

# Data Report | Financial Forecast

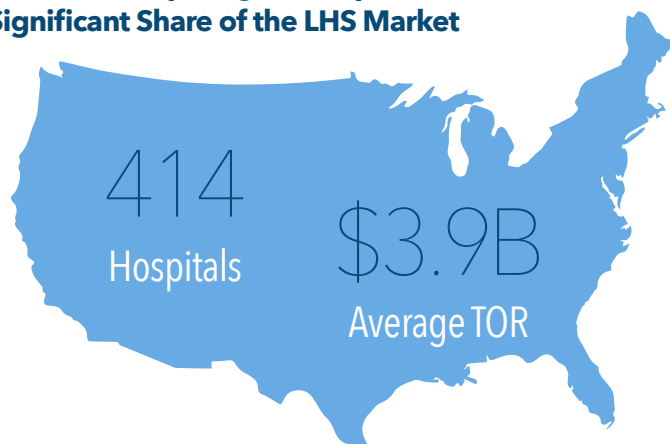
Document Illustrative of Academy Insights Thought Leadership

## Executive Summary

### Methodology

In early July 2020, The Academy conducted a survey of financial executives from Leading Health Systems (LHS) to benchmark year-to-date financial performance and budget forecasting and to identify strategic priorities amid the COVID-19 pandemic. The 23 responding health systems had an average total operating revenue (TOR) of \$3.9 billion and collectively represent 414 hospitals. The supplementary data was gathered from secondary sources where appropriate.

### The 23 Participating LHS Represent Significant Share of the LHS Market



### Key Findings

1

#### Volume Recovery

With overall volume recovery at roughly 90%, health systems are feeling more bullish surrounding 2020 forecasting.

2

#### Cost Cutting & Budgeting

COVID-19 continues to put cost pressures on health systems, with operating margins around 0% heading into summer and finance executives projecting an average 2020 operating margin of -0.7%. Budget cuts are anticipated across most areas, but information technology spending is expected to stay the same or increase.

3

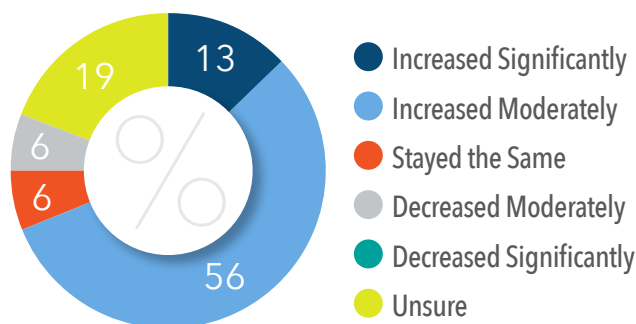
#### Growth Strategies

Top growth strategy areas for health systems include virtual health, service line expansion, and consumer-centered efforts. Health systems are also looking to maintain or increase M&A and strategic investment activities as part of their growth strategies.

## Optimistic About Volume Trajectory, Rating Agency Sentiment

### LHS Feeling More Bullish About 2020 Case Volume Numbers

Compared to a month ago, how has 2020 forecast for case volume changed? Academy Survey of Finance Executives from LHS (June 30)



### Rating Agencies Offer Reassuring Message in Uncharted Territory

- Seeing “through the noise”; indicating that the negative state of health system finances is not the result of management or strategy
- Agencies intend to follow a credit-by-credit analysis as opposed to a blanket approach across all providers
- Generally expecting large, well-capitalized health systems that were strong before the crisis to be strong on the side
- Not expecting many changes in LHS ratings, particularly given how quickly health systems were able to shore up liquidity

### Moody’s NFP Hospital and Health System Ratings

Through mid-June

- Rating downgrades across 360 organizations representing nearly 1,400 hospitals
- Most downgrades in 2020 happened in Q1 before the pandemic hit
- Key drivers include: site-of-care pressure (e.g., decline in inpatient care, loss of outpatient cases to nontraditional competitors), difficult IT installations and conversions, staffing shortages, productivity challenges, material increases in debt

Sources: How the COVID-19 Pandemic and Other Factors Are Affecting Credit Ratings in the Not-for-Profit Healthcare Sector, HFMA, June 24, 2020; Healthgrades Study Finds Patients Confidence at Highest Levels Since March, Healthgrades, July 1, 2020; Academy research and analysis.

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## Budget Cuts Anticipated Across Most Areas

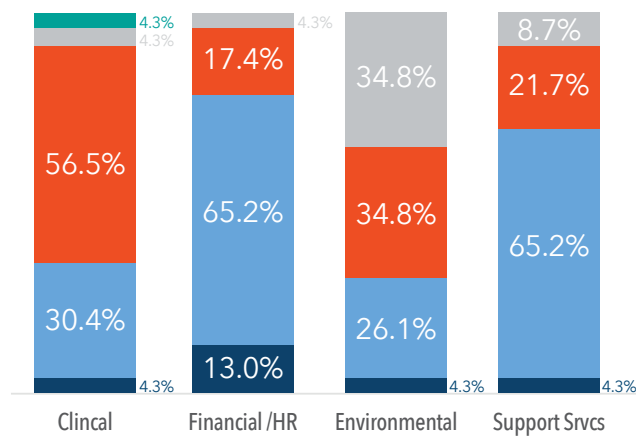
Capital Projects Taking Biggest Hits, Information Technology Spend Staying Same or Increasing

Planned Budget Changes Across Next 12 Months by Major Category

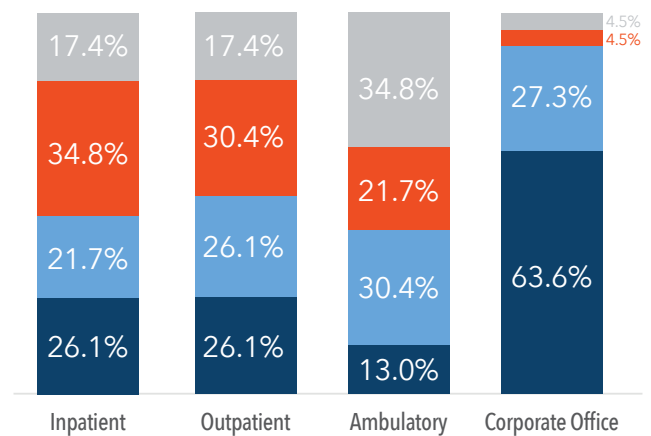
Academy Survey of Finance Executives from LHS, July 2020

● Significant Decrease ● Some Decrease ● Stay the Same ● Some Increase ● Significant Increase

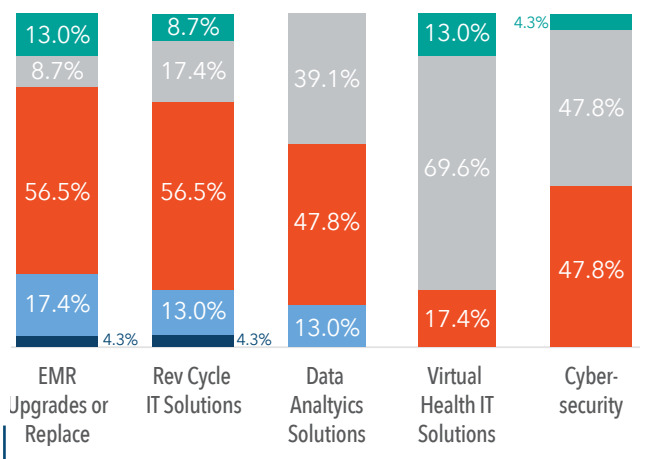
### Purchased Services



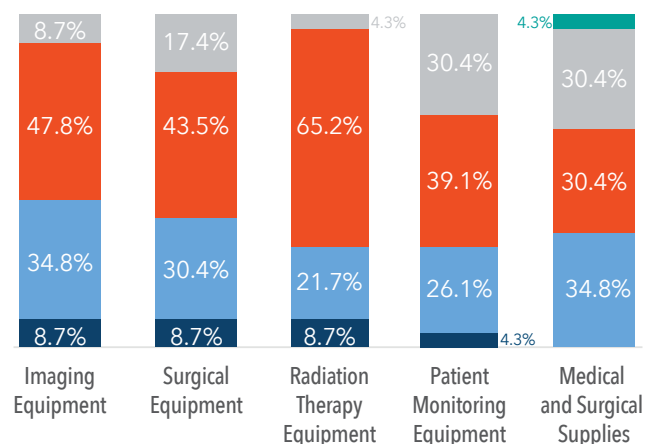
### Capital Projects



### Information Technology



### Equipment and Supplies



### Transforming How Work is Done

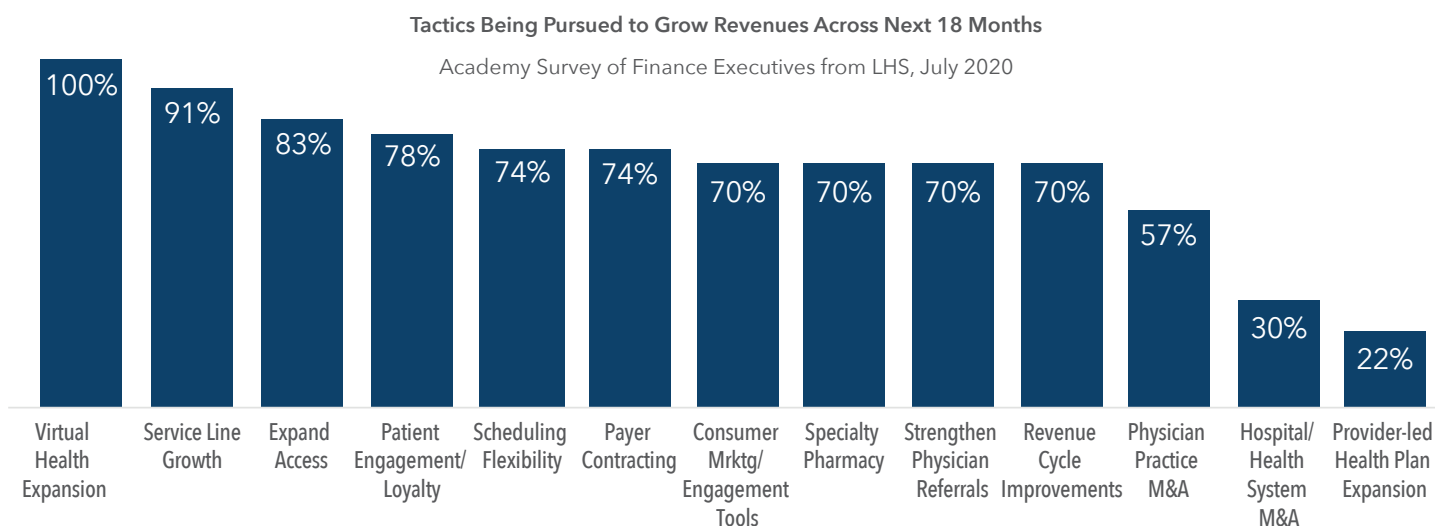
"The awakening grant is digitization. We are realizing that digitizing and AI will decrease costs. Our team has been inundated with requests for new tools, applications, systems, and other automation activities to reduce the among of labor needed." -VP of Finance, LHS

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## Investing for Growth with Consumer Orientation Front and Center

Top Growth Strategies Include Virtual/Digital Health, Service Line Expansion, Access, and Engagement



"We came into 2020 making decent progress in terms of transforming and were entering into a series of investments on the non-clinical side. March hit, and everything shut down. In the past few weeks, we are getting back on track and thinking more about contemporary tools, platforms, and analytics." - VP of Finance, LHS

### LHS Looking to Increase Strategic Investing Activity

Which of the following statements best describes your current posture toward strategic investments?

Academy Survey of Finance Executives from LHS, July 2020

43.5%

Have made strategic investments in last 1-2 years and plan to continue same strategy

34.8%

Have made strategic investments in the last 1-2 years and plan to expand strategy

### Current or Future (Next 1-2 Years) Areas of Strategic Investment

