SOLUTIONS FOR GROWING DISTRESS IN HEALTHCARE

November 16, 2020
Welcome

PATRICK PILCH
National Healthcare Advisory Practice Leader
Senior Managing Director
The BDO Center for Healthcare Excellence & Innovation
With You Today

CHAD BESTE  
Principal  
Healthcare Advisory  
BDO USA, LLP

JIM LOUGHLIN  
Managing Director and  
National Leader  
Business Restructuring & Turnaround Services  
BDO USA, LLP

MICHELE MICHAELIS  
Managing Director  
Business Restructuring & Turnaround Services  
BDO USA, LLP

DEB SHEEHAN  
Managing Director  
Healthcare Advisory  
BDO USA, LLP

SOLUTIONS FOR GROWING DISTRESS IN HEALTHCARE
Framework for Today’s Discussion

Addressing the Current Pandemic
Operational Performance Review & Implementation
Debt Restructuring
Interim Management
Revenue Enhancement Strategies
Key Takeaways
Questions & Answers
ADDRESSING THE CURRENT PANDEMIC
Lower-rated healthcare organizations have about $41.6 billion of outstanding debt, a 28% increase in the past year\(^1\).

Staffing related incidents patient safety at risk

Capital expenditure is less than depreciation

Deferred capital investment is significant

13% loss in gross revenue per full-time physician\(^2\)

IN LOSSES FOR AMERICA’S HOSPITALS AND HEALTH SYSTEMS\(^2\)

Qualified medical staff defecting because of lack of modern equipment, old facilities, risky environment, malpractice issues

Solutions for growing distress in healthcare

**$41.6 B in debt**

Moody’s - Credit stress continues to rise in US healthcare sector as maturities loom, social risks rise, 09 March 2020

2 American Hospital Association - Hospitals and Health Systems Face Unprecedented Financial Pressures Due to COVID-19, data from March 1 to June 30, 2020 May 2020
## Which Subsectors Are Most Impacted?

<table>
<thead>
<tr>
<th>COMMUNITY HOSPITALS</th>
<th>SKILLED NURSING FACILITIES</th>
<th>PHYSICIAN GROUPS</th>
<th>SAFETY NET HOSPITALS</th>
</tr>
</thead>
</table>
| Most at-risk are community hospitals that are not affiliated with a large health system. They don’t have a balance sheet to weather the storm.  
- Extended staff cuts and furloughs  
- Supply shortages  
- Increase in uninsured patients  
- Untenable costs - how to be more efficient | As the baby boomer generation ages, and people live longer with chronic conditions, the unknowns around reimbursement are daunting.  
- Declining consumer confidence is impacting sharp drops in occupancy  
- Negative shocks to cash flow  
- Reliance on outdated technology | Many doctors were forced to close their offices when the pandemic struck, leading to sharp revenue losses, layoffs and pay cuts.  
- Continuing low patient volume  
- Lack of capital access  
- Underperforming operations due to lack of economy of scale  
- Ability to rapidly pivot to telehealth | Many safety net hospitals will have to transform their high-cost structures to remain viable.  
- More outpatient opportunities for the same type of therapy  
- Suffering through cuts in government funding for graduate medical education and research  
- Declining reimbursement from Medicaid and Medicare |
Our Holistic Solution

KEY FOCUS ON DEBTOR-SIDE ENGAGEMENTS

LIQUIDITY MANAGEMENT
- Cash flow forecasts
- Liquidity improvement strategies
- Working capital strategies
- Vendor negotiation strategies

OPERATIONAL IMPROVEMENT
- Operational review/diagnosis
- Revenue enhancement
- Cost reduction opportunities
- KPI development and tracking

TURNAROUND & RESTRUCTURING
- Turnaround strategy development and execution
- Financial modeling and financial projections
- Review all strategic alternatives and exit scenarios

DEBT RESTRUCTURING
- Lender and Creditor discussions
- Capital structure enhancement
- Collateral assessment
- Implementation of strategic alternatives
CONTINUING YOUR BUSINESS THROUGHOUT THE PANDEMIC
How does BDO support providers in assessing their overall clinical performance, and translate that into improvement initiatives?
BDO’s Healthcare Performance Diagnostic

A TOOL BUILT WITH HOLISTIC PERFORMANCE IN MIND
Walk us through how the debt restructuring process typically works. What is unique about restructuring a healthcare entity?
Restructuring and Turnaround Best Practices

**PHASE I: Evaluation & Assessment**
- Evaluate company financials and KPIs
- Assess and address liquidity and capital needs
- Customer, product, location profitability
- Company viability assessment
- Determine implications of strategic alternatives to company and its creditors

**PHASE II: Restructuring, Operational & Financial**
- Identify and quantify necessary changes to operations
- Establish implementation timeline with benefits and costs with management
- Review and assess management’s projections and cash requirements
- Develop communication plan for key stakeholders
- Develop and/or assess financial restructuring plans

**PHASE III: Implementation**
- Implement the plans
- Ongoing assessment, tracking and communication of performance
- Negotiate agreements between Debtor, Lenders and other Creditors
- In or out-of-court restructuring plan implementation
- Sales transactions - entire enterprise or select assets
Is there a difference in debt restructuring for non-profit vs for-profit? Does one segment have greater access to capital?
How can healthcare entities use the bankruptcy process to restructure?
Bankruptcy as an Option

Automatic Stay (Reset)
Reject or Renegotiate Leases and Burdensome Contract
Security to Vendors
Reduce Debt & Improve Balance Sheet
Sale of Assets
Eliminate Restrictive Covenants
Improve Cash Position
Can BDO assist healthcare entities that have operational challenges and/or need hands-on assistance?
How can BDO assist in not only reducing costs and improving efficiencies, but expanding the top line?
Key Takeaways
RECREATE THE BUILDING BLOCKS OF BOUNCING BACK

RESPONSIVENESS
PREVENTION
INNOVATION
AGILITY
FLEXIBILITY
ADAPTATION

RESILIENCE REDEFINED
Contact for More Information

CHAD BESTE  
Principal  
Healthcare Advisory  
BDO USA, LLP  
630-667-3943  
cbeste@bdo.com

DEB SHEEHAN  
Managing Director  
Healthcare Advisory  
BDO USA, LLP  
312-286-1821  
dsheehan@bdo.com

JIM LOUGHLIN  
Managing Director and National Leader  
Business Restructuring & Turnaround Services  
BDO USA, LLP  
917-414-1411  
jloughlin@bdo-ba.com

MICHELE MICHAELIS  
Managing Director  
Business Restructuring & Turnaround Services  
BDO USA, LLP  
212-885-7281  
mmichaelis@bdo-ba.com

PATRICK PILCH  
National Healthcare Advisory Practice Leader  
Senior Managing Director  
The BDO Center for Healthcare Excellence & Innovation  
646-472-4976  
ppilchbdo.com

Visit the BDO COVID-19 Response Resource Center for the latest developments:  

Follow us on Twitter:  
@BDOHealth
 Restructuring and turnaround services within the United States are offered through BDO Consulting Group, LLC, a separate legal entity and affiliated company of BDO USA, LLP, a Delaware limited liability partnership and national professional services firm. Certain restructuring and turnaround services may not be available to attest clients of BDO USA under the rules and regulations of public accounting.