DRAFT. Preliminary.
Not for distribution.

HEALTH SYSTEMS INTEGRATION IN SPAIN AND AROUND THE GLOBE: NEW EVIDENCE

PUBLIC SERVICE DELEGATION MODEL

("Concesión administrativa")

ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

22nd June 2015.

F. Lobo, J. Aledo, R. Maroto, C. Betancur,

FUNDACIÓN ARECES
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PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

- Purpose of the presentation → Data and evidence
- Outline:
  - C. Valenciana
  - PSD Spain
  - PSD Valencia
  - La Ribera R.S. UTEII
  - La Ribera Hospital
  - Project IRR
  - Profitabilty: ROE vs Spanish bond

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PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS: DATA

- Lack of transparency C. Valenciana Govt.
- Data pitfalls
  - ✓ In-company information:
    - UTE –No public accounts → Mother companies
    - Accrual vs cash → Delays in payments and adjustments to final data
    - Integrated -> PC and H ? EESCRI includes everything
  - ✓ Official Statistics: Problems with EESCRI/SIAE: 2009 on, less information
  - ✓ In this presentation no adjustments to population or case-mix
  - ✓ Population: different sources and estimations

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PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS: DATA

Data pitfalls

- Goods and services not included in the contract
- Direct payments by CV ("personal estatutario")

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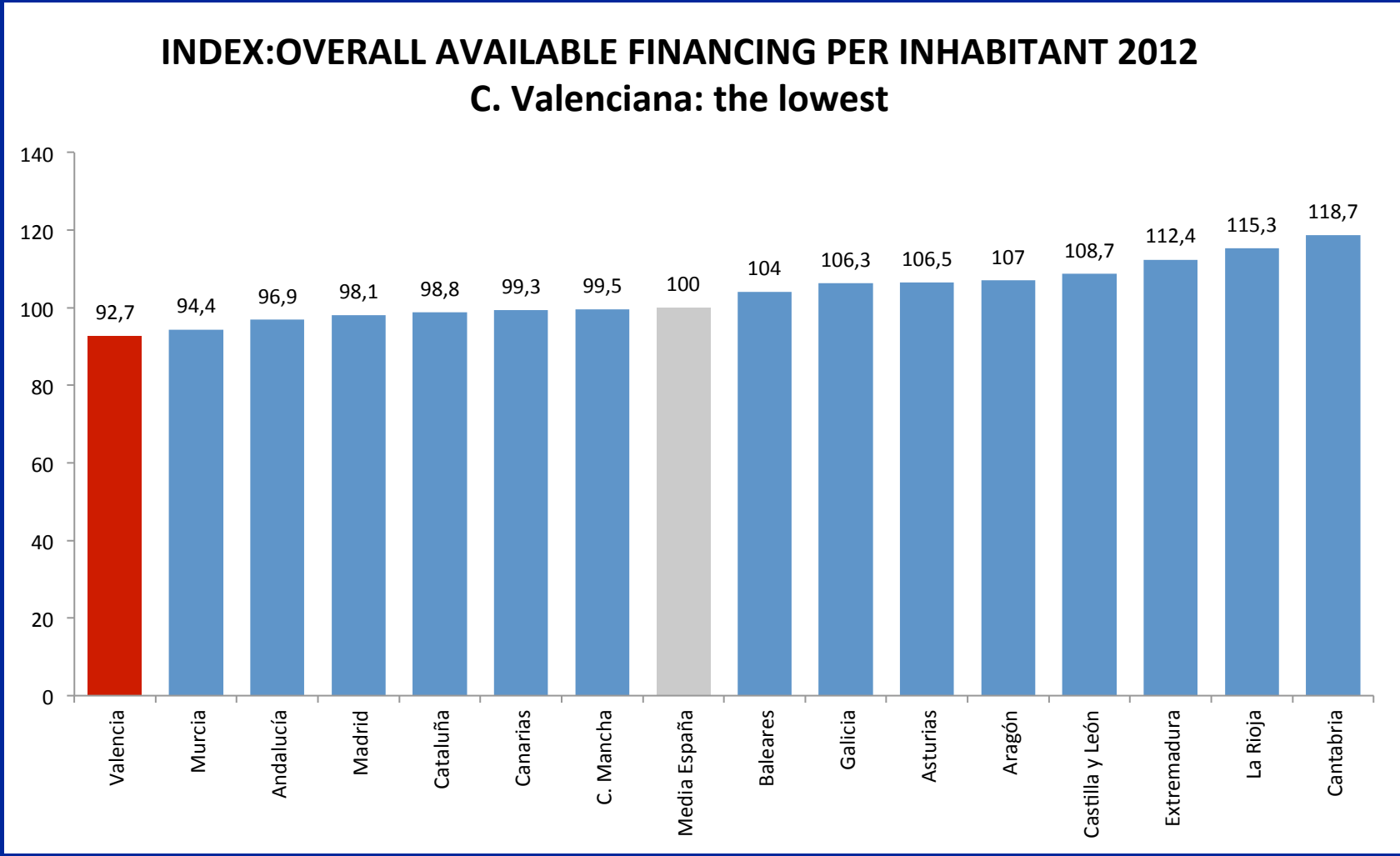
SPAIN, REGIONS: PUBLIC FINANCING SCHEME
Homogenous functions and inhabitants. 2012.



SOURCE: De la Fuente, A. 2014: La evolución de la financiación de las CCAA autónomas de régimen común, 2002-2012. FEDEA.

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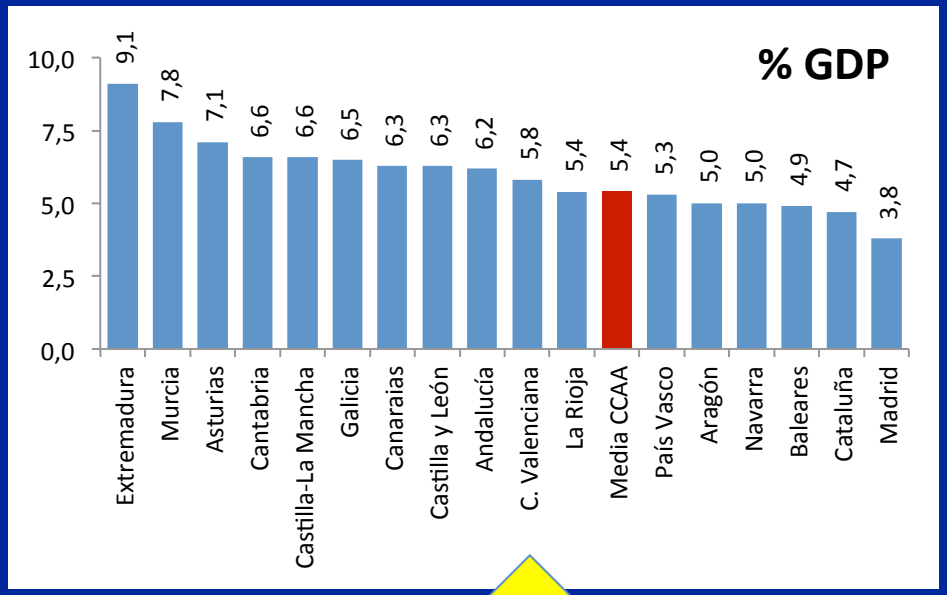
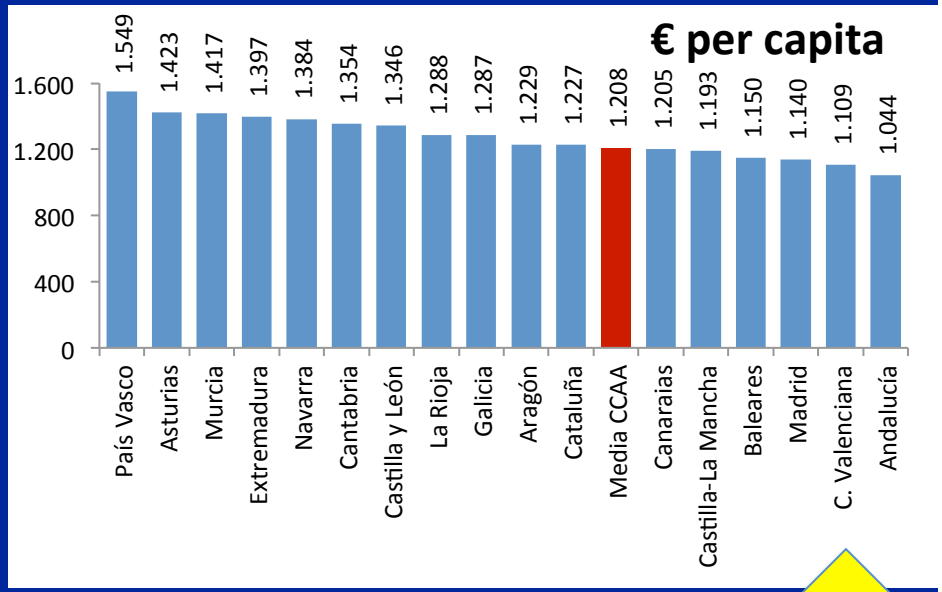
SPAIN, REGIONS: HEALTH PUBLIC EXPENDITURE 2013

VERY SIGNIFICANT VARIATIONS ACCROSS REGIONS: 50% SPREAD





SOURCE: Ministerio de Sanidad, Servicios Sociales e Igualdad: Estadística de Gasto Sanitario Público 2013

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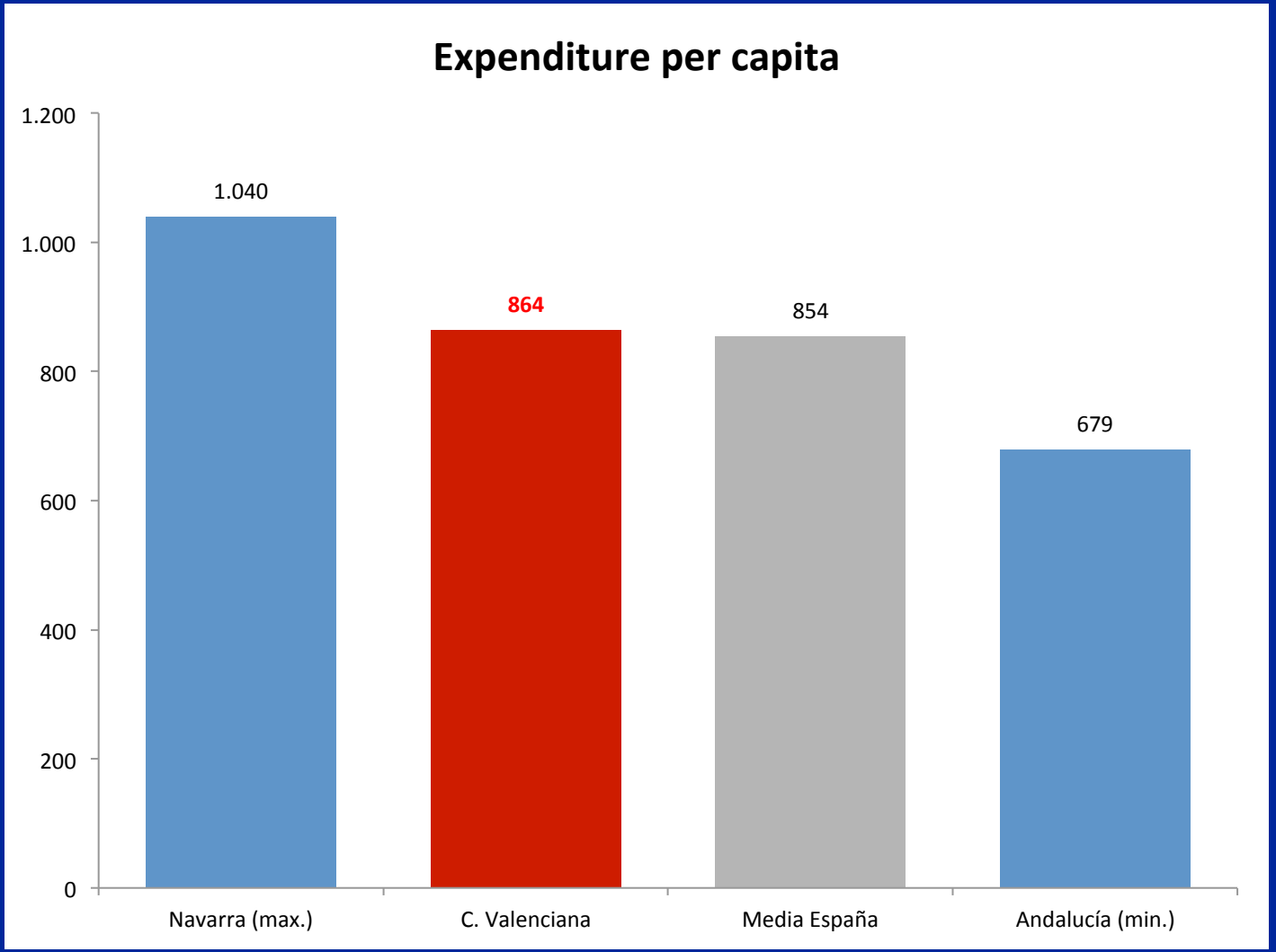
SPAIN: REGIONS. 2013
TOTAL EXPENDITURE ON HEALTH. HOSPITALS



Note: Total expenditure is public and private

SOURCE: *Sistema de Información de Atención Especializada (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad)*

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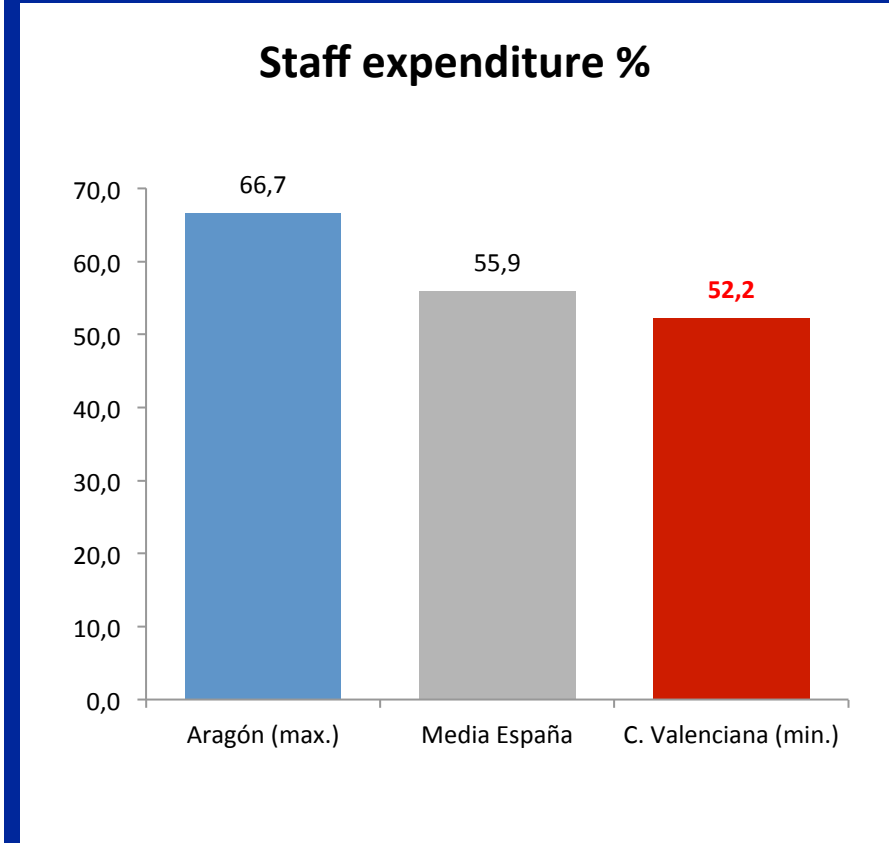
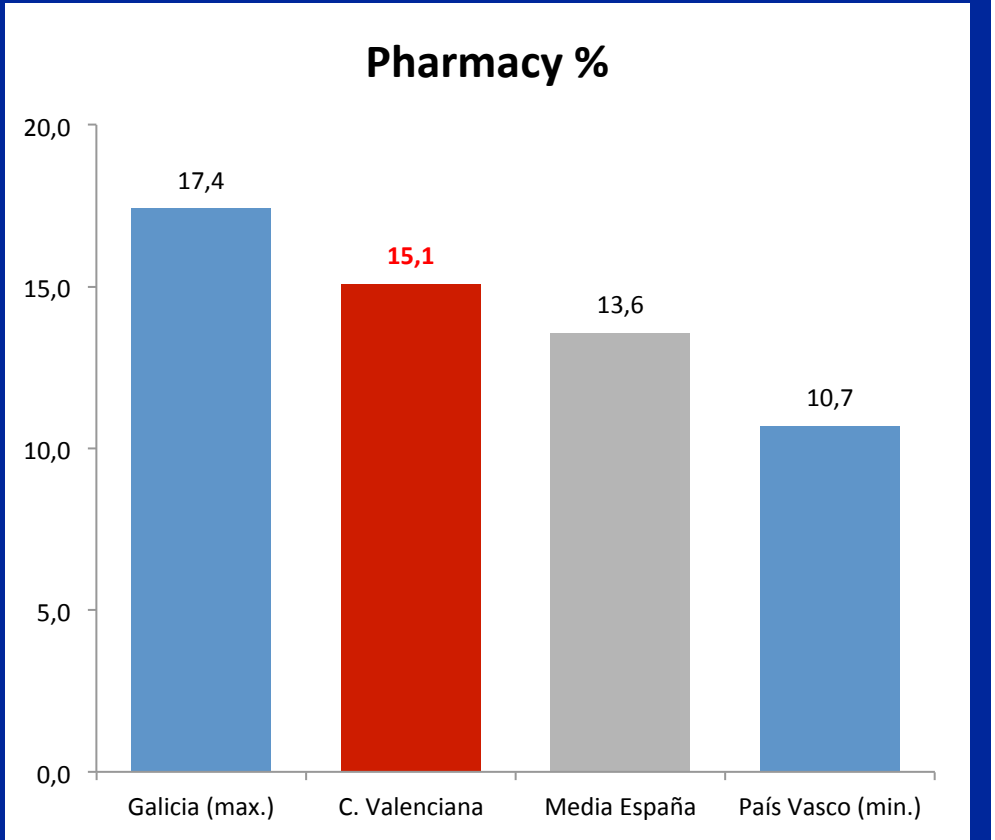
SPAIN: REGIONS . 2013
TOTAL EXPENDITURE ON HEALTH. HOSPITALS

Significant variations in Hospital Expenditure. Staff more than half.





Note: Total expenditure is public and private

SOURCE: *Sistema de Información de Atención Especializada (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad)*

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SPAIN: HOSPITALS BY LEGAL FORM. ACTIVITY AND EXPENDITURE. % BREAKDOWN. 2013.

Public Service Delegations: Only an experiment.

	Beds Deployed	Discharges	Stays	Visit	Ambulatory Major Surgery	Emergencies	TOTAL EXPENDITURE
Direct SNS Management	43,5	44,2	43,2	49,9	37,5	44,2	52,9
Companies for profit	18,0	19,2	16,3	15,5	21,4	20,1	10,8
"Ente Público"	11,3	12,1	11,6	11,9	9,9	10,0	13,4
Private Foundation	10,9	7,5	12,2	6,0	9,0	6,2	6,1
Public Enterprise	6,2	6,1	6,4	7,0	7,4	8,1	7,7
"Consorcio" (Public and Private)	4,1	4,1	4,6	4,1	5,7	5,0	4,0
Others*	2,2	1,7	2,1	1,2	1,8	1,5	1,1
Public Service Delegation	**1,4**	**2,2**	**1,3**	**2,7**	**4,1**	**2,6**	**2,1**
Cooperative	1,1	1,5	0,9	0,6	1,4	1,1	0,9
Public Foundation	0,8	0,8	0,8	0,9	1,0	1,0	0,8
Individual Companies & "Comunidad de Bienes"	0,6	0,6	0,4	0,2	0,8	0,3	0,2
TOTAL ESPAÑA	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source: *Sistema de Información de Atención Especializada (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad)*

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SPAIN: HOSPITALS. 2013

PSD hospitals: Relatively good efficiency parameters, low staff costs.

	INPATIENT BEDS IN OPERATION	INPATIENT MEAN STAY	INPATIENT BED OCCUPANCY RATE	BED TURNOVER RATE	Mortality (% high death)	STAFF EXP. %	PHARMACY %
Direct SNS Management	59.716	7,4	77,3	38,1	4,4	59,0	15,3
Companies for profit	24.557	6,4	71,0	40,3	2,2	40,0	7,6
Private Foundation	15.818	12,4	82,5	24,3	4,7	62,2	14,7
Ente Público	15.810	7,3	78,4	39,3	3,8	54,1	9,1
Public Enterprise	8.327	7,9	82,0	37,9	4,4	53,5	14,4
"Consorcio" (Public and Private)	5.805	8,5	84,2	36,1	4,9	56,2	12,4
Others	3.110	8,9	70,9	28,9	1,6	50,8	7,3
Public Service Delegation	**1.686**	**4,6**	**84,7**	**66,5**	**3,9**	**41,2**	**11,2**
Cooperative	1.576	4,8	62,7	48,0	2,3	45,5	6,9
Public Foundation	1.102	7,4	78,3	38,6	4,2	59,1	12,4
Individual Companies	487	6,5	79,6	44,9	2,4	36,5	7,7
"Comunidad de Bienes"	159	3,7	49,5	48,8	0,1	47,8	2,0
TOTAL ESPAÑA	**138.153**	**7,6**	**77,2**	**37,2**	**3,8**	**55,9**	**13,6**

Source: *Sistema de Información de Atención Especializada (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad)*

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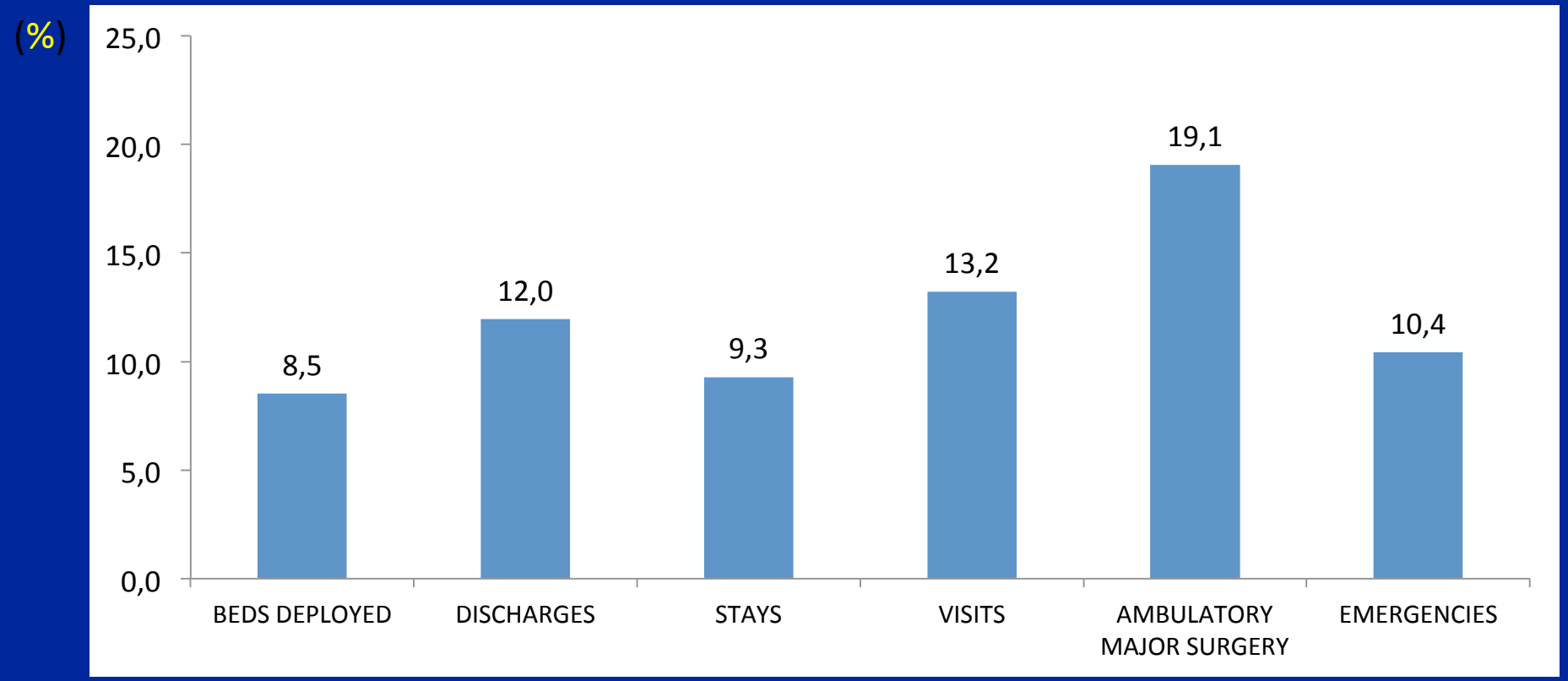
C. VALENCIANA. HOSPITAL ACTIVITY 2009: PUBLIC SERVICE DELEGATION VS. PUBLIC HOSPITALS (26) %



* PSD hospitals in 2009 are La Ribera, Denia and Torrevieja

Source: *Estadística de Establecimientos Sanitarios con Régimen de Internado (ESCRI) (Ministerio de Sanidad, Servicios Sociales e Igualdad)*

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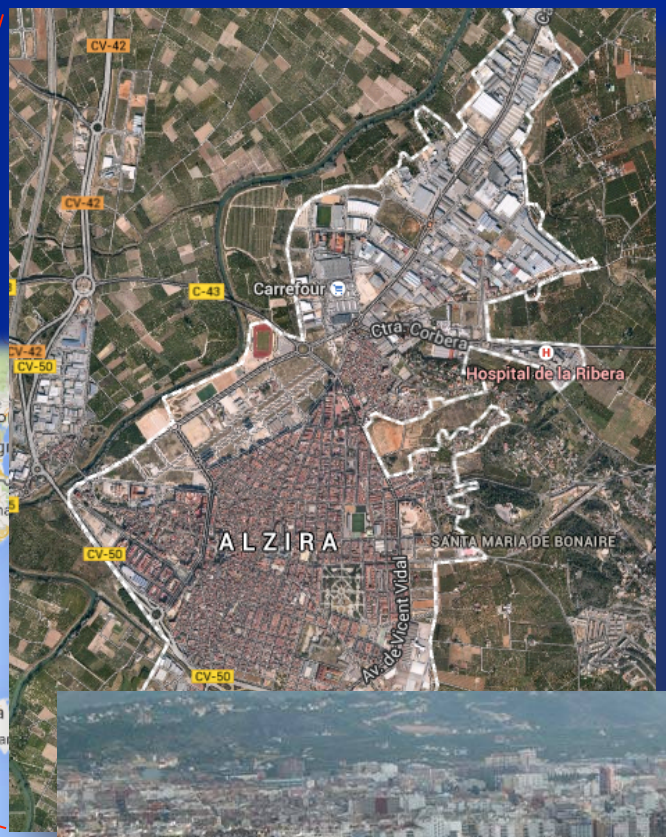
LA RIBERA:DEPT 11 ALZIRA



- Alzira in 1997 had no hospital.
- Department of La Ribera: 250.000 inhabitants.

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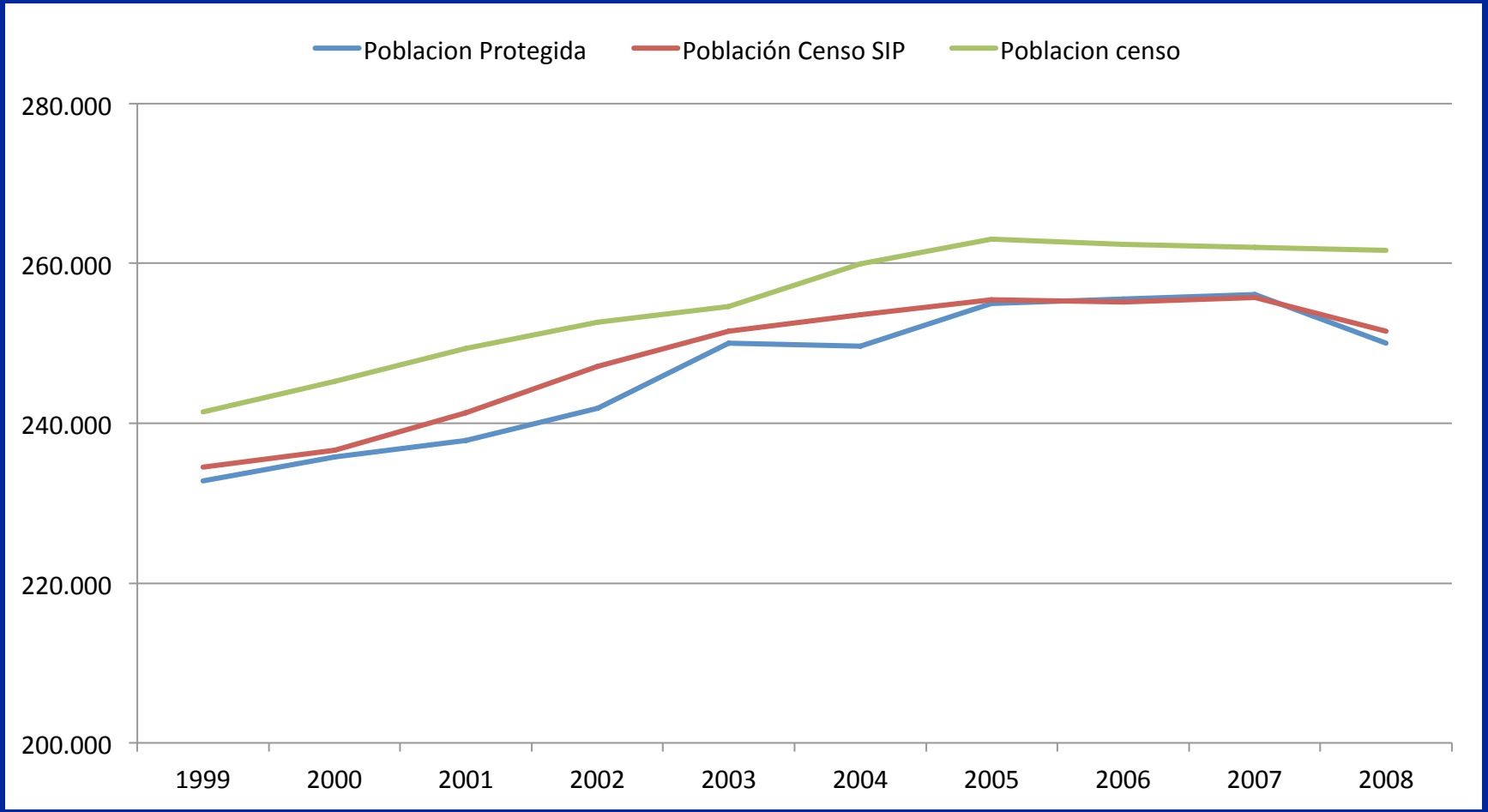
PSD MODEL, ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

DIFFERENT ESTIMATIONS FOR POPULATION COVERED



Note and sources: Protected population is the population under capitation in La Ribera . Source R.S. UTE II. SIP is population assigned to the AVS and includes persons with other sources of financing (Civil servants in MUFACE…). Source: AVS. Population census is the official Census. Source: INE.

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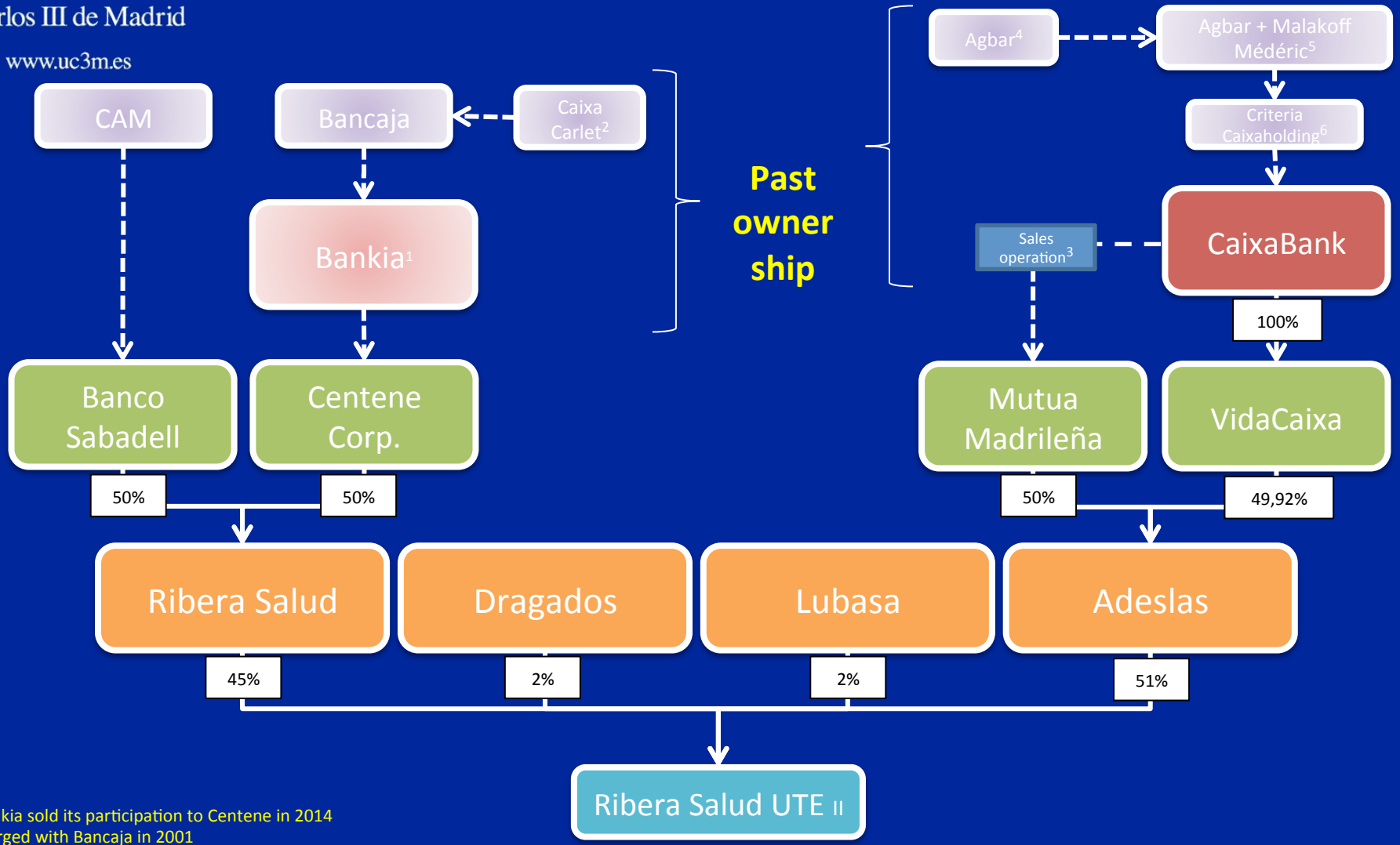
RSUTE II OWNERSIP 2015

Joint venture : Special Purpose Vehicle (SPV):



[1] Bankia sold its participation to Centene in 2014
[2] Merged with Bancaja in 2001
[3] CaixaBank sold the 50% of its participation in VidaCaixa-Adelas in 2011 to Mutua Madrileña.
[4] In 1990, the Agbar Group became the first shareholder of SegurCaixa Adeslas.
[5] In 2002 an alliance between Agbar and Malakoff Médéric Group (France) is created.
[6] Criteria acquired in 2010 from Agbar and Malakoff Médéric 99.77% of capital to merge in SegurCaixa Adeslas.
Source: Ribera Salud & own research.

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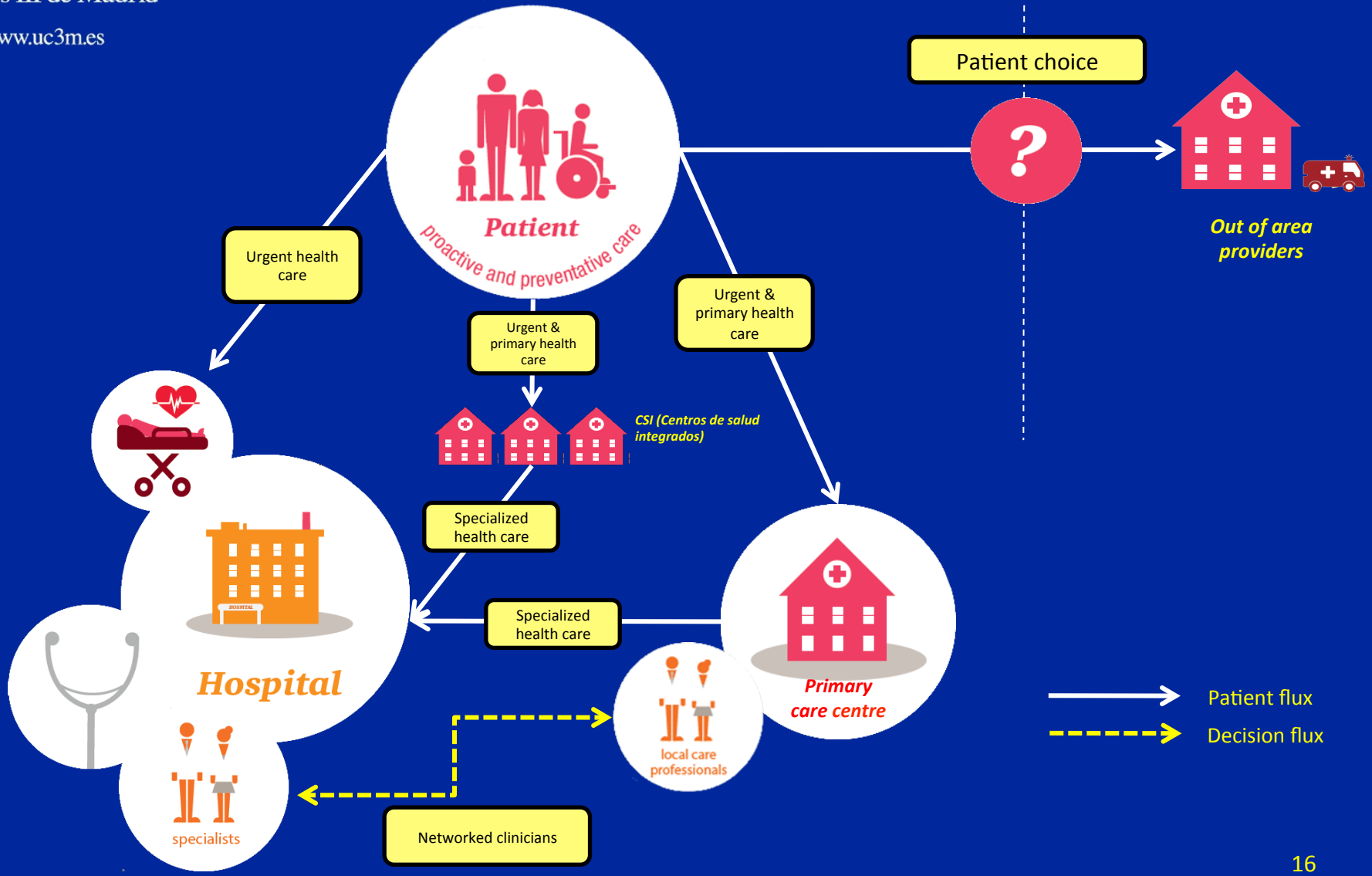
PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS



Source: PwC Health and own made.

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PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

1997 CONTRACT

- C. Valenciana Govt. and RSUTE.
- Tender: Only one bid by Ribera Salud UTE (RSUTE)
- To construct a hospital for defined area (nº 10 "La Ribera") and population
- Manage clinical and non-clinical services
- Per capita yearly payment. Annual review according to CPI.
- 10 years term. Possibility of renewal for a further five years.
- Upon termination the buildings would revert to government
- Commissioner

COMUNITAT VALENCIANA

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HOSPITAL DE LA RIBERA (Alzira)

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PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

1997 CONTRACT

THE HOSPITAL:

- Opened on 1st January 1999.
- Doctors and nurses work conditions: critical.
  - Spanish SNS: "Personal Estatutario" → Close to civil servants → Difficult to dismiss
  - They could chose to keep tenure position or to enter a new contract. Most continued.
- No PC gatekeeping function. Direct access to hospital specialists.

ANTICIPATED TERMINATION OF THE CONTRACT:

69 M€ GCV → RS UTE (H 43.3 Written Down Value + 26 "Loss profit")

72 M€ RS UTEII → GCV

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PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

2003 CONTRACT

- Tender: Only one bid by Ribera Salud UTEII (RSUTEII)
- Comprehensive care: Primary and specialist/hospital healthcare:
- Defined area (Area 10, subsequently Deparment nº 11 "La Ribera") and population (245,000 inhabitants).
- Patients free to choose out of area services and contractor has to pay
- The original hospital, 30 health centers, two outpatient clinics.
- To build and equip a new health centre in Alzira.
- All property and rights shall revert to the Regional Govt. upon expiration of the contract.
- Term: 2003–2018. Extendible for 5 more years (2023).

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2003 CONTRACT

SCOPE OF SERVICES – PORTFOLIO:

- Primary healthcare services and Specialized hospital and outpatient care included in SNS catalogue provided under the Health Plan and portfolio of the C. Valenciana Health Department.
- Benefits and services which may be added to the SNS catalogue in the future
- Addictive Behaviour Units; Family Planning Centres; Mental Health services.
- Healthcare management programmes applied to the entire C. Valenciana.

OTHER COSTS INCLUDED

- Personnel employed by the Health Department (P.”estatutario”, mainly in PC). CV Govt. pays first, R.S.UTEII refunds.
- Primary health care services for citizens not included in the population covered

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2003 CONTRACT

SCOPE OF SERVICES – PORTFOLIO:

OTHER COSTS INCLUDED

- Super-specialized hospital services provided by 3rd level public hospitals (La Fe…).
  - ✓ Transplants
  - ✓ Major burnings
  - ✓ Neonatal major surgery, IC
  - ✓ Infertility
  - ✓ Pregnancies high risks

PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

2003 CONTRACT

SCOPE OF SERVICES – PORTFOLIO: EXCLUDED (contractor does not pay)

- Outpatient pharmacy
- Oxygen therapy
- Prostheses
- Transportation (ambulances)

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2003 CONTRACT

CAPITATION premium:

- Strong incentive to save costs
- Incentive to integration and prevention
- Similar to: Spanish rural historic "igualas"; MUFACE; USA HMO.
- No risk adjusted
- Updated yearly. 2003→ 379 €. 2012→ 671,4 €.
- Yearly increase in C. Valenciana health budget per inhabitant. Never inferior to the CPI, nor superior to the annual increase in Spain's consolidated health public spending.
- Consejo Consultivo decided 2012 "Budget" should be understood as real ("ex post") budget.

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2003 CONTRACT

PAYMENTS FOR PATIENTS IN AND OUT. (TO AVOID RISK SELECTION)

- Incoming patients: Services provided by hospital deduction of 20% of the legal tariff
- Outgoing patients: deducted from the annual payment from the Dept. to RSUTEII at full official tariff.

PHARMACY BONUS: 30% of savings in pharmaceutical costs if lower than average.

BUILDINGS : RSUTEII to pay annual fee of 2% of buildings' value except hospital.

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PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

2003 CONTRACT

- YIELD: IRR cap of 7,5% annually on investment made during all the term (15 years).

- Initial investment: 72 M € (capital value of PSD).
- Investment plan of 68 M€
- Total investment : 140 M€

PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

THE 2003 CONTRACT

QUALITY GUARANTEES

- Management and Quality Plan
- Overseeing Joint Commission: five people, three from Govt. of Valencia.
- Commissioner from Govt. of Valencia in the hospital

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PUBLIC SERVICE DELEGATION MODEL

ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

UNIT OF ANALYSYS:

LA RIBERA DEPARTMENT AND R.S. UTEII

Primary + Specialized Care

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DATA AND INFORMATION: IMPORTANT FEATURES

- Internal financial statements provided by Ribera Salud (Balance sheets 2004-2012 and P&L accounts 2003-2012).
- Joint ventures are not obliged to submit and publish annual accounts.
- It is the duty of participants to include in their accounting statements the operations of the joint venture.
- There is a change in the accounting methodology in Spain in 2007 (PGC) . We adjusted back BS and P&L for 2003 to 2007

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DATA AND INFORMATION: IMPORTANT FEATURES

DELAYS BETWEEN OPERATIONS AND MONEY TRANSFERS. Different accounting periods

- Important delays in CV final data (population, PC premium, patient in and out…), billing and payments.
- *Accrual basis accounting ("devengo") and Cash basis ("Caja")*
- R. S. UTE II adjusted financial statements backwards, from 2007 to 2012 in order to reflect actual operations in their real period (*Accrual basis)* .
- The company did not correct the financial statements between 2003 to 2006.
- We use 2007-2012 "accrual basis" data.

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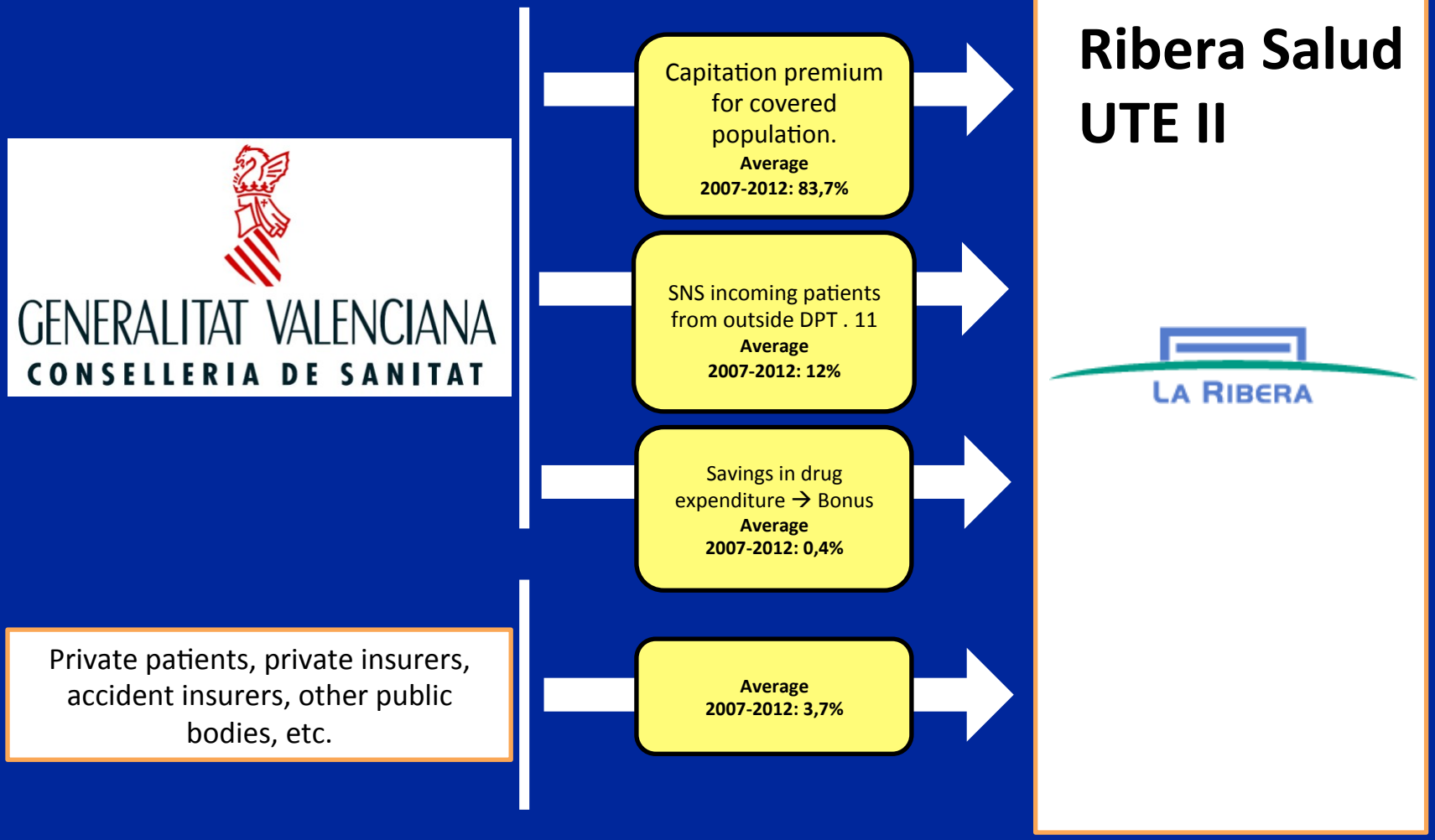
PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

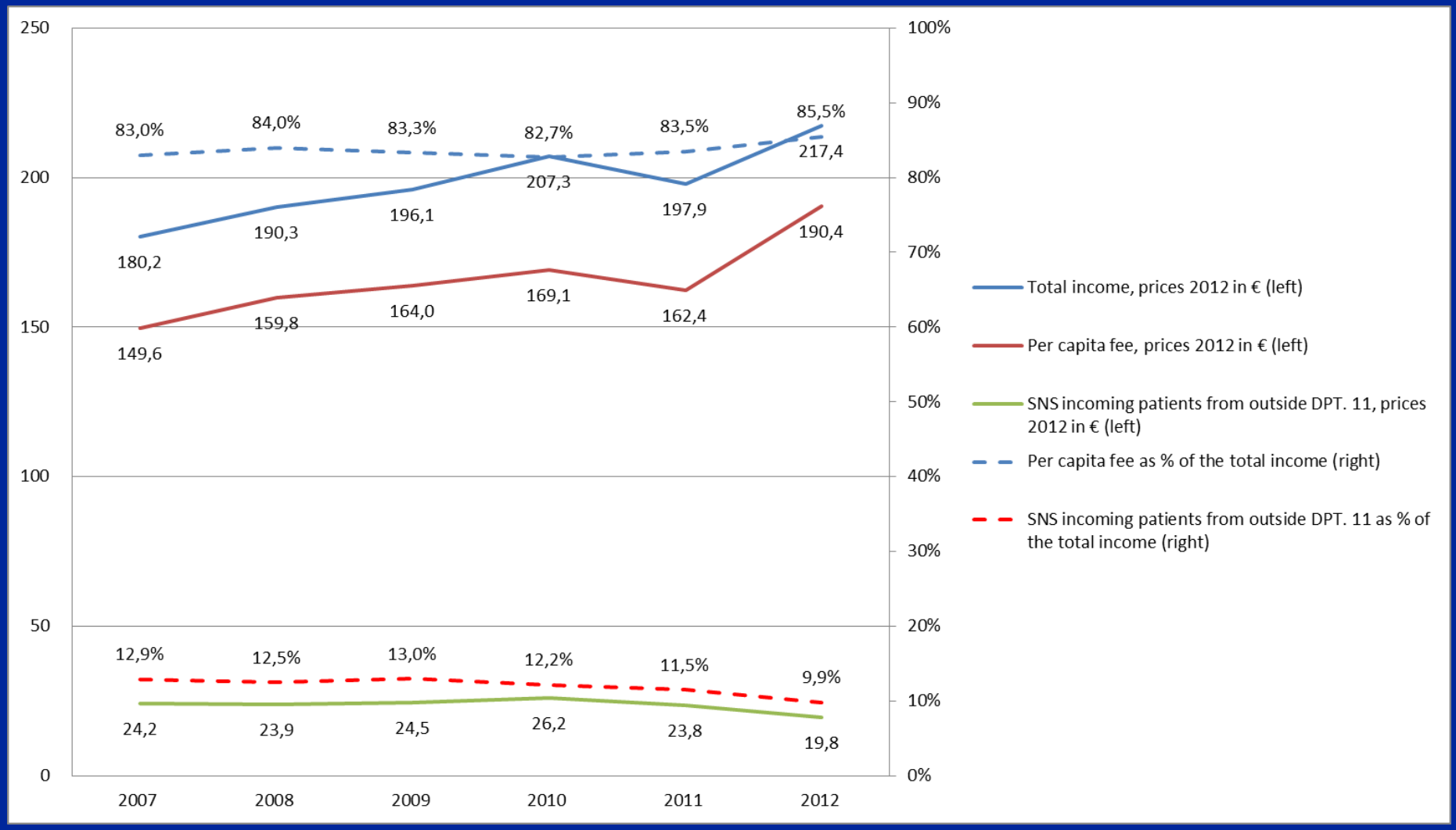
INCOME SOURCES

MONEY FLOWS



LA RIBERA R.S. UTE II: INCOME, MAIN COMPONENTS. 2012 prices

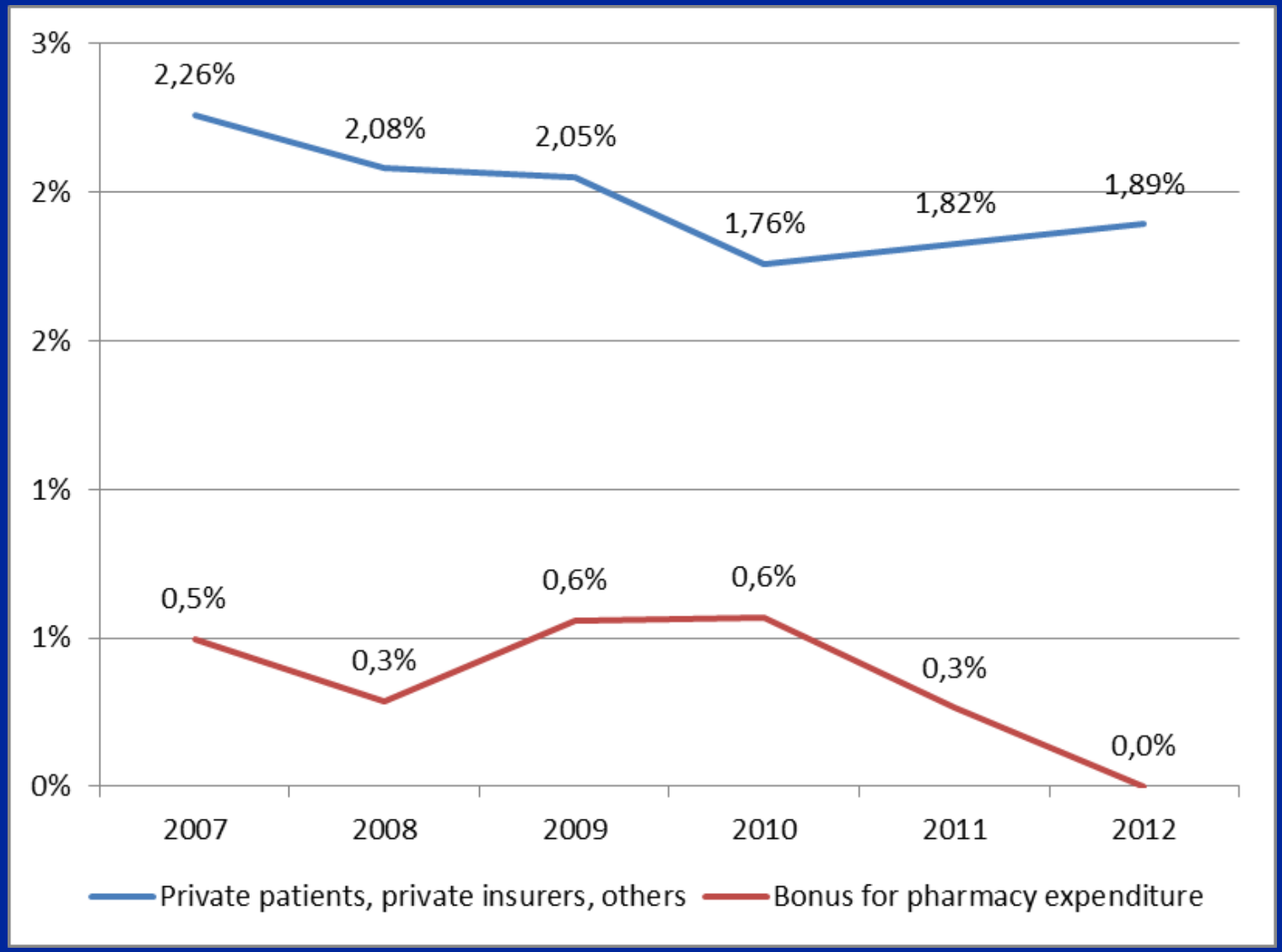
PC premium is about 85% of total income. Incoming SNS patients important but decreasing



Source: RS UTEII BS and P&L. INE for CPI

R. S. UTE II: INCOME, MINOR COMPONENTS

(% over total income)



Source: RS UTEII for BS, P&L and population.

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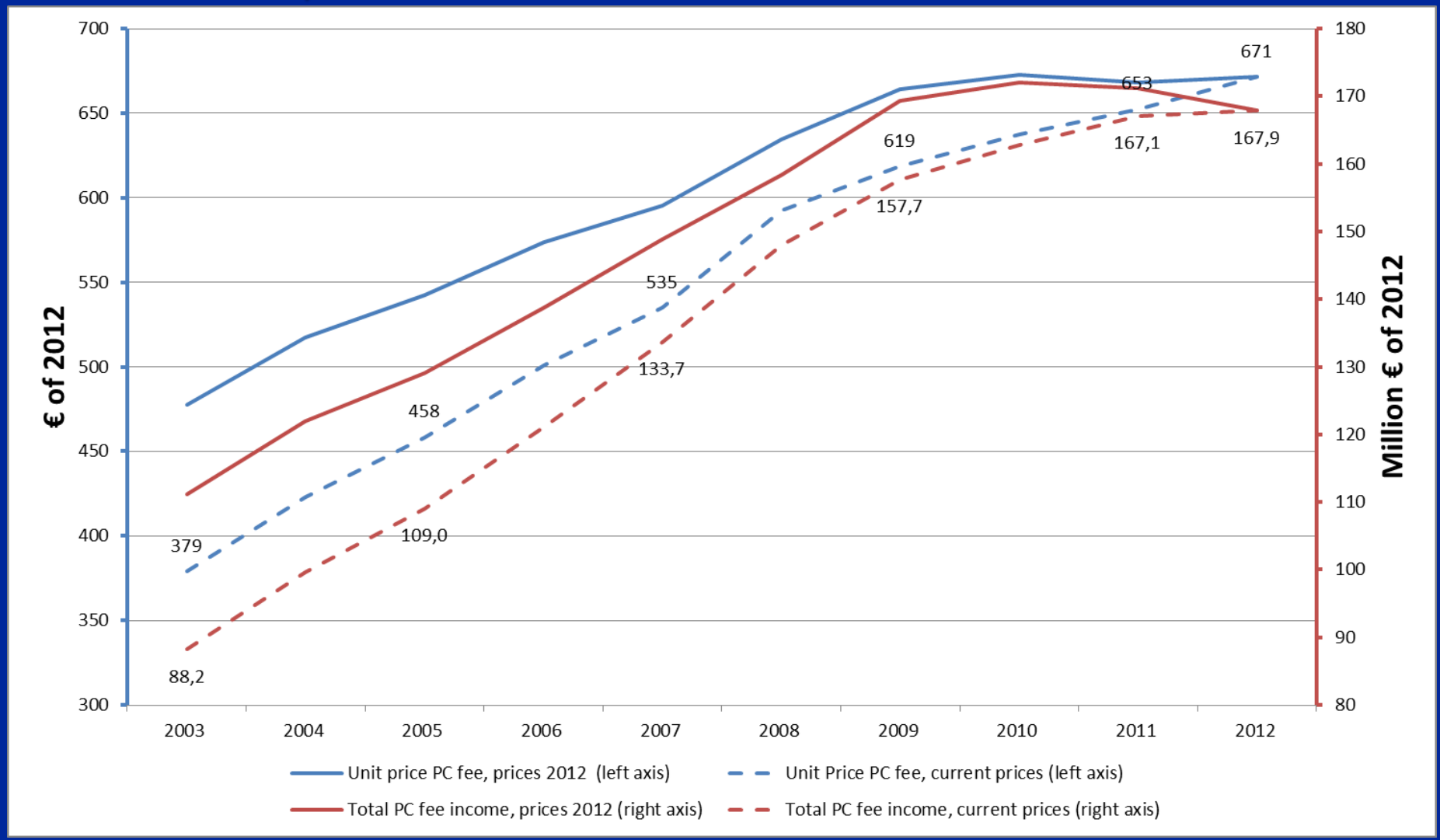
R.S .UTE II: INCOME,

PC premium and total PC income in Ribera-Salud (Constant prices 2012)



Source: RS UTEII pc unit price and population according to "Hospital activity tables". INE for the CPI.

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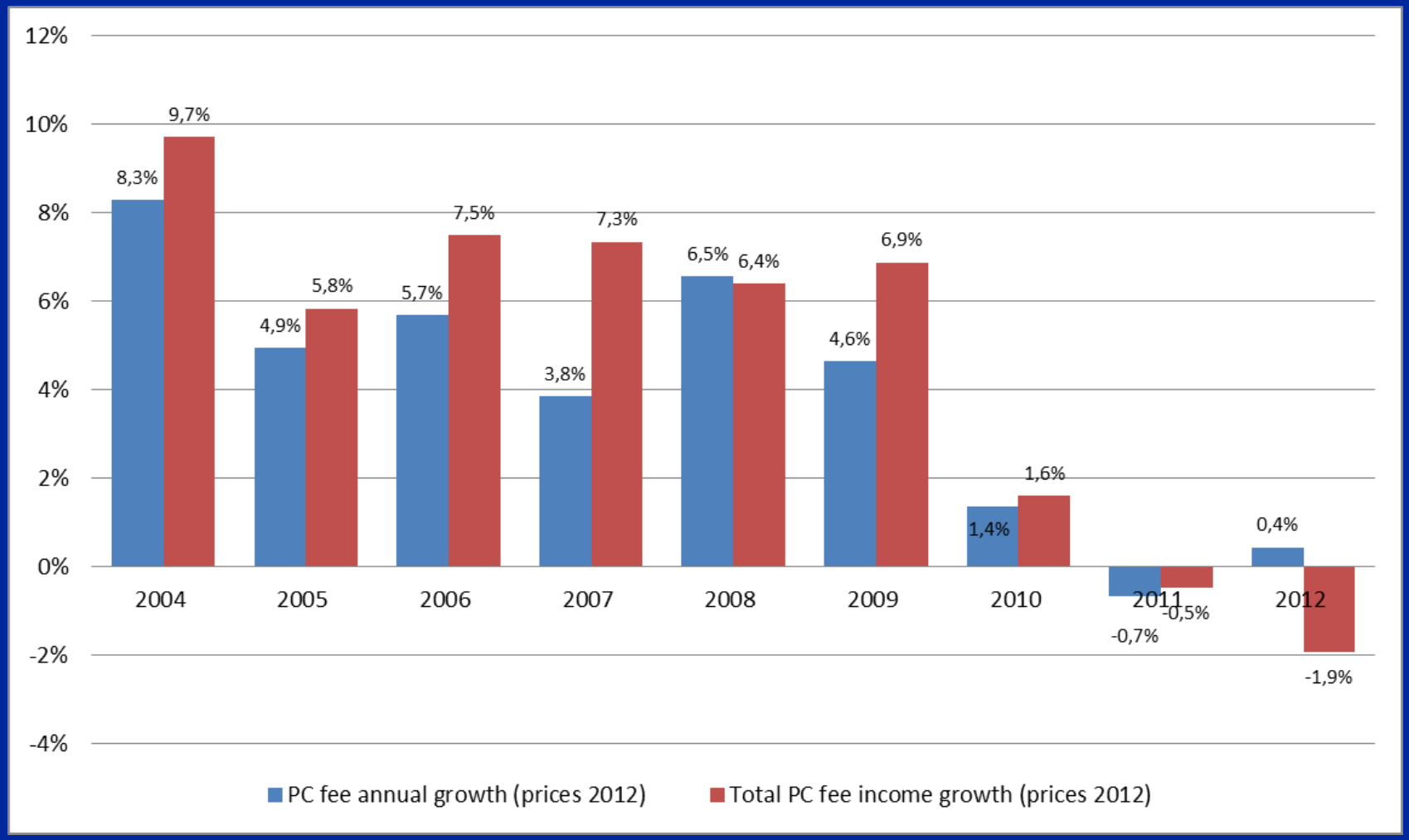
R. S. UTE II: INCOME, UNIT PC premium AND TOTAL PC

Growth rates (Constant prices 2012)



Source: RS UTEII for BS, P&L and population. INE for the CPI.

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PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

EXPENSES

Ribera Salud UTE II

LA RIBERA

MONEY FLOWS

- Supplies
  Average 2007-2012: 35,1%
- Third party services: laundry, cleaning, safety, maintenance, catering, etc.
- Outgoing patients from DPT. 11
- Staff
  Average 2007-2012: 53,2%
- Leases, utilities, taxes, financial exp. and others

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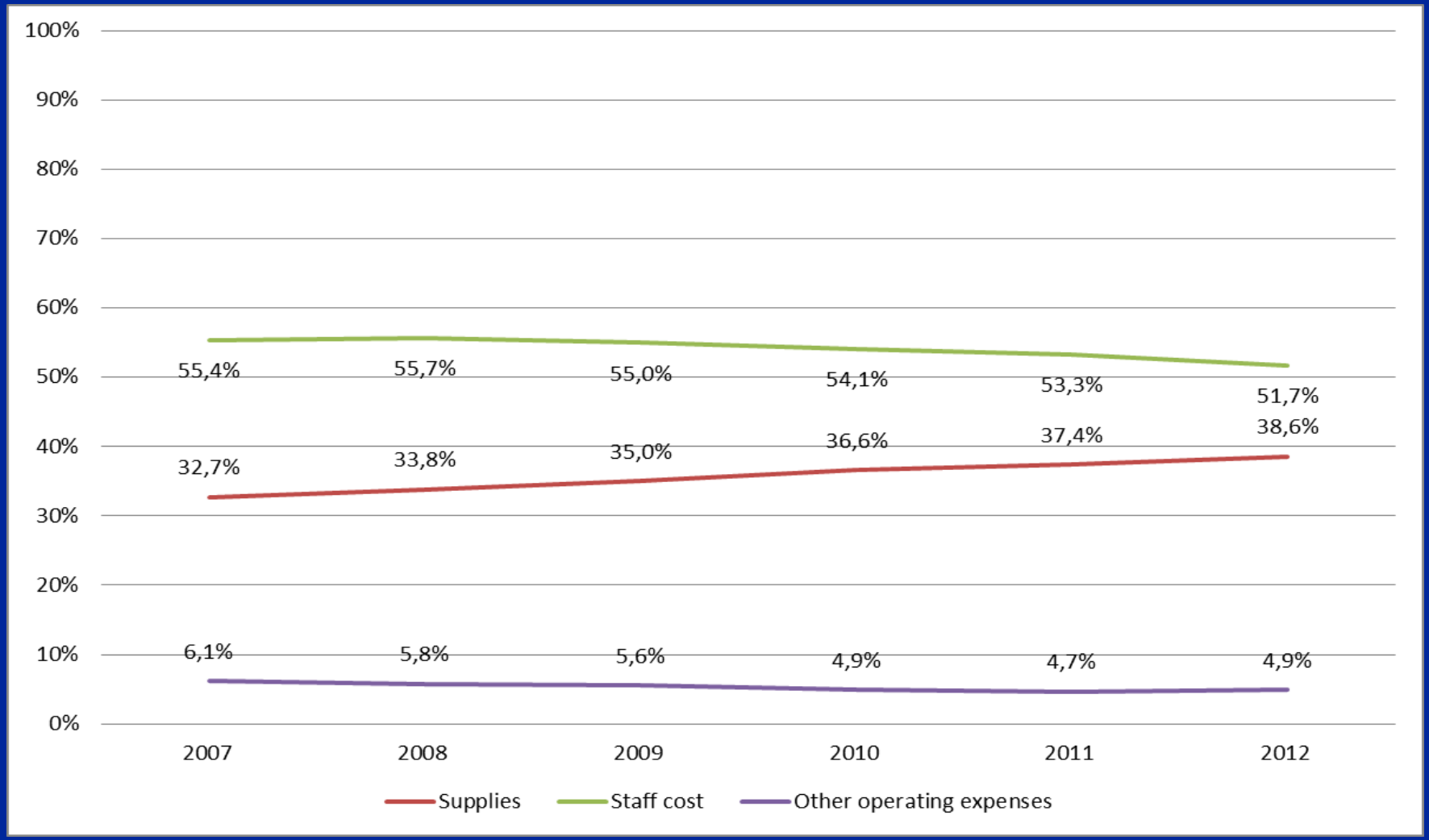
LA RIBERA. R. S. UTE II: EXPENSES %

- Staff costs: Declining. Main variable in the long run.
- Supplies, Other OE: more flexible in short run



Note: Staff costs include all personnel in P Care and H , included"personal estatutario". Source: RS UTEII BS and P&L.

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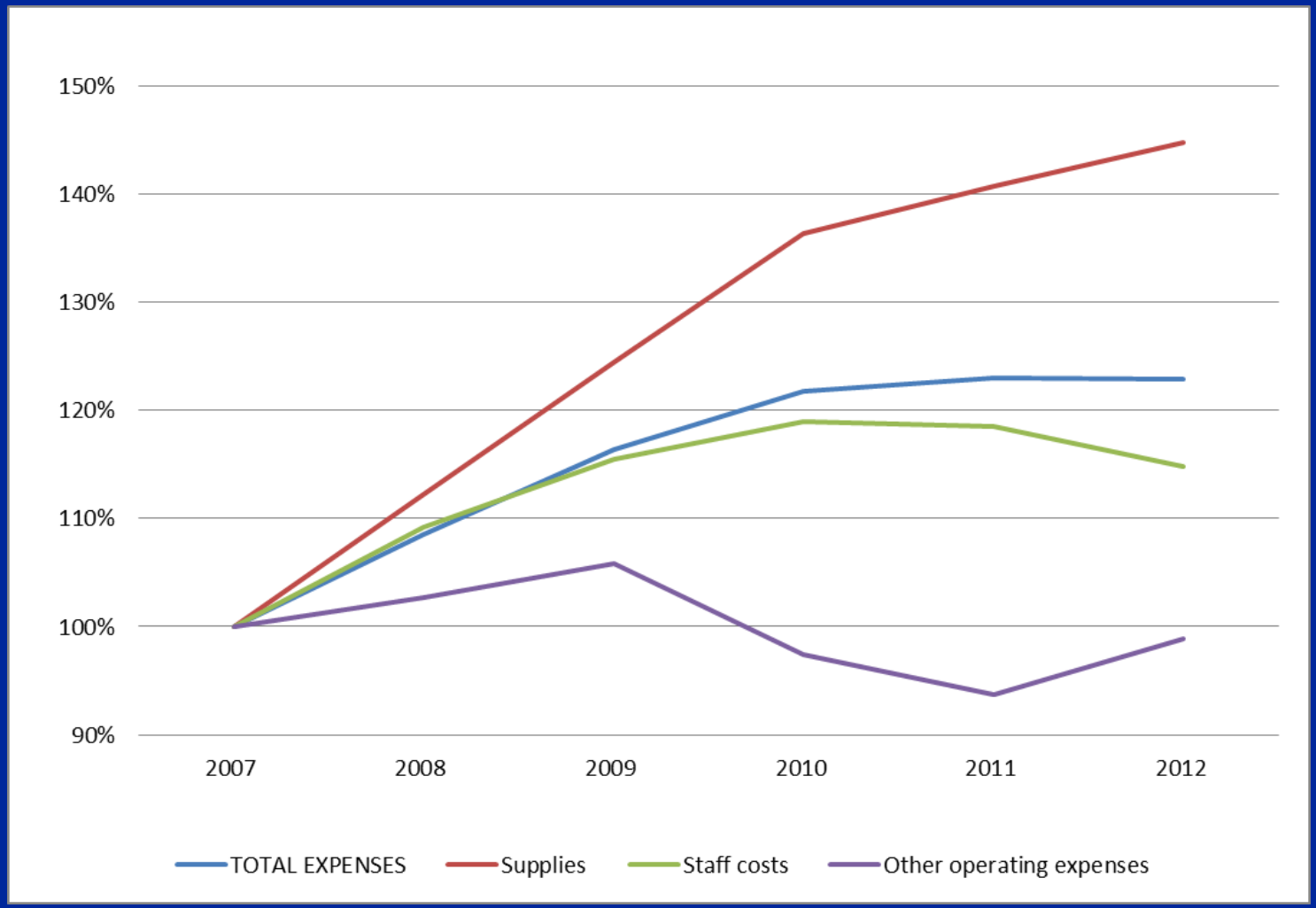
R. S. UTE II: EXPENSES TRENDS

Index : 2007 = 100%, current prices

Control of staff costs

Supplies increase more



Source: Own made with internal BS and P&L given by Ribera Salud UTE.

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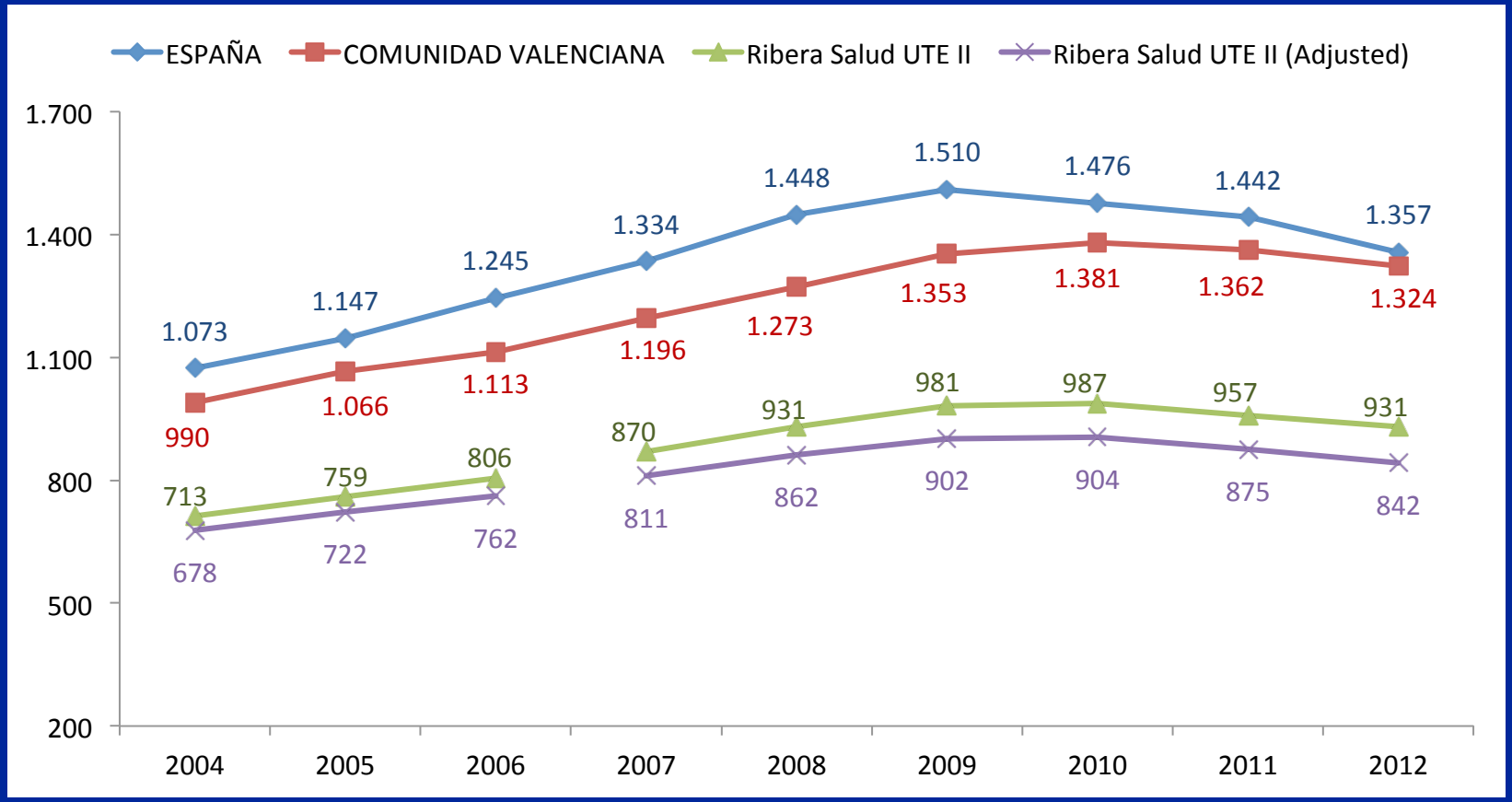
LA RIBERA DEPT AND R. S. UTE II (Specialized Care & Primary Care)

Health Expenditure per capita Spain, CV and La Ribera (current €)



NOTE: La Ribera health expenditure includes pharmacy in primary care. Revenue from all incoming patients from out of La Ribera is subtracted. Hospital expenditure for La Ribera is adjusted to eliminate immobilized amortization. La Ribera (Adjusted) subtracts payments for services provided by other hospitals or departments to La Ribera population.

SOURCE: *Estadística de Establecimientos Sanitarios con Régimen de Internado (ESCRI), Sistema de Información de Atención Especializada (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad), PyG 2004-2006 y PyG Ajustada según criterio de devengo 2007-2012 (Ribera Salud UTE II) y Población Censo (INE)*

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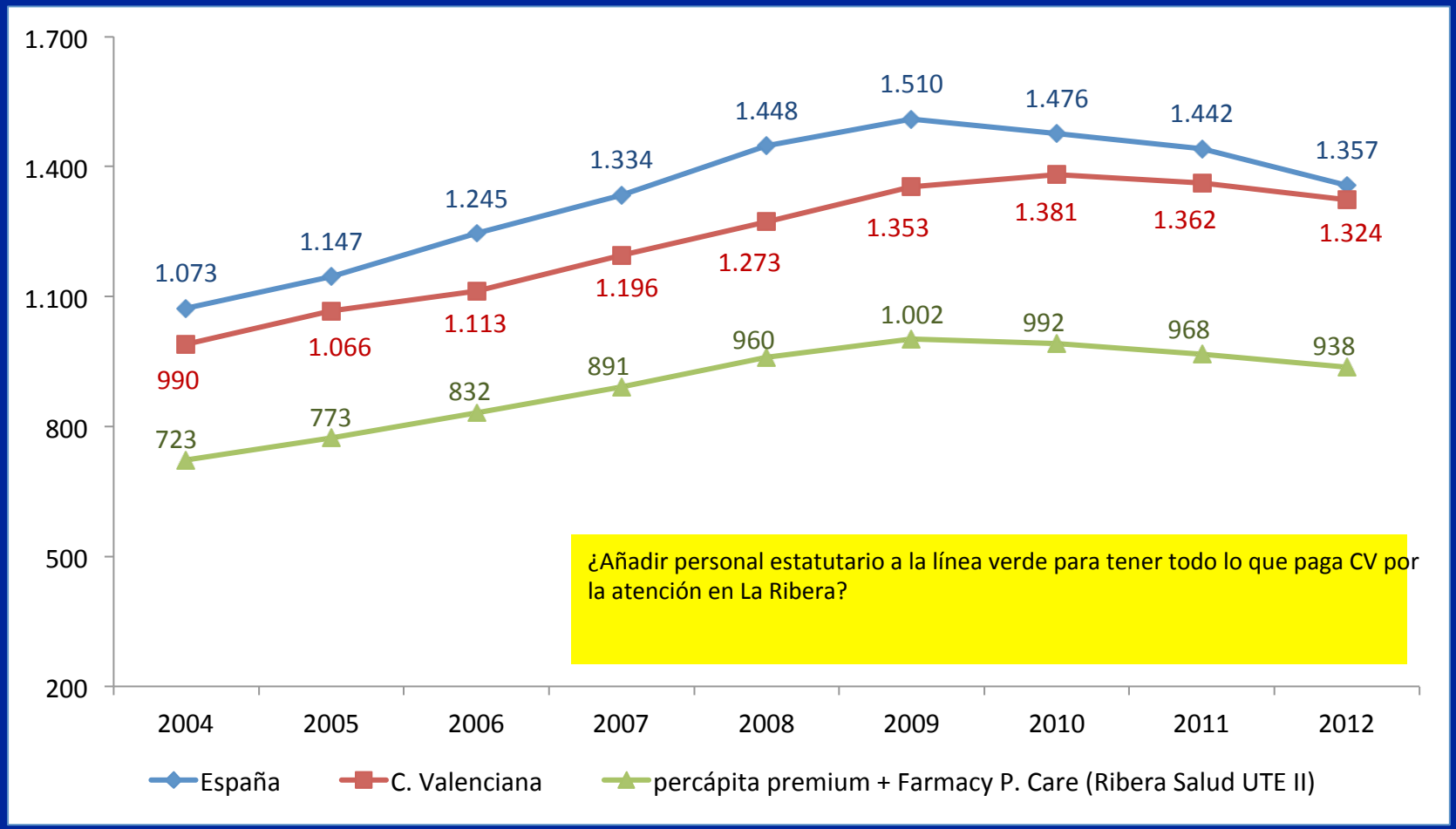
LA RIBERA DEPT AND R.S. UTE II
(SPECIALIZED CARE & PRIMARY CARE)

Health Expenditure p. c. Spain and CV vs p. c. premium Rivera Salud UTE II +Pharmacy P. Care (current €)



NOTE: Premium is final premium
SOURCE: Spain and CV: MSSSI: *Estadística de Gasto Sanitario Público. La Ribera: Ribera Salud UTE II PyG 2004-2006 y PyG Ajustada según criterio de devengo 2007-2012. Población: INE: Censo.*

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PUBLIC SERVICE DELEGATION MODEL
ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

UNIT OF ANALYSYS: THE HOSPITAL

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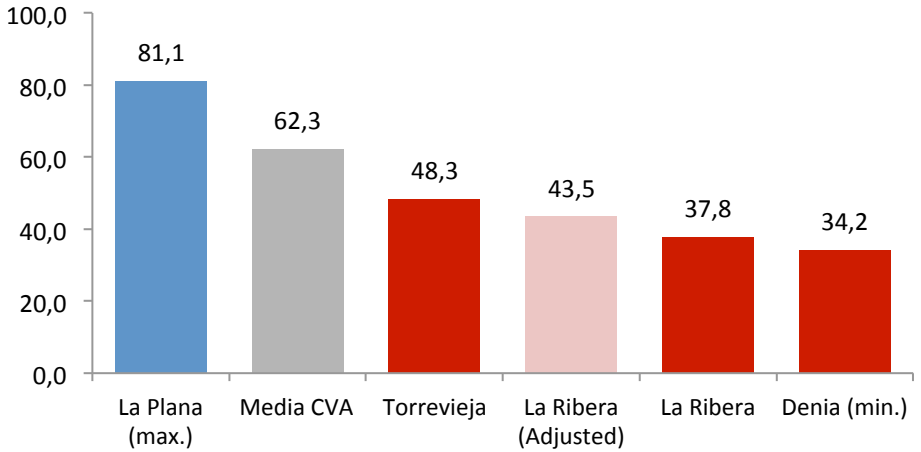
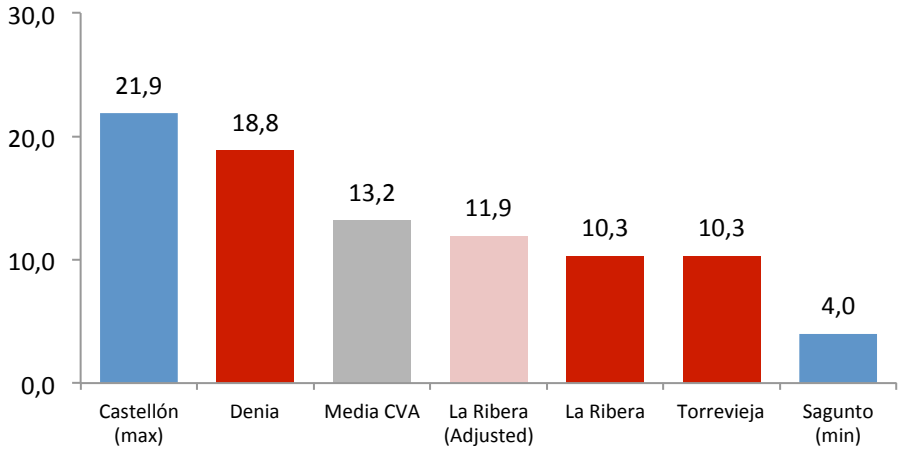
C. VALENCIANA: HOSPITAL EXPENDITURE. 2009. PUBLIC HOSPITALS (26).

STAFF EXPENDITURE %



PHARMACY %



Note: Hospital expenditure for PSD is adjusted to eliminate immobilized amortization. Staff expenditure for La Ribera is adjusted to eliminate primary care personnel according to P&L Statements and in-company information. La Ribera (Adjusted) is adjusted to eliminate care services delivered by other hospitals.

Source: *Estadística de Establecimientos Sanitarios con Régimen de Internado (ESCRI) (Ministerio de Sanidad, Servicios Sociales e Igualdad) y PyG Ajustada La Ribera*

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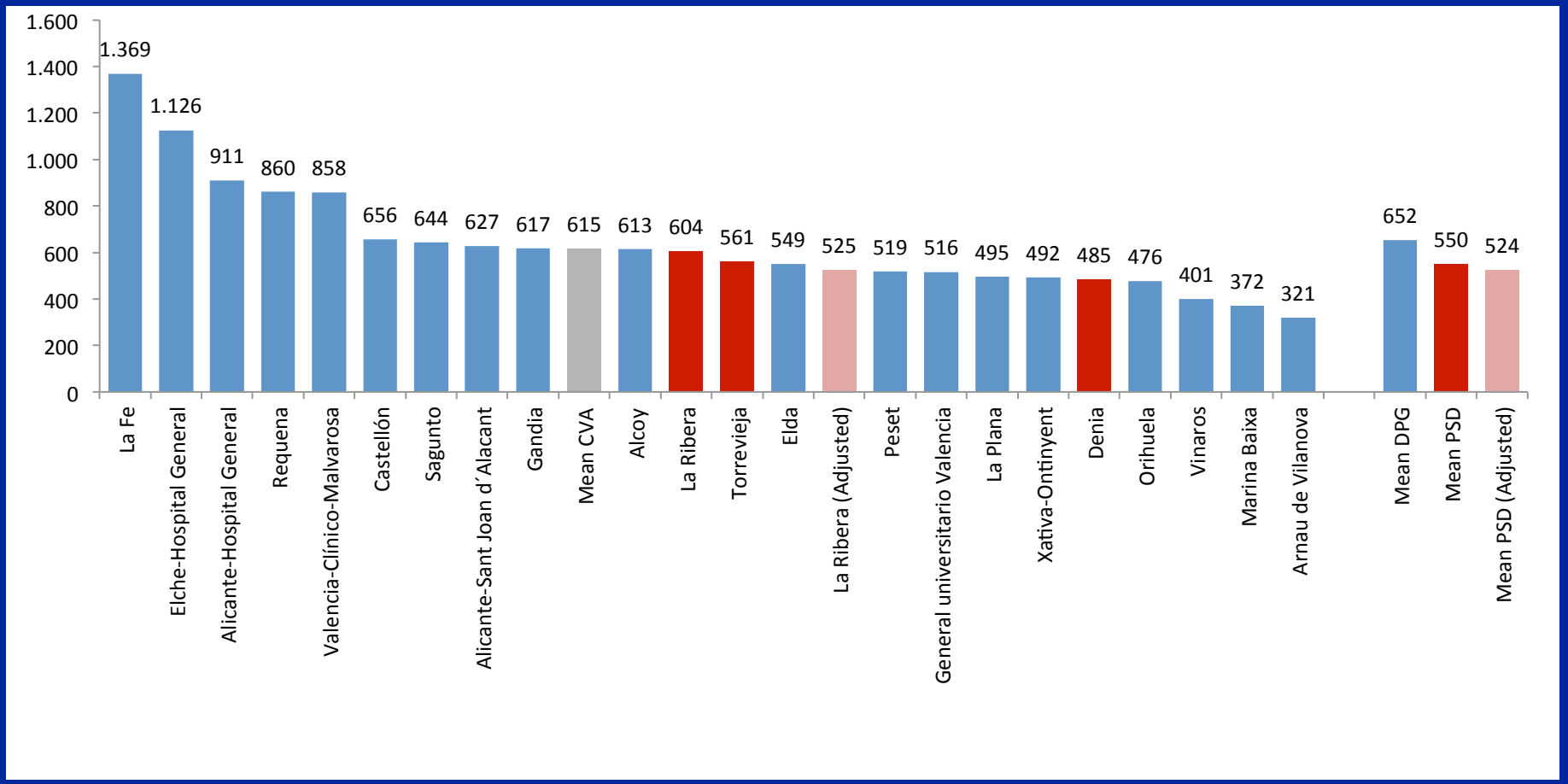
C. VALENCIANA, HOSPITAL EXPENDITURE P.C. €. 2009

Expenditure pc in hospitals (23) directly managed by AVS (Govt.) is 16% to 20 % higher than PSD (not adjusted by case-mix)



Note: Hospital expenditure includes staff costs, purchasing of pharmaceuticals, other management expenses, financial expenses and taxes. Hospital expenditure for PSD is adjusted to eliminate immobilized amortization. Staff expenditure for La Ribera is adjusted to eliminate primary care personnel according to P&L Statements and in-company information. La Ribera (Adjusted) is adjusted to eliminate care services delivered by other hospitals.

SOURCE: *Estadística de Establecimientos Sanitarios con Régimen de Internado (ESCRI) (Ministerio de Sanidad, Servicios Sociales e Igualdad), PYG Ribera Salud y Población Censo (INE)*

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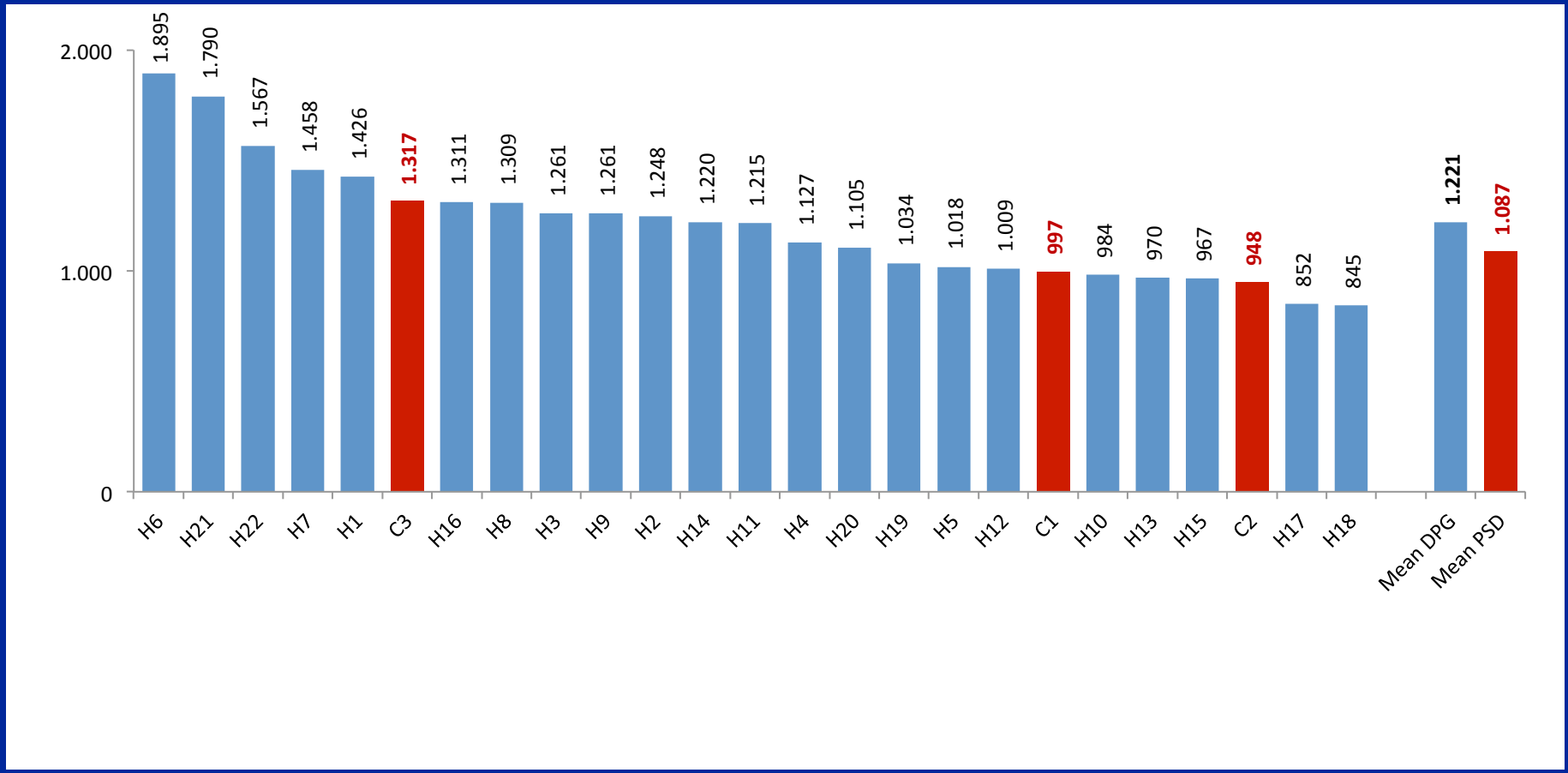
C. VALENCIANA HOSPITAL EXPENDITURE PER EQUIVALENT INPATIENT 2010. Clemente (2014)

2010 Expenditure **PER EQUIVALENT INPATIENT** in hospitals (23) directly managed by AVS (Govt.) 12.3 % higher than PSD.



NOTE: Total expenditure includes staff costs, medical supplies and pharmaceuticals

SOURCE: Clemente (2014): Análisis de la eficiencia de la gestión hospitalaria en la Comunidad Valenciana. Influencia del modelo de gestión.

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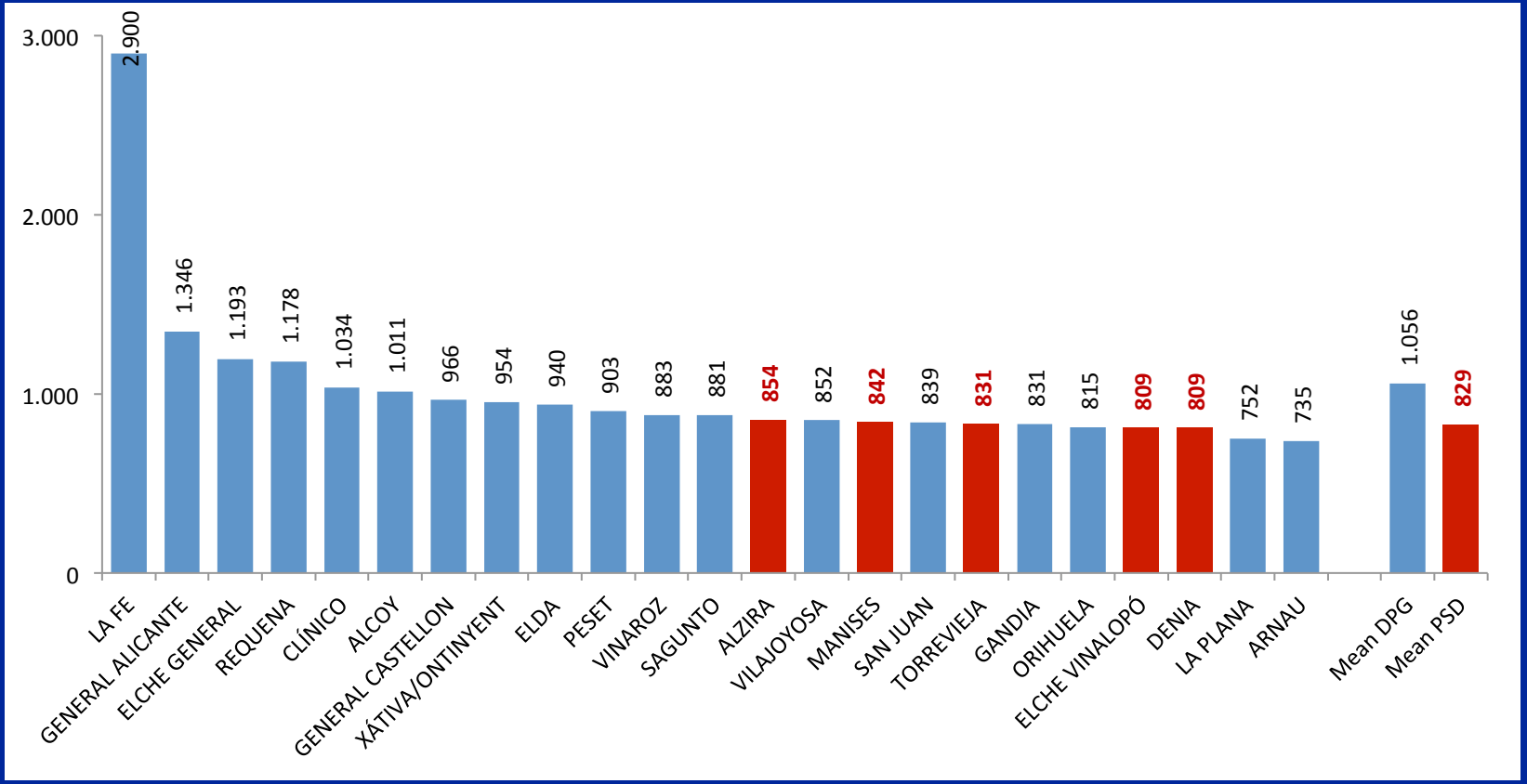
Total Expenditure per capita in C. Valenciana. DEPARTMENTS. 2012
Arenas (2013)

Public departments (19) directly managed by AVS have a real expenditure p.c. 27.4% higher than PSD (5)



NOTE: Expenditure items Chapter I, "conclertos", prostheses, pharmacy, medical supplies and other current expenditure of the hospitals in the AVS and consortiums. The expenses of concessions includes the part that corresponds to the AVS in respect of Chapter I, prosthesis, prescription pharmacy and other current expenditure.

SOURCE: *Eficiencia Concesiones Sanitarias Comunidad Valenciana. Estudio Económico. Arenas (2013)*

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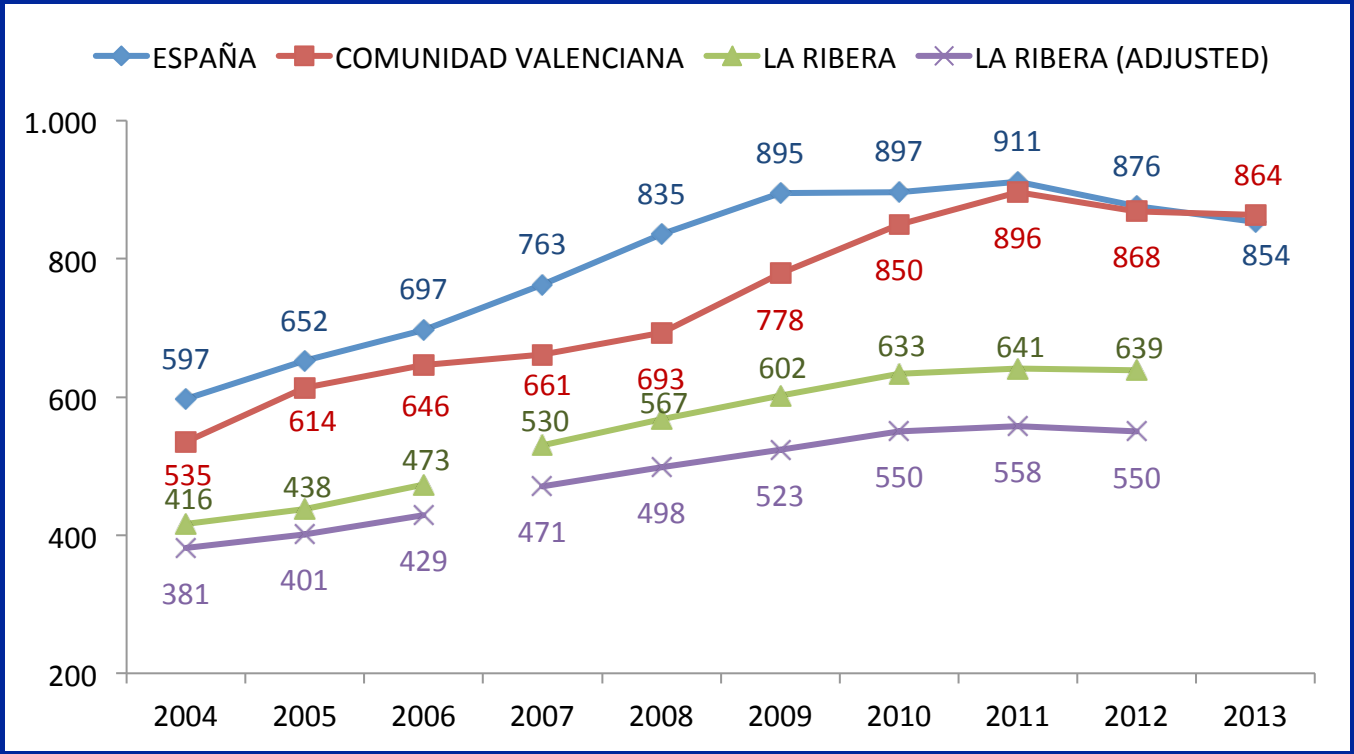
HEALTH EXPENDITURE PER CAPITA: HOSPITALS SPAIN, C.VALENCIANA, LA RIBERA. (Current €)



NOTE: Hospital expenditure includes staff costs, purchasing of pharmaceuticals, other management expenses, financial expenses and taxes. Hospital expenditure for La Ribera is adjusted to eliminate immobilized amortization. Staff expenditure for La Ribera is adjusted to eliminate primary care personnel according to P&L Statements and in-company information. La Ribera (Adjusted) is adjusted to eliminate care services delivered by other hospitals.

SOURCE: *Estadística de Establecimientos Sanitarios con Régimen de Internado (ESCRI), Sistema de Información de Atención Especializada (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad), PyG 2004-2006 y PyG Ajustada según criterio de devengo 2007-2012 (Ribera Salud UTE II) y Población Censo (INE)*

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La Ribera Hospital 2012

(Specialized Care)

	INPATIENT BEDS IN OPERATION	INPATIENT MEAN STAY	INPATIENT BED OCCUPANCY RATE	BED TURNOVER RATE
ESPAÑA	139.994	7,6	77,2	36,9
Comunidad Valenciana	**11.616**	**5,8**	**74,2**	**46,7**
La Ribera	**301**	**4,6**	**87,1**	**68,9**

	Expenditure per capita	Expenditure per bed	Expenditure per Discharge	Expenditure per Night	Expenditure per visit	Expenditure per A.M.S
ESPAÑA	876	257.667	7.823	1.025	456	27.968
Comunidad Valenciana	**868**	**310.827**	**8.015**	**1.383**	**481**	**27.420**
La Ribera	**639**	**555.057**	**8.054**	**1.745**	**284**	**18.303**
La Ribera (Adjusted)	**550**	**477.767**	**6.933**	**1.502**	**244**	**15.755**

NOTE: Hospital expenditure includes staff costs, purchasing of pharmaceuticals, other management expenses, financial expenses and taxes. Hospital expenditure for La Ribera is adjusted to eliminate immobilized amortization. Staff expenditure for La Ribera is adjusted to eliminate primary care personnel according to P&L Statements and in-company information. La Ribera (Adjusted) is adjusted to eliminate care services delivered by other hospitals.

SOURCE: *Sistema de Información de Atención Especializada (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad), H. La Ribera, PyG 2004-2006 y PyG Ajustada según criterio de devengo 2007-2012 (Ribera Salud UTE II) y Población Censo (INE)*

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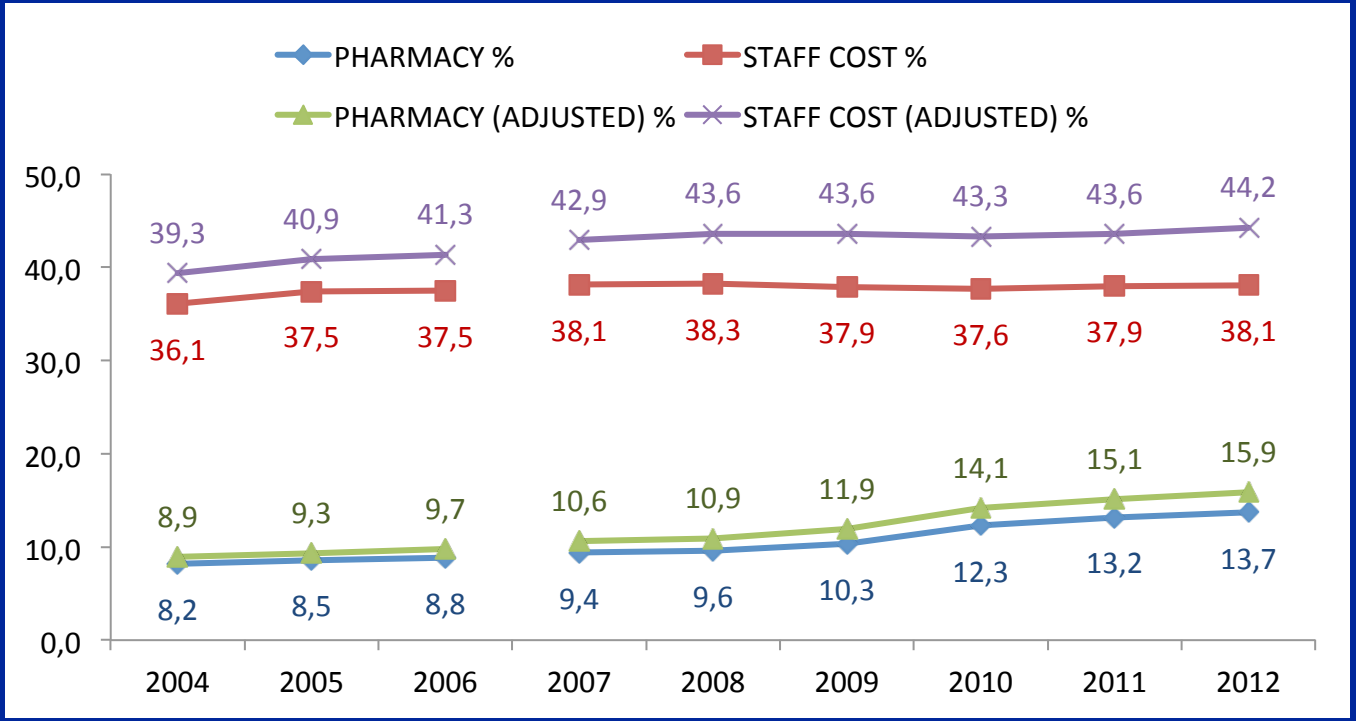
La Ribera Hospital (Specialized Care): EXPENDITURES BREAKDOWN %



NOTE: Hospital expenditure includes staff costs, purchasing of pharmaceuticals, other management expenses, financial expenses and taxes. Hospital expenditure for La Ribera is ajusted to eliminate immobilized amortization. Staff expenditure for La Ribera is ajusted to eliminate primary care personnel according to P&L Statements and in-company information. La Ribera (Adjusted) is ajusted to eliminate care services other hospitals.

SOURCE: *Estadística de Establecimientos Sanitarios con Régimen de Internado (ESCRI),Sistema de Información de Atención Especializada (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad), PyG 2004-2006 y PyG Ajustada según criterio de devengo 2007-2012 (Ribera Salud UTE II)*

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FINANCIAL ANALYSIS: LEVERAGE

- Increase 2010-12 in the Liabilities-to-equity ratio because the economic crisis.
- Cascade effect: delays in payments from C. Valenciana Government delayed payments to suppliers.
- Arrears of Valencia Government increased from 50 (before 2009) to 150 days in 2012. Amplified arrears from RS UTEII to suppliers (internal company sources).

Leverage	2007	2008	2009	2010	2011	2012	Formula
Liabilities-to-Equity ratio	2,84	3,95	2,96	4,43	5,39	6,03	$\frac{\text{Total liabilities}}{\text{equity}}$
Debt-to-Equity ratio	0,19	0,53	0,48	0,43	0,24	0,16	$\frac{\text{Total debt}}{\text{equity}}$

Source: BS and P&L Ribera Salud UTEII.

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FINANCIAL ANALYSIS: PROFITABILITY

Profitability	2007	2008	2009	2010	2011	2012	Formula
Return on equity	5,18%	11,33%	7,76%	5,85%	7,63%	3,70%	$\frac{\text{Net income}}{\text{equity}}$
Return on assets	1,59%	2,55%	2,24%	1,16%	1,26%	0,46%	$\frac{\text{(Net Income + Fin.expenses(1-t))}}{\text{T.Assets}}$
Gross margin	7,22%	7,70%	6,58%	5,66%	6,33%	5,58%	$\frac{\text{(Revenue - Cost of goods sold)}}{\text{Revenue}}$
EBITDA margin	7,34%	7,77%	6,68%	5,79%	6,46%	5,65%	$\frac{\text{EBITDA}}{\text{Revenue}}$
EBIT margin	1,56%	3,22%	2,32%	1,49%	1,93%	0,93%	$\frac{\text{EBIT}}{\text{Revenue}}$
Net margin	1,29%	2,81%	1,93%	1,26%	1,68%	0,92%	$\frac{\text{Net profit}}{\text{Revenue}}$

Before economic shock

Effects of the economic shock

Source: BS and P&L Ribera Salud UTEII.

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FINANCIAL ANALYSIS: PROFITABILITY

- Net margin is limited
- Profits depend on strict control of expenses.
- Expenses growth 'haircut' earnings, despite the rise of capitation premium.
- Since 2008 and up to 2012, company's financial performance is deteriorating with the crisis.

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FINANCIAL ANALYSIS: CASH-FLOWS (I)

CASH-FLOWS FROM OPERATING ACTIVITIES:

- EBITDA is stable for the period 2005-12: 10-14 (M.€). accounts receivable (public administration) and accounts payable fluctuate and have a significant impact on the net cash-flows from operating activities.

- Delays in accounts receivable receipts have led to a significant increase in suppliers and other accounts receivable (284 mill € in 2012).

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FINANCIAL ANALYSIS CASH-FLOWS (II)

CASH-FLOWS FROM INVESTING ACTIVITIES:

- Investment payments in property, plant and equipment, and intangible assets are based on the calendar of the concession:
- 2005-2012: 41.5 M€ investment payments
  - 2005: 13.6 M€
  - 2006-2008: 6 M€/year
  - 2009-2012: 1.5-3.5 M€/year.
- 2013-2018: 15 M€ additional investment planned.

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Financial Analysis: Cash-Flows (III)

CASH-FLOWS FROM FINANCING ACTIVITIES:

- Initially (2005) external net financing cash-flows were provided by mother companies: 19.4 M€.
- Financial debt is not relevant. The company issues and refund's interest-bearing debt in limited amounts compared to its size (i.e., financial structure). Max. 2008: 11 M€.

- Note: In the period considered Working capital is fundamental because the financial relevance of relation with Govt. and suppliers (more or less delays in payments)

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FINANCIAL ANALYSIS: R.S. UTEII AS A PROJECT IN 15 YEARS: INTERNAL RATE OF RETURN (IRR)

PROJECT IRR	TOTAL
CAPEX (-)	-140.000.000
EBITDA	184.090.553
Change in Working Capital (+/-)	-8.559.282
Taxes	-1.293.645
Project Cash-Flow	34.237.626
Project IRR	5.20%

INPUTS: CAPEX: Total: 140 M€; CAPEX 2013-2018: 15 M€; EBITDA Growth 2013-2018: 2% (Assumed growth of economy 2013-18)

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FINANCIAL ANALYSIS: R.S. UTEII AS A PROJECT IN 15 YEARS: INTERNAL RATE OF RETURN (IRR)

- Results:

  Project Cash-flows: 34.2 M€.

  IRR: 5,2%

  *** Cash-flows generated during the period are affected by capital expenditure (investment) and changes in working capital.

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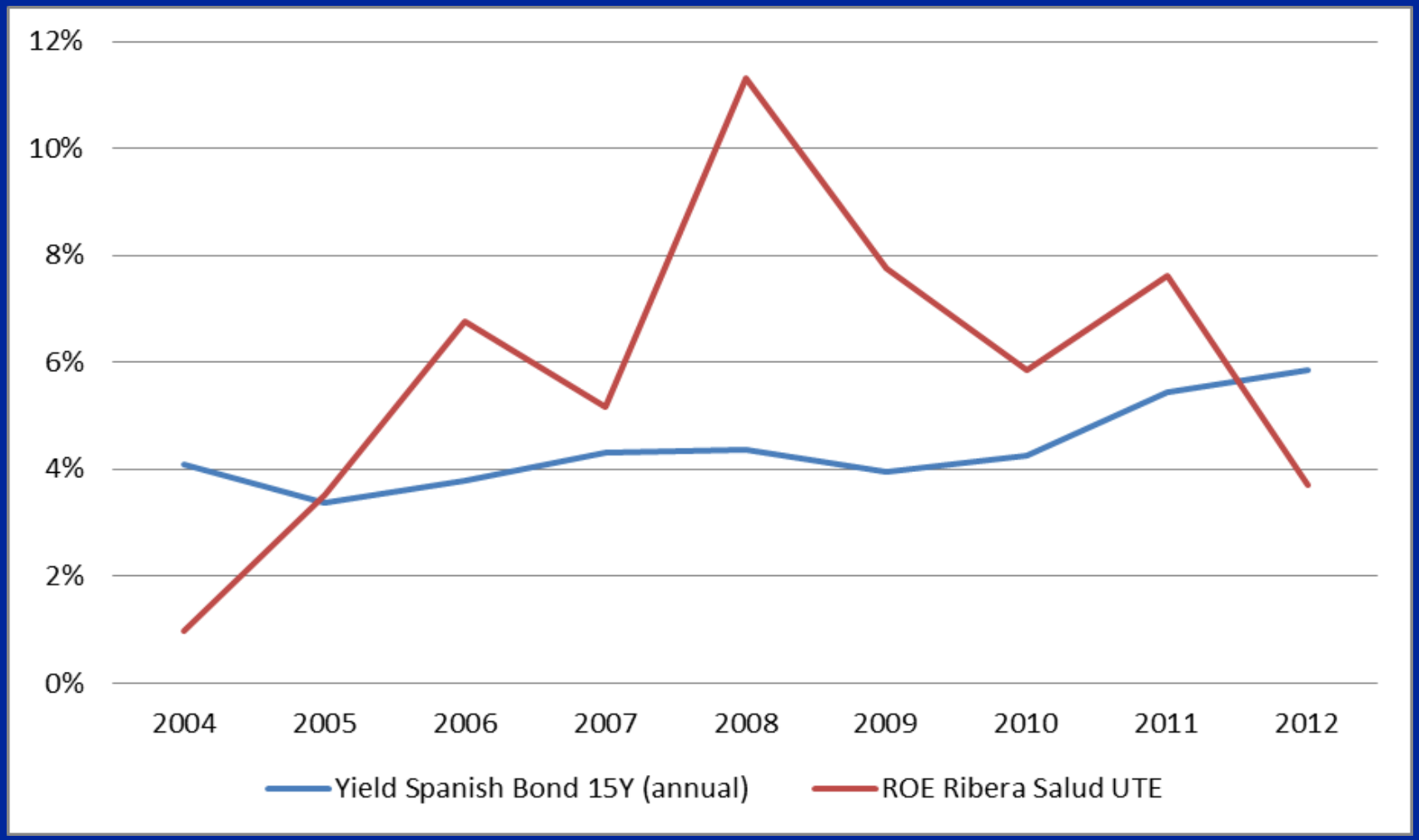
INVESTOR´S DECISION
Return Over Equity vs. Risk Free Asset



Source: R. S. UTEII: BS and P&L. OECD: Spanish 10Y bond yield. (Long-term interest rates, Total, % per annum).

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SEMINARIO DE ESTUDIOS SOCIALES DE LA SALUD Y LOS MEDICAMENTOS
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LA RIBERA DEPT AND R. S. UTE II

ADDITIONAL SLIDES

HEALTH SYSTEMS INTEGRATION IN SPAIN AND AROUND THE GLOBE: NEW EVIDENCE

PUBLIC SERVICE DELEGATION MODEL ("Concesión administrativa")

ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

22nd June 2015.

F. Lobo, R. Scheffler, J. Aledo, C. Betancur, R. Maroto

Source: Own made with internal BS and P&L given by Ribera Salud UTE. Spanish 10Y bond yield from OECD (Long-term interest rates, Total, % per annum).

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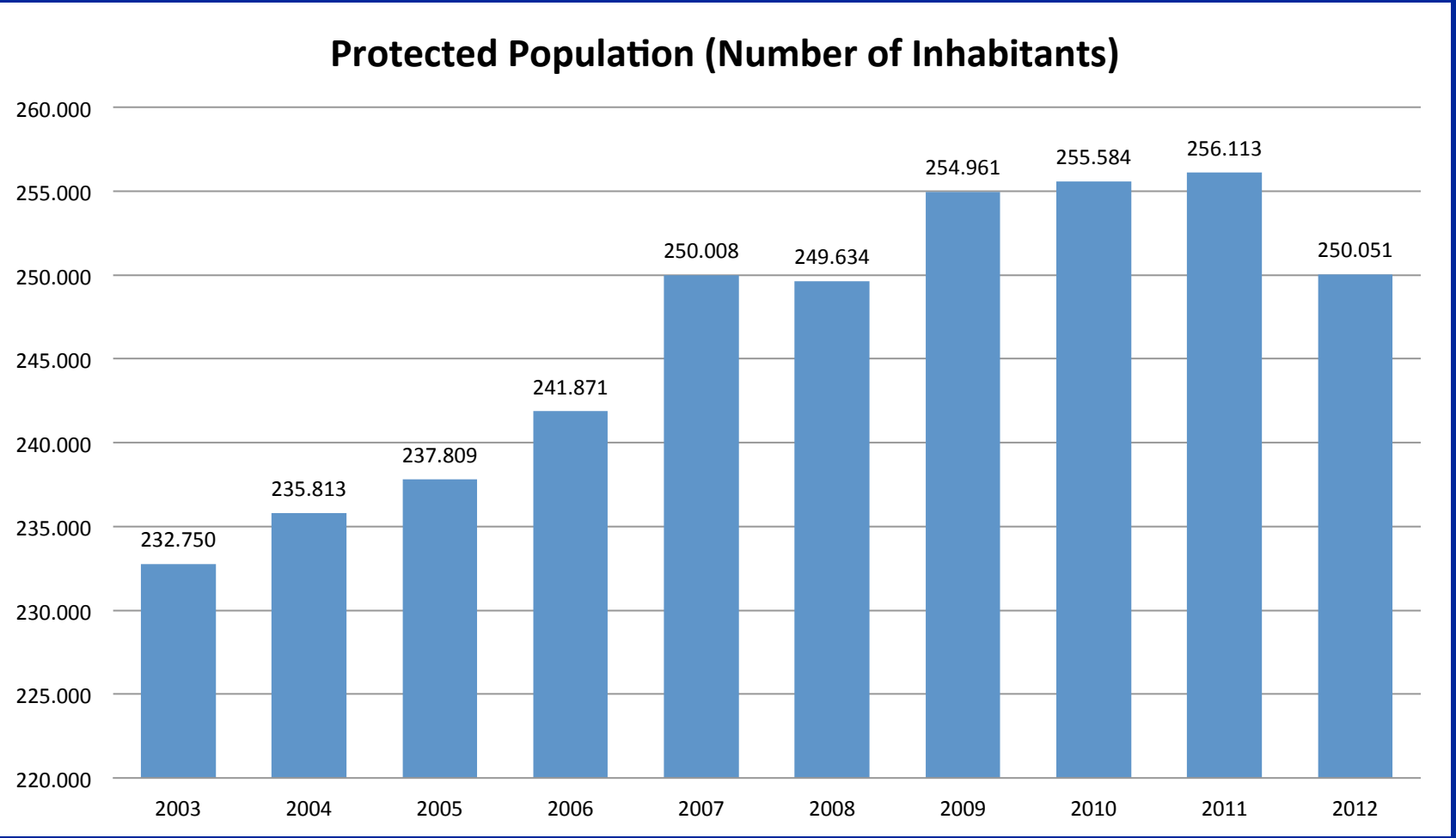
PROTECTED POPULATION (Nº INHABITANTS) ACCORDING TO R. S. UTEII



Source: Ribera Salud UTEII.

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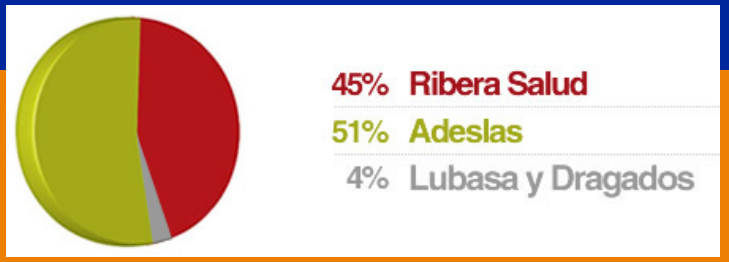
RIBERA SALUD UNIÓN TEMPORAL DE EMPRESAS (R.S . UTE)



SHAREHOLDERS APRIL 2015: →

ADESLAS

- Medical insurance company
- The technical provider of health services required by the procurement terms
- Linked to Spanish regional savings banks.
- Majority shareholder: **Agbar S.A.**
- **Agbar S.A.** ←**La Caixa** (regional savings bank) controlling shareholder.

RIBERA SALUD

- Initially financial partner →Regional savings banks → 45%.
- Since 2003: PPP and hospital business

CONSTRUCTION COMPANIES: Dragados and Lubasa: Each 2%.

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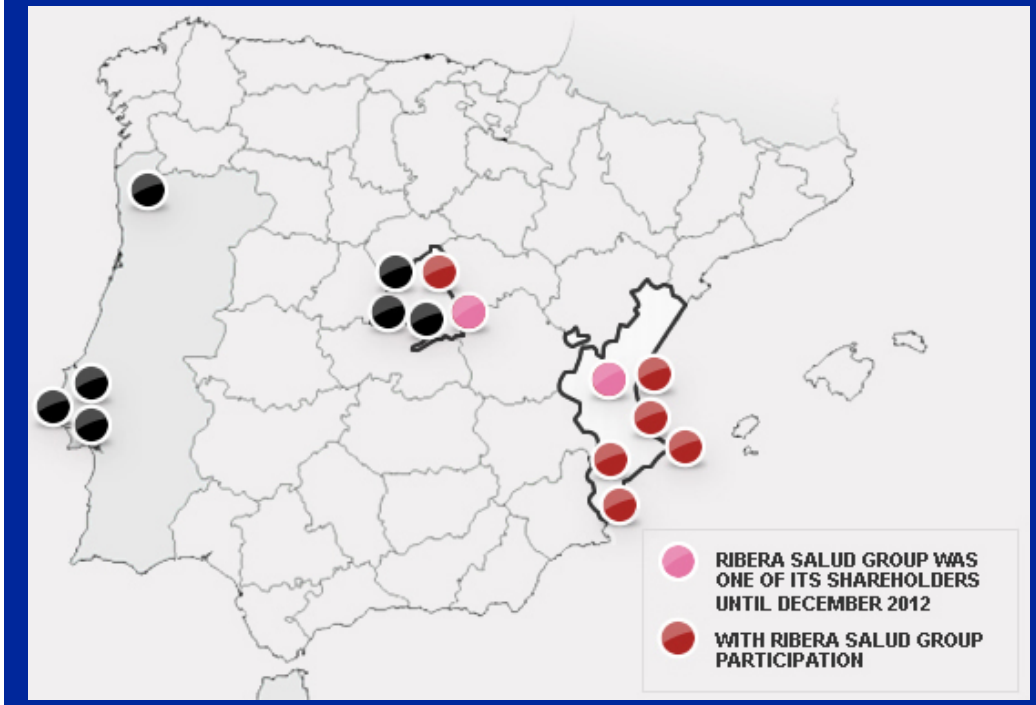
RIBERA SALUD DEVELOPMENT



Source: RSUTE webpage (http://www.riberasalud.com/)

PSD MODEL ALZIRA CASE: OVERVIEW AND FUNDAMENTAL FACTS

1997 CONTRACT

ANTICIPATED TERMINATION OF RSUTE

- Valencian government paid RS 69.3M € :
  - 43.3M € for the purchase of the hospital infrastructure assets at their written down value.
  - 26M € compensation for lost profit.
- 26 → 75.3M € (investment made by RSUTE, capital value) and multiplying it by 6% annual rate of return, for 69 months (5,75 years, the remaining life of the contract). ((75.3 + 0.06)* 5.75)
- RSUTE II paid the government 72M € for the new contract, and the use of infrastructure assets.
- Criticisms by Regional Audit Office, Sindicatura de Cuentas CV)

(Source: Acerete et al 2011)

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PER CAPITA (PC) PREMIUM AND POPULATION COVERED
LA RIBERA-R.S. UTEII

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population covered	232.750	235.813	237.809	241.871	250.008	249.634	254.961	255.584	256.113	250.051
Population covered annual growth	-	1,3%	0,8%	1,7%	3,4%	-0,1%	2,1%	0,2%	0,2%	-2,4%
Unit Price PC fee (current prices)	379	423	458	501	535	593	619	637	653	671
Unit price PC fee (prices 2012 in €)	478	517	543	574	596	635	664	673	668	671
PC fee annual growth (prices 2012)	-	8,3%	4,9%	5,7%	3,8%	6,5%	4,6%	1,4%	-0,7%	0,4%
Total PC fee income (prices 2012 mill. €)	111,2	122,0	129,1	138,7	148,9	158,4	169,3	172,0	171,2	167,9
Total PC fee income, current prices (mill. €)	88,2	99,7	109,0	121,1	133,7	147,9	157,7	162,9	167,1	167,9
Total PC fee income growth (prices 2012)	-	9,7%	5,8%	7,5%	7,3%	6,4%	6,9%	1,6%	-0,5%	-1,9%

Source: RS UTEII for BS, P&L and population. INE for the CPI.

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LA RIBERA (R. S. UTE II), FINANCIAL ANALYSIS: INCOME

4 INCOME SOURCES:

- Per capita premium,
- SNS incoming patients
- Private patients
- Bonus Pharmacy PC expenditure

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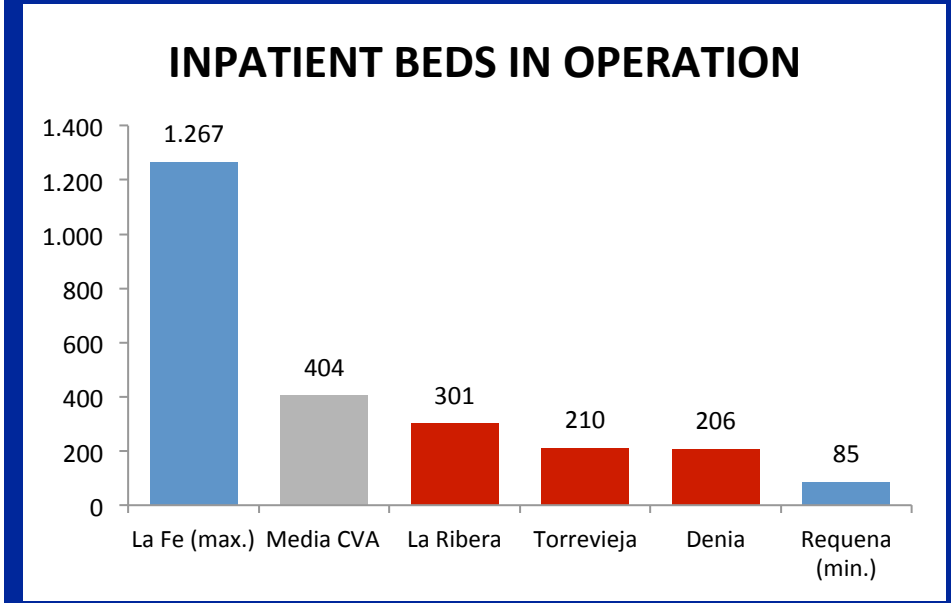
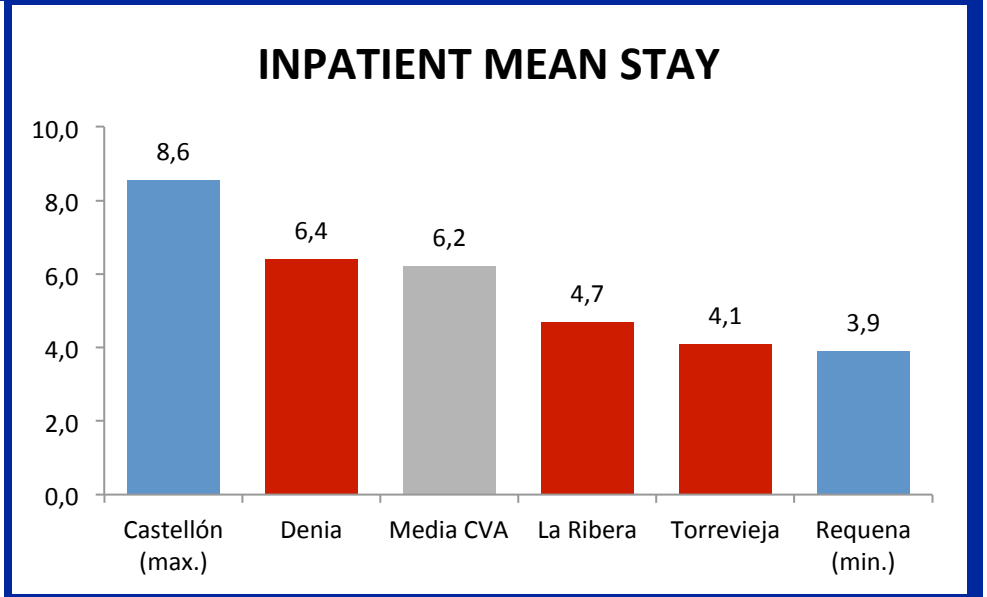
C. VALENCIANA, HOSPITAL ACTIVITY 2009: PSD VS. ALL PUBLIC HOSPITALS (26)





Source: MSSSI: *Estadística de Establecimientos Sanitarios con Régimen de Internado (ESCRI)*

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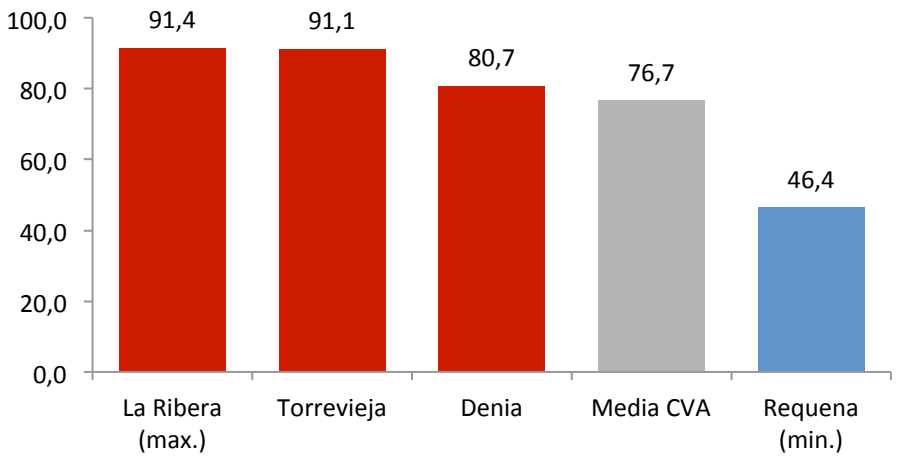
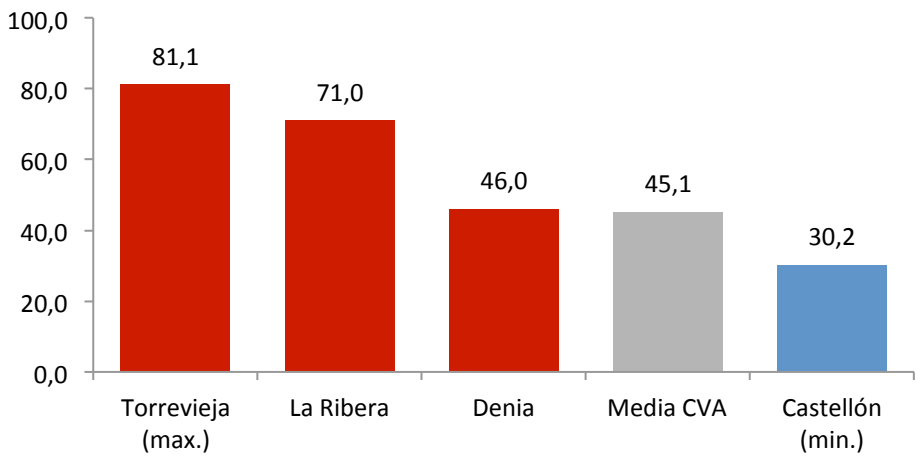
C. VALENCIANA, HOSPITAL ACTIVITY 2009: PSD VS. ALL PUBLIC HOSPITALS (26)

INPATIENT BED OCCUPANCY RATE

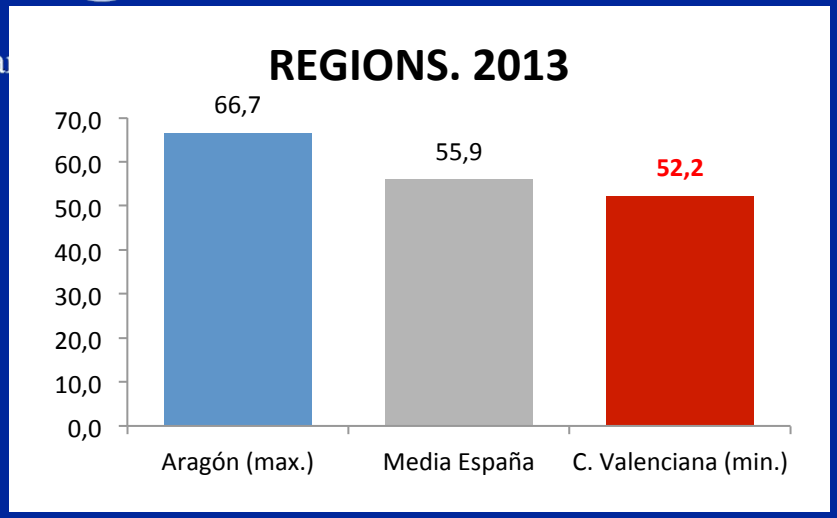


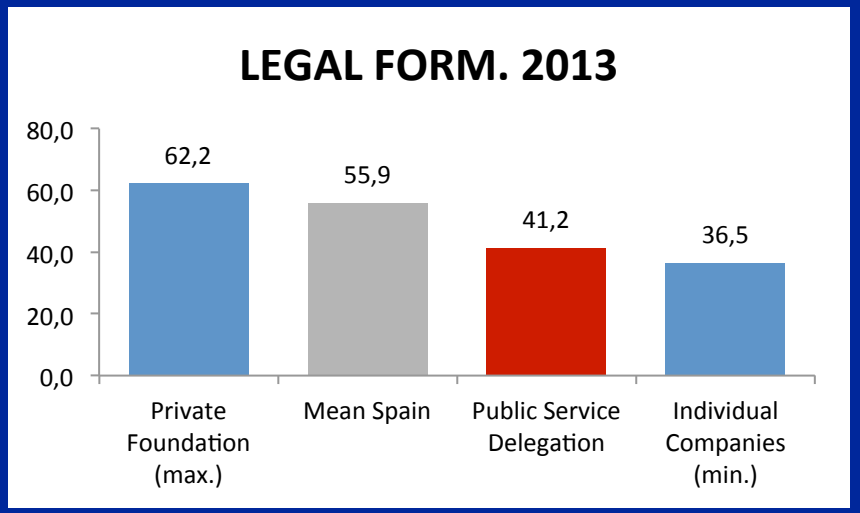
BED TURNOVER RATE

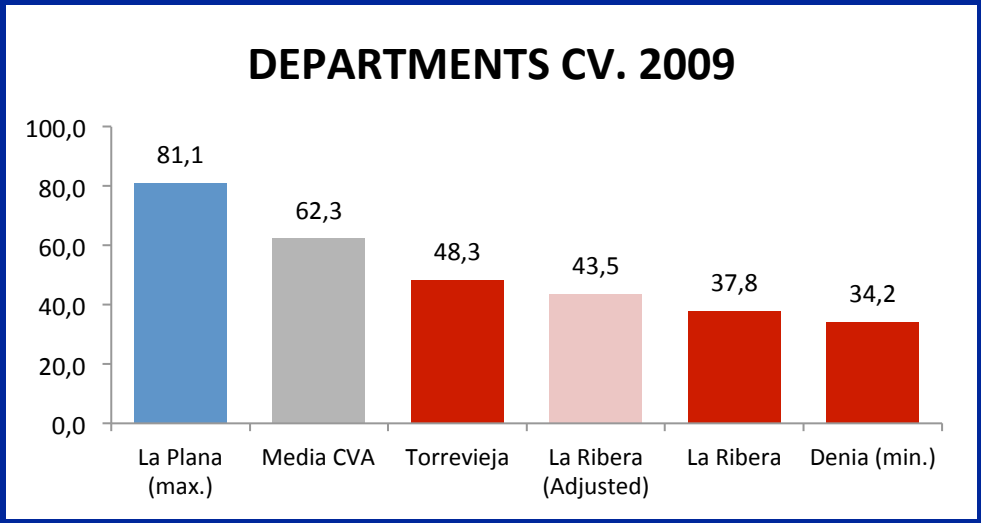


Source: *Estadística de Establecimientos Sanitarios con Régimen de Internado (ESCRI) (Ministerio de Sanidad, Servicios Sociales e Igualdad)*

Staff Expenditure %. Hospitals







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Source: *Estadística de Establecimientos Sanitarios con Régimen de Internado 2009 (ESCRI) , Sistema de Información de Atención Especializada 2013 (SIAE) (Ministerio de Sanidad, Servicios Sociales e Igualdad) y PyG Ajustada La Ribera*

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FINANCIAL ANALYSIS: INTERNAL RATE OF RETURN (IRR) OF THE PROJECT

IRR OF THE PROJECT IN 15 YEARS

- To calculate cash-flows we need:
  - ✓ EBITDA (Earnings before Interests, Taxes, Depreciation and Amortization): directly from the Income Statement. Represents the operating income of the company.
  - ✓ CAPEX (capital expenditure): investment the company needs to develop its main business. Basically related to property, plant and equipment (PP&E) and intangible assets.
  - ✓ Variation of the Working Capital (Working Capital = Current Assets – Current Liabilities). To calculate cash-flows we want to exclude revenues and expenses that do not reflect cash (in-flows and out-flows) during the current period (i.e.: (1) credit sales (accounts receivable-customers), (2) credit purchases (accounts payable-suppliers)).

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FINANCIAL ANALYSIS: INTERNAL RATE OF RETURN (IRR) OF THE PROJECT

- Es importante entender el concepto de working capital (capital circulante) en este cálculo: Nuestro objetivo es llegar a una magnitud que sea representativa de la caja (cash-flow), y el EBITDA, que es nuestro punto de partida, no lo es por cuanto es diferencia de ingresos y gastos de la cuenta de pérdidas y ganancias, que no tienen por qué ser cobros y pagos (es nuestro caso en Alzira porque la política de cobros/pagos no es al contado, sino diferida). De ahí que ajustemos el EBITDA por las variaciones del circulante, para pasar de ingresos/gastos a cobros/pagos. Ej. de ingreso que no es cobro: las ventas diferidas (que quedarán recogidas en el Balance, pendientes de cobro, en la cuenta de "Clientes"). Ej. de gasto que no es pago: las compras a proveedores con pago diferido (que quedarán recogidas en el Balance, pendientes de pago, en la cuenta de "Proveedores").
- Working Capital = Current Assets – Current Liabilities
- Current Assets= Inventories, Accounts receivable (customers), Short-term investments and Cash & Equivalents.
- Current Liabilities= Short-term liabilities (bank loans), Accounts payable (suppliers).
- - Taxes paid.
- Then, adding all these magnitudes, and applying the formula that we have in our excel file, we get the IRR (TIR, la tasa con la que llego a un valor actual neto de mis flujos igual a cero; o tasa a partir de la cual decido para acometer la inversión).

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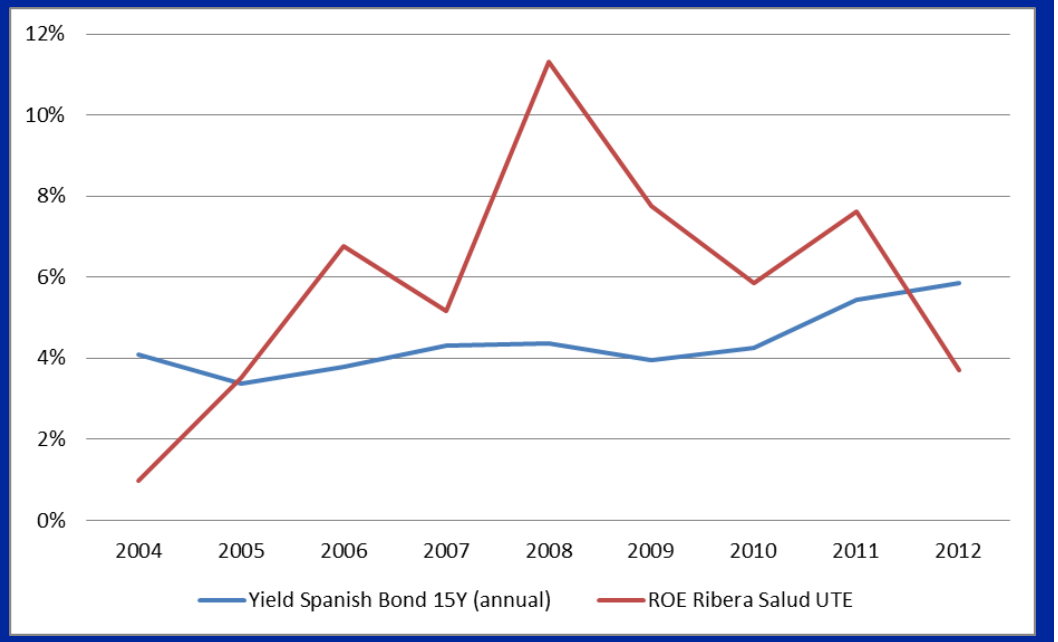
INVESTOR DILEMMA

Return Over Equity vs. Risk Free Asset

Year	Yield Spanish Bond 10Y (annual)	ROE Ribera Salud UTE	Difference (ROE - Bond)
2004	4,1%	1,0%	-3,1%
2005	3,4%	3,5%	0,1%
2006	3,8%	6,8%	3,0%
2007	4,3%	5,2%	0,9%
2008	4,4%	11,3%	7,0%
2009	4,0%	7,8%	3,8%
2010	4,3%	5,8%	1,6%
2011	5,4%	7,6%	2,2%
2012	5,9%	3,7%	-2,2%



Source: Own made with internal BS and P&L given by Ribera Salud UTE. Spanish 10Y bond yield from OECD (Long-term interest rates, Total, % per annum).