



AMERICAN
BANKRUPTCY
INSTITUTE

2021 Health Care Program

Reactor Panel: Where Have the Restructurings Gone?

Andrew C. Helman, Moderator

Dentons Bingham Greenebaum | Portland, Maine

M. Benjamin Jones

Ankura Consulting Group, LLC | New York

Deirdre A. O'Connor

Epiq | New York

Naomi O'Dell

RBC Capital Markets | Chicago

James R. Porter

ToneyKorf Partners, LLC | Charlotte, N.C.

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ABI Healthcare Conference

October 25, 2021

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Biography

James R. (“Jim”) Porter is a Managing Director of ToneyKorf Partners. He has spent more than 25 years working with distressed companies and organizations internationally and in the U.S. by providing turnaround and restructuring services as well as litigation support to maximize stakeholder value and return

Jim’s ongoing work is in the successful financial restructuring of a critical access hospital in New York, where he was responsible for the identification and rapid implementation of Finance and Business Operations initiatives. This allowed the organization to avoid bankruptcy and further develop integrating with a broader system. This work continued into and through the COVID-19 pandemic

Jim also served as the Chief Financial Officer in the restructuring of Brookdale University Hospital & Medical Center, a \$500M revenue distressed hospital located in Brooklyn, New York. He also served as the SVP Restructuring, where he managed various restructuring initiatives in conjunction with the New York Department of Health to stabilize and improve healthcare delivery in East New York



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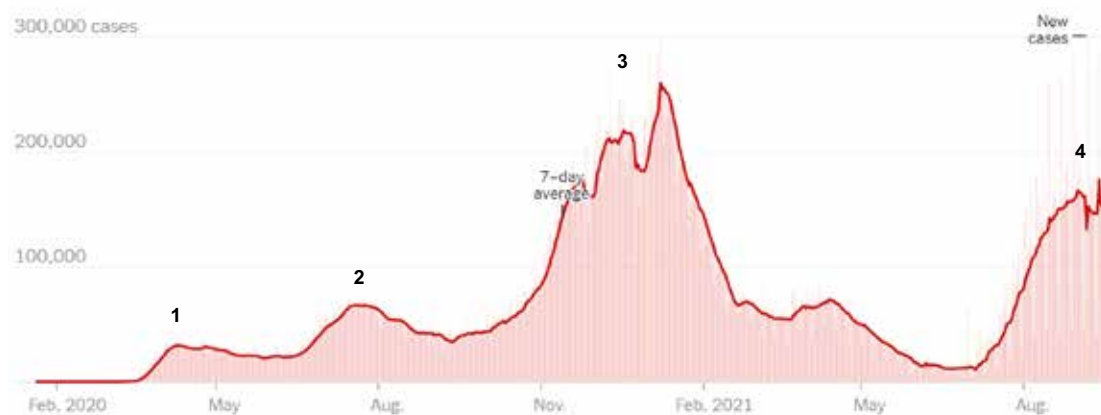
Topics

1. Background and Intro
 - i. Include Bio and firm background. (5 min)
2. Why did we not initially see a wave of bankruptcy?
 - i. Pandemic Impact
 - ii. General Comments (Steven)
 - a. How did we get where we are
 - b. Funding and Stimulus
 - c. What bankruptcies did happen
 - d. Regulatory
 - ii. Issues
 - i. Hospital
 - ii. CCRC
 - iii. LTC
 - iii. What hasn't happened and outlook
3. Conclusion / Q&A (5 min)

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COVID Timeline

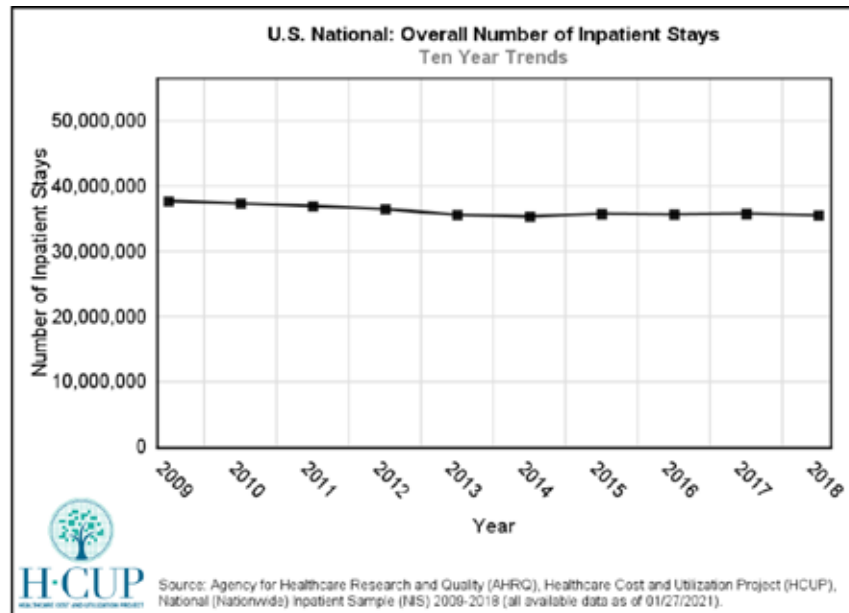


Source: <https://www.nytimes.com/interactive/2021/us/covid-cases.html>

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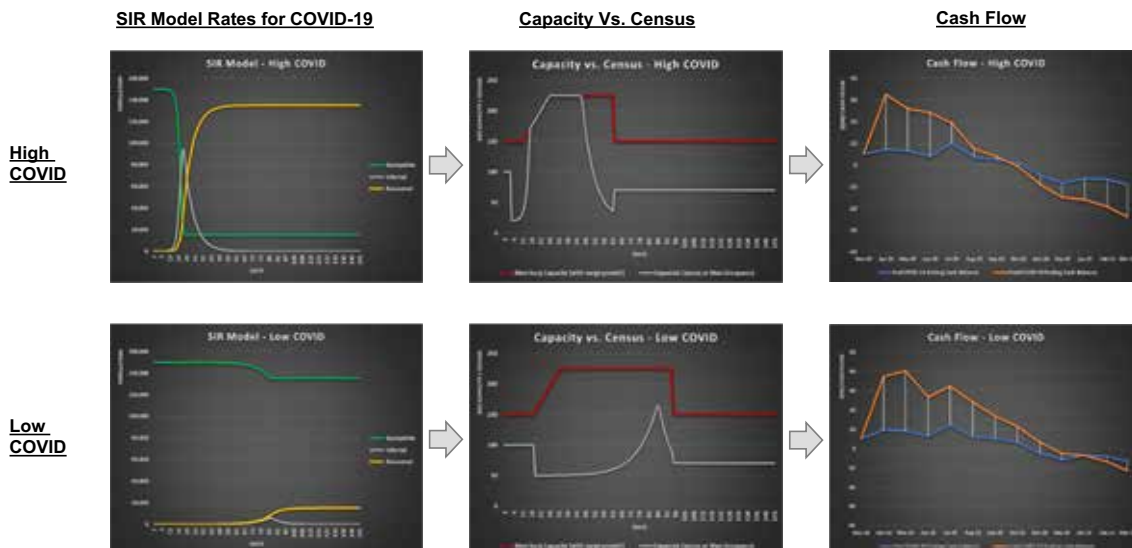
Traditional Inpatient Volumes



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Pandemic Impact and Mitigation Strategies (PIMS)

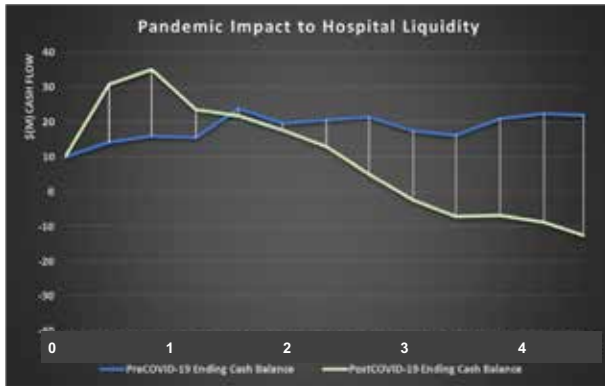


Infection rate drives COVID admissions and loss of elective case volume impacting financial outcome

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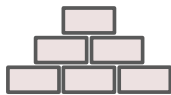
PIMS Links Total COVID-19 impact to Financial Stability

Full financial impact of COVID-19 will require early action

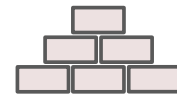


- **ALL HOSPITALS:** dramatic impact regardless of caseload
- **INFECTION RATE IMPACT:** predict magnitude and timing of hospital admission rates and initial financial impact
- **FINANCIAL PROJECTION:** PIMS utilizes case number, acuity, timing, and elective case volume loss
- **ADAPTABLE MODEL:** any hospital system in any region
- **SUPPLEMENTAL FUNDING INSUFFICIENCY:** does not cover lost case volume revenue
- **EARLY ACTION IS CRITICAL:** can significantly improve hospital financial stability from dramatic post-surge losses
- **FAILURE TO ACT = INSOLVENCY:** failure to act early jeopardizes a sustainable recovery for any hospital

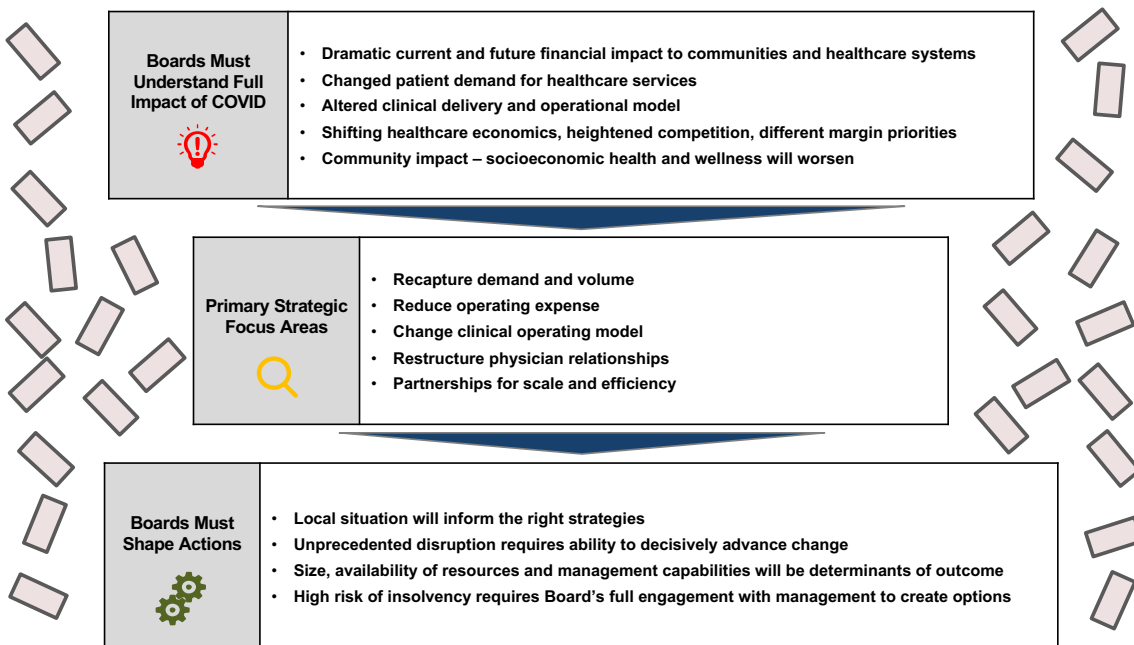
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Reconstructing Healthcare Post-COVID



COVID has injected speed and volatility into healthcare transformation already in process



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Has the CARES Act been good or bad for providers?

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CARES

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed on March 27, 2020, which included a \$100 billion fund intended to support health care providers. An additional \$78 billion was granted on April 23, 2020 totaling to ~\$178 billion of funding

- CARES was intended to stabilize hospital finances as they faced a loss of revenue from the loss of elective procedures and increased costs for PPE and personnel

Eligibility - CARES funds can only be used to reimburse eligible providers for “health care related expenses or lost revenues that are attributed to coronavirus”

Cannot be used for:

- Normal operating expenses
- Capital projects unrelated to coronavirus

As reference \$100 billion roughly equals 9% of total hospital expenses in 2020*

*Source: <https://www.aha.org/system/files/media/file/2020/01/2020-aha-hospital-fast-facts-new-Jan-2020.pdf>

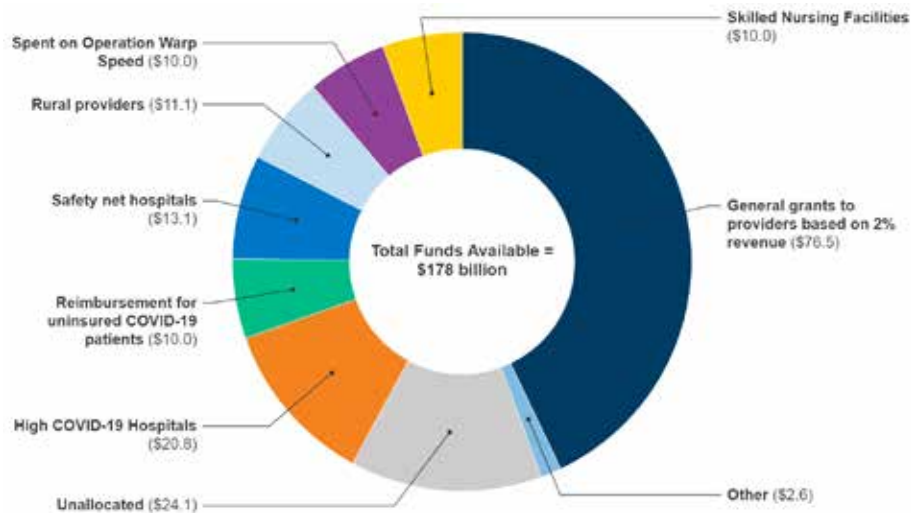
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Allocation of Provider Relief Fund

Out of \$178 billion approximately \$40 billion* has not been distributed and \$24 billion remains unallocated



Source: KFF analysis of HHS announcements regarding provider relief grant allocations and distributions of funds to providers treating uninsured COVID-19 patients and the Government Accountability Office's "COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year," March 11, 2021. *AHA stated that ~\$40 billion of the Provider Relief Fund has not been distributed as of August 17, 2021 - <https://www.aha.org/lettercomment/2021-08-17-aha-urges-hhs-release-covid-19-relief-funds-hospitals-health-systems>
Note that an additional \$25.5 billion was announced in additional distributions and applications for funding begin September 29th, 2021

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Additional Funding Sources for Providers

Health providers were also eligible to receive loans through the Medicare Accelerated and Advance Payment Programs

- 80% of the \$100 billion in loans went to hospitals
- Repayment started as early as March 30, 2021
- A portion of the new Medicare claims will be reduced to repay the loans
- 25% during the first 11 months of repayment and 50% during the next 6 months

Social Security Deferral – Defer payment of 6.2% FICA tax

Paycheck Protection Program – Maximum of 250% of the last 12 months average monthly payroll capped at \$10 million

State and Local Level Foundations and Charities

- Robin Hood COVID-19 Relief Fund
- Mother Cabrini Health Foundation
- New York Community Trust – NYC COVID-19 Human Services

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COVID's Financial Impact And Counting....

The American Hospital Association estimated that hospitals and health systems will lose at least \$323.1 billion in 2020, which includes \$202.6 billion between March 2020 – June 2020 and \$120.5 billion between July 2020 and December 2020



Source: <https://www.aha.org/system/files/media/file/2020/06/aha-covid19-financial-impact-short-0620.pdf>

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The Good and The Bad

Good

- Liquidity
- Focus on operations
- Public perception
- Target those with greatest need
- Avoided mass bankruptcy

Bad

- Inaction
- Masking performance
- Lost focus on finance
- “Use it or lose it” mentality
- Market forces – “gouging”
- What can you buy with the money?
- Timing of funds versus deployment

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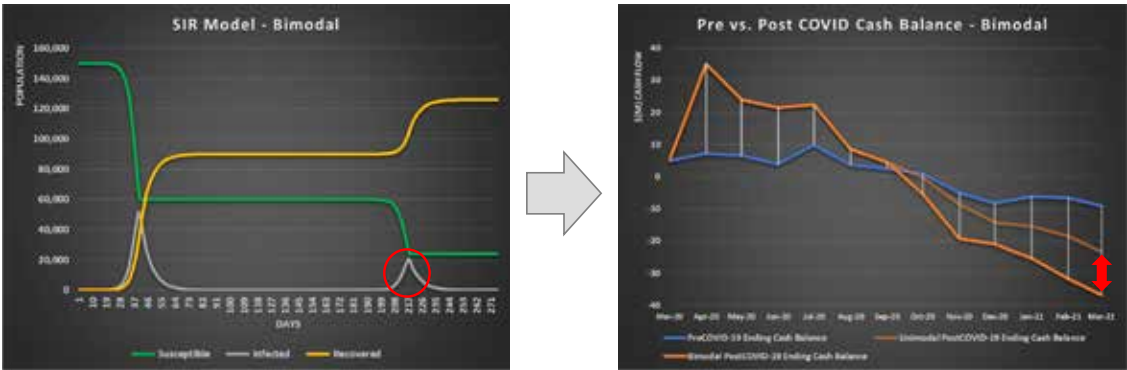
Has it prevented the collapse of our healthcare systems, or has it masked the underlying underperformance, resulting in a delay of needed actions?

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Every Surge Has a Cost

Bimodal COVID-19 impact on financial stability



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COVID Impact to Hospital Bankruptcies

At least 30 hospitals entered bankruptcy in 2019*

At least 47 hospitals have filed for bankruptcy in 2020**

Bankruptcies represent 0.5% of total hospitals in 2019 and 0.8% in 2020

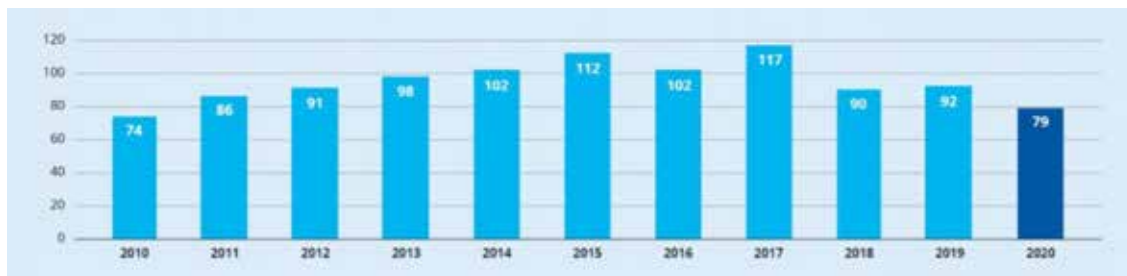
*Source: <https://www.hfma.org/topics/coronavirus/covid-19-exacerbates-bankruptcy-for-at-risk-hospitals.html>

**Source: <https://www.beckershospitalreview.com/finance/47-hospitals-closed-filed-for-bankruptcy-this-year.html>

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COVID Impact on Transactions

COVID-19 had an negative impact on transactions however the number remained within the historical range within the past 10 years



- For-profit health systems increased as a percentage of total transaction to 37% in 2020 from 23% in 2019
- The number of financially distressed sellers was stable but lower in 2020, down to 16% in 2020 from 20% in 2019

Source: <https://www.kaufmanhall.com/insights/research-report/2020-mergers-acquisitions-review-covid-19-catalyst-transformation>

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Other Observations

- Accelerate shift away from hospital-based services
- Continued advances in telemedicine
- New entrants

...so, yes at to prevention...

...what about unintended consequences?

Faculty

Andrew C. Helman is a partner in the Restructuring, Insolvency and Bankruptcy practice group at Dentons in Boston, where he focuses his practice on bankruptcy and insolvency matters and works to restructure all types of businesses, including those in the health care sector. He has served as lead counsel to debtors, trustees, secured parties and others in chapter 11 cases, including having served as independent counsel to a state attorney general in several chapter 11 cases in New England and Delaware. Mr. Helman has particular experience as lead counsel representing rural hospitals in chapter 11 cases, and has successfully confirmed chapter 11 plans that have allowed rural hospitals to continue operating with restructured balance sheets. His practice also includes commercial and insolvency-related litigation. He successfully obtained three temporary restraining orders and a permanent injunction against the U.S. Small Business Administration due to the agency's decision to exclude debtors from participating in the federal Paycheck Protection Program. Mr. Helman frequently writes articles for national insolvency publications and teaches seminars on bankruptcy and fraudulent transfer law. In addition, he co-chairs ABI's Health Care Committee and was honored in ABI's 2019 class of "40 Under 40." Mr. Helman was selected as one of 40 attorneys nationally to participate in the National Conference of Bankruptcy Judges' 2016 NextGen Program. He is ranked in *Chambers* for bankruptcy and restructuring and has been listed in the 2015-20 issues of *Super Lawyers* as a "Rising Star." Mr. Helman received his B.A. *cum laude* from the University of Massachusetts and his J.D. *summa cum laude* from the University of Maine.

M. Benjamin Jones is a senior managing director at Ankura Consulting Group, LLC in New York and has more than 20 years' experience advising and participating in complex corporate reorganizations. He has been involved in all aspects of financial restructuring, serving as a CRO or as an advisor to financially underperforming/distressed companies, lenders, creditors, corporate boards and equity owners. Mr. Jones has advised clients in diverse businesses, including health care, education, professional services, manufacturing, apparel, food processing, retail and entertainment. In addition to serving as an advisor, he has also served in turnaround management positions, including as president, CRO and CFO on numerous occasions for both private and public companies. Mr. Jones has played a key role in dozens of successful restructuring and M&A engagements, including Mariner Post-Acute Networks, Centennial Healthcare, World Health Alternatives, The Penn Traffic Co., Milacron, Lionel, Caraustar Industries, Golden Books Family Entertainment and Rand McNally. Prior to joining Ankura, he was a senior managing director at CDG Group and started his career at Ernst & Young, where he worked in the national research group and financial advisory services group, focusing on valuations and middle-market corporate finance transactions. Mr. Jones received his B.S. in accounting with distinction from Wake Forest University.

Deirdre A. O'Connor is a senior managing director for corporate restructuring at Epiq in New York. With more than 30 years of restructuring experience in law, government, corporate finance and technology-enabled legal solutions, she is responsible for business development and strategic initiatives in all types of restructuring matters. Ms. O'Connor supports corporate sales initiatives by analyzing new market growth areas that align with existing product offerings. She has several years of experience in the leveraged finance industry, having most recently served as managing director at Wells Fargo Capital Finance, where she provided finance solutions to distressed companies. Ms.

O'Connor has also served as the U.S. Trustee for the Southern District of New York and oversaw the administration of some of the largest bankruptcies in history. In addition, she served as an Assistant U.S. Attorney for the District of Connecticut in both the civil and criminal divisions. Ms. O'Connor was the inaugural recipient of IWIRC's Women of the Year in Restructuring and has received the St. Francis Service Award by Catholic Renewal of Catholic Charities of Greater New York. She also is an ABI member and serves as on the advisory board for its Health Care Program and New York City Bankruptcy Conference. Ms. O'Connor is an adjunct professor at St. John's University School of Law's L.L.M. Program. She received her B.A. from New York University and her J.D. from Quinnipiac University School of Law.

Naomi O'Dell is a director with RBC Capital Markets, LLC in Chicago, which specializes in health care and nonprofit lending. Her industry background includes senior living, charter schools, universities, student housing, hospitals, museums, theaters and other charitable organizations. Ms. O'Dell has sourced and negotiated approximately \$400 million in property and note sales within the health care and nonprofit sectors. Prior to joining RBCCM in July 2018, Ms. O'Dell managed multiple asset-recovery divisions at Santander Bank, N.A., supervising more than \$4.0 billion in assets. She has been involved in nearly 200 financings across the country, encompassing the full credit life cycle from seed capital/new construction through debt restructure/property disposition. She also has sourced and negotiated approximately \$400MM in property and note sales. Ms. O'Dell has experience with depositions and trial testimony in both bankruptcy and civil courts. She is currently registered with FINRA with Series 52, 63, and 79 securities licenses. Ms. O'Dell received her B.A. in marketing from Bradley University in 2002.

James R. Porter, ACA, JIEB, CIRA, CPE is a managing director with ToneyKorf Partners, LLC in Charlotte, N.C., and has more than 25 years of experience as a restructuring professional. He moved to the U.S. in 2003 from the U.K. after working for the Joint Provisional Liquidator in a major-cross border bankruptcy. Mr. Porter's ongoing work is in the successful financial restructuring of a critical access hospital in New York, where he was responsible for the identification and rapid implementation of Finance and Business Operations initiatives. This allowed the organization to avoid bankruptcy and further develop integrating with a broader system. This work continued into and through the COVID-19 pandemic. Mr. Porter was named president of the Turnaround Management Association (Carolinas Chapter) for 2020. He served as the CFO in the restructuring of Brookdale University Hospital & Medical Center, a \$500M revenue distressed hospital located in Brooklyn, N.Y. He also served as the SVP Restructuring, where he managed various restructuring initiatives in conjunction with the New York Department of Health to stabilize and improve health care delivery in East New York. This ultimately resulted in the formation of the One Brooklyn Health system, for which he oversaw its finance integration. Prior to ToneyKorf, Mr. Porter was a partner at Grant Thornton in its Charlotte, N.C., office, where he led the successful financial restructuring of the US National White-water Center. He currently serves as vice-chair of this organization. Mr. Porter received his B.S. in mechanical engineering from Nottingham University, U.K.