RED FLAGS FOR HEALTHCARE LENDERS:
SWIM WITH THE SHARKS OR SLEEP WITH THE FISHES

THE MIDWEST BANK SPECIAL ASSETS & CREDIT OFFICER’S FORUM
2017
ABOUT US

MEET THE PANEL

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WALLER  
Partner  
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Commercial VP  
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PYA  
Principal

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RON WINTERS  
HEALTHCARE MANAGEMENT PARTNERS  
Managing Director
“HEALTHCARE, RETAIL, ENERGY TO FUEL RESTRUCTURINGS”

FEATURED STORY IN THE DEAL, AUGUST 14, 2017

Uncertainty with the Affordable Care Act and rising costs will prompt more out-of-court restructurings in the healthcare industry, while the retail and energy sectors will have a steady flow of restructurings through the end of the year, according to restructuring attorneys and advisers.

Earlier in the year, attorneys and advisers had thought uncertainty surrounding the ACA would prompt a rise in healthcare out-of-court-restructurings but backed off on those predictions as the second quarter came to a close.

After the Senate in July rejected legislation to repeal the ACA, some attorneys and advisers believe the uncertainty has returned, which could prompt more restructurings.
FOCUS INDUSTRIES

- Hospitals
- Surgery Centers & Physician Management
- Pharmaceuticals & Laboratory
- Dialysis
- Post-Acute & Long-Term Care
HEALTHCARE CHAPTER 11 BANKRUPTCIES ARE RISING

HEALTHCARE SERVICES DISTRESS INDEX
HEALTHCARE SERVICES BANKRUPTCIES BY ASSET SIZE

THE PERCENTAGE BREAKDOWN OF INDEX-FILINGS FOR THE CURRENT PERIOD
US HEALTHCARE SERVICES DISTRESS BY REGION

CONCENTRATION IN THE SOUTHEAST

Geography
The percentage breakdown of index-filings for the current period by geographic region is:

GEOGRAPHIC REGIONS
- Midwest
- Non-Continental U.S. & Territories
- Northeast
- Delaware
- Northwest
- Southern District of New York
- Southeast
- Southwest

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MEDPAC RECOMMENDED THAT CONGRESS

1. Cut payment rates by 5% in 2018 for home health agencies and inpatient rehab hospitals.

2. Eliminate the update to payment rates for ambulatory surgery centers for 2018.
3. Require ambulatory surgery centers to submit cost data the same as other sectors.

4. Implement site-neutral payment rates for physicians office or outpatient department in hospital.
Hospital closures or bankruptcies by year

<table>
<thead>
<tr>
<th>Year</th>
<th>Hospital Bankruptcies</th>
<th>Hospital Closures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>11</td>
</tr>
</tbody>
</table>
RURAL V. URBAN HOSPITAL DISTRESS

NATIONAL GENERAL ACUTE CARE RURAL & URBAN HOSPITALS

OPERATING PROFIT MARGIN 2009 TO 2015

USA RURAL  ■  USA URBAN

2009: 0.3%  ■  4.0%
2010: 0.2%  ■  3.6%
2011: -0.3%  ■  3.8%
2012: -0.1%  ■  2.7%
2013: -1.1%  ■  4.1%
2014: -1.5%  ■  0.2%
2015: 4.4%

Source: HMP Metrics, HCRIS Cost reports, excluding teaching hospitals.
Public Market Valuation Trends (Cont’d)

60% of the Sector Outperformed the S&P 500 During the Last Five Years

<table>
<thead>
<tr>
<th>% Change in Stock Price</th>
<th>5-Year EV/NTM EBITDA Multiples[^1]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Year</td>
</tr>
<tr>
<td>Contract Research Organizations</td>
<td>18.8%</td>
</tr>
<tr>
<td>Healthcare Staffing</td>
<td>21.4%</td>
</tr>
<tr>
<td>Behavioral</td>
<td>16.0%</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>13.7%</td>
</tr>
<tr>
<td>Managed Care</td>
<td>23.5%</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>18.8%</td>
</tr>
<tr>
<td>Medical Devices</td>
<td>3.5%</td>
</tr>
<tr>
<td>Specialty Managed Care</td>
<td>4.5%</td>
</tr>
<tr>
<td>MedTech</td>
<td>13.8%</td>
</tr>
<tr>
<td>Post-Acute Care</td>
<td>1.0%</td>
</tr>
<tr>
<td>Alternate Site</td>
<td>3.2%</td>
</tr>
<tr>
<td>Distribution</td>
<td>11.1%</td>
</tr>
<tr>
<td>Healthcare Services</td>
<td>12.2%</td>
</tr>
<tr>
<td>Medical Equipment</td>
<td>22.2%</td>
</tr>
<tr>
<td>Healthcare Consulting</td>
<td>13.5%</td>
</tr>
<tr>
<td>Diagnostic Imaging</td>
<td>1.0%</td>
</tr>
<tr>
<td>Dental Products</td>
<td>6.4%</td>
</tr>
<tr>
<td>Disease Management</td>
<td>25.6%</td>
</tr>
<tr>
<td>Biotechnology / Pharmaceuticals</td>
<td>21.1%</td>
</tr>
<tr>
<td>Dialysis</td>
<td>2.3%</td>
</tr>
<tr>
<td>Physician Practice Management</td>
<td>22.8%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>5.4%</td>
</tr>
<tr>
<td>Outsourced Pharmacy Management</td>
<td>NA</td>
</tr>
<tr>
<td>HCIT</td>
<td>8.7x</td>
</tr>
<tr>
<td>Specialty Pharmacy</td>
<td>(2.0%)</td>
</tr>
</tbody>
</table>

[^1] EV = Enterprise Value (defined as Market Value of Equity + Total Value of Debt + Cash & Cash Equivalents)

Notes: Current as of 3/23/17

Source: S&P Capital IQ
U.S. M&A Volume and Valuation Trends

Transaction Volume

Median Transaction Multiples (Enterprise Value / LTM EBITDA)

Note: This data represents the entire U.S. market (all industries).
Source: Preqin, S&P Capital IQ, and S&P Capital IQ LCD
WHAT ARE RED FLAGS UNIQUE TO HEALTHCARE?

ARE THERE DIFFERENT RED FLAGS FOR SPECIFIC SUBSECTORS OF HEALTHCARE?
TOP 5 PIECES OF INFORMATION YOU SHOULD BE ASKING BUT DON’T?

BOARD, HOSPITAL CEO AND LENDER QUESTIONS
The changing regulatory landscape

Is the problem Obamacare or a fundamental delivery of healthcare policy?

The changing regulatory landscape
HAVE YOU SEEN ANY “SHARKS”, DISHONEST PEOPLE, OR FRAUD?

CIRCUMSTANCES, DETECTION AND PREVENTION
WHAT ABOUT THE “SILVER TSUNAMI”?

THE AGING OF AMERICA
ANY QUESTIONS?
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