



The data is clear:
Revenues are not
going back to January
levels. Now what?

Sept. 30, 2020

Presented by:
Brian Sanderson
Alex Garrison



Polling Question

Do you think wearables will be part of the clinical treatment protocols within the next year?

A

Yes definitely

B

Only on a very limited basis

C

Nothing will happen until data security is insured

D

Not sure.



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Agenda

- a. Highlighting measurable changes in services levels, impacts on revenue, & expectations for months ahead
- b. How CARES funding has impacted the industry and how to prepare for when this flow of funding is gone
- c. The surge in telehealth services and what role they play in the short- and long-term strategies of leading organizations
- d. New business and labor models being considered by health system leaders

What does this mean for you?

Your Presenters

ALEX GARRISON

CROWE LLP

Alex leads Crowe's Healthcare Performance Analytics practice, including the Quarterly Healthcare Industry Benchmarking reports.



Polling Question

Will hospital patient volumes return to 2019 levels?

A

Yes, definitely – in the near term.

B

Yes, but not until late 2021 or beyond.

C

No, this is our new norm for hospital volumes.

D

Not sure.



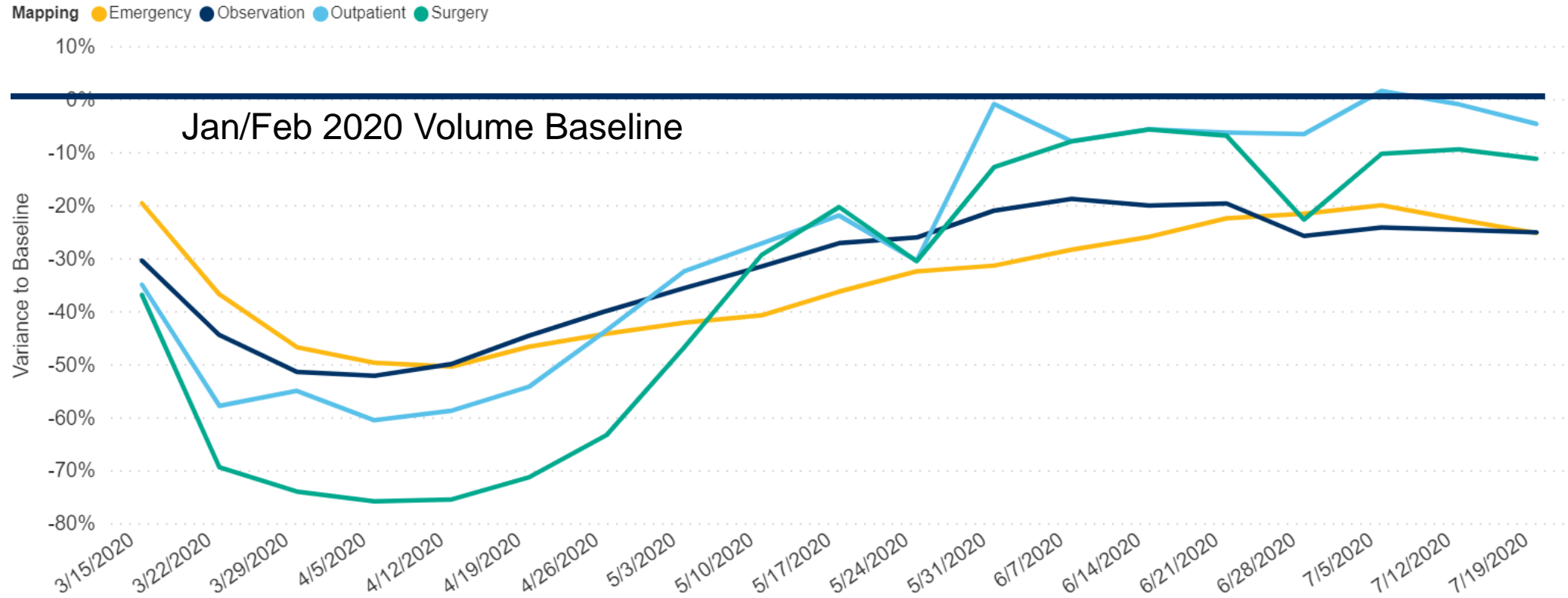
CEO
450 BED INDEPENDENT HOSPITAL

“We can’t afford to wait and see. We need to make decisions now, and the one variable that always comes into play in any of the decision options is lowering our cost structure.”



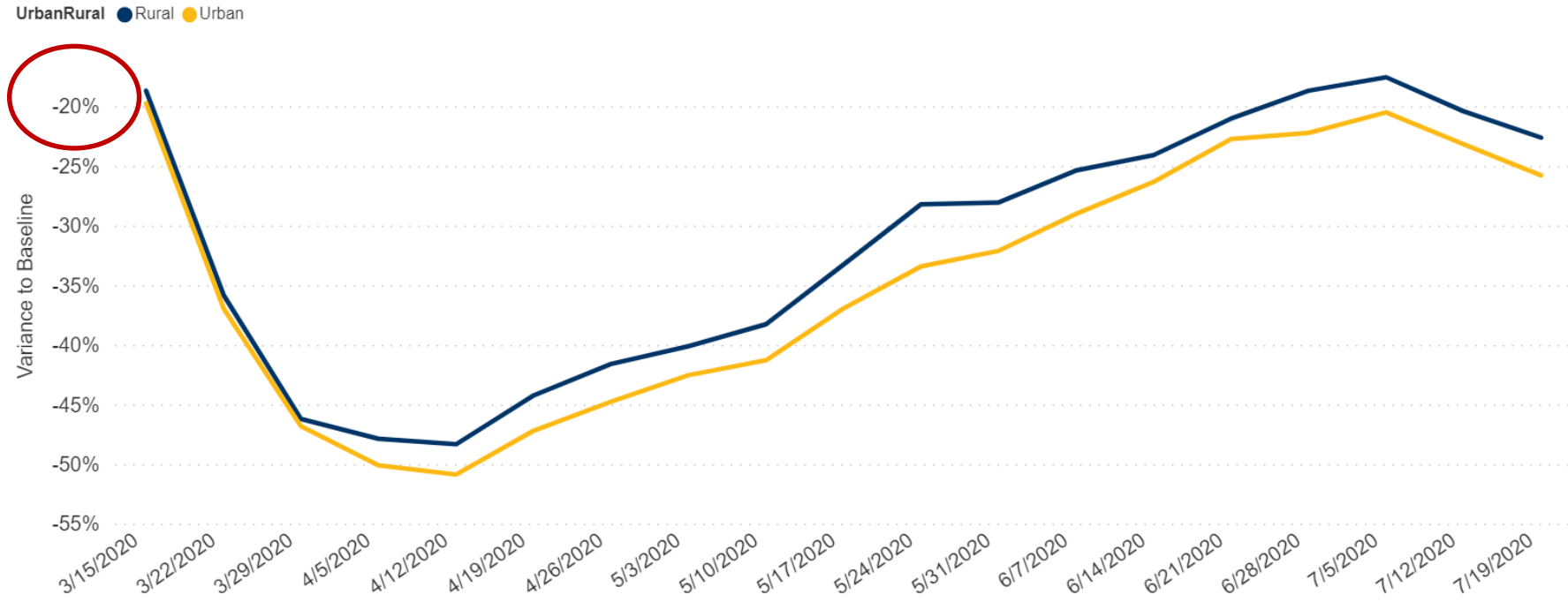
**COVID's Impact:
Changes in Service
Levels and Volumes**

Outpatient Volume Trends



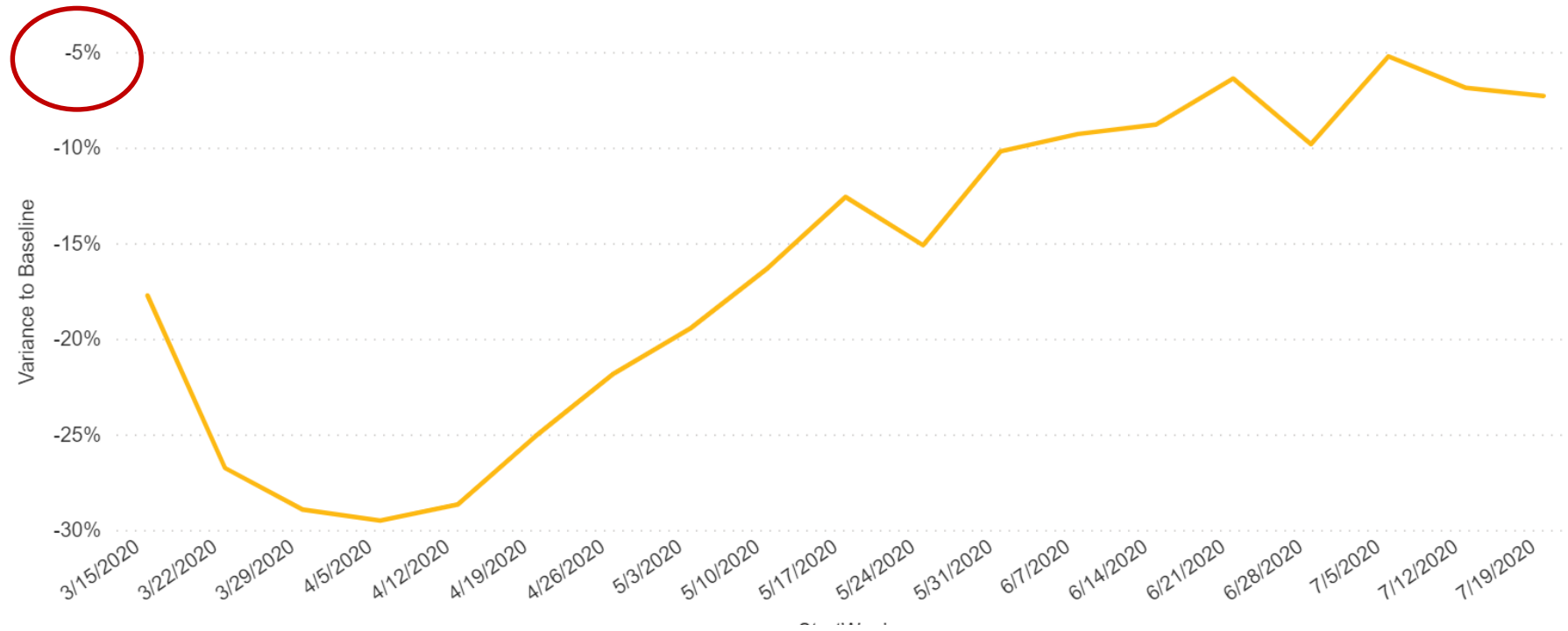
O/P volume has hit plateau at 5-11% below

Outpatient Volume Trends (Cont.)



Rural “recovering” faster than Urban

Inpatient Volume Trends



Some hospitals never hit previous baselines

KPI Description	2020 vs. 2019
Credit Balances	16.6%
DNFB Balances	7.8%
Net AR Balances	-1.2%
Gross AR Balances	0.7%

July 2020
vs.
July 2019

- May month end Net AR was down 17%+ in 50% of health systems, then rose when patient volumes began to return
- Net revenue per case in July was 6.1% higher in I/P, 6.3% higher in O/P – reflecting higher acuity within lower patient volumes

Rev Cycle KPIs are not reliable at current

CROWE CASE STUDY

	Emergency Department Compared to Baseline Stats				
	Apr-20	May-20	Jun-20	Jul-20	Aug-20
ED Volume	-43.5%	-28.3%	-20.0%	-9.9%	-8.2%
ED GPSR Per Case	9.3%	7.3%	10.0%	9.1%	5.3%

	OP Surgery Compared to Baseline Stats				
	Apr-20	May-20	Jun-20	Jul-20	Aug-20
OP Surgery Volume	-77.3%	-41.6%	-7.4%	-0.8%	-4.0%
OP Surgery GPSR per Case	26.6%	14.7%	15.6%	13.9%	12.8%

- Evaluation & Management (E&M) volumes for level 3+ are close to baselines, but levels 1 and 2 are scarce – alternative sites or “not receiving care” ...?
- Outbound calling (by physicians or other clinicians) has strong “hit rate” of re-scheduling surgeries

Health systems can no longer “wait and see”

What does this mean for you?



Polling Question

What is the most important element of health system financial recovery?

A

Getting volume back to previous levels

B


Reducing costs by 10%

C

Further financial assistance from government sources

D

Not sure.



“We had the best financial statement month ever, in June, due to the CARES money. I told our executives to ‘take a picture’ – because we’ll never see those kinds of numbers again, when we’re back to normal operations.”

CFO

12 HOSPITAL HEALTH SYSTEM

CARES Funding & Its Impacts



Coronavirus Aid, Relief, and Economic Security Act

- As part of the CARES Act, **HHS distributed \$50 billion to providers** who bill Medicare fee-for-service proportional to providers' share of 2018 patient revenue. \$30 billion of this was distributed to eligible providers on April 10, 2020 and the remainder on April 24th
- An **additional \$18 billion was distributed as part of phase two** for eligible providers that included participants in state Medicaid/CHIP programs, Medicaid managed care plans, dentists, and certain Medicare providers. This was determined based on applications from eligible providers.
- Additional targeted distributions were established for high-impact COVID-19 areas, rural providers, skilled nursing facilities, tribal hospitals, safety net hospitals, and several others. The total amount dedicated to these programs was nearly **\$60 billion** in total
- In addition, providers were eligible to request **advanced Medicare payments** to assist with cash flow concerns as a result from COVID-19. These must be paid back by hospitals within one year of receipt of advance payments.

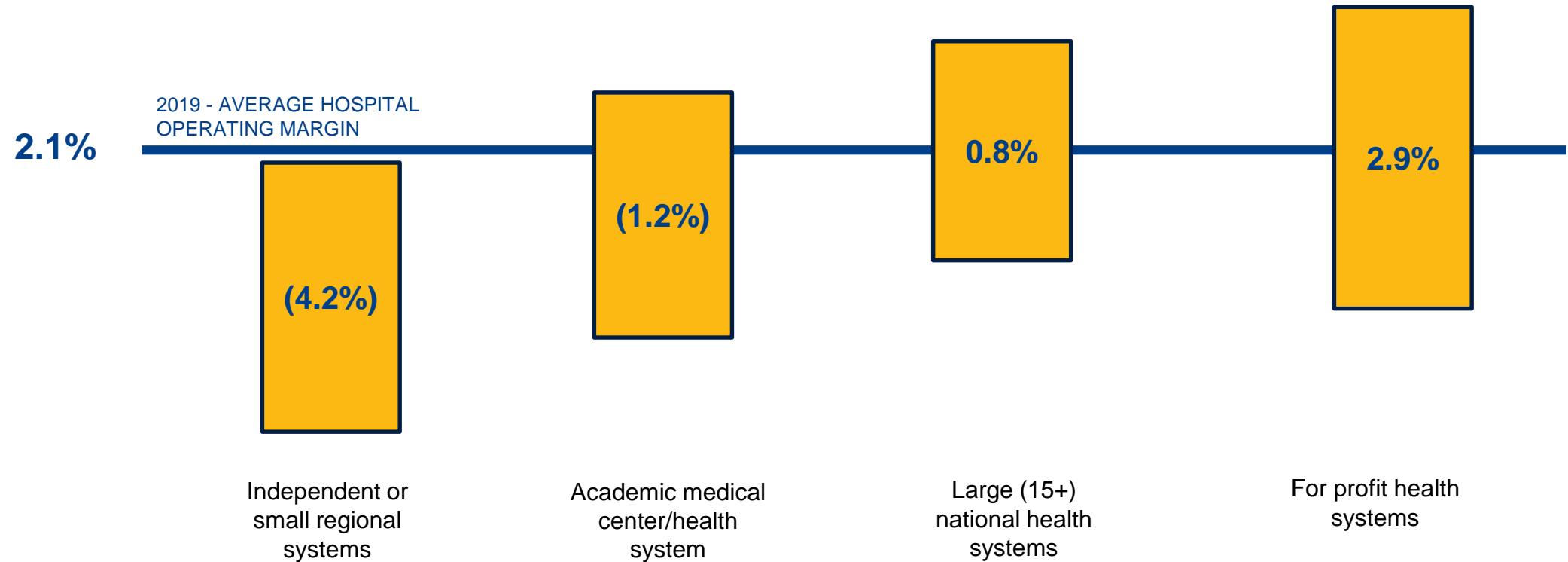
CARES Act Impacts to Operating Margin

	2019 Operating Margin	2020 Operating Margin	2020 Operating Margin (exc. CARES Act)
For-Profit Health System A	13.1%	17.8%	10.4%
For-Profit Health System B	12.3%	12.5%	1.8%
For-Profit Health System C	3.4%	11.8%	-6.0%
Non-Profit Health System D	2.3%	-1.8%	-7.0%
Non-Profit Health System E	5.7%	-6.8%	-19.3%

- Crowe has seen CARES Act funding account for between 6% to 17% in operating margin differences in our sample.
- In many cases, this has the impact of swinging operating margin from negative to positive.
- In addition, for profit providers showed the greatest resilience in being able to maintain positive operating margins when excluding CARES act funding.

Looking Ahead at Operating Margin (3/31/21)

(without CARES Act or related relief)



Most health systems will be unable to fully transition their cost model within the next 6 months.



What does this mean for you?

Polling Question

What will the healthy system look like in 2030?

A

Only huge (100+ hospitals) systems

B

Partnership (including for profit ancillary) groups that coordinate care

C

Digital first. Hands on care second.

D

Not sure.

“With telehealth, we executed in 4 weeks what would have normally taken us more than 2 years. We had the infrastructure, we just didn’t have the reimbursement or burning platform.

What else can we accomplish this way?”

A large black silhouette of a person in a suit, positioned on the right side of the slide. The person is facing left, with their right hand near their chin in a thoughtful pose. The background is a solid orange color.

CFO

25+ HOSPITAL HEALTH SYSTEM

A woman's profile is shown in silhouette against a dark blue background. From the top of her head, numerous thin, glowing lines in shades of purple, pink, and orange extend across the upper portion of the frame, resembling a digital or neural network. The overall aesthetic is futuristic and tech-oriented.

The Telehealth Surge

(or should we just call it “digital” health)

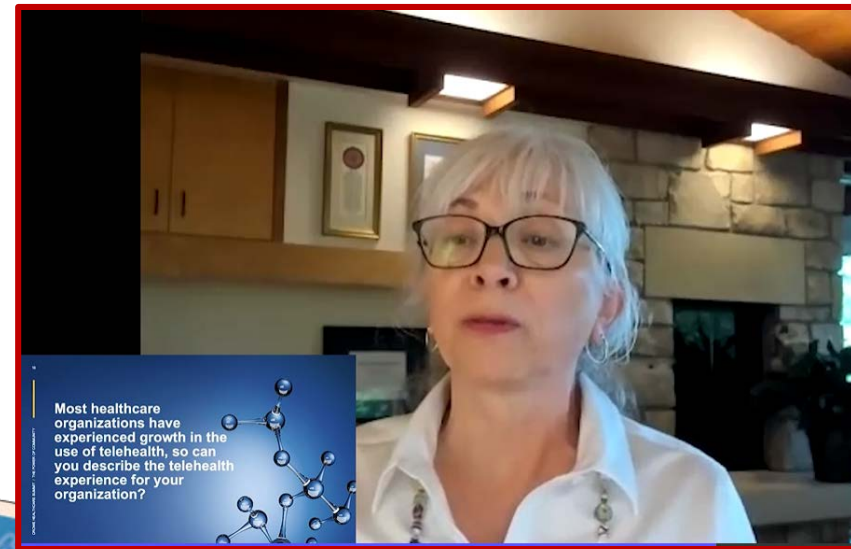
Telehealth Volume Trends 2020

- Weekly telehealth encounters in late April 2020 at nearly 1 million per week, compared to baseline levels of less than 20,000 per week (source: Preverity)
- Telehealth weekly visits in this data set normalizing at around 500,000 visits a week in June 2020
- The largest utilizers of telehealth from an age perspective were those falling between 51-60, with women being larger utilizers than men.
- Different regions (e.g. east coast) showed disparate usage per capita
- Increases in telehealth visits have not made up for steep declines in office visits in 2020.



“Our focus with telemedicine is - how do we complement in person care with what we do with the real estate footprints, and the facility reimbursement we receive.”

Rhonda Anderson
CFO, Ascension Health



“We seek to embed virtual care on a disease state by disease state basis ... For a destination practice like Mayo Clinic, the use of virtual care is a significant advancement in healthcare delivery.”

Dennis Dahlen
CFO, Mayo Clinic

Increasing Investment in Digital Health

- 2020 has seen increasing investment in healthcare with a focus on technology and innovation. Fierce health reported this is up to \$9.1B in the first half of 2020 compared to \$7.7B during the same time period in 2019.
- Some key highlights include:
 - Telehealth provider Amwell raised \$742M in its initial public offering on September 16th following raising over **\$100M in additional funding from Google** in June.
 - Oak Street Health raised \$328M in its initial public offering in August followed by an announcement of its **partnership with Walmart** to operate three clinics in Texas supercenters
 - Following stock value rising over 155% for Teladoc & 427% for Livongo since the start of 2020, they announced their plans to merge on August 6th 2020 in a deal that valued the **combined entity at \$37B.**

Considerations for Telehealth & Ambulatory Strategy

- There is **no “primary service area”** in digital/virtual health – so your market mindset changes
- Telehealth and connected device **investments and partnerships** shouldn't be seen as a COVID stopgap but as a long-term strategy
- Organizations should do thorough due diligence on how to establish strong complimentary partnerships to **enhance the patient experience and increase loyalty** for high contribution margin services (imaging, OR, etc.) that can't be accomplished digitally.
- While much may go back to normal, some of telehealth (estimated at 50% of peak) is here to stay, and this **may further compromise** hospitals, health systems and physician practices which had low operating margins pre-COVID.



“With lower volumes, we need to look critically at what service lines we actually can now support. And be flexible with our plant to reassign clinical areas.”

CFO

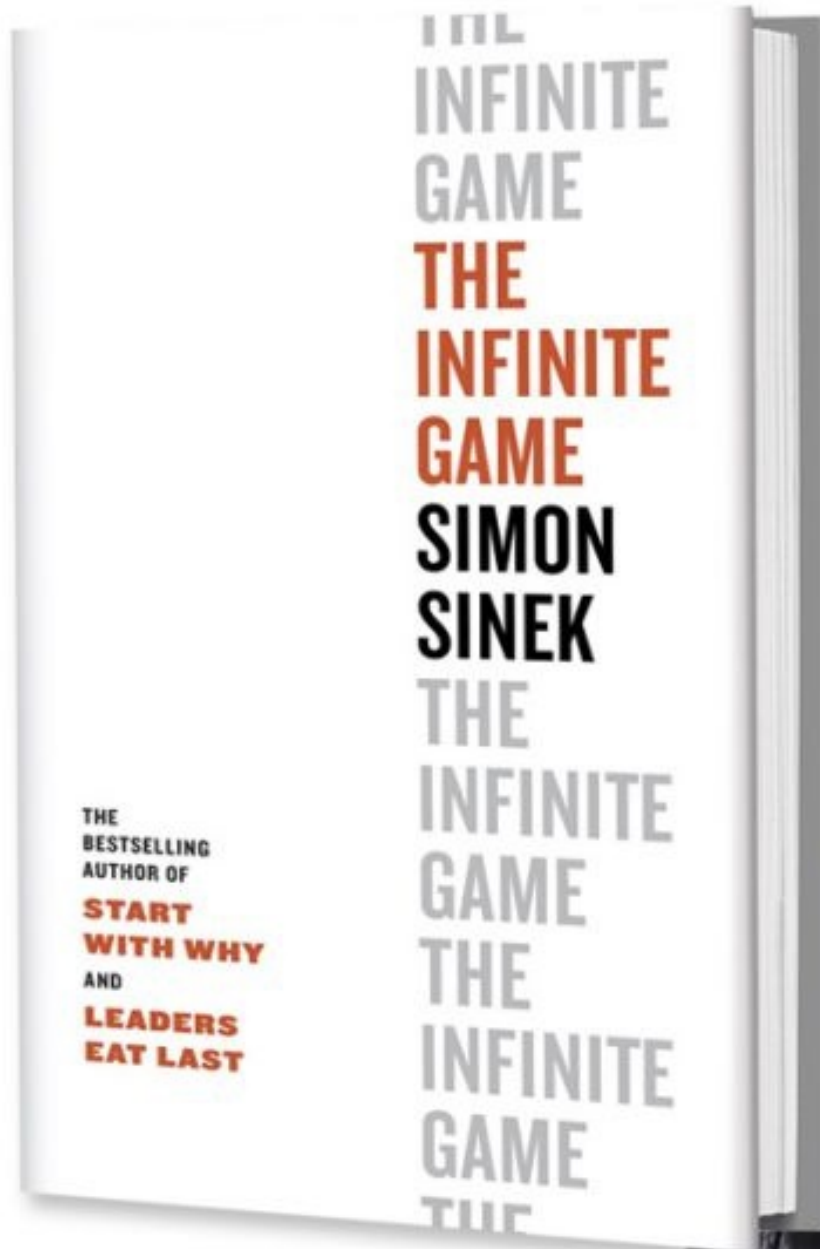
3 HOSPITAL HEALTH SYSTEM



What does this mean for you?

A woman's profile is shown in silhouette against a vibrant blue background. From the top of her head, a dense array of glowing fiber optic lines in various colors (purple, pink, orange, yellow) extends across the upper portion of the frame, creating a sense of digital connectivity and innovation.

New Business & Labor Models



44% of this market cap is in new modes of clinical and operational delivery

2020

Administrative automation & digitization



Disease management & therapeutics



Screening & diagnostics



Drug discovery



Clinical trials



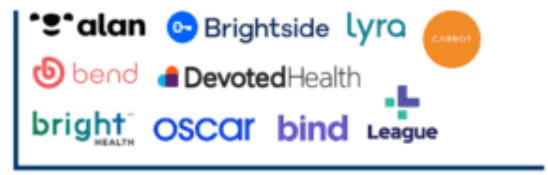
Clinical intelligence & enablement



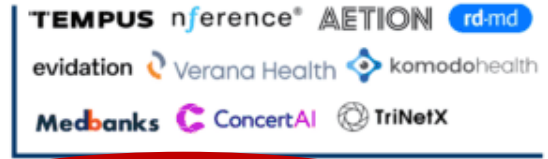
Pharma supply chain



Health plans & benefits management



Real-world evidence (RWE)



Digital Health 150 CBINSIGHTS

Online-offline care

Primary & urgent care



Specialty care



Virtual care delivery



Transition – Traditional to Digital Clinical Care



Primary Care

35%

Radiology

25%

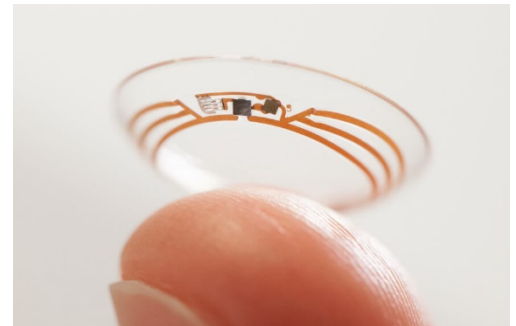


Pediatrics

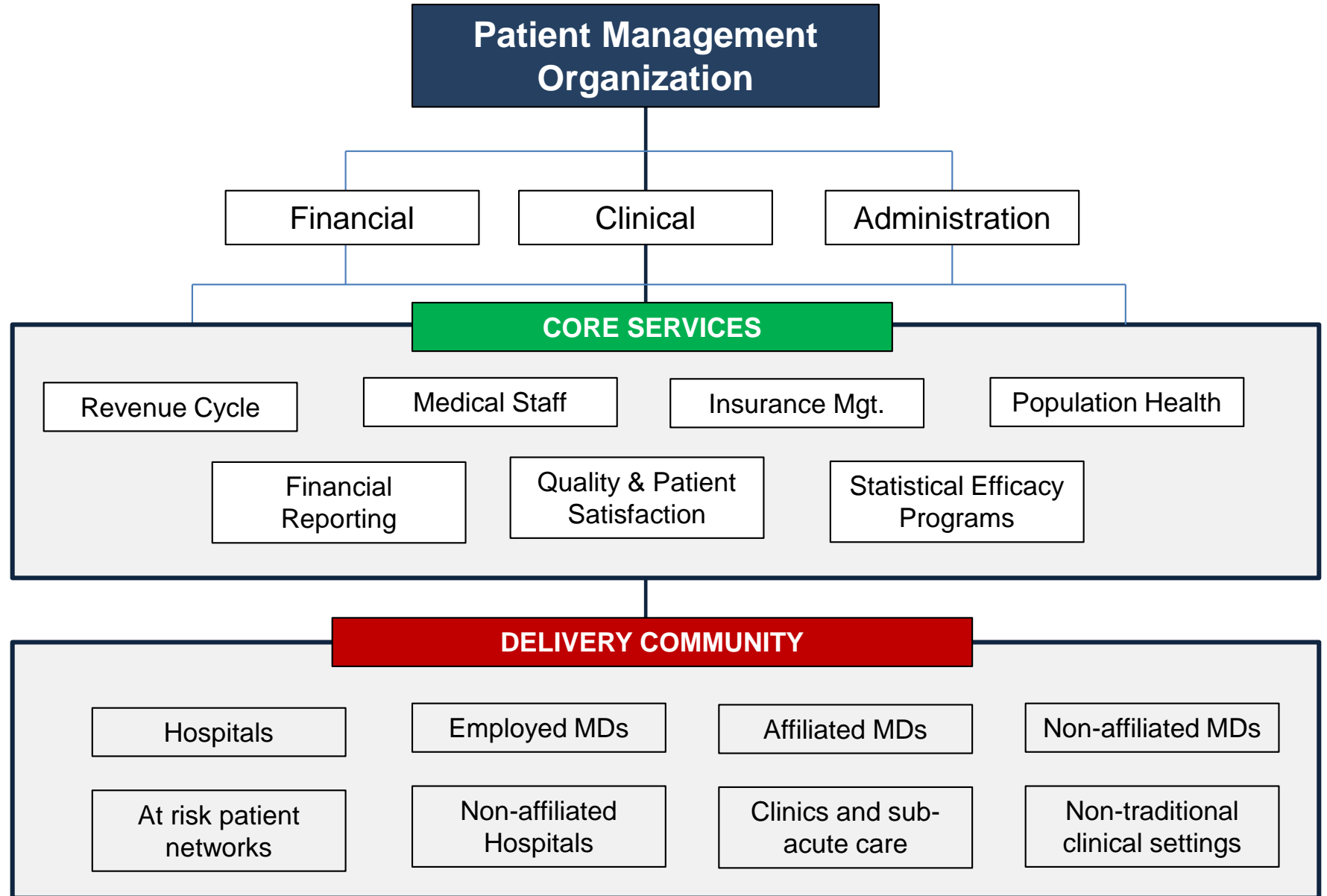
30%

Ophthalmology

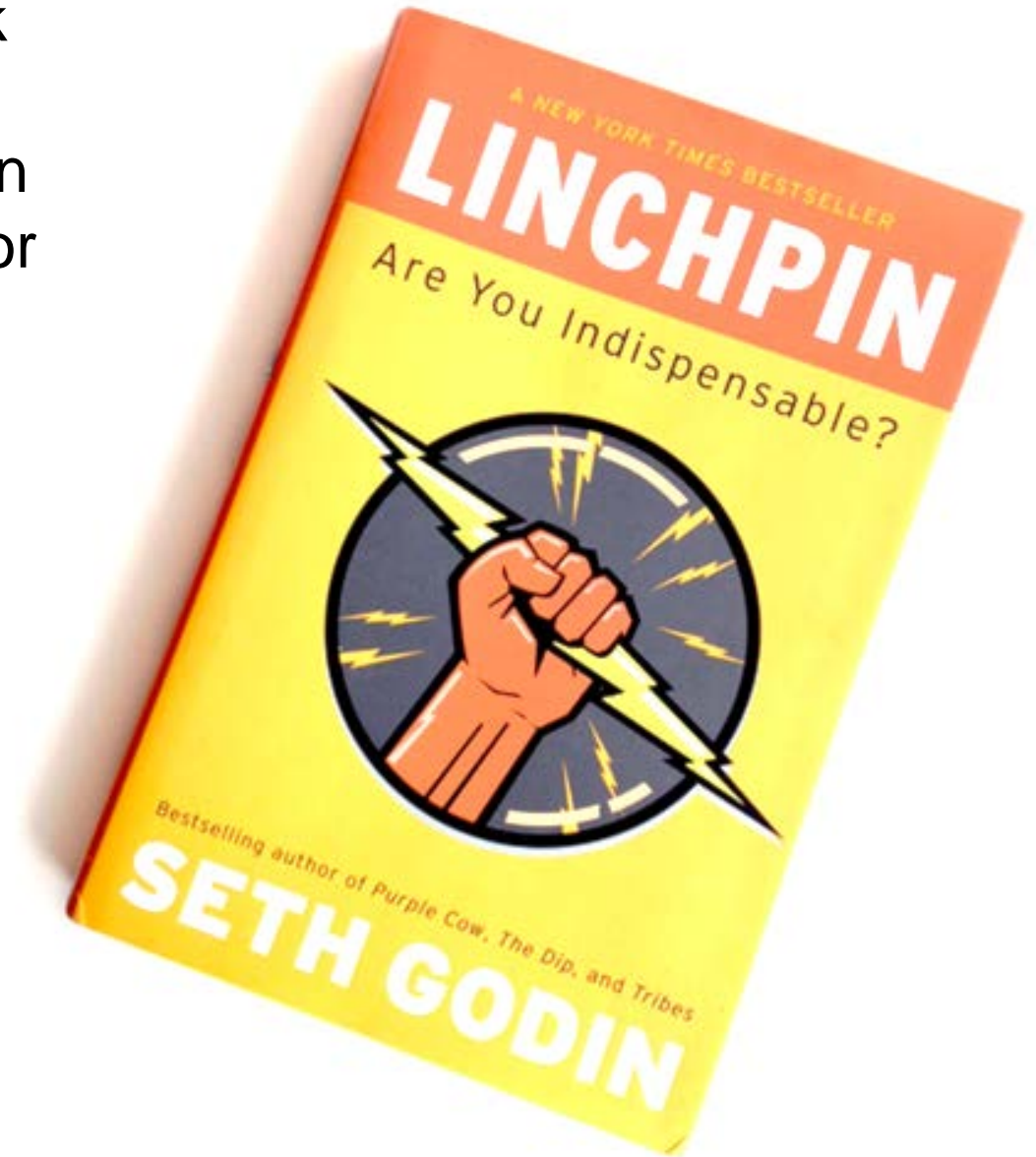
25%



New health system business models will integrate multiple functions and disciplines



- Is your job remarkable? Is your work output remarkable? Are you remarkable? If the answer is no, then you are replaceable (by automation or by another cheaper resource)
- Distinction between “factory workers” and “linchpins”
- Integration of (intelligent) automation as a labor supplement
- 100% of health system CFOs are addressing their cost position





Thank You

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