

Client Screening Request

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Approved for final distribution by: i:0#.w|root_milliman\beau.preston

- Client Screening Report

Request Date:

Additional CC:

Discipline *:

Employee Benefits

Company Name:

Practice Director:

Moody's Rating:

A1 (Upper-medium grade; low credit risk)
Outlook: Stable

Requestor:

D & B Credit Score Class:

5 (High risk of severe payment delinquency over

A.M. Best Rating:

On High Risk Client List?

Yes No

D & B Financial Stress Class:

5 (High risk of severe financial stress over the next 12 months)

WorldCheck Rating:

- N/A
- Criminal
- Money Laundering
- Terrorism
- Corruption
- [empty]

Ownership:

Novant Health, Inc. ("NHI") is a not-for-profit healthcare provider with 15 hospitals & more than 350 physician practices offering advanced medical treatments to NC, SC, VA, & GA. Our prospective client is based in Winston Salem, NC.

Officers:

I profiled the officers named below using the LexisNexis database as well as online news resources. In 1994, Mr. Hargett appears to have been named a defendant in a suit, in his capacity as a member of the Onslow County Board of Education. This dispute is not relevant to our prospective engagement. I find no other indication that the following people may have been involved in litigation, professional misconduct, or criminal activity:

- President, CEO: Carl S. Armato
- Chief Legal Officer, General Counsel: Peter S. Brunstetter
- CFO: Fred Hargett

Biographies are available here: <http://www.novanthealth.org/home/about-us/company-information/our-leadership.aspx>

Prior Health Risk Assessment: Yes No

Noteworthy News:

A scan using Factiva and Google News produces a range of items mentioning NHI, most of them neutral in tone and derived from press releases. There have been adverse items: The health system has seen flat net income in recent years, and is defendant in what appear to be an ongoing purported class action alleging mismanagement of its retirement system.

- **August 2014:** NHI paid nearly \$17.5 million in executive retirement benefits in 2013, as it ended a program designed to retain and reward top executives for long-term service. CEO Carl Armato saw his pay increase 11.8% to \$1.05 million during the same time -- a year in which NHI saw a slight dip in operating income. (*Greensboro News and Record*, August 26, 2014; *Triangle Business Journal Online*, August 25, 2014)
- **March 2014:** NHI reported net income of \$273 million for fiscal 2013, a slight drop from \$274 million in 2012. See link for details. (*Charlotte Business Journal Online*, March 31, 2014, accessible here: http://www.charlotteobserver.com/2014/03/31/4807785/novant-health-reports-increase.html#.VNP8CZ3F_aU)
- **April 2013:** NHI unveiled a new system-wide branding that brings all of its health centers and certives under the Novant Health name. (*PR Newswire*, April 17, 2013, accessible here: <http://www.prnewswire.com/news-releases/prophet-client-novant-health-unveils-unified-system-wide-brand-203391491.html>)
- **March 2013:** Moody's assigned an A1 rating to NHI's Series 2013A, (\$149.8 million) 2013B (\$137.3 million), and 2013C bonds (\$250 million), while affirming its A1 rating on the health system's outstanding debt. The ratings agency cited NHI's "large size and scale with significant hospital and medical imaging operations across several markets in multiple states, and stable operating performance over the last several years." (*Moody's Investors Service*, March 19, 2013, accessible here: https://www.moodys.com/research/Moodys-assigns-A1-rating-to-Novant-Healths-NC-537-million--PR_269116)

Our prospective client's news page is available here: <http://www.novanthealth.org/home/about-us/newsroom.aspx>

Litigation History:

A search using LexisNexis and online news resources produces evidence of around two dozen suits in which NHI has been a named party. Note that, in the interest of time, I haven't profiled each hospital operated by the system. Most of these cases are typical-looking medical malpractice and insurance coverage disputes. The following items are notable, in particular, the 2014 purported class action accusing NHI of mismanaging its retirement system.

- **May 2014:** Six current and former NHI employees, including the former chief of staff at Thomson Medical Center, sued the health system, accusing it of breaching its fiduciary duties by requiring participants in two 401(k) plans to "pay millions of dollars in excessive fees for excessive record-keeping and administrative services." NHI paid \$6 million in fees to the plans' broker D.L. & Company, Inc. It is not clear whether the dispute is ongoing. (*Winston-Salem Journal*, May 22, 2014, accessible here: http://www.journalnow.com/business/business_news/local/novant-seeks-dismissal-of-retirement-plan-lawsuit/article_ef6724f7-3e15-5f13-8f19-3d814481142b.html; *Fiduciary Matters Blog*, March 13, 2014, accessible here: <http://blog.fraplantools.com/plan-sponsor-sued-6-million-paid-to-broker/>)
- **March 2009:** NHI and North Carolina Baptist Hospital reached an agreement under which they would not challenge each other's that they would not challenge each other's future noncompetitive Certificate of Need applications, but remained free to challenge competitive applications. A lawsuit resulted, over the issue of what was considered a competitive application. In NC, no person can "offer or develop a new institutional health service without first obtaining a certificate of need." (*N.C. Baptist Hosp. v. Novant Health, Inc.*, 195 N.C. App. 721, 673 S.E.2d 794, 2009 N.C. App. LEXIS 250 (N.C. Ct. App. 2009) (NC Division of Health and Service Regulation website, accessible here: <http://www.ncdhs.gov/dhsr/coneed/>)
- **March 2001:** NHI sued Aetna U. S. Healthcare of the Carolinas, alleging breach of contract, after the defendant insurer terminated a five-year contract without cause. The court found that the language of the parties' contract was unambiguous, granting NHI's motion for summary judgment. (*Novant Health, Inc. v. Aetna U. S. Healthcare of the Carolinas, Inc.*, 2001 NCBC 4, 2001 NCBC LEXIS 1 (N.C. Super. Ct. 2001))

Comments:

NHI's poor Dun & Bradstreet ratings are of great concern. The agency has assigned our prospective client a Credit Score Class and Financial Stress Class of "5." Historically, 53.10% of firms in this credit class have had one or more vendor payments be severely delinquent. NHI has 251 vendor payments, 9 suits, one lien, and no judgments recorded. Additional factors that D&B cites for NHI's poor credit rating are the health system's most recent payment being past due, the presence of negative comments from vendors (these "comments" often come in connection with a collection action), and, simply, a high proportion of the 251 recorded payments being beyond terms.

I have found no litigation or news coverage that would seem to adversely affect our prospective engagement. It may be relevant to our work, though, that NHI has been accused in a 2014 purported class action of breaching its fiduciary duties in the management of its retirement program. See "Litigation History" for more.

All said, Milliman should certainly request a retainer, given NHI's credit rating, should we opt to proceed with this engagement. Please let me know if there is anything that I can do to be of help.

Grant

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Novant Health D&B Report.pdf
339.9 KB

Add attachment

- Screening Details

Screener *:



Completed Date:

Secondary Screener:



Report Status:

New Pending Secondary-Review
 Secondary-Screen Sent/Complete
 Cancel

Due Date:



Health Risk Assessment Form Returned:

Yes No

Client Risk Assessment Statement:

Conditional Acceptance
 Non-Acceptance
 Standard Acceptance

Reason for Secondary S

- Data from Consultant

Date *:

2/3/2015

Client *:

Novant Health

Discipline(s) Involved *:

- Casualty
- Employee Benefits
- Health
- Life

Client Status *:

- New Client
- Existing Client
- RMAP Referral

Client Website URL (if known):

http://

Casualty consultants: please indicate if this is an 'existing client' being screened to comply with discipline periodic screening requirements.

Type of Client *:

- Public sector/government
- Publicly traded company
- Private company
- New Entity (less than 1 year old)
- Captive Insurance Company

For international screens, please select 'INTL'

State *:

▼

Client Location *:

- US
- International

HQ Address:

Winston Salem, NC

Consultant *:

Kyle Hughes;

**Names/Titles of Officers (if known):**

Do you know of any litigation or other issues of which we should be made aware *: Yes No

Additional Comments to Aid the Screening:

Click here to attach a file

Add Attachment

* -indicates required field