AIM HIGH AND BUILD TOWARDS: OAK STREET HEALTH

“From day one at Oak Street, we knew we wanted to build a national value-based primary care platform for seniors. That’s what we got up in the morning looking to do. We wanted to take a big swing at it, and we did. We built a process from day one that was repeatable and scalable.” – Geoff Price, Founder & CIO, Oak Street Health

By Lexi Henkel

Oak Street Health (“OSH”) is a primary care provider offering a better experience and better health outcomes for Medicare patients. OSH owns and operates primary care centers, provides transportation services for patients, develops software to enhance care delivery, and manages payor relationships. The Oak Street model “shifts the allocation of healthcare resource delivery from traditional acute and specialist care into an enhanced, a patient-centered care delivery platform which is designed to meaningfully improve the quality of care and outcomes for the most at-risk populations.” (1) As of 2023, OSH operated 169 centers across 21 states, providing care for about 24,000 patients. (2)

VALIDATING THE NEED

At a time when many were walking away from the healthcare industry, Geoff Price ran towards it as fast as he could. The Affordable Care Act (“Obamacare”) had recently been passed, and there was a lot of uncertainty around the future of healthcare. Driven by anxiety around reimbursement rate-cuts and impending margin pressure, organizations were diversifying away from healthcare and into areas like financial services. But where others saw uncertainty, Geoff Price saw an opportunity.

As an undergraduate student studying engineering during the dot-com era, Geoff had the entrepreneurial bug from a young age. He says, “I always wanted to be an entrepreneur. I liked the idea of building something and having complete ownership over it and bringing something new into the world.” However, the vision for Oak Street Health came later, during his days as a consultant at Boston Consulting Group.

While advising companies on how to navigate this “new world” of healthcare – focused on value-based payments, aligning incentives, and preventive care – he noticed a pattern. Geoff says, “One of the insights was that this is hard for these incumbent organizations to innovate. They were consistently saying, 'That sounds nice and we understand why we need to do this, but it's really hard.”

At the time, Geoff worked closely with Mike Pykosz (who ultimately became the Co-Founder and CEO at Oak Street Health) at BCG. Together, they spent their weeknights and weekends diving deep into healthcare data and landscaping the industry on a national level. They identified a growing number of local efforts to address social determinants of health and preventive care, but observed that they were mostly developed locally and were disconnected from the larger healthcare system. Geoff explains, “There were organizations that were having localized success, but there was no one who had
taken a model that was repeatable, scalable, and built from the ground-up in a way that could make an impact at more of a national level.”

After many sleepless nights and scrapped ideas, Geoff and Mike landed on Oak Street Health. “Oak Street Health was the most challenging and complex idea, because it’s building new facilities, hiring new people, building workflows and technologies. The reason it rose to the top for us was because it offered the most ability to have an impact at the patient level.”

**TAKING A BIG SWING**

Building a brand new integrated care model on a national level may seem counter to the advice many business school students and aspiring entrepreneurs hear: “Think big, start small.” But for Geoff and Mike, it seemed there was no other option than to think big, and start big.

Geoff says, “We wanted to have the most amount of impact. We thought that having an integrated model with primary care and social determinants of health was the right way to go, and we didn’t believe that a model that was only technology or only contracting support was going to have the amount of impact on each individual patient’s life that we thought would get us excited to get out of bed in the morning. **We wanted to take a big swing at it, and we did.**”

They certainly did. As of 2022, Oak Street had built 169 clinics from the ground-up. They employ their own care teams at each of these clinics and own the entire patient journey. It seems this relentless focus on patients, and more specifically the Medicare-eligible population, has enabled OSH to scale while maintaining their quality of care and patient experience. From day one, they developed a replicable care model that each of their care providers adopt.

This patient focus fits into a cultural shift in medicine which Oak Street is helping to catalyze: “We give more time per patient. Just seeing patients on your calendar does not make for a successful day. Providers also need to think about, ‘who didn’t I see today?’ ‘who is a high risk patient?’ We’re shifting from ‘get through the schedule’ to ‘manage a population.’”

Another key to Oak Street’s success is its technology-enabled approach. The company uses technology that compiles and analyzes patient data to better predict who needs care, what type of care they need, and when they need it. This empowers providers to offer the most effective interventions and therefore improve health outcomes and reduce costs.

Coupled with their unique integrated approach to care delivery, Oak Street’s patient focus and technology-enabled model creates a huge impact for patients. Geoff explains, “So our perspective was if you own that relationship and can surround a skilled clinician with a care team and resources and technology, and then make sure they spend a lot of time on the patients who need the most help, then you can have a lot of impact.”

Geoff and Mike started big but maintained rigorous focus on their mission: to build a better care model for Medicare patients. When reflecting on the early days of OSH, Geoff says, “The Oak Street model 11 years ago is not that different. A lot of the concepts we had when we started we’re still executing on today.”

**FUNDING THE VISION**

One of the biggest challenges Geoff and Mike faced was raising capital to fund their big vision. Building clinics from the ground-up is capital intensive and requires a long-term time horizon for investors to make money: “One of the biggest challenges we had along the way was that we were hungry for capital. The return on that capital was outstanding, but not instantaneous. **We needed to get long-term capital partners who could write big checks and align on the vision.** This was not perfectly suited for the traditional
venture capital model, which tends to look for software margins.”

Fortunately, there were plenty of components of the Oak Street model that were attractive to investors. First, investors are increasingly focused on managing “whole-person health”, which includes enhanced primary care, social determinants of health, and preventive care. This is the core to Oak Street’s approach. Geoff says, “The thing that is well understood by investors is that if you’re trying to manage a population of people, it’s not just about what medications are you prescribing - it’s about thinking about the whole person.”

The shortcomings of the U.S. healthcare system, including poor outcomes, negative experiences and rising costs, are particularly salient for older adults who tend to be the sickest patients and often have not engaged in any type of preventive, longitudinal primary care. “The Oak Street model is a scalable way to face these challenges, and as such, investors were able to see the benefit of our model.” Macro trends including growth in the senior population and Medicare Advantage (MA) were also key to investors’ theses. “Oak Street’s track record within a value-based care framework also was important. We make significant investments beyond ordinary primary care - from our community rooms to our interdisciplinary care teams to our purpose-built technology, which has enabled us to drive sustainable, predictable unit economics.” Venture capitalists are notorious for an apparent obsession with strong unit economics in their investments. Oak Street was able to tell their unit economics story clearly to investors: illustratively, each center costs $X to build, $Y to fund operating losses, then earns $Z of profits every year in perpetuity once it’s ramped up. This presents an attractive discounted cash flow and internal rate of return (IRR) profile (Figure 1).

![Figure 1](oshwilliamblairconferencepresentation.png)
This attractive financial performance is driven by strong management and repeatable processes. Geoff explains, “Scalability and repeatability of the clinical and operating model was a focus from the start. We committed to our investors that our centers would have a certain financial profile, and we oriented and tracked against that. The model is repeatable and predictable, such that if you have the right team in place and right amount of management focus you can just about always deliver that archetype financial performance.”

When asked about the key to achieving this repeatable performance, Geoff says, “There is no one thing that brings this to fruition - instead, it had to be part of our culture. Our de novo approach to building new clinics (as opposed to acquiring doctor practices) allowed us to ensure everyone in every center is operating from the same operating playbook, on the same tech system, with the same staffing ratios, in the same physical footprint. We also make investments in talent development, such as a post-MBA 2-year rotational leadership program, which ensures all of our leaders have been exposed to the full Oak Street playbook in advance of taking on a leadership role.”

The Oak Street model is also beneficial for providers, as demonstrated by OSH’s 95% satisfaction rate among providers. Providers have the opportunity to work with an interdisciplinary care team, care for a small panel of patients, and focus on quality of visits instead of quantity. Compensation is aligned with the quality of care such that “the providers win when the organization wins.”

Sharing this story with investors, and therefore raising capital, became easier as Oak Street opened more centers and collected proof points. Even as a public company, Oak Street maintained their focus on unit economics: “The public market investors who are most supportive and spend time to understand the story tell us to put up more centers because the unit economics are so attractive.”

In February 2023, CVS announced its proposed acquisition of Oak Street Health for $10.6 billion. One might conclude that Oak Street’s economic model was attractive to them as well.

**MAKING MONEY**

How exactly does Oak Street make money to maintain this financial performance? Oak Street has an at-risk, or capitation, model. They receive a fixed amount of money per patient from payors (health insurance plans). This amount represents an estimate of their total medical costs in the traditional Medicare program (based on demographic factors, disease states, geography, etc.). Oak Street spends this money on that patient’s entire care journey – not only for their own Oak Street services, but also for specialists, hospital visits, long-term care facilities, and any other services or treatments the patient receives.

This results in what Geoff describes as an “incredible amount of economic incentive to make sure our patients are taken care of, have great care outcomes, and are going to the hospitals less than usual.” Most of the spend Oak Street tries to manage (and reduce) is hospital spend through preventative services. As a result, they spent a “multiple more” per patient on primary care compared to a typical primary care group in the United States in order to address social determinants of health and offer preventive care that reduces downstream hospital visits.

Unlike other VBC models, Oak Street Health does not select patients. Instead, they strategically locate centers in areas with a high density of Medicare-eligible patients and lack of access to high-quality primary care. Describing this model, Geoff acknowledges the challenges: “It’s complex. We are managing the entirety of a patient’s medical spend. We have to think about referrals, manage patient experience, and ensure they’re operating in value based arrangements.”

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4 Oak Street Health S-1
The result? **50% fewer hospital visits per patient** than a typical Medicare patient. (4) This model creates a **virtuous cycle**: Oak Street takes a set amount of upfront revenue per patient, invests that revenue in its care model, prevents hospitalizations, and reinvests those savings in their care model.

**KEY INSIGHTS**

**Don't be afraid to start big.**
“Oak Street Health was the most challenging and complex idea, because it’s building new facilities, hiring new people, building workflows and technologies. The reason it rose to the top for us was because it offered the most ability to have an impact on the patient level.” – Geoff Price

**Finding alignment with financial partners is challenging but critical.**
“The return on capital was outstanding, but it was not instantaneous. We needed to get long-term capital partners who could write big checks and align on the vision. This was not perfectly suited for the traditional venture capital model, which tends to look for higher and faster software margins.” – Geoff Price

**Managing unit economics is key to financial success.**
“We committed to our investors that our centers will have a certain financial profile, and we orient and track against that. The model is repeatable and predictable, such that if you have the right team in place and right amount of management focus you can just about always deliver that archetype financial performance.” – Geoff Price

**The most complex model often has the most impact.**
“It's complex. We are managing the entirety of a patient’s medical spend. We have to think about referrals, manage patient experience, and ensure they're operating in value based arrangements.” – Geoff Price

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