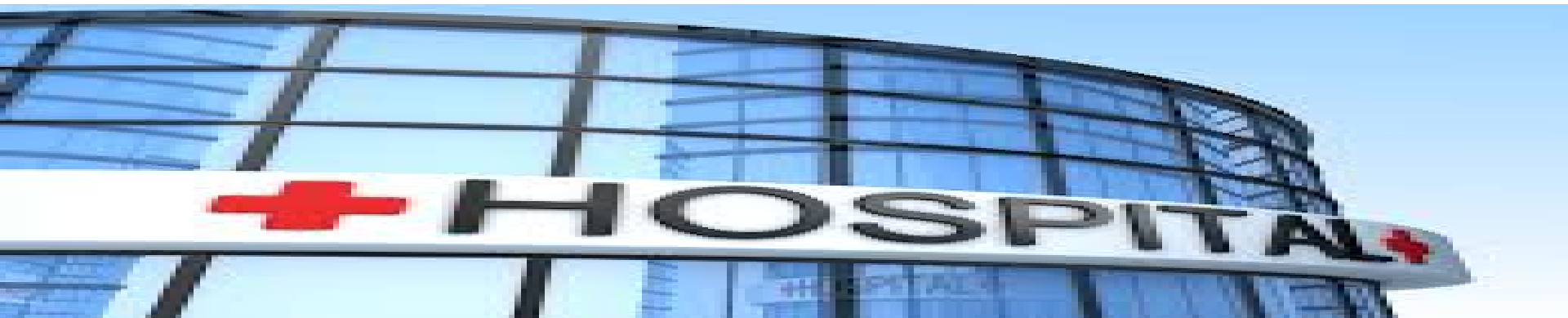


Michigan Critical Access Hospitals

Financial Benchmarking 2015

Michigan Center for Rural Health

November 5, 2015



Agenda

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

Credit Evaluation

Hospital Operational Characteristics

BAIRD



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%)

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

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

S&P Small Hospital Metrics

	Standard & Poor's Small Hospital	
	"BBB"	"A"
Sample Size	12	11
Net Patient Revenue (\$000s)	\$73,147	\$92,871
Profitability Ratios		
Operating Margin (%)	2.80	6.10
Excess/Profit Margin (%)	5.40	11.60
Cash Flow (EBITDA) Margin (%)	11.10	13.00
Liquidity Ratios		
Days Cash on Hand	238.40	528.00
Cushion	18.00	38.30
Cash to Debt (%)	169.40	352.30
Days in Accounts Receivable	45.20	46.50
Capital Structure Ratios		
Debt Service Coverage (EBITDA)	3.30	6.20
Debt Service to Revenue (%)	3.90	2.50
Debt to Capital (%)	27.40	18.20
Average Age of Plant	9.80	10.30
Cap Expend to Depreciation (%)	72.60	91.60
Operational Ratios		
Personnel Costs/Revenues (%)	57.30	57.70

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

Market Conditions

Bloomberg Economic Survey October 13, 2015



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

Bloomberg Monthly Survey

Median Rate Summary

	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017
Fed Funds	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
2-Year Note	0.86%	1.08%	1.35%	1.50%	1.68%	1.94%	2.04%
10-Year Note	2.33%	2.50%	2.65%	2.80%	2.98%	3.08%	3.20%
30-Year Note	3.06%	3.20%	3.30%	3.40%	3.53%	3.60%	3.59%
3-Month Libor	0.42%	0.65%	0.90%	1.15%	1.41%	1.64%	1.90%

Source: Bloomberg

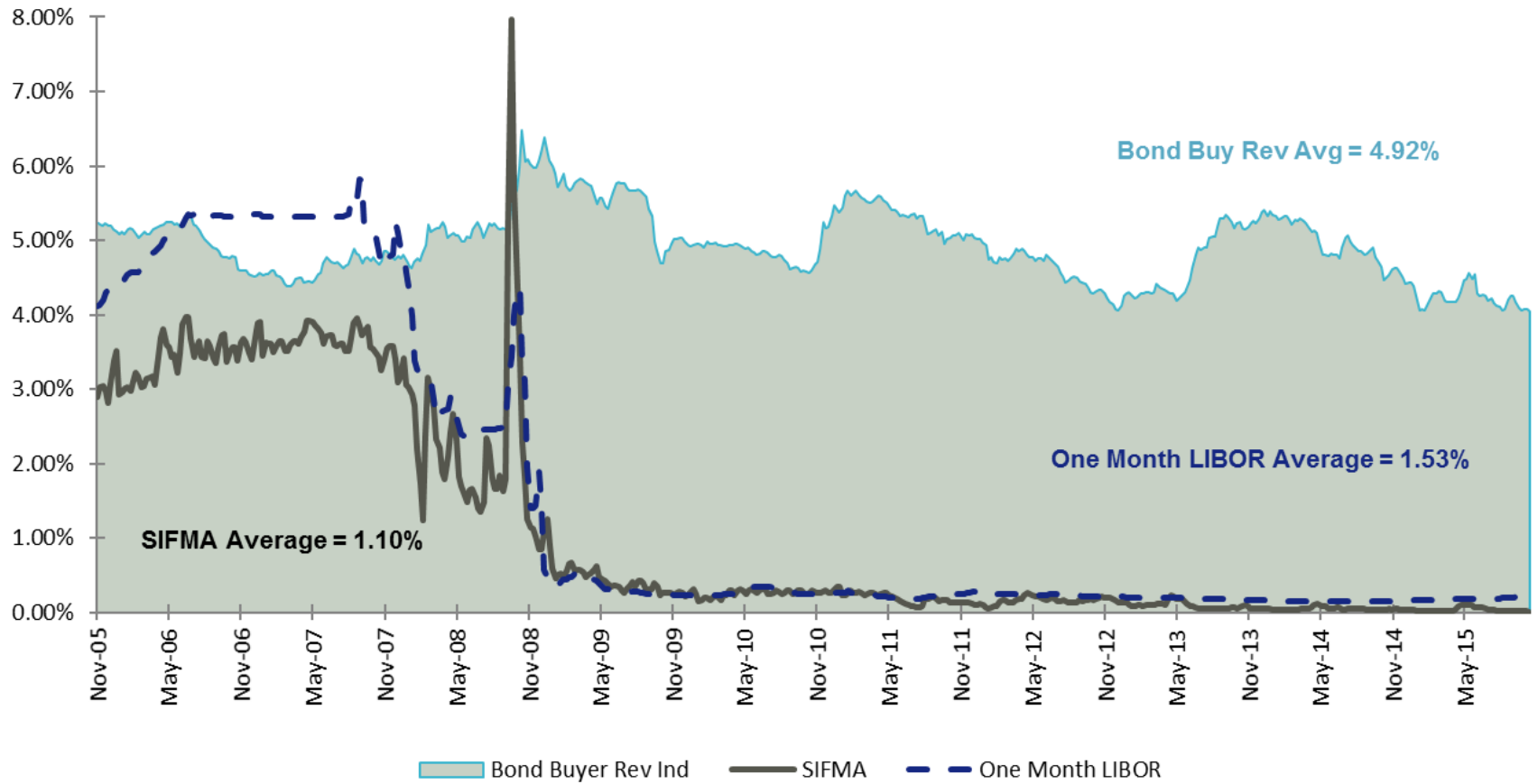
Bloomberg Monthly Survey

Median Economic Indicator Summary

	3Q 2015	4Q 2015	1Q 2016	2Q 2016	Avg. 2015	Avg. 2016	Avg. 2017
Unemployment	N/A	5.0%	4.9%	4.9%	5.3%	4.8%	4.8%
Consumer Spending	3.5%	3.0%	2.7%	2.7%	3.2%	2.8%	2.5%
CPI (YOY)	0.2%	0.8%	1.9%	1.7%	0.2%	1.9%	2.2%
PCE (YOY)	0.3%	0.7%	1.5%	1.4%	0.3%	1.6%	1.9%
Core PCE (YOY)	1.3%	1.4%	1.6%	1.6%	1.3%	1.7%	1.8%
GDP	2.0%	2.7%	2.5%	2.7%	2.5%	2.6%	2.5%
Budget	-2.5%	-2.4%	-2.5%	-2.5%	-2.4%	-2.4%	-2.5%

Source: Bloomberg

Interest Rates are Still Very Attractive!



Source: Bloomberg, October 22 2015

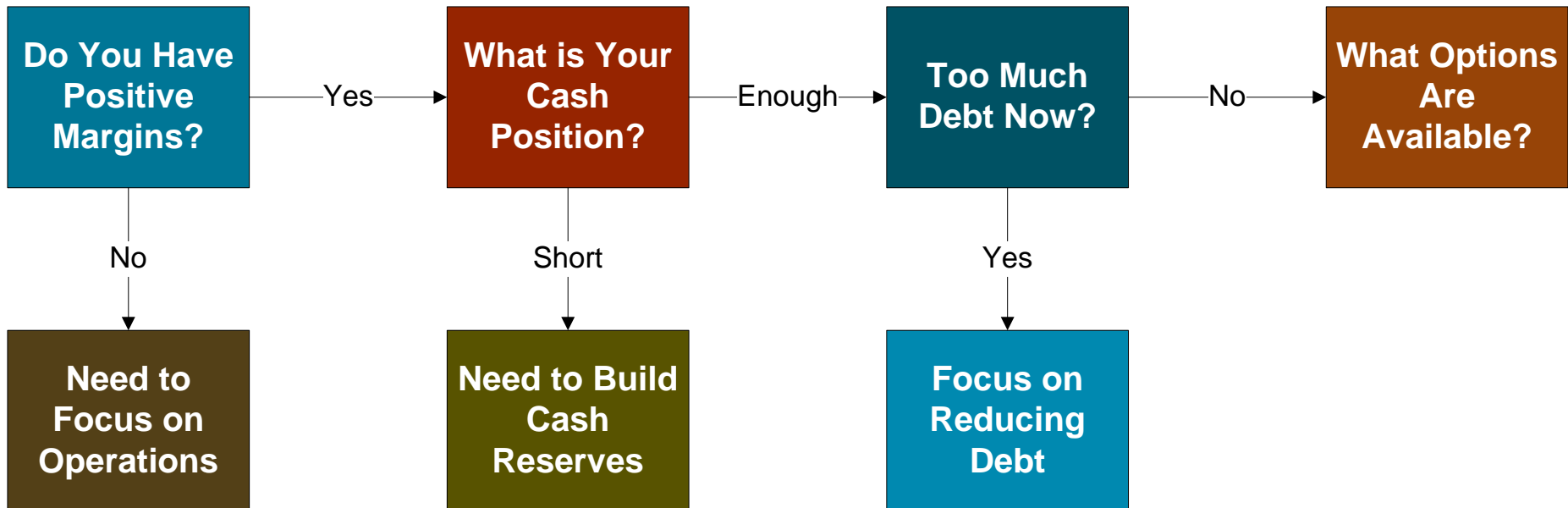
Ability to Afford?

BAIRD

Profitability

Debt

Liquidity



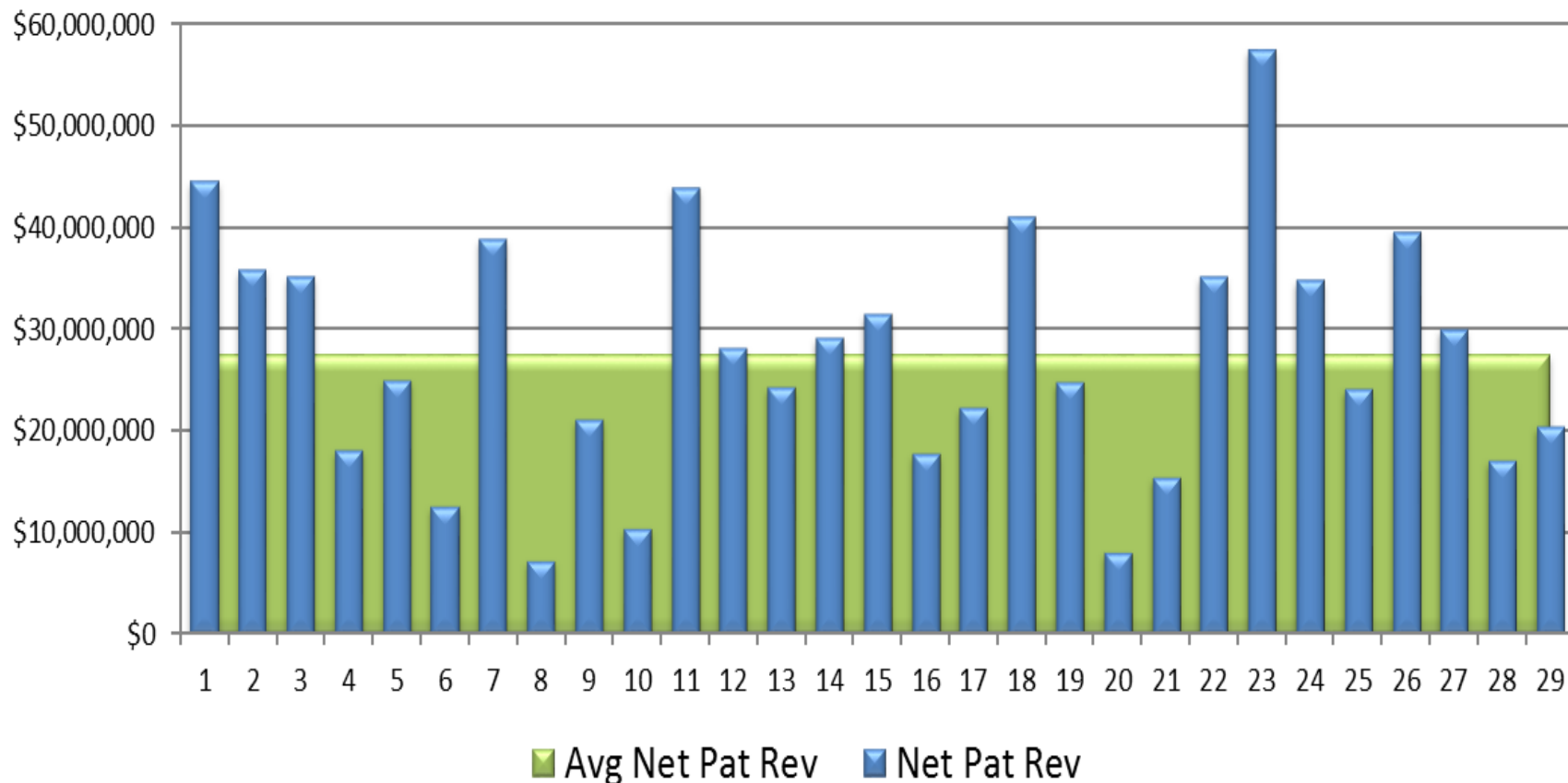
Michigan CAH Analysis

Methodology

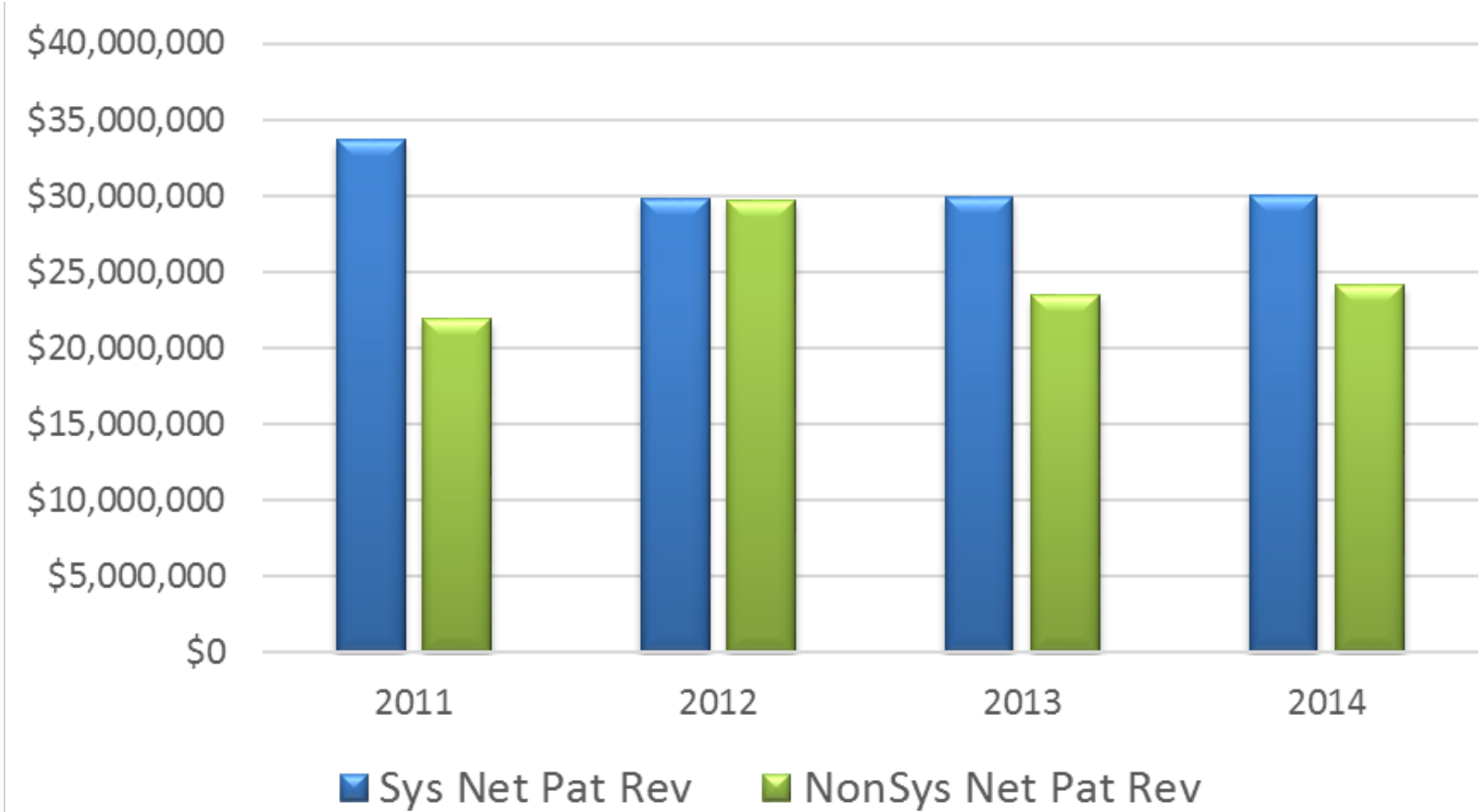
- Obtained 2014 financial reports from 29 hospitals
- Hospitals self-selected based on request from Michigan Center for Rural Health
- Created percentile rankings for each hospital based on key attributes
- Historical trends based on 10 years of data; not all the same hospitals participated each year

Revenue Analysis

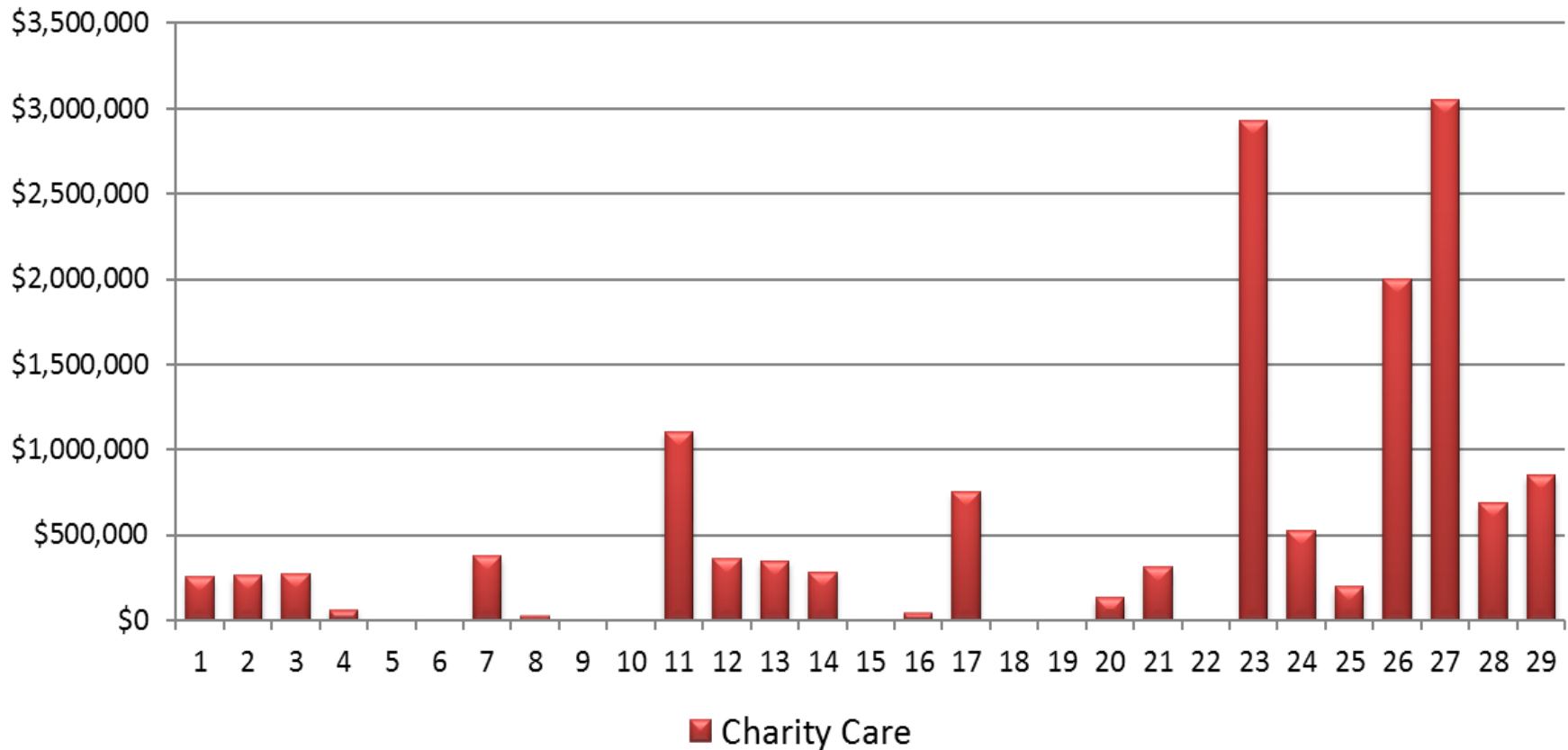
Patient Revenue - All



System vs Non System

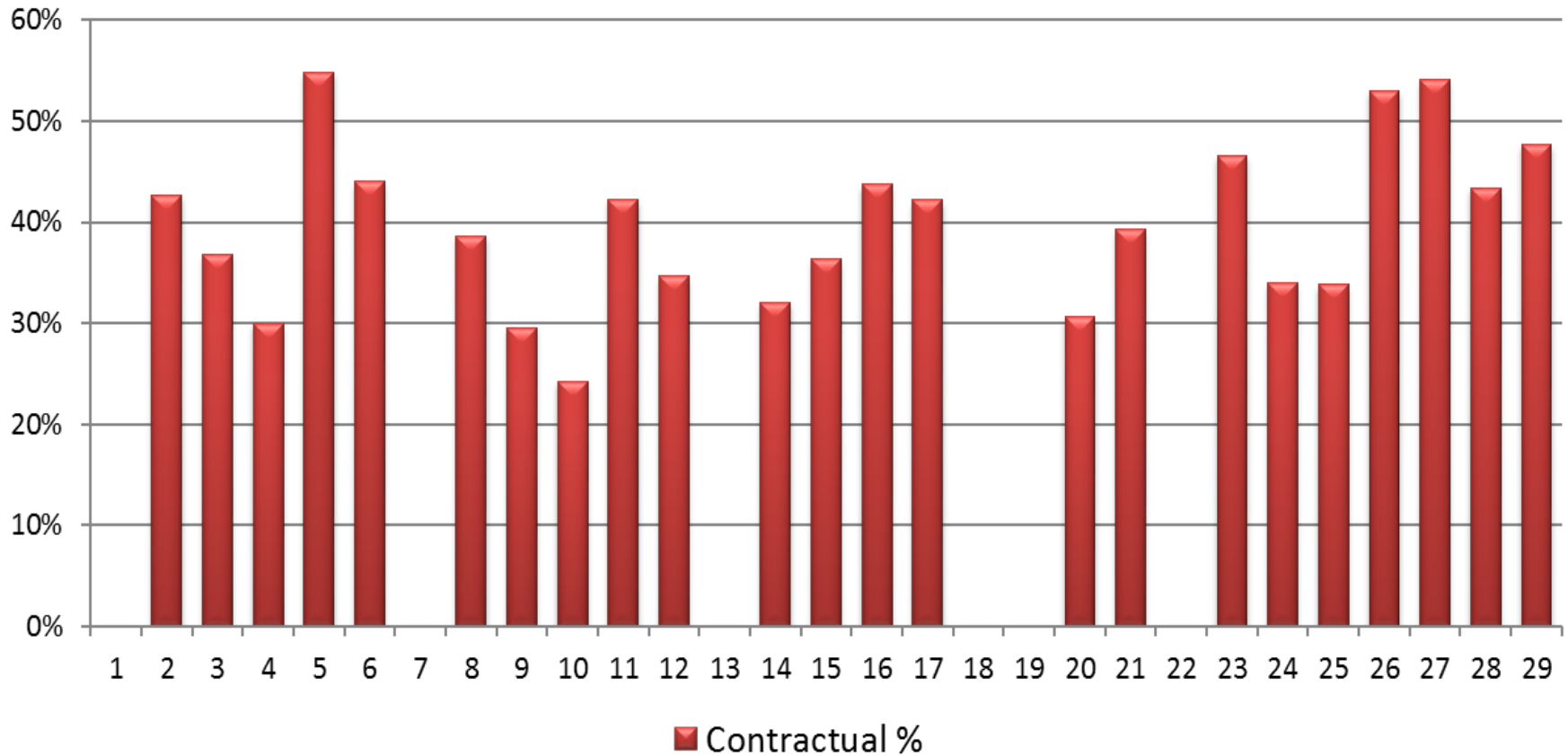


Charity Care Dollars



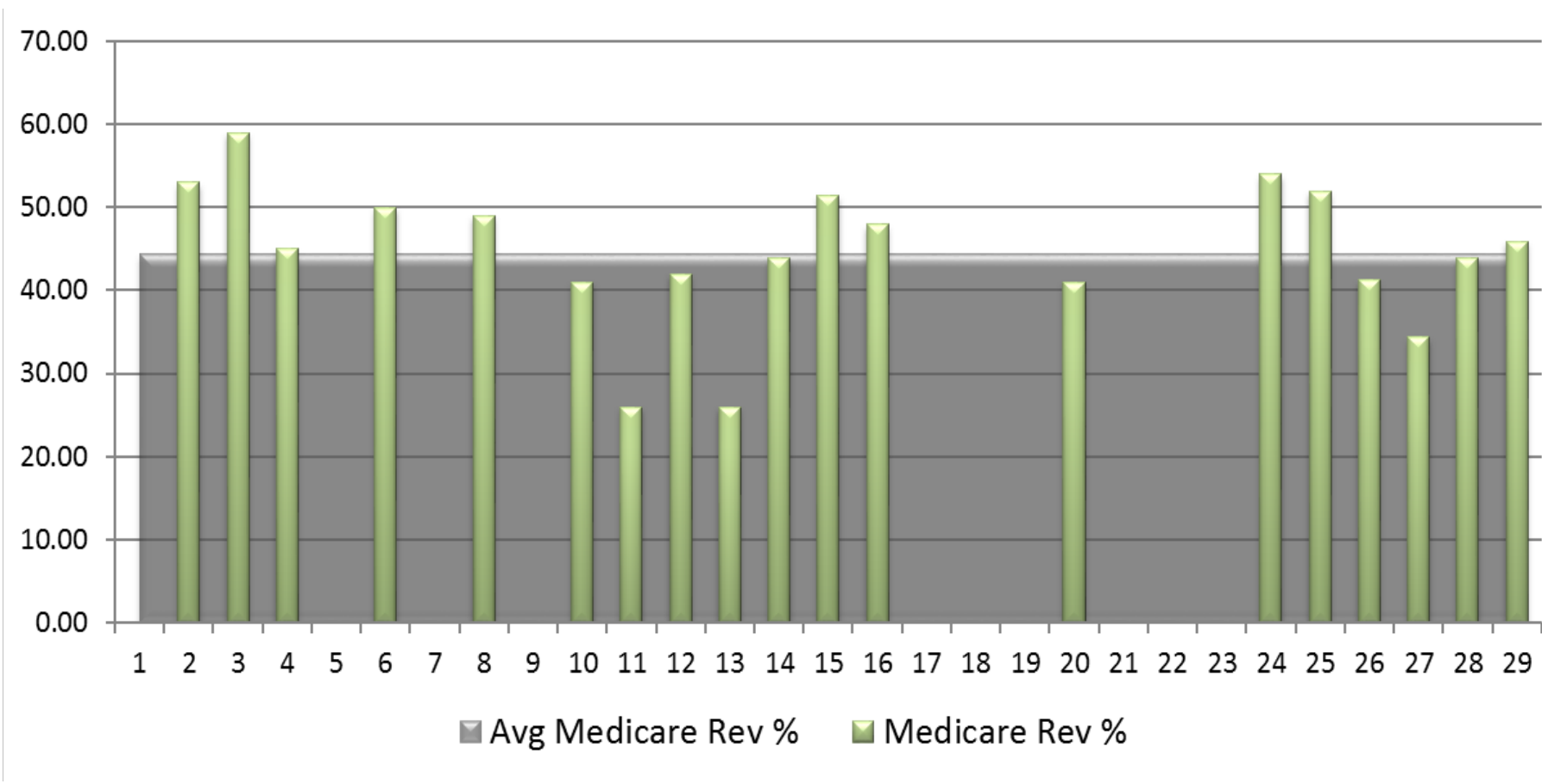
Only 23 hospitals reported charity care dollars

Contractual Allowances as % of Gross Revenue



Only 23 hospitals reported details of patient revenue; median = 39.3%

Medicare Revenue Payer Mix

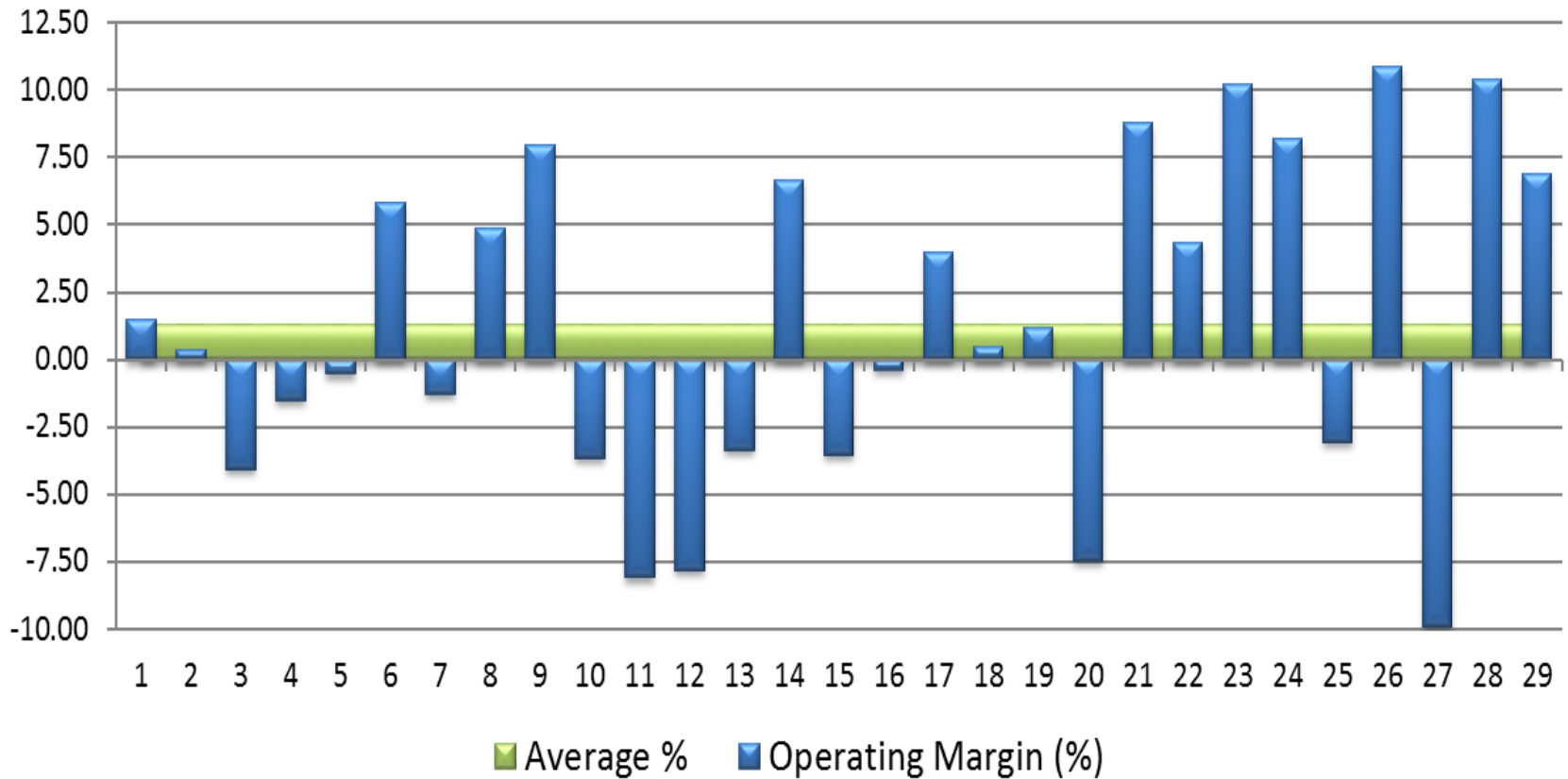


Only 19 hospitals reported Medicare revenue details

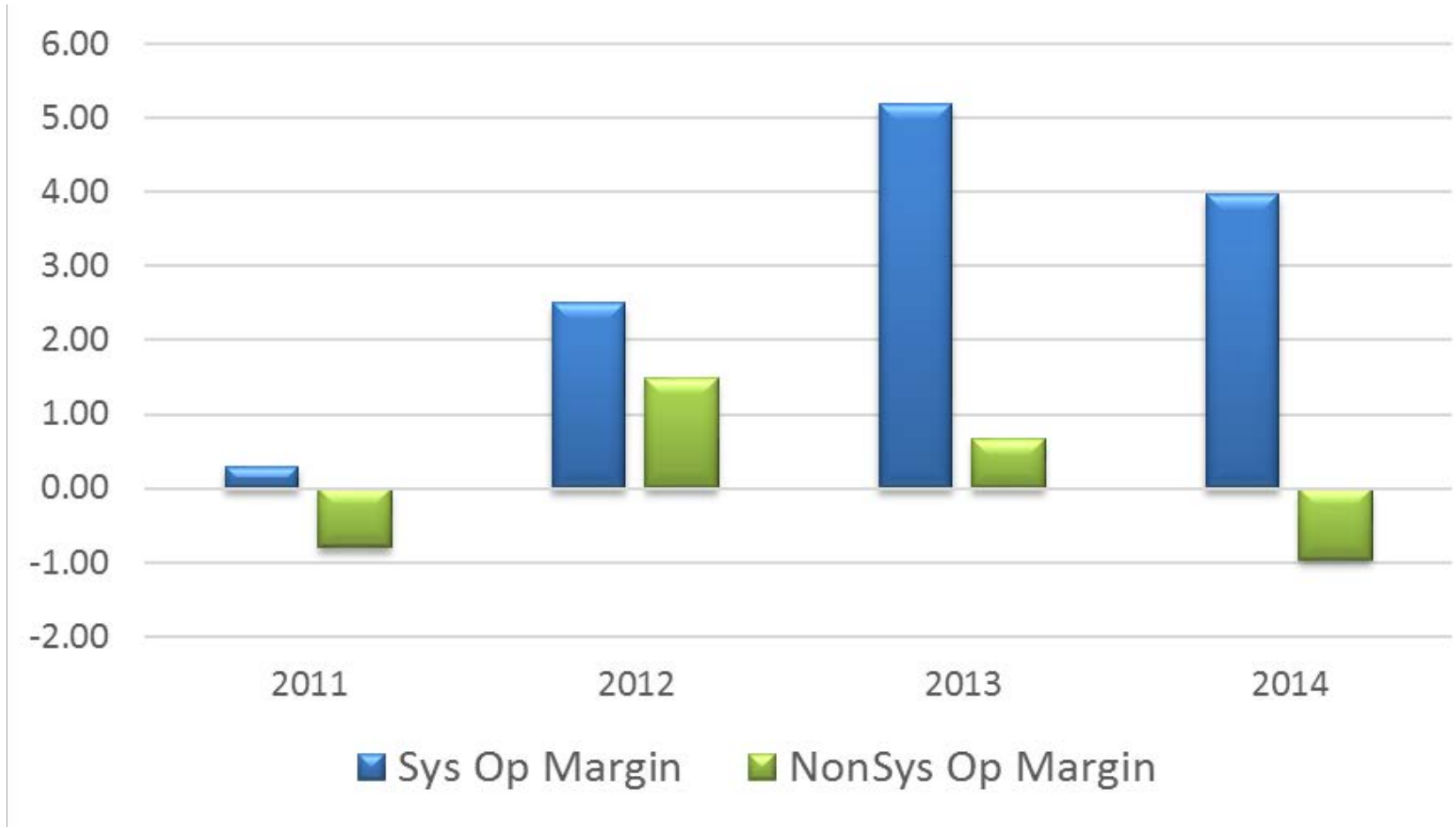
Operating Margin - All



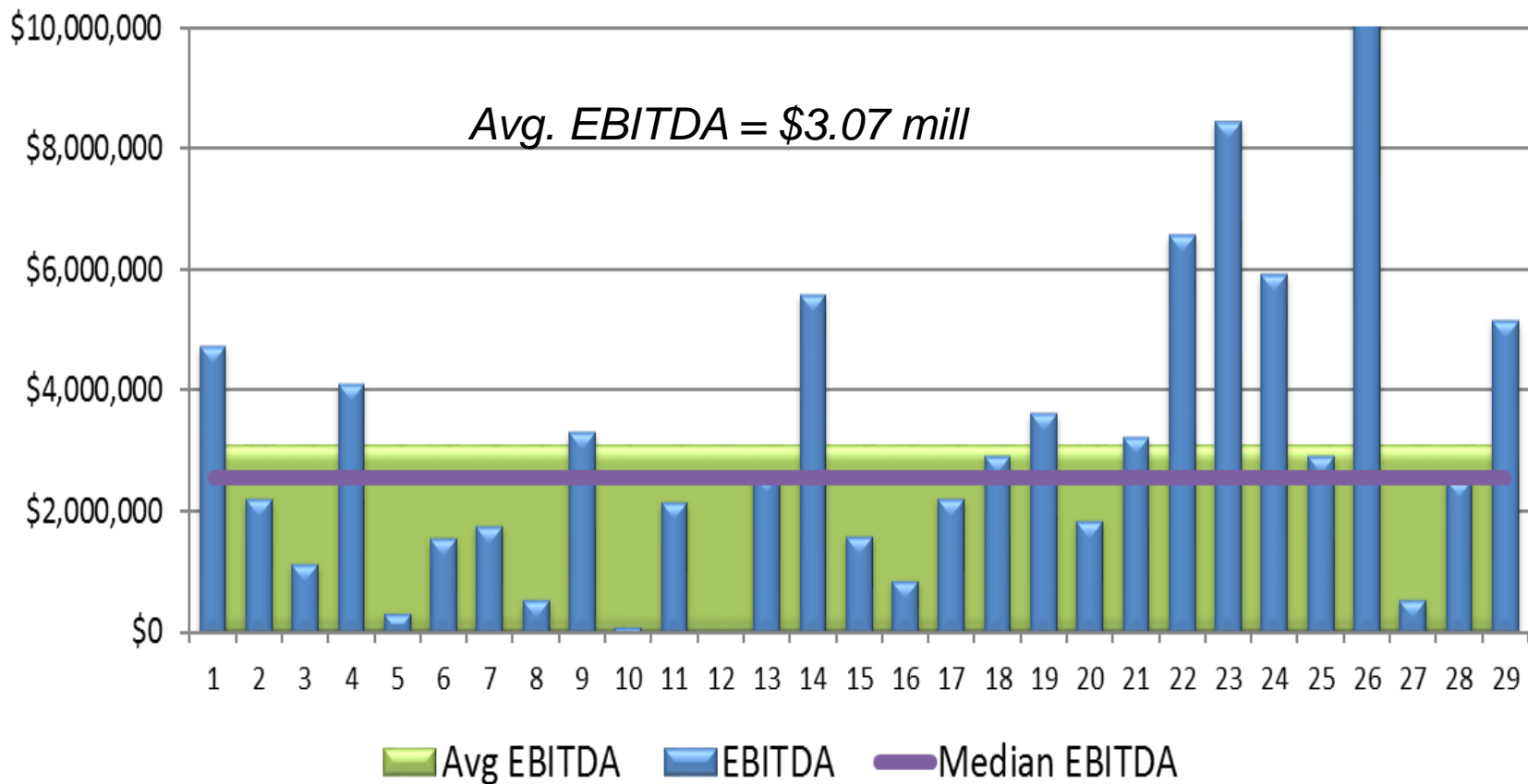
Average = 1.30% across hospitals



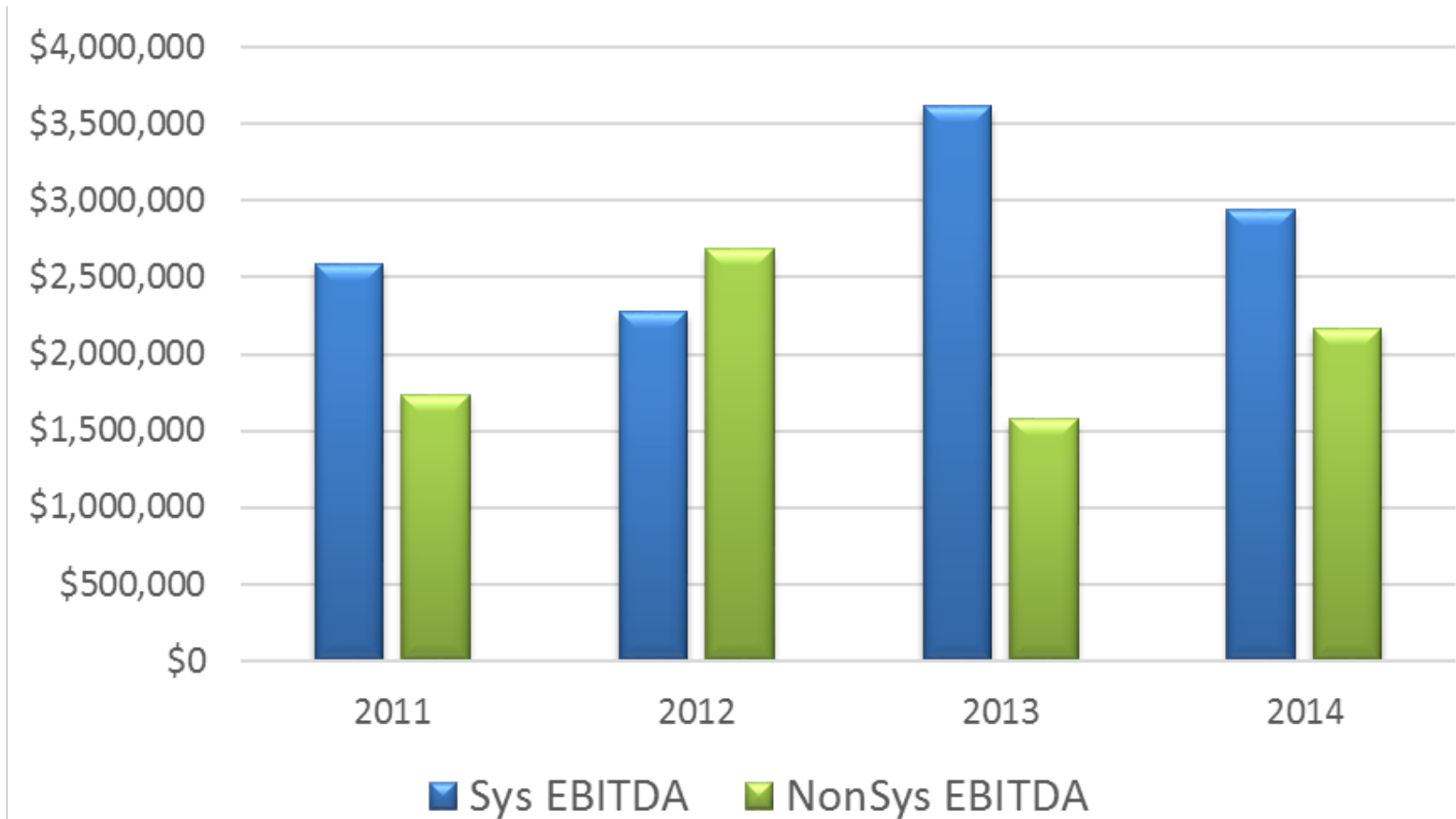
Operating Margin



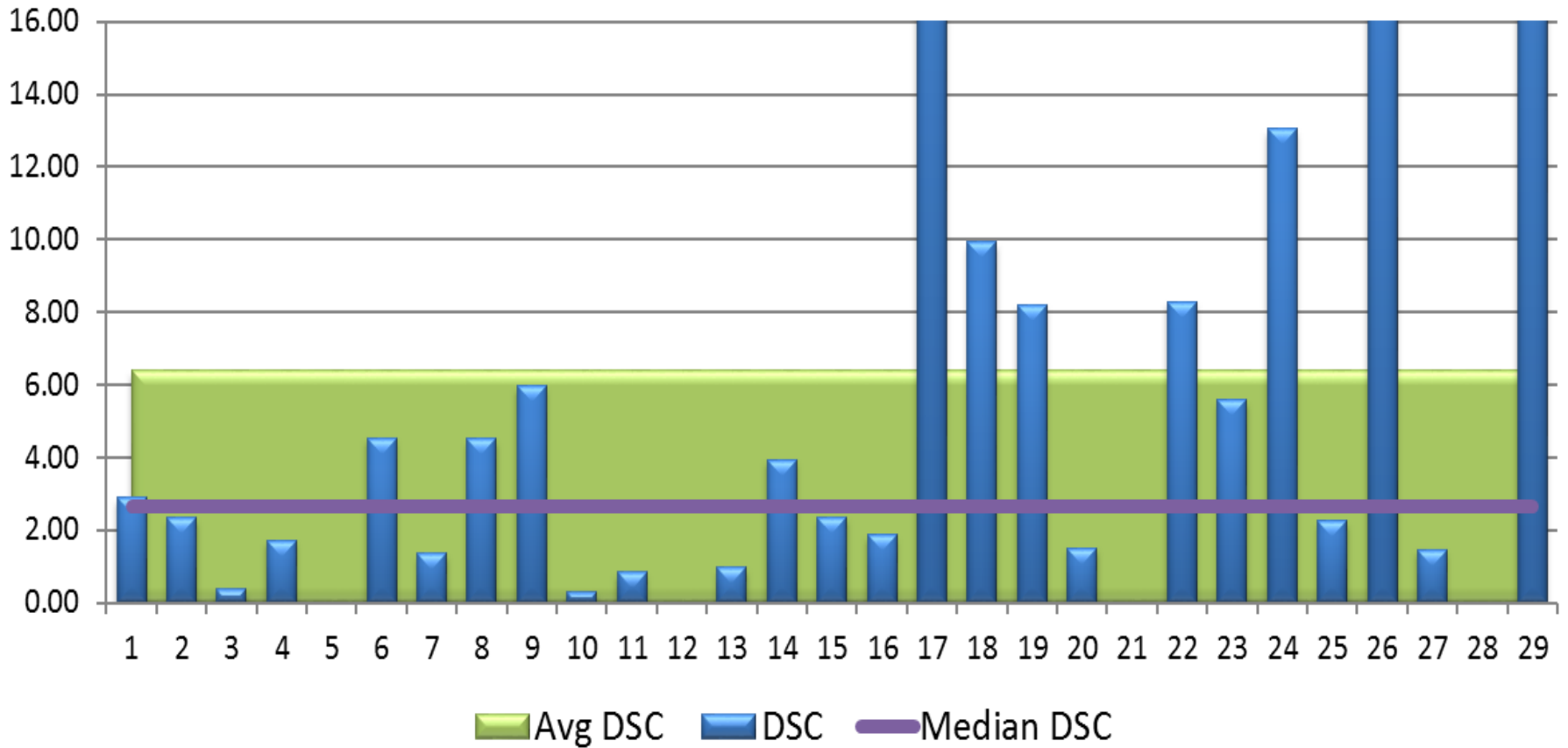
EBITDA - All



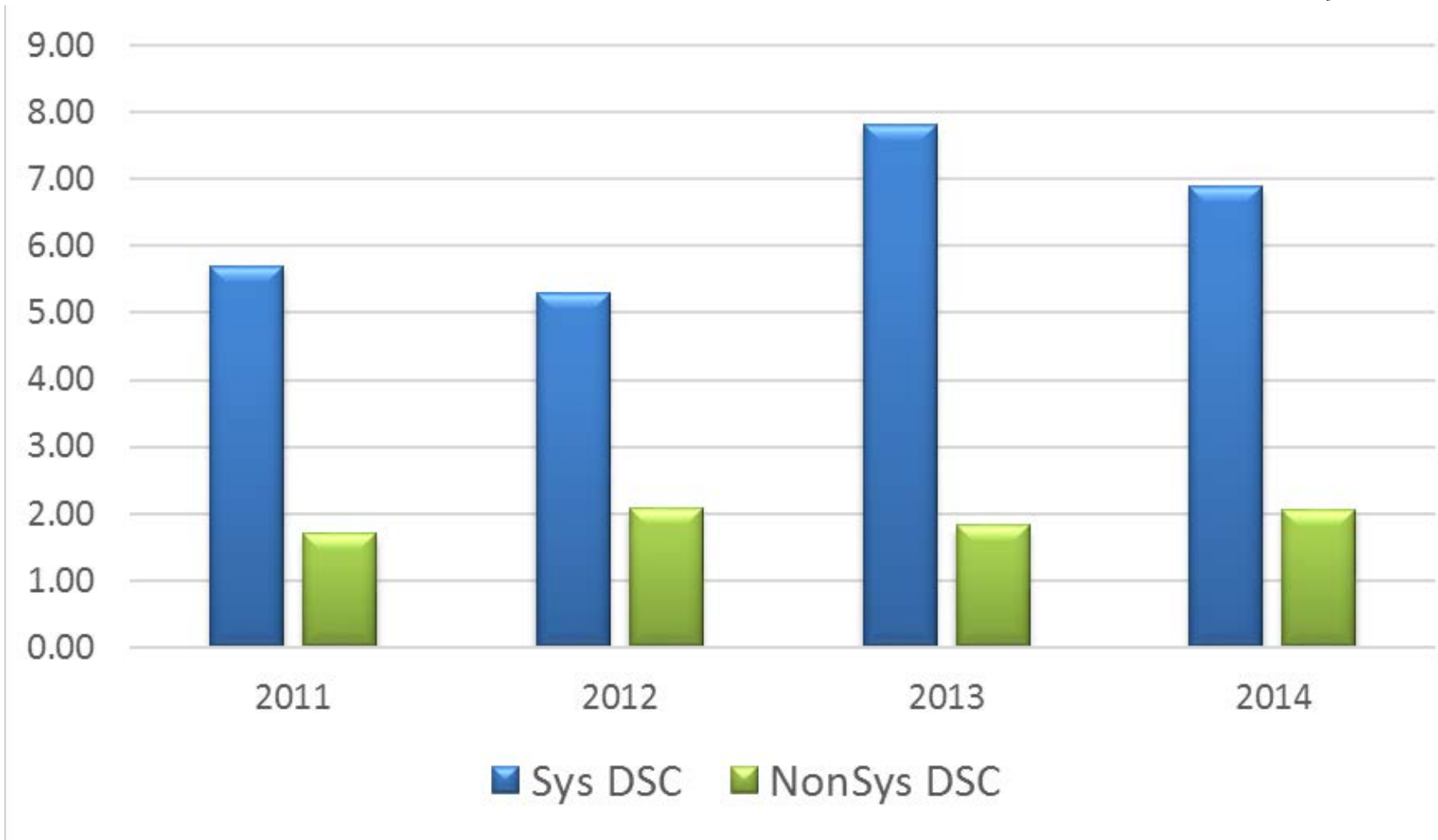
EBITDA



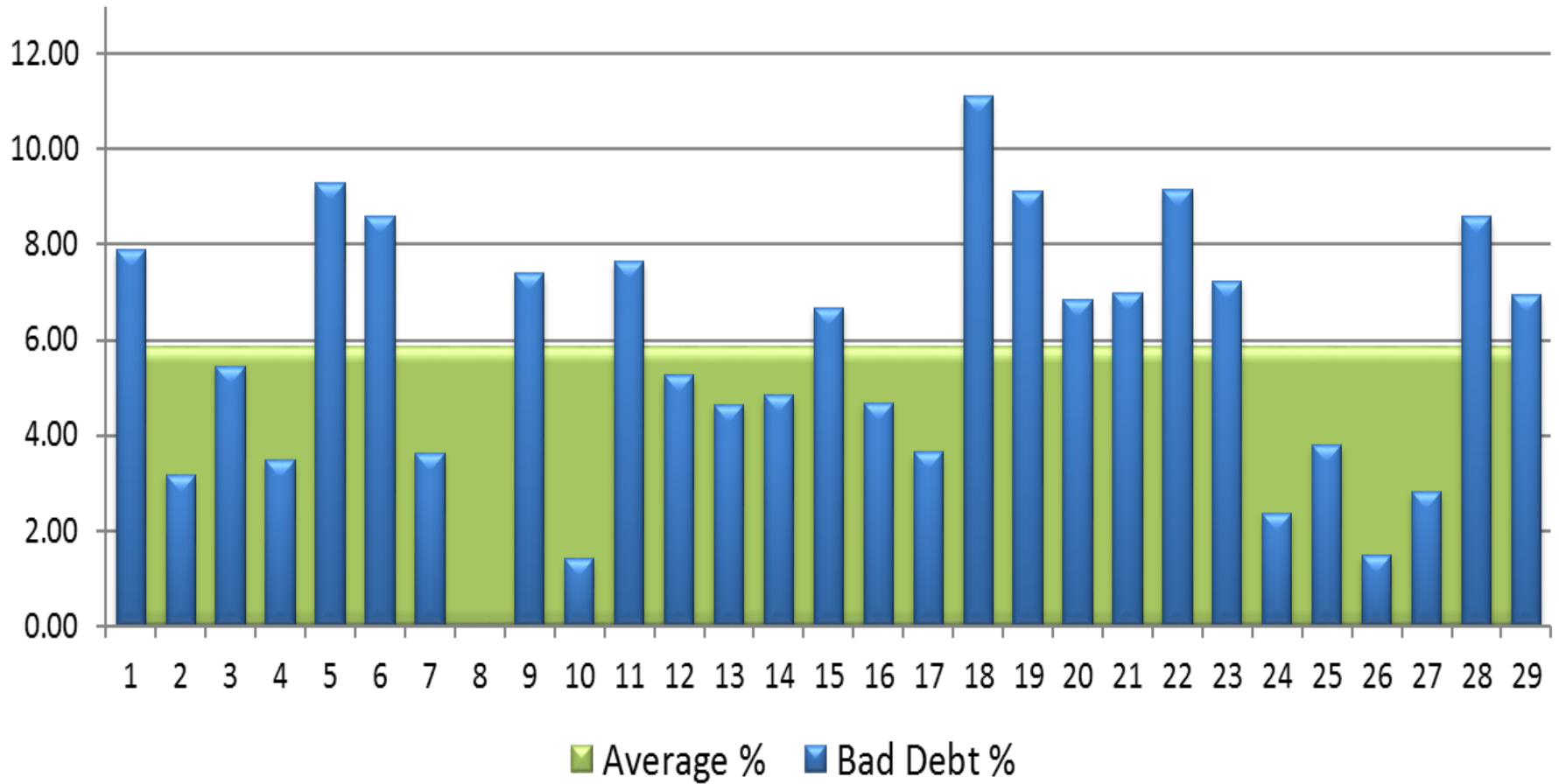
Debt Service Coverage - All



Debt Service Coverage



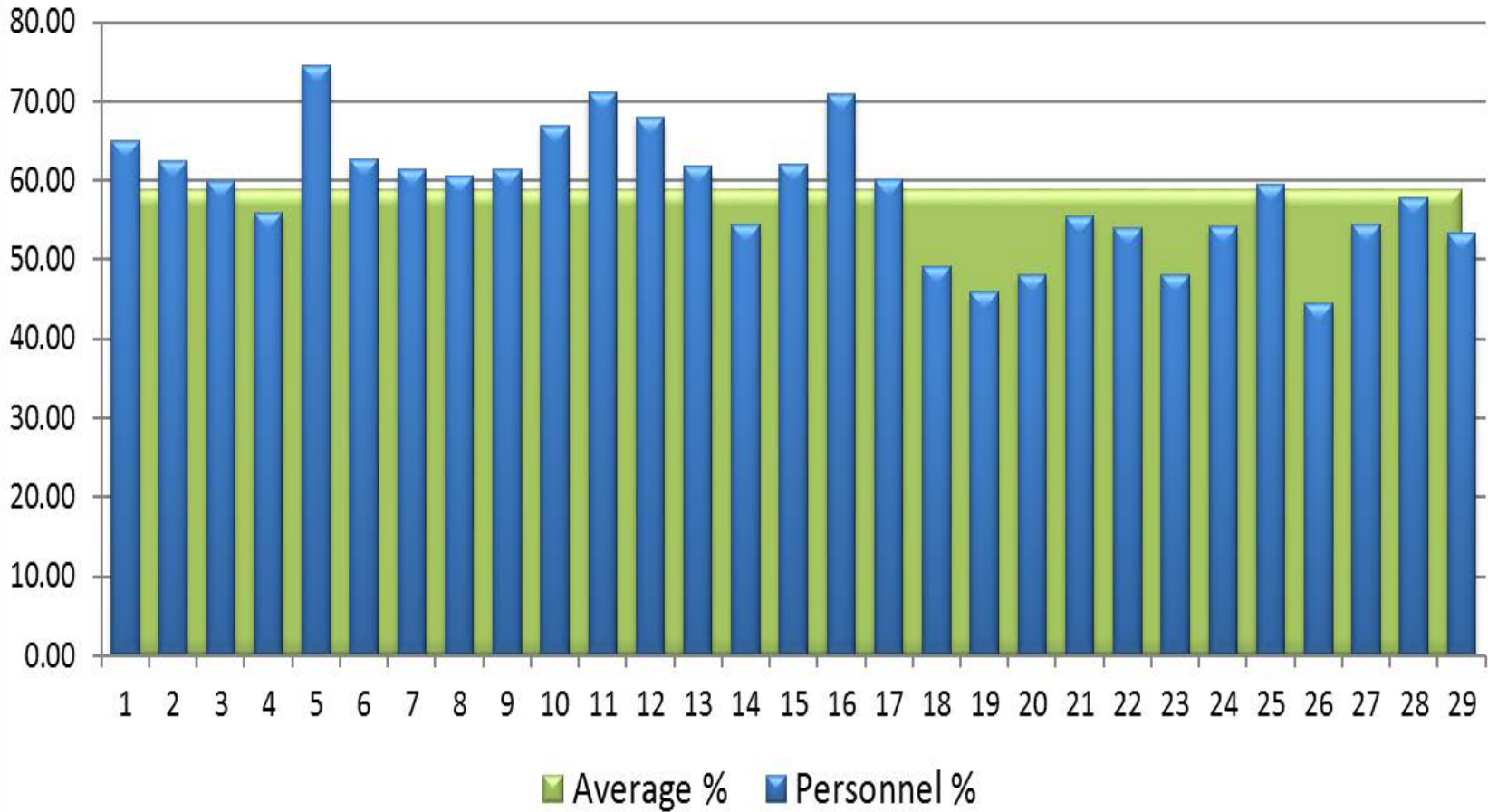
Bad Debt Expense - All



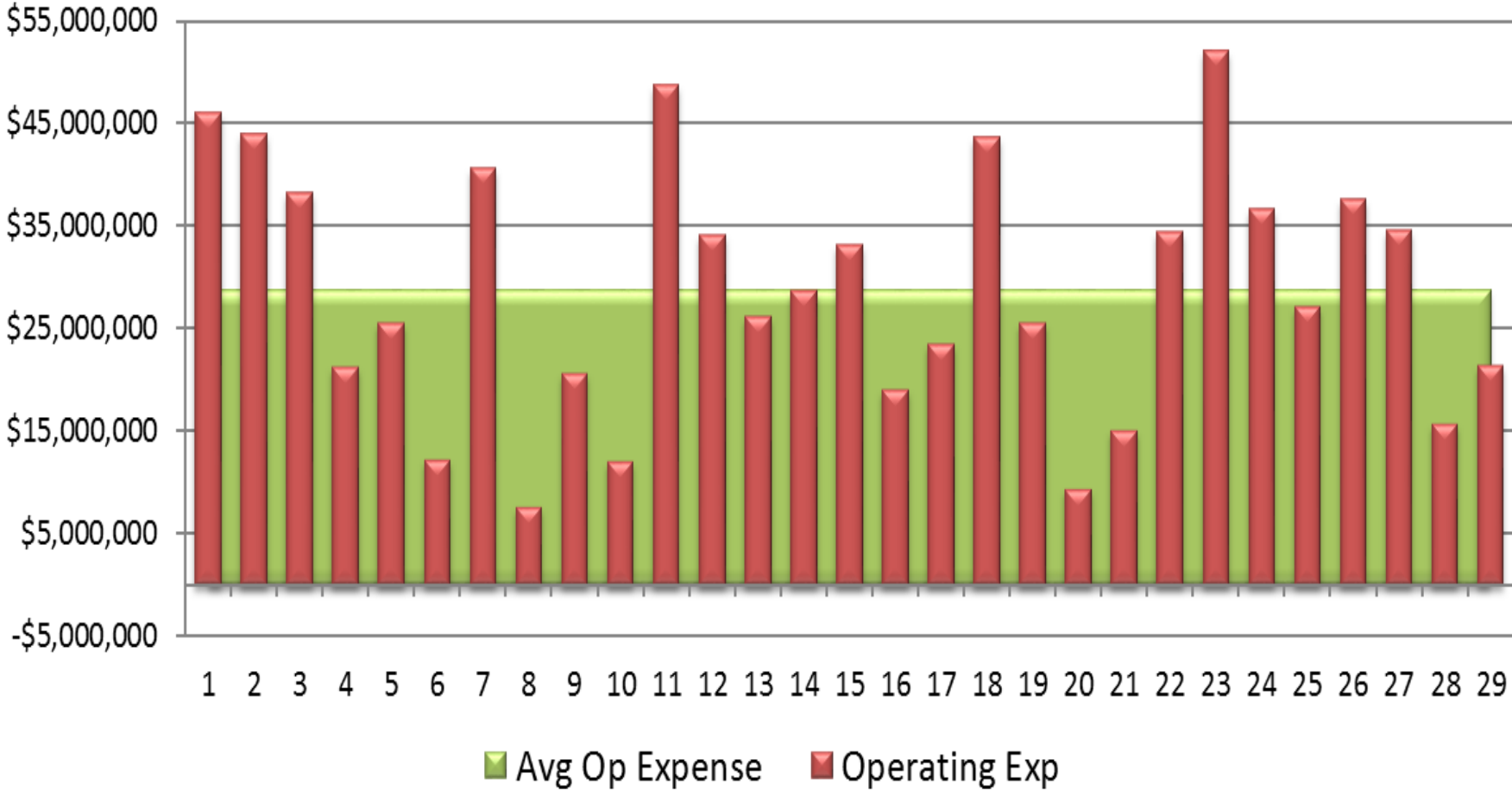
Bad Debt Expense



Personnel Expense

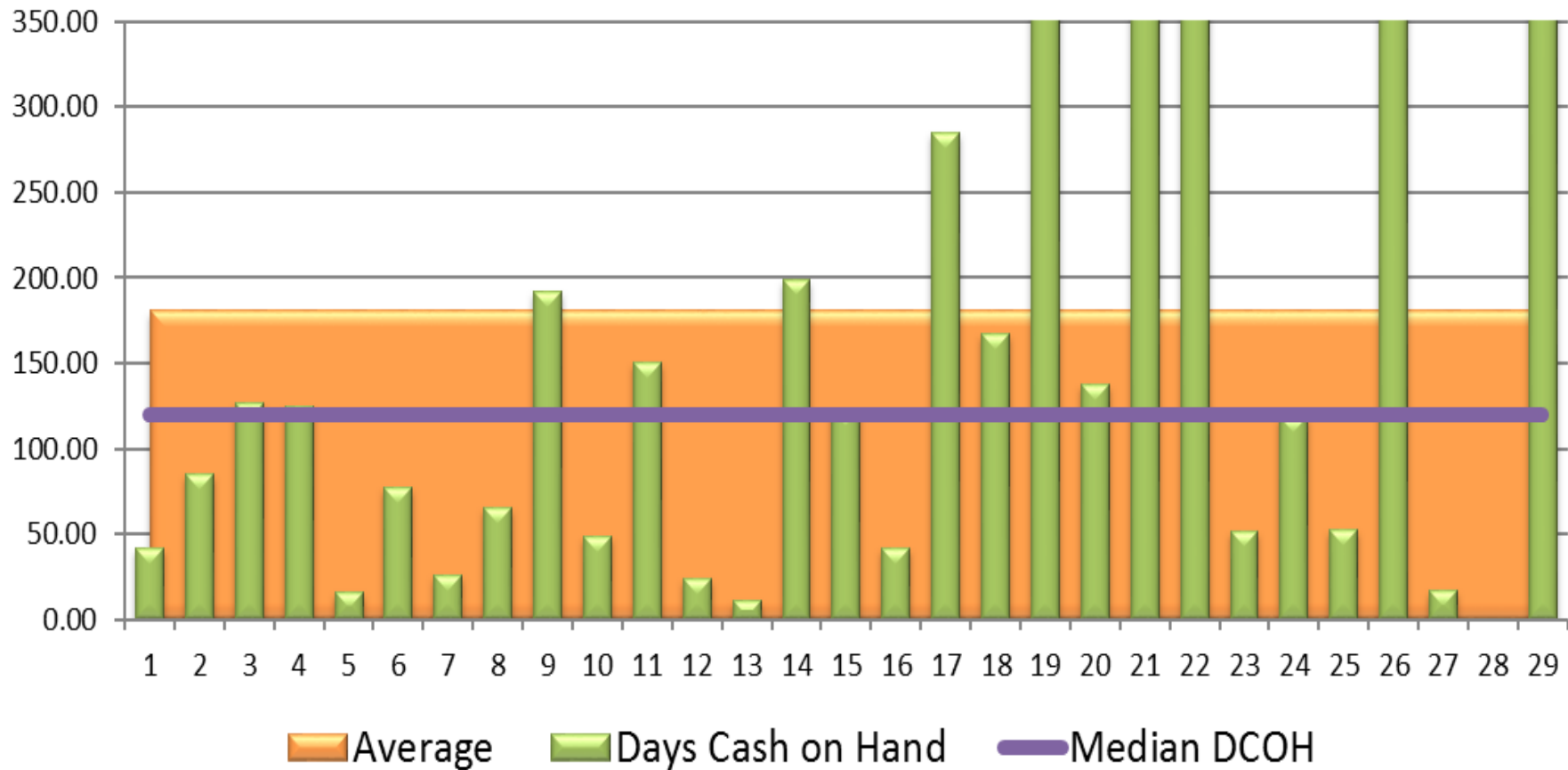


Total Operating Expenses

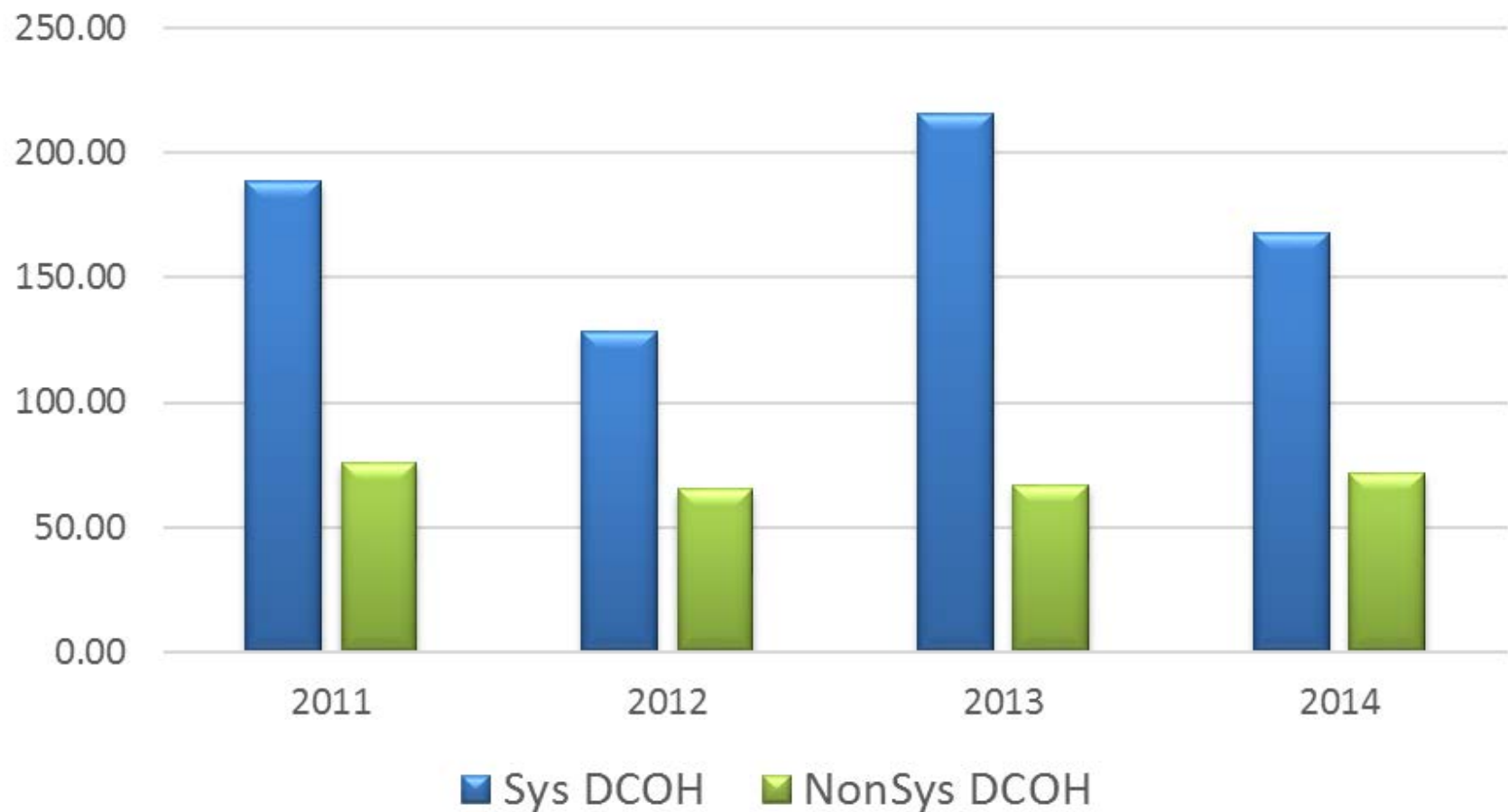


Balance Sheet Analysis

Liquidity is Critical – DCOH - All



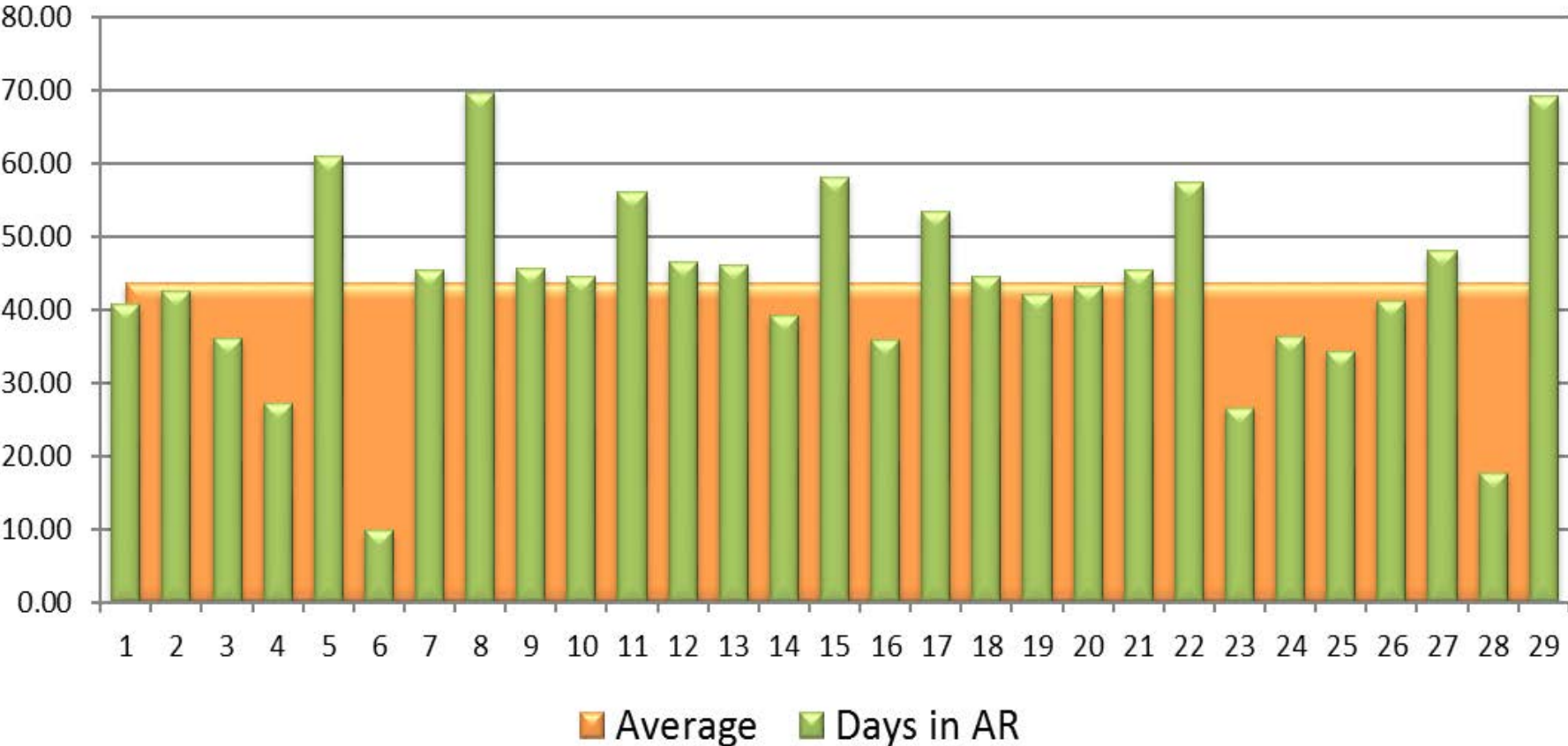
Liquidity - DCOH



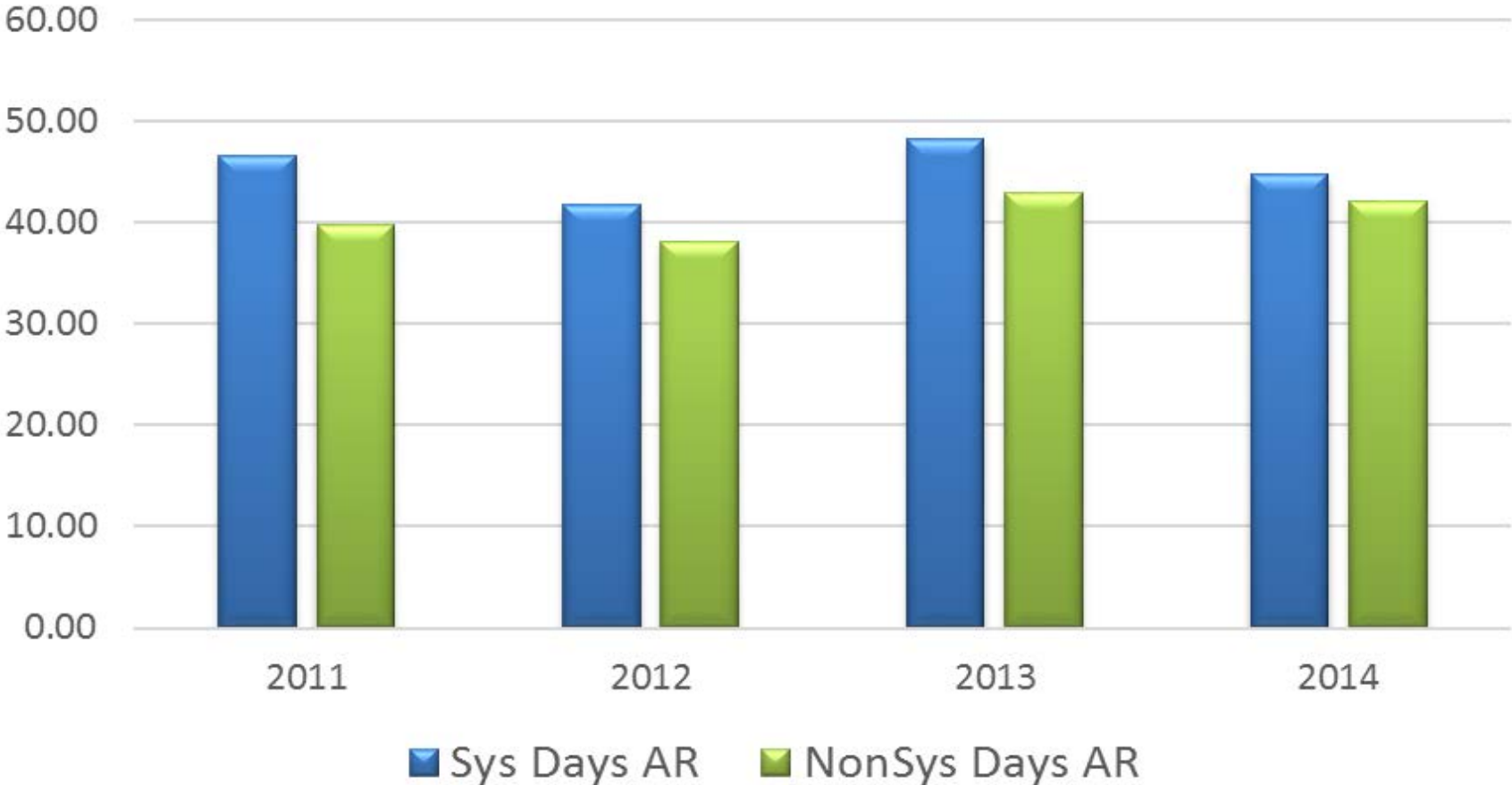
Liquidity Support - Cash & Investments



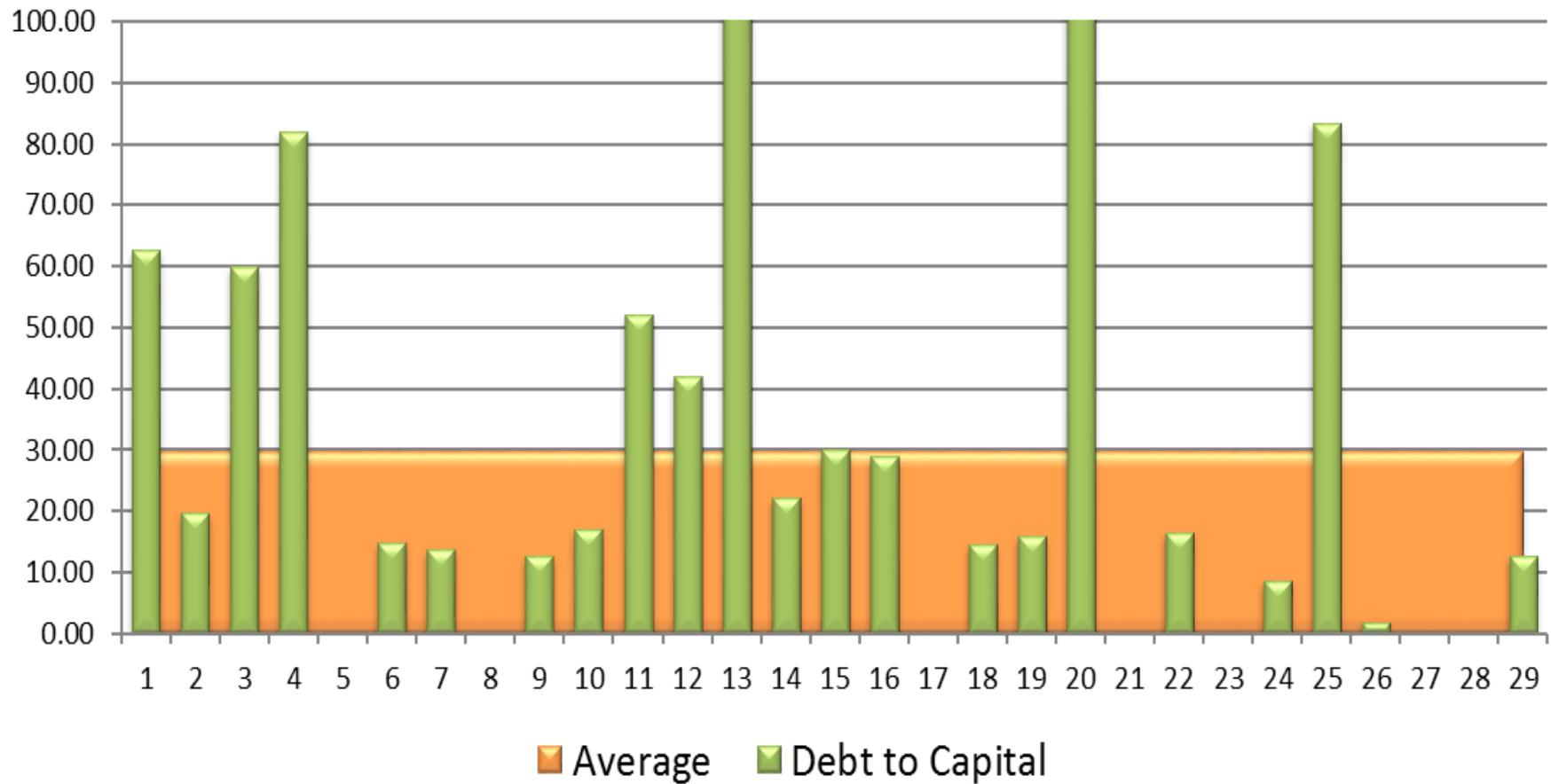
Cash on the Balance Sheet – Days AR



Days AR System vs Non-System



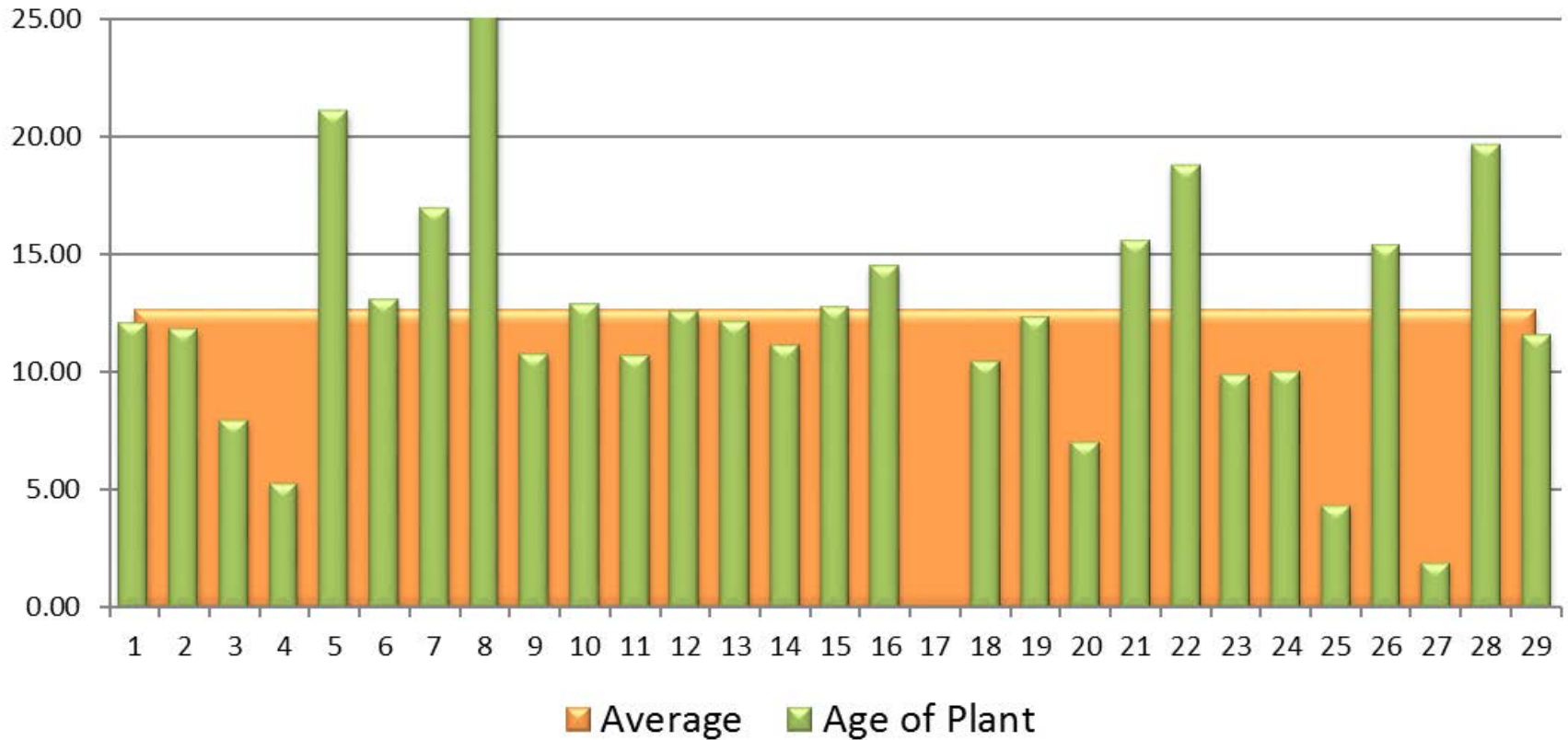
How Much Leveraged?



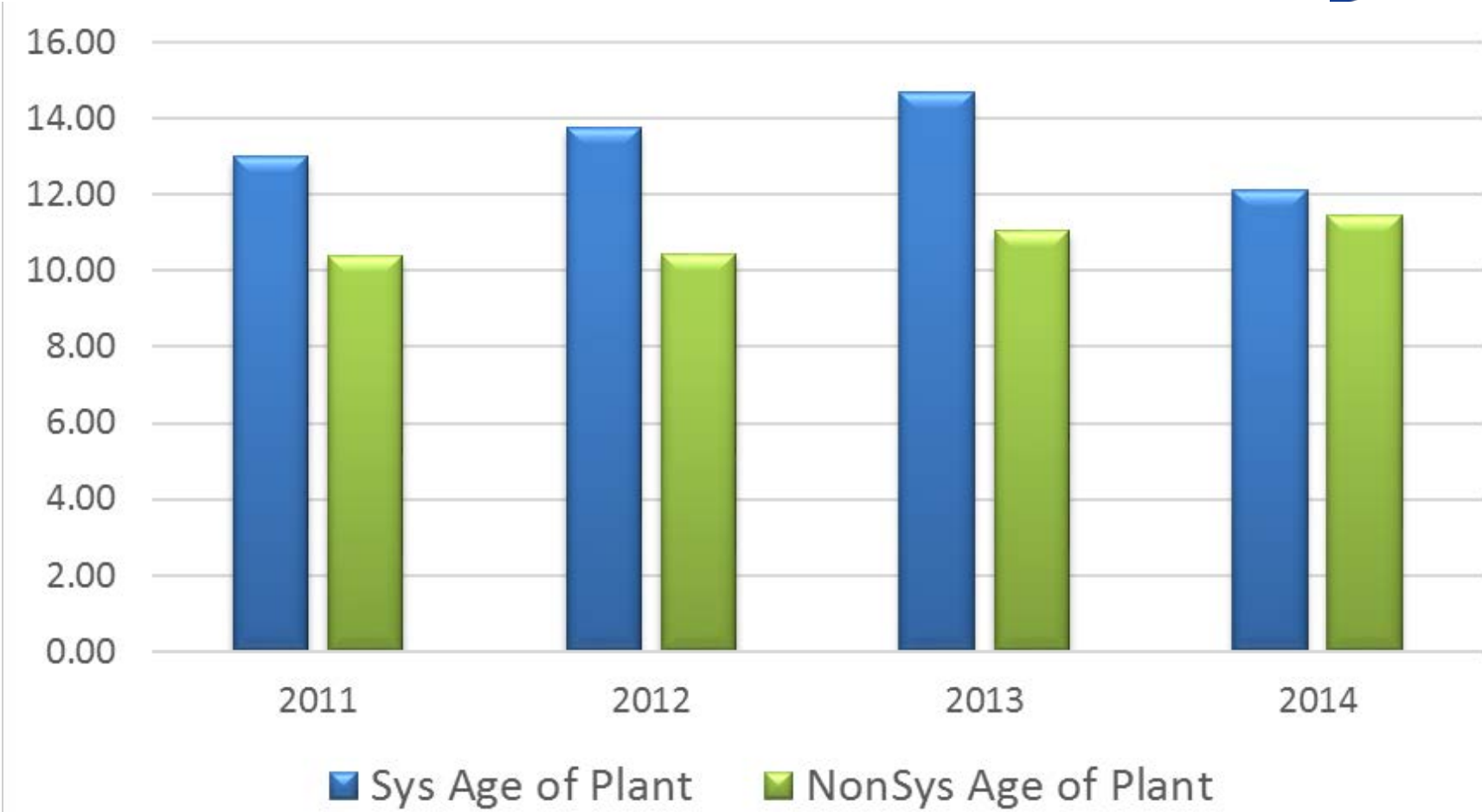
How Old Are Your Facilities?



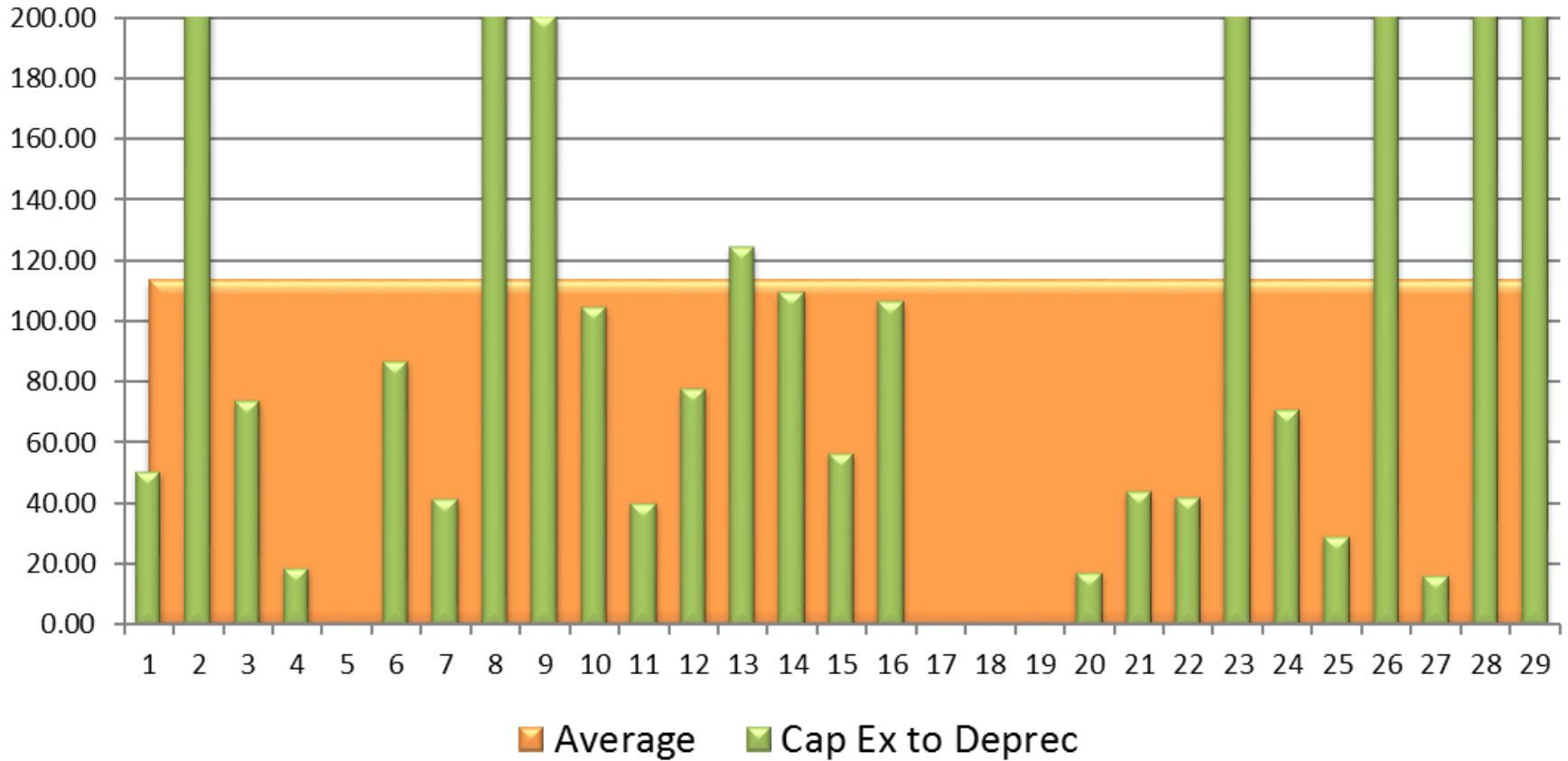
S&P 2014 BBB rated stand alone average age of plant = 11.6 years;



Age of Plant Getting Older at Systems

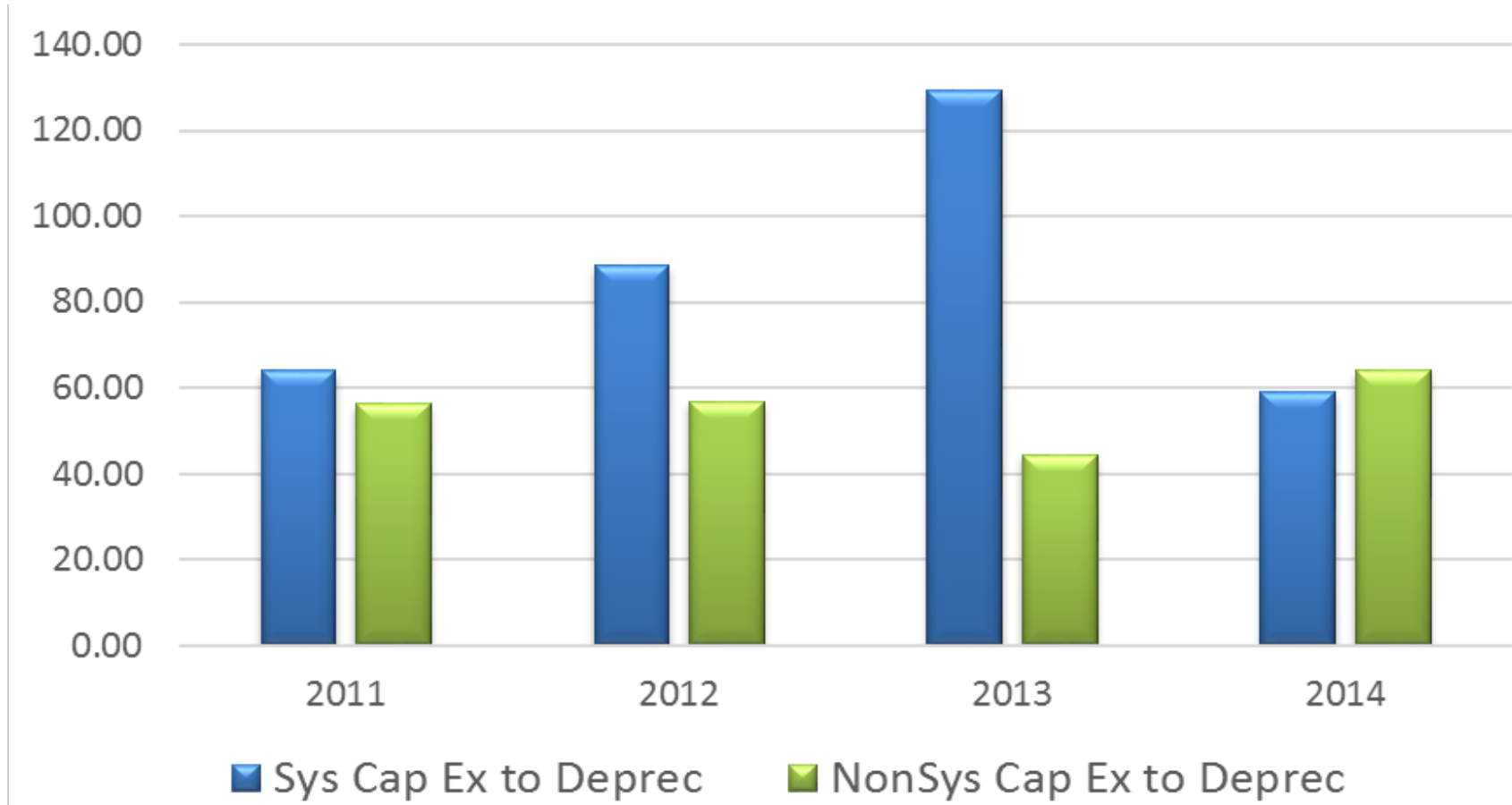


Are You Reinvesting in Your Facilities?



S&P 2014 BBB rated stand alone median 74.6%; Michigan CAHs = 72.5%

Independent Hospitals Reinvesting More!



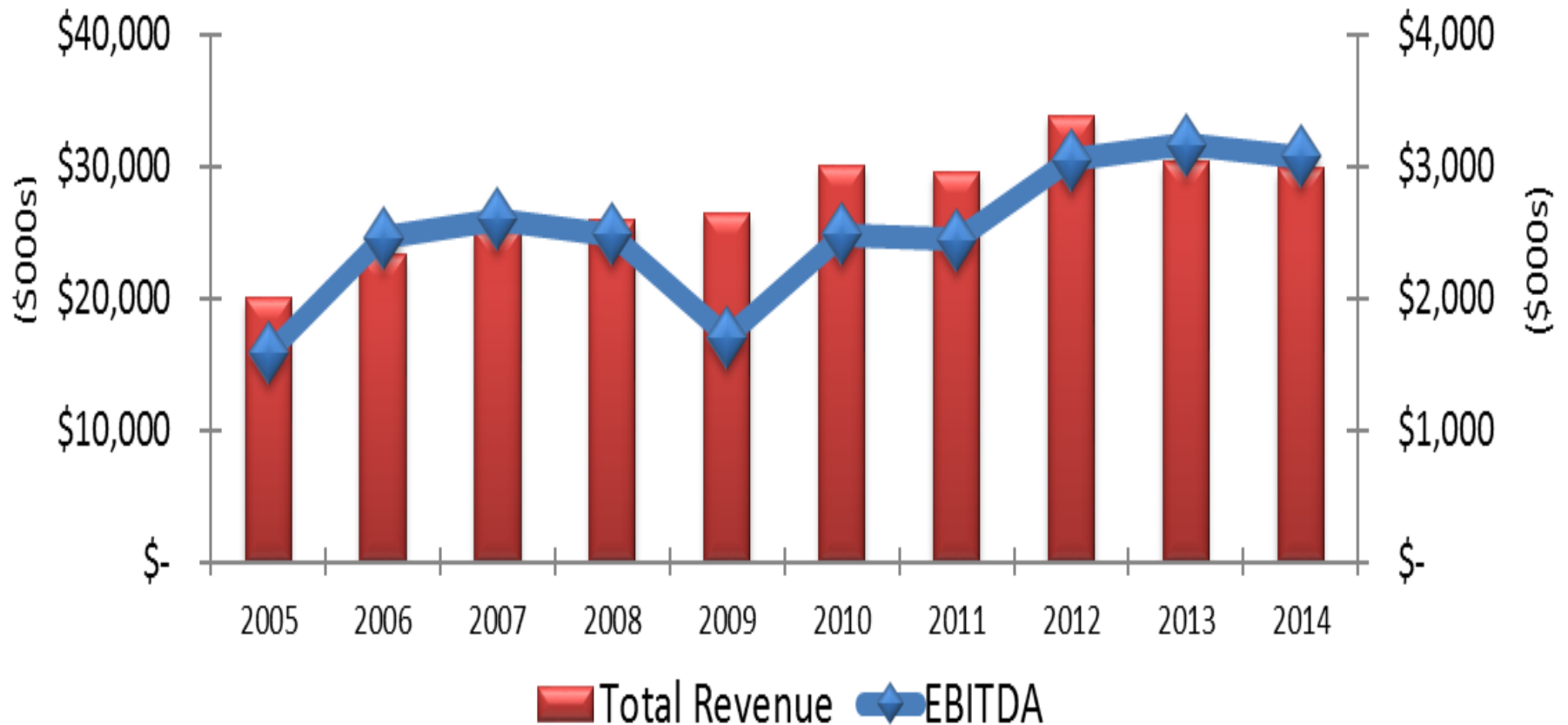
Stronger Entities Continue to Strengthen



10 Year Historical Trends*

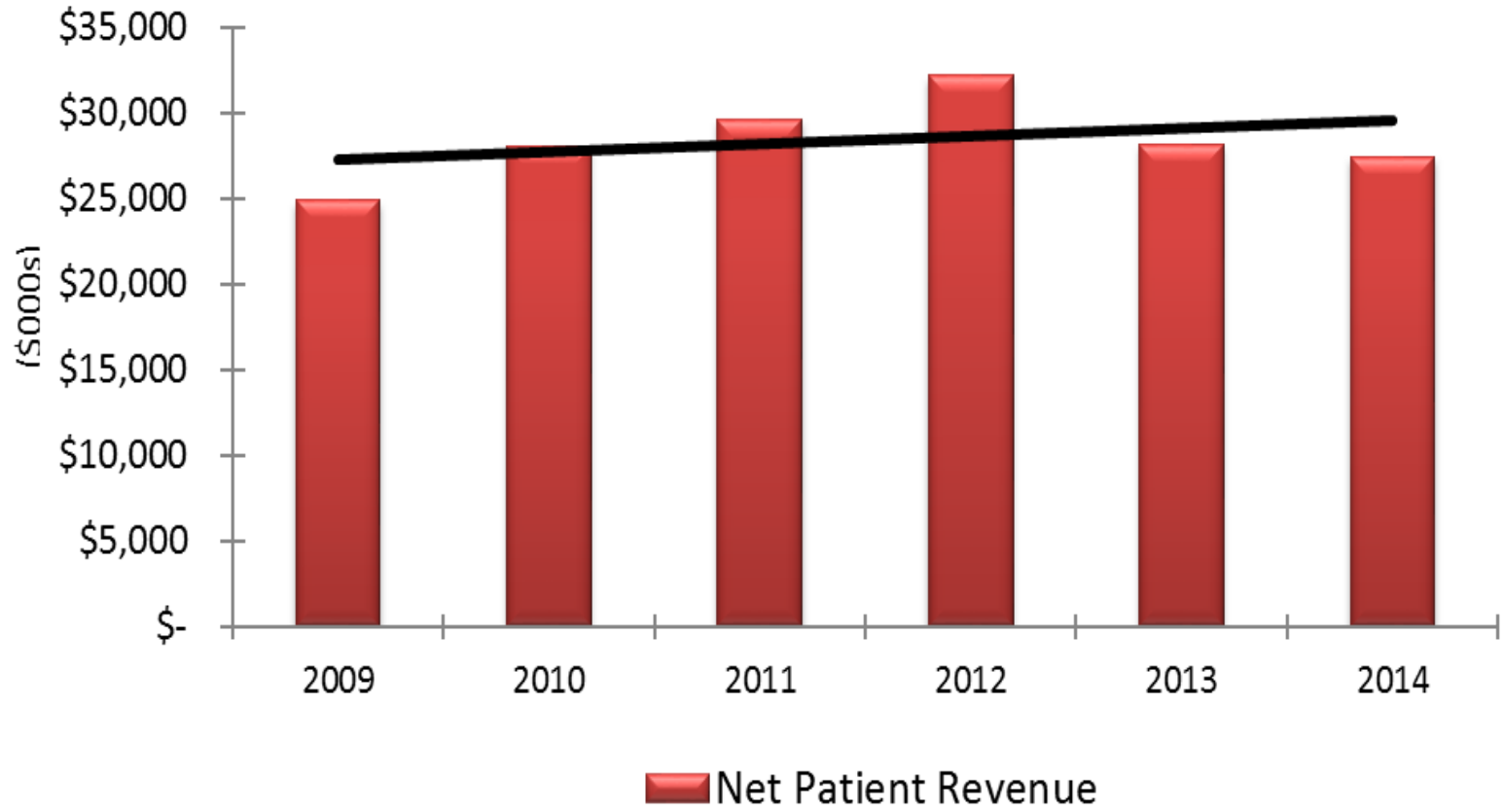
**trends of all Michigan Critical Access Hospitals who have participated in the study over the past 10 years.*

Revenue vs Cash Flow



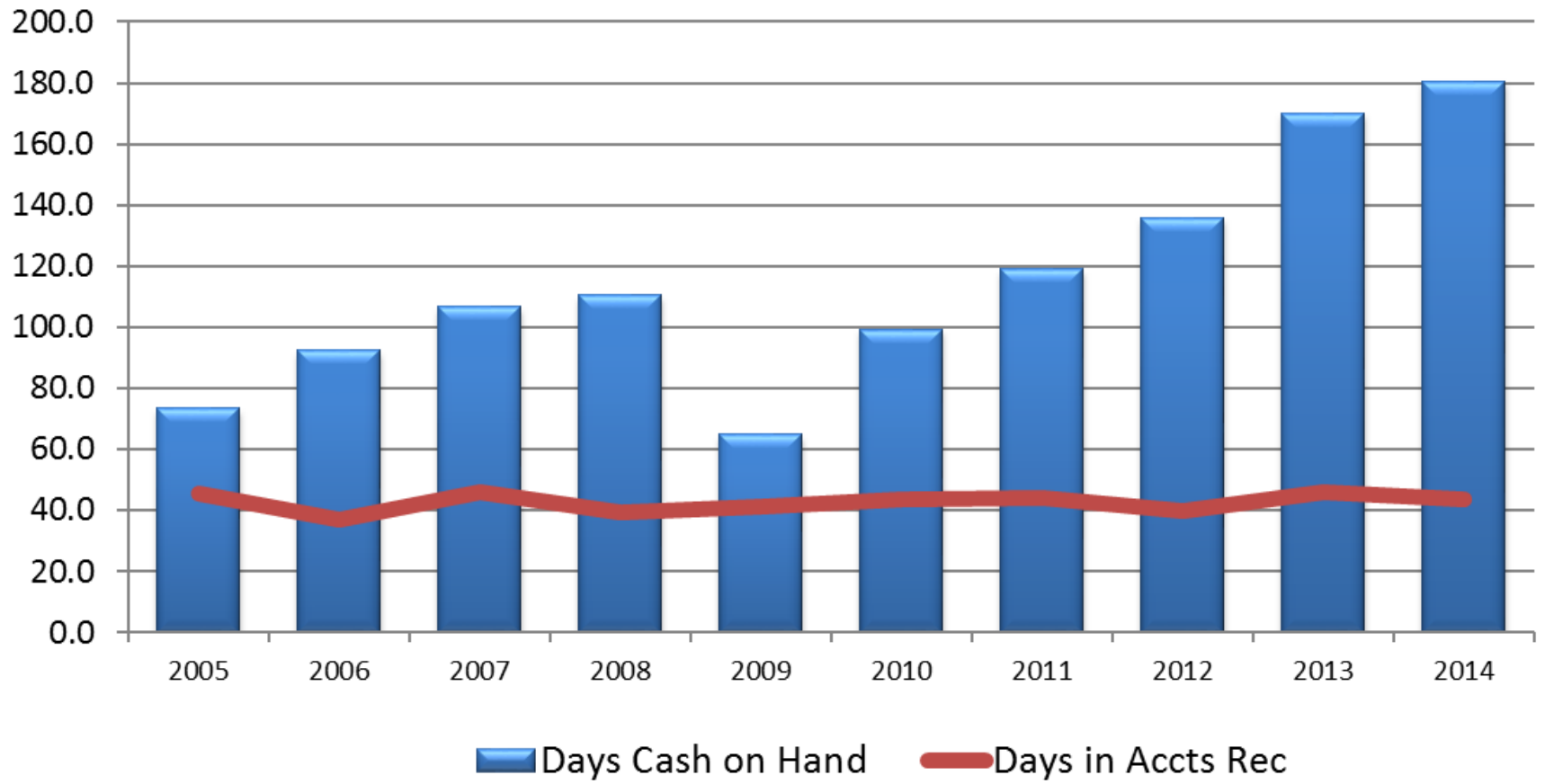
Annual growth rate of 5% per year in total revenue; 9% for EBITDA

Net Patient Revenue

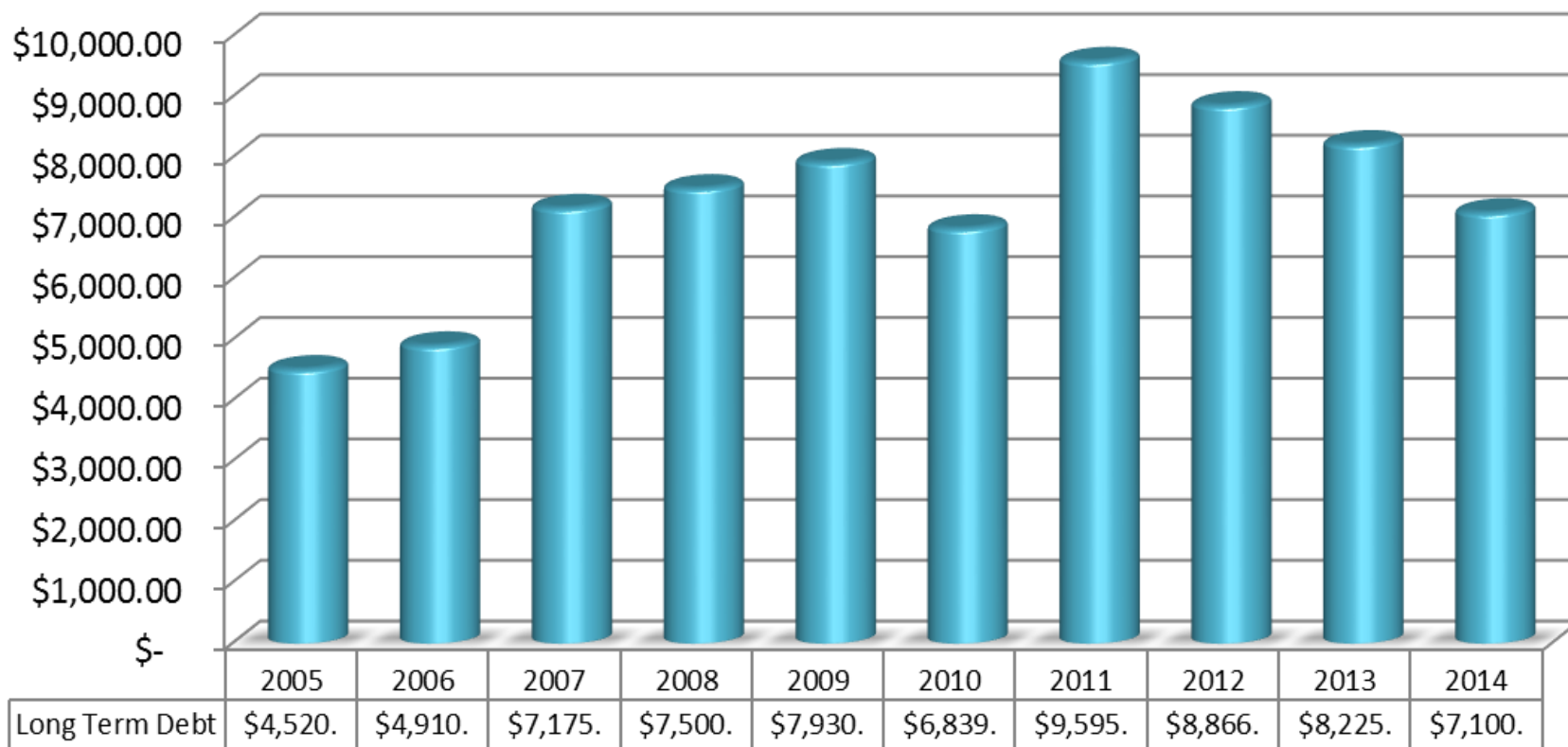


Data gathered for years reflected in the chart

Liquidity



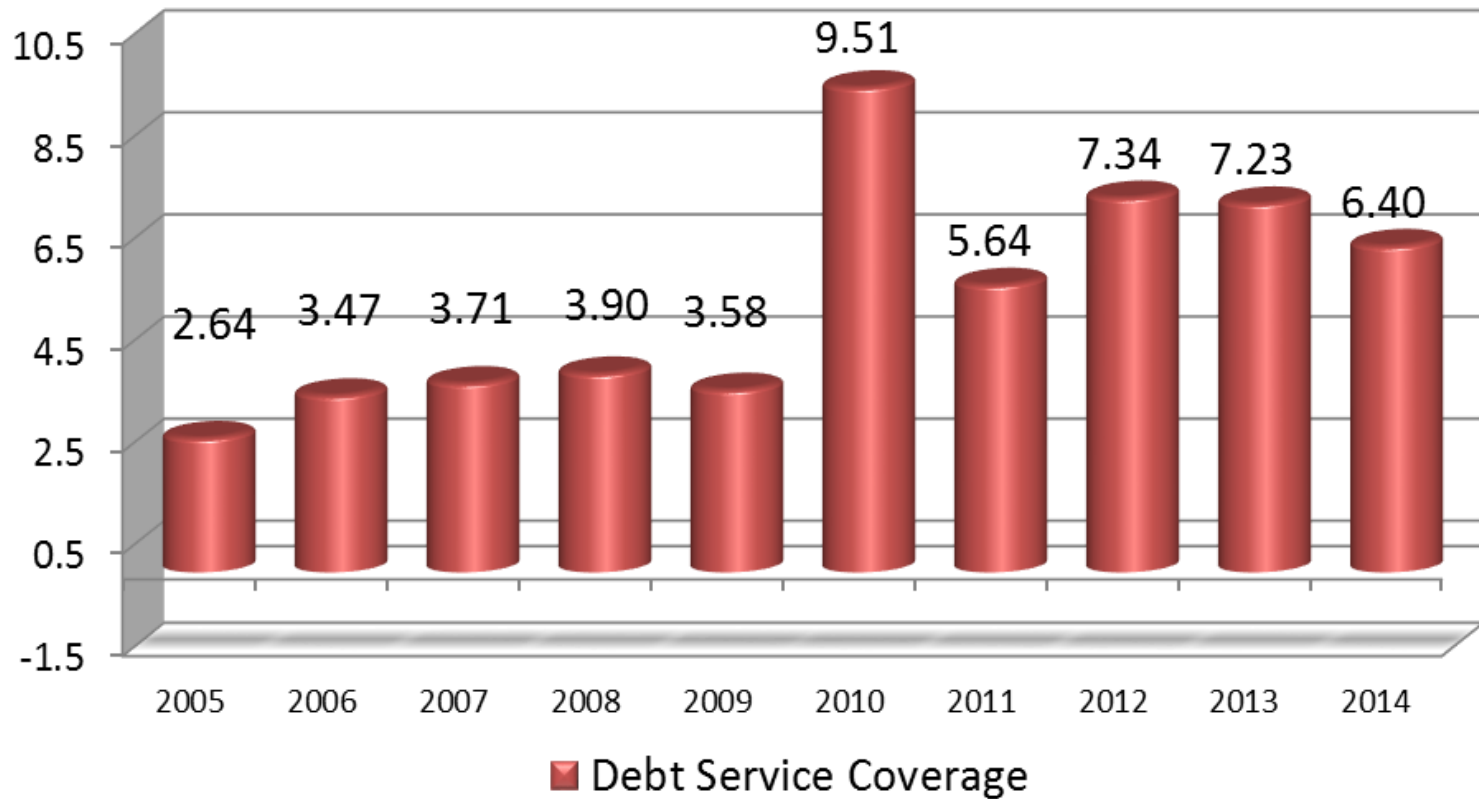
Debt Outstanding



■ Long Term Debt

Amounts in millions of dollars

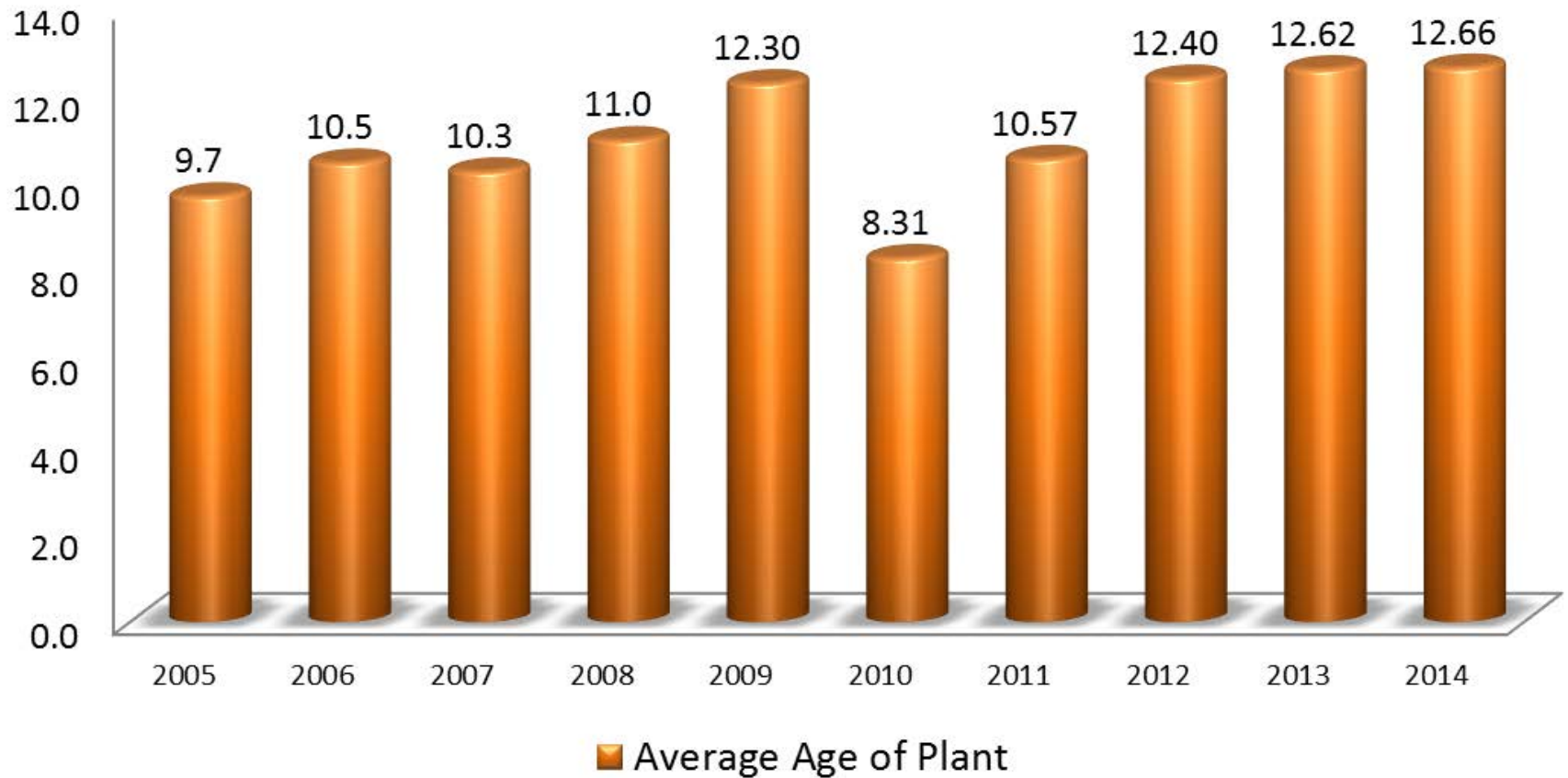
Debt Repayment (Average)



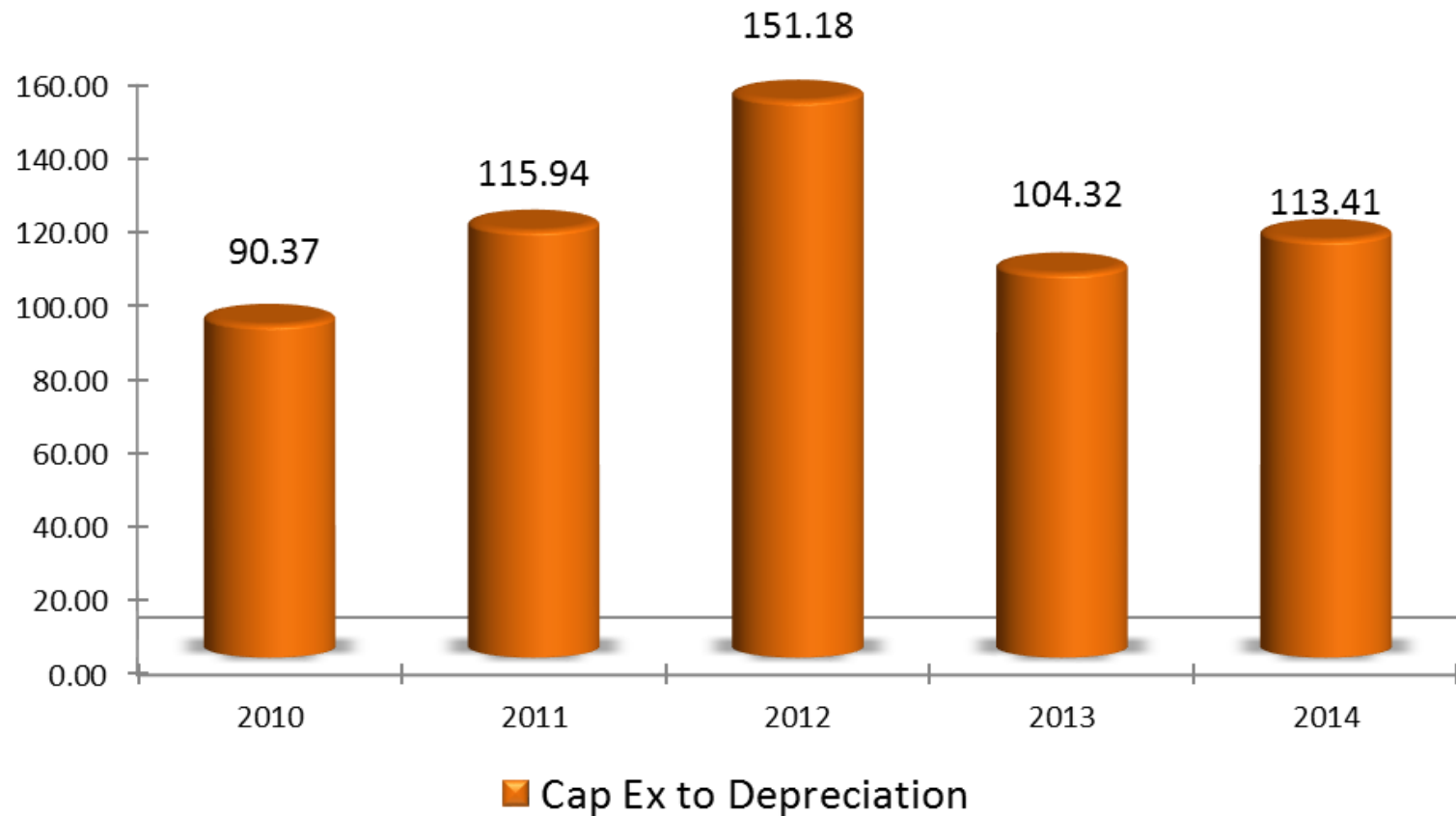
Key Expense Ratios



Do You Have Creeping Deferred Maintenance?



Keep Re-investing!



Only data for last 5 years collected

Thanks for participating!

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