

***KaufmanHall***



**St. John's Health**

***Board of Trustees Strategic Planning Retreat***

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July 17, 2023

# Agenda

Agenda		Presenter
2:45pm	Arrive	
3:00pm	<b>Introduction and Opening Remarks</b> 15 min	Jeff Sollis
3:15pm	<b>National Industry Trends</b> 30 min	Kaufman Hall
3:45pm	<b>Strategic Discussion</b> 15 min	Kaufman Hall
4:00pm	<b>St. John's Executive Session</b>	St. John's Leadership / Kaufman Hall
5:45pm	<b>Re-Group/Close</b> 15 min	St. John's Leadership

# Opening Remarks

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# Introduction

St. John's Health is undertaking a strategic planning process. Its **PURPOSE** is to develop a plan to guide the organization into the future on a path that supports the *delivery of high-quality care* that addresses the community's healthcare needs, is *financially sustainable*, and is aligned with the *evolving healthcare* industry

The **INTENT** of this meeting is to *provide the public insight* into the many national, regional and local healthcare industry trends that affect or may affect St. John's Health in its mission to address the healthcare needs of the community, and to *seek preliminary feedback* from the Board regarding priorities

St. John's Health is at the **BEGINNING of the planning process** with much remaining to be done. There will be additional opportunities as the process continues for the public to provide their perspective on St. John's Health's opportunities, challenges, and priorities and learn about the emerging strategic plan

# National Industry Trends

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# National Healthcare Trends Impacting Payers and Providers

As St. John's defines its near- and long-term strategy and investments, we must do so recognizing the impacts of today's 'externalities':



The unknown post-COVID care and economic environment



Credit Market Volatility and Inflation



Rapidly evolving consumer demand



Unprecedented business technological changes



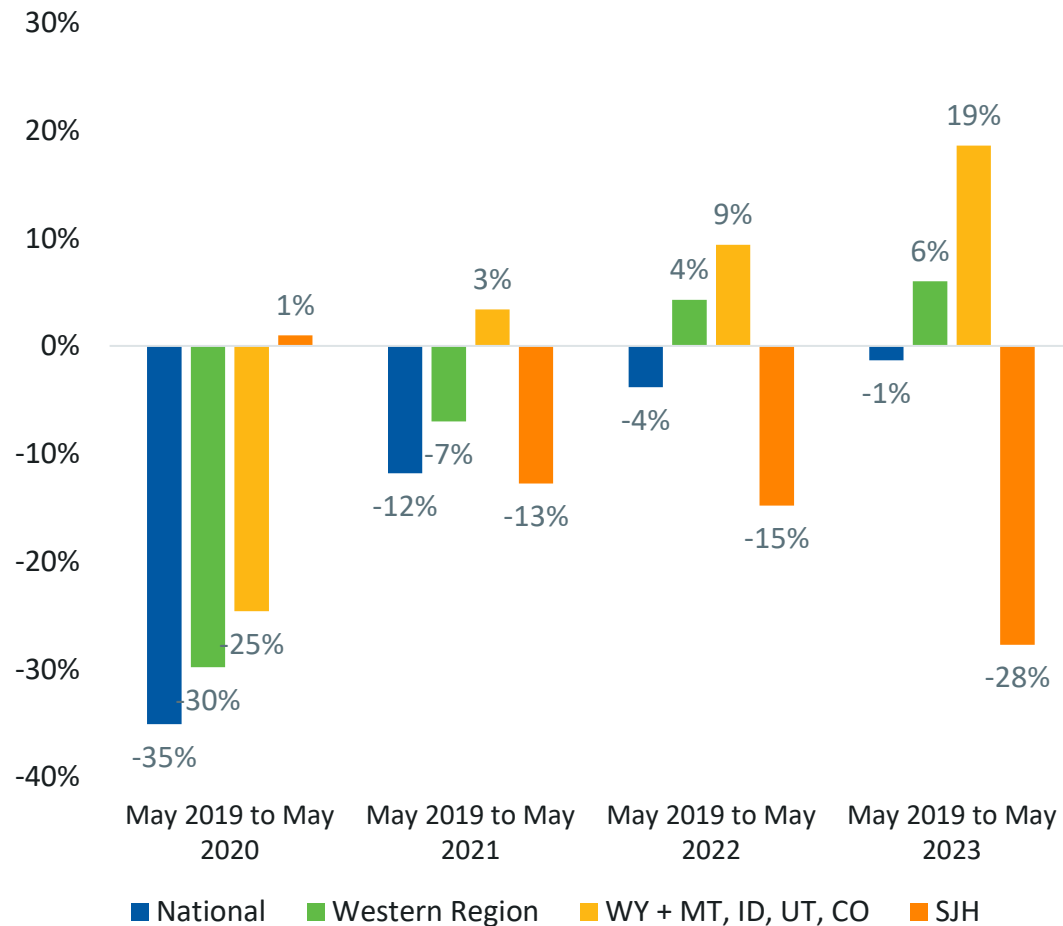
A divisive political/business environment



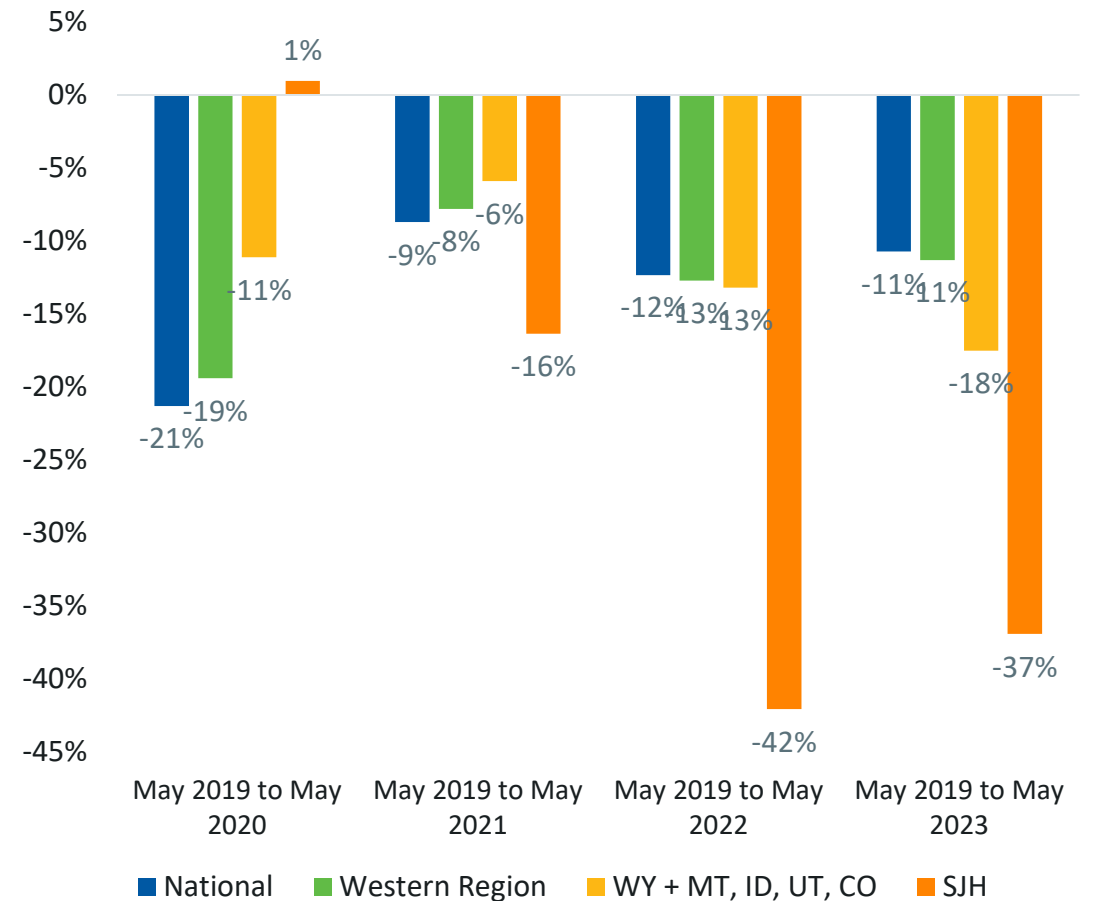
Disruption of new players in the healthcare space and the great disintermediation

# ED Visits and Discharges at SJH Have Not Recovered to Pre-Covid Levels

### Cumulative ED Visit Growth



### Cumulative Discharge Growth



\*Note: Western Region includes: CA, CO, ID, MT, NM, NV, OR, WA, WY, UT  
 Source: Kaufman Hall 2023 Flash Report

# 2022 State of Healthcare Performance Improvement: Mounting Pressures Pose New Challenges

## Survey Highlights

**100%** of respondents have adopted some type of recruitment and retention strategy

**98%** have raised starting salaries or minimum wage

**69%** reported an increase in inpatient length of stay over the past year

**67%** have seen wage increases of more than 10% for clinical staff

**67%** reported an increased rate of claim denials

**66%** have run their facilities at less than full capacity because of staffing shortages

**63%** have pursued at least one outsourcing solution; the most common areas were revenue cycle, environmental services, and IT

**56%** have at least a 1-to-1 ratio of advanced practice providers to physicians in their physician enterprise; 40% have a ratio of 2-to-1 or higher

**40%** said that oncology volumes had reached pre-pandemic levels, the only service line that saw a significant year-over-year increase from last year's survey results

**22%** have seen non-labor expenses rise by more than 15%

**18%** described their organization's level of investment in automation technologies as "significant" or "robust"

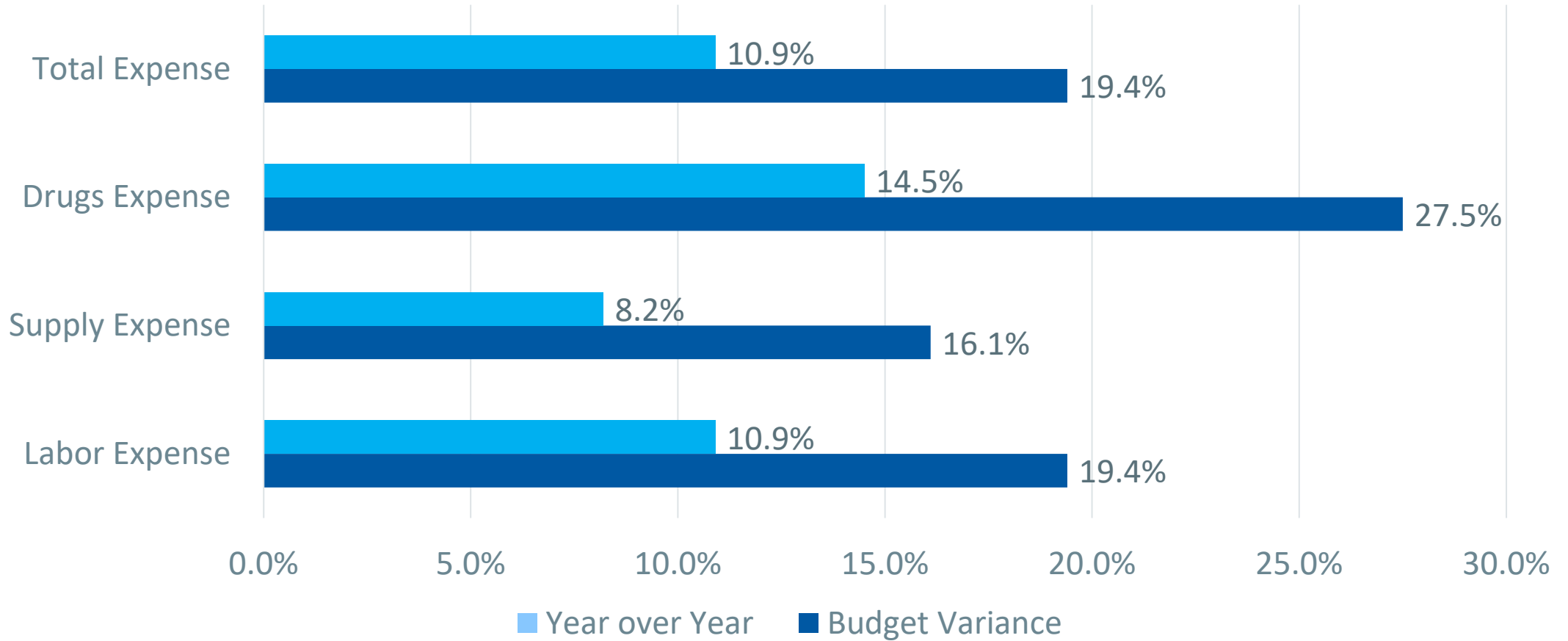
**9%** have not experienced any supply chain disruptions; in contrast, 71% have experienced distribution delays

Source: Kaufman Hall State of Healthcare Performance Improvement(2022).



# Hospitals Across The Country Are Experiencing Skyrocketing Labor and Supply Costs

Hospital Expense Pressure  
*Per Adjusted Discharge*

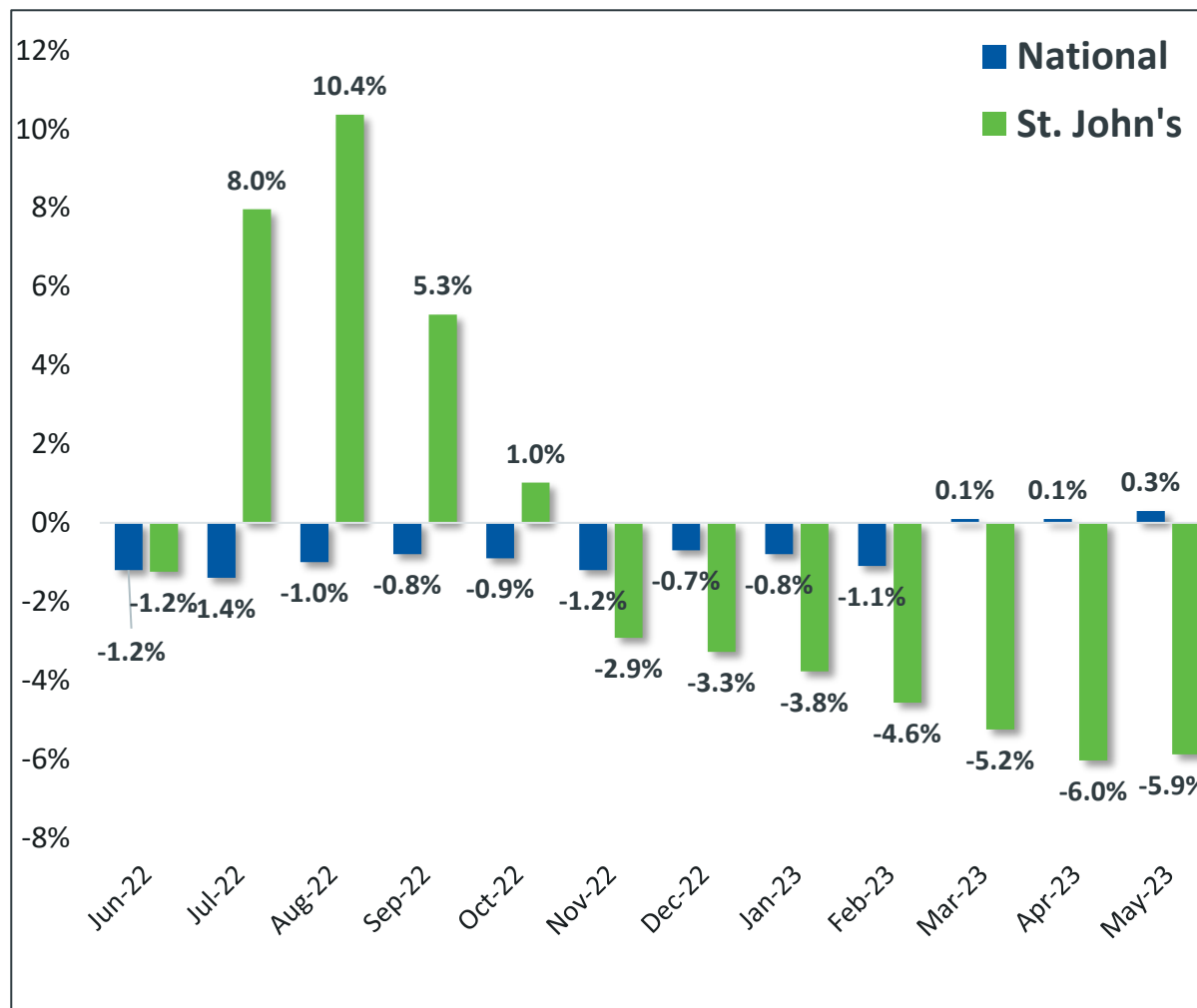


# Kaufman Hall National Hospital Flash Report

## Key Observations – May 2023

- Hospitals’ operating margins moved back into positive territory in May.**  
 However, operating margins continue to stand well below historical norms.
- People are becoming more comfortable with inpatient care.**  
 Discharges, emergency department visits and operating room minutes all climbed, although very modestly on a year-to-date basis.
- There is a sizeable and growing gap between primary hospital revenue sources.**  
 Revenue from outpatient care is increasing at a much greater rate than revenue from inpatient care.
- Labor expenses are beginning to decline.**  
 While labor costs remain significant, expenses in May were well below comparable levels from May 2022.

Kaufman Hall CYTD Operating Margin Index



Note(s): Cumulative YTD Operating Margin Source(s): Kaufman Hall National Hospital Flash Report

# All Rating Agencies Maintain Negative Outlooks on the Sector

MOODY'S

Outlook: Negative

S&P Global

Outlook: Negative

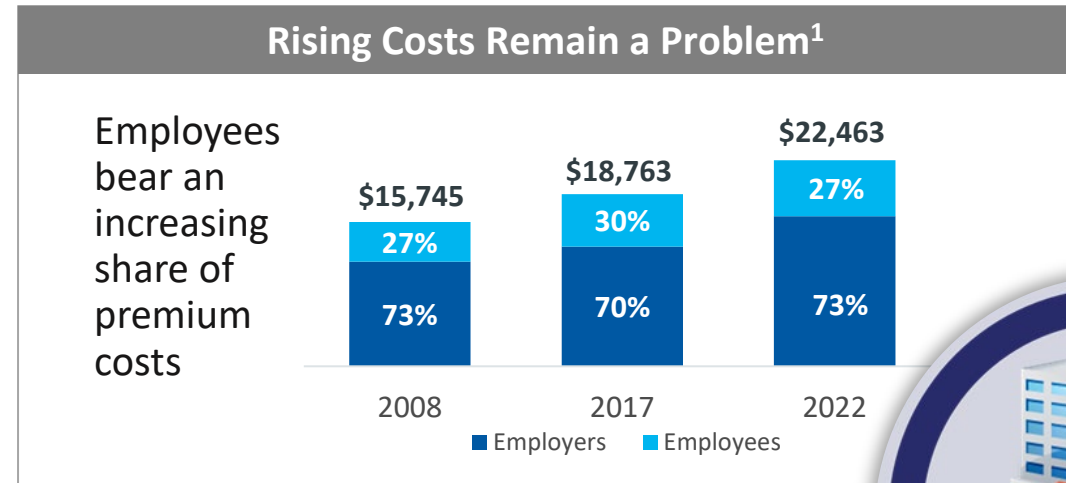
FitchRatings

Outlook: Deteriorating

- **The sector continues to experience severe labor shortages** and will be the largest driver of operating challenges
- **Operating performance will continue to be pressured in 2023**, as expense growth will likely outpace revenue growth; performance will have a longer runway to pre-pandemic margins
- **Revenue gains will be limited** by lingering pandemic strains, inability to meet demand because of labor constraints, deteriorating payer mix and the continued shift of care to low-cost settings
- **Unpredictable volumes** will make budgeting and forecasting increasingly difficult
- **Liquidity will decline** as market turbulence continues, cash flow is weak and capital spending increases following some delay during the pandemic
- **Organizations with strong balance sheets are less likely to experience a negative rating or outlook action**; weaker credits may continue to struggle
- Barring significant regulatory pushback, **M&A activity will continue** as providers seek size and scale to achieve stability and part
- **Partnership opportunities** for efficiencies and strategic investments are likely to evolve
- **Significant shifts in care delivery models are occurring**, with disruptors seeking to gain a speed-to-market advantage
- **The credit quality gap may continue to widen** between stronger and weaker providers
- **Legislative, regulatory and judicial activity will continue to add risk** to the sector including price and drug scrutiny and the end of the Public Health Emergency

Source: Moody's, S&P, and Fitch sector outlook reports; KH Webinars.

# A Perfect Storm: Converging Forces Are Driving Longer Term Healthcare Change Even As Hospitals Struggle to Emerge from COVID



### Investment in Non-Hospital Healthcare



*Millennial cohort now larger than Boomers... different experiences, behaviors, and expectations*

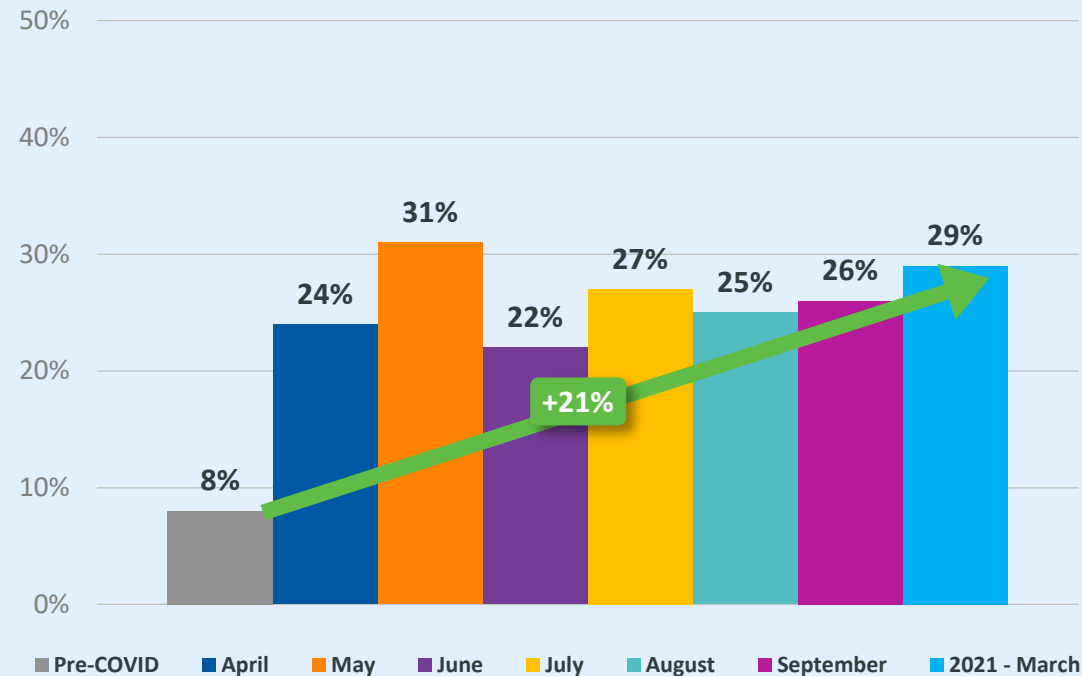
### Generational Shift

### Digitalization

Source(s): 1) KFF 2022 Employer Health Benefits Survey. [Link](#).

# Changes in Consumer Expectations Were Accelerated by Covid

## Consumer Preference for Receiving Care Virtually



## Characteristics of young healthcare consumers:



- More cost sensitive relative to other segments
- More likely to actively search online before selecting services/providers
- More frequently visit urgent care as a first step
- Expect easier access to video visits and weekend/evening appointments
- More accepting of retail clinics and video visits for a wide range of needs

*Healthcare Must Accelerate the Shift of its Delivery Model*

Source: Kaufman Hall 2020-2021 Covid-19 Consumer Survey; Kaufman Hall Proprietary Millennial Consumer Research

# “On Demand” and “Ease of Access” Is an Expectation, Not a Request As Healthcare Organizations Leverage Non-Healthcare Technologies

**Daily Life**

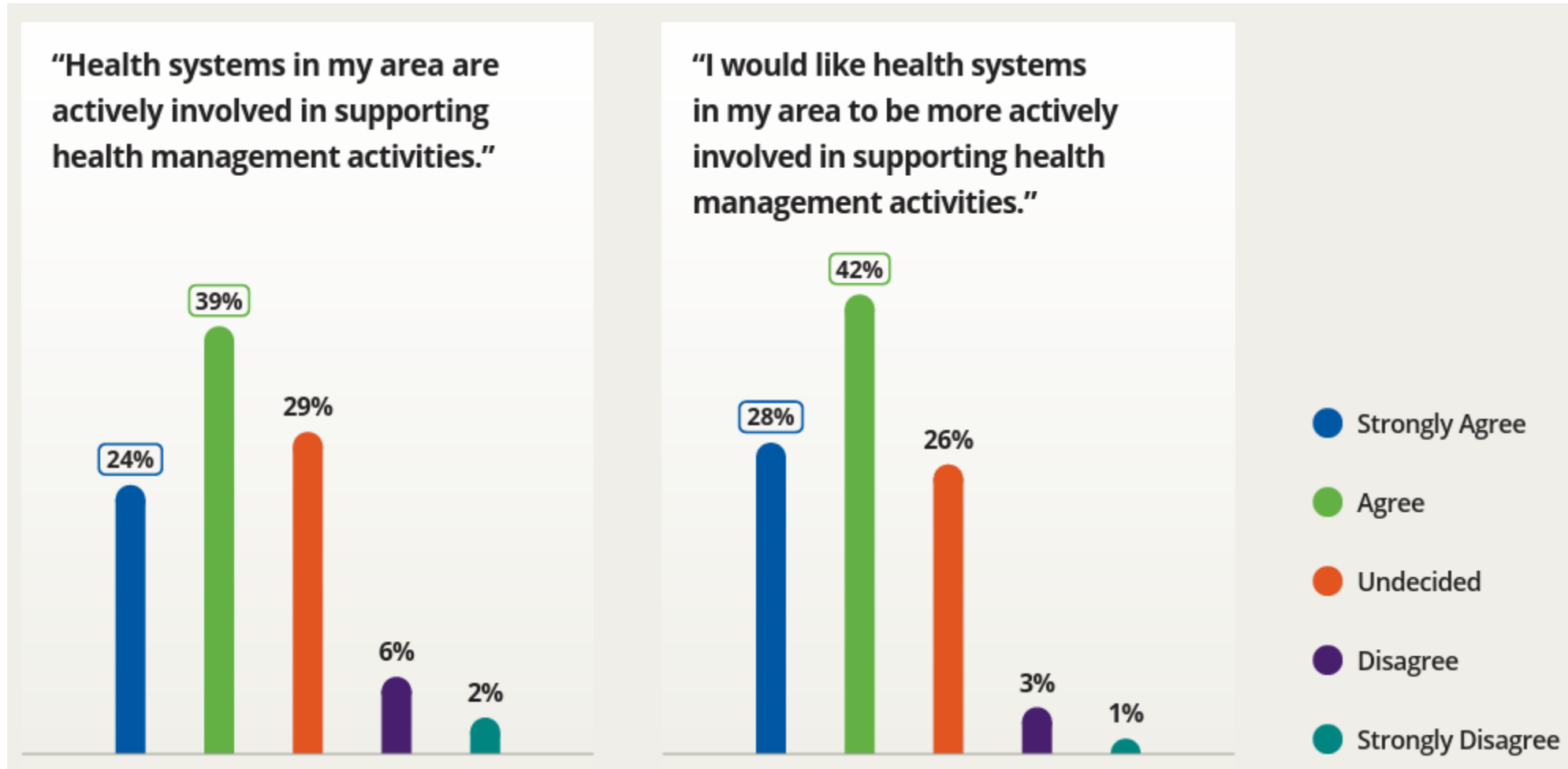
- Uber
- amazon Prime
- Google
- GRUBHUB™
- TaskRabbit
- Lyft
- NETFLIX

**Healthcare Disruptors**

- CVS Health
- Walmart
- one medical
- edenhealth
- OPTUM®
- RadNet.
- TELADOC™
- zipnosis®

Note: Copyrights of images belong to their respective owners.

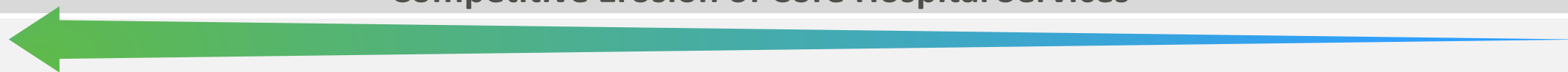
# Consumers Believe that Health Systems Support Health Management but Desire Even More Involvement



Source: Kaufman Hall State of the Consumer Survey (2022).

# New Players Are Emerging Across The Continuum that Address Consumer Expectations and Disintermediate Traditional Providers

Competitive Erosion of Core Hospital Services



 Medically Home  
 HOSPITAL at HOME  
 CONTESSA

 OPTUM™  
 Livongo™  
 United Surgical Partners INTERNATIONAL  
 RadNet.  
 Hinge Health

 TELADOC.  CVS Health  
 one medical  
 Walmart  
 OAK STREET HEALTH  
 ChenMed

 SOLIS Mammography  
 Luna  
 CVS Health

 Walmart  
 amazon

The future will be won or lost outside the hospital setting:
















- ✓ Consumers now expect it
- ✓ Disruptors provide it

- ✓ Payers steer toward it
- ✓ CMS mandates it

*The most potentially disruptive players have largely avoided Wyoming to date – likely due to population density*



# Aggressive Growth By Large Players Along the Industry Vertical of Payor vs Provider Continuum of Care

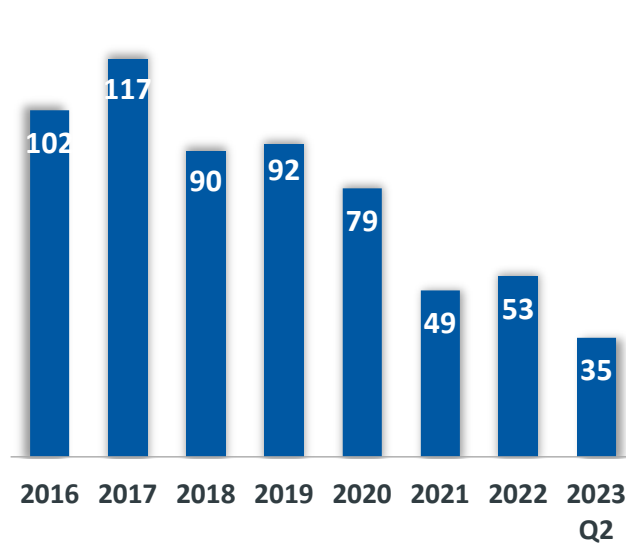
Competitor Archetypes	Representative Examples		
<p>Health plans focused on tech enablement and/or owning select delivery assets</p>	 	 	  
<p>Integrated payer/provider looking to expand into select markets</p>	  	 	  

# Partnerships, Mergers, and Acquisitions Are One Tool For Addressing These Emerging Threats and Opportunities

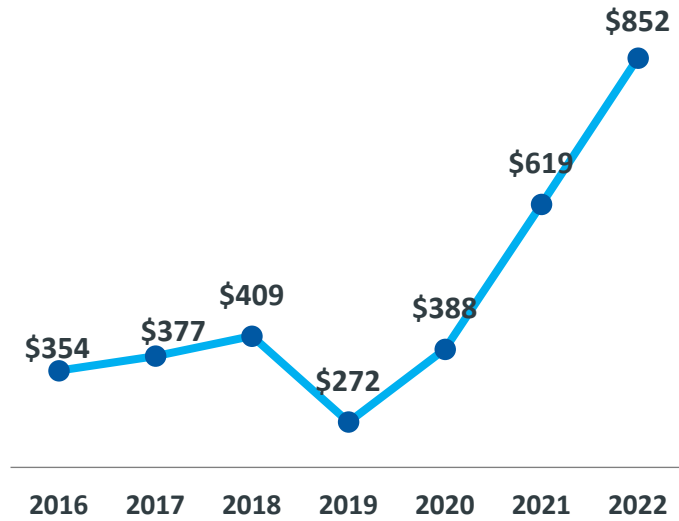
- There has been a significant amount of hospital and health system consolidation over the years
- Organizations are focused on partnerships with a strong strategic rationale and have become increasingly selective in identifying potential partners.
- In addition to traditional synergies and access to capital, they seek partnerships that will have a transformative impact through the addition of new capabilities, enhanced intellectual capital, and access to new markets, services or lives.
- There are fewer independent, unaffiliated community hospitals seeking partnerships – some like St. John’s Health, value their independence and strive to preserve it.
- However, there has been significant partnership activity over the last several years in Wyoming
- Smaller hospitals have remained independent by maintaining a strong financial position and relevance to their community

# Total Transactions Remain Below Pre-Pandemic Levels But Size of Transactions Reach Record Highs

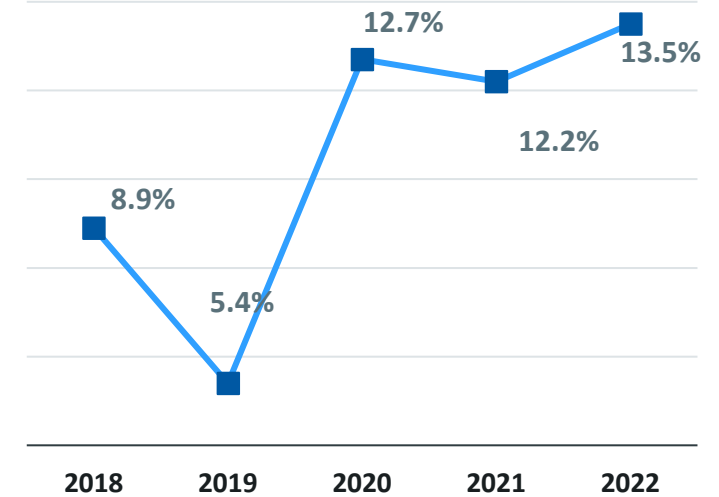
**Number of Announced Transactions by Year**  
*Figure 1* 2016 – 2022



**Average Smaller Party Size by Annual Revenue**  
*Figure 2* 2016 – 2022 (\$s in Millions)



**% Smaller Partner ≥ A- Credit Rating**  
*Figure 3*



## OBSERVATIONS

- The 53 total announced transactions for 2022 moved up from 2021’s recent historic low of 49 announced transactions. Transactions through the second quarter suggest another year of growth by year end (**Figure 1**).
- The high percentage of mega mergers and other significant transactions over the course of 2022 resulted in an historically high average smaller party size by annual revenue of \$852 million (**Figure 2**), more than \$200 million higher than last year’s historic high of \$619 million.
- ~85% to 95% of all acquired hospitals had a credit rating below A- (**Figure 3**). Financial performance is a significant factor in hospitals receptivity to being acquired.

Source: Kaufman Hall Proprietary Transaction Database

# Wyoming Has Had Its Share of Partnership Activity

2013

1 Ivinson Memorial Hospital has entered into a management services agreement with University of Colorado Health (January 2013)

2018

2 Wyoming Medical Center has acquired Mountain View Regional Hospital from Surgery Partners, Inc. (April 2018)

2019

3 New Manna Augusta has acquired Summit Medical Center (March 2019)

2020

4 Powell Valley Healthcare has entered into a management services agreement with Billings Clinic Health System (June 2020)

5 Banner Health has acquired Wyoming Medical Center (October 2020)

2021

6 Billings Clinic announces a management services agreement with Riverton Medical District (May 2021)

2023

7 Sublette County hospital district has entered into a management services agreement with Star Valley Health (May 2023)

Key

- 2013
- 2018
- 2019
- 2020
- 2021
- 2023



Note: Dates correspond to close date if available

# St. John's Financial Trajectory Post Covid

RATIO / STATISTIC (\$ million)	St. John's Health (Fiscal Year Ended June 30)						S&P Standalone Hospital Medians <sup>3</sup>	
	2019 Audited	2020 Audited	2021 Audited	2022 Audited	2023 Forecasted <sup>1</sup>	2024 Budgeted <sup>2</sup>	BBB	A
Net Patient Revenue	\$121.1	\$125.5	\$151.4	\$165.5	\$170.3	\$182.8	\$381.8	\$505.4
Operating EBIDA – Without Tax Levy	\$6.0	\$0.2	\$11.4	\$10.0	\$1.4	\$4.1	--	--
Operating EBIDA – With Tax Levy	\$20.8	\$14.4	\$18.1	\$17.6	\$11.0	\$16.2	--	--
Unrestricted Cash	\$54.3	\$59.6	\$74.5	\$95.0	\$94.8	\$94.2	\$183.4	\$424.6
Total Debt	\$23.9	\$22.7	\$27.3	\$44.1	\$42.3	\$39.3	\$144.7	\$149.8
<b>Profitability</b>								
Operating Margin – Without Tax Levy	(2.1%)	(6.9%)	0.7%	(1.2%)	(5.7%)	(4.3%)	2.5%	3.8%
Operating Margin – With Tax Levy	9.7%	4.0%	5.1%	3.3%	(0.2%)	2.2%		
Op EBIDA Margin – Without Tax Levy	4.8%	0.2%	7.4%	5.9%	0.8%	2.2%	9.0%	9.3%
Op EBIDA Margin – With Tax Levy	16.7%	11.2%	11.7%	10.4%	6.3%	8.7%		
Excess Margin	3.0%	2.7%	8.5%	4.5%	1.7%	4.0%	4.6%	7.2%
<b>Debt Position</b>								
MADS Coverage	4.8x	4.6x	9.0x	5.7x	4.2x	5.7x	3.7x	5.5x
Long-Term Debt to Capitalization	24.5%	24.7%	23.9%	29.2%	27.8%	24.5%	35.3%	23.7%
Long-Term Debt to Cash Flow	2.1x	1.9x	1.1x	2.3x	3.1x	2.0x	--	--
<b>Liquidity</b>								
Cash to Long-Term Debt	227.6%	262.3%	272.8%	215.5%	224.3%	239.8%	148.1%	243.2%
Days Cash on Hand (days)	165	168	189	217	199	187	186	309

Sources: St. John's audited financial statements for FY2020, FY2021 and FY2022. FY2023 financial data is based on internal financials provided by management team.

Note: Net Revenue Available for Debt Service, Cash Flow, Operating Margins and Operating EBIDA margins exclude benefit of Property Tax Revenue and SPET payments.

1) FY23 P&L and YTD May FY23 balance sheet provided by client. June 2023 cash flows estimated.

2) FY24 operating budget and cash flow projections provided by management team. S&P Standalone Hospital blended medians per 2021 report utilized.

## KEY OBSERVATIONS

- Strong net patient revenue growth of 8.6% CAGR (FY19-FY24).
- Historically, St. John's Health has not achieved breakeven operating margins excluding Tax Levy except for FY21
- Operating performance is expected to improve in FY24 with Operating EBIDA margins incl tax levy budgeted at 8.7%
- Strong balance sheet position driven by low leverage and healthy liquidity levels.
- Liquidity position over the last 2 years has been strong at ~200 days cash, however due to capital spending exceeding cash flow it is expected to decline to 187 days in FY24
- Over the planning horizon, a return to historical operating performance level will enable St. John's to generate incremental debt capacity to support strategic investments or other capital projects

# Strategic Discussion

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# Hospital Leadership Interview Themes (1 of 2)



## Strategic Vision

- Be the **first choice for primary and secondary care** in the region, with easy and appropriate access
- Ensure St. John's maintains **high operational excellence**, and does “the basics” well
- Provide **high quality, safe, holistic care in an ethical manner**, with a focus on prevention
- Pursue a **cautious and disciplined growth strategy**
- Emphasize a **community-focused, patient-centered experience**
- Remain **independent and financially sustainable** to best serve our community
- Be a **leader in the outpatient care setting** in the region

# Hospital Leadership Interview Themes (2 of 2)



## Opportunities

- **Enhancing leadership development and succession** - Professional development / leadership training has lagged Post-COVID
- **Elevating St. John's continuum of care** from inpatient to outpatient to virtual care
- **Appropriate expansion of housing developments** for immediate hospital staff
- **Perception of high-quality care** drives high quality scores and positive community perception of care
- **Reduce outmigration** by providing appropriate services for residents
- **Advance scope of ICU capabilities** with additional training
- **Further align physicians and service lines** to drive and enhance productivity
- **Build upon current EMR capabilities** to keep up with evolving state of the industry



# Employee Engagement Survey – St. John’s Health Has Sought Employee Insights

Kaufman Hall engaged internal audiences at St. John’s with high-level strategic questions for potential insights around St. John’s future

Survey was sent to key stakeholders via website link, with **231 total responses received**

## Survey Questions:

1. What Do You See As The Key Healthcare Market Gaps And Community Needs?
2. What Do Patients/Potential Patients View As St. John's Greatest Strengths?
3. What Do You Think Are The Greatest Challenges Facing St. John’s?
4. What Are The Opportunities For St. John’s To Become Even Stronger?





### 3. What Do You Think Are The Greatest Challenges Facing St. John's?

#### Key Themes

- Retaining staff amidst increases in the cost of living; employees continue to move to afford housing
- Long-term sustainability of quality providers and staff
- Remote geography makes it difficult to expand presence in rural counties
- Better EHR/EMR functionality and training





# What Principles Should Guide the Strategic Planning Process?

## Guiding Principles

- Engages the community, workforce, and medical staff
- Advances partnership with the Foundation
- Ensures cultural compatibility
- Recognizes the value of independent governance & management
- Advances the vision of St. John's as the first choice for primary and secondary care in the wider region
- Supports a commitment to clinical quality and patient experience
- Supports a commitment to financial sustainability

## Point of View on Opportunities and Threats

Key strategic questions regarding St. John's current and potential role in the market moving forward:

1. What other forms of disruption (e.g., virtual care, value-based care, national and regional players, shift to ambulatory) could impact the market? How significant is the risk?
2. What are the top three most important strategic priorities for St. John's?

# Executive Session

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# Regroup/Close

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# Recap and Takeaways

St. John's Health is undertaking a strategic planning process. Its **PURPOSE** is to develop a plan to guide the organization into the future on a path that supports the *delivery of high-quality care* that addresses the community's healthcare needs, is *financially sustainable*, and is aligned with the *evolving healthcare* industry

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St. John's Health is at the **BEGINNING of the planning process** with much remaining to be done. There will be *additional opportunities*, as the process continues, for the public to *provide their perspective* on St. John's Health's opportunities, challenges, and priorities and *learn about the emerging strategic plan*

**KEY TAKEAWAY** – While it is currently insulated from many of the national industry disruptions by its size and location, St. John's Health faces the same financial and operational headwinds that hospitals across the country are experiencing. Addressing these headwinds is complicated by the same factors – size and location – that have shielded it in other ways

## Next Steps for St. John's Health

- Conducting Community Needs Assessment in Summer 2023, with results to be released in Fall 2023
- Hosting Community Engagement Session on August 7
- Finalizing Long-Term Strategic Plan by Fall 2023

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