LPNT - LifePoint Hospitals, Inc. at Bank of America Health Care Conference

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CORPORATE PARTICIPANTS

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LifePoint Hospitals, Inc. - President & CEO

CONFERENCE CALL PARTICIPANTS

Gary Taylor
- Analyst

PRESENTATION

Gary Taylor - Analyst

Thanks for continuing with us. As you are aware, we are required to make a number of conflict of interest-related disclosures in connection with our participation in the conference, the companies we may discuss. If you would like to review these, pick them up in the back or you can review a PDF on the website. It is my pleasure to introduce LifePoint Hospitals. If I am correct, the 59 hospitals the Company operates ought to do a little better than $2.5 billion in revenue this year. And what is kind of interesting about the story I think now, is given kind of the evolution of HMA, given the pending transaction the community buying Triad, this is really the pure play rural hospital Company that’s publicly traded. In any case, we have the CEO, Bill Carpenter, and also the Chief Accounting Officer, Gary Willis with us today. Take it away.

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO

Gary, thank you very, very much. And 50 hospitals actually, is the current hospital count, but we'll work on it. It is a pleasure to be here. Thanks to everyone at B of A for making this a very good conference for us. We've had some great one-on-ones today. Appreciate the interest in the Company. We have a lot of things to tell you about. A lot of accomplishments that we have made. I might take a couple of minutes -- I'm glad this is Webcast and also glad that the Q&A is going to be Webcast. So we're going to move through this pretty quickly in order to get to spend time and talk about the things that you want to talk about. There is a lot of new interest in our Company, and we have been seeing a lot of that, and so just very, very quickly, we were formed eight years ago. LifePoint Hospitals was formed as a spinoff from HCA. We are, as Gary said, dedicated non-urban operators. Today we own 50 hospitals across 19 states. We have good geographic dispersion, limits our exposure to any particular state Medicaid program.

We have a simple operating model based on five core values. First and foremost, we're going to be quality providers of patient care. We want to work very closely with our physicians in order to make sure that they have the tools that they need in order to provide care to their patients. That's very important in today's world of increasing physician competition. We have to make sure that our physicians are on the same page with us. Similarly, we want to be a good place for our employees to work. We're in small towns. In a small town, your best or worst marketer is that nurse on Three West who had a good or a bad day at the hospital. So it's important to us to not only be a good employer, but important to us as well to be a good employer because of all of the benefits that we achieve it from. We want to be good community citizens. That means giving back to our communities, and we will always be fiscally responsible.

That's what we do. Over the years, we have done it very, very well. What distinguishes LifePoint is our operations focus. Look at our margins. We have the margins among the best in the business, if not the best in the industry. We're very committed to maintaining our margin superiority. It's really part of our culture, and it will continue. For the most recent quarter, we saw admissions grow by 0.4%, equivalent admissions grow 1.8%, same-facility net revenues grow 5.9%, self-pay admissions for the first quarter actually declined. We saw a decline over last year, and our provision for doubtful accounts was at the bottom end of our guidance. So we are very, very hopeful about that, and that, perhaps as a trend. I'll tell you -- and I will make forward-looking statements here, probably have a slide about that. We are seeing bad debt continue to be there. So no trend yet on bad debt. Be happy to talk about that more if you would like later.
EBITDA has been growing, and our margins remain around 21.5%. We saw in-patient and out-patient surgery growth this past quarter. And we continue to have great expense management. Every expense line in the Company was moving in the right direction last quarter, except contract labor, professional fees and bad debts. These continue to be the headwinds that we face. The headwinds that we are battling hard against, and we will over time see improvement in these areas. During April, just to go ahead and hit more current information, we continued to see solid volumes and revenues. At the same time, we are still seeing bad debt, as I mentioned. So our better results in Q1 with respect to bad debts, just still very, very choppy as far as that goes. It's way too early to really get in to May, but so far May results for us are a little bit sluggish. So we're pushing ahead on that and working very hard to overcome the headwinds that I talked about previously. They are the same ones, the same ones we have been talking about for a while, so no surprises there.

It has been almost a year now, June of last year, when I was promoted to the office of Chief Executive Officer at LifePoint, having been there since the beginning of the Company. When I took over as CEO, I told you, told our investors and our employees, that I was going to be focused on three things. I was going to be focused on growing the Company organically. I was going to be focused on improving cash flow and paying down debt over time. And I was going to be focused on growing talent in our Company, because as a rural hospital Company, we have to grow our own leaders of our hospitals. Other the past eight months or so, we have been involved in a strategic planning effort that has really taken those areas of focus and brought them a little more meat on the bones. We now have really five areas, so we took three and turned it into five. Continuing to drive organic growth, building on our strong heritage of operations excellence in order to obtain LifePoint level margins at all of our hospital, leveraging our scale in a way that we haven't done it in the past in order to have our corporate office add increasing value in supporting our hospitals in areas like purchasing and revenue cycle and pricing. As Gary talked about, it's time to get back in to the M&A game for us, as we have been on the sidelines in the recent past. We can talk more about that in minute. Continuing our focus on developing our own talent. That's very important to us.

We have been involved in an effort to develop specific execution plans for each of these areas. Let me just take a couple of minutes and highlight a few of those. Organic growth for us has always been very important. It has always been a priority area. And in the early days of the Company, it was something that we were having a lot of success achieving. Lately, we have seen the rate of organic growth taper off, as have others in the industry. So in the last year or so, we have put a renewed emphasis on organic growth. We have highlighted on many occasions the importance of physician retention and recruitment for LifePoint. We continue to have great results there. We are currently on pace -- ahead of pace, actually, with our physician recruitment effort. To the point that 182 -- I'm sorry 172 budgeted physicians for this year to be recruited, we have currently recruited 105. So ahead of pace for the year, and we feel great about that. 59% of those recruits are specialists. That's important as we try to increase acuity of services in our markets.

With regard to last year, you may recall that we recruited 182 new physicians to our facilities. And when I say physicians, when we talk about recruited physicians, we're talking about admitting physicians. So doctors who actually admit patients to the hospitals. Last year 182 recruited of a budgeted 182, and a 96.5% retention rate across the hospitals. So we feel like over the past year and this year, as we've continued our success in physician recruiting, that we're setting ourselves up for good, solid growth to be continuing.

With regard to a couple of other strategic initiatives that we have been working on, we have always prided ourselves on being great operators. We have always had, as I've mentioned, some of the best margins in the industry. But what we have done recently is identify a handful of hospitals where we think there is a great potential for significant margin improvement. And to help us capture that opportunity, we have decided to focus some of our best operating talent on those hospitals. We think through this effort and through giving these hospitals a little bit extra attention, we'll be able to break through and see solid margin gains. We're going to continue to invest in resources in this effort, because we think it will yield good results.

We're also in the process of making some targeted investments in our corporate center in order to bring additional support and expertise to our hospitals, notably in areas like purchasing, revenue cycle, and clinical quality. By adding a handful of people in Nashville at our corporate office, we have the ability to give the hospitals support that they need so that they aren't in the
position of having to add that particular expertise in the hospital, and some of those are very technical and a little bit harder to bring about. So we’re excited about that. Again, we’ll be talking more about these efforts as we go through the year.

With regard to further a little bit on the organization, we have taken some of our most seasoned executives in the corporate office and have given them responsibility for these efforts. Jone Koford, a Division President, is taking responsibility for the growth initiative that I talked about. Mike Weichart is taking responsibility for the ops excellence initiative that I talked about. And Scott Raplee is taking responsibility for value-add in the corporate center. These guys are really stepping up to the plate. We have given them some additional resources. I mentioned leadership development as a key part, talent development within LifePoint. We have added Chief Operating Officers for Jone and Mike in order to give them both the help that they need as they focus on these initiatives as they continue to be responsible for operating their hospitals, but these new Chief Operating Officer positions will move into the future Division President roles for our Company. So, again, these are all efforts that are designed to set the Company up to be successful over the long term.

One other very important hire that I’m excited about is the new Chief Medical Officer position. We look forward in the very near future to be able to announce the addition of a physician. This is a first-time hire for LifePoint. But as we talked for years about a commitment to clinical quality, it just is time for us to add a Chief Medical Officer to our staff. Finally one more hire to talk about. David Dill will join us this summer as our new Chief Financial Officer. Many of you know David. I know Gary and others have followed David when he was the Chief Financial Officer of Renal Care Group also — formerly located in Nashville. Renal Care Group was acquired by Fresenius a little over a year ago.

So, again, we believe very strongly that we have taken the steps over the past year to step back, look at our Company, make a determination about what its going to take for us to buck these headwinds in order to be successful. And we have now taken steps further by adding personnel who will help us in that process. And within the last couple of weeks, by doing a significant financing, a convertible debt offering, which raised — I think we filed the 8-K on the exercises, the over-allotment option. So we raised last week $575 million, with which — in a convertible notes offering, which was used in order to pay down our debt under our senior credit facility. We’ve amended the credit facility as well in order to position the Company better, to protect our balance sheet and give us the financial flexibility that we need in order to grow the Company through these initiatives that I’ve talked about, as well as through selected acquisitions. We also think there’s a great opportunity there. As David mentioned, a few of our peer companies have made decisions recently that have — by which they have leveraged up, and may not be as actively involved in M&A transactions. So we think it’s a great time for us to move back into acquisitions.

I have taken the first 15 minutes, and I did want to leave 15 minutes for Q&A. So I’ll stop now, and be glad to answer any questions that Gary, you, or anyone here in the audience may have. And, again, pleased to have Gary Willis with me today, and between us, we’ll hopefully be able to answer your questions.

**QUESTIONS AND ANSWERS**

**Unidentified Audience Member**

One in the front row. Bring the mike up so the folks on the Web can hear. When you described bad debt as, I think you said choppy still, are you seeing it in the same facilities? I mean has the nature of the bad debt changed? And maybe can you talk about some of the things that you guys have put in place and are doing to try to and contain, and hopefully reduce that problem?

**Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO**

Yes. Absolutely. The question was — and let me repeat the question. I’m not sure if this is on. I’ll repeat the question for purposes of the Webcast. I referred to our bed debt as being choppy. What did I mean by that? That’s a great question, because it a little bit of an unusual word, I guess. And are we seeing that at particular hospitals or across the Company, and what steps are we
taking in order to deal with that? When I say choppy, I mean it just spikes up and down. It’s within our range. It’s within our range of expectations. But in the first quarter, we saw our provision for doubtful accounts at 11.3%. Our guidance on bad debt is 11.3% to 12.3%. I, among others, were hopeful that that meant that things had leveled off. And in fact, it leveled off at the low end of the range. In April we’re seeing bad debt again, and at levels above that. And so we all know that one quarter is not a trend. And so we knew it was too early to declare victory on bad debt. But we continue to realize it’s there, we continue to need to work on it. It’s not any particular hospital, necessarily. It continues to be a problem for the industry. And it’s a problem for us across the country and we’re dealing with it in that way.

With regard to things that we’re doing in order to combat bad debt, we’re very proactive on the front end. When someone presents to the hospital, we do everything that we can in order to make sure that that person that qualify for Medicaid, and we take steps in order to help them qualify. We also are very proactive with respect to -- we have a credit card program that we’ve -- that we have rolled out, that -- where we help people qualify for a credit card that they can use to pay a portion of their bill. Interestingly, we found that people are more inclined to pay a credit card than they are to pay -- to pay the hospital. It’s an interesting dynamic, but it’s one that we face. So we’re primarily just proactive on the front end to make sure that we get people qualified to the extent possible. We have had great results.

It’s really a lot about focus and following up at the end of the day. In the first quarter, we saw improvement in our up-front collections -- Gary, correct me if I’m wrong, in the 60% range. We saw improvement period-over-period that was significant. And a lot of that is just about addressing this as an issue and following up.

**Unidentified Audience Member**

What do you see the impact of severity adjustment being on your (inaudible)?

**Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO**

Gary, I'm not sure I can quantify it at this time. But the question was what is the impact of severity adjustments? I hope it’s going to be very small. I am encouraged, based on recent conversations - conversations as late as yesterday with members of the -- with a member of the Senate Finance Committee about their uneasiness about the new severity-weighted DRG proposal, particularly with respect to the impact that these adjustments would have on rural hospitals. And -- well, and Senator Chuck Grassley, who was in Nashville addressing a group yesterday, was very outspoken about steps that he plans to take in order to, at least be in a position of communicating with CMS in order to cause them to go slow in connection with these changes. So --

**Unidentified Audience Member**

What operational changes would you -- to do better under such a system?

**Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO**

Yes, one of the things that we can do is -- and part of our growth strategy is to increase acuity of care in our hospitals. And we are -- that is an effort that we’re making. The fact that we’re recruiting 59% of specialists and increasing acuity of services in our hospitals is not by mistake. Those are often the most profitable procedures. And so we’re taking steps in order to deal with it that way. But it’s a significant potential problem for rural hospitals. My hope is that it will at least be slowed down before we see the new rules implemented.
Unidentified Audience Member
Any thoughts on exploring strategic options for the Company?

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO
I didn’t hear the question.

Unidentified Audience Member
I just want to get your thoughts on potentially -- kind of like some of your peers have done, just exploring strategic options for the Company.

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO
Strategic options? Oh, strategic options. I’m sorry. I honestly -- I couldn’t understand. We constantly look at strategic options. Many of our peers, of course, have taken steps, some fairly dramatic, and we will always consider everything. Having said that, we believe that we are positioning the Company correctly in order to buck up against these headwinds that I have talked about, in order to achieve returns for our stockholders that they expect, and frankly, that we expect. One of the consideration that -- and I assume you mean a potential leveraged transaction. One of the concerns there, of course, is that the first dollar is going to be -- have to be used to pay your financial sponsor and to pay the interest. We believe that our strategy of growing the Company through making targeted investments in our hospitals is what is going to allow us to be successful over the long-term. And so we have to weigh those two things, one against the other. And at this point, we believe that we have the ability through the implementation of the strategic initiatives, such as the ones I talked about earlier, in order to achieve appropriate returns. So -- .

Unidentified Audience Member
While the mike is heading over, I’ll ask one question first, since I already inadvertently have you doing nine acquisitions this year with my hospital count, can you just talk about who is leading that effort? What geographies you might focus on? Any particular arbitrage that exists now in terms of asset pricing or supply? Comments around acquisitions?

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO
Paul Hannah and Jeff Forshee lead that effort. Paul Hannah has been with us since the beginning of the Company, and Jeff Forshee joined us recently as we geared back up for acquisitions. Jeff has experience formerly with -- most recently with Triad, previously with Quorum. So he has been in the business a long time. He was with Province for a short time. So he has a lot of experience and a great personal portfolio of hospitals and relationships that he has developed over time. With regard to any particular location where we would want to be, Gary, geographically there are a few states that just don’t really care for profit hospitals, and obviously we won’t be going there. There are lots of states where we do want to be. We’re going to stay true to our knitting. We’re going to stay in non-urban areas. We’re going to be focused on good regulatory environments. We’re going to be focused on hospitals that have margin expansion opportunities. We’re going to be focused on hospitals where there’s community support and physician support for the hospitals.

We think that as far as pricing goes, that although prices have been up, they haven’t gotten out of hand. We believe that as a result of a couple of our peer companies being on the sidelines that things are not going to get out of hand as far as pricing goes, and that prices will remain reasonable. And that’s our expectation. We believe that we will be in a position to be selective and certainly disciplined, and that we -- you won’t expect to see us pay too much for any particular acquisition.
Unidentified Audience Member

On the same topic, the -- can you give a range of specific multiples that you would expect to pay for assets that come to market? And what do those multiples look like? You mentioned that you are looking at turn around opportunities. What do those multiples look like pro forma for when you've turned the business around?

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO

Yes, pro forma is really the better way to look at it, because in some circumstances if the margin is very, very low it's hard to determine. We aren't seeing revenue -- multiples of revenue, really in excess of one time, for instance. But on a pro forma basis, if you are looking at six to eight times EBITDA, I think that's in the range.

Unidentified Audience Member

Bill, are there any -- this is now a little over two years past the Province acquisition, and you have been in your role for almost a year. So are there any legacy Province issues or technology platforms or is there anything left just in terms of integrating that, outside of looking at some of the underperforming assets that you want to improve, that's really left to do?

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO

Gary, there really isn't. We don't think of the Province assets anymore as former Province or the legacy LifePoint as legacy LifePoint. We think of the Company now as being LifePoint Hospitals. It's so much easier to operate a business when it's one entity, as opposed to the time that you take and explaining the difference between one and the other. There is opportunity for us in some of our Western facilities, and many of those were former Province hospitals. And we are capitalizing on that opportunity. But that is simply a result of growth in those areas, and making sure that we're taking advantage of that. With that growth also comes -- that's where our contract labor issues really are, as well. And so with the growth comes the need for staffing. And to the extent in a small community that is geographically separated from other population centers, you have to bring people in, that becomes part of our contract labor problem. So it's a chicken and an egg thing to some extent, but that's really the only difference that I see.

Unidentified Audience Member

With regard to the hospitals, could you -- you mentioned Western hospitals and growing quickly, et cetera, as one characteristic. Are there other characteristics of those hospitals that have opportunity for profit improvement? Is it more rural than urban? Is it more specialty-oriented? Is there any particular characteristics? Or it's just nothing special other than growth?

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO

Well, in our case, we're only rural. So only non-urban hospitals where we think we have the ability to capture market share, our ability to grow our hospitals as a result of patients leaving our communities to get care somewhere else. And through implementation of physician recruiting, as well as providing targeted capital resources to those hospitals, we think we have the ability to cause those patients to stay home for their healthcare. So that's our -- that's our opportunity.
Unidentified Audience Member
With regard to the recruiting of -- on new physicians, you recruited 182 last year, 172 this year. Is that an ongoing number, that 150, 175? Is that a number that you'll need to do to continue to grow? Or are we going through a period now of a few years of sort of excessive hiring, shall we say? And what is kind of the normal amount of hiring you need to get growth up -- ?

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO
That's a normal number for us. You should expect to see that same kind of a growth number over the years.

Unidentified Audience Member
And finally, what would characterize a shift in the change in bad debt? In other words, you said you had hoped to see something. Is there -- are there any indications that would suggest that the trend has bottomed? I mean, are there certain markers that you are looking for that would indicate it?

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO
We have seen improvement in unemployment in our markets. We have seen increased number of employers moving into our markets. Those are two key markers that we look at in order to make that determination. We have seen improved unemployment in our markets, and we have seen new employers move into our markets. That's why we were hopeful that the result of the first quarter -- the results of the first quarter were indicative of perhaps a trend. But we just are not ready to declare victory on that front. It continues to be, to use a poor word, choppy.

Unidentified Audience Member
Okay. Thank you very much.

Bill Carpenter - LifePoint Hospitals, Inc. - President & CEO
Thank you. Thank you very much for your interest in LifePoint Hospitals.

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