



# King's Daughters Health System

## Institutional Investors Call

March 25, 2014

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# Agenda

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- Introduction of new CEO, Kristie Whitlatch; Sheryl Mahaney, General Counsel; and new CFO, Autumn McFann
- Quality Focus
- Key Financial Trends
- FY2013 & FYTD2014 Financial Results
- Financial Improvement Plan
- Legal Environment
- Questions & Answers

# Kristie Whitlatch, President/CEO

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- Ashland, KY native; well-established in the community
- Been with the Health System since 1987, serving in various nursing and leadership roles
- Registered Nurse; Bachelor's and Master's degrees in Nursing
- Wharton Executive Education program
- Served as Vice President and Chief Operating Officer since 2011



# Sheryl Mahaney, Vice President/ General Counsel

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- Resident of Huntington, WV
- Been with the Health System since 1997, serving in legal, corporate compliance, and risk management leadership roles
- Juris Doctorate; Bachelor's degree in Political Science
- Previously practiced medical malpractice and healthcare law with a large firm in Albuquerque, New Mexico



# Autumn McFann, VP Finance/CFO

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- Life-long resident of Ironton, Ohio
- Been with the Health System since 2004, serving in various financial leadership roles
- Certified Public Accountant (CPA); Bachelor's and Master's degrees in Business Administration
- Background in Public Accounting (1999-2004)
- Served as Corporate Controller since Jan. 2009





# Quality Focus

# 2014 Carechex National Rankings Medical Excellence



* #1 in Ky.	Overall Medical Care (4,587)	Cardiac Care (3,746)	Heart Attack Treatment (3,746)	Heart Failure Treatment (3,559)	Interventional Coronary Care (1,233)	Coronary Bypass Surgery (1,196)	Cardiac Surgery (Major) (1,156)
<b>KDMC</b>	<b>15 *</b>	<b>11 *</b>	<b>92</b>	<b>10 *</b>	<b>7 *</b>	<b>9 *</b>	<b>30 *</b>
<b>OLBH</b>	<b>115</b>	<b>349</b>	<b>561</b>	<b>401</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>SOMC</b>	<b>1,469</b>	<b>1,689</b>	<b>355</b>	<b>2,142</b>	<b>262</b>	<b>322</b>	<b>475</b>
<b>St. Mary's</b>	<b>2,417</b>	<b>853</b>	<b>1,797</b>	<b>2,975</b>	<b>514</b>	<b>959</b>	<b>598</b>
<b>CHH</b>	<b>986</b>	<b>1,707</b>	<b>1,062</b>	<b>1,270</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Pikeville</b>	<b>2,349</b>	<b>1,695</b>	<b>699</b>	<b>2,158</b>	<b>795</b>	<b>980</b>	<b>1,100</b>
<b>CAMC</b>	<b>1,310</b>	<b>317</b>	<b>2,205</b>	<b>417</b>	<b>393</b>	<b>156</b>	<b>506</b>

# 2014 Carechex National Rankings Medical Excellence



* #1 in Ky.	Pulmonary Care (4,008)	Neurological Care (4,512)	Stroke Care (4,493)	Orthopedic Care (3,583)	Orthopedic Care (Major) (3,583)	Joint Replacement (3,583)
<b>KDMC</b>	<b>28*</b>	<b>281</b>	<b>66*</b>	<b>155</b>	<b>282</b>	<b>300</b>
<b>OLBH</b>	<b>327</b>	<b>491</b>	<b>701</b>	<b>261</b>	<b>668</b>	<b>649</b>
<b>SOMC</b>	<b>1,253</b>	<b>383</b>	<b>1,747</b>	<b>1,218</b>	<b>3,149</b>	<b>3,181</b>
<b>St. Mary's</b>	<b>1,694</b>	<b>1,069</b>	<b>3,642</b>	<b>1,654</b>	<b>1,263</b>	<b>2,473</b>
<b>CHH</b>	<b>695</b>	<b>343</b>	<b>2,963</b>	<b>2,666</b>	<b>623</b>	<b>972</b>
<b>Pikeville</b>	<b>897</b>	<b>4,374</b>	<b>2,694</b>	<b>2,911</b>	<b>223</b>	<b>419</b>
<b>CAMC</b>	<b>1,572</b>	<b>417</b>	<b>350</b>	<b>701</b>	<b>685</b>	<b>859</b>

# Healthgrades 2014: Cardiac Care

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- One of America's 100 Best Hospitals for Cardiac Surgery™ for two years in a row (2013-2014)
- Recipient of the Healthgrades Cardiac Surgery Excellence Award™ for 2 Years in a Row (2013-2014)
- Ranked Among the Top 10% in the Nation for Cardiac Surgery for 2 Years in a Row (2013-2014)
- Five-Star Recipient for Coronary Artery Bypass for 2 Years in a Row (2013-2014)
- Five-Star Recipient for Treatment of Heart Failure in 2014

# Healthgrades 2014: Neurosciences

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- Recipient of Healthgrades Stroke Care Excellence Award™ in 2014
- Ranked Among the Top 10% in the Nation for Treatment of Stroke in 2014
- Five-Star Recipient for Treatment of Stroke for Three Years in a Row (2012-2014)



# The Joint Commission

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- Designated as a: ***Top Performer on Key Quality Measures***
- Second year of this award program to recognize the top performing 33% of hospitals
- KDMC was recognized in the areas of:
  - Heart Attack
  - Heart Failure
  - Pneumonia
  - Surgical Care

# Recent Accreditations

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- Full accreditation of cardiac catheterization and percutaneous coronary intervention (PCI) program from the **Accreditation for Cardiovascular Excellence (ACE)**
  - The only hospital in Kentucky, Ohio or West Virginia to achieve this distinction and one of fewer than 20 facilities nationwide
- **Designated Hypertension Center** by the American Society of Hypertension
  - For medical practices that have demonstrated expertise in treating patients with complex hypertension and its co-morbidities



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# Key Financial Trends

# FY2013 Key Volume Issues

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- Admissions declined 6.5% from the prior year
- Surgeries declined 12.4% from the prior year
- Cardiac catheterizations declined 48.3% from the prior year
- MRIs / CT scans declined 17.2% from the prior year



# Key Reasons for Volume Decline

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- National and State trends of declining utilization
- Shift in patient responsibility for payment (higher co-pays, deductibles, etc.) driving down utilization
- Loss of market share due to highly publicized DOJ investigation
- Insurance company “steerage” for imaging services

# How Are We Addressing Volume Declines?

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- Improving community perception and community relations
- “Rebranding” campaign
- Focus on Quality
- Changing pricing strategy
- Improving team member morale
- Improved transparency with team members and community members
- Volume Growth Tactical Team

# Payor Mix Trends



	2011	2012	2013	2014 YTD
<b>Medicare</b>	49.2%	49.1%	50.7%	50.1%
<b>Medicaid</b>	16.4%	16.4%	15.2%	16.2%
<b>Insurance</b>	27.2%	27.0%	27.0%	27.7%
<b>Self-Pay</b>	7.2%	7.5%	7.1%	6.0%

# Bad Debt & Charity Trends

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## Bad Debt/Charity/Self-pay Discount as a % of Gross Revenue:

FY2011

8.0%

FY2012

8.4%

FY2013

8.1%

FYTD14

6.6%



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# FY2013 & FYTD2014 Financial Results



# FY2013 Financial Highlights

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- Net Revenue of \$485.9 million was 12.1% under prior year due to the volume decline in key areas
- Total Expenses of \$522.5 million were 3.7% under prior year primarily due to:
  - Salaries & Benefits were \$22.1 million (7.4%) under prior year
  - Supplies were \$6.0 million (6.0%) under prior year
- Operating Loss of \$36.6 million
- Net Loss of \$12.4 million
- Days cash on hand of 195 was below prior year days cash on hand of 214

# FY2013 Debt Service Coverage

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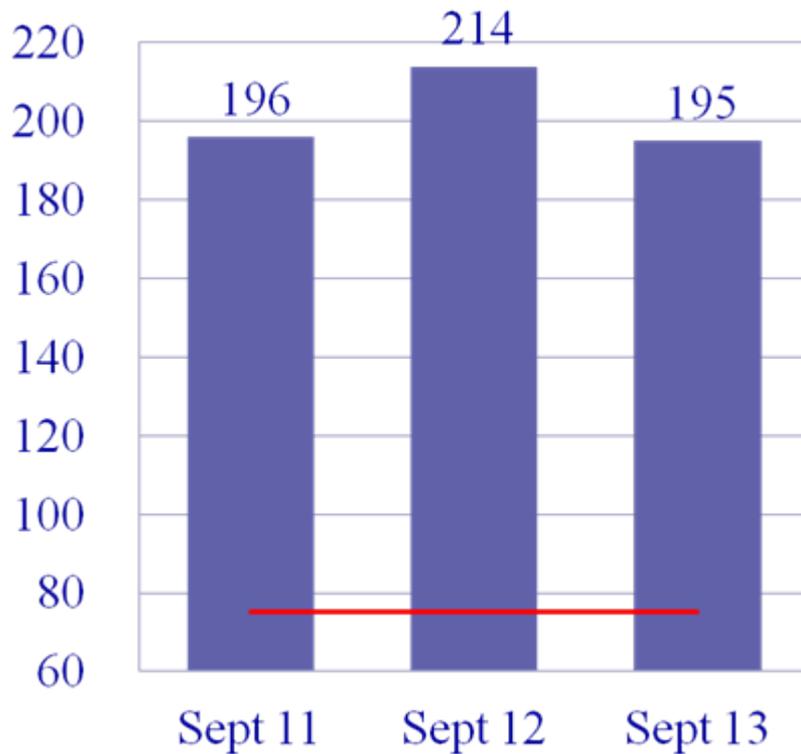


- Ongoing Department of Justice investigation over 2 years
- Accrued liability for DOJ settlement in the amount of \$40.9 million, plus \$8 million for related legal expenses
- FY2013 audited financial statements released 3/24/14
- Triggered a violation of the debt service coverage covenant under the Reimbursement Agreement with BB&T and the Master Trust Indenture (MTI)
- BB&T granted a waiver; effective on 3/5/14
- Consultant call-in is required under the MTI
- Hired Huron Healthcare effective March 2014



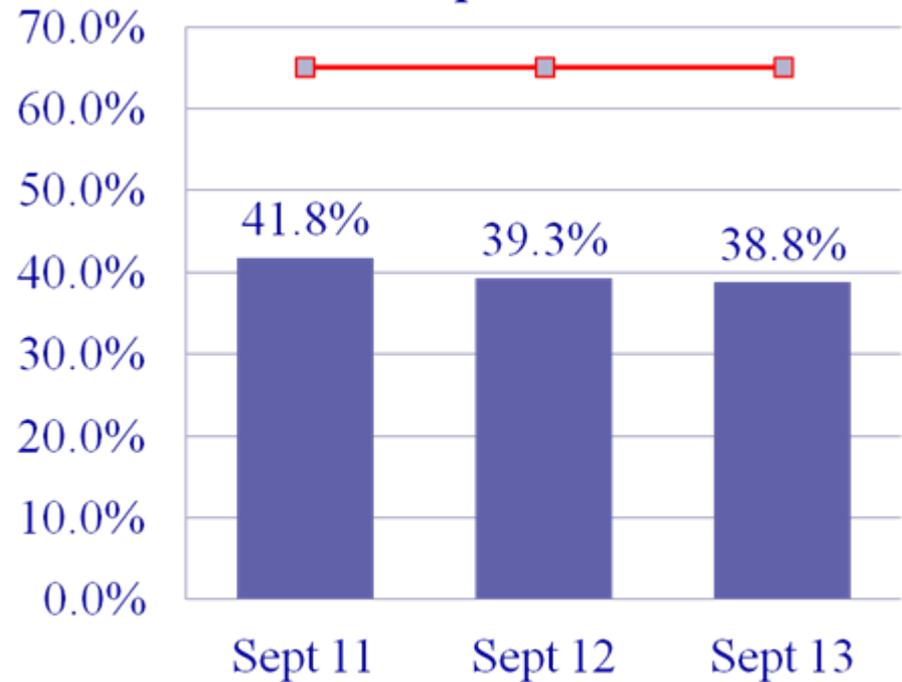
# Balance Sheet Performance

## Days Cash on Hand



— Bond Covenant - 75 days

## Debt to Capitalization



—■ Bond Covenant - can't exceed 65%

# FYTD14 Financial Highlights

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- Total Net Revenue of \$194.5 million is 1.6% ahead of budget, primarily due to lower bad debt/charity write-offs
- Total Expenses of \$217.0 million are 3.8% over budget, primarily due to higher salaries/benefits and purchased services
- Operating loss of \$22.5 million is behind the budgeted operating loss of \$17.6 million
- Net loss of \$10.9 million is ahead of budgeted net loss of \$15.6 million
- Days cash on hand of 187 is ahead of budgeted days cash on hand of 185

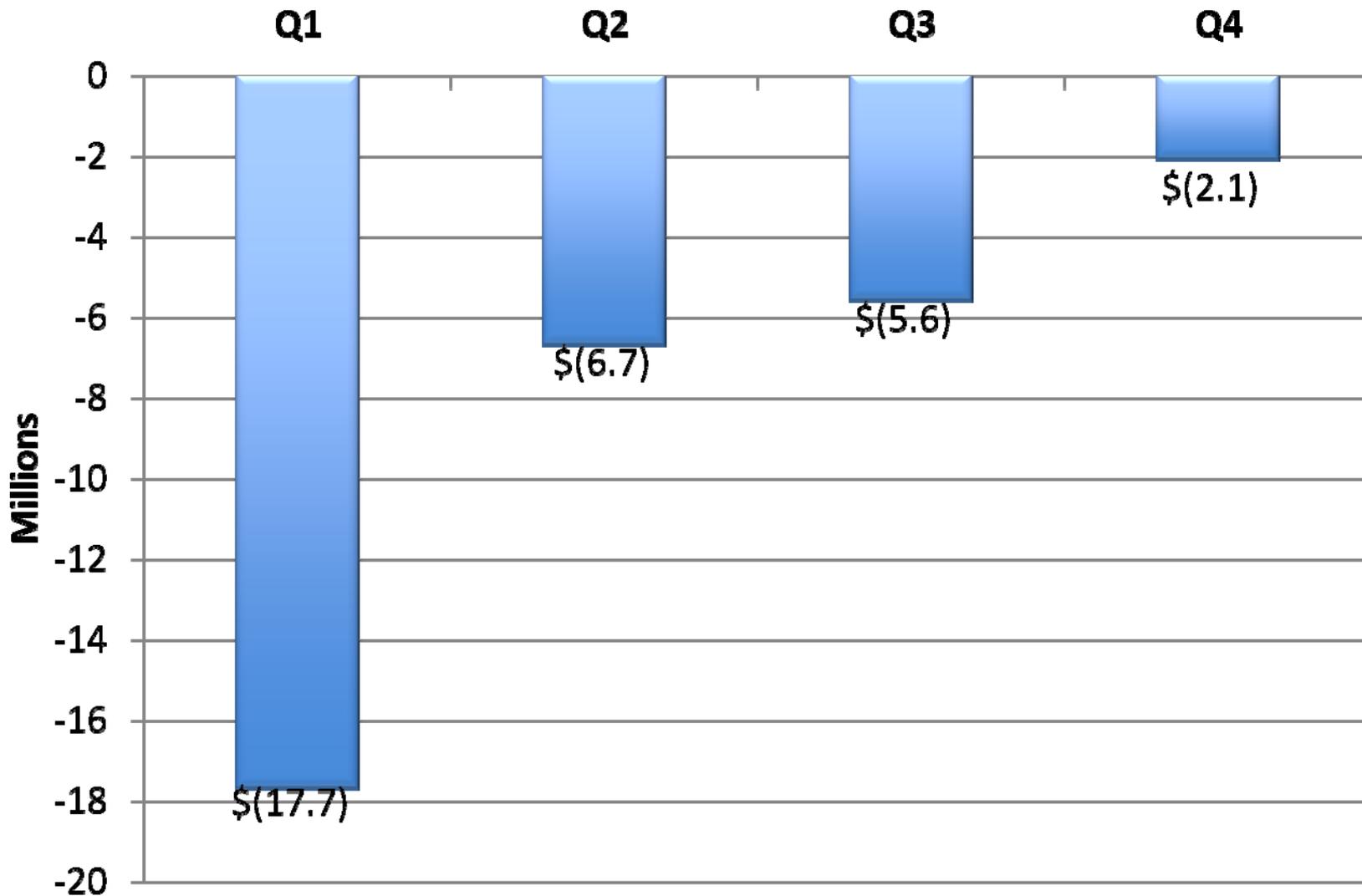
# FY2014 Improving Trends

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- Of the FYTD \$22.5 million operating loss, \$17.7 million occurred in first quarter
- Included approximately \$1.8 million of severance pay
- January and February's operating losses improved significantly at \$2.5 million and \$2.3 million, respectively
- Flex budget/projection shows an estimated total operating loss of \$32.1 million for FY2014, with a break-even level by September 2014

# FY14 Quarterly Operating Loss Projection





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# Financial Improvement Plan

# Financial Improvement Plan

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- Revenue Cycle

- Qualify patients for Medicaid and other coverage
- Implement patient responsibility estimator service
- Increase patient collections and reduce bad debt
- Redesign Epic system workflow and infrastructure to increase ongoing collections from insurance
- Implement computer assisted coding 3M system to improve coding and reimbursement

# Financial Improvement Plan

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- Staffing Productivity

- Implemented Reduction in Force (August 2013) and eliminated 150 positions
- Aggressive management of attrition
- Implemented Truven Action OI productivity benchmarking system and established standards for all patient care and support departments
- Cross-training and reallocation of staff

# Financial Improvement Plan

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- Supply Chain

- Implement Yankee Alliance service and collaborative
- Maximize Premier GPO contract purchasing
- Implement physician preference standardization

- Hospital Service Lines

- Eliminate unprofitable services and combine areas to gain efficiencies
- Implement cost accounting and service line reporting system

# Financial Improvement Plan

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- Physician Practices

- Consolidate unprofitable primary care centers to gain efficiency
- Adjust physician contracts to reflect productivity
- Terminate contracts for selected physicians
- No new acquisitions planned
- Implement provider based billing and 340b drug program for select specialty clinics

# Financial Improvement Plan Projected Impact (Annual)



	Implemented Feb 2014	Total FY2014
Revenue Cycle	\$2.0M	\$8.0M
Staffing Productivity	\$18.0M	\$21.0M
Supply Chain	\$2.0M	\$3.0M
Service Lines	\$1.0M	\$5.0M
Physician Practices	\$1.5M	\$6.0M
<b>Total</b>	<b>\$24.5M</b>	<b>\$43.0M</b>



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# Legal Environment



# Question & Answer Session