



# A Major Milestone

An update on Hill Country Memorial



# Overview

Hill Country Memorial to become part of Methodist Healthcare San Antonio

- Deepened care offerings
- Expanded accessibility
- Continued local care for the Hill Country Community

# Why?



## INCREASED DEPENDENCE ON CMS

Nearly 70% of HCM's patients are Medicare or Medicaid. Reimbursements remain uncertain and regulation continues to increase.



## WORKFORCE

Difficult to recruit and retain a qualified workforce.



## EXPENSE GROWTH

Expenses are higher across the board than pre-pandemic levels



## INCREASING COMPETITION

Increased competition from existing competitors and new entrants



## DRAMATIC CUTS TO SUPPLEMENTAL PAYMENTS \$

Dependence on programs like 1115 Waiver which are drastically changing or going away



## TRANSITION TO OUTPATIENT

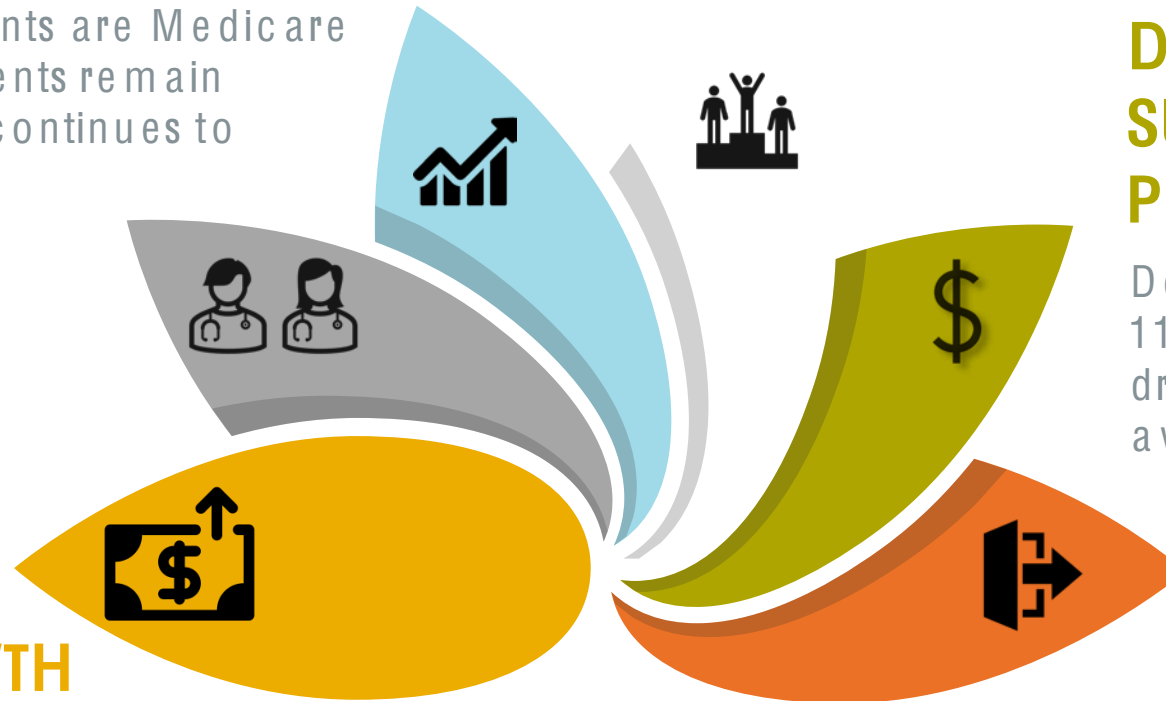
Care is moving from inpatient to outpatient with significant financial ramifications



## POSITION OF STRENGTH

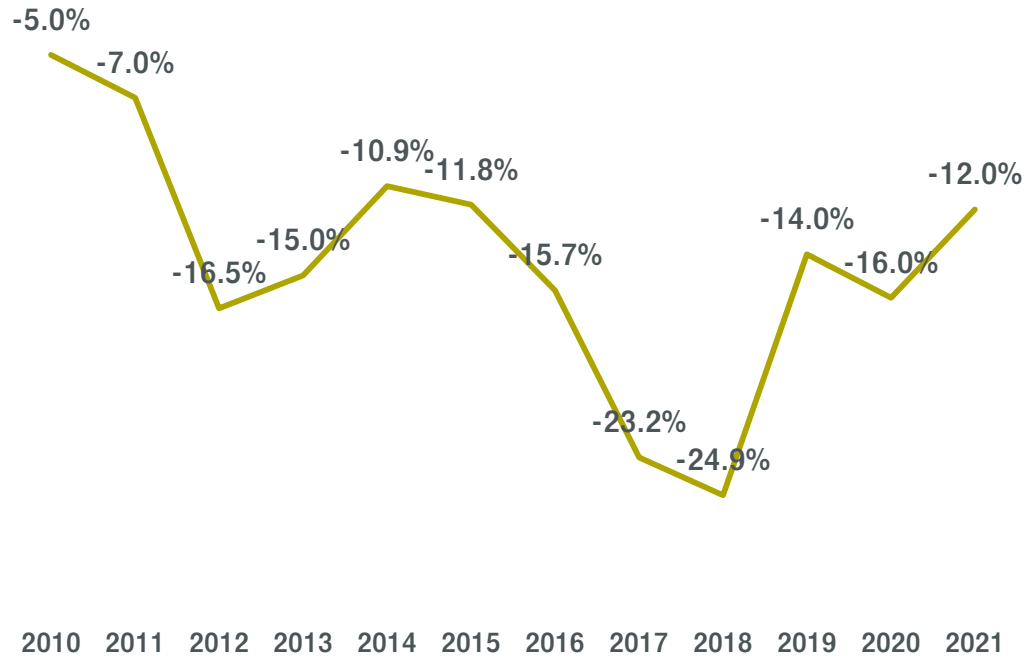


Strong balance sheet, quality of care and performance track record make HCM attractive





## HCM Medicare Margin<sup>1</sup>



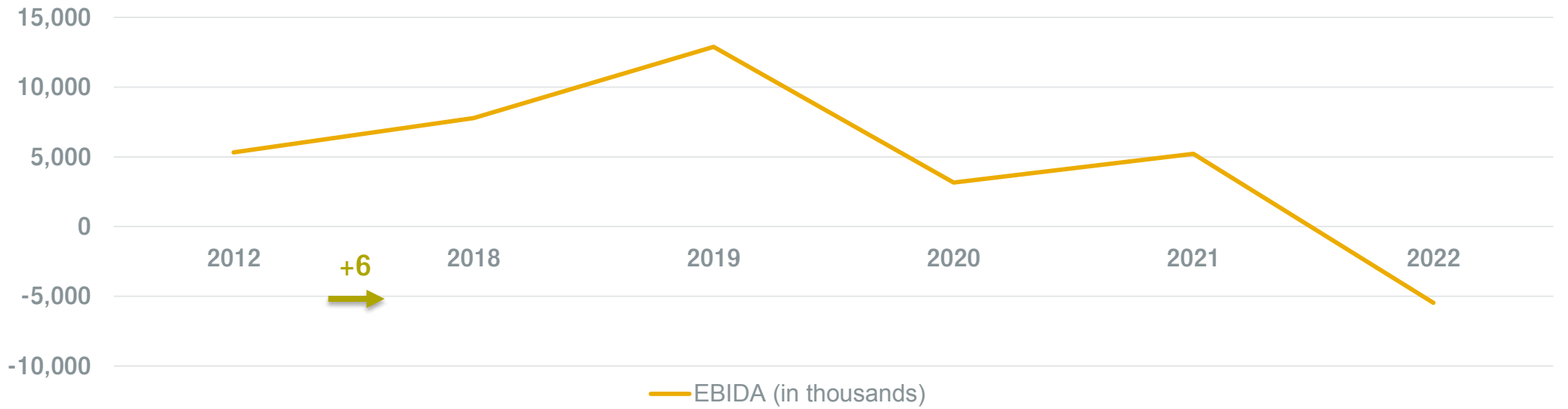
1. Traditional Medicare Margin Report from Texas Hospital Association

- Medicare margin decline continues as workforce and supply chain costs increase.
- Continued shift from traditional Medicare to Medicare Advantage erodes our margin.
- Every time a Medicare patient shifts from inpatient to outpatient, our incremental reimbursement is reduced
- Nearly 70% of HCM patients are Medicare. In the last decade, the strongest margin we had on Medicare patients was -5% in 2010.
- Medicare Dependent Hospital payments set to expire in FY 2023 negatively impacting margin further.

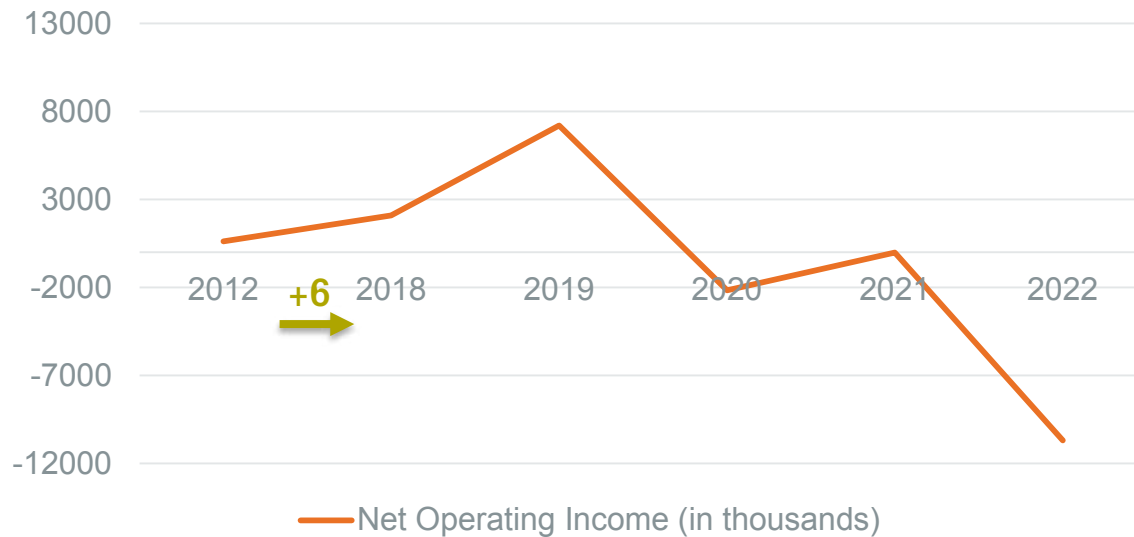


# Financial Trends

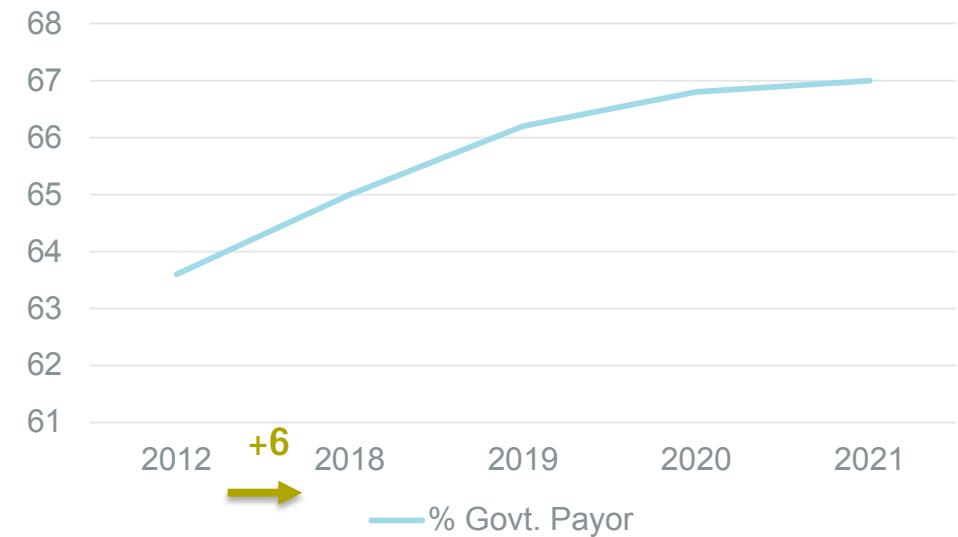
### EBIDA (in thousands)



### Net Operating Income (in thousands)



### % Govt. Payor



# Hospital Business Has Shifted to Outpatient

Average Daily Census



31.9%

Decrease

ADC Decreased by 6.1 Patients in  
2022 Alone

50.9%

Decrease

ADC Decreased by 13.5 Patients  
since 2012

# Hospital Business Has Shifted to Outpatient

Surgeries Compared to Pre-Pandemic Levels



10.5%

Increase

Outpatient Surgeries

Increased to 3,929 Outpatient Surgeries in 2022

55.69%

Decrease

Inpatient Surgeries

Decreased to 424 Inpatient Surgeries in 2022

# Expenses Outpace Growth



Expenses Are Higher Across the Board Compared to Pre-Pandemic Levels



Labor  
**17.9%**  
Higher

\$6.8 Million



Medical  
Supplies  
**14.4%**  
Higher

\$1.8 Million



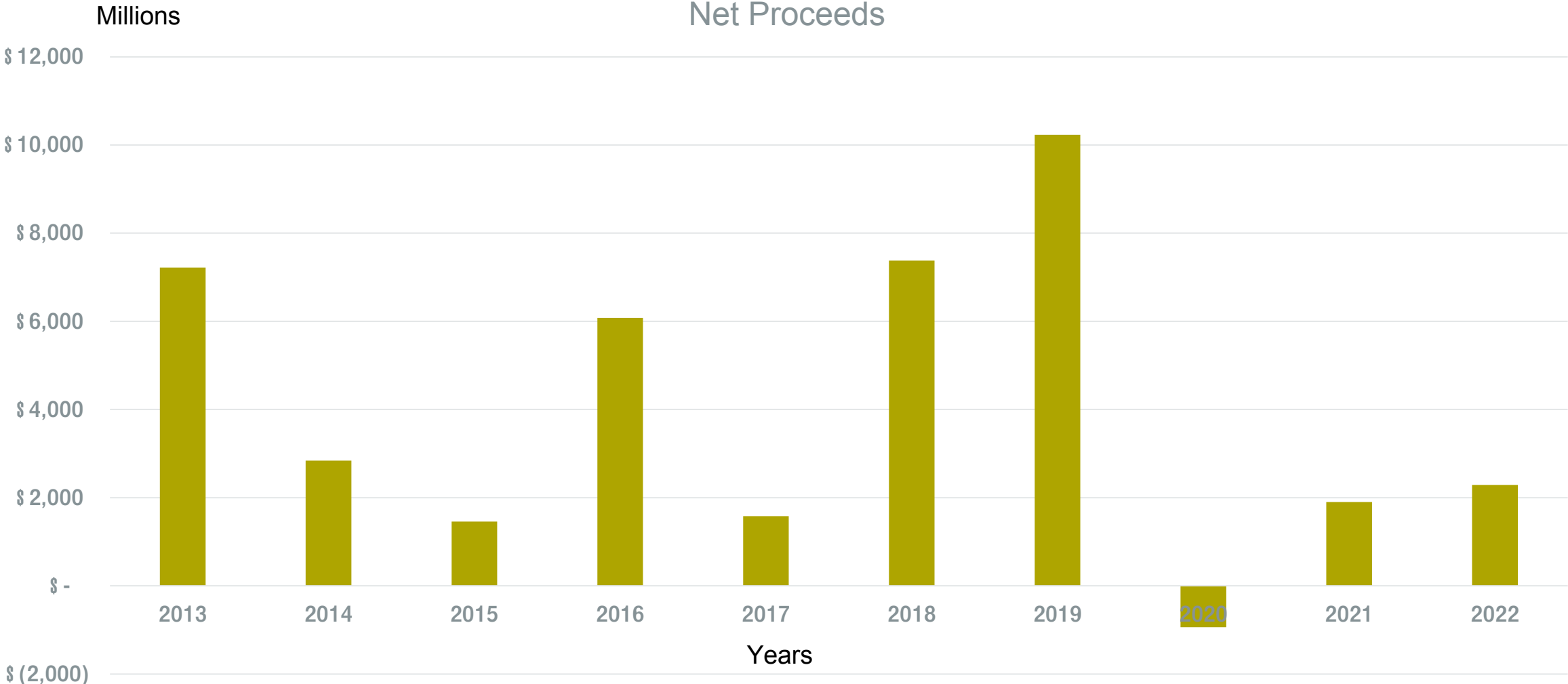
Drug Costs  
**20.1%**  
Higher

\$830K





# 1115 Waiver Programs Continue to Change





# Rising Expenses, Shifts in Reimbursements, and Increased Complexity of Cost Structures

A  
**1%**  
shift...

...increase in expenses represents a

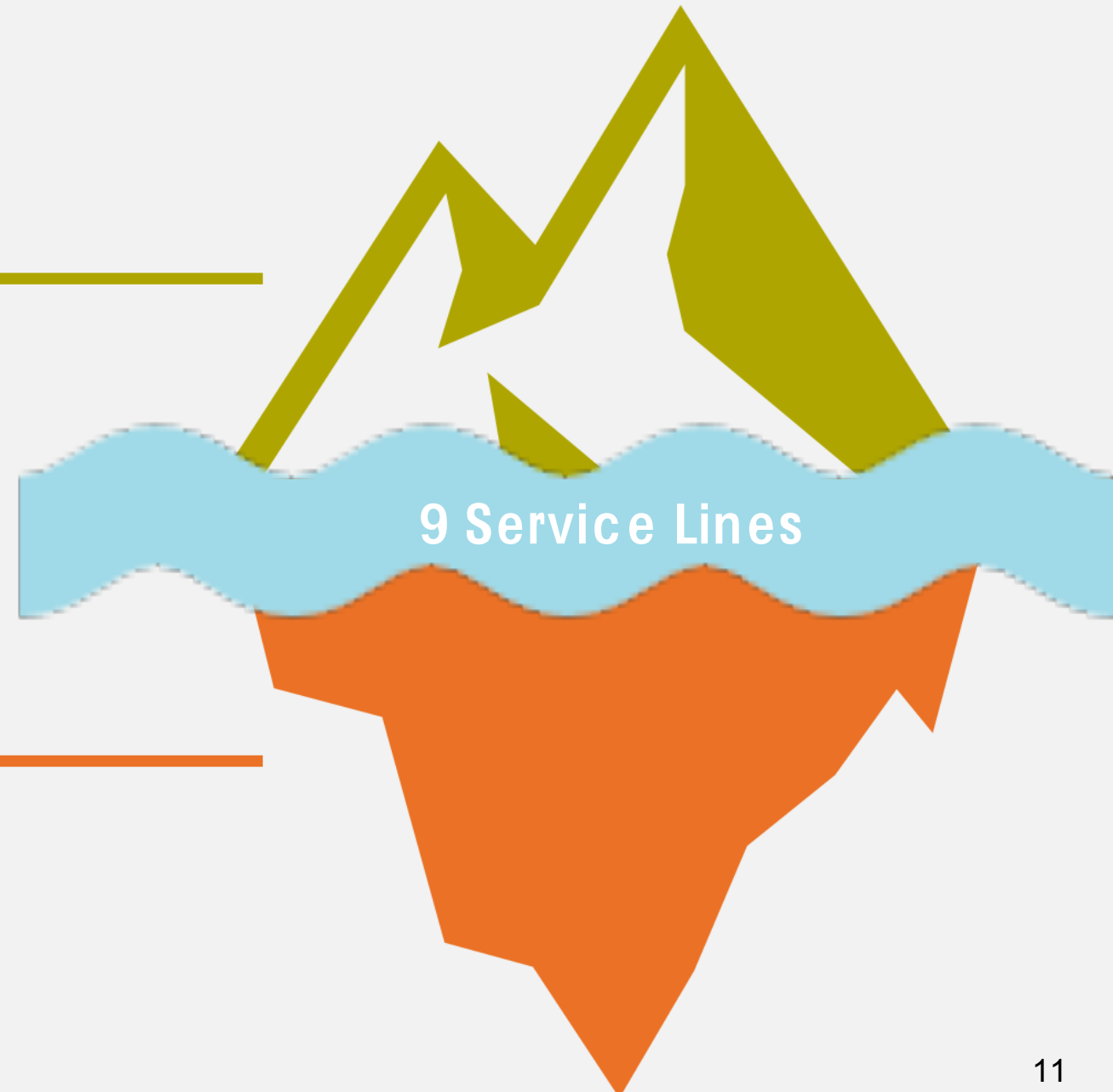
**\$ 1 million**

decrease in net HCM revenue

# Nearly half of HCM's service lines have no contribution margin

- Service Line A
- Service Line B
- Service Line C

- |    |    |
|----|----|
| 1  | 2  |
| 3  | 4  |
| 5  | 6  |
| 7  | 8  |
| 9  | 10 |
| 11 |    |



# Indicators of Time to Take Action

## Early warning

- ✓ Loss of market share
- ✓ Inability to secure price increases
- ✓ Increased difficulty to recruit independent physicians
- ✓ Competitor opens outpatient center in your locality
- Quality metrics decline

## Just in time

- Ratings downgrade
- ✓ 2<sup>nd</sup> year NOI decline
- Loss of share in a “big four” service: neuro, ortho, cardio & cancer
- ✓ Volume decline in ED, outpatient visits, surgery
- ✓ Reliance on investments to break even

## Latent Signs

- Breach of bond covenant
- ✓ Third year of NOI decline
- Loss of key physicians or group
- Last other independent sells
- Inability to access capital

# Healthcare's Perfect Storm

SUPPLEMENTAL PAYMENT  
UNCERTAINTY

CHANGING  
DEMOGRAPHICS

WEAK PROFITABILITY IN  
CORE BUSINESS

TALENT RECRUITMENT &  
RETENTION

HIGH MEDICARE PAYOR  
MIX

INCREASED COMPETITION

# Hill Country Today

## Quality and Awards

*HCM Ranked Among the Nations Best for Medical Excellence and Patient Safety*



	2012	2019	2020	2021	2022
Revenue	\$ 70,646	\$ 111,213	\$ 102,529	\$ 111,626	\$ 108,144
EBIDA	\$ 5,330	\$ 12,889	\$ 3,150	\$ 5,219	-\$ 5,466
Net Operating Income	\$ 622	\$ 7,201	-\$ 2,161	-\$ 8	-\$ 10,679
ADC	26.5	22.7	20.7	20.3	13.0

# HCM's Position of Strength

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**Strong integrated delivery network with growing physician group**



**Reputation for high quality, award-winning health care serving the Hill Country**



**Stable operations in spite of external pressures and utilization decline**



**Very strong balance sheet**



**Historically limited competition and strong demographics**

# HCM's Remarkable Journey



## HCM's 100 Top Achievement Scores



# A Thoughtful Process

**Annual  
Strategic  
Analysis**

**Task Force  
Formation**

**Extensive  
Evaluation  
of Options  
and Partners**

**Unanimous  
Board  
Support**

# Task Force Objectives

1 Commitment to Longevity in the Fredericksburg Community

2 Expansion or Addition of Clinical Services

3 Capital Commitments | Commitment to expand, remodel, replace facilities, equipment, etc.

4 Quality, Education, and Employees | Preservation of workforce and staff professional development

5 Governance / Local board representation

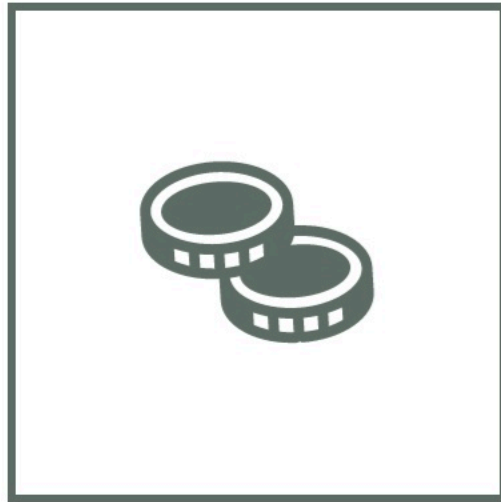
6 Partner Qualifications | Good track record of past acquisitions, high quality, strong financials

# Scenarios Evaluated

## What We Learned



Independence



Taxing/  
Governmental  
Entity



M&A

# Independence

- Continuing in our current state was possible but was not sustainable to continue needed growth
- Fundraising or alternate revenue generation – even if grown substantially – would not keep pace
- \$16 million funding gap needed to maintain status quo
- Average Annual Donations from Individuals: \$3.46 million\*
- High susceptibility to competitor encroachment and unforeseen regulatory changes.

\*Individual average includes estate gifts



**\$80**

**Million**

FUNDS RAISED SINCE 1996



**\$5**

**Million**

GALA NET PROCEEDS RAISED FOR HCM SINCE 1984

**\$40**

**Million from  
Individuals**

# Taxing / Governmental Entity

- Tax changes would place additional burden on community members
- A Taxing District would not enable quality growth to match the changing needs of the community
- HCM serves a multi-county service area. A local taxing health district would shrink HCM's footprint

# Merger/Acquisition

- Keeping high quality care local is possible and achievable
- Partnership was the option that presented the best possible outcome for continued high quality care locally with expanded access and growth
- Joining a health system was the solution that fulfilled the objectives prioritized by the Board of Trustees

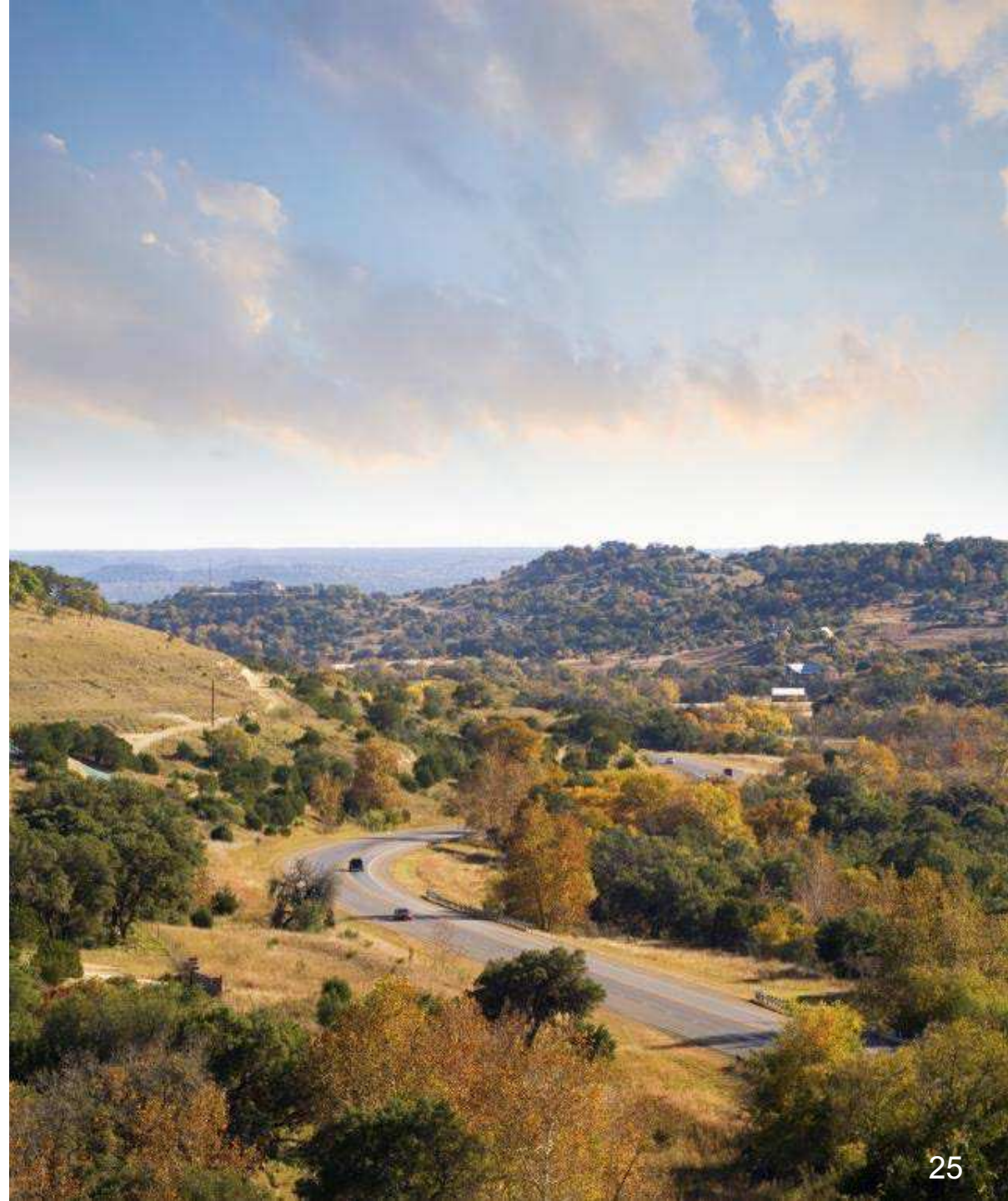
# Why Now

- H C M must evaluate its future options from a position of strength in order to secure the long-term commitment of healthcare services for the Hill Country
- Typically, Hospitals wait until they are unprofitable or experiencing financial hardship to explore affiliation opportunities



# Why Methodist Healthcare?

- Care Remains Local
- Commitment to Excellence in Care
- Proven record of quality
- Expanded access to care and services
- Strong workforce pipeline and development
- Capital investment



# Structures Going Forward



## Methodist Advisory Board HEALTHCARE

- Provide input into HCM-related Methodist strategy
- Serve as ambassadors for Methodist Fredericksburg
- Credentialing

## Legacy Entity

- Operates Wellness Center and Thrift Store
- Monitor compliance with post-closing conditions
- Conduct cost reporting for approx. 5 years post closing

## Foundation

- Supporting Organization for Legacy Entity
- Transition to Grant Funding Charity

# Methodist Advisory Board Members

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Dale Crenwelge



Michael Johnson, MD



Penny McBrdie



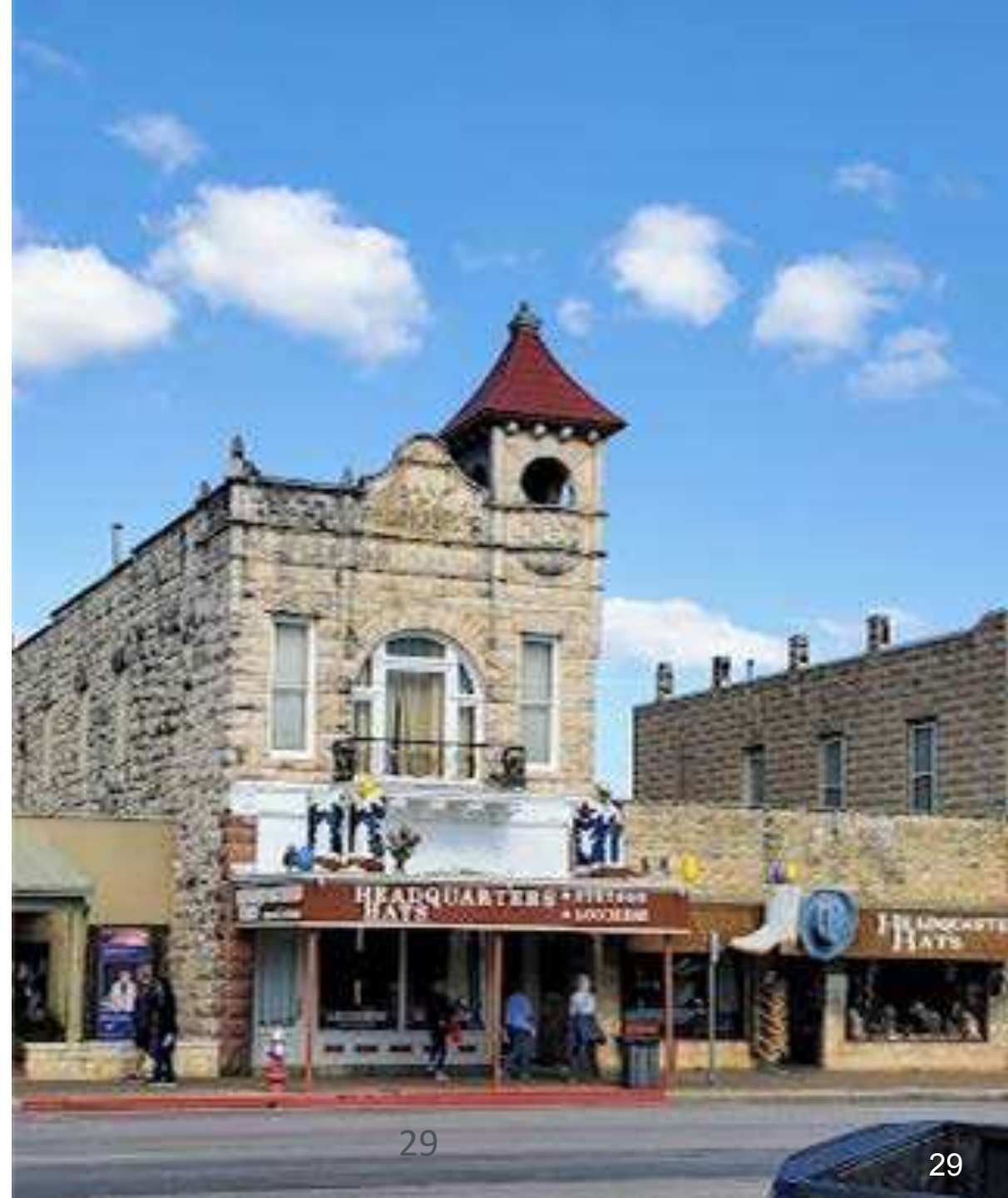
John Willome

# Legacy Conversion Committee Members

- Carlin Friar
- Joel Junker
- Penny McBride
- Allison McDade
- Chris Schoessow
- Dan Sechrist
- John Washburne
- Jenny Wieser
- Todd Willingham

# What This Means for the Community

- Expanded services and enhanced offerings locally
- Increased access to top healthcare providers
- Uninterrupted care and continued access to trusted physicians and care providers
- Economic growth for the Hill Country
- Significant investment in local health
- Increased tax dollars in the local community



# Questions