

David Klementz left Encompass Health (NYSE: EHC) to become the CEO of Traditions Health in April of last year. Like many others, he saw the future value in delivering care in the home.

Since then, he's helped build one of the fastest-growing home health agencies in the space.

The College Station, Texas-based Traditions is a portfolio company of the investment firm Dorilton Capital Advisors. It has gone from serving about 1,800 patients per day to nearly 10,000 in a short period of time.

Today, Klementz is focused on how the company can provide the highest quality of care possible in order to become payer agnostic. All the while, he has the task of making Traditions an employer of choice.

In a recent episode of HHCN+ TALKS, Klementz sat down with Home Health Care News to talk about those initiatives, how growth may change at the company moving forward and a lot more.

**HHCN: David, can you start by giving us details on your background?**

David Klementz: I've been in health care for almost 20 years now. I joined Traditions Health about 18 months ago. Prior to that, I spent the last 16 years on the rehab hospital side of the post-acute space. I was with Encompass Health (NYSE: EHC), originally HealthSouth.

When I started there, I was CFO for the inpatient line of business. I then moved into SVP of operations. I spent my last five-plus years as chief strategy officer, where I ran strategy as well as business development for Encompass Health.

**Were you looking for new opportunities due to the spinoff of Enhabit, or just looking for new opportunities in general?**

I left before that spinoff, but I will say I'm a big proponent of serving the full post-acute continuum. This opportunity provided me to pursue that. It's in the home space. We've been able to look at serving patients regardless of where they are on their episode. For

us, that means home health, palliative care and hospice and being a proponent of the full continuum.

And with the migration of more patients moving to the home with higher acuity, higher needs and higher demand with the aging population — to be able to fulfill the vision I have of health care with growing demand and a certain market space — is very attractive to me.

### **What about Traditions Health was attractive to you?**

With more patients migrating to the home, certainly that's a growing area in health care in general. The resources behind this particular organization to do what we ultimately want to accomplish were there. It provided a unique opportunity, that combination of good demographics, good patient pool, higher acuity [capabilities], to fill that post-acute continuum with the appropriate resources to do that.

If you went back two to three years ago at Traditions, we were a \$30 million company operating in two states, serving about 1,800 patients a day. Roll forward to the last two years, we now are in 18 states with various service offerings: home health, palliative care and hospice. We serve approximately 9,000 to 10,000 patients per day.

### **What has been your growth strategy? Has it mostly been M&A or is there also a de novo aspect to that?**

Now, that's a great question. We've had decent same-store growth but not to get to the scale where we're currently at. The majority of our growth to get to our current scale has been through acquisitions. And we do de novos.

Our growth strategy is shifting. I think as you think about the scalable platforms that may be out there that share the vision of quality and operational efficiency ... because of all the acquisitions and the consolidation that goes on, there are fewer of those opportunities.

We shifted our focus and started looking at de novos, looking at markets that are underserved, looking at relationships with systems, looking at relationships with facilities. We also started looking at the expansion of our lines of business into markets where maybe we only have one of the three, or two of the three, or filling out that line of service in every market for the full continuum in the home.

**I think a lot of home health companies are doing that. You're essentially trying to fill out the three legs of the stool, we'll call it, in each of the markets that you're in.**

Our goal is to be able to meet the patient where they are in their need and be agnostic to which line of business services they'll probably need.

We also want to be agnostic to payers and be able to be a solution for systems, other referral sources and for patients by meeting their needs. To be able to do that, you need to be able to meet them where they are. You have to be agnostic to how you're paid, but to be able to do that, you also have to be operationally efficient.

**If you're payer agnostic, you have to be in the weeds a little bit with Medicare Advantage, but home health providers have had some trouble contracting with those plans and making sure that they're getting paid for what their services are worth. What has been your approach to that situation, and do you think things might get better with Medicare Advantage plans as they recognize the value of home health services and all other at-home care services?**

I would say yes to that question, but I also say the biggest piece to that is being able to be a high-quality provider. Those that are the high-quality providers don't have the readmissions, don't have the transfers back to the acute care spaces and don't have adverse events happen. Those will be a network provider of choice.

It's in home health — it's not active in hospice — but our view of the world is to prepare the organization to efficiently manage high-quality care in managed care, Medicare and other payment models.

The key to doing that effectively is to have attention to detail on how you operationally officiate, having the right type of clinicians, the right timing and the right number of visits in order to get the quality outcomes.

**I do think it's interesting that you're looking for other sorts of transactions other than acquiring another home health provider. When you are looking to acquire a provider, what specifically are you looking for in the market?**

Originally when you're building scale, you're probably less prescriptive in how you do that. Having said that, now that we have a moderate level of scale, we have been a lot more prescriptive and there's a lot of time spent on the quality assets.

Now we take a closer look at compliance, documentation, and appropriate patients. What's their philosophy?

It's probably a little easier on the home health side because it's fragmented, but not quite as bad as hospice. Hospice has more challenges because you have three or four top players and then you have thousands of others. You need to really get down to what's driving their organization to make sure, from a compliance and quality perspective, they're like-minded and something that would fit our portfolio.

**If there are those cuts, you're saying nothing would change in your organization. Is there anything you would tighten up or try to be more efficient in?**

*(Editor's Note: This conversation took place prior to the unveiling of the final payment rule by the Centers for Medicare & Medicaid Services.)*

I think providers looking at how you plan your visits and the nature of providing the right level of care is very important. You're going to have to be even more operationally and clinically efficient.

**What do you think the biggest impediment to growth will be for both providers in general and for your organization? What are you most concerned about?**

I see an increased level of professionalism and more and more focus on quality. Having said that, because of all the consolidation, the platforms that would be consistent with our philosophy about quality and compliance are less and less of the scale we'd be interested in. That is a challenge.

We need to find other avenues of growth that are less capital-intensive, and that are consistent with our mission and vision. But also, you need to know that the top opportunities you may look at are not as prevalent as they used to be.

There's been a lot of consolidation going on. The challenges are finding the right asset, finding the right vision and mission that's consistent with yours and then asking does it make sense to do it? That's really the challenge in this.

There are plenty of opportunities out there to continue to acquire. Not all of those would be a good fit for us. They'd have to meet the criteria I just described.

## **Do you find that there are going to be more opportunities for health system partnerships in the future?**

There are definitely opportunities out there. I would say the opportunities that are out there are for those home providers that are willing to engage in acute care at the start of the episode and be part of the discharge planning to make sure there are smooth transitions of care.

You can help them get their flow through and reduce their readmissions. When you become that type of quality partner, not just someone who's going to a system and asking for a referral, that's where the difference is made.

The difference will be a solution and a benefit for the hospital and for the patient. Most readmissions occur in the first 24 to 48 hours. Those that can coordinate with health systems and have smooth and clean transitions of care, benefit the acute care system and benefit the patient – that's the type of relationship I think they are interested in.

They're not interested in a relationship, in my opinion, with just someone they can hand off the referrals to. For everybody to be successful, including the patient, it has to be a model to coordinate care.

**Obviously, the more you do good work and show that you have this quality, and there's data that shows that you're providing value to other health systems – as well as on your own – the more opportunities you do have for those partnerships.**

I agree. If my prior life was any indication of a high-quality provider that had a track record and it leading to other opportunities, that would be it.

When I first got here, my focus was quality of life. Operational efficiency and employer choice came next. My view of the world is that if we're going to be a high-quality provider that's recognized that way, the opportunities — like you just described — will come our way. We just need to prove that out. I think we're starting to see some traction in those areas.

**You also just mentioned being the employer of choice. I hear a lot of home health providers say that that's one of their goals. How do you get there? How have you been trying to do that?**

That's a great question because as a CEO, that's the one that keeps me most up at night. It's the one that is the hardest to measure and it's one you can never completely win at because you can't give everybody everything. How do you create an environment that helps people grow, thrive and succeed?

Thinking broader about what it means to the employee. It's not just about benefits and pay, although those are very important and you've got to be competitive in those areas. It's about asking yourself, how do you create an environment to give them the opportunity to grow and thrive? Maybe you upscale their license or maybe they take on additional responsibility because we now are a scalable platform that provides other opportunities.

We have a constant focus on what we can do for the employee on compensation, on benefits, and on their professional and personal lives. I think you have to think of those four buckets.

I have committed to our employees. I can't give you everything, but you will have my commitment. That is something I will consistently look at and I do consistently look at.

Multiple times now, we've increased mileage. We didn't have to, but it was the right thing to do.

We've had folks that have been impacted by weather in some way and we've stepped in and made sure they're taken care of. Those are all things, besides compensation and benefits, that you have to focus on.

They want to be part of your organization, but that aspect is the hardest to measure and it's the hardest to ever fully feel like you've done and you've accomplished. You can't quantify it. It's something you have to focus on every day.

### **Even employee preferences have changed over the last two years.**

Yes. What I've learned coming from the hospital space is, it's even more important that I get out to the branches and meet folks. In the hospital space, you're in a facility. You can create your own culture. This space is more of a challenge. We have a workforce that is spread out everywhere and the only way for me to understand how they feel is for me to go out in the field.

I go out on the road for a week, sometimes more than a month, and I sit with nurses and clinicians and billing folks and everyone else. I think they have to feel connected and feel like they're part of the journey. I can't be a dictator of what the journey looks like. I've got to make sure I'm articulating what the journey looks like. I'm articulating our successes and celebrating those. If I don't do that, especially in this space, it would be a challenge for us.

**You mentioned home health, hospice and palliative care. I'm wondering if there are any other service lines that you could see yourself getting into over the next few years?**

There are. I will say this though: with all the acquisitions, with the expansion of our palliative care, we need to do some ingestion first.

We need to really spend the next six to eight months ingesting what we already have on our plates. That's where our focus is right now.

**Are there service lines that you think are worthwhile to pair with those three?**

We've certainly been thinking about some physician services and things like that. We have come to that conclusion when thinking about wanting to be an in-home health system that meets the patients and their needs in their homes.

**Is there a certain part of your operations right now that you really think needs innovation?**

Yes. If you think about it, a patient in their home is obviously concerned about being by themselves and you can't be there all the time. How do you help them have a level of comfort that everything's under control? You can think about triage centers, care navigation centers, telemedicine, etc.

How do you deploy these? You can help assure a patient that you're there to help them. You're there as their solution so you don't get the negative consequence of a readmission or someone going back to the hospital or someone falling. I think really innovating on how we touch the patient when we physically can't be there is definitely a focus area for us.

**Looking out three years from now, where would you really like Traditions to be?**

I don't have geography or scale in mind. If I were to sit back and think how I'd want us to be known, it would be the top home health system providing care for patients, regardless of where they are in their journey. I'd want to be known as agnostic to how we're paid and be viewed by systems in various health settings, and by the patients, as a solution to meet their needs at any point in their cycle.

It sounds idealistic, but that's my view on the full continuum and how we can serve our patients best. Geography and all that will take care of itself. If you have high quality, take care of your employees and you're efficient, that becomes how you're known.

Those other things like where we are, and how big we are, those are the product of doing those first three things correctly.

**Do you think there are any under-the-radar opportunities that some others in the industry might not be thinking about, but that you think Traditions could take advantage of philosophically?**

I think being a partner that handles transitions of care from the start of an episode, whether it be acute or otherwise, all the way back to the discharge community is an example of that. Being able to handle that full transition of care.

Being able to have visibility of the information that's in there, being able to see the patient in each setting until they're in those communities is a core competency that I think could be a differentiator.

**Are you doing anything with more investment in data in order to do that, but also to show others the outcomes that you're getting and the value that you're providing?**

A well-run health care organization with high-quality outcomes, one of its best assets is its data. Using their data to drive clinical outcomes is very important.

How do we look at the things that could create an adverse event and be able to use that data to get in front of them before it happens? That's when you're really changing the face of health care. When you're proactive, not reactive, to an adverse event.

I think being able to use your data in the analytics is a key piece to being able to do that.



**Is there anything else that you would like to add that we didn't touch on?**

Knowing that [we] could be on the forefront of really changing health care in this space is also exciting.

Really articulating [home health's] story and the value we create in a lower-cost setting is something we have to make sure we don't lose sight of. Outside factors that deal in the regulatory environment or the legislative environment, those folks have the ability to look at silos of health care and we need to look at the episode of health care and what's best for the patient.

Those that can actually migrate that and manage that are going to be in a different position than those that can't.