**WELLS FARGO**

Trends in Healthcare Information Technology (HCIT)

Trend 1

Consolidation in HCIT

More consolidation in healthcare information technology (HCIT) and healthcare services, particularly in innovative service models.
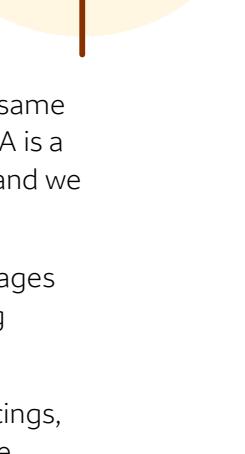
- Companies with similar models, many of which are trying to achieve the same goals, are realizing sales cycles are slow and requiring a lot of capital. M&A is a way to achieve scale and associated potential cost savings more quickly and we expect to see more consolidation.

- Some of the new care delivery business models have operational advantages with scale, such as diversifying risk of populations and better contracting positions.

- **The IPO market has slowed.** Valuations are decreasing for private financings, but private company valuations tend to lag the public markets. As private equity investors become more thoughtful about how they approach private investments, access to capital and the cost of capital may be another driver of more consolidation.

Next stage of HCIT products

Trend 2

Now that electronic health records have been widely adopted, new companies and tools that use the data from the digitization of the doctor/patient interaction are emerging.

- The adoption of EHRs (electronic health records) was a heavy lift for provider organizations. Having mostly gotten through that, they now have the bandwidth to be able to consider more new tools that leverage the data that they now possess.

- As part of implementing EHR's provider organizations also had to install the basic IT infrastructure of hardware and software. Together, these combined with the EHR serving as a database provide a platform upon which to build additional tools.

- One example is that real world evidence can help better address patients and population health.

- We're seeing healthcare industry participants integrate IT tools much more into all aspects of their business.
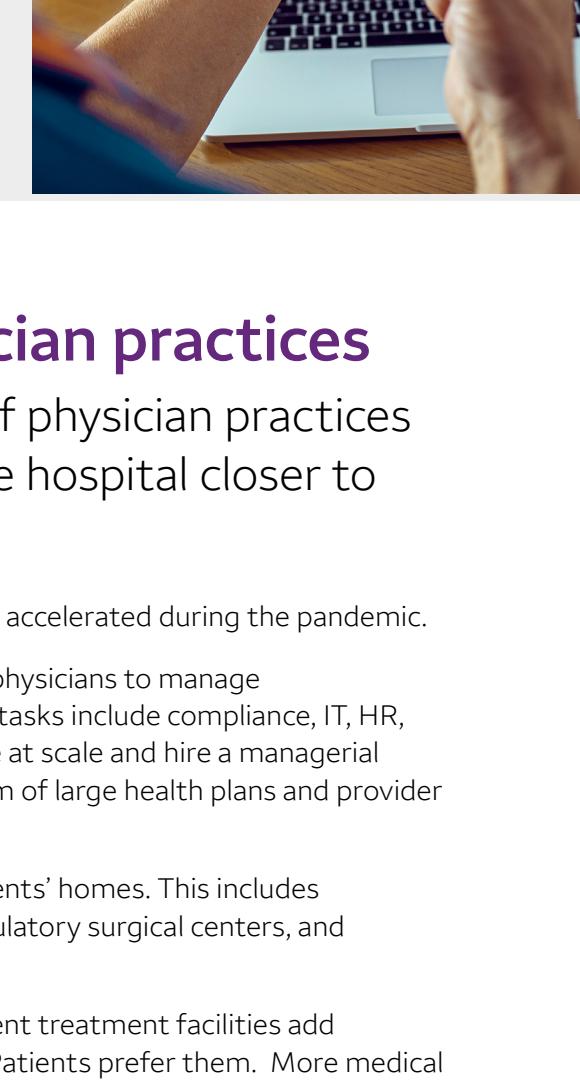
Trend 3

Consolidation of physician practices

Continuation of consolidation of physician practices and movement of care from the hospital closer to the patient.

- This was a trend that was already occurring but accelerated during the pandemic.

- It's becoming more difficult and expensive for physicians to manage administrative tasks for their practices. These tasks include compliance, IT, HR, supply procurement, etc., It's easier to do these at scale and hire a managerial staff. Scale also helps compete in the ecosystem of large health plans and provider organizations.

- Care is moving from the hospital closer to patients' homes. This includes telemedicine, remote patient monitoring, ambulatory surgical centers, and infusion clinics.

- Ambulatory surgical centers and other outpatient treatment facilities add convenience, lower cost, and improve quality. Patients prefer them. More medical specialties will move procedures to these care settings.

Trend 4

Wage inflation and staff shortages

Wage inflation and staff shortages continue to be a growing problem that will continue to have a broad impact on healthcare provider organizations.

- This has been an important trend in healthcare for many years but was exacerbated by the pandemic.

- Severe wage inflation and staff shortages are reducing or eliminating profits of hospitals and provider organizations

- This results in longer sales cycles and implementation periods for HCIT products, putting additional pressure on HCIT companies selling to hospitals and other providers.

- HCIT could also be a part of the solution to this challenge by providing new tools focused on staffing and improvements in productivity, etc.

Trend 5

Greater emphasis on profitability
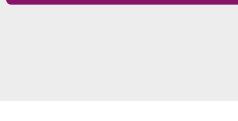
- For the last few years, public and private investors emphasized revenue growth with little consideration for the amount capital burned to achieve that growth.

- That has shifted. While revenue growth is still attractive and important, there is a greater emphasis on getting to profitability earlier.

- This is driven not only by market sentiment around company building strategy, but also by increasing cost of capital and changes in access to capital.