



Smart decisions. Lasting value.™

2019 Crowe Healthcare Virtual Symposium

Crowe Asset Optimizer - Technology-Enabled Asset Management
AKA Smart Assets

February 28, 2019

Andy Suhy

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Today's speakers



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Agenda

- Asset Optimization Objectives
- Economic Realities
- Optimization, The Bottom Line, and Opportunities
- Case Study Reviews



Opening: Asset Optimization Objectives

1. Tangible Cost Reduction
2. Through the deployment of data-driven asset-level performance metrics
3. That produces simple, relevant and actionable analytics that allow for the identification of achievable cost reduction opportunities
4. Fundamentally change the way in which the health system cost structure is managed

Why Is Cost Structure So Bloated?

1. Volumes and reimbursement rates historically good
2. Not-for-profit perspective (mission focused)
3. Field of Dreams (build it and they will come, clinically-driven spend)(phantom correlation between # of assets and top line revenue)

The result:

Too many assets
Too much capacity
Too much technology

Financial Beneficiaries of Overspend: (resistant to change)(“lobbyists”)

Equipment manufacturers (fleet mgmt.)
Equipment lessors
Equipment service/repair providers

Polling Question: Vendor Programs

Is your organization currently engaged in “fleet management” agreements for assets?

- A. Yes
- B. No
- C. Don't Know
- D. N/A



Current State: Economic Realities

Bloated cost structure bumping into....

- Declining volumes
- Declining reimbursement rates
- A single payer (patient) that bears more cost burden and is therefore a better steward of their healthcare spend

The result:

- Low margins (or losses)
- Weak operating performance
- Panicked and flawed reactive decision-making (death spiral)

CAO Solution: Simplify a major finance and operating problem (cost management) by applying a manufacturing mindset in a healthcare setting

Outdated Cost Management Methodology

1

Capital Freeze

2

FTE Reduction

3

Purchased Services Attack

The result:

- All done with little data
- The Irony: Often actually increases spend (Capex to Opex transfer)

NO LONGER SUSTAINABLE

There's A Better Way →

Polling Question: Traditional Cost Management

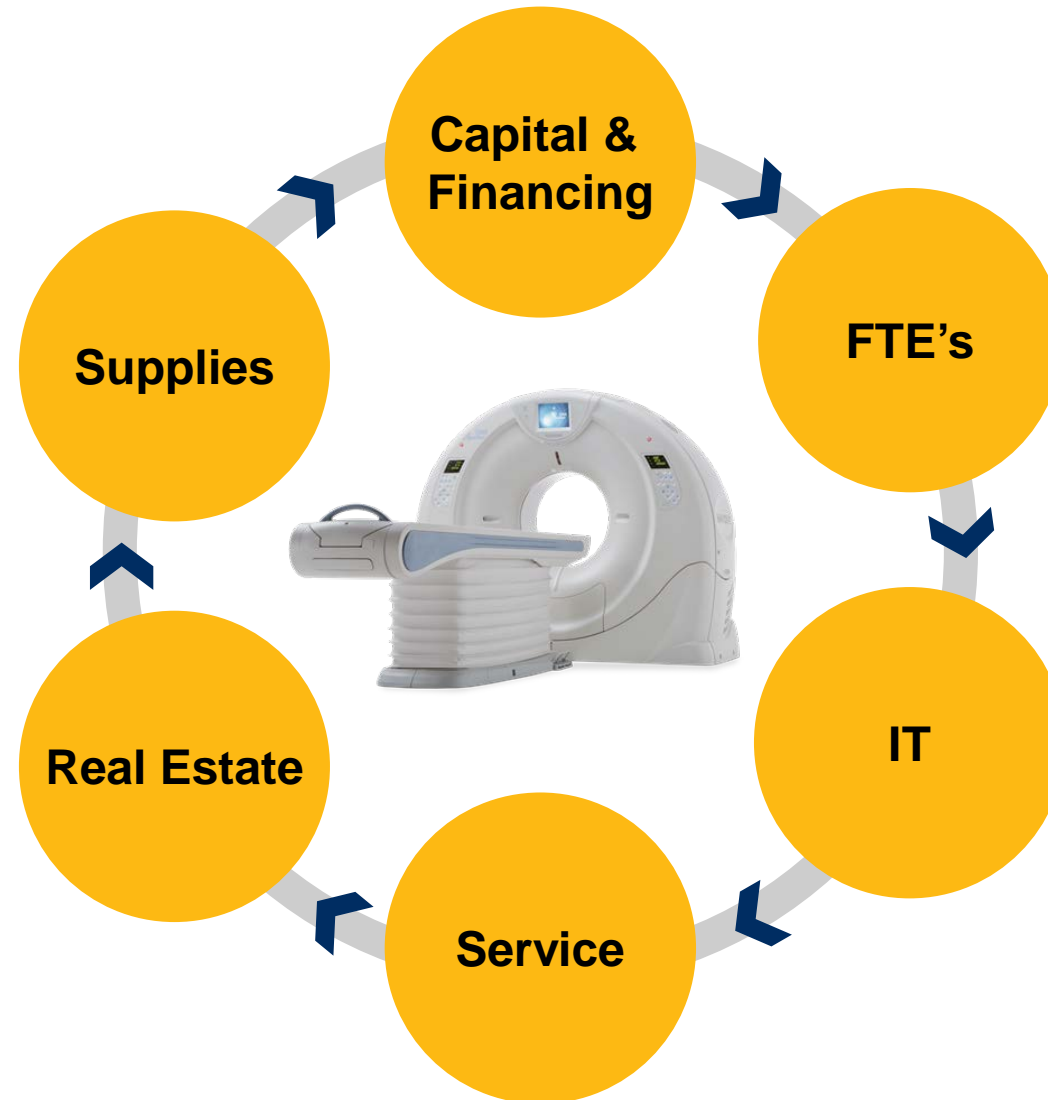
Are Capital Freezes, FTE Reductions and an Attack of Purchased Services your system's primary tools to reduce cost? (and are they effective?)

- A. Yes
- B. No
- C. Don't Know
- D. N/A



Assets are the #1 Cost Driver

Assets are Leading Economic Indicators



Overspend at the asset level is going to produce overspend in many other parts of the business

Polling Question: Batting Average?

How well do your organization understand the financial performance of the assets it has deployed?

- A. Cost and profitability of devices is well documented and understood
- B. Financial performance is somewhat tracked and understood
- C. It is more of a gut feeling than quantified data
- D. Could not tell you which assets make money or cost us money
- D. N/A



How Does Utilization Impact P&L?

Utilization Rate

Platinum Health (Demo)

Data Period: Full Year 2018

Building	Department	Modality	Make	Model	In Svc Date	Age (yrs)	Vol/mo	Max Cap/mo	Util%
Platinum Hospital - Northeast	Radiation Oncology	CT-Simulator	Siemens	Somatom Senation Open	3-1-04	15.0	10	207	5%
Platinum Hospital - Main	South Tower Imaging	CT-Fixed	Siemens	Somatom Definition AS 128	6-4-06	12.7	202	2,311	9%
Platinum Hospital - Northwest	CT	CT-Fixed	GE	Lightspeed QXI 4	12-8-04	14.2	17	184	9%
Platinum Imaging Center - Westgate	Imaging	CT-Fixed	GE	Lightspeed 16	10-31-06	12.3	61	582	11%
Platinum Health Center - Westgate	Radiology	CT-Fixed	Toshiba	Aquilion 64	9-1-12	6.5	163	1,065	15%
Platinum Imaging Center - South	Imaging	CT-Fixed	Toshiba	Aquilion 32	8-1-05	13.6	99	438	23%
Platinum Northeast Cancer Center	Radiation Oncology	CT-Simulator	Philips	BRILLIANCE BIG BORE	6-1-12	6.7	49	207	24%
Platinum Hospital - Central	Radiology	CT-Fixed	Siemens	Somatom Definition AS 128	9-8-15	3.5	355	1,446	25%
Platinum Hospital - Southwest	Radiology	CT-Fixed	GE	Lightspeed VCT 64	2-27-07	12.0	571	2,160	26%
Platinum Hospital - Northeast	CT	CT-Fixed	Siemens	Somatom Definition Flash 320	10-15-12	6.3	956	2,880	33%
Platinum Hospital - Main	CT	CT-Fixed	Siemens	Somatom Definition AS 64	9-24-04	14.4	384	1,041	37%
Platinum Hospital - Main	EC	CT-Fixed	GE	Revolution EVO 128	8-28-17	1.5	1,102	2,880	38%
Platinum Imaging Center - West	Imaging	CT-Fixed	Toshiba	Aquilion Prime 160	1-7-10	9.1	233	588	40%
Platinum Hospital - Southwest	Radiology	CT-Fixed	Siemens	Somatom Definition AS 64	6-25-17	1.7	983	2,160	45%
Platinum Hospital - Main	EC	CT-Fixed	GE	Revolution EVO 128	7-1-17	1.6	1,411	2,880	49%
Platinum Medical Center - Comer	Imaging	CT-Fixed	Siemens	Somatom Definition AS 64	7-1-07	11.6	367	747	49%
Platinum Hospital - Central	Radiation Oncology	CT-Simulator	Philips	Brilliance 16	4-29-10	8.8	109	207	52%
Platinum Hospital - Northwest	CT	CT-Fixed	Siemens	Somatom Definition AS+ 128	4-1-10	8.9	534	987	54%
Platinum Medical Center - Bloomington	Imaging	CT-Fixed	Siemens	Somatom Definition AS 64	6-6-07	11.7	322	587	55%
Platinum Imaging Center - Central	Imaging	CT-Fixed	GE	Lightspeed VCT 64	7-1-05	13.6	613	1,077	57%
Platinum Outpatient Center - Northeast	Imaging	CT-Fixed	Siemens	Somatom Definition AS 64	8-19-05	13.5	593	1,035	57%
Platinum Cancer Center - Northeast	Radiation Oncology	CT-Fixed	GE	Lightspeed 16	3-1-08	11.0	151	260	58%
Platinum Hospital - Main	CT	CT-Fixed	Siemens	Somatom Sensation 10	5-1-04	14.8	385	656	59%
Platinum Hospital - East	CT	CT-Fixed	GE	Lightspeed VCT 64	1-8-07	12.1	370	621	60%
Platinum Hospital - South	EC	CT-Fixed	GE	Lightspeed VCT 64	10-4-10	8.4	1,287	2,160	60%
Platinum Hospital - South	Imaging	CT-Fixed	GE	Lightspeed VCT 64	10-25-06	12.3	683	1,080	63%
Platinum Hospital - Central	Radiology	CT-Fixed	GE	Lightspeed QXI 4	3-4-05	14.0	159	230	69%
Platinum Hospital - Central Imaging	Imaging	CT-Fixed	Siemens	Somatom Sensation 16	3-26-04	14.9	550	690	80%
Platinum Hospital - East	CT	CT-Fixed	Siemens	Somatom Definition Flash 320	11-19-09	9.3	1,820	2,160	84%
Totals and Averages						9.7	14,539	33,526	43%

What is True Asset Optimization?

INDEPENDENT Data-Driven Asset Optimization:

- Apply financial, clinical and operational performance analytics to each asset
- Identify and eliminate waste/bloat
- Understand, protect and preserve top line

Transform the decision-making and financial management process:

BEFORE	AFTER
Vendor and physician driven	Data-driven
Anecdotal	Fact-based
Reactive	Proactive
Expensive	Sustainable
Fragmented view of assets	Centralized system-wide view of assets
Arbitrary capital planning	Best practice capital planning

Polling Question: Asset Leasing

How well would you say your organizations understands it current asset lease agreements (status, amount, financing costs, economic appropriateness, T&C's, etc.)?

- A. Well managed and understood
- B. Well documented, but not monitored or updated regularly
- C. Not sure
- D. Hot mess
- D. N/A



Case Studies (qualifiers..)

These are real examples

- They have not been embellished
- Yes, it's that bad
- Yes, it's likely happening at your system

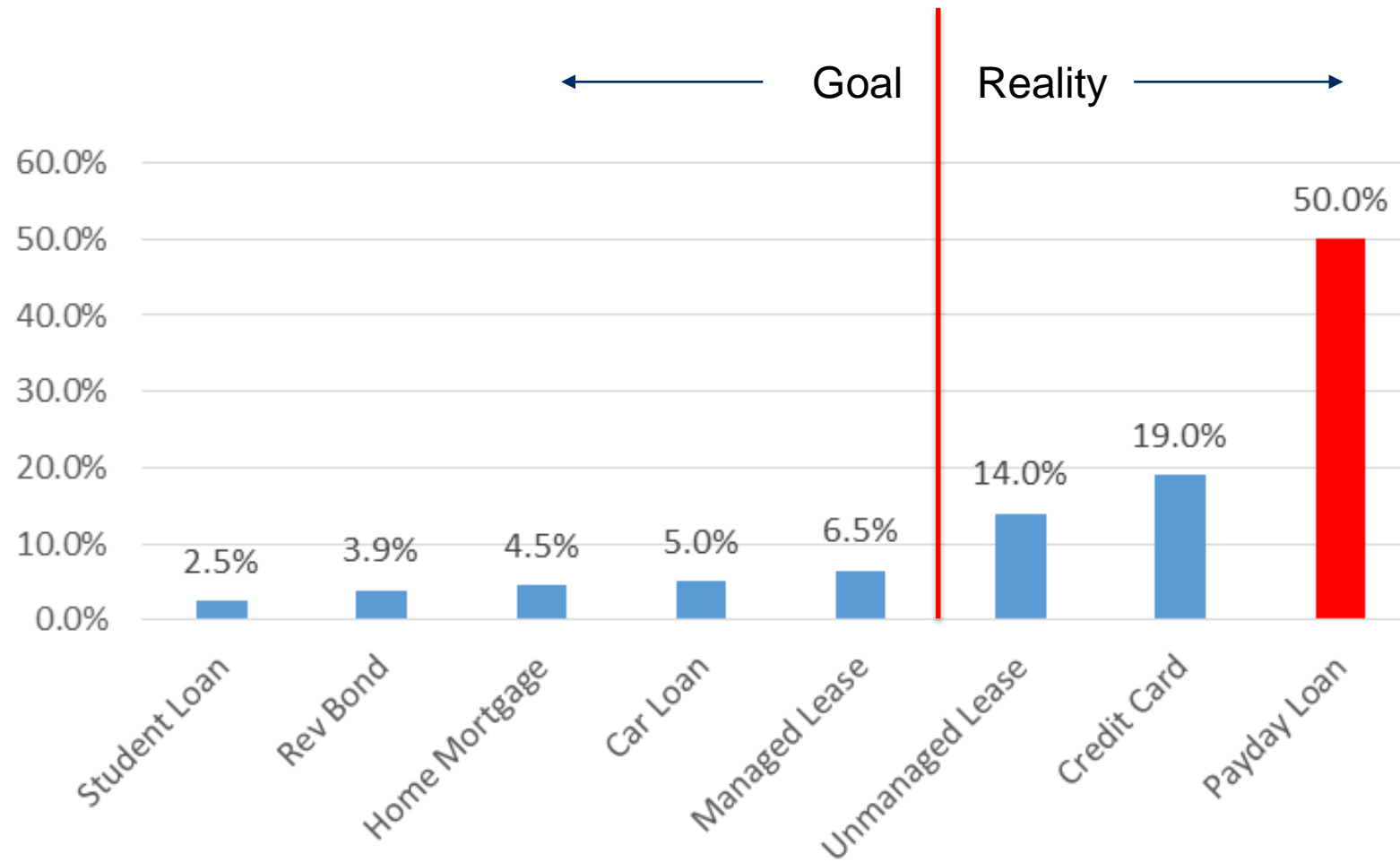
A Major Threat: Predatory Lending in Healthcare

Unintended consequences of a capital freeze

- Leasing used to circumvent capital appropriations (does not encumber capital)
- Lenders are exploiting this structural flaw
- Asset leases are poorly structured and poorly managed
- Cost resides in a perpetual opex line item (low visibility)

**The result:
high cost “hidden” payday loans!**

Financing Cost Perspective



Case Study 1: World's Most Expensive Chemistry Analyzer

SUMMARY OVERVIEW

- Chemistry analyzer Assets sourced locally (\$54,000 cost)
- Did not go through formal supply chain or finance process
- Vendor presented as a favorable 24 month lease (No Capital Required)
- Turned into a 72 month lease (auto renewal, no management, perpetual Opex line item, path of least resistance)
- Documents are confusing, misleading, and difficult to assess
- Asset values (basis of finance vehicle) were intentionally misrepresented

The result:

- **55% implicit interest rate per year for 6 years!**
- **\$142,000 in financing costs (interest) on a \$54,000 asset**

Case Study 2: The Pyxis System ‘Rental Rope-A-Dope’

SUMMARY OVERVIEW

- Health system – “we do not have capital”
- Vendor – “that’s ok, we can “rent” to you”

The reality:

- Was a 60mo lease in disguise
- Horribly structured
- Cost system an extra \$1M in Personal Property Tax (PPT) on a \$10M asset

What you’re up against:

“we agree to lease the rental equipment”

Case Study 3: That Scary Thing In The Basement

SUMMARY OVERVIEW

- Physician group installed an MRI in the basement of building, and leased it (note—never do this!)
- Health system acquired imaging practice, but not building (took assignment of all leases)
- MRI was upgraded several times, and the lease payment kept getting smaller (good optics)
- Poor performance led to closure of site

The result:

- MRI landlocked in basement, eliminating all return leverage with lessor
- \$200k in construction costs to remove MRI and return
- Health system Forced to buyout and liquidate on own
- After all cash flows considered, interest rate on financing was 13%/yr for 9 years!
- That's \$500,000 of excess financing costs on a \$1.2M asset

Summary Asset Optimization Results

- TANGIBLE Cost Savings is #1
- Data-Driven Capital planning
- Capacity optimization (right size)
- Service structuring
- Finance structuring and management
- Supply chain acquisition intelligence
- Technology alignment
- CMS regulation management
- Staffing optimization
- Provider analytics (trends, payer mix, etc.)
- Vendor management and assessment
- 100% visibility (Centralized Command and Control)
- Better Align Revenues w/ Expenses

Program Implementation Process:

1

Develop Comprehensive Asset Inventory and Profiles

2

Develop ongoing rich data acquisition

3

Follow the data..... (you will be amazed with the story it tells)

Thank you

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