

Not-for-Profit Hospitals & Health Systems Market Update

Industry Consulting Team | Q2 2022

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Highlights

- Total hospital expenses as of May were up 10.7% compared to May 2021.
- Inflation checked in at 8.6% in May – the highest increases since 1981.
- Hospital labor expenses increased over 33% from pre-pandemic levels.
- Contract labor – as a percentage of total labor expenses – has increased 5x over pre-pandemic levels
- Hospital's "average length of stay" has increased due to higher acuity patients who require greater levels of care
- Now that we are over 27 months into the pandemic, hospitals are shifting from the crisis phase to a stabilization phase

Like many industries, not-for-profit hospitals and health systems are facing headwinds at the start of Q3, with several of these outlined below. Despite these challenges, Moody's expects the not-for-profit hospitals and health systems industry to maintain overall credit quality.

Macro Pricing Effects: Both Russia and Ukraine are powerhouses in supplying certain commodities — in this case, ammonium nitrate and natural gas. These commodities produce two gases crucial for the health care industry: nitrous oxide (popularly known as laughing gas) and helium. These substances are used in millions of procedures each day. Supply constraints could make every root canal that much more painful and every MRI scan that much more expensive.

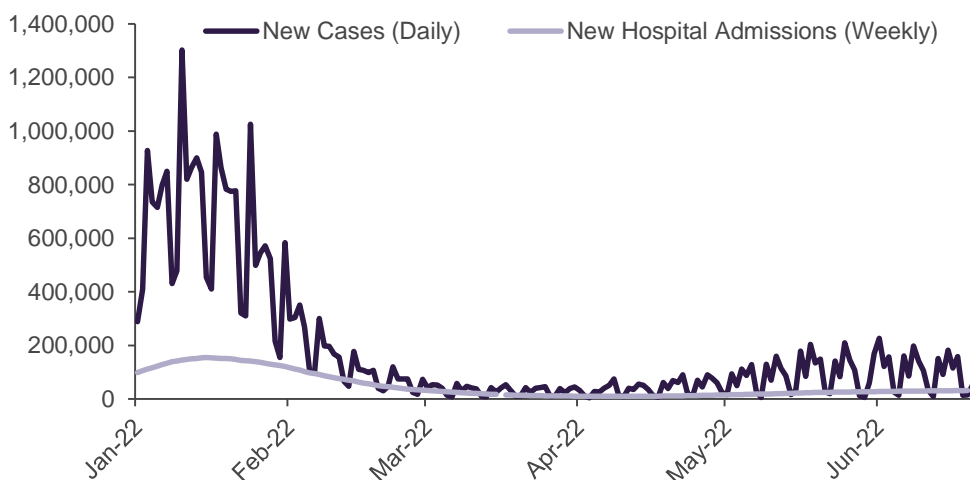
COVID-19 Tests: While independent laboratories have benefited from lucrative COVID-19 testing, those benefits may be contributing to higher health insurance premiums and tax bills, according to a new study. Labs' revenue from polymerase chain reaction (PCR) tests grew about 8% a month from May 2020 to December 2020, according to an analysis of Hawaii taxation data. Profits per PCR test were at least \$10, but that is a conservative estimate, researchers wrote in a study published in the Journal of General Internal Medicine in May.

Hospital Pricing Transparency: The federal government has fined Atlanta's Northside Hospital for violating patients' rights to transparent health care price information, in what the U.S. Centers for Medicare and Medicaid Services said was the first such fine nationwide. Starting last year, hospitals across the country were required by the CMS to post the prices of certain services on their websites. The effort was intended as a tool to help patients shop and plan for the cost of medical care. The lists are required to be posted in specific formats, including a consumer-friendly searchable list of 300 medical services.

Labor Costs: Labor expenses per adjusted discharge have increased 14% YTD according to a report in June by Kaufman Hall. This spike was driven by higher contract labor expenses and, higher median hourly wages.

Figure 1: New COVID Cases and Weekly Hospitalizations

Source: CDC & OurWorldinData, as of June 20, 2022



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Truist attended a recent Healthcare Symposium hosted by Forvis Consulting. Here are some takeaways:

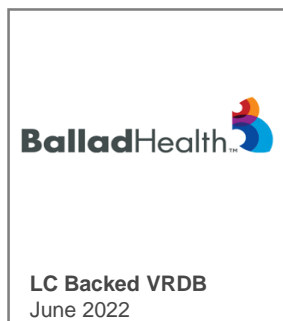
- Industry consolidation will continue; both inter and intra-state.
- Expect to see a greater focus/more resources invested into mental health. Organizations are adapting an “employee first, customer second” mentality to help address issues of providing much needed support for care givers.
- Expect an acceleration toward “consumerism” – meeting the patient where they are, in some cases virtually. Large companies like Amazon, CVS, Walgreens, Walmart, etc. will continue to invest in primary care models.
- Increased investment in smaller, regional, offices that provide primary care, lab services, diagnostic imaging, pharmacy, etc. will be more visible and commonplace.
- Expect a continued focus on population health initiatives. For example, a healthcare provider has partnered with barber/beauty salons as a way to provide mental health awareness/counseling to patients who might otherwise not have access to care, or be unaware of available resources.
- Greater collaboration with physicians lies ahead. There has been a renewed push for involving physicians in strategic decisions. Currently, approximately 70% of U.S. physicians are employed, but many are not employed directly by hospitals.
- Outsourcing of non-core processes will remain as a cost-cutting strategy. Purchasing, human resources, revenue cycle and even patient coding are all examples of activities that might be better served by specialists.
- Cash positions have been improving over the past several years (median cash on hand in 2019 was 199 days, this increased to 265 days in 2021). A larger cushion is expected to help limit credit deterioration for many hospitals and will help offset the expenses stresses and equity market volatility.

Moody's recently provided a market update:

- Moody's predicts that operating performance should improve after the first quarter of '22 as hospitals take steps to reign in labor costs while achieving recoveries in patient volume.
- Management teams are laser focused on reducing expenses associated with agency nurses. While many hospitals have noted that the hourly rate for agency nurses is beginning to trend lower, some organizations are considering a shutdown of certain units or services in order to limit use of agency nurses.
- Moody's specifically noted that many hospitals are adjusting staffing models and increasing the use of non-nursing support personnel wherever possible.
- Despite all the challenges faced in Q1 Moody's issued a sector update that stated “most hospitals and healthcare systems will likely maintain credit quality”.

Stay up to date:

1. [Why the War in Ukraine Might Make Root Canals More Difficult | Kaiser Health News](#)
2. [COVID-19 test demand a boon for labs, a bane for costs, study finds | Modern Healthcare](#)
3. [Northside Hospital fine over \\$1m for failure to share medical prices | ajc.com](#)
4. [News Briefs: Hospital labor costs rose by almost 40% between 2019 and early 2022 \(hfma.org\)](#)
5. [Some struggling shopping malls in the U.S. are being converted into health clinics – Fortune](#)



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