East Bay Business Times - February 16, 2004
http://eastbay.bizjournals.com/eastbay/stories/2004/02/16/daily3.html

SAN FRANCISCO Business Times

Monday, February 16, 2004

New Tenet COO faces tough battle

East Bay Business Times - by Megan Woolhouse

Reynold Jennings faces tough challenges as the new chief operating officer of Santa Barbara-based **Tenet Healthcare Corp.**

Jennings will try to turn around a company with falling revenue, pending lawsuits and a myriad of government investigations into its clinical and financial practices.

Yet Jennings takes it all in stride.

"I can only manage the ... hospitals that I run," he said in an interview from Dallas. "I won't worry about things I can't control."

Jennings comes to the job amid a massive restructuring effort at Tenet. In January, the company announced plans to sell 27 of its hospitals in order to bolster its struggling financial performance. It put another 14 hospitals up for sale in 2003.

Jennings will oversee the operations of the chain's 69 remaining hospitals, amid increasing speculation about Tenet's future viability.

Health-care industry analyst Jeff Villwock, who has studied Tenet extensively, said he is skeptical that Jennings or anyone else can help the ailing hospital chain. Tenet officials have already projected that selling the hospitals will lead to $1.4 billion in net losses for 2003 and 2004.

"I don't envy him," Villwock said.

Jennings, who officially took the job Feb. 9, has served as Tenet's Eastern division president. Born and raised in Dalton, Ga., Jennings returned there after graduating from the The University of Georgia to work as a pharmacist at Hamilton Medical Center. He quickly rose through the ranks and within five years was the hospital's chief operating officer.

Jennings got his MBA at the University of North Carolina, and took stints as CEO of various acute-care hospitals in Georgia and Florida before coming to Tenet in 1997.

Jennings said that restoring the trust of doctors who bring their patients to Tenet hospitals will be one of his priorities.

He said he's energized by the idea.

"It's just a natural skill I've always had," he said. "[It's] very important to always be listening and talking. ... For whatever reasons, these lines of communication have broken down."

Prior administrators were "arrogant" and shunned input from doctors and others about hospital operations, he said. Since November 2002, Tenet has appointed a new chief executive, chief financial officer and chief operating officer, and restructured its board.

One of Jennings' top priorities is to remove middle managers who clog communication between hospitals and Tenet's corporate leadership. Jennings wants them to report directly to him or Tenet's chief executive, Trevor Fetter, instead of three or four layers of management.

Jennings said he will also work to speed up the seemingly never-ending contract negotiations with managed-care insurers. Doing so would give Tenet "a degree of predictability of what our revenues will be," he said. Additionally, he plans to make the remaining hospitals more innovative by shaping them into the hospitals they hope to sell.

Jennings also said he hoped to expand and improve Tenet's five hospitals in Georgia, which he described as the company's core facilities.

But he must reckon with issues that are national in scope if he is to get the company back on track, some experts say. Villwock, a founding member of Caymus Partners LLC in Atlanta, said Tenet has $4 billion in debt and liabilities.

The company was also the subject of a "60 Minutes" story that looked at sweeping problems at Tenet, from federal action in Florida for patient endangerment to alleged illegal kickbacks to physicians in California. The report also questioned the company's knowledge surrounding the actions of two cardiologists allegedly performing unnecessary heart surgeries and under investigation by the FBI.

Tenet's cash flow is about a quarter of what it was two years ago, and the company is losing about $10 million a week, said Villwock, who has researched the company for the Tenet Shareholder Committee, a group of highly critical shareholders. He has made recommendations against buying Tenet stock.

"Sometimes companies get to the point of no return, where no matter how good they are, you just can't get there from here," Villwock said.

Chris Press, an Atlanta hospital consultant, said it's premature to predict Tenet's demise. The chain may have to rebrand itself to distance itself from negative publicity. But he cited HCA Inc. in Nashville, Tenn., as an example of a hospital system that successfully turned itself around.

"It seems difficult to cite a lot of examples of proprietary hospital systems that haven't had to redefine themselves," he said. "[Tenet] has to win their reputation and credibility back ... It remains to be seen what that would require."

Tom Thornhill, a health-care investment banker at Millburn Capital Group, said he knows Jennings personally and has no doubt he will succeed.

Jennings has decades of hands-on hospital operations experience, unlike his predecessors, who had backgrounds in investment banking, Thornhill said. Jennings successfully has cut Tenet's costs in the past by limiting the amount of charity care offered by hospitals, he said.

"He is an A player," Thornhill said. "He's a solid manager. He's industry-savvy and he understands what makes a hospital good."

Jennings said he will move from Kennesaw to Dallas, home of Tenet's operations division headquarters. But he said he plans to spend more than half his time on the road visiting hospitals. He expects it will take 12 to 18 months to bring the company back to solid financial footing. And then one day he'll return to Georgia to retire.

"We know what we need to do," Jennings said. "And we'll give it our best shot."