because it depends on the ability of the system to execute. Not all companies are created equally, and some have better execution.

Cedar Gate contracts (with both the providers and payors) are typically structured for three years; however there are a few where after one year the company provides its clients with an out or an option to extend 2 more years. Cedar Gate gets 100% of the paid claim data for the attributed membership that the delivery systems are responsible for. The company also asks for anywhere from 2-4 years of data going backwards so that they can look at the data overtime. Cedar Gate is entering the renewal contract stage and notes that most are renewing fairly easily. However, there are a few that are stepping back from the primary care model because they cannot control leakage, and shift gears towards the bundle side. Cedar Gate has only lost one client and it was a really small provider that was not very committed to value based.

## Managing Leakage Risk

For the Medicare population, leakage rates are typically 40%-60%, of which the majority is fixable, but the key is to understand how the leakage is happening. In a fee for service model, the doctors care less, but in a value based model, doctors' indifference has a negative impact because entities lose control and attribution.

In an extreme example, Cedar Gate has a customer with a leakage of well over \$1 billion a year. While it is impossible to catch all of it, such as in the case of snowbirds (people who travel live in NY but go to FL during winter), most leakage occurs within the five boroughs of NY. Cedar Gate shows its customers the root cause of leakage and exactly how it is happening so that the customers can fix the problems at hand. Under fee for service care, everything is a revenue center (beds, emergency room, etc.); however, in a value based model, those revenue centers are at risk and are all cost based. Cedar Gate acknowledges that it is easier to gauge leakage even when you have a closed network such as HMO. However, even in a closed network, losing patients is a major risk.

Cedar Gate has another client whose primary care office bought a health system, and the health system's employees work for the primary care office. Looking at the patterns of care, Cedar Gate knows exactly what happens because they have enough data to examine the patterns. Mr. Snow notes that there are systemic things that drive fundamental behaviors that are fixable. However, today providers are unable to see these issues because their EMR is incomplete without using the payor EMR data, which gives the 360 degree view of a patient. Cedar Gate offers this 360 view and gives visibility into issues its customers often aren't even aware of. After Cedar Gate gets the data, the company is able to look at patterns of care at a group level and use actuary underwriting, which allows them to be very descriptive of what is happening and what the service is worth.

## Data Management Capabilities

Mr. Snow notes that ten years ago, everything was mainframe oriented, which made it very difficult to build everything. Now, everything is designed from scratch with new technology on the cloud, which makes it much easier, faster and better. By getting rid of the legacy mainframe, it also made it easier to scale up and down by using computing power and newer technologies

that have allowed companies to manipulate data and create analytics in a way that is easily scalable.

One of Cedar Gate's most valuable technologies is being able to make the data the company is given anonymous because companies will never provide the raw data for contracts rates. Cedar Gate has built a system so that the data cannot be reworked or backwards engineered. This allows them the ability to show these providers exactly what they have done and has allowed Cedar Gate to become successful. The payor is motivated to provide the data because it is in their best interest that the delivery system is successful. In return, Cedar Gate shows the company how it will perform and compare it to a saving benchmark, and all of the opportunities the company has to bend to get to that curve to be successful.

Cedar Gate is also doing some interesting things in the biotechnology industry, where it sees large profit opportunities. There is a massive opportunity in the biosimilar area, where the brand named drugs can vary dramatically in cost. Cedar Gate has seen this phenomenon inside the delivery system populations, and it is enormous money that is fairly easily to grab. The company also does a similar thing in chronic liver diseases.

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**Anthem, Inc.** (ANTM.N, \$253.08)  
**CVS Health** (CVS.N, \$64.06)  
**Centene Corporation** (CNC.N, \$45.4)  
**Change Healthcare** (CHNG.OQ, \$13.67)  
**Cigna Corporation** (CI.N, \$160.85)  
**Community Health Systems** (CYH.N, \$3.69)  
**Encompass Health Corporation** (EHC.N, \$63.79)  
**Genesis Healthcare, Inc.** (GEN.N, \$1.28)  
**HCA Healthcare** (HCA.N, \$129.07)  
**Humana Inc.** (HUM.N, \$274.69)  
**LHC Group** (LHCG.OQ, \$117.61)  
**Premier Inc** (PINC.OQ, \$35.02)  
**Tenet Healthcare Corporation** (THC.N, \$25.17)  
**UnitedHealth Group Inc.** (UNH.N, \$233.61)  
**Universal Health Services** (UHS.N, \$152.52)  
**WellCare Health Plans, Inc.** (WCG.N, \$267.18)

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