NRHA
SERVICES CORPORATION

WELCOME

Rural Health Executive Educational Series

Please visit **NRHASC.com**

to see a complete list of our upcoming educational presentations as well as Case Studies, Toolkits, Partner lists and other valuable resources.

House Keeping Items

- We like to get through our presentations in about 45 minutes, offering time at the end for questions to the presenter
- All attendees are muted during the webinar
- If you have a question for the presenter, please type it into the question section of your GOTO webinar control panel. We will cover it at the end.
- This event is being recorded. You will receive an email before the end of the day with a link to the recording.

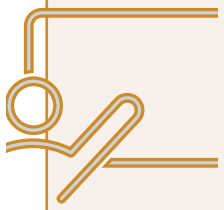
RURAL PARTNERSHIP CASE STUDIES: EXAMINING THE PROMISE AND PERIL OF RURAL PARTNERSHIPS



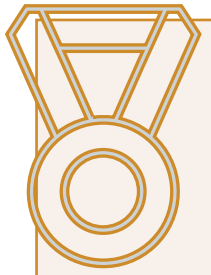
WHAT DO WE NEED TO KNOW?



For the 60% of rural hospitals in a partnership, most systems miss critical aspects of rural value



No one is going to stumble across rural affiliate value unless you quantify it and show the path to operationalizing it



Identify win-wins with existing partners—it's about making better decisions and better allocating scarce resources



Does a partner understand rural affiliate value?

- Variable vs. fixed costs
- Contribution margin vs. fully allocated costs
- Incremental cost vs. reallocated costs

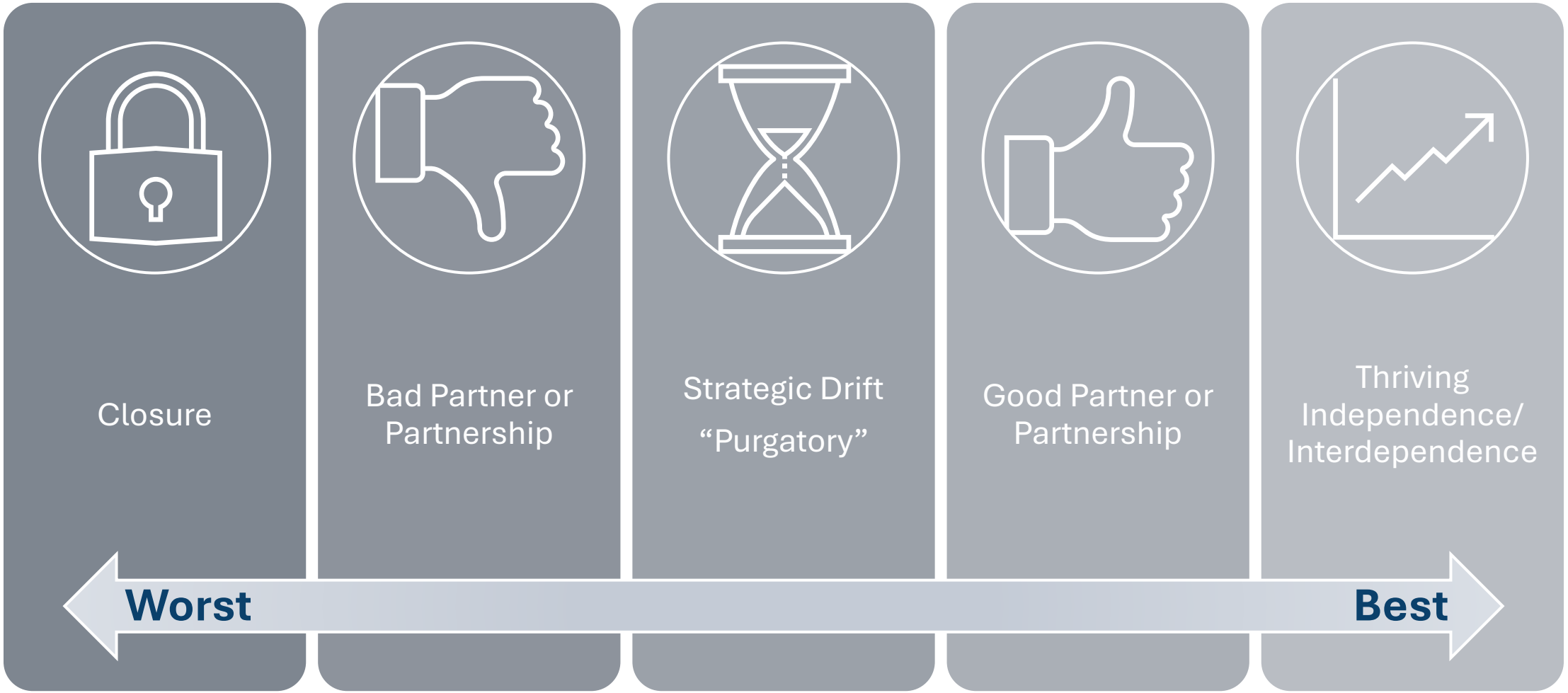


The Four Know/Nos for Rural Hospitals:

- Know your risk profile
- Know your value
- No one else will promote your value
- No risk-free options

NRHA SERVICES CORPORATION

COMMON OUTCOMES FOR RURAL HOSPITALS



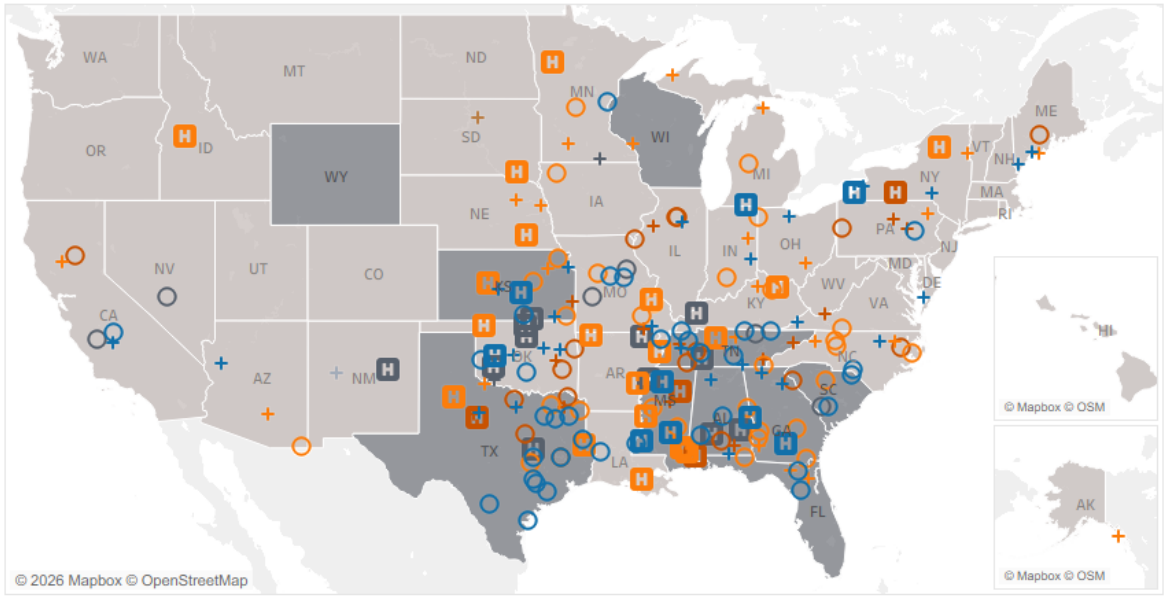
80%+/- of hospitals are within these three options

NRHA SERVICES CORPORATION

RURAL HOSPITAL CLOSURES SINCE 2010

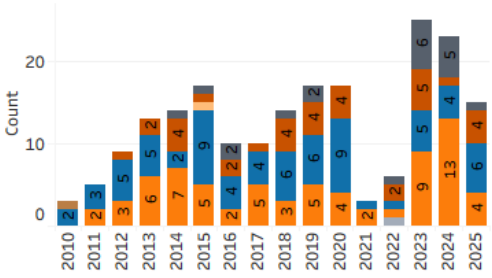
201 Closed or Converted Rural Hospitals

There have been 201 Rural Hospital closures or conversions since 2010 and 244 since 2005, these numbers include **forty-four (44) REH Conversions since 2023**



Year	Hospital Name
2025	REH- Clinton Regional Hospital-OK
	REH- Clay County Hospital-AL
	REH- Westfield Memorial Hospital-NY
	REH- Landmann-Jungman Memorial Hospit..
	Glenn Medical Center-CA
	Stilwell Memorial Hospital-OK
	REH- Fleming County Hospital-KY
	REH- Smith County Emergency Hospital-MS
	Northern Light Inland Hospital-ME
	Lawrence Medical Center-AL
	Mid Coast Medical Center - Trinity-TX

ST	Count
TX	27
TN	17
OK	14
AL	12
KS	12
MO	11
MS	11
GA	9
NC	8
NY	6
AR	5
CA	5
FL	5
KY	5
MN	5
PA	5
IL	4
ME	4
MI	4
SC	4
AZ	3
IN	3
NE	3
OH	3
IA	2
LA	2
NM	2
SD	2
VA	2
AK	1
ID	1
MD	1
NV	1
WI	1
WV	1



Year	Prospective Payment System	Critical Access Hospital	Medicare Dependent Hospital	Sole Community Hospital	IHS	Re-based Sole Community Hospital	Rural Referral Center	Total
2010	2					1		3
2011	3	2						5
2012	5	3	1					9
2013	5	6	2					13
2014	2	7	4	1				14
2015	9	5	1	1			1	17
2016	4	2	2	2				10
2017	4	5	1					10
2018	6	3	4	1				14
2019	6	5	4	2				17
2020	9	4	4					17
2021	1	2						3
2022	1	1	2	1	1			6
2023	5	9	5	6				25
2024	4	13	1	5				23
2025	6	4	4	1				15
Total	72	71	35	20	1	1	1	201

Medicare Payment Type
- Prospective Payment System
- Critical Access Hospital
- Medicare Dependent Hospital
- Sole Community Hospital
- Re-based Sole Community Hospital
- Rural Referral Center
- IHS

Current Status
- REH
- Complete Closure
- Convert to Other

Current Status of Medicaid Expansion Decision
- Adopted the Medicaid Expansion
- Not Adopting the Medicaid Expansion at this Time

Updated:3/25/2026

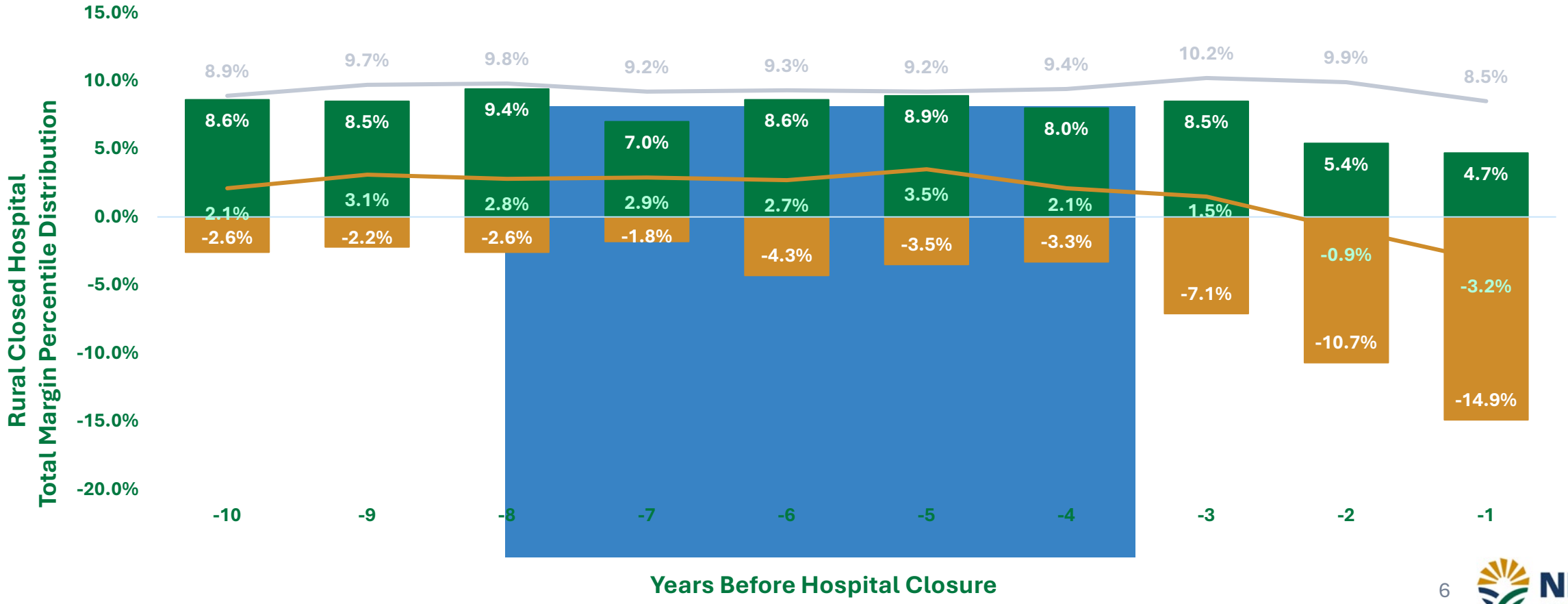
Sources: The North Carolina Rural Health Research Program (NC RHRP) at the Cecil G. Sheps Center for Health Services Research & kff.org

STROUDWATER

NRHA SERVICES CORPORATION

RURAL HOSPITAL TOTAL CASH FLOW MARGIN - CRITICAL ACTION ZONE CLOSED VS. OPEN HOSPITALS

- The years between -8 and -4 years prior to rural hospital closure become a critical time for taking action prior to negative trends accelerating
- **Time lags in data availability require proactive management of multi-year trends, including cash flow**
- **Waiting to act on declining trends reduces latitude to maneuver and increases the magnitude of required turnaround**



NRHA SERVICES CORPORATION

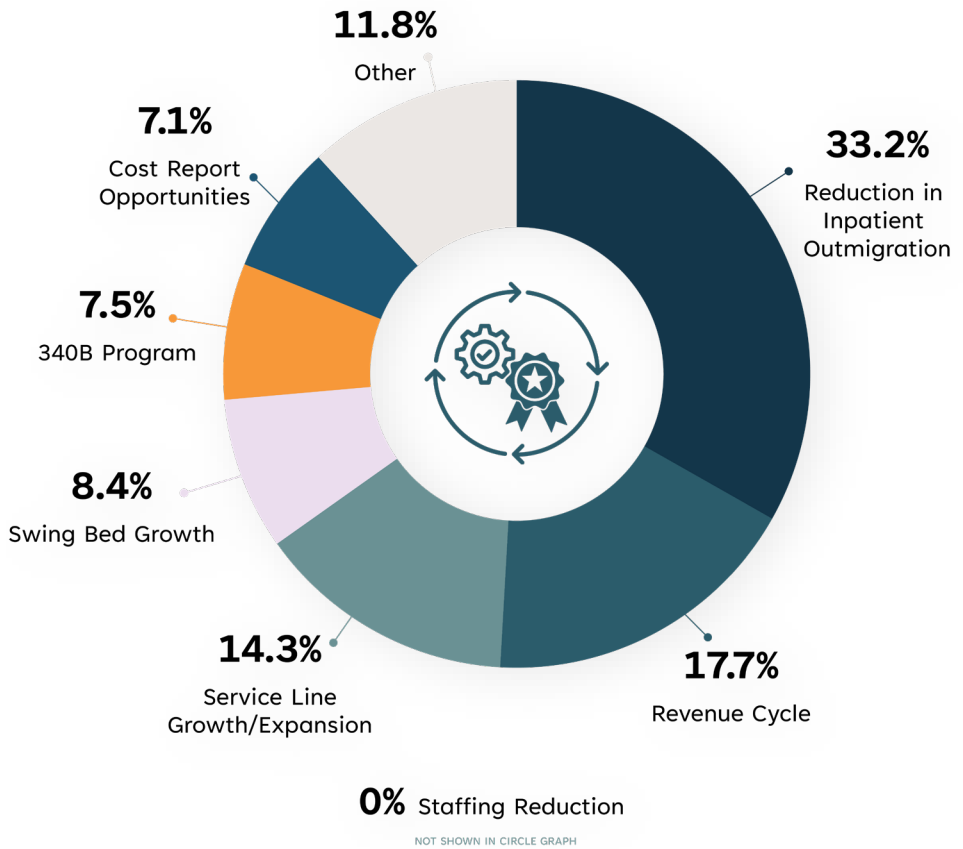
RISK MITIGATION VIA IMPROVED PERFORMANCE

- In a 2026 study, nearly 30 rural performance improvement projects led by Stroudwater over a 30-month period delivered a median of $1.7M in financial improvement per organization, equating to nearly 8% of net patient revenue per organization

Total Estimated Impact		
25th	$	1,300,000
Median	$	1,700,919
75th	$	3,727,000

Impact % of Net Pt Revenue	
25th	4.1%
Median	7.8%
75th	11.1%

The improvements were identified across several functional areas – expressed as a percentage of the total improvements identified:



NRHA SERVICES CORPORATION

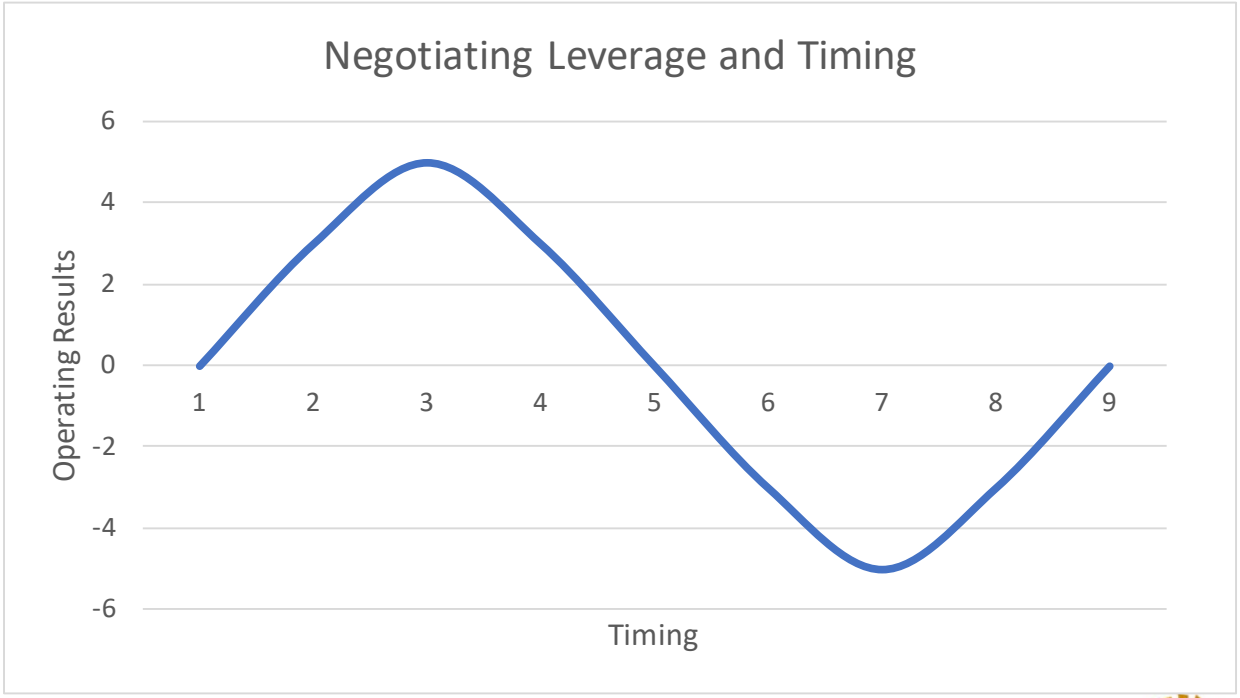
NRHA
SERVICES CORPORATION

KEY CONSIDERATIONS FOR RURAL PARTNERSHIPS

Time Is Never a Neutral Factor



- A struggling rural hospital must weigh the pros and cons of the following timing factors:
  - Time to demonstrate results from a performance improvement plan
  - Time for major developments
  - Time for adverse market developments to have an effect (state and federal budgets, competitor response, etc.)



NRHA SERVICES CORPORATION

PARTNERING IS NOT A RISK-FREE ENDEAVOR

EXISTING PARTNERS

- Vet and select a strategically aligned partner
- Assess their track record
- Select an affiliation structure that fits your strategic objectives and constraints
- Craft contractually enforceable terms that reflect the rural value proposition

PROSPECTIVE PARTNERS

- Ensure that your partner understands your value proposition
- Ensure your affiliation structure enhances the value provided by the partnership for both parties
- Identify and quantify any missed/potential opportunities
- Quantify the ROI of investments to reflect the unique rural value proposition

VALUE LEVERS FOR RURAL HEALTH SYSTEMS

- The following value levers are often misunderstood or undervalued by existing and potential partners:
  - Cost-based payment
  - Cost report optimization opportunities
  - Home office cost allocation
  - 340B eligibility
  - Swing beds
  - Rural health clinics (RHCs)
  - Decanting volume and utilizing Critical Access Hospitals (CAHs) as specialized components of the continuum of care
  - The value of attributed lives and a primary care base that is cash flow positive
  - The “true” value of incremental referrals



NRHA SERVICES CORPORATION

PROCESS RECOMMENDATIONS FOR NEW PARTNERSHIPS

Have prospective partners compete for the privilege of being your partner

- Use the process to gather information about your options
- Use the process to educate prospective partners as to your value
- Assess whether a partner is willing to adjust terms and commitments to reflect the quantification of your value
- Leverage the analyses of your value, the competitive process, and the asymmetry of information to negotiate improved terms
- Evaluate prospective partners' track records with their rural affiliates
- Do not sign an exclusive Letter of Intent (LOI) until you have an acceptable term sheet in hand

NRHA
SERVICES CORPORATION

RURAL PARTNERSHIP CASE STUDIES

AFFILIATE ACCRETIVE VALUE

- Our client was a Northeastern seven-hospital system, including a 120-bed community hospital affiliate
- System allocates $25M of overhead to the affiliate's general ledger, resulting in a **$13M operating loss**
    - As a result, the system slashed capital investment at the affiliate
    - The operating loss included $7M in non-cash depreciation expense and excluded $3M in non-operating income
- Of the $25M in system-allocated overhead costs, only 20% were estimated to be variable (or incremental) while the remaining were estimated to be fixed (reallocation of existing costs)
    - The fixed portion should not have been considered when evaluating the contribution margin of the affiliate
- Actual contribution margin to the system, before considering the value of incremental patient volume from the affiliate service area, was $17M
- The affiliate provided $22M in incremental contribution margin to the system from additional service area referrals
- **Total contribution margin to the system from the rural affiliate: $39M**



A FREQUENT ERROR IN RURAL PARTNERSHIPS

The accretive value of existing and prospective rural affiliates is almost always misunderstood



Adverse Outcome #1: Key deal terms that would reinforce long-term value creation for the rural affiliate and system are absent



Adverse Outcome #2: Systems with rural affiliates miss value-added opportunities and fail to account for rural accretive contribution margin when evaluating performance and allocating resources



Adverse Outcome #3: Chronic underinvestment in rural affiliates



Adverse Outcome #4: System and rural affiliate long-term performance is diluted and suboptimized

NRHA SERVICES CORPORATION

CASE STUDY: NON-COMPETITIVE PROCESS

A CAH retained Stroudwater to assist with a partnership process where the preferred partner had already been identified

The client had not run a competitive process. The preferred partner at the time was the third organization they had approached sequentially.

Due to the client's one-at-a-time approach, our client's leverage with negotiations was affected

Result: Without a competitive process, our client lost leverage, did not receive strong proposals, and missed out on capital and service continuation commitments

NAVIGATING FORBEARANCE AGREEMENTS

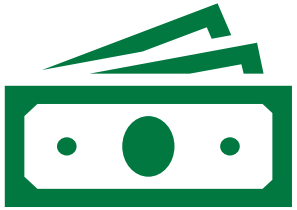
- Should be treated as a “critical warning” requiring urgent course correction
- Signal for both turnaround ***and*** partnership options
- Three examples:

Cooperative with creditor:	Focus on turnaround
Adversarial with lender:	Performance improvement and partnership; positive outcome for community
Bondholders take control:	2nd forbearance agreement Bondholders out of patience – performance improvement insufficient Non-binding promises to bondholders short-circuit partnership process – wait and see

A RECENT PARTNERSHIP CLIENT CASE STUDY

- In 2025, Stroudwater was retained by a 133-licensed-bed, PPS, county-owned hospital
- With $120M in annual NPSR, the organization had experienced $28M in operating cash flow losses over the last three years
- While the facility had received recent upgrades, the hospital was deferring needed capital investment in chillers/boilers, elevators and an EHR
- Without intervention the organization was projected to deplete cash and reserves within 18 months
- The hospital had entered into a forbearance agreement with a lender
- Both the hospital board and county commissioners determined it was necessary to explore a partnership process as well as operational performance improvement

A RECENT PARTNERSHIP CLIENT, CONT.



Performance Improvement Outcome:

$8M in enhanced annual cash flow

Cash flow break-even and three consecutive months in the black for the first time in years



Partnership Process Outcome:

$130M+ in investment over 10 years by a high-quality NFP partner

- Defeasance of $12M in debt at closing
- $2M toward transaction costs
- $25M+ community foundation
- A minimum of $90M in cap ex over 10 years
- Maintain core services for 10 years

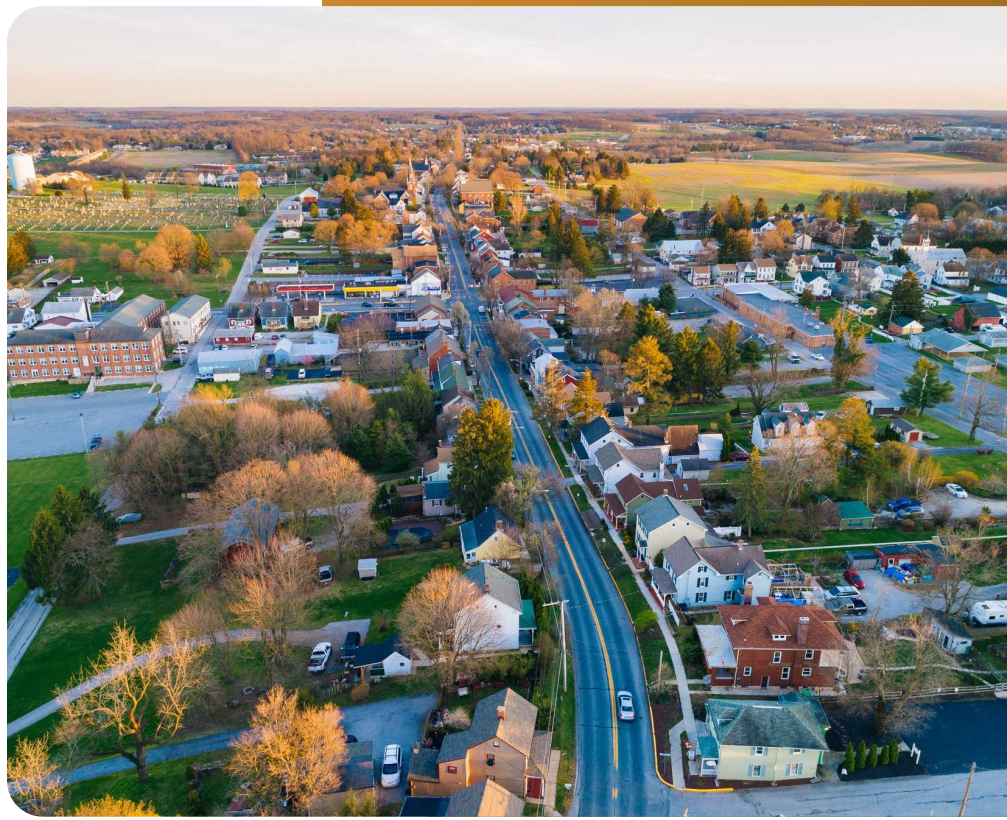
NRHA SERVICES CORPORATION

CASE STUDY: THE WRONG PARTNER/STRUCTURE

- Two financially stressed rural health systems combined into a single health system using a joint operating agreement (JOA)
- The JOA agreement called for the members to share profits and losses, while member boards and assets remained separate
- The practical effect was that the member who lost more was owed a check by the member who lost less
- Resentment, distrust, and hostility became the common language at the combined system and on each member board
- Stroudwater was called in to ”fix” this situation
  - **Goal 1: Avoiding bankruptcy of one member and forestalling litigation among the parties**
  - **Goal 2: Find a partner(s) that could recapitalize each member and enter into separate affiliation agreements with each member given the complete breakdown in trust**
- 18 months later, these goals were realized. Both communities maintained their health systems despite this multi-year misadventure.

CASE STUDY: UNDERESTIMATING RURAL VALUE

- Our CAH client entered into discussions with a large multi-state health system regarding a potential affiliation
- The large health system misunderstood the value of the home office cost allocation, placing only $100K incremental value on this allocation vs. an estimated $3M+ annual value calculated by Stroudwater
    - A greater than 50% share of cost-based payment
- The benefit of a modest change in referrals (+2.5% market share gain)
- **Result**: The prospective partner revised their offer from minimal capital commitment and virtually no local role in governance to an offer that included major investment commitments, major service commitments, and a significant continuing affiliate role in governance



A COSTLY STRATEGIC ERROR AVOIDED

A health system with four Critical Access Hospitals totaling $55M in operating revenue believed these rural affiliates were a significant drag on operating results

The system engaged Stroudwater to perform an in-depth financial and operational analysis of its rural affiliates

The operational and financial evaluation found a total of $6M in annual missed operating cash flow improvement opportunities

The review also found an additional $9M in errors in the System's evaluation of the contribution margin of these rural affiliates

Combined, the $15M in missed opportunities and performance evaluation mistakes painted a misleading picture of the rural affiliate's contribution margin to the system and revealed previously hidden opportunities

The evaluation provided the system with an actionable roadmap to realize the true accretive value of its rural affiliates

NRHA SERVICES CORPORATION

CASE STUDY: QUANTIFYING YOUR VALUE

CAH was projected to have a negative cash balance within two years and needed to partner

Using the value levers, Stroudwater determined our client would be able to fund investments and increase operating performance by about $670K annually through a partnership – net of debt service on $3.6M of needed investments

By quantifying the value levers, our client received robust proposals with strong commitments for the community

As of April 2024, our client signed an LOI with a preferred partner and closed on the definitive agreement on June 1, 2024



NRHA SERVICES CORPORATION

CASE STUDY: QUANTIFYING YOUR VALUE, CONT.

Performance Improvement Initiatives	Client
Swing Bed Estimate	$ 120,000
340b Opportunity	$ 250,000
Cost Report Opportunity	$ 170,610
Home Office Cost Allocation Low Estimate	$ 470,000
Home Office Cost Allocation High Estimate	$ 780,000
Total Savings Low Estimate	$ 1,010,610
Total Savings High Estimate	$ 1,320,610

Required Investment Over 5 Years	
Required Investment	3,587,639
Percentage Debt Financing	100%
Cost Based Reimbursement	40%

- The table to the left demonstrates the savings incurred by different value levers for our client
- The table below demonstrates the effect of the performance improvement initiatives on operating performance, inclusive of required investments

Projection Estimate

	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30	Year 35
Principal Balance Outstanding	$ 3,587,639	$ 3,114,290	$ 2,491,503	$ 1,684,434	$ 777,344	$ 350,054	$ (0)	
Annual Depreciation Expense	$ (160,148)	$ (160,148)	$ (160,148)	$ (158,498)	$ (140,165)	$ (59,315)	$ (39,254)	$ -
Annual Interest Expense	$ (195,209)	$ (174,450)	$ (141,196)	$ (98,039)	$ (48,818)	$ (22,109)	$ (2,340)	$ -
Total Annual Depreciation Plus Interest	$ (355,357)	$ (334,598)	$ (301,344)	$ (256,537)	$ (188,983)	$ (81,424)	$ (41,594)	$ -
Incremental Cost-Based Payments	$ 141,041	$ 132,802	$ 119,603	$ 101,820	$ 75,007	$ 32,317	$ 16,509	$ -
Net Interest and Depreciation Cost	$ (214,316)	$ (201,796)	$ (181,741)	$ (154,718)	$ (113,975)	$ (49,107)	$ (25,086)	$ -
Annual Principal Payment	$ (84,575)	$ (105,334)	$ (138,588)	$ (179,596)	$ (201,854)	$ (95,084)	$ (77,897)	$ -
Total Annual Cost (after Cost Based Payment)	$ (298,891)	$ (307,130)	$ (320,329)	$ (334,314)	$ (315,829)	$ (144,191)	$ (102,983)	$ -
Projection Low Estimate								
Total Annual Operating Improvements	$ 1,010,610	$ 1,010,610	$ 1,010,610	$ 1,010,610	$ 1,010,610	$ 1,010,610	$ 1,010,610	$ 1,010,610
Net Change In Operating Performance - Low Estimate	$ 711,719	$ 703,480	$ 690,281	$ 676,296	$ 694,781	$ 866,419	$ 907,627	$ 1,010,610
Projection High Estimate								
Total Savings High Estimate	$ 1,320,610	$ 1,320,610	$ 1,320,610	$ 1,320,610	$ 1,320,610	$ 1,320,610	$ 1,320,610	$ 1,320,610
Net Change In Operating Performance - High Estimate	$ 1,021,719	$ 1,013,480	$ 1,000,281	$ 986,296	$ 1,004,781	$ 1,176,419	$ 1,217,627	$ 1,320,610

CASE STUDY: COST OF DELAY

- The hospital was a strong rural PPS health system facing major capital investment needs
- Previously, the rural system had affiliated its multi-specialty group with a regional health system with a strong track record of operating multi-specialty groups
- The rural system Board elected to defer a proposed affiliation that met substantially all their requirements and included a $25M capital infusion toward investment needs
- 12 months later, the regional system had entered into other commitments and had to pull back its capital commitment
- Six months later, the rural system elected to affiliate on the same terms negotiated previously, minus the $25M investment commitment
- **Time is never a neutral factor**



NRHA SERVICES CORPORATION

CASE STUDY: THE WRONG PREFERRED PARTNER

- A distressed Critical Access Hospital (CAH) had a preferred affiliation candidate identified and a signed letter of intent when they approached Stroudwater for assistance because the affiliation process was stalled
- Their preferred partner—a large regional referral center—did not understand the value proposition of having a CAH as part of their health system
- Stroudwater recommended that the client conduct a process to evaluate a broader selection of affiliation options alongside their preferred partner
- Stroudwater educated all interested parties about the unique value proposition of having a CAH affiliate (home office cost allocation, rural health clinics, 340B eligibility, swing beds, cost-based payment, etc.)
- Despite these education efforts, their prior exclusive prospective partner could not incorporate these value drivers into their proposal
- Thankfully, an alternative preferred partner emerged with previous experience with distressed rural hospitals, a track record of successful turnarounds, and expertise in operating rural affiliates
- Our client vetted its options and selected the newly identified partner based on its expertise, track record, and the quality of the terms of its proposal

NRHA
SERVICES CORPORATION

RURAL PARTNERSHIP KEY TAKEAWAYS

EXPANDED KNOW-NO'S: AVOIDING LANDMINES

- **Know your value;** no one else knows your value
- **Know your strategic risk profile** and how it is changing year over year
- **Know your needs,** constraints, and objectives
- **Know your options,** including alternatives like FQHC, Service Line, or Rural Network partnerships
- **Know the significance** of diluting your locally governed delivery system
- **No strategic option without risk,** including independence and any partnership
- **No exclusive negotiations** – with one exception below
- **No weasel words**
- **No poorly defined or unenforceable terms**
- **No IT linkups** without a robust notice period and transition timeline
- **No Letter of Intent without key deal terms** and a short, renewable exclusive negotiating period

THE KEY LESSONS LEARNED



OPERATIONAL PERFORMANCE IS FOUNDATIONAL TO ANY STRATEGIC OPTION



TIME IS NEVER A NEUTRAL FACTOR; DON'T KICK THE CAN DOWN THE ROAD



KNOW YOUR VALUE, DO THE HOMEWORK



THERE ARE NO RISK-FREE STRATEGIC OPTIONS



PROCESS, PARTNER, STRUCTURE, TERMS

NRHA SERVICES CORPORATION

THANK YOU

Jeffrey Sommer
Managing Director
jsommer@stroudwater.com
207-221-8255



Clare Kelley
Senior Consultant
ckelley@stroudwater.com
207-221-8267



THANK YOU

This Concludes Our Presentation

NRHA SERVICES CORPORATION

Please visit **NRHASC.com**

to see a complete list of our upcoming educational presentations as well as Case Studies, Toolkits, Partner lists and other valuable resources.

Thank you for joining us today, and thank you to our education and content partners.

