

# FORVIS<sup>®</sup>



# LUMENT

## **No More Pandemic Relief Funding – Now What?**

2024 MEGA Conference / January 2024

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# Agenda

- Introductions

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- Current Economic Environment

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- Financial Projections in Post-COVID Era

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- Opportunities for Capital Financing

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- Case Studies

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- Final Remarks

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# Introductions

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 L U M E N T

# Presenters

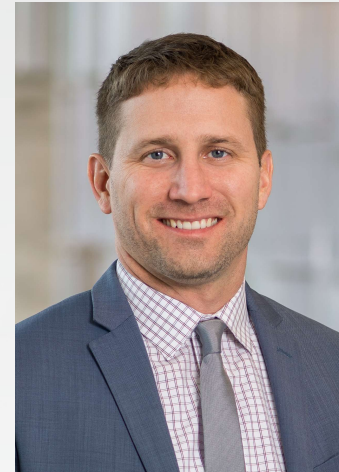


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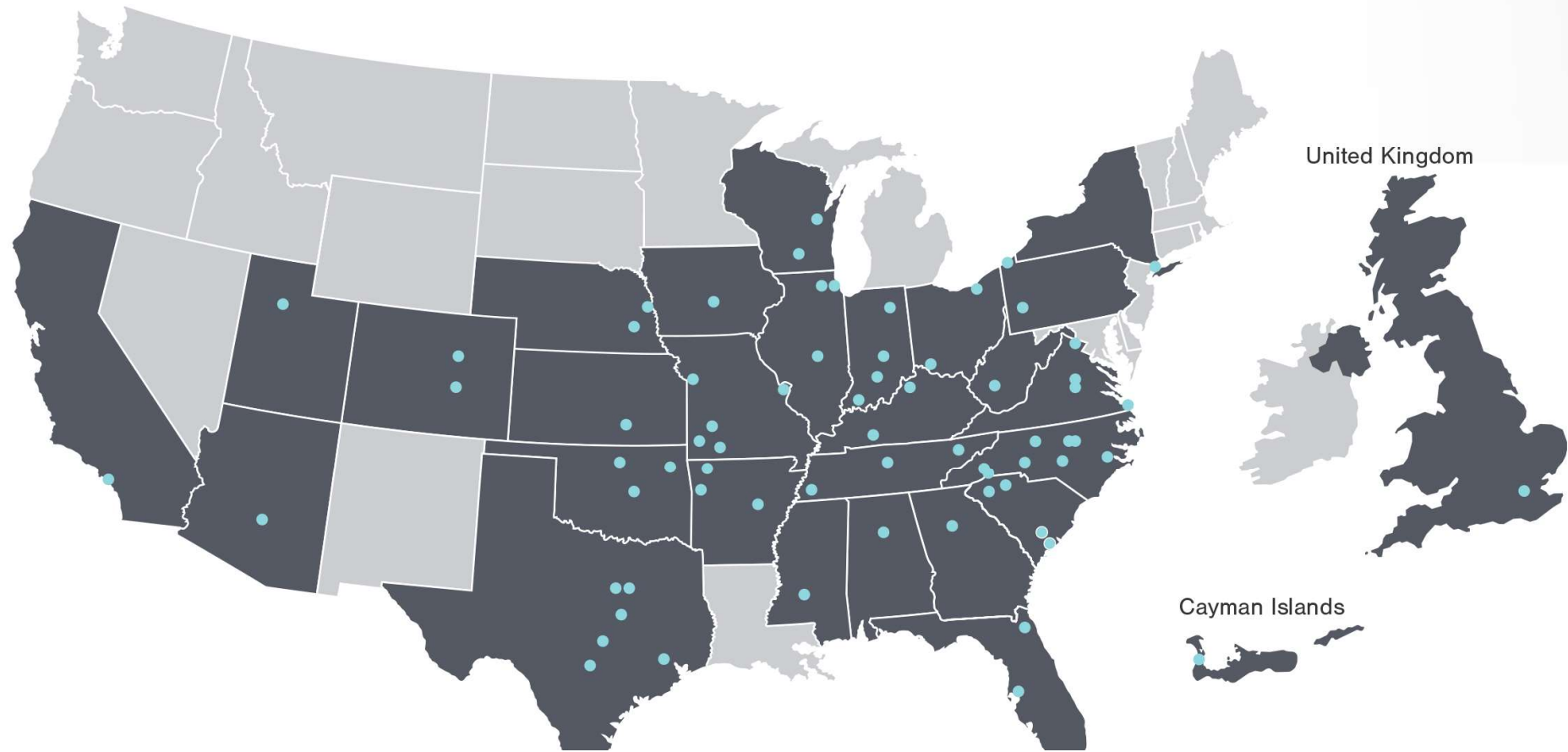
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# FORVIS OVERVIEW

Created by the merger of BKD & DHG, FORVIS is driven by the commitment to use our forward vision to deliver **Unmatched Client Experiences™**



## A National Footprint



Forvis ranks among the nation's **top 10** public accounting firms

# FORV/S

# FORVIS' HEALTHCARE PRACTICE

## FORVIS Knows Healthcare

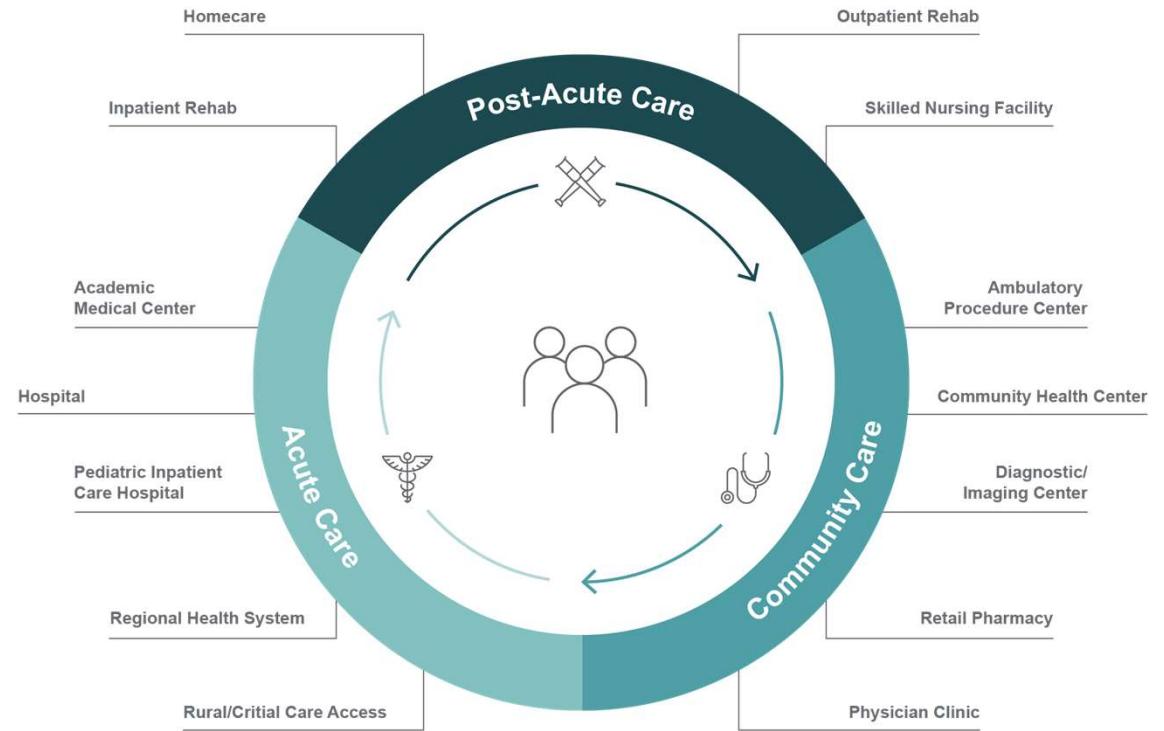
950+  
team members

6100+  
Healthcare clients

175+  
PPMDDs

# FORV/S

## Serving the Entire Continuum of Care



Modern  
Healthcare

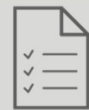
# 90

Healthcare Net  
Promoter Score



# 9th

Largest Healthcare  
Consulting Firm



# 2nd

Largest Healthcare  
Auditor

# 2nd

Largest Healthcare  
Tax Preparer

Sources: UCX survey NPS score; Modern Healthcare's Largest Management Consulting Firms 2022 ranking; OMB data via the Federal Audit Clearinghouse based on HHS CFDA's for number of Single Audits performed; and Cause IQ based on Form 990s for non-profit healthcare providers

# Lument Overview



# LUMENT

## FINANCING COMMUNITY HOSPITALS NATIONWIDE

As a middle market lender, Lument is ideally suited to serve small and medium hospitals across the country through agency financing—particularly FHA and USDA—as well as private placements and public offerings\*. **Below are a few examples of closed transactions:**

\*Private Placement and Public Offerings provided by Lument Securities, LLC, Member FINRA/SIPC, and its registered representatives.

<p><b>FINANCING</b></p> <p><b>\$85.8M</b></p> <p>TRI-CITY HEALTHCARE DISTRICT</p> <p>OCEANSIDE, CA</p> <p>FHA Sec. 242/223(f) Insured</p>	<p><b>REPLACEMENT HOSPITAL</b></p> <p><b>\$68M</b></p> <p>SAUK PRAIRIE MEMORIAL HOSPITAL &amp; CLINICS</p> <p>PRAIRIE DU SAC, WI</p>	<p><b>REPLACEMENT HOSPITAL</b></p> <p><b>\$32.2M</b></p> <p>REAGAN MEMORIAL HOSPITAL</p> <p>BIG LAKE, TX</p>
<p><b>RENOVATION/EXPANSION</b></p> <p><b>\$38M</b></p> <p>STORY COUNTY MEDICAL CENTER</p> <p>NEVADA, IA</p> <p>USDA Community Facilities Program</p>	<p><b>REFUNDING/RENOVATION/EXPANSION</b></p> <p><b>\$30.5M</b></p> <p>GRUNDY COUNTY MEMORIAL HOSPITAL</p> <p>GRUNDY CENTER, IA</p> <p>USDA Community Facilities Program</p>	<p><b>REPLACEMENT HOSPITAL</b></p> <p><b>\$47M</b></p> <p>CAMERON MEMORIAL COMMUNITY HOSPITAL</p> <p>ANGOLA, IN</p> <p>USDA Community Facilities Program</p>

## AT A GLANCE

- Hospital sector specialists
- Investment banking and mortgage banking services
- 30+ offices nationwide
- Clients in 44 states
- FHA Hospital 242 program-approved lender

## UNRIVALED AGENCY EXECUTION

With a \$50 billion servicing portfolio, Fitch-rated special servicing unit, and status as the nation's top ranked FHA/Ginnie Mae lender and servicer, Lument offers unparalleled dedicated customer service focused on client results.



# Current Economic Environment

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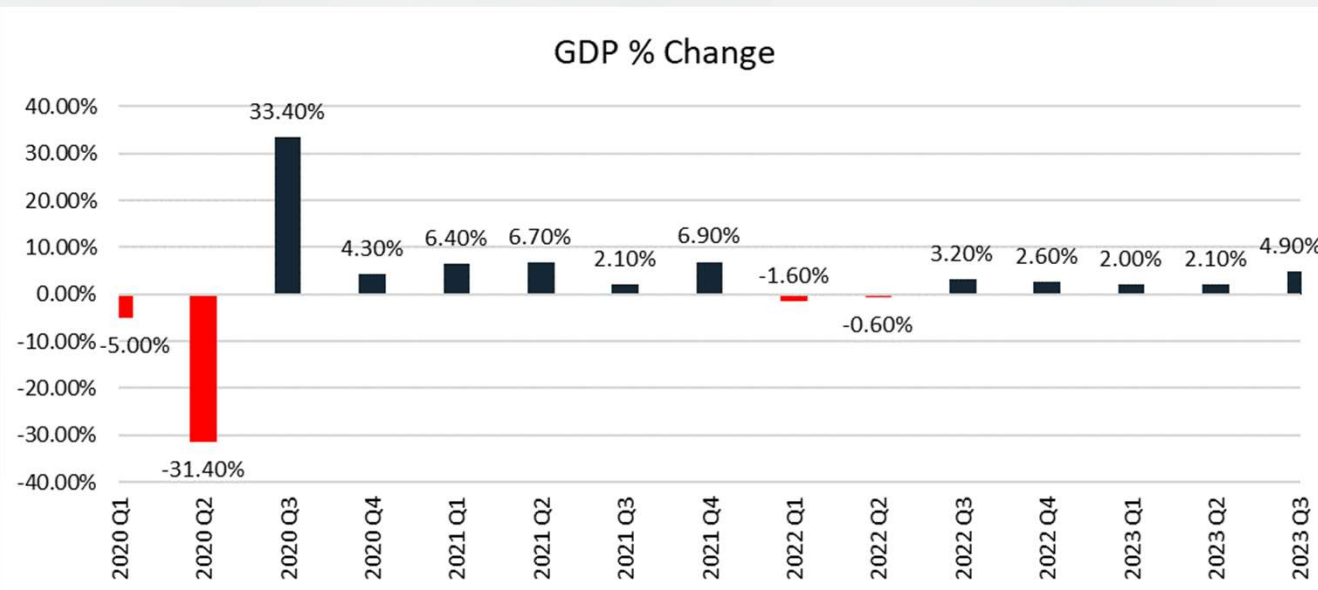
# Economy at a Glance

**U.S. Job Growth** – The Bureau of Labor Statistics reported an unemployment rate of 3.7% and that the U.S. economy added 216,000 jobs in December 2023.

**Stock Markets** – All three major stock benchmarks saw gains in 2023 with the S&P, Dow and Nasdaq up 24%, 13% and 43%, respectively.

**GDP** – Q3 2023 GDP growth was 4.90% while forecasts for Q4 2023 GDP growth is 2.2%.

**Inflation** – Markets are currently pricing in a 70% chance of a 25bp cut at the March Fed meeting. Inflation went from 6.4% in January 2023 to 3.4% in December 2023. However, Fed officials continue to push back on market expectations for quick rate cuts.

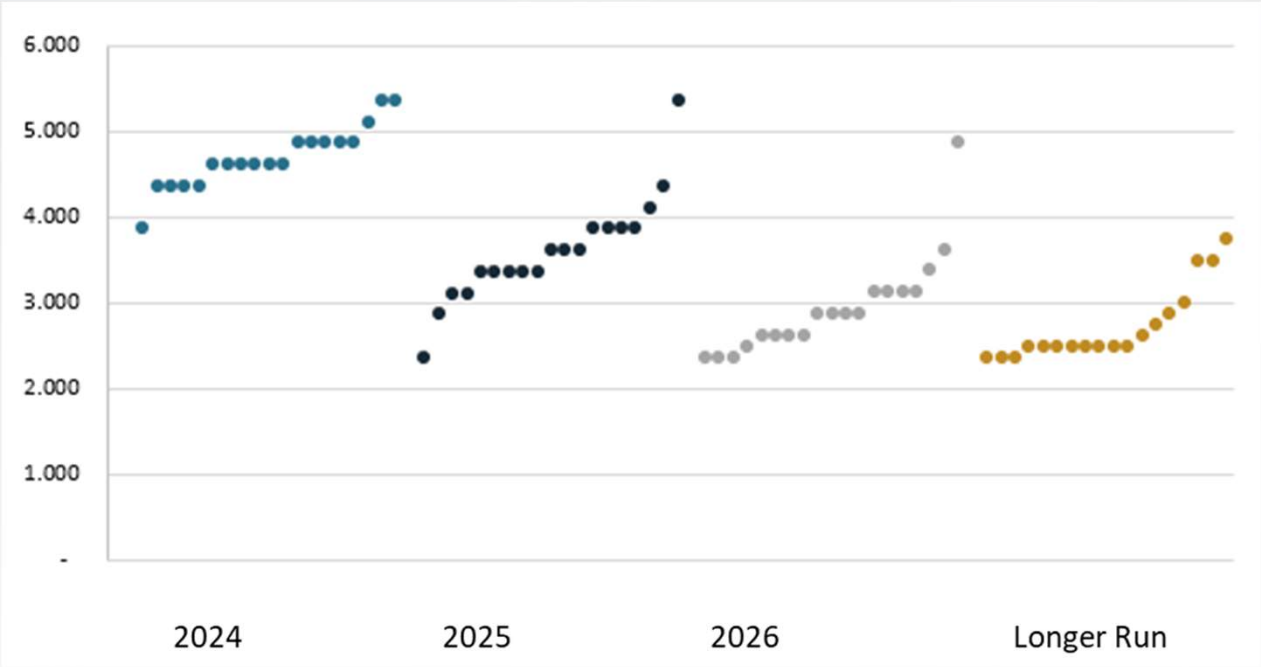


YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	AVE
2012	2.9	2.9	2.7	2.3	1.7	1.7	1.4	1.7	2.0	2.2	1.8	1.7	2.1
2013	1.6	2.0	1.5	1.1	1.4	1.8	2.0	1.5	1.2	1.0	1.2	1.5	1.5
2014	1.6	1.1	1.5	2.0	2.1	2.1	2.0	1.7	1.7	1.7	1.3	0.8	1.6
2015	-0.1	0.0	-0.1	-0.2	0.0	0.1	0.2	0.2	0.0	0.2	0.5	0.7	0.1
2016	1.4	1.0	0.9	1.1	1.0	1.0	0.8	1.1	1.5	1.6	1.7	2.1	1.3
2017	2.5	2.7	2.4	2.2	1.9	1.6	1.7	1.9	2.2	2.0	2.2	2.1	2.1
2018	2.1	2.2	2.4	2.5	2.8	2.9	2.9	2.7	2.3	2.5	2.2	1.9	2.4
2019	1.6	1.5	1.9	2.0	1.8	1.6	1.8	1.7	1.7	1.8	2.1	2.3	1.8
2020	2.5	2.3	1.5	0.3	0.1	0.6	1.0	1.3	1.4	1.2	1.2	1.4	1.2
2021	1.4	1.7	2.6	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0	4.7
2022	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	8.0
2023	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4	4.1

Source: Bureau of Economic Analysis

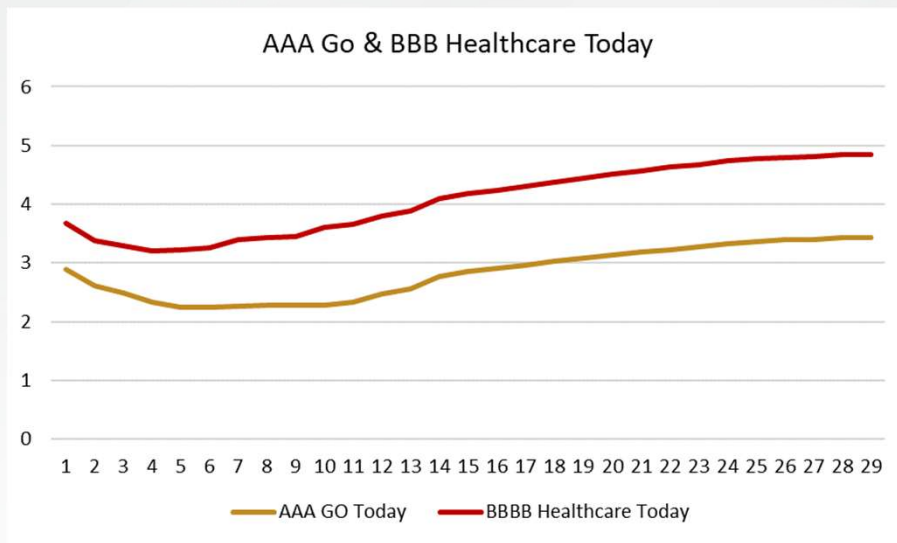
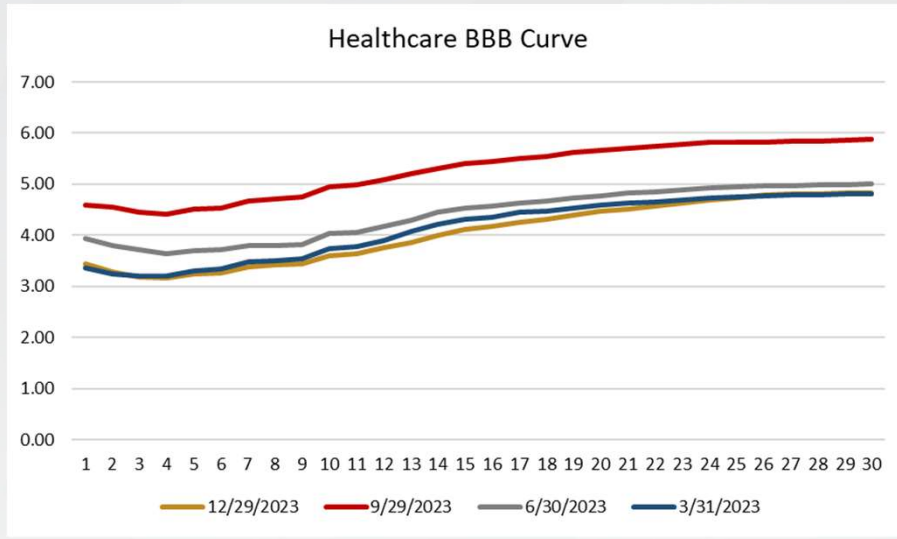
# Interest Rate Rundown – Federal Funds Rate

FOMC Participants Expectations: Fed Funds Target Rate at Year End

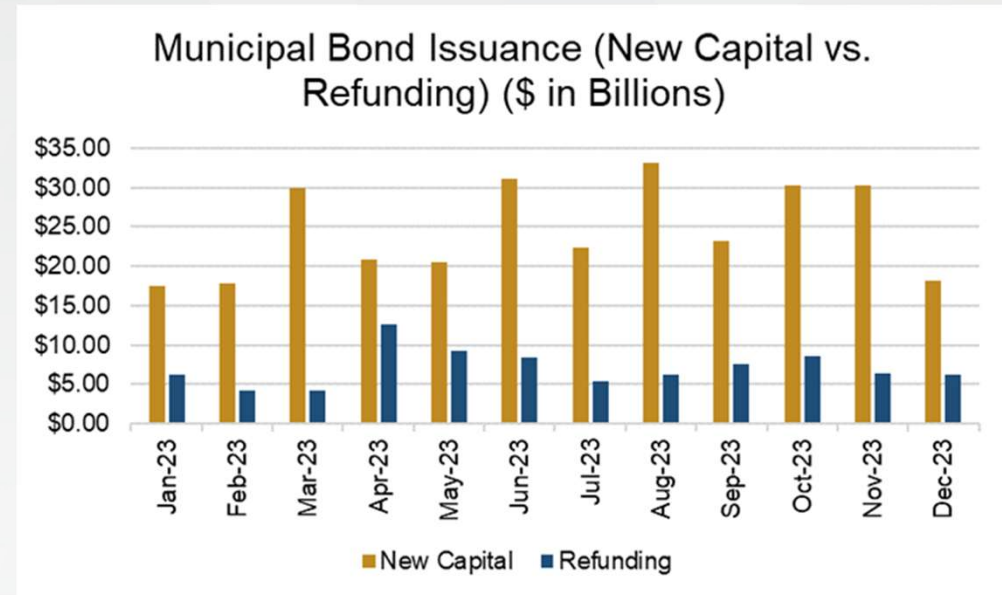


Source: December 2023 Federal Open Market Committee meeting data

# Interest Rate Rundown – Municipal Yields & Issuance



Source: Thomson Reuters



Source: SIFMA data



# Why Margin Improvement? – Renewed Focus on Margin AND Strategy



- Post-pandemic headwinds for healthcare executives:
  - CARES act funding done
  - Supply costs at all time high
  - Revenue cycle metrics off track
  - Labor shortages, contractors, and employee benefit rates unprecedented
  - Inflation driving increases in non-supply areas (e.g., Utilities)
  - Remote workforce
  - “The right” volumes sluggish to return

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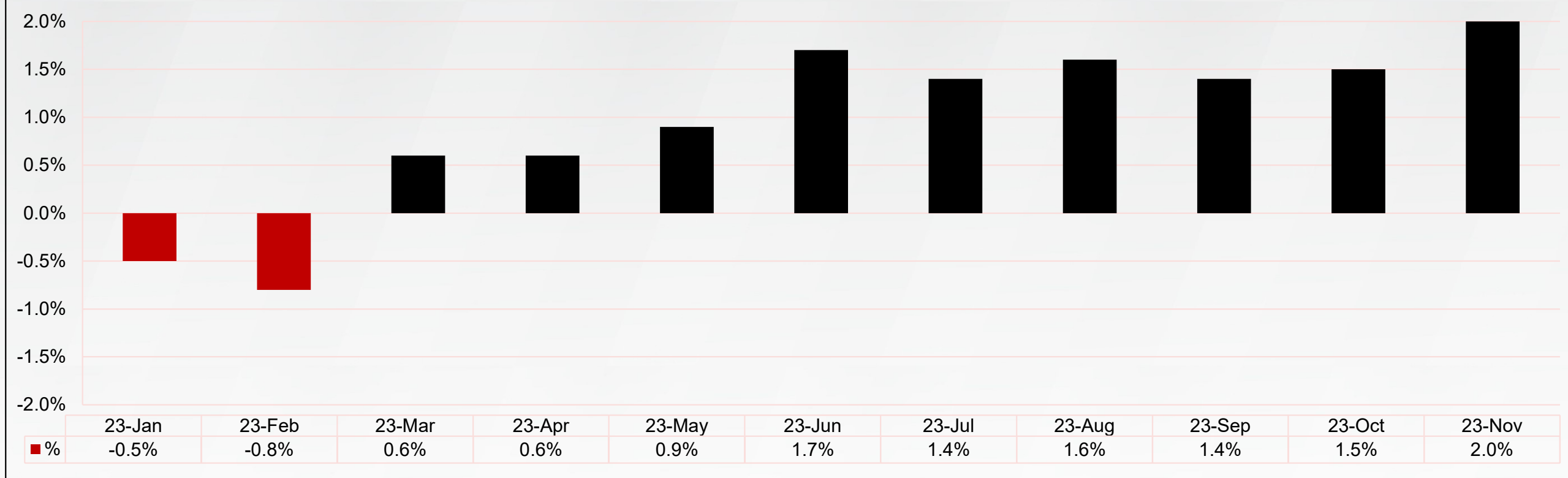
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# National Margin Results

**Hospital Margin Trends Are Improving (Q2-Q4 2023) but Inflation, Expenses, and Workforce Challenges continue to Put Pressure on Many Hospital Organizations**

Operating Margin Index\* YTD by Month



# Opportunities within a Margin Improvement Plan

## Labor



- Organizational KPIs
- Organizational Structure
- Span of Control
- Departmental Efficiency Benchmarking and Monitoring
- Premium Pay Code Alignment
- Contract Staff Cost & Utilization

## NonLabor Expense Management



- Expense Benchmarking
- GPO Performance
- Purchased Services
- Benefit Plan
- Physician Preference Items
- Utilities
- MedSurg Supplies
- Pharmacy
- Technology
- Support Services

## Reimbursement & 340B



- Payor Strategies & Solutions
- Cost Reporting
- DSH, DRG & UC
- Medicare Bad Debt
- Managed Care Strategy
- 340B
- Provider Based Clinics
- Pharmacy

## Physician Enterprise



- Population-Based Models
- Medicare at-risk Modeling
- Compensation Plan
- Office Performance Optimization

## Revenue Cycle & Revenue Integrity



- Patient Liability
- Denials Management
- System Optimization
- Vendor Management
- Charge Capture
- Pricing Strategy
- Status Determination
- KPI Monitoring

# Financial Projections in Post-COVID Era

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 L U M E N T



# Levers We Used During COVID-19 PHE



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 L U M E N T 17

**This led to a foundation being laid that's not meant to stand the test of time!**



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# Optimize Your Strategic Plan for Future Success

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## Planning and Preparation Set the Stage for Performance

### *COVID 19 Impact On Strategic Planning*

**53%** Paused their strategic Initiatives

**65%** Say that their operating model is not aligned to the needs of their strategic vision

**49%** Plan on revisiting their enterprise strategic plan – of the 49%, 82% plan to do so within the year

*Create Clarity, Prioritize Focus and Position for Future*



# Strategic Planning for Your Organization

- What is our role in the community in 1, 3, & 10 years
- Evaluation of service lines
  - Which are necessary vs expendable
- Evaluation of the future of healthcare and the costs associated with it
- Will we remain independent
  - Affiliations upstream or downstream
- How do we measure our progress?

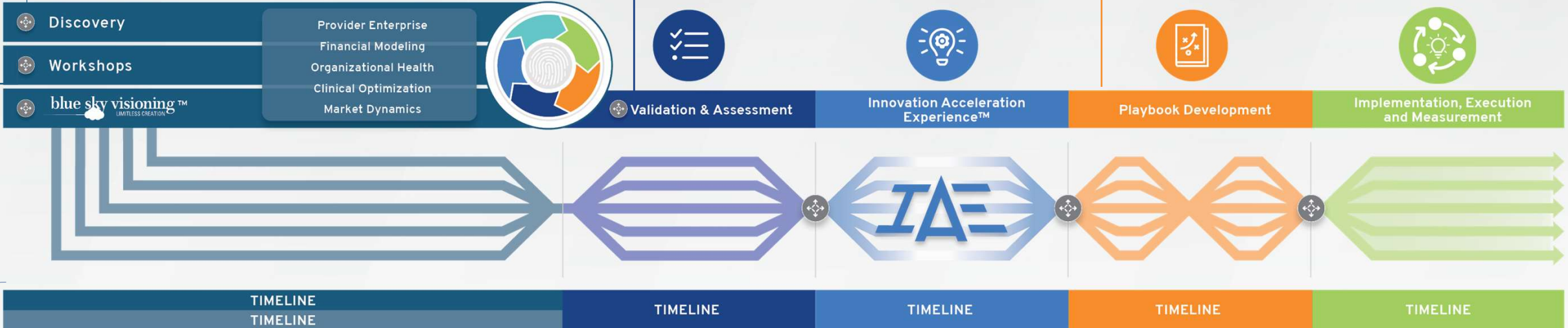
# Optimize Your Strategic Plan for Future Success

Engage stakeholders in the construction of strategic priorities & Envision the ideal future state

Assess and analyze the current state

Validate and deep dive where needed

Develop a playbook focused on clarity, execution, measurements and accountability to drive key workstreams, priorities and milestones



Executive Sponsors  
Flexible timing and disciplined project management

Foster collaboration, drive decision making and accelerate change within your organization

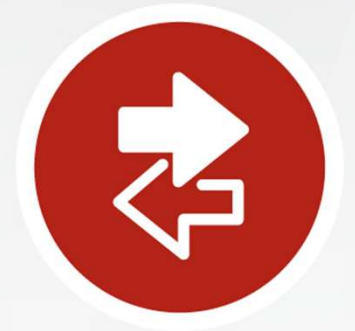
Support/Lead successful implementation and facilitate periodic strategic plan review

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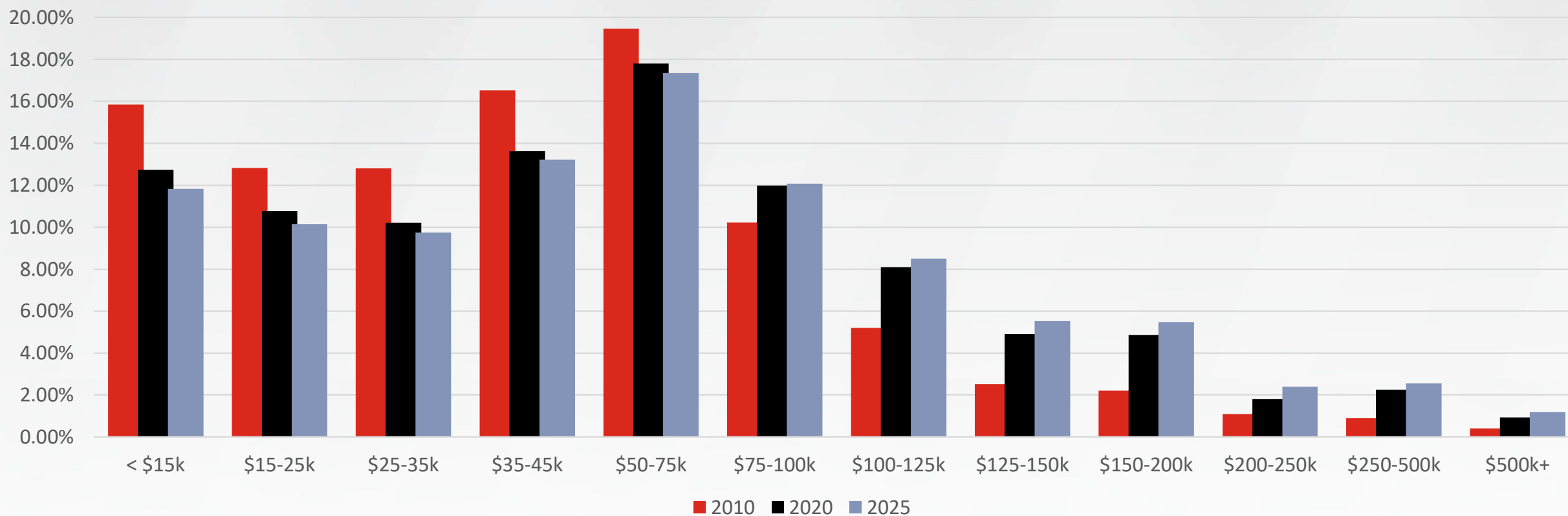
# Why go backwards to move forward? – Lessons Learned

- Lessons can be taken from past performance of the organization
  - Pre-pandemic vs Post-pandemic
- Analysis of current operations to assess status of the organization
  - Volumes – returned to pre-pandemic levels?
  - Labor costs have increased
  - Inflation on non-labor costs
- Use what we have learned to assist in establishing the basis for management's assumptions that are key financial projections – *PREDICT THE FUTURE!!*



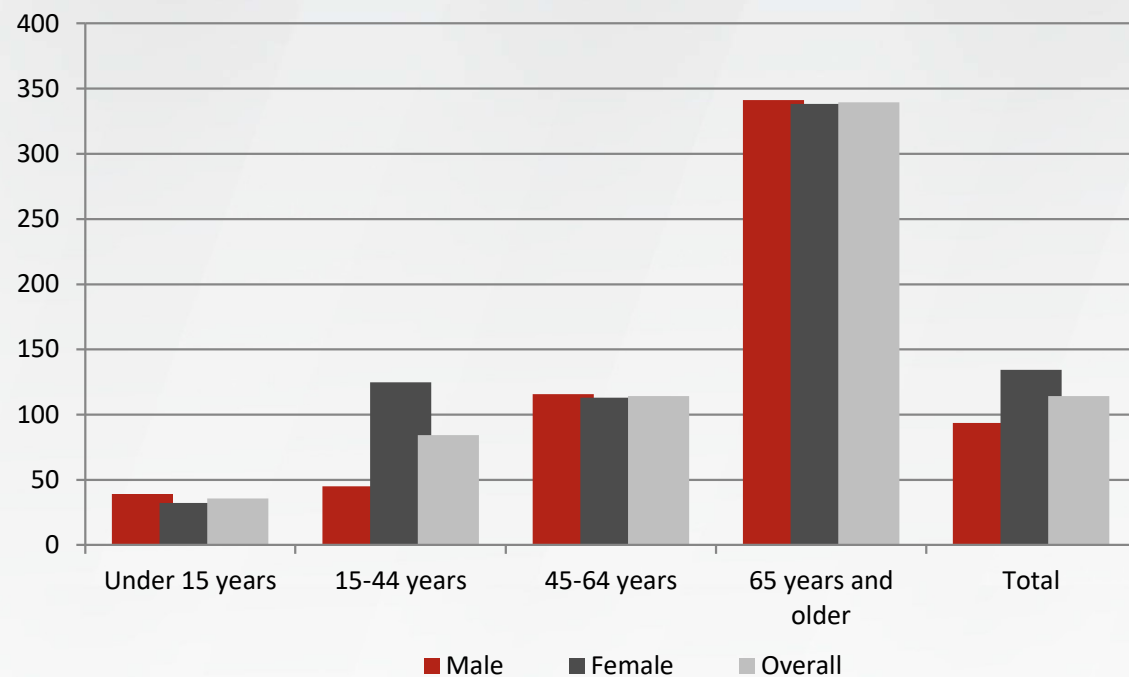
# Demographic Trends

Percentage of Population by Household Income



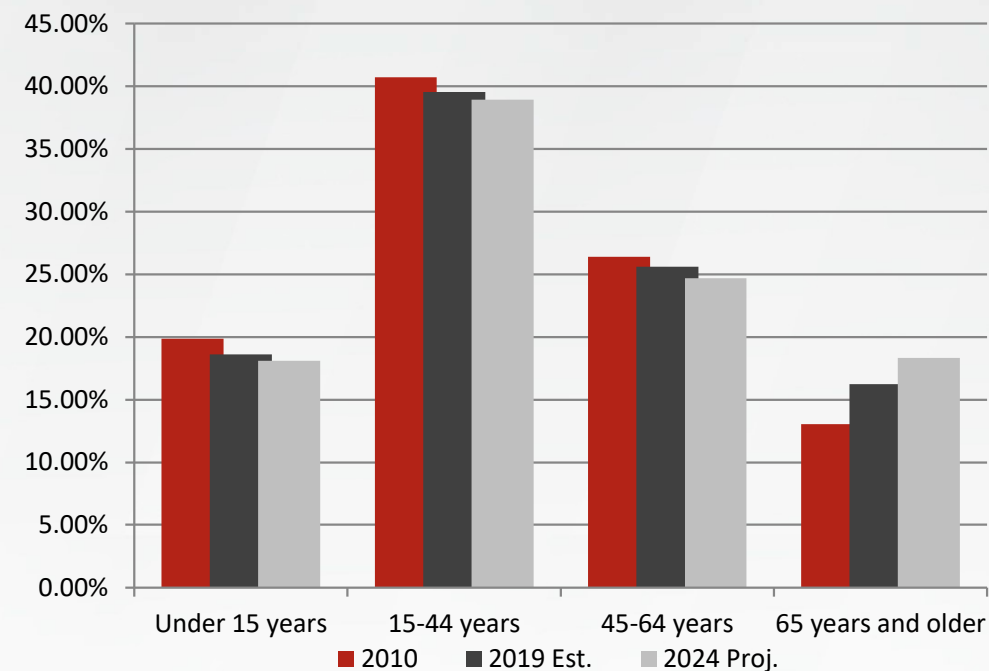
# Market Assessment

### Use Rates by Age and Sex



Source: National Health Statistics Report

### Population Trends by Age



Source: Claritas Site Reports



# Utilizing A Financial Dashboard

What information matters to you?

What metrics are drivers of your operations?

What information will enable management to make more informed decisions?

What ratios tell the health of the organization?

Fiscal Year End	6/30/2016	6/30/2017	6/30/2018
Days in Accounts Receivable	56	63	70
Days Cash on Hand - All Sources	152	137	79
Total Margin %	(6.52)	(7.01)	(7.69)
Operating Margin %	(7.54)	(8.58)	(7.03)
EBIDA to Revenues %	2.61	1.21	(0.61)
EBIDA to Assets %	2.66	1.43	(0.93)
Facility Salary per FTE	49,735	52,031	61,178

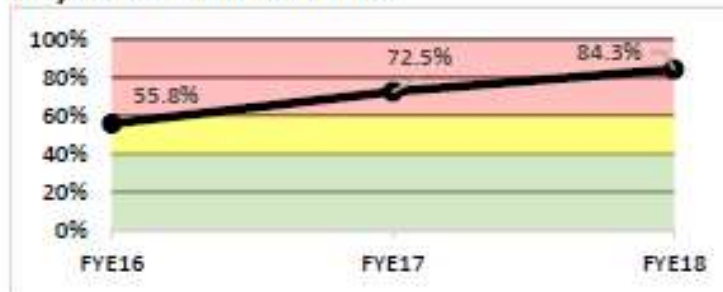
All ratios are based on Medicare cost report classifications and calculations which may be different than amounts calculated from GAAP financial statements.

All benchmarks are reported according to the percentile rank within the peer group. They are color coded based on preferred performance compared to peers.

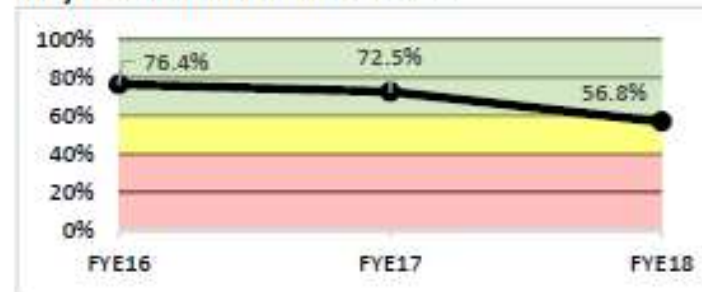
Comparison to peer group

- Positive
- Neutral
- Negative

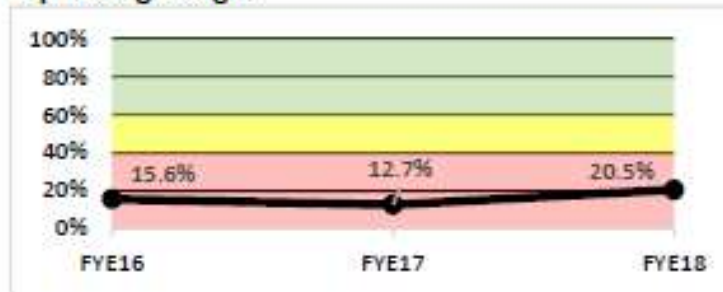
Days in Accounts Receivable



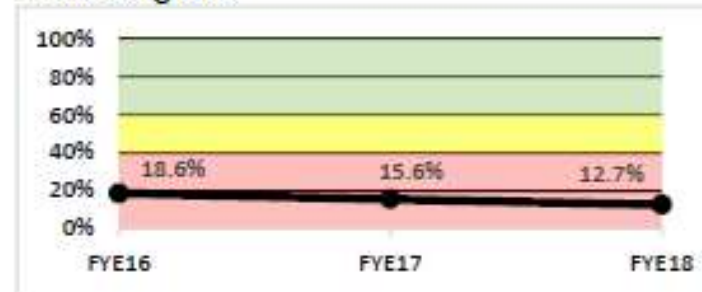
Days Cash on Hand - All Sources



Operating Margin



Total Margin %



# Industry Trends – Key Ratio Indicators

	Historical					Projected					CAH Median*	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Wisconsin	U.S.
<b>Profitability Ratios</b>												
Total margin	0.8%	2.5%	3.3%	31.0%	4.5%	-2.1%	1.2%	-5.2%	-2.1%	0.1%	14.2%	13.1%
Return on equity	1.9%	5.4%	6.8%	41.2%	6.2%	-3.0%	1.9%	-8.7%	-4.2%	0.3%	16.9%	20.7%
Operating margin	-1.2%	-3.8%	-1.0%	1.1%	1.4%	-3.3%	1.7%	2.4%	2.5%	4.2%	12.9%	10.9%
<b>Liquidity Ratios</b>												
Current ratio	1.71	1.71	1.23	3.60	2.91	2.80	2.83	2.03	2.14	2.17	3.06	2.26
Days cash on hand	89.0	74.3	164.8	162.1	139.9	122.4	135.7	141.5	143.0	154.0	234.6	164.8
Days in patient accounts receivable	52.8	44.7	60.7	52.7	50.7	50.0	50.0	50.0	50.0	50.0	50.5	48.9
<b>Capital Structure Ratios</b>												
Equity financing	65.5%	70.9%	53.5%	83.8%	84.3%	84.7%	32.9%	21.5%	21.1%	21.4%	68.9%	57.8%
Debt service coverage	11.73	15.71	25.75	N/A	N/A	26.62	2.41	0.72	1.46	1.69	9.40	8.91
Long-term debt to capitalization	15.4%	9.6%	3.9%	0.6%	0.3%	4.9%	65.6%	77.5%	77.8%	77.4%	12.2%	22.4%
<b>Revenue Ratios</b>												
Medicare inpatient payer mix	61.0%	67.0%	63.8%	54.3%	52.8%	52.8%	52.8%	52.8%	52.8%	52.8%	52.1%	62.6%
Medicare outpatient payer mix	48.4%	47.1%	47.0%	43.3%	42.8%	42.8%	42.8%	42.8%	42.8%	42.8%	31.5%	32.4%
Medicare revenue per day	\$ 2,162	\$ 2,359	\$ 2,392	\$ 2,640	\$ 2,641	\$ 2,641	\$ 2,713	\$ 2,760	\$ 3,327	\$ 3,342	\$ 3,341	\$ 3,194
<b>Cost Ratios</b>												
Salaries to NPSR	49.5%	51.7%	49.1%	45.5%	47.3%	48.2%	48.3%	48.5%	44.3%	44.1%	36.3%	44.4%
FTEs per adjusted occupied bed	4.1	4.2	4.5	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.6	5.3
Average salary per FTE	\$55,982	\$60,087	\$61,037	\$65,567	\$66,858	\$66,945	\$68,907	\$70,927	\$72,826	\$ 74,838	\$ 78	\$ 67,766
<b>Utilization Ratios</b>												
Acute average daily census	2.0	1.9	2.0	2.9	2.3	2.3	2.4	2.4	2.5	2.6	4.5	2.5
Swing-bed (SNF) average daily census	4.4	3.8	3.7	2.3	3.1	3.1	3.1	3.2	3.3	3.5	1.4	1.5

\* Obtained from the April 2023 CAH Financial Indicators Report: Summary of Indicator Medians by State (Copyright 2023, Flex Monitoring Team). "Wisconsin" Represents Wisconsin Critical Access Hospital ("CAH") median (consisting of 58 CAHs). "U.S." represents United States CAH median (consisting of 1,338 CAHs).

# Financial Projection Best Practices

- Avoid SALY
  - **S**ame **A**s **L**ast **Y**ear
    - Don't settle for incremental projections – recent historical results impacted by pandemic and other factors
    - Carve out nonrecurring items from the previous year results
  - Important to consider these past results, don't simply assume next year will be the same

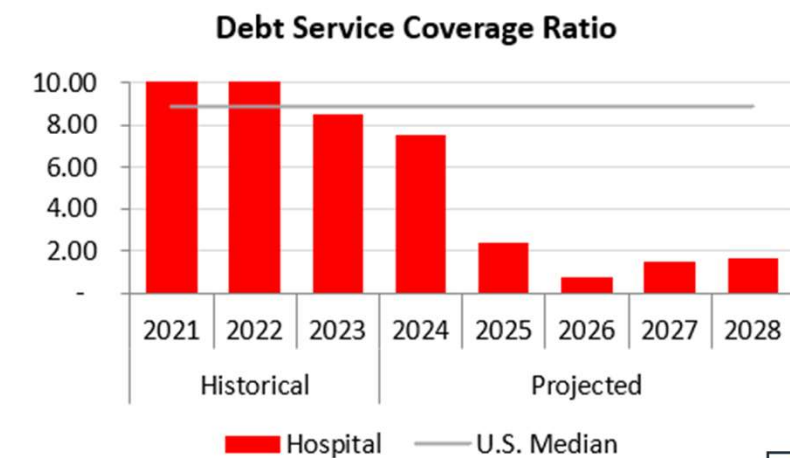
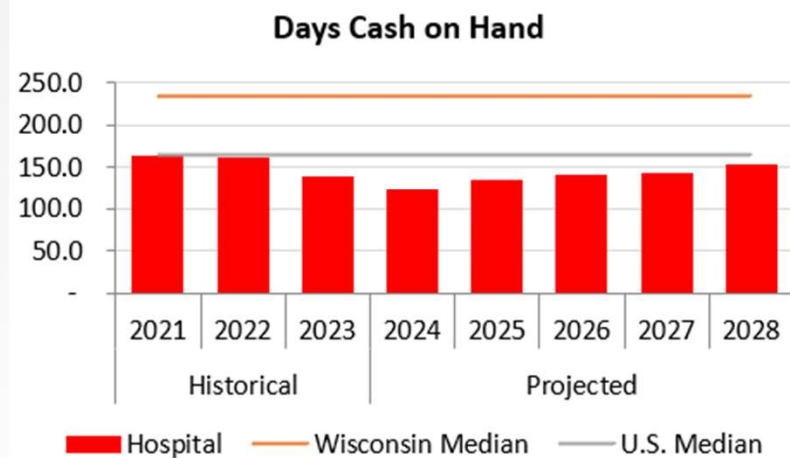
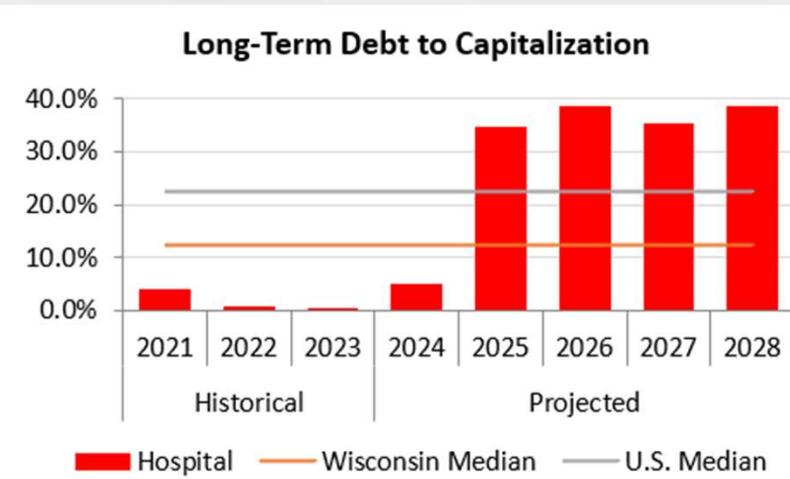
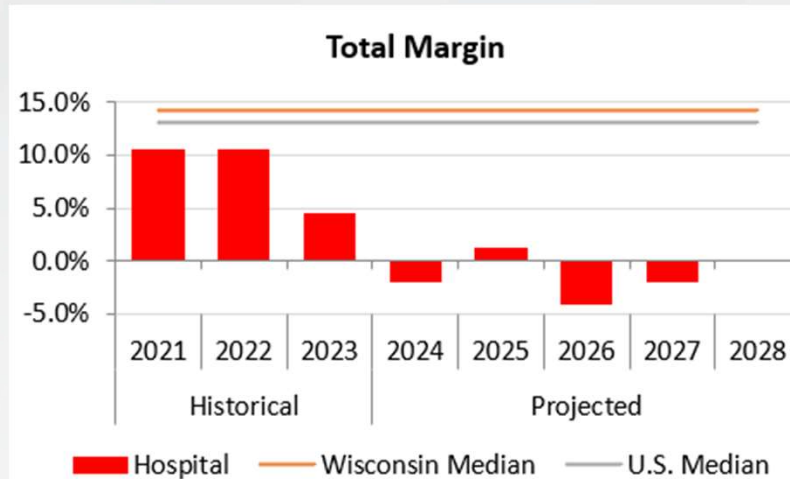
# Financial Projection Best Practices

- Separate hope from reality
  - Avoid the *hockey stick forecast*



- Users of financial projection should be able to bridge historical results to the projection period

# Benchmark Comparisons – Pay Attention to Industry Trends



# Opportunities for Capital Financing

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# How the Last Year Impacted Capital Projects

- Limited refinance activity, as most lenders/investors took a wait and see approach given the Federal Reserve's historic rate of interest rate increases
- New construction/expansion opportunities were slower to move as a result of rates and higher construction costs, but activity has started to pick up as facility master plans are completed
- Banks and investors continue to be cautiously optimistic on the healthcare sector
- 10-year US Treasury yield was 3.37% on January 17, 2023 and 4.09% on January 17, 2024 (an increase of 72 bps)



# Recent Wisconsin Hospital Transaction

Since 2020 there has been over \$3.1 billion issued for Wisconsin hospitals (not including Wisconsin's National Health Care Authority)  
 Below is an example of a recent project that priced in Wisconsin (10/2023)

Public Finance Authority Cone Health - Series 2023A NR/AA-/AA \$90,765,000 J.P. Morgan - 1/26/2023 Noncallable					
Maturity	Amt(M)	Cpn	P/Y	Sprd	CUSIP
10/01/2024	8255	5.000%	2.420	22	74447GAG5
10/01/2025	6915	5.000%	2.390	27	74447GAH3
10/01/2026	7290	5.000%	2.400	30	74447GAJ9
10/01/2027	7695	5.000%	2.400	31	74447GAK6
10/01/2028	8085	5.000%	2.460	36	74447GAL4
10/01/2029	8555	5.000%	2.540	43	74447GAM2
10/01/2030	9015	5.000%	2.590	47	74447GAN0
10/01/2031	9495	5.000%	2.670	52	74447GAP5
10/01/2032	7255	5.000%	2.710	51	74447GAQ3
10/01/2033	10575	5.000%	2.820	55	74447GAR1
10/01/2034	3210	5.000%	2.970	58	74447GAS9
10/01/2035	4420	5.000%	3.170	66	74447GAT7

# Tax-Exempt Revenue Bonds

Bonds may be sold publicly (limited or public offering) or placed directly with banks. Typically, banks loan up to ~65-75% loan-to-value (when a mortgage is pledged as security) and can structure a transaction as a draw down structure if additional monies are needed for new construction projects.

Eligible Projects	<ul style="list-style-type: none"> <li>• 501(c)(3), Hospital Districts, County or City Owned Hospitals, Independent Hospitals</li> <li>• Availability based on the credit strength of the project and Hospital</li> </ul>
Uses	<ul style="list-style-type: none"> <li>• Refinance, acquisition, renovation/expansion, new construction</li> </ul>
Loan Sizing	<ul style="list-style-type: none"> <li>• Variable and driven by credit strengths of the project</li> <li>• <b>Financial feasibility study typically &gt; 1.25x debt service coverage and 75 days cash on hand</b></li> </ul>
Loan Term & Amortization	<ul style="list-style-type: none"> <li>• Matching up to 30-years typical</li> <li>• <b>Banks typically offer up to 20 years, but have potential balloon structure which introduces refinance and interest rate risk</b></li> </ul>
Interest Rate Options	<ul style="list-style-type: none"> <li>• Variable or fixed rate options, credit driven</li> </ul>
Timing	<ul style="list-style-type: none"> <li>• Typically 3-4 months</li> </ul>
Other Considerations	<ul style="list-style-type: none"> <li>• Revenue Bonds are supported by revenues from a specific source by the borrower from operations of the facility. <b>The ability to access capital is based solely on the credit profile of the sponsor and facility performance.</b></li> <li>• Private Placement - debt service reserve fund <u>often not</u> required</li> <li>• Public Issuance - debt service reserve fund <u>likely</u> required</li> <li>• Debt service coverage and liquidity covenants common</li> </ul>

# USDA Overview – Direct Loan

The USDA Community Facilities Direct Loan and Grant Program provides direct loans and/or grants for essential community facilities in rural areas. Priority is given to **healthcare**, education, and public safety projects.

Eligible Projects	<ul style="list-style-type: none"><li>• <b>For areas with populations of &lt; 20,000</b></li></ul>
Uses	<ul style="list-style-type: none"><li>• Refinance, renovation/expansion, new construction</li></ul>
Loan Sizing	<ul style="list-style-type: none"><li>• Typically up to 100% LTV</li></ul>
Loan Term	<ul style="list-style-type: none"><li>• Up to 40 years (depends upon useful life of assets)</li></ul>
Interest Rate Options	<ul style="list-style-type: none"><li>• <b>Interest rate is fixed for the entire term of the loan</b></li></ul>
Timing	<ul style="list-style-type: none"><li>• Typically 12 months depending on scope of the project</li></ul>
Other Considerations	<ul style="list-style-type: none"><li>• Refinancing existing facilities may be considered when substantial new capital is required (&lt; 50% of the loan amount)</li><li>• <b>No pre-payment penalties</b></li><li>• Minimal financial covenants (typically DSCR and DCOH)</li><li>• Requires a one-year debt service reserve funded from cash flow over a period of ten years (USDA has requested fully funded reserves upfront at permanent loan closing)</li><li>• <b>Security is a net revenue pledge or real estate (if applicant can pledge real estate as collateral)</b></li></ul>

# Case Studies

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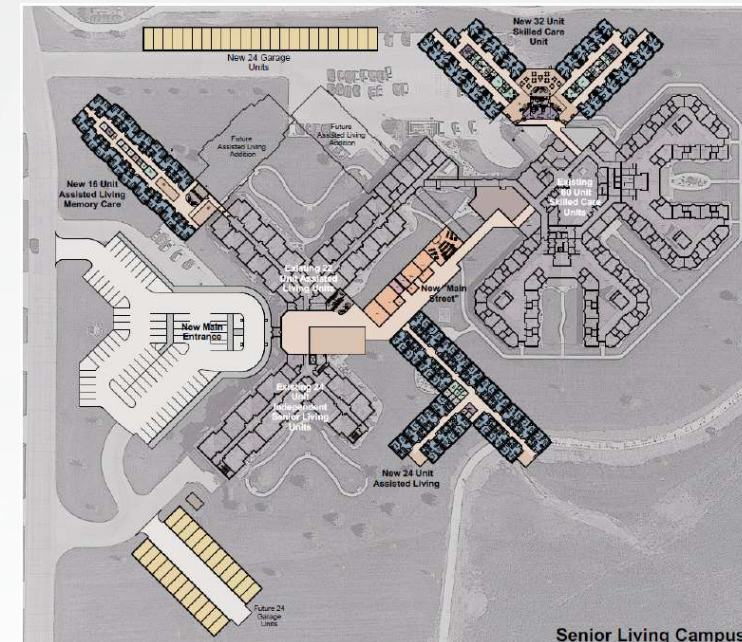
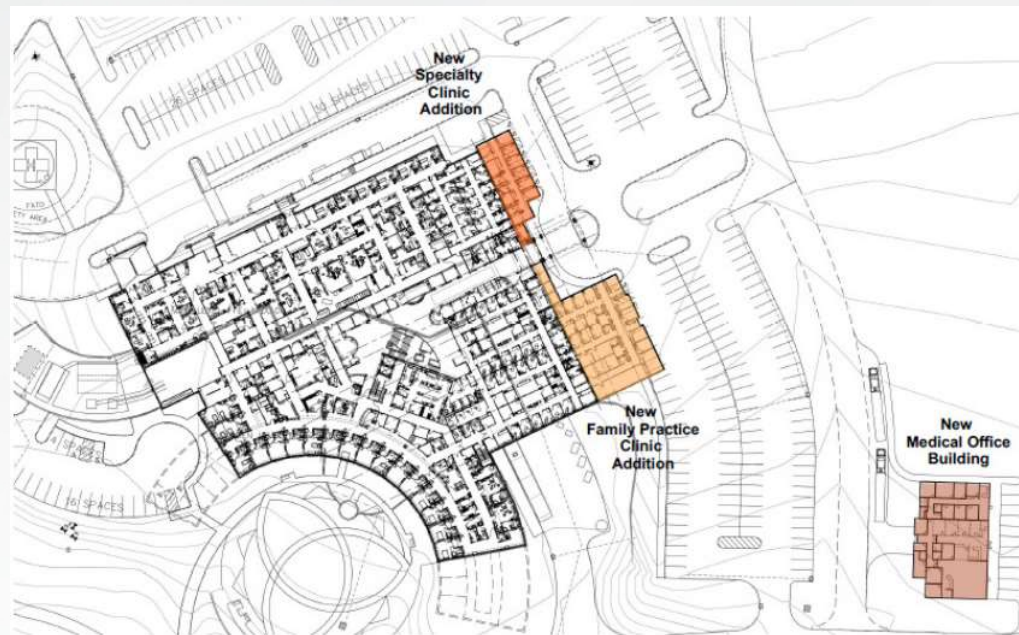
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# Sioux Center Health – Project Overview

## ABOUT THE HOSPITAL & FINANCING

- **Hospital:** Dedicated to providing families in Northwest Iowa with quality healthcare services, Sioux Center Health is a faith-based, 501(c)(3) nonprofit health ministry and state-of-the-art hospital and medical clinic.
- **Project:** A \$35.9MM project to fund clinic expansion, 32 bed skilled nursing expansion, 24 unit assisted living expansion, 16-unit memory care expansion, and new construction of a “main street” concept with a café, salon, post office and other amenities connecting areas of the senior housing development.
- **Financing Solution:** USDA Community Facility program provided a \$25MM Direct Loan, \$5MM tax-exempt parity loan, \$3.5MM equity, and \$2.4MM capital campaign. USDA rate was 3.00% with a 40-year term.



# Sioux Center Health – Project Overview

## ABOUT THE HOSPITAL & FINANCING

### Benefits

- ▲ Long term, low fixed rate allowed Sioux Center Health to maximize leverage, while maintaining forecast DSCR > 1.70x
- ▲ Sioux Center Health leveraged its strong relationships with local banks to obtain competitive construction period interest rates at historic lows with no prepayment penalties
- ▲ \$2.4MM capital campaign provided additional funding to complete the project

### Considerations

- ▼ The first round of bonds closed in December 2019 and the second round was originally scheduled to close in April 2020, which was pushed back to November 2020 to allow the hospital to focus on COVID management and response
- ▼ Construction costs increased between the 2019 and 2020 closing and additional equity and capital campaign proceeds were needed



The new hospital main entrance will improve wayfinding, offer better access to medical and specialty services and feature a private admission area for hospital and family registration.



The new Main Street wing will feature a social club, café, salon and spa, bank, chapel, media center and newsstand.

# Final Remarks

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# Key Takeaways



The hospital sector has shown resiliency the last few years. Despite interest rate volatility the last 12-18 months, rates appear to be stabilizing which provides more certainty around underwriting assumptions for projects.



Hospital margin trends are improving (Q2-Q4 2023), but inflation, expenses, and workforce challenges remain



Establish a financial projection dashboard to establish credit metrics that are important to organization and communicate to all stakeholders to ensure alignment of goals for all employees



# Thank you!



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