

Tenet Healthcare Corporation

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Adam Feinstein:

It's a real pleasure to introduce Tenet Healthcare. Tenet, as you know, is one of the nation's leading hospital companies. The Company has a major presence in a number of key markets including Florida, California, and Texas. With us from the Company today, we have Trevor Fetter, the Company's CEO. We have Biggs Porter, the Company's CFO. And we have Tom Rice, the Company's Senior Vice President and Director of IR.

The Company recently completed an exchange offer for its debt. So we look forward to hearing more about that and as well as other things going on in the business.

So with that, let me turn it over to Trevor Fetter. Thank you.

Trevor Fetter:

Great. Thanks Adam. And despite the fact we're in Miami, if you guys could turn the theme music off, that would be great. As much as I was enjoying it during your introduction. Let's see here.

Great, well I'd like to start this morning with a very quick overview of Tenet, for those of you who may not be familiar with us. We operate 50 hospitals in 12 states. We have 13,000 beds, which is about 1.7% of the country's community hospital beds. We own 45 of the 50 hospitals and we lease the other 5. We have about 500,000 admissions per year and 4 million outpatient visits. Our revenues were about \$8.7 billion in 2008. The equity value of the Company has fallen to about \$500 million. And I'm going to speak more about some of the factors contributing to that including the heavily leveraged nature of our balance sheet. And finally on this slide I would like to point out the corporate governance scores. We're very proud of that actually and we rank and have ranked for several years within the top 5% in the United States, within the top 1% in our industry sector.

Our geographic footprint is strong. We operate in states that have high growth. In fact, the states-- on average the states in which we operate are growing twice as fast as the US median and nearly 90% of our hospitals are in states that are growing faster than the US median.

Our operating trends have been positive across virtually every significant financial metric. And despite the impact of the recent economic meltdown in many sectors of the economy, our business is still holding up remarkably well. I'm going to take these performance metrics one at a time and make some comments on each one.

Let's start with volumes. Of course due to the high fixed cost nature of our business, growing volumes is a very important element of growing our margins. 2008 was the first year that we had achieved positive admissions growth since 2003. On the outpatient side, where we had experienced very significant declines in volumes from physician-owned facilities and for other reasons, we actually had growth in paying outpatient volumes for the first time in a very long time.

And looking to the far right of the chart, you can see that although these trends have been positive for, really for a couple of years, in the fourth quarter of 2008 we saw some

softening which is consistent with others in the industry and what you might expect in an economy like this.

On our first quarter call two weeks ago, we brought investors up to date with our first quarter volumes through the first seven weeks of the quarter, which demonstrated that our most recent trends into the first quarter of 2009 were consistent in line relatively with what we'd experienced in the fourth quarter.

One aspect of the volume picture that has been of particular interest to investors and justifiably so is the decline in commercially insured volumes. These are people who have commercial insurance through their employers. We saw a 3.0% decline in commercial admissions in Q4 and about a 3.1% decline in the first 7 weeks of Q1. I'm going to come back to that topic in a few slides as part of a review of our targeted growth initiatives that we can tell you what we're doing about that.

Let me turn now to pricing. Pricing increases have continued to be a strong point for Tenet. We're making good progress in getting commercial payers to recognize the improvements we've made in quality and to reward us with incremental premium payments or bonus payments in our pricing contracts. Currently, the size of these quality payments is relatively small. But we see this as an important precedent and have significant upside potential in the not to distant future and getting paid for quality.

Now we don't provide any longer specific disclosure on our commercial pricing because those statistics had been used against us in negotiations, but you can get a sense of the progress that we've been demonstrating in pricing. If you look at the 6.6% increase in commercial revenues that we showed despite a decline in the commercial admissions of 3.0%. If you add those two numbers together, you get an idea of the types of high single digit percentage pricing increases we've been getting in our contracts.

Controllable operating expense for adjusted patient day increased by less than 1% in the fourth quarter on a same-hospital basis. This is a very strong performance in cost controls given the realities of medical inflation in devices, wages, and the pressures of costs across the board. Cost efficiency has been a major focus of ours and is going to continue to be a major focus in 2009 when we anticipate implementing another round of cost initiatives that we estimate at a total of an incremental \$150 million. I'm going to get into that in a little bit more detail in just a minute.

Progress in volumes, pricing, and cost efficiency led to an 11.4% increase in adjusted EBITDA and a 14% increase in same hospital EBITDA in 2008 and a steadily improving trend in EBITDA. Let me remind you that in growing EBITDA in 2008, we had to overcome the loss of \$54 million in Medicaid payments in 3 southern states, Georgia, Florida and North Carolina. These were cuts in those Medicaid programs that were unanticipated in the beginning of the year. Excluding the impact of that lost revenue, EBITDA would have risen by \$129 million or 20%, which gives you a better sense of the momentum that we've created improving our operating results. This was also relevant as President Obama's stimulus package has reduced some of the financial pressure on state budgets and therefore it's reduced the likelihood of similar Medicaid reductions this year.

Okay turning to free cash flow. Our improving profitability has resulted in a strong reduction in cash consumption in 2008. In fact, our use of cash in operations was reduced by more than half to \$239 million. The cash consumption was significantly offset by our cash initiatives and we entered 2009 with just over \$500 million of cash on our balance sheet. I also want to remind investors that we're drawing to a close on the

cash drag from some of the Company's legacy issues. So for example, 2009 we'll see our payments to the Department of Justice continue at about \$100 million annual run rate. But that falls to \$73 million in 2010 and then we're finished with the cash drag from those payments.

The topic of cash naturally leads to the topic of liquidity, which-- in which we've also made significant advances in recent weeks. So that nifty little build that I just did there illustrates the effect of the debt exchange that we just completed last week. Essentially what we did was we exchanged the vast majority of the December 2011 maturities and June 2012 maturities and we moved those out to 2015 and 2018. And other than small residual amounts of the 11's and 12's, our first meaningful maturity is \$1 billion and that matures in early 2013 or approximately 4 years from today.

So with that overview let me spend just a few minutes reviewing the themes of our major operating initiatives which we believe can generate strong-- some exciting returns and strong growth for investors over the next couple of years. There are three interrelated initiatives that I'm going to speak about; first, our commitment to quality; second, our physician relationship program; and third, our targeted growth initiative.

The foundation of our strategy is the commitment to quality, which results-- and the results of the commitment of quality are evident on this slide. This graph shows four years of the CMS hospital compare data with Tenet's performance shown in blue. As the graph makes clear, we've dramatically improved our industry average rankings since 2005, and we've created a distinctly differentiated level of clinical quality between ourselves and the industry averages. This progress on quality has contributed to enhanced pricing. It's also contributed to reductions in malpractice costs and other efficiencies in our hospitals. And both have made the hospitals much more attractive for physicians to join the medical staff and practice in the hospitals.

So the second interrelated strategy is the physician relationship program. This graph shows the dramatic growth that we've achieved in expanding our active medical staff in just the last two years. I can't possibly overstate how important this is. This growth in our physician base forms the foundation for optimism about the future of Tenet. While we have some obstacles to overcome in 2009 and maybe 2010 as patients, as a result of the economy, are deferring certain types of healthcare procedures or discretionary consumer spending and suppressing the consumption of healthcare in general, we could also see an uptick in bad debt for example. But we're going to work our way through this slowdown. And we do it through a strong base of physicians who are affiliated with our hospitals. So as we come out of this economic pressure, this base of physicians is going to be a very important part of our growth.

Another part of our growth strategy we refer to as the Targeted Growth Initiative or TGI. Those of us-- those of you who follow us are familiar with this. We've used the Targeted Growth Initiative to identify the individual set of service lines in each of our 50 hospitals that we're targeting for growth based on current and projected profitability; strengths in the competitive market, both our strengths and the strengths of competitors; and projected demographic trends in the hospital service area.

This chart shows the success that we've achieved in growing commercially insured admissions into our Targeted Growth Initiative service lines. In the fourth quarter, we grew the critically important commercial admissions in our TGI service lines by 2.3%. 2.3% that's a lot stronger than the negative 4.6% that we saw in commercial admissions in our non-TGI service lines.

So with that as an overview including some comments on our strategy, I'd like to turn it over to Biggs Porter, who's going to make some comments about our outlook for 2009. Biggs?

Biggs Porter:

Thanks Trevor. The first chart here is one which many of you all be familiar with in terms of format and possibly even more recently, having looked at it with our fourth quarter conference call. But this is a walk forward adjusted EBITDA from 2008's end point to the range we've established for 2009. I won't spend a lot of time on each line item but certainly can in Q&A or separately if you call in. Later we can give you greater detail.

But the chart starts basically with \$732 million of actual EBITDA at the end of 2008, which is a single most significant change in the chart from what we were using last year as our walk forward to 2009, as that result \$732 was below our initial expectation. But then walking forward, we had the effects of volumes. This really uses constant patient and payer mix, year over year and has an assumption of about 0.8% inpatient admission growth in 2009. And that would generate \$24 million of EBITDA.

But we do expect to have some adverse mixed shift in 2009. Principally what's embedded in here is about a 3% decline in commercial admissions year over year and a 5% to 6% increase in uninsured year over year. The other difference is being a positive flow to government programs. But that has a negative effect of \$43 million, 2009 over 2008.

On pricing, just taking Medicaid basically is flat. What we expected in normal circumstance on commercial and what the government programs currently otherwise add up to, we expect a 3.5% aggregate price increase from a baseline standpoint, which generates \$275 million of additional EBITDA, net of the bad debt effects. Now in addition to that though, we do have a so-called "rate parity adjustments" on managed care contracts where we have negotiated improved pricing and bring ourselves up to the market ban in specific markets, in specific payers. We also have negotiated and been awarded additional revenues associated with pay for performance on our quality initiative. So that-- those two added together give us \$43 million of additional lift in 2009.

You can see a baseline cost inflation number, which is going to charge us about 4% year over year. That's before the effect of cost reduction initiatives. And we-- there's another chart on this, but we went to work in the fourth quarter and going into the first quarter of this year to take \$150 million of cost out in 2009, above and beyond what otherwise would have been achieved or reflected in a normal inflationary adjustment year over year. So that \$150 million, a significant positive contributor on line 7.

Now bad debt expense, because of the economy, I think as I said in the call, we applied some conservatism both, as I said earlier in the commercial volume assumption, but also on bad debt expense. All the other analysis up to this point has started to use bad debt rate consistent with last year. But we really expect that to grow, and grow by about 90 basis points over where we exited the fourth quarter of 2008.

Embedded in there are the effects of where pricing flows through, if it hits the uninsured more than it hits balanced after, co-pays and deductibles, go up more than it hits the average. That certainly affects bad debt expense and then another contributor here is concern over collectability. And then finally in the current environment, we don't

anticipate having a lot of mitigation from our efforts to improve collections and to improve the aging. Whereas in prior years, 2008 included, we had had improvements in bad debt expense from all of our mitigation efforts. And in 2009 for conservatism purposes, we have not applied that.

Then we have, the last line, for other before we get to the total is the effects of our newer hospitals where we expect significant improvement in 2009 over 2008.

The sum of all that brings us to \$800 million, up into the range we gave for 2009. And then there's \$65 million basically of allowance to risk-- for risk which could be other shifts in commercial, other concerns about bad debt possibly have an impact there, which could use that risk up, bringing us to lowering the rate to \$735. So \$735 to \$800 million being the range for 2009 EBITDA.

I mentioned the \$150 million of cost savings. Just the slide here gives a high level breakout of where those occur from a P&L standpoint; \$75 million SWB, \$25 in overhead outside of SWB and then \$50 controllable costs supplies. Now from a-- another way to view this would be there's about \$50 million of very hospital specific reductions here. There are a hundred applies here to overhead, administrative costs for those areas where we made a policy type changes in the benefit areas, which cut across all the hospitals.

So then to bring us to conclusion before any Q&A, we do have significant momentum. We think we have had the right strategies in place. And they're demonstrating results, 17% growth in active medical staff, certainly a significant accomplishment in 2008. And in 2007 that of course does lead to the admissions growth, the stability and then the growth that we experienced, went through last year and believes-- we believe it puts us on a path to experience growth this year even in a difficult economic environment.

Because of the difficult economic environment though as I said, we did take significant action, \$150 million of cost efficiencies. Really demonstrating a commitment both on part of the-- well corporate and I say administrative and the hospital organization to continuously improve. And that \$150 is-- does-- should not indicate by any means that we are done. We will constantly look for improvement here and expect to be able to continue to reduce costs as we go through this year and beyond.

Pricing growth, I mentioned the benefits on managed care rate parity but also on pay for performance. Significant lift in 2008 and we expect that to continue to 2009. We are significantly negotiating around managed care contracts in 2009, so we have great clarity there before any considerations of mix as I talked about earlier.

Then on quality differentiation, on the pay for performance we earned \$7 million as a result of our effort in 2008. That \$7 million will be earned this year for the commercial payers. We continue to negotiate additional arrangements along those lines with other commercial payers. Expect to have continued growth in the future. We also think this positions us well for any expansion of pay for performance on government programs.

And then finally, we have executed on a number of our cash initiatives. There are some still out in front of us but certainly with the USC sale planned to complete, expect a significant cash inflow from that and still move ahead MOB and the other efforts with timing being the only question as to when they're accomplished.

So we have a stronger balance sheet. We've moved the debt out. We've taken a lot of action with respect to improving liquidity from a number of angles as well as all the operating items on the chart here. So we think we're well positioned going into 2009.

So with that, Adam do we-- Q&A here?

Adam Feinstein:

(inaudible)