It's Aspirational

Q&A with Jefferson's New CFO, Pete DeAngelis

We sat down with Pete to check the pulse of Jefferson's financial health and talk about mergers and the future.

Q. Is it true that mergers are strategies to strengthen organizations in financial distress?

The beautiful thing about what's happening at Jefferson is that it's not true. The vision of reimagining healthcare requires strong partners. Most believe healthcare is simply too expensive to be sustainable – it's 18 percent of the GDP. We're partnering and consolidating in a way that is proactive – ultimately to achieve the scale necessary to effect the transformation we see ahead in healthcare, one which creates more value and better patient experiences at lower cost. At Jefferson in the current dynamic healthcare environment, mergers are not out of desperation; they are aspirational. We are aspiring to a vision – laid out by Dr. Klasko, fully supported by the board and embraced by the organization – to reimagine healthcare and create this new value equation. The partners we have merged with share our vision and, like Jefferson, have a strong financial foundation.

Q. What's behind your claim that Jefferson is financially secure?

Jefferson has an A credit rating from both Moody's Investor Services and Standard and Poor's Rating Service, which is the mark of a very solid organization that has good cash flow, is able to fund investments in future growth and has the cash and resources to have a reasonable margin for error should unusual circumstances arise. Rating agencies use a variety of financial benchmarks to arrive at this conclusion. One of the most common metrics is operating margin, the percentage operating revenues exceed operating expenses. Jefferson operates at about 2-to-3 percent, which is considered sufficient. Another key metric is EBIDA (earnings before interest, depreciation and amortization), basically cash flow. That margin should be somewhere in the neighborhood of 8-to-10 percent to achieve our rating category. Basically, it indicates that for every dollar we generate, about 10 cents falls to the bottom line, typically to be used to make future investments, to service debt and to have enough cash on hand for unforeseen circumstances. Liquidity is also important for ratings, and we have over 200 days of cash on hand, which is very good. Our A credit rating indicates to investors and

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credit providers that we are low risk, and investors should have little concern about investing in Jefferson.

Q. What is Jefferson's biggest financial challenge going forward?

After the Abington, Aria and Kennedy mergers, the opportunities and challenges in front of us will be significant. This next phase will be about Jefferson capitalizing on innovation and integration opportunities for growth and efficiency that our size and scale create. By rough estimate, we have upwards of $100 million a year of opportunity from just coming together as a system – eliminating variation, leveraging infrastructure, streamlining the organization, consolidating suppliers and consulting services across the enterprise, things like that. That's funding we will have to invest in innovation on our journey from volume to value. I think the next couple years are going to be largely about our ability to work and deliver outcomes as a system and further build the Jefferson brand. There are many reasons to be optimistic about our ability to do that.

Q. What makes you say that?

In addition to our strong quantitative metrics, we have a number of qualitative factors that are positive. It's not just about what you're doing today, but do you have the capacity to do more and do it in a differentiating manner in the future? That boils down largely to our leadership and our people. Our leaders have faced challenges and proven time and time again that they can overcome them while maintaining financial stability. Despite the magnitude and turmoil of change we've gone through bringing Jefferson's university and the hospital together, bringing Abington and Aria and Kennedy together, and moving the conversations with Philadelphia University forward, our leadership has come together very well to move all of this critical activity along without suffering financial stress. Finally – saving the best for last – our colleagues throughout the system are dedicated and engaged with leadership in this vision. This includes an incredibly well-respected faculty and medical staff, as well as clinicians and support personnel throughout our expanding organization. Unleashing an engaged workforce to help solve our challenges will ultimately create huge differentiating advantages.

The vision we have at Jefferson is inspiring. We have leadership; we have engaged colleagues, and we have a great starting point financially. Compelled by the vision, I think we can do even better going forward.

In March, Peter DeAngelis became Jefferson's new Executive Vice President and Chief Financial Officer. He has over 30 years of leadership experience in the healthcare industry as a CFO and COO. "Stepping into an organization that's moving this quickly is exciting," he says, "and I'm looking forward to being part of a leadership team committed to transformation and necessary disruption to improve value to all of our stakeholders."
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