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HealthSouth Corp. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) Our first question comes from Adam Feinstein from Lehman Brothers. Please go ahead.

Adam Feinstein - Lehman Brothers

Okay. Thank you. Good morning, everyone.

Jay Grinney

Good morning, Adam.

Adam Feinstein - Lehman Brothers

Very strong quarter. Just, I guess, couple of questions, let me just start just to talk about volumes, maybe if you could talk about the different specialties in patient mix since just to have an understanding in terms of what kind of patients you guys were bringing in during the quarter, and then, at the same time you have mentioned the industry data being pretty weak for a Q1. Just curious about your thoughts, they are in terms of how you are thinking about the industry volume growth in terms of just the market share, it seems like you guys are gaining, so just if you could just comment on just the mix for the quarter, as well as just the industry trends, and then I have a quick follow-up question?

Jay Grinney

Sure. With respect to the mix, as we mentioned in our first quarter call, there are about six conditions that represent about three quarters of our patients. And there is stroke, there is debility and other disabling impairments, there are hip fractures, there are neurological patients that we treat. There are -- there is a category called Other Ortho which is primarily conditions related to the spine, spinal stenosis, back and spinal fractures and so on. And then of course, the lower extremity joint replacements which are the knee and hip replacements. If you look at those six, the relative mix for most of those has not changed much year-over-year, nor has it changed sequentially. So, the majority of our patients are stroke patients. The second largest category would be the debility and other disabling impairments. Hip fractures would then round out the top three.

The lower extremity joint replacements, the knee and hip replacement procedures actually is fairly steady in that 10-11, may be 12% range down from 22% before the 75% rule. So our mix is remaining fairly stable and it is reflective of the patients who really need a high level inpatient rehabilitative

care and it's precisely where we built our program, invested our technology to meet that demand particularly in an aging population.

With respect to the industry I believe that the weak showing in the first quarter is a reflection of a couple of things. One, the fact that most of our competitors are departments or units within an acute care hospital, and as most of you know are going to be focusing on matters like how do they deal with the influx of bad debt coming into the emergency room, where do we put the capital to get into an open heart program or enhance the oncology program. Rehabilitation oftentimes is a secondary or even less consideration for those hospitals. So we have put our emphasis, we've put our focus on rehabilitation and I think that that has allowed us to continue to take market share. The other thing, and we've talked about this on previous calls, we have never been that reliant on the knee and hip replacements.

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