Tenet Healthcare Corporation

Overview and Progress Update
Supply Chain Management

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Supply Chain and Sourcing

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Non-GAAP Information

This presentation includes certain financial measures such as Adjusted EBITDA, which are not calculated in accordance with generally accepted accounting principles (GAAP). Management recommends that you focus on the GAAP numbers as the best indicator of financial performance. These alternative measures are provided only as a supplement to aid in analysis of the Company. Reconciliation between non-GAAP measures and related GAAP measures can be found in the Company’s third quarter earnings release issued on November 7, 2012.
What we will cover today

- Medicare Performance Initiative (MPI) Focus and the Role of Our Supply Chain Efforts
- Tenet Supply Chain Facts
- Supply Chain Strategy and Physician Alignment
- Key Areas of Focus
  - CRM, DES, Ortho, Spine, Rx, Blood, Reprocessing and Commodities
- Key Takeaways
- Open Discussion and Q&A
Tenet’s MPI Strategy

• A “cornerstone element” of Tenet’s strategic vision – **accelerate, expand, and scale up the strengths of MPI for cost transformation** – to improve margin performance

• With increasing ACO development and introduction of several pay-for-performance and gain sharing models by both government and commercial payers – **Healthcare Reform is upon us**

• Federal and State deficit reduction actions will “squeeze” hospital payments with or without near-term passage of comprehensive health reform

• To successfully compete in a “payment reform market,” we must:
  • Apply a sophisticated analytics capability - **linking rich cost and quality data, in a single analytic platform**
  • Aggressively pursue **alignment with our physicians**
  • Drive down all categories of cost **reducing the cost of care to patients and payers**
  • Deliver a compelling value proposition, **comprised of quality, cost and innovation**, to all of our stakeholders
This resource platform has not only driven our success to-date, but also gives us a competitive advantage and the necessary agility to adapt and expand to continuously pursue new opportunities.
Supply chain resources play a major role in MPI and focus on pricing, substitution and product utilization strategies that touch many MS-DRGs.

A combination of clinical and supply chain experts support MPI resources in the hospitals by bringing scale to many supply and service opportunities and through ongoing evidence-based research.

- Physician preference items
- Unit and capitated pricing
- Vendor consolidation
- Evidence-based medicine:
  - Utilization of lower cost substitutions
  - Elimination of non-value add products
  - New product/technology value assessments
- Medication use management
- Contract compliance
- Service contracts
  - Food & nutrition
  - Environmental services
  - Perfusion services
Tenet Supply Chain Facts

• General Purchasing – Supply and Capital
  – Total PO’s processed annually 736,915
  – Invoices processed for payment 1.5M annually

• Supply Chain Contracts – GPO Support
  – 1785 national and regional contracts
  – 783 contracted suppliers

• Central Purchasing System
  – Over 650K centrally controlled items in use
  – Process 2200 new item additions each month
  – Load all pricing centrally
  – Monthly management reports that drive accountability
## High-Level Annual Breakdown

<table>
<thead>
<tr>
<th>Supply Expense</th>
<th>%</th>
<th>$ 000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implants and Devices</td>
<td>31</td>
<td>490</td>
</tr>
<tr>
<td>Drugs</td>
<td>23</td>
<td>360</td>
</tr>
<tr>
<td>Blood</td>
<td>4</td>
<td>80</td>
</tr>
<tr>
<td>Medical Commodities</td>
<td>25</td>
<td>400</td>
</tr>
<tr>
<td>Non-medical</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>Lab</td>
<td>9</td>
<td>140</td>
</tr>
<tr>
<td>Food</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>1,600</strong></td>
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</tbody>
</table>
• People tend to think of supply cost savings as being “all about price concessions.”
  – Actually, much of the savings are related to:
    • Utilization
    • Elimination of waste
    • Selection of appropriate items
    • All of which receive focus within MPI

• Supply cost savings are **not** limited to initiatives to reduce unit pricing.
  – Utilization and compliance with purchasing with preferred providers are sources of significant opportunities for controlling supply costs.
Supply Chain Priorities – Key Areas of Focus

- Cardiac Rhythm Management (CRM) devices
- Drug Eluting Stents
- Ortho Total Joints
- Spine Implants and BMP
- High Cost Drugs
- Blood Utilization
- FDA Approved Reprocessing
- Commodity Standardization
- 2013 Supply Chain Initiative Overview
• All major CRM vendors are currently under agreement-Medtronic, Boston Scientific, St. Jude, Biotronik and Sorin(ELA)

• The new agreements were effective in Jan 2012 will drive $5.4M in annual savings

• All new “technology” products from all vendors are on agreement with no premium up-charge

• “Sweet Spot” Opportunities do exist – best value vendors

• Negotiations currently underway with further price reductions planned for Jan 1, 2013
98% dual source agreement in place with very aggressive DES, BMS and PTCA unit pricing

Converted competitive spend in just 30 days and sent a very important message to the winners and losers of the categories

We are fully compliant to the new dual source agreements

We track our detailed purchases every month to ensure continued compliance and drive continued savings

We have a built-in price refresh for July 1, 2013 – further price reduction at the one-year anniversary
• In 2011 we concluded an initiative to “cap” our prices for hips, knees and other major ortho implants. All major implant vendors are now on contract – annual benefit in excess of $11 million.

• These new agreements have two and three year terms and all have firm pricing for the term of the agreement.

• Central procurement system (IMMS) numbers exist that are vendor and implant specific that allow for tracking for vendor pricing compliance and hospital savings.

• Even with contracts in this area, we must be ever mindful of “games” played by local distributors and vendor reps in an effort to increases our costs over time.
*Example: MS-DRG 470 - Total Hip and Knee Joint Replacement*

**Impact of Capitated Implant Pricing Strategy**

*Working with our orthopedic surgeons, we gained support for a capitated pricing strategy for total knee and hip replacement implants, resulting in significant cost efficiencies.*

**Sequential Quarter Change in Average Supply Cost per Case**

- Total Joints (All Payers)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>Q1</td>
<td>-1.7%</td>
<td>1.7%</td>
<td>0.1%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Q2</td>
<td>-1.2%</td>
<td>1.7%</td>
<td>0.1%</td>
<td>-5.4%</td>
</tr>
<tr>
<td>Q3</td>
<td>-0.8%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Q4</td>
<td>-0.8%</td>
<td>-2.1%</td>
<td>-10.2%</td>
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**CAGR = -8.9%**

*Implemented Capitated Implant Pricing Strategy*
• Negotiating formulary pricing for spinal implants, biologics and BMP at local hospitals and regional levels
  – Performed comprehensive data analysis to support surgeon engagement
  – Financial, Utilization, Spend, Surgeon Specific data assessment
  – No restrictions on technology or supplies

• Results to date:
  – Total Executed Contracts – 117
  – Total Unique Suppliers on Contract – 51
  – Spine Hardware Spend on Contract – $59.8 million
  – Total Savings Executed – $19.5 million
  – Additional Savings Opportunity – $1.5 million
    • $750k of additional opportunity in one pending contract
Working with our neurosurgeons and orthopedic surgeons, we gained support for a Tenet formulary pricing strategy for spinal hardware implants, resulting in significant cost efficiencies for one of our Targeted Growth Initiative (TGI) service lines – Spinal Fusion.
The MUM program includes strategies to focus on a hospital's medication utilization.

The MUM Program includes:

- Assessment of pharmacy spend and utilization trends
- Identification of specific areas of focus (initiatives) in which utilization can be addressed
- Hospital specific implementation plan based on initiatives selected by the hospital/health system
- High level and detailed tracking to monitor impact of implementation of the initiatives

Strategies for Optimizing Utilization:

- Tool-kits developed around initiatives based on current medical evidence and best practices
  - White papers
  - Example protocols/policies
  - Newsletters
- Clinical Pharmacy experts to help facilitate implementation
The 2012 MUM Initiatives have saved $21.8m launch to date

- **Extended-interval piperacillin/tazobactam**
  - Antibiotic that is more efficient if dosed by extended infusion
  - Created toolkit:
    - Addressed clinical evidence
    - Provided template for hospital policy
    - Newsletter examples for medical, nursing, and pharmacy
    - Implementation guidelines
  - Presentation for System Level CNO and other administrators
  - 2012 Annualized savings of $2.6 million

- **Anesthetic Gases**
  - Utilization of most appropriate gas anesthetic agent depending on patient dynamics
  - Created white paper:
    - Addressed clinical evidence
    - Provided template for hospital policy
  - Working with Chief of Anesthesia at several facilities to monitor appropriate utilization
  - 2012 Annualized savings of $1.08 million
Current 2012 MUM Initiatives

- Albumin
- Albuterol/Xopenex
- Anesthesia Gases
- Anticoagulants
- Anti-platelets (New)
- Angiotensin Receptor Antagonist
- Bisphosphonates
- Carbapenems (New)
- C. Difficile
- Colony Stimulating Factors
- Echincandins
- EIPT
- GPIIB/IIla

- Gram Positive
- H2/PPI
- Hematopoeitics
- HIT/DTI (New)
- HMGCoA
- Inhaled Steroids
- Inhaled Steroids Combo
- IV Iron
- IV Nicardipine
- Nesiritide
- PPI Oral Generics
- Xalatan Generic (New)
- Coreg CR Generic (New)
• Blood Utilization Initiative started 2 years ago with evidence based guidance and input from Tenet Regional CMO’s

• Blood Utilization Standardized policy developed in 2010

• Education and implementation 2010

• Blood Scorecard published monthly for each Tenet hospital

• Savings focused on specific blood products transfused

• 2012 Savings to date: $7.2 million
Tenet’s FDA Approved SUD Reprocessing Results 2009 – 2012

- **Positive Movement & Focus**
  - Consistent increases in physician participation
  - Additional opportunities in high margin devices (i.e. Energy, Advanced imaging)
  - Alignment of OEM, Physician and Medical Device Reprocessor with the acquisition of SterilMed by J&J, and Ascent by Stryker

- **Continued Savings**
  - Tenet wide opportunity achieved increased over the last three years from 36% to 70%
  - Current savings of $9.4 million annually
  - We report detailed results by hospital each month

- **Environmental Impact**
  - Diverted 1,542,948 pounds of medical waste from landfills
    - That is the equivalent of 385 cars
  - Recycled over 2 million devices
  - Reduced CO2 production by 925,769 pounds
• Teams created to quickly identify commodity savings opportunities to reduce product costs through:
  – Standardization to high-quality and "best value" products
  – Use of lower cost alternatives
  – Reduce utilization/consumption rationalization
  – Product Elimination

• Sample items in our first two releases collectively spend in excess of $1.2mm annually, with savings of nearly $500k.

  Toothpaste  Shampoo  Lotion
  Mouthwash  Can liners
2013 Key Supply Chain Initiatives

- Port Protector Caps
- Statlock Perhpheral IV
- Exam Gloves
- General Wound Care
- Surgiflo
- Disposable Protective Apparel
- Trauma
- Self Adherent Wraps
- IV Start Kits
- Biological Mesh

- Bone Graft
- AAA Stents
- Heart Valve
- Peripheral Products
- CRM
- Skin Adhesive
- MUM – High Cost Drugs
- DES/BMS/PCTA
- Oral Care
• MPI, including our Supply Chain efforts is our cornerstone strategy for margin improvement and success under healthcare reform

• MPI is not simply a program; it is a continuous strategy that is agile and will continue to adapt to drive value

• MPI is comprised of people, data, tools, competencies, skills, and education

• We are always enhancing our business intelligence tools to support MPI Supply Chain efforts and facilitating greater physician alignment

• We believe an MPI focus on the Supply Chain gives us a competitive advantage to succeed under new payment models emerging from health reform and deficit reduction efforts
DISCUSSION