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How the Future of Healthcare Delivery is Rewriting Today's Capital Plans

KCAHE ANNUAL CONFERENCE
Engineering the Future of Healthcare

Speaker Introduction



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Michelle serves as a trusted advisor to healthcare executives on prioritizing strategic initiatives.

She has completed 500+ health system master plans and specializes in guiding system-based capital prioritization.

How Does Healthcare Fit Within the Overall Economy?

Highest % GDP
in the World¹

17.8% GDP

#3 Healthcare Spending
in the World ²

22%

Most Per Capita Health
Expenditure in the World ¹

\$12,318

Spending Increase Per
Person by 2050 ³

38%

AHA January 2022	1
Source: AHA January 2021	2
Sheps Center, UNC, 2023	3
GMS	4
Department of Labor	5
Bureau of Labor Statistics	6
Polsinelli-TrBK Distress Indices Report	7

What Does This Mean for Legacy Providers?

Highest Distress Index⁷
in 13 Years

Shrinking¹
Access

Economic²
Instability

Rural Hospital³
Closures

Increasing Their⁴
Prices

Employing a LOT More⁵
People

Demand for Healthcare Staff⁶
Dominant

What Does this Mean for Us as Patients?

Pay More

More Debt

Still Divided

A close-up photograph of a surgeon in a blue scrub cap and white surgical mask, focused on a procedure. The background is a soft, teal-colored light.

Healthcare capital projects must:

GROW REVENUE

- Provide Capacity
- Boost Recruitment
- Create Loyalty

A photograph showing two medical professionals, a man and a woman, looking at a computer monitor in a clinical setting. The scene is dimly lit with a focus on the screen.

REDUCE COSTS

- Leverage Economies of Scale
- Increase Productivity
- Incorporate Technology

A close-up photograph of a man smiling warmly. He is wearing a blue shirt and has a blue jacket draped over his shoulder. The background is a blurred indoor setting with windows.

CREATE VALUE

- For Patients
- For Staff
- On the Balance Sheet

Major Sources of ROI Funding

Current Status



Operating Margins

“Getting better but still face significant headwinds.”

- Aug 2023 Kaufman Hall



Private Equity

“Bankruptcies on track for 13 yr high, HC w/ the most”

-S&P Global Aug 2023



Bonds

“Inflation is, in short, kryptonite for bonds”

- *cnbc.com, Jan 7 2023*



Philanthropy

Tied to portfolios

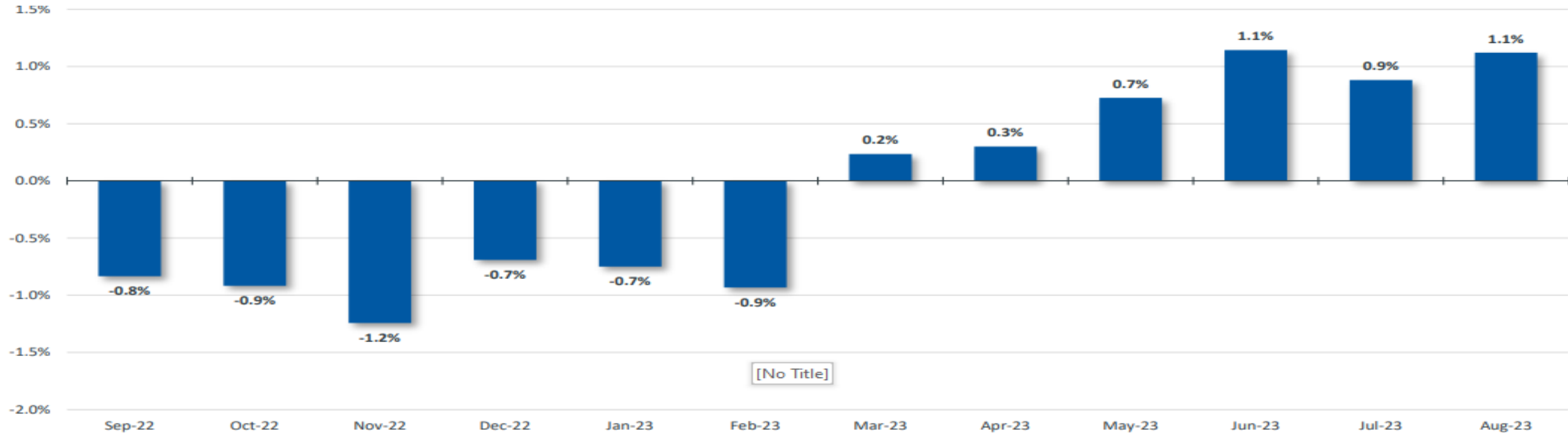


Portfolios

Upside this year in tech & AI stocks, HC worst performing sectors, moderate trajectory

Ok, But What about Right Now?

Sept 2023, Kaufman Hall National Flash Report, CYTD Operating Margin Index



Hospital performance continue to stabilize but anemic.

LOS continues to decline which is positive for margins.

Expenses increased but were offset by revenue increases.

Bad debt, charity care continue to rise – Medicaid disenrollment.

Opportune time to reinvigorate efforts around strategic financial and capital planning efforts.

Forces Collide



Declining Capital Market

Inflation
Supply Chain
Cost of Capital
Locked Up Credit



Unstable Labor

Quiet Quitting
Layoffs
Retirements
Realignment



Technophile Consumers

Convenience, Value
Where, When and
How I want it...



Rising Acuity

Margin Eroding
Root Cause = Multi-Variable



Slow Reform

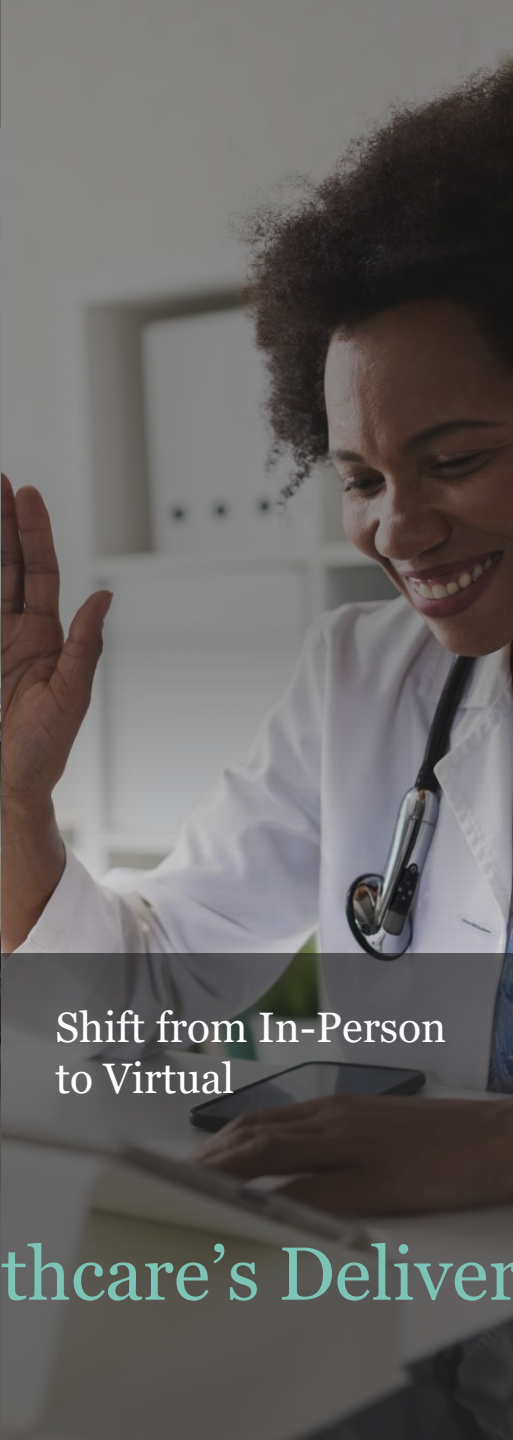
CMS (2.6% increase) vs. actual costs (6.5% inflation)
Medicare Advantage



Shift to Lower
Cost Sites of Care



Shift from
IP to OP



Shift from In-Person
to Virtual



Shift of Legacy
Market Share to
Retail Giants



Shift of Traditional
Staffing Tasks to
Automation and
Technology

Structural Changes to Healthcare's Delivery Model

Capital Planning is Focused on Near-Term Challenges



“Fill It Or Remove It” – All About Utilization

Most healthcare capital projects don't meet / exceed their ROI expectations



Capital Plans That Define What We Need
Based On What We Can Afford.

What Does This Mean for Future Capital Plans?

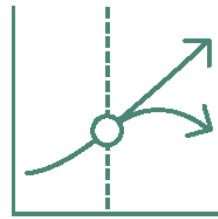


Increased Due Diligence

Scrutiny of investment business plans

Multiple approval processes

System-based capital competition



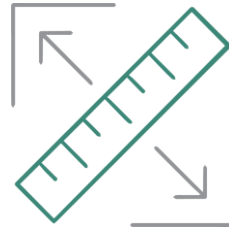
Pause or Abandon Projects

Based on liquidity

Rescoping to hedge against escalation

Repurposing existing buildings

Tech vs. Buildings



Increased Right-Sizing Pressure

Scope: can't afford to build for volumes 10-20 years out

Schedules: Time is money



Higher Revenue per Square Foot Expectations

Pushing thresholds on utilization.

Case mix optimization

Increase productivity targets



Consolidation + Economies of Scale

No longer access / distribution model to reduce overall fixed costs

Consolidation of staffing resources / team approach

Strategies for ROI Recovery + Capital Planning

Partnership
versus M&A

Fewer, bigger deals

Margin
versus Revenue

Reprioritization
Reduction
Renegotiation

Rationalization
and Optimization

Ambulatory Sites
Reduce Leakage
Higher Revenue / SF

Consolidate
versus Duplication

Economies of scale
Access

Niche
versus Everybody

Fewer Projects
More Linear
Less Dispersed

Technology

Doubling Down
Task Replacement
Partnerships

Staffing Centric

Enhanced Focus

Convenience +
Value

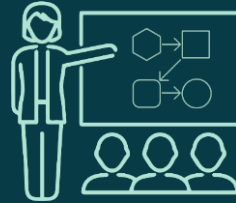
ASC
Physician Aggregation
Home Care
Virtual Networks

Impacts to PDC Community: “Maximization of Flexibility”



Pre-Con, Scoping,
Budgeting

High demand staff



Construction-Led
Projects

Based on budgeting
and cost control



Standardization

Continuous and
consistent

- Functional programming
- Smaller designs
- Pre-fab, modular



I-2 vs. Business
Occupancy

Size of rooms,
offices, etc

HOPD + IP support
services



Repurposing vs. New

Economies of scale
in materials



Challenge Teams to Identify What They Can Afford First



Use Data Driven Planning and Design Metrics



Develop Financial Thresholds and Milestone Checks



Look for Ways to Reduce Costs and Leverage Economies of Scale



New Construction as a Last Resort Solution + Infrastructure Monetization

How to Help Clients Plan Their Capital Well

Discussion / Q & A

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