

MAYO CLINIC
2013 Performance Report
February 26, 2014
12:00 pm CT

Moderator: Karl Oestreich

Participants:

John Noseworthy, M.D., Mayo Clinic President and CEO

Jeff Bolton, Mayo Clinic Vice President, Administration and CAO

Operator: As a reminder, this conference is being recorded Wednesday, February 26. I will now like to turn the conference over to Karl Oestreich, Manager of Media Relations. You may begin.

Karl Oestreich: Good afternoon, this is Karl Oestreich, Manager of Media Relations at Mayo Clinic. Thank you for joining us for our 2013 performance report. I'll quickly outline the format and agenda. We'll have a very brief opener by Dr. Noseworthy, who is Mayo Clinic President and CEO, and then we will move directly into the Q&A portion of the event.

Jeff Bolton, Vice President of Administration and Chief Administrative Officer will join us for Q&A portion of the event. The news release was distributed under embargo late this morning to journalists on our distribution list and also posted on Mayo Clinic News Network at <http://newsnetwork.mayoclinic.org>. Other materials will be posted on the News Network after this audio news conference.

I'd like to turn it over to Dr. Noseworthy, who will begin with some brief opening remarks. Dr. Noseworthy?

Dr. John Noseworthy: Well thank you all for joining us today. We're now in our 150th year of operations. We're the first and largest integrated group practice of medicine and not-for-profit and supported by research and education, as you all know, and we're very pleased to take your questions on the material that we have released earlier today.

Karl Oestreich: Okay. We're going to go directly to the Q&A portion and I've got Jeff Bolton, who will join us, who's our Vice President of Administration and Chief Administrative Officer, we'll go directly to the first question.

Operator: Thank you. Ladies and gentlemen, if you would like to register a question, please press Star then the number 1 on your telephone. If your question has been answered and you would like to withdraw your registration, please press the Pound Key. If you are using a speakerphone, please lift your handset before entering your request. One moment please for your first question.

There are no questions at this time.

Karl Oestreich: That's hard to believe. Somebody's got to have a question out there this afternoon.

Operator: As a reminder, to register for a question, press Star then the number 1.

Karl Oestreich: I will just throw it back to Dr. Noseworthy to start the conversation going. Dr. Noseworthy I know Mayo Clinic has invested a lot of resources into what we call our three hybrid centers. Could you talk a little bit about the progress of our three hybrid centers over the last year?

Dr. John Noseworthy: Thank you, Karl. So these three centers, [Regenerative Medicine](#), which is basically cell-based therapies to repair and replace injured organs or diseased organs. [The Robert D. and Patricia E. Kern Center for the Science of Health Care Delivery](#), which is our engineering sciences, if you will, to help us understand how best to provide care to patients at the greatest efficiency and the highest safety, and our [Center for Individualized Medicine](#), which basically takes the power of the human genome to help create more sensitive diagnostic tests and early treatments for patients are all off to a very good start in the last couple of years, helping us get answers to patients more quickly.

So we're very proud and pleased with the progress so far.

Karl Oestreich: And Dr. Noseworthy, I'll pose another question to you while many health care organizations have gone the mergers and acquisitions route, Mayo Clinic has gone a different way with its [Mayo Clinic Care Network](#). Could you briefly describe what the Mayo Clinic Care Network is and the growth of that Network over the last year?

Dr. John Noseworthy: We'll, thanks Karl. As we all know in health care across the country, there's a tremendous amount of mergers and acquisitions going on between for-profits and not-for-profits in various combinations. It's really sweeping the nation and as we looked at our future, we decided to take a different path and rather than trying to improve our purchasing power through doing an M&A strategy, we really said, "What's the best way to improve patient care and how could we take our model of team-based patient-centered care and distribute that to others so they could provide better care locally?"

And so we've basically digitized how Mayo Clinic practices medicine in a knowledge content management system that we can now share with others to help them provide better care to their patients in their local communities, and that's available, if you will, as a subscription service on an annual basis. And over the last 29 months, we've added 29 medium and large centers — pardon me — the last 29 months, 25 medium and large centers across the United States and Mexico and folks are subscribing to our knowledge and then we're there for them to do electronic consultations if that helps them clarify the care of their patients, and we're available to see the patients if that indeed is what they want to do.

So, it's essentially using knowledge — that is to say Mayo's integrated knowledge — to integrate or bring together teams of physicians and nurses around the patients in their home communities. Most of those patients can then stay in Kentucky or Illinois or California or Puerto Rico or wherever there's a care network, and only travel a great personal expense and inconvenience to a large destination center such as Phoenix, Jacksonville, or Rochester, if the need is there.

So, now we're in 14 additional states because of that. It's gone extremely well and in negotiations with a large number of other groups to continue to join this network.

Karl Oestreich: Dr. Noseworthy, during your tenure as President and CEO, you have a huge goal of reaching more than 200 million patients a year. How is Mayo Clinic doing toward that goal?

Dr. John Noseworthy: We're making good progress on that goal. Last year we saw 1.2 million unique patients at a Mayo Clinic site but we have had interactions now

with 63 million people in 2013, having access to Mayo's diagnostic tests or information through the Web or through the products and services that we use through various companies and distribution arms, social media, those kinds of things.

So, we're making good progress in that effort to expand and extend our reach so that we're relevant to people and provide people with opportunity to have, take advantage of what we know at Mayo Clinic to live a healthier life or to get good information about their illnesses.

Karl Oestreich: I'll switch gears a little bit and throw a question to Jeff Bolton, our Vice President of Administration and Chief Administrative Officer. Jeff, I know the Mayo Clinic has invested a lot of resources in making Mayo Clinic more efficient and things to better serve our patients. Could you briefly talk about what's going on at Mayo Clinic in that area?

Jeff Bolton: Sure, our staff is outstanding and they have really responded very effectively to the challenges that we face in the external environment, and have responded in very positive ways. We have over 400 initiatives underway throughout our organization that our department or division sponsored oriented toward quality improvement, improving safety, reducing length of stay, and things of that nature while maintaining a high degree of quality in our patient services and care.

The staff is responsible for the very successful performance that we realized in 2013.

Karl Oestreich: Jeff, as a nonprofit organization, could you just briefly give a high-level overview Mayo Clinic's financial results for 2013 including the amount we reinvest in research and education?

Jeff Bolton: Sure, we had a very successful year from a financial operations perspective. We had strong revenue growth, approximately 6 percent to \$9.4 billion. We also constrained expense growth to about 4.3 percent, reaching \$8.8 billion. Our income from operations, about \$600 million, it represents about a 6-1/2 percent margin. As you noted, we are a not-for-profit, all of our income is reinvested in our three-shield mission, our research, our education, initiatives, practice improvements, facilities, supporting patient care, as well as new equipment and technology.

In 2013, our research and education program, we had about \$912 million in expenses. Mayo Clinic invested approximately 489 million of that total. And despite the constraints that we experienced in the external funding environment, primarily the federal government NIH, our physicians and scientists were very successful in competing for research grants and awards from the government as well as from industry. Total revenue and research was about \$368 million.

Karl Oestreich: I will throw it back to the callers on the line. Do we have any questions from anyone on the line this morning?

Operator: Ladies and gentlemen, as a reminder, to register for a question, please press Star then the number 1. We do have a question from Jeff Kiger of Post-Bulletin.

Karl Oestreich: Go ahead, Jeff.

Jeff Kiger: OK. Great. Well, one of the questions I had, I guess, is looking at the numbers here, you mentioned in here about the staff and that you slowed the full-time employee growth and urging people to work more

differently. How many people, I guess, are working in Mayo, were working in Mayo in 2013 and then I guess was that increase over the previous year?

Jeff Bolton: So our total employees in 2013 were 59,509. That is a decline from 2012. I would say the reduction was achieved through attrition as we were able to work more efficiently, we did not need as many staff onboard. We do have some areas of growth, though, as we look forward, but we will grow in a sustainable way.

Dr. John Noseworthy: And Jeff, this is John Noseworthy, that's the total employee base for all of Mayo Clinic. I think your question was for the Rochester campus.

Jeff Kiger: Well, total and Rochester also. I mean, it'd be great if we could break it down to Rochester.

Jeff Bolton: So, the Rochester employees in 2012 was 34,223 and now it's now 33,179. So, similar trends.

Jeff Kiger: OK.

Karl Oestreich: Do we have another question?

Operator: Yes, your next question is from Jackie Crosby of the Star Tribune.

Karl Oestreich: Go ahead, Jackie.

Jackie Crosby: Hey. I actually have — was curious about your employee attrition as well, and if there was a number given from 2012, I missed that. I got the 2013 number but what was the full for 2012?

Jeff Bolton: For all of Mayo Clinic?

Jackie Crosby: Yes.

Jeff Bolton: So, it's 61,125.

Jackie Crosby: OK. All right. And I guess I was just looking for some context on that as well as maybe just a little more color or just sort of information on, you know, how the year was financially. What were the pressures from the Affordable Care Act? You know, you've got a big building project going on. Can you sort of just talk about all the different activities that are going on that got you to where you were today?

Karl Oestreich: Dr. Noseworthy, do you want to start with that and then...

Dr. John Noseworthy: Sure. So Jackie, thanks for your questions. So, what we did was we looked at our employee base and looked at the areas of, as Mr. Bolton said here, is that we need to grow and others that we need to, if you will, hold. And we basically then said, "OK, if the new hires that we were nearly due, how many of those new hires can come from within by repurposing staff who were currently in or moving toward areas that were lower priority?" And so we moved some people around.

And as Jeff said, this was done through attrition and pretty successfully. It does put some pressure on the workforce in terms of folks working differently but they've stepped up to that very well. That's been very helpful to us. We've managed — we're an era where there's broad and increasing downward pressure on our revenue for the work we do from both the — from Medicare, from the sequester, from the impending

changes of the Affordable Care Act, and from the market in general, from the commercial payers as well.

There's a downward pressure across all of those that will continue to increase and so facing that, we need to manage our growth and manage our expenses, as you can well understand. We do, we have a lot of building underway on all of our campuses and across the health system and those are carefully planned for high-priority activities.

Our thirst for capital greatly exceeds our ability to approve everything that we do, so we do this in a very strategic manner and, again, by managing the practice and managing our capital plan, we were able to meet our and indeed exceed our plan overall for 2013. But I can answer more specifics if you have some, Jackie.

Jackie Crosby: Not really. I think it's just the, you know, I'm trying to just sort of wonder what the motivation is behind some of the numbers, you know, some of the outcomes that you got and, you know, what might sort of define this year for you and how that might be from last year, from previous years.

Dr. John Noseworthy: Sure. Well, I think we have, as you know, you know us well, we've always been very, very careful about our efficiency and quality of the work that we do and safety of the work that we do, and we have wonderful staff and we have engineering principles that guide everything that we do to provide care at increasingly efficient - with increasing efficiency as we go forward and we still do that.

So we're focusing very much on safer outcomes at lower cost. That's why we're doing the Optum relationship that you've written about to understand the total cost of care as well as the best outcomes. We're also

blessed to have the best staff in health care who are committed to the patients and they understand that patients are paying a lot of out-of-pocket costs and they want to do all they can to help reduce the burden on our patients.

So, it's a full team effort right across all of Mayo Clinic, essentially to allow us to continue to be successful so we can invest in our staff and invest our patients, and so on, and as we do this, we're committed to passing these savings along to our patients and last year we were able to reduce the rate of fee increases, that's been a trend over the last number of years to try to again pass on some of the savings to our patients as an not-for-profit, but it's a pretty tough environment, as you know.

Jeff Bolton: Jackie, if could...

Jackie Crosby: Thank you.

Jeff Bolton: ...just build on what Dr. Noseworthy said, the other element is we really got ahead of the movement in the external environment. We anticipated what was going to be happening the significant downward trend pressure on reimbursement, and really mobilize our staff to respond to that in an effective way and I think what we saw in 2013 was really successful implementation of a multi-year plan that we put in place and we're expecting similar strong performance.

And again, what that allows us to do is to fully fund our pension program, to invest in the latest technologies and advances on behalf of our patients, and that's really the (moat) that we're in right now, responding to the external environment.

Dr. John Noseworthy: And Jackie, we're still hiring in some strategic areas and that will change going forward, and if we don't have the appropriate skillsets within the organization across the many states in which we work, then we still bring in some outside people and that'll continue.

Karl Oestreich: This is Karl. I just want to reiterate those employee numbers for people and we do have a table, which will be uploaded to Mayo Clinic News Network this afternoon. Total number of employees across Mayo Clinic's entire enterprise for 2013 is 59,509. For 2012, that number was 61,125. When we look at Rochester numbers for 2013, 33,179 and for 2012 for Rochester was 34,223.

We can go back to questions.

Operator: As a reminder, if you wish to register a question, press Star then number 1. You have a question from Jeff Hansel from the Post-Bulletin.

Karl Oestreich: Go ahead, Jeff.

Jeff Hansel: Hi there. I'm wondering if you could clarify a little bit with the unique patients in terms of the different campuses, please. Mayo Clinic Health System, Rochester, Arizona, and Florida, please.

Karl Oestreich: Yes, Jeff. That number will be in that table that will be put on the network. I can hit that number for you. Total number of clinic patients in 2013 for Mayo Clinic is 1,260,400. For 2012, that number was 1,165,000. When we look at breakdown for Mayo Clinic Health System for 2013, the number is 615,100. And the number for 2012 is 576,400.

And if you want clinic patients just for Rochester, Florida, and Arizona combined, for 2013, 645,300. In 2012, 588,600.

Jeff Hansel: Thank you.

Karl Oestreich: We'll go back to questions.

Operator: Your next question is a follow-up from Jeff Kiger from Post Bulletin.

Karl Oestreich: Go ahead, Jeff.

Jeff Kiger: Yes. I wanted to touch on something that Dr. Noseworthy had mentioned, that in 2013 you were able to reduce the rate of fee increases. What was the percentage breakdown?

Karl Oestreich: Jeff (Bolton), do you have that number?

Jeff Bolton: Across the different sites that range from 2 percent to 3 percent.

Jeff Kiger: 2 percent to 3 percent of the rates were decreased?

Jeff Bolton: No, they increased by 2 to 3 percent. That's just for commercial contracts. The government sets its fees.

Jeff Kiger: OK. How does that, I guess, how does that break down, then, for an average patient, then? I mean, so you're saying that just the general rates for care, for fees increased by 2 to 3 percent in 2013?

Jeff Bolton: If you look at the average growth for all of our patient and inpatient clinical services and average data it would be at 2 to 3 percent increase.

Jeff Kiger: OK. And that's less than that the rate that was expected. That's less than the rate that was in 2012.

Jeff Bolton: Yes. And over the past three to four years, we've been focused on driving that rate down across the enterprise.

Jeff Kiger: What was the rate in 2012?

Jeff Bolton: For 2012 it ranged from 3 percent to 6 percent increase across our various campuses.

Jeff Kiger: OK. Thank you very much.

Karl Oestreich: OK. We have time for a couple more questions.

Operator: Once again, if you would like to ask a question, press Star then the number 1. There are no questions at this time.

Karl Oestreich: OK.

Dr. John Noseworthy: Thank you all for your interest in our report, I appreciate that.

Karl Oestreich: This is Karl Oestreich, this is a reminder materials will be posted on Mayo Clinic News Network at <http://newsnetwork.mayoclinic.org>. This will include full audio from today's conference, the news release, and other resources. Thank you very much.

Operator: Thank you. That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

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