Agenda

- Update on Credit Analysis & Market
- Michigan Hospital Review
- 10 Year Trends
- Summary & Questions
Credit Evaluation
Hospital Operational Characteristics

- Chargemaster Changes
- Investment Earnings
- Utilization Stats
- Physician Strategy
- Affiliations/Mergers
- Staffing Priorities
- Service Line Offerings
- Budget Strategies (i.e. operating margin)
- Payer Contracts
- Investment Policies
- Debt Policies
- Strategic Plan
- Capital Improvement Plans
- Capital Campaigns
- Regulatory Changes
Rating Agency Medians

Standard & Poor’s Sept. 1, 2015
- 476 ratings (501 prior year)
- $494.4 million Net Patient Revenue ($474.8)
- 12.0% EBIDA margins (11.1%)
- 214.0 Days Cash on Hand (197.6)

Fitch Ratings August 10, 2015
- 235 hospitals (243)
- $642.1 million Total Op Revenue ($575.7)
- 11.7% EBIDA margins (10.9%)
- 203.4 Days Cash on Hand (193.9)

Moody’s Sept. 10, 2015
- 366 hospitals (383)
- $604.2 million Net Patient Revenue ($576.2)
- 9.6% Operating Cash Flow Margin (9.0%)
- 205.8 Days Cash on Hand (201.4)
- 5.1% 3 Yr. Operating Revenue Growth (5.0%)
- 5.2% 3 Yr. Operating Expense Growth (5.4%)

Numbers in parenthesis represent prior year median
Rating Agency Commentary

- Fitch still negative outlook but some positive trends
- Widening credit gap
- Strengthened liquidity
  - Lower capital spending
  - Revenue cycle management
- Improved leverage ratios
- Medicaid expansion positive
- Improved investment returns
- Risk based payer contracts

Source: Moody’s report 9/10/15; S&P Report 9/1/15; Fitch report 8/10/15
S&P Change in Criteria

Enterprise Profile
- Industry Risk 20%
- Econ Fund 20%
- Market Pos. 50%
- Mgt & Govern. 10%

Financial Profile
- Financial Perf. 40%
- Liquidity & Flex. 30%
- Debt & Cont. Liab. 30%
- Financial Policies

Small hospitals under $125 million in net patient revenue and/or DCOH under 75 days = weaker credits

Source: S&P Report 12/15/14 – “U.S. Not-for-Profit Acute-Care Stand-Alone Hospitals – Methodology And Assumptions”
### S&P Small Hospital Metrics

<table>
<thead>
<tr>
<th></th>
<th>Standard &amp; Poor's Small Hospital</th>
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</thead>
<tbody>
<tr>
<td><strong>Sample Size</strong></td>
<td>&quot;BBB&quot; 12</td>
</tr>
<tr>
<td></td>
<td>&quot;A&quot; 11</td>
</tr>
<tr>
<td><strong>Net Patient Revenue ($000s)</strong></td>
<td>$73,147</td>
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<tr>
<td></td>
<td>$92,871</td>
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<tr>
<td><strong>Profitability Ratios</strong></td>
<td></td>
</tr>
<tr>
<td>Operating Margin (%)</td>
<td>2.80</td>
</tr>
<tr>
<td></td>
<td>6.10</td>
</tr>
<tr>
<td>Excess/Profit Margin (%)</td>
<td>5.40</td>
</tr>
<tr>
<td></td>
<td>11.60</td>
</tr>
<tr>
<td>Cash Flow (EBITDA) Margin (%)</td>
<td>11.10</td>
</tr>
<tr>
<td></td>
<td>13.00</td>
</tr>
<tr>
<td><strong>Liquidity Ratios</strong></td>
<td></td>
</tr>
<tr>
<td>Days Cash on Hand</td>
<td>238.40</td>
</tr>
<tr>
<td>Cushion</td>
<td>528.00</td>
</tr>
<tr>
<td>Days in Accounts Receivable</td>
<td>169.40</td>
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<tr>
<td></td>
<td>352.30</td>
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<tr>
<td><strong>Capital Structure Ratios</strong></td>
<td></td>
</tr>
<tr>
<td>Debt Service Coverage (EBITDA)</td>
<td>3.30</td>
</tr>
<tr>
<td></td>
<td>6.20</td>
</tr>
<tr>
<td>Debt Service to Revenue (%)</td>
<td>3.90</td>
</tr>
<tr>
<td></td>
<td>2.50</td>
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<tr>
<td>Debt to Capital (%)</td>
<td>27.40</td>
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<tr>
<td></td>
<td>18.20</td>
</tr>
<tr>
<td>Average Age of Plant</td>
<td>9.80</td>
</tr>
<tr>
<td></td>
<td>10.30</td>
</tr>
<tr>
<td>Cap Expend to Depreciation (%)</td>
<td>72.60</td>
</tr>
<tr>
<td></td>
<td>91.60</td>
</tr>
<tr>
<td><strong>Operational Ratios</strong></td>
<td></td>
</tr>
<tr>
<td>Personnel Costs/Revenues (%)</td>
<td>57.30</td>
</tr>
<tr>
<td></td>
<td>57.70</td>
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</tbody>
</table>

S&P 9.1.15 Rating medians for fiscal year ended 2014; small hospital $125 million net patient rev or less
Market Conditions
Fed Rate

October 28th meeting has slim chance of Fed moving rate up; many will look to press release on hints of a mid-December rate hike.

Mixed bag of economic indicators:

Positive:
- Housing market continues to strengthen (housing starts are at their highest since 2007)
- Jobless claims are at a 41-year low
- Better-than-expected purchasing managers reports provided a hopeful sign of some recovery

Negative:
- GDP growth for the third quarter to be released 10/29 will probably be disappointing, real growth might be only 1.5%, versus 3.9% for the second quarter
- PCE core deflator, will be released two days after the FOMC meeting and at 1.4% YOY, would still be well short of the 2% target

<table>
<thead>
<tr>
<th>Bloomberg Monthly Survey</th>
<th>Median Rate Summary</th>
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<tbody>
<tr>
<td></td>
<td>4Q 2015</td>
</tr>
<tr>
<td>Fed Funds</td>
<td>0.50%</td>
</tr>
<tr>
<td>2-Year Note</td>
<td>0.86%</td>
</tr>
<tr>
<td>10-Year Note</td>
<td>2.33%</td>
</tr>
<tr>
<td>30-Year Note</td>
<td>3.06%</td>
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<tr>
<td>3-Month Libor</td>
<td>0.42%</td>
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</table>

Source: Bloomberg

<table>
<thead>
<tr>
<th>Bloomberg Monthly Survey</th>
<th>Median Economic Indicator Summary</th>
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<tbody>
<tr>
<td>Unemployment</td>
<td>N/A</td>
</tr>
<tr>
<td>Consumer Spending</td>
<td>3.5%</td>
</tr>
<tr>
<td>CPI (YOY)</td>
<td>0.2%</td>
</tr>
<tr>
<td>PCE (YOY)</td>
<td>0.3%</td>
</tr>
<tr>
<td>Core PCE (YOY)</td>
<td>1.3%</td>
</tr>
<tr>
<td>GDP</td>
<td>2.0%</td>
</tr>
<tr>
<td>Budget</td>
<td>-2.5%</td>
</tr>
</tbody>
</table>

Source: Bloomberg

SOURCES: Bloomberg as of October 13, 2015
Interest Rates are Still Very Attractive!

Source: Bloomberg, October 22 2015
Ability to Afford?

Profitability

Do You Have Positive Margins?

Yes

No

What is Your Cash Position?

Yes

No

What Options Are Available?

Short

Need to Focus on Operations

Need to Build Cash Reserves

Too Much Debt Now?

Yes

No

Focus on Reducing Debt

Liquidity
Michigan CAH Analysis
Methodology

- Obtained 2014 financial reports from 29 hospitals
- Hospitals self-selected based on request from Michigan Center for Rural Health
- Created percentile rankings for each hospital based on key attributes
- Historical trends based on 10 years of data; not all the same hospitals participated each year
Revenue Analysis
Patient Revenue - All
System vs Non System

<table>
<thead>
<tr>
<th>Year</th>
<th>Sys Net Pat Rev</th>
<th>NonSys Net Pat Rev</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
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</tbody>
</table>
Charity Care Dollars

Only 23 hospitals reported charity care dollars
Contractual Allowances as % of Gross Revenue

Only 23 hospitals reported details of patient revenue; median = 39.3%
Medicare Revenue Payer Mix

Only 19 hospitals reported Medicare revenue details
Operating Margin - All

Average = 1.30% across hospitals
Operating Margin
Avg. EBITDA = $3.07 mill
Debt Service Coverage - All

![Bar chart showing Debt Service Coverage - All for various categories with Avg DSC, DSC, and Median DSC represented.](chart-image)
Debt Service Coverage
Bad Debt Expense
Personnel Expense
Total Operating Expenses
Balance Sheet Analysis
Liquidity is Critical – DCOH - All
Liquidity - DCOH
Cash on the Balance Sheet – Days AR
Days AR System vs Non-System

- 2011: Sys Days AR (45) vs NonSys Days AR (40)
- 2012: Sys Days AR (40) vs NonSys Days AR (35)
- 2013: Sys Days AR (50) vs NonSys Days AR (40)
- 2014: Sys Days AR (45) vs NonSys Days AR (40)
How Much Leveraged?

![Bar chart showing debt to capital and average comparisons.](chart.png)
How Old Are Your Facilities?

S&P 2014 BBB rated stand alone average age of plant = 11.6 years;
Age of Plant Getting Older at Systems

![Chart showing the age of plants getting older over the years. The chart compares the system age of plant (Sys Age of Plant) and the non-system age of plant (NonSys Age of Plant) for the years 2011 to 2014.](chart.png)
Are You Reinvesting in Your Facilities?

S&P 2014 BBB rated stand alone median 74.6%; Michigan CAHs = 72.5%
Independent Hospitals Reinvesting More!

![Bar chart showing investment trends from 2011 to 2014.](image)
Stronger Entities Continue to Strengthen

- **2011**: $5,000,000
- **2012**: $10,000,000
- **2013**: $20,000,000
- **2014**: $25,000,000

**Legend**:
- Blue: Sys Unrest Net Assets
- Green: NonSys Unrest Net Assets
10 Year Historical Trends*

*trends of all Michigan Critical Access Hospitals who have participated in the study over the past 10 years.
Annual growth rate of 5% per year in total revenue; 9% for EBITDA
Net Patient Revenue

Data gathered for years reflected in the chart
Liquidity

![Chart showing liquidity trends from 2005 to 2014 with bars for Days Cash on Hand and line graph for Days in Accts Rec.](chart.png)
Debt Outstanding

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$4,520.</td>
</tr>
<tr>
<td>2006</td>
<td>$4,910.</td>
</tr>
<tr>
<td>2007</td>
<td>$7,175.</td>
</tr>
<tr>
<td>2008</td>
<td>$7,500.</td>
</tr>
<tr>
<td>2009</td>
<td>$7,930.</td>
</tr>
<tr>
<td>2010</td>
<td>$6,839.</td>
</tr>
<tr>
<td>2011</td>
<td>$9,595.</td>
</tr>
<tr>
<td>2012</td>
<td>$8,866.</td>
</tr>
<tr>
<td>2013</td>
<td>$8,225.</td>
</tr>
<tr>
<td>2014</td>
<td>$7,100.</td>
</tr>
</tbody>
</table>

Amounts in millions of dollars
Debt Repayment (Average)
Key Expense Ratios

[Chart showing key expense ratios for Personnel Expenses and Bad Debt Expenses from 2005 to 2014]
Do You Have Creeping Deferred Maintenance?

![Average Age of Plant chart]

- 2005: 9.7
- 2006: 10.5
- 2007: 10.3
- 2008: 11.0
- 2009: 12.30
- 2010: 8.31
- 2011: 10.57
- 2012: 12.40
- 2013: 12.62
- 2014: 12.66
Keep Re-investing!

Only data for last 5 years collected
Thanks for participating!

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