

December 8, 2010



HCap 2010 Think Tank: Healthcare Mega Trends and Emerging Entrepreneurial Opportunities

Final Survey Results

Presented at the HCap: Healthcare & Capital Conference
December 6-8, 2010, Washington D.C.

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HCap 2010 – Think Tank Survey Results

HCAP Closing Session, Wednesday, December 8, 2010 (11:20 am – 12:30 pm)

Think Tank: Three Healthcare Megatrends and Emerging Entrepreneurial Opportunities

This document is a summary of a survey conducted among our think tank participants that we wanted to share with all HCAP attendees.

The think tank was a group of 20 experts (see next page for list) who undertook a sequence of discussions this fall – via conference calls, written submissions and a survey – on healthcare reform’s likely impact on healthcare providers. We touched on many issues, and focused most on *provider strategy* – how providers who want to remain or become leaders in their segments should change to prepare for healthcare reform – indeed, how they can actually *capitalize* on the expected changes to be wrought by health care reform.

Our hope is for this session to help serve as a catalyst for providers to initiate change. We feel there are both significant risks and significant opportunities presented by the unfolding of healthcare reform, and that fortune will in fact favor the brave – meaning those who think deeply about reform, are willing to change, and can commit their organizations to change.

The survey was completed by 17 of the think tank members, and this document includes both summary results as well as excerpts of participants’ individual comments.

I’d like to say a hearty “thank you” to these 20 participants for their very valued time and energy through this process. And thanks also to our Conference Partners (sponsors) whose funding support and vision enables thought-leading work like this to be done at HCAP.



David Ellis

Conference Director

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Thank you to our 2010 HCap THINK TANK MEMBERS

Presenters

- David Ellis, President, Lincoln Healthcare Events (Moderator)
- Craig Anderson, President, Charis Healthcare Consultants
- Wayne Bazzle, President & CEO, Home Healthcare Partners
- Alain Enthoven, Professor Emeritus, Stanford University Graduate School of Business
- Kathleen M. Griffin, National Director, Post Acute and Senior Services, Health Dimensions Group
- Ellen Guarnieri, President and CEO, Comprehensive Healthcare Strategies
- Jeanee Parker Martin, President & Co-Owner, The Corridor Group

Participants

- Tim Bateman, VP, Lincoln Healthcare Events
- Dexter Braff, President, The Braff Group
- Susan Bratton, President & CEO, Katabiann Advisors Corporation
- Ed Downs, CEO, South Hampton Community Hospital
- Jason Ficken, General Partner, Quadriga
- Claudia Gourdon, SVP & National Marketing Manager, Healthcare Finance Group, Inc.
- Steven Littlehale, EVP, Healthcare & CCO, PointRight
- Katherine McCarthy, Business Account Manager, PointRight
- Mike Mutka, President & COO, Silverchair Learning Systems
- Luke Peterson, Partner, Kurt Salmon Associates
- John Richter, Executive Principal, LaronAllen LLP
- Daniel Schwartz, CEO, Principal, New Paradigm Senior Living
- Amanda Twiss, CEO, OCS

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Question 1: Look at each of three major healthcare segments (Hospitals, Long Term Care, Home Health) and briefly describe what you see as the downside risks in a future world of healthcare reform if you don't change (5 years from now), as well the upside opportunities if you do:

HOSPITALS

Downside Risks:

- Competition will leave you unable to compete for dollars. You will not be able to catch up quick enough when payment is limited to organizations that can truly demonstrate value through pay for performance metric systems.
- The number of occupied beds will shrink dramatically during the coming ten years. More pressure will be applied by private and public payers on reimbursement and a big risk will be the selection of systems that cost far more than anticipated and then don't work well. Coordination between hospital departments is poor almost everywhere and a big risk is that the silos WITHIN hospitals break down too slowly
- They will continue to be under increasing governmental reimbursement pressures which will drive them towards bottom line losses. The stronger hospitals will increasingly dominate in the markets they serve.
- You will be in the lowest quartile with the highest level of 30 day readmissions year over year and other criteria for value base purchasing, and lose at least 1% and an increasing percentage of Medicare payment starting in FY2013. You will be left out of the ACOs developing in your market, so that insurers initially decrease your patient base, driving patients to the ACOs with which the insurers have agreements. You will be unable to compete as a bidder for bundled payment and thus market share for low bidders increases at the expense of the "do nothing" hospitals
- The downside risk to doing nothing is just that, nothing changes. Costs continue to rise and become increasingly disproportionate to revenue. Waiting to implement changes till they become necessary will almost certainly lead to failure. Hospitals that take this approach of living in "current state" will be likely targets for closure or acquisition, depending on the needs of the population they serve.
- Too big; too complex; too mired in their own "ego" as "the" health care behemoth. Politics and complexity will get in the way of better alignment and use of resources.
- Hospitals that don't respond and continue to manage the inpatient service will become a real-estate manager and be price takers. Unless they have geographic protection or the most efficient operations, they will fail
- Someone else consolidates docs or takes control of ACOs; hospitals are expensive... and costs escalate as soon as patient is admitted – risk that more and more patients will be diverted and business will continue to decline
- Reimbursement will inevitably go down, so hospitals, which tend to be extremely inefficient, must absolutely find ways to reduce its cost structure, or risk negative margins.

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HOSPITALS (con't)

Upside Opportunities:

- You can capture market share and formalize your primary care and alignment strategy.
- Become community care coordinators.
- The best hospitals with the best systems will flourish as they absorb other hospitals. They will collaborate with many post acute providers to provide better outcomes for the chronically ill and they will focus their attentions on better results for the acute patient. They will be able to re-absorb many specialty functions (radiology etc.) that have sought less expensive environments.
- Position as acute and critical care centers of excellence in their respective communities. Other, non acute/critical cases will go to point of best cost/access (such as retail clinics, physician office, outpatient clinics)
- Specialize in a few areas where you can be the best at what you do. Partner with docs any way you can. Set your sites on the whole enchilada – ACO/population management/ wellness. Totally change the way you think about your business.
- Consolidation will drive overall improvement for the larger systems and their quality may improve, especially as they implement their IT plans. The ability to inform the consumer is also likely to increase, improving cost transparency.
- Hospitals that can create a care continuum that drives down costs while achieving quality requirements can be winners in the bids for bundled payment; and, those that focus on quality indicators that most likely will be tied to value based purchasing and manage 30 day readmissions will be at less risk for decreases in actual Medicare payments. Finally, those that create ACOs for population health management actually will have an opportunity to make a profit through prevention, robust primary care, reduction in high cost hospitalizations and other services etc.
- Be leaders in health reform by relying on what makes hospitals successful: leadership, focused resource spending, political clout
- Make changes now to improve your solvency in anticipation of future reduced revenue. Take a leadership stance in industry changes and have an edge on the competition from participating in and learning from pilot and demonstration projects. Learn to partner well across the care continuum so that in five years you are meeting or exceeding the triple aim objective of improving cost, quality and the patient experience.
- Be key integrators and aligners of all health care providers (ie: Kaiser). Large systems have considerable assets and cash that can be leveraged to try out new models – ACO; transitional care; etc. The top 100 or so health systems are not waiting for change to happen to them, they are changing to be positioned for whatever the future holds
- Hospitals can shift from a highly capital intensive organization to a knowledge-based organization thereby reducing the risk and increasing the operating margins from the high-leverage 3% range to much greater. This could occur through the ability to capture value (through integrating or coordinating (rather than owning) elements of the continuum) without large capital expenditures.
- If some type of Accountable Care Organization model gains traction, where one entity is paid to care for a wide spectrum of services, hospitals are ideally positioned to take the lead in this type of model. The problem, however, is whether hospitals can manage a broad spectrum of care, which they notoriously failed at earlier in the decade when hospitals attempted to expand vertically and horizontally.
- Physicians are agreeable to talking about integration... and hospitals are in a perfect position to lead ACO development

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Briefly describe what you see as the downside risks in a future world of healthcare reform if you don't change (5 years from now), as well the upside opportunities if you do change:

LONG TERM CARE

Downside Risks:

- You will not be in a position to select your alignment partner in an ACO world. You will be told how to run your system at someone else's economic standards.
- Changing levels of acuity render current facilities obsolete.
- More chronically ill patients will be cared for in their homes longer and this will reduce the otherwise expected number going to nursing homes. The major reason for the chronically ill to go to a nursing home or hospital is that they are allowed to become critically ill. Most of our failure to properly treat the chronically ill will be corrected.
- Quality of care issues, staffing could hurt profitability.
- You will get increasingly squeezed by Medicaid – eventually you will get acquired.
- If you are not "in" a bundled payment group or an ACO, get ready for being a provider for Medicaid residents at end of life, frail, sick.
- Focusing too narrowly on current care programs and losing market to new or reorganized care programs.
- Continue to perpetuate the misunderstanding that all SNFs are alike – delivering one product to one population (custodial care to the frail elder). Continue to NOT be invited to the table of healthcare reform.
- You are already being measured. If you don't take the time now to understand what you do well and what needs improving, you will be an unlikely preferred provider for referrals. If you are a skilled nursing facility, you may in turn lose Medicare beds and their associated revenue.
- SNFs have been the step-child in many ways and may have trouble getting ahead of that reputation. I'm not sure they can be integrators, but in an ideal world they are somewhat "in the middle" of other health care entities and "should" be able to be integrators.
- Lack of meaningful relationships. Today referrals drive business; in the future, organizational relationships and alliances will drive growth; this means that relationships must emanate from the c-suite.
- As the need to reduce health care expenditures comes to the crisis point and legislators gain the political cover necessary to truly initiate payment reform, I would anticipate more aggressive re-balancing of post-acute expenditures from long term care – specifically skilled nursing facilities – to home care, similar to what we already see in Oregon which spends approximately 70% of its Medicaid dollars on home and community based services, compared to less than 50% virtually nationwide,

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LONG TERM CARE (Con't)

Upside Opportunities:

- Now is the time to pick your alignment partner. You will be able to get capital to implement systems that create aligned data pools.
- Partner with and/or compete with hospitals.
- More beneficiaries coming into the system, particularly through Medicaid, means more potential users of long term care.
- Tremendous potential as the wave of baby boomers is growing older and in need of these services at a greater rate each year.
- Put most of your focus on short term care. What long term care you do remain with, it would serve you well to develop a more cost-conscious way of serving them, or target a more affluent population who can privately pay.
- If you are "in" a bundled payment group or ACO, you are automatically a subacute provider with higher acuity and higher revenue patients; you also are a desirable LTC provider when, at some point in the future, Medicare and Medicaid merge payment systems.
- Become an integral part of the accountable care system by extending knowledge of chronic care and geriatric patient needs to the community
- Empirically define yourself to the healthcare community as the most efficient provider of post acute rehab and complex medical care, and differentiate yourself among all other SNFs in your market. Align your strengths with referring hospital's weaknesses.
- You look at your quality measures, you understand your risks, and you take the time to participate in pilot and demonstration programs so that you become visible, have a strong voice in demonstrating the value proposition for long term care providers so that well-performing providers become, not just preferred providers of care, but partners with providers across the care continuum to meet the triple aim objective of improving cost, quality and patient experience.
- You have the perfect setting and continuum of post-acute services to meet the needs of aging populations with ALFS, SNFS, geriatric care management programs, PACE, ADHC, home care. Progressive LTC companies are poised (i.e., Harden, Kindred, etc) to be major player in alignment with other providers in the future.
- Specialization; linkage; emphasize low cost.
- Buy home health or hospice.

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Briefly describe what you see as the downside risks in a future world of healthcare reform if you don't change (5 years from now), as well the upside opportunities, if you do change:

HOME HEALTH

Downside Risks:

- Unless you are strongly positioned in a market with strong partner relationships, doing nothing could put you out of the game as other competitors in the market align into systems that work together to respond to changing legislation
- Reimbursements will continue to decline and a premium will be placed on IT systems which most agencies cannot afford and do not know how to evaluate. Many will wait too long to sell and will be absorbed by the more nimble with little value received except to preserve jobs.
- Home health has just received its first cuts to its base rate, with several more planned as part of health care reform. Meanwhile, the major publicly traded providers are under investigation by the SEC, the justice department, and Congress for reimbursement manipulation. So the industry MUST do whatever it can to police itself and regain the faith of legislators, or suffer that which has befallen HME.
- Inability to manage cases and costs will result in reduced profitability.
- If you cannot get your costs down, carve pathways in place and be part of an integrated delivery system, get ready to be a Medicaid provider and/or be acquired by an integrated system or ACO that wants to own home care throughout its market. With the significant Medicare cuts in the future, you simply cannot survive as a small volume provider.
- Not perceived to be sophisticated providers with capacity to serve as key integrators, despite knowing and understanding the patient's health and social systems better than any other provider. Home care is more fragmented in that there are many provider types in almost every community, and this confuses what the real home care potential is.
- Lack of meaningful relationships. Today referrals drive business; in the future, organizational relationships and alliances will drive growth; this means that relationships must emanate from the c-suite.
- You may survive, but it may be more attractive to sell to someone who can leverage what you have more than you can.

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HOME HEALTH (con't)

Upside Opportunities:

- Home health care will be one of the key business opportunities in the market. Developing new products and services now will position you to capture new revenue dollars. Being an alignment leader in a market will insure strong future revenue streams.
- Become community care coordinators.
- Well-run agencies will add census significantly as non-competitive agencies founder and far more patients are cared for in their homes. Chronically ill patients now treated in hospitals will stay at home and live longer and more comfortable lives at lower over-all costs. Good systems and more volume for agencies that find ways to adjust will see their margins decline but profit dollars grow significantly
- Home health is still likely the “best bang for the buck” in terms of service, outcomes, and cost. Accordingly, the industry is extremely well positioned to capture increased utilization as various evidenced-based medicine initiatives guide more patients to the least costly settings, i.e. home care.
- You have significant opportunity to be in the middle of healthcare delivery: determining when patient goes to hospital, caring for them when they are discharged, and coordinating with primary care. Plus, the baby boomer wave is accelerating, so with the right technology and people, home health providers should be in a good position to take an important seat at the table.
- Either get into high-end rehab, or get into care management. If you succeed in care management, you can be a critical piece in any bundling or ACO that occurs in your geography.
- If you are "in" a bundled payment group, integrated system or ACO, get ready for significant increases in your market share; and, if you can provide a more robust home care continuum - PD, infusion, hospice - with care pathways that involve PCP practices, hospitals and other post acute providers, you will be sought after by ACOs for their system.
- Take over the transitional care management services that will be necessary to make health reform work (when reimbursed!)
- You become the provider of choice for patients that are newly eligible under healthcare reform to access home care services, but are not acutely ill enough to require skilled, residential care. You take the time to understand patient experience as integral to outcomes, and for patients that want to receive care in their home, you satisfy that need in a low cost/high quality way.
- Home care (home health, hospice, private duty, HME, HIP) becomes the favored child of all health care and is looked to for solutions pre-illness, acute illness, post acute states and usurps the positions of hospitals in this regard. You are also in alignment and in partnership with hospitals, primary care providers, and others health care providers. Home care can be the true integrators and serve across all health care delivery segments. Home care providers are perfectly poised to be the care managers and care transitions managers now and in the future payment system. Home care providers aligned today with health systems (i.e. Sutter VNA & Hospice; LHC group; Caresouth) are better positioned than those providers not well aligned with hospitals and health systems to serve in this capacity.
- Focus on specialization; linkage; emphasize low costs; consumer choice.

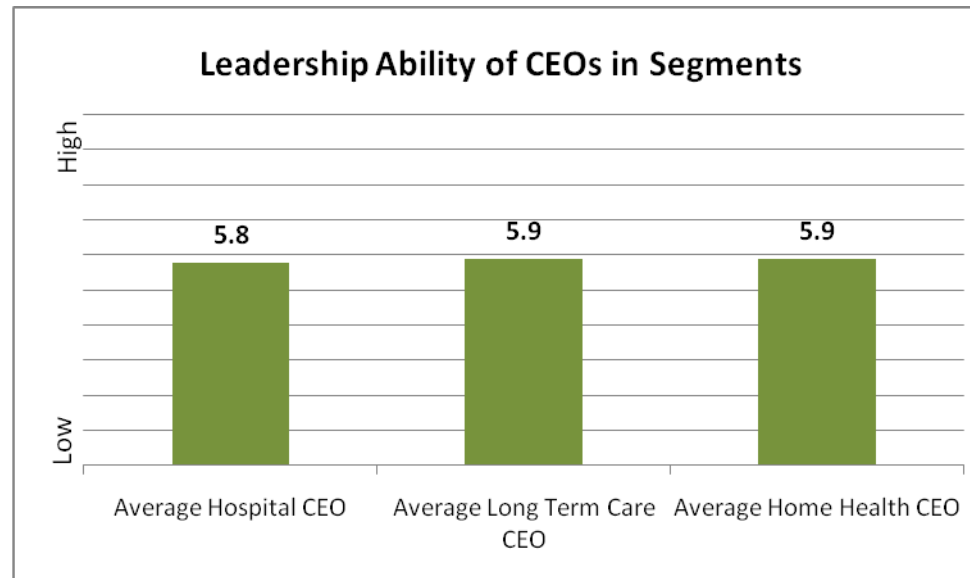
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Question 2: How well managed overall would you say each of these three segments are today? Specifically, if you were to rate the leadership ability of an average CEO with an average provider organization (\$100 ml in revenues) in these segments, what rating would you give them? (10 = extremely high, 1 = extremely low)

Average hospital CEO: 5.8

Average long term care CEO: 5.9

Average home health CEO: 5.9



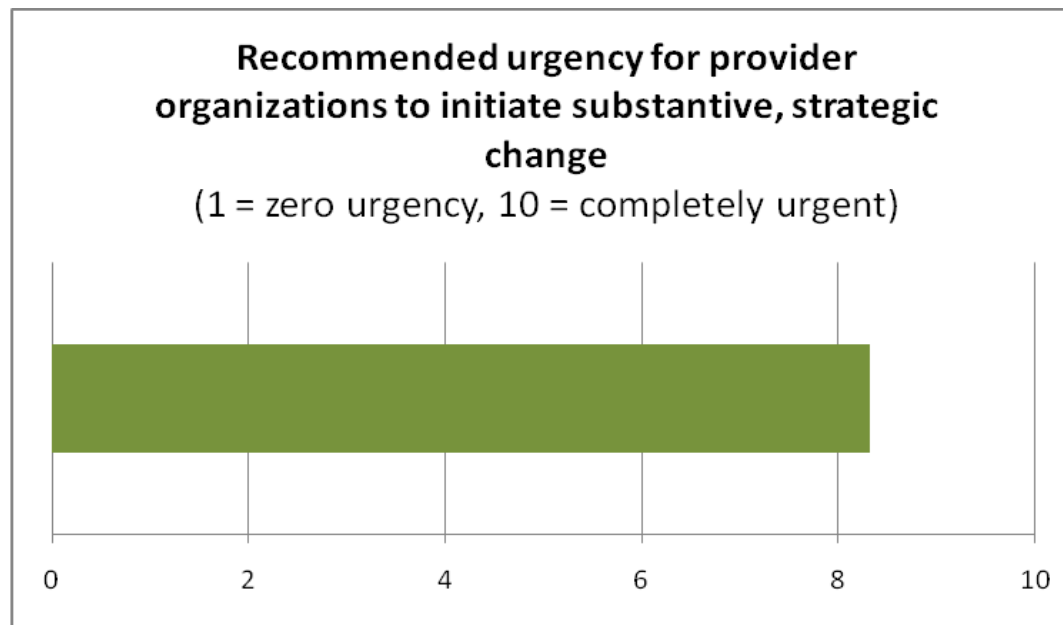
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Question 3. Of the “attempted system-changing” elements in the healthcare reform bill, which to you seem the most likely to have the biggest impact on healthcare providers: bundling, hospital readmissions, ACOs, the Independent Medicare commission, the ease with which successful pilot programs can be rolled out by CMS to the provider world, comparative effectiveness studies, the excise tax on “Cadillac” health plans, insuring 32 million more people, plus anything else that occurs to you?

- Four key initiatives that will have the most significant impact on fundamentally changing the industry:
 1. Pay for performance contracts with any of the payors
 2. Bundled payment mechanisms
 3. Declining hospital payments
 4. Declining physician payments
- The relationship between the consumer and physician will ultimately leave the patient centered medical home concept as the most promising.
- The largest early impact will come from reducing hospital admissions. Bundling will have a major impact in the longer term, but ACOs have a long way to go before the concept has practical application.
- The Independent Medicare Commission will provide the political “cover” for legislators that lacked the will to initiate unpopular reimbursement change.
- Bundling, ACOs: grouping of services will likely have more profound impact if they are implemented -- but they are likely to be felt in the medium term.
- Hospital readmissions & effectiveness studies, likely to result in short-term changes due to the focus by patients and doctors on quality.
- Biggest challenge for all may be in simply keeping up with real and predicted changes while still trying to maintain your mission and provide care to the community. This will be a very confusing time for many providers.
- Biggest impact: bundled payment. CMS loves it because of success of ACE pilot. Insurers are experimenting with it. Will show great savings by reducing waste but only if technology + care mgt systems can support it. ACOs too complex so relatively small uptake in first few years. Other initiatives unproven.
- The cumulative effect of all the elements, and spirit, of healthcare reform will drive the most change over time. Keeping pace with the fiscal changes as well as the philosophical ones will be challenging. With that said, organizations will follow the money. Therefore, changes like bundled payments and ACOs distributing payments and being incented to provide better quality care at lower cost, as well as hospital readmissions/facility- acquired infections rates being reported for bonus payments or penalty, will be the sorts of initiatives most likely to motivate change.
- In 10 years, there will be bundled system. This will have the biggest impact on providers because it will break down the silos that currently exist. It will take a very bold President and Congress to force this break down and require that everyone get on board. All other pilots and changes will be a means to this end, but only bundling will ultimately save money and get the us health care payment system back on track.

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Question 4. How urgent do you feel it is for leading-edge but also circumspect provider organizations to initiate substantive, strategic change in their organizations in order to prepare for healthcare reform's expected impacts? (10 = completely urgent, 1 = zero urgency)



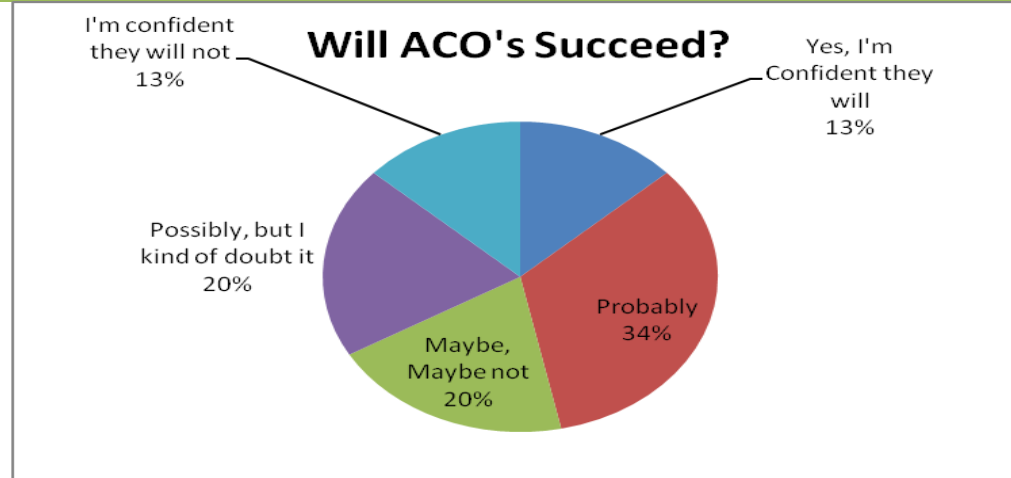
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Question 5

a. Will ACO's succeed?

(5 = yes, I'm confident they will; 4 = probably; 3 = maybe, maybe not; 2 = possibly, but I kind of doubt it; 1 = I'm confident they will not)

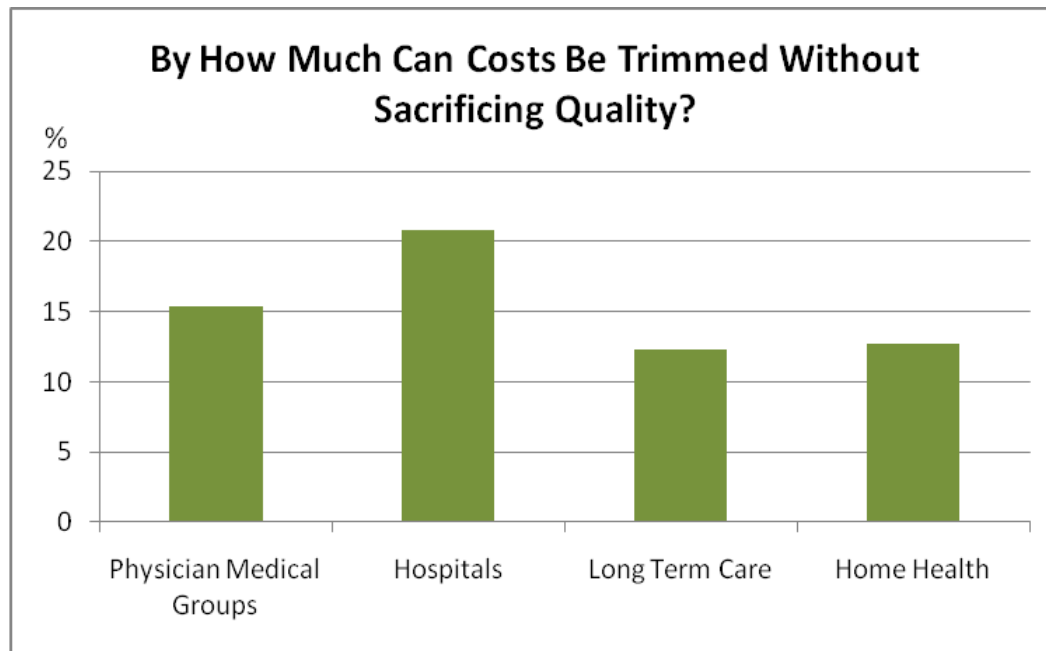
b. If they do, who is most likely to be in the driver seat – hospitals or health systems, managed care, physician medical practices, home health, a care management company, and IT company, or some other entity?



- The only organizations that can truly delivery on ACO requirements are hospital systems with a mature physician alignment structure.
- Hospitals and health systems
- Hospitals are likely in the driver's seat, given their political clout and image in the community, however I don't think they can pull it off. Likely then to be some sort of third party, care management organization, which is problematic because then another layer of cost (profit) comes into play. This is why I think ACOs will ultimately fail.
- Managed care
- Physician practices and home care companies, working together.
- Health care systems – hospitals + physicians – will be the key drivers as they have the most to lose.
- Hospitals partnered with physician medical practices.
- Guidance has been released as to how ACOs must be established and managed. They must be physician driven and, currently, only apply to the Medicare population. As such, hospitals or their management companies that have, or can build, a strong base of primary care practice are the most likely drivers.
- Large health systems and/or medical groups with the infrastructure to implement - try out - different delivery models, even if they don't succeed.
- Managed care and physicians will be in the driver seat under the above projection.
- Hospitals and/or large multi-specialty group
- Hospitals and health systems without a doubt. They have money, leadership, sophistication, and they are racing to employ docs.

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Question 6. How much potential trimming could be done in the healthcare provider world? Specifically, by how much do you think costs could be trimmed in the following segments by a talented, committed management team in a large (\$100 ml.) provider organization, without sacrificing the overall quality of their patient care?



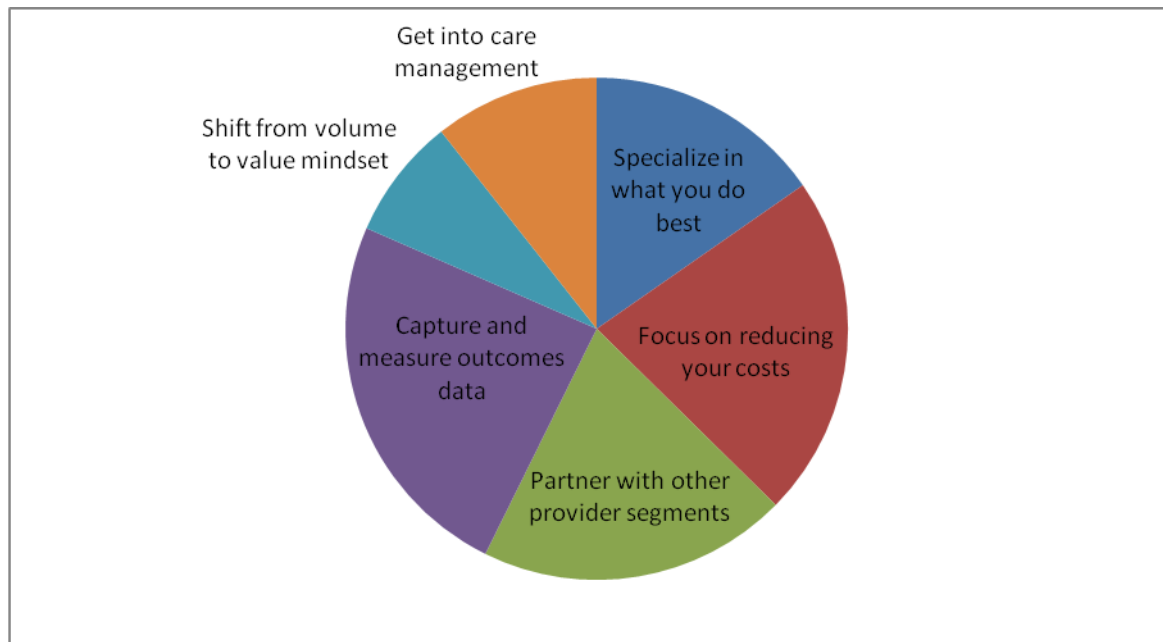
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Question 7. If you were advising a provider client, from any segment, and had to recommend overall action steps in order to transform their organization into becoming a market leader in a reformed healthcare system, how many points would you allocate among the following possible actions? (allocate as many points to each action as you would like, so long as the total adds to 100 points)

Points Action Item

- 15 Specialize more in areas you do best as well as what is most profitable
- 22 Focus on reducing your costs, developing more efficient processes
- 20 Communicate, align or partner more with other provider segments
- 24 Capture and measure data to demonstrate outcomes/invest in IT
- 8 Shift from a volume to a value mindset
- 11 Develop/enhance your care management capability
- 0 Other (write in):

100 points total



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Question 8. If you were dreaming up a company that would have a highly promising future in a reformed healthcare system, what would it be? If you were a venture capital firm and someone came to you with a business plan for a new company – either a healthcare provider or a company that provides a product or service to a healthcare provider, briefly describe a company concept what would get you to say, “now that’s a great idea!”.

- A physician-led firm that develops new clinical integration software that was developed in a large hospital/physician environment.
- An insurance company where, instead of administrators and operators, there would be doctors and nurses answering the phones. This company would have access to the best in evidence-based medicine and would spend the bulk of their time counseling their customers on how to stay well and get well. They would be in close contact with all physicians involved with their customer’s care and help them navigate their care episode or disease state or, ideally, their wellness plan. Combine the best of the concierge and disease management models and we’d have a much less costly system.
- Home healthcare (nursing and therapy services) which includes a physician’s house calls service (physicians and nurse practitioners),
- Hospice-like services and the systems and knowledge to direct other services and products to the home (mobile imaging, IV therapy, DME supplies). Such a business will be able to reduce hospitalizations of the chronically ill by more than 95%.
- A managed care “provider” as it was intended to be. An organization that truly coordinates services with a drive to best outcomes at the best price, placed between payors and providers. Essentially a care management company that goes “at risk” to manage patients’ interaction with an increasingly complex, and expensive, health care system.
- Independent drug effectiveness tracking by a drug company (or other entity) so the impact of the drug on the patient can be monitored from hospital, to rehab, to home health setting.
- A smart phone app that downloads all data from every health care encounter, creates a PHR with recommended options for treatment and prevention, allows an interactive set of programs to choose from, makes necessary appointments, provides a set of reminders, prevention protocols, and tracking systems to keep people as healthy as possible, for as long as possible.
- Transitional care management with capacity to monitor populations of patients, admit patients to appropriate settings and contract with the appropriate provider at that setting, conduct comparative effectiveness studies to continue to evolve the system, impact policy and get reimbursed for it!
- Any IT solution that makes data easier to capture and report across the triple aims. Integrated Enterprise solutions are clearly the IT providers of choice moving forward.
- A company that is high on technology, high on touch, and focuses on wellness and prevention – and where illness-management is secondary.
- Any idea for a low cost solution that identifies all available funds (grant money, demonstration and pilot project funds, etc), that also directs you, as a unique provider, to what funds you qualify for, and how you can access and apply those funds at a substantially lower cost than the FTE equivalent.
- A company that captures the data from the hospitals and providers and provides much faster review of the clinical pathways being used and the results, outliers, etc.

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