



Provider Challenges – Volumes and Mix

As we stated previously, it's our view that healthcare becomes harder to afford (for individuals, corporations, etc.) as healthcare cost growth exceeds income growth. When this occurs over time, we believe that payors generally pass through a portion of the healthcare cost growth to individuals and corporations in the form of higher premiums and larger deductibles and other cost-sharing. We believe this has created a heightened level of seasonality, especially for commercial pay patients. For example, if an individual today has a \$5,000 deductible, and it's October and the deductible has been fully met, we suspect this person would likely choose to take care of as many outstanding medical concerns as possible before the end of the year when the \$5,000 deductible resets. For this reason we would see more procedures done in Q4 than in prior years when this may have been less of an issue when deductibles were much lower. In addition to this, we believe some individuals have become more thoughtful about doing certain procedures (especially discretionary procedures) as they are on the hook for more of the payment due to the increased cost-sharing imposed by the commercial payors. We believe the mix decline in recent quarters is reflecting this trend. Given healthcare cost trends moderated in the most recent year relative to income growth, we suspect although these volume and mix challenges will continue, their severity may decelerate. And we further believe comps could be a little easier in 2018 given the difficult 2017. Figure 6 illustrates SS adjusted admissions for a sample of our hospitals since Q115 and Figure 7 details the payor mix for these same hospitals over recent years.

Figure 10: SS Adjusted Admissions – Select Hospital Companies Q115-Q317

SS Adjusted Admissions - Select Hospital Companies Q115-Q317

| | 3/31/15 | 6/30/15 | 9/30/15 | 12/31/15 | 3/31/16 | 6/30/16 | 9/30/16 | 12/31/16 | 3/31/17 | 6/30/17 | 9/30/17 |
|------|---------|---------|---------|----------|---------|---------|---------|----------|---------|---------|---------|
| HCA | 6.8% | 4.9% | 3.6% | 2.9% | 3.1% | 1.6% | 1.3% | 1.5% | 1.6% | 1.3% | 0.3% |
| THC | 5.9% | 2.3% | 0.7% | 0.3% | 2.2% | 0.5% | 1.4% | -0.5% | -2.5% | -1.4% | -2.2% |
| CYH | 2.5% | -0.2% | 0.1% | -1.2% | 1.3% | -0.6% | -1.5% | -1.4% | -1.4% | -2.5% | -2.3% |
| LPNT | 4.3% | 1.8% | 0.1% | -1.1% | 0.0% | -1.9% | -1.8% | -0.7% | 0.5% | -0.8% | -1.4% |

Source: Deutsche Bank and Company Disclosures