



Barometer of the Post-COVID Healthcare Economy

Financial Trends and Insights from the Top 25 Not-for-Profit Health Systems

Update: Q1 2021

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Executive Summary

INTRODUCTION AND OBJECTIVE

Alvarez & Marsal's (A&M) Healthcare Industry Group helps health systems navigate local, state and federal market dynamics. The COVID-19 pandemic, and its accompanying economic and social disruptions, led A&M to investigate what the impact of these economic and social forces have had on the healthcare economy, and may continue to have. Based on a study of the financial and operating performance of the top 25 U.S. not-for-profit health systems, A&M has created a novel analysis, and executable insights, for healthcare leaders, investors and lenders as they navigate the post-COVID healthcare environment. This report provides an update on financial and operating trends at major not-for-profit health systems through Q1 2021.

SUMMARY OF TRENDS

The effects of the COVID-19 pandemic continue to be felt a year and a half after the first recorded cases in the United States. New, highly contagious variants have caused additional surges in mid-2021, just when vaccine rollouts seemed to be improving the situation. Volumes recovered, slightly, through the end of 2020, but it remains to be seen how healthcare systems will fair through the end of 2021. As discussed in our last report, net patient revenue decreased almost 20% from Q4 of 2019 to Q2 of 2020, while operating income declined 11% from 2019 to 2020.

As we moved into Q1 2021, we looked for the continued recovery in revenue and volumes, after improvement late in 2020. However, the data revealed Net Patient Revenue and Operating Expense both declined, potentially a reflection of contraction in cost structures as the late 2020 Covid surge abated. The drastic decrease in Operating Income from Q4 2020 to Q1 2021 may be due to the analyzed health systems' recognizing a large amount of CARES Act funds as income in Q4 2020.

- **NET PATIENT REVENUE:** dropped 3% YoY from 2019 to 2020 and dropped 3% from Q4 of 2020 to Q1 of 2021.
- **TOTAL OPERATING EXPENSE:** increased 5% from CY 2019 to CY 2020 but decreased 2% from Q4 of 2020 to Q1 of 2021.
- **OPERATING INCOME:** decreased 11% from 2019 to 2020, decreased 53% from Q4 of 2020 to Q1 of 2021 (CARES Act funding included: the recognition of CARES Act funding in Q4 2020 potentially impacts the large decrease seen moving into Q1 2021).

From a volume perspective, inpatient Discharges were down almost 10% YoY from 2019 to 2020 and dropped another 10% from Q4 2020 to Q1 2021. Length of Stay increased, suggesting continued higher levels of acuity in admitted patients, presumably from sustained COVID-19 volumes. Surgical and Emergency Room volumes both saw declines moving into Q1 2021, as well. In fact, Discharges, Surgeries and Emergency Room Visits were all down double-digits, relative to pre-pandemic volume levels.

1. **DISCHARGES:** decreased 9% from 2019 to 2020 and 10% from Q4 of 2020 to Q1 of 2021. (Still 16% below pre-pandemic volumes.)
2. **PATIENT DAYS:** decreased 4% from 2019 to 2020 and 8% from Q4 of 2020 to Q1 of 2021.
3. **LENGTH OF STAY:** increased 6% from 2019 to 2020 and by 0.1 days from Q4 of 2020 to Q1 of 2021.
4. **SURGERIES:** decreased 11% from 2019 to 2020 and 10% from Q4 of 2020 to Q1 of 2021. (Still 12% below pre-pandemic volumes)
5. **EMERGENCY ROOM VISITS:** decreased 17% from 2019 to 2020 and 6% from Q4 of 2020 to Q1 of 2021. (Still 23% below pre-pandemic volumes)

THE DATA

In order to understand the effect of COVID-19 on healthcare providers, A&M created a cross-section of health systems across the country by analyzing the publicly available financial statements of the 25 "largest" not-for-profit health systems in the United States. The initial "sizing" of health systems was defined by number of hospitals within those health systems. Financial statements were accessed via health system websites and/or websites where bond-related information is reported publicly. The reporting of these financial statements usually occurs between three and six months post quarter end, creating a lag in the data. However, an alternative data set does not exist in the industry that models all of these health systems in one place. The data time period starts at the beginning of calendar year 2019 to establish a pre-pandemic baseline.

DEMOGRAPHICS OF TOP 25 “LARGEST” NOT-FOR-PROFIT HEALTH SYSTEMS INCLUDED

- There are 6,090 Hospitals in the US ⁽¹⁾.
- 48% of Hospitals are Non-Govt, Non-Profit ⁽¹⁾.
- This analysis includes more than 1,000 Hospitals, roughly a third of all Non-Profit hospitals.
- The U.S. Health Systems Encompasses more than \$1T in OpEx ⁽¹⁾.
- This analysis includes roughly one quarter of that OpEx.

⁽¹⁾ Source: <https://www.aha.org/statistics/fast-facts-us-hospitals>

A&M will continue to generate this report quarterly, to monitor and track trends driving the health system economy and recovery, stemming from the unique market dynamics of 2020 and the on-going impact of COVID-19.

The Healthcare Economy: Detailed Report Updated Through Q1 2021

OBJECTIVE

Alvarez & Marsal's (A&M) Healthcare Industry Group helps health systems navigate local, state and federal market dynamics. The COVID-19 pandemic, and its accompanying economic and social disruptions, led A&M to investigate what the impact of these economic and social forces have had on the healthcare economy and may continue to have. Based on a study of the financial and operating performance of the top 25 U.S. not-for-profit health systems, A&M has created a novel analysis, and executable insights, for healthcare leaders, investors and lenders while navigating the post-COVID healthcare environment. This report provides an update on financial and operating trends at major not-for-profit health systems through Q1 2021.

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#	Number of Hospitals	Calendar Year (2019) Net Patient Service Revenue (in 000s)	Calendar Year (2019) Total Operating Revenues (in 000s)	Fiscal Year End
1	145	\$ 24,221,487	\$ 25,823,953	June 30
2	137	\$ 26,744,000	\$ 29,188,000	June 30
3	92	\$ 16,755,992	\$ 19,519,094	June 30
4	52	\$ 8,645,271	\$ 10,646,583	June 30
5	51	\$ 19,883,000	\$ 25,025,000	December 31
6	50	\$ 7,953,806	\$ 8,533,377	December 31
7	46	\$ 11,435,650	\$ 11,892,267	December 31
8	46	\$ 3,602,719	\$ 6,228,977	December 31
9	42	\$ 6,750,656	\$ 7,480,352	December 31
10	40	\$ 9,100,868	\$ 20,609,276	December 31
11	35	\$ 1,830,512	\$ 2,373,539	June 30
12	35	\$ 5,169,927	\$ 5,651,009	June 30
13	30	\$ 7,000,985	\$ 9,426,648	December 31
14	27	\$ 4,627,386	\$ 4,887,899	December 31
15	26	\$ 10,660,969	\$ 12,805,423	December 31
16	24	\$ 11,407,000	\$ 13,304,000	December 31
17	23	\$ 11,604,000	\$ 13,708,000	December 31
18	23	\$ 9,500,259	\$ 12,487,267	December 31
19	23	\$ 5,222,972	\$ 7,934,554	December 31
20	22	\$ 4,184,332	\$ 4,588,466	December 31
21	15	\$ 2,451,945	\$ 2,555,786	June 30
22	10	\$ 8,567,369	\$ 8,994,044	December 31
23	20	\$ 4,123,000	\$ 4,537,000	December 31
24	12	\$ 3,060,470	\$ 3,302,708	December 31
25	12	\$ 4,072,532	\$ 6,753,463	December 31
1,038		\$ 228,577,107	\$ 278,256,685	

NOTE:

1. Not-for-Profit Health Systems with publicly available financial statements are included.

2. The initial "sizing" of health systems was defined by number of hospitals.
3. N = 25.
4. Dollars displayed in 000s.

DEMOGRAPHICS FOR THE 25 INCLUDED SYSTEMS

The analysis only includes 25 health systems. However, given the size and scale of these organizations, the analysis actually covers a significant portion of the domestic health system:

- There are 6,090 Hospitals in the US. ⁽¹⁾
- 48% of Hospitals are Non-Govt, Non-Profit. ⁽¹⁾
- This analysis includes more than 1,000 Hospitals, roughly a third of all Non-Profit hospitals.
- The U.S. Health Systems Encompasses more than \$1T in OpEx. ⁽¹⁾
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⁽¹⁾ Source: <https://www.aha.org/statistics/fast-facts-us-hospitals>.

PERFORMANCE METRICS









The most common metrics found across the publicly available financial statements are detailed below, along with their sample size, N (out of the 25 health systems):

1. NET PATIENT REVENUE (N = 24)
2. TOTAL OPERATING EXPENSE (N = 24)
3. OPERATING INCOME (N = 24)
4. DISCHARGES (N = 20)
5. PATIENT DAYS (N = 19)
6. LENGTH OF STAY (N = 19)
7. SURGERIES (N = 13)
8. EMERGENCY ROOM VISITS (N = 16)

SUMMARY

As we moved into Q1 2021, we hoped to see evidence of continued recovery in both revenue and volumes after improvement late in 2020. However, the data shows that Net Patient Revenue declined as did Operating Expense, potentially a reflection of contraction in cost structures as the late 2020 Covid surge abated. Our analysis found a dramatic decrease in Operating Income from Q4 2020 to Q1 2021. This reduction in Operating Income quarter-over-quarter may have been due to some systems recognizing significant amounts of CAREs funds as income in Q4 2020.

From a volume perspective, inpatient Discharges were down almost 10% YoY from 2019 to 2020 and dropped another 10% from Q4 2020 to Q1 2021. Length of Stay increased, again, suggesting continued higher levels of acuity in admitted patients, presumably from sustained COVID-19 volumes. Surgical and Emergency Room volumes both saw declines moving into Q1 2021 as well, likely due to some hospitals having to suspend elective surgeries as COVID cases surged. In fact, we note that Discharges, Surgeries, and Emergency Room Visits are all down double-digits relative to pre-pandemic volume levels. As we continue to see new COVID waves in the United States (e.g. Delta variant), we will monitor the COVID impact on the healthcare industry. The announcement of a Phase 4 Provider Relief Fund distribution will inject additional financial support and may help bolster some struggling health systems, but it remains to be seen if this additional government support will further mitigate the effect of COVID cases on health system performance.

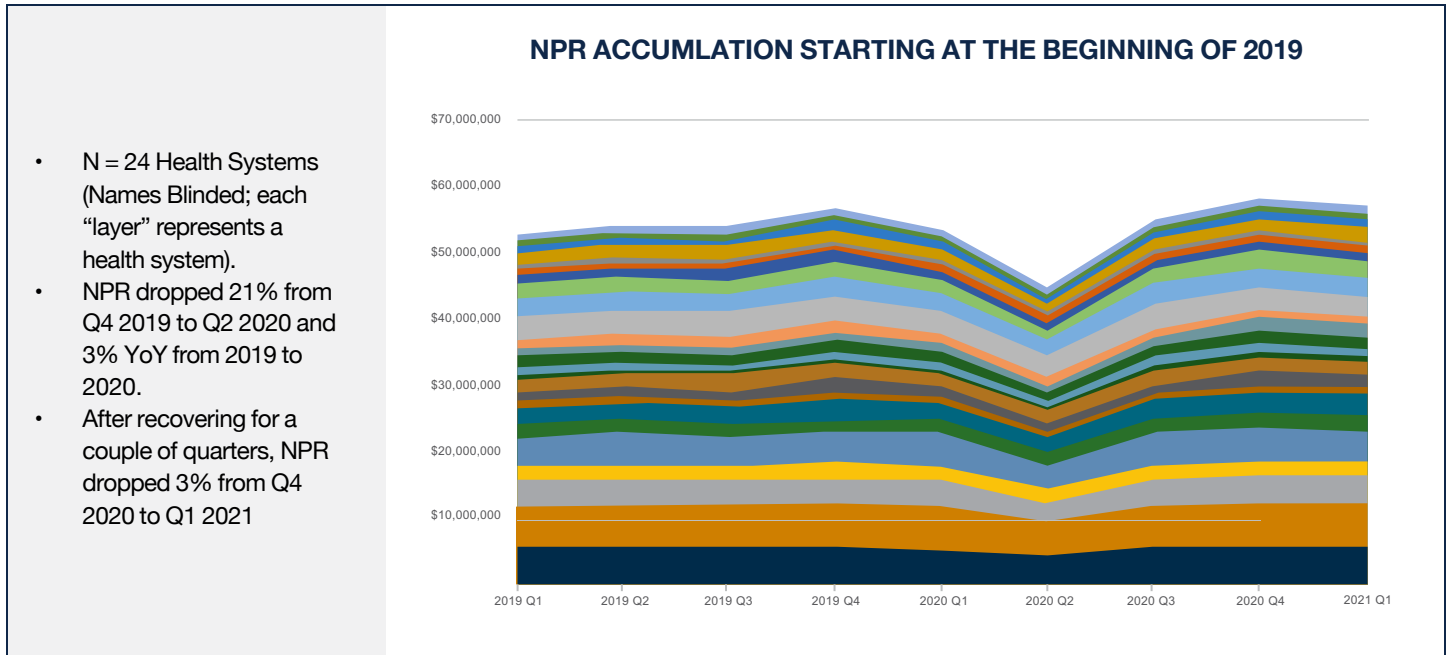
	NET PATIENT REVENUE	Decreased 3% YoY from 2019 to 2020 Decreased 3% from Q4 2020 to Q1 2021
	TOTAL OPERATING EXPENSE	Increased 5% from 2019 to 2020 Decreased 2% from Q4 2020 to Q1 2021
	OPERATING INCOME	Decreased 11% from 2019 to 2020 Decreased 53% from Q4 2020 to Q1 2021 NOTE: CARES Act funding included
	DISCHARGES	Decreased 9% YoY from 2019 to 2020 Decreased 10% from Q4 2020 to Q1 2021 (Still 16% below pre-pandemic volumes)
	PATIENT DAYS	Decreased 4% YoY from 2019 to 2020 Decreased 8% from Q4 2020 to Q1 2021 (Still 7% below pre-pandemic volumes)
	LENGTH OF STAY	Increased 6% from YoY 2019 to 2020 Increased 0.1 days from Q4 2020 to Q1 2021 (10% higher than at the start of 2019)
	SURGERIES	Decreased 11% YoY from 2019 to 2020 Decreased 10% from Q4 2020 to Q1 2021 (Still 12% below pre-pandemic volumes)
	EMERGENCY ROOM VISITS	Decreased 17% YoY from 2019 to 2020 Decreased 6% from Q4 2020 to Q1 2021 (Still 23% below pre-pandemic volumes)

Further details associated with each metric are provided on the following pages.



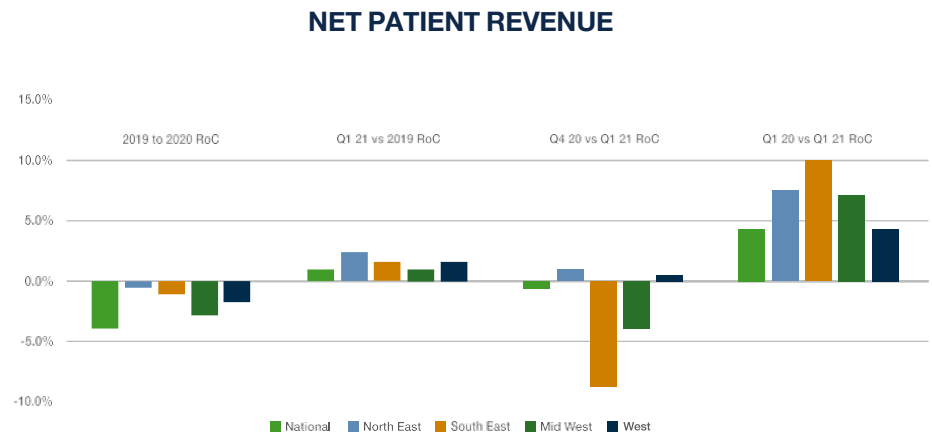
Key Insights and Trends: Net Patient Revenue

Net Patient Revenue (NPR) Accumulated Across Quarters from Q1 2019 Through Q1 2021



2020 Total Net Patient Revenue vs the Rate of Change from 2019

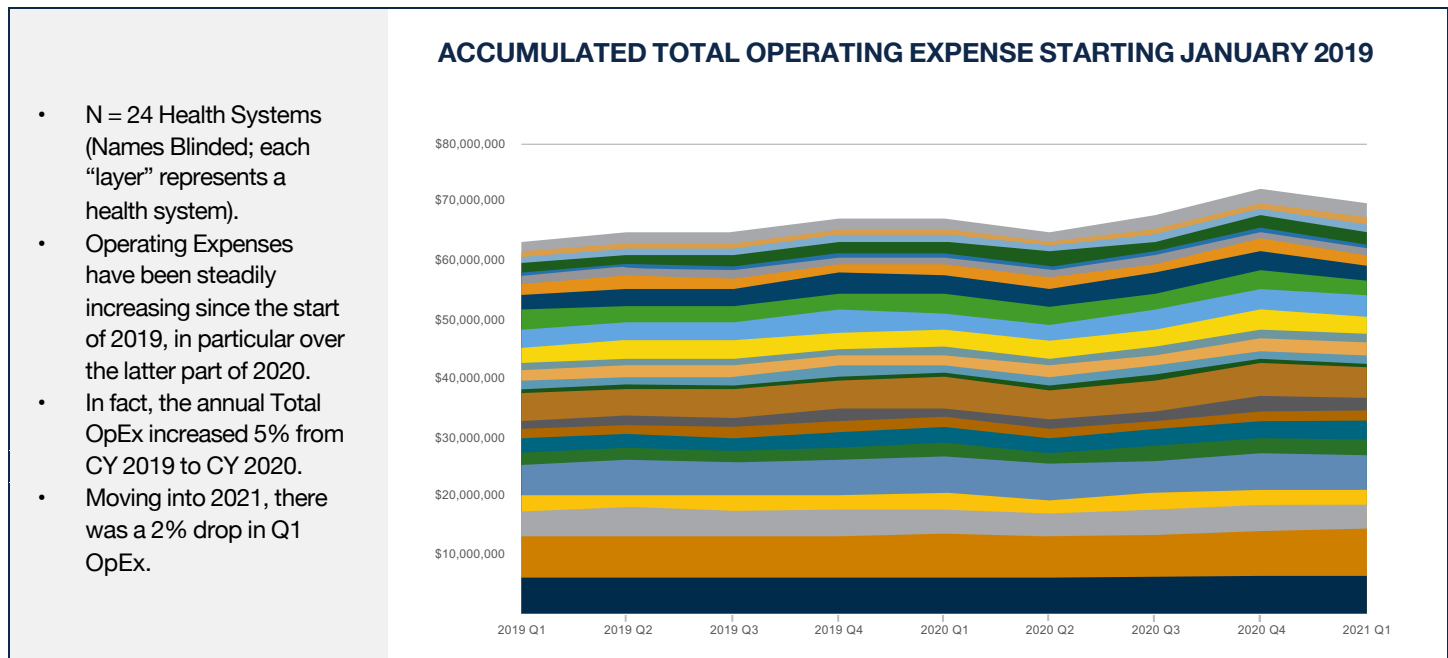
- 2019 to 2020 RoC (Rate of Change): From 2019 to 2020, NPR declined 1-4% across the board; the largest health systems [National] experienced the greatest loss at 4%.
- Q1 21 vs 2019 RoC: Comparing Q1 2021 to 2019, NPR increased 1-2% across the board.
- Q4 20 vs Q1 21 RoC: Comparing Q1 2021 to Q4 2020, NPR hardly changed for 3 of 5 regions; however, the South East and Mid-West experienced declines of 5-10%.
- Q1 20 vs Q1 21 RoC: Comparing Q1 2021 to Q1 of 2020; NPR increased 5-10% across the board.
- N = 24



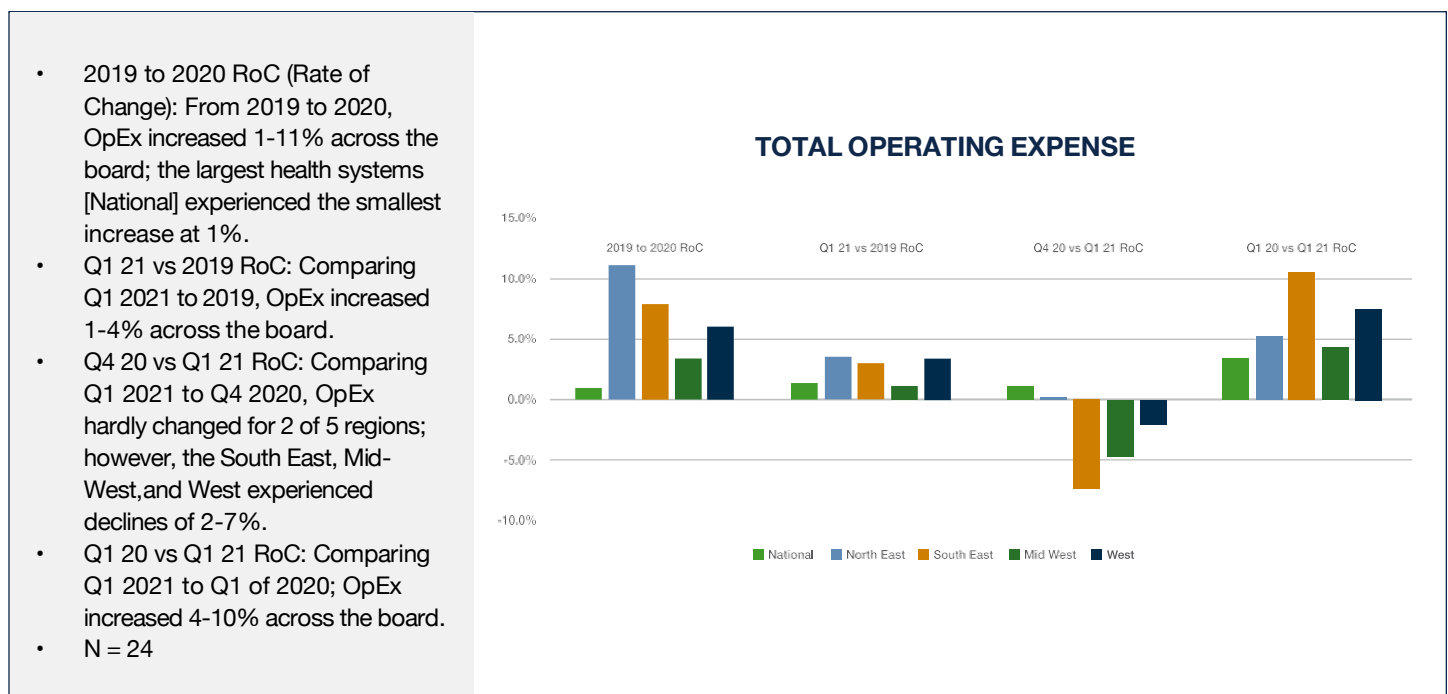


Key Insights and Trends: Total Operating Expense

Total Operating Expense Accumulated Across Quarters from Q1 2019 Through Q1 2021



2020 Total Operating Expense vs the Rate of Change from 2019



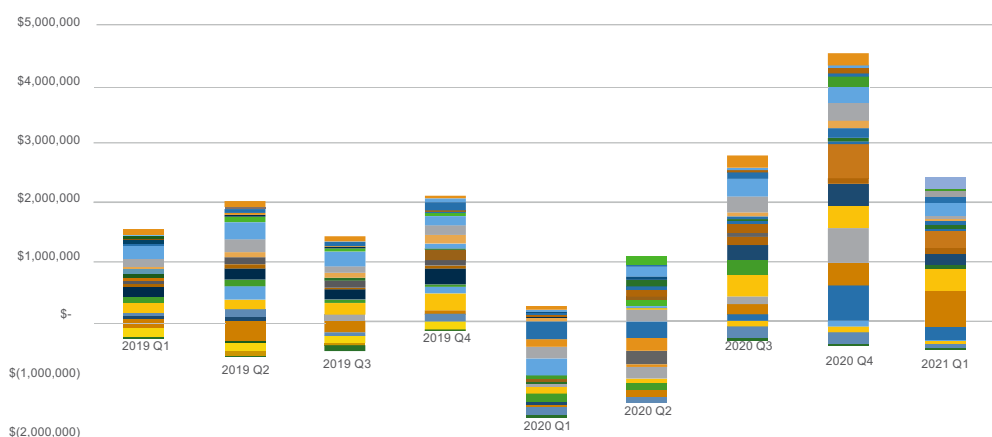


Key Insights and Trends: Operating Income

Total Operating Income by Quarter Across Q1 2019 Through Q1 2021

- N = 24 Health Systems (Names Blinded; each “layer” represents a health system).
- Due to the predominantly negative margin in Q1 and Q2 of 2020, operating income was down 11% from 2019 to 2020.
- Operating Income dropped 53% from Q4 2020 to Q1 2021; this drop is artificial presuming that much of the income in Q4 2020 was CARES funding.
- However, Operating Income appears to be returning to pre-pandemic levels, keeping in mind that Q1 2021 might include CARES funds.
- NOTE that these data include CARES relief funds if and where accepted. It is estimated that these health systems received \$6-8B in CARES relief funds.

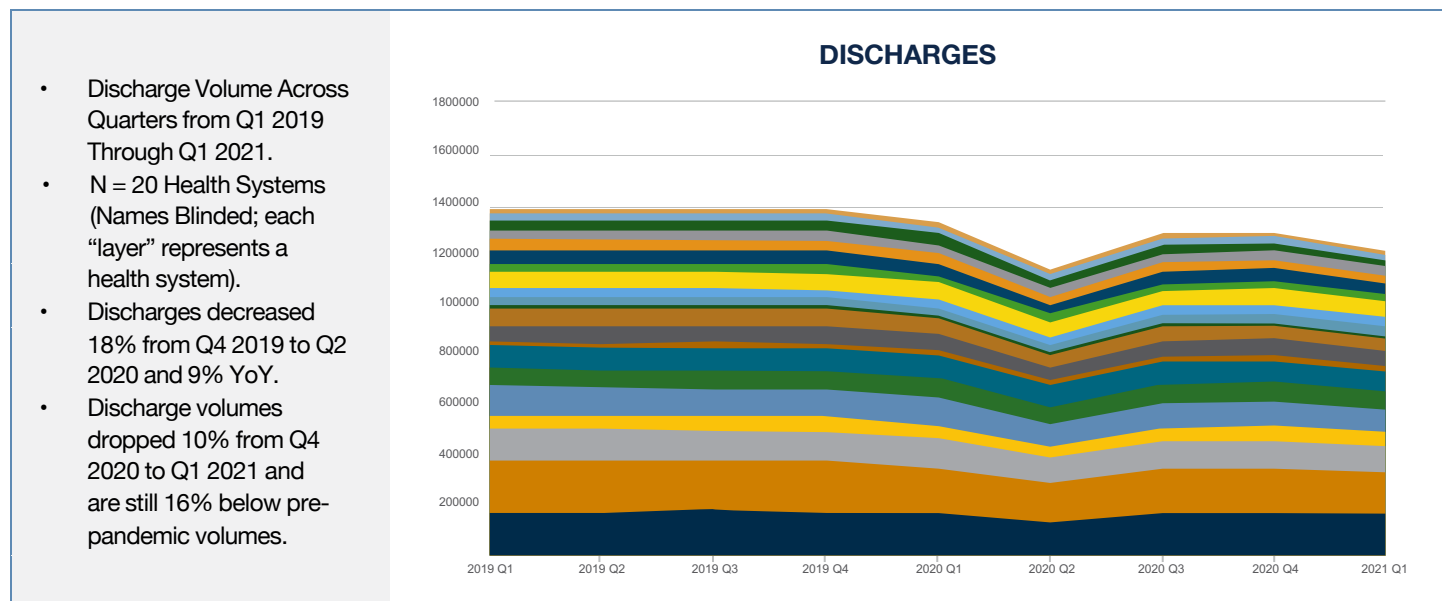
OPERATING INCOME PER QUARTER





Key Insights and Trends: Discharges

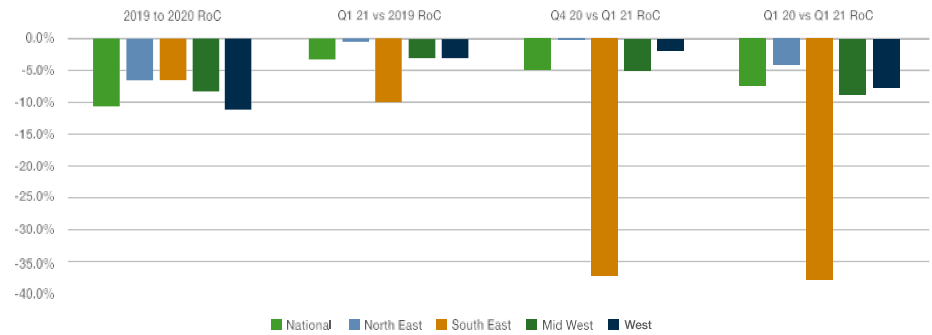
Discharge Volume Across Quarters from Q1 2019 Through Q4 2020



2020 Total Discharge Volume vs the Rate of Change from 2019

- 2019 to 2020 RoC (Rate of Change): From 2019 to 2020, Discharges decreased 5-10% across the board; the largest health systems [National] and West region experienced the largest decrease at 10%.
- Q1 21 vs 2019 RoC: Comparing Q1 2021 to 2019, Discharges decreased 1-3% for four regions while the South East experienced a decline of 10%.
- Q4 20 vs Q1 21 RoC: Comparing Q1 2021 to Q4 2020, Discharges decreased 2-5% in three of the regions; however, the South East experienced a decline of 37%.
- Q1 20 vs Q1 21 RoC: Comparing Q1 2021 to Q1 of 2020; Discharges decreased 5-10% across the board; however, the South East experienced a decline of 37%.
- N = 20

DISCHARGES

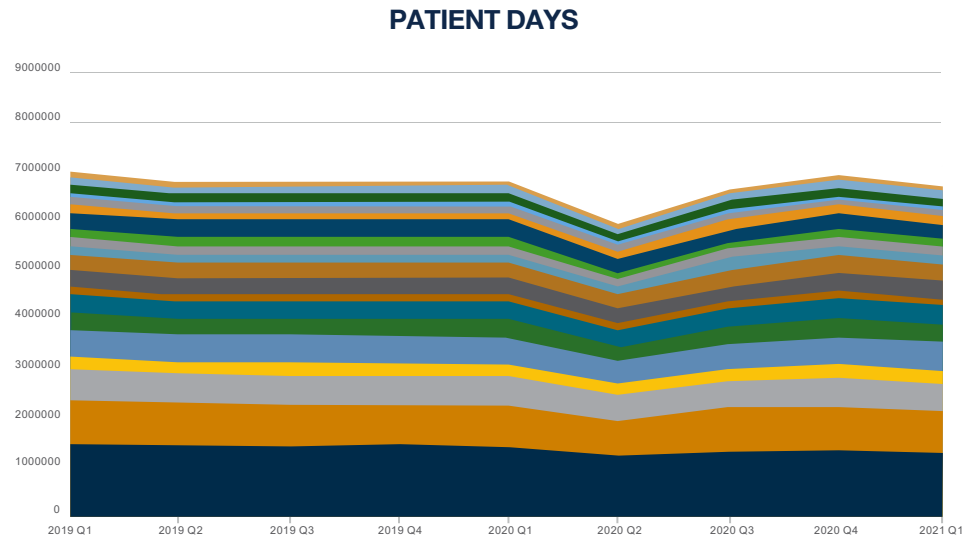




Key Insights and Trends: Patient Days

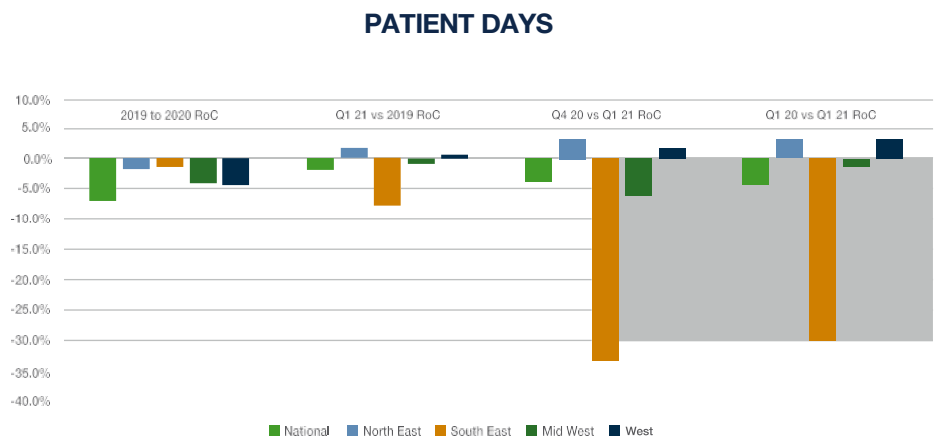
Total Patient Days by Quarter Across Q1 2019 Through Q1 2021

- N = 19 Health Systems (Names Blinded; each “layer” represents a health system).
- Patient Days decreased 13% from Q4 2019 to Q2 2020 and 4% YoY.
- From Q4 2020 to Q1 2021, Patient Days dropped 8%.
- Q1 2021 Patient days are 7% less than CY 2019.
- This decrease is LESS than that of Discharges, suggesting a potentially higher level of acuity in those patients admitted.



Patient Days 2020 Total Volume vs the Rate of Change from 2019

- 2019 to 2020 RoC (Rate of Change): From 2019 to 2020, Patient Days decreased 1-7% across the board; the largest health systems [National] experienced the largest decrease at 7%.
- Q1 21 vs 2019 RoC: Comparing Q1 2021 to 2019, Patient Days increased 2% in the North East while the South East experienced a decline of 7%.
- Q4 20 vs Q1 21 RoC: Comparing Q1 2021 to Q4 2020, Patient Days increased 2-4% in two of the regions; however, two regions decreased 6% and the South East experienced a decline of 34%.
- Q1 20 vs Q1 21 RoC: Comparing Q1 2021 to Q1 of 2020; Patient Days increased 4% in two of the regions; however, two regions decreased 1-5% and the South East experienced a decline of 30%.
- N = 19



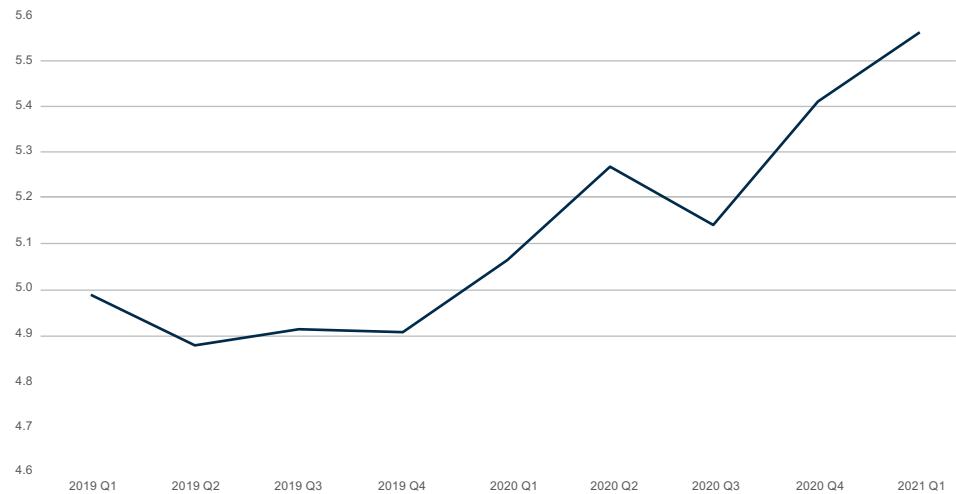


Key Insights and Trends: Length of Stay

Length of Stay per Quarter (Average Across Entire Data Set)

- N = 19 Health Systems.
- Length of Stay increased 7% from Q4 2019 to Q2 2020 and 6% YoY.
- Length of Stay increased by 0.1 days moving from Q4 2020 to Q1 2021.
- Q1 2021 Length of Stay is over 10% higher than at the start of 2019.
- This increase suggests a continuation in potentially higher levels of acuity in those patients admitted.

LENGTH OF STAY AVERAGE

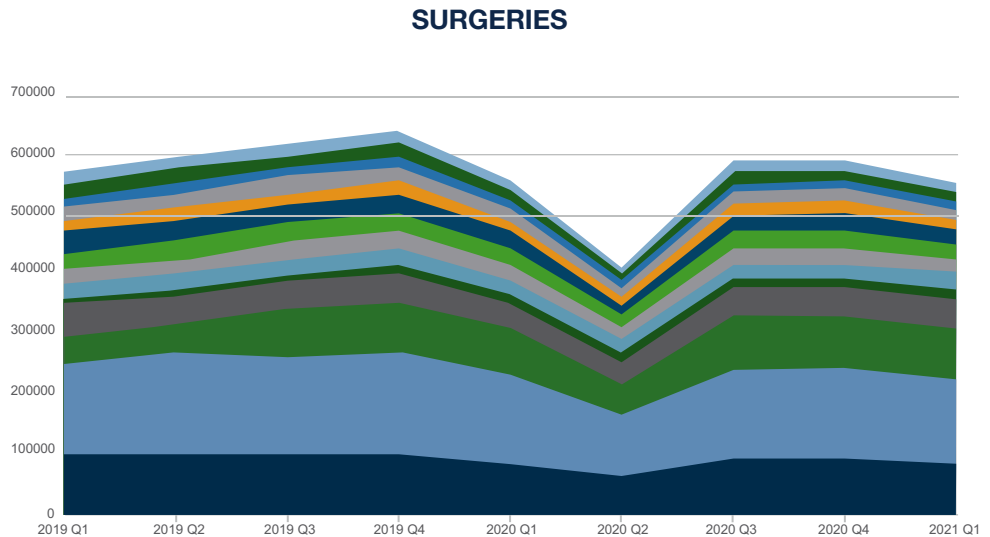




Key Insights and Trends: Surgeries

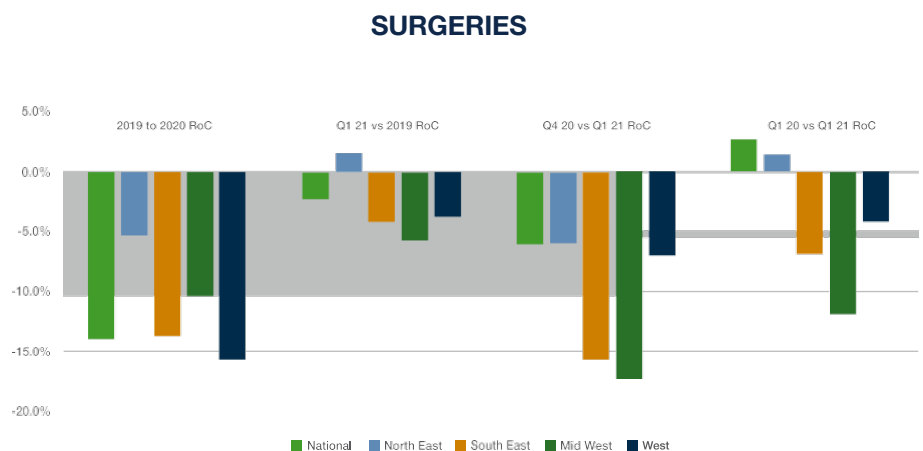
Total Surgery Volume by Quarter Across Q1 2019 Through Q1 2021

- N = 13 Health Systems (Names Blinded; each “layer” represents a health system).
- A lower number of health systems report this metric publicly.
- Surgeries decreased 36% from Q4 2019 and Q2 2020 and 12% from 2019 to 2020 YoY.
- Moving from Q4 2020 to Q1 2021, Surgeries decreased 10%.
- Q1 2021 Surgeries are 12% lower than 2019 volume levels.



Surgery Volumes 2020 Total Volume vs the Rate of Change from 2019

- 2019 to 2020 RoC (Rate of Change): From 2019 to 2020, Surgeries decreased 10-15% across the board; however the North East experienced the smallest decrease at 5%.
- Q1 21 vs 2019 RoC: Comparing Q1 2021 to 2019, the North East experienced an increase of 2% in Surgeries while the other four regions experienced a decline of 3-6%.
- Q4 20 vs Q1 21 RoC: Comparing Q1 2021 to Q4 2020, Surgeries decreased 6-8% in three of the regions; however, the South East and Mid-West experienced a decline of 16-18%.
- Q1 20 vs Q1 21 RoC: Comparing Q1 2021 to Q1 of 2020, Surgeries increased 1-3% in two of the regions; however, three regions decreased by 5-12%.
- N = 13

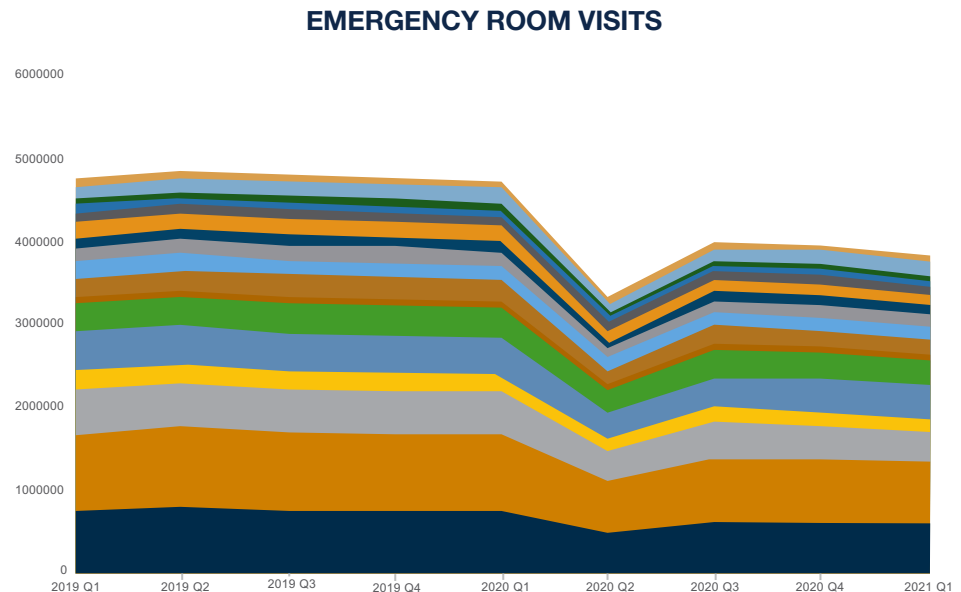




Key Insights And Trends: Emergency Room Visits

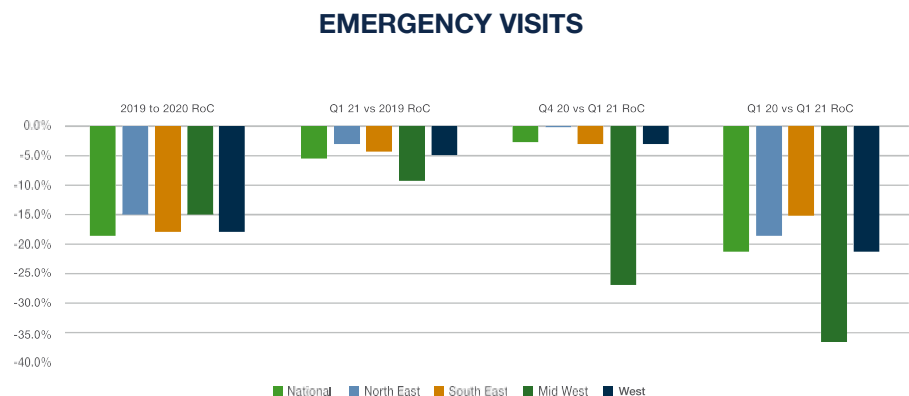
Total Emergency Room Visits by Quarter Across Q1 2019 Through Q1 2021

- N = 16 Health Systems (Names Blinded; each “layer” represents a health system).
- Emergency Room Visits decreased 31% from Q4 2019 and Q2 2020 and 17% YoY from 2019 to 2020.
- ER Visits decreased another 6% from Q4 2020 to Q1 2021.
- As of Q1 2021, ER Visits remain 23% less than pre-pandemic volumes.



Emergency Visits (2020 Total Volume vs the Rate of Change from 2019)

- 2019 to 2020 RoC (Rate of Change): From 2019 to 2020, ER decreased 15-19% across the board.
- Q1 21 vs 2019 RoC: Comparing Q1 2021 to 2019, ER Visits decreased of 5-10% with the Mid-West being hardest hit.
- Q4 20 vs Q1 21 RoC: Comparing Q1 2021 to Q4 2020, ER visits decreased 3-4% in three of the regions; however, the Mid-West experienced a decline of 27%.
- Q1 20 vs Q1 21 RoC: Comparing Q1 2021 to Q1 of 2020, ER Visits decreased 15-21% in four of the regions while the Mid-West decreased by 36%.
- N = 13.



Conclusion

The COVID-19 pandemic had a drastic impact on the economy and particularly on healthcare organizations. CARES Act funding filled a significant operating income gap for nearly all health and hospital systems. As we moved into 2021, we had hoped to see a recovery in both revenues and volumes at these not-for-profit health systems. However, in Q1 C'Y 2021, health system continued to experience degradation in Net Patient Revenue, as well as in key volume metrics such as Discharges, Surgeries, and Emergency Rooms Visits. The rise of the Delta variant in Q2 and Q3 2021 have continued to stress health systems, and as financial and operating results are reported, we are likely to see continued pressure on admissions and net operating income. Returning admissions and net operating revenues to pre-pandemic levels will continue to take time, possibly into late 2021 and the middle of 2022. A&M will continue to monitor these not-for-profit health system trends on a quarterly basis and continue to provide updates as these systems report their results.



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ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,400 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

To learn more, visit: AlvarezandMarsal.com/Healthcare.