

Leading Health Systems (LHS) Financial Outlook

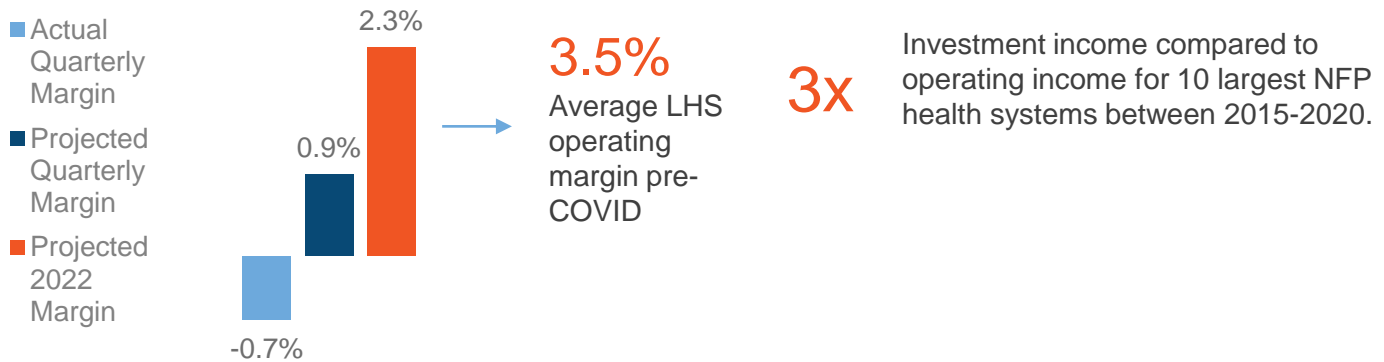
Strategies to Manage Costs and Diversify Revenue | June 2022

Informed by The Academy's latest CFO survey and conversations with executive leaders from the nation's Leading Health Systems (LHS), The Academy has identified key areas where LHS are looking to contain costs and generate revenue.

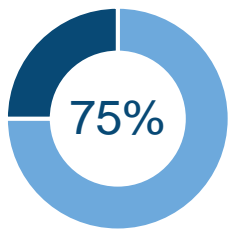
Margin and Budget Update

Near-Term Margins Show Signs of Recovery, But Reliance on Non-Operating Revenue Makes Future Uncertain

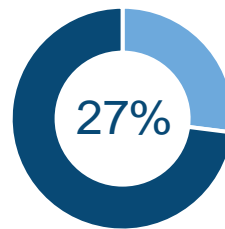
Average LHS Operating Margins in Q1 2022



In Reversal from 2021, Majority of LHS Looking to Reduce Operating Budget in 2022



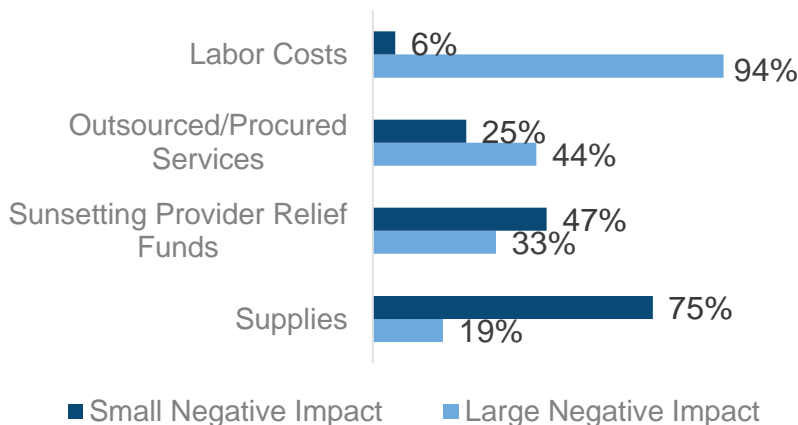
In 2022...
75% of CFOs said they are planning to decrease the operating budget



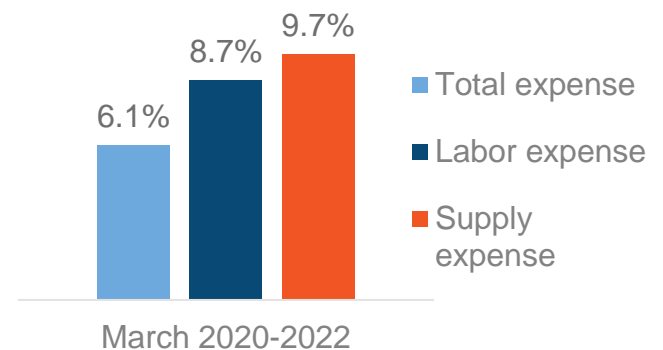
In 2021...
27% of CFOs said they are planning to decrease the operating budget

Higher Labor Costs, Broader Inflation Are Main Drivers of Tight Operating Budgets

Areas with Largest Negative Impact on Operating Budget
Academy CFO 2022 Survey



Change in Hospital Expenses
(Per Patient Discharge)



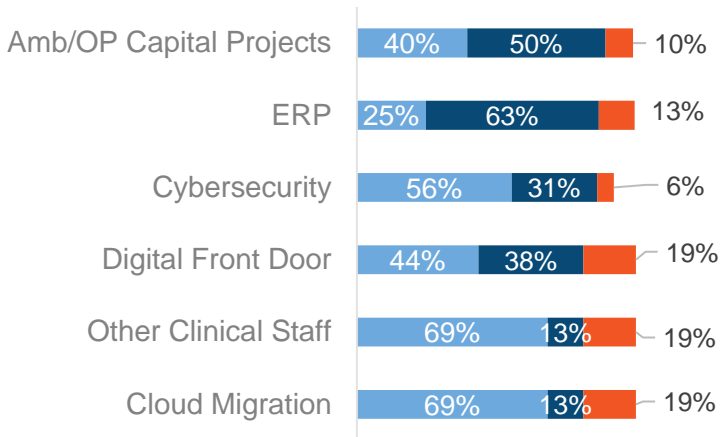
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Leading Health Systems 2022 Priorities | June 2022

Top Areas LHS Plan to Increase and Decrease Spending in 2022

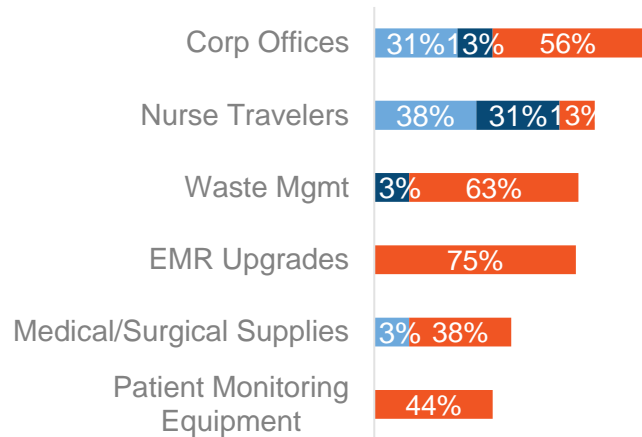
Overall, the areas CFOs noted they are likely to increase or decrease spending are similar to past years. Despite margin pressure and an eye toward cost containment, on average, LHS report relatively modest plans to decrease spending (outside of nursing travelers and corporate office space) in the near-term.

Areas LHS Plan to Increase Spending



■ Somewhat Increase ■ Significantly Increase
■ Stay the Same

Areas LHS Plan to Decrease Spending



■ Somewhat Decrease ■ Significantly Decrease
■ Stay the Same

Most Challenging Areas to Meet Cost Containment or Revenue Goals

CFOs selected the top areas (out of 15) for which their organizations are having trouble meeting cost containment and revenue goals.

Cost Containment	Percent indicating difficulty reaching cost goal	Revenue Generation	Percent indicating difficulty reaching revenue goal
Labor/productivity	81%	Service line growth	69%
Operational efficiency/throughput	50%	Risk-based payment models	38%
Service line rationalization	38%	Provider-sponsored health plan expansion	31%
Care standardization	38%	Employer partnerships	31%
Health IT	38%		

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Cost Containment and Revenue Growth Strategies

Given today’s challenging margin environment and future uncertainty, LHS are more cognizant of the need to contain costs than they have been in the recent past, where revenue growth was the dominant focus. And yet, there is still a strong recognition that growth and revenue diversification are priorities as LHS balance the more immediate cost pressures and planning for the future.

Cost Management Strategies

Workforce

- Most strategies to reduce workforce spend take time and resources
- Immediate cost reduction efforts focused on reducing travelers via internal agency or tech-enabled solutions

Automation

- Optimism around automation’s ability to improve efficiency, reduce costs, but challenges assessing/capturing ROI
- Some LHS are pursuing “micro” installations in clinical space to pilot and leverage tech on smaller scale

Throughput

- Optimizing throughput is a financial win regardless of payment environment
- LHS are working to centralize patient flow efforts to improve outcomes, experience, and efficiency

Supplies

- Rising costs and access issues put spotlight on supply chain challenges (e.g., lack of automation, transparency)
- LHS look to take greater control over supply chain via partnerships and/or ownership

Home Care

- Financial impact of home care models largely a function of LHS’ revenue model
- While some LHS pursue hospital at home (under CMS waiver), others focus on other options (e.g., urgent care at home) not waiver-contingent

Outsourcing

- Scope of outsourcing evolving with increasing interest in clinical areas (e.g., patient monitoring, telemedicine)
- Some LHS are pursuing deep partnerships to leverage digital expertise and/or accelerate transition to risk

Revenue Diversification Strategies

Capturing Premium Dollar

- While majority of LHS revenue remains tied to fee-for-service (94%), strong interest in expanding to risk persists
- Top strategies to expand risk include Medicare Advantage, partnership with payors, and increasing employer contracting

Mergers & Acquisitions

- M&A continues to be of interest though number of deals on decline, while size of deals increasing
- Recent deals focused on non-contiguous markets to reduce scrutiny, expand geographic footprint – but may be more difficult to find synergies

Commercial/Venture Arm

- Dramatic increase in venture capital spending for some of the largest LHS in recent years
- Many are relying on “for profit” business lines to support mission and growth strategy of more traditional healthcare/provider business

Common Factors Driving LHS Budget and Investment Decisions



Consumer-Focused



Leverages Technology



Optimizes Existing Resources



“Does-no-harm” for Care Team



Scalable across System