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Healthcare Restructuring: Trends and Outlook

- Analysis of Chapter 11 Healthcare Bankruptcies since 2019
- Third Quarter 2024 Snapshot

October 2024 *(Approx. 5-minute read)*

Scope of the Data:

- ✓ Chapter 11 bankruptcies
- ✓ Cases with liabilities over \$10 million
- ✓ Healthcare & medical sector cases only (as defined by data source + SIC code)
- ✓ Time period: January 1, 2019 through September 30, 2024
- ✓ 2024F = Forecasted by annualizing the number of filings January 1, 2024, through September 30, 2024



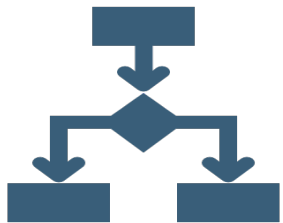
Key Takeaways:

Based on YTD Q3 2024 data, Healthcare Chapter 11 Bankruptcy filings* with liabilities over \$10 million have slowed in 2024 compared to 2023



Trend over time,
by Case Size

- After accelerating to a spike in Q3 2023, **Healthcare Bankruptcy filings*** are trending ~37% lower in 2024 than 2023 (based on annualized YTD Q3 2024 cases).
- Despite a steady stream of large cases exceeding \$100 million in liabilities during Q1 and Q2 2024, only a single filing occurred in this category by Q3 2024.

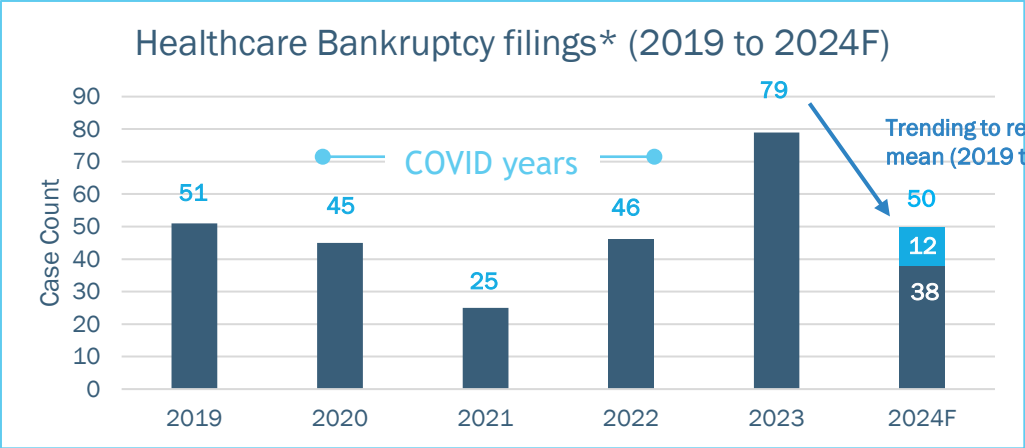


Breakdown
by Sub-Sector

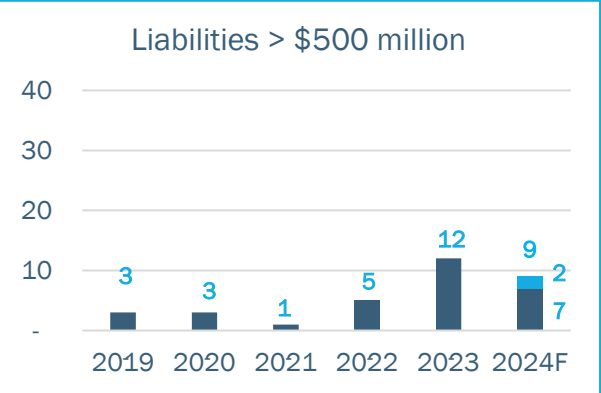
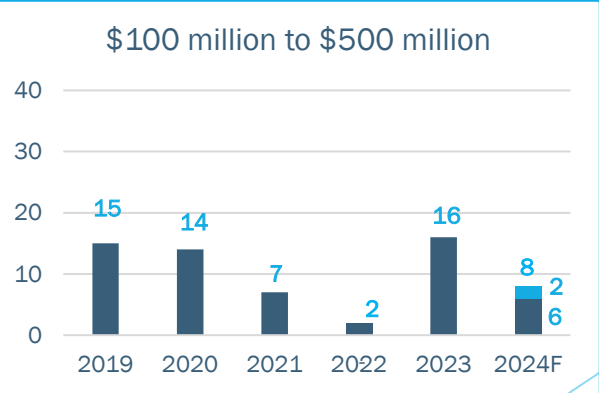
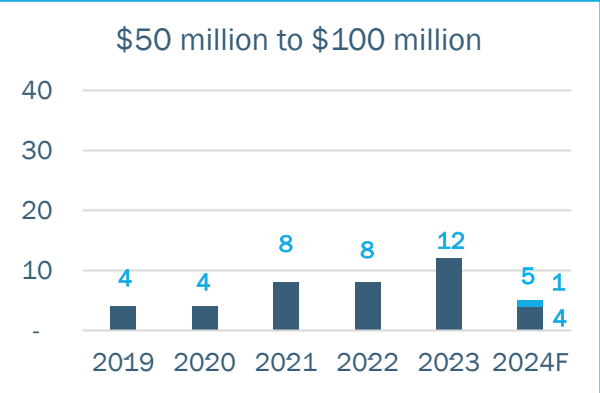
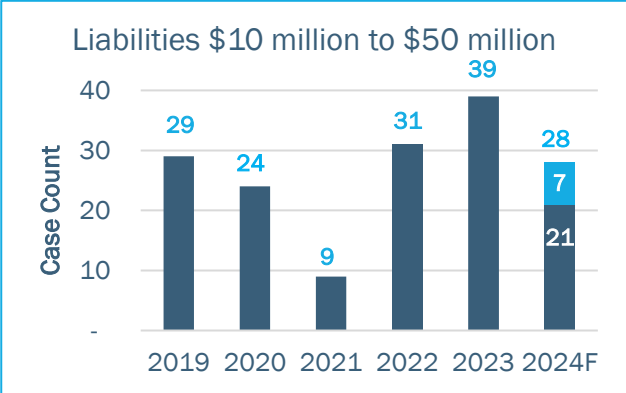
- While most subsectors are experiencing declines in case volumes, **bankruptcies in Clinics and Medical Equipment have remained relatively stable.** Based on annualizing YTD Q3 2024, bankruptcy filings for Clinics and Physician Practices are trending 8% higher in 2024 than in 2023, with Medical Equipment bankruptcies steadily rising since 2021.
- Consistent with previous trends, **Senior Care and Pharmaceutical** subsectors comprised almost half of the total Healthcare Bankruptcy filings*.
- Only one hospital company filed bankruptcy in YTD Q3 2024, but that company (Steward Health Care) included 31 hospitals.

*Cases labeled in the data source as “Healthcare and Medical” and cases from certain other SIC codes which indicate the healthcare industry. Includes only Chapter 11 cases with greater than \$10MM in liabilities. †Healthcare and Medical cases were further divided into subsectors by reviewing SIC codes for each case, along with conducting general research on the relevant entities. “Senior Care” includes skilled nursing facilities, assisted living facilities, independent living facilities, and continuing care retirement communities. Full case list available upon request.

Healthcare Bankruptcies* in 2024 are trending ~37% lower than 2023



Cases of all sizes appear to be slowing down relative to prior years



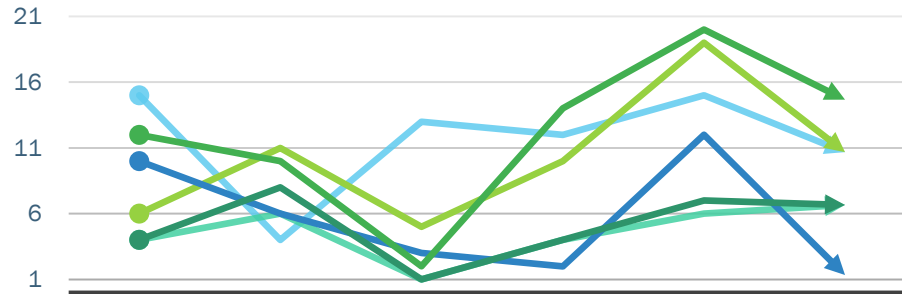
Key: Actual cases Potential cases based on Annualization of Actual cases from Jan-Sep 2024

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By Subsector: Bankruptcies in Clinics and Medical Equipment relatively stable; One hospital sector case filed this year-to-date

There has been one hospital company bankruptcy YTD through September 30, 2024, Steward Health Care in May, that represents the bankruptcy of 31 hospitals

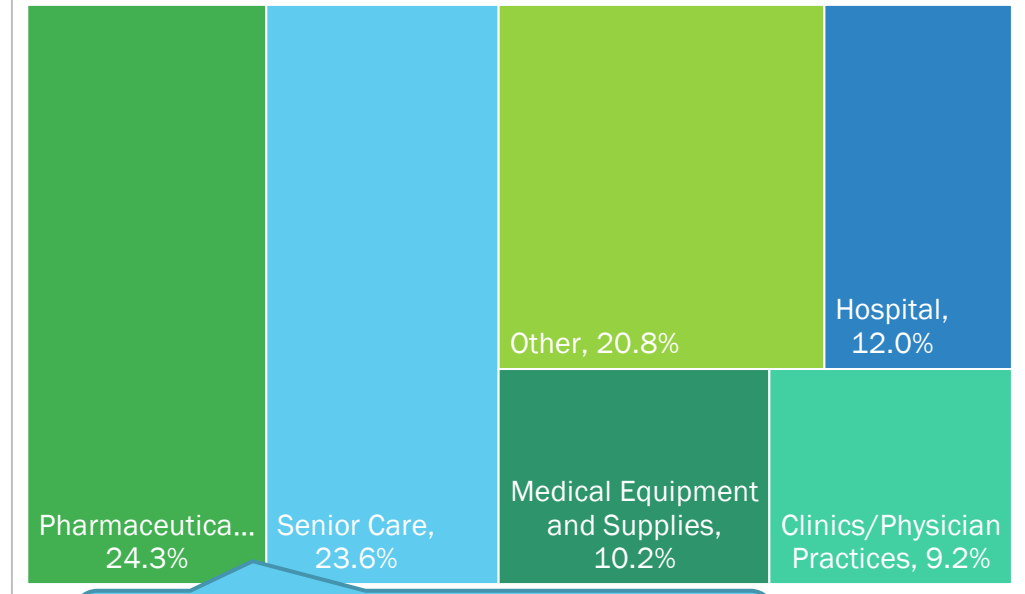
Healthcare Bankruptcies* by SubSector 2019 to 2024F



(4)

	2019	2020	2021	2022	2023	2024F
Senior Care	15	4	13	12	15	11
Clinics/Physician Practices	4	6	1	4	6	7
Other	6	11	5	10	19	11
Hospital	10	6	3	2	12	1
Medical Equipment and Supplies	4	8	1	4	7	7
Pharmaceuticals	12	10	2	14	20	15

Share of Healthcare Bankruptcies* by subsector 2019 to Q3 2024



With Senior care and pharma cases combined comprise almost half the Healthcare Bankruptcy* case volume

While all other subsectors are trending down from 2023, Clinics and Medical Equipment and Supplies are trending flat.

Total Healthcare Cases (2019 - Q3 2024)	Liability range				Total Cases
	\$10-\$50M	\$50-\$100M	\$100-\$500M	\$500M+	
Senior Care	41	8	17	1	67
Hospital	15	5	10	4	34
Clinics/Physician Practices	14	4	3	5	26
Medical Equipment and Supplies	15	5	6	3	29
Pharmaceuticals	29	12	16	12	69
Other	39	6	8	6	59
Liability Class Total	153	40	60	31	284

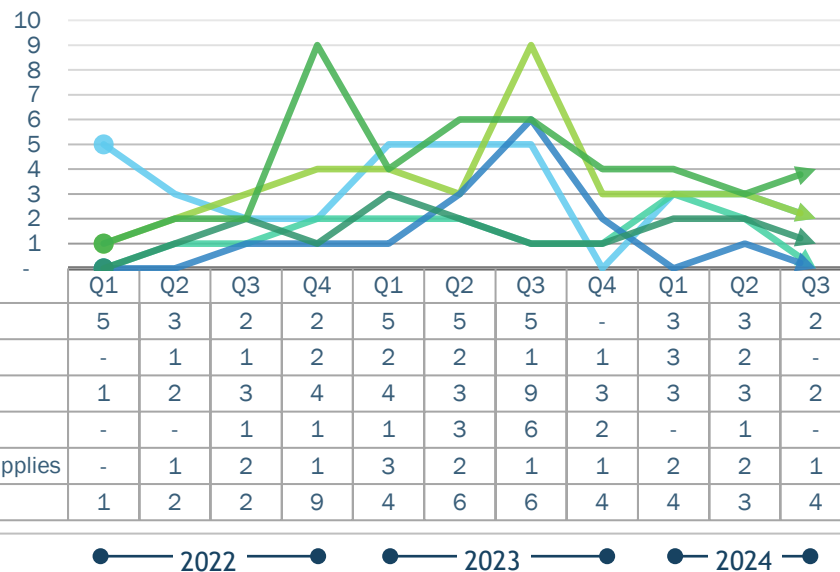
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By quarter: With only nine healthcare bankruptcy filings* in Q3 2024, this marks the lowest number of cases since Q2 2022

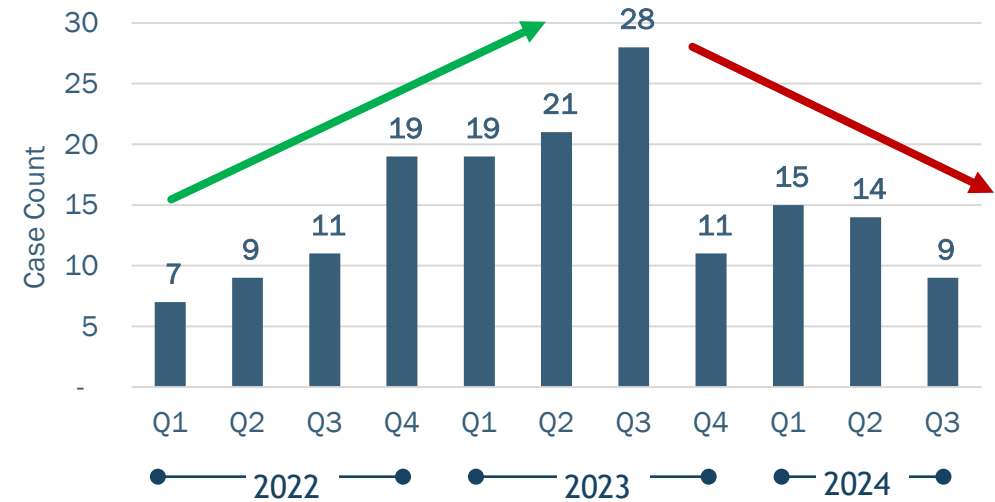
Pharmaceutical filings remain the leader in cases for the 4th quarter in a row

There were no Clinic/Physician Practice cases for the first quarter since Q1 2022

Cases by SubSector, Q1 2022 - Q3 2024 by Quarter



Healthcare Bankruptcies*, Q1 2022 to Q3 2024



Cases by Size	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
\$10 million to \$50 million	11	9	14	5	8	5	8
\$50 million to \$100 million	2	5	4	1	1	3	0
\$100 million to \$500 million	4	4	5	3	3	3	0
More than \$500 million	2	3	5	2	3	3	1

Only one case filed in Q3 2024 with liabilities over \$50 million.

*Cases labeled in the data source as "Healthcare and Medical" and cases from certain other SIC codes which indicate the healthcare industry. Includes only Chapter 11 cases with greater than \$10MM in liabilities. †Healthcare and Medical cases were further divided into subsectors by reviewing SIC codes for each case, along with conducting general research on the relevant entities. "Senior Care" includes skilled nursing facilities, assisted living facilities, independent living facilities, and continuing care retirement communities. Full case list available upon request.

Healthcare in 2024: Key Drivers & Outlook

As the key drivers persist, financial distress in healthcare is expected to continue:

Capital market constraints:



- While Federal funds interest rate was steady in Q1 and Q2 2024, the Federal reserve announced a half percent rate reduction in September 2024¹ (coming from the highest rates in 15 years).
- Another half percent reduction is expected in 2024, with a full percentage point reduction in 2025.
- Refinancings, access to capital, valuations and transactions are impacted by high rates, and rate reductions may improve strategic options for distressed businesses.



Unwinding of Medicaid Continuous Enrollment:

- At least 23 million people disenrolled and 50.8 million had coverage renewed as of June 14, 2024. Overall, 30% of people with a completed renewal were disenrolled in reporting states (per *KFF*).
- Wide variation by state
- May be expected to increase the number of uninsured patients, thereby a risk of increase in uncompensated care for providers.



Labor & supply cost pressures:

- Large cost increases in last few years have set a new baseline, creating a margin squeeze.
- Healthcare workforce shortages to persist and, in some cases, worsen in the next decade, particularly in rural areas.
- New federal minimum staffing rule for long term care facilities issued by CMS in April 2024 will be operationally and financially challenging for many providers to meet. Implementation phased in over 3 years (5 years for rural).



Possible Optimism for Margin Growth:

- Operating margins were relatively stable in July and August. Despite increasing volumes, revenue and expenses adjusted for volume have declined. (per Kaufman Hall Hospital Flash Report August 2024)
- The gap between higher and lower performing organizations persists and is widening (see Kaufman Hall Hospital Flash Report May 2024)
- Smaller hospitals with revenues under \$500 million are expected to struggle primarily due to persistent high costs (per Fitch and S&P Global)

A different outlook for larger versus smaller providers



Pressure from Payors

- Rate increases lag and are not always in line with cost inflation
- Material increase in denials from payors, especially Medicare Advantage (report by Syntellis and the AHA)
- The “No Surprises Act” is impacting providers that were previously reliant on out-of-network billing. Providers are typically winning over 80% of out of network Emergency or Non-Emergency Items claims formally disputed insurers, but the average time for a decision to be made is over 100 days, impacting cash flow (see Q4 2023 data).



Macroeconomic forces shifting care delivery:

- Care delivery continues to shift out of hospital or skilled nursing facility to outpatient /community/ home-based setting.

¹<https://www.cnn.com/2024/09/18/fed-cuts-rates-september-2024.html#:~:text=The%20decision%20lowers%20the%20federal,auto%20loans%20and%20credit%20cards.>

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Our firm specializes in the **healthcare sector**, serving the **middle market**, particularly **community hospitals**. With decades of experience across healthcare operations and professional services, you can **rest assured** knowing that your needs will be met with **skill and care**.



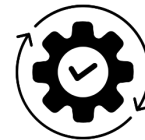
Clarity

We find the best path in complex scenarios by pinpointing critical issues and options.



Different Mindset

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Execution

We lead and collaborate with stakeholders at all levels to deliver results.

 Hospitals	 Senior Living	 Post-acute and Long Term Care
 Physician Practices & Clinics	 Allied Health, Diagnostics, Support	 Not-for-Profit Organizations



Size and Sector Methodology

- Analysis covers Chapter 11 bankruptcy filings from January 1, 2019, through September 30, 2024, in the “Healthcare and Medical” sectors where such cases report total liabilities of at least \$10 million:
 - **Sector identification:** Generally, the overall industry was provided by the data source (BankruptcyData.com), and grouped into healthcare and non-healthcare cases; Additional healthcare cases not initially classified as healthcare by the data source were identified by their relevant SIC codes; Healthcare cases were further divided into subsectors by reviewing SIC codes provided by the data source, along with general research on the entities
 - **Case sizes** are determined by total liabilities, which were provided by the data source (BankruptcyData.com) which obtains such information from the Chapter 11 petition.
- Related cases and jointly administered cases are shown combined as one case where possible; Such “duplicates” were removed by reviewing and eliminating cases with shared filing addresses and cases with a lead case noted in the data; Further duplicates were removed by reviewing cases filed on the same day, with consecutive case numbers, along with case specific research
- Gibbins also reviewed Chapter 9 and Chapter 15 bankruptcy filings for the same time period and found an immaterial number of Chapter 9 cases and Chapter 15 cases meeting our criteria (total liabilities of at least \$10 million), and therefore did not include such cases in our analysis or case counts.



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