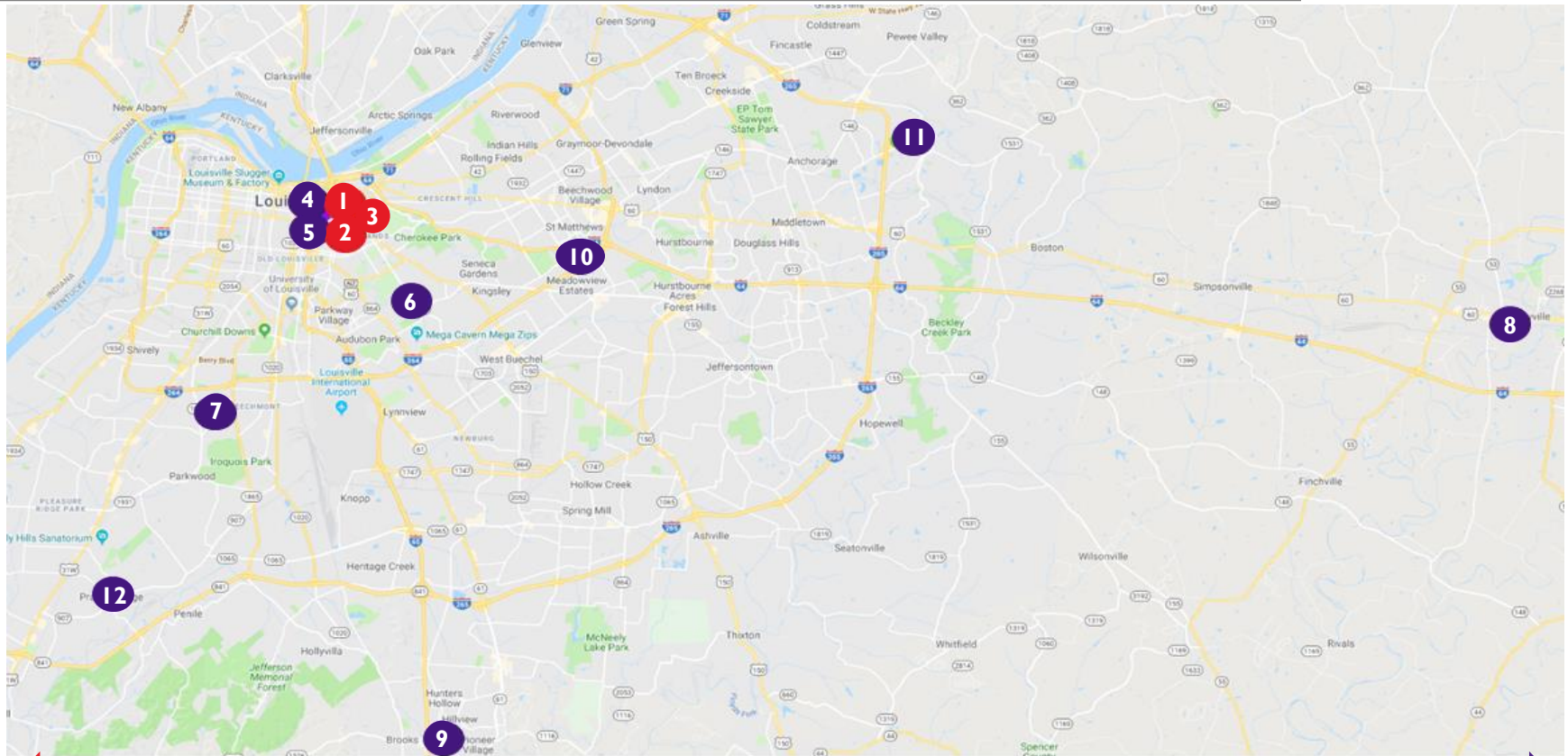


University of Louisville/UofL Health

KOH Acquisition Briefing

November 19, 2019

UofL Health Assets



System Includes:

- | | | | |
|--|--|---|---|
| 1 UofL Health – UofL Hospital | 4 UofL Health – Frazier Rehabilitation Institute | 7 UofL Health – Mary and Elizabeth Hospital | 10 UofL Health – Medical Center East |
| 2 UofL Health – UofL Physicians | 5 UofL Health – Jewish Hospital | 8 UofL Health – Shelbyville Hospital | 11 UofL Health – Medical Center Northeast |
| 3 UofL Health – James Graham Brown Cancer Center | 6 UofL Health – Peace Hospital | 9 UofL Health – Medical Center South | 12 UofL Health – Medical Center Southwest |

Evaluation of University Alternatives

(Stabilized Year 3)

No Acquisition:		Acquisition:	
Loss of Jewish AAA	-\$26 M	Operating Loss	-\$50 M
Loss of MD Fees	-\$15 M	Capital Investments	-\$30 M
Vacant Facility Costs	- \$5 M	KOH Foundation	\$10 M
UMC Note	- \$5 M	Reimbursement Upside (IGT)	\$33 M
		Rev Cycle Changes	\$15 M
		Synergies	\$30 M
Total	- \$51 M		+ \$8 M

Other Impacts of a Jewish Hospital Closure

- **Direct Economic Impact:**

- Total Payroll = \$103 M
- Total Employment = 1,901 (*System employment is 5,500 and \$340 M payroll*)
- Full Time KY Employees = 1,472
- Direct Payroll Tax = \$10.2 M *per year*
- Non-Personnel Expense = \$200 M+

- **Health Care Void:**

- Emergency Room Visits (annual) = over 35 k
- Inpatient Census = 220
- Transplant Programs

"We now have evidence that hospital closures affect other hospitals, and they do so in different ways. Hospitals that are already crowded will likely be unable to maintain the same quality when a nearby emergency department closes," says Dr. Renee Hsia of University of California.

Emergency department closures are more common in lower-income areas. "Such closures may inadvertently increase the health disparities that we are trying to mitigate," says medical officer Dr. Nicole Redmond of The National Heart, Lung, and Blood Institute.

What We Know: Due Diligence Findings

- KOH System loses money (**\$43 M EBIDA loss over last 12 months**)
 - Initial reported earning was **\$23 M overstated based on external review**
 - Jewish Hospital **-\$30.3 M**, Jewish Physician Group - **\$51.3 M**
 - Outpatient centers performing very well + **\$ 20 M**
 - Frazier, St. Mary/St. E & Shelbyville positive **+\$3.5 M**
 - Burdened with **\$40 M** of corporate overhead by **CHI & KOH**
- Blue & Company review of initial A/R **overstated by \$7-10 M**
- Facilities capital starved over last 2 years (**\$2.0 M this year**)
- Frazier Rehab has 3 floors for expansion, Rudd in good shape
- Jewish Hospital tower would only have 3 year life expectancy
- Current Cerner Patient Information system at Jewish needs upgrades
- IT systems at St. Mary's/St. E need to be replaced
- No major compliance issues
- Average census is **220 inpatients; 35,000 ER visits**
- Current staffing issues limiting volumes (high # contract nursing)
- Jewish Hospital will qualify for Medicaid enhanced reimbursement (IGT) of **~\$33.6 M**

Key Acquisition Terms and Factors

	Status
Purchase Price	\$10 M
UMC Notes Payable to KO/CSH Cancelled	\$19.7 M cancelled
KOH Foundation	\$40 M (\$10/yr)
State Loan	\$50 M (50% forgivable; 1% interest) 20 year term
JHFE	\$10 M confirmed
Other	\$75 M working capital (A/R)

KYONE Draft Financials- Normalized

Project Bluegrass
University Medical Center, Inc

Recast consolidating statement of operations

LTM19

(in 000's) Ref.	JHMC	St. Mary & Elizabeth Hospital	Our Lady of Peace	FRNC	JHMC East Louisville	Jewish Hospital Shelbyville	JHMC South Shepherdsville	JHMC SW Louisville	JHMC NE Louisville	KentuckyOne Medical Group	Real Estate Management	JHSMH_Elim	Total Divestures
Net Patient services revenue	323,332	115,797	73,586	53,071	47,722	26,814	27,493	16,883	2,155	80,168	-	-	767,021
Other revenue	6,811	1,483	741	4,898	100	118	5	163	836	27,993	2,393	(26,583)	18,960
Net Revenue	345,232	120,570	78,806	57,969	47,822	28,073	27,498	17,047	2,991	108,161	2,393	(26,583)	809,981
Compensation and benefits	129,823	56,422	38,401	33,836	13,555	10,722	6,854	4,577	1,034	114,910	-	-	410,133
Supplies expense	109,856	20,317	1,041	1,101	10,086	3,349	2,208	772	136	5,781	24	-	154,674
Purchased services	58,396	20,287	8,705	10,801	8,684	4,572	3,849	2,095	1,005	15,785	399	-	134,578
Rentals, leases and maintenance	7,489	4,516	894	1,597	3,322	3,282	1,323	1,146	3,527	6,111	8,748	(2,789)	39,166
Medical professional fees	33,866	7,030	606	1,958	228	1,101	475	30	50	6,053	10	(23,977)	27,430
Utilities expense	4,590	1,664	659	1,588	800	654	407	357	409	1,128	1,518	-	13,773
Insurance expense	3,610	1,722	556	745	426	271	206	113	38	2,848	-	-	10,534
Consulting	975	71	20	29	20	3	20	2	20	354	-	-	1,513
Other expenses	8,787	3,047	1,391	991	1,120	1,222	384	376	264	1,888	11	-	19,482
Operating Expenses	357,392	115,075	52,273	52,646	38,243	25,176	15,725	9,468	6,483	154,859	10,710	(26,766)	811,284
Four Wall Operating income	(12,160)	5,495	26,534	5,323	9,579	2,897	11,773	7,579	(3,492)	(46,698)	(8,316)	184	(1,303)
KentuckyOne corporate allocations	15,408	5,415	3,368	2,220	2,204	1,265	1,152	725	157	3,694	12	(59)	35,560
CHI corporate allocation	2,721	961	578	394	391	224	205	129	28	922	-	-	6,553
Overhead expenses	18,129	6,376	3,945	2,614	2,595	1,489	1,356	854	185	4,616	12	(59)	42,113
EBITDA, adjusted	(30,289)	(881)	22,589	2,709	6,984	1,408	10,416	6,725	(3,678)	(51,314)	(8,329)	243	(43,416)
Adjusted admissions	22,845	16,435	10,480	2,762	n/a	6,281	n/a	n/a	n/a	n/a	n/a	n/a	72,119
NPR per AA (actual \$)	14,153	7,046	7,022	19,214	n/a	4,269	n/a	n/a	n/a	n/a	n/a	n/a	10,636
FTEs	1,666	696	576	423	159	122	84	58	15	740	-	-	4,539
Compensation per FTE (actual \$)	77,938	81,096	66,707	79,927	85,055	87,782	81,140	79,478	69,224	155,356	-	-	90,365

note to table:

Adjusted admissions for combined entity calculated using a consolidated OP factor

The Upside of UofL Health

- 1) Provides funding for SOM residents, services, and mission of \$41 M
- 2) Has 220 inpatients for teaching programs (houses 68 residents)
- 3) \$96 M of sponsored research at SOM represents 2/3 of UofL research grants
- 4) Preserves R1 research status of the university
- 5) Allows space to differentiate in Centers of Excellence:
 - a) Neuro/Neuro Surgery/ Ortho at Frazier
 - b) CV, Cardiology (Heart Hospital) at Rudd
- 6) Gives us direct access to suburban markets (4 locations)
- 7) Has 75 Primary Care providers, 23 Cardiologists, 10 Orthopedists
- 8) Keeps open a critical healthcare provider and offers a direct solution to needs of our patients
- 9) Solves clinical space needs for 3 years (Transplant, CV, Neuro)
- 10) Avoids having a non-functioning physical asset in downtown

Turnaround Plan - Financial Considerations

- Revenue Management pickup \$15 M
- Hospital enhanced reimbursement /IGT \$18.5 M
- Jewish Physician Group IGT/enhanced reimbursement \$8.4 M
- GME reimbursement pickup \$6.7 M

- Management savings \$4 M
- Re-organize Jewish Physician Group \$10 M
- Corporate savings \$10.5 M (34%)
- Central Business Office cost reduction \$7.1 M
- Revenue Cycle Synergies \$7 M
- IT savings \$5 M year 2 forward

- **Jewish Heritage Foundation = \$10 M secured thus far**
- **Working capital A/R collections from \$75 M**
- **KOH foundation for capital = \$10 M a year 4 years**
- **State Economic Dev = \$50/\$25 M forgiveness**

Jewish Hospital (& System)

Financial Restoration Plan

(Numbers Reflected in Thousands)

		Year 1	Year 2	Year 3 Stabilized
Beginning EBIDA - Current State		(50,000)	(50,000)	(50,000)
Additional Needs:				
Capital Investments		(40,000)	(40,000)	(30,000)
Working Capital Float		(20,000)	(20,000)	(5,000)
Improvement Strategies:	Matured Value			
A/R Improvement	15,000	4,950	9,900	15,000
IGT/UPL Increase	26,900	20,175	26,900	26,900
GME Reimbursement Increases	6,700	5,025	6,700	6,700
Management Savings	4,000	1,000	2,000	4,000
Reorganize JH MD Group	10,000	2,500	5,000	10,000
CHI Corp Assessment Savings	1,638	410	819	1,638
KOH Corporate Savings	8,895	2,224	4,448	8,895
Central Business Office Savings	7,133	1,783	5,350	7,133
Revenue Cycle Synergies	7,500	750	3,750	7,500
IT Savings	5,000	1,000	5,000	5,000
Revised Results		(70,183)	(40,133)	7,766
2-Year Bridge/Transition Funding Needed:			(110,316)	
Targeted Sources of Transition Funding:	Sources	Year 1	Year 2	
State Economic Development Loan	50,000	26,000	24,000	
Jewish & St. Mary's Foundation (over 4 yrs)	40,000	10,000	10,000	
Jewish Heritage Fund for Excellence	10,000	10,000	0	
Jewish AR	35,000	25,000	10,000	
<u>Subtotal</u>	135,000	71,000	45,000	
Surplus/(Deficit)		817	4,867	

Summary of Key Points

	If Jewish Hospital Closed...	UofL Health will...
Economic Risk / Solution	<ul style="list-style-type: none"> • \$103 M payroll loss annually • \$200 M+ non-payroll spend loss (Jewish Hospital only) • \$10.2 M annual payroll tax loss 	<ul style="list-style-type: none"> • implement a 3-year transition plan to reverse \$50 M loss to \$8 M positive • receive \$33 M of enhanced Medicaid reimbursements (IGT)
Human Risk / Solution	<ul style="list-style-type: none"> • Loss of 1,901 jobs • 220 monthly inpatients and 35,000 annual ER visits with no immediately accessible alternative for quality care 	<ul style="list-style-type: none"> • create new jobs as it hires more nurses and other roles to stabilize Jewish Hospital • serve more people in more places with high-quality academic medicine
University Risk / Solution	<ul style="list-style-type: none"> • \$51 M loss immediately • Jeopardize R1 research university status and more than \$50 M in research • Key faculty exodus out of the university and health system 	<ul style="list-style-type: none"> • apply strategies to the Jewish Hospital turnaround used in the University Hospital \$95 M turnaround (leading to a positive margin in FY19)

For the University of Louisville, the acquisition of these assets:

- Creates an **integrated** health system with a robust primary care network
- Forges a path to **expansion** of research and academics (quality & scope)
- Allows University **growth** (not contraction) and a **stable** financial future

The End

UL OF Health