

Q&A: Financial Restructuring and Healthcare Providers

August 7, 2019 – Dorsey Health Law
by Annette Jarvis

Any casual reader of healthcare news in recent years has taken note of the upheaval and financial uncertainty facing healthcare providers. Take for example a recent Bloomberg story detailing the closure of Hahnemann University Hospital in Philadelphia – [“Philadelphia Hospital Collapse Highlights Healthcare ‘Anarchy’”](#). Anarchy or not, closures, consolidations, and financial restructuring are all too common for healthcare providers across the care continuum.

To get a better sense of how financial restructuring is impacting healthcare providers and what options a provider facing a restructuring may have, Kristen Barlow, a Dorsey Health Strategies consultant, recently spoke to Annette Jarvis, a Partner with Dorsey’s Finance & Restructuring Group. Annette is a national expert in insolvency and one of the nation’s leading bankruptcy and restructuring lawyers.



Related Capabilities

- Healthcare & Life Sciences
- Healthcare Transactions & Regulations
- Healthcare Litigation
- Medical Devices

Kristen: Annette, are there particular segments of the healthcare industry that you think are especially vulnerable to financial restructuring – and if so, why?

Annette: While all healthcare providers face financial challenges, some providers face particular challenges. For example, hospitals in rural areas have lower profit margins and may serve more uninsured patients than their urban counterparts. These rural hospitals are more at risk for closure – the Government Accountability Office recently [reported](#) that in the five years through 2017, 64 rural hospitals closed compared to 49 hospitals located in urban areas.

Another segment of the healthcare industry particularly vulnerable to financial restructuring is post-acute and long-term care providers. Recent years have seen the bankruptcies of a number of large skilled nursing facility providers and many long-term acute care hospitals. Expensive overhead, reductions in Medicare reimbursement rates, and pressure to invest in care quality improvements all help create an environment that puts post-acute and long-term care providers at particular risk for financial restructuring.

Annette: Kristen, from your perspective, how have you seen providers change and adapt their strategic plans to respond to these financial pressures?

Kristen: Annette, providers are absolutely trying to change and adapt their strategic plans to succeed in a more financially constrained environment. One strategic response providers may pursue is to find financial security through increased scale. The rise of M&A activity for healthcare providers is well documented – a recent Commonwealth Fund report found that the vast majority of provider markets (~90%) are either highly concentrated or super concentrated. Providers may find that consolidation permits them to gain negotiating leverage with insurers and realize efficiencies through economies of scale – all considerations that make consolidation an attractive strategy in the face of a financially worrisome outlook.

Kristen: Annette, consolidation is just one strategic response providers may have to financial pressures – what other strategies have you seen providers pursue?

Annette: Other strategies I have seen implemented include the reduction of services in rural hospitals or the roll up of certain services into larger hospital systems. This can occur through distressed acquisitions in or out of receiverships or bankruptcies or through less traditional combinations allowing sharing of services and patient care.



Kristen: Annette, how would you advise a company that may be worried about their financial outlook to think about their options?

Annette: Providers may want to remember that hospitals and other facilities are, by their nature, capital intensive. Often, by deferring capital investments (and unless

their loan documents have covenants that are tripped by early substandard performance), the company can put off facing financial problems by deferring capital investments until a cash crisis hits. Then the options for saving the business are more limited. Facing financial problems early and getting professional help are essential for restructuring.

Kristen: Annette, are there common mistakes that companies facing a financial restructuring should avoid?

Annette: Facing financial problems early means providers must often come to terms with a scary and uncertain future. The most common mistake I see is avoiding facing problems, including changes that are necessary for long term financial viability, as soon as they arise. Early intervention is important for maximizing all potential solutions. By working with counsel and financial advisors experienced in restructuring, the company may be able to take care of a number of problematic issues outside of bankruptcy. The company will quite frankly be better off for approaching financial issues early with a proactive mindset and the appropriate legal and financial advice.

If you would like additional information on how Dorsey can assist healthcare organizations facing financial restructuring, please contact the authors directly at jarvis.annette@dorsey.com or barlow.kristen@dorsey.com or your regular attorney at Dorsey & Whitney.