



**Raising
the bar**



**Building
for our
future**



To our shareholders and stakeholders

Healthcare continues to evolve at an unprecedented scale and pace, influenced by changes in technology, consumer preferences, state and federal regulations and the competitive landscape. The speed with which we must adapt is accelerating. At Hill Physicians, we know that we must evolve in order to respond, and we also must take advantage of opportunities to benefit from such changes. In 2017, we did just that.

The adoption of Epic, replacing NextGen as the supported EHR system for our doctors, far exceeded aggressive projections. Hill Physicians grew in membership for the first time in many years, while the product mix we manage shifted in significant ways. Where commercial HMO business was once our lifeblood, it now represents only 48% of the health plan members that we support. We also continue to evolve how we deliver care, fine-tuning our care management platforms while launching a new population health management function devoted to the earlier detection and avoidance of chronic conditions. Even where we deliver care changed, as we expanded to a new market (Grass Valley) and increased our presence in existing markets in Walnut Creek and Concord through a strategic alliance with Muir Medical Group IPA.

After a transformative 2017, we are not done evolving. We will diversify our services, products and markets even more while investing strategically and prudently. We remain committed to equipping our physicians and their practices with new services and tools needed to serve their patients. Our technology, our analytic capabilities and our talent base will continue to evolve to meet our physicians and strategic partners' needs. The only thing that will not change is our commitment to facilitating access to compassionate, timely, cost-effective care. This remains the cornerstone of our organization's mission.

As Peter Drucker once said, "The greatest danger in times of turbulence is not the turbulence — it is to act with yesterday's logic." We are not accepting the status quo; our collective ability to purposefully adapt is one of the many reasons Hill Physicians is the largest and most well-respected independent physician association in California. And it is why our doctors were again acknowledged as one of the most progressive and top-performing medical groups in California in 2017.

Bruce Bob, M.D.

A handwritten signature in black ink that reads "Bruce Bob".

Chairman, Hill Physicians Medical Group
President, Hill Physicians Medical Group

David Joyner

A handwritten signature in black ink that reads "David S. Joyner".

CEO, PriMed Management Consulting Services, Inc
CEO, Hill Physicians Medical Group



**A plan
for our
future**



Our vision

Hill Physicians will provide the highest value, most patient-centric care delivery solutions to the communities we serve.

Our mission

We exist to provide innovative services, systems and processes within a virtually integrated system enabling timely, cost-effective, quality care that engages patients as active, informed participants in their own health.

Our strategic priorities

Even as our industry evolves, we remain grounded in a strategic plan formulated to best serve the providers and patients of Hill Physicians. Our plan is not static, but structured to prepare for and respond to future growth. Our plan is based on the following goals, all supported by multiple strategic initiatives.

Growth

Advance initiatives to position Hill Physicians for membership and revenue growth.

Care Management

Continually improve clinical outcomes, enhance the patient experience and reduce cost of care trends.

Delivery System

Execute on strategies to strengthen, reward and retain our physicians.

Technology & Infrastructure

Continually upgrade our strategic technology and analytic capabilities to support the Hill Physicians network.

Financial

Maintain operating income and prudently manage expenses to preserve the financial security of the organization.

Human Capital

Attract and retain a workforce capable of achieving PriMed and Hill Physicians' mission and goals.

Reaching our goals



Growth: forward movement

In 2017, we set out with an aggressive, multifaceted agenda supporting growth. We are gratified by our successes, yet remain aware that the seeds planted last year still require much nurturing to reach their full potential. Some highlights are captured below.

Geographic Expansion

We expanded our service area, assimilating 170 primary care, specialty and ancillary providers to Hill Physicians in the Grass Valley area. In the beginning of the year, we added Aetna to our contracted list of health plan partners in this area, joining UnitedHealthcare, Anthem and Health Net. Roughly 3,200 new commercial members were added, with more expected in 2018.



Network Expansion

When the John Muir Health System and Muir Medical Group IPA ended their agreement, 515 physicians of the IPA signed agreements to join Hill Physicians, strengthening our presence in Contra Costa County and adding significant membership as we entered 2018. Similarly, a decision by UC Davis Medical Center to terminate its relationship with Western Health Advantage late in the year resulted in nearly 10,000 new members transitioning to Hill Physicians' doctors.

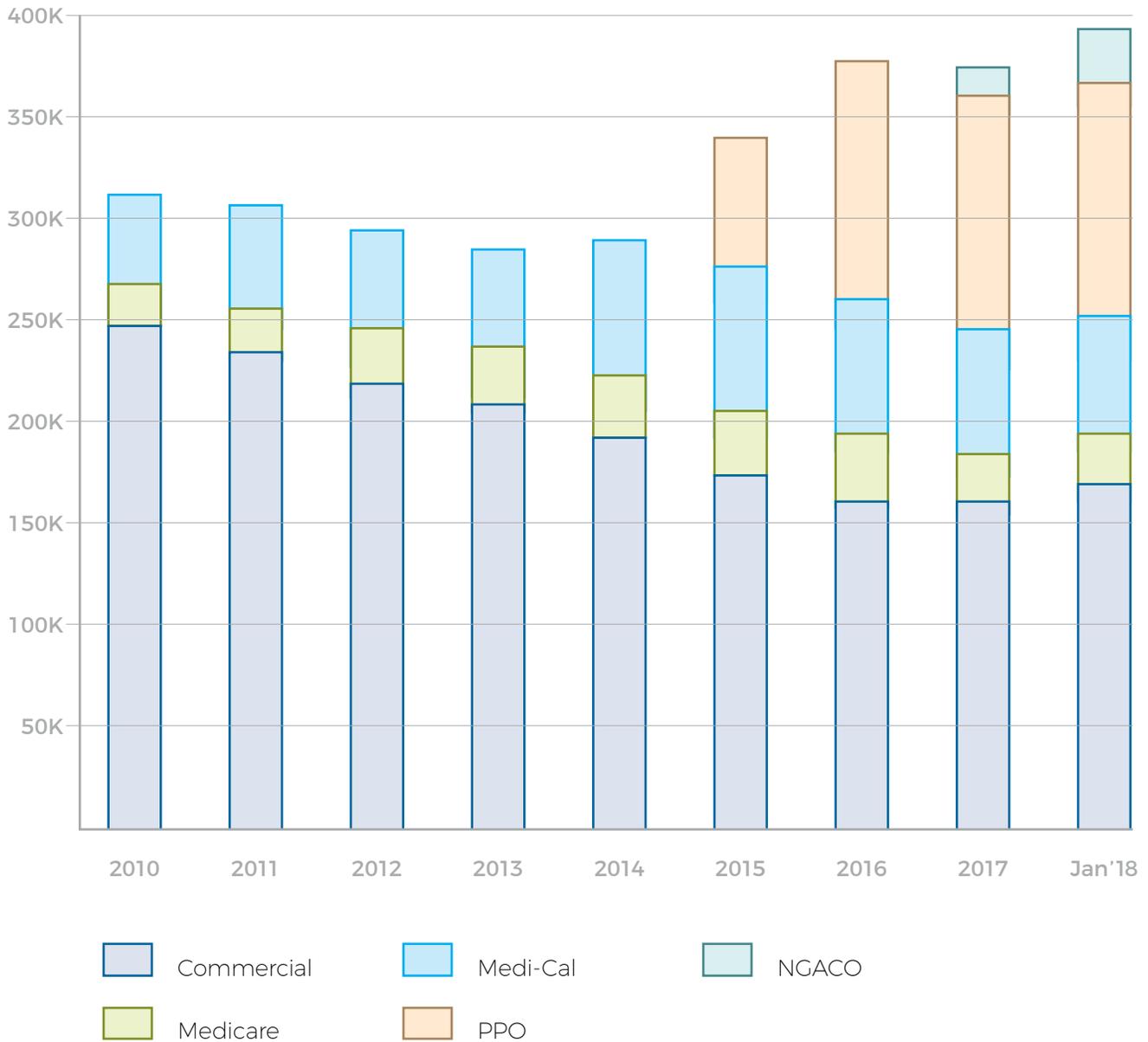
Diversification

We negotiated our first PPO clinically integrated network (CIN) direct contract with Health Net in our largest market, Sacramento, effective January 1, 2018. This first foray into the PPO business, beyond the attributed member model, has allowed us to test and secure operational readiness to ensure a smooth transition for our member practices with PPO patients. We anticipate growth in this key business strategy and will report out during governance meetings in the coming year.

ACO Involvement

Hill Physicians was a pioneer in the development of accountable care organization (ACO) arrangements. Our involvement with the CalPERS ACO set a standard and created a model that many others have since emulated. The aligned incentives among ACO partners like Hill Physicians, hospitals and health plans helped position us to enter into the Next Generation Accountable Care Organization (NGACO) agreement in 2017.

Year-End Membership by Line of Business



Participation in the NGACO provided upside revenue opportunity and relieved participating providers from the administrative burden of MIPS reporting. Our 2017 NGACO performance was negatively impacted by prior years' spikes in medical costs. That said, we are expanding our presence in this ACO to spread the risk of fluctuating medical trends over a larger population in 2018, and we continually fine-tune our care management activities to address the needs of the attributed members in this partnership.

Our Membership Mix Is Changing

Recent growth in PPO, NGACO and Medi-Cal lines of business signify diversification promising future growth. Using existing knowledge to set up processes to support these new lines of business allows us to address the future needs of our markets.

Reaching our goals



Care management: improving outcomes

We realized many positive, measurable outcomes in 2017, yet our/the work is really just beginning. As we maintain our care management focus, we are simultaneously pivoting to provide focused, long-term population health services. Near the end of 2017, we launched a reorganization that facilitates a physician-led population health strategy to reinvigorate our delivery system and long-term clinical outcomes.

Inpatient Management

We executed hospitalist contracts with Sound Physicians late in the year. These contracts are the first to include performance-based incentives, giving Hill Physicians the opportunity to play a larger role in the day-to-day care management of hospitalized members.

New Models of Care

We set an objective to institutionalize two pilot programs that were launched in 2016 and succeeded, fully launching our Connecting Provider to Home and Virtual Pharmacist programs. Each focuses on enhancing access to care and improving the patient experience.

Quality Improvement Initiatives

Through interventions and outreach, in partnership with our physicians, we realized solid results in several key quality improvement initiatives. Noteworthy examples include achieving 67% HbA1c testing among diabetics, with 77% demonstrating control within clinically accepted standards.

Additionally, sharpening our focus on women's health, we set a target of achieving over 76% compliance in breast cancer screening among

those due for a mammogram. We achieved 79% compliance. Each of these results is a step in the right direction, but our efforts will not end here. We will continue to focus on patient education to improve the health of our members.

Recognition for Excellence

Once again, Hill Physicians earned recognition from the Integrated Healthcare Association (IHA). IHA uses a subset of 12 clinical quality measures to collect performance data and assign star ratings to

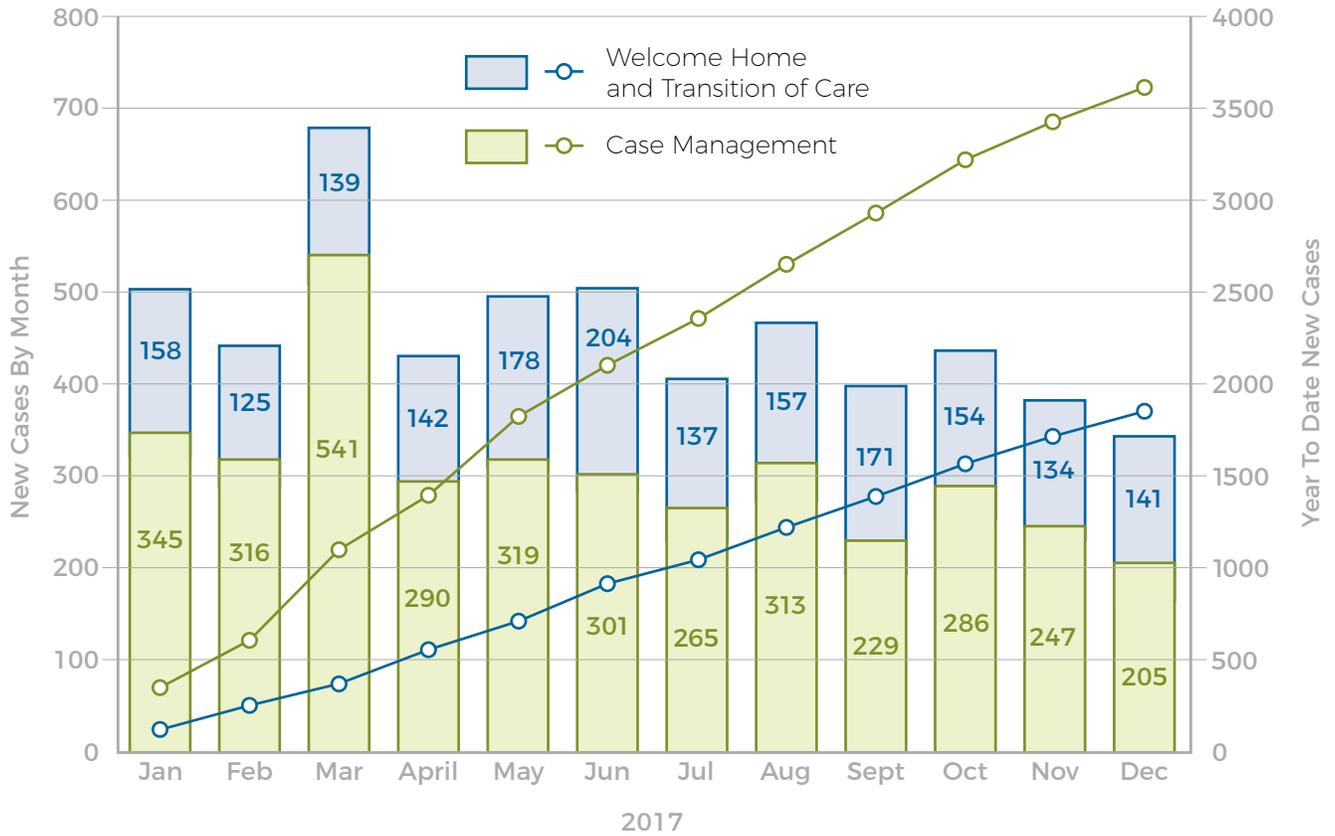


181 physician organizations across California. IHA recognizes physician organizations that achieve top marks on quality and performance measures while effectively managing costs. In 2017, the IHA recognized our Sacramento region as a Most Improved Physician Organization for our Medicare Advantage Stars performance.

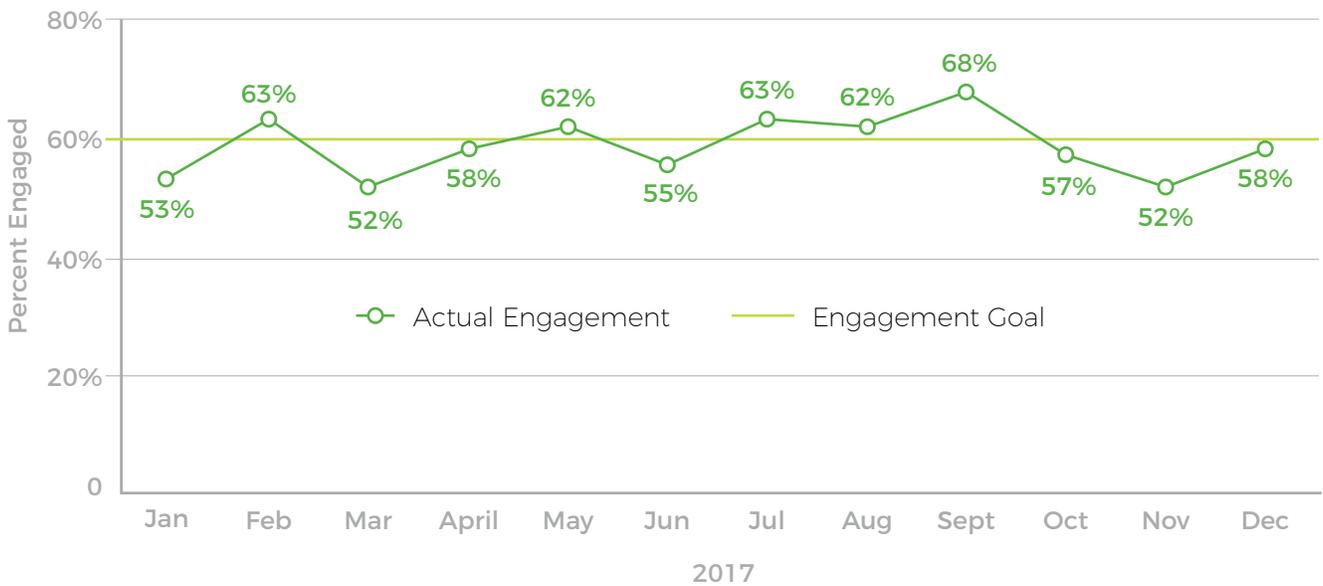
Health Resource Management

Our care management team continues to engage, assess and work with members so they can reach their care goals. These members are typically identified as high risk by health events, predictive reports or physician referrals. During 2017, we were engaged in over 3,500 new case management cases and over 1,800 new welcome home and transition of care cases. Throughout the year, the engagement rate for case management outreach closely matched our 60% benchmark goal. Our success in case management will translate well as we embark on more comprehensive population health initiatives to improve upon our clinical outcomes.

Case Volume



Patient Engagement





Reaching our goals

Technology and infrastructure: upgrades with a purpose

Investments in information technology systems, infrastructure and security remain a critical component to the continued success of Hill Physicians Medical Group. In 2017, we made significant investments of financial and intellectual capital to implement new applications and upgrade existing capabilities on behalf of our physicians.

Improving Our Physicians' EHR Technology

HillChart, Hill Physicians' version of the Epic EHR, was piloted in two practices early in the year and then expanded to 30 more practices, serving more than 100 physicians during 2017. By the end of 2018, our target is to migrate most practices currently on our old EHR platform to HillChart.

In addition to facilitating secure clinical information exchange, HillChart will enable virtual visit and eVisit capabilities, improve referral timeliness and facilitate real-time eligibility look-up. The investment in Epic is significant and represents an investment in our physicians' futures.

Leveraging Technology to Improve Utilization Management and Authorization Capabilities

To better position our organization in the value-based care model and provide more scalable, coordinated care for our members, we are investing in a population health platform and upgrading our current authorization application.

We selected Epic's Healthy Planet as the base component of our patient population health

management platform. This platform combines multiple facets of care into a more unified system, to help identify at-risk members and care gaps, and develop joint care plans across care management teams and providers' offices.

Simultaneously, we began the complex planning required to upgrade our authorization application, enabling even faster turnaround to authorization requests. Epic's Tapestry module has been selected to improve our authorization review processes.

Ultimately, our goal is to improve coordination of care while facilitating better member access to cost-effective, non-duplicative services.

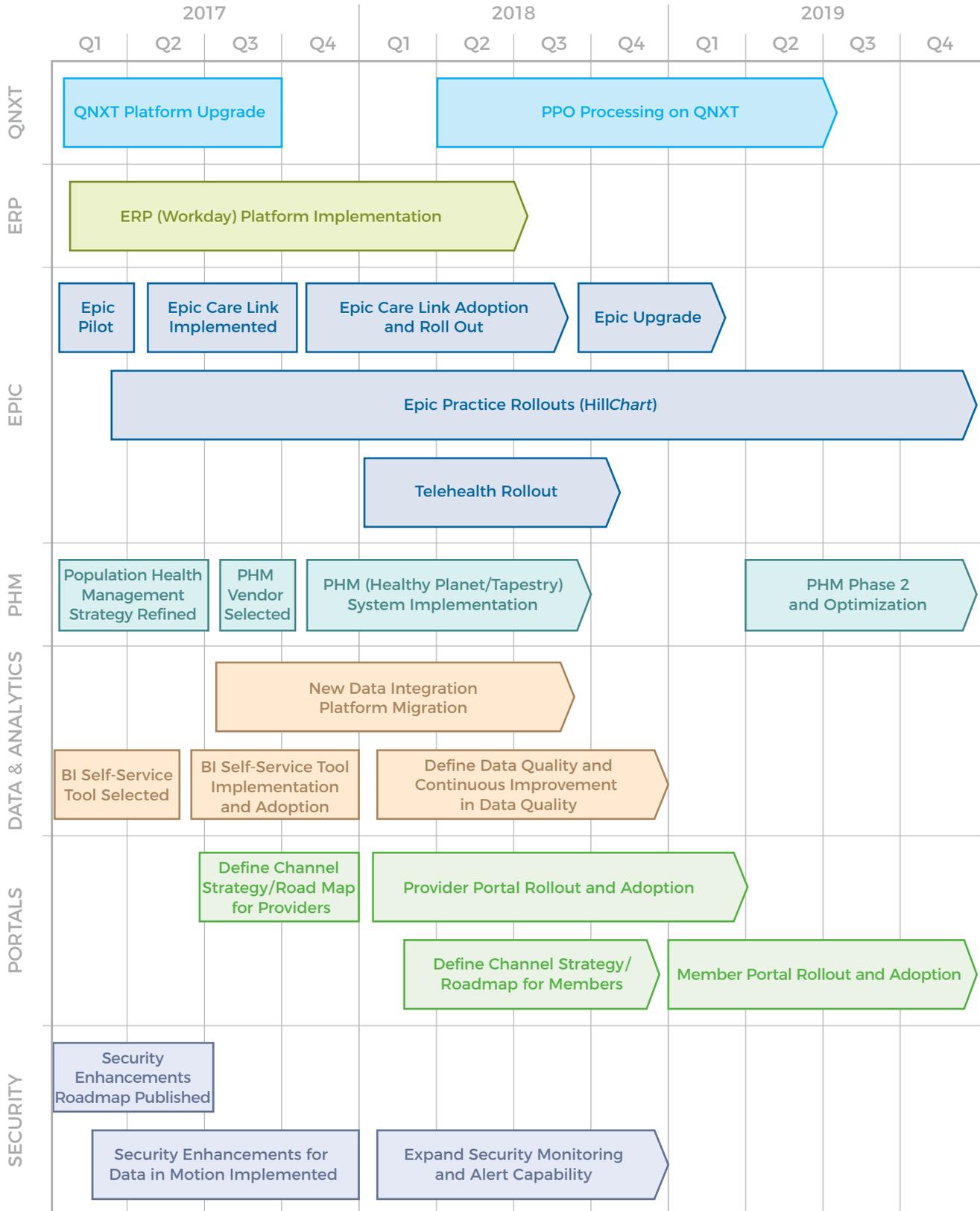
Facilitating Better Communication

Over the years, we have developed and launched a number of systems and applications for providers and their teams, with the intent of improving access to information.

In 2017, we made meaningful progress toward simplification by beginning work on a secure, single-entry physician portal. In 2018, physicians will gain access to a single portal for all Hill Physicians-related functions, with more self-service capabilities and the ability to streamline and consolidate reporting on performance and quality measures.

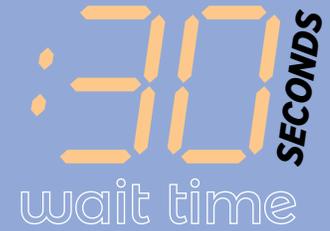
We also redesigned our Hill Physicians website to enable mobile-ready capabilities and create an improved user experience for patients, consumers and providers.

IT Road Map

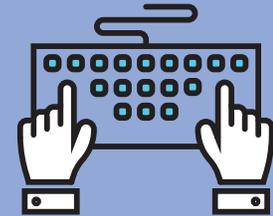
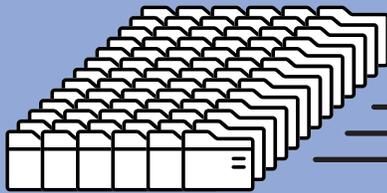


It takes a village

Behind the scenes, a community of motivated professionals serves Hill Physicians Medical Group.



2.6
MILLION
CLAIMS



14,000
HillinSite inquiries



Supporting our communities

Hill Physicians and the employees of PriMed actively supported nonprofit organizations dedicated to the education, prevention and cure of chronic diseases.

CEO David Joyner and a team of PriMed employees participated in the Tour de Cure, raising over \$6,000 in support of the American Diabetes Association.

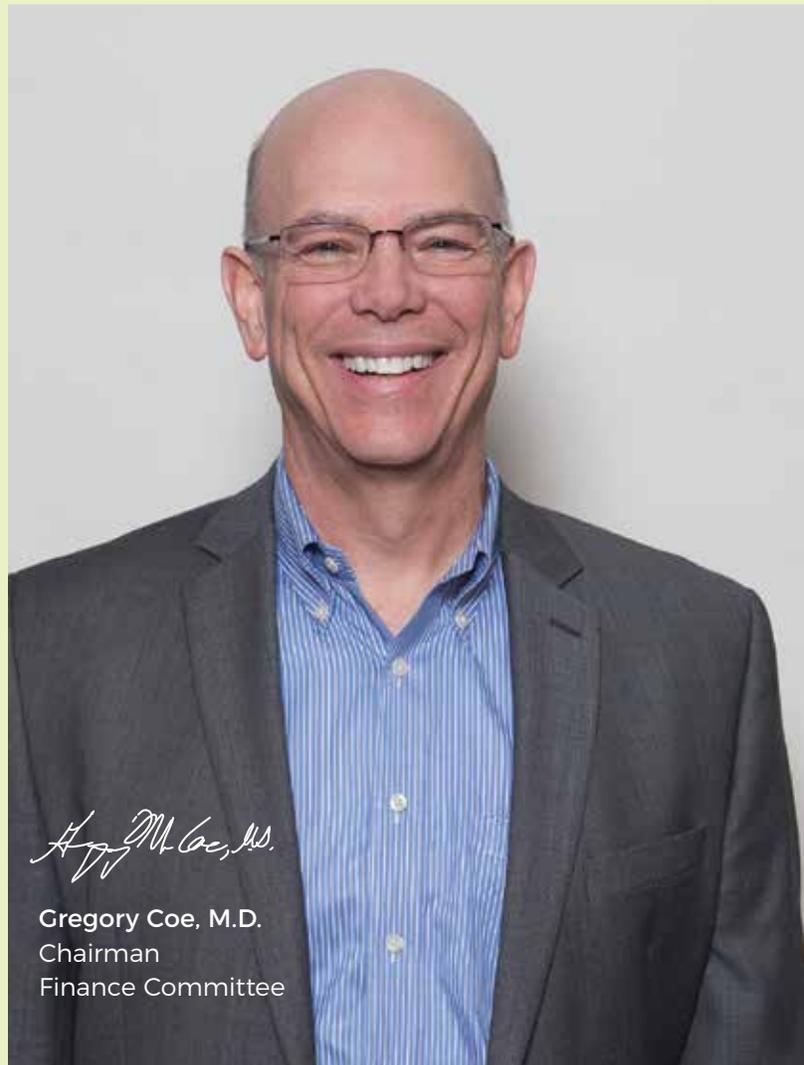
We also sponsored and supported the American Heart Association, the Leukemia & Lymphoma Society, the National Kidney Foundation and breast cancer research.

Meeting our commitment to ensure financial stability

Hill Physicians Medical Group continues to execute its mission of providing high-value quality care for its members. 2017 was a critical year for us as we transitioned into new lines of business and invested almost \$23 million in strategic technology projects, including HillChart, our version of the Epic EHR.

Even in a year of rolling out new programs and systems, HMO revenue, PriMed administrative expenses and net income were all favorable to the budget. Favorability was driven by successful geographic expansion, strong performance in shared savings and quality incentive programs.

As we turn to 2018, we remain committed to improving the provider and member experience and improving the health of the communities that we serve. By executing direct payer PPO contracts with multiple health plans and realizing growth in HMO membership, we project total 2018 revenue to exceed \$500 million. Hill Physicians remains a financially strong and stable organization, committed to serving the physicians that comprise our group.



\$472m **\$45m**

**TOTAL
REVENUE**

**PHYSICIAN
PERFORMANCE
COMPENSATION**

\$23m

**TECHNOLOGY
INVESTMENT**

\$5.5m

**NET
INCOME**

2017 Consolidated Financial Statements

Statements of Operations

Years ended December 31, 2017 and 2016

(Stated in thousands)

	2017	2016
REVENUE		
Health plan capitation revenue	\$421,897	\$450,458
Health plan and other revenue	44,867	47,602
Investment income	5,269	3,219
Total revenue	472,033	501,279
EXPENSES FOR PHYSICIAN AND OTHER CONTRACTUAL SERVICES	349,488	373,785
ADMINISTRATIVE AND OTHER EXPENSES		
Salaries and benefits	69,436	73,044
Physician administrative services	2,255	2,470
Software maintenance and support	9,068	8,269
Other purchased services	17,487	16,816
Rent	3,750	4,217
Depreciation and amortization	11,200	7,859
Other	3,408	3,687
Total administrative and other expenses	116,604	116,362
NET INCOME BEFORE INCOME TAXES	5,941	11,132
INCOME TAXES	1,955	5,097
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(1,575)	(3,391)
Net income	\$5,561	\$9,426

Balance Sheet

December 31, 2017 and 2016

(Stated in thousands)

2017

2016

ASSETS

CURRENT ASSETS

Cash and investments	\$88,206	\$75,656
Accounts receivable	14,342	22,655
Prepaid expenses and other	7,009	7,866
Total current assets	109,557	106,177

Property and equipment	75,210	62,490
Other	6,971	7,990

Total assets **\$191,738** **\$176,657**

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Claims payable	\$ 28,512	\$26,035
Performance compensation payable	10,117	14,486
Other current liabilities	34,623	23,109
Total current liabilities	73,252	63,630

Loans payable and other	11,148	9,662
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Total liabilities **84,400** **73,292**

SHAREHOLDERS' EQUITY

Common stock and paid-in capital	266	279
Retained earnings	109,263	103,702
Total shareholders' equity attributable to Hill Physicians	109,529	103,981
Noncontrolling interest	(2,191)	(616)
Total shareholders' equity	107,338	103,365

Total liabilities and shareholders' equity **\$191,738** **\$176,657**



Farewell
Bruce
Bob, M.D.

Twenty-four years ago,

Hill Physicians entered the Sacramento market by absorbing a financially stressed, small independent physician association. Perhaps by fate, I was appointed to the regional physician leadership. We made decisions concerning referrals, imaging and complex procedures. In retrospect, we were cavemen without tools. That was then, and this is now....

Please indulge me as I reflect for a moment on our past, present and future. I have served the doctors of Hill Physicians as Sacramento medical director, board member, president and chairman for nearly a quarter century. During that time, I've witnessed new directions in medicine and in our organization. By responding to market demands and changes, Hill has been able to lead the market in multiple dimensions. Merging with Delta IPA and developing the CalPERs ACO with Blue Shield and Dignity Health all feel like yesterday. Our engagement with UCSF has been productive and supportive of our expanded presence in San Francisco. Recent expansion into Grass Valley, joining with Muir Medical Group IPA, enhanced HMO business, conversion of NextGen EHR to Epic and entry into the PPO business model all happened recently and rapidly. We have not remained a static player in our markets. We've continued to push the boundaries in support of the independent practitioner. Through it all, we've remained strong.

Today, we utilize advanced technology to obtain data which drives patient satisfaction and physician engagement. We want our physicians involved in decision-making and advancing the practice of medicine. Hill Physicians must continue to provide financial and emotional security. We believe in strong compliance and protection of health information, and though sometimes painful, we're adapting new ways of practicing medicine. I'm pleased to have been part of the solution and honored to have represented you through many often challenging changes.

For the most recent 10 years, I've served you as the chairman of the Hill Physicians board. Our board is responsible for governance and works closely with PriMed, our operational arm. Twelve dedicated physicians attend our board meetings, and all Hill Physicians' committees report to this board. As your representatives we then act on the information.

Occasionally, as with the PriMed reorganization involving Dignity Health, Blue Shield of California, Anthem Blue Cross and Hill Physicians, the board is asked to give many hours of their time to data analysis. These hours are spent discussing sometimes differing opinions, and reaching consensus prior to voting on initiatives for your benefit. I hope I've added value to our governance's decisions, and I know that those who serve on governance committees have enriched my own knowledge base. I'm honored to have served with such distinguished, accomplished physicians.

I have served with several Hill Physicians CEOs, currently David Joyner. Each has been strong, intelligent and loyal, and each has had a completely different personality. I have been mentored, educated, advised and befriended; I trust I have done the same in return. One of the greatest gifts given to me has been the chance to work with, learn from and help educate each of them.

The entire PriMed senior leadership team is dedicated to your success. Each brings a different attribute and strength to the team, and all are committed to your success. I am indeed fortunate to be able to call each a friend.

I am grateful to have served these decades for Hill Physicians. I strived to be honest, fair, kind and occasionally humorous. During all these years, I have been supported and loved by my wife and children. Their ongoing and unconditional love has made this journey much easier.

As I transition into the next interests that will occupy my attention, I look forward to more time with those most important to me. Thank you for your support over the years. My retirement will be made easier because I know new leadership will demonstrate integrity, help us roll with the changes and keep the independent physicians' interests firmly in hand. All will be good.

Goodbye,

A handwritten signature in black ink that reads "Bruce". The signature is written in a cursive, slightly stylized font.

Bruce

Committees (as of December 2017)

Executive

Bruce Bob, M.D., Chair
Alvin Sockolov, M.D., Secretary
Gregory Coe, M.D., Treasurer
Joshua Adler, M.D., Ex-Officio
Harpreet Grewal, M.D.
Gregg Pottorff, M.D.
Amir Sweha, M.D.

Membership

Harpreet Grewal, M.D., Chair
Adeela Ansari, M.D.
Joseph Marino, M.D.
Thomas Melchione, M.D.
Soheil Motamed, M.D.
Philip Rich, M.D.
Subena Tilley, D.O.
Bryan Wong, M.D.

Peer Review/Provider Review Subcommittee

Tom Imperato, M.D., Chair
Jeffrey Cragun, M.D.
Robert DeBruin, M.D.
Peter Gannon, M.D.
Sean Hennessey, M.D.
Alan Kawaguchi, M.D.
Joy Liu, M.D.
Thomas Long, M.D., Ex-Officio
Donald Rice, M.D., Ex-Officio
Bakul Roy, M.D.
Amir Sweha, M.D., Ex-Officio
Michael Wynn, M.D.

Peer Review/Quality Improvement Subcommittee

Joshua Adler, M.D., Chair
Richard Gould, M.D.
Sanjeev Goswami, M.D.
Raissa Hill, D.O.
Thomas Long, M.D.
Patrick O'Malley, M.D.
Gregg Pottorff, M.D.
Amir Sweha, M.D.

Nominating

Gregg Pottorff, M.D., Chair
Adeela Ansari, M.D.
Ronald Chambers, M.D.
Amir Sweha, M.D.
Richard Ward, M.D.
Careen Whitley, M.D.

Finance

Gregory Coe, M.D., Chair
Leland Dobbs, M.D.
Michael Gaddini, M.D.
David Kosh, M.D.
Gregg Pottorff, M.D.
Robert Rowley, M.D.
Rina Shah, M.D.

Continuing Medical Education Subcommittee

Amir Sweha, M.D., Chair
Terry Hill, M.D.
Thomas Long, M.D.
Medical Directors

Provider I.T.

Alvin Sockolov, M.D., Chair
Luis Bonilla, M.D.
Roy Greenberg, M.D.
Gregg Pottorff, M.D.
Elisabeth Renner, M.D.
Gina Tobalina, M.D.
Careen Whitley, M.D.

Leadership: Board of Directors (as of December 2017)



Bruce Bob, M.D.
OB/GYN
Sacramento

Joshua Adler, M.D.
Internal Medicine
San Francisco

Adeela Ansari, M.D.
Endocrinologist
Sacramento

Gregory Coe, M.D.
Family Medicine
Oakland

Leland Dobbs, M.D.
Pulmonology
Oakland

Harpreet Grewal, M.D.
Family Medicine
Tracy



Patrick O'Malley, M.D.
General Surgery
Sacramento

Gregg Pottorff, M.D.
Orthopedic Surgery
Castro Valley

Daren Primack, M.D.
Cardiology
Stockton

Alvin Sockolov, M.D.
Family Medicine
Sacramento

Amir Sweha, M.D.
(Ex-Officio)
Family Medicine
Sacramento

Robert Wendel, M.D.
Ophthalmology
Sacramento

Senior Leadership (as of December 2017)

David Joyner
Chief Executive Officer

Wendy Chow, J.D.
Chief Contracting Officer
Chief Legal Officer

Rosaleen Derington
Chief Medical Services Officer

Umang Jain
Chief Information Officer

Timothy Richards
Chief Financial Officer

Dan Robinson
Chief Administrative Officer

Amir Sweha, M.D.
Hill Physicians Chief Medical Officer

Terry Hill, M.D.
Vice President Strategic Performance

Mitra Javidi
Vice President Contracting

Benjamin Katz
Vice President PPO Segment

Carvel Tefft, M.D.
Vice President Medical Services





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