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Healthcare Bankruptcy Spike Underscores Unique Vulnerabilities

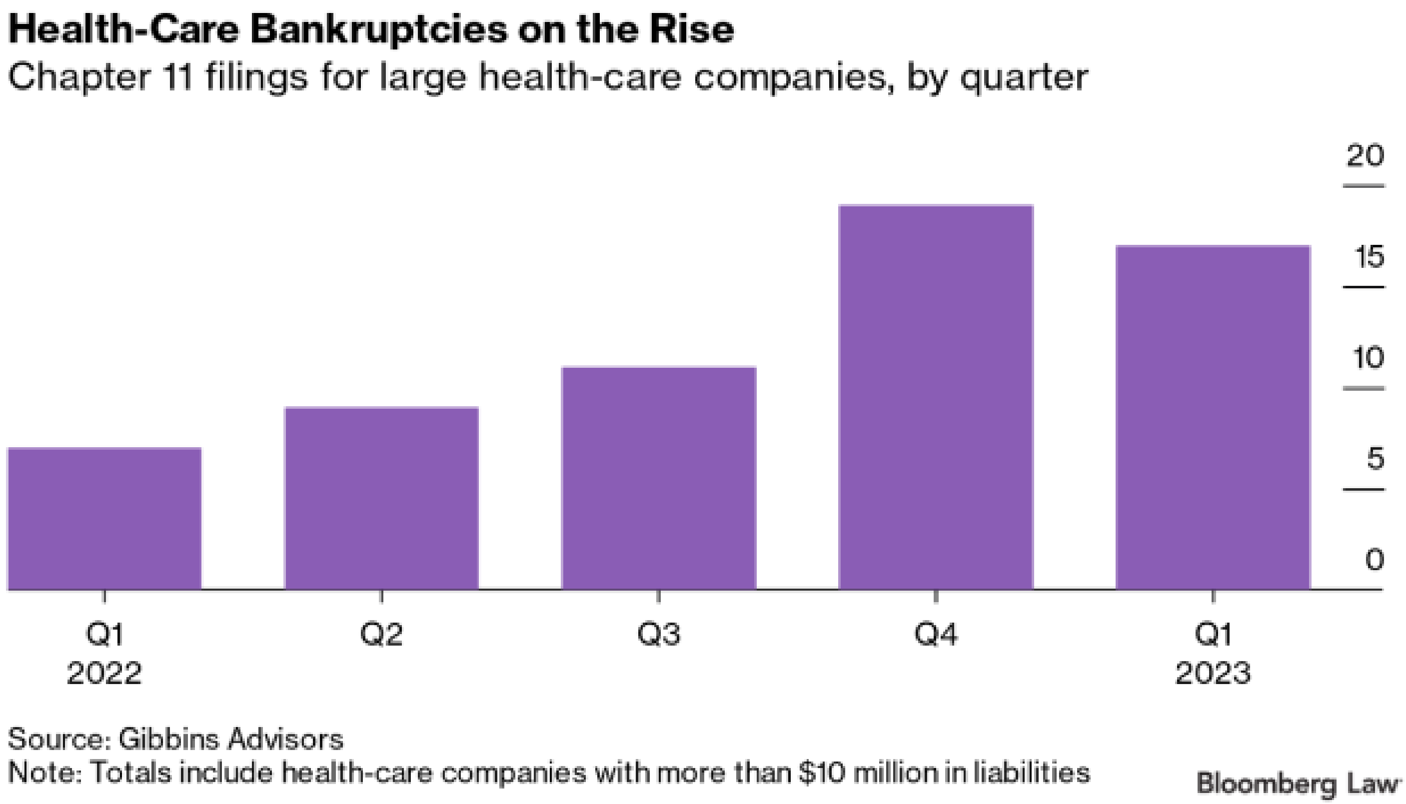
By Evan Ochsner 2023-06-09T05:00:05000-04:00

- Q1 bankruptcies spiked compared to 2022
- End of government cash brought 'day of reckoning'

Healthcare bankruptcies have recently spiked as labor shortages and rising interest rates neutralize an industry boost once fueled by the government's pandemic aid.

In the first quarter of this year, 17 healthcare companies with more than $10 million in liabilities—ranging from a hospital to senior living centers to early stage pharmaceutical product developers—filed Chapter 11, according to data compiled by Gibbins Advisors, a healthcare restructuring consulting firm. In the year-ago period, seven companies filed.

Sorrento Therapeutics, Invacare Corp. and Envision Healthcare are among the healthcare companies that have recently filed for bankruptcy protection.



“Once the government money ran out, once all the stimulus dollars around healthcare ran out, there was essentially going to be this backwash,” Timothy Dragelin, a healthcare director at FTI Consulting said. “The fact that labor costs increased substantially—you also had the issues with supply chain and supply chain caused some disruptions.”

Sluggish economic factors that have contributed to a general rise in Chapter 11s have also hurt the healthcare business. But the industry requires large staffing and the aftereffects of rising labor costs have been particularly acute.

Healthcare bankruptcies spiked sharply late last year, and tapered out a bit in the first three months of this year. But the first-quarter numbers are still higher than a year ago, and the rate of new bankruptcy filings are expected to spill over into the second quarter, industry analysts say.

GenesisCare, a KKR-backed cancer treatment operator, pointed to a wide range of factors behind its bankruptcy.

“Operational challenges, industry and regulatory headwinds, and the lingering impacts of COVID-19 have significantly strained the global business’s liquidity,” GenesisCare, which filed Chapter 11 on

June 1, said in a court filing.

Inflation, Rising Wages

The healthcare sector was propped up largely by demands stemming from the pandemic. The federal government distributed more than $700 billion in health spending related to the pandemic, according to the Committee for a Responsible Federal Budget. That includes $160 billion in grants to hospitals, assisted living facilities and other providers.

The end of the government money brought a "day of reckoning" for many struggling companies, Dragelin said.

SiO2 Medical Products, which filed for Chapter 11 in March, said in its filings that its "liquidity crisis can be traced, at least in part, to government contracts the Company was awarded in the wake of the COVID-19 pandemic, and the rapid ensuing change in government and customer demand."

Healthcare companies requiring heavy staffing have suffered post-pandemic.

Senior care companies paced the healthcare industry in Q1 Chapter 11 filings, according to the Gibbins data.

Labor-intensive healthcare companies, like senior living, also became vulnerable to changes in worker pay because it accounts for 60% to 65% of their expenses, Dragelin said.

Envision Healthcare, a medical staffing company that filed Chapter 11 last month to cut $5.6 billion in debt, pointed to upward pressures on wages in its bankruptcy court filings. The pandemic created a nationwide labor shortage after many clinicians left the workforce, Paul Keglevic, its chief restructuring officer, said in a filing. The company has spent an additional $330 million on labor since 2019, Keglevic said.

"Envision has increased clinician wages to a competitive level in line with the post-COVID 'new normal,' paying what is necessary to ensure that its facilities had all of the equipment and supplies needed to deliver necessary and life-saving care," he said.

Meanwhile, inflation and rising rates are also contributing to industry struggles. Medicare and Medicaid reimbursement make up a large portion of health care providers' revenue. But the payments typically lag behind inflation, said Clare Moylan, co-founder of Gibbins Advisors.

"What we've seen is that there's been increases [in Medicare and Medicaid payments], but the level of inflation on costs has been higher than the increases that you're seeing in the revenue rates, so you're getting squeezed on margin," she said.

Four pharmaceutical companies filed Chapter 11 in Q1, according to the Gibbins data. Those firms are often more vulnerable to rising interest rates because they are dependent on investment on venture capital before they bring products to market, Tom Califano, a restructuring partner at Sidley Austin, said.

"They eat a lot of capital before they are commercial, so you've seen those companies really suffer from the lack of available capital out there," he said.

To contact the reporter on this story: Evan Ochsner in Washington at eochsner@bloombergindustry.com

To contact the editors responsible for this story: Maria Chutchian at mchutchian@bloombergindustry.com; Roger Yu at ryu@bloomberglaw.com

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