

## RH Health Inc.

Dear Colleagues, Customers, Shareholders, and anyone else (in that order),

“The Wheel of Time turns, and Ages come and pass, leaving memories that become legend. Legend fades to myth, and even myth is long forgotten when the Age that gave it birth comes again.” – Robert Jordan, *The Wheel of Time*.

Everyone keeps on telling me to write more. So I decided to do my take on a “yearly memo” that the greats (Warren Buffett, Howard Marks) write yearly. I hope this is something I do year after year.

My upbringing is pretty unique. Both my parents were public health researchers at Johns Hopkins (where my dad is still a professor). I like to say I had a mini MPH before I entered the workforce. So when I did start my first job I had a basic understanding of how this complex healthcare system worked. One thing led to another which led me to start a healthcare company that improved the care of many millions of Americans.

This company had two main competitors. The median age of their CEO was 60. I was about half that. They were towards the end of their careers. I was just starting.

I am unique in that I understand how things work (or should) and I have the luxury of *time*. I have quite a few more rotations in this healthcare flywheel that often take a decade for one cycle. I sit on an advisory committee for a local health district. One of their major initiatives is building a mental health clinic for adolescents. I often joke in meetings that I am the only one in the room who will benefit from it. I have a 6-year-old, a 3-year-old, and a 6-month-old and by the time my oldest is in high school it should be done.

Healthcare is a game of Whac-A-Mole, where you make one change, it causes another problem. It often takes a ten year cycle to see the next problem. This year, two cycles happened quickly where we are starting to see the problems. The first being Trump's Big Beautiful Bill. The second being AI.

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We often forget that a majority of healthcare is already paid by the government (some estimates put this north of 90% between Medicaid, Medicare, healthcare premiums paid with pre-tax dollars among other things).

This year, Trump's “crowning achievement” was the One Big Beautiful Bill Act (OBBBA), which among many other things set out to reduce Medicaid spending and ACA subsidies. The think tank KFF predicts Medicaid spending will be reduced by \$175B over the next decade. As a counterweight to this reduction, they set up the Rural Health Transformation (RHT) fund which will pay out \$50B over five years. As a comparison, Meaningful Use paid out ~\$35B over six years. RHT is ~20% more per year in absolute dollars (taking inflation into account).

Overnight, the major Medicaid players saw their market caps go down by 50%. There is also real concern from my peers in the industry on the secondary effects of this. You might not be on Medicaid. But you surely benefit from increased spending hospitals receive from it. Every state is different on how it approaches ACA. In my home state of California, CHCF is predicting folks' premiums will jump 5-25% in absolute percentage points in their overall income. We will see secondary effects of this over the next decade.

As a response to the cutbacks, the longest government shutdown ever happened. Which caused another government machine to shut down. NIH funding mechanism.

This year, I applied for my first government grant. Through a program called SBIR which is meant to fund early-stage business. Terms I never knew, Phase I, Phase II, PO, FOA, study sections, Advisory Councils. I now know.

But due to the government shutdown the entire process was put on hold. I was caught up with 20,000 other scientific grants that are the backbone of basic science and early stage healthcare innovation. Fortunately, being an entrepreneur I always have options. Most researchers at academic institutions do not. It's still too early in the cycle to see the long-term effects of this.

One change causes another problem which causes another change...



AI is changing the paradigm on how things are done. I do worry about the long-term effects of it. Why hire a recent college grad (or high schooler) when a computer can do the work almost as well (if not better) and is basically free? What is going to happen to the next generation of leaders if they never have an opportunity to learn?

In healthcare specifically, where we are seeing the AI used the most is scribing. A STAT article this year discussed a secondary effect of the AI scribe (or was this the whole point of them the whole time?) is that doctors are billing \$13K more per year. I am all for doctors making more money. But where is this money going to come from? The same payor is already under pressure from the cuts I mentioned above. One change causes another problem.

Right after I submitted my grants, the NIH came out with a notice that they were "banning" use of AI in grant applications and limiting submissions to six per year. They claim there was an instance (which I believe) of one PI submitting more than 40 grants in one cycle. Talking to my peers, three grants a year would be a very productive year.

One change causes another problem which causes another change...

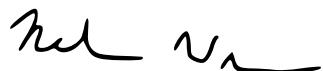
For RH Health, this is exactly the environment we were built for. When Medicaid tightens, safety-net providers will need to prove they're delivering value, not just volume. When rural communities lose access, the RHT fund will flow toward those who can reach them. When AI threatens to inflate costs elsewhere, we're using it to extend care into homes that have never had adequate access in the first place. The wheel turns. We intend to be ready when it comes around.

There's a lot of work ahead, and I'm energized by it

To my colleagues, customers, shareholders, and anyone else: thank you for believing in me.

(This memo was not written by AI)

Onwards. Forward.



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