IMPROVING FINANCIAL PERFORMANCE WITH UPDATED STRATEGIES

The primary and secondary business lines that improve long term financial performance.

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PRESENTERS

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SESSION AGENDA

Overview the healthcare headwinds

Primary Business: Strategic Initiatives

Secondary Business: Strategic Initiatives

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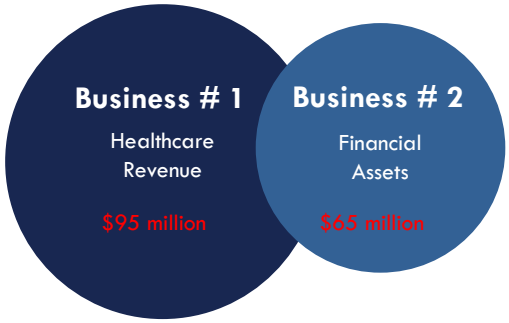
OVERVIEW: TWO DISTINCT BUSINESSES

Business #1: Healthcare Operations

- Access of Services
- Quality of Services
- Cost of Services
- Providers
- Employees
- Community
- Governance



Business #2: Financial Assets

A. Cash/Treasury Management:

- Bank Deposit Needs
- Working Capital Needs

B. Investment Operations:

- Fiduciary Process
- Investment Policy
- Risk Management
- Financial Planning
- Investing Process
- Monitoring & Reporting

S&P BBB Rural Hospitals – Avg Margin*	**3%**	**2%**
Best in Class	**4-6%**	**4-8%**

Strategic Opportunity for Business #2 is greater and likely more sustainable

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*Data Source: S&P Ratings Small Hospital Medians BBB

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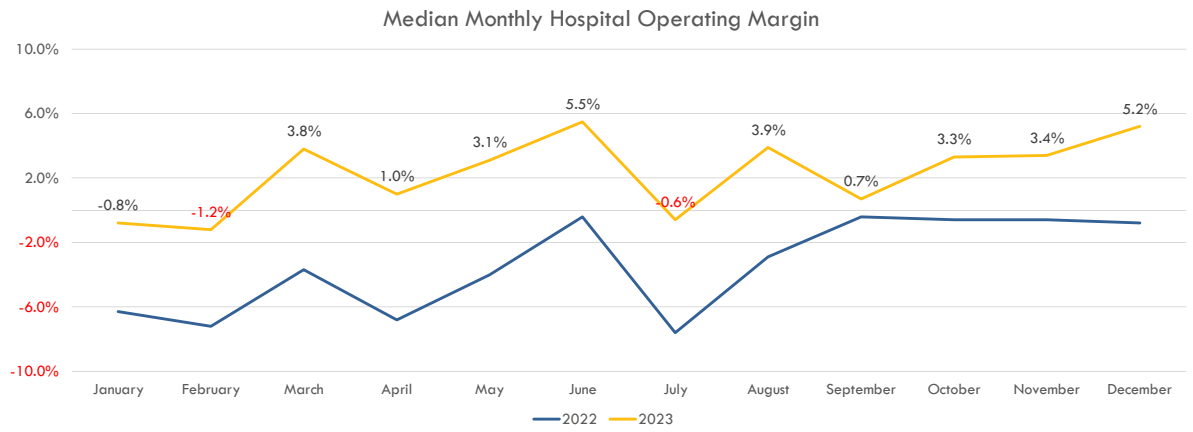
OVERVIEW OF THE HEALTHCARE HEADWINDS



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Data Sources: Syntellis Monthly Healthcare Financial Benchmarks

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DRIVERS OF THE HEALTHCARE HEADWINDS

Outpatient Shift

40%

Increase in outpatient revenue from 2020 - 2023

Aging Patient Population

20%

Changing Patient Preferences

amazon
COSTCO WHOLESALE
Walmart
Kroger
CVS
DOLLAR GENERAL

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Data Sources: Kauffman Hall, US Census

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HEALTHCARE OPERATIONS: STRATEGIC INITIATIVES

Start with the strengths and the areas your facility is already excelling at.

1 Structure
- Organization Structure
- Streamlined Processes

2 Relationships
- Patients
- Employees
- Community
- Employers

3 Value
- Cost
- Quality

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VALUE: QUALITY AND COST

Quality

Clinical Outcomes		
Measure	Critical Access Hospitals	PPS Hospitals
In-hospital mortality	2.9%	3.9%
30-day mortality	5.4%	5.6%
Serious Complications	6.4%	13.9%
Overall Complications	17.5%	25.4%
30-readmission	14.7%	13.3%

Cost

Medicare Payment		
Measure	Critical Access Hospitals	PPS Hospitals
Non-Risk Adjusted	$15,094	$21,074
Risk Adjusted	$14,450	$15,845

Data Source: Journal of the American Medical Association.

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HEALTHCARE OPERATIONS: ADDITIONAL INITIATIVES

- Labor Productivity Benchmarking
- Position Control Process
- Clinical Variation Review
- Access and Capacity Optimization
- Market Assessments
- Revenue Cycle Review

Cost saving initiative Revenue generating initiative

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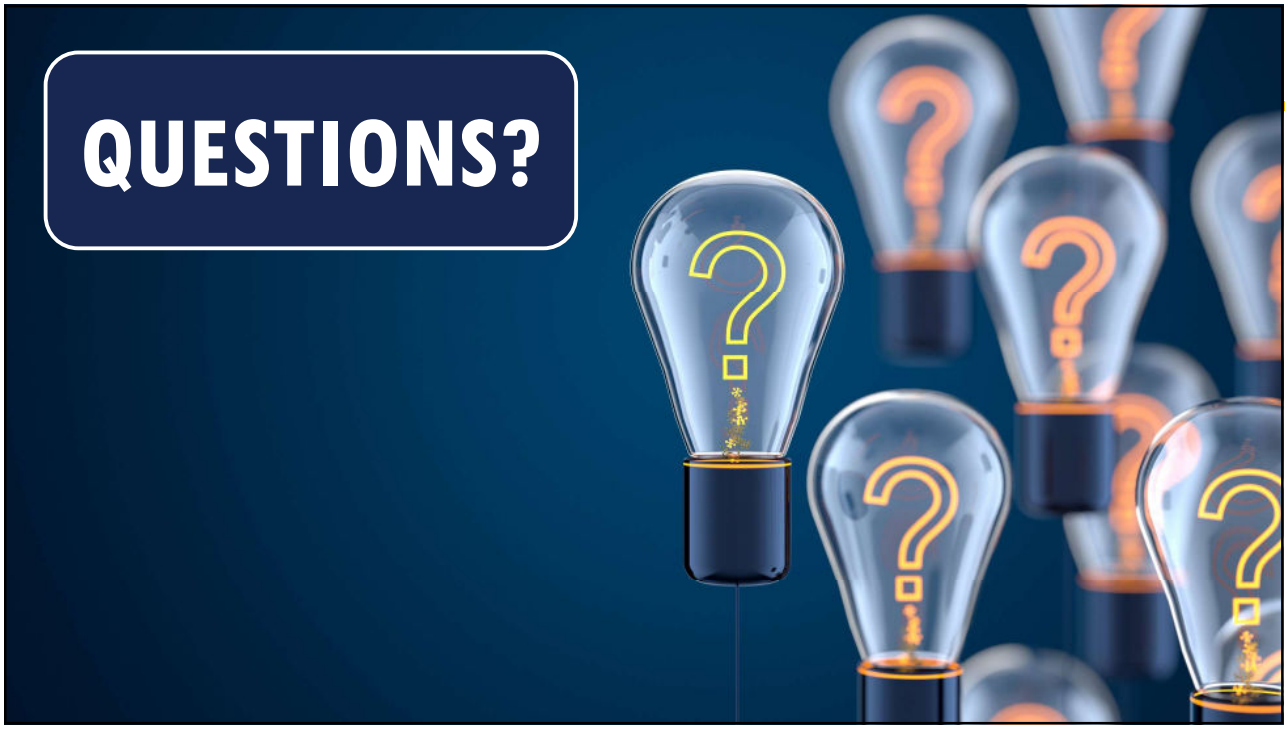

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THANK YOU!

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"Making the Balance Sheet a Strategic Asset"

Presented by

May 2024

Hi-Line Capital Management

A Registered Investment Advisor

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Institutional Investing

For Healthcare Providers

Background Information

Hi-Line Capital Management

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Overview: Two Distinct Businesses

Biz #1: Healthcare Operations

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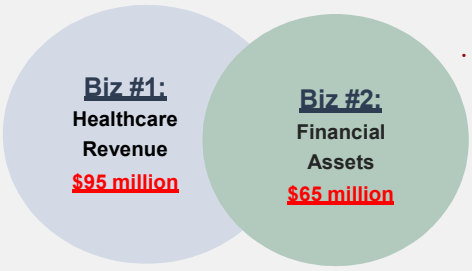

S&P BBB Rural Hospitals-Ave Margin	3%	2%
Best in Class	4-6%	4-8%

Strategic Opportunity for Biz #2 is greater and likely more sustainable

*Source: S&P Ratings Small Hospital Medians BBB

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The Last 20 Years: Growth of Biz#2

Small Hospital Profile*

	2001	2021	Diff
Biz #1: Operating Revenue:	$65 m	$95 m	$30 m
Operating Income:	$0-2 m	$0-3 m	$0-1 m
Biz #2: Cash/Investment Assets:	$20 m	$64 m	$44 m

Days Cash on Hand was 228 in 2019

Biz #1 (Operations) has grown 46% over 20 years
Biz #2 (Cash/Investments) has grown 220% over 20 years

*Source: S&P Ratings Small Hospital Medians BBB

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Rural Midwest Providers –Significant Opportunity

	2021	*BBB Profile	**Rural Midwest
	Operating Revenue:	$95 M	$48 M
	Cash/Investment Assets:	$65 M	$38 M
1	Cash % of Operating Rev	68%	80%
	Operating Margin:	3.0%	3.7%
2	Non-Operating Margin:	2.0%	1.0%
	Operating Income:	$2.8 M	$1.8 M
	Non-Operating Income	$1.9 M	$0.5 M
	Non-Op % of Op Income	68%	28%
3	Investment Yield (est)	2.9%	1.3%

*Source: S&P Ratings Small Hospital Medians BBB
**Source: AHD and Guidestar of 41 NFP in MN, MT, ND, SD, NE

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Improving Non-Operating Margin More Important

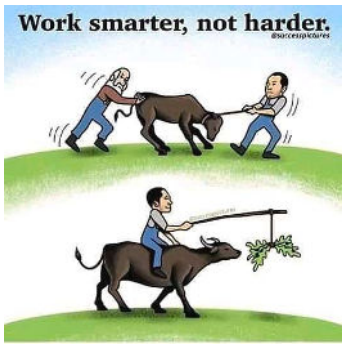
Operations sized at $100 million and grows 3.0% per year
Cash/Investments start at 65% of revenue = BBB average
Enhanced margins reinvested at 50%

An Illustration of 2.5%

	Baseline	Operating Margins +2.5%	Non-Operating Margins +2.5%
Days cash on hand			
Year 1:	258 days	258 days	258 days
Year 20:	252 days	365 days	532 days
% Improvement:	-2%	38%	106%

Which means…….

Operating Margins needs to increase 3x more than Non-Operating for EQUAL benefit.



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Why is Non-Op Margin More Important?

Reason #1

Compound Interest = The ability to earn money on money

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Why is Non-Op Margin More Important?

Reason #2

Improvements in process can be continuous

Vs

"I see you're still facing considerable head winds too."

Operating improvements are "cyclical". It is very hard to maintain "peak performance" for 10+ consecutive years given the natural resistance and headwinds

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"Making the Balance Sheet a Strategic Asset"

1. Long-Term Process Improvement Opportunities
2. Continuous Risk Reduction Opportunities
3. Appropriate Investment Opportunities

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Making the Balance Sheet a Strategic Asset

The Importance includes…….

Remain Independent

Expanding Mission

Improve Capital Capacity

Lower Cost of Debt

Improve Liquidity

Optimize Capital Structure

Earn Income Above Cost of Capital

Strengthen Operating Model

Better Terms & Conditions

Fiduciary Obligation

NonFeasance Avoidance

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1. Long-Term Process Improvement Opportunities

Best Practices for Healthcare

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Investment Process for Institutions

01

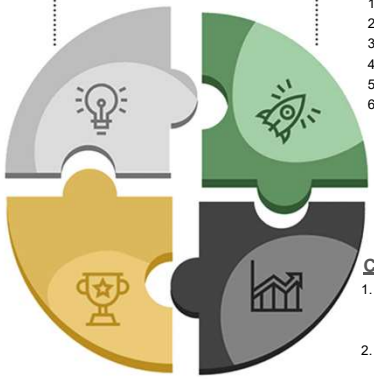
Fiduciary

1. Investment Policy
   a) Objectives & Time Horizon
   b) Risk Management Process
   c) Roles & Responsibilities
   d) Philosophy & Principles
2. Best Practices for Institutions
3. Temperament Improvement

02

Financial Plan & Asset Allocation

1. Liquidity and Cash Analysis
2. Financial Needs Analysis
3. Temperament Assessment
4. Risk Assessing & Mitigating
5. Pool Classification and Management
6. Connecting Mission with Investing



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Reporting & Monitoring

1. Custodial Reporting
2. Reconciliation Reporting
3. Investment Reporting
   a) Asset Allocation
   b) Performance (ST+LT)
   c) Characteristics of Strategies
4. Adherence to Policy Reporting
5. Audit Reporting and Support
6. Annual Reporting to Governance

03

Cash & Investment Management

1. Cash Management
   a) Cash via Deposit Accounts
   b) Cash Equivalents via T-Bills
2. Investment Management
   a) Short-Term Strategies (1-3 Years)
   b) Intermediate Strategies (4-10 Years)
   c) Long-Term Strategies (10+ Years)

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Annual Process

- **1st Quarter:**
  - Temperament & Best Practice Review
  - Teaching & Education
  - Risk Review & Due Diligence
  - Investment Strategy and Performance Review
- **2nd Quarter:**
  - Financial Plan Review
  - Asset Allocation Review
  - Teaching & Education
  - Risk Review & Due Diligence
  - Investment Strategy and Performance Review
- **3rd Quarter:**
  - Investment Policy Review
  - Teaching & Education
  - Risk Review & Due Diligence
  - Investment Strategy and Performance Review
- **4th Quarter:**
  - Annual Letter to the Board
  - Fiduciary Review
  - Teaching & Education
  - Risk Review & Due Diligence
  - Investment Strategy and Performance Review

Best Process and Practices
Financial Planning
Asset Allocation
Investment Policy
Monitoring and Communication
Annual Report
Risk Assessment and Management
Fee and Expense Management
Due Diligence

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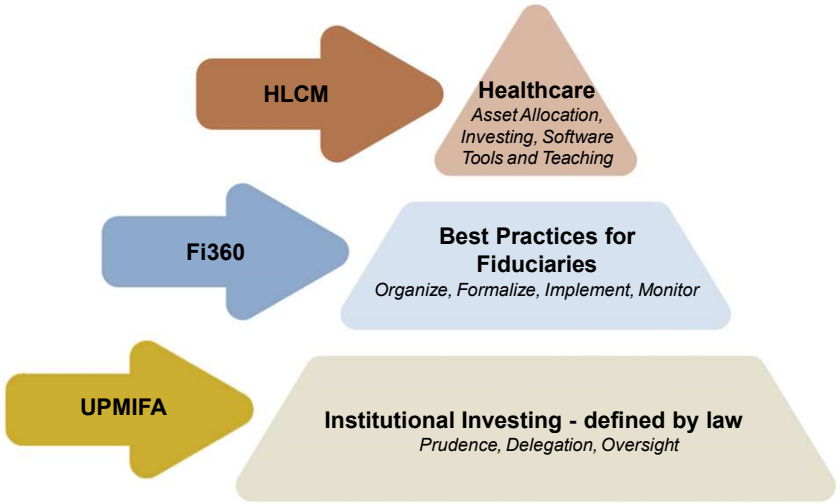
Fiduciary Best Practices – 3 Different Sources



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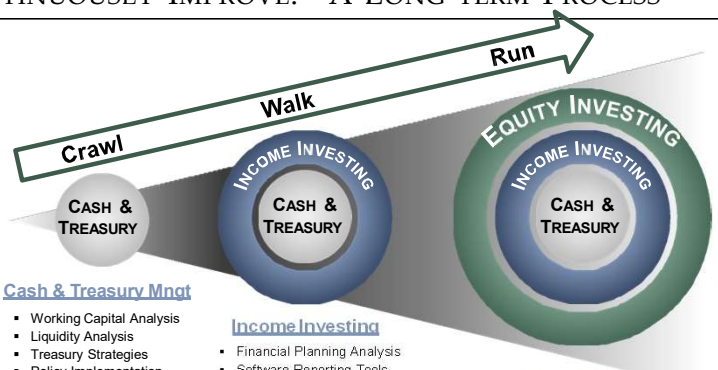
Continuously Improve: A Long-term Process



Cash & Treasury Mngt

- Working Capital Analysis
- Liquidity Analysis
- Treasury Strategies
- Policy Implementation
- Reporting and Monitoring
- Then transition to Income Investing, if appropriate

Income Investing

- Financial Planning Analysis
- Software Reporting Tools
- Structured Reviews and Monitoring
- Proficiency with Income Investing
- Teaching and Education regarding Institutional Temperament, especially short-term volatility and risk management
- Then transition to Equity Investing, if appropriate

Equity Investing

- Executive Level Leadership
- Adopted Philosophy and Principles
- Advanced Institutional Best Practices
- Advanced Institutional Temperament
- Advanced Financial Planning
- Advanced Risk Management
- Ability to execute decisions based on patience, discipline and rationality
- Ability to survive short-term volatility necessary to achieve long-term returns
- Compound Returns now possible

Note: Income or Equity Investing may or may not be appropriate for the institution. The appropriateness depends on financial needs, temperament, time horizon, objectives and prioritized risks to be mitigated or eliminated.

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2. Continuous Risk Reduction Opportunities

Executive level Leadership Required

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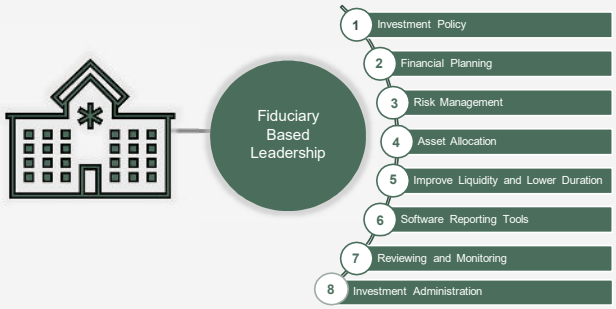
Executive Needs for Institutional Investing

Top Risk Reduction Opportunities



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1. Investment Policy

8 Essentials Categories

Understanding the Institution

1. **Roles and Responsibilities** - for Governance, Management and Others
2. **Financial Plan** – connecting mission with asset allocation
3. **Controlled Assets and Transactions** – used to define limitations

Best Practices to Incorporate

4. **Philosophy and Principles** – the "Unified Voice"
5. **Risk Management** – define and prioritized
6. **Pool Objectives and Time Horizons** – which determines appropriate strategies
7. **Due Diligence Criteria** – for selecting investment managers to fulfill strategies
8. **Monitoring Criteria** – used for reviewing performance and investment operation

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2. Financial Planning

Operating Cashflow

Routine Cap Ex

Contingencies

Debt Covenants

Stress Testing

Capital Capacity

Non-Routine Capital

Temperament

GOAL: Determine the amount and timing of funds needed

Funding Priority	Time Horizon	Primary Objective
1. Cash Pool: Working Capital	1-180 days	Daily Liquidity
2. Reserve Pool: Liquidity Support	1-3 years	Income + Liquidity when needed
3. Intermediate Pool: Periodic Capital	4-10 years	Income Returns
4. Long-Term Pool: Growth Capital	10+ Years	Compound returns

Seeking to find the right balance between liquidity needs and volatility concerns. Then seeking to find the right solutions to reduce credit and inflation risk allowing for ***real returns***

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3. Additional Risk Management

"The essence of investment management is the management of risks….not the management of returns"
--Ben Graham

Top 12 Risks: Rational judgement and sound long-term decision-making principles required.

Risk Categories	Top 12 Risks
Temperament Risks	1. Emotion…the natural instincts of greed or fear 2. Short-Term Thinking/Actions….chasing returns, rear view mirror syndrome 3. Volatility causing irrational behavior….selling low, changing strategies
Asset Allocation Risks	4. Liquidity…..in ability to convert assets into cash when needed at fair price 5. Interest rate…rising rates exposing certain assets to price declines 6. Negative arbitrage….debt costing more than investments returns
Investment Mngt Risks	7. Permanent Loss…..overpaying for assets and no margin of safety 8. Inflation……the erosion of purchasing power, especially with cash or bonds 9. Business risk….leverage, execution and no competitive advantages
Execution Risks	10. Commitment and discipline….inability to carry-out decisions long-term 11. Competence…….decisions made or influenced by wrong participants 12. Fees and Expenses…..too high and subtracts from returns of the assets

TEMPERAMENT RISK Is The Most Important set of Risks to Manage

Oftentimes, the "Enemy is Us"

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6. Consolidated Reporting….Rarely in Place

Performance and Reporting Software

- **Benchmarking and Performance Analysis Improvements**
- **Reports for Management - Monthly**
  - Asset value reconciliation to reality with supporting documentation
  - Journal entry reconciliation and report
  - Performance reconciliation with income statement and benchmarks
- **Quarterly Reports for CEO, CFO, and/or Board (or Sub-Committee)**
  - Performance Reports (via Addepar)
  - Characteristic Analysis (via Bloomberg)
  - Other: Asset Allocation, Holdings, Cashflow, etc (via Addepar)

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3. Apropriate Investment Opportunities

Specific Strategies that "FIT" the Needs of Healthcare

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Lower Total Cost....An Illustration

Current

Fees and Expenses @ 1.05%

	Known	Unknown
Visible	*Advisory Fee*	*Trading fees @ ??*
Invisible	*Investing via ETFs and Mutual Funds with high expense ratios*	*Spreads @ ??*

Future Possibility

Fees and Expenses < 0.49%

Net Present Value Cost Savings in the millions

	Known	Unknown
Visible	*Advisory And Investing Fee*	*No Trading fees (if at low-cost custodian)*
Invisible		*Spreads = Best Execution across multiple trading desks*

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LONG-TERM RETURNS EXPECTATIONS (OVER 10-20 YEARS)
AND
SHORT-TERM *VOLATILITY* EXPECTATIONS

Asset Allocation	Holding Horizon	LT Return Expectations	Short-Term Volatility*
0. Inflation		> 3.0%	0.0 – 8.0%
1. Cash Allocation	< 180 Days	5.0 – 5.5%	Near 0%
2. Income Allocation	1 - 3 Years	6.5 – 7.0%	0.0 – 5.0%
3. Real Asset Allocation	4 - 10 Years	7.0 – 7.5%	5.0 – 15.0%
4. Equity Allocation	10+ Years	7.0 – 8.5%	15.0 – 35.0%

**Note: Short-Term volatility is the range of negative price change that could be experience in 1 year. Long-Term volatility will be equal to the total return.*

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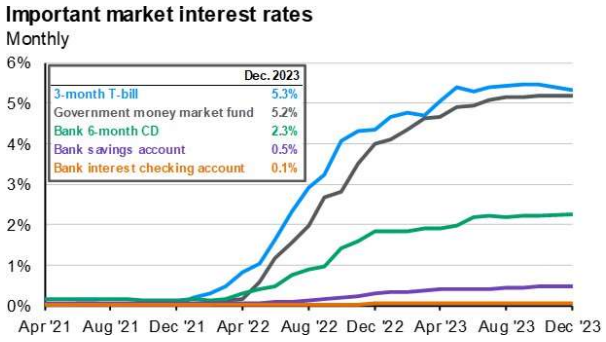
Market Interest Rates

FDIC Data as of 12/31/2023
And Short-Term Treasuries the best option by far.



Note: Money markets funds are not free. Fees range from 0.1% – 0.4% based on review of the largest firms including Vanguard, JP Morgan, Schwab Blackrock & Fidelity

Bank rates reflect FDIC National Rates defined as the average rates paid by all insured depository institutions and credit unions, weighted by each institution's share of domestic deposits.

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Treasury Advantage vs Bank Deposits

Returns: Significantly higher…..earning the "Bank's Spread".

Safer: Treasuries backed by the full faith and credit of the US Gov't. FDIC insurance limited

Unlimited Protection: FDIC limited to $250,000 and funding comes from banks…not the Gov't.

Liquid with No Interest Penalty: Daily liquidity.

Simple: 30 Minutes to start, no long-term commitment, up front expense or loss of control.

Source: Bloomberg

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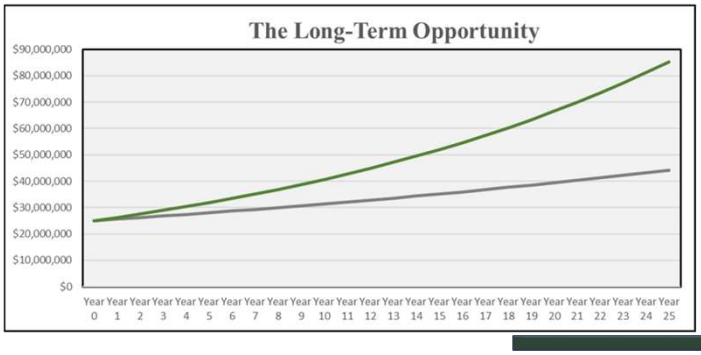
The Long-Term Impact: Average Example

Example #1: > 100% Improvement

$25 million in financial assets. Operations need 45 days cash expense ($3 m).
The balance invested in Gov't Bonds yield 3.0% more than average Bank Rates.
(which is long-term average for USA)

Over the course of 25 years…..

Bank Rate Only Option: Assets Increase to ~$45 million
Excess to Gov't Bonds: Assets Increase to ~$85 million



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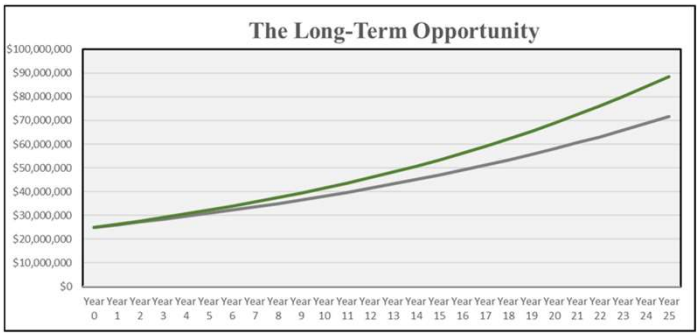
The Long-Term Impact: "Small" Example

Example #2: 25% Improvement

$25 million in financial assets. Operations need 45 days cash expense ($3 m).
The balance invested in Gov't Bonds yield 1.0% more than Bank Rates.

Over the course of 25 years…..

Bank Rate Only Option: Assets Increase to ~$72 million
Excess to Gov't Bonds: Assets Increase to ~$89 million



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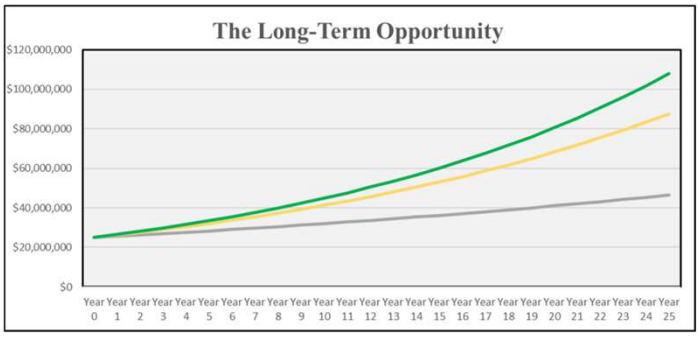
The Long-Term Impact: Crawl vs Walk vs Run

Example #3: Continuous Improvement

$25 million in financial assets. Operations need 45 days cash expense ($3 m).

Over the course of 25 years…..

Bank Products Only @ 2.5%: Assets Increase to ~$46 million
Bond Allocation Only @ 5.1%: Assets Increase to ~$88 million
50/50 Bond Stock Allocation @ 6.0%: Assets Increase to ~$108 million



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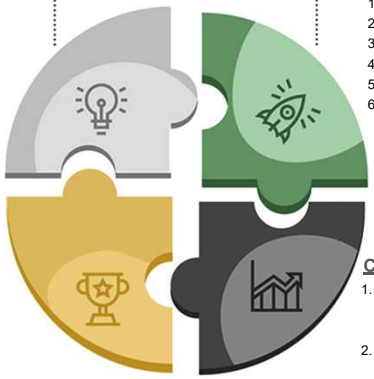
Investment Process for Institutions



01 Fiduciary

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2. Best Practices for Institutions
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4. Adherence to Policy Reporting
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6. Annual Reporting to Governance

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Thank you for your time.

Healthcare Investing Services

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