After the Merger: Creating an Integrated System

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EVP Finance and Interim Chief Financial Officer & Treasurer
CHE Trinity Health

HFMA Panel Discussion
October 4, 2013
Drivers for the consolidation/merger

- Preservation and strengthening of Catholic healthcare
- Aligned cultures
- National presence and influence through advocacy
- First mover advantage
- Financial strength
- Economies of skill and scale
- Geographic distribution

Strength of the combined organization

**Combined Organization to Serve 21 States Nationwide**

- Operating revenue $13.3 billion
- 82 hospitals
- More than 87,000 employees
- 4,100 employed physicians & residents
- 89 continuing care facilities
- Largest PACE & home health provider
- 2.75 million annual home health & hospice visits
- $1 billion in Community Benefit Ministry

- Trinity Health
- Catholic Health East
Tracking Merger Success

- Achievement of financial synergies
- Integration of clinical excellence & quality programs
- Readiness for healthcare reform
- Performance Excellence
- Integration & rationalization of IT platforms
- Innovative infrastructure design to support new healthcare delivery model
- Leverage group purchasing power
- Alignment of human resource & talent management functions
- Integration of strategic planning to leverage system strength

The Synergy Equation

Cost Savings Reductions
Shared Services

Targeted $250-$300 million and counting...

Revenue Improvement

Targeted $100-$150 million and counting...

Performance Excellence

Clinical Transformations

New Healthcare Delivery Model
### Identified Cost Saving Initiatives

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiative</th>
<th>Annualized $ in millions</th>
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<tbody>
<tr>
<td>FY14</td>
<td>Other</td>
<td>$81</td>
</tr>
<tr>
<td>FY15</td>
<td>Clinical</td>
<td>$185</td>
</tr>
<tr>
<td>FY16</td>
<td>Information Systems</td>
<td>$302</td>
</tr>
</tbody>
</table>

**Other includes Community Benefit Ministry, Advocacy, Human Resources, Legal, Insurance & Risk Management, and Regional Health Ministry Initiatives**

**Additional Revenue Improvement of $100-$150 million and counting...**

### Integration Achievements to Date

- Determined fiscal year-end – June 30th
- Selected audit firm – Deloitte & Touche
- Completed initial operating and capital budget for New Ministry
- Established long range financial plan
- Built financial reporting infrastructure
- Determined common accounting policies & assumptions
- Completed CHE year-end audit
- Completed Trinity Health year-end audit
- Combined offshore captive Board meetings in May 2013; one offshore captive Board effective January 1, 2014
- Consolidated insurance programs September 1, 2013
- Consolidate offshore captive insurance companies effective January 1, 2014
- Selected actuaries for insurance programs and pension valuations
- Finalized and communicated significant organizational structure design work
- Conducted initial system-wide Asset/Liability Management study in September 2013 in collaboration with Goldman Sachs
- Conducted RFP and selected Investment Advisors for Operating, Insurance, and Pension Investment Portfolios
- Developed debt structure consolidation and financing plans
- Revenue Excellence – RFP extended to firms for visioning process; Navigant selected to assist with vision and design; design process to be completed in 90 days, plan execution within 2 years
- Integration of Physician Network oversight (legacy Trinity) into Physician Practice Steering Committee (legacy CHE) to leverage oversight of physician practices system-wide
- Developed a combined capital management process
- Formed Growth Leadership Team focused on system strategic opportunities
- Established executive oversight for implementation of health insurance exchange products
- Formed functional councils and system-wide meetings held and/or scheduled
Clinical Excellence & Quality Achievements

- Creation of consolidated Acute Care Clinical Quality Scorecard, incorporating components of quality, safety, accreditation, patient satisfaction, and nursing retention
- Creation of consolidated Long-Term Care Clinical Quality Scorecard
- Completed organizational structure design combining corporate clinical support through all levels
- Support the CHE TH Board Quality & Patient Experience Committee
- Combined the Chief Nursing Officers from legacy organizations into single group to address patient care excellence issues
- Combined the Chief Medical Officers from legacy organizations into single group to address physician services issues
- Restructured the Clinical Informatics Team, combining informatics experts from the legacy organizations
- Combined the Accreditation and Regulatory Services Teams from the legacy organizations
- Combined the Pharmacy Teams from the legacy organizations
- Combined the Quality Leads from the legacy organizations
- Building upon existing relationships between the organizations to develop a strong and integrated clinical team
- Implementation of Serious Reportable Events Reporting to improve patient safety and quality
- Initiation of Falls Collaborative, convergence of excellent work from both legacy organizations
- Initiation of Sepsis Collaborative – migration of successful TH work to CHE
- Initiation of Perinatal Patient Safety Collaborative, convergence of excellent work from both legacy organizations
- Initiation of CMS IPPS Collaborative to address 2-midnight rule scheduled for implementation 10/1/2013
- Agreed upon financial reporting plans for clinical initiatives
- Combining system-wide educational activities, such as Clinical Summit in Chicago
- Vendor consolidation activities initiated – NDNQI, Knowledge Vendor, Satisfaction Surveys

Keys to Success

- Compelling vision
- Relationships are key; teams are essential
- Most precious asset = people
- Clear roles and accountabilities
- Disciplined execution
- Can’t lose sight of core operations during the integration
- Communication, communication, communication
- Deliver on the value
- Say “Thank You!”
Life After Not-for-profit

Jeff Eppinette, CFO
Remington Medical Resorts

October 4, 2013

Challenges

• Extremely limited access to capital
• Outsourced management & consulting expenses
• Competitive disadvantage with payors and new physicians
• Reputation & Perception
• Potential “Death Spiral”
Advantages

• Immediate access to capital
  – $200 million commitment in first 6 years
• Operational expertise
  – Experienced operators (CEO, CFO, CNO, COO)
  – Financial discipline
• Contracting leverage
  – Payors
  – Suppliers

Advantages (cont’d)

• Mission enhancement
  – Added VP of Mission and Ministry
  – Guaranteed continued employment of chaplains for each hospital
  – Guaranteed increase in charity care proportionate to growth
Major Capital Projects

- Northeast Baptist - $85m expansion
- North Central Baptist - $100+m expansion(s)
- Mission Trail Baptist - $110m new facility
- School of Health Professions - $2m expansion
  - New location
  - Increased capacity
  - Expanded programs
    - RN to BSN
    - B.S. in Healthcare Management (on-line)

Mission Trail Baptist and MOB
How Measured

• EBITDA 6 months prior  ($x,xxx,xxx)
• EBITDA 6 months post  $x,xxx,xxx
• Ongoing –
  – Patient Safety
  – Patient Experience
  – Employee Engagement/Turnover
  – Growth
  – Finance (EBITDA, Margin & Cash Flow)
Vision For Collaboration

Vision: Together, design and build a locally based health system bringing exceptional healthcare to the western suburbs of Chicago

Delnor and CDH—delivering unmatched value to our communities
- Elevating the caliber and breadth of healthcare services available in our region
- Expanding local access to care
- Driving unrivaled clinical quality and outcomes at the lowest cost
- Delivering an enhanced patient experience
- Attracting and retaining leading physicians
- Investing in needed cutting edge technology, equipment, and facilities
- Maintaining a high performing and committed workforce
- Contributing to the economic development and job growth of the region
Rationale
There are two principle factors underlying this vision:

1. The western suburbs population is large enough to support an integrated health delivery system
   • This area would rank as the 21st largest metro area in the United States

2. A Delnor-CDH union would bring improved local access to high end, clinically integrated care for the patients in our region

Delnor & CDH – Uniquely Positioned

**WE SERVE THE SAME COMMUNITIES.** Delnor and CDH have complementary and contiguous service areas

**WE WOULD BE A SOLELY LOCALLY BASED SYSTEM**—characterized by local governance, local management, and local investments in service to our communities

**TOGETHER, OUR SIGNIFICANT PROGRAMMATIC SCALE AND ADVANCED CAPABILITIES CAN BRING REGIONALLY AND NATIONALLY LEADING PROGRAMS TO OUR COMMUNITIES**

**A DELNOR-CDH COMBINATION WOULD CREATE A CLINICALLY POWERFUL, LOCALLY BASED INTEGRATED PHYSICIAN PLATFORM**

**BOTH ORGANIZATIONS HAVE CULTURES OF UNRIVALLED SERVICE TO THE COMMUNITY AND HIGH PERFORMANCE**
Refined Guiding Objectives

At our July 14th meeting, we jointly defined a set of objectives to guide us as we explore the possibilities presented by a Delnor-CDH collaboration.

- To provide more effective and efficient delivery of patient care
- To develop and grow a combined service capability with seamless access for caregivers and patients
- **To deliver high quality care that is safe, effective, efficient, patient-centered, timely and equitable.** This will be achieved by: promoting collaboration, benchmarking against top performers, establishing performance accountability, committing to continuous improvement and learning.
- To combine the financial strength of both institutions for the support of future growth
- To establish a combined governance structure with equal representation from both institutions and with a provision for delegated governance at the institutional level
- To provide continued opportunities for growth and development of the people of both organizations
- To maintain the community focus and benefits of each institution
- To support the formation of a broad network of clinically integrated providers
- To jointly build a brand synonymous with bringing high quality, advanced care to our local communities

Metric for Success

Below is a preliminary list of performance metrics that could be used as a starting point for Board and Management planning. The intent in sharing these proposed metrics is to illustrate that the combined entity would be outcomes driven. The Parent Board would work with management post LOI/definitive agreement to determine/finalize metrics.

<table>
<thead>
<tr>
<th>Performance Area</th>
<th>Proposed Metrics for Success</th>
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</thead>
<tbody>
<tr>
<td><strong>Service</strong></td>
<td>Top decile performance in the following areas:</td>
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<tr>
<td></td>
<td>• Patient-rated satisfaction</td>
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<td></td>
<td>• Physician satisfaction</td>
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<tr>
<td><strong>People</strong></td>
<td>Top decile performance in the following areas (organizational and RN):</td>
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<tr>
<td></td>
<td>• Employee satisfaction</td>
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<td>• Employee turnover</td>
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<td>• Employee vacancy</td>
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<tr>
<td><strong>Quality</strong></td>
<td>Top decile performance in the following areas:</td>
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<tr>
<td></td>
<td>• Mortality index</td>
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<td>• LOS</td>
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<td></td>
<td>• Hospital-acquired infections</td>
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<td>• Core measure compliance</td>
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<td></td>
<td>• Preventable readmissions</td>
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<td>Other key metrics / accomplishments:</td>
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<tr>
<td></td>
<td>• Singular set of evidence-based clinical guidelines in place</td>
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# Metric for Success

<table>
<thead>
<tr>
<th>Performance Area</th>
<th>Proposed Metrics for Success (continued)</th>
</tr>
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</table>
| **Growth**       | • Expansion of destination service lines to both campuses  
                   • Measurable growth for inpatient and outpatient services per System’s 5-year plan  
                   • Growth of physician platform required to support destination service lines and 5-year-plan volume growth targets  
                   • Expansion of primary care platform to support 5-year-plan  
                   • Expanded ambulatory network footprint to new sites and geographies  
                   • EPIC and CPOE in place at both campuses |
| **Financial**    | • EBITDA / operating margin (tied to 5-Year Plan)  
                   • Maintain AA bond rating  
                   • Strong balance sheet (e.g. Total cash and cash equivalents)  
                   • Effective cost structure (e.g. Cost per adjusted discharge, FTEs/AMB) |
| **Community**    | • Total community benefit dollars  
                   • Robust charity care policies maintained  
                   • Strong community health relationships preserved (e.g. Access DuPage, Tri-City Health Partnership) |

### Questions and Comments

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7TH ANNUAL
THOUGHT LEADERSHIP RETREAT

The Structure of Value

WASHINGTON DC
OCT 3-4, 2013