



London Hospital Linen Service Inc.
2006 Inventory and Trends Analysis

As John mentioned, Linen Replacement cost is now our fastest growing cost. We, together, must achieve a level of control on this expenditure.

What impacts linen replacement cost?

1. Purchase price of the product
2. Life span of the product
3. Level of loss of the product.

We are here today to share with you how we are doing in these areas.

The October 2006, Annual Linen Inventory was completed in 3 days. It was conducted on October 2nd, 3rd and 4th 2006. The procedures for managing the inventory remain consistent with past practice, and the following data summarizes the outcome of the inventory.

Slide #1 Linen Losses Past Year

- This data chart explains how we arrive at the value of losses for the past year based on the inventory levels last year, this year and the value of goods.

ITEM	Inventory			Anticipated	Actual	+/-	\$ Value Losses
	Oct. 2005	Replacement	Discards	Inventory	Inventory		
	Oct. 2005	Replacement	Discards	Oct. 2006	Oct. 2006		
Bed Sheets	60,632	25,810	12,943	73,499	60,124	(13,375)	(\$90,950.00)
Flannelette Sheets	44,882	20,072	6,484	58,470	42,489	(15,981)	(\$85,498.35)
Knit Fit Sheets	34,437	10,626	6,272	38,791	31,918	(6,873)	(\$53,197.02)
Incontinent Pads	36,464	22,926	6,137	53,253	34,596	(18,657)	(\$106,158.33)
Draw Sheet	33,883	2,879	1,240	35,522	30,714	(4,808)	(\$20,434.00)
Pillow Cases	89,283	41,028	12,337	117,974	107,803	(10,171)	(\$14,341.11)
Sunrise Spread	11,507	2,005	1,320	12,192	11,065	(1,127)	(\$17,017.70)
Zorbit Spread	3,281	1,304	427	4,158	3,106	(1,052)	(\$19,346.28)
Thermal Blanket	6,866	2,678	1,629	7,915	5,933	(1,982)	(\$15,360.50)
Bath Towels	94,502	45,600	16,861	123,241	85,279	(37,962)	(\$52,767.18)
Hand Towels	55,427	29,400	6,877	77,950	58,975	(18,975)	(\$10,815.75)
Patient Gown	62,900	20,540	10,739	72,701	61,402	(11,299)	(\$46,212.91)
Pyjama Bottoms	7,852	10,255	7	18,100	8,054	(10,046)	(\$62,787.50)
Infant Blanket	8,982	13,480	212	22,250	9,042	(13,208)	(\$49,001.68)
Bathrobes	4,562	2,195	161	6,596	5,026	(1,570)	(\$16,139.60)
Adult Bibs	28,249	7,644	7,895	27,998	22,289	(5,709)	(\$19,924.41)
Tea Towel	19,093	15,236	2,401	31,928	17,156	(14,772)	(\$8,124.60)
Surgeon's Shirt	11,941	0	0	0	0	0	\$0.00
Surgeon's Pant	10,694	0	0	0	0	0	\$0.00
Tech. Gown Yellow	19,650	6,148	908	24,890	22,917	(1,973)	(\$10,358.25)
TOTAL	645,087	279,826	94,850	807,428	617,888	(189,540)	(\$698,435.17)

- We start with the actual Inventory, by item, from the previous year
- We add the replacement of new linen into the system, we subtract the discarded or ragged out linen from the system, to arrive at an anticipated linen inventory quantity.
- We compare this to the actual count from the linen inventory for 2006, and arrive at the system wide loss value for the year based on the acquisition cost of each item.
- We recognize the actual count is not 100% accurate; however we rely on a relative level of accuracy, year to year. Our inventory process has been substantiated by our auditors, Ernst

&Young, through the onsite review of counting protocol during inventory week.

- Please note also, that due to time sensitivity at all of our customer sites, we are only counting 18 general linen items, which represent 70% of our volume. Through extrapolation, if we were to consider all linen items, our loss this year would be closing in on \$1,000,000.

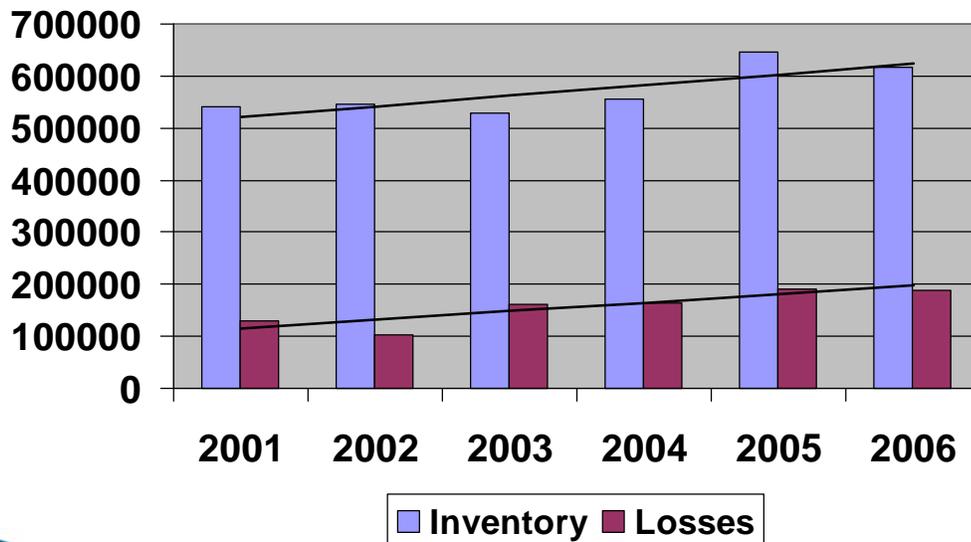
- 5 Year Trend – October 2002 - \$(539,430.84) vs. 2006 \$(698,435.17)

In reviewing the data gathered from the inventory process, there are a couple of concerning trends that we need to address going forward to avoid increases in linen replacement costs which will be passed down to all of our customers in the form of pricing adjustments.

Unit Losses:

When reviewing the unit or item losses, it appears that there is a steady increase in the total number of units lost moving in a concerning upward trend as demonstrated by the bar graph. This represents an increase of 46.6% in total pieces lost in just 5 years or 9.2% per year on average.

Inventory & Loss by Unit

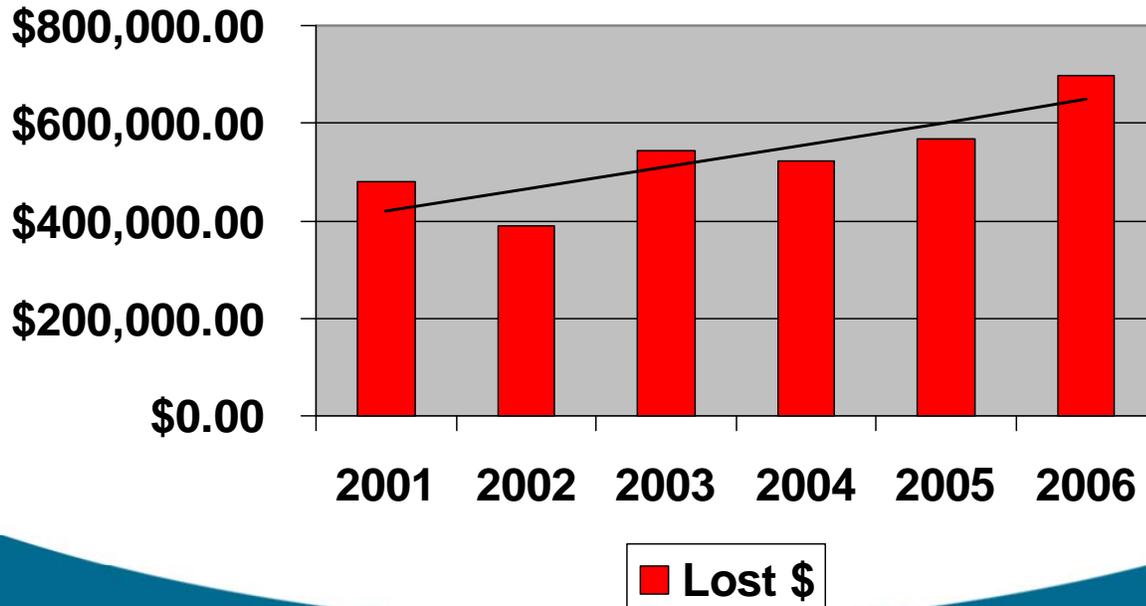


Value of Losses:

The second bar graph, illustrates the second concerning trend identified by the 2006 Inventory. In reviewing the data, the total value of the losses we have experienced this past year, is of grave concern. This trend shows that we have seen an increase in \$ lost of 45.6% over that of the 2001 Inventory. This represents an average increase of 9.12% each year over the last 5 years. If this trend continues we will see an estimated total loss in excess of \$760,000.00 this fall and well over \$830,000.00 in the fall of 2008. We need to address this trend, as this loss will directly effect our linen replacement expense as a portion of the per kilogram cost our customers pay, as well as the value of the linen in circulation, to which we will need to commit more resources to maintain.



Value of Losses



Purchasing Efficiency:

The last graph demonstrates the effectiveness of the textile purchasing we have experienced over the last 5 years. If we were not able to demonstrate the reduction in the overall cost of our textiles over that last 5 years, this graph details the level of loss we would have experienced if we had applied the 2001 acquisition \$ and 2002 acquisition \$ to the 2006 units lost. We have been able to reduce the cost of one “set” from \$128.42 in 2002 to \$108.06 in 2006, or a reduction of 18.8% over the 5 years. Although this has allowed London Hospital Linen Service to mitigate our loss over this period, going forward, this efficiency will not be

enough. We will need to be even more diligent, as the textile market costs are rising.



Purchasing Efficiency



Contributing Factors and our response:

1. Patient Transfer. The use of our linen, bed sheets, flannel sheets pillow slips and patient gowns, to transport patients to other non-LHLSI customers and home increase our loss factor.
 - a. We have established relationships with long term care facilities not being serviced by LHLSI to exchange linens belonging to LHLSI. We recover between \$50,000 and \$100,000 per year of our goods.

- b. We have contacted patient transfer companies and provide a service to many in the area using colored linen marked to the EMS Company. Not all companies use this service, and therefore may use “borrowed” linen for patient transfers.
2. Home Care and Patient Discharge
- a. We know that there are items that sometimes are sent home with the patient either because of a home care situation (incontinent pads, patient gowns) or when patients are discharged (infant blankets and PJ bottoms).
3. Life Span of the product:
- a. Technology improvements in the fabric manufacturing industry and the laundry chemical industry have improved the life span of many products for example increase use of microfibre and longer staple cotton fibers which enhance the life of the core textile.

We need your help to control the loss. Through education and the sharing of information, we hope to bring this issue to the forefront, and ask for your help and assistance in educating your staff on the impact of loss due to the use of the product for patient transfer and potential home care.

If you have any questions, or would like further clarification on this information, we ask you to visit our new web site at www.lhls.on.ca, where you can contact us directly for more information, download a PDF copy of this presentation, and while you are there, we welcome you to take a virtual tour of our plant, where you can see first hand, our efforts in supporting you in your mission of care.

Thank You.