

The logo for Seeking Alpha, with the text 'Seeking Alpha' in white and a Greek letter alpha symbol in orange, all on a dark red background.

## Sun Healthcare Group, Inc., Q1 2009 Earnings Call Transcript

### Question-and-Answer Session

---

#### Operator

(Operator Instructions) Your first question comes from Paxton Scott – Jefferies and Company.

#### Paxton Scott – Jefferies & Co.

My first question relates to the Medicare rate growth that you been seeing over the past few quarters which excluding the market basket has been anywhere between 4-7%. So my question is how sustainable is this acuity driven rate growth level, and if not sustainable, where do you see it ultimately settling out?

#### Richard K. Matros

I actually do think it's sustainable. We weren't expecting as large an increase from a therapy intensity perspective that we saw this quarter, but we do think it's sustainable, and much of it has to do with the maturity and better execution in our rehab recoveries. As we continue to open more of those, I think that you'll see the numbers continuing to be impressive. We've got between 1000 and 1100 rehab recovery suites beds now. We'll have approximately 1800 by year end. That's a huge increase, and that said, I'd also note that we're seeing gains in our centers that don't have rehab recovery suites as well. We're just not seeing them at the same level because you wouldn't really expect to, so there's no reason for us to think that that rate growth won't be sustainable, and it certainly helps in the context of thinking about what happens in the market basket. Our Medicare rates were up \$38 this year, and I understand it's a fear-driven market. The sky was falling last year, and the sky is falling this year, but we're going to have decent growth again next year because of what's happening on the acuity side, even though we may take something of a hit on the market basket, and I think that's what people don't keep in perspective and really should keep in perspective, and that's not even to talk about the managed care growth that we're seeing, and again even though the rates aren't as high as the Medicare rates, they're still good rates, and it's obviously better than Medicaid or private, and that rate growth is acuity driven as well and has been matching our Medicare rate growth.

#### Paxton Scott – Jefferies & Co.

Staying on the same topic of Medicare reimbursement, I was wondering if you could provide your thoughts on last night's release of the Senate Finance Committee's proposal to improve patient care and reduce healthcare cost, and specially the discussion of value-based purchasing and what impact of any do you see that having on your business?

Copyright © 2009 CBS Interactive, Inc. All Rights Reserved.