

Edgar Filing: TENET HEALTHCARE CORP - Form 10-Q

TENET HEALTHCARE CORP

Form 10-Q

April 29, 2019

false--12-31Q120192019-03-3110-Q0000070318103131661falseLarge Accelerated FilerTENET HEALTHCARE CORPfalse2000000P7YP3DP20DP3YP3YP3Y522100000053820000000280000000.050.05151433339262500000149384952 0000070318 2019-01-01 2019-03-31 0000070318 2019-04-24 0000070318 2018-12-31 0000070318 2019-03-31 0000070318 2018-01-01 2018-03-31 0000070318 2017-12-31 0000070318 2018-03-31 0000070318 us-gaap:ComputerSoftwareIntangibleAssetMember 2018-12-31 0000070318 us-gaap:OtherIntangibleAssetsMember 2018-12-31 0000070318 us-gaap:TradeNamesMember 2018-12-31 0000070318 us-gaap:ContractBasedIntangibleAssetsMember 2018-12-31 0000070318 thc:CoreServicesAndOtherSegmentMember 2019-01-01 2019-03-31 0000070318 thc:CaptiveInsuranceSubsidiariesMember 2019-03-31 0000070318 thc:AmbulatoryCareMember 2019-01-01 2019-03-31 0000070318 thc:CaptiveInsuranceSubsidiariesMember 2018-12-31 0000070318 thc:HealthPlanRelatedBusinessesMember 2018-12-31 0000070318 us-gaap:AccountsPayableMember 2019-01-01 2019-03-31 0000070318 thc:HealthPlanRelatedBusinessesMember 2019-03-31 0000070318 2019-01-01 0000070318 us-gaap:AccountsPayableMember 2018-01-01 2018-12-31 0000070318 2018-01-01 2018-12-31 0000070318 us-gaap:AccountsPayableMember 2018-12-31 0000070318 us-gaap:AccountsPayableMember 2019-03-31 0000070318 thc:UnitedSurgicalPartnersInternationalMember 2019-01-01 2019-03-31 0000070318 us-gaap:AccountingStandardsUpdate201602Member 2019-01-01 0000070318 us-gaap:TradeNamesMember 2019-03-31 0000070318 us-gaap:ContractBasedIntangibleAssetsMember 2019-03-31 0000070318 us-gaap:ComputerSoftwareIntangibleAssetMember 2019-03-31 0000070318 us-gaap:OtherIntangibleAssetsMember 2019-03-31 0000070318 us-gaap:SegmentDiscontinuedOperationsMember 2018-12-31 0000070318 us-gaap:SegmentContinuingOperationsMember 2019-03-31 0000070318 us-gaap:SegmentContinuingOperationsMember 2018-12-31 0000070318 us-gaap:SegmentDiscontinuedOperationsMember 2019-03-31 0000070318 thc:CharityCarePatientsMember 2018-01-01 2018-03-31 0000070318 thc:DisproportionateShareHospitalMember 2018-01-01 2018-03-31 0000070318 thc:CharityCarePatientsMember 2019-01-01 2019-03-31 0000070318 us-gaap:SelfPayMember 2018-01-01 2018-03-31 0000070318 thc:DisproportionateShareHospitalMember 2019-01-01 2019-03-31 0000070318 us-gaap:SelfPayMember 2019-01-01 2019-03-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherCurrentLiabilitiesMember 2019-03-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherAssetsMember 2018-12-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherAssetsMember 2019-03-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherNoncurrentLiabilitiesMember 2018-12-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherCurrentAssetsMember 2019-03-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherCurrentLiabilitiesMember 2018-12-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherCurrentAssetsMember 2018-12-31 0000070318 thc:CaliforniaProviderFeeProgramMember us-gaap:OtherNoncurrentLiabilitiesMember 2019-03-31 0000070318 thc:ConiferSegmentMember 2019-01-01 2019-03-31 0000070318 thc:ConiferSegmentMember 2018-01-01 2018-03-31 0000070318 thc:ConiferSegmentMember 2017-12-31 0000070318 us-gaap:LongTermContractWithCustomerMember thc:ConiferSegmentMember 2019-01-01 2019-03-31 0000070318 us-gaap:ShortTermContractWithCustomerMember thc:ConiferSegmentMember 2019-01-01 2019-03-31 0000070318 us-gaap:LongTermContractWithCustomerMember thc:ConiferSegmentMember 2018-01-01 2018-03-31 0000070318 thc:ConiferSegmentMember 2019-03-31 0000070318 thc:ConiferSegmentMember 2018-03-31 0000070318 us-gaap:ShortTermContractWithCustomerMember thc:ConiferSegmentMember 2018-01-01 2018-03-31 0000070318 thc:ConiferSegmentMember 2018-12-31 0000070318 thc:HospitalOperationsAndOtherTotalPriorToInterSegmentEliminationsMember 2019-01-01 2019-03-31 0000070318 thc:HospitalOperationsAndOtherTotalPriorToInterSegmentEliminationsMember 2018-12-31 0000070318 thc:HospitalOperationsAndOtherTotalPriorToInterSegmentEliminationsMember 2019-03-31 0000070318 thc:HospitalOperationsAndOtherTotalPriorToInterSegmentEliminationsMember 2018-01-01 2018-03-31 0000070318 thc:HospitalOperationsAndOtherTotalPriorToInterSegmentEliminationsMember 2017-12-31 0000070318 thc:HospitalOperationsAndOtherTotalPriorToInterSegmentEliminationsMember 2018-03-31 0000070318 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember thc:ChicagoFacilitiesMember 2017-10-01

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thc:center thc:lawsuit thc:state

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2019

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number 1-7293

TENET HEALTHCARE CORPORATION

(Exact name of Registrant as specified in its charter)

Nevada **95-2557091**
(State of Incorporation) (IRS Employer Identification No.)

1445 Ross Avenue, Suite 1400
Dallas, TX 75202
(Address of principal executive offices, including zip code)

(469) 893-2200
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be

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submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company (each as defined in Exchange Act Rule 12b-2).

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes

No

At April 24, 2019, there were 103,131,661 shares of the Registrant's common stock, \$0.05 par value, outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TENET HEALTHCARE CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****Dollars in Millions****(Unaudited)**

	March 31,	December
	2019	31,
		2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$252	\$411
Accounts receivable	2,744	2,595
Inventories of supplies, at cost	308	305
Income tax receivable	17	21
Assets held for sale	—	107
Other current assets	1,261	1,197
Total current assets	4,582	4,636
Investments and other assets	2,331	1,456
Deferred income taxes	291	312
Property and equipment, at cost, less accumulated depreciation and amortization (\$5,382 at March 31, 2019 and \$5,221 at December 31, 2018)	6,996	6,993
Goodwill	7,283	7,281
Other intangible assets, at cost, less accumulated amortization (\$1,010 at March 31, 2019 and \$1,013 at December 31, 2018)	1,675	1,731
Total assets	\$23,158	\$22,409
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$158	\$182
Accounts payable	1,101	1,207
Accrued compensation and benefits	707	838
Professional and general liability reserves	224	216
Accrued interest payable	323	240
Liabilities held for sale	—	43
Other current liabilities	1,212	1,131
Total current liabilities	3,725	3,857
Long-term debt, net of current portion	14,814	14,644
Professional and general liability reserves	690	666
Defined benefit plan obligations	512	521
Deferred income taxes	36	36
Other long-term liabilities	1,268	578
Total liabilities	21,045	20,302
Commitments and contingencies		
Redeemable noncontrolling interests in equity of consolidated subsidiaries	1,439	1,420
Equity:		
Shareholders' equity:		
Common stock, \$0.05 par value; authorized 262,500,000 shares; 151,433,339 shares issued at March 31, 2019 and 150,897,143 shares issued at December 31, 2018	7	7
Additional paid-in capital	4,748	4,747
Accumulated other comprehensive loss	(221) (223)

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Accumulated deficit	(2,254)	(2,236)
Common stock in treasury, at cost, 48,352,853 shares at March 31, 2019 and 48,359,705 shares at December 31, 2018	(2,414)	(2,414)
Total shareholders' deficit	(134)	(119)
Noncontrolling interests	808	806
Total equity	674	687
Total liabilities and equity	\$ 23,158	\$ 22,409

See accompanying Notes to Condensed Consolidated Financial Statements.

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TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Dollars in Millions, Except Per-Share Amounts
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net operating revenues	\$4,545	\$4,699
Equity in earnings of unconsolidated affiliates	34	25
Operating expenses:		
Salaries, wages and benefits	2,153	2,227
Supplies	741	774
Other operating expenses, net	1,074	1,060
Electronic health record incentives	(1)	(1)
Depreciation and amortization	208	204
Impairment and restructuring charges, and acquisition-related costs	19	47
Litigation and investigation costs	13	6
Net losses (gains) on sales, consolidation and deconsolidation of facilities	1	(110)
Operating income	371	517
Interest expense	(251)	(255)
Other non-operating income (expense), net	1	(1)
Loss from early extinguishment of debt	(47)	(1)
Income from continuing operations, before income taxes	74	260
Income tax expense	(17)	(70)
Income from continuing operations, before discontinued operations	57	190
Discontinued operations:		
Income from operations	10	1
Income tax expense	(2)	—
Income from discontinued operations	8	1
Net income	65	191
Less: Net income available to noncontrolling interests	84	92
Net income available (loss attributable) to Tenet Healthcare Corporation common shareholders	\$(19)	\$99
Amounts available (attributable) to Tenet Healthcare Corporation common shareholders		
Income (loss) from continuing operations, net of tax	\$(27)	\$98
Income from discontinued operations, net of tax	8	1
Net income available (loss attributable) to Tenet Healthcare Corporation common shareholders	\$(19)	\$99
Earnings (loss) per share available (attributable) to Tenet Healthcare Corporation common shareholders:		
Basic		
Continuing operations	\$(0.26)	\$0.97
Discontinued operations	0.08	0.01
	\$(0.18)	\$0.98
Diluted		
Continuing operations	\$(0.26)	\$0.95
Discontinued operations	0.08	0.01
	\$(0.18)	\$0.96
Weighted average shares and dilutive securities outstanding (in thousands):		
Basic	102,788	101,392
Diluted	102,788	102,656

See accompanying Notes to Condensed Consolidated Financial Statements.

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TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
Dollars in Millions
(Unaudited)

	Three Months	
	Ended March 31,	
	2019	2018
Net income	\$65	\$191
Other comprehensive income:		
Amortization of net actuarial loss included in other non-operating expense, net	3	4
Foreign currency translation adjustments	—	6
Other comprehensive income before income taxes	3	10
Income tax expense related to items of other comprehensive income	(1)	(2)
Total other comprehensive income, net of tax	2	8
Comprehensive net income	67	199
Less: Comprehensive income available to noncontrolling interests	84	92
Comprehensive income available (loss attributable) to Tenet Healthcare Corporation common shareholders	\$(17)	\$107

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**TENET HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****Dollars in Millions****(Unaudited)**

	Three Months Ended March 31,	
	2019	2018
Net income	\$65	\$191
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	208	204
Deferred income tax expense	19	70
Stock-based compensation expense	11	9
Impairment and restructuring charges, and acquisition-related costs	19	47
Litigation and investigation costs	13	6
Net losses (gains) on sales, consolidation and deconsolidation of facilities	1	(110)
Loss from early extinguishment of debt	47	1
Equity in earnings of unconsolidated affiliates, net of distributions received	3	9
Amortization of debt discount and debt issuance costs	11	11
Pre-tax income from discontinued operations	(10)	(1)
Other items, net	(7)	(1)
Changes in cash from operating assets and liabilities:		
Accounts receivable	(158)	(66)
Inventories and other current assets	(115)	(41)
Income taxes	9	—
Accounts payable, accrued expenses and other current liabilities	(109)	(183)
Other long-term liabilities	37	1
Payments for restructuring charges, acquisition-related costs, and litigation costs and settlements	(32)	(33)
Net cash used in operating activities from discontinued operations, excluding income taxes	(2)	(1)
Net cash provided by operating activities	10	113
Cash flows from investing activities:		
Purchases of property and equipment — continuing operations	(192)	(143)
Purchases of businesses or joint venture interests, net of cash acquired	(2)	(16)
Proceeds from sales of facilities and other assets — continuing operations	41	425
Proceeds from sales of facilities and other assets — discontinued operations	17	—
Proceeds from sales of marketable securities, long-term investments and other assets	4	134
Purchases of equity investments	(1)	(30)
Other long-term assets	(2)	7
Other items, net	(4)	(4)
Net cash provided by (used in) investing activities	(139)	373
Cash flows from financing activities:		
Repayments of borrowings under credit facility	(495)	—
Proceeds from borrowings under credit facility	685	—
Repayments of other borrowings	(1,620)	(91)
Proceeds from other borrowings	1,507	7
Debt issuance costs	(18)	—
Distributions paid to noncontrolling interests	(74)	(64)
Proceeds from sales of noncontrolling interests	4	5
Purchases of noncontrolling interests	(3)	(9)
Proceeds from exercise of stock options and employee stock purchase plan	1	9

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Other items, net	(17)	20
Net cash used in financing activities	(30)	(123)
Net increase (decrease) in cash and cash equivalents	(159)	363
Cash and cash equivalents at beginning of period	411	611
Cash and cash equivalents at end of period	\$252	\$974
Supplemental disclosures:		
Interest paid, net of capitalized interest	\$(158)	\$(169)
Income tax refunds, net	\$9	\$1

See accompanying Notes to Condensed Consolidated Financial Statements.

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**TENET HEALTHCARE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1. BASIS OF PRESENTATION

Description of Business and Basis of Presentation

Tenet Healthcare Corporation (together with our subsidiaries, referred to herein as “Tenet,” “we” or “us”) is a national, diversified healthcare services company. We operate regionally focused, integrated healthcare delivery networks, primarily in large urban and suburban markets. Through our subsidiaries, partnerships and joint ventures, including USPI Holding Company, Inc. (“USPI”), at March 31, 2019, we operated 65 hospitals, 23 surgical hospitals and approximately 470 outpatient centers throughout the United States. In addition, our Conifer Holdings, Inc. (“Conifer”) subsidiary provides healthcare business process services in the areas of hospital and physician revenue cycle management and value-based care solutions to healthcare systems, as well as individual hospitals, physician practices, self-insured organizations, health plans and other entities.

This quarterly report supplements our Annual Report on Form 10-K for the year ended December 31, 2018 (“Annual Report”). As permitted by the Securities and Exchange Commission for interim reporting, we have omitted certain notes and disclosures that substantially duplicate those in our Annual Report. For further information, refer to the audited Consolidated Financial Statements and notes included in our Annual Report. Unless otherwise indicated, all financial and statistical data included in these notes to our Condensed Consolidated Financial Statements relate to our continuing operations, with dollar amounts expressed in millions (except per-share amounts).

Effective January 1, 2019, we adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842)” (“ASU 2016-02”) using the modified retrospective transition approach as of the period of adoption. Our financial statements for periods prior to January 1, 2019 were not modified for the application of the new lease accounting standard. The main difference between the guidance in ASU 2016-02 and previous accounting principles generally accepted in the United States of America (“GAAP”) is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Upon adoption of ASU 2016-02, we recorded \$822 million of right-of-use assets, net of deferred rent, associated with operating leases in investments and other assets in our condensed consolidated balance sheet, \$147 million of current liabilities associated with operating leases in other current liabilities in our condensed consolidated balance sheet and \$715 million of long-term liabilities associated with operating leases in other long-term liabilities in our condensed consolidated balance sheet. We also recognized \$1 million of cumulative effect adjustment that decreased accumulated deficit at January 1, 2019.

Although the Condensed Consolidated Financial Statements and related notes within this document are unaudited, we believe all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. In preparing our financial statements in conformity with GAAP, we are required to make estimates and assumptions that affect the amounts reported in our Condensed Consolidated Financial Statements and these accompanying notes. We regularly evaluate the accounting policies and estimates we use. In general, we base the estimates on historical experience and on assumptions that we believe to be reasonable given the particular circumstances in which we operate. Actual results may vary from those estimates. Financial and statistical information we report to other regulatory agencies may be prepared on a basis other than GAAP or using different assumptions or reporting periods and, therefore, may vary from amounts presented herein. Although we make every effort to ensure that the information we report to those agencies is accurate, complete and consistent with applicable reporting guidelines, we cannot be responsible for the accuracy of the information they make available to the public.

Operating results for the three month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the full year. Reasons for this include, but are not limited to: overall revenue and cost trends, particularly the timing and magnitude of price changes; fluctuations in contractual allowances and cost report settlements and valuation allowances; managed care contract negotiations, settlements or terminations and payer consolidations; changes in Medicare and Medicaid regulations; Medicaid and other supplemental funding levels set by the states in which we operate; the timing of approval by the Centers for Medicare and Medicaid Services of Medicaid provider fee revenue programs; trends in patient accounts receivable collectability and associated implicit price concessions; fluctuations in interest rates; levels of malpractice insurance expense and settlement trends; impairment of long-lived assets and goodwill; restructuring charges; losses, costs and insurance recoveries related to natural disasters and other weather-related occurrences; litigation and investigation costs; acquisitions and dispositions of facilities and other assets; gains (losses) on sales, consolidation and deconsolidation of facilities; income tax rates and deferred tax asset valuation allowance activity; changes in estimates of accruals for annual incentive compensation; the timing and amounts of stock option and restricted stock unit grants to employees and directors; gains (losses) from early extinguishment of debt; and changes in occupancy levels and patient volumes. Factors that affect

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service mix, revenue mix, patient volumes and, thereby, the results of operations at our hospitals and related healthcare facilities include, but are not limited to: changes in federal and state healthcare regulations; the business environment, economic conditions and demographics of local communities in which we operate; the number of uninsured and underinsured individuals in local communities treated at our hospitals; seasonal cycles of illness; climate and weather conditions; physician recruitment, retention and attrition; advances in technology and treatments that reduce length of stay; local healthcare competitors; managed care contract negotiations or terminations; the number of patients with high-deductible health insurance plans; hospital performance data on quality measures and patient satisfaction, as well as standard charges for services; any unfavorable publicity about us, or our joint venture partners, that impacts our relationships with physicians and patients; and the timing of elective procedures. These considerations apply to year-to-year comparisons as well.

Net Operating Revenues

We recognize net operating revenues in the period in which we satisfy our performance obligations under contracts by transferring our services to our customers. Net operating revenues are recognized in the amounts to which we expect to be entitled, which are the transaction prices allocated to the distinct services. Net operating revenues for our Hospital Operations and other and Ambulatory Care segments primarily consist of net patient service revenues, principally for patients covered by Medicare, Medicaid, managed care and other health plans, as well as certain uninsured patients under our *Compact with Uninsured Patients* (“*Compact*”) and other uninsured discount and charity programs. Net operating revenues for our Conifer segment primarily consist of revenues from providing revenue cycle management services to healthcare systems, as well as individual hospitals, physician practices, self-insured organizations, health plans and other entities.

Net Patient Service Revenues—We report net patient service revenues at the amounts that reflect the consideration to which we expect to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs) and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, we bill our patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Conifer Revenues—Our Conifer segment recognizes revenue from its contracts when Conifer’s performance obligations are satisfied, which is generally as services are rendered. Revenue is recognized in an amount that reflects the consideration to which Conifer expects to be entitled.