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Managing Through Financial Distress

Developing the Turnaround Business Plan

Restructuring Basics

Introductions

- Louis E Robichaux IV, Senior Managing Director
  Turnaround and Restructuring – Dallas
  (214) 924-1575

- Sarah G Hull, FHFMA, Senior Director
  Physician Consulting – Chicago
  (715) 432-7879

Agenda

- About Ankura
- Turnaround and Restructuring – Getting Started
- Building the Plan
  - Managing Liquidity
  - Staffing
  - Financing
  - Operational Improvement
- Restructuring Approach

About Us

Ankura is an expert services firm defined by HOW we solve challenges

- Whether a client is facing an immediate business challenge, trying to increase the value of their company or protect against future risks, Ankura designs, develops, and executes tailored solutions by assembling the right combination of expertise.

- We build on this experience with every case, client, and situation, collaborating to create innovative, customized solutions, and strategies designed for today's ever-changing business environment. This gives our clients unparalleled insight and experience across a wide range of economic, governance, and regulatory challenges. At Ankura, we know that **collaboration drives results**.

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Who We Are – Our Healthcare Solutions

Ankura Healthcare provides service offerings that are inclusive yet unique in that substantial connective tissue binds our practice together: physician services can support the hospital/health system team in service line development and performance of the physician enterprise. Likewise, the skills of our data analytics and compliance teams can provide support for physician and health system engagements.

COMPLIANCE

Strategies to comply with legal requirements for providers, labs, and clinical research

ANALYTICS

Data insights to advance performance for providers and payers

PHYSICIANS

Practice strategy, mergers and acquisitions, compensation, operations

TURNAROUND & RESTRUCTURING

Turnarounds for troubled health systems, nursing homes, home health, etc.

BUSINESS & COMP VALUATION

Valuation services to support transactions and compensation determination

HOSPITALS & HEALTH SYSTEMS

Health system strategy, performance improvement, and operations

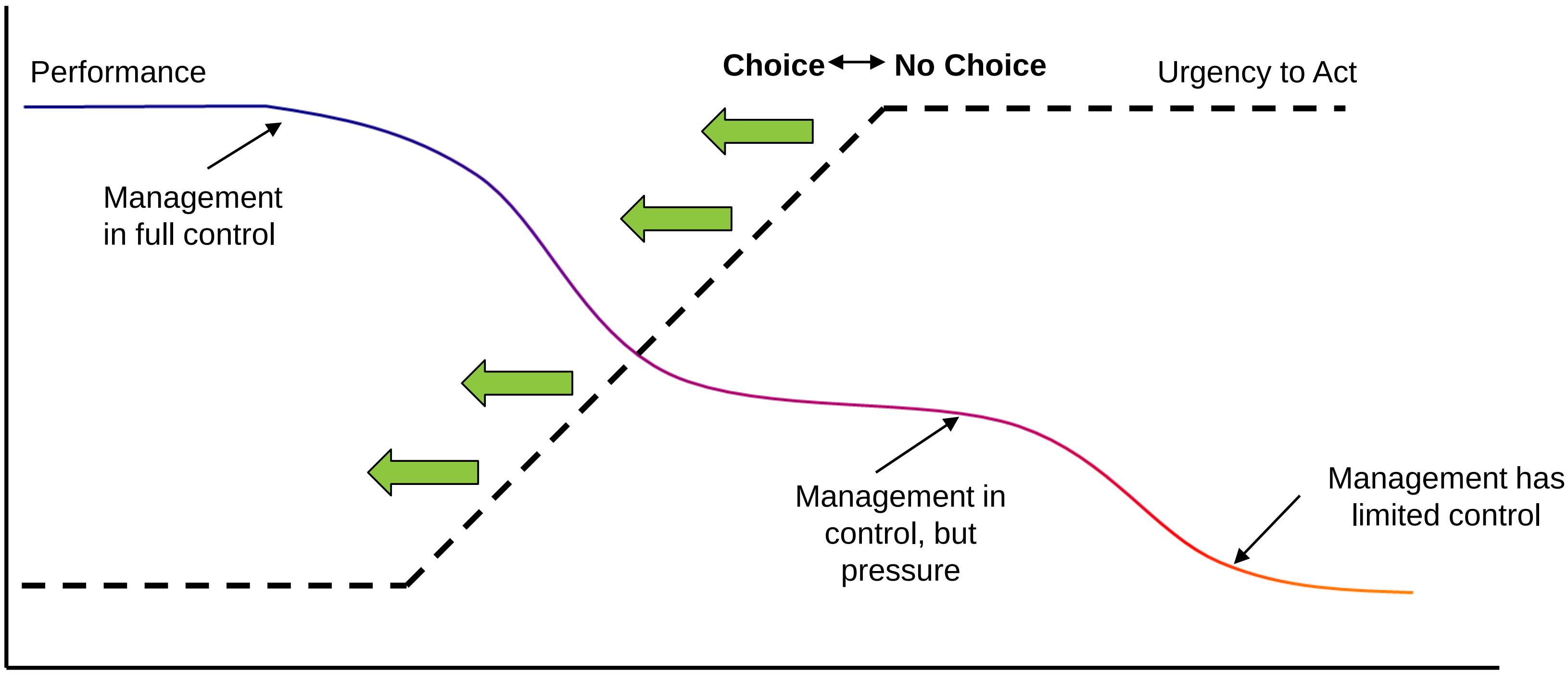
PAYER SOLUTIONS

Assist clients with payer analytics and contract negotiation

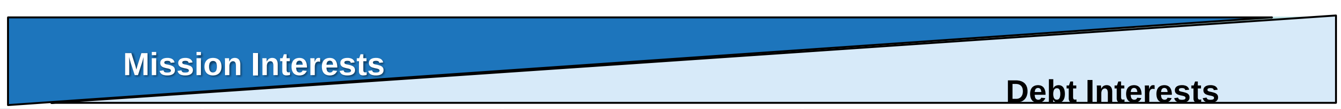
Turnaround and Restructuring

Getting Started

Successful turnaround programs are developed based on the level of distress in the current situation



Stakeholder Influence



Situation	Healthy	Resize cost structure	Severe margin pressure	Declining Net Income	Crisis
Bias for action	Low "Just do it"	Medium "We must be bold"	Very High "Must act now"	High "unavoidable change"	Infinite "Just do it"
Time to value	Long Term	Medium to long term	Short to medium term, with an eye on the long term		Short Term

What should the focus be?

- High Level Plan
  - Three key questions — Keep asking them throughout the process
    - Operational Performance Improvement Plan
    - Affiliate – Find a Partner

    or
    - Liquidate - Pay off creditors to the extent possible and close
  - Can this medical organization be saved?
  - Should this medical organization be saved?

In a distressed situation, the key choices are "operational improvement, affiliation, or closure."

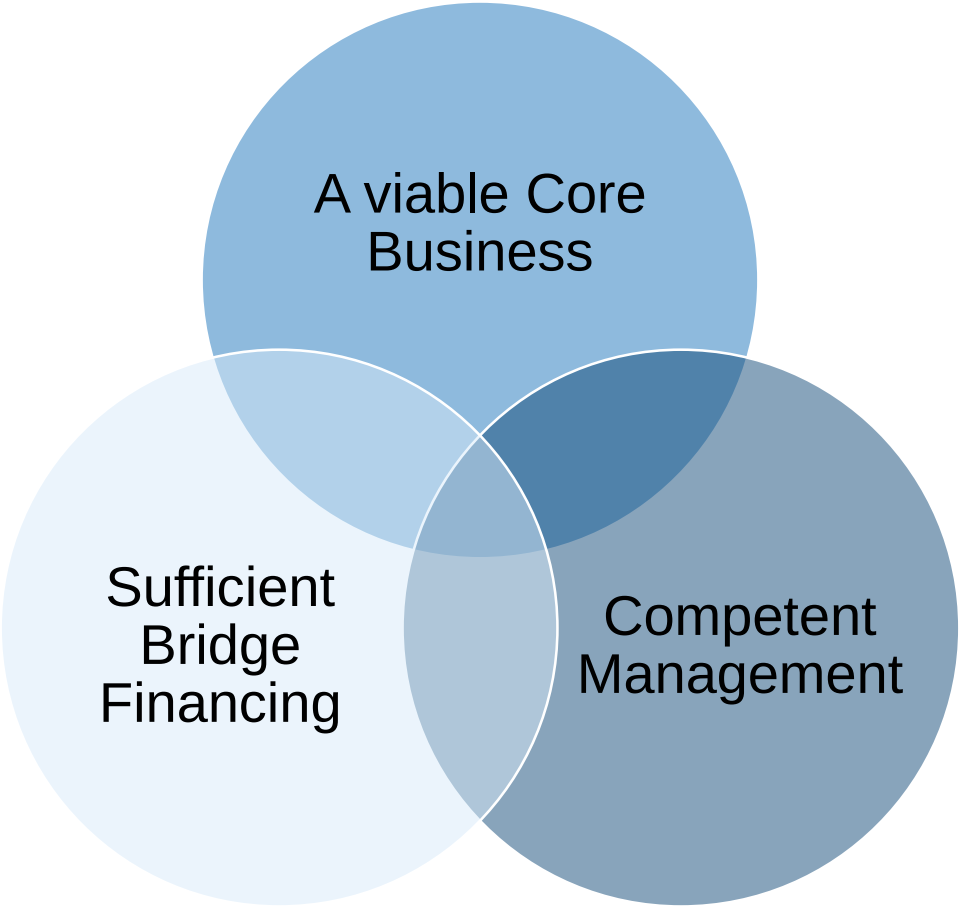
	Affiliate/ Partner	Operational Improvement	Close
Lack viability	No	No	Yes
Lack financing	Yes *	No	Yes
Lack management	Yes	No	Yes

* Assuming viability present

It takes all three to turn around

Liquidation is always an option

Requirements for a Successful Turnaround



Who needs to be on the turnaround team?

Communicating

- Decisive, consistent, credible, transparent
- Offer solutions

Managing stakeholders

- Define and control the message
- Must establish and maintain credibility
- Force necessary change

Analytics

- Identify initial cash/liquidity
- Plan, forecast, monitor, adjust
- Model comprehensively

Operations restructuring

- Evaluate service lines, operations, demand, competition, management, profitability
- Eliminate or restructure as warranted
- Build viability

Financial restructuring

- Impartially assess cash and funding situation
- Identify required spending; eliminate non-essential
- Match structure to the economics

Building the Plan

Managing Liquidity

Staffing

Financing

Operational Improvement

Monitor key drivers of the business: forecast cash, covenant compliance, and spending

- Size the cash short-fall
  - Common pitfall: not enough professional skepticism
- Daily process — plan, forecast, monitor, and adjust to new information
- Prioritize spending
- Identify and eliminate wasteful and non-essential spending
- Avoid reduction of lender’s collateral position
- Understand potential downsides
- Accelerate incoming cash

Tools for managing liquidity

- 12-month financial projection
- 13-week “direct” cash flow
  - Monitoring check-clearing daily
- Scenario analysis
- Preliminary liquidation analysis
- Most initial funding comes from the balance sheet

These tools support:

- Preliminary assessment of businesses
- On-going reporting, forecasting and review
- Management decision making focused on near-term results
- Communication to various stakeholders

Assessing and addressing emotions is critical to moving forward effectively

- Turnarounds are difficult and emotional for all involved
  - Participants process the situation at their own pace
  - All stakeholders – both internal and third parties (vendors, labor unions, banks)
- Keep an eye out for where people are in the process
  - Denial
  - Anger
  - Bargaining
  - Depression
  - Acceptance
- Sensitivity, empathy and awareness are required to help participants accept the facts and move forward

Evaluate management voids and needs

- Management Counts: Financial analysis alone will not determine if the medical organization can survive
  - Evaluate leadership and staff responsible for implementing turnaround plan
  - Evaluate if management and staff can establish credibility with stakeholders and implement turnaround plan
  - Are there management voids to be filled?
  - Can the same people who got into the problem, solve it?
- Two jobs: running a medical organization and a turnaround; are other resources needed?
- All Management Areas are important and need to be assessed
  - Consider current needs
  - Consider future needs

Competent management resources are needed

- Evaluate management objectively
  - Assess how management acted/reacted to internal and external issues and forces
  - Evaluate management skills under pressure
  - Evaluate management skills when meeting with subordinates
  - Evaluate management interactions with third parties (bank, vendors, BOD, customers, etc.)
- Force change
  - Battlefield promotions
  - Supplement
    - Temporary hires
    - Recruit permanent hires, as possible
  - Eliminate those who are an impediment - after enough leverage secured
- Communicate internally

Immediate “Bridge” financing sources

- Internal sources
  - Aggressive liquidity management
    - Cut costs
    - Reduce cash outflows
    - Accelerate collections
  - Quick sale of non-core assets
- External sources (“fill the hole”): reverse absolute priority rule
  - Existing stakeholders first
  - Outside sources next
    - Any unencumbered assets?
    - Priming ability? Secured creditor, collateral from another creditor (house)
    - Vendors?

Bridge financing extends the "Liquidity Runway"

- Monetize assets and otherwise negotiate for new value
  - Liquidate assets
    - Negotiate with secured creditors to allow the medical organization to keep a portion of the proceeds for working capital needs
  - Obtain New Value from Vendors
  - Prioritize receivable collection
  - Increase Prices
- However, do not take actions that could further jeopardize situation or introduce personal liability
  - Example: Deferring payment of taxes

Improve Cash In: Gross to Net

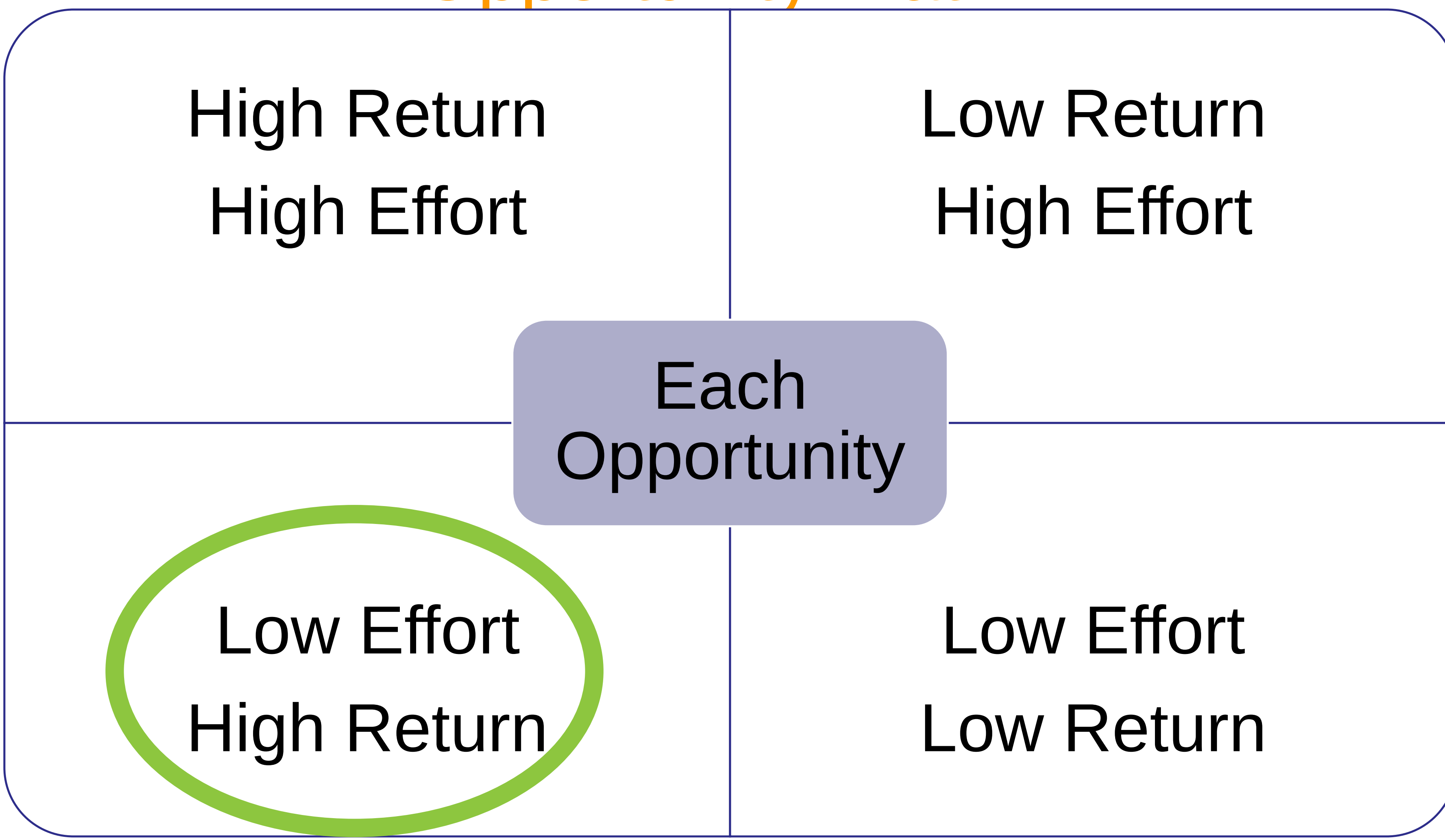
- Revenue Cycle: Ensure Maximum Cash Collections
  - Denial management
  - Days in AR over 90
  - Bad Debt Percentage
  - Cost to collect
- Managed care contracting
  - Ensure getting payment per contract (contract management)
  - Sufficient leverage to improve rates?
- Appropriate type of service
  - Observation vs IP
  - Outpatient vs IP

Reduce Cash Out

- Evaluate Staffing
  - Worked FTEs/adjusted occupied bed
  - Support staff FTEs per 10,000 wRVUs
- Close Services
  - Service lines
  - Unprofitable clinic locations
- Consolidate Services
  - Centralize support functions
  - Consolidate into single surgical location
- Open Services – low cost operations
- Evaluate external contracts and employee benefits

Be mindful of the 'push down pop up' effect - Quantify in net impact

Opportunity Matrix



Cost cutting actions typically are both tactical (immediate) and strategic (longer term)

– Tactical
  - Usually in first four weeks
  - Immediate, critical cuts for cash flow reasons
  - Allow the business to live another day
– Strategic
  - After the initial assessment; typically within 2-3 months
  - Holistic cuts: re-engineering the business for the long term
  - Approach in order:
    - Identify viable service lines; eliminate others
    - Adjust operations to match
    - Reduce overhead accordingly

Tactical/Operational Improvement

Stabilization: cost cutting and revenue enhancement measures

– When reducing headcount:
  - Identify necessary roles first and how to staff them
  - Review spans of control and opportunities to leverage temporary staffing
  - Reduce swiftly and humanely, reassuring those who remain of their importance to the turnaround effort
    – "Black Friday"; try to orchestrate all near-term headcount reductions at one time
    – Maintain customer facing positions and any "tribal knowledge" workers
    – Be mindful of need to quantify severance impact

– Enhance revenue
  - Compare pricing to market prices
  - Identify service lines with strongest profit contributions

Balance sheet restructuring: Part of the basic decisions and considerations

– Market conditions — Do they support raising capital?
– Reduce or cancel debt
– Effectuate plan
– Issue post-restructuring equity
– Complete administration wrap-up/wind-down post restructuring

Restructuring Approach

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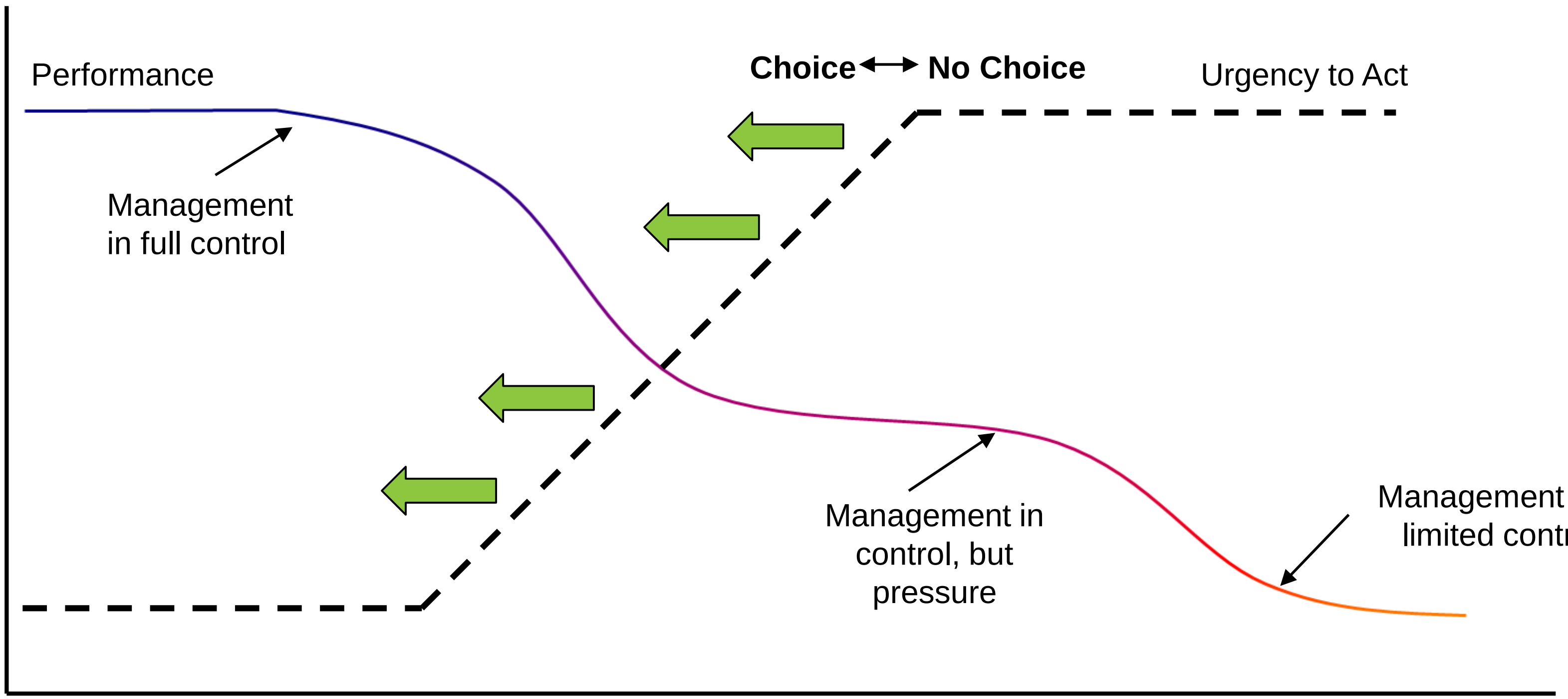

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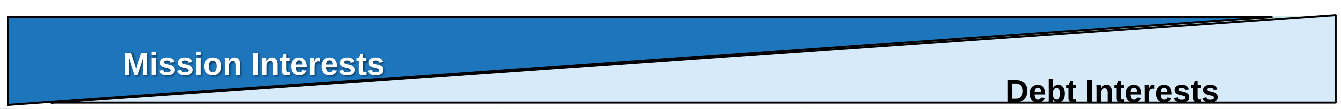

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Timing, risk, funding, and other actions vary on approach selected

	Closure	Affiliation	Turnaround/ operational actions
Typical timing	3-6 months and tail, which can drag	60-120 days — finite end date	3 months–1 year; can be longer
Execution risk	Lower risk — uncertain proceeds	Lower risk — fact specific	Higher risk
Value	Lowest recovery for creditors	Market determines value to creditors	Maximizes creditor value/recovery
Advantages	Extended timeframe in which to fully wind-down ops.	Ability to reject contracts (via Ch. 11)	Ability to implement turnaround and to reject contracts (via Ch. 11)
Required funding	Minimal capital	Sufficient to operate until sale completed	Capital to sustain operations during bankruptcy
Who benefits/preferred by	Secured creditors	In-the-money creditors, employees, and vendors	Out-of-money creditors, employees, vendors and customers
How accomplished	Through court or statutory process	§363 sale favored in large transactions	Robust Operational Analysis

Consider the appropriate forum

– Out of court
  - Voluntary Debt Exchange — Creditor Composition
  - Non-judicial foreclosure or receiver proceeding
  - Article 9/UCC sale
  - Assignment for benefit of creditors (“ABC”)
– In court
  - Chapter 11
  - Chapter 7
  - State Court Receiver
  - Federal Court Receiver

There has to be a strategic reason to file a bankruptcy in court

- –To deal with complex capital structure and financing
- –To address executory contract issues
- –To resolve litigation issues
- –To take advantage of tools which a bankruptcy filing provides
  - For example: Automatic Stay
- –Within a bankruptcy, you can sell, liquidate or restructure (implement a turnaround)
  - In a Chapter 11 reorganization, the debtor is in possession
  - In a Chapter 7 liquidation, a trustee is appointed because the business will cease to exist

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Out-of-court sometimes makes more sense

Why use an out-of-court process? Typically:

–Faster

–Less costly

–No competitive bidding

–A good way to preserve going concern value

Types:

–Voluntary debt exchange — Creditor composition

–Non-judicial foreclosure or receiver proceeding

–Article 9/UCC sale

–Assignment for benefit of creditors

What immediate approaches make sense for a given situation?

–Consider hiring outside experts to identify and help implement solutions to the current situation:

- Accountants
- Attorneys
- Consultants
- Others

–Waiting to address concerns may result in:

- More complicated problems, and
- Higher costs to address them

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Thank you

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COLLABORATION DRIVES RESULTS

"Our goals can only be reached through a vehicle of a plan, in which we must fervently believe, and upon which we must vigorously act. There is no other route to success."
- Pablo Picasso