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Are you ready?

Setting a pace

A young, for-profit company buys ailing hospitals and turns them around, but won't make any promises it can't keep.

By Frank Nieto



When a turnaround company like Pacer Health Corp. is interested in acquiring a hospital on the verge of closing down, time is of the essence. How fast can the Miami Lakes, Fla.-based company evaluate a facility and make an acquisition offer? "Typically, we use a SWAT team approach of three to four members of our diligence team, who evaluate a hospital within 24 to 48 hours," says Pacer

Chairman and CEO Rainier Gonzalez. Then the company makes an offer. "We have developed our process to operate extremely quick, since most often we are the facility's last option," he says.

In its first two years of operation, Pacer has earned a reputation for successfully turning around financially struggling healthcare facilities. The system operates a total of five facilities in Georgia and Louisiana, with annual revenues of \$16 million projected over the next year. The

facilities are two acute care hospitals, one psychiatric hospital, a clinic and a nursing home. Pacer itself jumped from a net loss of \$554,675 in its first year of operation to a net income of \$390,896 the following year. The first hospital it acquired — South Cameron Memorial Hospital of Cameron, La. — went from a net loss of \$964,109 in the first quarter of 2004 to a net profit of \$49,360 one year later. Pacer's most recent acquisition — Minnie G. Boswell Memorial Hospital of Greensboro, Ga. — cut its net loss in the first quarter of 2005 to \$64,941 from an average monthly loss of \$100,000 in the previous year.

Pacer's model has two tracks — acquiring hospitals with \$7 to \$15 million in revenue for turnaround, as well as acquiring solvent hospitals in a straight acquisition. “We have both tracks going at the same time,” says Gonzalez. “Either way, we take every acquisition one at a time. Once we make an acquisition, we focus our entire resources on stabilizing the hospital, ensuring that the acquisition runs smoothly, and integrating the new facility into the Pacer model. We focus on making the facility break even during the first year of the acquisition and becoming profitable the second year.” Using this method, Pacer plans to make two to four acquisitions a year. “It might not lead to as fast a growth as others might want, but the growth is stable.”

Pacer has no interest in buying hospitals it can't fix. “We've been offered hospitals and nursing homes literally for free,” says Gonzalez. “We only take on acquisitions that we know we can succeed at. Before agreeing to take on a facility, we identify what put it in trouble in the first place and decide if we can fix that situation. When we make commitments and promises, we know we can back them up.”

Plan of attack

Oftentimes a struggling hospital will need to improve its infrastructure immediately to avoid collapse. In the case of Boswell Memorial, for example, Pacer is planning to construct a replacement

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facility. “The area is growing fast and the facility is very outdated,” says Gonzalez. “We've found a location that we think will be a wonderful opportunity for the hospital to grow with the region.” The plan is to go in with a foundation that will enable the 25-bed hospital to quickly expand to 100 beds as the area grows. The process is expected to take three to five years, with construction taking 24 months to complete.

Thus far, Pacer has concentrated on scouting smaller facilities, but it won't exclude larger ones from its plans. “From a turnaround perspective, size doesn't matter,” Gonzalez says. “In some ways, larger hospitals present more options and a better opportunity because of the larger economies of scale.” But the young company might have to wait to get into that market. “In the past the company has bid on larger hospitals,” says Gonzalez. “However, because of our size, often we cannot compete with some of the larger hospital systems.”

Currently Pacer maintains an acquired facility's purchasing and distribution relationships. But as the company grows and gains more resources, it will probably centralize more of these relationships and create greater standardization throughout the system. “We are constantly re-evaluating aspects of our business every quarter for areas to standardize,” says Gonzalez. “We don't want to standardize something too early that we don't yet have the purchasing power to create the efficiency we're seeking.” Pacer has centralized some accounting functions, but not billing and payables. “The reason [is] that each of these communities is unique.”

Pacer Health is a publicly traded company, a fact that has created some difficulties in its early stages. “Unlike a lot of other companies, when we go out to bid, our record is public,” says Gonzalez. “This is tough when you're adding a hospital that's struggling financially, because it lowers your financials for the first few quarters. At the same time, public ownership carries some advantages too. “It allows people to follow our successes. They can see what our hospitals did in the past and what they're doing now.”

Keeps its promises

Gonzalez explains that much of the company's success comes from “not making promises we couldn't keep.”

“We've been very aware of what we could and couldn't do, and of only promising what we could,” he says. “We might not be the highest bidder, but any proposal the company makes will be one that it can honor. In this industry, often promises are made just to get a deal. Our reputation is very important to us and operates as a selling point by helping us get the next acquisition.”

What does Pacer's future hold? In Gonzalez's words, “I hope we're able to keep our reputation for delivering promises and continue to grow one acquisition at a time to build a network of hospitals that can draw on each other for help and resources. The key is delivering on our promises and offering top-line services.” ■

Frank Nieto is editor of *Repertoire*, *Dail-E News* and *U.S. Lifeline's Market Account News*. U.S. LifeLine Inc. is a Carlisle, Pa.-based Information Division of MDSI, publisher of *Repertoire*.