Why CEO’s should make laboratory outreach a cornerstone strategy

CHI’s Strategic Partnership with PAML

April 2010

Agenda

• CHI Overview
• How esoteric and outreach lab fits into CHI’s strategy
• Why the esoteric & outreach lab space?
• Why partner with PAML?
• What will our future look like in the lab business?
• Questions
CHI Overview

- The nation’s 2nd largest Catholic health care system
- 35 Market-Based Organizations (MBOs)
  - 72 hospitals
  - 40 LTC/assisted-living facilities
- Annual net patient revenue of $8.6 billion
- Headquartered in Denver, Colorado

CHI Strategic Plan

- Key Destination Metrics
- Core Strategies
  - People
  - Quality
  - Stewardship
  - Growth
### STRATEGY:
**CHI will grow and diversify locally and nationally to extend our ministry**

#### OBJECTIVES:

<table>
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<tr>
<th>Objective</th>
<th>Description</th>
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<td><strong>MBO Growth</strong></td>
<td>Assure accelerated MBO revenue growth and diversification, focused on growing ambulatory, non-inpatient sources faster than traditional inpatient business.</td>
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<td><strong>New MBOs</strong></td>
<td>Pursue mergers and acquisitions in new geographic markets, collaborating with other Catholic organizations when possible, to achieve CHI's growth goals and diversify its acute care portfolio.</td>
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<td><strong>National Business Lines</strong></td>
<td>Develop and invest in nationally directed non-hospital business lines through acquisition, consolidation and partnership, to achieve CHI's non-inpatient growth and diversification goals.</td>
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<td><strong>National Clinical Leadership</strong></td>
<td>Extend the CHON and other innovative models to establish national clinical leadership into additional selected service lines and management of selected chronic diseases.</td>
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### National Business Lines Priorities

- **Industry Scan**
- **Priority investments**
- **Venture capital fund**
- **Research & development**
Almost every day a new opportunity enters the system

Critical Success Factors

- Scanning for opportunities
- Clear criteria
- Efficient screening and decision process
- Ability to “Just Say No”
- Venture capital spirit
- Receptive to change
- Managing the baud rate

Why the Lab Space?

- $60 billion in revenue (large market)
- Relatively high growth rates
- Relatively high profitability
- Fragmented;
  - two leading providers control approximately 21% of the market
- Opportunity to leverage existing CHI assets
- Enhance local market growth
- Critical part of health reform
**CHI Lab Status**

- Multiple esoteric vendors
- CHI hospitals have about 10% of local outreach opportunity
  - Significant success in a few markets
- CHI laboratories have capacity for increased outreach testing volumes
- Limited outreach infrastructure
- R & D Strategy - CTR

**Critical Success Factors**

- **To enter the lab space, CHI needed...**
  - Critical Mass
  - Key Third party payer contracts
  - Physician connectivity/outreach IT solutions
  - Robust sales and marketing capabilities
  - Lab specific billing capabilities
Why PAML?

- Mission and Values
- Return on Investment
- True Partner
- Key Assets and Capabilities
  - Esoteric testing
  - Successful joint venture track record
  - Significant infrastructure capability including IT, Revenue Cycle, Sales & Marketing, Logistics
  - R & D Platform
- Ability to leverage infrastructure across other service lines

PAML Vision Statement

The Company represents the collaboration of CHI and PH&S, to develop and implement a **national laboratory strategy** that will include owning and operating a **sophisticated esoteric testing laboratory**, providing **laboratory management** services, developing, owning and managing **outreach laboratory joint ventures** and furthering the advancement of the art and science of the provision of pathology services through **medical research**.
National Lab Strategy:

- Enhanced esoteric testing
- Core laboratory development
- Acquisitions
- Outreach joint ventures
- R&D
- Hospital laboratory management

Why Health Systems J V with PAML for outreach lab

- Clinical Quality
  - EMR (IP & OP)
  - Quality Assurance
  - Clinical Consultation
- Revenue growth
- Leverage existing assets and resources
- Reduce operating costs per unit
- J V and Lab profitability
Joint Venture Net Revenues (case study 1)

Significant Growth & Market Penetration

Health System
Volume Growth vs. FTE increases (case study 1)

Volume Growth vs. FTE

Leverage Existing Assets & Resources
Hospital Lab Performance (case study 1)

- Reduced Unit Cost Across All Lines

Individual Member JV Profit (case study 1)

- Additional Contribution Margin from increased Lab revenue
Where will we go from here?
Where will we go from here?

2011

2012
Why did CHI develop a National Lab Strategy?

- Revenue Growth & Diversification
- Enhanced profits
- Leverage current assets
- Application of infrastructure to other lines of business
- Research & Development

QUESTIONS