2023 BDO HEALTHCARE CFO OUTLOOK SURVEY

Healthcare's Challenging Road Ahead

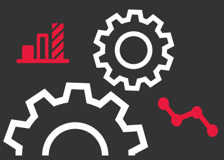
Healthcare at a glance

Nearly three years after the COVID-19 pandemic began, our healthcare system is on the mend — but some healthcare industry sectors are struggling more than others. We must find a way to close the widening gaps across the continuum of care to continue making progress.

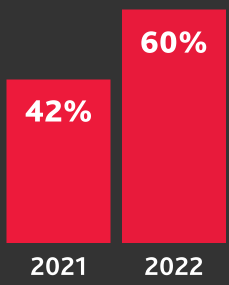
Each year, we survey 100 healthcare CFOs to understand how they're planning for the year ahead. This year, CFOs discuss the financial hardships facing different sectors of the industry — and how they plan to shrink the divide. Here's a preview of what you'll read in the ***2023 BDO Healthcare CFO Outlook Survey***:

Healthcare's financial recovery is uneven, with certain sectors struggling substantially more than others.

Big deals are going out of style in favor of add-ons targeted at expanding into new markets or growing market share.



Financial distress was more severe than expected — 60% of healthcare CFOs report they defaulted on bond or loan covenants in 2022, up from 42% in 2021.



CFOs are shifting their focus from their electronic health record (EHR) systems as 40% plan to decrease investment in EHR optimization this year.

Read on to learn more about the headwinds hitting healthcare this year and what you can do to protect your organization.

The ***2023 BDO Healthcare CFO Outlook Survey*** polled 100 CFOs with revenues ranging from $250 million to over $3 billion in October 2022. The survey was conducted by Rabin Research Company, an independent marketing research firm, using Op4G's panel of executives.

Healthcare's gaps are widening

The gap in financial performance across industry sectors is widening.

While most healthcare organizations (78%) saw profitability increases, performance was uneven across provider types. Some sectors, including academic medical centers and physician/provider groups, saw greater increases in profitability than expected in 2021. Others, including hospitals, health systems, outpatient facilities and ambulatory service centers (ASCs) fell short.

The split is also widening between private-sector and public-sector healthcare: 86% of private-sector healthcare CFOs saw profitability increases compared to 70% of public-sector CFOs.

Most healthcare organizations struggled to fulfill their financial covenants in 2022. Long-term, post-acute and home health organizations struggled the most, with 75% reporting defaults by October 2022. This is likely due to challenges attracting patients after the pandemic pushed patients away from these organizations, as well as high labor costs. At the other end of the spectrum, 30% of hospitals and health systems defaulted in 2022.

Defaults: Expectation vs. Reality

In 2021:

36%

were concerned about defaulting on bond/loan covenants in the year ahead

In 2022:

60%

actually defaulted on bond/loan covenants

Whether technical or substantial, bond and loan covenant violations pose a major challenge for healthcare organizations — especially when it comes to their financial statements. Healthcare CFOs should prepare for increased complexity in their financial statements this year, particularly as reporting deadlines loom.

Steven Shill
Partner and National Leader, The BDO Center for Healthcare Excellence & Innovation

As healthcare advances in 2023, two headwinds could increase the divide among sectors: supply chain disruption and the labor shortage and costs.

Healthcare's Top Threats

Supply chain disruption
74%

Regulatory uncertainty
72%

Talent shortage
71%

Natural disasters
71%

As global supply chains become more entangled, healthcare organizations face continued supply shortages. To mitigate the impact, 42% of healthcare CFOs plan to increase investments in supply procurement this year.

At the same time, the labor shortage puts providers in a tough spot — especially public-sector providers. Forty-four percent of public-sector healthcare CFOs plan to increase spending on labor compensation and benefits, compared to 34% of private-sector CFOs, possibly in a bid to attract more workers from the often higher-paying jobs in the private sector.

The past year's financial challenges impact healthcare's investment plans for 2023. When compared to last year's survey, we see substantially more respondents investing in primary care (a 55% increase over last year), elder care (27% increase) and home care (24% increase). Increases to elder and home care investments may have resulted from providers pushing to take on more of the Medicare population, allowing them to capitalize on opportunities afforded by Medicare Advantage; the aging of the U.S. population; and the push from insurance companies to enroll more patients in Medicare Advantage plans.

Healthcare's Investment Plans

INVESTMENT AREA	Increase investment	Decrease investment	Partner with a capital provider or operator
Virtual/telehealth	50%	26%	21%
Behavioral health	49%	23%	25%
Hospice/palliative care	48%	27%	19%
Specialty services	47%	26%	21%
Elder care	47%	16%	31%
Home care	46%	20%	31%
Primary care	45%	21%	31%
Post-acute residential care	44%	30%	22%
Retail properties	43%	24%	28%
Ambulatory service centers (ASCs)	40%	28%	28%

According to new research from Trilliant Health, **demand for primary care is increasing** and has returned to pre-pandemic volumes, making it no surprise that primary care is seeing increased investment this year.

What's concerning is that more respondents plan to decrease investment in ASCs, especially among hospitals and health systems. Last year, just 15% of hospitals and health systems planned to decrease investments in this area — but that number has jumped to 25% this year, likely due to the sector facing outsized impacts from economic conditions in the past year and the fact that ASCs have become less profitable over the past several years.

Recommendations

There's no end in sight to the financial challenges threatening the healthcare industry. Fortunately, there are steps healthcare CFOs can take to stabilize their organizations throughout the coming months:

Prioritize financial reporting.

Healthcare CFOs are likely to have more complex financial statements this year due to the high rate of bond and loan covenant violations in 2022. Make sure you have access to the right resources — including industry experience — to navigate these complexities.

Revisit your employee retention strategies

Competition for labor will only increase in the year ahead. Hiring is important, but you shouldn't overlook your current employees. Improve retention by revising your compensation and benefits packages, flexible workplace policies and on-site perks.

Weigh your investment plans against community needs.

The pandemic caused many healthcare facilities to close, and still more may shut their doors as financial distress in the industry deepens. As you consider where to invest this year, look for gaps in care in your community and plan investments to mitigate the impact. Consider carrying out a market analysis refresh to ensure you're up to date on supply and demand realities so you can be confident in your investment decisions.

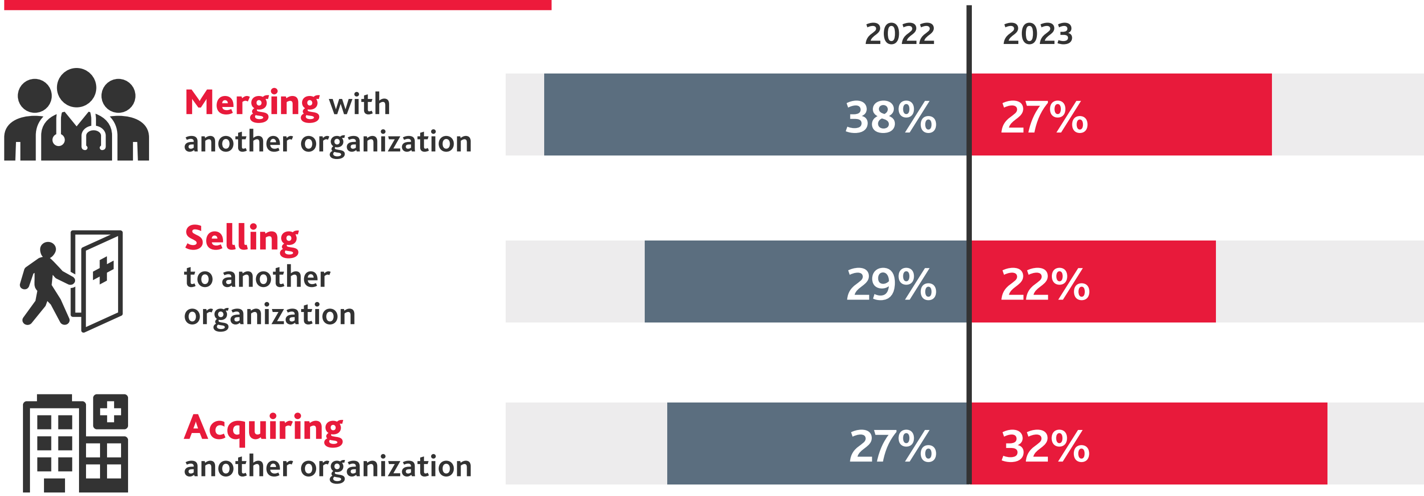
LOOKING FOR WAYS TO REDUCE COSTS?

Use our Inpatient Census Calculator to identify your top cost reduction opportunities. ▶

Dealmaking slows down

Dealmaking, which already started to decline in 2022 due to high interest rates and inflation, continues to slow, with fewer organizations interested in selling or merging with another business. At the same time, there's more interest in buying, which should shift the market in sellers' favor. Academic medical centers show the greatest interest in buying, with 55% intending to acquire another organization in the next 12 months. While their profitability over the last year showed improvement, academic medical centers often face difficulties securing adequate financing, especially if they receive government funding. Dealmaking can offer greater financial stability through more diverse service offerings and expanded revenue opportunities.

Transaction Plans Year-Over-Year



Enhancing digital capabilities is one of healthcare's top-cited M&A goals this year. We saw a similar sentiment in last year's survey when the [#1 deal driver was new technology or capability integration]. At the same time, the number of healthcare organizations planning to pursue digital transformation dropped sharply from 53% in 2022 to 34% in 2023. Organizations may have less capital to invest directly in digital this year, pushing them to use deals as their primary method of enhancing their digital maturity.

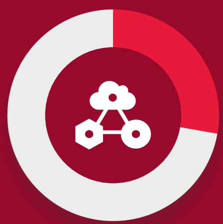
Another major M&A driver this year is expanding into a new market segment, a trend driven mostly by outpatient facilities and ASCs, with 40% citing it as their top goal. Those organizations may be seeking to expand into more lucrative services to improve their financial stability in light of their challenges meeting profitability expectations last year.

Over the past year, we've seen more add-on deals as opposed to large healthcare mergers, often with the goal of breaking into a new market or capturing greater market share. We expect to see that trend continuing in 2023.

Vin Phan
Partner, Healthcare Transactions Advisory Services

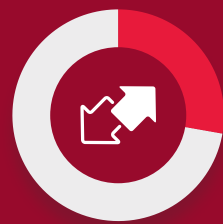
Top M&A Goals in 2023

Enhancing digital capabilities



28%

Expanding into a new market segment



28%

Growing/capturing market share

25%

Enhancing product/ service offerings

18%

Healthcare CFOs considering making a deal to support their financial goals need to be aware of the challenges that characterize the 2023 dealmaking environment. This year reported challenges are split fairly evenly, with navigating the due diligence process as the top-cited challenge followed closely by uncertain ROI expectations. In last year's survey, **34% of healthcare CFOs said their deal synergies fell short of expectations** or that they didn't capture synergies at all. To capture synergies this year, healthcare CFOs are trending toward **longer and more methodical due diligence processes**, which is likely to further slow the rate of dealmaking. Bias can also play a role in failure to realize synergies — healthcare providers need an unbiased source to help forecast their deal results so they are entering deals with realistic expectations.

Regulatory compliance is another concern for healthcare CFOs, especially as the Federal Trade Commission and the Department of Justice **push antitrust enforcement** in the industry. If we continue to see FTC challenges to major mergers in 2023, we can expect to see healthcare CFOs approaching deals with even greater caution.

Overall, we anticipate the deal challenges in 2023 will slow deal timelines and potentially restrict the overall number of deals completed by the end of the year.

Top Deal Challenges*

Navigating the due diligence process	20%
Uncertain ROI expectations	19%
Regulatory compliance	17%
Economic uncertainty	15%
Finding the right target or buyer	15%
Valuation expectation gaps	14%

*Note: Data includes only respondents planning a deal in 2023.

Recommendations

Amid all the challenges of the current dealmaking environment, there are still ample opportunities for enterprising healthcare organizations. Here are some tips to make the most of your deal strategy in 2023:

Think ahead to your M&A integration plans.

When asked what aspect of their approach to dealmaking needs the most improvement, just 16% of CFOs cited post-merger integration. However, thorough M&A integration planning is crucial to capturing ROI from your deal. Ensure you've planned adequately for your integration across the HR, operations, supply chain, clinical, IT, training and financial functions of the organizations.

Be prepared to explain your financial statements.

The last few years have left many organizations with challenging and pandemic-influenced financial results. Be sure you have a management discussion and analysis (MD&A) to contextualize those statements and illustrate your vision for the future — ideally with data to prove it's achievable.

Plan for longer deal timelines.

Whether you're buying or selling, assume that closing deals will take longer this year — and plan accordingly. For maximum efficiency, prepare as much as you can in advance — for example, by proactively finding and organizing all documentation you may need throughout the process.

CONSIDERING MAKING A DEAL IN 2023?

Ask these questions before making your first move. ▶

Healthcare shifts priorities on digital

The pandemic pushed many healthcare organizations to invest heavily in digital transformation as remote care became a necessity. After three years of adjusting to COVID-19, some healthcare organizations appear to be deprioritizing digital. Interestingly, organizations contending with financial distress are more likely to pursue digital transformation. For example, 46% of public-sector organizations are pursuing digital transformation in 2023 compared to just 22% of private-sector organizations. Organizations that had better financial performance over the past few years likely had more capital to invest in digital transformation previously, leaving less fortunate organizations to now play catch-up.

CFOs Pursuing Digital Transformation

Twenty-four percent of healthcare CFOs report that their digital solution investments have had the greatest impact on patient access and experience, making it the top-cited impact this year. However, many CFOs are decreasing their investments in digital front doors and patient portals despite [87% of patients who've used patient portals](#) finding them helpful.

Healthcare CFOs should understand that they can't staff their way out of their current problems. They need to prioritize getting patients in the door with the staff they currently have. The best way to do that is having a patient portal that's easy to use.

Rachel Verville
Managing Director, Healthcare Management Advisory Services

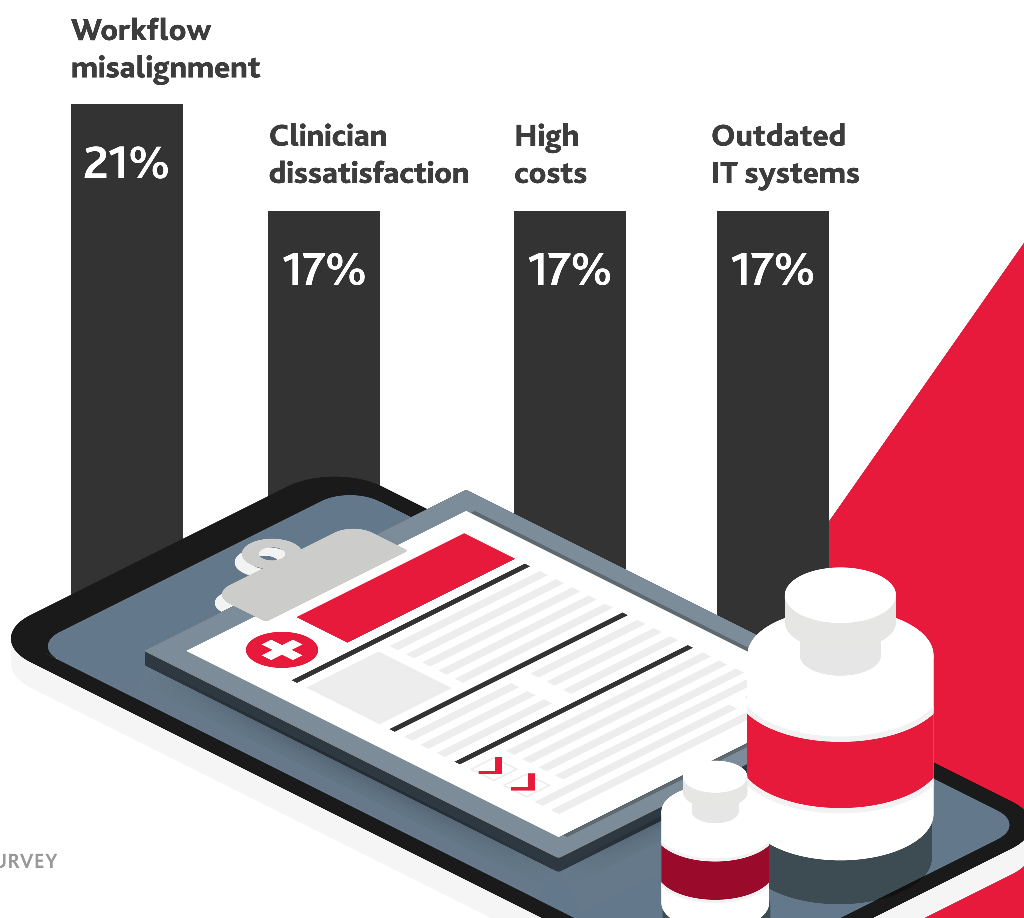
Patient portals help patients get in the door, but that's only half the battle for patients seeking care. Healthcare providers also need to have systems that can direct patients through the proper channels to get access to the appropriate care for their situation. Handling patients effectively is a challenge that can be addressed through an optimized EHR system.

Currently, just 19% of healthcare CFOs are very satisfied with their EHR systems, with issues like workflow misalignment among their top-cited EHR challenges. Ongoing EHR issues could explain why just 13% of CFOs say their digital investments have had the greatest impact on clinical operations. However, instead of investing in improving their EHR systems, healthcare CFOs are decreasing spend on EHR optimization. At the same time, they're increasing investments in telehealth platforms, strategic planning tools and predictive analytics. The increasing investment in telehealth may represent a misread of the market because, according to recent research from Trilliant Health, [patients are beginning to return to solely in-person care] as opposed to virtual or hybrid arrangements. At the same time, telehealth platforms still play a crucial role in both behavioral healthcare as well as care coordination, making continued investment a sound choice for certain organizations.

Over the next year, we'll likely see more healthcare organizations adopting digital solutions that enable workforce management in real time. The ability to enact flexible staffing will be critical as CFOs seek to address the continued labor shortage.

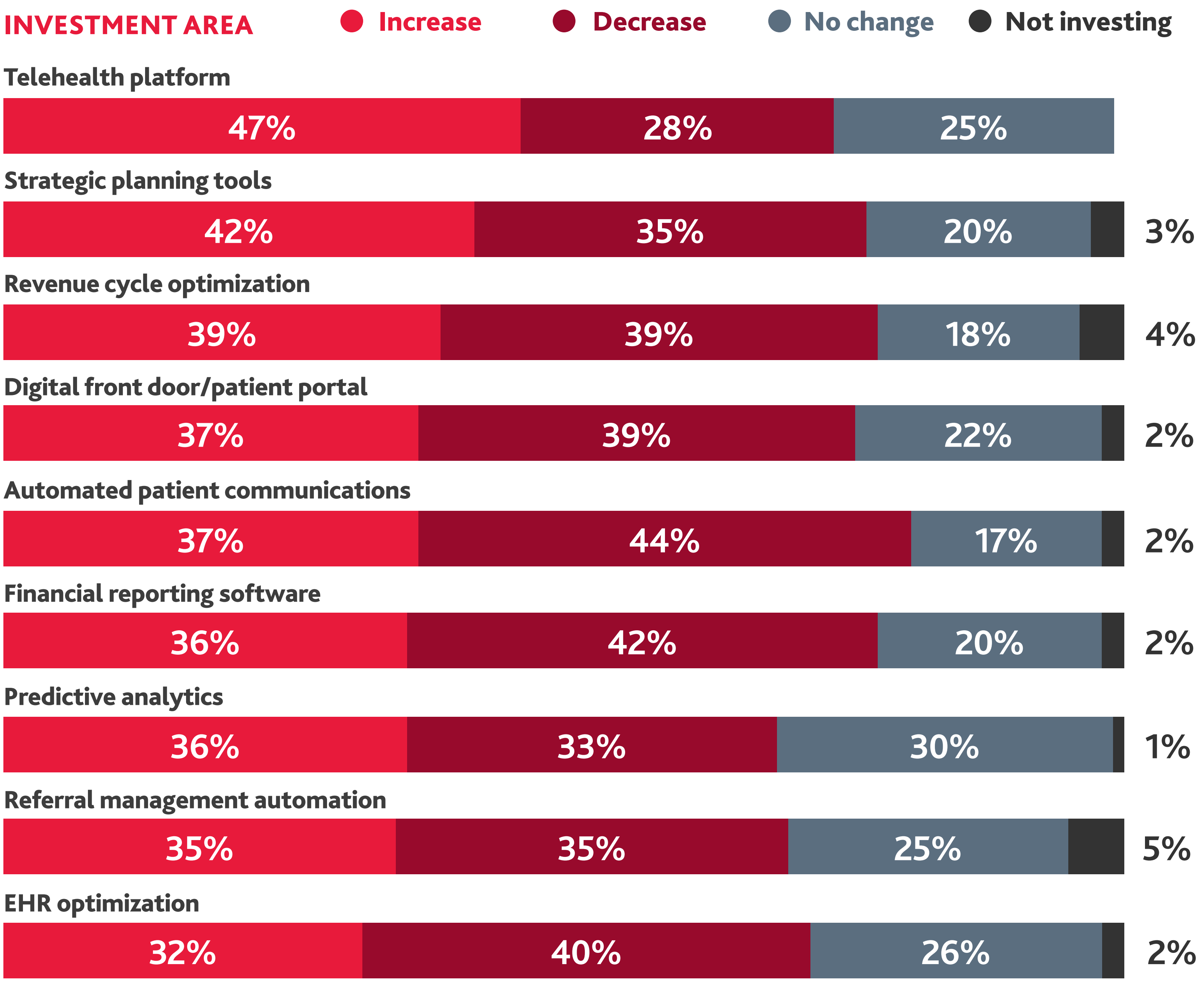
David Francis
Managing Director, Healthcare Management Advisory Services

Top EHR Challenges



Just 15% of healthcare CFOs say their digital investments have had the greatest impact on workforce management. As the labor shortage continues and labor costs rise, healthcare organizations will need to find creative solutions to hiring and retention problems. A viable solution is to invest in capabilities like predictive staffing and to automate whatever routine functions possible. That way, you can reduce your staff's workload, particularly in terms of administrative duties, even if you're struggling to hire.

Digital Investment Plans



Recommendations

Healthcare organizations must continue growing their technical capabilities even as they face serious financial headwinds. Here are a few ways to enhance your digital maturity without breaking your budget:

Focus on enhancing your patient portal.

Patients increasingly rely on patient portals to access care. By offering more advanced capabilities like online scheduling and chat functions, you can gain an edge over your less digitally mature competitors, reduce call volumes and mitigate the impact on workflows. Check out our **patient access optimization checklist** for easy ways to improve your organization's patient access through digital tools.

Optimize your existing technology before purchasing new solutions.

If you're experiencing issues with your current technology systems, they most likely can be improved rather than buying a new solution to address the problem. Consider starting by optimizing your EHR system.

Consider deals as a way to develop tech capabilities.

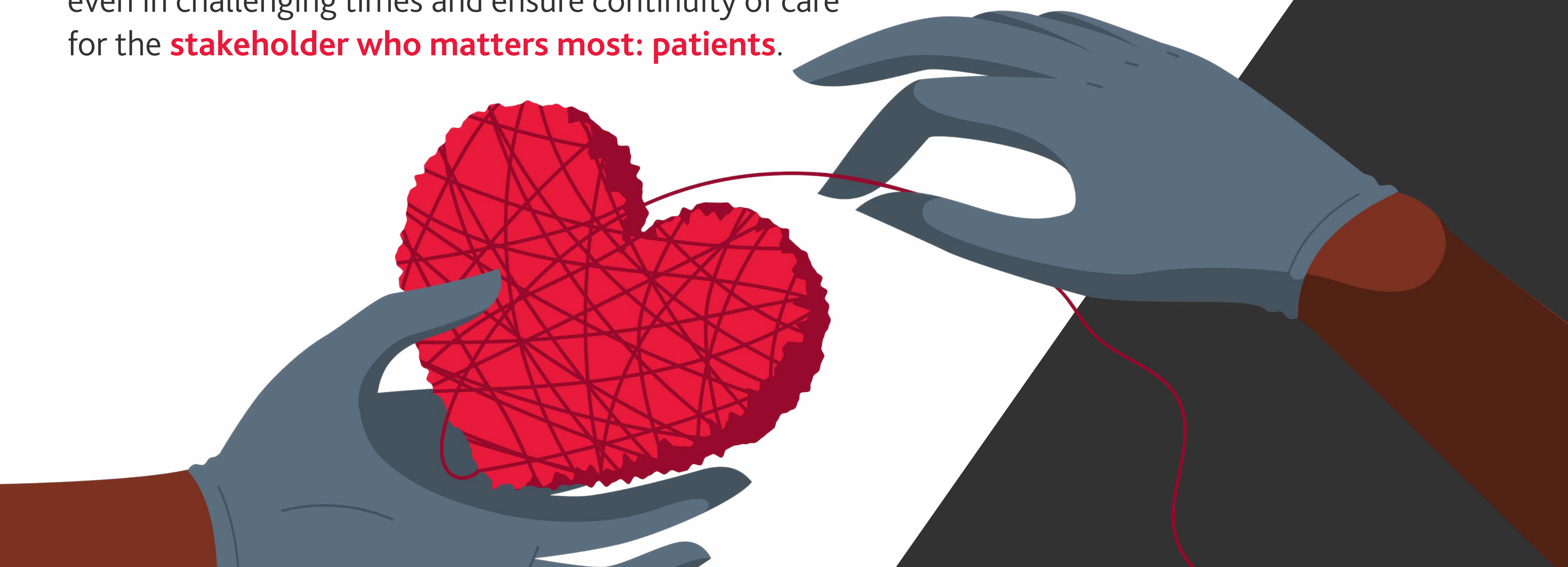
The top driver of healthcare deals in 2023 is enhancing digital capabilities. If you find yourself in a position where you have little capital to spend on digital investments, consider collaborating or making a deal with a more technologically advanced organization.

WANT TO KNOW HOW TO BUILD A BETTER PATIENT PORTAL?

Start by learning what your patients are looking for. ▶

Healthcare faces another hard year ahead

By balancing your portfolio of service lines, selecting deal strategies with care and reinvesting in digital, CFOs can help their organization thrive even in challenging times and ensure continuity of care for the **stakeholder who matters most: patients**.

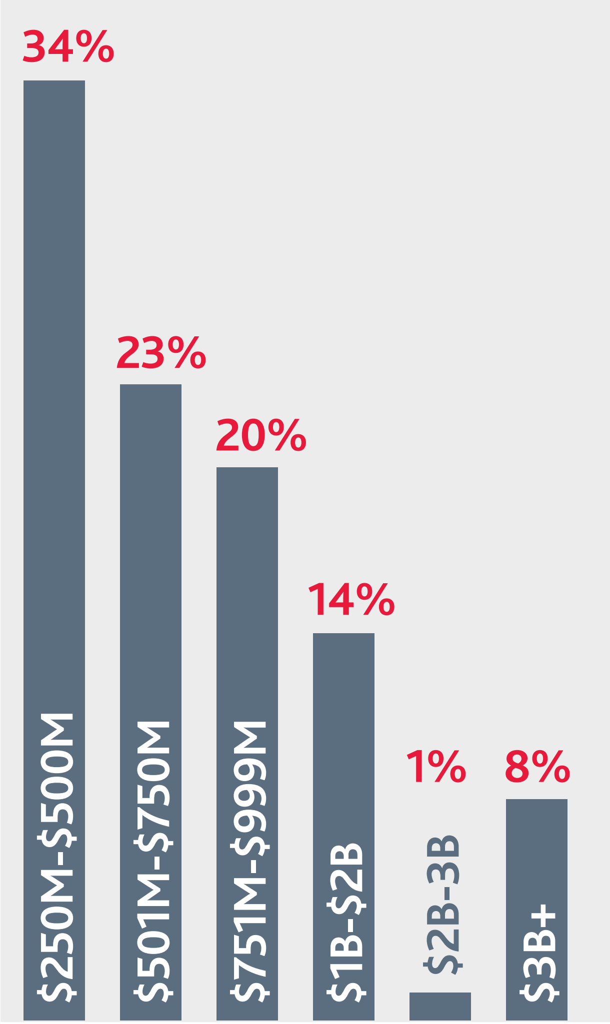


Click here to learn what your patients really want — and need — from you. ▶

Methodology

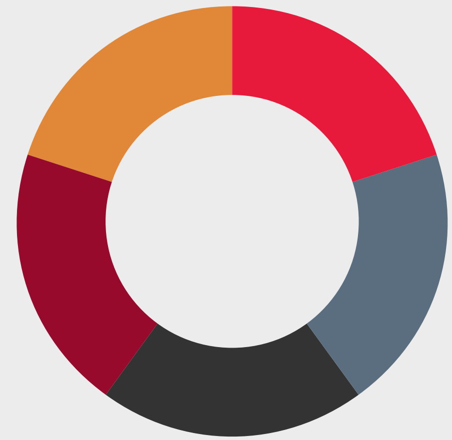
The ***2023 BDO Healthcare CFO Outlook Survey*** polled 100 CFOs with revenues ranging from $250 million to over $3 billion in October 2022. The survey was conducted by Rabin Research Company, an independent marketing research firm, using Op4G's panel of executives.

Revenue

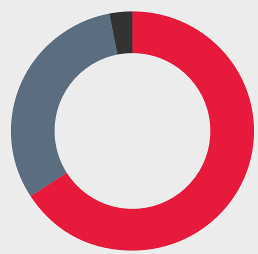


Sector

Hospital/health system	20%
Academic medical center	20%
Physician/provider group	20%
Outpatient/ASC	20%
Long term/post-acute, home health	20%

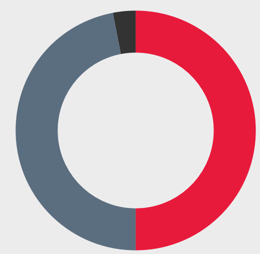


Patient Population



Urban areas	66%
Suburban/community areas	31%
Rural areas	3%

Ownership



Public	50%
Private, independently owned	47%
Private, PE/VC-backed	3%

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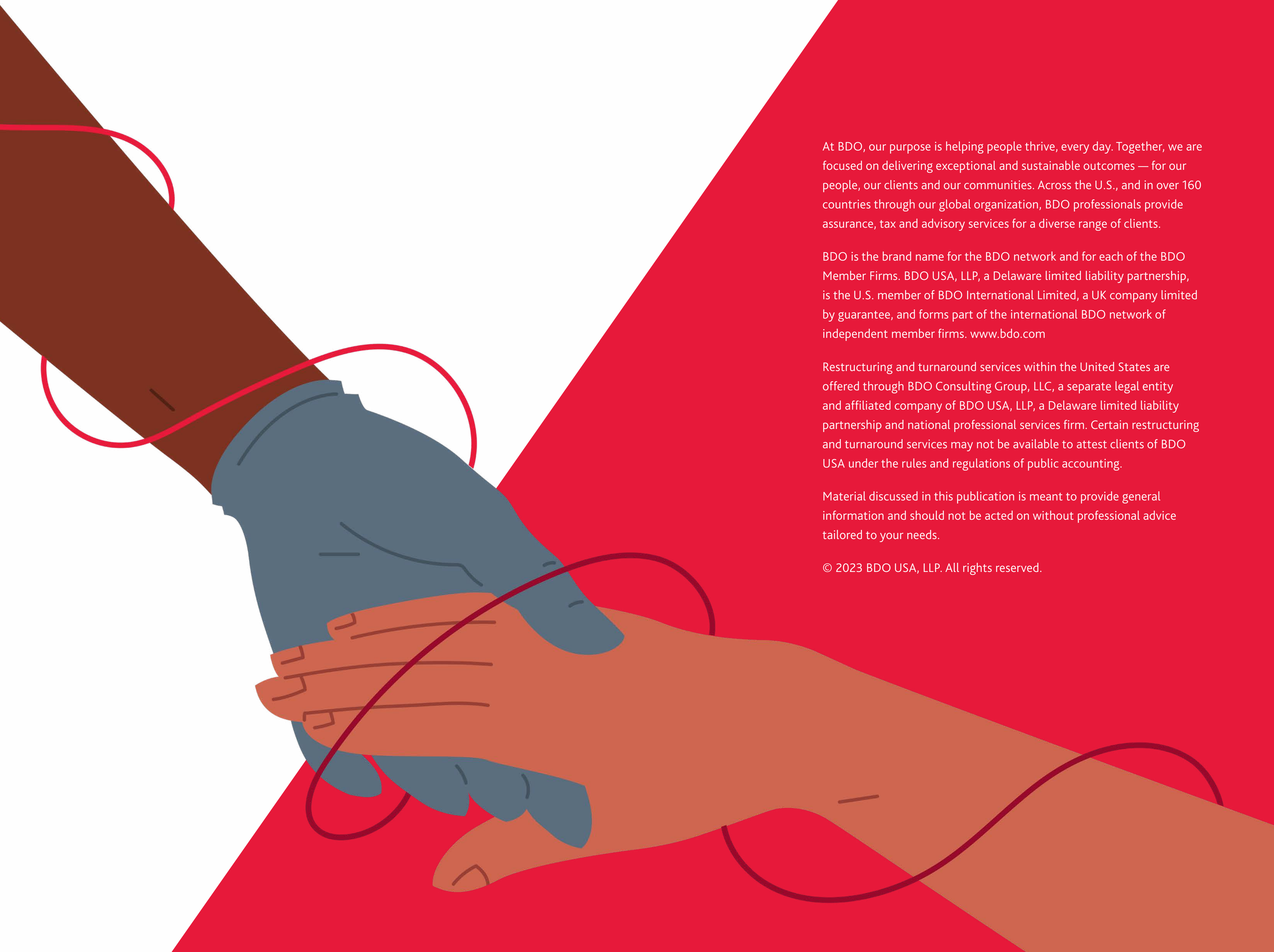

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