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Moving Healthcare Forward: Considerations as Practices Reopen

For most healthcare providers, 2020 began on an optimistic note. With a strong economy, many practices were humming along – with full patient schedules and a booked out calendar – the industry was positioned for another year of growth. Then COVID-19 hit. The world as we knew it changed, possibly forever. Healthcare providers were mandated to cease elective procedures and, in many cases, close down offices altogether.

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Even as states lift shelter-in-place restrictions and healthcare providers are given the greenlight to start seeing patients again, healthcare practices face unprecedented headwinds. Chief among these are the financial uncertainties that lie ahead. So, what should providers be thinking about as they reopen? And how can they partner with their bank to align for success in such an uncertain environment?

Once offices reopen, how can I get patient and cash flow back to normal levels?
The first priority should be to assess business operations and focus on getting back to profitability. Many providers have reported busy schedules in the initial weeks of reopening due to pent up demand during the shutdown. Effectively managing patient scheduling and ensuring you have adequate staff and supplies to safely meet patient needs will be critical in these initial stages. There will be enhanced procedures and safety requirements to adhere to, which may increase costs.

Patient engagement will also be vital. Providers that have embraced technology to stay in touch with patients while practices were closed are well positioned for growth. Companies that are only now contacting patients should assess whether any initial surge in volume can be sustained. Expect cash flow to remain tight in the early weeks as the revenue cycle catches up with patient flow. Forecasting key metrics and expenses will help to identify your cash needs. Such insights will be invaluable to understanding the pace of business recovery. As most healthcare providers are reimbursed through commercial insurers or the Center for Medicare and Medicaid, there is likely to be a 30-45 day lag between patient treatment and cash collection. It is therefore more important than ever to keep a heightened focus on revenue cycle management, compliance and process integrity to ensure that cash flow increases in lockstep with patient volume.

THE HEALTHCARE INDUSTRY HAS BEEN SIGNIFICANTLY IMPACTED BY COVID-19 AND WILL TAKE TIME TO RECOVER. MOREOVER, THE ROAD TO RECOVERY WILL VARY, DEPENDING ON YOUR SPECIALTY AND LOCATION.

What does it mean to my company if my loan covenants are violated?

With companies required to cease operations for several weeks, there have been material changes to bottom-line performance. Covenant violations will be a likely side effect. Consequently, communication with your banking partner should be a priority to ensure all parties work through these events together. Your banking partner wants to hear from you in both good times and bad; it is important to share information even if the outlook is challenging or uncertain. You will need to be able to demonstrate you understand the operational challenges you face and articulate a strategy to return your business back to plan.

Review the terms in your loan agreement, understand how the covenants are calculated and the recourse if violations occur. Consult with a trusted advisor such as your attorney, CPA or your lender. You may be asked to provide additional financial reporting and a 13-week cash flow forecast. Use this as an opportunity to assess your operations and reinforce your credibility with your banker. If you do so, when you are ready to shift focus back to growing your business, you will be well positioned to take on additional capital. Banks have generally shown a willingness to support covenant waivers and if needed, payment deferments. Be patient with the process and know that your banker will want to see your company return to normal and recover successfully as much as you do.

Should I be making acquisitions now? Is this going to impact multiples?

The decision to expand your practice is now more complex as a result of COVID-19. The severity of COVID-19 in the states where you operate will likely determine the impact on your office's finances. This financial impact could dictate whether you can entertain new acquisitions. While public market transaction valuations are down roughly 20% since the COVID-19 restrictions began, healthcare providers appear to have retained their value so far, with minimal changes to transaction multiples. Some structural enhancements should be considered for near-term acquisitions such as earn-outs or deferred payment compensation to ensure interests are aligned and these companies are able to resume normalized operations. If you were evaluating acquisitions prior to COVID-19 and are experiencing a meaningful reduction in cash flow and/or repayment capacity, aim to demonstrate sustainability of stabilized operations for a period of one or two quarters before taking on additional indebtedness for transactions. Communication with your banker will be important to reestablish access to capital.

When will banks be willing to lend again? How much liquidity will be available during the remainder of 2020?

While the 2008 recession was caused by a structural disruption in the financial markets, the recent downturn was started by a public health crisis; this is not a financial crisis. As such, banks remain well capitalized and are financially stronger than in the last recession. Banks have sufficient liquidity to lend but they want to ensure they are lending to practices best positioned to succeed in the aftermath of several weeks of distribution or outright closure. Although healthcare is a resilient industry, providers that have struggled with patient and staff engagement and do not have appropriate operational control may experience a protracted recovery relative to those that have embraced the recent challenges. You should be prepared to discuss these issues with your banking partner in order to secure capital to support your growth strategy.

The healthcare industry has been significantly impacted by COVID-19 and will take time to recover. Moreover, the road to recovery will vary, depending on your specialty and location. However, no healthcare provider has to navigate the post-shutdown world alone. You need to work with your closest advisors and gain the benefit of their insight, guidance and counsel. Your accountant, attorney, banker and industry cohorts can act as a sounding board when you are developing and executing on your plan. With most shelter-in-place orders being lifted and healthcare practices re-opening, these relationships will help position your company to weather the storm and succeed amidst the COVID-19 landscape.

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