

Not-for-Profit Hospitals & Health Systems Market Update

Industry Consulting Team | Q1 2021



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Vaccination Trends
Source: CDC, as of January 20, 2021

Total Doses Distributed

38.0MM

Total Doses
Administered

17.5MM

Number of People
Receiving 2 Doses

2.4MM

Key Trends

- COVID-19 will remain the focus of Hospitals & Health Systems throughout 2021
- Volumes, staffing challenges, and government funding will be key indicators to watch during the year
- Rating Agencies continue to have a Negative Sector Outlook for Not-for-Profit Healthcare

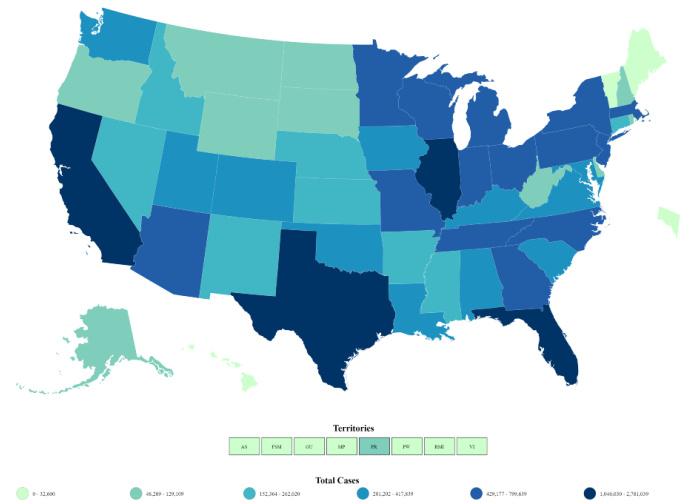
The Effects of COVID-19 Will Continue to be Felt Through 2021

As the calendar turns to 2021 the outstanding questions regarding COVID-19 still outnumber the answers. Cases continue to grow at an unprecedented speed following the holiday season and hospitals across the country are feeling the crunch. There is hope as multiple vaccines have been approved and inoculations have begun but the roll out is proving to be slow (see figures to the right). Once the vaccine is rolled out on a large scale and some level of herd immunity is reached, questions remain about how quickly hospital volumes will rebound. Additionally, it is expected that the damage done to the economy will lead to more people either pushing off care or being unable to afford it.

As it stands today, less than four in every 10 Americans have the savings to be able to afford a \$1,000 surprise medical bill according to Bankrate. These pressures will lead to a weaker payor mix and lower margins for an already thin industry. Health Systems will look to expense savings to make up for the lack of top line growth. Additionally, help may come in the form of government relief. On Thursday, January 14, then President-elect Joe Biden released a \$1.9 trillion relief package that includes \$20 billion for a national vaccine program, \$50 billion to expand testing capacity and additional funding for PPE and a public health jobs program. The package will have to pass through Congress before it is signed into law.

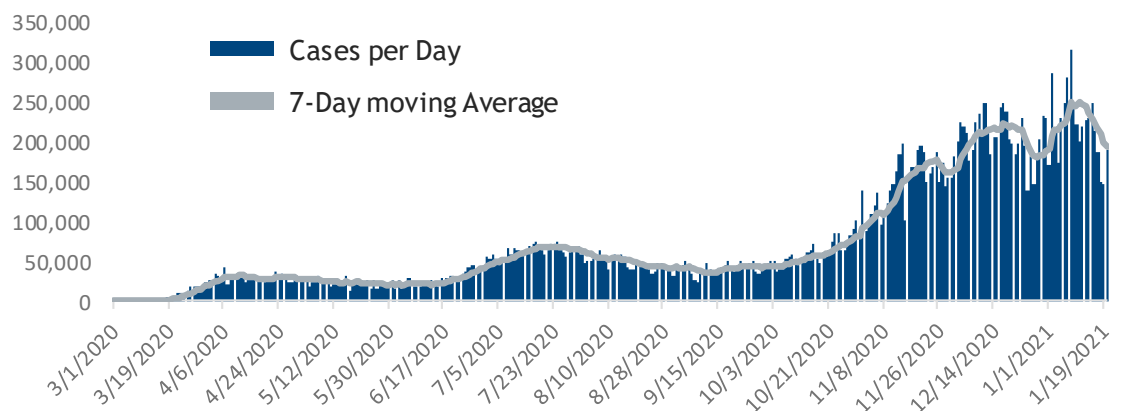
Reported COVID-19 Cases in the United States

Source: CDC, as of January 20, 2021



New COVID-19 Cases by Day in the United States

Source: CDC, as of January 20, 2021



Rating Agencies Issue a Negative Outlook

Both Moody's and Standard & Poor's issued negative NFP Healthcare sector outlooks for 2021. COVID-19's effect on volumes and hospital capacity are the agencies main concerns. Both publications highlight the widening gap between larger, multi-hospital systems and smaller, single site locations. Larger systems, many of which still hold strong cash positions, will find it significantly easier to weather what remains of the pandemic. On the other hand, hospitals with weaker balance sheets that cannot cut expenses will be forced to look for strategic partnerships. This dichotomy has the potential to drive a higher level of M&A in 2021.

Elective Surgeries Hinge on the Vaccine Rollout

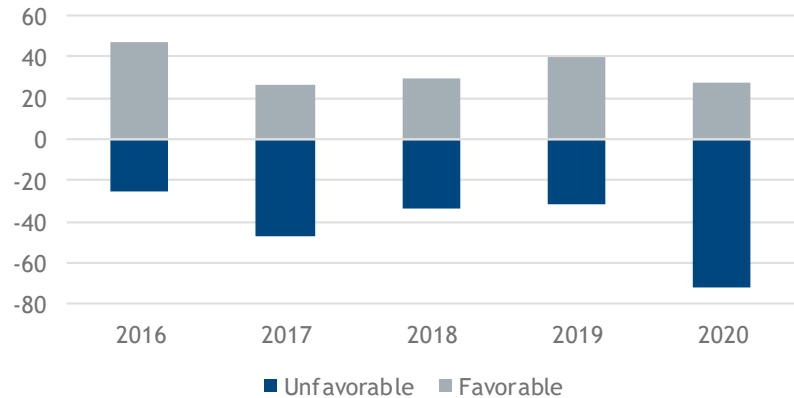
The rollout of the vaccine will be a main determinant of how fast (or conversely, how slow) the virus continues to spread. Should the spread not be slowed there is a potential for elective surgeries to be cancelled in the places hardest hit. On January 19th, South Carolina Governor Henry McMaster announced that he may order the states hospitals to halt elective surgeries if the vaccine rollout is not sped up. In addition to logistics issues with the vaccine rollout, health systems are seeing some hesitancy from employees to receive the inoculation. Health systems are handling this in various ways. While the vast majority are not requiring employees to be vaccinated, the industry is seeing both positive (from cash bonuses to gift cards) and negative (loss of unlimited sick days should someone contract COVID) reinforcement.

Staffing Remains a Concern

Staffing will remain a significant concern of health systems throughout 2021. Nursing shortages continue to stress hospitals from both an operational and a financial perspective. In mid-December, as the virus spread rapidly through North and South Dakota, understaffed hospitals were bringing in traveling nurses at rates of up to \$8,000 per week. This is another area that will drive the gap between larger systems and smaller hospitals even wider. In addition to the cost of staffing, many are worried about potential nursing and physician burnout. Through the fourth quarter of 2020, the vast majority of surveyed healthcare workers have experienced COVID related exhaustion.

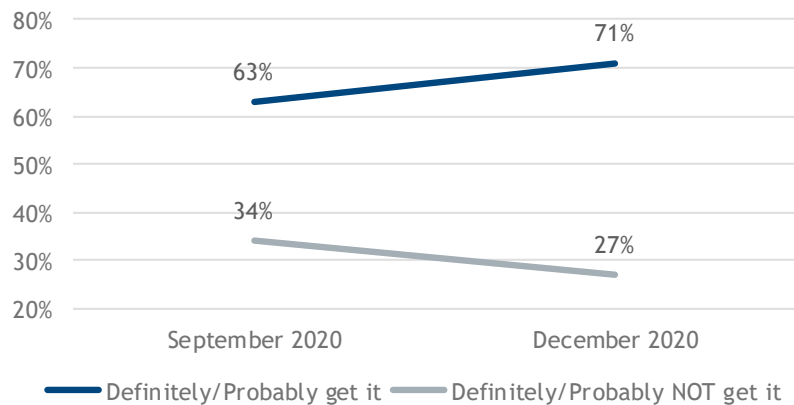
U.S. NFP Acute Health Care Sector Outlook Revisions

Source: S&P January 12, 2021



Willingness To Get COVID-19 Vaccine Has Increased But 1 in 4 American's Still Hesitant

Source: Kaiser Family Foundation



Survey of Healthcare Workers During COVID-19

Source: Mental Health America

