



# DYNAMIC HEALTHCARE SOLUTIONS

*ADVISING AND FIXING DISTRESSED COMPANIES*

[www.DynamicHealthcare.net](http://www.DynamicHealthcare.net)

Presented by  
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Chairman, President & CEO

# Healthcare experience...and more

- Payers
  - HMO, PPO, TPA, Medicare, Tricare, consumer-directed, workers' comp, life, dental, vision, mental health, pharmacy
- Providers
  - Occupational medicine, home infusion, long-term care, prosthetics, acute care hospitals, medical groups, surgery centers, urgent care centers, long-term care, assisted living
- Other
  - Affinity merchandising, outsourced human resources

# What drives our business...

- Typical scenarios include:
  - Default on debt, actual or likely
  - Cash burn rate unsustainable
  - Management losing credibility or events overtaking management
  - Strategic management mistakes
  - Post-merger blues
    - Too much debt, bought a 'bill of goods,' failure to achieve integration and/or synergies, strategic mismatches

# What drives our business...

- Typical scenarios (cont.)
  - Regulatory nightmares
    - Government fee schedules changed, investigations, enforcement actions
  - Contentious relationships developing between senior, subordinate and equity stakeholders
  - Employees, customers, vendors are nervous, putting the enterprise at risk
  - Investors in danger of losing their money

# Full Service or Advisory Roles

- Client is usually the Company via the Board of Directors
- Retained to advise/support or replace existing senior executives

# Beyond Management Services...

- Negotiate restructurings outside of court
  - ▣ Restructure senior, junior, mezzanine and equity, working with all constituents.
- Experience with full range of Chapter 11 but avoid it unless appointed by the court
- Due diligence on prospective investments
- Strategic business counsel
- Serve on Boards for investment firms

# The Essentials

- Cash
  - ▣ Collect it and conserve it
- Costs
  - ▣ Reduce them with attention to fixed, variable
- Change the Mix
  - ▣ Get profitable sales, cut unprofitable business
- No compromises on quality or customer service

# Implementing Change Day 1

- Instill a culture of discipline
  - Determine key business drivers and develop metrics to measure and monitor daily, weekly, monthly, yearly
    - Cash flow
    - Sales by products and units; costs of labor, materials and overhead in detail by unit
  - Establish top priorities based on business needs and profitable products/services.
  - Set sales incentives according to profitability.

# Implementing Change Day 1

- Instill a culture of discipline
  - Daily meetings for top managers to report
    - “Action Needed List” tracks assignments, responsible managers, interdisciplinary teams, progress and completion dates. Projects are short-term and support top priorities
  - Daily cash report circulated to top managers
    - Receipts, disbursements, account balances, credit availability, updated projections of cash flow
    - Everyone in management must know cash

# Implementing Change Day 1

- Instill a culture of discipline
  - Communicate often and widely to get buy-in
    - The 3-5 key initiatives should be known by everyone
    - Tell employees what is being done and why
  - Align management compensation incentives to match the priorities and the plan
    - Incentive programs must benefit the Company

# Implementing Change Day 1

- Instill a culture of discipline
  - Declare amnesty; make it safe for people to disclose problems
  - Focus on the problems not the personalities
    - No tolerance for office politics, it's all about teamwork, the business and performance
    - Discipline gently: "Hit them with a pillow."
  - Determine quality metrics and set incentives appropriately

# Implementing Change Day 1

- Instill a culture of discipline
  - Force departments to work together to solve problems; everyone is at the table.
    - Incentives reward company performance *and* individual/department performance.
  - Set a tone that we are serious
    - Dress code, early/late meetings to preserve working hours, stop all spending on non-essentials, top managers on call 24/7/365, require managers to know numbers to the basis point.

# Conserving Cash

- Turn the spending spigot off hard
  - Xmas parties, bottled water, free sodas, subscriptions, conferences not essential for sales.... If it's not essential to the value proposition, it's gone.
    - Sends a signal
  - “Use it up, wear it out, fix it up, do without”
  - Seek 15% discounts on everything
  - Take trade credit - just take it

# Cutting Costs

- ‘Easy’ cuts usually done long ago
  - RIFs already done, but not done wisely
    - Often have to hire people in positions key to achieving sales, productivity or savings
    - Payroll usually flat, but productivity goes up
    - Some top managers “turn over” in first months
- Big opportunities often in contracts
  - Vendors, subcontractors, insurance, benefits
    - Deals often not negotiated well for the Company

# Dealing with Employee Morale

- A healthier company = better job security
  - ▣ Initial trepidation gives way to buy-in
- Solve problems for employees
  - ▣ Satisfaction comes from a job well done
    - Listen to their work issues, fix problems they identify, provide tools they need, let them help you
- Celebrate progress and achievement
- Communicate early, often, wide and deep
  - ▣ Info dispels fear, builds trust and buy-in

# Our Objective

- Leave management clients with:
  - ▣ A clear strategy
  - ▣ A valid business/operating plan and budget
  - ▣ A performance-based management incentive plan that is tied to the plan and budget
  - ▣ A better management team and an energized employee base
  - ▣ A rational balance sheet
  - ▣ Positive and improved cash flow and EBITDA

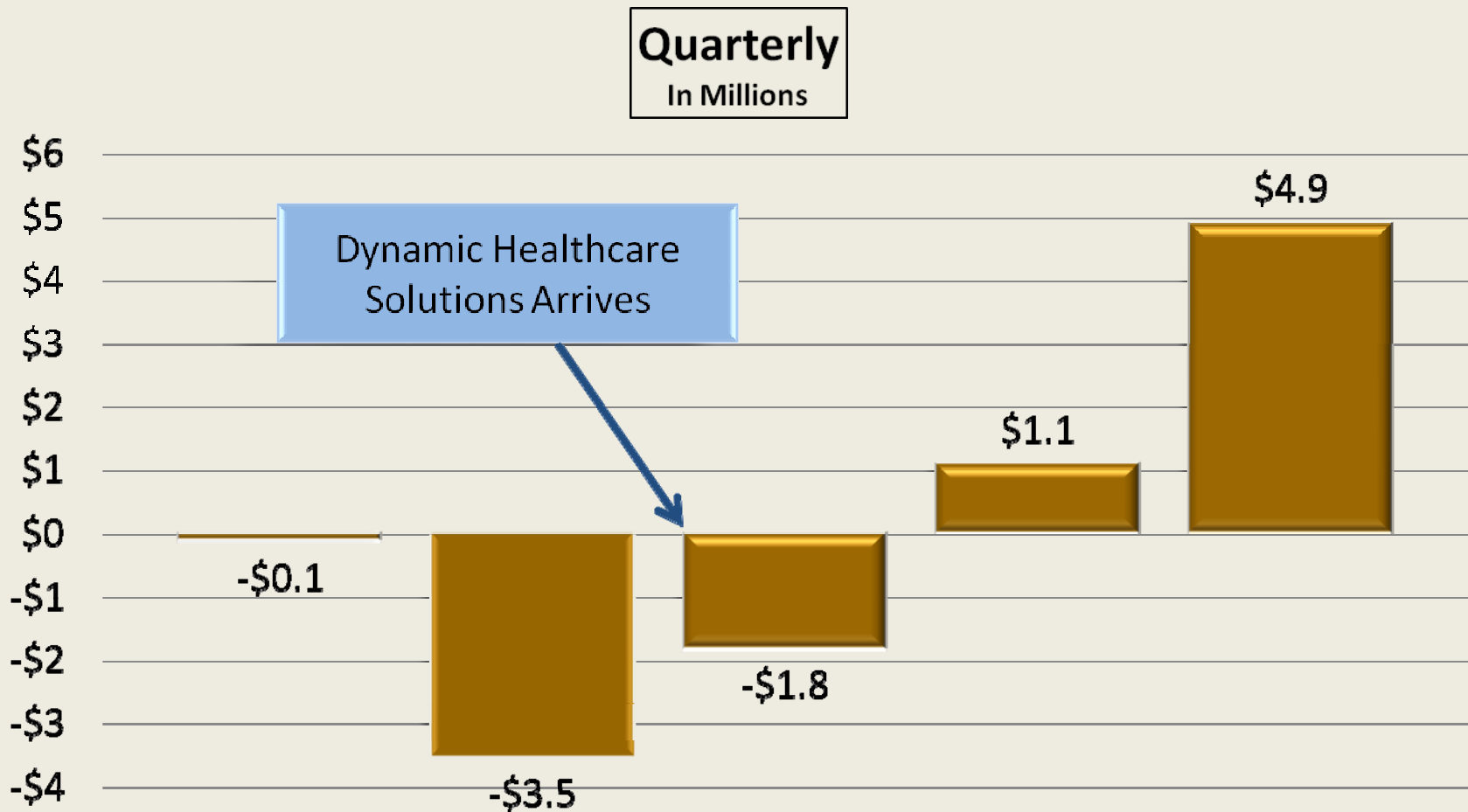
# FAQ

- Improvement can be fast and dramatic, but it usually takes 18 months minimum to turn and settle an organization.
- A common theme is billing and cash collection problems related to poor computer systems.
  - ▣ Underinvestment, lack of integration after mergers, poor IT strategy, etc.

# Sample Results

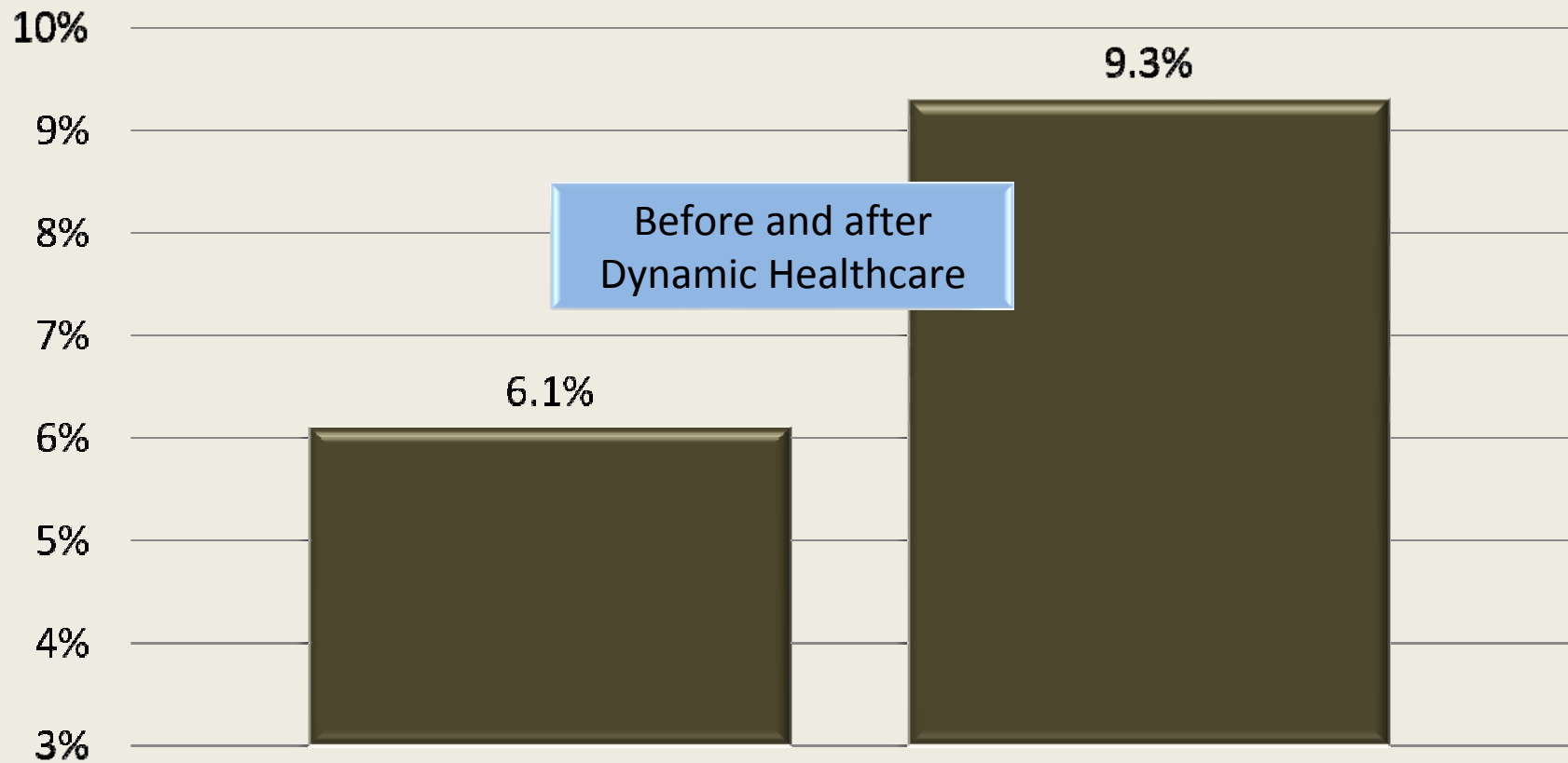
- The following slides reflect results after 9 months on an actual Dynamic Healthcare Solutions project:

# Improved Operating Cash Flow



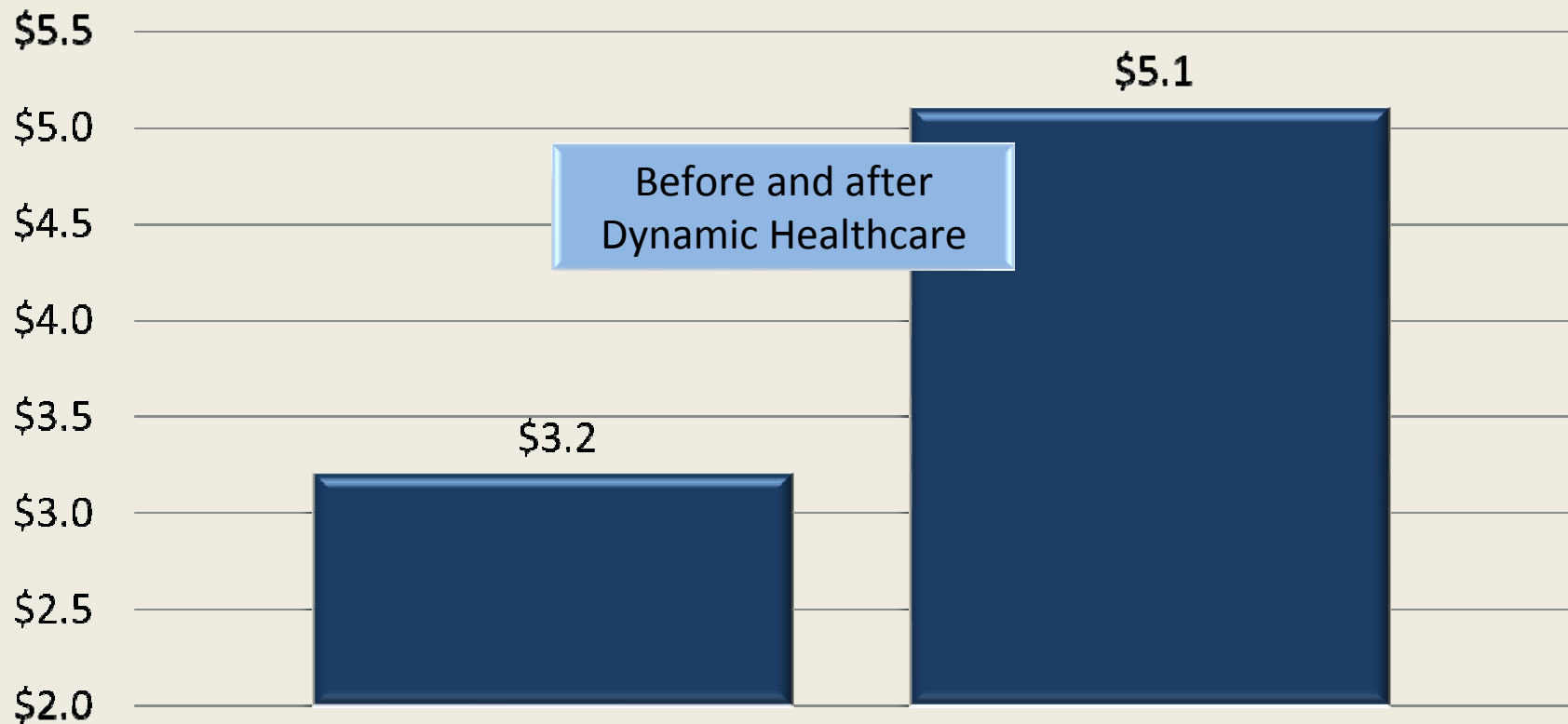
# EBITDA Margin Improvement

Same Quarter, Year/Year



# EBITDA Improvement

**Same Quarter, Year/Year**  
In Millions

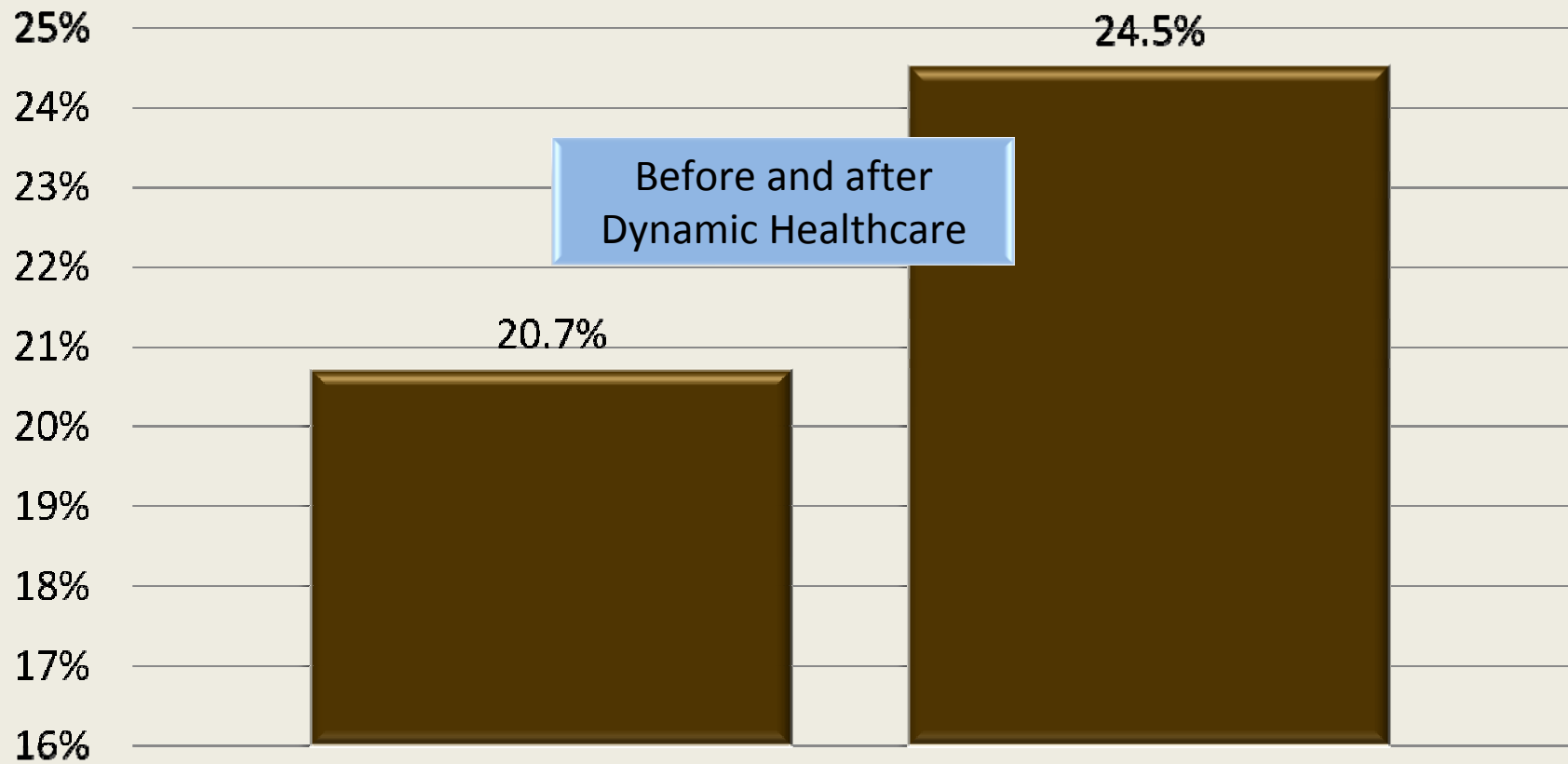


# Initiatives Driving Improvement

- Focus on *profitable* sales and payer contracts
- Improving average revenue per patient visit
- Raising prices where appropriate
- Recontracting for lower costs
  - Vendors, outside physicians, insurance and benefits
- Vigilant overhead cost control
  - Rent and headcount steady
- Management planning, training and incentives
  - Interdepartmental planning and work groups improving coordination and performance

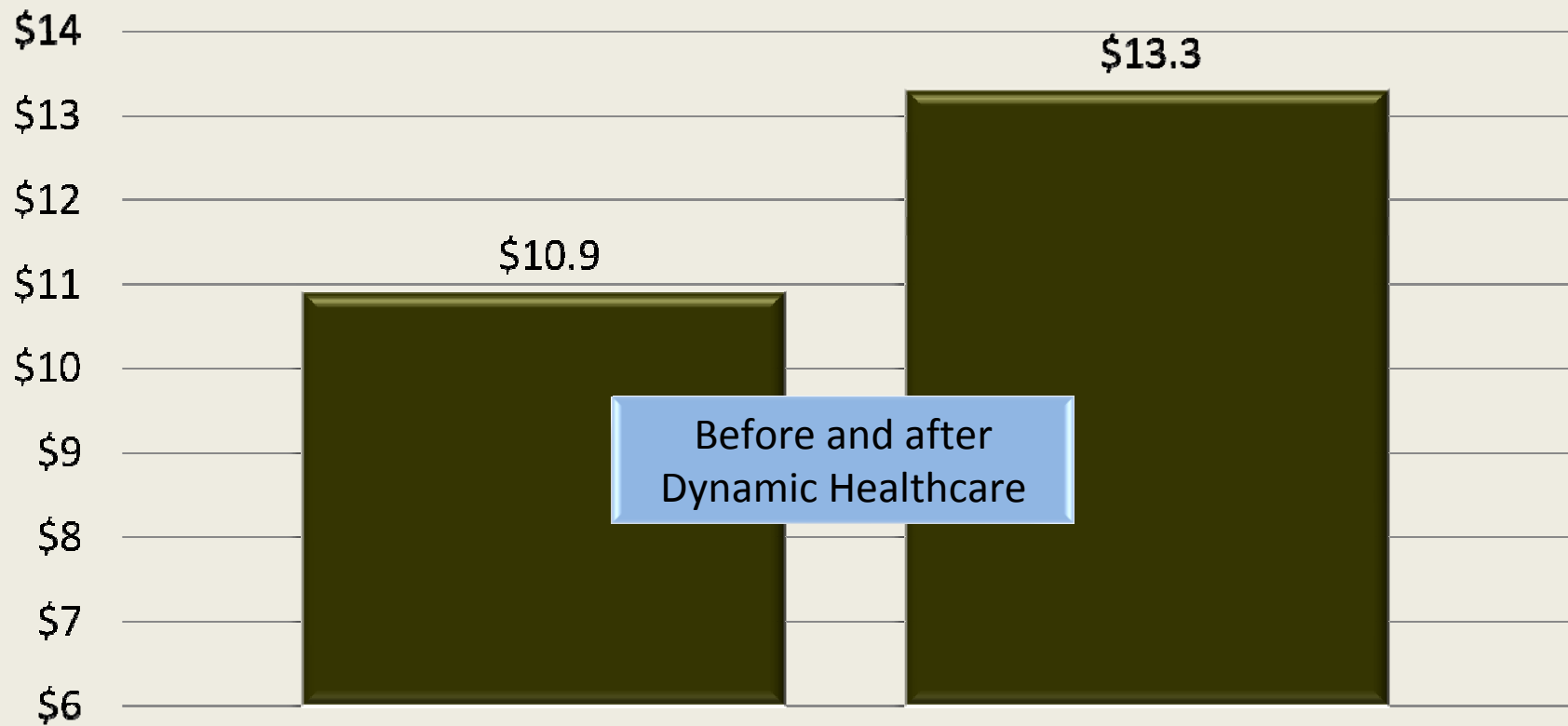
# Improved Clinic Margin

Same Quarter, Year/Year



# Improved Clinic Profit

**Same Quarter, Year/Year**  
In Millions



# Fundamental Improvements

- Quarterly clinic margin and profit improvement due to improved fundamentals across key areas:
  - ▣ Patient visit volume up
  - ▣ Average revenue per visit (ARPV) up
  - ▣ Contractual discounts and accounts receivable write-offs down
  - ▣ Clinic operating expenses down

# Keys to Further Improvement

- Drive profitable patient visit growth while holding clinic costs
- Improve billing/collections to improve cash flow and reduce bad AR write-downs
- Improve productivity using technology to significantly reduce billing/collection costs

# Improved Debt & Liquidity

- Revolver reduced by more than \$15.2 million
- Liquidity increased more than \$20.2 million

|                       | <b>Actual Loan</b> | <b>Total Liquidity</b> |
|-----------------------|--------------------|------------------------|
| <b>Quarter Ended</b>  | \$32,119,000       | \$ 4,071,000           |
| <b>One Year Later</b> | \$16,905,000       | \$24,337,000           |

# Summary Recast Capital Structure

| \$s In Thousands                         | Before    | After     |
|--|-----------|-----------|
| <b>Current Assets</b>                    | \$ 63,105 | \$ 63,105 |
| <b>Total Assets</b>                      | 122,856   | 122,856   |
| <b>Current Liabilities</b>               | 118,460   | 33,929    |
| <b>Total Liabilities</b>                 | 121,101   | 112,701   |
| <b>Total Shareholders' Equity</b>        | 1,755     | 10,155    |
| <b>Total Liabilities &amp; SH Equity</b> | \$122,856 | \$122,856 |

# Elements of Restructuring and Recap

- New 5-year revolver and term note
- Restructure of senior notes
- Restructure of junior notes
- \$8 million seller's note converted to equity
- Recapitalization of equity

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