Strategic Options Assessment: Executive Summary

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Engagement Objectives

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The Oktibbeha County Board of Supervisors has commissioned this assessment to determine the best strategy to achieve the following objectives:

- Ensure the availability of high-quality healthcare services to the residents of the county
- Provide those services as close to the patients' homes as possible
- Create efficiencies to allow for the delivery of high-quality, affordable care
- Preserve and maximize the value of OCH Regional Medical Center for our citizens
- Enable the resulting healthcare delivery structure to continue providing high-value service in a financially self-sustaining manner
- Preserve jobs in the County

Focus of This Assessment

The following sections of this presentation address the four requirements below plus the two additional topics requested by the Board of Supervisors:

Mississippi Code section 41-13-15 (8) requires the following:

1. **A review of the community's inpatient facility needs** based on current workload, historical trends and projections, based on demographic data, of future needs

2. **A review of the competitive market for services** including other hospitals that serve the same area, the services provided by competitors, and the market perception of the competitive hospitals

3. **A review of the hospital's strengths relative to the competition** and its capacity to compete in light of projected trends regarding competition

4. **An analysis of the hospital's options,** including service mix and pricing strategies. If the study concludes that a sale or lease should take place, the study shall include an analysis of which option would be best for the community and how much revenue should be derived from the lease or sale

Additional Assessment Topics

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- ✓ A quality-of-care comparison of the hospital's performance with state, regional, and national benchmarks, and
- ✓ A report that will provide the Board of Supervisors with actionable recommendations.

Key Industry Trends

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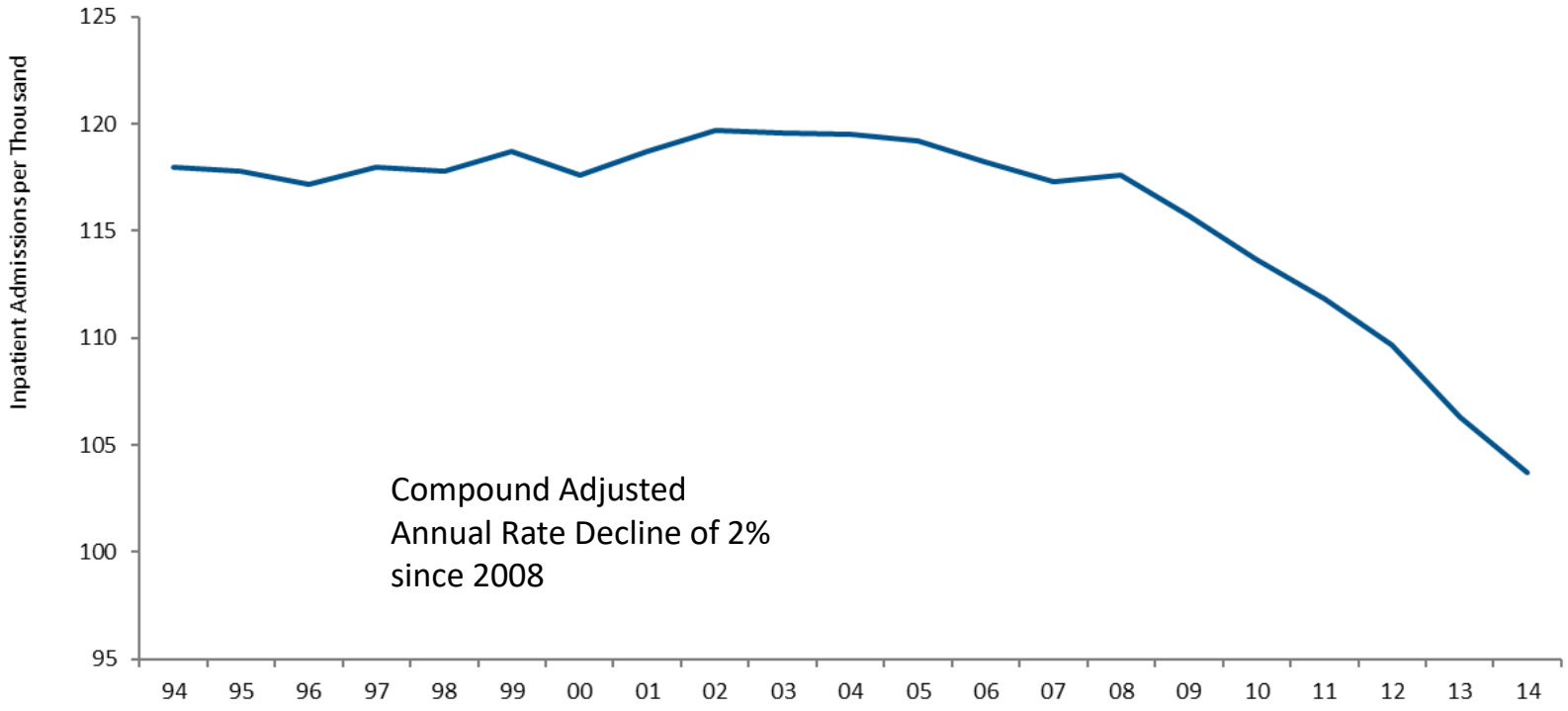
Inpatient Service Demand

Inpatient Admissions per 1,000 Persons, 1993 – 2014



Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2013, for community hospitals. US Census Bureau: National and State Population Estimates, July 1, 2013.
Link: http://www.census.gov/popest/data/state/totals/2011/index.html.

Outpatient Service Demand

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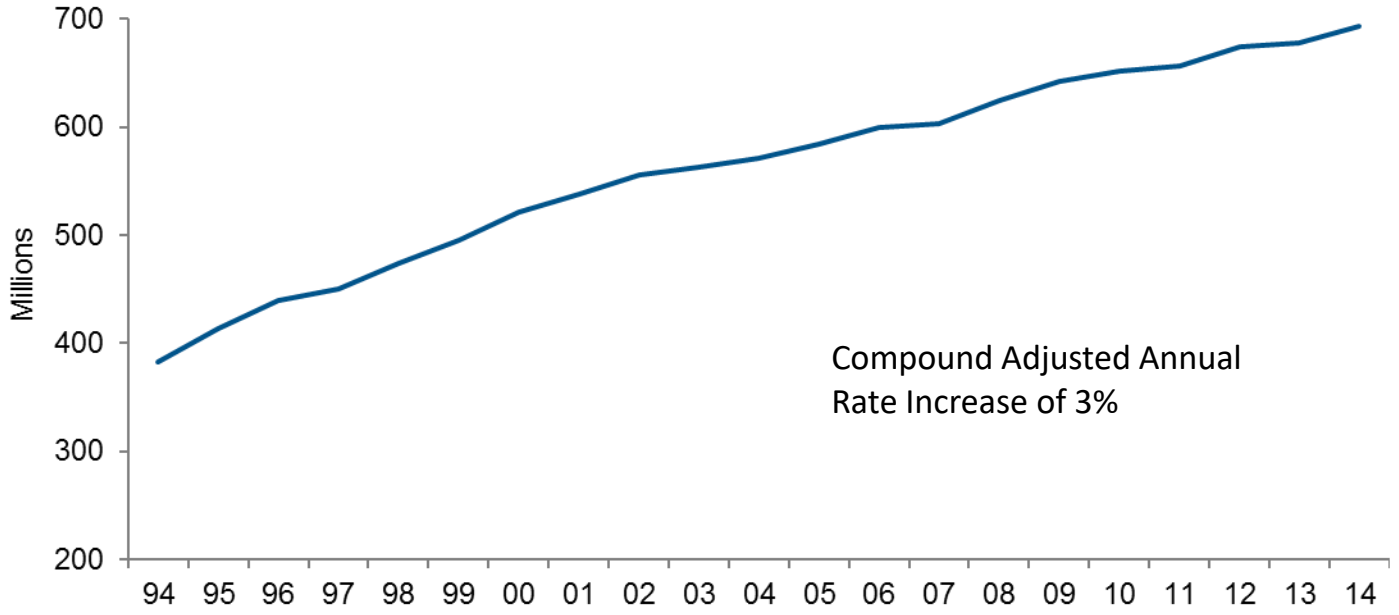
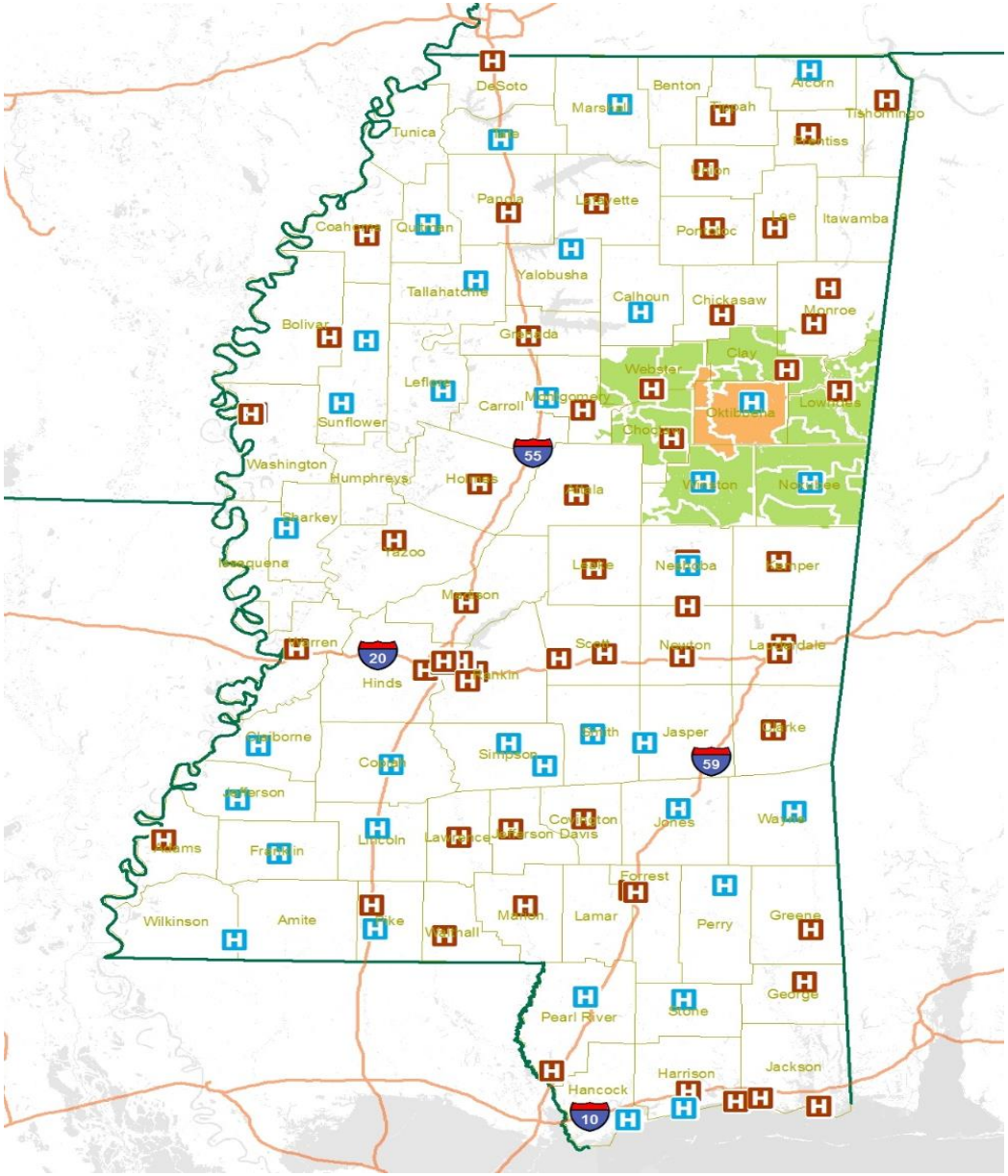
Total Hospital Outpatient Visits in Community Hospitals, 1993 – 2014



Source: Analysis of American Hospital Association Annual Survey data, 2014, for community hospitals.
Chart 3.12 in 2013 and earlier years' Chartbooks.

System Activity in Mississippi



System

No System

- According to the data obtained from the American Hospital Directory, 63% of Mississippi critical access and short-term acute hospitals are within a system
- Approximately 65% of community hospitals nationally are part of a hospital system

What Does This Mean for Hospitals and Health Systems?

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- Business as usual is out the window, and a new problem must be solved—learning to manage population health and justify your prices
- More and bigger consolidation will be necessary to provide the needed care and services to the community, assemble the intellectual and financial capital required to succeed, and absorb and manage risk
- Hospitals and physicians must increase collaboration
- Big investments in IT and care management will be essential
- Core competencies will need to evolve along with the market

Stakeholder Perspectives

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Stakeholder Interview Highlights

Perceived Strengths:

- OCH Regional Medical Center enjoys good community support for basic healthcare services
- Primary service area (Starkville / Oktibbeha County) is a vibrant, growing community
- Loyal/committed medical staff, allied health professionals and nursing staff
- OCH Regional Medical Center provides quality, patient centered and personalized care
- Obstetrics/Women's health/Pediatrics are regionally recognized services
- OCH Regional Medical Center has up to date equipment and technology for diagnostic and surgical care

Stakeholder Interview Highlights

Challenges:

- Lots of anxiety and uncertainty inside the hospital about the future of OCH Regional Medical Center
- Not enough patient volume to demonstrate a need for development of higher acuity services
- Surgical volumes are mostly ambulatory
- Declining occupancy & inpatient volumes
- Competition in the community for diagnostic and post-acute services (urgent care, imaging, skilled nursing, physical therapy, rehabilitation services, home infusion, etc.)

Stakeholder Interview Highlights

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Challenges: (continued)

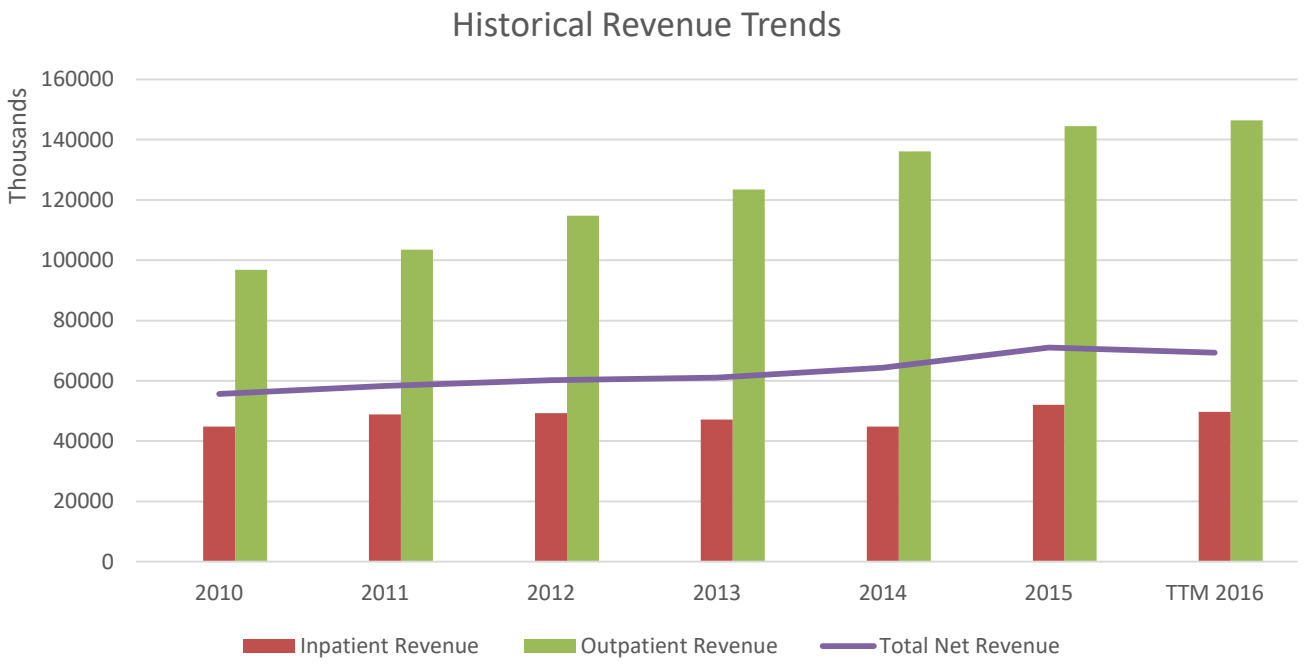
- High nurse turnover rate primarily among younger/new graduate nurses (MSU transient effect) 19% v. 16% nationally in 2015
- Starkville and Oktibbeha County need access to more primary care/family practice physicians
- There is significant outmigration/transfers of patients to competing facilities for more specialized/higher acuity services
- Communications between the Board of Supervisors and the Hospital Board of Trustees historically have been very limited

1. *A review of the community's inpatient facility needs based on current workload, historical trends and projections, based on demographic data, of future needs*

Inpatient Facility Needs

- OCH Regional Medical Center made significant capital investments in its facility:
  - Between 2002 and 2006 the hospital added approximately 109,000 square feet of new space and renovated 56,000 existing square feet
    - New emergency room, lab, outpatient surgery, surgical suites, central power plant, new three-story tower and connection to existing hospital, renovation of three existing hospital floors
  - Between 2010 and 2012, the hospital added another 87,000 square feet of new space and renovated approximately 29,000 existing square feet
    - Larger patient rooms, new Women's Center, improved ICU, new front entrance, new HVAC, new parking garage
- The expansion and renovations have improved the patient care setting, improved patient flow, and created more efficient ambulatory care space

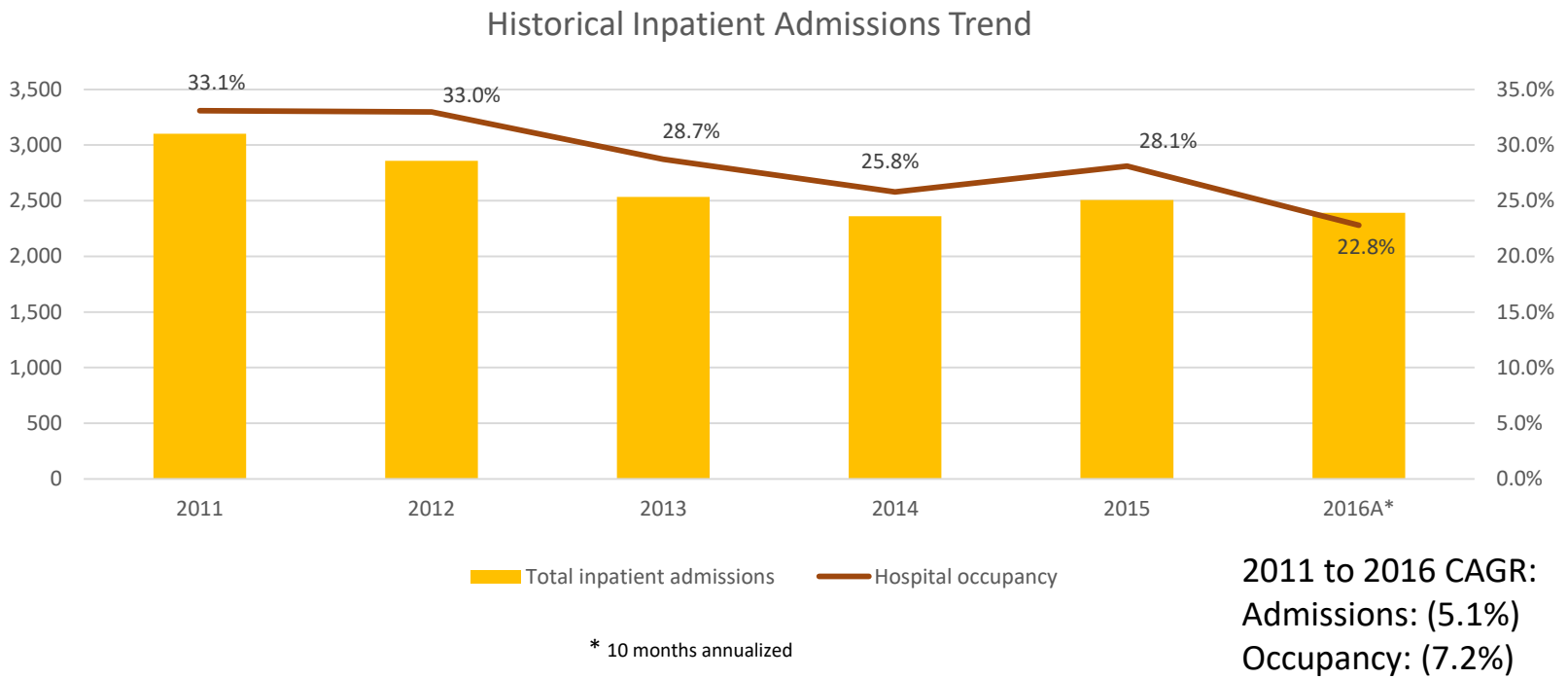
Historical Revenue Mix Trend



2010 to 2016 GAGR:
IP Gross Revenue: 1.8%
OP Gross Revenue: 7.1%
Total net revenue: 3.7%

- Outpatient gross revenue is growing rapidly, a national trend
- Inpatient gross revenue growth rate is basically flat, also a consistent national trend
- Total net revenue in 2014 and 2015 saw a small uptick
  - Attributable to Winston County being offline and the first two years of expanded coverage under ACA

Inpatient Volume Trends

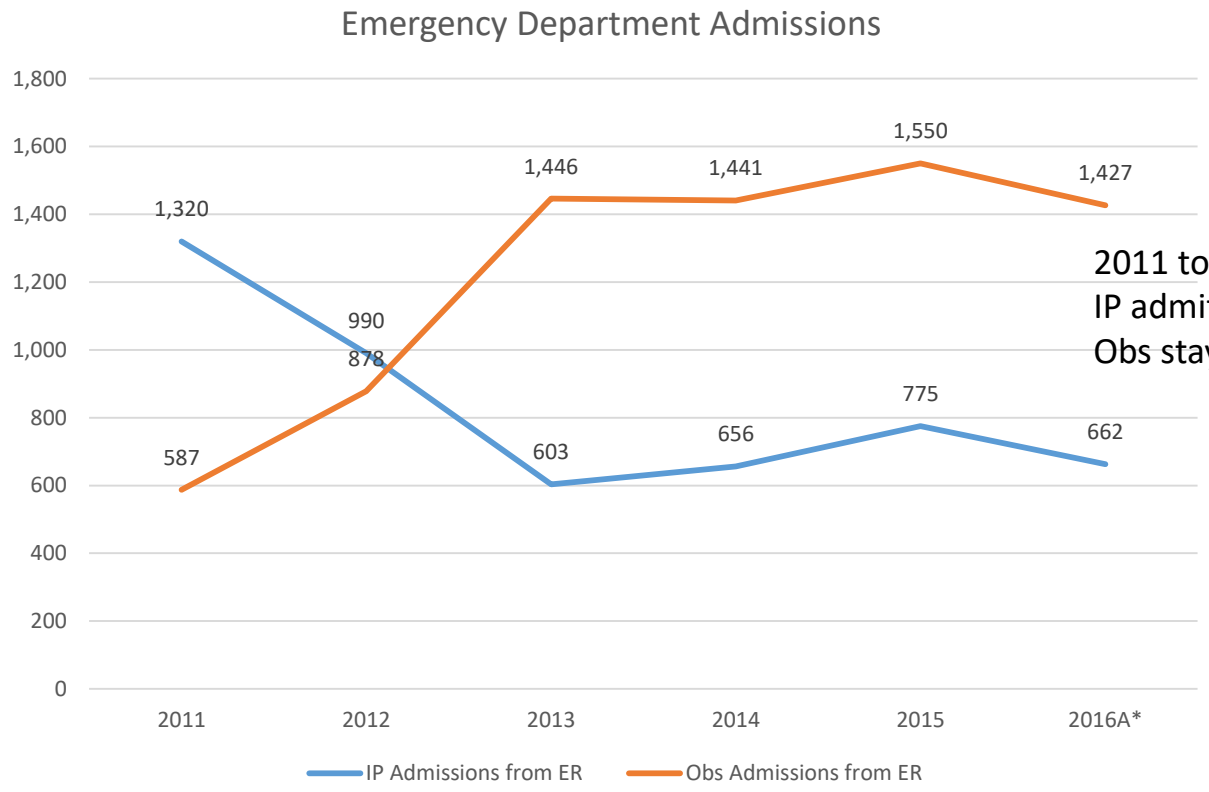


* 10 months annualized

2011 to 2016 CAGR:
Admissions: (5.1%)
Occupancy: (7.2%)

- Though decreasing inpatient admissions are a national trend, OCH's decline is steeper, creating operating and financial risk for the hospital
- More services are moving to an ambulatory setting
- Many inpatient hospital facilities reflect prior-era service line strategies
- OCH needs to find opportunities that will increase throughput in a high fixed-cost business (i.e., expanded swing bed programs, residential behavioral health, hospice care, etc.)

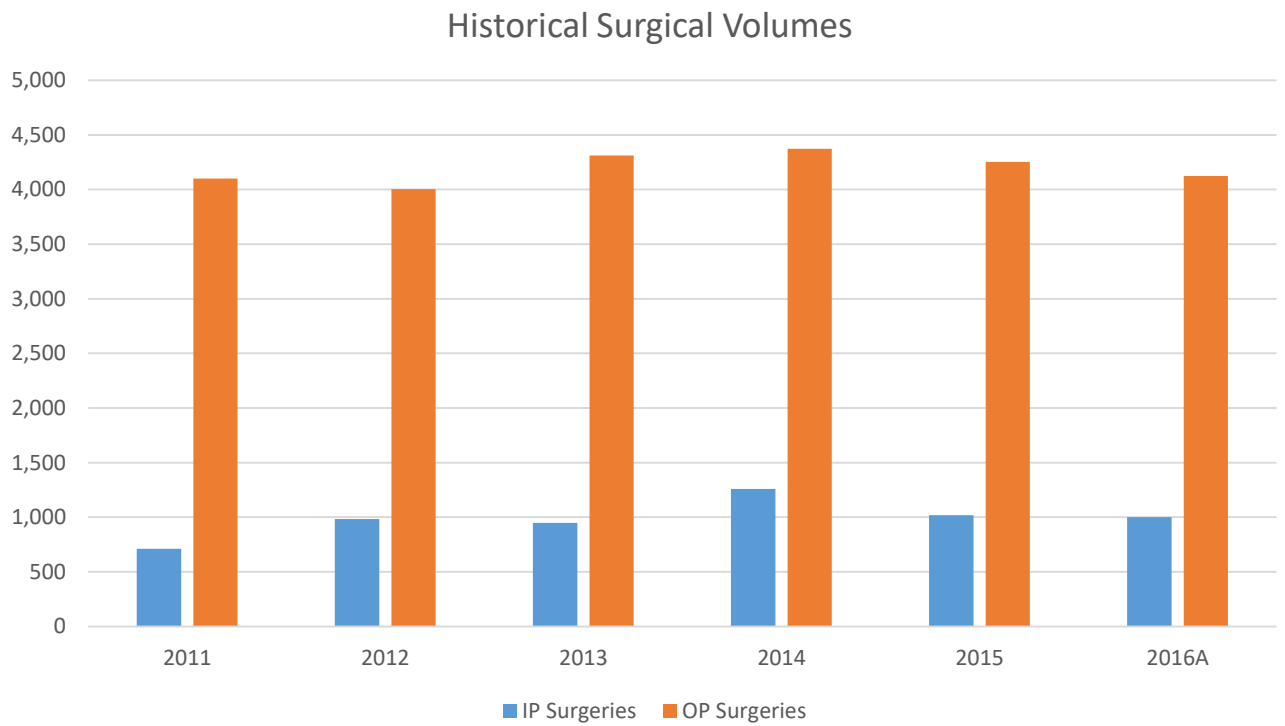
Inpatient v. Observation Admissions



2011 to 2016 CAGR:
IP admits from ED – (12.9%)
Obs stays from ED – 19.4%

- The growth in observation stays poses a challenge for OCH. This trend has an adverse effect on the hospital's revenues and poses new challenges for care management.
- Inpatient admissions are reimbursed at a higher rate than an observation patient. Lower revenue observation stays have also become a greater share of the cost of services.

Historical Surgical Volumes



2011 to 2016 CAGR:
IP Surgery: 7.1%
OP Surgery: 0.1%

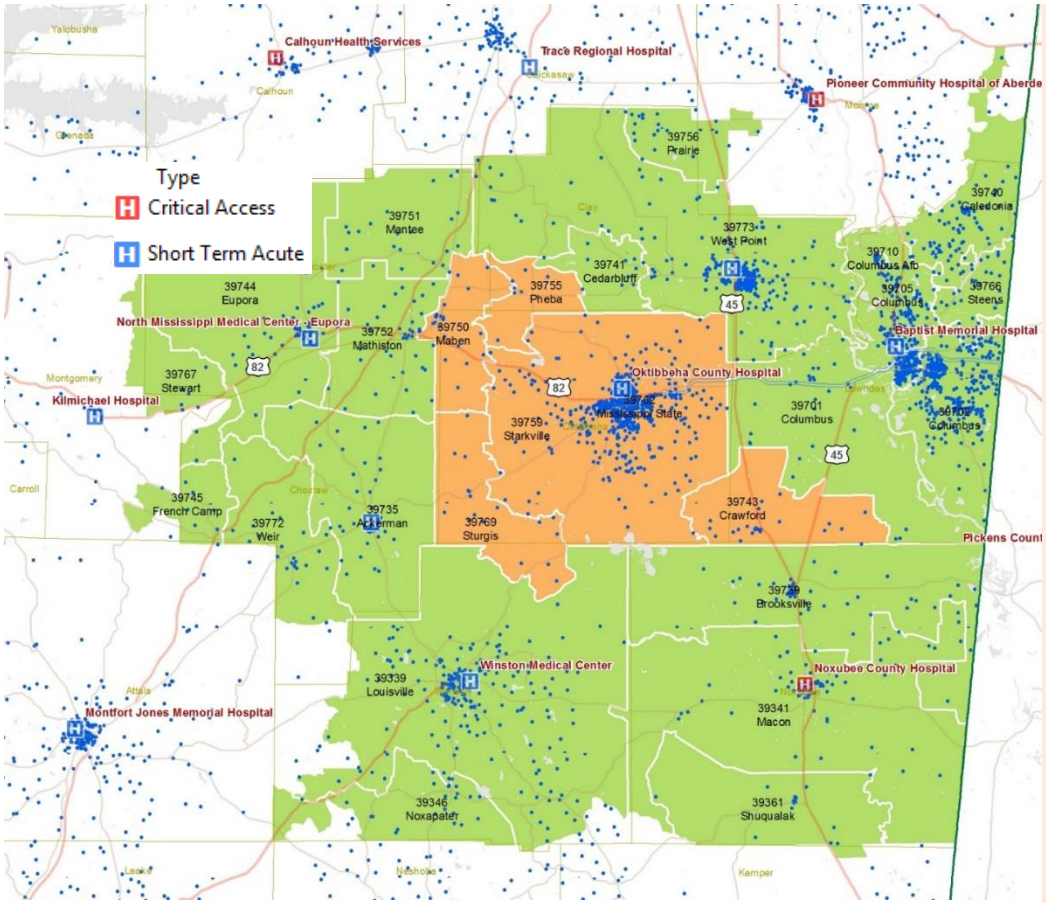
- Inpatient surgical volumes have experienced year-over-year growth until 2014, but have since started a downward trend due to the industry-wide movement of procedures from inpatient to an ambulatory setting
- OCH's OP surgical volumes are flat and are starting a downward trend. The service interruption in Winston County and the first two years of ACA insurance coverage 2014 & 2015 may have temporarily boosted OCH O/P surgery volume. Whether OCH is now reverting to its longer-term trend line must be monitored.

Key Findings

- Low and declining occupancy at OCH poses financial and operating challenges
- The shift from inpatient to outpatient care will continue, creating new competitive and service delivery challenges
- Changes in the care delivery and payment will continue to pose challenges; for example, the shift to observation stays has impacted OCH admission volume and revenue

2. *A review of the competitive market for services including other hospitals that serve the same area, the services provided by competitors, and the market perception of the competitive hospitals*

OCH Service Area: PSA

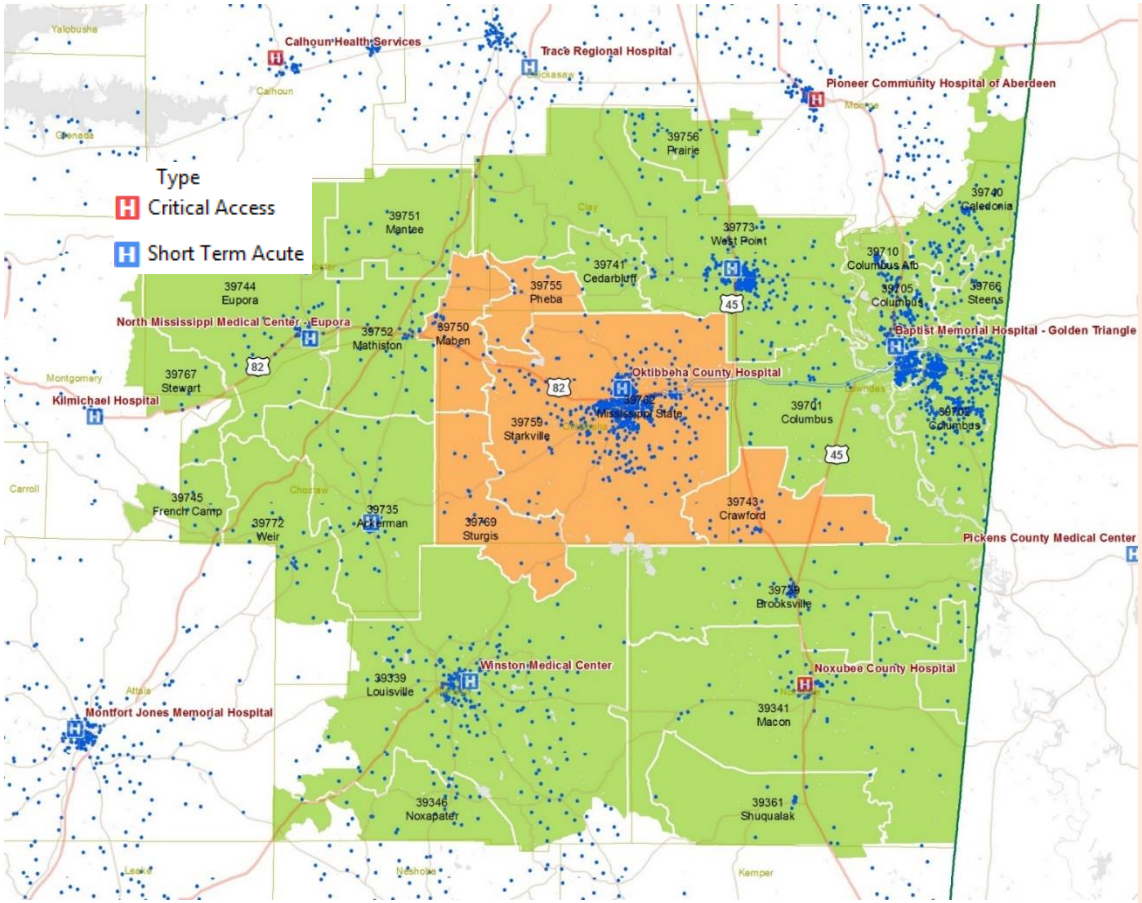


OCH's Total Service Area (TSA) is comprised of a Primary Service Area **(PSA)** and Secondary Service Area **(SSA)**:

- **PSA**: OCH's PSA includes all ZIP codes that include Oktibbeha County **(in orange)**
  - Crawford, Maben, Starkville, Mississippi State, Pheba, and Sturgis
- While the **PSA** generates **63%** of OCH's inpatient business, it comprises **20%** of TSA discharges
- OCH has a **14%** market share across its **TSA** and a **42%** market share in its **PSA**
  - Baptist Golden Triangle has a 21% market share and Northern MS has a combined 18% market share in the **PSA**
- OCH's **TSA** population is projected to grow by just 0.6% between 2015 and 2020
  - **PSA** Population is projected to grow 2.9%
  - **PSA** discharges are projected to **decline 5.1%** while outpatient visits will **grow 8.8%**

- Each population center in the TSA has a short-term acute care hospital
- OCH, Winston Medical Center, Choctaw Regional and Noxubee General are not affiliated with larger health systems
- OCH's primary care network outside of Starkville represents a key consideration in assessing OCH's readiness for population health management and OCH's ability to bear risks under new and expanding value-based reimbursement methods

OCH Service Area: SSA



OCH's Total Service Area ("TSA"):

- **SSA**: OCH's secondary service area ("SSA") include all ZIP codes in adjacent counties to Oktibbeha County **(in green)**
- While **80%** of TSA discharges come from the SSA, OCH receives **37%** of its inpatient business from the **SSA**
- **SSA** I/P market share breaks down as follows:
  - Baptist Golden Triangle: **42%**
  - North MS Medical (Combined): 21%
  - OCH: **6%**
  - University Hospital Jackson: 5%
- **SSA** discharges are projected to **decline by 5.2%** between 2015 and 2020
- **SSA** outpatient visits are projected to **grow by 2.4%** between 2015 and 2020

- OCH is a distant third place in market share within the SSA, which comprises 80% of its service area volume
- OCH is the market leader in its core market, the PSA, but that market is projected to see inpatient volume shrink by 5% while outpatient business grows by almost 9% by 2020
- **How well-positioned is OCH to take advantage of these trends?**

Key Findings

- OCH loses significant market share from its PSA to two major competitors
- OCH is not currently well positioned to grow market share in the SSA
  - Larger competitors and systems
  - Lack of satellite clinics and dispersed primary care base (with exception of primary care clinic in Choctaw County)
  - Incumbent hospitals located in each SSA population center

3. *A review of the hospital's strengths relative to the competition and its capacity to compete in light of projected trends regarding competition*

Balance Sheet Strength

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OCH Regional Medical Center

	July-16		2015
	As presented	Adjusted	BBB-
Average Age of Net Fixed Assets (years)	12.7	12.7	11.6
Cushion Ratio (x)	12.6	8.4	10.4
Maximum Debt Service Coverage (x)	2.1	1.4	3.2
Days Cash on Hand	167.3	166.1	132.5
Days in Accounts Receivable	95.0	95.0	51.0
Cash Flow/Total Liabilities (%)	23.9%	9.8%	14.0%
Unrestricted Cash/Long-Term Debt (%)	224.0%	80.8%	102.3%
Long-Term Debt/Capitalization (%)	13.0%	36.2%	40.9%

- Adjusted balance sheet ratios assumes that the $24.8M of general obligation bonds on the county balance sheet are included on the hospital's balance sheet

- 2015 BBB- are median balance sheet ratios for Standard & Poor rated stand alone acute care hospitals – Lowest investment grade debt

- Green ratios exceed medians and indicate relative strength compared to medians
- Red ratios are below medians and indicate risk or relative weakness compared to medians

Comparison to Standard & Poor's Median Ratios

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S&P Credit Rating Analysis - Ratio Comparison

Financial Metric	*BBB-*	*OCH-RMC*	*% of Median*	*Desired Position*	*Speculative*	*OCH-RMC*	*% of Median*
Net Patient Revenue (000s)	$123,203	$69,353	56%	Above	$ 101,765	$69,353	68%
Salaries & Benefits / Net Patient Rev (%)	55.3%	59.0%	107%	Below	51.1%	59.0%	115%
Maximum Debt Service Coverage (x)	3.2	2.1	67%	Above	1.7	2.1	126%
Max Debt Service / Total Op Revenue (%)	3.4%	3.4%	100%	Below	4.0%	3.4%	85%
EBIDA ($000s)	$ 15,524	$ 5,249	34%	Above	$ 10,499	$5,249	50%
EBIDA Margin (%)	8.5%	7.3%	86%	Above	8.4%	7.3%	87%
Profit Margin (%)	2.9%	-0.1%	-3%	Above	0.5%	-0.1%	-15%
Operating Margin (%)	1.5%	-1.4%	-93%	Above	-0.7%	-1.4%	199%
Non Operating Revenue/Total Revenue (%)	1.2%	0.2%	19%	Above	1.1%	0.2%	21%
Average Age of Net Fixed Assets (years)	11.6	12.7	110%	Below	13.9	12.7	92%
Cushion Ratio (x)	10.4	12.6	121%	Above	5.3	12.6	237%
Days Cash on Hand	132.5	167.3	126%	Above	85.9	167.3	195%
Days in Accounts Receivable	51.0	95.0	186%	Below	52.2	95.0	182%
Cash Flow/Total Liabilities (%)	14.0%	23.9%	170%	Above	7.6%	23.9%	314%
Unrestricted Cash/Long-Term Debt (%)	102.3%	224.0%	219%	Above	59.4%	224.0%	377%
Long-Term Debt/Capitalization (%)	40.9%	13.0%	32%	Below	48.1%	13.0%	27%

Hospital underperforms relative to S&P Median =

Source: S&P Ratings Direct report dated September 21, 2016

Source: OCH Regional Medical Center September 30, 2015 audited financials & July 2016 internal financials

Sources of risk for OCH Regional Medical Center: i) a **lack of scale**, as measured by net patient revenue; ii) **higher staffing costs**; iii) **lower debt service coverage**; iii) **lower cash flow**, operating and total margins; iv) **higher days in A/R**. Strengths relative to the medians include **solid liquidity** (days cash on hand) and **modest leverage** (long term debt to total capitalization). OCH Regional Medical Center's balance sheet is enhanced by the support of the County's balance sheet, which puts the county at financial risk.

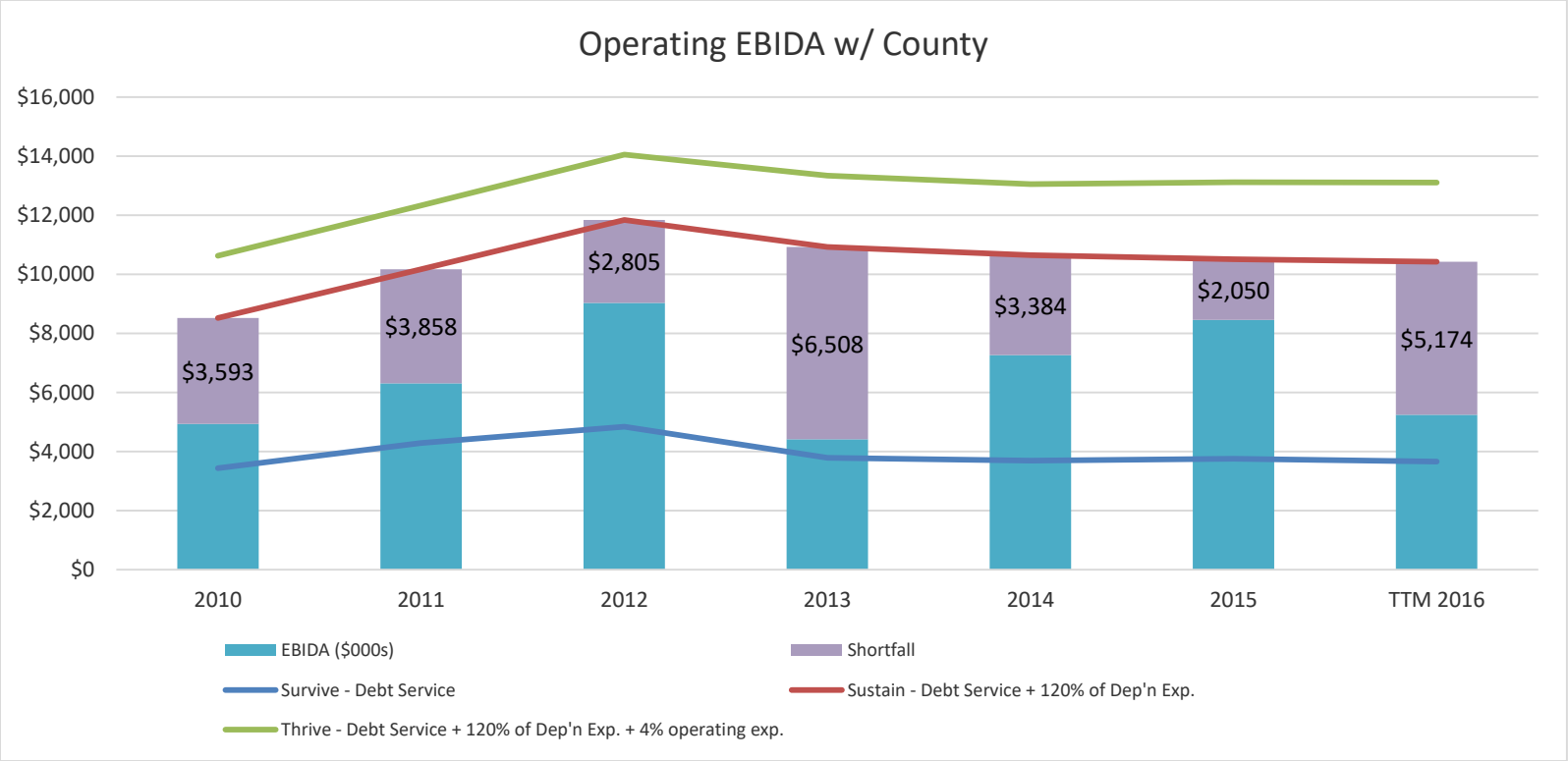
Financial & Operating Results Summary

OCH Regional Medical Center Operating Results Performance Metrics	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	TTM 2016	FY '10-'15 CAGR	FY '10-'16 TTM CAGR	Trends: 10-'15	Trends: '11-'16
Net Patient Service Revenue ($000's)	55,664	58,324	60,255	61,056	64,323	70,989	69,353	5.0%	3.7%	▲	▲
Other Operating Revenue ($000's)	1,927	1,955	2,385	2,235	2,287	2,242	2,362	3.1%	3.5%	▲	▲
Total Operating Revenue ($000's)	57,591	60,279	62,640	63,291	66,610	73,231	71,715	4.9%	2.9%	▲	▲
Total Operating Expense ($000's)	57,805	59,664	62,289	67,236	66,511	71,390	72,713	4.3%	3.9%	▲	▲
Salary, Wages & Benefits as % of Net Patient Revenue	63.9%	61.7%	60.9%	64.2%	58.8%	56.4%	59.0%	-2.5%	-1.3%	▼	▼
Depreciation as a % of Net Patient Revenue	7.6%	8.4%	9.7%	9.7%	9.0%	7.9%	8.1%	0.8%	1.1%	▲	▲
Total Operating Expense as % of Net Patient Revenue	100.4%	99.0%	99.4%	106.2%	99.9%	97.5%	101.4%	-0.6%	0.2%	▼	▲
Operating EBIDA ($000's)	4,932	6,312	9,031	4,418	7,268	8,461	5,250	11.4%	1.0%	▲	▲
Operating EBIDA Margin(%)	8.6%	10.5%	14.4%	7.0%	10.9%	11.6%	7.3%	6.2%	-2.6%	▲	▼
Income from Operations ($000's)	(214)	615	2,239	(2,407)	884	2,345	(831)	N/A	N/A	▲	▼
Operating Margin (%)	-0.4%	1.0%	3.6%	-3.8%	1.3%	3.2%	-1.2%	N/A	N/A	▲	▼
Excess of Revenue Over Expenses ($000's)	1,825	1,238	2,836	(2,212)	1,097	2,947	(52)	10.1%	N/A	▲	▼
Excess Margin (%)	3.1%	2.0%	4.5%	-3.5%	1.6%	4.0%	-0.1%	5.5%	N/A	▲	▼
Cash and Investments, End of Period ($000's)	26,163	27,619	28,029	27,579	28,311	32,115	30,737	4.2%	2.7%	▲	▲
Days Cash on Hand	179	185	182	165	171	179	168	0.0%	-1.1%	▲	▼
Debt to Total Capitalization (%)	20.7%	21.7%	19.0%	18.2%	16.2%	14.4%	13.0%	-7.0%	-7.4%	▼	▼
Debt Service Coverage (x)	2.34	2.23	2.63	1.77	2.97	3.52	2.47	8.6%	0.9%	▲	▲

Top line revenue growth has moderated when TTM 2016 results are included, falling behind the expense growth trend line. As a result, margins have declined over the same timeline.

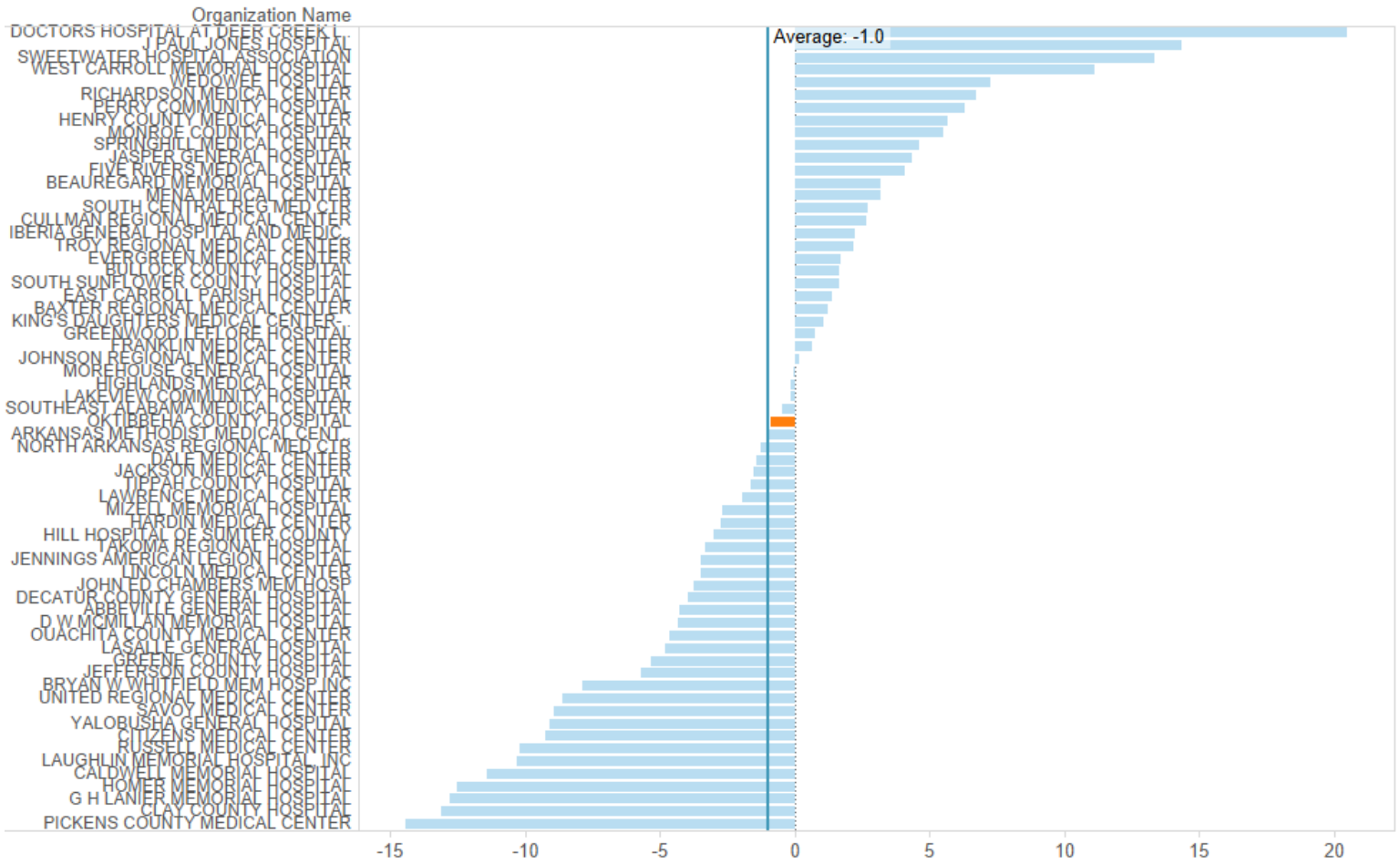
Liquidity as measured by days cash on hand has decreased while decreased leverage has allowed Debt service coverage to modestly increase.

OCH Historical Operating Cash Flow



- The Hospital generates adequate cash flow to service its existing debt load on a stand alone basis (including the GO bonds currently funded by the County)
- The Hospital does not however, generate enough cash flow to make needed investments in equipment, technology, physician staff development, etc.
- This "gap" in operating cash flow has averaged $3M annually since 2013 and $4M using 2016 TTM. The "gap" is $1.2M more annually (including the GO bonds).
- To address key strategic needs regarding IT investment and medical staff alignment and development in high priority areas will require additional resources beyond the identified gap.

Operating Margin



- OCH operating margin (does not include non-operating revenue such as EHR and county contributions) in 2014 was negative and is just above average regionally

Medical Staff

- Approximately 170 physicians are currently on the OCH Regional Medical Center staff, with an average age of 48 years
  - Approximately 60 physicians are considered “active staff”
  - 16 physicians are employed by the hospital
    - 3 anesthesiologists
    - 7 ER physicians
    - 1 general surgeon
    - 1 orthopedic
    - 1 pain management
    - 1 internal medicine
    - 2 pulmonologists
  - 19 physician “extenders” are employed by the hospital
    - 10 CRNA
    - 9 Nurse Practitioners
- The remaining physicians in the community are either in private practice or employed or affiliated with competing hospitals from Columbus, Tupelo and Jackson

Key Findings

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Relative Strengths:

- OCH has a sound liquidity position and modest leverage
- OCH has made significant investments to its acute care campus
- A loyal and committed medical staff, predominately board-certified with an average age < 50
- Growing/dynamic primary service area with stable major employers
    - OCH Regional Medical Center needs to be able to match that growth and demand

Key Findings, cont.

Sources of Risk:

- Weak cash flow and operating margins
  - Since 2013, OCH has lagged behind the "sustain" threshold of performance by $3M annually on average, excluding debt service on GO bonds
  - 2016 TTM performance indicates an approximately $4M "gap" between operating results and desired levels of performance excluding debt service on GO bonds
- Operating costs per adjusted admission are too high for the reimbursements being realized
- At an annualized rate, costs per adjusted admission are growing at a slightly higher rate than reimbursements
- Significant investments will be required in service line development and IT
- New quality and outcome reporting requirements for physicians will create incentives for unaligned private practice physicians to be more integrated with hospital providers that can provide them with access to needed resources and technology

Additional Assessment Topic

A quality-of-care comparison of the hospital's performance with state, regional, and national benchmarks

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Value Comparison of MS Hospitals

KEY

High Quality/ High Cost	**High Quality/ Low Cost**
Low Quality/ High Cost	**Low Quality/ Low Cost**

The value comparison of hospitals is based on CMS Total Performance Score (TPS) and the ratio of Medicare Spending Per Patient for each facility.

The TPS scores are based on the most recent data available from CMS.

The Medicare Spending Per Patient "Efficiency Index" ratio shows whether Medicare spends more, less or about the same per Medicare patient treated in a specific hospital, compared to how much Medicare spends per patient nationally. The source of these data is CMS.

Note: Only hospitals with both measures are included in the comparison (n=48). The size of the mark is relative to the gross patient revenue at each hospital.

OCH's TPS score suggests that they are at average quality and above-average cost structure for CMS. OCH needs to move up (improve quality) and to the right (reduce costs / manage care).

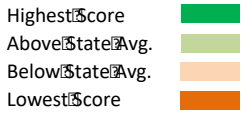
Patient Satisfaction Scores - HCAHPS

- U.S. Department of Health and Human Services Hospital Compare website data compares hospitals on HCAHPS ***patient satisfaction*** scores and assigns an overall star rating

U.S. HHS Hospital Compare Measures	National Avg.	Mississippi Avg.	OCH Regional Medical Center	Baptist Mem Hosp/Golden Triangle	North MS Medical Center
Patient Survey Summary Star Rating:			**4**	**3**	**3**
Patient Satisfaction (HCAHPS) Average:	**71%**	**73%**	**75%**	**71%**	**71%**
Nurses "Always" communicated well:	80%	82%	83%	79%	81%
Doctors "Always" communicated well:	82%	86%	87%	86%	83%
"Always" received help when wanted:	68%	70%	70%	65%	65%
Pain "Always" well controlled:	71%	73%	76%	69%	69%
Staff "Always" explained med's before administering:	65%	67%	65%	65%	63%
Room and bathroom "Always" clean:	74%	74%	81%	69%	70%
Area around room "Always" quiet at night:	62%	73%	77%	73%	72%
YES, given at home recovery information:	87%	85%	86%	86%	83%
"Strongly Agree" they understood care after discharge:	52%	51%	57%	49%	52%
Gave hospital rating of 9 or 10 (0-10 scale):	72%	71%	74%	71%	73%
YES, definitely recommend the hospital:	71%	70%	74%	68%	74%

Source: www.hospitalcompare.hhs.gov

Date: 10/1/2014-9/30/2015



- OCH RMC is currently at 75% on publicly reported HCAHPS scores, which is above the national and state averages
  - OCH RMC, a 4-star rated hospital

Findings and Analysis (continued)

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- U.S. Department of Health and Human Services Hospital Compare website data comparing HMH and competitor hospitals on publicly-reported core measure scores

	U.S. HHS Hospital Compare Measures	National Avg.	Mississippi Avg.	OCH Regional Medical Center	Baptist Mem Hosp/Golden Triangle	North MS Medical Center
	Reported Core Measures:					
	Timely Heart Attack Care					
OP5	Avg. # of mins before OPs w/ chest pain or possible heart attack got an ECG	7	10	27		
OP4	OPs w/ chest pain or possible heart attack who got aspirin within 24 hrs of arrival	97%	95%	94%		
	Effective Heart Failure Care					
HF2	Heart failure patients given an eval of LVS function	98%	95%	96%	99%	100%
	Effective Pneumonia Care					
PN6	Pneumonia patient given appropriate antibiotic	95%	90%	87%	99%	100%
	Timely Surgical Care					
SCIP-INF-1	OPs having surgery who got an antibiotic at the right time (within 1 hr before surg	99%	99%	90%	100%	100%
SCIP-INF-3	Surgery patients whose preventive antibiotics were stopped at 24 hrs after surge	98%	97%	92%	98%	99%
SCIP-VTE-2	Patients who got treatment within 24 hrs before/after surgery to prevent blood c	100%	100%	97%	100%	100%
	Effective Surgical Care					
SCIP-CARD-2	Surgery patient who were taking beta blockers and kept on beta blockers before and after surgery	98%	96%	78%	99%	100%
SCIP-INF-2	Surgery patients who were given the right kind of antibiotic at help prevent infec	99%	98%	90%	100%	100%
SCIP-INF-9	Surgery patient whose urinary cathers were removed 1-2 days after surgery	98%	97%	97%	99%	100%

- Best-practice hospitals track MBQIP data and use the information to make systematic and operational changes to improve overall quality and patient outcomes

Findings and Analysis (continued)

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	U.S. HHS Hospital Compare Measures	National Avg.	Mississippi Avg.	OCH Regional Medical Center	Baptist Mem Hosp/Golden Triangle	North MS Medical Center
	Reported Core Measures:					
	Timely Emergency Department Care					
ED1b	Avg. time patients spent in the ED, before admitted to the hosp. as IP	280	225	184	249	264
ED2b	Avg. time patients spent in the ED after admit decision and arrival in IP room	99	63	51	68	66
OP-18b	Avg. time patients spent in ED before being sent home	142	112	103	152	163
OP-20	Avg. time patients spend in ED before they were seen by a healthcare provider	23	24	47	28	28
OP-21	Avg. time patients who came to the ED w/ broken bones had to wait for pain med	53	62	56	75	69
OP-22	Percentage of patients who left the emergency department before being seen	2%	3%	2%	1%	4%
OP-23	Head CT results	68%	70%	100%	85%	
	Preventive Care					
IMM2	Patients assessed and given flu vaccination	94%	92%	90%	99%	98%
IMM3	Healthcare workers given influenza vaccination	84%	82%	58%	98%	94%
	Timely Stroke Care					
STK5	Ischemic stroke patients who received medicine known to prevent complications caused by blood clots within 2 days of arriving at the hospital	98%	97%	96%	100%	99%
STK1	Ischemic or hemorrhagic stroke patients who received treatment to keep blood clots from forming anywhere in the body within 2 days of arriving at the hospital	97%	93%	75%	100%	96%
	Effective Stroke Care					
STK2	Ischemic stroke patients who received a prescription for medicine known to prevent complications caused by blood clots before discharge	99%	99%	82%	98%	99%
STK6	Ischemic stroke patients needing medicine to lower cholesterol, who were given a prescription for this medicine before discharge	97%	94%	74%	100%	98%
STK8	Ischemic or hemorrhagic stroke patients or caregivers who received written educational materials about stroke care and prevention during the hospital stay	94%	94%	73%	100%	97%
STK10	Ischemic or hemorrhagic stroke patients who were evaluated for rehabilitation services	98%	98%	95%	98%	98%
	Blood Clot Prevention					
VTE1	Patients who got treatment to prevent blood clots the day of or day after admission or surgery	94%	85%	69%	99%	91%
VTE2	Patients who got treatment to prevent blood clots the day of or day after being admitted to ICU	97%	95%	75%	99%	98%
	Blood Clot Treatment					
VTE3	Patients with blood clots who got the recommended treatment, which includes using two different blood thinner medicines at the same time	94%	91%	69%	98%	94%
	Pregnancy and Delivery Care					
PC01	Newborns whose deliveries were scheduled too early (1-3 wks), when not medically necessary	3%	4%	2%	4%	2%

Key Findings

- OCH performs well on patient satisfaction but below MS averages on core measures
- OCH has an overall rating of 3 of a possible 5 stars
  - The overall rating takes into consideration effectiveness of care, timeliness of care, patient experience, etc.
  - Approximately 40% of hospitals receive 3 stars / 20% 4 stars / 2% 5 stars
- OCH is a higher cost and average quality provider using CMS cost and quality data
- Why is quality of care important?
  - Reimbursement is now tied to reported quality and core measure scores, making quality a financial issue
  - All reported CORE Measures are designed around accepted best practices nationally
  - Every hospital board member should be familiar with its hospital's quality reports and holding the administrative team accountable for agreed upon acceptable levels of quality. **Quality is the Board's responsibility.**
  - Consumerism and transparency

4. *An analysis of the hospital's options, including service mix and pricing strategies. If the study concludes that a sale or lease should take place, the study shall include an analysis of which option would be best for the community and how much revenue should be derived from the lease or sale.*

The Outlook for Not-for-Profit Healthcare

STROUDWATER

Moody's

The sector faces long term pressures. Among these risks are investments in population health strategies which may suppress revenue and pressure margins. Also, as more individuals gaining healthcare coverage through Medicaid expansion and the aging of the population, exposure to government payers will increase and result in margin contraction.

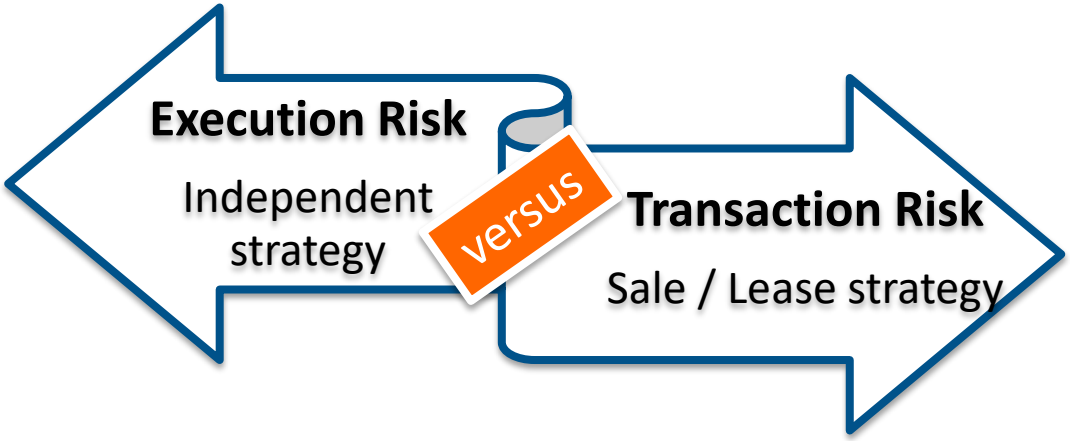
Moody's Investor Service, 2016

FitchRatings

The nonprofit hospital sector will be increasingly challenged by growing consumerism, meager rate increases and a shifting of risk from payers (particularly Medicare) to providers through the expansion of value-based / risk-based contracting. The slower-than-anticipated impacts of the Affordable Care Act have not diminished sector risks, only deferred them.

Fitch 2016 Forecast for Non-Profit Hospitals

Weighing Execution Risk & Transaction Risk



How do you minimize Independence Risk?

- Strong coordination between the board, the management team and the medical staff
- Create access to a robust primary care base
- Maintain annual operating cash flows at levels equal to debt service plus 120% of depreciation expense
- Develop an effective population health strategy

How do you minimize Transaction Risk?

- Design a well-structured transaction process with clear objectives
- Require local input or local membership on governing board
- Involve key stakeholders from the beginning and emphasize communication
- Codify partner commitments in an enforceable contract
- Make candidates earn the right to be your partner

Strategic Questions for OCH

- What sources of risk are most significant to OCH's ongoing viability and success?
  - Lack of scale
  - Inadequate operating margins
  - Outmigration from PSA and low occupancy
  - Weak market position in SSA
  - Quality scores and cost position
- What strategies can be employed to mitigate those risks?
  - Investment in satellite clinics and aligned primary care base
  - Development of aligned clinical services in cardiology, cancer, etc.
  - Investment in IT and systems needed for new payment models
  - Operational improvement
- Is OCH well positioned to achieve its mission and objectives independently?
  - Weak margins, lack of scale, outmigration, weak market position in the SSA and quality scores all compromise OCH's future trajectory

Strategic Questions for OCH

- How large is the "performance gap" between the resources generated by current operating results and projected investment needs?
  - An annual gap of $3M-$4M exists between current operating results and needed levels of performance (excluding GO Bond debt service) before the need for strategic capital is considered
- How critical are additional scale, capital and operational resources to the future success of OCH?
  - Scale is vital given growing regulatory and operating complexity and high fixed costs for community hospitals
  - Operational improvement of $3M-$4M annually is required (excluding GO Bond debt service)
  - Additional strategic capital is needed for satellite clinic development, primary care alignment, developing high priority clinical services and IT investment
- What strategies and/or strategic options address these constraints?
  - Operational improvement is a prerequisite under any scenario
  - Strategic investment to reduce outmigration from the PSA and improve OCH's position in the SSA

Strategic Questions for OCH, cont.

- How well could a transaction with another healthcare provider organization sustain OCH's mission and achieve its strategic objectives?
  - We cannot say until transaction options have been explored
  - To provide the Supervisors with the information needed to make an informed decision would require that transaction options be explored
  - Operational improvement is vital as it allows the Supervisors to compare affiliation options against a potentially improved operating trajectory
- What type of transaction is best suited for OCH and the community's needs?
  - For a transaction to adequately address OCH's operating and strategic risks, OCH requires a "tight model" of sale or lease
  - A management agreement, service-line-specific arrangements, or joint operating agreements, while meeting some of OCH's needs, would not create opportunities for significant needed investment and sharing of resources at OCH
  - The best structure for OCH cannot be identified until the specifics are available

Strategic Questions for OCH, cont.

- If a sale or lease is an appropriate option for OCH, how does OCH best mitigate the inherent risks of a transaction?
  - A competitive process would help to ensure that:
    - All options are explored
    - A successful lessee or acquirer is best equipped to meet OCH's and the communities needs
    - Alternative transaction structures are vetted
    - Potential suitors are evaluated for fit, strategic alignment and capabilities
    - Negotiating leverage is enhanced for appropriate, contractually binding terms

Stroudwater Recommendation

- OCH needs to improve its operating results to achieve the following goals:
  - Ensure that its services are high quality and meet the needs of the community, regardless of future strategic direction
  - Enhance the quality and variety of OCH's sale or lease options
  - Enhance OCH's negotiating position with potential suitors
  - Improve the probability of a sustainable independent path should an acceptable sale or lease option not be available
- The Supervisors should explore transaction options as soon as is practical
  - This exploration will arm decision makers with additional information
- Once transaction options have been vetted, the Supervisors should evaluate the quality and responsiveness of the options against their stated transaction criteria and strategic objectives for OCH
- As an exercise of the Supervisors' fiduciary duties, they should understand the benefits and risks associated with all strategic options, including sale or lease options and OCH's potentially improved stand-alone operation

Historical Transaction Multiples

MARKET APPROACH - GUIDELINE COMPARABLE TRANSACTION METHOD - TOTAL UNIVERSE

Guideline Comparable Transaction Method

TOTAL UNIVERSE ALL MARKET TRANSACTION STATISTICS	Mean	25th Percentile	Median	75th Percentile
Price / Bed	$ 453,983	$ 166,667	$ 350,365	$ 583,929
Enterprise Value as Multiple of Revenue	0.80	0.40	0.70	1.00
Enterprise Value as a Multiple of EBITDA	4.94	4.24	7.56	12.07

The table above presents a range of hospital valuation multiples from actual transactions completed between 2005 – 2015.

Every transaction is unique and a hospital's strategic value is different for all potentially interested parties.

OCH Regional Medical Center is a 98 bed hospital. For the trailing twelve months ended July 2016 the hospital had operating revenue of approximately $72M and EBITDA of approximately $5.3M

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