

HealthLeaders *Media* FACT FILE

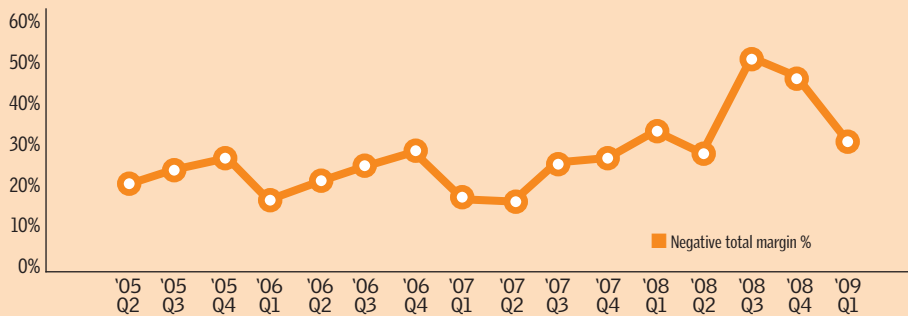
OCTOBER 2009

Financial Trends

During the summer and fall of 2008, U.S. hospitals were facing unprecedented financial challenges. But data through the first quarter of 2009 suggests there may be light at the end of the tunnel. Total margins for all hospital classes are improving. Operating margins have been fairly stable, as leaders kept expenses in line. However, days cash on hand continues to decline. ■

TOTAL MARGINS IMPROVING

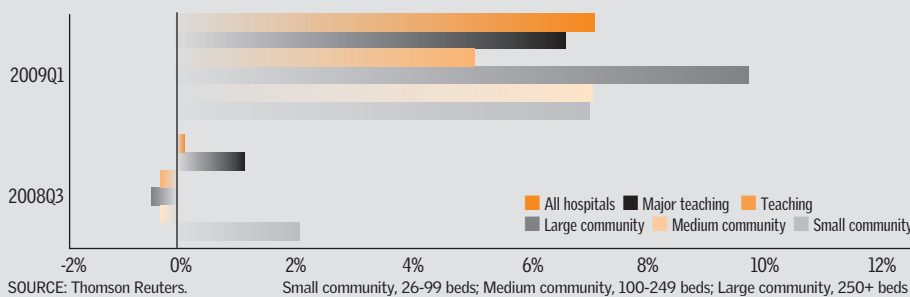
Before 2008, the number of hospitals with negative total margins had been rising and falling around the 20% level. So while the sharp improvement in Q1 2009—down from over 50% in Q3 2008 to just under 30%—is welcome, plenty of hospitals are still contending with red ink. Total margin consists of operating plus non-operating revenues less expenses.



SOURCE: Thomson Reuters.

TOTAL MARGINS BY CLASS

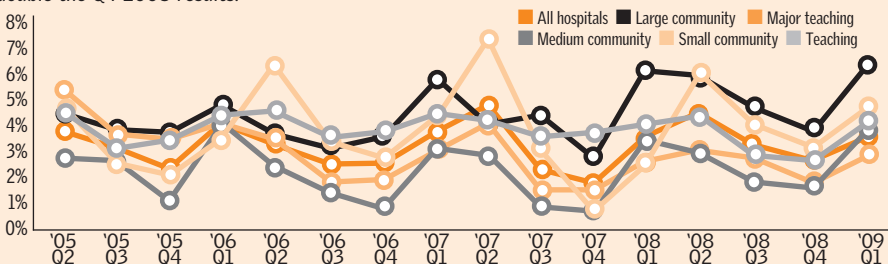
At the height of the recession, large community hospitals were faring the worst with negative total margin approaching -1%. But they showed the greatest improvement among all classes, posting in Q1 2009 total margin of about 9.5%. Small community hospitals, meanwhile, fared the best throughout the recession, maintaining a positive margin of over 2% in Q3 2008, and rising to nearly 7% in Q1 2009.



SOURCE: Thomson Reuters.

OPERATING MARGIN BY CLASS

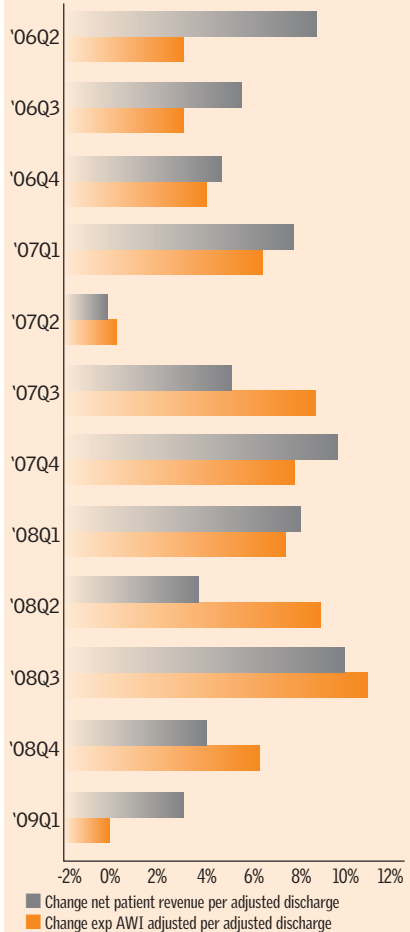
The abysmal returns on many investments during the height of the downturn certainly affected hospitals' finances. However, operating margins were largely unaffected by the recession. Leading the way in Q1 2009, large community hospitals posted 6% margins after dipping below 4% a quarter earlier. The lowest operating margin in Q1 2009 was posted by major teaching hospitals at approximately 3%, about double the Q4 2008 results.



SOURCE: Thomson Reuters.

Matching Expenses to Revenues

Part of the reason hospitals have been able to show stronger margins is the attention to controlling expenses. Since mid-2008, hospitals have controlled expenses to match decreased revenue growth. As of Q1 2009, expense growth was close to 0%. This chart compares the annual change in hospital revenue and expense.



SOURCE: Thomson Reuters.

Upcoming Topic:
» Healthcare Reform

FACT FILE PARTNER:



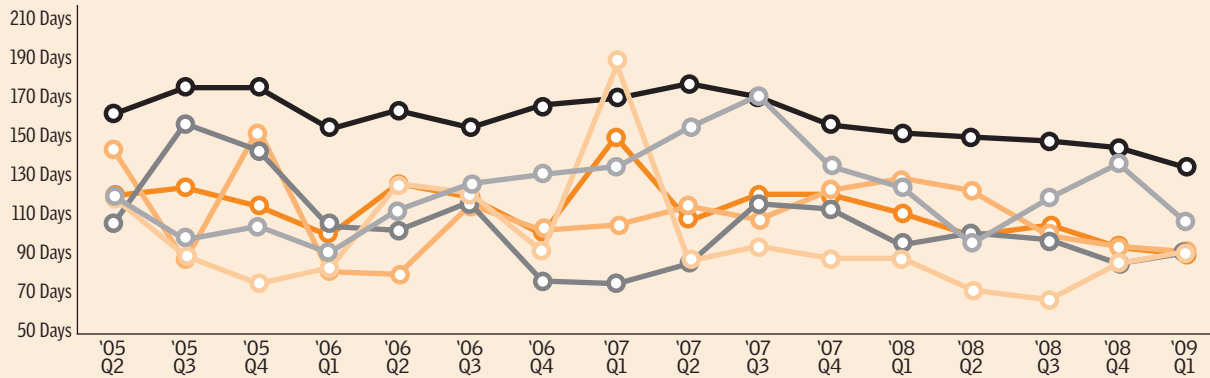
thomsonreuters.com/healthcare

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DAYS CASH ON HAND CONTINUES TO DECLINE

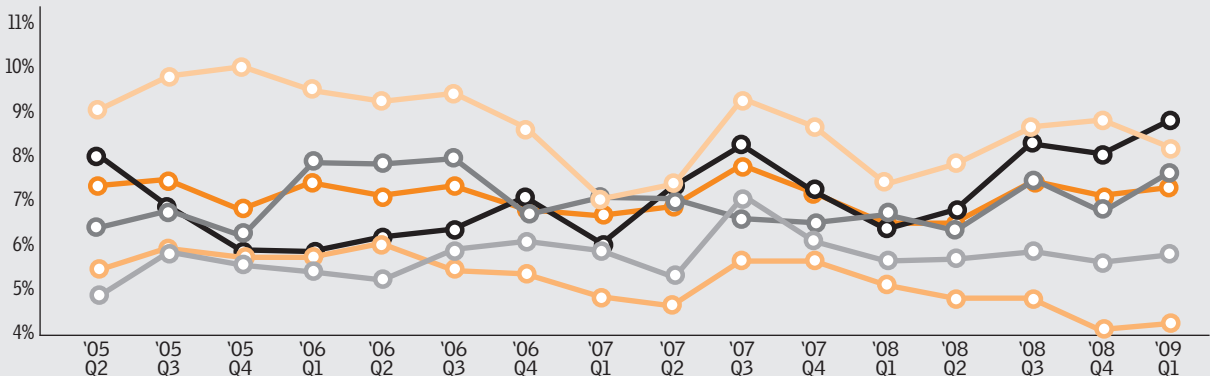
Despite some positive Q1 2009 numbers for hospitals, nearly every class showed continued declines in their days cash on hand, an important indicator of liquidity. Small community hospitals have climbed back up to 90 days from a low of about 70 days back in Q3 2008. And while large community hospitals have seen a couple quarters of declines, they do continue to outpace the 90-day median for all hospitals, with about 130 days.



SOURCE: Thomson Reuters. Legend: All hospitals (orange), Large community (black), Major teaching (light orange), Medium community (grey), Small community (light blue), Teaching (dark blue).

BAD DEBT VARIES BY CLASS

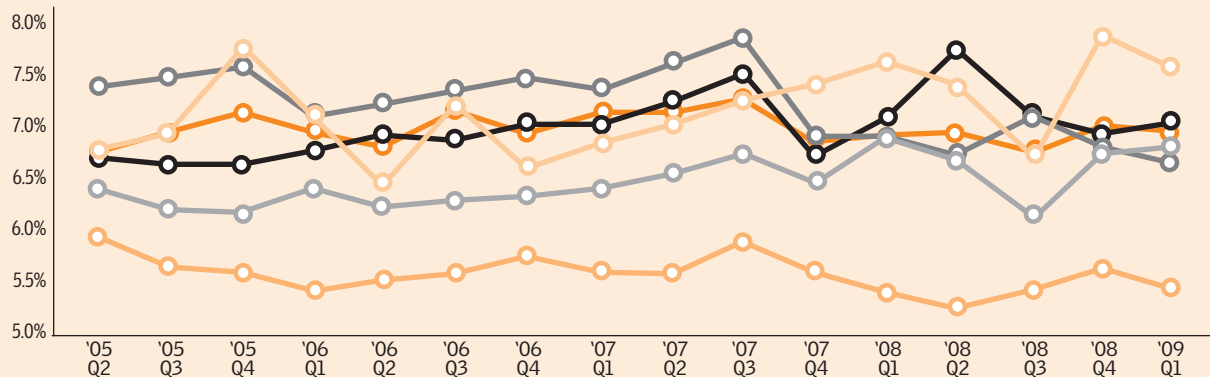
While the bad debt trend, overall, is stable, there is significant variation among the hospital classes. Since last fall, major teaching hospitals have seen rates decline from just under 5% to about 4%. At the same time, large community hospitals have seen rates jump from around 6.5% to about 8.5%. Bad debt has been consistently high at small community hospitals; even with a drop in Q12009, the rate stands at about 8%.



SOURCE: Thomson Reuters. Legend: All hospitals (orange), Large community (black), Major teaching (light orange), Medium community (grey), Small community (light blue), Teaching (dark blue).

CAPITAL TRENDS ABOVE EXPECTATIONS

Despite the economic slowdown, we have not seen the expected slowdown of capital spending working its way through the financials in the last few quarters. Small community hospitals lead the pack with about 7.5% of total expenses dedicated to capital projects, returning to and even exceeding pre-recession levels. Major teaching hospitals, the class with the lowest percentage of capital spending, continues to hover around the 5.5% mark.



SOURCE: Thomson Reuters. Legend: All hospitals (orange), Large community (black), Major teaching (light orange), Medium community (grey), Small community (light blue), Teaching (dark blue).

