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LHC Group, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Your first question comes from the line of Art Henderson from Jefferies & Company.

Art Henderson – Jefferies & Company

Hi, good morning. Thanks for taking the question, and very nice quarter. I was struck by the dramatic reduction in the cost structure of your business. It looked to me like the case mix number stayed roughly about the same, the revenue per episode was not materially different. What are you doing differently now, or what have you done in the quarter to really accelerate the margins through cost reductions if you would so kind to describe that?

John Indest

Sure, Art. This is Johnny.

Art Henderson – Jefferies & Company

Hi, Johnny.

John Indest

Good morning.

Art Henderson – Jefferies & Company

Good morning.

John Indest

I continue to brag on our operations team. I really think they hit their stride. We did tremendous preparations prior to January 1 of '08 to prepare for the significant changes, brought about by the re-waiting of the Herms [ph] and the reduction in reimbursement that we experienced. But of particular note that I think we need to look at is, number one, our efficiencies have not been gained on the backs of our employees or on the backs of – or on the expense of patient care. As a matter of fact, if you look at the third quarter – similar quarter in 2007, our revenue per completed episode was \$2,504. And actually in this completed quarter, for the quarter itself it was \$2,398. We are actually showing less revenue on that end of things, but also where the efficiencies are coming from, truly

to get right down to it, is we are becoming much more efficient and effective in bringing on new acquisitions and converting them to a profitable position. Our startup teams are doing a phenomenal job and our operations people are bringing them along a lot quicker. We are also getting more efficient at developing our de novos and being more tactical in where they develop and in turning them around. The other thing that I think is really important to note is that on commercial pay, we've said over a year ago that we simply could not continue to take commercial pay business at less than Medicare. We terminated, I think we said, approximately 289 contracts over a year ago. We have been successful, number one, and renegotiating new contracts that are paying us right at Medicare rates, which has been great for patients we serve and for us. And also we have just developed a discipline that we cannot accept business at 40%, 45% less than what Medicare pays. I think when you take all those into consideration, it adds up to the answer to your question.

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