

Twitter Thread by Dan O'Neill



Dan O'Neill

@dp_oneill



Whatever the other merits of this proposal, funneling another ~\$30B to hospitals is the antithesis of "targeted relief."

A dozen hospital chains just presented at #JPM21, two weeks ago.

General theme: Financially speaking, hospitals are doing quite well. 1/n

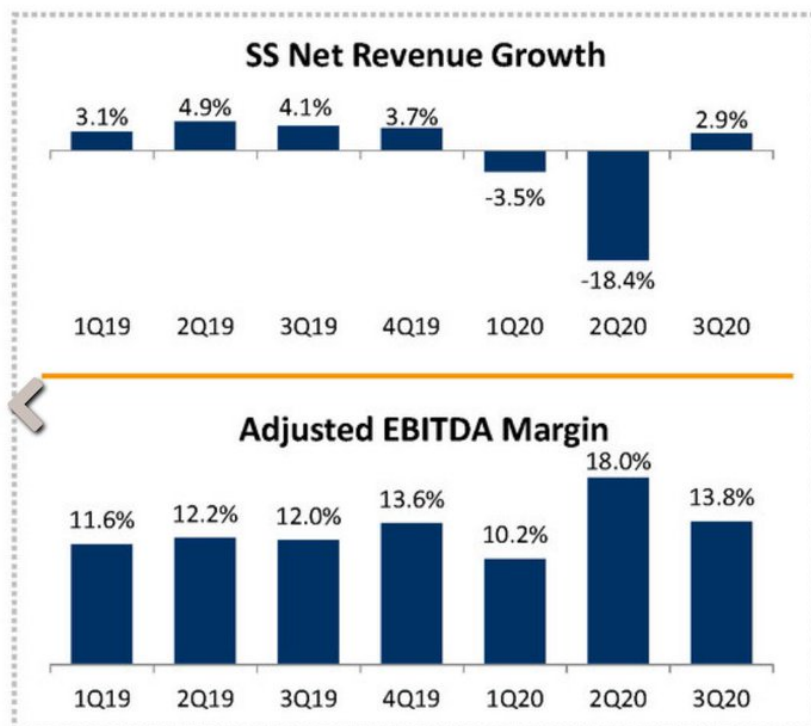
The new GOP Covid-19 relief offer includes the \$20B that Biden asked for on vaccine distribution, and also calls for \$35 billion in new grants for hospitals and health providers that wasn't included in Biden's plan
pic.twitter.com/DMjVPahc64

— Rachel Cohrs (@rachelcohrrs) February 1, 2021

We have, for example, Community Health Systems, which operates 89 hospitals in 16 states, many of them in smaller towns / metro areas.

Through the pandemic, CHS's EBITDA margin never even fell into single digits, and profitability actually *increased* in 2020.

Navigating Through COVID



CHS Priorities

Safety First

- Patients, Staff, & Providers

Leverage Existing Investments

- Tele-Health
- Transfer Center
- Supply Chain

Adaptive & Responsible Expense and Operations Management

Meanwhile, Lifepoint Health (84 hospitals, 30 states) also saw profits increase in 2020, while its cash-to-debt ratio fell. Pretty solid year.

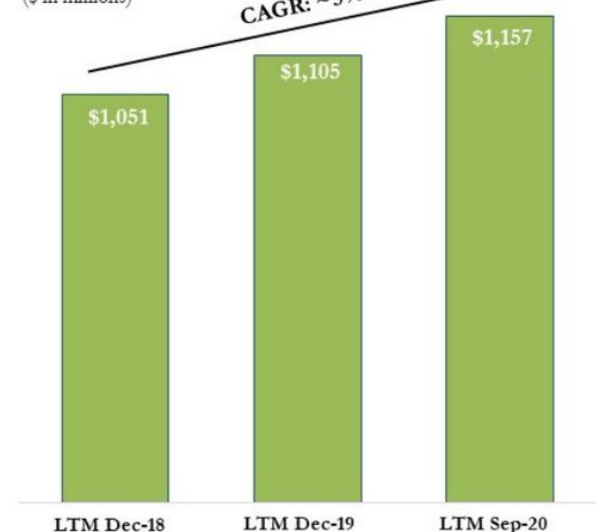
Improving Our Capital Structure

Solid EBITDA Growth and Disciplined Capital Deployment

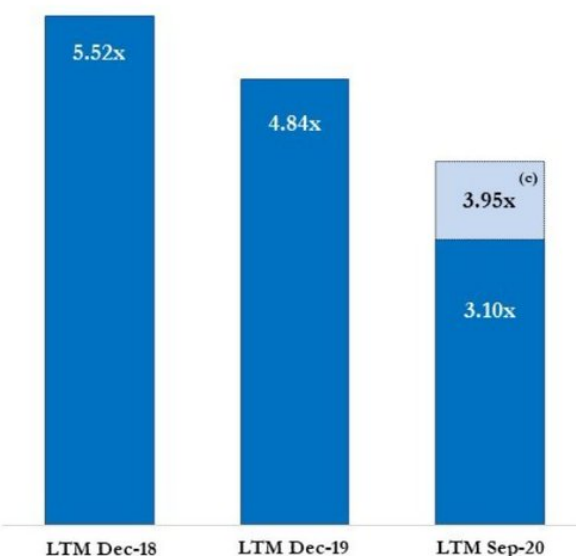
Adjusted EBITDA (a)

(\$ in millions)

CAGR: ~5%



Net Leverage Ratio (b)



^(a) Refer to slides 6-8 located in the appendix for additional information regarding Adjusted EBITDA.

^(b) Refer to slide 9 located in the appendix for additional information regarding Net Leverage Ratio.

^(c) When adjusted to exclude the receipt of approximately \$991 million of Medicare advance payments, we estimate our net leverage ratio would have been 3.95x as of September 30, 2020.

ProMedica Health (non-profit, 13 Midwestern hospitals) actually saw profits increase even in *the first half of 2020,* when hospitals were supposedly facing catastrophe.

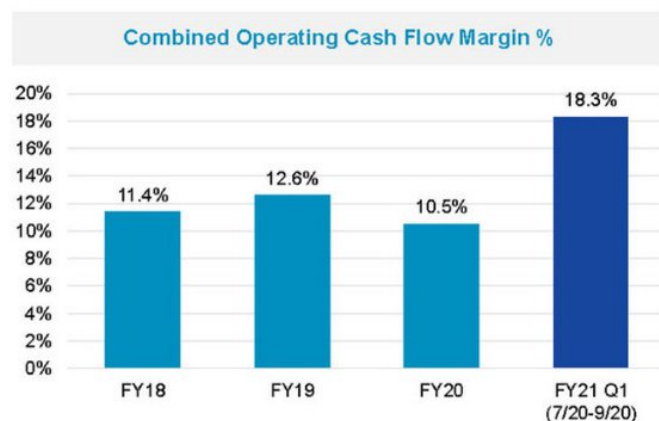
They finished the year with ~\$440M of EBITDA, and \$2.3B of cash on hand.



Baylor Scott & White (52 hospitals) saw its profit margin *more than double* during the pandemic year, and ended September with \$7.8 billion of cash and portfolio investments.

That's about \$600M more than they had pre-pandemic.

Key Operating Metrics

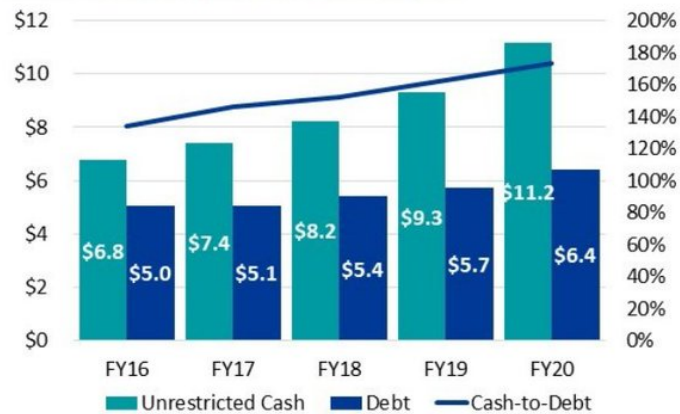


Mass General Brigham's cash pile is now over \$11 billion, which is roughly twice what Congress proposes to allocate to all rural hospitals in this proposal.

That number is *up* by ~\$2B from the start of the pandemic, which is quite something.

Strong balance sheet provides flexibility to weather crises

Unrestricted Cash, Debt and Cash-to-Debt



Growth in Unrestricted Cash (13.3% CAGR) outpaces Debt (6.2% CAGR)

\$ in billions. FY20 Unrestricted Cash excludes \$1.08 Medicare Accelerated Payments.



Unrestricted Net Assets

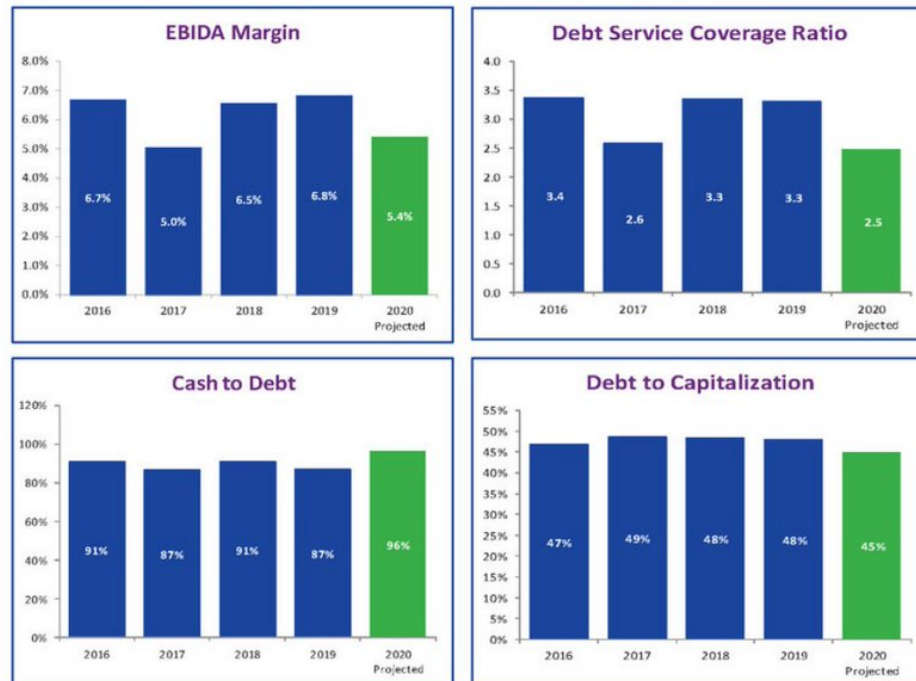


Unrestricted Net Assets doubled from FY16 to FY20 (18.8% CAGR)

Head down the Atlantic coast to NY, and we find that (non-profit) Northwell Health's EBITDA margin did dip a bit in 2020, but not dramatically.

And, like every other chain in this thread, Northwell ended up with a healthier balance sheet than at the beginning of the crisis.

Key Financial Ratios



If we turn back to the Midwest, we might look to OhioHealth, a highly profitable "not-for-profit" with 12 hospitals.

Not clear why they need \$6.2 billion of cash on hand (4x their total debt), but they have it, which must be nice.

Balance Sheet Strength (in millions)



While we're in the neighborhood, we may want to look north, toward Michigan, home to Henry Ford (5 hospitals) and Spectrum Health (14 hospitals).

And...yup! Cash upon cash. Spectrum's cash pile increased by a quarter (~\$1B) in the year to September.

Why?

Balance Sheet Metrics



We could also take a look around Illinois, Missouri, Oklahoma and Wisconsin, perhaps through the lens of SSM Health's 23 hospitals in those states.

SSM enjoyed revenue growth in 2020, and currently sits on a tidy pile of \$4.4 billion.

Financial Performance Update

Results for the *Nine Months Ended September 30, 2020*



Sept. 2020 YTD
(9 Mos.)
Revenue
\$6.0 Billion*



Sept. 2020 YTD
(9 Mos.)
Operating EBIDA
\$335.4 Million*



Sept. 2020 YTD
(9 Mos.)
Operating Income
\$53.8 Million*



Unrestricted
Cash &
Investments**
\$4.4 Billion



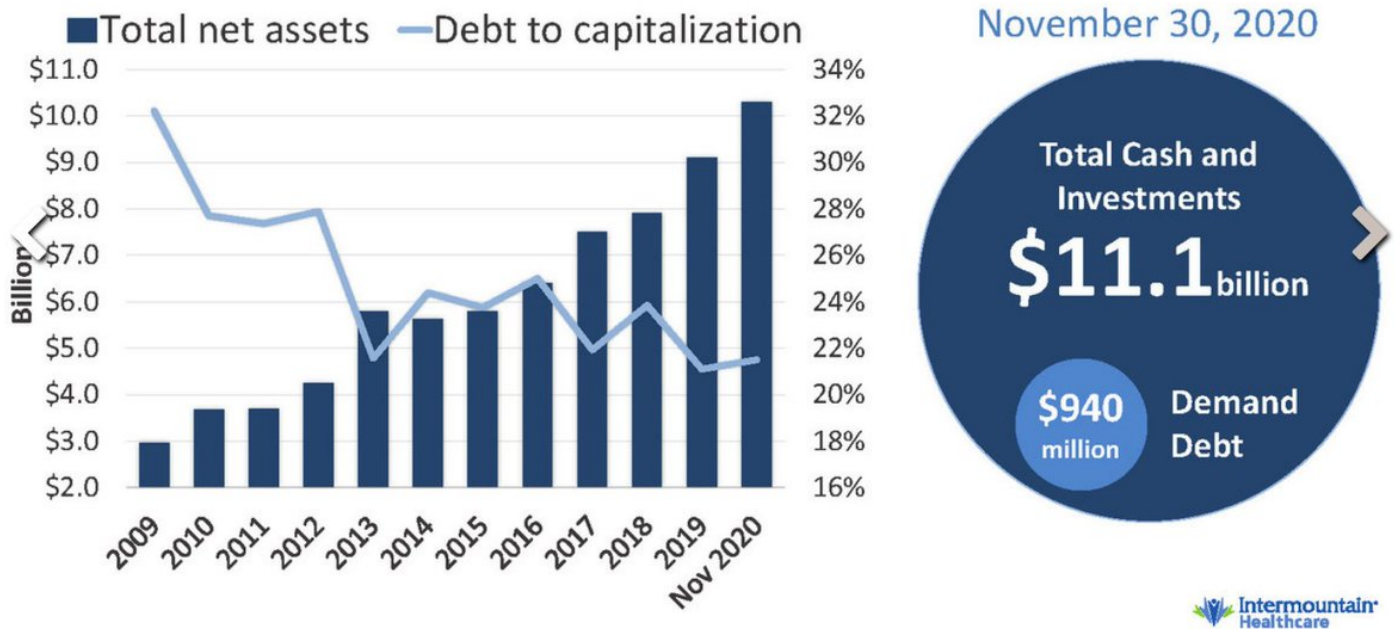
*Includes \$226 million of CARES Act stimulus funds.

**Cash & Investments include \$496.5 million of Medicare Advanced Payments.

Let's keep heading west. We'll make a stop in Utah, where local giant Intermountain is giving Mass General a run for its money. As a...portfolio manager.

Another hospital chain, with \$11B of cash on hand, and a nice healthy profit margin.

Continued Balance Sheet Strength



And now, to the Pacific Coast. Providence is a good example - 51 hospitals from California to Alaska, along with a few facilities in MT, NM and TX.

EBITDA margins were down a smidge, but cash was up by \$2B to an eye-popping \$14.5B.

Is that a lot? It seems like a lot.

We can keep going, though I am not sure we need to.

There's Tenet, with its 40% EBITDA margin on surgical facilities. Or UHS, where free cash flow more than doubled in 2020...

But, at this point, I think the picture is clear. Congress is wasting your money. /n

A DIVERSIFIED HEALTHCARE COMPANY

Tenet is a uniquely
positioned healthcare
services company with a
high-growth, high margin
ambulatory surgery division

| | HOSPITALS | USPI | CONIFER |
|----------------------|--|--|--|
| | Competitive acute care portfolio positioned #1 or #2 in 70% of markets | Leading surgical facility platform with nearly 350 facilities across 33 states | High performing revenue cycle company managing ~\$25B of revenue |
| 2019 STATS | | | |
| Net Revenue | \$14.9B | \$2.2B | \$1.4B |
| EBITDA | \$1.4B | \$0.9B | \$0.4B |
| Margin | 10% | 41% | 28% |
| 3 YEAR GOALS | | | |
| EBITDA Growth | 2-3% p.a. | 10-15% p.a. | 4-7% p.a. |
| Portfolio EBITDA Mix | 53% → ~35% | 33% → ~50% | 14% → ~15% |
| CapEx/EBITDA | 35-45% | 5-10% | 5-10% |

Note: Hospital segment includes corporate overhead and intersegment revenue eliminations