



Market Analysis Report

An In-Depth Analysis of the Hospital
Market in Shelby County, Tennessee



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Community Hospitals Analyzed

Community Hospital	Ownership	Licensed Beds, 2004	Staffed Beds, 2004	Occupancy
Baptist Memorial Hospital East	Nonprofit	706	598	85.5%
Baptist Memorial Hospital Collierville	Nonprofit	61	61	56.8%
Baptist Memorial Hospital for Women	Nonprofit	140	140	71.1%
Methodist University Healthcare	Nonprofit	669	519	79.4%
Methodist Healthcare Germantown	Nonprofit	209	208	84.0%
Methodist Healthcare South	Nonprofit	200	155	63.6%
Methodist Healthcare North	Nonprofit	234	230	84.4%
Methodist Healthcare Lebonheur	Nonprofit	225	174	66.2%
Regional Medical Center (The Med)	Nonprofit	631	376	82.1%
Saint Francis Hospital	For-Profit	519	519	77.2%
Saint Francis Hospital - Bartlett	For-Profit	90	45	24.6%
Delta Medical Center	For-Profit	243	170	52.9%

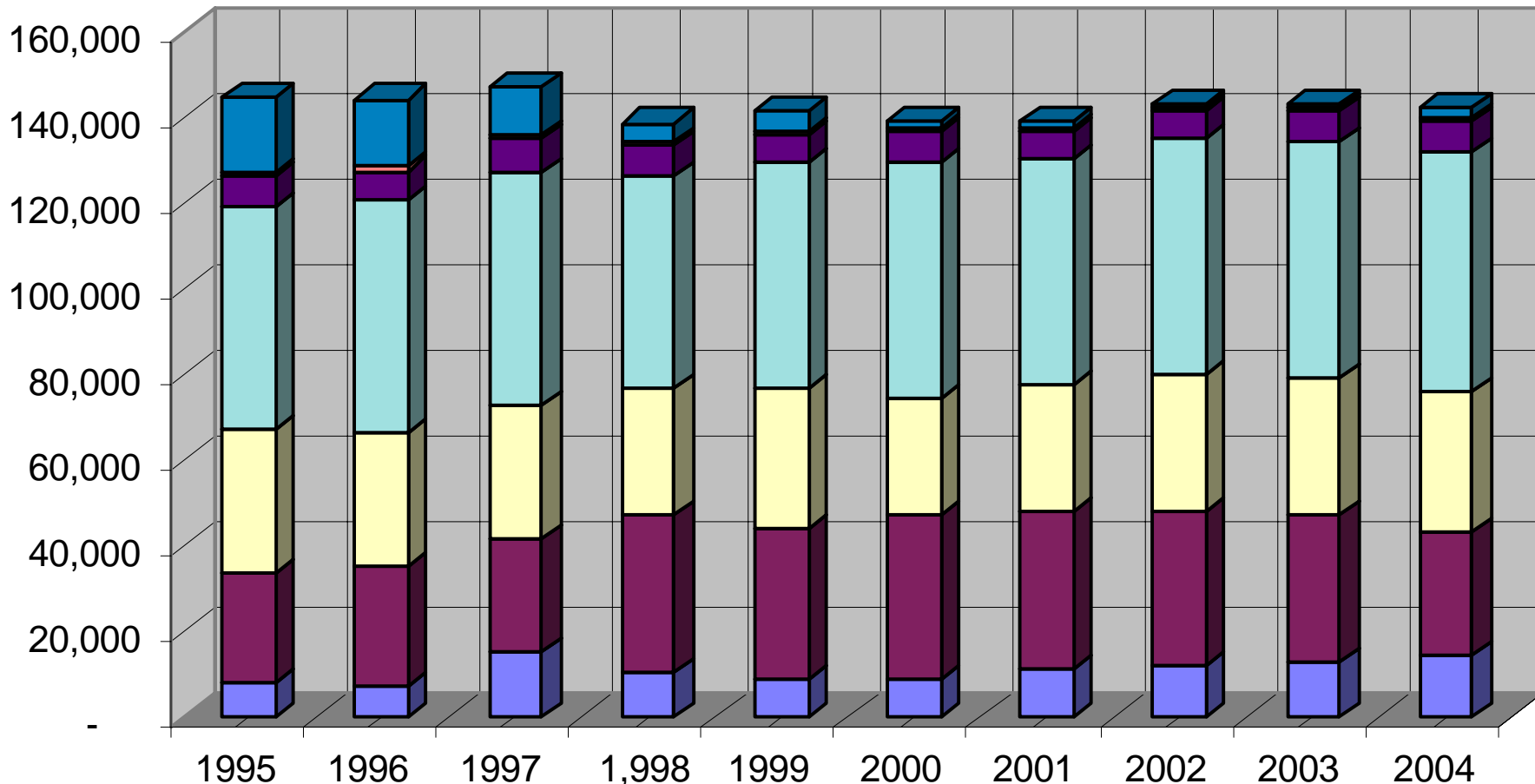


Hospitals Excluded

- VA Medical Center at Memphis
- St. Jude Research Hospital
- Lakeside Behavioral Health
- UT Bowld Hospital (closed)
- Rehab and other specialty hospitals

Hospital Inpatient Admission Trends by Payer Mix

Shelby County, Tennessee, 1995 - 2004



■ B/B
 ■ Commercial
 ■ Medicaid/TennCare
 ■ Medicare
 ■ Self Pay
 ■ Champus
 ■ Other



Observations

- In recent years, the volume trend in the Shelby County hospital market has been virtually flat, with total patient flow hovering around 142,000 - 143,000 inpatient admissions per year.
- In the longer term between 1995 -2004, the size of the market (measured in total admissions) actually shrank slightly at an annual rate of 0.2%.
- Consistent with national trends, an increasingly larger number of patients are insured by government programs



Market Shares

Hospital Market Shares Based on No. of Inpatient Admissions

Hospital	2000	2001	2002	2003	2004
Methodist+Le Bonheur	44%	45%	43%	43%	44%
The Med	10%	10%	11%	12%	12%
Rest of Shelby	46%	45%	46%	45%	44%
Total	100%	100%	100%	100%	100%

Hospital Market Shares Based on Gross Charges

Hospital	2000	2001	2002	2003	2004
Methodist+Le Bonheur	36%	39%	41%	40%	41%
The Med	12%	13%	13%	13%	15%
Rest of Shelby	51%	47%	46%	47%	45%
Total	100%	100%	100%	100%	100%

The components may not add up to 100% due to rounding error

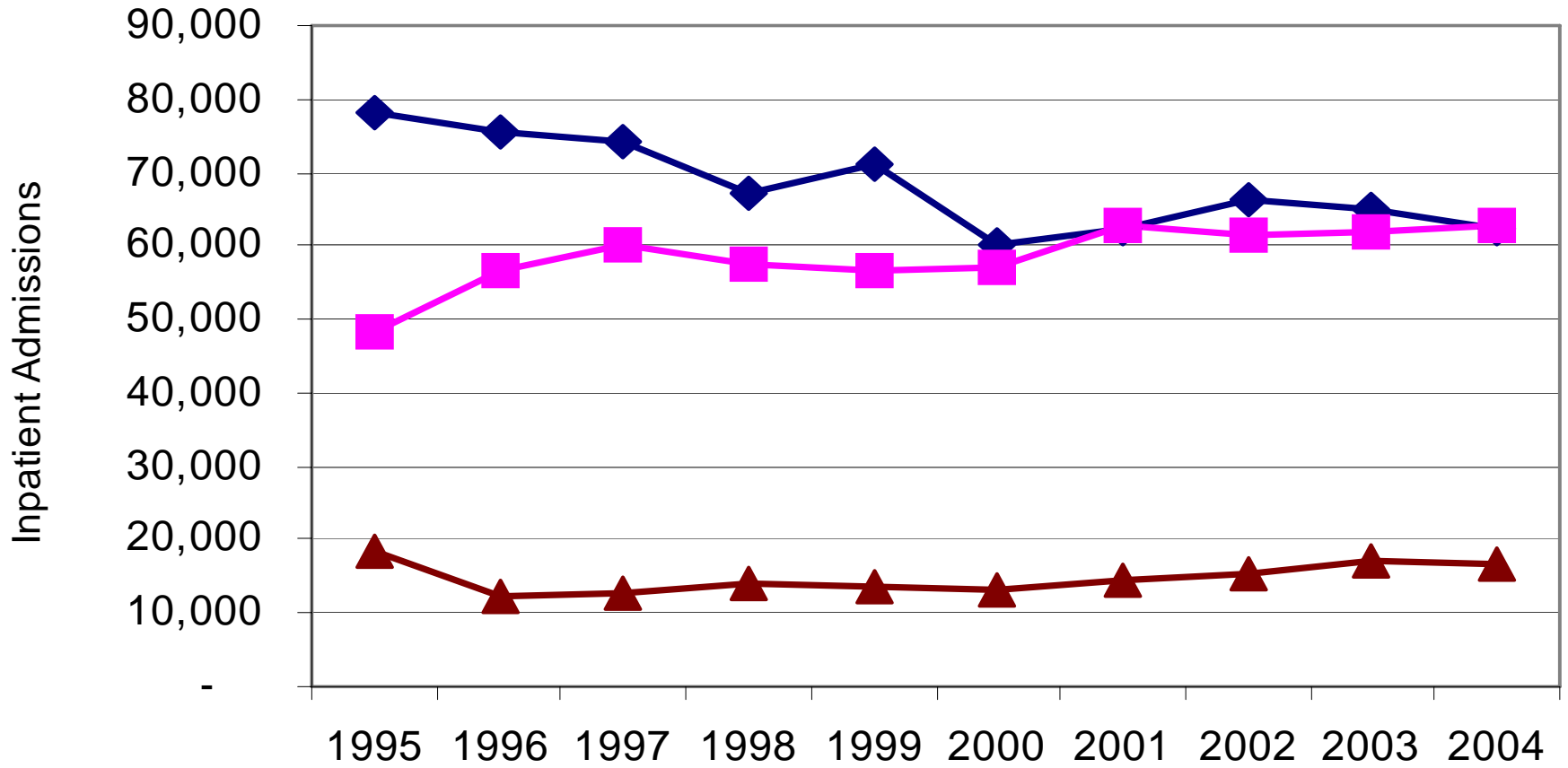


Observations

1. The Med has about 12% of the market share in terms of inpatient admissions, while the remaining 88% is split evenly between Methodist LeBonheur Healthcare and hospitals in the rest of Shelby County (mainly Baptist and St. Francis)
2. The market share of Methodist LeBonheur Healthcare measured in gross charges has been consistently lower than when it is measured in inpatient admissions. This suggests a relatively conservative pricing and billing practice when compared to its major competitors.

Inpatient Admission Trends 1995-2004

Shelby County, Tennessee



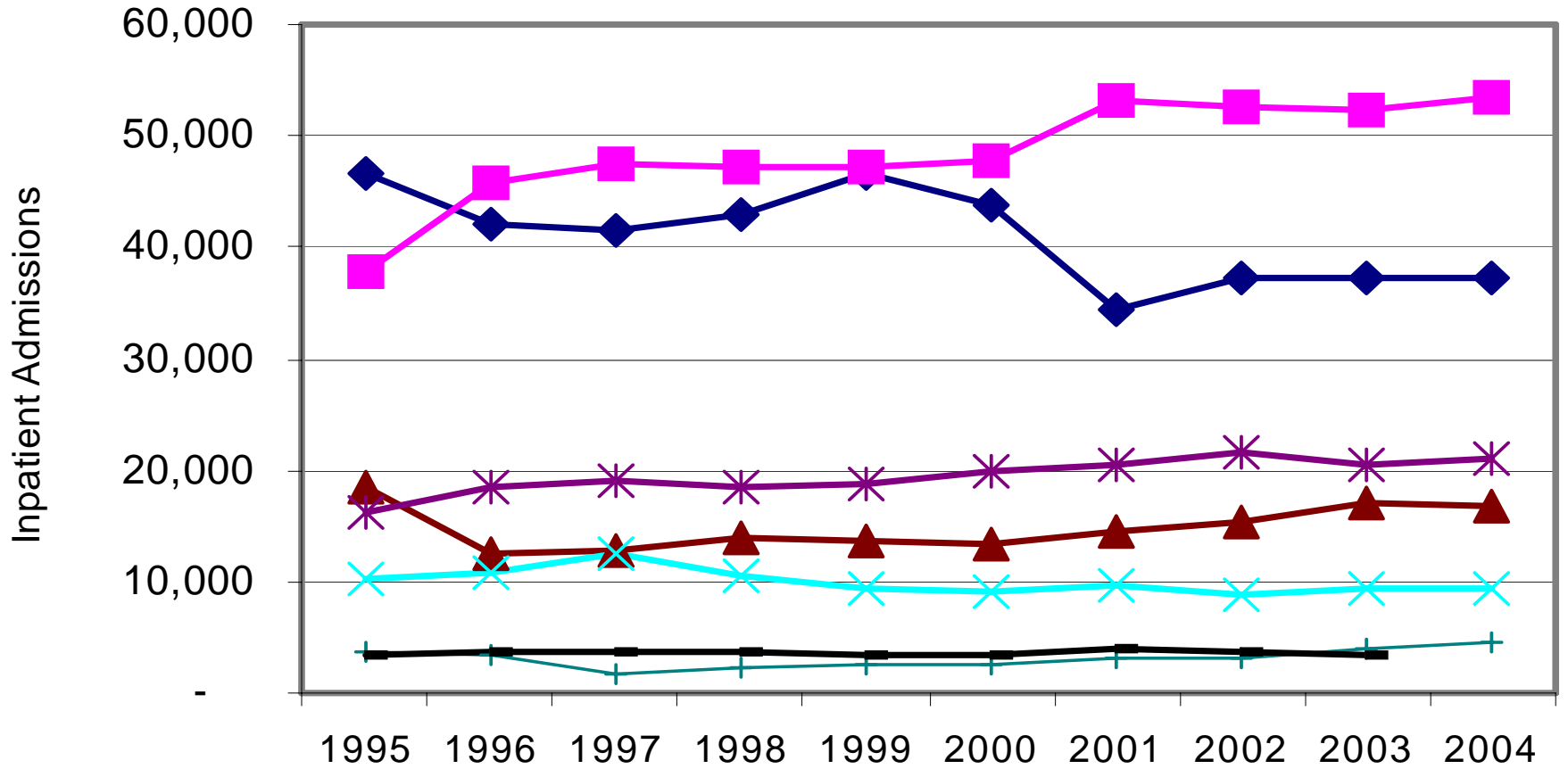
Rest of Shelby

Methodist+LeBonheur

The Med

Inpatient Admission Trends 1995-2004

Shelby County, Tennessee





Observations

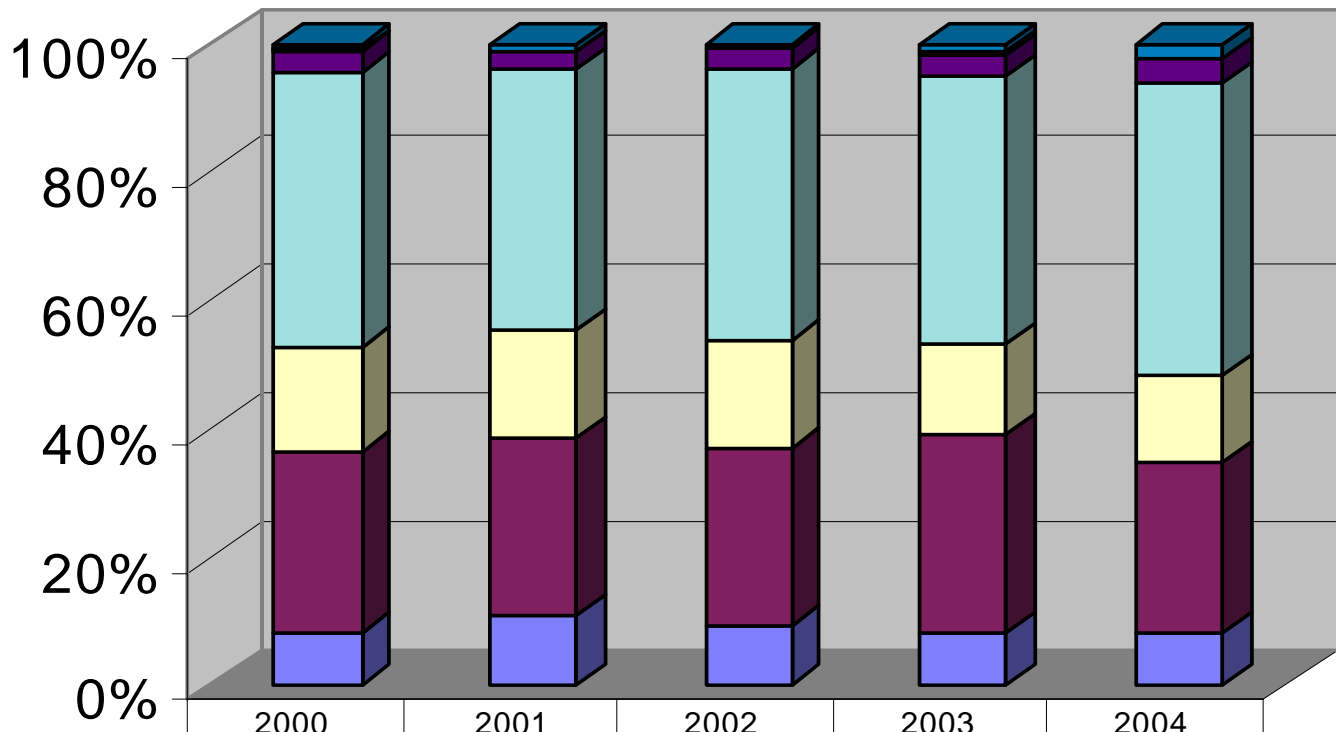
- The Med lost patients in the immediate aftermath of TennCare, but has regained almost all of the lost share by 2004
- Methodist and St. Francis have gained market share steadily while LeBonheur and Delta Medical Center have shown a stationary trend
- The Baptist System reduced its presence in Shelby County, and UT Bowld was closed in 2004



Analysis of Payer Mix

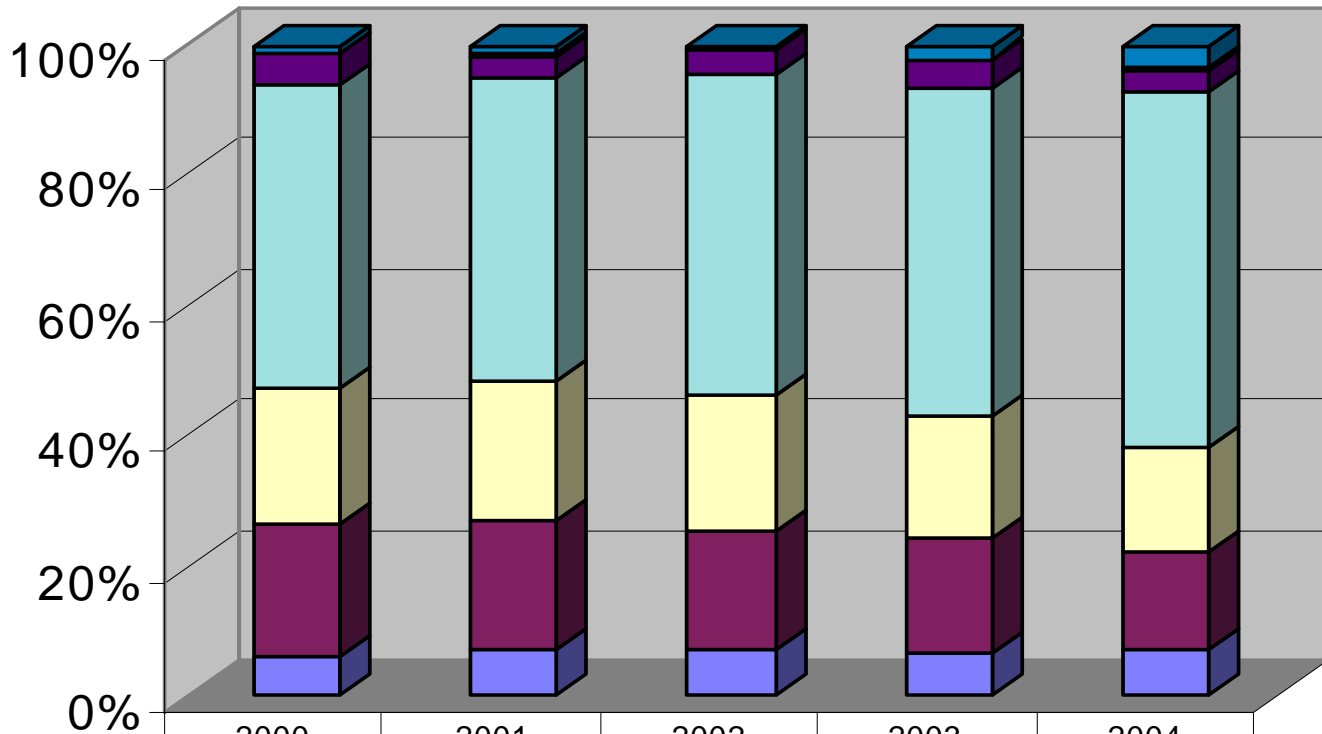
- Methodist Healthcare (4 hospitals)
- Methodist University
- LeBonheur
- Baptist (3 hospitals)
- St. Francis (2 hospitals)
- The Med

Total Admissions by Payer Mix - Methodist



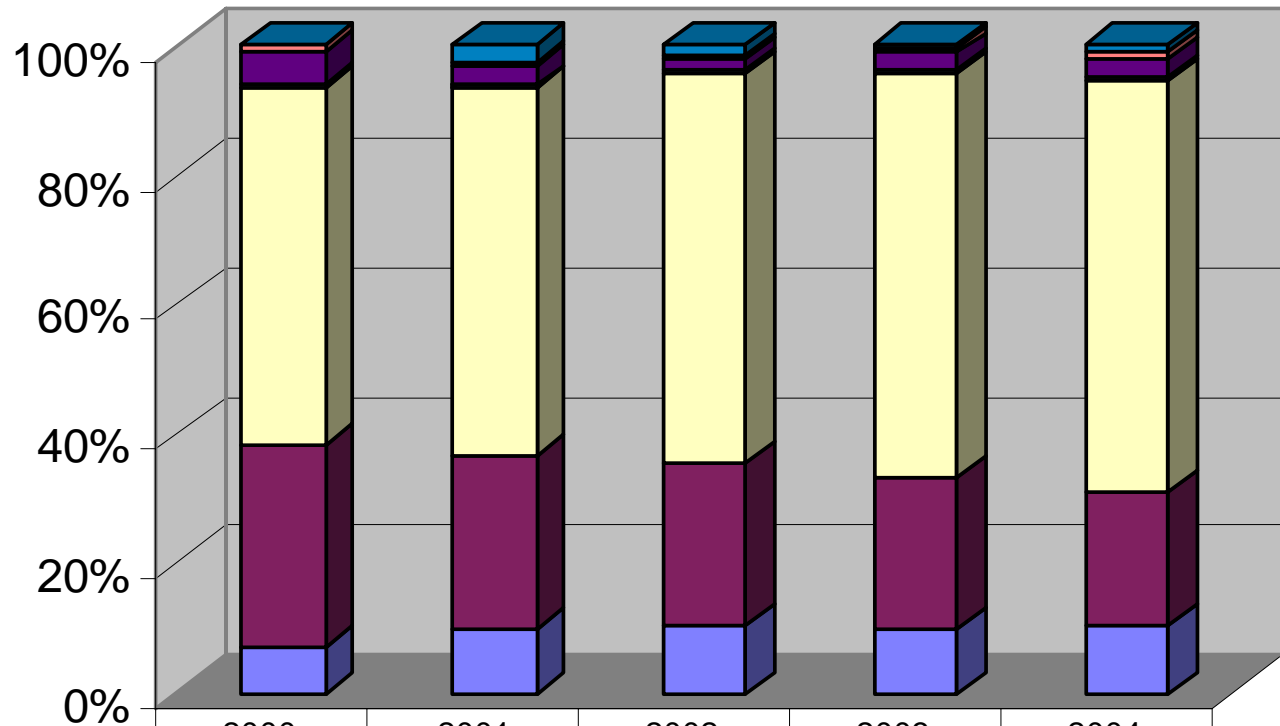
	2000	2001	2002	2003	2004
Other	0.8%	0.9%	0.4%	1.2%	2.1%
Champus	0.3%	0.3%	0.3%	0.3%	0.3%
Self Pay	3.1%	2.7%	3.1%	3.5%	3.4%
Medicare	42.8%	40.8%	42.5%	41.6%	45.7%
Medicaid/TennCare	16.3%	16.6%	16.6%	14.4%	13.7%
Commercial	28.5%	28.0%	28.1%	31.0%	26.6%
B/B	8.1%	10.7%	9.2%	8.0%	8.2%

Total Admissions by Payer Mix - Methodist University



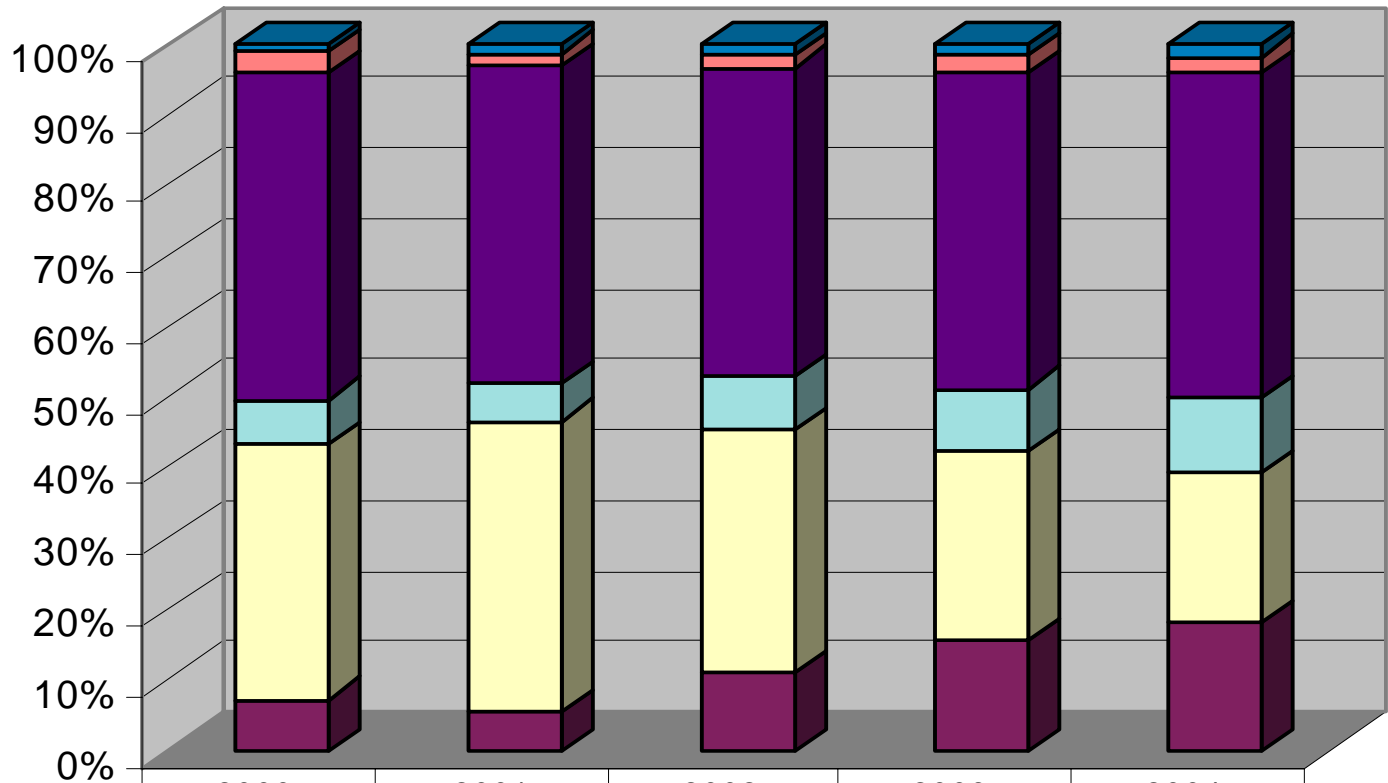
	2000	2001	2002	2003	2004
Other	1.3%	1.5%	0.6%	2.1%	3.6%
Champus	0.2%	0.2%	0.2%	0.2%	0.2%
Self Pay	4.4%	3.6%	3.9%	4.6%	3.5%
Medicare	46.8%	46.1%	49.2%	50.2%	54.4%
Medicaid/TennCare	20.9%	21.6%	20.8%	18.5%	16.0%
Commercial	20.4%	19.7%	18.3%	17.7%	15.2%
B/B	6.0%	7.3%	7.0%	6.8%	7.0%

Total Admissions by Payer Mix - Le Bonheur



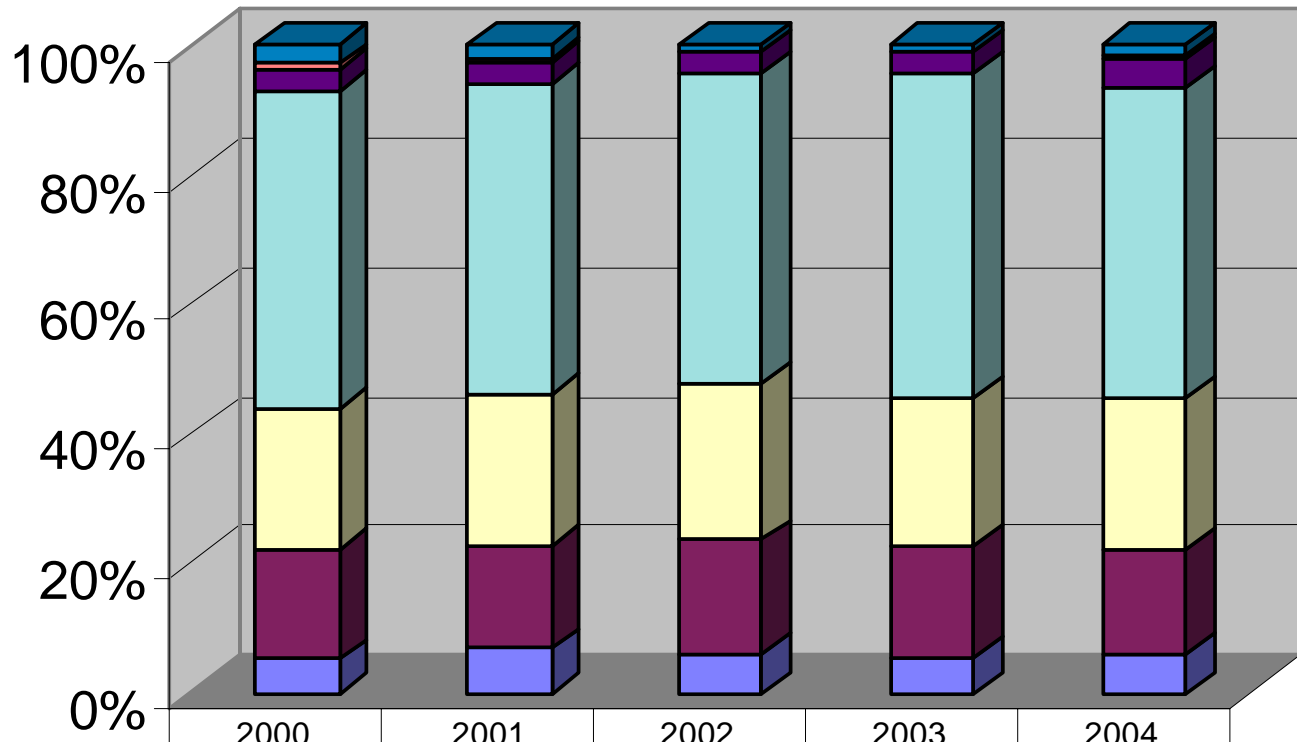
	2000	2001	2002	2003	2004
Other	0.0%	2.4%	1.3%	0.6%	1.0%
Champus	0.7%	0.8%	0.9%	0.6%	1.0%
Self Pay	5.1%	3.0%	1.6%	2.5%	2.9%
Medicare	0.4%	0.5%	0.4%	0.5%	0.5%
Medicaid/TennCare	55.4%	56.8%	60.1%	62.7%	63.6%
Commercial	31.4%	26.8%	25.2%	23.4%	20.5%
B/B	7.0%	9.7%	10.5%	9.8%	10.6%

Total Admissions by Payer Mix - Baptist



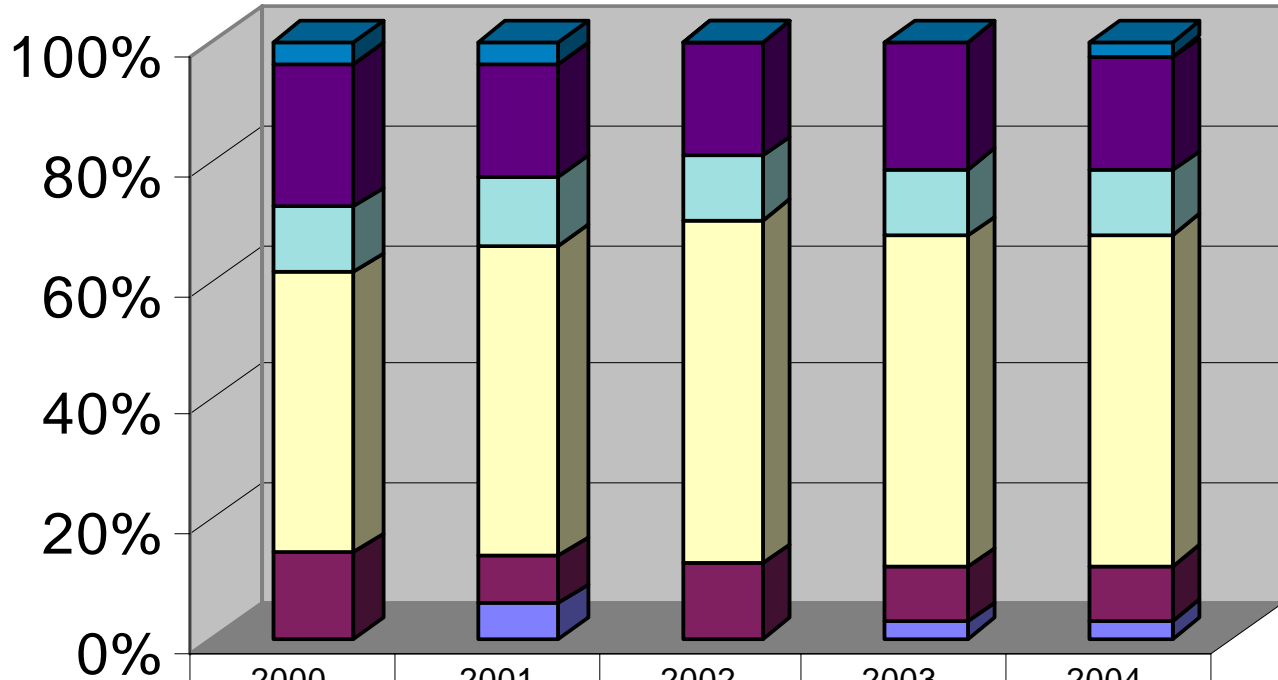
	2000	2001	2002	2003	2004
■ Champus	0.9%	1.1%	1.4%	1.4%	1.6%
■ Self Pay	2.9%	1.8%	1.8%	2.5%	2.5%
■ Medicare	46.1%	44.9%	43.6%	44.8%	45.9%
■ Medicaid/TennCare	6.3%	5.2%	7.7%	8.7%	10.3%
■ Commercial	36.0%	41.2%	34.1%	27.2%	21.2%
■ B/B	7.1%	5.4%	11.1%	15.4%	18.1%

Total Admissions by Payer Mix - St. Francis



	2000	2001	2002	2003	2004
Other	2.9%	1.8%	1.0%	0.7%	1.5%
Champus	0.7%	0.6%	0.0%	0.0%	0.8%
Self Pay	3.3%	3.7%	3.5%	3.7%	4.0%
Medicare	49.4%	48.7%	48.3%	50.1%	48.4%
Medicaid/TennCare	21.6%	24.0%	24.5%	22.6%	23.4%
Commercial	17.0%	16.2%	17.6%	17.4%	16.2%
B/B	5.1%	6.9%	6.1%	5.5%	5.8%

Total Admissions by Payer Mix - The Med



	2000	2001	2002	2003	2004
Other	3.7%	3.6%	0.0%	0.0%	2.6%
Champus	0.0%	0.0%	0.0%	0.0%	0.2%
Self Pay	24.1%	19.1%	19.2%	21.4%	18.9%
Medicare	10.9%	11.4%	10.8%	11.1%	10.6%
Medicaid/TennCare	47.1%	52.3%	57.4%	55.7%	55.5%
Commercial	14.3%	7.9%	12.6%	9.1%	9.1%
B/B	0.0%	5.8%	0.0%	2.7%	3.2%

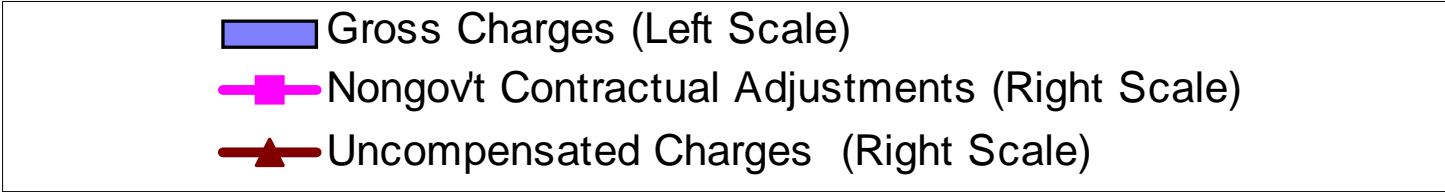
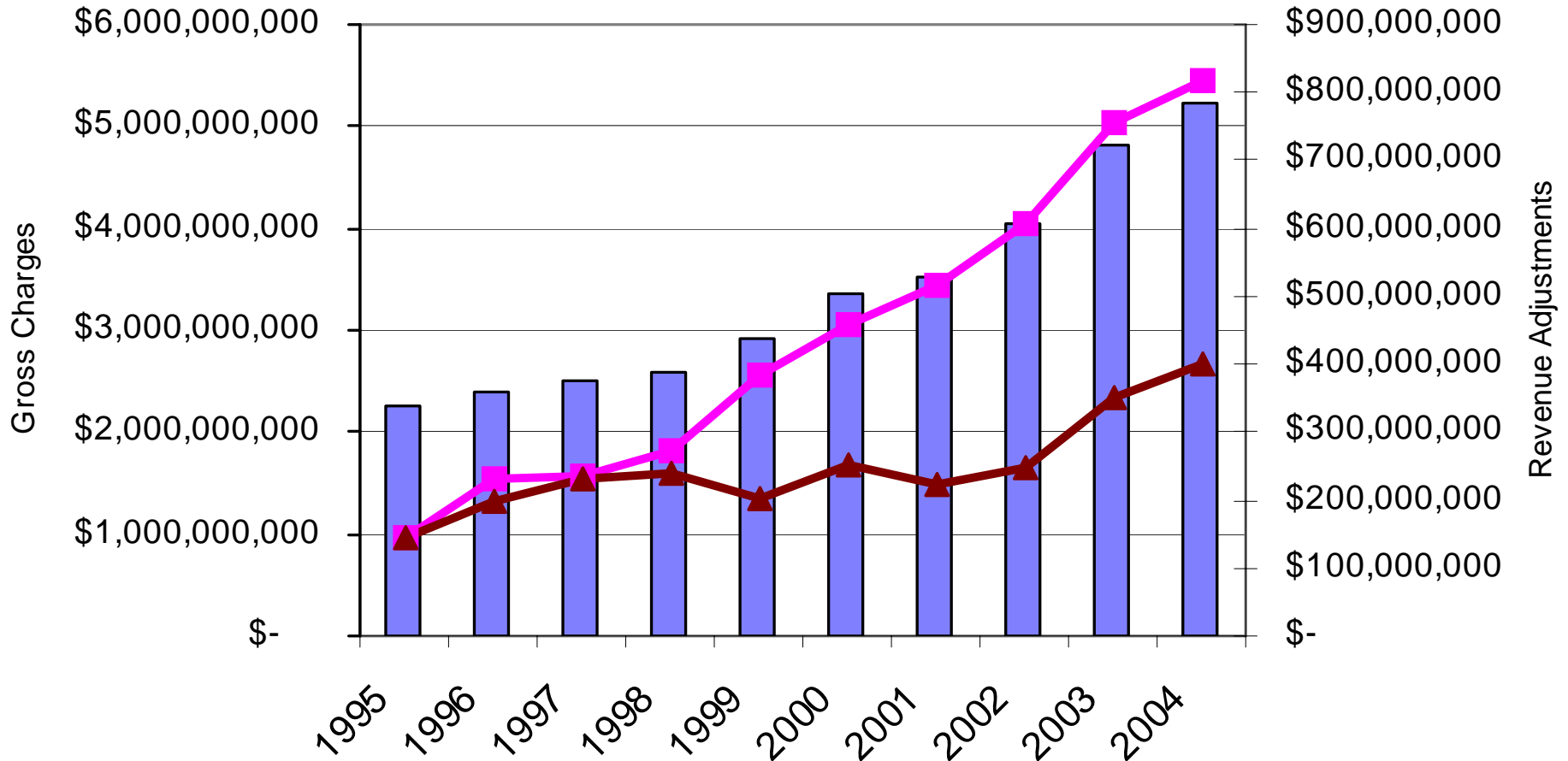


Revenues and Adjustments to Revenues

Including an analysis of
uncompensated hospital care

Gross Charges and Major Revenue Adjustments, 1995 - 2004

Shelby County, Tennessee

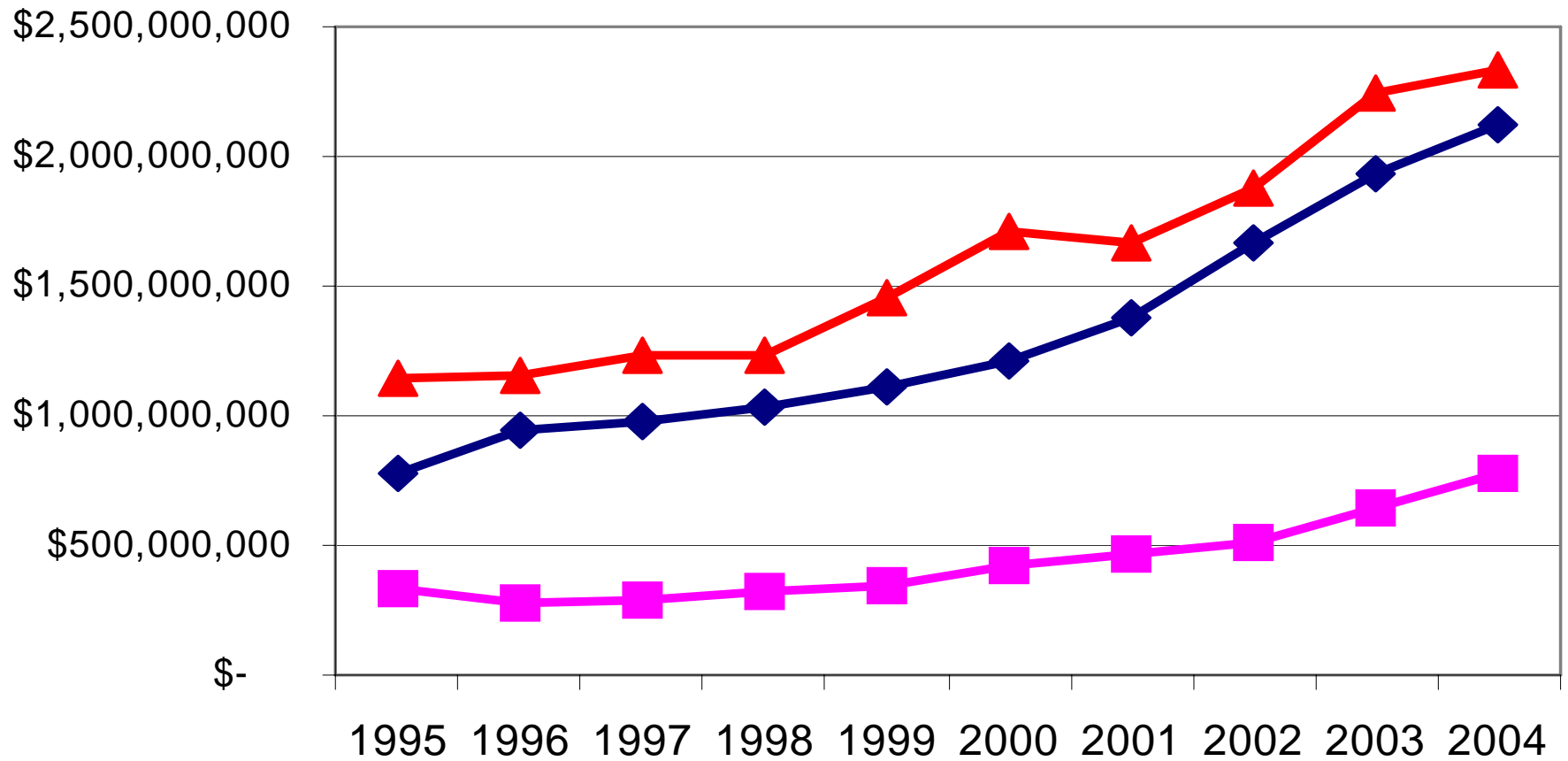




Annual Rates of Increase

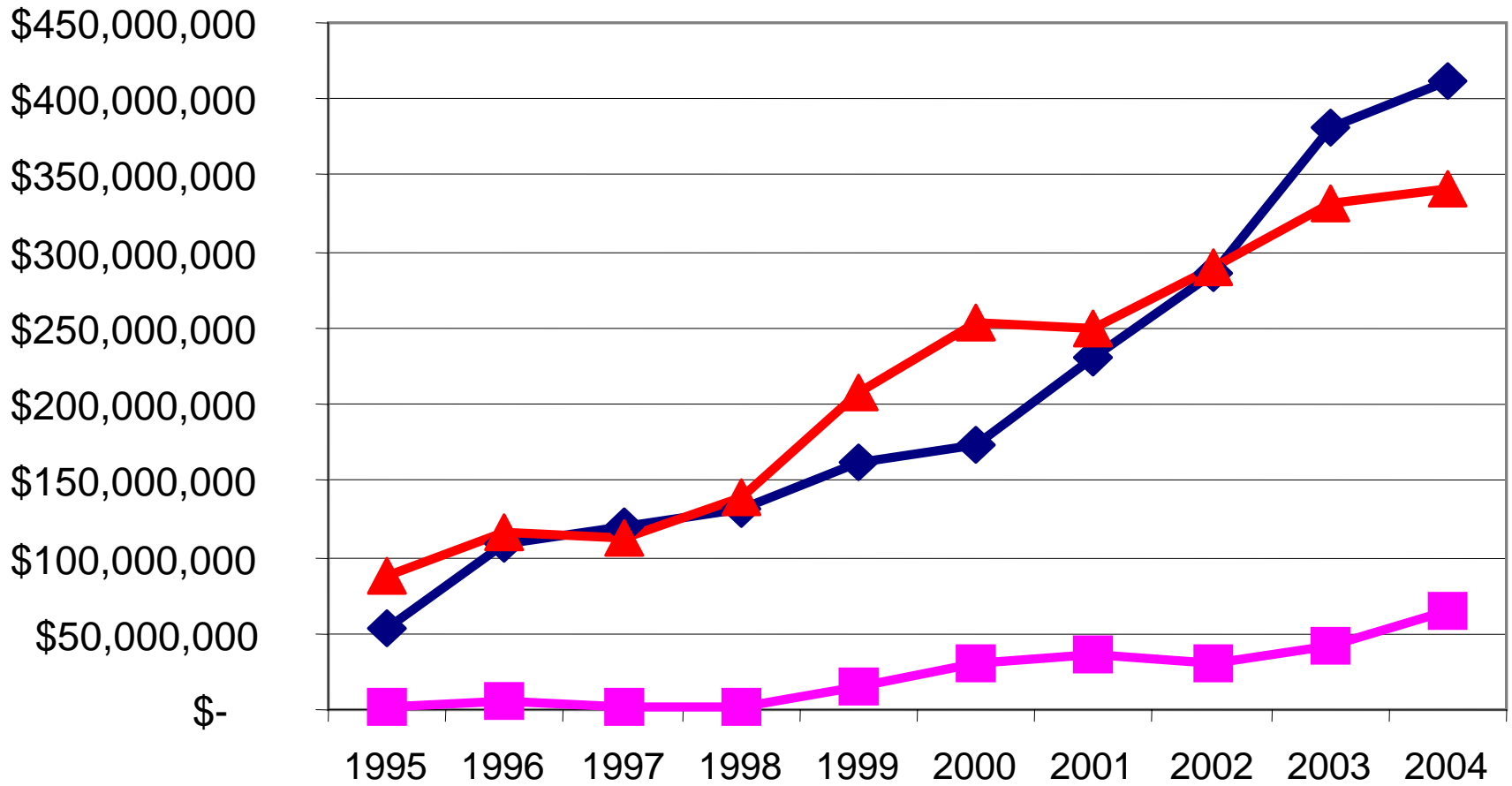
Shelby County, Tennessee, 1995-2004	Annual Rate of Increase
Total Inpatient Admissions	-0.2%
Gross Charges	9.8%
Non-Governmental Contractual Adjustments	21.3%
Uncompensated Charges	12.1%

Gross Inpatient and Outpatient Charges, 1995-2004 Shelby County, Tennessee



◆ Methodist+Le Bonheur
 ■ The Med
 ▲ Rest of Shelby County

Nongovernmental Contractual Adjustments, 1995 - 2004 Shelby County, Tennessee



Methodist + Le Bonheur The Med Rest of Shelby County

Uncompensated Admissions and Charges

Self-Pay Inpatient Admissions as a Percent of Total Inpatient Admissions

Hospital	2000	2001	2002	2003	2004
The Med	24.1%	19.1%	19.2%	21.4%	18.9%
Methodist+Le Bonheur	3.5%	2.8%	2.8%	3.4%	3.4%
Baptist	2.9%	1.8%	1.8%	2.5%	2.5%
St. Francis	3.3%	3.7%	3.5%	3.7%	4.0%
Delta	4.0%	5.2%	3.1%	6.2%	6.0%
Shelby County Average	5.3%	4.4%	4.4%	5.4%	5.1%

Source: Tennessee Joint Annual Report of Hospitals, various years

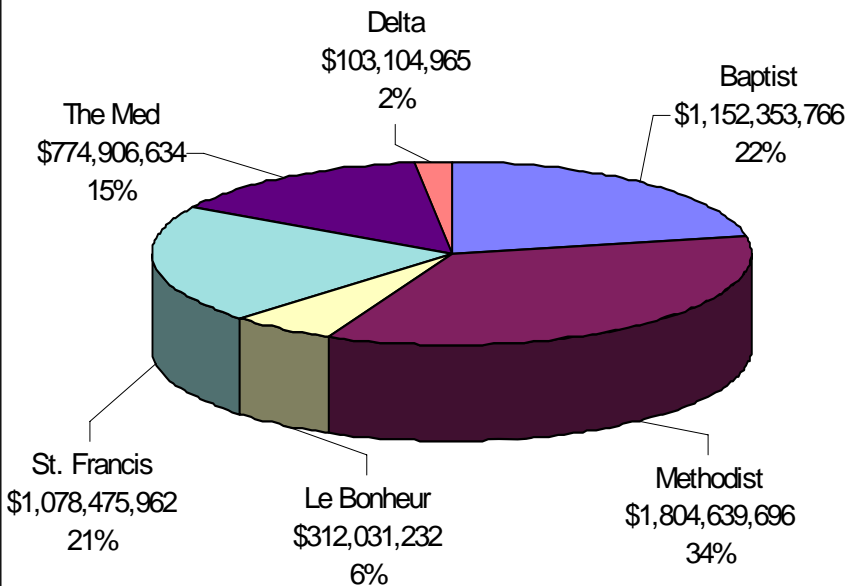
Uncompensated Hospital Charges (Bad Debt, Charity Care, and Care for the Medically Indigent)

Hospital	2000	2001	2002	2003	2004
The Med	\$105,377,323	\$100,758,315	\$106,929,647	\$170,652,839	\$197,518,002
Methodist+Le Bonheur	\$75,416,404	\$74,346,043	\$89,193,249	\$101,360,803	\$117,160,135
Baptist	\$40,299,044	\$24,661,619	\$28,020,172	\$36,023,869	\$29,430,435
St. Francis	\$15,967,336	\$18,196,068	\$16,362,029	\$35,116,839	\$49,480,394
Delta	\$1,910,780	\$2,919,747	\$3,889,432	\$5,044,998	\$7,580,257
UT Bowld	\$1,112,579	\$819,611	\$1,705,252	\$1,470,829	\$0
Shelby County Total	\$240,083,466	\$221,701,403	\$246,099,781	\$349,670,177	\$401,169,223

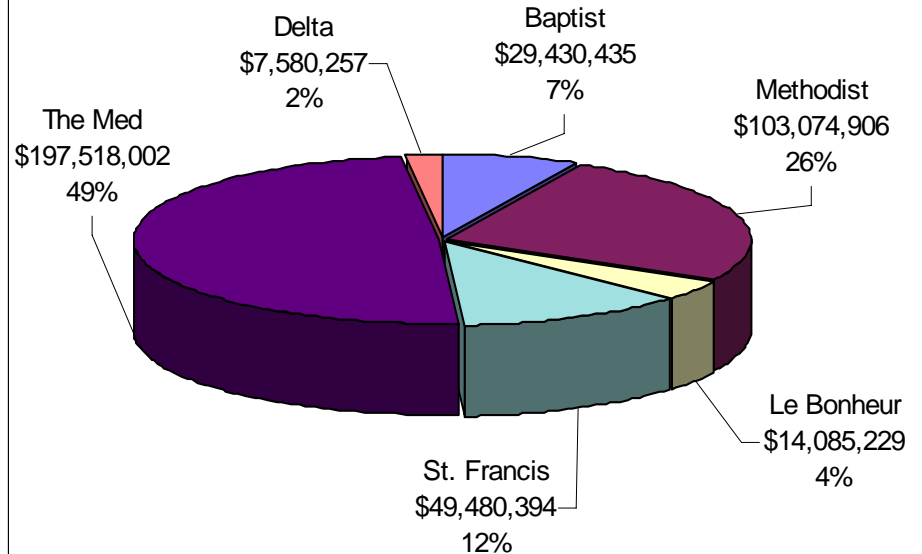
Source: Tennessee Joint Annual Report of Hospitals, various years

Distribution of Hospital Charges and Uncompensated Care Among Hospitals

Gross Inpatient and Outpatient Charges - 2004

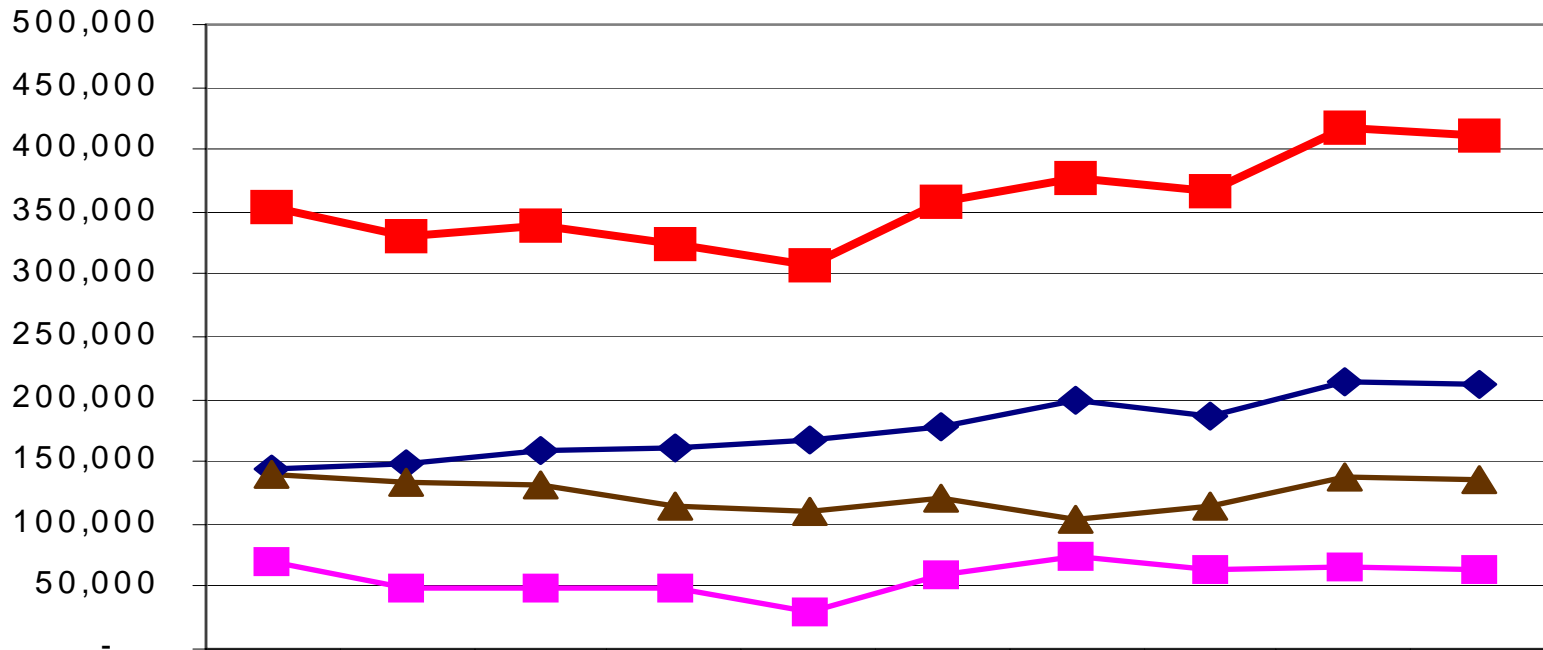


Uncompensated Hospital Charges - 2004
(Bad Debt + Charity + Indigent Adjustments)



Analysis of ED Visits

ED Visits in Shelby County, Tennessee, 1995-2004



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Methodist+Le Bonheur	143,398	148,693	158,801	161,973	167,039	177,377	199,117	186,851	214,834	211,957
The Med	70,354	49,329	49,093	48,987	30,012	59,404	75,166	64,032	65,184	64,033
Rest of Shelby County	139,211	133,418	131,813	113,817	110,169	120,265	102,824	115,394	138,207	135,501
Shelby County Total	352,963	331,440	339,707	324,777	307,220	357,046	377,107	366,277	418,225	411,491



ED Visits by Payer Mix, 2004

Payer	Total Inpatient Admissions	Percent	Total ED Visits	Percent	Ratio
TennCare	32,475	22.8%	145,071	35.3%	4.5
BC/BS	14,083	9.9%	32,941	8.0%	2.3
Commercial	29,347	20.6%	85,297	20.7%	2.9
Medicare	55,907	39.3%	62,757	15.3%	1.1
Self Pay	7,322	5.1%	64,728	15.7%	8.8
Other	3,107	2.2%	20,697	5.0%	6.7
Grand Total	142,241	100.0%	411,491	100.0%	2.9
Source: Tennessee Joint Annual Report of Hospitals, 2004					

Ratio = Total ED Visits/Total Inpatient Admissions



Observations

- **Self-pay** patients accounted for only 5.1% of all inpatient admissions but they represented 15.7% of all ED visits in 2004
- **TennCare** patients exhibited a similar, albeit milder, pattern of disproportionately large share of ED visits
- **Medicare** patients showed the typically pattern of higher inpatient utilization and relatively lower ED use
- Overall, the number of ED visits outnumbered total inpatient admissions by a ratio of 3:1



Methodist Healthcare

Inpatient Admissions and ED Visits, Methodist, 2004					
Payer	Total Inpatient Admissions	Percent	Total ED Visits	Percent	Ratio
TennCare	7,319	13.7%	37,545	25.3%	5.1
BC/BS	4,361	8.2%	12,749	8.6%	2.9
Commercial	14,245	26.6%	41,867	28.2%	2.9
Medicare	24,472	45.7%	31,639	21.3%	1.3
Self Pay	1,837	3.4%	16,238	10.9%	8.8
Other	1,260	2.4%	8,417	5.7%	6.7
Grand Total	53,494	100.0%	148,455	100.0%	2.8

Inpatient Admissions and ED Visits, LeBonheur, 2004					
Payer	Total Inpatient Admissions	Percent	Total ED Visits	Percent	Ratio
TennCare	6,018	63.6%	43,264	68.1%	7.2
BC/BS	1,006	10.6%	3,146	5.0%	3.1
Commercial	1,945	20.5%	8,013	12.6%	4.1
Medicare	46	0.5%	32	0.1%	0.7
Self Pay	273	2.9%	4,274	6.7%	15.7
Other	181	1.9%	4,773	7.5%	26.4
Grand Total	9,469	100.0%	63,502	100.0%	6.7

Source: Tennessee Joint Annual Report of Hospitals, 2004



Baptist Health System

Inpatient Admissions and ED Visits, Baptist, 2004					
Payer	Total Inpatient Admissions	Percent	Total ED Visits	Percent	Ratio
TennCare	3,827	10.3%	14,189	20.7%	3.7
BC/BS	6,737	18.1%	11,387	16.6%	1.7
Commercial	7,894	21.2%	19,754	28.9%	2.5
Medicare	17,050	45.9%	11,100	16.2%	0.7
Self Pay	935	2.5%	7,210	10.5%	7.7
Other	726	2.0%	4,767	7.0%	6.6
Grand Total	37,169	100.0%	68,407	100.0%	1.8
Source: Tennessee Joint Annual Report of Hospitals, 2004					



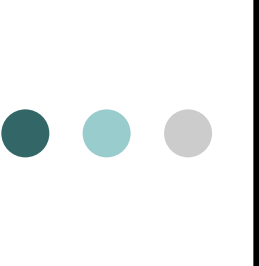
St. Francis

Inpatient Admissions and ED Visits, St. Francis, 2004					
Payer	Admissions	Percent	Visits	Percent	Ratio
TennCare	4,902	23.4%	14,006	29.3%	2.9
BC/BS	1,206	5.8%	3,447	7.2%	2.9
Commercial	3,385	16.2%	9,333	19.6%	2.8
Medicare	10,115	48.4%	12,051	25.3%	1.2
Self Pay	840	4.0%	7,951	16.7%	9.5
Other	470	2.2%	933	2.0%	2.0
Grand Total	20,918	100.0%	47,721	100.0%	2.3
Source: Tennessee Joint Annual Report of Hospitals, 2004					



The Med

Inpatient Admissions and ED Visits, LeBonheur, 2004					
Payer	Total Inpatient Admissions	Percent	Total ED Visits	Percent	Ratio
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Source: Tennessee Joint Annual Report of Hospitals, 2004					



Concluding Observations

- Inpatient admissions have been flat in the last decade in Shelby County, Tennessee
- But hospital charges, contractual adjustments to charges, and uncompensated care have risen rapidly at double-digit levels
- Among the community hospitals that populate the Shelby County hospital market, substantial variations in payer mix and uncompensated care exist
- TennCare and self-pay patients tend to over use ED services when compared to patients with other types of insurance