

Community Health Systems Inc. (CYH)

Key Takeaways Q3 2024 Earnings Call

Earnings Results

Community Health Systems, Inc. (CYH) released earnings for the quarter ended September 30 (Q3) on October 24, 2024 after market close. That day, the company's share price closed at \$4.25, a 30.6% decrease from the prior close. Please see below for the select metrics from the call, press release, and previous press release.

\$ in millions, except EPS

Metric	Q3 2024	Q3 2023	Change
Net Revenue	\$3,090	\$3,086	0.1%
Adjusted EBITDA	\$347	\$360	(3.6%)
Margin	11.2%	11.7%	(0.4%)
Adjusted EPS	(\$0.30)	(\$0.33)	nmf
Same-Store Metrics			
Admissions			2.4%
Adjusted Admissions			2.6%
Net Revenue per Adjusted Admission			2.5%

Impact of Hurricanes Helene and Milton

- As a result of Hurricane Helene, one facility was forced to evacuate patients and several other facilities saw delays in scheduled electives.
- Approximately \$7 million impact estimated from missed revenue and incremental costs.
- ShorePoint Health Punta Gorda remains closed due to extensive damage caused by both hurricanes. Expected to remain closed through the remainder of the year, which will continue to be a headwind throughout Q4.

Volume & Revenue

- Despite impact of hurricanes, same-store admissions grew 2.4% compared to Q3 2023.
- In addition to strong same-store metrics above, emergency department visits increased 0.8% and surgeries increased 3.1% from Q3 2023.
- Surgery growth was led by lower acuity outpatient cases driven by consistent investments in ambulatory surgery sites of care.
- 2.5% increase in net revenue per adjusted admission largely reflective of improved rates and reimbursement under state Medicaid programs.
- Service line mix was less favorable than expected, with case mix index decreasing 0.6% from previous year.

Expenses

- Labor costs continue to improve this quarter, as average hourly wage rates have increased consistently with expectations.
- Contract labor spend was down 24% year-over-year, reflecting successful recruitment and retention efforts.
- Supplies expense saw a 1.3% decrease per adjusted admission in the third quarter.
- Expected to continue to see cost efficiencies and reduced supplies expense as more CHS hospitals adopt the new ERP system.
- Medical specialist fees increased 10% from the prior year period with notable pressure in anesthesia.
- Anticipating an increase in professional claims liabilities considering the national trend of outsized verdicts and propensity for larger claim settlements that have been experienced more recently.

Payor & Reimbursement

- Increase in net revenue per adjusted admissions reflects improved rates and incremental state Medicaid reimbursement partly offset by lower acuity.
- Experiencing significant increases in initial denials and downgrades by managed care plans, with more than half of the incidents coming in the Medicare Advantage book.
- Denial activity resulted in an approximate \$10 million headwind for the quarter.

Go-Forward Expectations & Growth

- Management adjusted EBITDA guidance to \$1.5 to \$1.54 billion due to impact of the hurricanes on operations.
- Rate of denial activity continues to grow and is expected to pressure the top line.
- Expecting normal seasonality improvements in the fourth quarter, and optimistic that adding incremental inpatient capacity, outpatient access points, and recruitment of specialists will grow higher acuity service lines.
- Recently announced an agreement to acquire Carbon Health's 10 urgent care locations in Arizona, which will expand the company's urgent care footprint and is expected to promote further growth.

Key Quotes Q3 2024 Earnings Call

Impact of Hurricanes Helene and Milton

"I'd like to begin by addressing the impact of back-to-back hurricanes, Helene and Milton. The hurricanes impacted several of the communities we serve, primarily in Florida, Georgia and East Tennessee. As a result, in late third quarter and early fourth quarter, CHS hospitals most likely to experience severe impact, ramp-down services and canceled elective procedures. In total, three of our facilities were evacuated and closed consistent with local orders."

"The biggest impacts occurred in our ShorePoint Health System located south of Tampa, Physicians Regional Health care system in Naples and Tenova Newport in East Tennessee. Most significantly, ShorePoint Punta Gorda experienced major damage due to flooding. The hospital remains closed today and remediation efforts are currently underway."

"For the Punta Gorda facility that remains closed, that's part of our ShorePoint Health network, which has a larger hospital in Port Charlotte. We have been successful to migrating some of that care over to the Port Charlotte campus to mitigate some of that disruption of having a campus shut down, but we do not have the access for ED services."

- **Tim L. Hingtgen, CEO & Director**

Volume & Revenue

"Underlying demand for care in our markets remains strong, leading to the same-store volume growth, including a 2.4% increase in admissions and a 2.6% increase in adjusted admissions. Same-store ED visits were up 0.8% and surgeries were up 3.1%. As a result of Hurricane Helene, during the third quarter, one of our facilities was forced to evacuate patients and several facilities saw delays in scheduled electives. We estimate an approximate \$7 million impact during the third quarter from missed revenue and incremental costs."

"We were pleased to see solid volume growth, including growth in our commercial book. However, the service line mix of the business was less favorable than expected with overall case mix index down 60 basis points from prior year, reflecting declines in both the surgical mix and the surgical CMI."

- **Kevin J. Hammons, President & CFO**

Payor & Reimbursement

"For several quarters now, the challenges we and our industry are facing regarding increasing denial activity by payers has been well documented. And over the last few years, and in response to this challenge, we have stood up an enhanced utilization review program and centralized physician adviser services to ensure our patients are placed in the correct care status and that we receive the appropriate payment for their care. As a result, our Physician Adviser Service has been able to obtain a high rate of reversal on initial payer denials."

"Nevertheless, the rate of denial activity by payers continues to grow and have continued to pressure our top line. We are making incremental investments in our centralized patient financial services processes and team as well as our physician adviser program to continue to advocate for the appropriate classification of care for our patients and payment for the services our health systems provide."

- **Tim L. Hingtgen, CEO & Director**

"I think maybe the 2-midnight rule is the impetus, but we're just seeing the payers be more aggressive across many areas of denials. So they're expanding the population of the claims, in which they're denied, and we're seeing it, again, the majority of it is in the MA book, but we're seeing more denials in the commercial book as well. So that's where we're seeing the impact above the prior trends and above what we hadn't previously anticipated."

- Kevin J. Hammons, President & CFO

Go-Forward Expectations & Growth

"And we recently announced a definitive agreement to acquire Carbon Health's 10 urgent care locations in the Tucson, Arizona market. This will expand our urgent care footprint to 17 locations across that market. We expect that transaction to close this quarter. My confidence in our strategic direction, health system leadership team and especially the women and men who provide care for our patients is at an all-time high."

- Tim L. Hingtgen, CEO & Director

Additional Information

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