

2018 National Rural Lenders' Roundtable

Healthcare Outlook
December 5, 2018

Thomas Financial Group



Healthcare Policy Summary Discussion

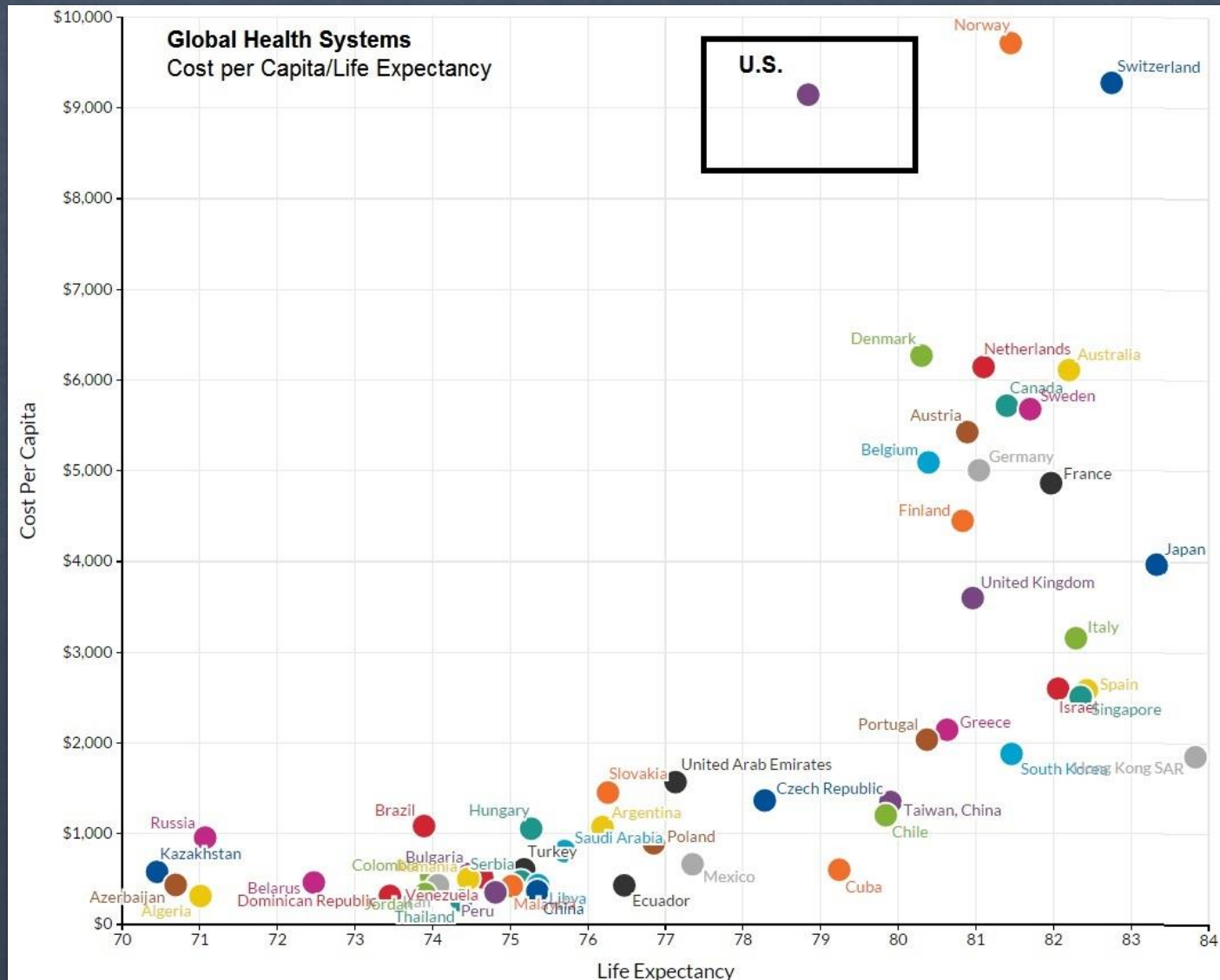
Rural Lenders Roundtable Topics

- Healthcare Facilities' vital role in rural communities
- Financing opportunities and programs in rural healthcare markets
- Measuring and managing credit risks for healthcare facilities
- Best Practices in Healthcare Financing

“America has the best doctors, the best nurses, the best hospitals, the best medical technology, the best medical breakthrough medicines in the world. There is absolutely no reason we should not have in this country the best healthcare in the world.”

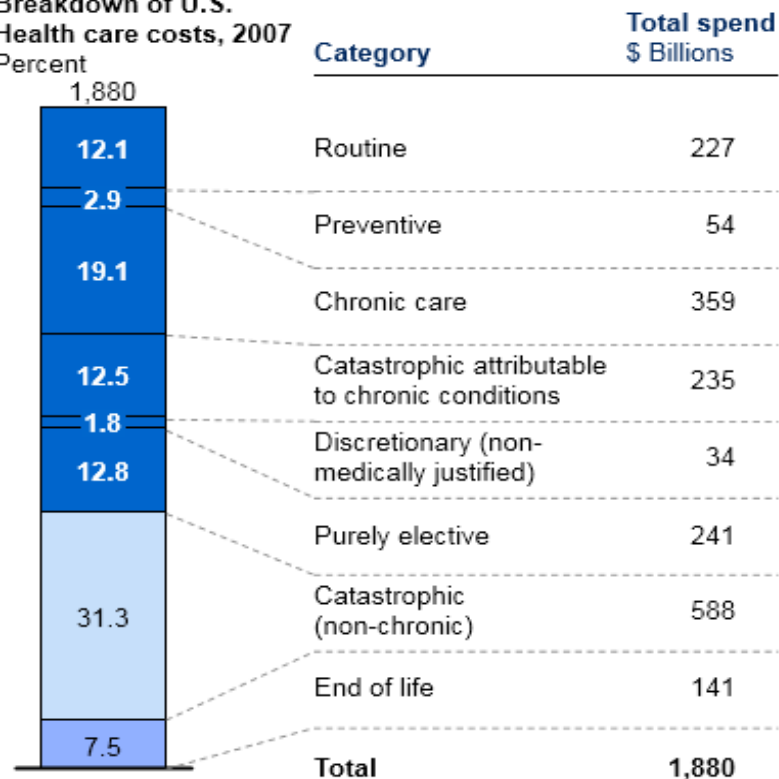
Dr. William Frist

CMS projects that healthcare spending growth will average 5.5% annually from 2017 to 2026 and comprise 19.7% of the U.S. economy (\$5.7 trillion), up from 17.9 percent in 2016. The U.S. devotes 50% more of its economy to healthcare than do other countries.

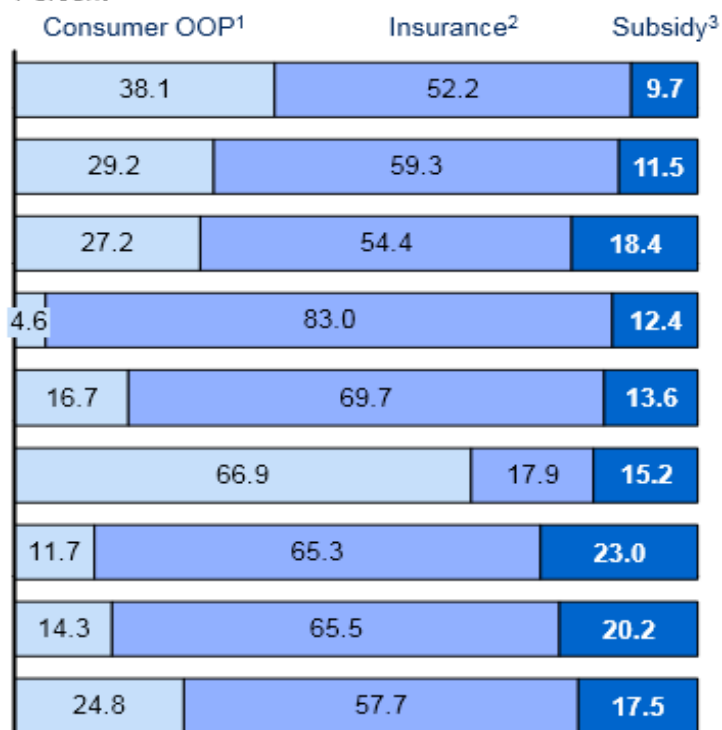


Healthcare funding mechanisms are misaligned with the medical risks they cover

Breakdown of U.S. Health care costs, 2007
Percent



Current funding method
Percent



¹ Direct out-of-pocket spend including co-pays, co-insurance, and deductibles. Excludes employer-sponsored and individually purchased insurance premiums

² Public and private employer-sponsored and individually purchased insurance, including consumer-paid premiums

³ Includes federal and state subsidy programs such as Medicaid and SCHIP

Significant Healthcare Industry Issues 2018

“Health reform isn’t over, it’s just more complicated”

- Medicare Advantage is swelling with aging demographics
- High deductible and co-insurance have dramatically increased bad debts
- Opioid Crises. Impending Crises: Obesity, Physician shortages
- The Patient Experience is changing. Doctors spend less than 30% of their time on patient contact.
- Telemedicine, Artificial Intelligence, Big Data, Wearable Devices
- Access to medical care in rural communities is diminishing

Healthcare Facilities' Vital Role in Rural Communities

- Recruiting New Businesses
- Largest Employer
- Tax Revenue
- Advantages of a Healthy Population

Financing Opportunities and Programs in Rural Communities

- Hospitals
- Behavioral Health
- Assisted Living
- Nursing Homes
- Equipment Replacement
- Medical Office Buildings

Rural Community Medical Centers



Unprofitable Rural Hospitals

State	IDN	Net Patient Revenue	Discharges	Staffed Beds	EBITDA
AR	Baptist Health (AR0)	\$ 23,347,740	1,214	25	(\$41,906)
LA		\$ 25,108,021	802	25	(\$68,598)
MS	Pioneer Health Services	\$ 14,058,316	377	25	(\$79,651)
GA		\$ 14,779,813	211	25	(\$118,821)
AR		\$ 5,640,308	499	25	(\$121,608)
NC		\$ 40,783,999	827	25	(\$135,570)
NC		\$ 11,827,657	410	25	(\$163,549)
TN		\$ 7,507,643	289	25	(\$163,722)
GA	Archbold Medical Center	\$ 26,582,675	981	25	(\$170,291)
MS	Southwest Health System	\$ 11,011,482	301	25	(\$170,367)
TX		\$ 17,357,986	222	25	(\$200,369)
FL		\$ 11,923,125	408	25	(\$268,953)
TX		\$ 19,740,036	558	25	(\$284,475)
GA		\$ 13,376,319	119	25	(\$287,505)
AR	Mercy (MO)	\$ 9,619,839	210	25	(\$339,634)
LA		\$ 15,146,553	263	25	(\$351,615)
MS	Rush Health Systems	\$ 24,128,612	231	25	(\$353,891)
TX		\$ 6,131,130	152	25	(\$365,152)
SC		\$ 13,635,103	188	25	(\$415,189)
MS		\$ 23,019,182	263	25	(\$420,757)
FL		\$ 7,577,648	23	25	(\$422,435)
GA	Phoebe (FKA Phoebe Putney Health System)	\$ 13,191,545	260	25	(\$431,996)
TN	Highpoint Health System (LifePoint Health	\$ 7,618,253	247	25	(\$437,382)
IN	Norton Healthcare	\$ 48,801,794	1,909	25	(\$467,061)
MS		\$ 12,649,698	332	25	(\$482,207)
NC	Cape Fear Valley Health System	\$ 318,592,296	762	25	(\$504,780)
TX	Preferred Management Healthcare Specialists	\$ 8,415,418	163	25	(\$507,858)
FL		\$ 4,552,261	78	25	(\$554,982)
LA		\$ 5,782,565	28	25	(\$657,861)
GA	South Georgia Medical Center Health Systems	\$ 11,571,240	132	25	(\$677,174)
MS	Rush Health Systems	\$ 11,767,459	292	25	(\$713,198)
LA		\$ 22,856,754	558	25	(\$721,978)
AL	Rush Health Systems	\$ 12,854,609	85	25	(\$740,665)
GA		\$ 38,738,813	855	25	(\$794,209)
GA	Union General Hospital System	\$ 23,756,630	512	25	(\$802,442)
IN	LifePoint Health (FKA:LifePoint Hospitals)	\$ 20,229,990	1,149	25	(\$812,806)

Profitable Rural Hospitals

Critical Access Hospitals (Alabama, Arkansas, Florida and Georgia) (Greater than 25 beds)

Hospital Name	City	State	Net Patient Revenue	# of Discharges	EBITDA
St Vincents Blount	Oneonta	AL	\$20,096,068	894	\$1,273,314
Bradley County Medical Center	Warren	AR	\$21,471,076	833	\$1,976,626
Mercy Hospital - Berryville (FKA St Johns Hospital Berryville)	Berryville	AR	\$16,881,985	437	\$1,331,351
Stone County Medical Center	Mountain View	AR	\$14,875,022	659	\$1,273,566
Ozark Health Medical Center	Clinton	AR	\$26,107,783	469	\$1,240,444
River Valley Medical Center	Dardanelle	AR	\$13,763,331	473	\$886,262
Baptist Health Medical Center Heber Springs	Heber Springs	AR	\$19,522,701	758	\$350,133
Howard Memorial Hospital	Nashville	AR	\$17,302,522	459	\$198,021
DeQueen Medical Center	De Queen	AR	\$9,940,250	409	\$169,893
Ashley County Medical Center	Crossett	AR	\$27,092,953	824	\$118,197
Fulton County Hospital	Salem	AR	\$9,676,416	572	\$46,967
Mariners Hospital	Tavernier	FL	\$59,528,206	610	\$14,112,901
Florida Hospital Wauchula	Wauchula	FL	\$25,876,146	305	\$10,081,009
Shands Starke Regional Medical Center	Starke	FL	\$26,016,372	1,477	\$4,421,544
Shands Live Oak Regional Medical Center	Live Oak	FL	\$20,114,032	1,133	\$2,382,533

Measuring and Managing Credit Risks for Healthcare Facilities

- Stress Tests and Key Performance Indicators
- Early Detection and Intervention

“A Coughing Canary in a Gilded Cage”

- Reaching out to the Governing Board
- Site visits
- Operational Assessment

Key Performance Indicators

Medical Center														
		2017	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021	2022	
CASH FLOW														
Sources														
Uses														
BALANCE SHEET														
278	Cash	357	313	1,033	631	905	635							
1,400	Accounts Receivable	1,749	2,086	2,489	2,035	3,411	3,149							
43	Inventories	290	291	349	378	342	333							
20	Other Current Assets	27	39	48	55	54	47							
	Total Current Assets	2,423	2,729	3,919	3,099	4,712	4,164							
	Land, Buildings, Equipment	252	573	1,059	1,792	2,301	2,572							
	Less: Accum Depreciation													
2,320	Net Fixed Assets	252	573	1,059	1,792	2,301	2,572							
	Investments													
268	Other Assets	268	396	386	292	199								
	Total Assets	2,943	3,698	5,364	5,183	7,212	6,736							
678	Accounts Payable	305	894	969	812	987	983							
581	Notes Payable - Current	104	159	197	1,222	1,192	685							
302	Accrued Expenses	216	265	364	143	484	518							
2,483	Est. Third Party Settlement		50	959	1,011	1,944	2,483							
13	Other Current Liabilities	186	198	237	293	478	199							
	Total Current Liabilities	811	1,566	2,726	3,481	5,085	4,868							
	Long-term Debt													
	Long Term Debt-Parent													
210	Long Term Debt-Subsidiary	1,165	1,175	1,331	566	777	955							
	Total Long Term Debt	1,165	1,175	1,331	566	777	955							
	Total Liabilities	1,976	2,741	4,057	4,047	5,862	5,823							
	Equity & Due to/from													
1,065	Due to/from Affiliate	329	423	1,175	1,045	1,345	1,394							
	Deferred Revenue				276	220								
1,119	Retained Earnings	638	534	132	(185)	(215)	(481)							
	Total Equity	967	957	1,307	1,136	1,350	913							
5,390	5,390	2,943	3,698	5,364	5,183	7,212	6,736							
INCOME STATEMENT														
	Net Sales	7,930	8,496	13,127	14,377	15,874	17,877							
	Cost of sales	7,279	7,971	12,156	12,685	14,066	15,863							
	Gross Profit on Sales	651	525	971	1,692	1,808	2,014							
	Other Income	143	122	86	238	212	122							
	Total Gross Profit	794	647	1,057	1,930	2,020	2,136							
	Operation Expenses				200	200	250							
	General & Administrative													
	EBBIT	794	647	1,057	1,730	1,820	1,886							
	Depreciation & Amortization	71	88	227	328	439	578							
	Interest Cost	148	151	215	228	256	284							
	Pre-Management Fee	575	408	615	1,174	1,125	1,024							
	Taxes													
	Management Fee	378	455	962	1,161	1,155	1,290							
	Net Income	197	(47)	(347)	13	(30)	(266)							
RATIOS														
LIQUIDITY														
Current								3.0	1.7	1.4	0.9	0.9	0.9	
Quick								0.7	0.6	0.7	0.5	0.6	0.6	
ACTIVITY														
Total Asset Turnover								2.7	2.3	2.4	2.8	2.2	2.7	
AR/Total Assets								59%	56%	46%	39%	47%	47%	
AR Turnover								4.5	4.1	5.3	7.1	4.7	5.7	
Collection Days								81	90	69	52	78	64	
Inventory/Total Assets								10%	8%	7%	7%	5%	5%	
Inventory Turnover								25.10	27.39	34.83	33.56	41.13	47.64	
AP/Total Liabilities								15%	33%	24%	20%	17%	17%	
Payable Period								15	41	29	12	26	23	
LEVERAGE														
Current Liabilities/Total Liabilities								41%	57%	67%	86%	87%	84%	
Debt/Equity								120%	123%	102%	50%	58%	105%	
Funded Debt/Total Capital														
Total Liabilities/Total Assets								67%	74%	76%	78%	81%	86%	
Total Liabilities/Equity								2.04	2.86	3.10	3.56	4.34	6.38	
PROFITABILITY														
Gross Margin								8.2%	6.2%	7.4%	11.8%	11.4%	11.3%	
ROE (Pre Fee)								174.8%	96.5%	52.3%	88.9%	71.9%	73.5%	
ROA (Pre Fee)								19.5%	11.0%	11.5%	22.7%	15.6%	15.2%	
Operating Margin								7.3%	4.8%	4.7%	8.2%	7.1%	5.7%	
ROS (Pre Fee)								7.3%	4.8%	4.7%	8.2%	7.1%	5.7%	
COVERAGE														
TIE								5.4	4.3	4.9	7.6	7.1	6.6	

Best Practices in Healthcare Financing

- Case Studies in rural health delivery
- Accelerating the process in healthcare lending

Best Practices

- Governing Board Involvement
- Improving the quality of staffing and building physician relationships
- Upgrading medical and technology systems;
- Creating operational efficiencies
- Investing where increased profitability results.
- Developing Strategic Alliances

Case Study: Hospital CEO Newsletter

Why driving key measures can make a difference. Within six months, significant accomplishments were made at the Medical Center:

- Doubled the average daily census, hired over 80 nursing personnel, decreased nursing agency from 85% to 22%, and hired in-house pharmacy department.
- Increased ambulance runs to the ER over prior year while decreasing our average wait time.
- Purchased and are currently installing a brand new \$1.2 million dollar Cath lab.
- New HR Director, CNO and Director of Business Development
- The Volunteer program has added responsibilities, and are helping patients and families be more comfortable.
- Scored very high on friendliness and being a great place to work.
- New doctors on staff and renewed relationship with core group of physicians.
- Completed our Meditech conversion and hired our own business office.
- Revised pay scale in needed areas and ensured comfort and safety at work.

“In turn, you have been friendly, caring, outgoing and devoted. Thank you for a great start with the company.”

Transforming Healthcare



- New Technologies. Immunology
- Precision Medicine Accelerators
- Artificial Intelligence, Big Data
- Predictive Models for Targeting Care
- Individualized Treatment Plans
- Robotics

Thank you!

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A healthy, educated population is essential to the foundation of American prosperity.

America has the best doctors, the best nurses, the best hospitals, the best medical technology, the best medical breakthrough medicines in the world. There is absolutely no reason we should not have in this country the best health care in the world... *Dr. Bill Frist*

Key Concepts

These are broad philosophies of setting rational health objectives to begin a virtuous circle of improving care quality while reducing costs.

Rational Objectives

- ◆ Provide access to good and affordable basic medical care for all Americans (**Best Value**).
- ◆ Nurture a healthy population as a national priority. Promote personal responsibility for healthy lifestyle choices. Emphasize education and disease prevention.
- ◆ Reduce healthcare costs by 5% in the first four years, a \$160 billion savings.
- ◆ Promote personal responsibility economically through reasonable patient copays.
- ◆ Link 3% payroll contributions to HSAs that encourage savings. Employer matching 1.5%.
- ◆ Enhance the Physician-Patient relationship as the Customers. The practice of medicine occurs between the physician and patient.
- ◆ Rely on Competition and Market Forces to improve services and raise efficiency. Limit government involvement only to where market forces are ineffective.
- ◆ Improve or maintain Medicare for this generation.
- ◆ Eliminate health industry model distortions e.g. restructure and clarify the esoteric revenue capture system used in healthcare.
- ◆ Model best practices with pilot programs that emphasize hybrid capitation such as the Medicaid PCCM and successful aspects of other programs including Kaiser, Singapore Health model, etc.

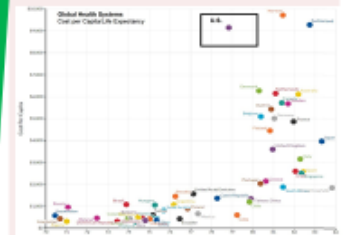
	Care Delivery	Economics	Insurance
	<p>Best Value Health means better health, better care, and better value. Implementation of the best-in-class solutions are as follows:</p> <p>Major Illness Care – Best Practices</p> <p>Develop Regional Network Centers of Excellence and Group Purchasing that include major cancers, heart attack, cardiac surgery, stroke and kidney failure, trauma, end-of-life, birth complications in Medical Research and Teaching Hospital Network. Innovation must continue in a cost effective, constructive environment.</p>	<p>Employ economic physics to reduce costs and redirect resources. Allocate a portion of the tax saving to HSA Plan.</p> <p>Focus on improving efficiencies in the treatment of major illness care because they are a disproportionate share of healthcare costs.</p> <ul style="list-style-type: none"> • (\$) Government involved GPOs • (\$) Reduce drug costs with a model that preserves research. • (\$) Streamline FDA process. Pharma JV • Cost effective and best practices care. 	<p>Healthcare Financing Models</p> <p>Managed care based</p> <p>Explore Block payments for catastrophic care based on a Schedule.</p> <ul style="list-style-type: none"> • (\$) High-Risk Government Pools for major illness and pre-existing conditions. • (\$) Ancillary Services GPO
3. Major Illness			
2. Market Model	<p>Commercial Market Model</p> <p>With the Best Value model as a foundation, basic insurance can be affordable. Competition and market forces improve services and raise efficiency.</p> <ul style="list-style-type: none"> • Commercial Market Place. • Informed consumer for cost and quality with Internet pricing. • Enhanced competition. 	<ul style="list-style-type: none"> • Best Value Health is the foundation for the commercial insurance. (Singapore model) • Payroll Tax HSA and personal savings • (\$) Tort Reform • Health Savings Account ("HSA") modeled as a Healthcare 401K. 	<p>Nationwide Insurance Market (\$)</p> <p>Pre-ACA market insurance</p> <ul style="list-style-type: none"> • (\$) Eliminate Benefit Mandates • HSA and Personal Savings. Extended family coverage • Supplements Best Value Health
1. Best Value	<p>Best Value Health</p> <p>Sustainable consumer choice model with quality basic care. Greatly reduced administrative costs.</p> <p>Primary Care</p> <ul style="list-style-type: none"> • Physician Choice. Hybrid case management model. • Physician Extenders, Clinics, Micro Hospitals • Enhanced Technology using TelePresence and e/Visits. (\$) Scrubs and technology must help solve EMR obstacles to data entry. <p>Physician Specialist Networks</p> <ul style="list-style-type: none"> • Narrow Networks 	<ul style="list-style-type: none"> • (\$) Simplify primary care administrative burden. • Improve technology and (\$) telemedicine. • (\$) Prevention and Outpatient Focus. • Shift medical care toward outpatient and Micro Hospital settings. • Behavior compliance is patriotic. Poor choices lead to Obesity, Diabetes and chronic illness. • Basic Dental coverage included. • (\$) Revert back to ICD 9 for Best Value not ICD 11 (too complex) • Shift medical care toward primary physician away from Emergency Medicine. 	<ul style="list-style-type: none"> • Premiums based on resource consumption and age classes. • All Americans are responsible for their health. • Dramatically reducing regulations for primary care saves time, expense and physician frustration. • (\$) Hybrid Capitation: Enhanced productivity model. • Reasonable Copay-(20%), Deductibles-\$10% • Best practice models such as Medicaid PCCM, Kaiser, & Singapore Healthcare. • Pre-existing conditions are covered in risk pools and primary care model • All children are covered with enhanced CHIPs • (\$) Eliminate diagnostic and imaging self-referrals. • Scheduled payments for Specialists
	<p>Source of Truth</p> <p>National Health Care Expenditures CMS, CDC, NIH</p>		

Expected Results

American citizens and permanent residents will have **Basic Quality Healthcare** that is **affordable and sustainable**.

- ◆ Americans will be healthier.
- ◆ American's life expectancy will improve to greater than 80 years.
- ◆ The cost of health delivery will save 5% or \$160 billion on US Healthcare by year 4.
- ◆ HSA programs will inspire saving and frugal customer shopping.
- ◆ (\$) Administrative burdens for primary care will be dramatically reduced. Physician-Patient contact time will increase from 30% to 60%.
- ◆ (\$) The program is "pay as you go" with a HSA model of a Healthcare 401k with savings retained by the individual.

America spends twice as much per citizen as other countries yet has a comparatively eroding life expectancy.



Notes:
• (\$) Indicates key concepts and savings.

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Practice Areas

Hospital Management

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Merger & Acquisition Advisory

Operational Improvement

Strategic Planning

International Healthcare

Education

Emory University

Atlanta, Georgia

University of Florida

Gainesville, Florida

Harvard Business School

Boston, Massachusetts

Professional Affiliations

HBS Healthcare Industry

Alumni Association

Gwinnett BioSci Advisory

Federation of American

Hospitals

American Hospital

Association

Florida League of Hospitals

Board of Directors (past)

An, excellent communicator and listener with superb presentation skills and an appropriate sense of humor Mr. McNaull is also a visionary, strategic thinker open to advice and new ideas. He effectively communicates direction, commits people to action and conveys complex information in easily understood formats. Fluent in the use of "best practices" and quality improvement methods to improve performance and customer satisfaction Mr. McNaull has proven to be an honest, ethical entrepreneur with an abundance of energy and enthusiasm for his work with a proven track record of building positive relationships.

Mr. McNaull has over thirty-five years' experience in leading successful companies in the healthcare industry. In the process of acquiring and managing healthcare organizations, he directed feasibility studies of more than 450 general and specialty hospitals throughout the world. He assisted in developing or acquiring more than 50 hospitals including implementing turnkey financial and operating systems. He has run the financial operations of a 100-hospital system and was president of the insurance and information system companies. He was a director and CEO of a \$100 million private turnaround hospital company.

Mr. McNaull's global experience includes functional responsibility for Finance and Accounting for the Emirate of Abu Dhabi health system (\$2-billion operation). Other international experience includes responsibility for the hospital financial operations in Saudi Arabia, United Arab Emirates, United Kingdom, Puerto Rico, and Switzerland.