

Not-for-Profit Hospitals & Health Systems Market Update

Industry Consulting Team | Q1 2022

Henry Grady

Industry Consultant
NFP Hospitals & Health Systems
404.813.5500
Henry.Grady@Truist.com

Greg Oliver

Industry Consultant
NFP Hospitals & Health Systems
443.988.1519
Greg.Oliver@Truist.com

Adam Schulze

Analyst
NFP Hospitals & Health Systems
913.787.7489
Adam.Schulze@Truist.com

Kyle Greco

Analyst
NFP Hospitals & Health Systems
201.835.4845
Kyle.Greco@Truist.com

Highlights

- After a December- January spike, there has been a decline in Covid-19 cases as hospitals are resuming normal operations.
- As we shift from pandemic to endemic, experts are recommending broader policy to help navigate a new normal.
- Covid-19 outbreaks hit hospital margins hard in January.
- Municipal bond market rates have risen, leading to large outflows from municipal bond funds.
- Upcoming reductions in Medicare payments and the resumed scrutiny of Medicaid eligibility to challenge operating margins.
- New entrants are disrupting existing healthcare processes.

Covid-19 Cases: Hopefully one day soon, we can kick off our quarterly newsletter with something other than commentary on the Covid-19 pandemic. While that day is not quite here, we are encouraged by conversations with clients and the industry data suggesting we are finally seeing a reduction in cases and hospitalizations. While some of the case reduction may be attributable to fewer tests being administered (or the failure to follow up on positive home tests), our clients report that operations are shifting from crisis mode to something that more resembles what normal processes used to look like. Let's hope that these encouraging trends continue...

Moving forward with Covid-19: According to a report issued earlier this month titled "Getting to and Sustaining the Next Normal: A Roadmap to Living with Covid-19" written by a consortium of health policy experts, U.S. policy should soon transition from one directed solely at treating Covid-19 to a broader policy focused on prevention, mitigation, and treatment. Recommendations include dedicating governmental resources to improving surveillance, providing for better monitoring of hospital capacity, providing for continued investment in antiviral drugs, updating vaccines and promoting better awareness regarding air quality. The report emphasizes the need to maintain (easy) access to testing and encourages the widespread availability and distribution of antiviral drugs when positive cases do occur.

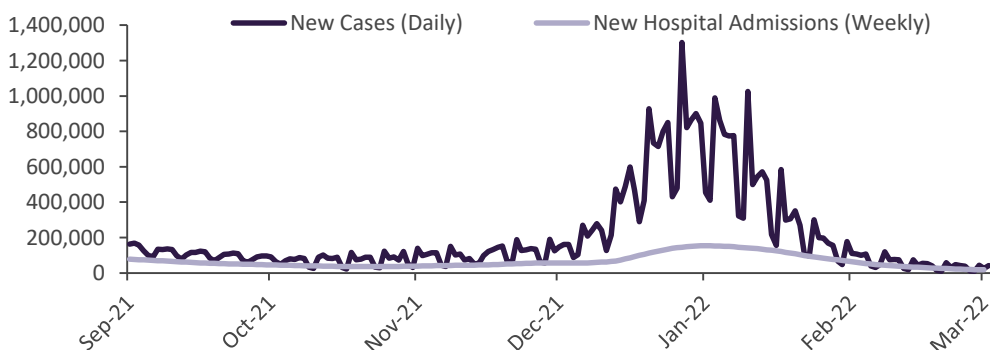
Hospital volumes and margins: According to data compiled by consulting firm Kaufman Hall, January 2022 was "devastating for hospitals and health systems nationwide as they were hit full force by the Omicron tidal wave." Hospitals across the U.S. were forced to operate under emergency protocols which resulted in an industry wide negative operating margin. Hospitals had to delay or cancel non-urgent procedures and the patients who were admitted were sicker and remained hospitalized for a longer length of stay, further pressuring teams that were already worn out and understaffed. Operating expenses remained high, particularly those expenses resulting from ongoing labor shortages and supply chain challenges. Total expenses per adjusted discharge increased 25% between December 2019 and December 2021.

Update on Capital Markets: Significant outflows from municipal bond funds have resulted from concerns about rising interest rates, potential changes in tax policy, inflation, and the war in Ukraine. Volatility has been widespread and municipal bond market rates (consistent with the U.S Treasuries and the recent Fed decision to increase the Fed Funds rate), have risen YTD. For the week ending March 16th, municipal outflows were in excess of \$2 billion compared with \$662 million the prior week. The 30-year AAA MMD was 2.33% on March 17th compared with 1.58% on January 7th, an increase of 0.75%.

Medicare: Lobbying efforts to continue the delay of the reinstatement of sequestration appear to have failed and the cuts are scheduled to resume in April. These cuts will initially start at 1% and will increase to 2%, further pressuring already thin operating margins.

Figure 1: New Covid-19 Cases and Hospitalizations

Source: CDC & OurWorldinData, as of March 18, 2022



Not-for-Profit Hospitals & Health Systems Market Update

Industry Consulting Team | Q1 2022

Medicaid: Once the Covid-19 public health emergency ends, states will once again be required to evaluate Medicaid enrollees to make sure that they continue to qualify. As of July 2021, approximately 77 million people were enrolled in state Medicaid programs according to the Centers for Medicare and Medicaid Services. If Medicaid participants are determined to either earn too much or if they fail to provide the necessary documentation, their enrollment in the insurance program would terminate. Estimates regarding how many participants might be impacted vary, although a research paper published in September 2021 by the Urban Institute estimated that as many as 15 million Americans (nearly 1 in 5 of participants) could lose their Medicaid benefits. Operating margins from Medicaid patients are already low, but are at least positive versus the close to zero margin collected from uninsured patients. Overall, the loss of Medicaid participants would be another negative factor for not-for-profit hospitals and health systems.





Disrupters in Focus: As we have touched on in prior newsletters, hospitals face the impact of new entrants into the healthcare arena. When, where, and how treatment is provided continues to evolve based on innovation, the loosening of regulations, and market forces. One company that is gaining momentum is the nation's largest retailer—Walmart. According to a recent interview with Walmart's head of healthcare in Modern Healthcare magazine, healthcare was Walmart's fastest growing business segment during Q4 2021. The retailer plans to open more "in-store" clinics that will offer services on evenings and weekends including optical and dental care in addition to traditional primary care. Walmart is planning a comprehensive Covid-19 package where patients with symptoms can meet with a care professional in a Walmart clinic, obtain test results, be prescribed antiviral medications and have these medications filled at the store's pharmacy—all during a single visit to the clinic. These in store clinics are well positioned to manage a variety of "population health" initiatives including blood pressure monitoring, diabetes management, weight control, etc., all provided in Walmart's lower cost (and convenient) setting.

Figure 2: Largest Healthcare Systems by Operating Revenue

Source: Modern Healthcare's Health System Financial Database

System	2020 Operating Revenue
Kaiser Foundation Health Plan and Hospitals	\$88,726,000,000
HCA Healthcare	51,533,000,000
CommonSpirit Health	30,129,000,000
Providence	25,675,000,000
Ascension	25,261,514,000
UPMC	23,093,417,000
Trinity Health	18,833,027,000
Tenet Healthcare Corp.	17,640,000,000
Mass General Brigham	14,058,627,000
Mayo Clinic Health System	13,910,000,000
Northwell Health	13,420,463,000
Sutter Health	13,220,000,000
Advocate Aurora Health	13,132,189,000
AdventHealth	12,623,222,000
Community Health Systems	11,789,000,000
Universal Health Services	11,558,897,000
NYC Health + Hospitals	11,276,331,000
Cleveland Clinic Health System	10,627,906,000
Baylor Scott & White Health	10,529,000,000
Banner Health	10,397,111,000
Intermountain Healthcare	10,082,000,000
Bon Secours Mercy Health	9,969,660,000
NewYork-Presbyterian	9,115,093,000
Sentara Healthcare	8,861,351,000
Spectrum Health	8,299,797,000

Recent Transactions:

 New Market Tax Credit	 Term Loan	 Term Loan	 Term Loan
---	--	--	--

Stay up to date:

- [McKinsey--Patients love telehealth— physicians are not so sure](#)
- [Forbes--Walmart May Soon Become The Largest Primary Care Provider In The Country](#)
- [Whitepaper--Embracing Consumerism in Healthcare](#)
- [CNBC--Why Healthcare Costs Are Rising](#)
- [New York Times--Nurses Have Finally Learned What They're Worth](#)



Sources: Center's for Disease Control, KH February Hospital Flash Report, Refinitiv, CNN, Moody's Investor Services, The Wall Street Journal