



Moving Forward in the Post COVID Hospital Environment

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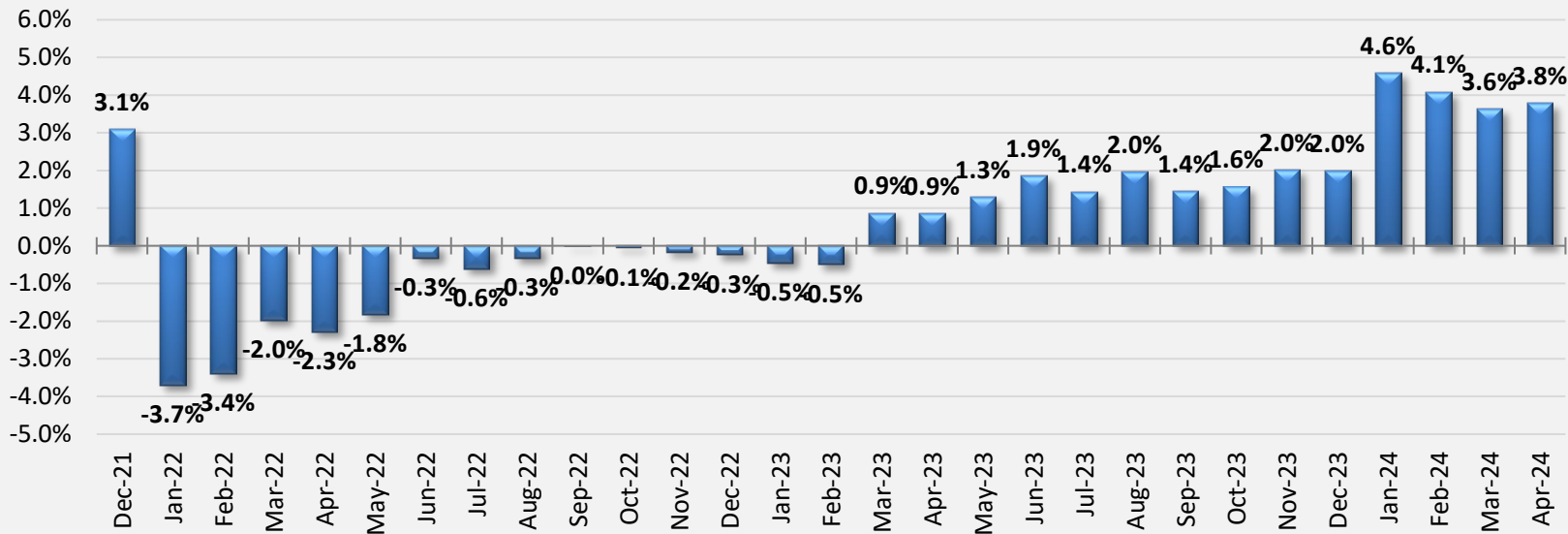
September 26, 2025

Topics

- The state of play for hospitals
- Post-COVID operating and environmental trends
- Strategies for future health system success

After a Material Blow in 2022, We See a Slow Recovery Through 2023 and 2024

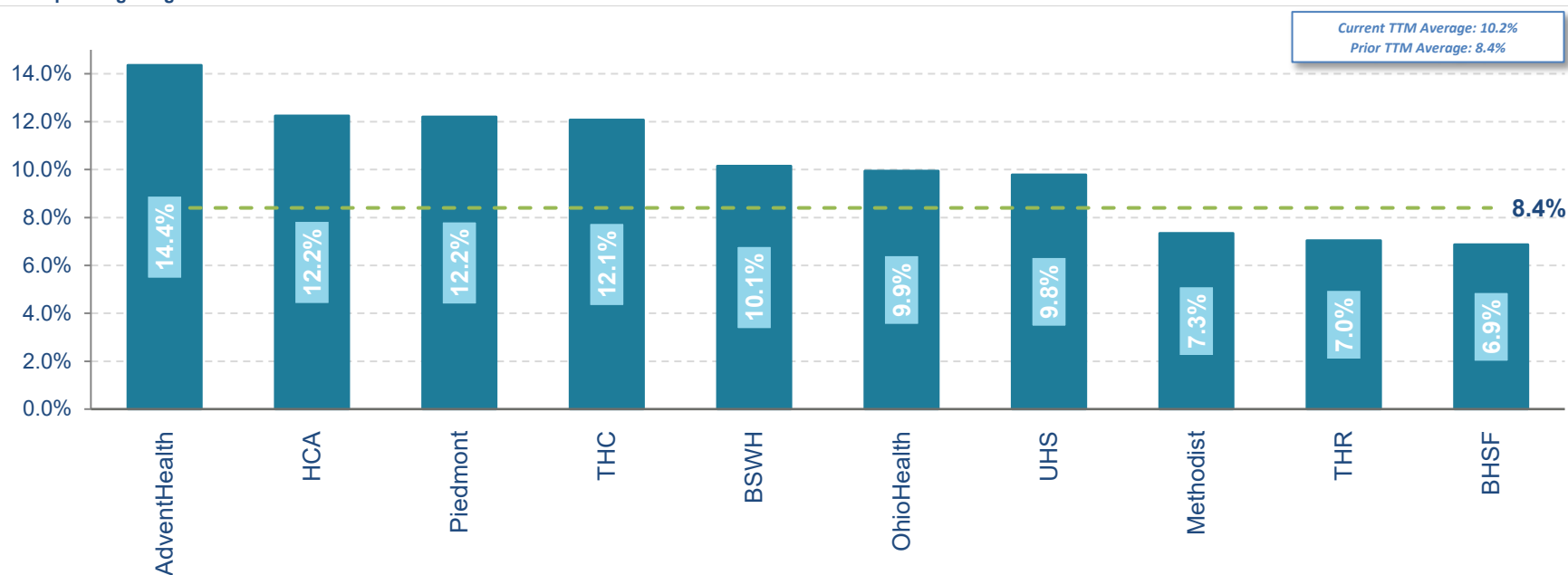
U.S. Hospital YTD Operating Margin Index January 2022-April 2024



* Note: The Kaufman Hall Hospital Operating Margin and Operating Margin Index is composed of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.

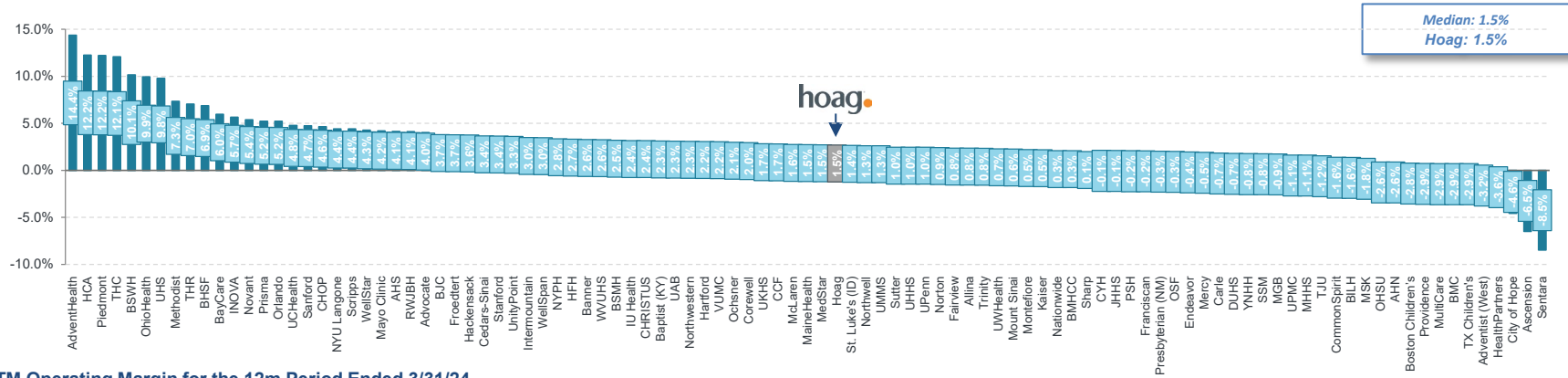
TTM 3/31/25 vs 3/31/24: Operating Margin - Top 10 Systems

TTM Operating Margin for the 12m Period Ended 3/31/25

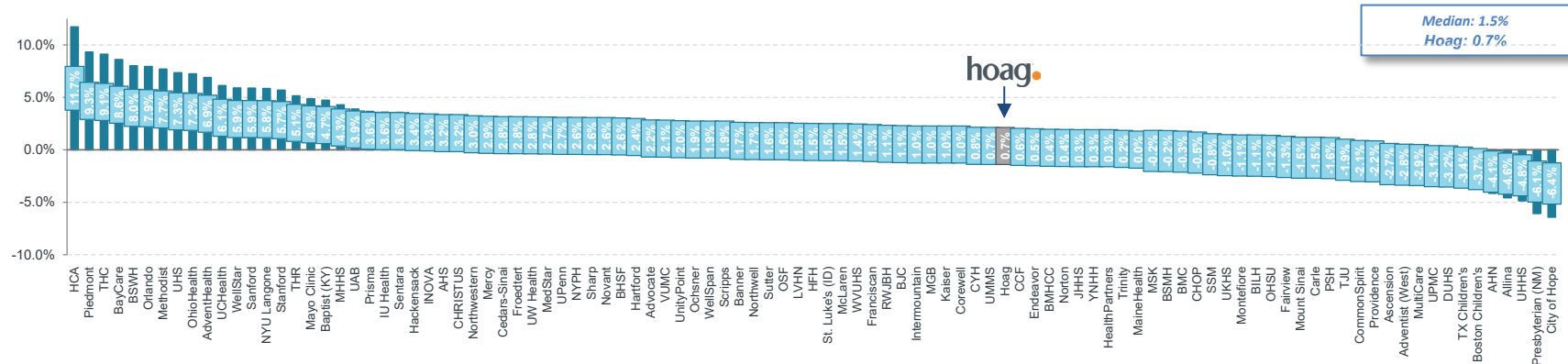


TTM 3/31/25 vs 3/31/24: Operating Margin

TTM Operating Margin for the 12m Period Ended 3/31/25



TTM Operating Margin for the 12m Period Ended 3/31/24



A Fractured Relationship Between Revenue Growth and Expense Growth Drove the Downturn

Revenue % Change	YTD 2024 vs YTD 2023	2023 vs 2022	2022 vs 2021
Net Operating Revenue	9%	6%	2%
Inpatient Revenue	8%	4%	0%
Outpatient Revenue	10%	11%	8%

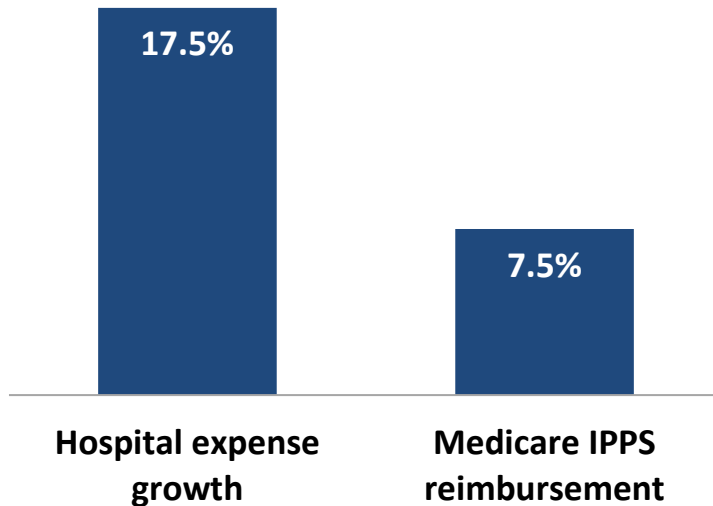
Expenses % Change	YTD 2024 vs YTD 2023	YTD 2023 vs YTD 2022	2022 vs 2021
Total Expense	5%	4%	7%
Total Labor Expense	4%	1%	9%
Total Non-Labor Expense	7%	7%	5%

Source: Kaufman Hall National Flash Report

During the COVID Period, Hospital Expenses Grew More than Twice as Much as Medicare Reimbursement

Cumulative Growth of Hospital Expenses and Medicare IPPS Reimbursement

2019-2022

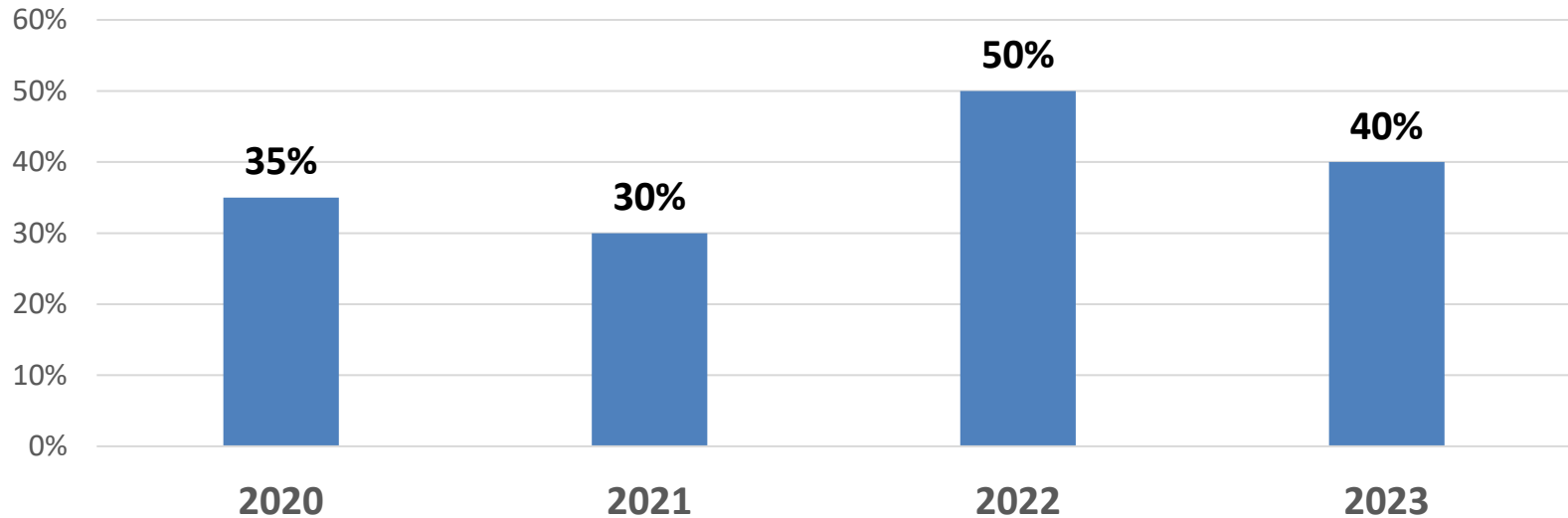


Source: Kaufman Hall National Hospital Flash Report: December 2023

This Disconnect of Revenue and Expenses Has Resulted in an Unexpected Percentage of Hospitals Losing Money from Operations Despite Overall Median Improvement in Profitability



Percentage of Hospitals with Negative Operating Margins, 2020-2023



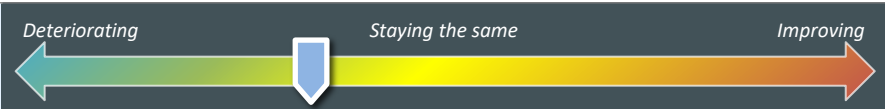
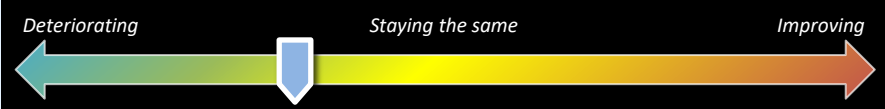
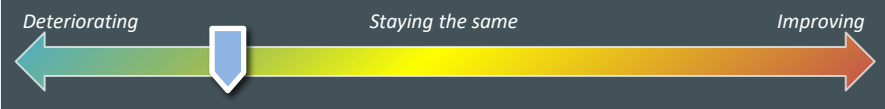
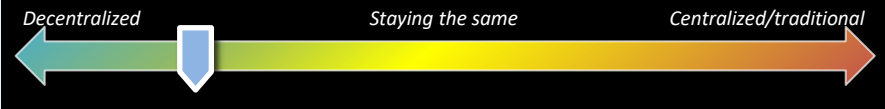
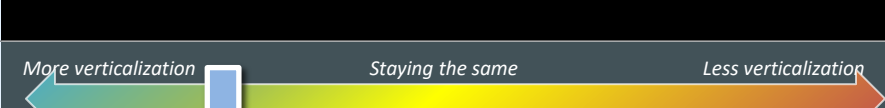
Source: Kaufman Hall analysis

The 2025 figure remained at 40%.

Post-COVID 40% of Hospitals Continue to Lose Money, but
Perhaps 25% of Hospitals and Health Systems Have
Significantly Financially Recovered:
Why Are High-Performing Hospitals Doing Better?

- **Outpatient revenue.** Hospitals with higher and accelerating outpatient revenue were, in general, more profitable.
- **Contract labor.** Hospitals that have lowered their percentage of contract labor most quickly are now showing better operating profitability.
- **Average length of stay.** Hyper-focus on patient throughput, leading to appropriate and prompt patient discharge, has been a positive financial strategy.

Despite an Improving Environment, Pressures Are Here to Stay

PRESSURES	OUTLOOK	RATIONALE/DISCUSSION
Clinical Labor Cost		Labor expenses increased 18% from April 2021 to April 2024 ¹
Medical Inflation ²		Medical inflation has lagged general inflation in early 2024, but is expected to increase as inflation-driven costs phase into payer-provider multi-year contracts during renewals
Payer Mix		Payer mix will continue to shift to lower paying government lines of business putting more pressure on commercial business to subsidize hospitals and health systems
Decentralization of Healthcare (accelerated shift to OP care and change in ownership)		Shift in care delivery settings to outpatient care likely to continue, leaving health systems with a smaller, more acute service mix
Verticalization of providers/payers; entry by disruptors		Verticalization by healthcare providers and payers, and progress by disruptors will continue to challenge health systems

Source: (1) Kaufman Hall National Hospital Flash Report (April 2024 Report as of March 2024); (2) <https://www.usinflationcalculator.com/inflation/health-care-inflation-in-the-united-states/>

Hospitals Are Facing a Number of Troubling, and Potentially Permanent, Trends

- FTC policies are having a chilling effect on necessary consolidation.
- The migration from inpatient to outpatient care continues...and continues to be a trend that certain hospitals are using to their advantage and others are not.
- A constrained nursing workforce is moving from hospitals to other settings.
- Health plans are gaining strength and expanding their offerings into patient care delivery. They are now both funders and competitors, which is a most peculiar business model.

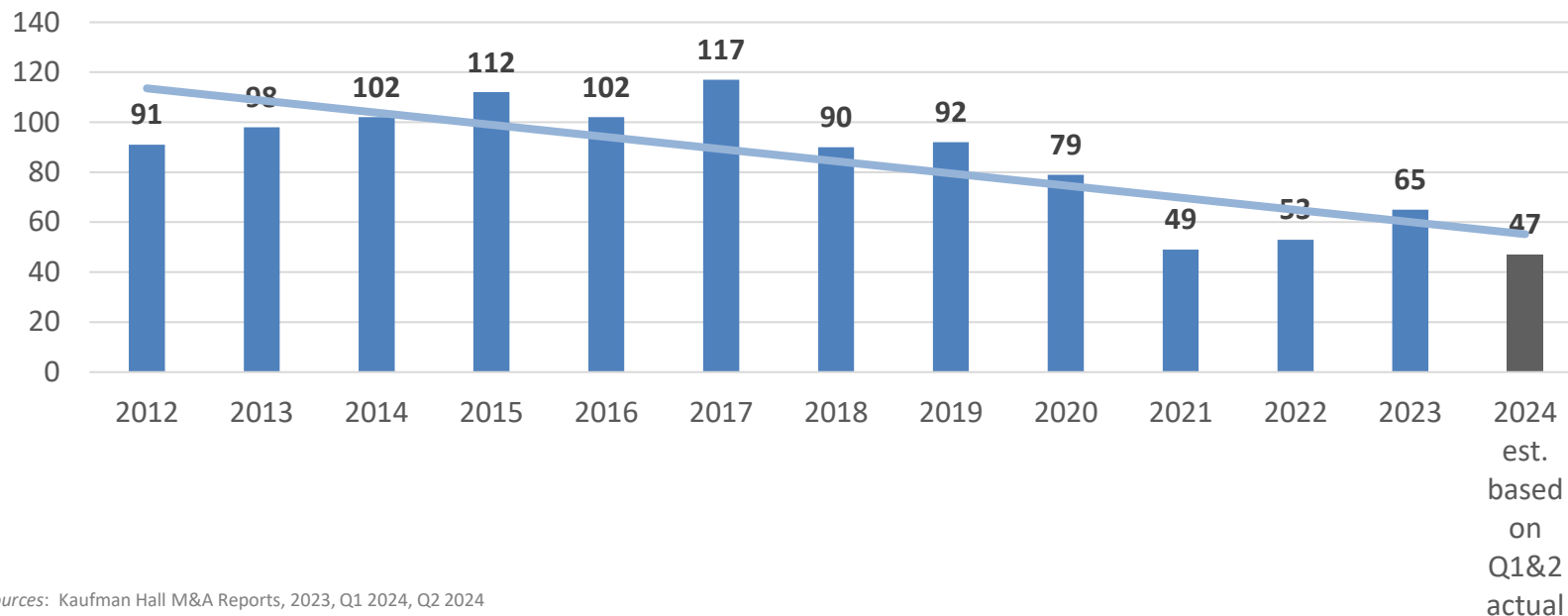
FTC Policies Are Having a Chilling Effect on Necessary Hospital Industry Consolidation—The Novant Case Study



- Ordinarily in a macroeconomic environment like this, businesses would react by consolidating.
- However, FTC policies are making it extraordinarily difficult for hospitals to do that, even when there is clear benefit to communities.
- A case in point is Novant Health's effort to acquire two struggling Charlotte-area hospitals from CHS.
- The FTC challenged the deal as being anticompetitive.
- On June 5, 2024, a federal district court declined the FTC's request to block the acquisition, saying the deal would actually support competition.
- Two weeks later, a three-judge appeals panel granted the FTC's request.
- Novant would have had to go through two more years of appeals with a questionable outcome.
- Six days later, Novant called off the deal, effectively sentencing two hospitals to possible closure but at any rate giving the two hospitals no further options for recovery.
- It is hard to see this outcome as enlightened regulatory policy.

Proving the Point: The Overall Rate of Consolidation Has Slowed When Economic Theory Would Suggest It Should Be Accelerating

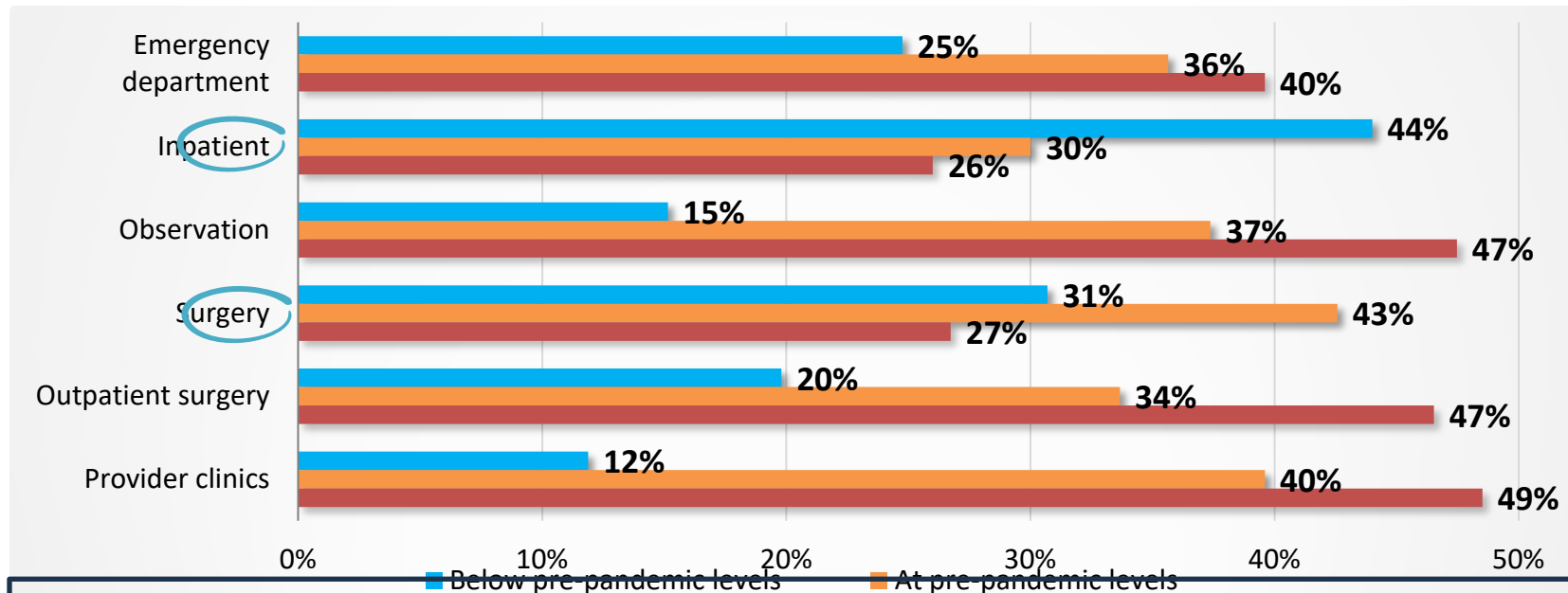
Announced Hospital Transactions, 2012–2024 (est.)



Sources: Kaufman Hall M&A Reports, 2023, Q1 2024, Q2 2024

The Migration from Inpatient to Outpatient Settings Continues, Creating Opportunity for Some and Struggle for Others

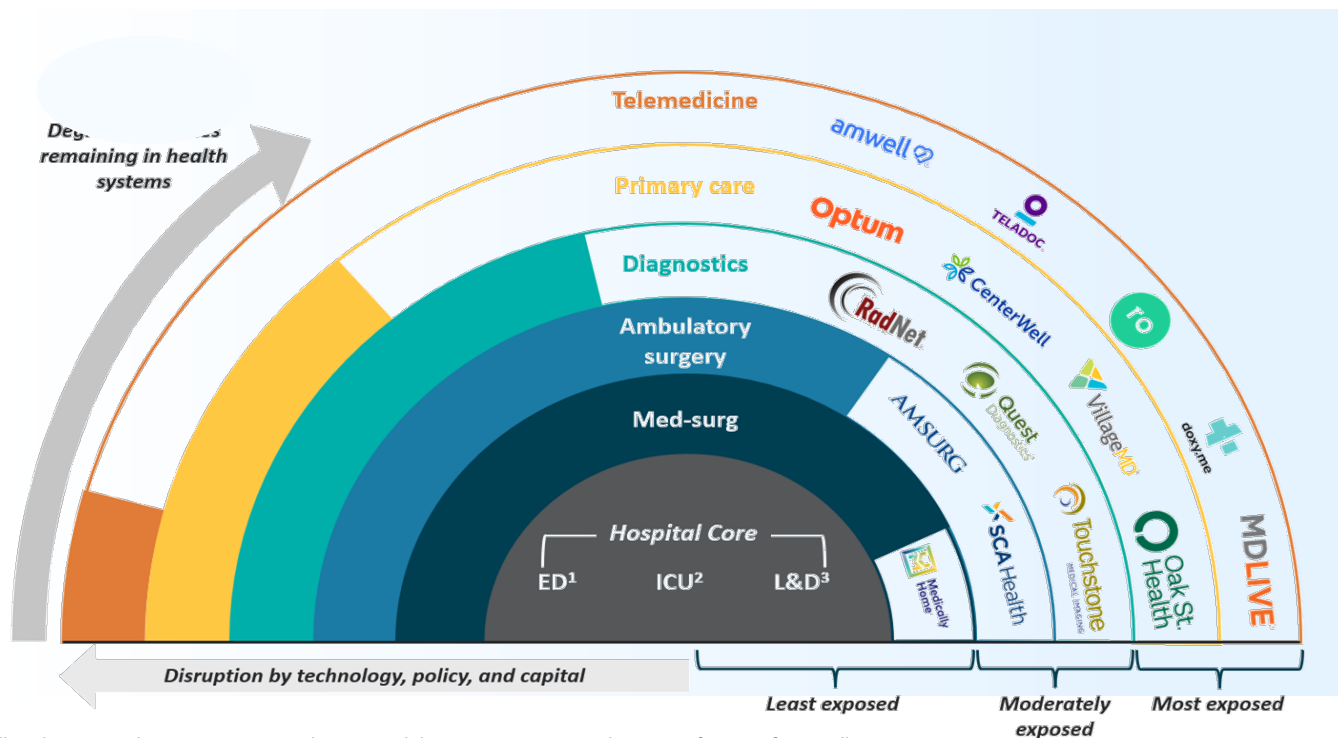
Compared with pre-COVID levels, hospital outpatient volume has increased, while inpatient and surgery volumes are the same or lower



Many hospitals are struggling with this transition strategically and/or financially because they cannot compensate for the decrease in inpatient revenue with an increase in outpatient revenue...but some are not.

Source: Kaufman Hall, 2023 State of Healthcare Performance improvement Survey: Signs of Stabilization Emerge

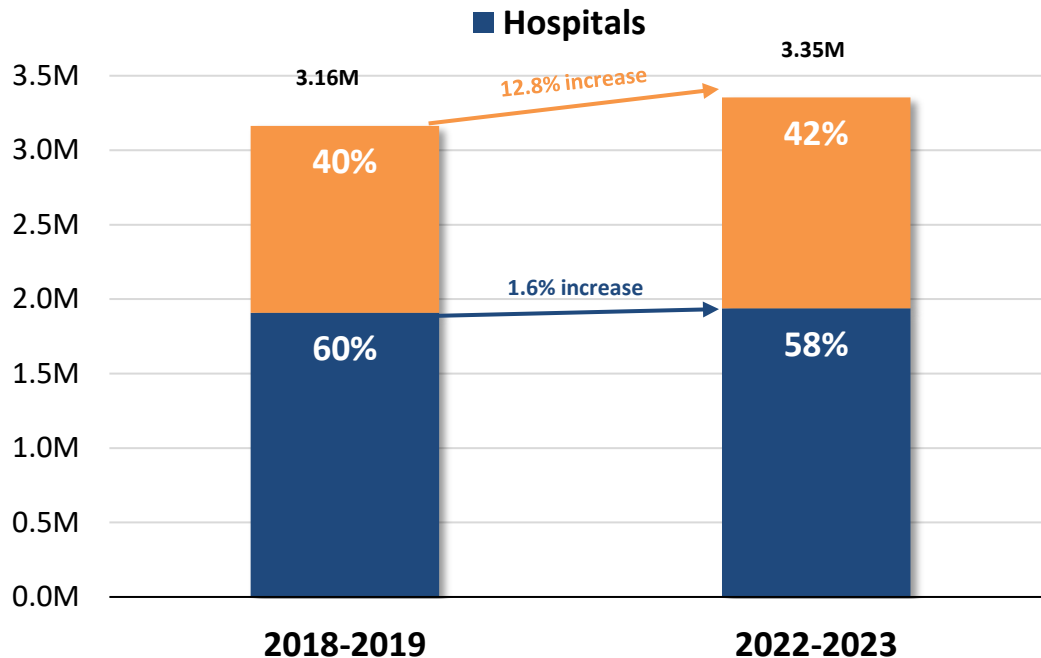
At the Same Time, Competitors Continue to Strip Away Layers of Health System Services, Mostly in the Outpatient Setting



Source: Kaufman Hall analysis. Note: logos are not comprehensive and do not represent an endorsement from Kaufman Hall

In the Past Two Years, RNs Moved Increasingly to Nonhospital Settings, a Labor Problem with No Apparent Quick Solution

Total RN Employment by Setting and Year

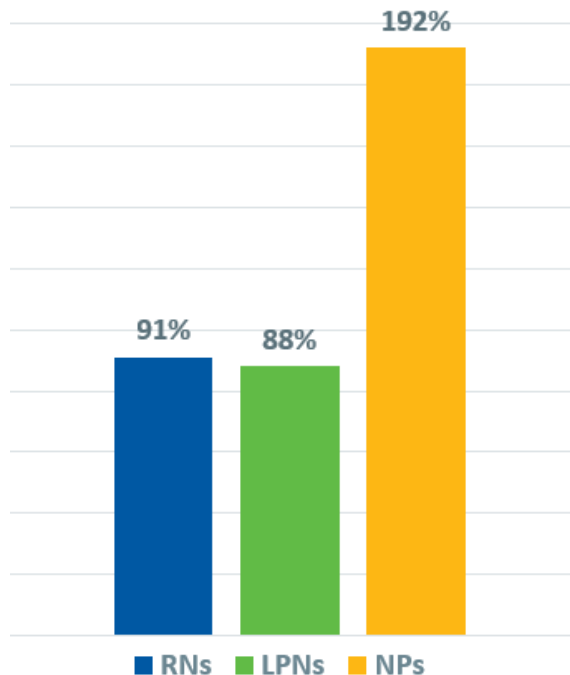


Source: Auerbach, D.I., et al., "Projecting the Future Registered Nurse Workforce After the COVID-19 Pandemic," *JAMA Health Forum*, Feb. 16, 2024

Projected Nursing Shortages Vary by Role and Location



Projected Adequacy RN Supply, 2036



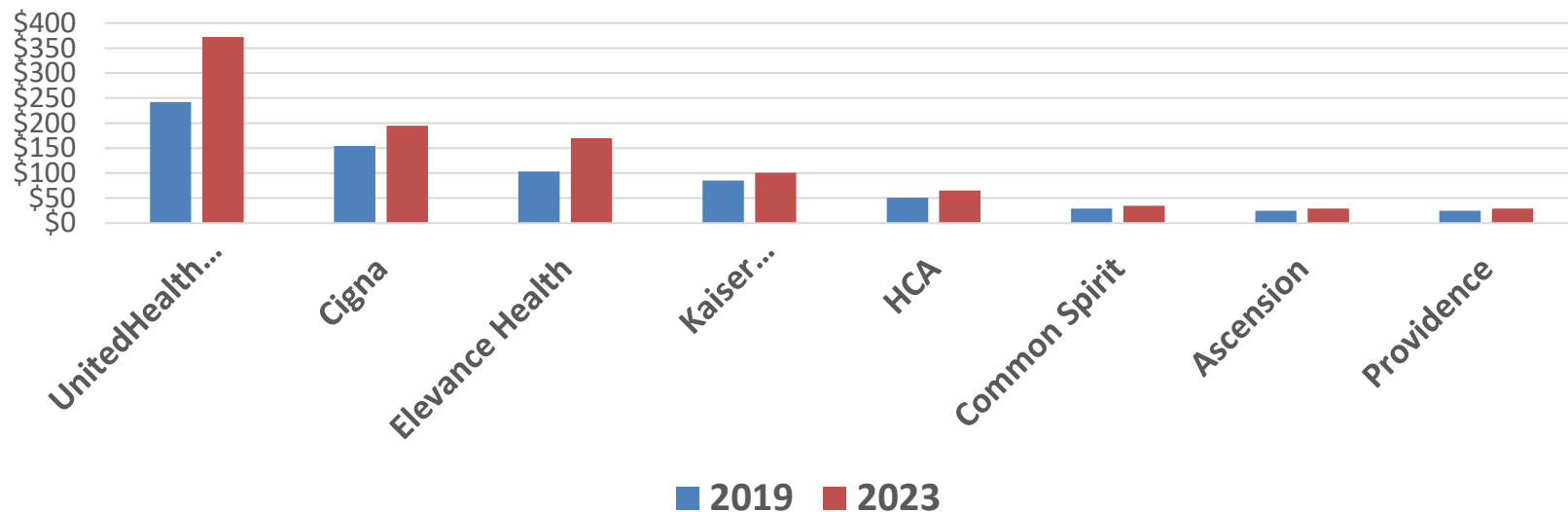
10 States With Greatest Projected RN Shortage, 2036

State	Projected Shortage (%)	Projected Shortage (FTEs)
Georgia	29%	-34,800
California	26%	-106,310
Washington	26%	-22,700
New Jersey	25%	-24,450
North Carolina	23%	-31,350
New Hampshire	23%	-4,120
South Carolina	21%	-13,570
Maryland	20%	-14,700
Michigan	19%	-21,870
Oregon	16%	-7,410

Source: National Center for Health Workforce Analysis, "Nurse Workforce Projections, 2021-2036," March 2024

Combine the Financial Impact of COVID with a Discriminatory Regulatory Environment, and the Outcome Is Predictable and Obvious

Largest Health Insurers and Health Systems, Total Revenue, 2019
and 2023;
\$ in Billions



Sources: Publicly available financial statements and investor reports; Kaufman Hall "National Hospital Flash Report," Jan. 2024.

Given the Remarkable Post-COVID Operating Environment, How Do Hospital Boards and Executive Teams Think About Moving Forward?

- Hospitals leaders are facing wicked problems on both the revenue and expense sides of financial performance.
- In some part, these ongoing problems are often outside of the direct control of hospital leaders.
- So, leaders must identify the areas of performance that they **can** control, and take the necessary steps, even when those steps might be novel and unfamiliar.



The Seven Steps for Future Health System Success



Strategies for Future Health System Success

- **Commit to a strategic, operating, and capital decision model** that is aligned with a deliberately developed value proposition. And then create an operating model with carefully chosen services and a level of scale that assures economic sustainability for both the value proposition and the operating model.
- **Maximize opportunities** in your existing markets while identifying new accretive markets and revenue streams. We see some Health Systems get too focused on new growth or overly focused on their existing footprint. Doing both at the same time is very necessary but seems very hard for many organizations.
- **Use analytics and operational science** to understand your business and make critical organizational decisions. This likely will require a more robust digital footprint and using these tools to improve workflow and efficiency. It is critical not to add AI or advanced analytics to already broken operating processes.
- Very important: **Do everything you can to become an “access company”** that enables consumers to easily find entrance into your Health System. This includes access in all forms—digital, clinical, physician access, ambulatory, and referrals. This access strategy should have the very highest priority.
- It might be time to **give up the ghost on protecting the Health System’s bond rating and balance sheet at all costs**. Some Health Systems need to more aggressively invest in growth and relevance, and this may lead to investment decisions that result in a rating downgrade. However, the long-term benefits of the more aggressive investment strategy may outweigh the downsides of the rating downgrade.
- **A never-ending focus on cost and efficiency**. This includes labor, supplies, purchased services, and an extra focus on all procedural areas such as OR and cath lab. In addition, place maximum emphasis on revenue cycle and clinical documentation efforts in order to improve margins. Finally, constant improvement of length of stay and patient throughput will have a powerful impact on both short-term and long-term profitability.
- **A sense of urgency** is a critical Health System competency going forward. Use a sound financial plan to place guardrails around the strategic decision-making process. But organizationally, understand that “going faster” is likely to be a key competitive advantage.

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