



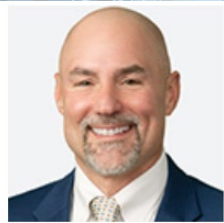
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Webinar: Predicting Distress and Opportunities in the Health Care Sector

Hosted by ABI's Health Care
Committee

December 11, 2023
12:30 – 1:45pm EST

Panelists



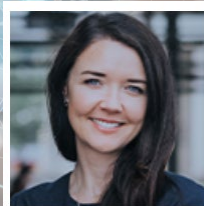
Christopher A. Ward
Polsinelli PC
Wilmington, Del.



Daniel Steingart
Moody's Investors
Service, Inc.
New York



Ryan Sowers
Definitive
Healthcare, LLC
Framingham, Mass.



Clare Moylan,
Moderator
Gibbins Advisors, LLC
Nashville, Tenn.



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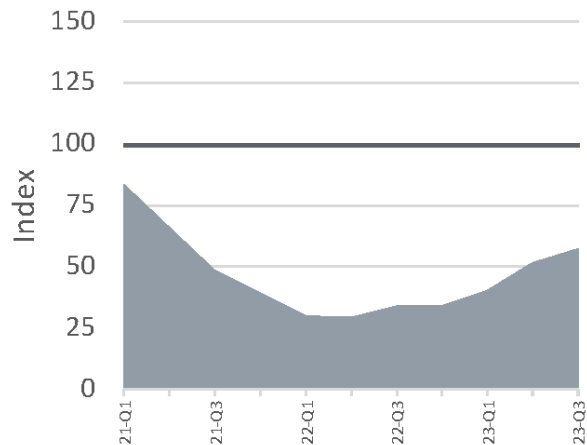
Webinar: Predicting Distress and Opportunities in the Health Care Sector

POLSINELLI | TrBK

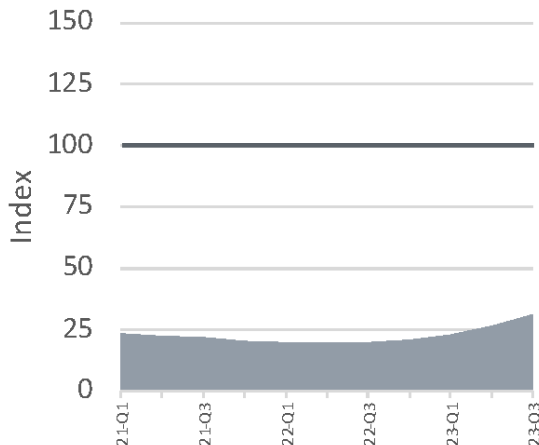
November 2023

DISTRESS INDICES

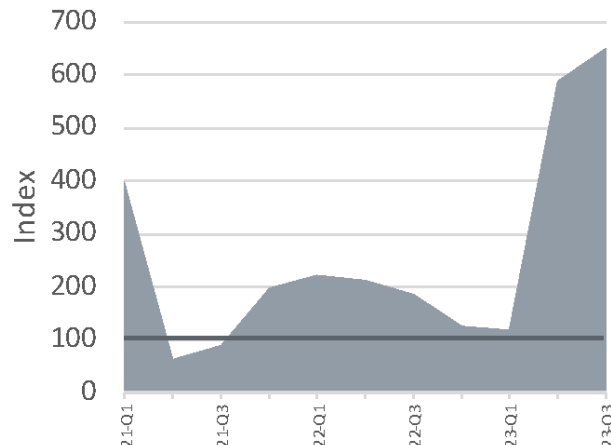
Chapter 11
Distress Index - 2021-2023



Real Estate
Distress Index - 2021-2023



Health Care Services
Distress Index - 2021-2023





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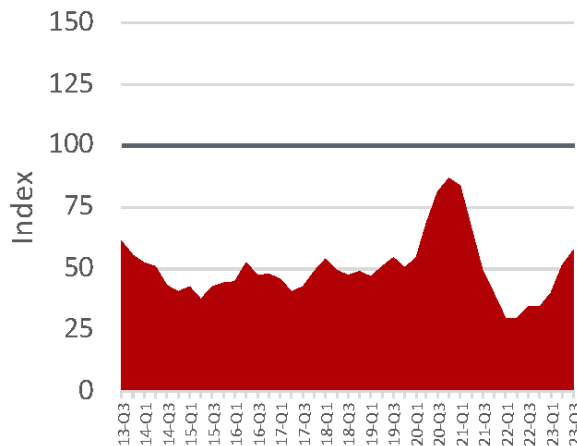
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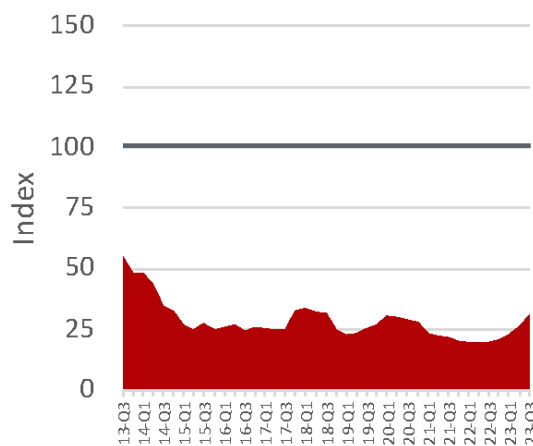
DISTRESS INDICES

November 2023

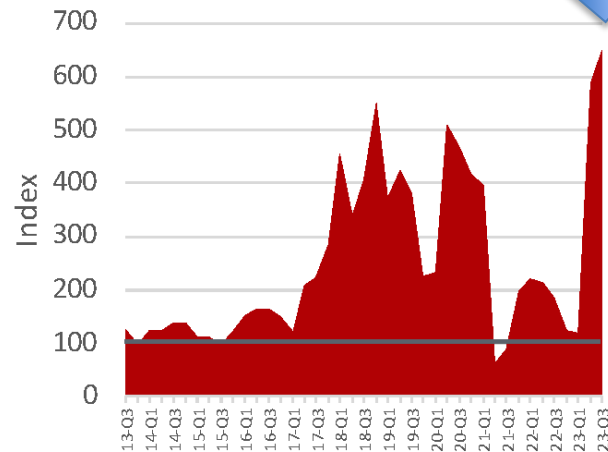
Chapter 11
Distress Index - Historical



Real Estate
Distress Index - Historical

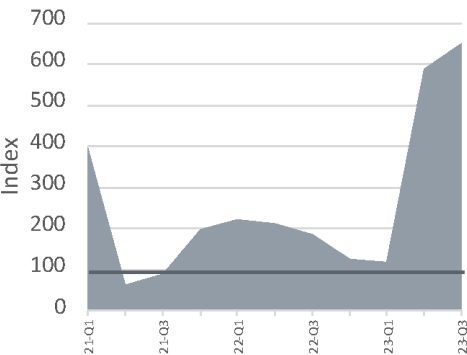


Health Care Services
Distress Index - Historical



Indices based on trailing four-quarter average, with trailing four quarters ending 10-Q4 equaling 100 as index baseline; minimum and maximum values based on 10-Q4 index value and forward.

Health Care Services Distress Index



For the third quarter of 2023, the Health Care Services Distress Research Index was 650.00. This represents an increase of over 61 points from last quarter.

Current	Last	1 Year
650.00	588.33	186.67

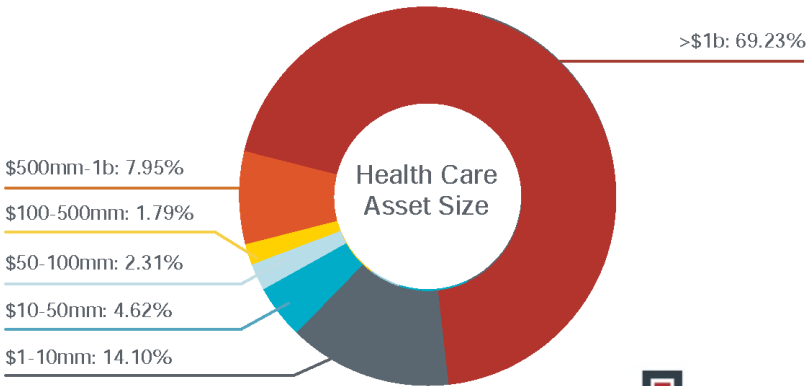
For a look at the underlying causes that are creating financial distress in the health care services industry from previous high levels, see the 2015 Polsinelli | TrBK Distress Indices Special Report: Causes of Health Care Distress in 2014, released on August 13, 2015, and available at www.distressindex.com.

Volatility

Case filing numbers measured in the Health Care Services Distress Research Index show similar volatility to the other Polsinelli | TrBK Distress Indices when comparing only whether the number is greater or less. Since the benchmark period of the fourth quarter of 2010, filing numbers declined 24 times compared to the prior quarter and increased 27 times, similar to the other indices. The index is measured on a trailing four-quarter basis to smooth out volatility and provide a better picture of long-term trends. The Health Care Services Distress Research Index has declined 21 times compared to the prior quarter and increased 26 times, reflecting the upward trend in general filing levels since 2010.

Asset Size

The percentage breakdown of index filings for the current period by asset size is:



3rd

QUARTER 2023

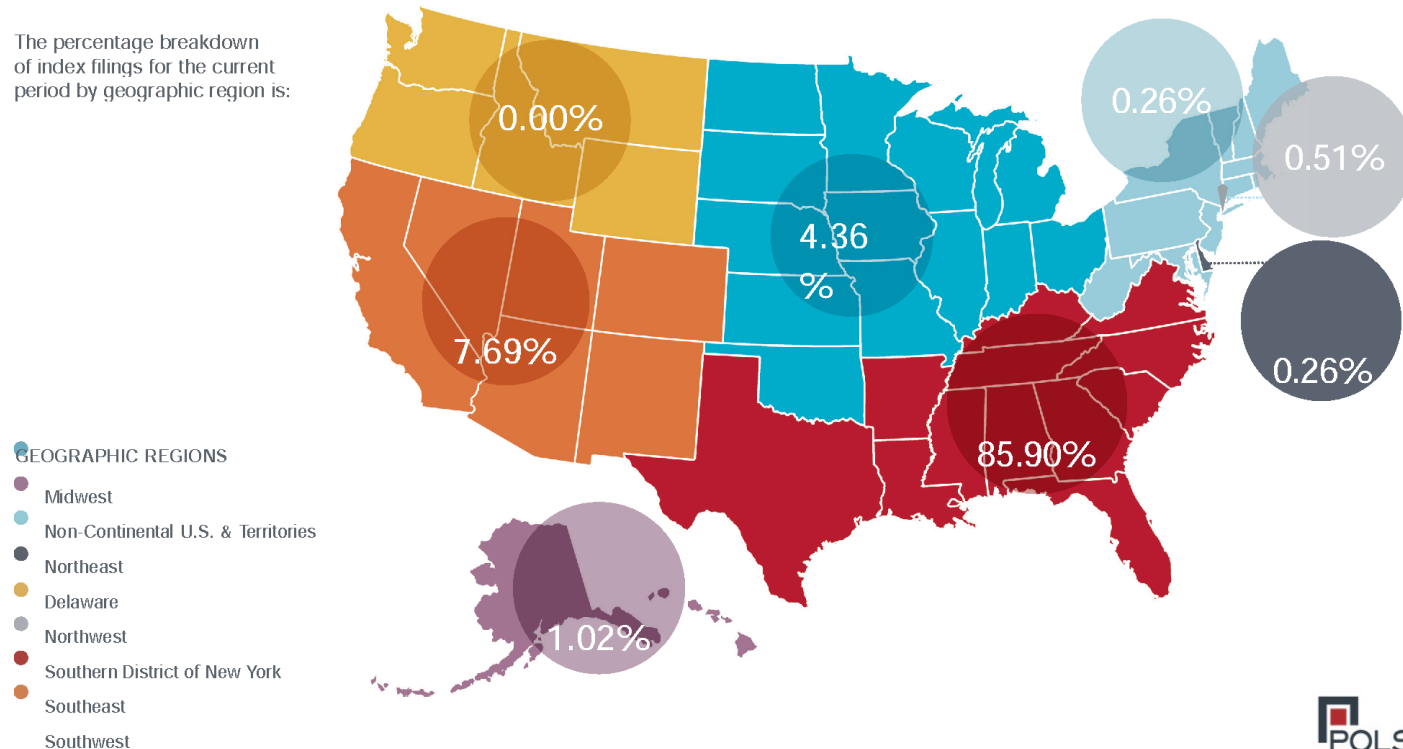
ANALYSIS

HEALTH CARE SERVICES DISTRESS RESEARCH INDEX

November 2023

Geography

The percentage breakdown of index filings for the current period by geographic region is:





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NFP Healthcare Outlook

December, 2023

Dan Steingart



Webinar: Predicting Distress and Opportunities in the Health Care Sector

NFP Healthcare outlook revised to stable

However, recovery is bumpy, and a full rebound will be gradual



Operating cash flow and margins will improve



Revenue growth will slightly top expense growth



Liquidity will remain healthy despite use of cash for capital spending



Covenant headroom will improve for most issuers



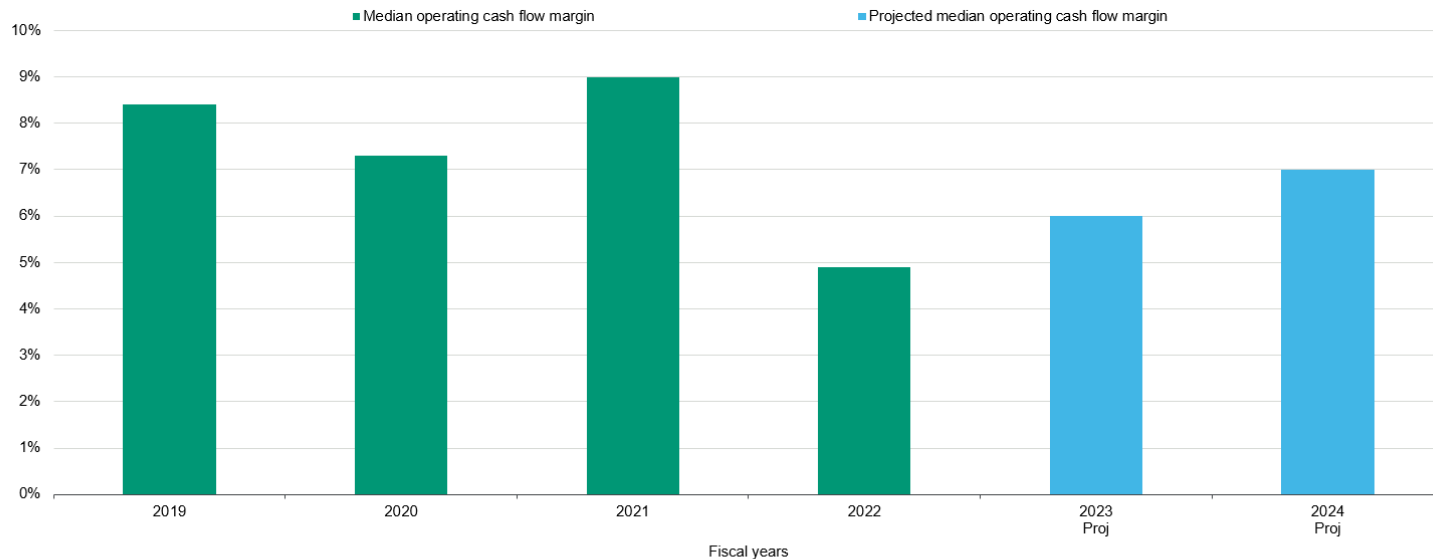
Federal and state policies offer opportunities and risks



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Operating cash flow and margins will improve

Still, the median OCF margin will trail pre-pandemic



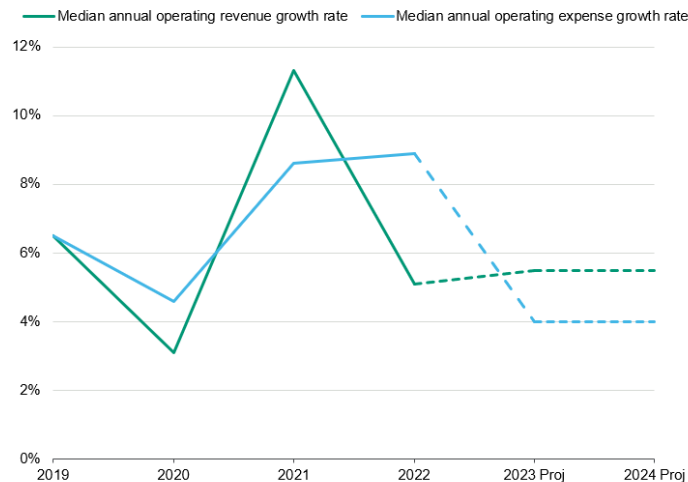


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Revenue growth will slightly top expense growth

Strict expense management will be required to maintain path to recovery

- Modest rebound in patient volumes, outpatient volumes leading recovery
- Higher-than-average reimbursement rate increases for some providers
- Improvements in revenue-cycle management
- Growth in labor costs will decelerate
- Easing inflation will slow growth in costs



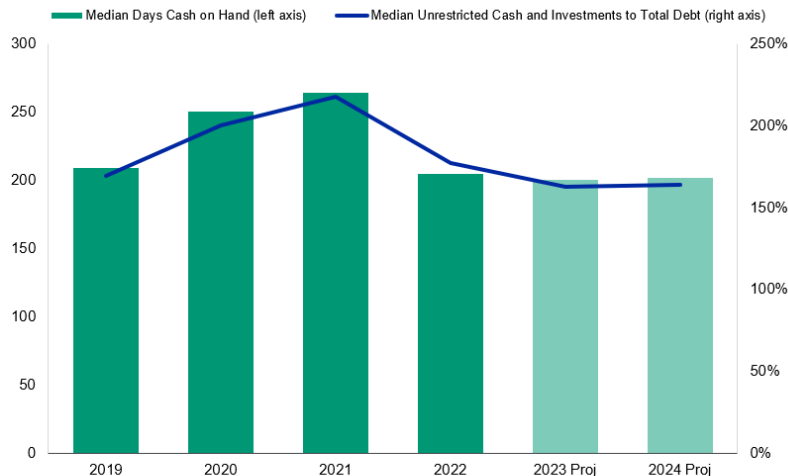


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Liquidity will remain an anchor for the sector

Median days cash on hand will be above 200 days

- Days cash on hand will remain around pre-pandemic levels
- Hospitals will mainly use cash to fund investments
- The sector will remain subject to any volatility in investment markets





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Developments to watch

2024 macroeconomic trends



Labor shortage

- Structurally higher labor costs to persist
- Unions emboldened



Mergers & Acquisitions

- Continued scrutiny at federal level
- Distressed systems will look to partner



Federal and State Policies

- State programs can be a big stabilizer
- 340B/drug pricing
- End of continuous Medicaid enrollment
- Minimum nurse-to-patient ratios



Technology & Cyber

- Artificial Intelligence brings revenue cycle & clinical potential
- Ongoing cybersecurity investment will further raise costs
- Potential operating disruption



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Covenants violations on the decline, although risks remain

Roughly 7% of hospitals breached covenants in 2022 and 2023

Credit fundamentals and remedies are key	Proactive management can help avoid deterioration	Debt service violations to decline	Default and/or debt payment acceleration will be limited
<ul style="list-style-type: none">» A covenant breach will not always result in degradation of credit quality.» Impact to credit will depend on underlying strengths	<ul style="list-style-type: none">» Hospitals benefit from management that carefully monitors covenants» Amending agreements, liquidating investments and drawing on lines of credit can be effective tactics	<ul style="list-style-type: none">» Debt service coverage headroom will be constrained for roughly 25%» Hospitals with days cash on hand covenants and weak liquidity will also face the risk of narrow headroom	<ul style="list-style-type: none">» Default and accelerated debt repayments are rare» Some distressed hospitals will look to partner or divest assets to keep operating



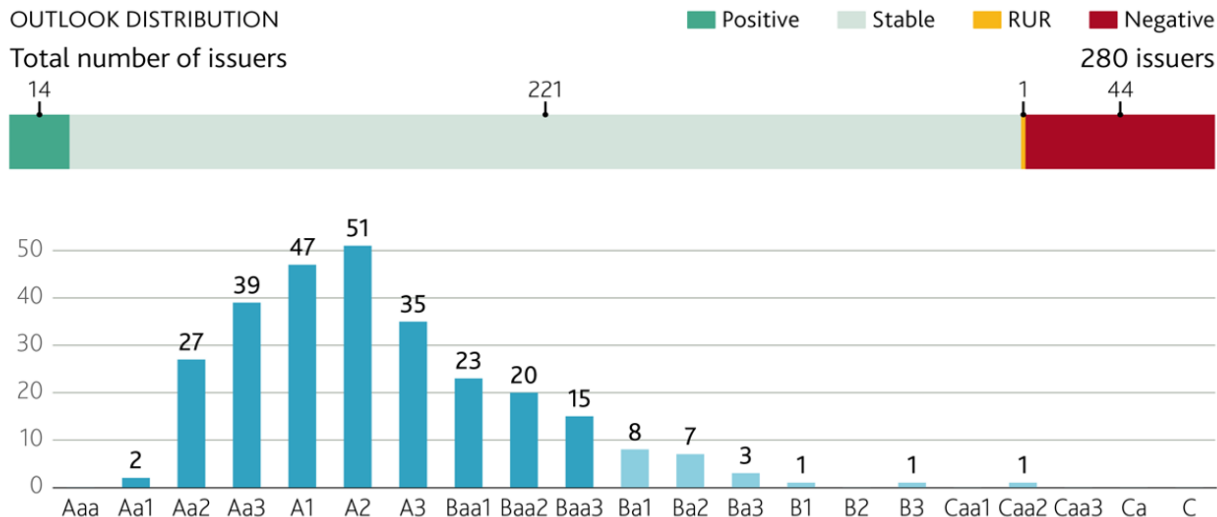
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Healthcare ratings remain strong

Nearly 80% of outlooks stable and 92.5% of credits are investment grade

OUTLOOK DISTRIBUTION

Total number of issuers

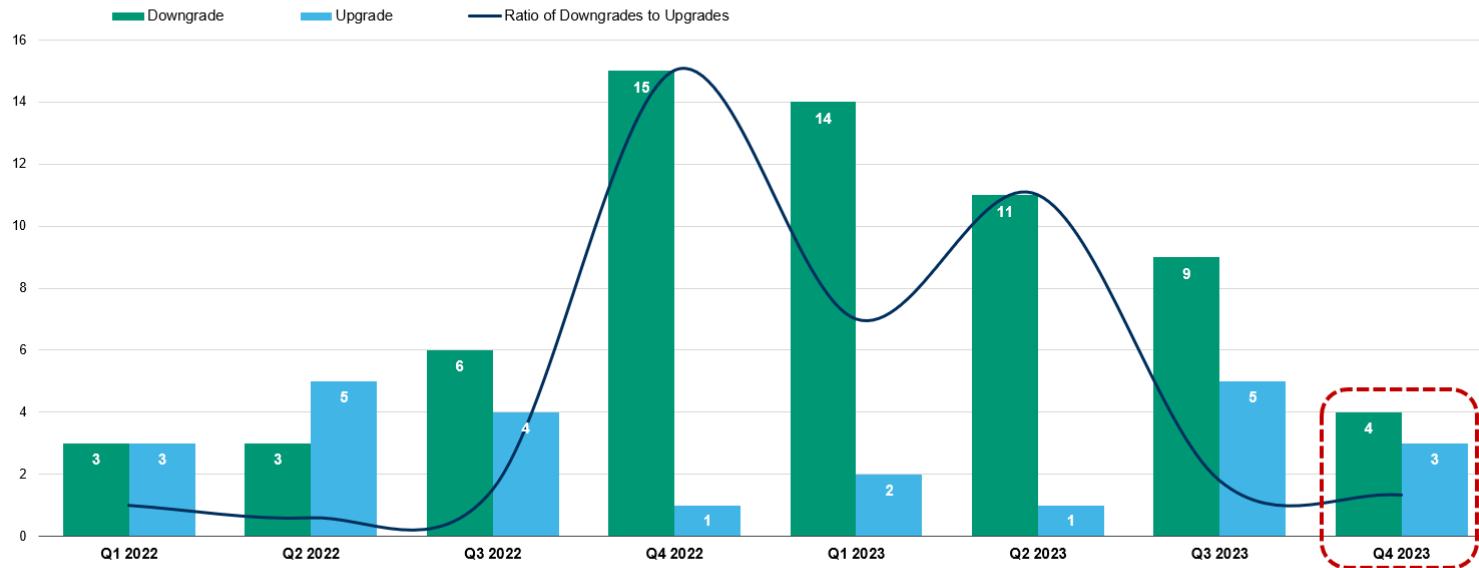




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Downgrades have steadily declined from Q4 2022 high

Quarterly rating actions through November 30, 2023





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What could change the outlook?



The outlook could move to positive if the median OCF margin is above 8%, likely driven by significantly slower expense growth and better reimbursement prospects. A substantial rise in labor or supply costs or a disruption in volume recovery could lead to a negative outlook





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Contact our panelists



Christopher A. Ward

*Polsinelli PC
Wilmington, Del.*

Christopher Ward

*Chair, Bankruptcy & Restructuring
Managing Shareholder, Delaware
President Elect, American Bankruptcy Institute
222 Delaware Avenue, Suite 1101
Wilmington, DE 19801
302.252.0922 (direct)
302.507.3910 (cell)
cward@polsinelli.com*



Ryan Sowers

*Definitive
Healthcare, LLC
Framingham, Mass.*

Ryan Sowers

*Vice President, Head of Data Science
Definitive Healthcare
Corporate headquarters: 492 Old Connecticut Path,
Suite 401, Framingham, MA 01701
rsowers@definitivehc.com*



Daniel Steingart

*Moody's Investors
Service, Inc.
New York*

Daniel Steingart, CFA

*Vice President/Senior Credit Officer
Public Finance Group | Healthcare
Moody's Investors Service
7 World Trade Center
250 Greenwich Street
New York, NY 10007
415.203.7714 tel
daniel.steingart@moodys.com
www.moodys.com*



**Clare Moylan,
Moderator**

*Gibbins Advisors, LLC
Nashville, Tenn.*

Clare MOYLAN, CFA

*Principal
Gibbins Advisors, LLC
1900 Church Street, Suite 300,
Nashville, Tennessee 37203 . Office
Phone: (615) 696 6556
cmoylan@gibbinsadvisors.com
www.gibbinsadvisors.com*

abiLIVE Faculty: Predicting Distress and Opportunities in the Health Care Sector

Christopher Ward represents companies facing stress and distress with a business-minded, client-driven approach. He has represented clients in corporate bankruptcy, financial restructuring, business divorce, bet-the-company litigation and distressed asset sales for the last two decades. He has extensive experience in Delaware in addition to working nationally, which is an added benefit when dealing with corporate governance, independent directors and special committees facing fiduciary duty concerns. Chris also serves on the Board of Directors of the American Bankruptcy Institute and is the Vice President-Development, which provides him with full-insight into the restructuring community.

As Chair of the Bankruptcy and Restructuring practice and Managing Shareholder of the Delaware office, Chris routinely tackles financial restructurings, litigation, business divorces, fiduciary investigations and asset sales with a creative and efficient, yet aggressive approach. In bankruptcy, he has significant experience in representing Chapter 11 debtors, Boards of Directors and Managers, litigants and Official Committees, which allows him to provide his clients with invaluable insight into all aspects of the restructuring playing field. As a result, Chris advises his clients in situations where a negotiated resolution may be the appropriate course of action or, when an agreement cannot be reached, he aims to zealously push his client's interests forward in litigation.

Chris leads Polsinelli's national bankruptcy practice from Delaware but practices all across the country. Whether it be a bankruptcy, business divorce, corporate governance or another restructuring alternative, Chris has the depth and breadth in his practice to represent clients under stress or in distress no matter what forum or location they may arise.

Clare Moylan is a co-founder of Gibbins Advisors. She is a healthcare professional with a broad base of experience including operations management, turnaround and restructuring, bankruptcy, strategic planning, business analysis, performance

improvement consulting and litigation support. The combination of operational leadership, business/financial acumen, strategic mindset and calm demeanor create a strong and versatile skill set that Clare brings to each engagement.

Clare's experience covers the public, private, and not-for-profit sectors across the healthcare continuum: primary care, acute care hospitals, nursing homes, hospice, specialty practice clinics, assisted living and home health care.

Early in 2020, Clare was appointed the Interim Director COVID-19 Response for Australia's second largest private hospital system (43 hospitals) supporting its crisis response and 5-year strategic plan. Through 2021 she led their nationwide COVID vaccination policy program, as well as supporting multiple programs to solution and deliver performance improvement initiatives valued at over \$20 million annually.

Prior to founding Gibbins Advisors, Clare was the Managing Partner of Healthcare Management Partners, a healthcare-specialist turnaround and restructuring professional services firm. In that role, she established the Nashville (Tennessee) headquarters and more than doubled the size of the firm.

Ryan Sowers is vice president and head of Data Science at Definitive Healthcare, LLC in Framingham, Mass. He focuses on statistical modeling, including regression, logistic regression, cluster analysis, decision trees, multivariate analysis, ANOVA, ANCOVA, CHAID, time series analysis, predictive modeling and forecasting, and machine learning. He also is experienced in natural language processing, commercial strategy, customer segmentation, quantitative market research, business and data analytics, data management and social network science. Mr. Sowers also has pharmaceutical expertise in the areas of sales force alignment and performance measurement, price sensitivity and copay offset programs, market-sizing and segmentation, therapy adherence and persistence, patient outcomes, patient and physician profiling, product launch strategy, claims data analysis, patient journey and cost-of-care analysis. In the financial services realm, he has experience in quantitative stock selection modeling, portfolio management, backtesting and simulation, and multivariate portfolio attribution. Previously, Mr. Sowers was a senior director and data scientist with Decision Resources Group, a senior data scientist with Slalom Consulting, and chief data scientist with Transform. He received his B.A. in economics and B.S. in computer

science from the University of Rochester, and his Master's in statistics from Harvard University.

Daniel Steingart is a vice president and senior credit officer with Moody's Investors Service, Inc. in New York.