Aligning Strategic, Financial, and Operational Decisions

The Margin Equation

MASI 2026

Disclaimer

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.

Presenters

Traci Rabine

Director

Rachel Pugliano

Managing Director

Jared Heim

Partner

Session Overview & Learning Objectives

Understand the primary drivers of hospital profitability and how strategic, financial, and operational decisions intersect.

Evaluate capital structure and financing strategies that support long-term sustainability while preserving flexibility.

Identify operational improvement opportunities within revenue cycle and staffing productivity that directly impact margin and cash flow.

Leverage data and performance metrics to shift from reactive management to proactive financial decision-making.

Eide Bailly

Strategic Planning as the Foundation

Leveraging Market Share Data for Performance

Strategic Planning	• Utilize data to inform decision making to deploy long-term strategies that may require significant lead time to implement.
Benchmarking	• Identify how you are performing against peers and competitors in your region.
Identifying Trends	• Trends provides data in shifts in patient preferences and provides opportunities for your organization to adapt to those changing preferences more quickly.
Ongoing Performance Management	• Utilize data to measure effectiveness of key performance indicators.
External Confidence	• Organizations utilize market data to obtain external resources (lending, community support, etc.).

Eide Bailly

Data-Driven Market Resources

- **Identifying Market Gaps or Strengths:**
  - Leverage data to understand how the organization is performing through review of your volumes in comparison to your peers:
    - *(State Hospital Association, internal volume trends, Medicare data, review peer/competitor websites, Advisory Board, Definitive Healthcare).*
- **Identifying Service Area Needs:**
  - Use demographic data to inform what healthcare services might be needed and how your organization plans to provide those services:
    - *(U.S. Census, U.S. Bureau for Labor Statistics, internal patient data trends, Environics).*
- **Using Predictive Analytics:**
  - Use data to predict future trends and patient behavior:
    - *(internal volume trends and modeling, Advisory Board, Definitive Healthcare, Environics).*

Eide Bailly

Common Discoveries

Patient & Consumer Behavior

- Out-Migration Trends
- Shifts in Patient Preferences
- Demographic Changes

Competitive Landscape

- Market Share Insights
- New or Expanding Competitors
- Reputation & Brand Perception

Service Line Performance & Growth Opportunities

- High-Demand Services
- Underutilized or Declining Services
- Gaps in Care

External & Industry Trends

- Economic & Social Factors – inflation, employment trends

The Profitability Reality for Hospitals Today

THE LANDSCAPE

A Thin-Margin “New Normal”

- Hospitals enter 2026 profitable but fragile: margins stabilized above prior years, yet expenses stay elevated, bad debt is climbing, and the payer mix keeps eroding.

1.3%	208–215	+14%	56%
Median operating margin	**Days cash on hand**	**Labor cost vs. 2019**	**Of total hospital costs**
CYTD 2025 (Kaufman Hall)	Liquidity still “robust” (S&P / Fitch)	Wage & contract-labor inflation	Labor & compensation (AHA)

Watch-items: rising bad debt & charity care, growing gross-to-net revenue gap, and drug/supply expense growth of 9–11% year-over-year.

Today's challenge is not returning to profitability. It's protecting profitability.

Eide Bailly

PROFIT DRIVERS

Four Forces Set the Margin

Volume & Acuity

Patient volumes keep growing with a higher-acuity inpatient mix and rising outpatient demand — shifting where and how revenue is earned.

Payer Mix

A move toward government payers and more uninsured patients widens the gap between gross and net revenue and pressures yield.

Cost Structure

Labor is 56% of costs and up 14% vs. 2019; drug and supply expense growth of 9–11% keeps total cost per day elevated.

Revenue Capture

With denials averaging 9–10% of claims, front-end and revenue-cycle leakage directly erodes collectable net revenue.

THE INTERSECTION

Three Lenses, One Margin

- No decision is purely strategic, financial, or operational — each pillar constrains and enables the others. Sustainable margin lives where all three align.

Strategic

- Service-line & site-of-care mix
- Growth, M&A and partnerships
- Outpatient diversification

Financial

- Capital structure & liquidity
- Credit rating & covenants
- Capital allocation discipline

Operational

- Revenue cycle & throughput
- Labor & staffing productivity
- Length of stay & efficiency

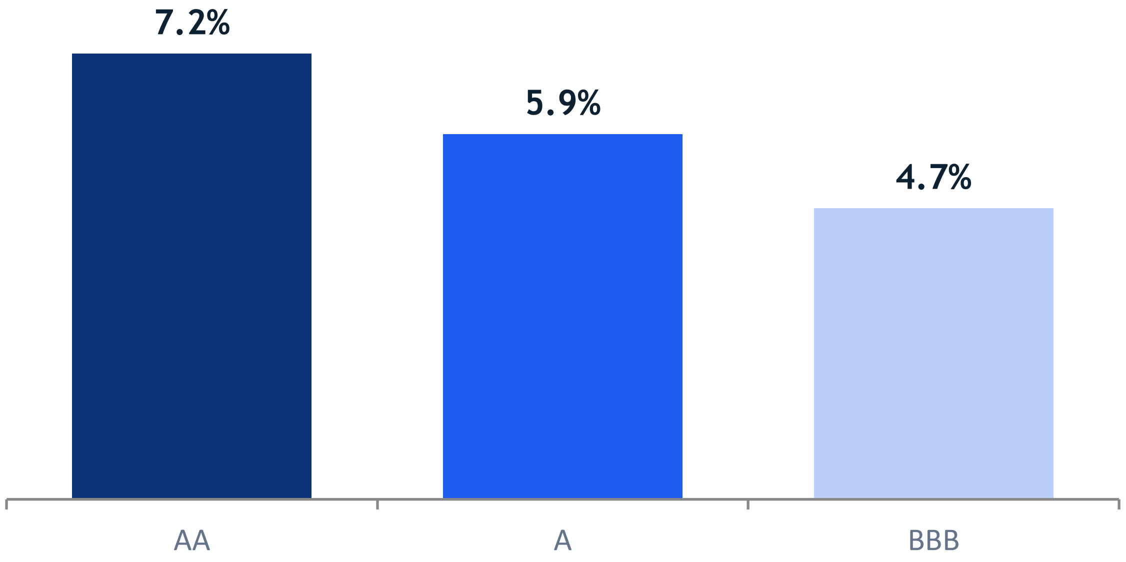
Where they converge: durable operating margin and mission sustainability — measured with shared metrics across every function.

Strategic Financing & Capital Structure

BENCHMARKS

Balance-Sheet Strength, by Rating

Operating EBITDA margin by credit category (2025 medians)



26-31% **Long-term debt to capitalization**
Moderate leverage (S&P 26.3% / Fitch 30.7%)

4.4x **Max annual debt-service coverage**
Comfortable cushion above covenants

169% **Cash-to-debt**
Up from 164% year-over-year (Fitch)

134% **Capital spend to depreciation**
Reinvesting ahead of asset aging

STRATEGY

Financing for Sustainability and Flexibility

Protect liquidity

Hold days-cash-on-hand near sector medians so the balance sheet can absorb Medicaid and reimbursement shocks expected from 2027.

Ladder maturities

Stagger debt maturities and balance fixed vs. variable rate exposure to avoid refinancing cliffs and rate shocks.

Preserve covenant headroom

Manage to coverage and leverage targets with cushion — keeping optionality for future capital access.

Defend the credit rating

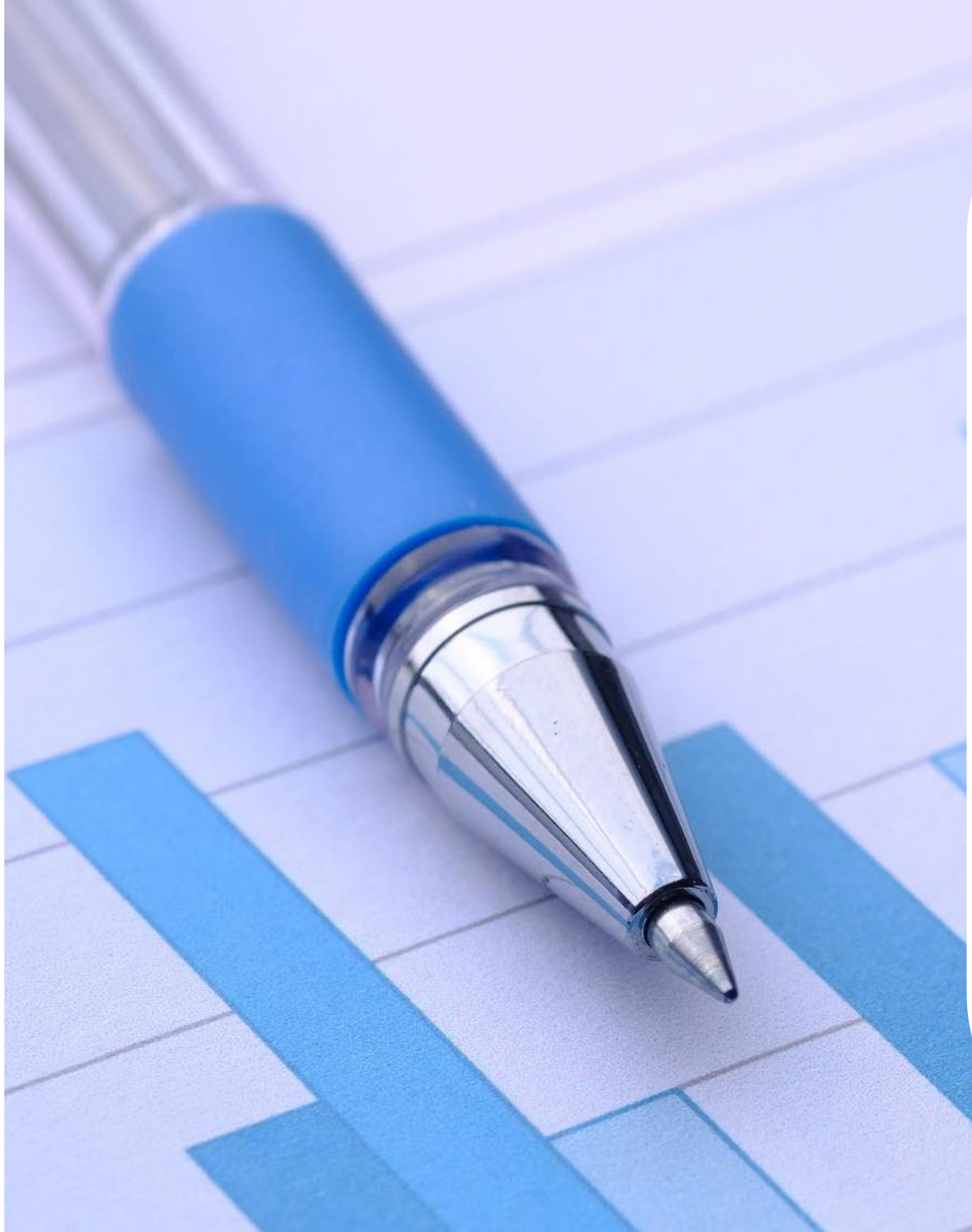
A stable rating lowers cost of capital; reserves-to-debt above 200% signals resilience to lenders and boards.

Fund capital from cash flow

With capex at 134% of depreciation, self-funding growth reduces reliance on new debt and protects flexibility.

Diversify to strengthen coverage

Expanding outpatient and ambulatory revenue stabilizes cash flow and supports debt-service capacity over time.

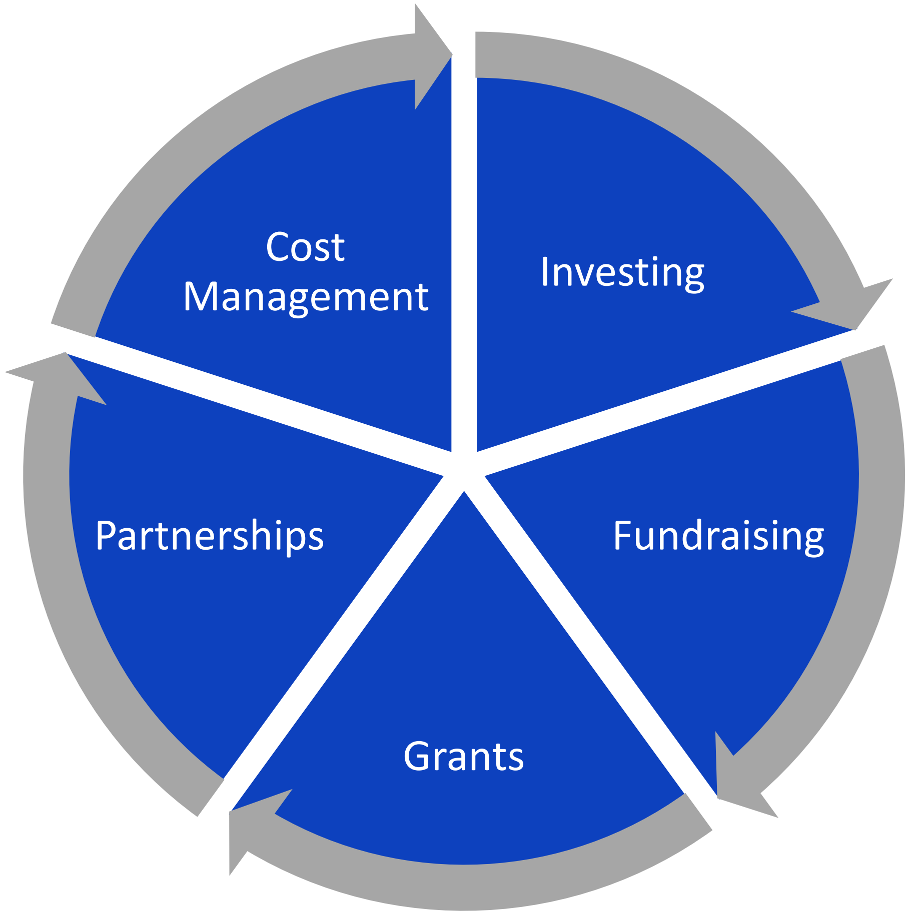


Budgeting and Planning with Purpose

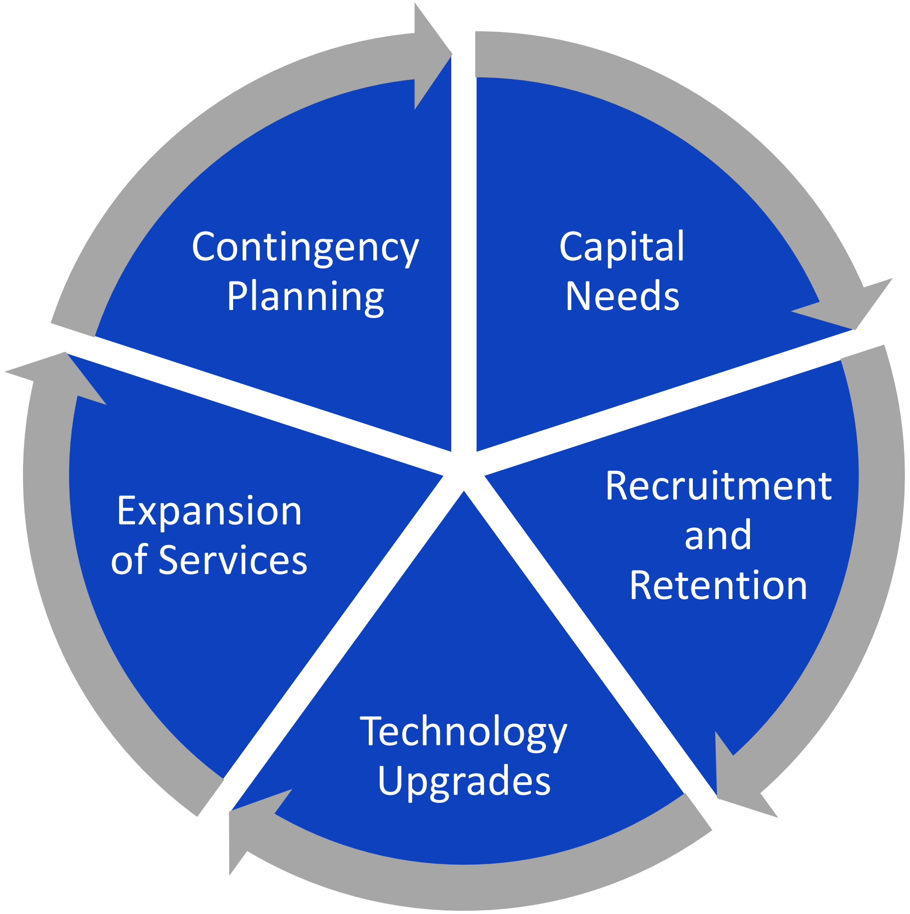
- Building Responsive, Rolling Budgets.
- Techniques for Incorporating Uncertainty and Reimbursement Volatility.
- Aligning Budget with Operational Priorities.
- Connecting Patient Experience in the Budgeting and Planning.

Cash Flow Planning

Strategies for long-term financial stability:



Planning for long-term financial needs:



Capital Planning and Financing Strategies: Evaluate Financial Readiness

Assess Current Financial Health:

- KPI review.
- Review of current indebtedness.
- Identify trends of revenues and expenses.

Evaluate Available Capital and Internal Funding Sources:

- Available cash reserves.

Analyze Revenue Streams and Payor Mix:

- Payor dependence.
- Project future reimbursement.
- Impact of Project (*Cost-Based Reimbursement*).

Determine Debt Capacity and Credit Worthiness:

- Project existing loan obligations forward.
- Review current compliance requirements.
- Review loan eligibility.
- Ensure Project scope is feasible.

Review Operational and Financial Sustainability:

- Additional staffing, operational costs, and long-term expenses.
- Improved efficiencies and reduction in long-term costs.
- Strategic alignment.

Capital Planning and Financing Strategies: Develop a Financial Strategy

- **Government Financing:**
  - Less stringent financial requirements
  - More favorable terms
  - Generally lower cost of issuance
- **Bond Financing:**
  - Avoids stringent USDA application process
  - More favorable timing
  - Avoids compliance audits
  - Avoids limitations in sourcing materials

- **Factors In Decision Making:**
  - Comparing costs and risks:
    - Assess repayment terms.
  - Alignment with operational needs:
    - Assess available cash for operations after debt service.
  - Optimize financing decisions for most preferred performance:
    - Complete proforma analysis.

Operational Levers That Move the Margin

Revenue Cycle

Revenue Cycle Challenges

Increasing Denials

↓

Growing Accounts Receivable

↓

Payer Behavior

↓

Pricing & Contracting

↓

Revenue Leakage/Charge Capture

REVENUE CYCLE

Where Cash Leaks — and the Target

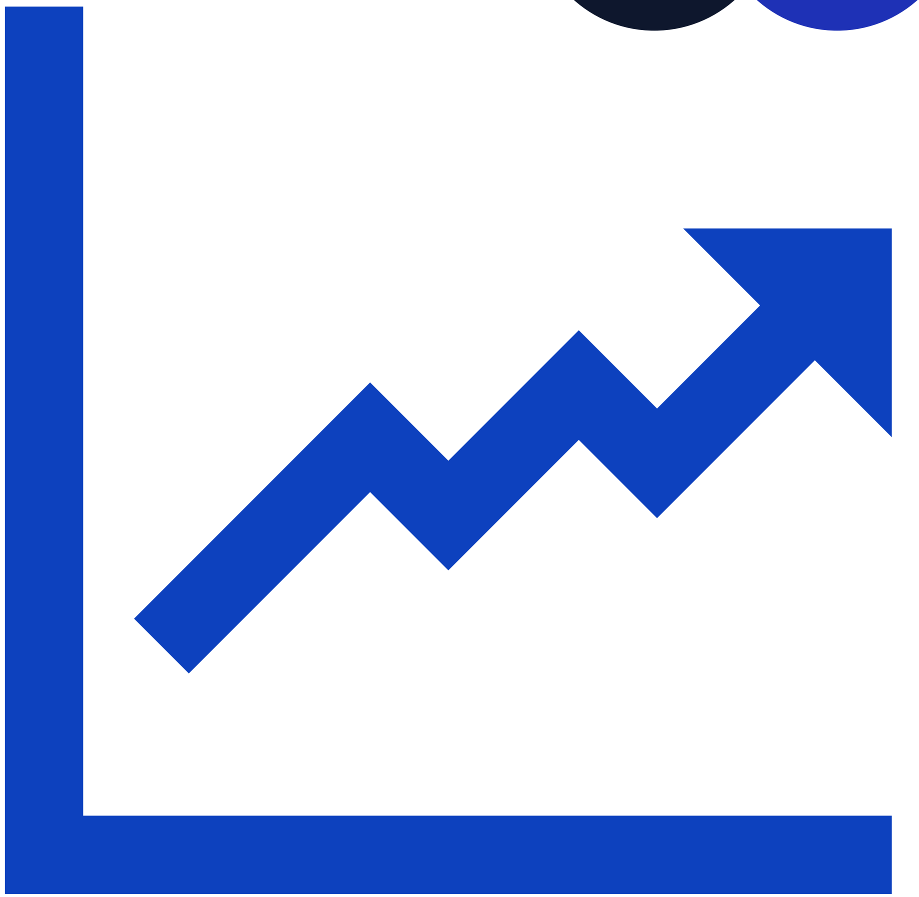
Metric	Best-practice Target	Industry Reality	Why It Matters
Net collection rate	**95–98%**	Single best RCM-health signal	Actual vs. collectable revenue
Days in A/R	**< 40–45 days**	50+ = cash-flow risk	Speed from service to cash
First-pass denial rate	**< 5%**	9–10% avg, creeping to 10–12%	Rework cost & delayed cash
Clean claim rate	**≥ 95%**	< 90% signals front-end gaps	First-pass yield
Cost to collect	**< 3% of net rev.**	Higher = inefficiency	Administrative efficiency
Final denial write-offs	**< 1–2% of gross**	Permanent revenue loss	Leakage after all appeals

Bottom line: *every point of denial reduction and each day trimmed from A/R converts directly into recovered net revenue and faster cash.*

Eide Bailly

The Cost of Denials

- Financial Implications:
  - Revenue Loss: Direct impact on the organization's revenue stream.
  - Increased Operational Costs: Additional resources required for rework and appeals.
  - Impact on Patient Care: Potential reduction in resources available for patient care.
- Importance of Proactive Denial Management:
  - Mitigating Financial Risks: Proactive measures reduce the risks associated with denials.
  - Optimizing Revenue Streams: Focusing on prevention and resolution for optimal revenue generation.



DENIALS AFFECT THE BOTTOM LINE!

Eide Bailly

Key Performance Indicators

- Denial Rate:
  - Total # of denied claims divided by total billed claims.
  - ***Formula: Claim Denial Rate = (Total Number of Denied Claims / Total Number of Claims Submitted) x 100***
- Denial Overturn Ratio:
  - Denials overturned divided by total denials received.
  - ***Formula: Denial overturn rate = (Number of denied claims overturned / Total number of denied claims) x 100***
- Underpayment Rate:
  - Percent of actual payment vs expected payment.
  - ***Formula: Underpayments (payment variance) = actual payment/expected payment x 100***

Eide Bailly

Strategies for Accounts Receivable Optimization

- Monitoring Aging Buckets:
  - Tracking overdue accounts helps prioritize collection efforts on high-risk or high-value receivables.
- Implementing AR Dashboards:
  - Dashboards offer visibility into outstanding balances, collection trends, and team performance metrics.
- Regular AR Data Reviews:
  - Analyzing AR data frequently uncovers billing inefficiencies and aids timely follow-up actions.
- Predictive Analytics Integration:
  - Using predictive tools forecasts payment delays and optimizes resource allocation for collections.

Leveraging KPI Monitoring And Analytics

- Tracking Core KPIs:
  - Monitoring KPIs like DNFB, AR days, and denial rates reveals financial and operational performance insights.
- Real-Time Dashboard Access:
  - Dashboards provide revenue teams with real-time data to facilitate timely and informed decision-making.
- Predictive Analytics:
  - Analytics identify trends and forecast issues, enabling proactive revenue cycle management.
- Continuous Improvement:
  - Regular KPI review supports setting benchmarks, tracking progress, and targeted interventions for better outcomes.

Payer Behavior

- Continual Rule Changes
- Increasingly Complex Denials
- Undetected Underpayments
- Limited Payer Performance Visibility
- Increased Prior Authorization Requirements

Mitigation Strategies

Shift from Denial Management to 'Payer Intelligence'.

Develop Payer Scorecards.

Strengthen Contract Management.

Use Predictive Analytics and AI.

Elevate Payer Behavior to an Enterprise Risk Discussion.

Payer Contracting

- Why is it important?
  - Define reimbursement structures.
  - Specify claim submission deadlines and payment terms.
  - Outline appeal rights and dispute resolution mechanisms.
  - Ensure compliance with federal and state regulations.

Payer Contract Management Best Practices

Maintain	• Maintain a central database of all payer contracts.
Audit	• Regularly audit reimbursement rates and payer performance.
Train	• Train staff on contract terms and compliance requirements.
Leverage	• Leverage technology for tracking and analytics.

Eide Bailly

Common Pricing Approaches

Annual Increase

- Assumes the original pricing is accurate.
- Assumes cost fluctuation is the same across all departments.
- Ignores the market and/or fee schedule rates.

Fee Schedule/ Contract Based

- Mark-up table applied to highest paid contract/schedule.
- Assumes appropriate terms.
- Ignores costs and market.

Market Based

- Data now available through price transparency.
- Ignores costs.
- Ignores fee schedule/contract terms.

Cost to Charge Ratio

- Assumes costs are appropriate.
- Ignores market.
- Ignores fee schedules/contract terms.

Strategic Pricing Framework

- Start with Cost.
- Evaluate Market Position.
- Understand Reimbursement Reality.
- Consider Strategic Objectives.
- Maintain Defensible Pricing.

Addressing Revenue Leakage

<u>**Revenue Integrity**</u>: Per the National Association of Healthcare Revenue Integrity - The basis of revenue integrity is to prevent recurrence of issues that can cause ***revenue leakage* and/or *compliance risks*** through effective, efficient, replicable processes and internal controls across the continuum of patient care, supported by the appropriate documentation and the application of sound financial practices that are able to withstand audits at any point in time.

Core Revenue Integrity Functions

- Liaison between clinical departments & revenue cycle.
- Revenue leakage prevention.
- Charge Description Master (CDM) maintenance.
- Root cause analysis and correction of charging issues.
- Education and Training.

Staffing Productivity

LABOR PRODUCTIVITY

Labor is the Margin — and the Lever

The labor reality

56% of total hospital costs are labor & compensation

+7% provider wRVU per FTE since 2023 — while pay rose 6%

+4% labor expense growth year-over-year into 2026

Levers that recover margin and cash

Cut agency & contract reliance Easing contract-labor use was a primary driver of 2025 margin recovery.

Match staffing to real demand Align hours-per-patient-day and productivity targets to actual volume and acuity.

Reduce length of stay Shorter average stay drove the best hospital month of 2026 (March) — lowering cost per case.

Retain to reduce premium pay Retention curbs turnover and the wage premiums that inflate the labor line.

Productivity – Turning Hours and Volume Into Action

- What is it?
  - Evaluates whether staffing levels align with patient volume, acuity, and service demand.
  - Leverages benchmarks to create meaningful comparisons.
- How it works?
  - Collect worked hours, volumes, and staffing data.
  - Map to relevant benchmarks.
  - Identify variations.
- Why it matters?
  - Supports staffing decisions.
  - Assists leaders to address staffing and workflow issues.
  - Creates a more sustainable workload.

Overview of Productivity Tools

BENCHMARK & DIAGNOSE

- Compare against productivity standards.
- Use hospital size and department type to support accurate comparisons.
- Identify variations.

ACT

- Prioritize high-impact opportunities.
- Develop action plans.
- Align recommendations with quality, access, staff sustainability, and financial performance.

SUSTAIN

- Track progress.
- Expand analytics to job code, wage, and additional dashboard capabilities.
- Make productivity an ongoing management tool.

Eide Bailly

Bringing It All Together: A Profitability Playbook

THE DASHBOARD

The Metrics That Drive Decisions

- A single executive scorecard aligns strategy, finance, and operations around the same numbers — refreshed continuously, not at month-end.

Profitability

- Operating margin
- Operating EBITDA margin
- Cost per adjusted discharge

Liquidity & Leverage

- Days cash on hand
- Cash-to-debt
- Debt-to-capitalization

Revenue cycle

- First-pass denial rate
- Days in A/R
- Clean claim rate

Productivity

- Labor cost % of revenue
- wRVU per FTE
- Hours per patient day

Eide Bailly

THE SHIFT

From Rear-View to Windshield

REACTIVE · TODAY

- Month-end surprises drive the conversation
- Retrospective reporting, backward-looking
- Finance, strategy & operations work in silos
- Denials worked after they occur
- Static annual budget anchors decisions

PROACTIVE · TARGET

- Real-time dashboards steer the month
- Predictive analytics & rolling forecasts
- One integrated strategic-financial-operational view
- Denials prevented at the front end
- Scenario planning against 2027 headwinds

PUTTING IT TO WORK

A 90-Day Path to Proactive Finance

DAYS 0–30

Baseline & benchmark

- Compare margin, liquidity & RCM to national medians.
- Stand up the executive KPI dashboard.

OUTCOME A shared baseline and live visibility

DAYS 31–60

Capture quick wins

- Attack front-end denials and A/R days.
- Reduce agency labor and premium pay.

OUTCOME Recovered net revenue and faster cash

DAYS 61–90

Institutionalize

- Align capital plan, covenants & reserves.
- Launch a monthly rolling S-F-O forecast review.

OUTCOME A durable, forward-looking operating rhythm

KEY TAKEAWAYS

Four Decisions that Protect the Margin

01 Manage the intersection, not the silo

Profitability lives where strategic, financial, and operational decisions align — govern them together with shared metrics.

02 Finance for flexibility

Protect liquidity, coverage, and the credit rating now to absorb the reimbursement and Medicaid pressures expected from 2027.

03 Mine revenue cycle and labor

Denial reduction, A/R discipline, and lower agency reliance convert directly into recovered margin and cash.

04 Decide with data, in real time

Replace month-end surprises with dashboards and rolling forecasts to lead proactively, not react.

In Conclusion

Questions?

Traci Rabine, Director
trabine@eidebailly.com
701.476.8737

Rachel Pugliano, Managing Director
rpugliano@eidebailly.com
612.253.6770

Jared Heim, Partner
jheim@eidebailly.com
612.253.6770

Eide Bailly