

July 22, 2017

# Transitioning From Greater Scale to Highly Integrated

SUMMER LEADERSHIP SUMMIT 2017  
*EVOLUTION*  
**REVOLUTION**

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# Introductory Remarks

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- The health care industry is currently experiencing a heightened level of uncertainty
- Amid uncertainty, organizations continue to focus on the “value imperative”
  - Increasing urgency for providers to demonstrate value
  - Considerable disagreement on
    - Pace of change
    - Best redesign of the current model
- Strategic activity in the healthcare sector continues to be robust
  - Providers seek both scale and integration for strategic positioning
  - Acute care consolidation continues
  - Diversified health care sectors demonstrate heightened activity
- Financial considerations driving capital decisions
- Heightened sensitivity to challenges and opportunities essential

# 1. Environmental Landscape

# Changing National Healthcare Landscape...

## Major Trends Driving a Change in the Delivery of Healthcare...

### Changing US Reimbursement Landscape

**Fee-For-Service**



**Value-Based Reimbursement**

- ACA/AHCA Uncertainty
- Market specific pace of change
- Rise of ACOs
- Payor-provider JVs

### Emergence of the Empowered Consumer

**Patient as Passive Customer**



**Engaged Patient as Active Decision Maker**

- High deductible health plans
- Patient satisfaction impact
- Internet-based resources

### Changing Patient Flow

**Focus on Hospital / Individual Care Setting**



**Integrated Care Continuum**

- Treating patients in appropriate care setting
- Continuing cost pressures
- Care-coordination / alignment

### Changing Role of Technology

**Siloed Data in Disparate Systems**



**Pervasive Driver of Efficiency**

- Big data analytics
- Enhanced transparency and patient engagement
- Proactive vs. reactive
- Clinical risk management

## ...With Many Critical Questions Remaining...

### Capabilities & Expertise to Manage Risk:

How will risk be allocated and how much appetite will providers have to assume risk?

### Role of Provider in Integrated Model:

Which provider models will succeed / control patient flow in an ACO environment?

### Measurement & Sharing Rewards:

How can value be accurately measured / quantified given different constituents?

### Role of Physicians:

What role should physicians play in risk taking, and in purchasing and technology adaptation?

**...All Leading to a New Care Delivery Paradigm Focused on Delivery of Solutions vs. Products / Services in a Uncertain Resource Constrained World**

# ...Paving the Way For New Delivery Models

## Consistent Rhetoric Out of Washington Despite Legislative Changes...

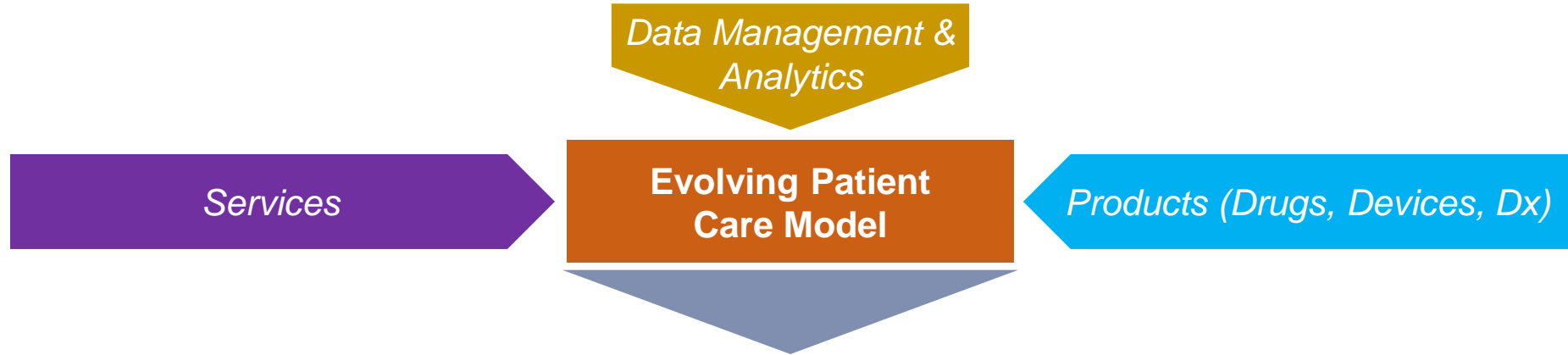
### Improve Quality

- Improved clinical outcomes
- Accommodating patient lifestyle preferences
- Avoiding major disease events (esp. chronic conditions & trans. in care)

### Optimize Costs

- Cost constraints prevalent throughout continuum of care
- Acute care particularly challenged environment – transition to alt. sites
- Continued pressures on product prices

## ...Leading to a More Coordinated Care Delivery Model...



## ...Delivered on a Site-Agnostic Basis

Home

Emergent Care

Acute Care

Alternative Site Care

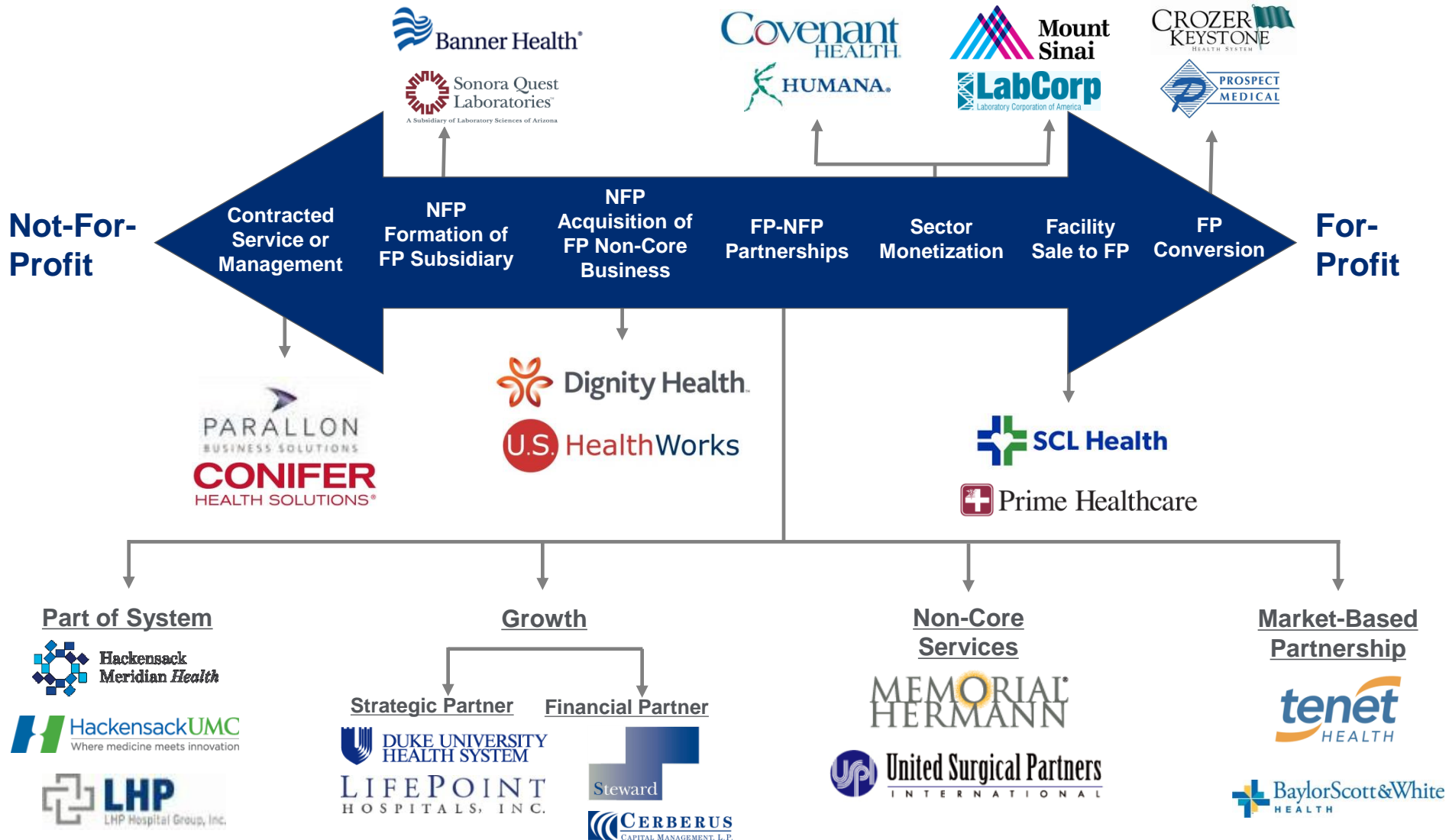
Post-Acute Care

Long-Term Care



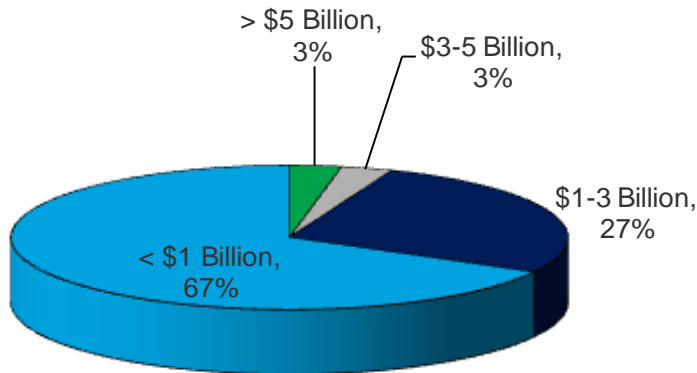
# Emergence of Non-Traditional Partnerships

For-profit / Not-for-profit affiliations have emerged as a response to environmental forces.



# Citi Study: Examining the Impact of Scale

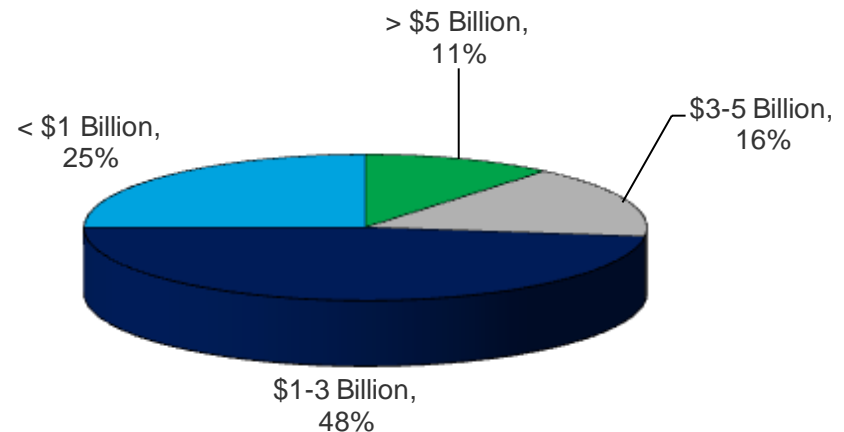
## All NFP Systems – 2004 (By Revenue)



Total = 250 health care systems  
with \$284 billion in Revenue

Average Size: \$1.1 billion

## All NFP Systems – 2015 (By Revenue)



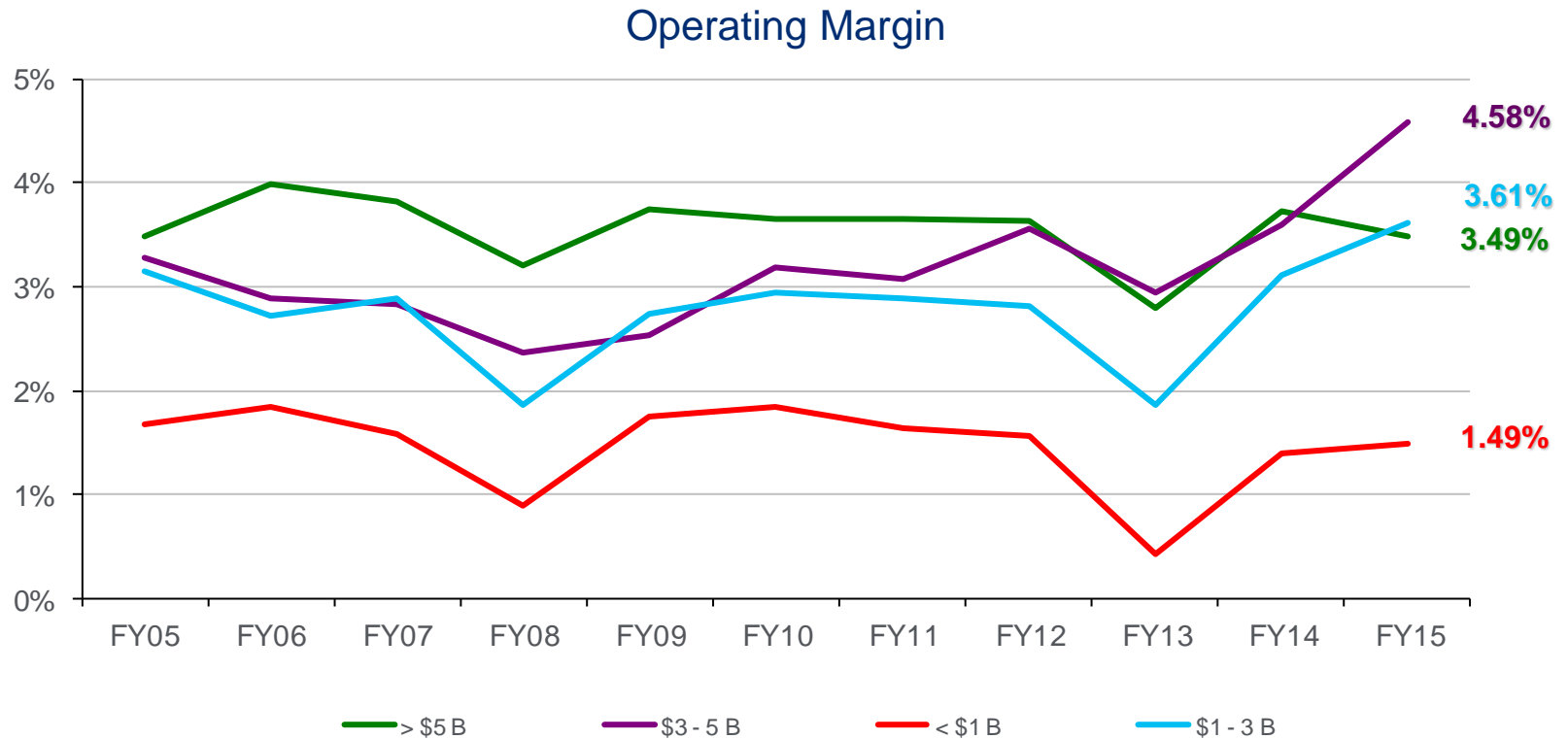
Total = 219 health care systems  
with \$568 billion in revenue

Average Size: \$2.6 billion



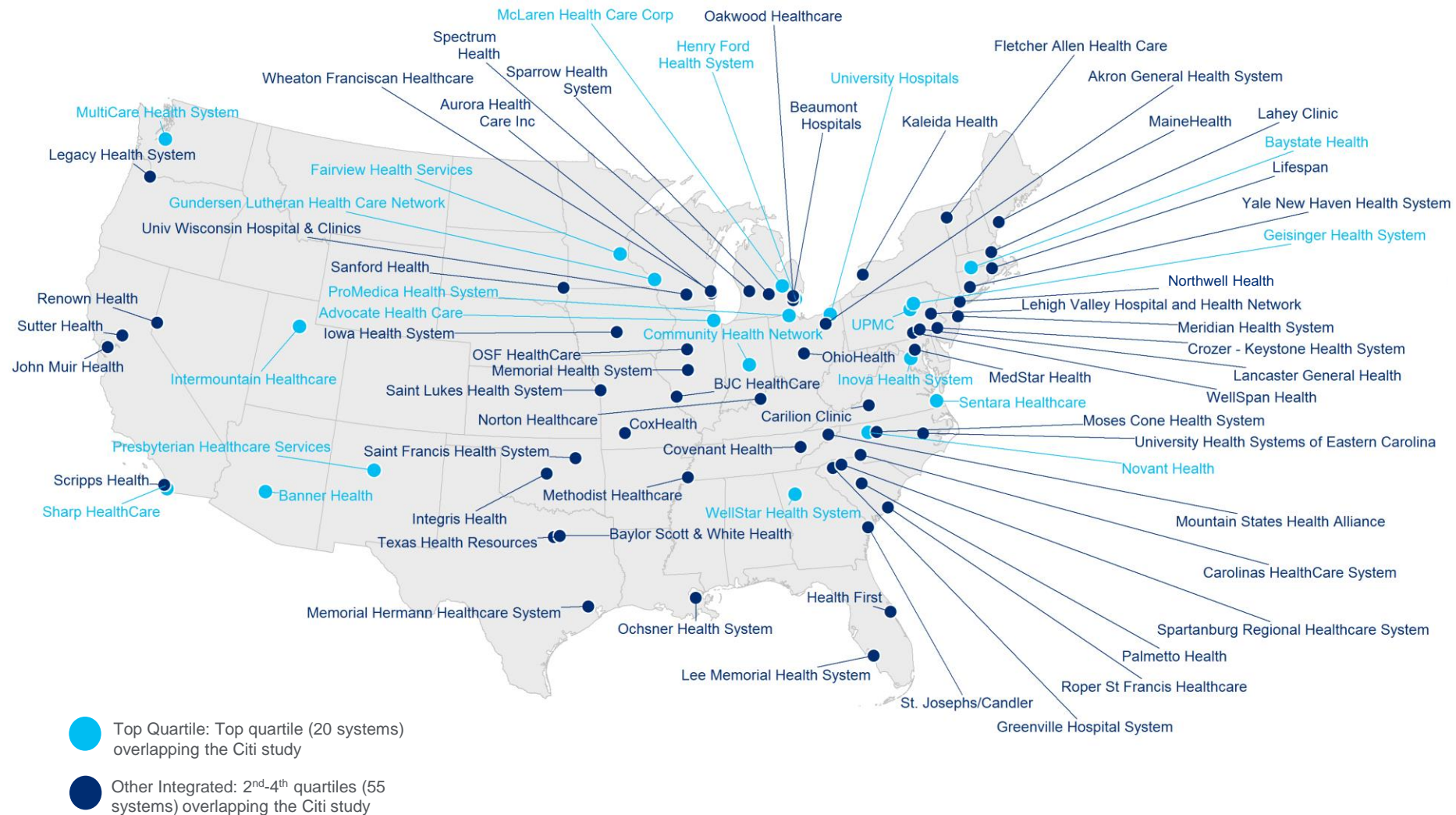
# Largest NFP Systems Experience Highest Operating Margin

Scale has been a driving factor in achieving the highest margins historically, although the large systems (\$3-5 and \$1-3 billion) have recently surpassed the profitability of the mega systems (>\$5 billion).



Note: Historical Data based on 255 reporting systems.  
Comparative data from Citi Growth Study. Health system data reflects average value of category.

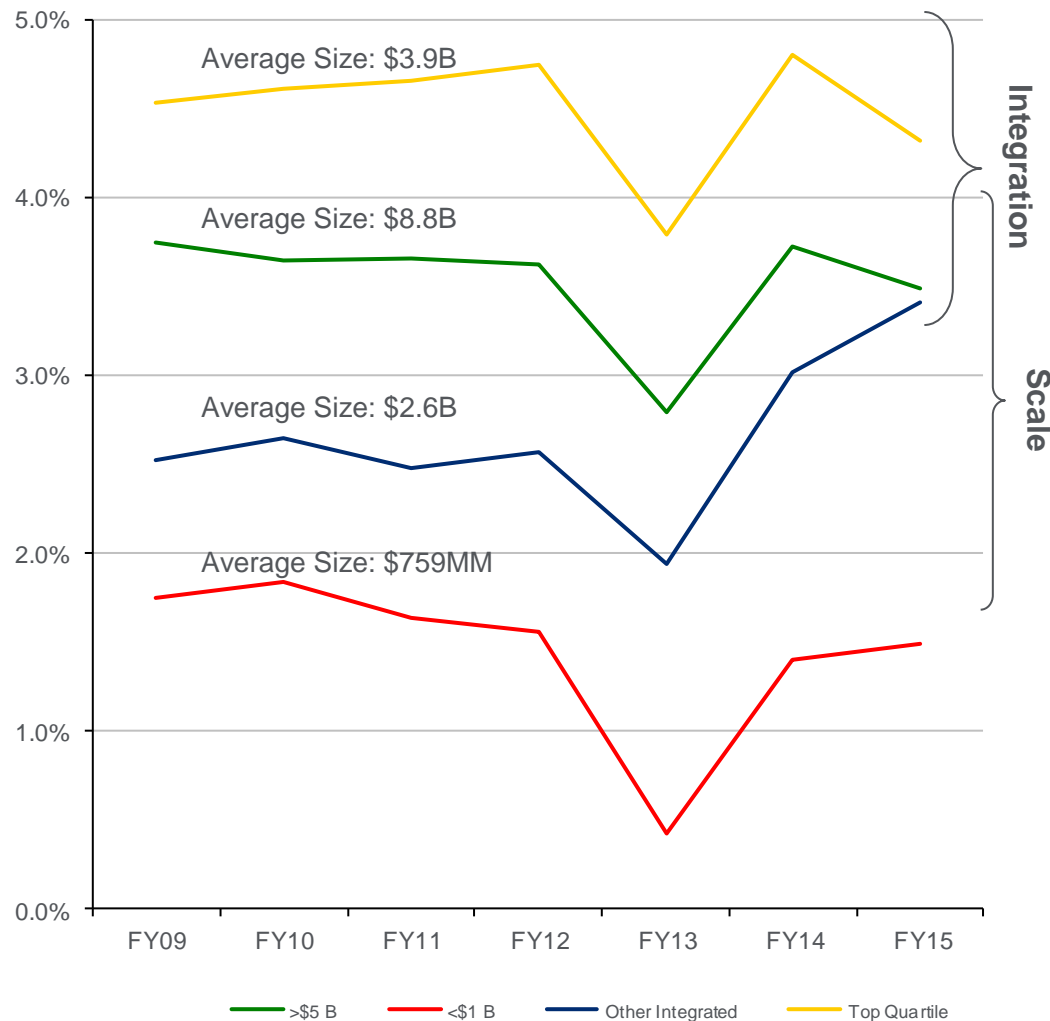
# Top Integrated NFP Health Care Systems



Source: IMS Integrated Healthcare Network Benchmark Report Surveys 2008-2012. Map displays the overlapping top systems with Citi's database.

# Quantifying The Expected Benefits: Scale And Integration

## Operating Margin



### ◆ **Scale has led to greater operating leverage:**

Since 2009, the operating margin differential between the >\$5 billion health systems and <\$1 billion health systems has averaged approximately 2.1%

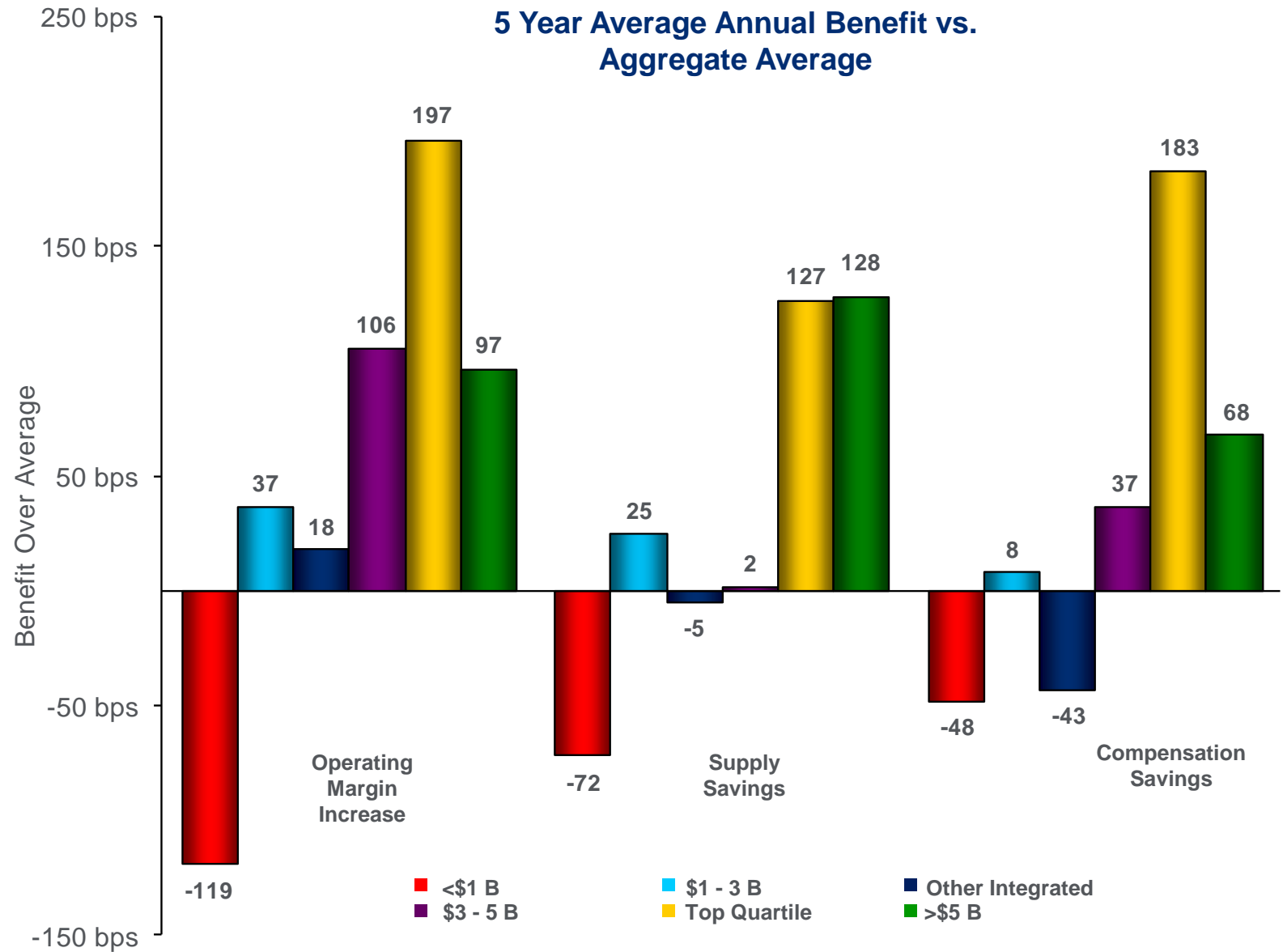
### ◆ **Higher integration has also led to greater operating leverage:**

Since 2009, the operating margin differential between the Top Quartile and the Other Integrated group has averaged approximately 1.9%

Note: Historical Data based on 255 reporting systems.

Comparative data from Citi Growth Study. Health system data reflects average value of category. "Other Integrated" includes the remaining three quarters of health systems overlapping the Citi study.

# Factors Contributing to Differences in Performance



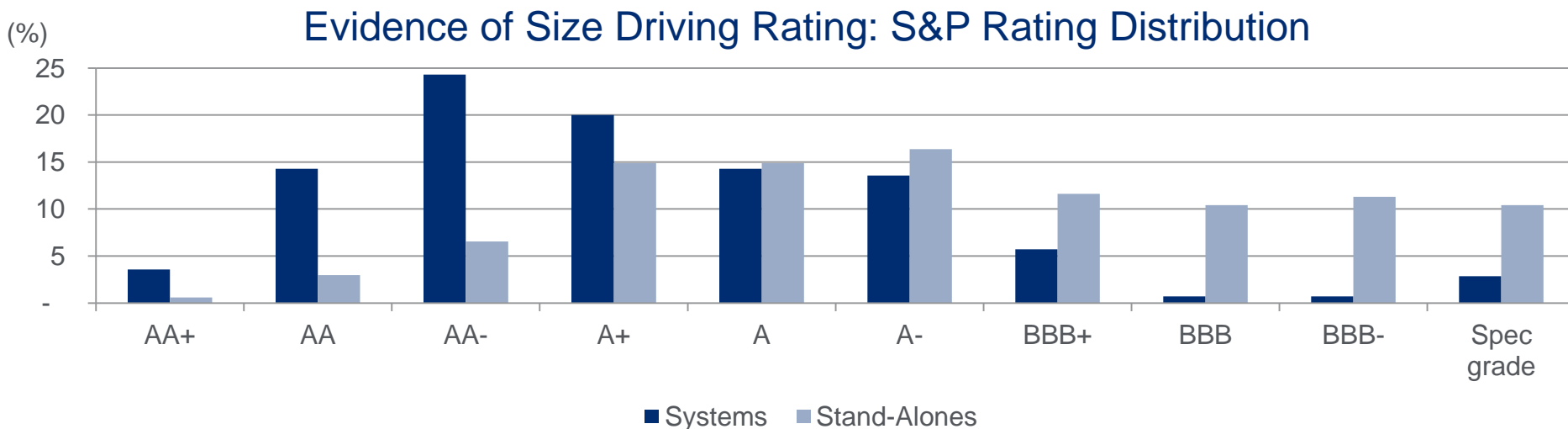
Note: Historical Data based on 255 reporting systems.

Comparative data from Citi Growth Study. Health system data reflects average value of category. "Other Integrated" includes the remaining three quarters of health systems overlapping the Citi study.

# The Rating Agencies Have Acknowledged the Benefits of Scale

## Moody's Rating Framework: 35% Based on Revenue Size and Growth

	Weight
<b>Factor 1: Market Position (45%)</b>	
Total Revenue (\$000's)	25%
Total Revenue Growth Rate (%) (3yr CAGR)	10%
Market Landscape	10%
<b>Factor 2: Operating Performance and Liquidity (35%)</b>	
Operating Cash Flow Margin (%)	10%
Gross Revenue of Combined Medicare and Medicaid (%)	10%
Days Cash on Hand	10%
Financial Management and Reinvestment	5%
<b>Factor 3: Leverage (20%)</b>	
Cash to Debt (%)	10%
Debt to Cash Flow (x)	10%

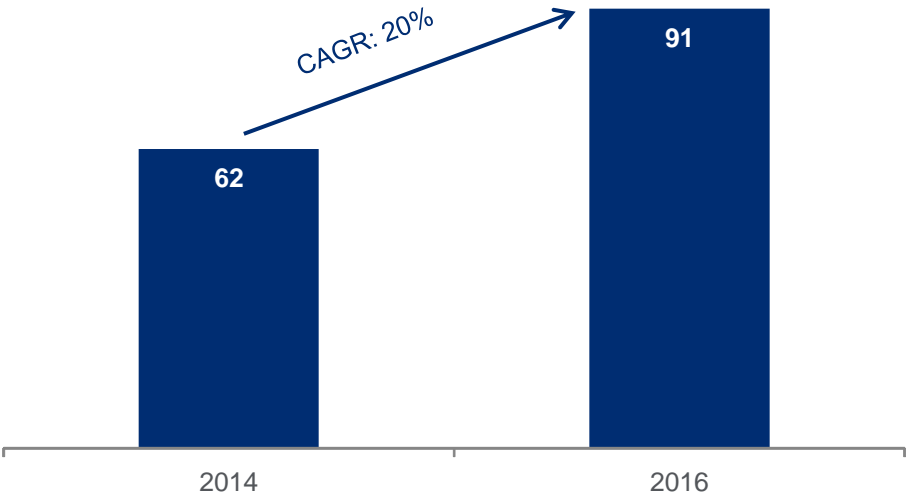


Source: Moody's and S&P Reports.

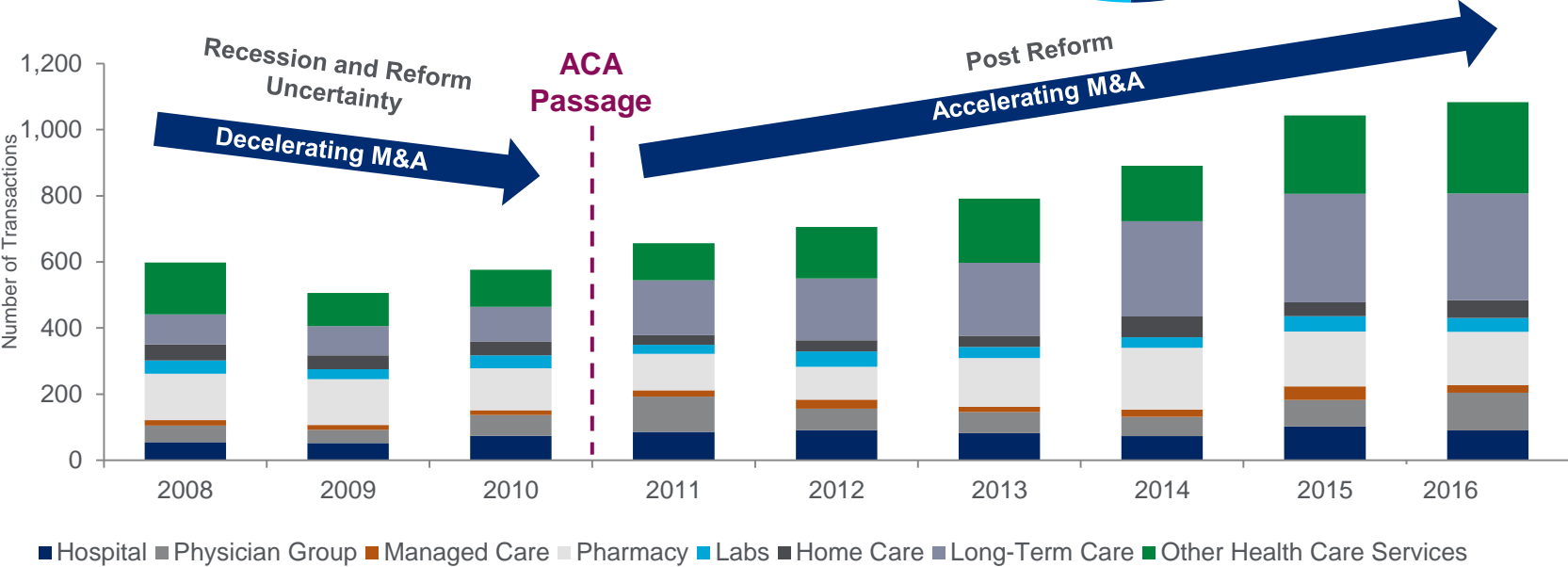
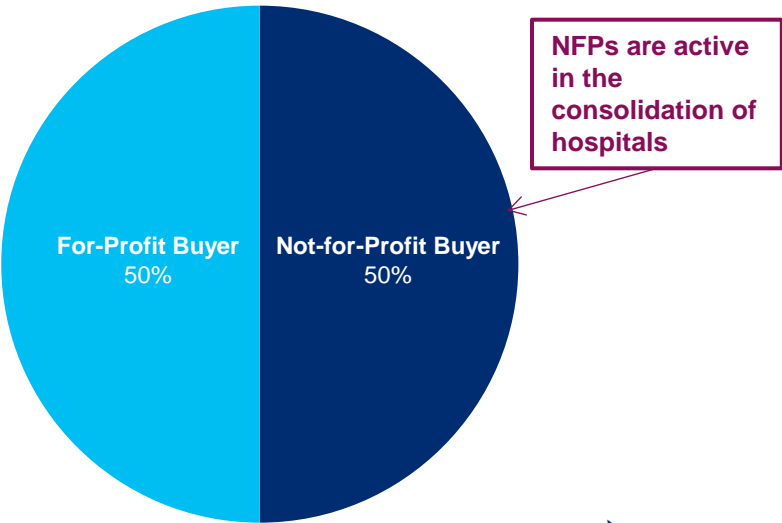
## 2. Wall Street Assessment

# Acute Care Consolidation Continues

Hospital and Health System Transactions

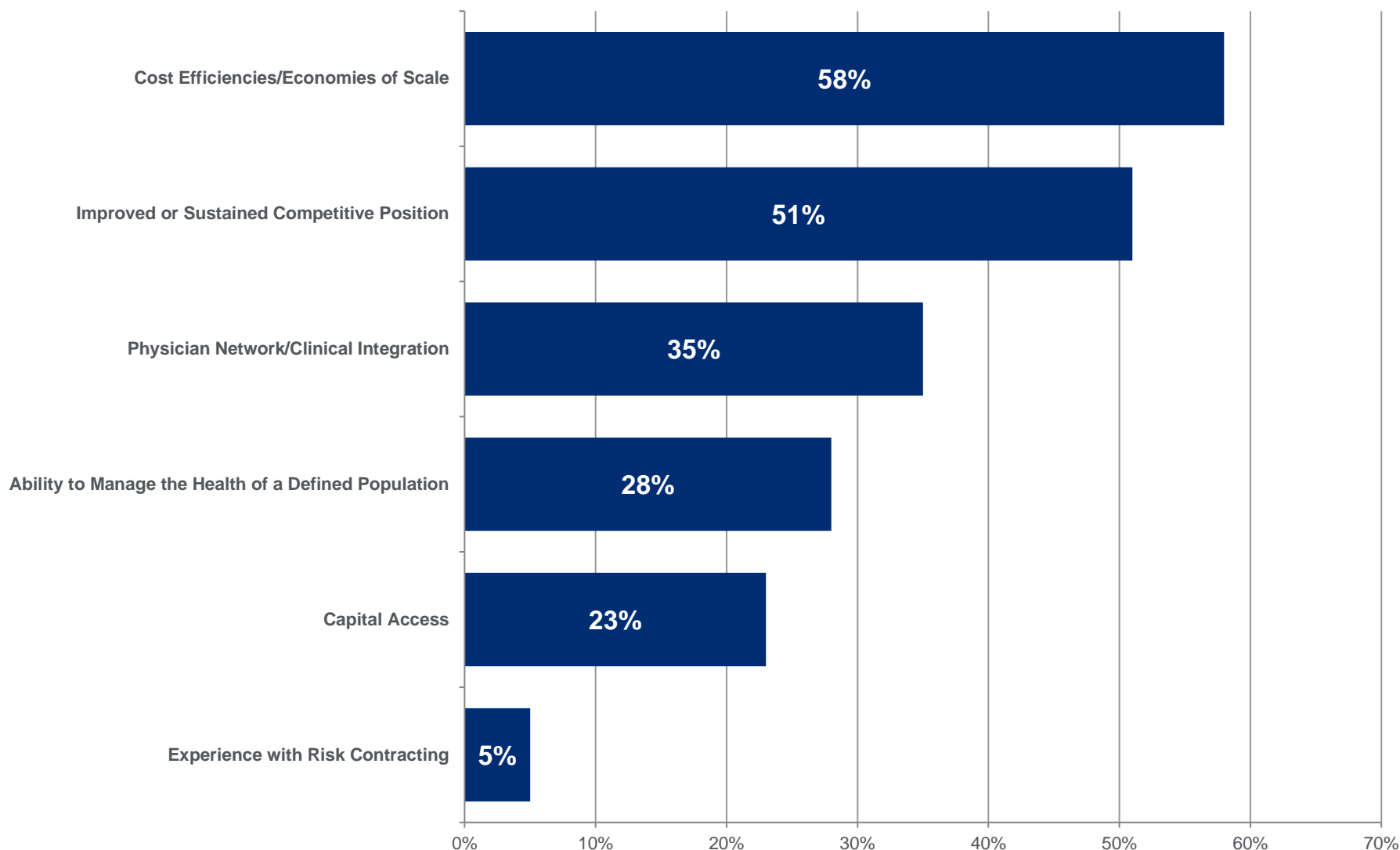


2016 Acquisitions of Healthcare Systems by Buyer Type



# Primary Drivers of Provider Acquisition and Affiliation Activity

Achieving economies of scale and improving competitive position remain the primary drivers for health systems to consider new organizational arrangements.



Source: The Healthcare Financial Management Association's 2014 Survey of senior financial executive HFMA members



# Market Scale Key Driver of Strategic Activity

## Financial Performance and Capital Access



## Preparing for New Reimbursement Models



## Market Positioning and Scale



# Emerging Trends

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- Operational discipline continues to be imperative, amid cost and margin pressures
- Meaningful regional scale is important
- More not-for-profit / for-profit partnerships
- Academic medical centers at a crossroad
- Revisiting real estate ownership
- Taxable alternatives attractive

# Market Leaders Demonstrate Discipline and Market Focus



- Strong central governance
- Continued focus on operational improvement initiatives, consolidation and standardization
- Highly disciplined M&A strategy – divestitures and acquisitions
- Majority of hospitals hold 1<sup>st</sup> or 2<sup>nd</sup> highest market share
- Consistent financial performance and stability

Aa2 (stable) / AA+ (stable) / AA+ (stable)

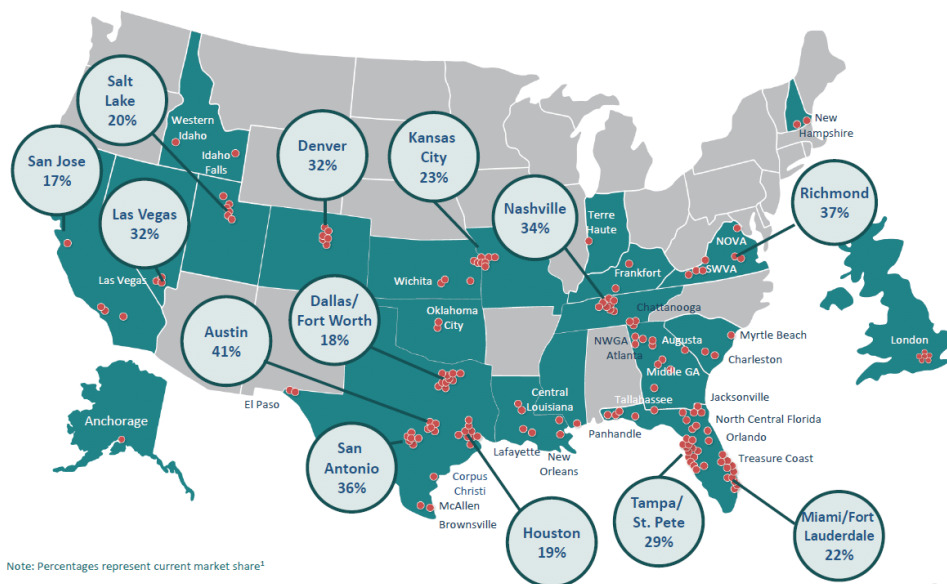
FY 2016 Revenue: \$21.9 billion

## HCA<sup>®</sup>

Hospital Corporation of America

FY 2016 Revenue: \$41.5 billion

- Bellwether within the hospital space
- Consistent financial performance
- Continued discipline of cost efficiencies and driving local market shares
- Established a 1<sup>st</sup> or 2<sup>nd</sup> market share position in 71% of 38 key markets



# Regional Systems Continue Growth By Expanding Service Area



- Ochsner created the Ochsner Health Network to create the highest value healthcare network in the Gulf South
- Collaboration of culturally, clinically and financially aligned providers that fosters interdependence and cooperation among its participants to improve quality and reduce costs of healthcare
- Ochsner Health Network's collective goal is to keep the highest quality of care local and ensure integrated easy access to Ochsner's world-class care when needed
- Ochsner Health Network members consists of 27 hospitals including:



## UnityPoint Health

- Since 2011, UnityPoint has expanded its presence beyond the State of Iowa's borders, and currently serves nine distinct regions throughout Iowa, Wisconsin, Illinois and Missouri
- Over the past five years, UnityPoint has acquired or partnered with a number of organizations across the care continuum, including:



# Case Study: Transforming Care Delivery in a Market



and



Announced a joint venture for 5 North  
Texas Hospitals

March 2015

 Citi<sup>®</sup> Acted as Exclusive Advisor

## Process Overview

- Baylor Scott & White Health (“BSWH”) and Tenet Healthcare (“Tenet”) announced a definitive agreement to partner on delivering integrated, value-based care in 3 counties in North Texas
  - The partnership includes 5 North Texas hospitals
    - 4 hospitals are legacy Tenet facilities
    - 1 hospital is a legacy BSWH facility
  - BSWH will hold a majority ownership in all facilities and each facility will operate under the BSWH name and brand
  - The partnership will be governed by a jointly appointed Board of Managers
  - The hospitals will continue to be managed by the legacy owner
  - Each hospital will maintain an independent medical staff
- Separately, two additional transactions were announced by Tenet
  - Tenet’s joint venture with United Surgical Partners International (USPI), in which Tenet agrees to own 50.1% of the JV upon deal closing, and over the next 5 years plans to assume full ownership of USPI
  - Tenet’s North Texas ACO recently entered into an affiliation agreement with the Baylor Scott & White Quality Alliance, a leading ACO in Texas

## About Baylor Scott & White Health

- BSWH was formed in 2013 through the merger of Baylor Health Care System and Scott & White Healthcare
- The System is the largest not-for-profit health care system in the State of Texas, with total assets of over \$9 billion
- BSWH includes 49 hospitals; over 800 access points; more than 5,800 physicians; 35,000 employees; and the Scott & White Health Plan

## About Tenet Healthcare

- Tenet is a national, diversified health care services company
- The company operates 80 hospitals, 214 outpatient centers, 6 health plans, and a business process services company (Conifer Health Solutions)

# Case Study: SSM Health Acquired St. Louis University Hospital



announced its acquisition of

Saint Louis  
University Hospital 

**September 1, 2015**

*“Ultimately, this integrated partnership will provide the entire community with more coordinated access to the compassionate expert care for which SSM Health, SSM Medical Group, and SLUCare Physician Group are all known. Patients will be able to conveniently access all levels of care within SSM Health, from the high-quality, community-based care provided by SSM Health physicians, hospitals, and outpatient sites, to more medically complex care, including a Level 1 trauma center and nationally recognized liver, kidney and bone marrow transplant programs provided by SLUCare specialists at SLU Hospital.”*

*William Thompson, President and CEO of SSM Health*

## Transaction Overview

- On September 1, 2015, SSM Health announced its acquisition of St. Louis University Hospital (SLUH), a 365-bed academic medical center with approximately \$350 million of annual revenue
  - The transaction’s financial arrangements were not publicly disclosed
  - As part of the transaction, SSM Health committed \$500 million to build a replacement hospital and outpatient care center within the next 5 years
  - Prior to the transaction, in June of this year, SLUH announced it would reacquire SLUH from Tenet Healthcare
    - St. Louis University had been frustrated with Tenet’s plan for the future of the medical center, including the failure to establish a larger network in the region
- As part of the transaction with SSM Health, the University will receive a minority membership interest, including financial interest, in SSM Health’s St. Louis region and 2 seats on the regional board
- St. Louis University’s physician group, SLUCare, will continue to operate independently from SSM’s physician group
- Tenet’s sale of SLUH is in line with Tenet’s commitment to be the #1 or #2 player in every market in which it operates

## About SSM Health

- SSM Health is a Catholic, not-for-profit health system serving the comprehensive health needs of communities across Missouri, Wisconsin, Illinois, and Oklahoma
  - In FY2014, SSM generated nearly \$5 billion in revenues
- SSM Health is the St. Louis region’s second-largest hospital operator, and the System already maintains a close working relationship with SLUH
  - A majority of physicians at SSM’s Cardinal Glennon Children’s Medical Center are faculty members at SLU’s medical school
- SSM Health has been actively pursuing opportunities; In 2013, the System acquired Dean Health System, an integrated delivery network in Wisconsin, including managed care, pharmacy benefits, and physician group businesses



# Case Study: Steward Accelerates Growth and Establishes Geographic Diversification



## Transaction Overview

- On May 19, 2017, Steward and IASIS announced they had entered into a definitive agreement to merge their operations
- The transaction will make Steward the largest private for-profit hospital operator in the United States with 36 hospitals across 10 states and more than \$8 billion in 2018 revenues
- Financial terms of the transaction were not disclosed
- The transaction is expected to close in the third quarter of 2017

## Transaction Rationale

- Positions Steward to leverage IASIS's multi-state operating experience to bring Steward's new model of health care and its award-winning health care services to patients across the nation
- Steward will also begin managing IASIS's Health Choice managed care operations, bringing the total number of covered lives within Steward's managed care and health insurance products to more than 1.1 million

"Our physician driven accountable care model focused on keeping patients healthy is transforming the health care industry as this transaction demonstrates. Our model shows how the industry can successfully shift toward a more cost-effective local, coordinated approach that puts patients first."

– Ralph de la Torre, Steward, Chairman and CEO

"Since its formation nearly 20 years ago, IASIS's mission has been to deliver high-quality, cost-effective healthcare to our patients and the communities we serve... Steward's innovative approach to reducing health care cost and improving quality of service will further this mission. It will be business as usual while all of us work toward a seamless merger of our operations."

– W. Carl Whitmer, IASIS, President and CEO




# Taxable Transactions Are Increasingly Attractive

 <p>\$2.1bn 4/25/17 10-yr B: +0.85% to 10-UST (3.193%) 30-yr B: +1.20% to 30-UST (4.206%) NR / AA- / A+</p>	 <p>\$150mm 3/30/17 30-yr B: +1.40% to 30-UST (4.430%) Aa3 / AA- / AA-</p>	 <p>\$350mm 1/24/17 30-yr B: +1.06% to 30-UST (4.115%) Aa2 / AA / NR</p>	 <p>\$500mm 11/3/16 30-yr T: +1.24% to 30-UST (3.837%) Aa3 / AA- / AA-</p>	 <p>\$100mm 11/2/16 10-yr B: +1.04% to 10-UST (1.810%) 30-yr B: +1.75% to 30-UST (3.992%) Aa2 / AA / NR</p>
 <p>\$150mm 10/27/16 10-yr B: +1.24% to 10-UST (3.093%) 30-yr B: +1.57% to 30-UST (4.175%) A2 / A / NR</p>	 <p>\$495mm 10/19/16 10-yr B: +1.20% to 10-UST (2.954%) 30-yr B: +1.43% to 30-UST (3.949%) A1 / A+ / NR</p>	 <p>\$500mm 9/20/16 30-yr B: +1.55% to 30-UST (3.979%) A3 / A- / A</p>	 <p>\$700mm 9/19/16 10-yr B: +1.05% to 10-UST (2.746%) 30-yr T: +1.30% to 30-UST (3.744%) Aa3 / AA- / AA-</p>	 <p>\$300mm 8/24/16 10-yr B: +1.36% to 10-UST (2.911%) 30-yr B: +1.75% to 30-UST (3.992%) A2 / NR / A+</p>
 <p>\$154mm 7/25/16 30-yr T: +2.11% to 30-UST (4.400%) Aa3 / NR / AA-</p>	 <p>\$850mm 6/22/16 20-yr B: +1.50% to 20-UST (3.563%) 40-yr B: +1.55% to 30-UST (4.063%) 100-yr B: +2.25% to 30-UST (4.763%) Aa3 / NR / AA</p>	 <p>\$700mm 4/25/16 30-yr B: +1.23% to 30-UST (3.945%) Aa2 / AA+ / AA+</p>	 <p>\$74mm 4/14/16 28-yr B: +1.81% to 30-UST (4.416%) A2 / A / A</p>	 <p>\$535mm 4/6/16 5-yr B: +0.75% to 5-UST (1.947%) 10-yr B: +0.90% to 10-UST (2.650%) 30-yr B: +1.40% to 30-UST (3.967%) Aa3 / AA- / NR</p>
 <p>\$250mm 3/17/16 10-yr B: +2.143% to 10-UST (4.053%) A3 / NR / NR</p>	 <p>\$350mm 3/10/16 36-yr T: +1.425% to 30-UST (4.128%) Aa2 / AA / NR</p>	 <p>\$273mm 9/23/15 30-yr B: +2.03% to 30-UST (4.982%) Aa3 / AA / NR</p>	 <p>\$250mm 9/2/15 30-yr B: +1.88% to 30-UST (4.805%) Aa3 / AA- / AA-</p>	 <p>\$51mm 9/2/15 Amortizing, Serial Structure Final Maturity - 2025: +1.88% to 10-UST (2.087%) A3 / A- / NR</p>

T – Term Maturity with Amortization  
B – Bullet Maturity  
P – Put Maturity



# Rating Agencies' Outlook; Mostly **Stable**

		
<b>Outlook: <span style="color: green;">Stable</span></b>	<b>Outlook: <span style="color: green;">Stable</span></b>	<b>Outlook: <span style="color: red;">Negative</span></b> <b>Ratings Outlook: <span style="color: green;">Stable</span></b>
<ul style="list-style-type: none"> <li>▲ Growth in operating cash flow over the next 12-18 months, though the pace will slow</li> <li>▲ Patient volume growth is stable at about 1%, with moderate growth expected through outpatient strategies</li> <li>▲ Hospital affiliations can drive volume growth and will remain prevalent</li> <li>▼ Expenses are on the rise, compressing margins</li> <li>▼ Bad debt is rising as expected</li> <li>▼ <b>President Trump's plan to convert Medicaid into a block grant would force states to curtail services or pick up more of the cost themselves</b></li> </ul>	<ul style="list-style-type: none"> <li>▲ MACRA will change the landscape by fixing the Medicare sustainable growth formula, reform how clinicians receive Medicare reimbursement, and further the transition to value-based care</li> <li>▲ M&amp;A will continue which is an opportunity to strengthen operating and financial profiles</li> <li>▲ Upgrades are outpacing downgrades</li> <li>▲ Current rating and outlook distribution show relative strength and stability</li> <li>▼ Legislative risk associated with the incoming administration and Congress</li> <li>▼ <b>Affordable Care Act in jeopardy</b></li> <li>▼ Renewed pressure on inpatient volumes expected as well as the continuation of familiar expense and reimbursement pressures</li> <li>▼ Declines in operating income levels</li> <li>▼ Gap between stronger and weaker credits could widen</li> <li>▼ Labor shortage is likely to become a greater industry pressure point in 2017</li> <li>▼ Debt issuance likely to slow down</li> </ul>	<ul style="list-style-type: none"> <li>▲ M&amp;A activity expected to be robust as hospitals seek partners to improve economies of scale, improve market position, and bolster service offerings across the continuum of care</li> <li>▲ Strong liquidity position provides strong financial cushion to adapt to more challenging operating environment</li> <li>▲ Liquidity continues to benefit from solid cash flow generation, still-positive investment returns, and modest capital spending</li> <li>▼ Expect number of downgrades to exceed upgrades in 2017, reflecting more difficult operating environment marked by increasing wage pressures, erosion in payor mix, and limited commercial rate increases</li> <li>▼ Regulatory and political uncertainty</li> <li>▼ <b>Uncertain future of ACA. If repealed and replaced, can lead to elimination of ACA key coverage expansion provisions resulting in rising uninsured and uncompensated care levels</b></li> <li>▼ Greater pressure on margins</li> </ul>

Source: Moody's, Standard & Poor's and Fitch 2017 not-for-profit health care industry outlook.

# Even As Recent Margin Challenges Arise



Q3 2016:

**\$30mm Operating Loss**

“**Unprofitable performance of insurance operations**...A significant portion of the commercial losses are due to the collapse of Arizona’s ACA Marketplace which resulted in significant numbers of **high cost enrollees migrating to Banner narrow network products** in 2016.”

Source: Q3 2016 Disclosure



FY 2016:

**\$255mm Operating Loss**

“Lower reimbursement for services from **changes in payer mix, payment rates and procedure mix** remains the most significant challenge for the Health System...In addition to reimbursement challenges, the Health System has been facing **increasing labor and supply costs**.”

Source: FY 2016 Disclosure



FY 2016:

**\$63mm Operating Loss**

“**Salaries and benefits increased \$414.0 million, or 9.2%**, over the same period in the prior year primarily due to higher volumes, higher staffing levels, increases in contract labor, and wage and benefit cost increases. **Supplies increased \$105.8 million, or 8.6%**, compared to the same period in the prior year, due to volume and utilization increases in pharmacy and surgery, and **cost increases in pharmacy**.”

Source: Q3 2016 Disclosure



Q3 2016:

**\$45mm Operating Loss**

“**Medical claims increased \$143.0 million or 18.4%** due primarily to the expanded Medicaid program under Centennial Care. **Salary expense increased \$30.5 million or 4.7%** compared to the same period in 2015 due higher staffing levels in the hospitals and clinics in line with higher volumes in the Central Delivery System, **higher use of agency nursing**, and mid year salary increases. Purchased services increased \$13.1 million or 4.2% and is due **increased membership and utilization in the health plan as well as an increase in premium taxes and uninsured medical pool assessments**. **Supplies expense increased \$33.2 million or 19.1 %** due to higher drug costs. In addition, the specialty pharmacy has experienced increased volumes with a trend of dispensing more oncological oral drugs in place of other.”

Source: Q3 2016 Disclosure



FY 2016:

**\$460mm Operating Loss**

“**Unfavorable shifts in payer and service mix across several of CHI’s regions**...resulted in decreased net patient services revenue yields.”

“Management is exploring strategic options related to its health plan businesses and in May 2016, CHI approved a plan to sell or otherwise dispose of certain entities of QualChoice.”

“CHI’s regions and Corporate office experienced increased operating expenses due to growth, adding new regions to its revenue cycle initiative, **the expansion of IT services, and increased pharmaceutical and supply costs**.”

Source: FY 2016 Disclosure

# Examples of Recent Margin Challenges at Large Health Systems



Q1 2017: **\$17mm Operating Loss**

“Health care provider activity generated an operating loss of \$4 million and insurance activity generated an operating loss of \$104 million.”

“Losses due to **inadequate reimbursement from Medicaid** and the Health Safety Net...along with **weaker than expected performance from our community hospitals and insurance operations** -- contributed to significant financial losses in fiscal 2016.” – Peter Markell, CFO and Treasurer

Source: Q4 2016 Disclosure



4 Months FY 2017: **\$170mm Operating Loss**

“Expenses increased due to the following: **salaries and wages** and payroll related costs increased due to an increase in full-time employees, salary increases and **increased premium sharing rates**; depreciation and amortization expense increased as a result of the completion of several large projects such as the Zayed Building, which was placed into service in February 2015, and the **EPIC EHR system**, which was placed into service in March 2016, as well as various other facility management and software projects; and professional fees and services increased as a result of increased consulting expenses primarily related to the EPIC EHR project.”

Source: August 2016 University of Texas Board of Regents Meeting Agenda Book



Q3 2016: **\$155mm Operating Loss**

“Capital spending increased 69% through the first nine months of 2016 compared to the prior year’s same period as the system embarks on a 3 year increase in capital spending, including **comprehensive multi-year installation of a new IT system**.”

**Medical claims expense increased significantly** (nearly 30%) over the three month period ending September 30.”

Source: Q3 2016 Disclosure, Audited Financial, Rating Reports



SENTARA

Q3 2016: **\$60mm Operating Loss**

“Net operating income was \$196.4 million, or 5.2% of total operating revenues versus \$256.1 million, or 7.1%, for the same period in 2015.

Total operating expenses increased by \$188.4 million, or 5.6%, to \$3.6 billion for the nine months ended September 30, 2016 as compared to the same period in 2015. **Salaries and wages increased by \$76.9 million, or 6.5%**, primarily due to annual merit increases, coupled with an increase in full-time equivalents (FTEs). FTEs increased by 3.5% as of September 30, 2016 as compared to September 30, 2015. Other operating expenses increased by \$89.5 million, or 8.6%. This increase was a result of overall **increases in medical supplies, purchased labor**, and repairs and maintenance.”

Source: Q3 2016 Disclosure

### 3. Implications for Evolution/Revolution

# Trends Create Challenges and Opportunities

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- Clients focused on margin expansion outside hospital-centric footprint
- Debt capacity constraints for even profitable organizations
- Changing landscape raises key questions for all external professionals
  - Who is the client? Decision-maker?
  - How can projects best address challenges?
  - Can greater flexibility be included in design solution?

# Baumol's Cost Disease

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- Diagnostic (1965)
  - Technology advances raise productivity that allow wages to rise while lowering overall cost
  - Unfortunately doesn't apply to labor-intensive enterprises (such as education and health care)
- Prescriptive (1993)
  - “Cost increases are in the nature of the health care beast.”
  - “Efforts to alter this nature will be fruitless or harmful.”
  - “The real danger is that the nation, mistakenly thinking it must rein in runaway costs, will curtail valuable health care services...for the less affluent.”

# Addressing the CFO's Dilemma

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- Top line revenue growth has slowed to 6.6%
- Compensation/Net Patient Revenue has increased from 50.8% to 55% over a five year period
- Debt service as % revenue has averaged 3% over same period and declining
- Capitalized interest costs for large projects have sky-rocketed despite/due to low interest rates and steep yield curve
- Tax law create onerous administrative burdens and programmatic limitations

# Conclusions

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- Health systems continue to seek scale and integration
- Capital needs have changed but remain substantial
  - Many facility initiatives will be focused on ambulatory and outpatient activities
- Shift to value payments will emphasize controlling total medical expense
- Design teams need to think differently in order to assist clients through transition



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