University of Tennessee Medical Center
(University Health System, Inc.)

HFMA CAPITAL CONFERENCE
March 26-27, 2015
Chicago, Illinois

Presented by:
Tom Fisher, CFO
David Hall, COO

Wisdom for Your Life.
AGENDA

I. Introduction

II. Market Overview

III. Financial/Utilization Statistics

IV. Clinical and Financial Strategies

V. Future Outlook/Challenges
I. INTRODUCTION
Our Mission
To serve through healing, education and discovery

Nationally Recognized Medical Center
Nationally Recognized Football Team
Mission
To Serve through Healing, Education and Discovery

Vision
To be Nationally Recognized for Excellence in Patient Care, Medical Education and Biomedical Research

Values
- Integrity
- Excellence
- Compassion
- Innovation
- Collaboration
- Dedication
Overview of UTMC

• Licensed and currently staffing 581 beds
  - CON approved 12/14 for 44 additional beds
• Approximately 3 million square feet on campus
• Magnet Hospital – American Nursing Credentialing Association – (2011)
• Organized into six “Centers of Excellence”
  - Brain and Spine Institute
  - Cancer Institute
  - Emergency & Trauma
  - Heart, Lung & Vascular Institute
  - Advanced Orthopaedic Center
  - Women & Infants
• Regions only Level I Trauma Center
• Kidney Transplant Program
• Regional Perinatal Center
• Lifestar Air Ambulance Program (5 helicopters)
• Comprehensive Stroke Center
University Physicians Association, Inc.

- The University Physicians Association (UPA) is a physician owned IPA.
- UPA is a clinically integrated model with “single signature” contracting abilities.
- UPA has approximately 750 members and the majority of UTMC physicians are members.
- UPA provides accounting, billing, credentialing, employee leasing, practice management, managed care contracting, and human resource services for its clients.
- UPA is a key strategic partner for UTMC.
How were we formed?

- University Health System (UHS), the parent company of University of Tennessee Medical Center (UTMC) was formed in 1999 to acquire the assets of UTMC from the University.
  - Highly leveraged transaction
  - Governed by 3 agreements:
    - Lease and Transfer Agreement
      - 50 year term
      - $50 Million lease payment for first 20 years
    - Employee Services Agreement
      - Employees hired before transaction date were leased to UHS
      - Retain state benefit structure
    - Affiliation Agreement
      - All direct and indirect graduate medical education reimbursement flow through UHS to the UT Graduate School of Medicine (GSM)
How were we formed?

• UHS is non-profit 501 (c ) (3) organization
• 15 member Board of Directors
  - CEO
  - UT President
  - UT Chancellor
  - 4 other members appointed by University
  - President of University Physicians Association (UPA)
  - 2 MD members of the UPA and active on UTMC staff
  - 5 other independent residents of service area

• UTMC is a hybrid academic medical center
  - Medical school is in Memphis
  - Faculty are mostly private physicians whose incomes are derived from their private practice
  - No practice plan structure
Our Mission
To serve through healing, education and discovery

Recognitions

2014 GET WITH THE GUIDELINES
HEART FAILURE

BEST HOSPITALS
US News
NATIONAL PULMONOLOGY 2014-15

BEST REGIONAL HOSPITALS
US News
EASTERN TENNESSEE RECOGNIZED IN 11 SPECIALTIES 2014-15

2014 GET WITH THE GUIDELINES
STROKE

NCDR®
NATIONAL CARDIOVASCULAR DATA REGISTRY

MAGNET RECOGNITION
AMERICAN NURSES CREDENTIALING CENTER

American Heart Association
American Stroke Association
CERTIFICATION
Meets standards for Comprehensive Stroke Center

CONSUMER CHOICE #1
National Research Corporation

2012/2013
II. MARKET OVERVIEW
Knoxville Marketplace

- UTMC
- Covenant Health System
- Tennova
- East Tennessee Children’s Hospital (ETCH)

Covenant
- Region’s largest health system
- Strong balance sheet
- Strategy to acquire/merge smaller stand-alone hospitals
- Shares large primary care physicians group with Tennova

Tennova
- Recently acquired by CHS from HMA
- Merger of Baptist Health System and St. Mary’s Health System (CHP)
- Received CON approval to replace St. Mary’s (+ $300ml)
- Significant market share loss over last 10 years

ETCH
- Independent
Knoxville Marketplace (continued)

• Vast majority of UTMC physicians only practice at UTMC

• Physician market is consolidating. Summitt Medical Group (approximately 175 primary care physicians) primarily practice at Covenant and Tennova.

• BCBS has largest market share for commercial market
  - UTMC is the exclusive provider for BCBS Exchange Product (Network E) in Knox County

• Humana has largest market share for Medicare Advantage

• No capitation, generally PFP and risk share arrangements

• Summitt did participate as ACO. ACO was recently discontinued. However, they do have a medical home arrangement with BCBS and risk share with Humana
Knoxville Marketplace (continued)

Demographics for Knoxville Region

- Census 2012 - Knoxville - 182,200
  MSA - 848,350

- Knox County Median Age - 37

- Bachelors Degree or Higher - 33%

- 2012 Cost of Living - 89.3%

- MSA per capita personal income 2011 - $36,567 (+ 4.2%)

- Knoxville Unemployment Rate (12/14) - 5.6%
  Tennessee - 6.6%
University of Tennessee Medical Center

Service Area

Our Mission
To serve through healing, education and discovery
Market Share

Total Discharges (21 County MSA)

- 2010: 173,510
- 2011: 168,391
- 2012: 163,580
- 2013: 166,067
- Thru Q3 2014: 100,099
III. FINANCIALS/UTILIZATION
# UTMC Utilization Statistics

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Change</th>
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</thead>
<tbody>
<tr>
<td><strong>Licensed Beds</strong></td>
<td>581</td>
<td>581</td>
<td>581</td>
<td>581</td>
<td>581</td>
<td>581</td>
</tr>
<tr>
<td><strong>Patient Days</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A &amp; P</td>
<td>121,590</td>
<td>121,365</td>
<td>119,498</td>
<td>123,749</td>
<td>129,580</td>
<td></td>
</tr>
<tr>
<td>NICU</td>
<td>14,089</td>
<td>15,580</td>
<td>15,359</td>
<td>16,267</td>
<td>17,681</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>135,679</td>
<td>136,945</td>
<td>134,857</td>
<td>140,016</td>
<td>147,261</td>
<td>+ 8.5%</td>
</tr>
<tr>
<td><strong>Admissions</strong></td>
<td>23,364</td>
<td>23,104</td>
<td>23,819</td>
<td>24,868</td>
<td>25,398</td>
<td>+ 8.7%</td>
</tr>
<tr>
<td><strong>ALOS</strong></td>
<td>5.8</td>
<td>5.9</td>
<td>5.7</td>
<td>5.6</td>
<td>5.8</td>
<td>---</td>
</tr>
<tr>
<td><strong>Medicare CMI</strong></td>
<td>1.92</td>
<td>1.96</td>
<td>2.00</td>
<td>1.96</td>
<td>1.98</td>
<td>---</td>
</tr>
<tr>
<td><strong>Inpatient Surgery Cases</strong></td>
<td>8,475</td>
<td>8,344</td>
<td>8,606</td>
<td>8,657</td>
<td>8,799</td>
<td>+ 3.8%</td>
</tr>
<tr>
<td><strong>Outpatient Surgery Cases</strong></td>
<td>13,785</td>
<td>14,390</td>
<td>15,209</td>
<td>16,045</td>
<td>16,825</td>
<td>+ 22.1%</td>
</tr>
<tr>
<td><strong>Emergency Department Visits</strong></td>
<td>64,686</td>
<td>68,923</td>
<td>80,114</td>
<td>84,733</td>
<td>85,612</td>
<td>+ 32.4%</td>
</tr>
</tbody>
</table>
## UTMC Condensed Balance Sheet (millions)

For the years ended December 31

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>Cash and Investments</td>
<td>$48.7</td>
<td>$199.5</td>
<td>$198.4</td>
<td>$216.8</td>
<td>$235.9</td>
<td>$256.5</td>
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<tr>
<td>Total Current Assets</td>
<td>127.3</td>
<td>198.8</td>
<td>172.6</td>
<td>187</td>
<td>181.1</td>
<td>204.1</td>
</tr>
<tr>
<td>Plant and Equipment Net</td>
<td>70.0</td>
<td>175.6</td>
<td>196.3</td>
<td>203.4</td>
<td>205.5</td>
<td>223.7</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>39.8</td>
<td>107.5</td>
<td>111.7</td>
<td>117.5</td>
<td>130.8</td>
<td>155.7</td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>206.8</td>
<td>253.4</td>
<td>269.3</td>
<td>281.7</td>
<td>280.6</td>
<td>284.5</td>
</tr>
<tr>
<td>Total Net Assets</td>
<td>&lt;3.5&gt;</td>
<td>108.5</td>
<td>124.3</td>
<td>143.6</td>
<td>152.9</td>
<td>176.5</td>
</tr>
</tbody>
</table>
## UTMC Condensed Income Statement (millions)

For the years ended December 31

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$ 510.4</td>
<td>$ 541.0</td>
<td>$ 574.8</td>
<td>$ 631.4</td>
<td>$ 707.1</td>
</tr>
<tr>
<td><strong>Salaries &amp; Benefits</strong></td>
<td>227.5</td>
<td>242.6</td>
<td>256.6</td>
<td>273.7</td>
<td>302.1</td>
</tr>
<tr>
<td><strong>GME Reimbursement</strong></td>
<td>30.2</td>
<td>30.2</td>
<td>31.1</td>
<td>31.8</td>
<td>32.7</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>507.9</td>
<td>532.3</td>
<td>571.0</td>
<td>626.4</td>
<td>696.8</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>2.5</td>
<td>8.7</td>
<td>3.8</td>
<td>5.0</td>
<td>10.4</td>
</tr>
<tr>
<td><strong>Non-Operating Gains</strong></td>
<td>6.7</td>
<td>4.1</td>
<td>11.6</td>
<td>7.8</td>
<td>6.7</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$ 9.2</td>
<td>$ 12.8</td>
<td>$ 15.4</td>
<td>$ 12.8</td>
<td>$ 17.1</td>
</tr>
<tr>
<td><strong>EHR Stimulus Funds</strong></td>
<td>$ 0.0</td>
<td>$ 5.4</td>
<td>$ 4.0</td>
<td>$ 2.9</td>
<td>$ 1.1</td>
</tr>
</tbody>
</table>
### UTMC Ratio Analysis

<table>
<thead>
<tr>
<th>Ratio Analysis</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Cash on Hand</td>
<td>149.4</td>
<td>142.0</td>
<td>144.8</td>
<td>143.4</td>
<td>140.0</td>
</tr>
<tr>
<td>Cash to Debt</td>
<td>78.7%</td>
<td>73.7%</td>
<td>77.0%</td>
<td>84.0%</td>
<td>89.5%</td>
</tr>
<tr>
<td>Debt to Capitalization</td>
<td>71.4%</td>
<td>69.9%</td>
<td>67.5%</td>
<td>66.0%</td>
<td>63.2%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>0.5%</td>
<td>1.6%</td>
<td>0.7%</td>
<td>0.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Operating Cash Flow Margin</td>
<td>6.8%</td>
<td>8.0%</td>
<td>7.0%</td>
<td>6.8%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Debt Service Coverage</td>
<td>2.2X</td>
<td>2.2X</td>
<td>2.3X</td>
<td>2.4X</td>
<td>2.5X</td>
</tr>
</tbody>
</table>
### Payor Mix (Charge Based)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>44%</td>
<td>43%</td>
<td>44%</td>
<td>46%</td>
<td>46%</td>
</tr>
<tr>
<td>Medicaid/TennCare</td>
<td>17</td>
<td>17</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Managed Care/Commercial</td>
<td>31</td>
<td>32</td>
<td>32</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>Self Pay</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

- Stable payor mix
- Improvement in self pay for 2014 due to Exchange/Premium subsidy
- Tennessee has chosen not to expand Medicaid
## UTMC Debt Structure

<table>
<thead>
<tr>
<th>Series</th>
<th>Outstanding</th>
<th>Final Maturity</th>
<th>Interest Rate Structure</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 Series</td>
<td>$203,250,000</td>
<td>2036</td>
<td>Fixed</td>
<td>Public Issue</td>
</tr>
<tr>
<td>2010 Series</td>
<td>49,660,000</td>
<td>2017 (1)</td>
<td>Variable (1.1%)</td>
<td>SunTrust</td>
</tr>
<tr>
<td>2014 Series</td>
<td>10,000,000</td>
<td>2021 (1)</td>
<td>Variable (.9%)</td>
<td>SunTrust</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Swap Profile</th>
<th>Notional</th>
<th>Final Maturity</th>
<th>Counterparty</th>
<th>Current MTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 Basis Swap</td>
<td>$176,000,000</td>
<td>2029</td>
<td>Morgan Stanley</td>
<td>+ $861k</td>
</tr>
</tbody>
</table>

(1) 2010 and 2014 Series subject to tender after 7 years.

### Financial Covenants:
- Investment grade rating (currently BBB+ Fitch and S&P)
- DSC 1.1x on 2007 Series and 1.2x for 2010 and 2014 Series
- Minimum days cash on hand of 60 for 2010 and 2014 Series
IV. CLINICAL AND FINANCIAL STRATEGIES
<table>
<thead>
<tr>
<th>Strategy</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Staff Development</td>
<td>Expand primary care network and become the region's employer of choice for physicians</td>
</tr>
<tr>
<td>Center of Excellence</td>
<td>Grow COE Services and Quality</td>
</tr>
<tr>
<td>Academic</td>
<td>Achieve top quartile ranking of graduate medical schools</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Achieve and sustain top quartile ranking in customer service and team member engagement. Achieve the Malcolm Baldrige National Quality Award. Reduce expense per equivalent admission.</td>
</tr>
<tr>
<td>Community Outreach</td>
<td>Deliver a range of UTMC medical services within a 30 minute drive for 90% of the MSA.</td>
</tr>
<tr>
<td>Clinical Integration</td>
<td>80% of acute patients receiving care based on clinical pathways and at least 15 chronic disease protocols in place across the continuum of care.</td>
</tr>
</tbody>
</table>
Standardize Clinical Processes:

- In 2013, UTMC embarked on a program to have 80% of all inpatient admissions under a specific pathway.

**What is a Pathway?**
- Specific plan of care for a defined patient condition
- Tightly tied to specific workflows
- Evidence based and best practice standards
- Regulatory and PFP requirements

- Pathways are developed at the service line level. Individual physicians do not have their own pathways.

- Goal and metrics for program is to reduce:
  - Complications
  - Mortality rate
  - Length-of-stay
  - Readmissions

- At the end of 2014, approximately 68% of all admitted patients are on a specific pathway.
Our Mission
To serve through healing, education and discovery

University of Tennessee Medical Center

Process Improvement Model

Key Strategic Objectives
1. Outreach
2. Clinical Integration
3. Centers of Excellence
4. Medical Staff Development
5. Academic Achievement
6. Sustainability
V. FUTURE OUTLOOK/CHALLENGES
Future Outlook / Challenges

• Historically low operating margins for region
  - Low commercial managed care rates
  - Medicare wage index is at the rural floor
  - All indirect medical education payments are passed through to the GSM

• TennCare reimbursement has always been low
  - Tennessee has elected not to expand Medicaid
  - Implementing “Episode of Care” reimbursement model
  - Rate variation
  - Utilizes provider formula to offset potential reductions

• Reimbursement reductions and denials

• Capacity and capital constraints

• Regulatory changes (ICD-10, ACA, 340b, etc)
What UTMC is Doing to OFFSET Challenges

• Continue to reduce operating costs
  - 5%/20 million plan
  - Expense per equivalent admission increased 1% in 2014 over 2013 levels
  - FTE per AOB of 4.4 for 2014

• Accelerate the development of a clinically integrated network

• Accelerate the development of outpatient centers

• Enhance clinical documentation improvement program

• Continue to be the provider of choice in region
Conclusion – Why UTMC will be Successful in the Future?

• Academic mission is differentiator in the market

• Medical Staff are involved in the decision making process
  - Strength of relationship
  - Culture of trust

• Culture of outstanding customer service

• Strong results in quality measures

• Supportive Board of Directors

• Well positioned for managed care and risk bearing models
  - UPA
  - Ease of contracting

• Positive volume trends

• Baldrige journey