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Health Care Program

What's Happening in Health Care: Industry Update

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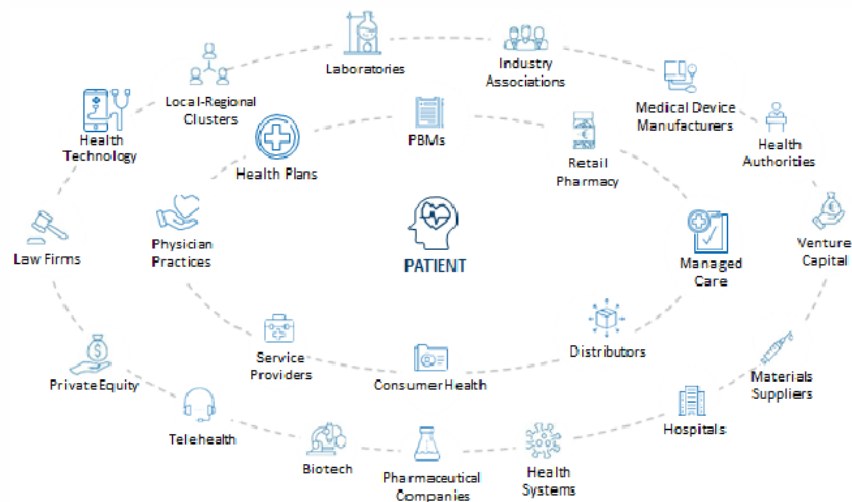
 <p>Tom Buck Panel Co-Chair B. Reily Advisory Services</p> <p>Tom is a crisis management professional with 20+ years experience advising distressed businesses across industries, including healthcare, with expertise in operational turnarounds, financial restructurings, divestiture transactions, merger integration, enterprise improvement and orderly liquidations. He has held many debtor and creditor roles in the bankruptcy process, including financial advisor, interim manager, and CRO, for cases such as North Oakland Medical Centers, Saint Michaels Medical Center, Inc., and Buckingham Senior Living. His acumen managing complex dynamics across the stakeholder spectrum has resulted in many innovative and consensual solutions.</p>	 <p>Cynthia Romano Panel Co-Chair, Moderator FTI Consulting</p> <p>Cynthia is a Senior Managing Director at FTI Consulting with 30 years experience in profit enhancement, turnarounds, transactions, and investment analysis. Her work has transformed the bottom lines of organizations in healthcare, real estate, technology, professional services, and manufacturing. Partnering with sponsors and management, she maximizes value for stakeholders through liquidity management, operational restructuring, organizational and process redesign, capital sourcing, and business and creditor workout/management. Historically, her work has created a return on investment for her clients of 10x within 24 months.</p>	 <p>Chris Karambelas Panelist, Advisor Accordion</p> <p>As an Managing Director in Accordion's Turnaround and Restructuring Practice and with nearly two decades of experience helping clients navigate complex and volatile situations, Chris has primarily focused on technology, IT, and financial and operational turnarounds across the healthcare sector. Chris has extensive expertise working with distressed entities, UCCs, and lenders across formal and informal restructuring scenarios. He supports clients throughout the Chapter 11 lifecycle and is adept at 13-week forecasting, cash management, financial modeling, and implementing organizational change.</p>
 <p>Burk Lindsey Panelist, Investment Banker Brentwood Capital</p> <p>Burk advises middle-market healthcare companies and health care-focused PE investors on M&A as well as strategic and complex financing transactions. He has completed 150+ transactions representing \$10B+ in transaction value over 30 years. He provides senior leadership for the firm's healthcare advisory business, focusing on behavioral health, post-acute and other healthcare provider and services sectors. Before BCA, Burk helped build one of the nation's premier middle-market healthcare advisory practices at Raymond James and had investment banking and merchant banking roles at SunTrust Equitable Securities and ING Capital, respectively.</p>	 <p>Rick Pedone Panelist, Attorney Nixon Peabody</p> <p>Rick leads Nixon Peabody's Financial Restructuring and Bankruptcy Practice and is a member of the firm's Business and Finance Department and Health Care Team. He represents distressed companies, strategic buyers of financially troubled businesses, purchasers of distressed debt, creditors and other parties in the financial restructuring and bankruptcy processes. Many matters Rick handles focus on developing and implementing strategies for the purchase or sale of distressed health care providers, often implemented through Chapter 11 "363" sales, Article 9 foreclosures, assignments for the benefit of creditors and receivership processes.</p>	 <p>Elizabeth Sauer Bradley Panelist, Attorney Bradley</p> <p>As a real estate and finance attorney specializing in Healthcare and Long-Term Care / Senior Housing transactions, Elizabeth advises owner-operators, managers, and investors (including REITs and private company funds) in selling and acquiring behavioral health centers, SNFs, ALFs, medical office buildings, pharmacies, etc, often out of receivership and/or as part of a workout. She also represents private lenders/banks in originating healthcare finance transactions, including mortgage loans, revolving, and mezzanine loans, and assists lender clients with restructurings and note sales. Through her REIT experience, Elizabeth is skilled in nuances of RIDEAs and EIKs.</p>



The Healthcare Industry: Where are we Today?



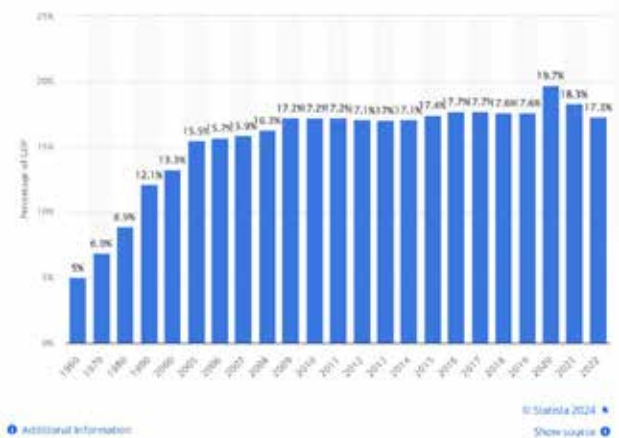
Healthcare Industry | Not a Single Industry



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Healthcare Macro Snapshot | US Healthcare is Broken

- **Expensive.** We spend more on healthcare than any other wealthy country, with out-of-pocket spending ~5x higher than other countries in OECD and, including government spend, ~3x greater than the OECD average. In relative dollars, we spend ~17.3% of GDP on healthcare (the next closest are Germany at 12.7% and France at 12.1%).
- **Ineffective.** For all that money spent, we are not healthier or living longer. The life expectancy of the average American is 78.8 years, putting the US a fraction ahead of the Czech Republic, where out of pocket spending was just \$236 last year.
- **Providers Failing.** While money is being spent, large quantities of it, providers are still not making it. Health care bankruptcies in 2023 reached the highest level in five years.
- **Consumers Failing.** Nearly 20 percent of Americans report having medical debt, and 62 percent of consumer bankruptcies are related to medical debt.



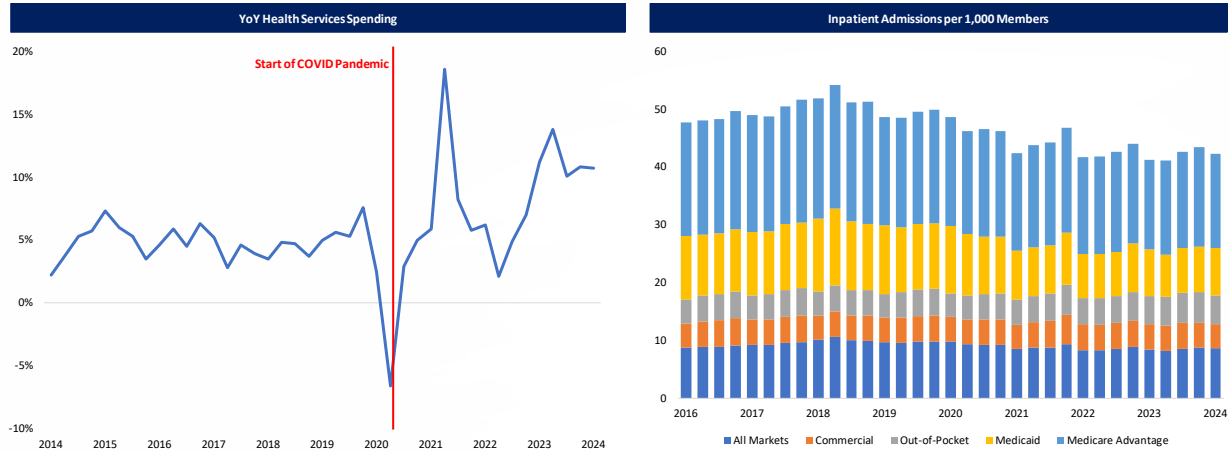
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Healthcare Micro Snapshot | Where We Stand Today

Strong Recovery of Profit Pools <p>Healthcare industry grew ~5% pre-COVID and remained flat during the pandemic... estimated go-forward growth of 5%+ would add over \$30 billion in incremental profits</p>	Evolving Payer Mix <p>Government segments are expected to lead to change of payer mix shift, as aging population and preference for Medicare Advantage over traditional FFS Medicare takes hold</p>	Shift in Sites of Care <p>COVID-19 accelerated the movement of care from high-cost acute / post-acute care to lower-cost alternative sites, paving the way for an uptick in home-based care</p>
Improved but Challenged Outlook for Hospitals <p>While hospital utilization has largely returned to pre-COVID levels, patient mix continues to evolve and financial performance lags</p>	Proactive Approach to Patient Care <p>Rapid adoption of data and advanced analytics is spurring analytics in population health management, revenue cycle management, and patient engagement</p>	Specialty Drug Spend Catalyzing Pharma Spend <p>New models of patient engagement and the entrance of new digital pharmacy models have driven specialty drug development while amplifying margin pressure on PBMs and traditional drug dispensers</p>



Utilization | Uneven by Market While Spend Exceeds Pre-Pandemic Levels



Signs of Potential Continued Stress for Health Care Providers

- The **record level of PE-fueled M&A activity** prior to Spring 2022; significant portion of deals done **at all-time high valuations**
- 4-500 bp base **borrowing rate increase** between Q122 and Q323; higher debt cost on **already heavy balance sheets**
- The **economic disruption** caused by **COVID** has many PE-backed providers **well behind their growth plans**
- Significant **labor market disruptions**, which have **permanently rebased labor margins higher and profit margins lower** in many labor-intensive segments
- Segment and **PE investment has stalled/slowed**; LPs reward deployment and return of capital; however many portfolio companies are underwater due to the above factors and therefore unlikely to come to market soon
- Significant **underperformance of many physician services** companies and the **slow unwinding** of large number of those deals (Envision, TeamHealth, Prospect Medical)



Private Equity and Healthcare: Current State of the Intersection



Private Equity Snapshot | Current Transaction Environment

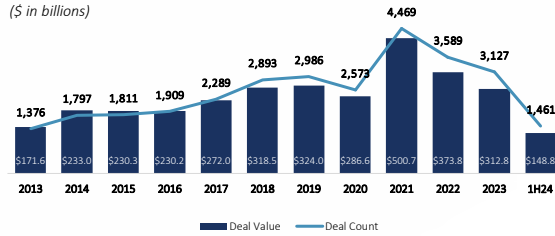
- 1 PE firms have historically large amounts of cash to burn (**\$4 trillion in dry powder**)
- 2 Funds are sitting on approximately **28,000 unsold companies**, with **46% of those assets having been held for over four years**
- 3 GPs are **aggressively valuing their assets** – even their underperforming assets
- 4 Buyers need to deploy capital, but there's a **buyer-seller valuation disconnect**

2024 HEALTH CARE PROGRAM

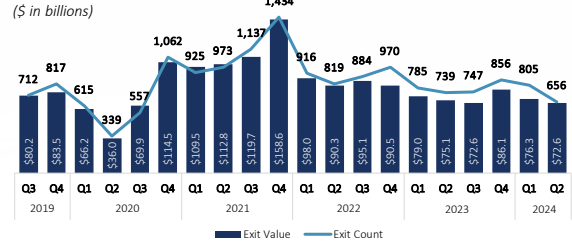


Middle Market PE Deal Activity

Annually
(\$ in billions)

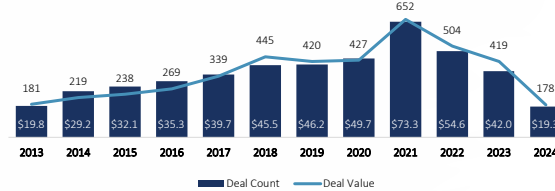


Quarterly
(\$ in billions)



Health Care Deal Activity – All Sectors

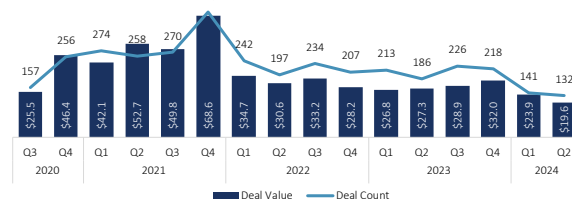
(\$ in billions)



Source: Pitchbook

PE Exits by Quarter

(\$ in billions)



An Alternative to Resolving Issues
Out of Court or In Bankruptcy



What is a Receivership and Why Knowing the Answer Matters

- Usually, but not always a court proceeding. Federal or State
- Roots in English Chancery Court's historic equitable powers
- "Equity" to a Lender may not be equity for a creditor
- Receiverships are not created under the Bankruptcy Clause of the Constitution. Can a receiver really sell "free and clear"?
- Diverse perspectives: loans, litigation, CHOWs, and sales



Receivership Basics and Things to Think About...

- Pre-Filing: Cash Management, Reservations of Rights, and Oversight
- Petition Parties: PropCo, OpCos, and ManageCos
- State or Federal Court: Know Your Judges
- Consensual or Not: Borrower's Involvement, Cooperation, and Release
- JDs: Litigators, Healthcare Attorneys, Deal Counsel, Regulators, Public
- CHOWs and CHOMs and Impact on Sales
- OTAs: Employees, Contracts, and DBAs
- Insurance: Existing Coverage and Tails
- Title Company and Sale Order Notice Requirements
- Seller's Expenses, Prorations, and Post-Closing Tru-Up: Whose Cash is It?

Faculty

Christopher P. Karambelas, CHFP, CIRA is a managing director with Accordion Partners' Turn-around and Restructuring Practice in New York. He has nearly 20 years of experience helping clients navigate complex and volatile situations, and he has primarily focused his career on IT, health care technology, and financial and operational turnarounds across the health care sector. Mr. Karambelas has held critical leadership roles in managing crisis situations. In his recent role as Chief Information Officer and Chief Operating Officer at Mercy Iowa City, a community hospital, he oversaw IT and various operational departments, addressed bankruptcy-related matters, and developed transition plans related to the acquisition of the hospital system. At Milford Health and Medical, Mr. Karambelas served as an executive leader, overseeing all nonclinical daily operations and planning the integration of operations into a large health system. He led the operational turnaround efforts for the hospital, including capital replacement planning and implementation, procurement and contract changes, process flow improvements and vendor negotiations. In addition, he successfully completed the turnaround and sale of a home health care agency, a subsidiary of the hospital. During his tenure at Brookdale University Hospital Medical Center, Mr. Karambelas held several leadership roles in Finance, Operations, Facilities, Engineering and IT. As the Chief Information Officer, he oversaw all IT operations at the executive level, contributed to the development of Brookdale's strategic forecast for organizational growth, and played a significant role in planning for One Brooklyn Health, a \$664 million project to create a three-hospital system in Brooklyn, NY. As Chief Integration and Technology Officer at Saint Vincents, which operates a TRICARE Prime health insurance plan, Mr. Karambelas led various special projects, including implementing a new electronic medical record system and the transition of a new claims administrator. He also worked on improving IT department processes and the restructuring of clinical services at the plan's primary care facilities. Before joining Accordion, Mr. Karambelas was a managing director at ToneyKorf Partners and a manager in Grant Thornton's Corporate Advisory and Restructuring group. He is a Certified Healthcare Financial Professional through HFMA and a Certified Insolvency and Restructuring Advisor through AIRA. Mr. Karambelas received the Emerging Leaders award from The M&A Advisor. He received his B.S. in finance and accounting from Northeastern University, and his A.S. in computer engineering from Vermont Technical College.

Burk Lindsey is a managing director with Brentwood Capital Advisors in Nashville, Tenn., where he advises middle-market health care companies and health care-focused private-equity investors on M&A as well as strategic and complex financing transactions. Over a 30-year career, he has completed more than 150 transactions representing over \$10 billion in transaction value. Mr. Lindsey provides senior leadership for the firm's health care advisory business, primarily focusing on behavioral health, post-acute and other health care services sectors. Before joining BCA, he was a senior managing director in the Health Care Investment Banking Group at Raymond James, where over his 23 years there he helped build one of the nation's premier middle-market health care advisory practices, and led its health care services group and behavioral and post-acute practice areas. Prior to BCA and Raymond James, he held investment banking and merchant banking positions with SunTrust Equitable Securities and ING Capital, respectively. Mr. Lindsey received his B.S. in corporate finance from the University of Alabama and his M.B.A. in finance and tax from Emory University Goizueta Business School.

Richard C. Pedone is a partner with Nixon Peabody LLP in Boston and is a member of the firm's Business & Finance Department, and leads its Bankruptcy & Financial Restructuring practice. He represents distressed companies, strategic buyers of financially troubled businesses, purchasers of distressed debt, creditors and other parties in the financial restructuring and bankruptcy processes. Many of the matters that he handles involve litigated disputes, allegations of fraud and insolvency proceedings pending in multiple jurisdictions. Mr. Pedone provides corporate governance and liability-avoidance advice to private-equity firms, and directors and officers dealing with special situations. In addition, he serves as outside general counsel to several growing businesses and as a member of the board of advisors for a specialty financial services firm. Over the past 10 years, Mr. Pedone has represented corporate trust fiduciaries in dozens of matters involving litigation and/or bankruptcy, including representing an indenture trustee in connection with \$1.8 billion in debt in the Energy Future Holdings Bankruptcy, the world's largest failed LBO; the resolution through chapter 15 of a difficult cross-border default; the first chair trial of bondholders' rights to \$230 million in prepayment premiums and the valuation of 14 power plants; and numerous securitization and swap-related bankruptcy matters and plan litigation related to corporate governance. He also handled the representation of a franchisor whose lender/investor accused it of fraudulent conduct, the representation of a hedge fund that was the victim of a Ponzi scheme in litigation, and the commencement of an involuntary bankruptcy case and the representation of franchisors such as Planet Fitness and Dunkin' Donuts in disputes with their franchisees. Mr. Pedone received his B.A. with honors in political science from Bates College and his J.D. *cum laude* from Boston College Law School.

Cynthia Romano, CTP is a senior managing director at FTI Consulting, Inc. in New York, and she has specialized in transformations, turnarounds and transactions that enhance liquidity, profitability and enterprise value for more than 25 years. Her industry experience spans health care, manufacturing, technology, energy and oil and gas, distribution, restaurants, professional services and nonprofit engagements. Partnering with CEO-level management, Ms. Romano helps companies transform their bottom line to maximize value for owners, investors and other stakeholders. Her expertise includes liquidity management, profit improvement through operational restructuring, organizational and process redesign, capital-sourcing, and business and creditor workout and management. Ms. Romano has been recognized with multiple prestigious industry awards, including the 2021 Turnaround of the Year by Global M&A Network, the 2020 Turnaround and Transaction of the Year by the Turnaround Management Association, and the 2020 Out-of-Court Restructuring of the Year by Global M&A Network. In 2021, she was named one of the top women in asset-based lending by the *ABF Journal*. Ms. Romano is a frequent speaker for various industry associations on a wide range of topics and is regularly quoted in major news and business outlets, including Bloomberg, Debtwire, CFO.com, *Accounting Today* and *Modern Healthcare*. She received her B.A. in educational policy in 1993 and her M.B.A. in international management from the Massachusetts Institute of Technology Sloan School of Management in 2002.

Elizabeth C. Sauer is a partner with Bradley Arant Boult Cummings LLP in Nashville, Tenn., where she advises investors, developers, managers and owner-operators in large-scale, multi-state portfolio transactions, as well as single-asset deals. She has experience in a wide variety of real estate, finance and corporate transactions involving REITs and other public and private companies, particularly in the purchase, sale, leaseback, development, management, leasing and financing of raw land and improved assets. Ms. Sauer has transactional experience with medical office buildings and condominiums; hospitals, outpatient clinics and surgery centers; skilled nursing facilities; assisted-living

facilities, memory-care centers and independent-living facilities; warehouse distribution centers and manufactured homes; and multifamily housing and hotels. She routinely drafts and negotiates purchase and sale agreements, development agreements, ground leases, master leases and space leases, and oversees due diligence. Her practice also includes negotiating financing arrangements, including senior credit facilities, mortgage term loans, revolvers, construction loans, mezzanine loans, participations and note sales. Ms. Sauer has closed more than \$2 billion in loans over the past 18 months, including many for real estate investment trusts and their subsidiaries. She also has extensive corporate experience, including the structuring of RIDEAs and national joint ventures, and she has advised clients on various corporate governance and compliance matters. Ms. Sauer is listed in *Chambers USA* for Real Estate for 2024; in *The Best Lawyers in America* for Real Estate Law from 2018-25, for Banking and Finance Law from 2024-25 and for Health Care Law from 2023-25; and in the *Nashville Business Journal's* "Best of the Bar" for 2024. She received her B.A. with distinction in 2001 from the University of Virginia and her J.D. in 2004 from the University of Virginia School of Law.