

# FINAL TRANSCRIPT

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## **HMA - Health Management Associates, Inc. at Barclays Capital Healthcare Conference**

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## CORPORATE PARTICIPANTS

### **Gary Newsome**

*Health Management Associates, Inc. - President and CEO*

### **Bob Farnham**

*Health Management Associates, Inc. - SVP and CFO*

### **John Meriwether**

*Health Management Associates, Inc. - Director of IR*

## PRESENTATION

### **Unidentified Speaker** - *Barclays Capital*

Want to thank everyone for joining us for the afternoon session on a particularly sunny day.

So it's a real pleasure to have with us HMA. HMA's one of the nation's leading hospital companies. And from the Company today, we have Gary Newsome, the Company's recently named CEO. We have Bob Farnham, the Company's CFO; and John Meriwether, the Company's Director of IR.

HMA has been a name we've covered for a number of a years and a real focus name for us. And it's Gary's first time presenting at the Conference, so I would like to especially welcome him. So look forward to the presentation. There's a breakout session immediately following in the Crown Conch Room.

So let me turn it over to Gary.

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### **Gary Newsome** - *Health Management Associates, Inc. - President and CEO*

Thanks, Adam. We were just talking about fishing --

[laughter]

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### **Gary Newsome** - *Health Management Associates, Inc. - President and CEO*

-- which is certainly a more exciting topic than healthcare.

Let me first begin by pointing out our disclosure statement. Our presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This is our disclosure statement. It can be found on our website at hma.com.

As Adam mentioned, I'm Gary Newsome, President and CEO of Health Management Associates. And I'm going to take a few minutes this afternoon, actually, with just an overview of the Company. We'll discuss a few of the areas of focus that have been identified since I joined the Company back in September of 2008. And then I'll turn the time over to Bob Farnham to assess some of the recent performance, 2009 objectives, and a summary.

HMA is an owner and operator of acute care hospitals in, primarily, nonurban communities throughout the nation. You can see our map here. Our mission is to provide compassionate and high-quality healthcare services to improve the quality of our patients, physicians and the communities we serve. And we currently execute that mission of 15 states, 56 hospitals and approximately 8,000 licensed beds across the nation. We currently don't have any assets held for sale. We continue to review our asset base for strategic divestitures as we go forward.

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HMA's vision is really to become the leader in healthcare of the quality service metrics. We have recruited a national leader. Her name is Lisa Gore. She's an excellent resource for us. She sits on many boards and is advisor to many of the bodies that regulate the quality initiatives in healthcare today. She's an excellent resource. And in fact, we're expanding her responsibilities in the Company so that she can help us in other areas as well.

We have a system-implemented approach that Lisa brought to us. She came to us from Triad, prior to that transaction with Triad. And she certainly has tremendous results. Triad led the nation in terms of the core measure results as they began [reporting] nationally. We've had significant improvement. We have -- internally, we measure our performance, which is excellent results. We have tremendous delta from where we started and where we are today, which will bear out as the time lag from the public reporting catches up with our performance.

One of the things that we've focused on as part of our quality process is our physician collaboration, recruitment, and our physician relations generally. I'm happy to report that our results of our physician surveys are excellent. We continue to improve on our relationships and get great feedback from our physicians. And part of that is we have currently a Chief Medical Officer in the Company and a Chief Nursing Officer that helps us in that process.

Our patient satisfaction results continue to improve and are excellent as we stand here today. And our employee surveys as well continue to show great progress as we focus on the quality initiatives throughout the Company.

I spent much of my first three to four months reviewing the full operations, looking at the different opportunities we have and looking at the structure. I looked at the organization, and I saw that there were three key areas that we needed to focus on in order to be effective and grow our business. One is the emergency room operations, physician recruitment and relations, and market development.

In looking at our organization, basically, what I found was eight divisions, geographically diverse, throughout the Company, where the division presidents [weren't] necessarily based at the corporate office. We've now reduced that to five division presidents. They report directly to me in this new organization. One of the division presidents, recruited from outside the Company. The remainder four were part of the eight original division presidents. And they are required to relocate and base their operations out of our home office in Naples.

This is important from an oversight standpoint. We have frequent meetings. In fact, we meet weekly. From an operational standpoint, great feedback. It's really an early-warning system, so that we can identify opportunities and challenges, and meet those challenges and opportunities in real-time fashion.

We've also streamlined a familiar reporting process so it's consistent throughout the Company, so that we're measuring and benchmarking our hospitals and divisions across the Company in a consistent way. This is excellent, as we begin to reformat and culturally change the Company in a way that's going to be very effective for us in the future. This is key for us as we look forward to the opportunities.

The Company's grown significantly over the last decade in terms of size. The industry is very diverse in terms of the complexity that it brings. So we have to bring the corporate function and the resources that the corporation provides to the next level. And that's our challenge as we culturally change the Company. It's a great opportunity for us as well.

The next area that I approached in a very aggressive way was the emergency room operations. We have a very disciplined approach now, compared to a very diverse approach, to the emergency room. It truly is a front door to the hospital. This is true for us; it's true for the industry as a whole.

We have a greater focus, we have an improved quality. We've upgraded our systems, which is the ProMed system, which is something I'm familiar with. In fact, it's been in the Company for a number of years. The tool actually started in HMA, probably

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more than 15 years ago, and is used widely in the industry. In my experience most recently, also, the Company used the ProMed system.

Unfortunately, we hadn't kept up with the upgrading the system appropriately. We haven't trained our people historically here in HMA. And now, this brings the opportunity to bring that to the next level.

We implemented new hardware upgrades into the system to handle the volume of the data that's generated in the emergency room, new software. And we've been involved greatly in a process of educating all of our physicians and other clinical staff, our executives in the field -- in fact, the corporate office -- on the measurement, the execution, and the discipline required to achieve results in the emergency room.

The byproducts of doing all this is better access to our emergency room, faster throughput, higher quality, better patient satisfaction. And quite frankly, using metrics and protocol-driven processes will also, and has, generated additional admissions into our hospitals.

We had significant impact from that in our fourth quarter. We had great results in our fourth quarter compared to the previous two quarters in terms of admissions. And we continue to see results from that disciplined approach.

The next area is physician recruitment. The Company had not recruited to the level it should have over the last several years. Part of that was internal processes, part of it was a lack of focus, part of it was just not a disciplined approach to physician recruitment [is] key. We have normal attrition in our markets, like all markets, from a physician standpoint. And we continue to grow in order to develop our services, continue to grow our medical staffs to gain market share from our competitors, both from an out-migration standpoint and even across town. So we have additional resources in place.

We have a centralized support process. We have -- in that process, we measure every component. We know how many CVs we have in the basket. We know exactly how many have presented to the hospitals, what percentage of those have actually visited, and what percentage of visits have actually been converted to a contract signed. And we're holding our executives accountable for their performance in this process. It's driving results.

We intend to recruit more than 600 net physicians in 2009, which is a significant improvement over previous years. In the fourth quarter, in fact, we recruited twice as many physicians in the fourth quarter of '08 than we did in the fourth quarter of '07. That will drive results for us as they get up and going later in 2009, 2010, and as we execute well on our strategy to recruit physicians. And this includes opportunities for us to look for joint venture opportunities in-market, both from an outpatient standpoint -- and be able to grow together, and to recruit doctors that historically possibly never used the facility or [splitters] into our hospitals.

The next area is the inpatient care, looking for centers of excellence in developing orthopedics, cardiology, neurology, urology. There's -- looking at the market and seeing where the opportunity is in all these areas.

Very simply stated -- we will stratify our hospitals, which we're in the process of doing. And this is one of the projects that Lisa Gore is helping the Company address -- looking at every hospital, and then stratify.

For example, cardiology -- we'll stratify into four categories. Category one is the lowest service level. How do we take a hospital from category one to category two, how to take one from two to three, and three to four. And really, what happens in that process, as we give them toolkits to address those issues, to move to the next level, it gives us an opportunity to retain market share in our markets especially where these services haven't historically existed. It also gives us the opportunity to avoid transfers out of the emergency room and will drive results for us from quality, service, and a volume standpoint.

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Also, from an outpatient, looking at our imaging opportunities, basically looking at the market, and how do we put our tentacles in all aspects of the healthcare delivery system. And surgery [in] this includes joint ventures with our medical staffs and markets, looking at occupational medicine, urgent care, additional access points into healthcare, as we drive volume into our hospitals.

These are the three key operational initiatives that we have on-line today. It's an exciting time, actually, for HMA. A company in transition is what I would best describe us as we go forward. A company in transition from the standpoint we're putting a lot of disciplined operational structures in place that will allow us to drive excellence in terms of quality for our patients, in terms of relationships with our physicians, in terms of excellence with our employees, which will help us as we go forward as a company. It will also give us the opportunity to really, from a structural standpoint, drive costs down, as we put structure in place. And we have great initiatives on the cost side.

We're in a very uncertain market. We hear every day different scenarios that are headed towards healthcare. And one thing we do know -- that the efficient operators, those who drive efficiency and are low-cost, high-quality providers, will win and succeed in a changing healthcare environment.

That's where HMA is today. And we're going to continue to focus on the opportunities we have to be successful from a cost side, quality side, as we drive business into our hospitals.

It's really an exciting time in healthcare. Many fear what's coming down the pipe, because of the unknown. In reality, I think the unknown brings opportunity for companies and individuals that are willing to take advantage of those unseen -- sometimes today, unknown -- opportunities. But we have to be stealth about the opportunity, looking for those areas that we can be successful in.

It's exciting to be with you. I'm going to turn the time over now to Bob Farnham. After Bob is finished, we'll have a breakout session to answer any questions you may have. But I appreciate your time today. Thank you.

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**Bob Farnham** - *Health Management Associates, Inc. - SVP and CFO*

Thanks, Gary, and good afternoon, everyone.

We reported our earnings for the fourth quarter and year ended December 31st, 2008 a few weeks ago, on February 24th. Revenue for the fourth quarter grew 3.3% to \$1.11 billion, compared to the fourth quarter a year ago. Bad debt expense as a percent of net revenue was 11.7%.

And earnings before interest, refinancing and debt modification costs, income taxes, depreciation and amortization, gains and losses on sales of assets and impairments of assets, and minority interest -- or EBITDA -- from continuing operations was \$146.7 million. And diluted earnings per share from continuing operations, excluding gains and losses on impairments of assets, was \$0.07. Additionally, admissions for the fourth quarter were down 0.2% as compared to the same quarter a year ago.

For the year ended December 31st, 2008, revenue grew 3.7% to \$4.45 billion. Bad debt expense for the year as a percent of net revenue was 11.4%, and annual EBITDA from continuing operations was \$633.6 million.

Diluted earnings per share from continuing operations, excluding gains and losses and impairments of assets, was \$0.39 for the year. Statistically, for the fourth quarter, we saw significant sequential improvement in admissions, from negative 3.8% decline in the second quarter and negative 3.3% decline in the third quarter, to being down 0.2 of 1% on continuing operations for the fourth quarter as compared to the year-ago period.

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Uninsured admissions as a percent of total admissions declined by 50 basis points to 6.5%. And adjusted admissions from continuing operations increased 1.1%. Surgeries and ER visits from continuing operations declined 2.3% and 2.2% respectively for the fourth quarter, as we saw a bigger impact on outpatient surgeries being delayed, primarily due to the economy.

For the year, admissions from continuing operations declined 1.8% compared to 2007. For the year, uninsured admissions as a percent of total admissions also declined by 50 basis points to 6.5%. And adjusted admissions from continuing operations decreased 0.6%.

Surgeries from continuing operations declined 1.5% for the year, while ER visits from continuing operations grew 1.1%. With greater focus placed on ER operations, we expect improvements in these metrics in 2009.

With our earnings release for the fourth quarter and year, we also reiterated our 2009 objectives that we put out earlier in January. Net revenue should be between \$4,550,000,000 and \$4,650,000,000. Bad debt expense as a percent of net revenue should range between 11.5% to 12%. EBITDA should be between \$640 million to \$680 million. Interest expense net, which includes \$5 million to \$10 million of noncash interest expense due to the adoption of APB 14-1, which is to really record a long bond rate on our convertible debt issue -- that's effective January 1st of 2009. And so interest expense should range between \$225 million to \$235 million.

Income from continuing operations per share diluted should be between \$0.37 a share to \$0.45 a share. Net income attributable to non-controlling interests -- which used to be called minority interests -- should be between \$22 million to \$27 million. Continuing hospital admissions growth should be flat to up 1%. And capital expenditures as a percent of net revenue should be between 4% and 5%, which is less than the 6% we historically guided to. And free cash flow will be used to pay down debt.

This chart illustrates HMA's efforts and result at reducing indebtedness since the time of the Company's \$3.2 billion recapitalization in March of 2007. We have accomplished this paydown through a combination of asset sales and free cash flow.

As of December 31st of 2008, we paid \$522 million, or 14%, of our total debt that was outstanding as of the beginning of 2008. For the fourth quarter, HMA repurchased in the open market, at a discount, 50 million of our 3.75% convertible senior subordinated notes due 2028. As a result, we recorded a \$26.4 million net gain on the early extinguishment of that debt.

We have repurchased an additional 50.5 million of the 3.75% convertible notes in the open market thus far during the first quarter of 2009. HMA expects to continue to purchase the 2028 notes in the open market at a discount on an opportunistic basis. In addition, during 2009, we expect to repay a minimum of an additional \$100 million of debt, so in total expect to pay down \$150 million on debt.

There's been a lot of focus on our debt covenants, with those two covenants being the consolidated leverage and interest coverage covenants. This chart reflects that we were within our consolidated leverage ratio covenant as of December 31st of 2008. And as you can see, we have maintained the spread, with the consolidated ratio being 5.28 versus a requirement of 5.60 at December 31st.

We model and monitor these covenants and performance regularly. And based on our expectations for future paydowns and EBITDA in 2009, we believe we will continue to meet this covenant. The projected December of 2009 calculation of 4.6 times on a maximum requirement of 5.2 assumes EBITDA at the midpoint of our objective for 2009, and also reducing outstanding debt by the \$150 million I mentioned a few minutes ago during 2009.

Likewise, interest coverage is the other covenant that we watch closely. Again, as you can see, we were well within this covenant as of December 31st of 2008, with an interest-coverage ratio of 2.70, compared to the required minimum of 2.45. We do expect that the interest coverage will improve as the rolling impact of both the sizable paydown in the third quarter of 2008 and recent open-market repurchases of our convert will result in the reduction of interest expense during 2009.

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The projected December 2009 calculation of 2.95 times on a minimum requirement of 2.60 also assumes EBITDA at the [midpoint] of our 2009 objectives, as well as the 2009 principal debt-reduction goal of \$150 million.

To circle back on Gary's comments -- by successfully improving our hospital operations in the emergency room, increasing physician recruitment, and focusing on new market services, which are our three areas of focus for 2009, we believe HMA will produce improved results in 2009.

Gary brings with him a lifetime of hospital operations experience in leading the Company. And we are in the early stages of implementing a more disciplined operating focus for the Company. We expect to continue deleveraging the Company in 2009 and highlight that we have no significant maturities until 2014 -- that nearly 100% of our debt is fixed at 6.74%. Our overall weighted average of our debt is about 6.4%. And we have already paid \$50.5 million of our \$150 million goal in 2009.

HMA has a very strong foundation and is headed in the right direction. And we look forward to improved operational and financial results in 2009.

Thank you very much for your attention. I believe now, Adam --

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**Unidentified Speaker** - *Barclays Capital*

Breakout session in the Crown Conch Room.

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**Bob Farnham** - *Health Management Associates, Inc. - SVP and CFO*

-- in the Crown Conch Room. Thank you.

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