



Barometer of the Post- COVID Healthcare Economy:

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

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Executive Summary

INTRODUCTION AND OBJECTIVE

Alvarez & Marsal's (A&M) Healthcare Industry Group helps its clients navigate through the local, state and federal market dynamics that drive change across the U.S. health system. The COVID-19 pandemic, and its accompanying economic and social disruptions, led A&M to investigate: What is the impact of these economic and social forces on the healthcare economy, both near and long term? 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, to utilize while navigating the post-COVID healthcare environment.

SUMMARY OF TRENDS

The COVID-19 pandemic had a significant impact on the economy, specifically on healthcare organizations. Net Patient Revenue at the top 25 not-for-profit health systems dropped almost 20% from Q4 of 2019 to Q2 of 2020, as the country locked down. Revenue did recover at the end of CY 2020 with the infusion of CARES Act funding, however, Operating Income declined 11% from 2019 to 2020. During this pandemic time period, Operating Expenses have continued to increase by 5%.

- **NET PATIENT REVENUE:** dropped 21% from Q4 2019 to Q2 2020 and 3% YoY from 2019 to 2020.
- **TOTAL OPERATING EXPENSE:** increased 5% from CY 2019 to CY 2020.
- **OPERATING INCOME:** decreased 11% from 2019 to 2020 (CARES funding included).

From a volume perspective, inpatient discharges are down almost 10% from YoY from 2019 to 2020 while length of stay actually increased 6 percent, suggesting a higher level of acuity in admitted patients, presumably from sustained COVID-19 volumes. What will be more telling as health systems recover, is the impact from declined surgical and emergency room volumes, which were down 11% and 17%, respectively, year over year.

- **DISCHARGES:** decreased 18% from Q4 2019 to Q2 2020 and 9% YoY.
- **PATIENT DAYS:** decreased 13% from Q4 2019 to Q2 2020 and 4% YoY.
- **LENGTH OF STAY:** increased 7% from Q4 2019 to Q2 2020 and 6% YoY.
- **SURGERIES:** decreased 36% from Q4 2019 to Q2 2020 and 11% YoY.
- **EMERGENCY ROOM VISITS:** decreased 31% to Q4 2019 and Q2 2020 and 17% YoY.

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, in order to establish a pre-pandemic baseline.

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 impact of COVID-19.

The Healthcare Economy: Detailed Report Updated Through Q4 2020

THE DATA

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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 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>

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:

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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 = 25)
2. TOTAL OPERATING EXPENSE (N = 25)
3. OPERATING INCOME (N = 25)
4. DISCHARGES (N = 22)
5. PATIENT DAYS (N = 21)
6. LENGTH OF STAY (N = 21)
7. SURGERIES (N = 15)
8. EMERGENCY ROOM VISITS (N = 18)

SUMMARY

The COVID-19 pandemic had a drastic impact on the economy and in particular on health care organizations. Net Patient Revenue dropped almost 20% from Q4 of 2019 to Q2 of 2020 as the country locked down. Revenue did recover at the end of CY 2020 with the infusion of CARES Act funding, however, Operating Income declined 11% from 2019 to 2020.

From a volume perspective, inpatient discharges were down almost 10% YoY from 2019 to 2020 while length of stay actually increased 6 percent, suggesting a higher level of acuity in admitted patients (presumably from sustained COVID-19 volumes). What will be more telling as the health system recovers, is the impact from declined surgical and emergent volumes which are down 11% and 17% year over year. Forthcoming analyses will address the sustained impact of these key drivers of revenue.

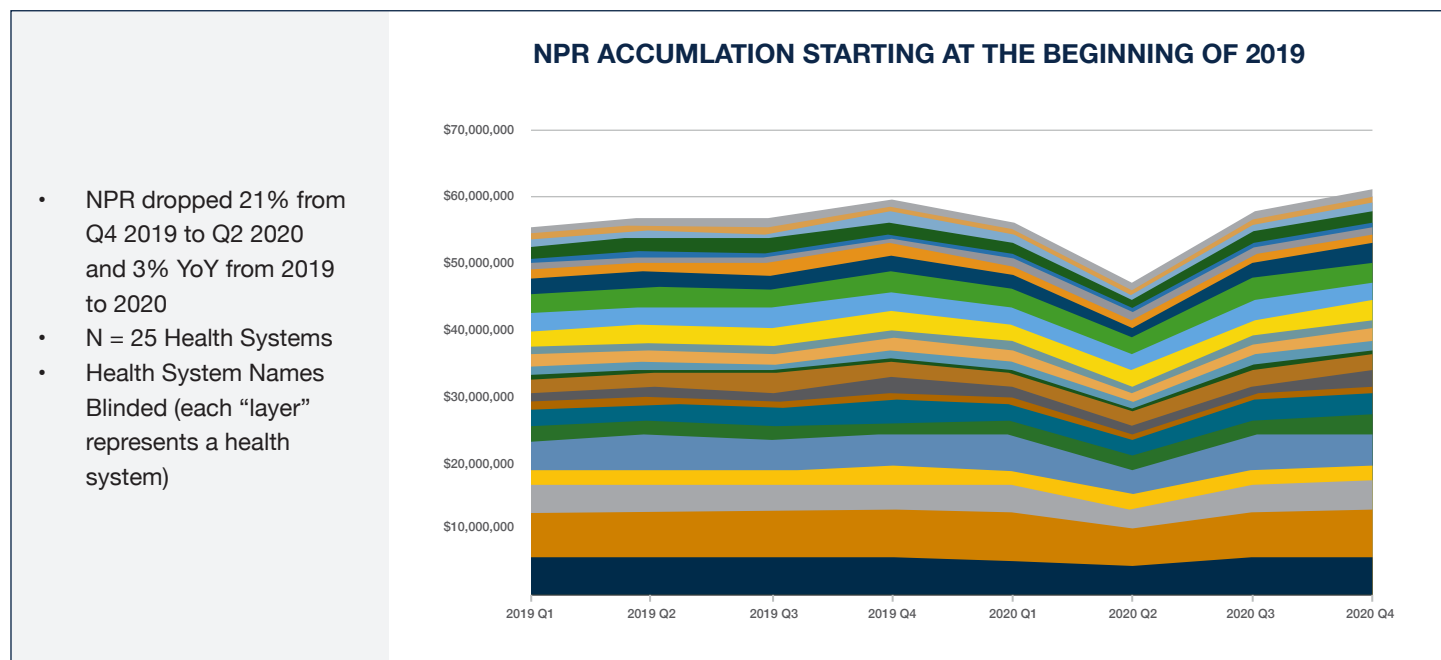
	NET PATIENT REVENUE	Dropped 21% from Q4 2019 to Q2 2020 and 3% YoY from 2019 to 2020
	TOTAL OPERATING EXPENSE	Increased 5% from CY 2019 to CY 2020
	OPERATING INCOME	Decreased 11% from 2019 to 2020 (CARES funding included)
	DISCHARGES	Decreased 18% from Q4 2019 to Q2 2020 and 9% YoY
	PATIENT DAYS	Decreased 13% from Q4 2019 to Q2 2020 and 4% YoY
	LENGTH OF STAY	Increased 7% from Q4 2019 to Q2 2020 and 6% YoY
	SURGERIES	Decreased 36% from Q4 2019 to Q2 2020 and 11% YoY
	EMERGENCY ROOM VISITS	Decreased 31% to Q4 2019 to Q2 2020 and 17% YoY

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

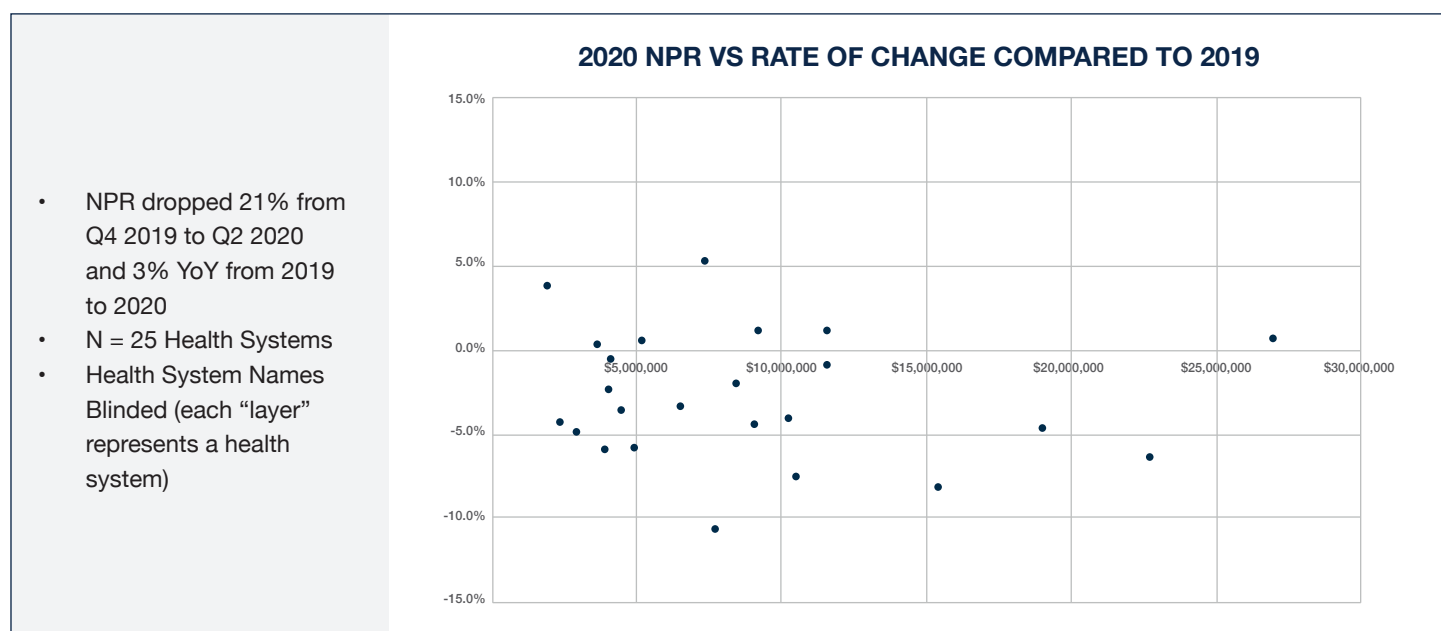


Key Insights and Trends: Net Patient Revenue

Net Patient Revenue (NPR) Accumulated Across Quarters from Q1 2019 Through Q4 2020



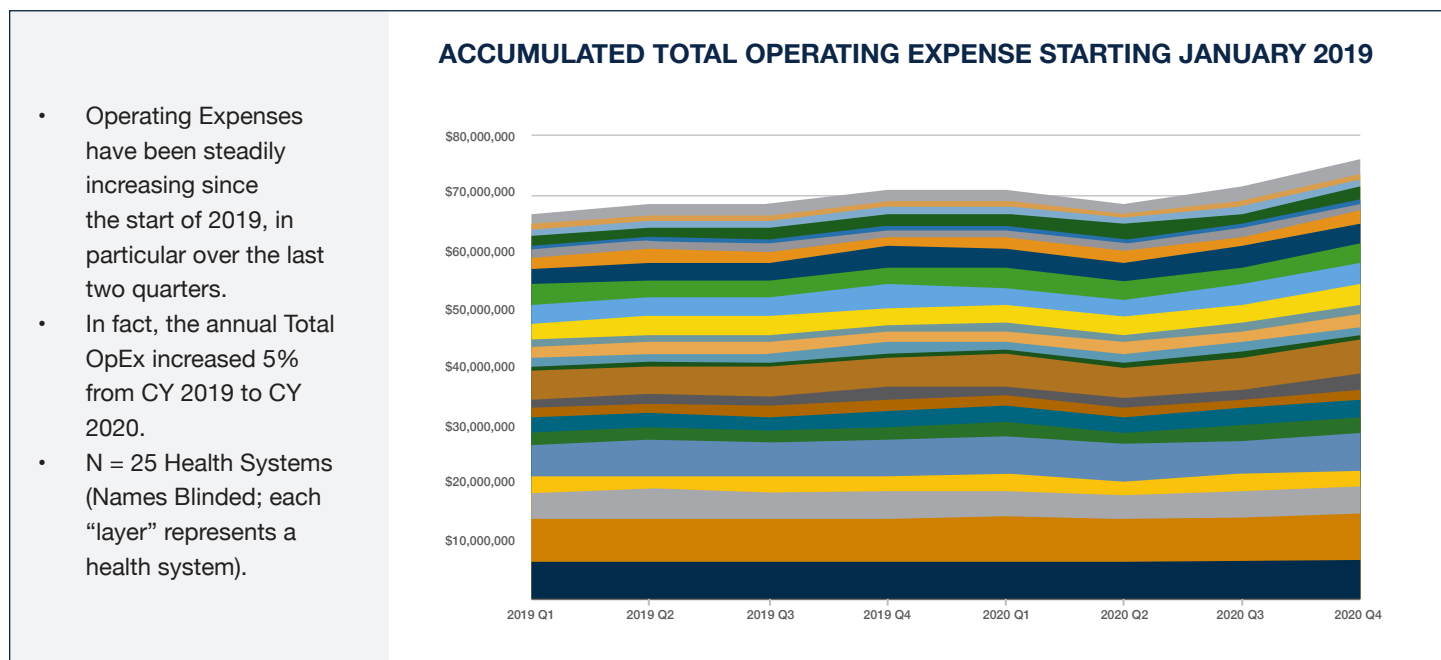
Net Patient Revenue (NPR) Accumulated Across Quarters from Q1 2019 Through Q4 2020



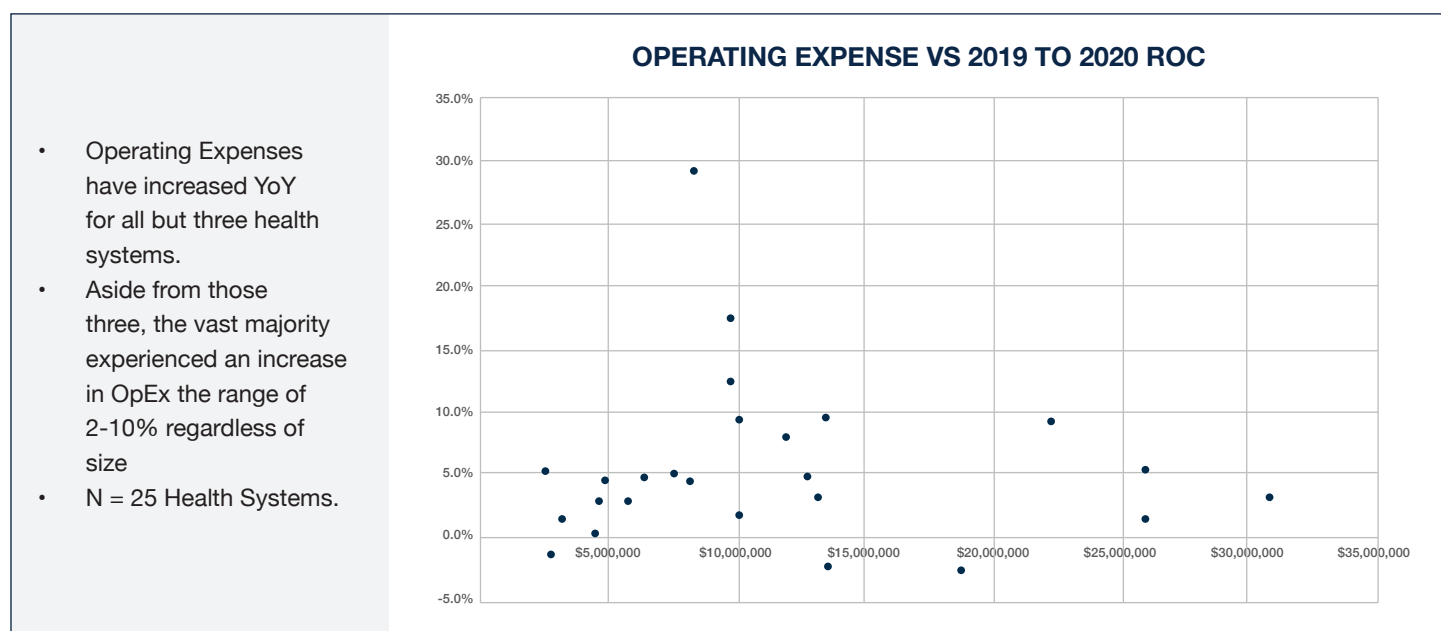


Key Insights and Trends: Total Operating Expense

Total Operating Expense Accumulated Across Quarters from Q1 2019 Through Q4 2020



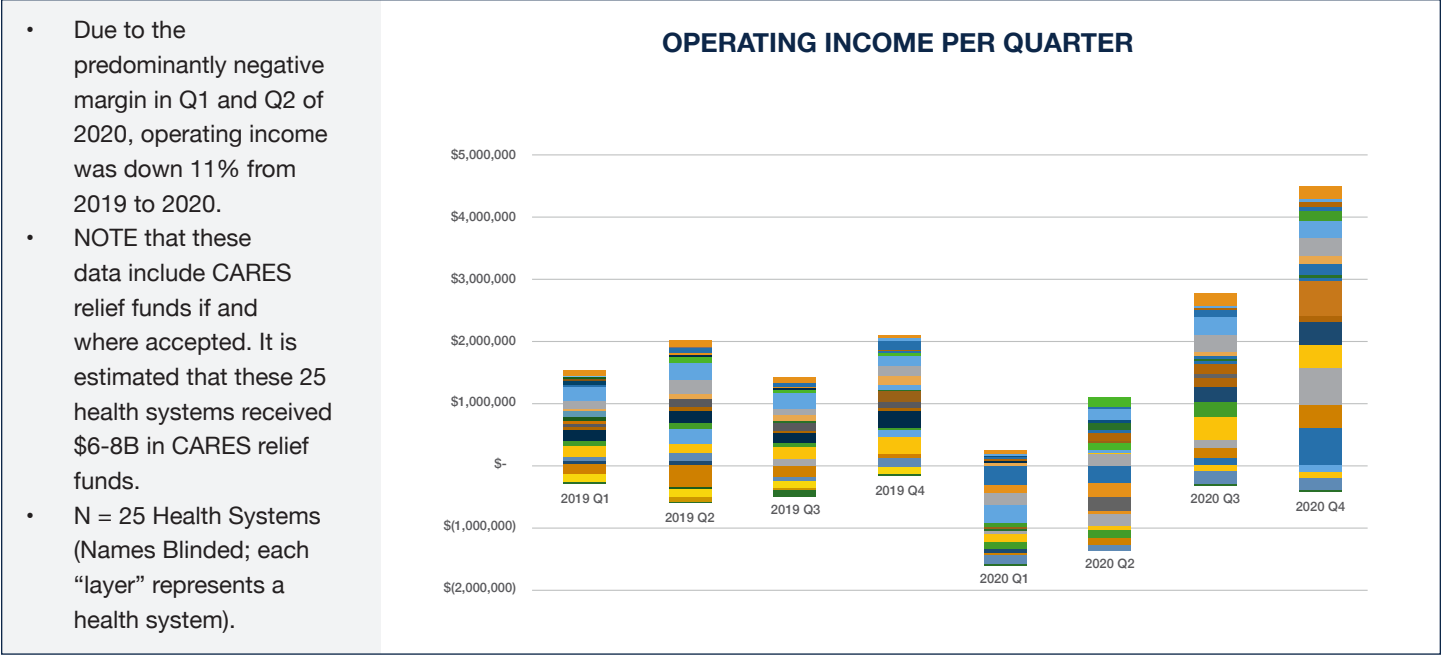
2020 Total Operating Expense vs the Rate of Change (ROC) from 2019





Key Insights and Trends: Operating Income

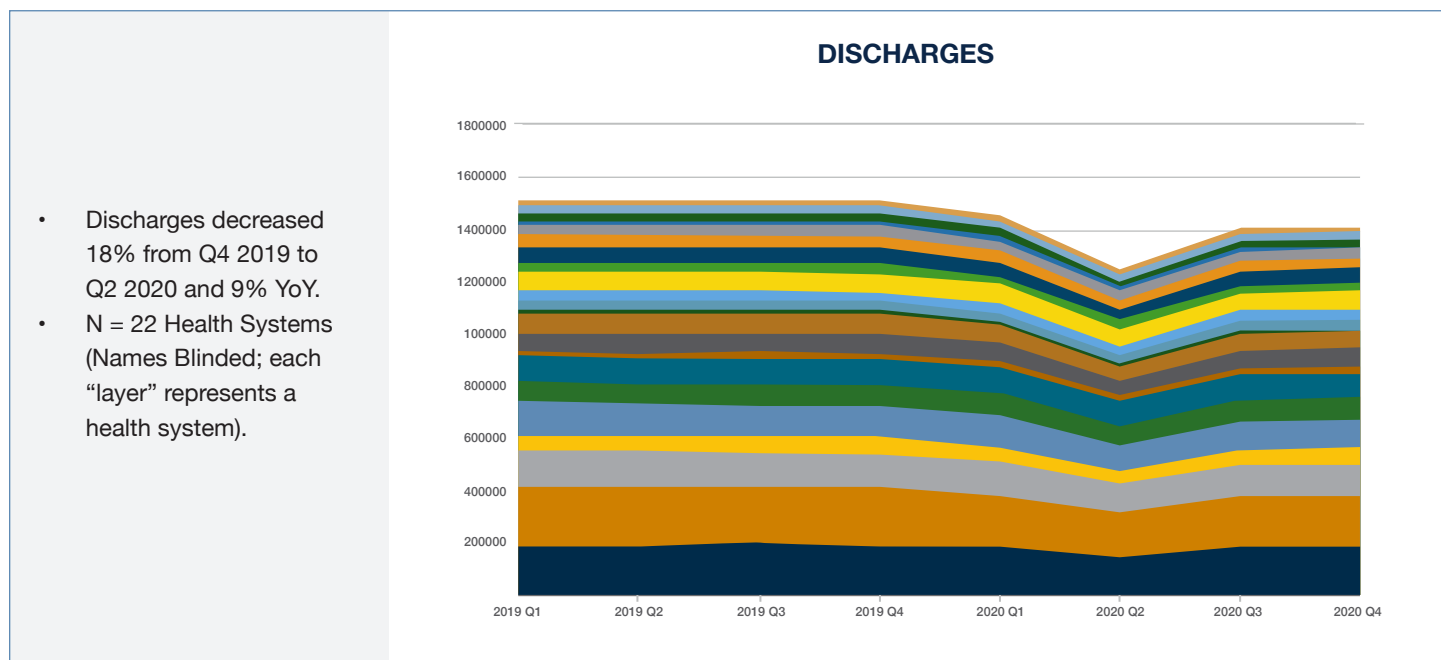
Total Operating Income by Quarter Across Q1 2019 Through Q4 2020



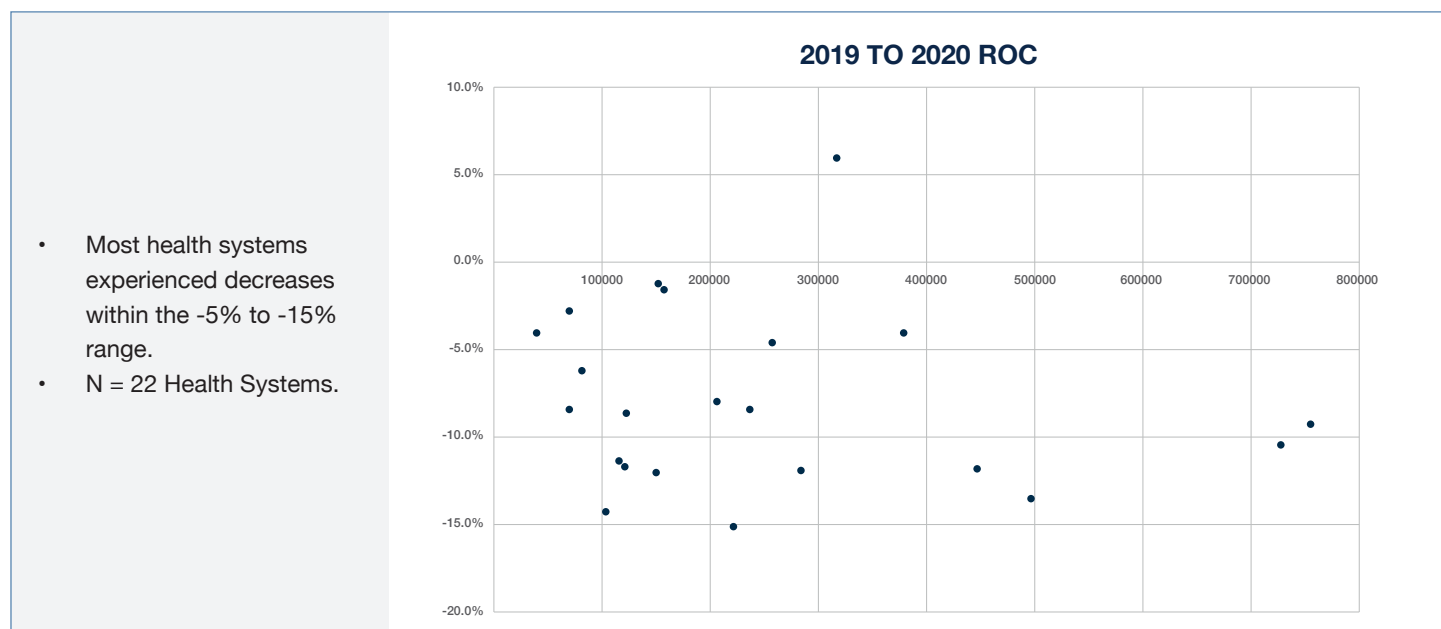


Key Insights and Trends: Discharges

Discharge Volume Across Quarters from Q1 2019 Through Q4 2020



2020 Total Discharge Volume vs the Rate of Change from 2019

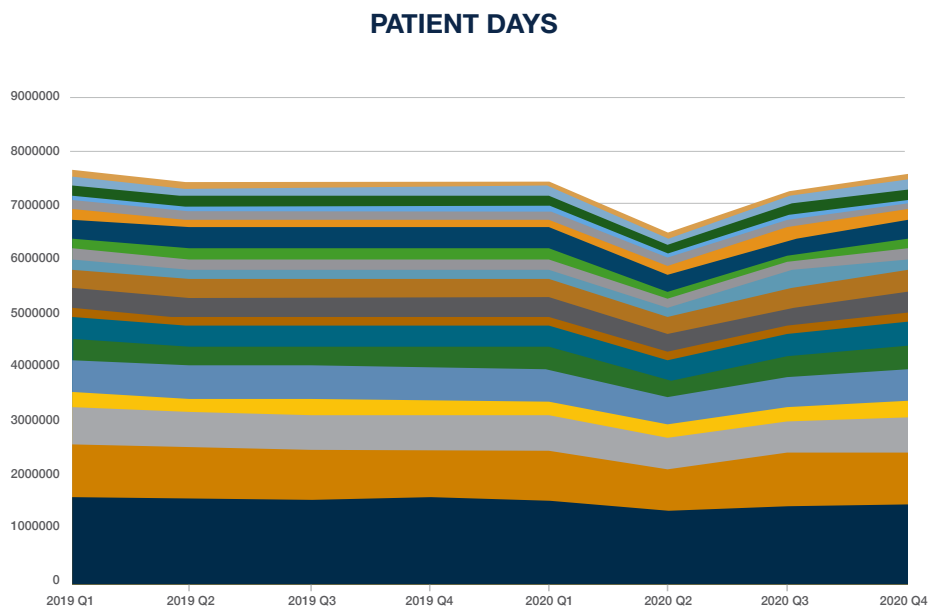




Key Insights and Trends: Patient Days

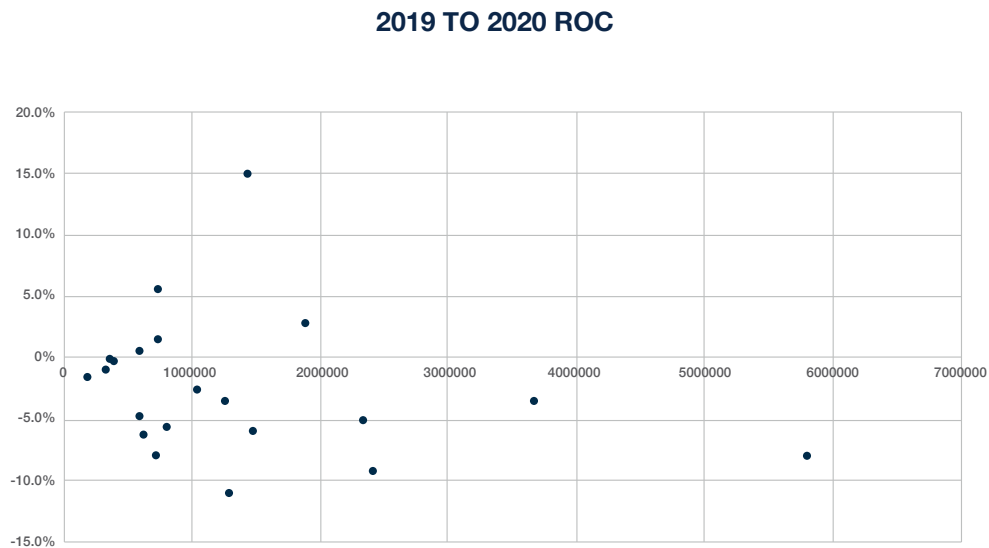
Total Patient Days by Quarter Across Q1 2019 Through Q4 2020

- Patient Days decreased 13% from Q4 2019 to Q2 2020 and 4% YoY.
- This decrease is LESS than that of Discharges, suggesting a potentially higher level of acuity in those patients admitted.
- N = 21 Health Systems (Names Blinded; each “layer” represents a health system).



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

- 80% of health systems experienced decreases within the 0% to -10% range
- N = 21 Health Systems



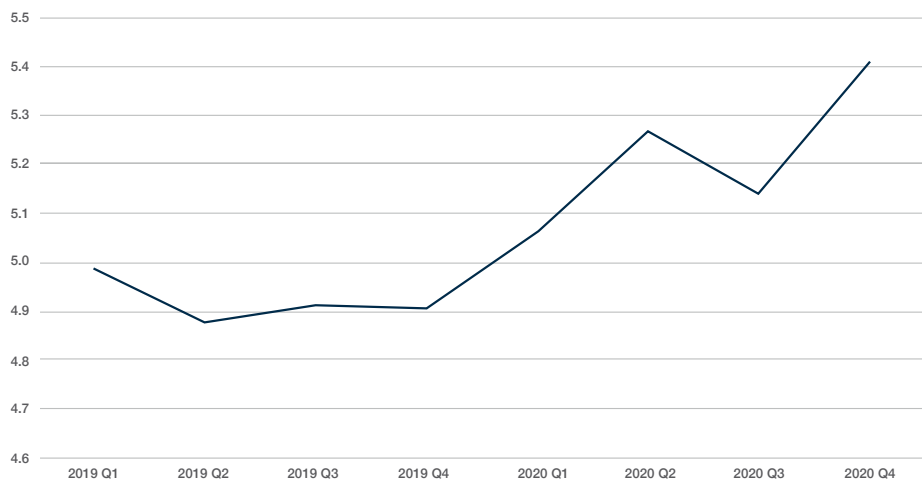


Key Insights and Trends: Length of Stay

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

- Length of Stay increased 7% from Q4 2019 to Q2 2020 and 6% YoY.
- These increase suggests a potentially higher level of acuity in those patients admitted.
- N = 21 Health Systems.

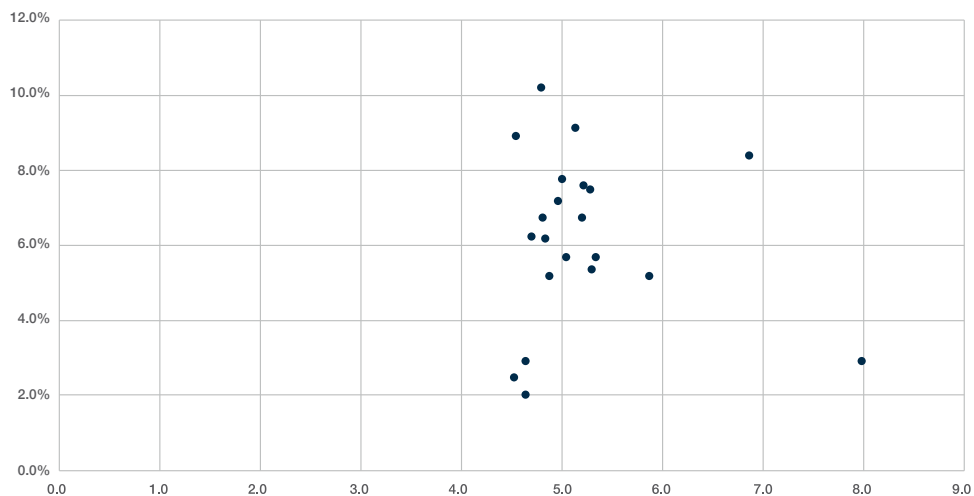
LENGTH OF STAY AVERAGE



Length of Stay (2020 Actual LOS vs the Rate of Change from 2019)

- All health systems experienced an increase in LOS with the greatest concentration in the 5-8% range.
- This increase suggests a potentially higher level of acuity in those patients admitted.
- N = 21 Health Systems.

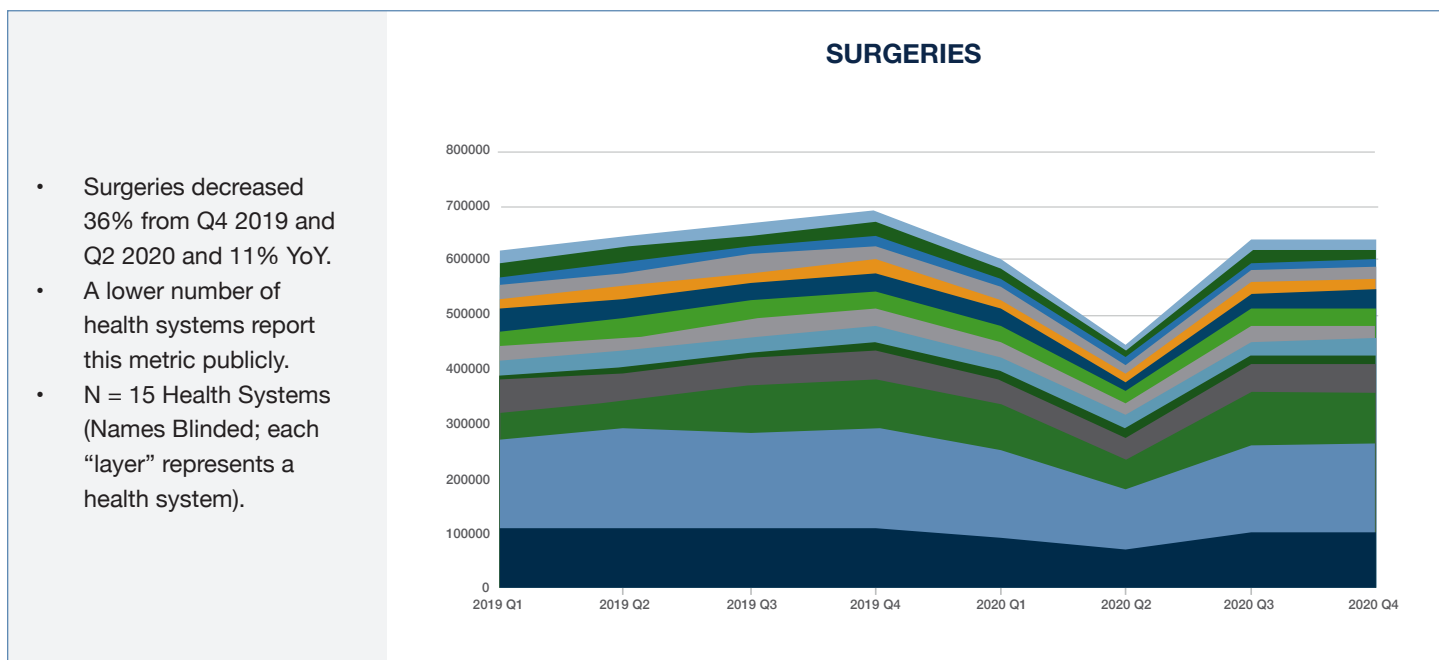
2019 TO 2020 ROC



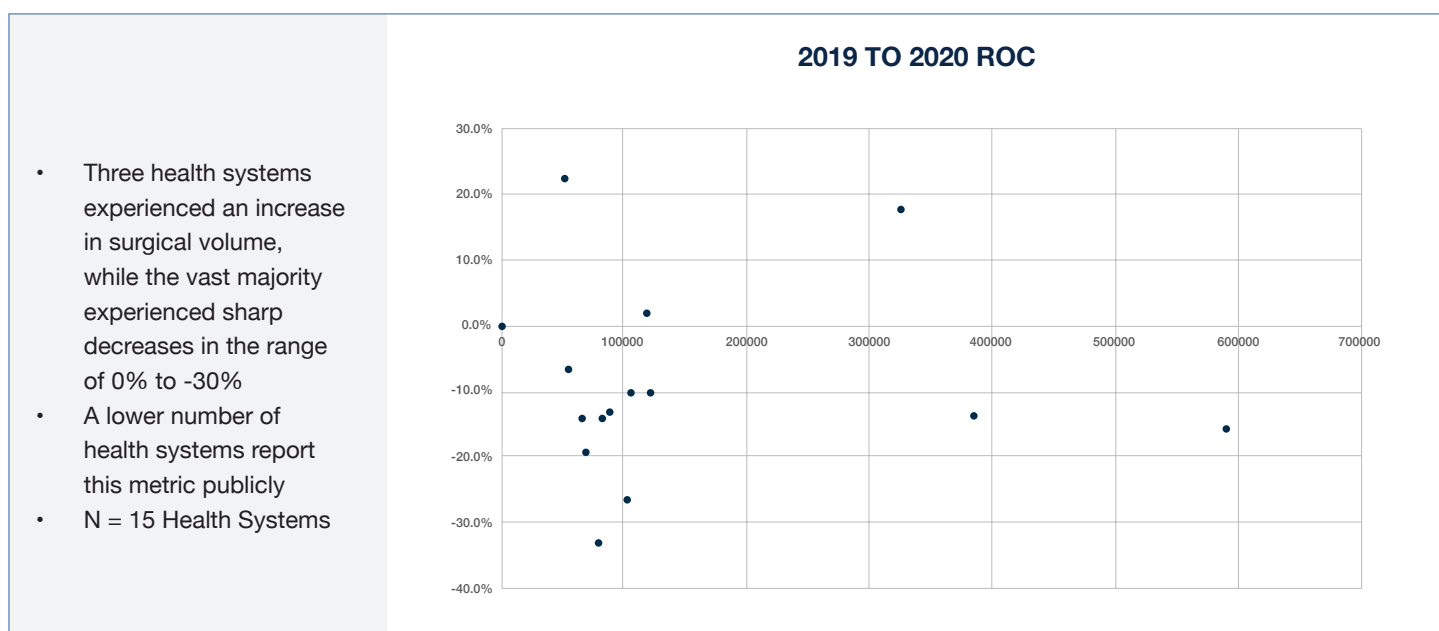


Key Insights and Trends: Surgeries

Total Surgery Volume by Quarter Across Q1 2019 Through Q4 2020



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

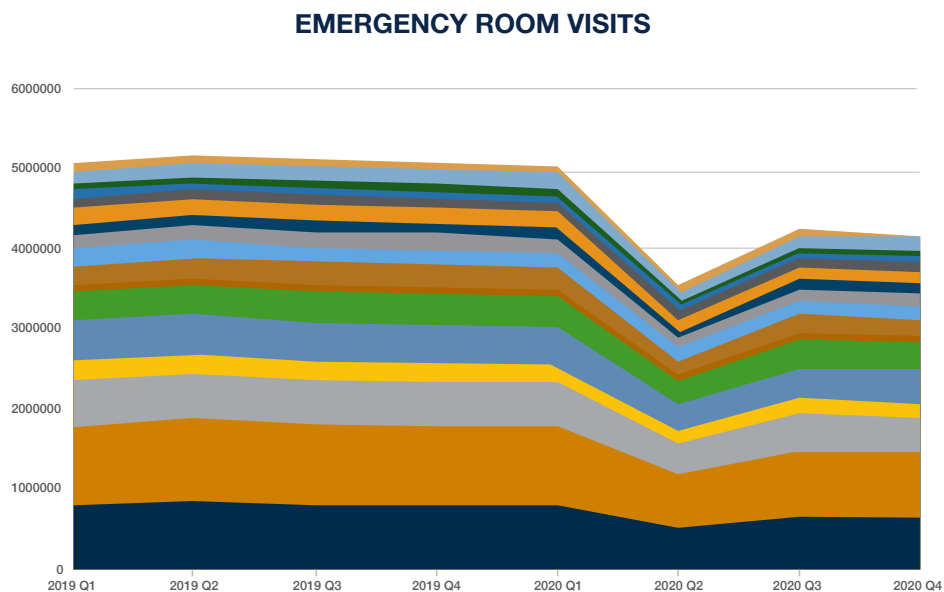




Key Insights And Trends: Emergency Room Visits

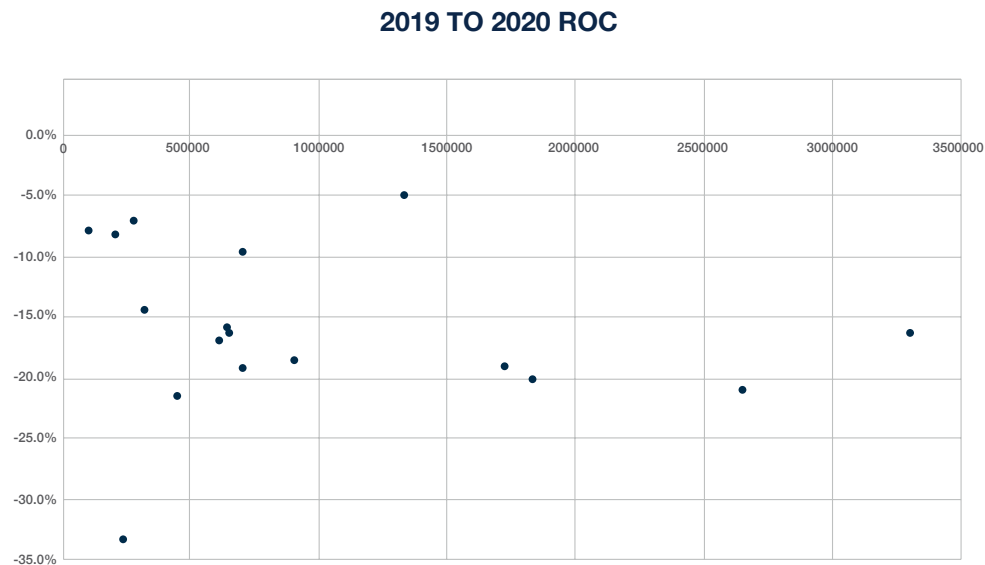
Total Emergency Room Visits by Quarter Across Q1 2019 Through Q4 2020

- Emergency Room Visits decreased 31% from Q4 2019 and Q2 2020 and 17% YoY
- N = 18 Health Systems (Names Blinded; each “layer” represents a health system)



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

- All health systems experienced decreases, mostly within the 0% to -20% range
- N = 18 Health Systems



Conclusion

The COVID-19 pandemic had a drastic impact on the economy and in particular on health care organizations. CARES Act funding clearly filled the operating income gap for nearly all health and hospital systems. That income gap was created by lost or deferred volumes associated with the pandemic that struck in Q1/Q2 of 2020. Discharges, Surgery Volumes, and Emergency Room Volumes were adversely affected by the pandemic and associated “lockdowns”, deferral or curtailment of elective procedures. It is not entirely if and when those volumes will return to pre-pandemic levels. Forthcoming analyses by A&M will address the sustained impact of these key drivers of revenue and growth. A&M will continue to generate this report quarterly to monitor and track trends driving the health system economy and the recovery stemming from the unique market dynamics of 2020.



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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.

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