2022 BDO HEALTHCARE CFO OUTLOOK SURVEY

Sustained Strain on the Healthcare System
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The COVID-19 pandemic lingers as does a critical eye toward the overall health of our healthcare system.

Millions of dollars have gone to relief, but in some cases, it may be masking or even exacerbating some systemic issues, rather than addressing underlying causes. The 2022 BDO Healthcare CFO Outlook Survey found that healthcare’s financial and operational outlook shows encouraging signs of progress, but significant risks remain that could threaten sustainability and the ability to provide care if not addressed.

In short, it’s a story of sustained strain on resources — from capital to the workforce, to the supply chain — but also a renewed sense of purpose and optimism for the future of care.
Financial Health Checkup

Most healthcare organizations report that they are in peak condition. Nearly two thirds say they are currently thriving compared to 50% last year, and a vast majority expect they will be thriving in one year. Healthcare CFOs are also quite bullish for revenue. Nearly three out of four respondents expect revenue growth, with 27% expecting a 10-25% increase.

After several volatile years, most organizations are prioritizing stability: **53% say they will seek gradual, continuous growth in 2022.**

As hospitals and physician practices get closer to the new normal of care, patients are returning to procedures and check-ins they put off at the height of the pandemic. Preventative and behavioral health are also growing concerns for consumers as the pandemic proved the importance of whole-body health in fighting off disease and managing through challenging times. Meeting these high revenue goals, however, may require new areas of investment.
SPOTLIGHT: INVESTING IN THE PATIENT EXPERIENCE

The course of the pandemic, societal and economic change have significantly altered service expectations and delivery across every industry, including healthcare. As they plan not just the industry’s return, but its resilience, healthcare providers know that the same models that brought them success in the past may not be enough for the future. So, to meet their high revenue expectations, they’ll invest in their most important stakeholder: the patient.

WHERE HEALTHCARE IS INVESTING IN 2022

39% 30% 29%
Improving the patient experience Expanding service lines Restoring patient confidence

To create an outstanding experience that keeps patients coming back, healthcare organizations should consider doing the following:

Create an atmosphere of safety, particularly when patients need to seek care in-person.

Use telehealth and patient portals to encourage patients to become more engaged in their own care.

Invest in health equity in their communities to ensure everyone is receiving the care they need to stay healthy.
Path to Profitability

Top line growth is only one part of healthcare's financial outlook. It’s no secret that rising costs have been a significant burden for most industries, and healthcare is no exception. While 69% of healthcare organizations expect an increase in profitability, many organizations will need to take major steps to make it happen. Just under half of organizations (45%) will undergo a strategic cost reduction exercise to meet their profitability goals.

When it comes to improving profitability, healthcare organizations should closely examine costs across the entire organization, including debt restructuring, workforce and supply chain.
Debt and Cash Decisions

There’s significant optimism for revenue, and not a moment too soon — revenue increases will be crucial to the stability of the industry in 2022, especially as many healthcare organizations are currently struggling with liquidity.

The impact of the ongoing pandemic on healthcare providers performance, profitability and cash flow have created bond and bank debt covenant compliance issues. Our survey respondents noted that 67% of their organizations have either defaulted on their debt obligations or may default in 2022. BDO recommends that management proactively address any capital structure or liquidity concerns and develop the appropriate strategies, tactics and communication plans to avoid business disruption.

JIM LOUGHLIN
National Leader, Business Restructuring & Turnaround Services, BDO Consulting Group, LLC

DAYS OF CASH ON HAND

- **3%** More than 100 days
- **23%** 61-100 days
- **28%** 14-30 days
- **45%** 31-60 days
- **1%** Less than 14 days

- **42%** have defaulted on their bond or loan covenants in the past 12 months.
- **25%** say they have not defaulted but are concerned they will default in the next year.
- **28%** say bank loans and lines of credit are their largest financial obligation.
- **32%** are considering debt restructuring in the next year.
- **29%** have 30 days or less of cash on hand.
When looking at each subsector, it’s no surprise that outpatient and ambulatory surgery centers, as well as long-term and post-acute and home health organizations struggled the most to meet their debt and/or loan covenants in the past 12 months. These sectors are experiencing outsized repercussions of the COVID-19 pandemic. In particular, long-term care facilities, like nursing homes, saw masses of patients leave during the pandemic and not return, compounding their financial difficulties.

Under the CARES Act, the Provider Relief Fund (PRF) offered healthcare providers the cash they needed to remain operational, but there is uncertainty around whether some organizations will need to pay back these funds.

Many healthcare organizations are also struggling with meeting their bond covenant obligations, and that trend is likely to continue through the year given the issues related to increased costs of supplies, staffing challenges and the risk of supply chain disruption.

The short-term security of access to government funds may have actually worsened the financial health of many organizations. But before healthcare organizations become terminal, they can be turned around. It starts with an honest assessment of financial health, then for organizations in distress, an effective reorganization strategy that drives agility and resilience in 2022 and beyond.

STEVEN SHILL
Partner and National Leader, The BDO Center for Healthcare Excellence & Innovation
Healthcare clinicians, frontline workers and staff have prevailed through unprecedented challenges, but unfortunately many did not emerge unscathed. Clinicians and healthcare workers are leaving the industry in droves, and burnout and mental health concerns will linger for years to come. From February 2020 to November 2021, the U.S. lost nearly half a million healthcare workers, according to the Bureau of Labor Statistics, and strikes have persisted throughout the past year.

One area where the workforce strain is perhaps the greatest is in nursing. Many nurses are choosing to become traveling nurses as opposed to seeking employment in hospitals.

As a result, hospitals are understaffed, and in many cases, physicians are pushed to take over the nursing function alongside their workloads, worsening burnout in the organization.

And the burnout trend is likely going to continue. ICUs are expanding as hospitals see greater volumes of sicker patients. Furthermore, larger hospitals and health systems are poaching talent from smaller entities, leaving independent and smaller healthcare providers in desperate need of staff. All these challenges are coming to a head as vaccine mandates add further instability to the healthcare industry, leaving healthcare organizations contending with uncertainty about the future of employment.
While it will not be easy or costless, many healthcare organizations are stepping up to support their people.

- **42%** are investing to address frontline worker burnout.
- **40%** say retaining key talent will be a top workforce challenge in 2022.
- **40%** say attracting new talent will be a challenge.
- **36%** say addressing employee health and wellness needs is a challenge.

To address these challenges, healthcare organizations need to reassess their wages and benefits. Over 2022, we expect to see significant growth in wages in the healthcare sector, particularly for nurses and other front-line workers.
The global supply chain has also faced significant challenges that are likely to continue into 2022. Eighty-four percent of healthcare CFOs say supply chain disruption is a risk in 2022, and for good reason. The reality is there are risks at every point along the healthcare supply chain that could threaten operations, access to supplies and the ability to provide care. Even now, some organizations are closing ORs because they simply don’t have the supplies — or the staff — to operate them.

In addition, the high costs of materials, transportation and building in protections and redundancies may challenge healthcare organizations in the year ahead. In fact, 17% say cost reduction is their biggest supply chain priority for 2022. Achieving profitability gains in 2022 will likely require a fresh look and changes to current supply chain operations.
BDO INSIGHT

Healthcare’s financial, personnel and operational resources will likely continue to be in high demand in the year ahead. CFOs should make strategic choices, backed by data, to ensure effective prioritization of patient and clinician care while still managing rising costs across every area of the organization without increasing the cost of care.

The COVID-19 pandemic understandably exacerbated many of the healthcare industry’s operational challenges — from lack of affiliation with healthcare systems to high reliance on Medicaid funding — and the time is right to take action and build resiliency for the future.

While temporarily tight liquidity may be expected, sustained challenges with insufficient cash on hand or struggles obtaining financing or servicing debt are signs of distress that healthcare organizations should take seriously.

Healthcare organizations concerned about their financial health should review the underlying causes of their distress — gain an understanding what can be traced back to the pandemic and which challenges will persist when it’s over. From there, they should consider seeking advice from financial advisors who can help reconsider budgets, reevaluate leasing decisions, address risks of bond covenant violations and consider additional financing options.

LOOKING TO BOOST YOUR FINANCIAL RESILIENCE TO FACE THE YEAR AHEAD WITH CONFIDENCE?
Learn how to set yourself up with success on the BDO Healthcare Rx Platform.
Methodology

The 2022 BDO Healthcare CFO Outlook Survey polled 100 healthcare industry CFOs with revenues ranging from $250 million to $3 billion in October 2021. The survey was conducted by Rabin Research Company, an independent marketing research firm, using Op4G’s panel of executives.

### Revenue

- **12%** $250M-500M
- **48%** $501M-750M
- **26%** $751M-999M
- **9%** $1B-2B
- **3%** $2B-3B
- **2%** $3B+

### Ownership

- **50%** Public
- **32%** Private (PE/VC backed)
- **18%** Private (independent)

### Type of Healthcare Organization

- **20%** Long term/post-acute, home health
- **20%** Hospital/Health system
- **20%** Outpatient/ASC
- **20%** Academic medical center
- **20%** Physician/Provider group

### Patient Population

- **66%** Urban
- **33%** Suburban
- **1%** Rural
Contacts

STEVEN SHILL
National Leader
The BDO Center for Healthcare Excellence & Innovation
sshill@bdo.com / LinkedIn

JIM WHITE
National Leader, Healthcare Tax Services
jwhite@bdo.com / LinkedIn

ROB CULBERT
Managing Director, Healthcare Advisory
The BDO Center for Healthcare Excellence & Innovation
rculbert@bdo.com / LinkedIn

JIM LOUGHLIN
National Leader, Business Restructuring & Turnaround Services
BDO Consulting Group, LLC
jloughlin@bdo-ba.com / LinkedIn

VIN PHAN
National Leader
BDO Healthcare Transaction Advisory Services
vphan@bdo.com / LinkedIn

CHAD BESTE
Principal, Healthcare Advisory
The BDO Center for Excellence & Innovation
cbeste@bdo.com / LinkedIn

VENSON WALLIN
Managing Director, Industry Specialty Services
The BDO Center for Healthcare Excellence & Innovation
vwallin@bdo.com / LinkedIn

HERMAN WILLIAMS, MD
Managing Director & Chief Physician Executive
The BDO Center for Healthcare Excellence & Innovation
hjwilliams@bdo.com / LinkedIn

BRAD BOYD
Managing Director, Healthcare Advisory
The BDO Center for Healthcare Excellence & Innovation
brad.boyd@bdo.com / LinkedIn

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