

# **Fairview**

# **Fairview Health Services**

# **Investor Update**

**MAY 9, 2023**

James Hereford, President and Chief Executive Officer

Joe Gaylord, Executive Vice President and Chief Financial Officer

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Any statements made in this Investor Review Presentation and the accompanying discussion that are not historical or current facts are “forward-looking statements.” The forward-looking statements generally can be identified with words or phrases such as “anticipates,” “believes,” “intends,” “expects,” “estimates,” “foresees,” “could,” “may,” “should,” “will,” “plans,” “predicts,” or other words or phrases of similar import. These statements are based on assumptions and analyses made by Fairview Health Services in light of its experience and perception of historical trends of Fairview Health Services and its affiliates, current conditions, expected future developments, and other factors it believes are appropriate in the circumstances. However, whether actual results and developments conform to expectations and predictions is subject to a number of known and unknown risks and uncertainties, as well as additional factors beyond Fairview Health Services’ control. There can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on Fairview Health Services’ business or operations. All forward-looking statements made in this Investor Review Presentation and the accompanying discussion are qualified by these cautionary statements.

Any statement in this Investor Review Presentation and the accompanying discussion that includes a matter of opinion, whether or not expressly so stated, is intended as such, and not as a representation of fact.

# Introductions



## **James Hereford, President and CEO**

James joined Fairview in 2016, bringing extensive experience in strategically guiding organizations, strengthening core operations and bringing teams together to drive cultural change. Prior to joining Fairview, James served as Chief Operations Officer at Stanford Health Care. Previous roles included Chief Operations Officer at the Palo Alto Medical Foundation as well as leadership roles with the Group Health Care Delivery System.



## **Joe Gaylord, Executive Vice President and Chief Financial Officer**

Joe served for three years as our system vice president for finance before stepping into his role as Chief Financial Officer for Fairview Health Services. He brings over three decades of professional finance experience, having launched his career at PricewaterhouseCoopers. Joe has served as Chief Financial Officer at multiple organizations including Capella University and Regency Corporation.

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# Organizational Overview

Fairview

# About Fairview

## *By the Numbers*



### A Full Spectrum of Services:

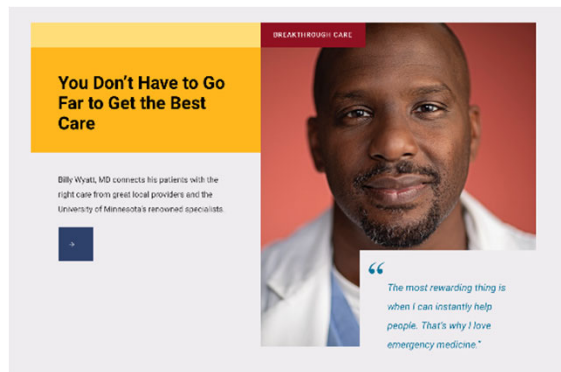
- Based in Minnesota
- 10 hospitals, including an Academic Medical Center
- 40+ clinics
- 30+ pharmacies
- 90+ senior housing facilities
- 100+ specialties
- \$6.7B+ total revenue
- Network of 5,000+ providers
- 35,000+ employees

As of December 31, 2022

# Fairview Health Services

*Mission Guides All That We Do*

169-year history of service



## Mission

Fairview is driven to heal, discover, and educate for longer, healthier lives

## Vision

Fairview is driving a healthier future

## Values

Dignity | Integrity | Service | Compassion | Innovation

# Fairview is Driving a Healthier Future

*Saving Lives and Providing for Healthier Patients Outcomes – One Patient at a Time*

- We started 2022 off noting that our care teams had provided a record-breaking 116 liver transplants in 2021, giving dozens of people a second chance at life – setting a record for Fairview
- Unveiling a groundbreaking treatment for a rare and fatal genetic condition - adrenoleukodystrophy (ALD), a rare genetic condition that primarily affects young boys and is often fatal if left untreated
- Fighting a surge of respiratory illnesses with innovative care options
- 2023 'Health Care Heroes' find creative ways to improve care for patients and colleagues
- M Health Fairview Southdale Hospital recognized as #1 in the metro for cardiology through Healthgrades' 2023 Specialty Excellence Awards
- Tele-NICU program guides Grand Rapids team through complex birth – in a snowstorm
- New day treatment program in Maplewood helps young teens struggling with mental health
- As a result, we are seeing the highest likelihood to recommend and quality and safety scores in the organizations' history.

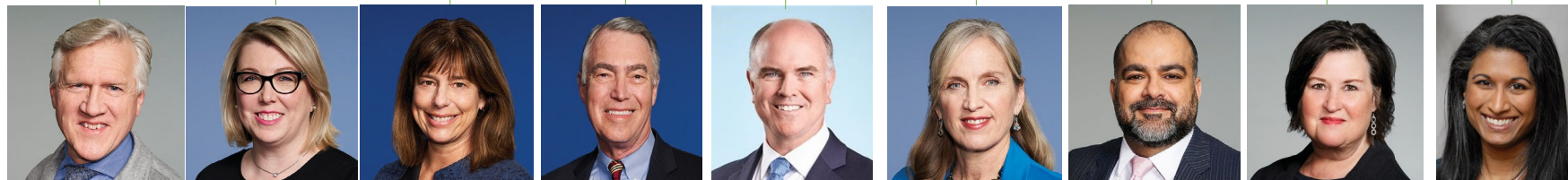


# Stable, Experienced Executive Leadership Team

*Experienced Leaders with Significant Health Care Expertise and Diverse Backgrounds to bring the Best Ideas to Fairview*



**James Hereford**  
President & CEO  
(Joined Fairview  
December 2016)



**Mark Welton, MD**  
Chief Medical Officer  
(Joined Fairview July 2017)

**Andrea Mokros**  
Chief Public Affairs Officer  
(Joined Fairview March 2020)

**Laura Reed, RN, DNP**  
Chief Operating Officer and Chief Nursing Executive  
(Rejoined Fairview July 2017)

**Bob Beacher**  
Chief of Shared Clinical Services  
(Joined Fairview November 1989)

**Joe Gaylord**  
Chief Financial Officer  
(Joined Fairview May 2019)

**Trudi Trysla**  
Chief Administrative Officer and General Counsel  
(Joined Fairview January 2008)

**Sameer Badlani**  
Chief Digital Officer  
(Joined Fairview April 2019)

**Mary Nease**  
Chief People Officer  
(Joined Fairview July 2019)

**Taj (Mumtaz) Mustapha**  
Chief Equity Strategy Officer  
(Joined Fairview January 2021)

# Strategic Developments

Fairview

# Recent Developments: Sanford Health

## *Strengthening Care Together*



## Fairview

## Fairview

- In November 2022 Fairview and Sanford Health announced a Letter of Intent to create a combined system with the following objectives:
  - Expand access to complex and specialized care
  - Unlock greater research capabilities, transform the care delivery experience and expand access to behavioral health services
  - Mission-driven – focused on delivering high-quality, equitable care to each and every patient
  - New opportunities for career growth and increased support in providing high-quality care
- Due diligence and the regulatory/antitrust review processes are underway, targeting closing in 2023. The systems agreed to the MN AG's request for 90 days' notice prior to closing the merger.
- Combined system will be ~ \$14 billion in revenue, 56 hospitals and 600+ care sites.
- Sanford and Fairview will remain nonprofit entities; upon close of the transaction, the name of the parent company will be Sanford Health.
- Sanford CEO Bill Gassen will serve as President and CEO of the combined system, and James Hereford will serve as Co-CEO for a period of one-year post-closing. Joe Gaylord will serve as CFO of the combined system.
- While preparations are ongoing, Fairview's primary focus is building on, and accelerating, our improved operating performance and achieving our three-year Plan.

# Recent Developments: University of Minnesota

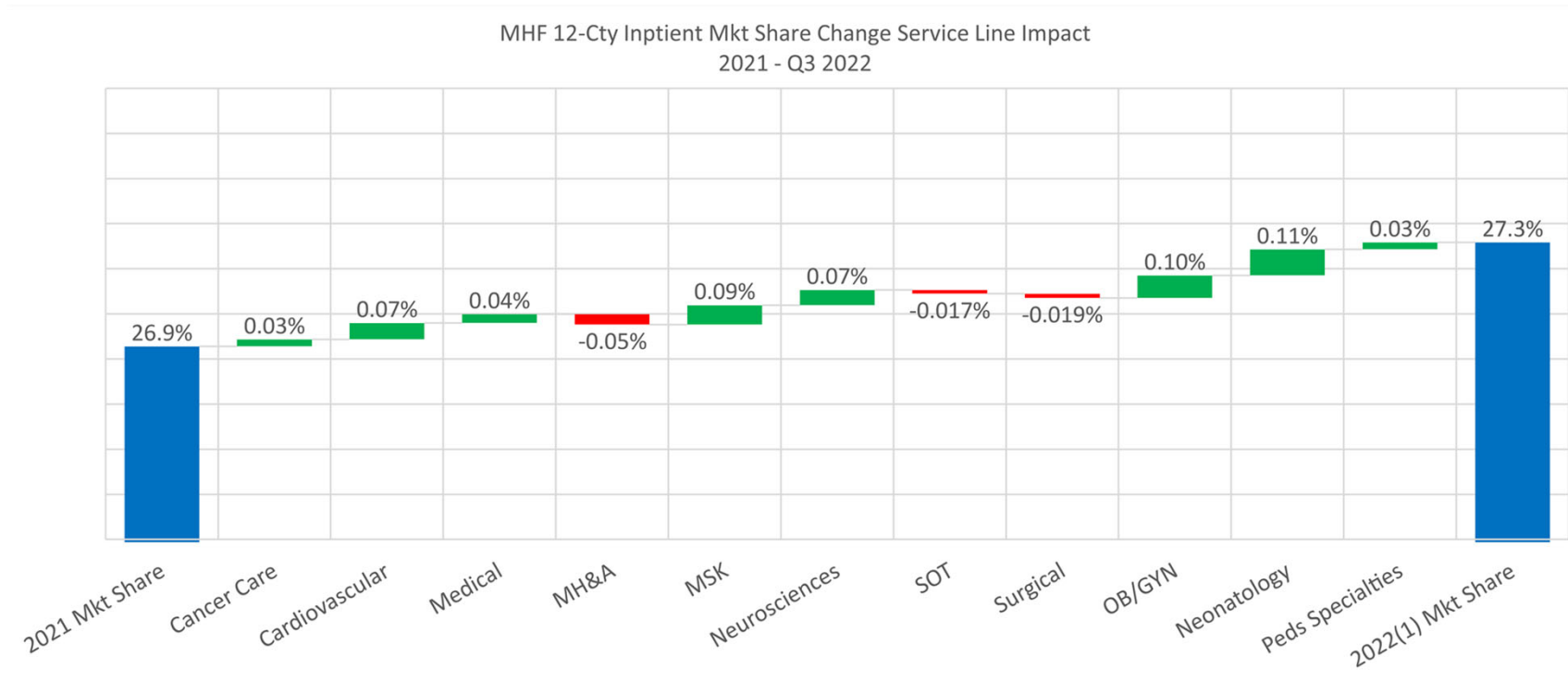
- In the fall of 2022, Fairview formally requested relief from the University in the amount of \$65M relative to 2023 academic support payments by Fairview to the University. Fairview requested this payment relief on the basis of the partnership's economic cost relative to the economic value generated in support of the care system. The University declined this request.
- Conversations are ongoing with the University regarding the Sanford combination and what the future may look like.
- Our current partnership agreement is effective through the end of 2026; now is a natural time to discuss plans for our shared future with improved economic terms.

# Other Key Strategic Activities

- Wellness Hub
- Acadia Mental Health Hospital Joint Venture
- Cardiac Care Expansion at St. John's Hospital
- New Heart Care Clinic in Hudson, WI
- Southdale Hospital Expansion
- Fairview Specialty Pharmacy Opportunities
- Divestiture of 25% Ownership in Maple Grove Hospital

# Strategic Efforts: Showing in Market Share Growth

MHF 12-Cty Inpatient +0.4% Share Change by Service Line



Note: Share +/- reflects the service line's impact on MHF's overall share, not share +/- within that service line.

Source: MHA

Notes: (1) 2022 is Q1-Q3 only, all other years are full year data

Excludes normal newborns. Data represent volume share. All Ages: SOT, Neurosciences, OB/GYN; Peds Only: Neonatology & Pediatric Specialties; remaining service lines adults only.

# **ESG and Giving Back to our Community**

**DOING WHAT IS RIGHT FOR OUR  
COMMUNITY**

# Environmental Social Governance

*Focus on Treating Environmental, Social and Governance Issues as Core Elements of Strategic Positioning*

## **Environmental.**

- Fairview applies best practices for sustainable design whether remodeling existing spaces or new construction to improve overall building performance. and determine what opportunities exist to re-use or repurpose existing fixtures, furnishings and equipment.

## **Social.**

- Fairview has programs to address system-wide safety, attracting and supporting human capital, inclusion, socially responsible investment, and addressing health inequities.

## **Governance.**

- The Board of Directors is committed to sound and effective corporate governance practices. The Governance Committee regularly reviews and adopts “best practices” in corporate governance and recommends changes to Fairview’s corporate governance policies or processes as appropriate.



# 2025 Goals

## Community Wealth Building

We can impact the economic factors that contribute to the overall wellbeing of our communities through intentional strategies that leverage our everyday business practices.

## Community Health Equity

We can impact the inequities caused by social, economic, and structural determinants of health by employing economic community wealth building strategies.

Economic  
Impact  
across MN

33%

1%\*

Economic  
Impact Locally

5%\*

10,000  
Hours

## Inclusive, Sustainable, Local Purchasing

Fairview's economic impact increases for minority / women-owned and small businesses in our local neighborhoods and achieve environmentally preferable, sustainable purchasing commitments.

## Inclusive, Local Hiring

Fairview employee diversity composition represents service area population projections by 2025.

## Place-Based Investing

A percentage of Fairview's investible assets are deployed to priority health equity projects.

## Serving & Leading Locally

Fairview employees volunteering in the community with partner organizations, including Board membership.

Fairview

\*Target based on national benchmarks with Healthcare Anchor Network

# Our Investment in Community

**In 2021, Fairview Health Services invested \$1.06 billion in our community.**

## **\$364.3 MILLION IN SUPPORT OF ACCESS TO CARE AND SERVICES**

- Medical financial assistance
- Medicaid shortfall
- Subsidized healthcare

## **\$9.5 MILLION FOR COMMUNITY PROGRAMS, SERVICES, AND OTHER COMMUNITY BENEFITS**

- Community health improvement programs and services
- Financial and in-kind contributions to local partners
- Community-building activities

## **\$2.8 MILLION FOR HOSPITAL-BASED RESEARCH**

## **\$113.9 MILLION FOR EDUCATION AND TRAINING**

- Professional training for today's workforce
- Education of future health professionals

## **\$573 MILLION IN OTHER COMMUNITY INVESTMENTS**

- Care provided without compensation
- Discounts to uninsured patients
- Medicare underfunding

# **Financial Update**

## **2022 AND 2023 PLAN**

**Fairview**

# Executive Summary - Operating Challenges

- Fairview has incurred operating losses since 2019, which is not sustainable.
- While COVID-19 impacted operating performance much of 2020-2021, following are key factors driving losses in 2022:
  - Labor:
    - Significant staffing constraints and agency labor use
    - Wage inflation
  - Intake and Flow
  - Surgical and Medicine Mix
  - Specialty Clinic and M Health Agreement Performance

**Management is focused on the right metrics and directing resources to address the challenges; recent performance indicates operating improvement**

# 2022 Income Statement

(\$ in Millions)	Quarter				Year
	2022 Q1	2022 Q2	2022 Q3	2022Q4	2022
Operating Revenue	1,582	1,634	1,638	1,759	6,613
Grant Revenue	19	2	28	-	49
<b>Total Net Revenue</b>	<b>1,601</b>	<b>1,636</b>	<b>1,666</b>	<b>1,759</b>	<b>6,662</b>
<b>Direct Expense</b>					
Salaries & Benefits	764	785	790	829	3,168
Purchase Services	255	274	273	288	1,090
Supplies	487	503	519	543	2,052
Facilities Expense	77	80	82	74	313
Taxes and Other	38	40	39	38	155
Depreciation and Amortization	36	36	35	39	146
Interest	13	13	13	14	53
<b>Total Direct Expense</b>	<b>\$ 1,670</b>	<b>\$ 1,731</b>	<b>\$ 1,751</b>	<b>\$ 1,825</b>	<b>\$ 6,977</b>
<b>Net Operating Income*</b>	<b>\$ (69)</b>	<b>\$ (95)</b>	<b>\$ (85)</b>	<b>\$ (67)</b>	<b>\$ (315)</b>
<i>NOI %</i>	-4.3%	-5.8%	-5.1%	-3.8%	-4.7%
Non-Operating Income (Expense) - net	(70)	(135)	(66)	88	(183)
Non-Recurring Revenue (Expense) - net**	(1)	65	(30)	(1)	33
<b>Net Income</b>	<b>\$ (139)</b>	<b>\$ (166)</b>	<b>\$ (181)</b>	<b>\$ 20</b>	<b>\$ (466)</b>
<i>NI%</i>	-8.7%	-10.1%	-10.8%	1.1%	-7.0%

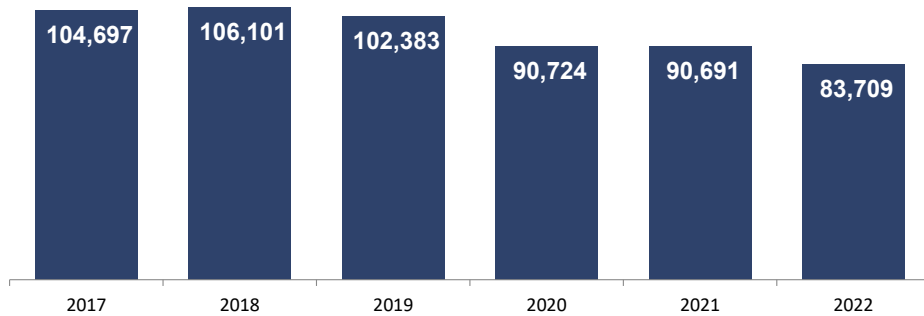
\* Net Operating Income includes \$49M Grant Revenue

\*\* Non-Recurring Revenue (expense) - net includes \$25.5M Strike Costs

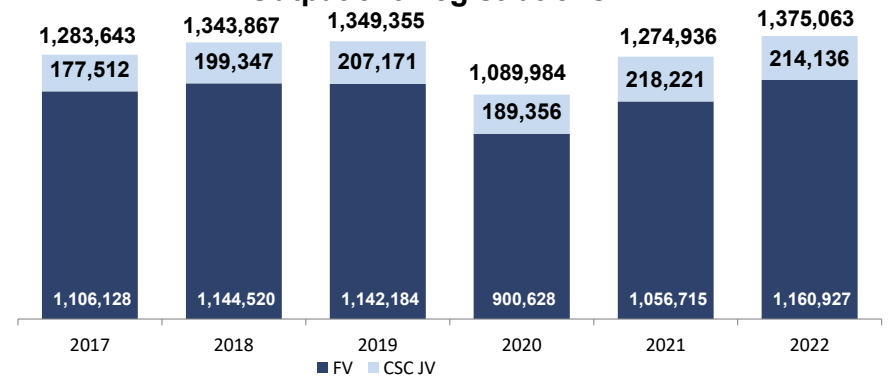
# Patient Care Volumes

*COVID Disruptions and Continued Shift to Outpatient Volumes*

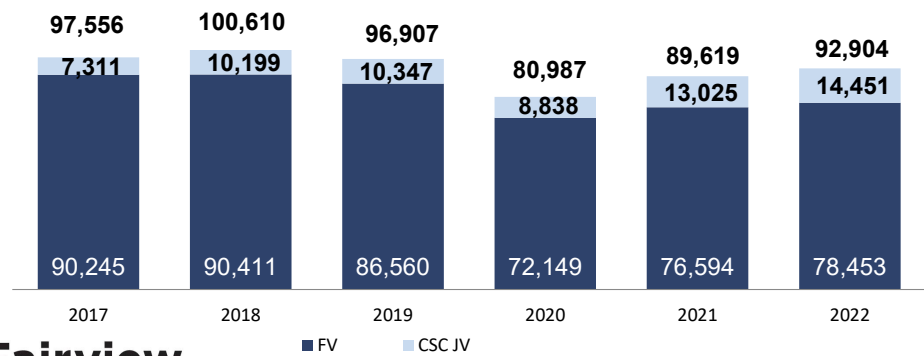
### Inpatient Admissions



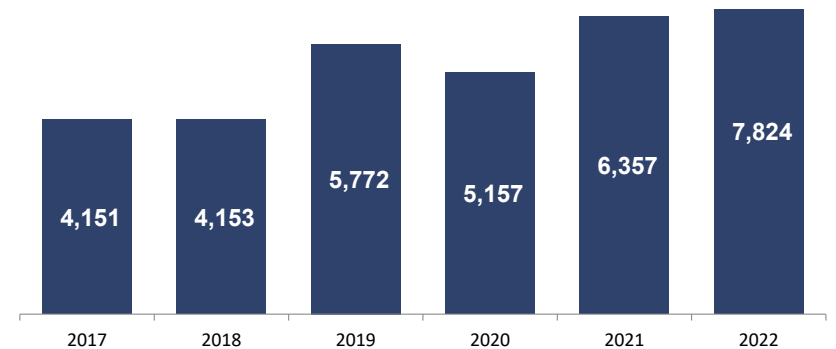
### Outpatient Registrations



### Total Surgeries



### Clinic Provider Work RVUs (in Thousands)



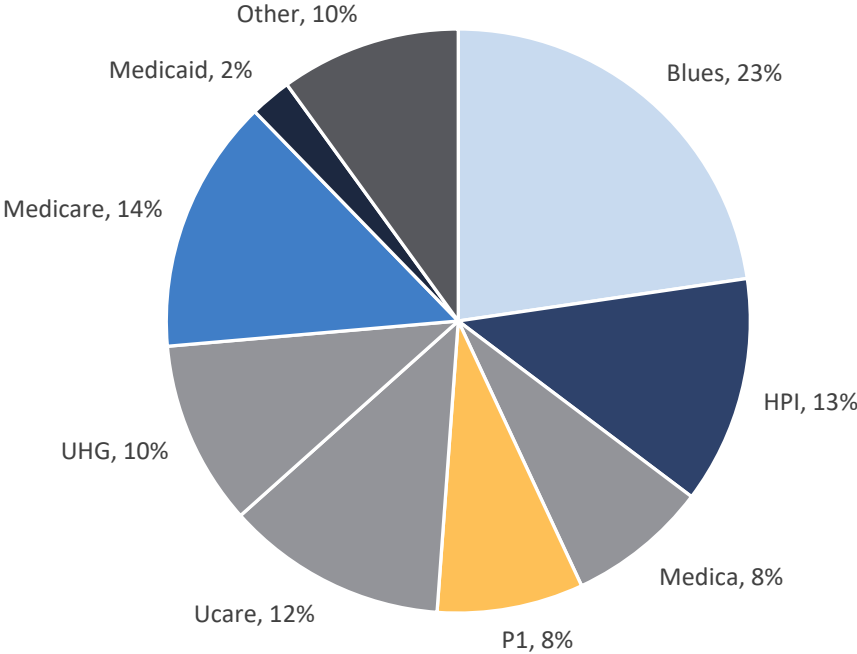
**Fairview**

■ FV ■ CSC JV

# Diversified Payer Mix

December 31, 2022

**Fairview Net Revenue Payer Mix**



**Contract Renewal Timing**

Health Plan	Contract Expiration
Blue Cross Blue Shield	12/31/2023
Health Partners	12/31/2024
Medica	12/31/2023
PreferredOne	Plan closes 12/31/2023
UCare	12/31/2024
United HealthCare	12/31/2025

Fairview Payer mix mostly mirrors the market. Fairview’s payment rates consistent with major payers

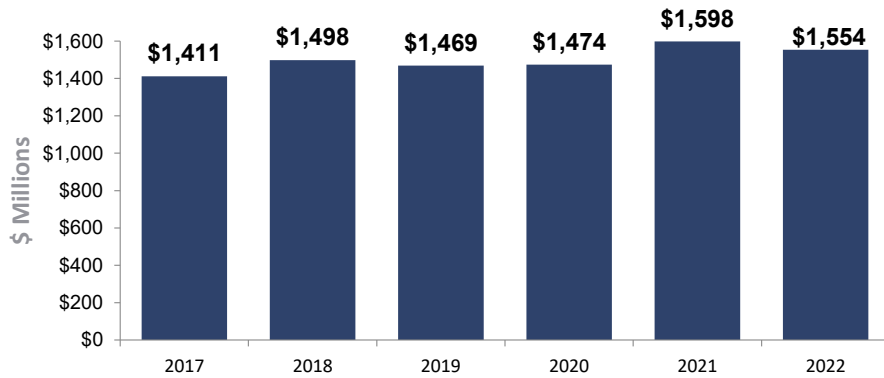
**Fairview**



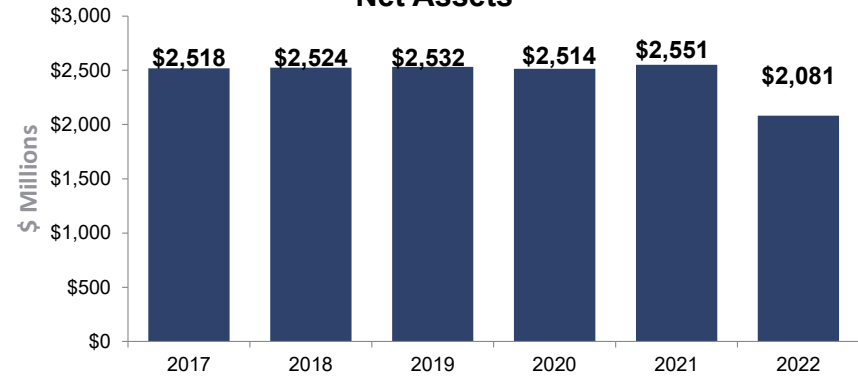
# Debt

December 31, 2022

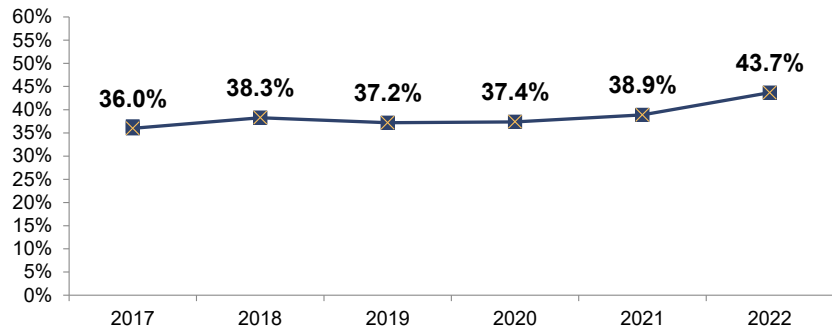
**Total Debt**



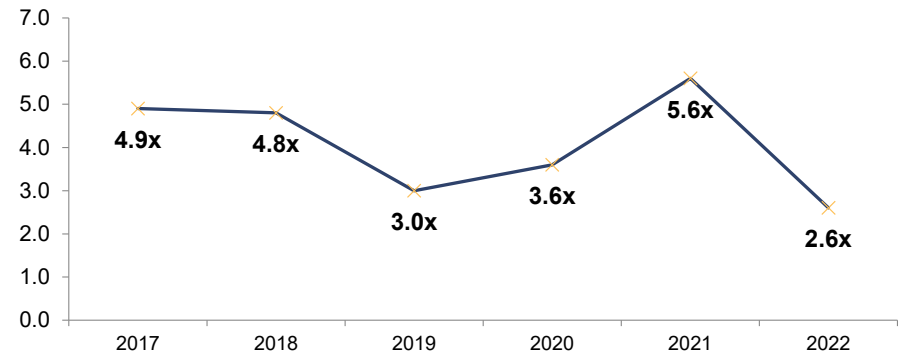
**Net Assets**



**Total Debt to Capitalization**



**Debt Service Coverage (Obligated Group)**



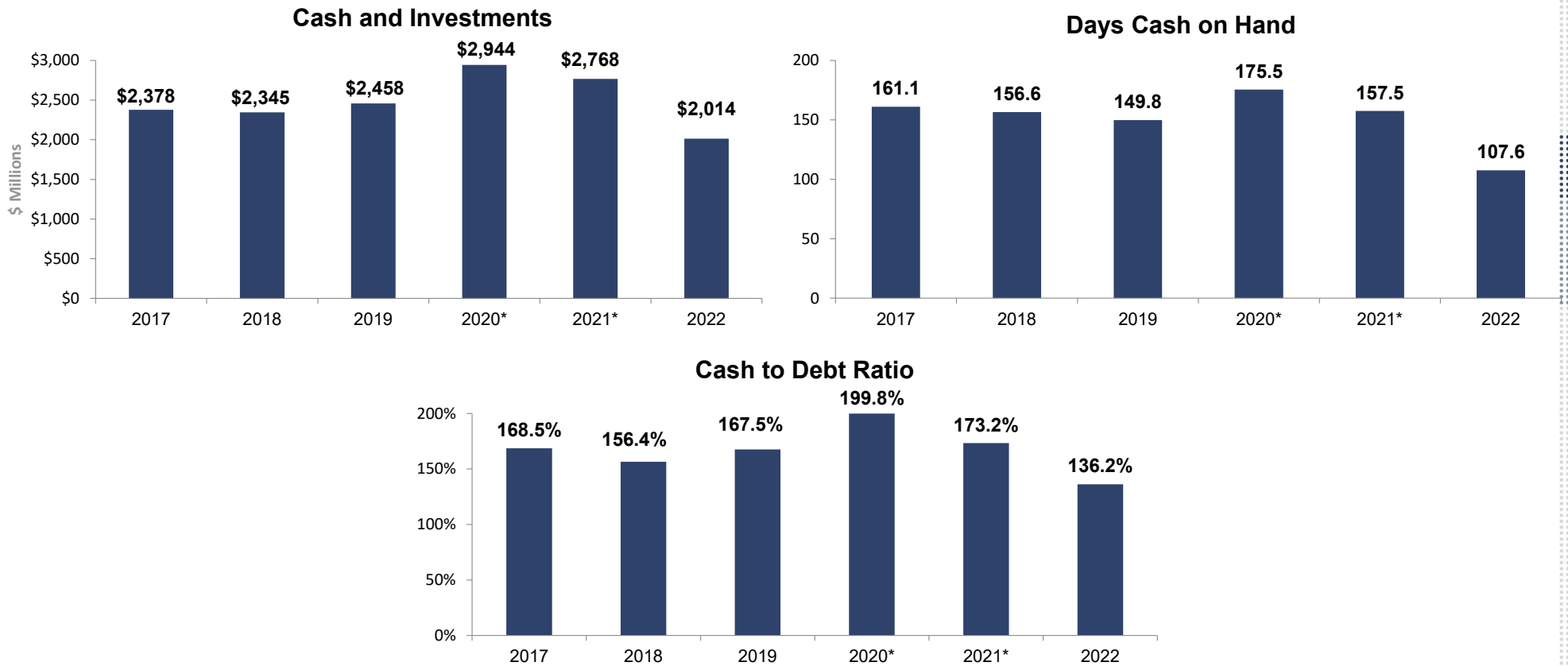
**Fairview**

Most Recent Debt Issuance was in 2021: \$200 million of Taxable Bonds, including repayment of \$50 million short-term note



# Investments

December 31, 2022

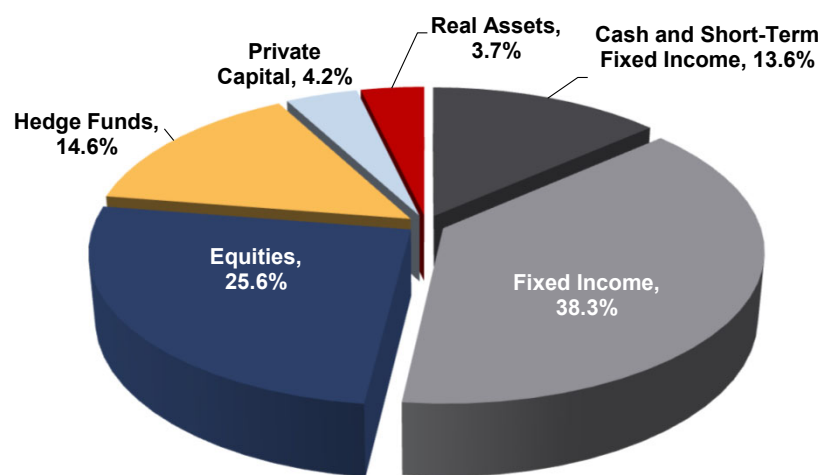


## Fairview

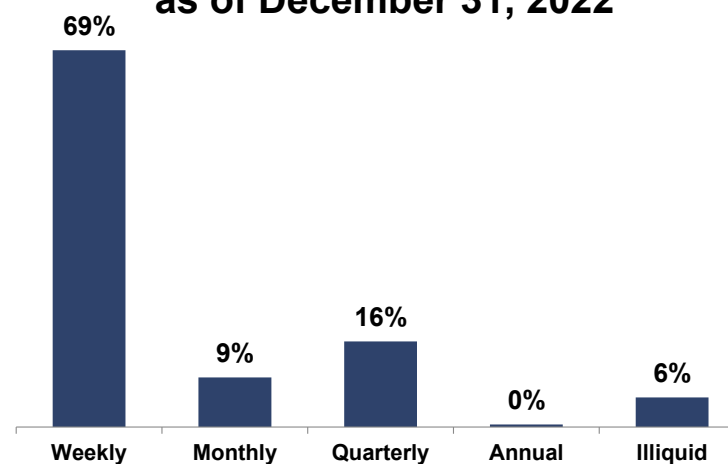
\* Includes CARES Act funds of \$403 million and \$238 million, 2020 and 2021 respectively. \$101 million outstanding at 9/30/22. Year end 2022 balance of less than \$5.2 million to be repaid by March 2023

# Investments

*De-risked Allocation 2020-2022, Well Diversified, Liquid Portfolio*



### Portfolio Liquidity as of December 31, 2022



*69% of the investments are liquid weekly, with 78% (\$1.6 billion) liquid within 31 days*

# 2023 Plan: Executive Summary

- Our 2023 Plan expects \$7.1 billion of revenue, a net operating loss of \$150 million, and net loss of \$69 million. Our planned net loss includes investment income of \$81 million, or 4.9% of total unrestricted investments
- Performance improves over the course of the year as we continue to execute on our Operating Plan, EPMO<sup>1</sup> projects, and drive higher net collection ratios
  - Since 2020 we have improved our net collection ratio by approximately one percentage point which translates to approximately \$50 million of additional revenue and NOI on an annualized basis. We project that we can generate an additional \$100 million or more, annualized over the next 2-3 years with the continuance of our revenue cycle improvement projects
- We have assumed receipt of \$40 million in FEMA grants in Q1 on submitted applications approaching \$60 million
- Due to the difficult labor market, we have assumed costs for temp and agency costs at levels higher than historical levels but lower than 2022. We have also modeled higher wage inflation than in recent years
- Based on our 2023 Plan, we expect to maintain financial covenant coverage, and 100-days cash on hand at year-end
- 2023 Plan does not take into account the impacts of the Sanford merger.

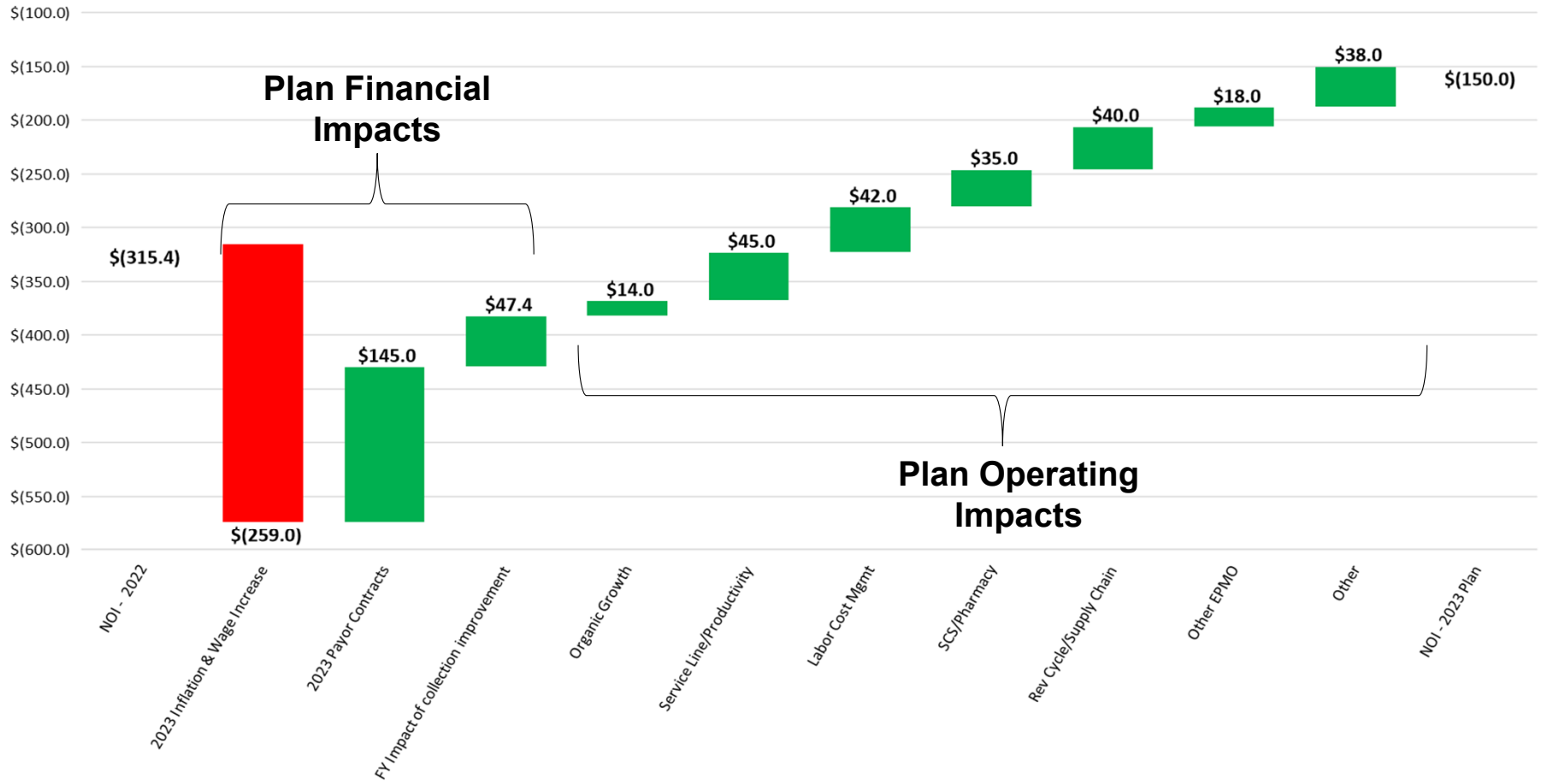
<sup>1</sup> EPMO: Enterprise Project Management Office

# 2023 Plan Income Statement by Quarter

(\$ in Millions)	2023 Plan				Plan
	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2023
Operating Revenue	1,649	1,772	1,799	1,833	7,053
Grant Revenue	40	0	0	0	40
<b>Total Net Revenue</b>	<b>\$1,689</b>	<b>\$1,772</b>	<b>\$1,799</b>	<b>\$1,833</b>	<b>\$7,093</b>
Expenses					
Salaries and Benefits	808	841	843	845	3,337
Purchased Services	255	278	279	288	1,100
Supplies	495	527	528	535	2,084
Facilities Expense	83	86	88	88	345
Taxes and Other	40	43	44	44	171
Depreciation and Amortization	36	36	36	37	145
Interest	15	15	15	15	61
<b>Total Expenses</b>	<b>\$1,733</b>	<b>\$1,826</b>	<b>\$1,834</b>	<b>\$1,850</b>	<b>\$7,243</b>
<b>Net Operating Income *</b>	<b>-\$44</b>	<b>-\$54</b>	<b>-\$35</b>	<b>-\$18</b>	<b>-\$150</b>
NOI %	-2.6%	-3.0%	-1.9%	-1.0%	-2.1%
Non-Operating Income (Expense) - net	20	20	20	20	81
<b>Net Income</b>	<b>-\$23</b>	<b>-\$34</b>	<b>-\$14</b>	<b>\$3</b>	<b>-\$69</b>
NI %	-1.4%	-1.9%	-0.8%	0.1%	-1.0%

\* Net Operating Income includes \$40M Grant Revenue

# 2022 to 2023 Plan X-walk



# **Improvement Plan and Execution**

**Fairview**



# Executive Summary

**Fairview expects to continue the significant progress achieved over the last year mitigating industry-wide headwinds with operating improvements in 2023:**

- Intensified operational management yielding improved results in surgery volume, premium labor cost reductions, and revenue cycle performance.
- The EPMO has dedicated team members supporting and driving the success of various improvement and enhancement efforts, enables faster decision making to improve transparency and centralized tracking, and better prioritizes resources across the organization. Its impact has nearly doubled to more than \$157 million in 2022, its second year of existence.
- Market share increased in 2022 across most service lines.

# 2023 Operational Plan

## Surgical & Medicine Mix

Executing our strategy that optimizes service mix across UMMC and community hospitals

## Intake & Flow

Improving intake processes and flow management across care sites

## Labor Management

Implementing aggressive labor management and care model redesign

## Specialty Clinic Performance

Optimizing specialty clinic performance, provider productivity, and rationalize specialty mix



# Driving Needed Change Through EPMO

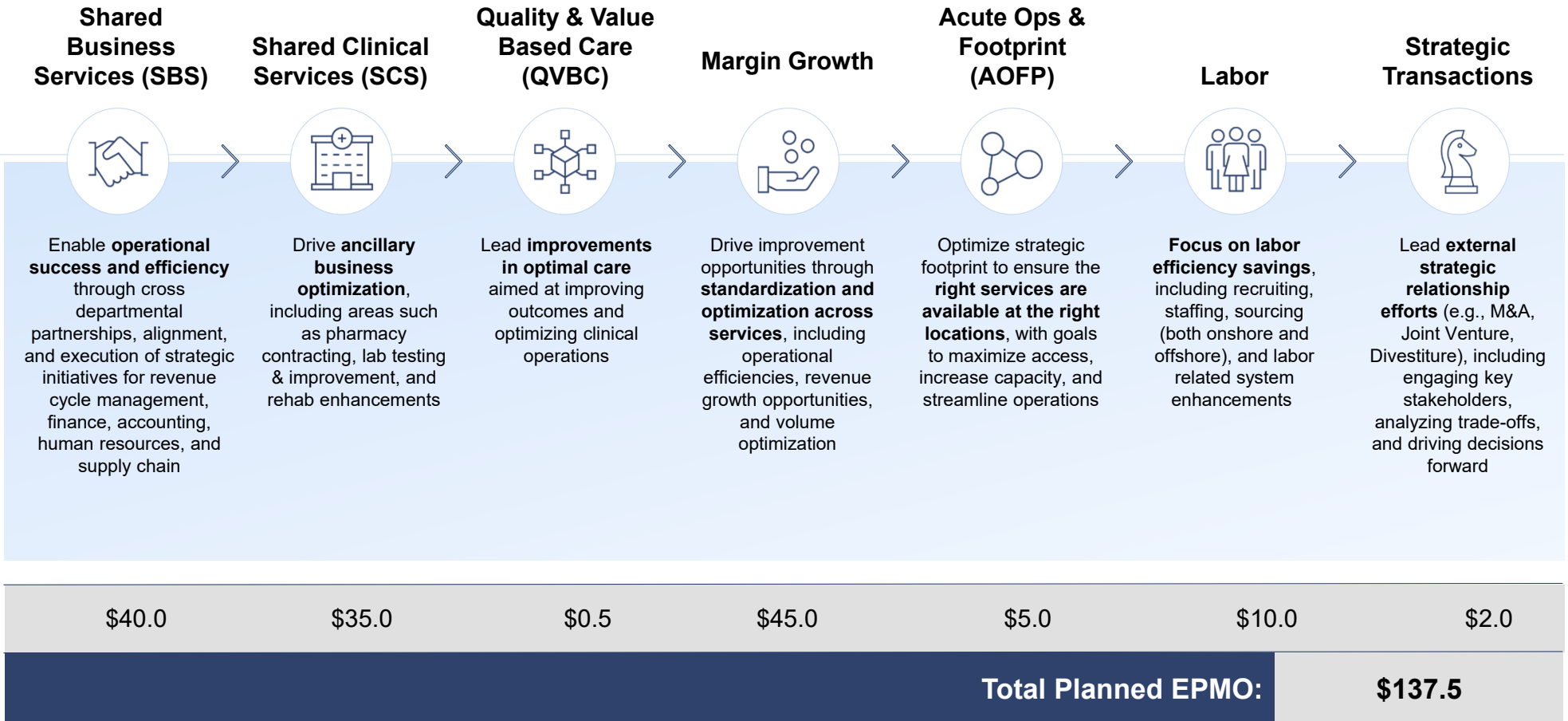
December 2022

- EPMO is Fairview’s engine for change and driving improvement across the system
- Established in Q1 2021 with assistance from McKinsey; transitioned entirely to internal ownership in Q4 2021
- Dedicated to NOI improvement activities, structured processes, project management and weekly tracking
- Delivered \$78 million of NOI improvement in 2021, and \$158 million in 2022 (net of expenses)



EPMO By Pillar						
Pillar	December	December	December	2022	2022	2022
	Actuals	Plan	Variance	Actuals	Plan	Variance
Margin Growth	\$4.8	\$6.3	(\$1.5)	\$45.2	\$60.0	(\$14.8)
Shared Business Services	\$9.8	\$4.0	\$5.8	\$50.6	\$40.0	\$10.6
Shared Clinical Services	\$5.3	\$3.3	\$2.0	\$42.9	\$35.0	\$7.9
Acute Ops and Footprint	\$0.6	\$3.0	(\$2.5)	\$4.1	\$20.0	(\$15.9)
Strategic Transactions	\$1.1	\$2.3	(\$1.2)	\$6.6	\$10.0	(\$3.4)
Competency	\$0.2	\$0.8	(\$0.6)	\$5.1	\$5.0	\$0.1
Quality and Value Based Care	\$0.3	\$0.8	(\$0.5)	\$3.1	\$5.0	(\$1.9)
<b>Total EPMO</b>	<b>\$22.1</b>	<b>\$20.5</b>	<b>\$1.5</b>	<b>\$157.5</b>	<b>\$175.0</b>	<b>(\$17.5)</b>

# EPMO PLAN 2023



# Labor Management

## *Significant Work Underway*

### **Opportunities**

- Challenges hiring enough nurses and other clinical professionals
- Challenges hiring support staff
- Historical lack of clarity in unit productivity targets
- High traveler usage with high traveler rates
- Care model

### **Interventions**

- In addition to internal recruitment efforts, accelerating recruitment work with a RPO (Recruitment Process Outsourcing) firm
- Proactive and ongoing assessment of staff salary levels and prioritization of hiring lower-cost workers, where appropriate, to support clinical teams
- Reducing premium pay through the following tactics:
  - Rebalancing schedules to level-load staff and improve staffing consistency across times of day and day of week
  - Reconfiguring staffing grids to streamline resources based on acuity and market best practice
  - Managing to modified unit productivity targets that reflect updated staffing grids
  - Prioritize hiring of key, high-cost, roles that currently drive large agency and premium pay
  - Actively monitoring and adjusting traveler rates consistent with market trends
- Locking in targets for international nursing program, build infrastructure to support nurses within the program
- Launch new roles within acute care: add Emergency Department Techs, Licensed Practical Nurses to support workflow

## **Fairview**

# Improving Revenue Collection

*Making Needed Investments and Changes in our Revenue Cycle Process*

## **Revenue Cycle Improvement Underway:**

- New Revenue Cycle VP hired in August 2021; making substantial changes to the department structure and enterprise focus on revenue operations
- Have already demonstrated improvement in billing, collections, financial controls and revenue operations
- The team has reduced days in A/R and net collection ratio. In addition to discrete EPMO projects, the improvement in the collection ratio has contributed over \$50 million of annualized NOI. We are targeting an additional \$100 million over the next two to three years.

# Balanced Scorecard 2021 and 2022

*Managing Performance and Making Progress in Key Focus Areas*

<b>Balanced Scorecard 2021 and 2022</b>			
	<b>Goal(s)</b>	<b>2021 Actual</b>	<b>2022 Actual</b>
QS	Vizient Total Performance Score (TPS)	42.56%	48.0%
QS	Ambulatory Care Composite	NA	9.0
CX	Likelihood to Recommend	80.80%	81.7%
PE	1st Year Turnover	41.40%	30.2%
EF	Adjusted Net Operating Income	-2.20%	-4.7%
RE	Research Study Accrual	4,605	4,996

QS = Quality and Safety      CX = Customer Experience  
 PE = People                      EF = Efficiency  
 RE = Research and Education

# Conclusion

# Key Takeaways

## *Fairview Continues to Deliver on our Plan, Despite Headwinds*

### **STRATEGIC POSITION**

- Integrated healthcare delivery system with a large physician network, covering the continuum of health care services
- Leveraging Service Line structure to improve flow across acute sites; moving to improve productivity and financial performance
- Well-positioned for change in the healthcare landscape given the breadth and depth of services available

### **MARKET POSITION**

- Strong market share; seeing growing market share across several service lines
- Experienced in population health management, able to deliver a differentiated brand promise to our communities
- Favorable service area demographics, with most metrics better than the national average

### **LEADERSHIP AND GOVERNANCE**

- Stable, experienced and results oriented management team to position Fairview for future success
- Engaged and experienced Board of Directors to provide effective oversight of the organization's mission and strategic plan activities

### **FINANCIAL PERFORMANCE**

- Moving with urgency to stabilize and improve results: Intensified operational management yielding results in volume, mix and revenue cycle performance
- Clear plan and EP MO structure in place to address opportunities and challenges and return to sustainable levels of net operating income
- EP MO work is paying off as we started seeing improved financial performance in the fourth quarter 2022; including closing the gap against other health systems in the State
- Capital spending will match cash flow generation or be reduced
- Good headroom on financial covenants

**Questions?**