Steward Health Care System LLC

HFMA Capital Conference - April 2014
Mark Rich
Executive Vice President & CFO
Agenda

- Company Overview
- Timeline
- The Steward Model / Strategy
Company Overview/Timeline
Company Description

- Steward Health Care System (a portfolio company of Cerberus Capital Management) is the largest community-based health care system in New England, consisting of ten acute care hospitals, one LTACH, home health, a captive insurance arm, 3 managed care insurance products, and several ancillary businesses.

- Market area covers over 90 communities and 2.5+ million residents in RI, NH and MA.

- Key characteristics:
  - Community based / strong regional focus
  - Fully integrated (i.e. single signature)
    - 13 contracting hospitals (include CCHS)
    - 2,800 physicians (75% private practice)
  - Significant experience with Health Reform
  - Focused on at-risk global payment:
    - 75%-85% of commercial business
    - Pioneer – 70,000 lives

Key Stats

<table>
<thead>
<tr>
<th>Total Revenues</th>
<th>$ 2.2 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>11</td>
</tr>
<tr>
<td>Access points</td>
<td>150+</td>
</tr>
<tr>
<td>Licensed Beds</td>
<td>2,100</td>
</tr>
<tr>
<td>Discharges</td>
<td>80,000</td>
</tr>
<tr>
<td>Adj Discharges</td>
<td>200,000</td>
</tr>
<tr>
<td>ER Visits</td>
<td>380,000</td>
</tr>
<tr>
<td>Employees</td>
<td>17,500</td>
</tr>
<tr>
<td>Employed physicians</td>
<td>700</td>
</tr>
<tr>
<td>Total Patients</td>
<td>100000+</td>
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</table>

Steward Health Care Network:

| Covered Lives           | 400,000       |
| Contracting providers   | 2,800         |
| Contracting hospitals   | 13            |
New management team (in Q3), led by Dr. Ralph de la Torre, implemented significant administrative, operational and clinical reforms that included new performance goals, new governance processes, new organizational by-laws, as well as complete upgrading and alignment of the information technology systems.

With the company stabilized, the new management team focused on how best to position the company for future success, which ultimately led to the investment from Cerberus and the creation of Steward in November 2010.

- Greatly expanded network
  - Acquired 4 new hospitals
  - 1,000 new physicians
  - 2 surgi-centers
  - Multi-site high end imaging

- Introduced Steward Community Choice & Steward Community Care (Insurance Products)

- Selected as Pioneer Provider by CMMI

The new management team worked to reorganize and rebuild the physician network with a focus on financial and clinical integration.
Company Timeline

In MA: Steward looks to optimize its existing portfolio of hospitals in Eastern MA, increasing operating margins through productivity, supply chain, and revenue cycle initiatives.

Potential for continued expansion of global risk format to Medicaid and other payors

Outside MA: CCM/Steward looks to potentially expand to new markets with a focus on replicating its current model: strong regional presence, fully integrated hospital / physician network

- **2012**
  - Added New England Sinai, North Easton Surgery Center, several “retail” outlets and Compass Medical Group (100 Primary Care Providers), re-vamped/integrated Rev Cycle and IT

- **2013**
  - Restructured capital with $285m term loan, expanded Pioneer program, negotiated percent of premium contracts and extended BCBS AQC contract, affiliated with PrimaCare Medical (90 primary care providers), acquired Hawthorn Medical Associates (100+ physicians, surgi-center, oncology business, high end imaging)

- **2014**
  - Expanding footprint through urgi-center and community health center affiliations, highly focused on re-engineering service platform (increased automation, HER deployment, re-envisioning campus utilization)

- **2015+**
  - In MA:
    - Increasing operating margins through productivity, supply chain, and revenue cycle initiatives.
    - Potential for continued expansion of global risk format to Medicaid and other payors
  
  - Outside MA:
    - CCM/Steward looks to potentially expand to new markets with a focus on replicating its current model: strong regional presence, fully integrated hospital / physician network
The Steward Model
Defining Characteristics

- **Fully-integrated healthcare delivery system (not a “hospital-company”)**
  - Community based medicine is the key to bending the cost curve
  - Right care, right place, right time = moving care across the continuum

- **Strong Regional Presence**
  - Care protocols are “local” in their interpretation & execution
  - (High end) subspecialties are key to keeping care local
  - Regulatory environments / legislative agendas
  - Insurance moving toward limited networks
  - Scale, automation and innovation are the keys to squeezing out the last administrative consolidation opportunities

- **Global / at-risk payment methods are critical to aligning incentives**
  - “Financial agnostics”
  - Care-coordination is crucial for improving quality / reducing redundancy
Steward’s Model & Plan

Drivers of Success:

- Capital Investment
- IT
- Care Management
- Scale
- Geography
- Quality

Steward:

- $600m+ (plus IT) invested in growing, expanding and creating the System
- $200-$225m investment
- EMR – fully wired, limited options
- Centralized care / referral management team, within network “preference”/aligned economics
- 11 Hospitals / 2800 docs
- Market concentration within a broad geography with multiple access points (“retailization”)
- Facility improvements
- Physician & patient service
Key Performance Indicators

- Continuous improvements in efficiency and labor cost reduction
- Slight increase in 2013 related to union notification requirements

**FTE's per Adjusted Occupied Bed**

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>3.67</td>
<td>3.59</td>
<td>3.49</td>
<td>3.38</td>
<td>3.09</td>
<td>3.13</td>
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**Average Length of Stay (Casemix Adjusted)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>4.25</td>
<td>4.11</td>
<td>4.00</td>
<td>3.87</td>
<td>3.69</td>
<td>3.61</td>
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</table>

- Implementation of enhanced clinical data systems
- Greater focus on care management and discharge plans

**Mortality Rates**

*Ratio of Observed to Expected Mortality*

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1.04</td>
<td>0.84</td>
<td>0.90</td>
<td>0.83</td>
<td>0.79</td>
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- 10 of 10 Hospitals are LeapFrog “A” with 2 in the Top 5% for Safety

- CareChex #1 Interventional Cardio; Becker’s Top 100; Healthgrades 5 Star; Truven Top 100
Thank you!

Steward Health Care System

*World-Class Community Health Care Where You Live*

[www.steward.org](http://www.steward.org)