



2021 BDO HEALTHCARE CFO OUTLOOK SURVEY



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The Future of Care, Accelerated

The healthcare industry had been in a constant state of disruption for more than a decade. Then the pandemic changed everything again.

What were once viewed as long-term opportunities became immediate requirements. Care, cash, coordination and creativity took on new meaning as the eyes of the country turned to our healthcare system in its moment of greatest need.

It proved up to the challenge.

Healthcare leaders have navigated surges and shortages, all while working to ensure the best care for their patients and protecting their essential workforce. Now, even with the continued prevalence of cases, the industry is moving forward

with haste to form partnerships and solidify operating models that will help meet areas of patient need and overcome areas of distress.

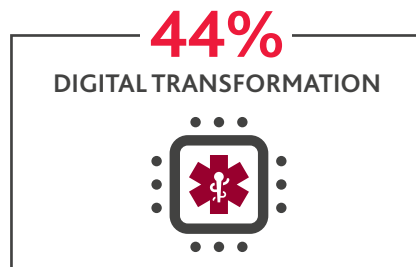
The story of healthcare in 2020 is certainly marked by a national tragedy, but it also has many heroes in the form of doctors, nurses, researchers and workers. Crisis also puts everything into new perspective, allowing healthcare organizations to set sights on long-term silver linings for the industry.

Case in point, according to the **2021 BDO Healthcare CFO Outlook Survey**, 52% of healthcare CFOs say their organization made faster decisions during the pandemic. Healthcare organizations channeled that decisiveness into action that will shape the future of the industry.

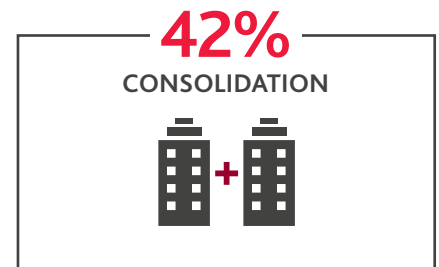
SIX SILVER LININGS



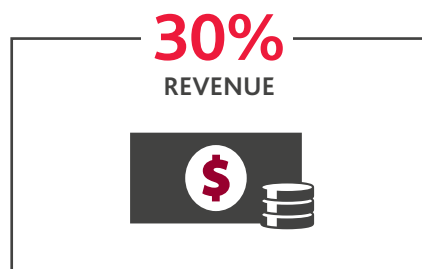
say the pandemic will drive an increase in partnerships across the healthcare ecosystem



say the pandemic accelerated digital transformation



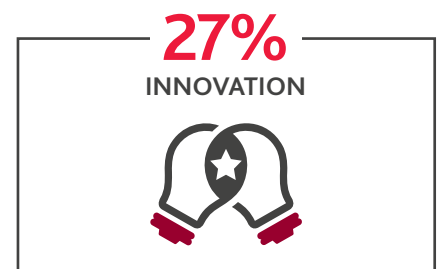
say the pandemic will increase consolidation



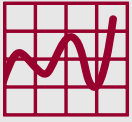
say the pandemic increased focus on diversified revenue streams



expect the pandemic will accelerate the shift to value-based care

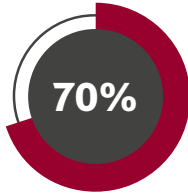


say the pandemic opened new opportunities for product or service innovation

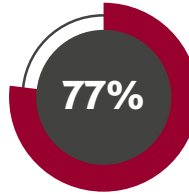


CFOs feel confident about the pivots they've made and are optimistic for recovery and a return to pre-pandemic performance levels in the year ahead.

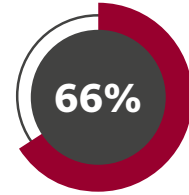
Following steep revenue declines, healthcare CFOs expect a rebound:



forecast a revenue increase



forecast a profitability increase



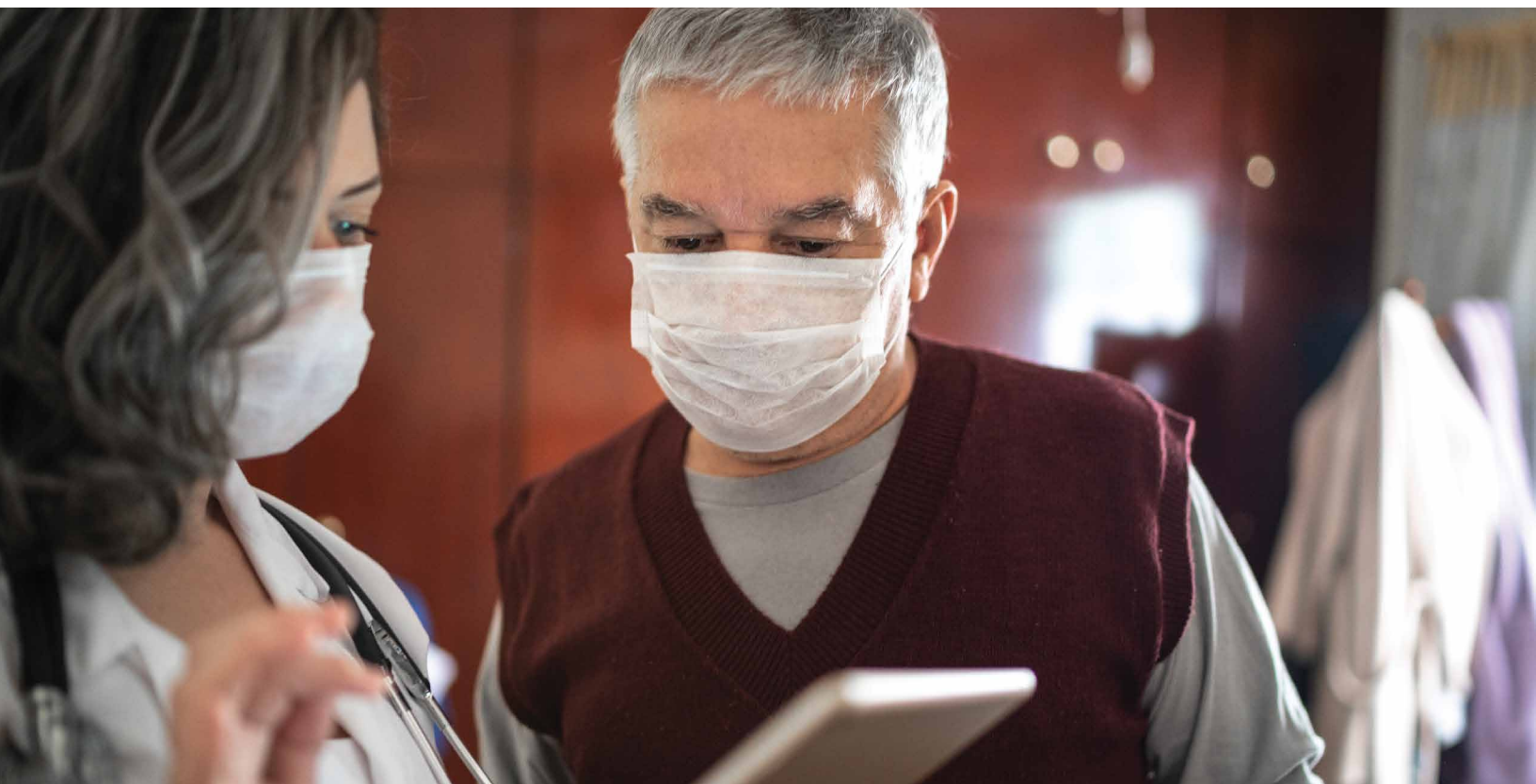
expect an economic recovery in 2021



We are witnessing a turning point in the history of the healthcare industry. The future is being formed by decisions made today that contemplate an organization's capabilities and value, the projected needs of the communities they serve and the digital implications on their services. Healthcare leaders have made clear that their vision is more collaborative, connective and patient-centric than ever before.



STEVEN SHILL, CPA
National & Global Healthcare Practice Leader
The BDO Center for Healthcare Excellence & Innovation



Transformation Tracks

For most healthcare organizations, transforming to meet the future needs of care will follow one or more of these paths: partnerships, service and practice optimization, an enhanced consumer experience.

PARTNERSHIPS

Healthcare partnerships continue to be on the rise, following years of mega-mergers that aimed to break down silos in the industry and get closer to the patient. From improving relationships between payers and providers to research partnerships between academic medical institutions and pharmaceutical companies, the walls in the healthcare ecosystem continue to come down in favor of collaboration and community to serve the greater good.

Indeed, more than one third of healthcare organizations (35%) say that they will transform their operating model this year. While industry deal flow slowed during the peak of the pandemic, Teledoc and Livongo's \$18B merger in August is one of the biggest deals of 2020, according to S&P. Partnerships and consolidation will also fuel the ability to scale, through forming managed service organizations, and the ability to expand into new areas of service like behavioral health, where it is often more strategic to buy or partner than build.

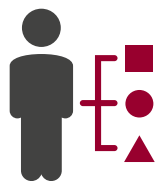
Healthcare CFOs' intentions suggest that 2021 will see a further uptick in deals and partnerships.

TOP 3 STRATEGIES FOR 2021



50%

Digital
transformation



47%

Product or
service expansion



41%

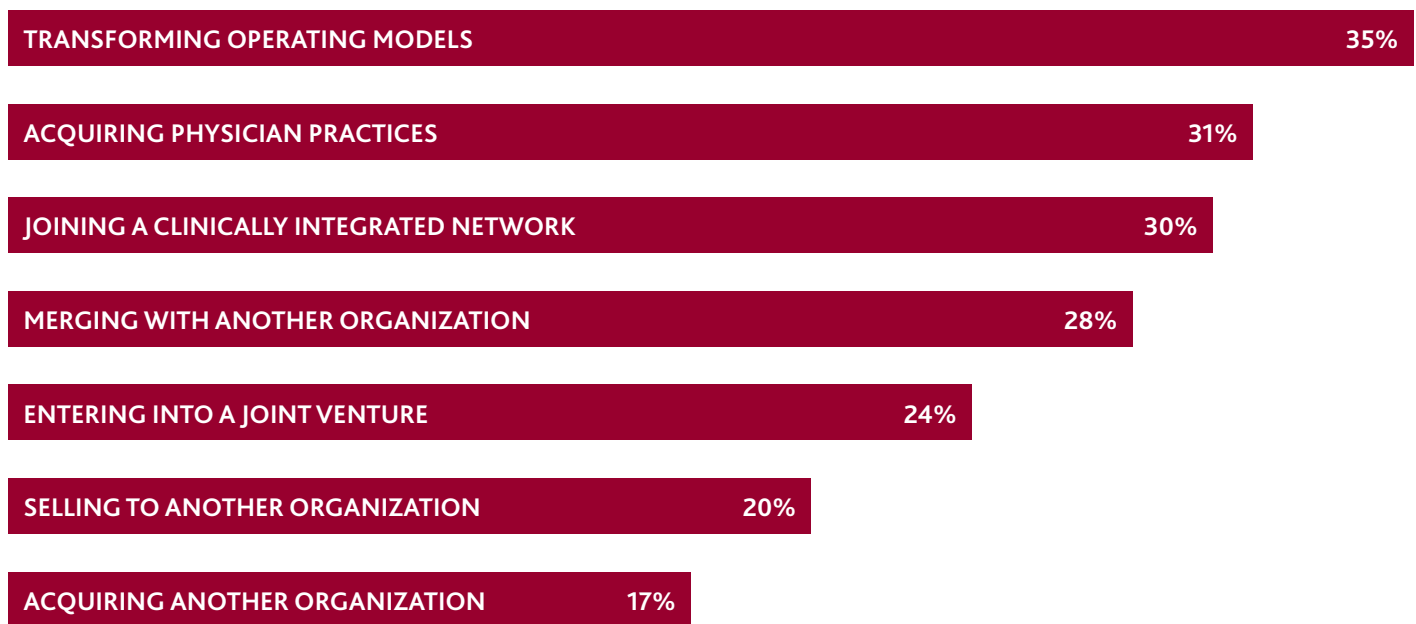
Geographic
expansion





PARTNERSHIP PLANS GET MORE POPULAR

Which of the following are you planning to pursue in 2021?



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If 2020 was all about resilience, 2021 will be all about making the most of newly-formed partnerships. There are countless drivers of high-value healthcare deals. From seeking to address financial distress, to building up scale, to capitalizing on innovation and research, strategic and financial deals will help the industry on its path to better care for patients and continued financial recovery.



CHAD BESTE
Principal, Healthcare Advisory

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SERVICE AND PRACTICE OPTIMIZATION

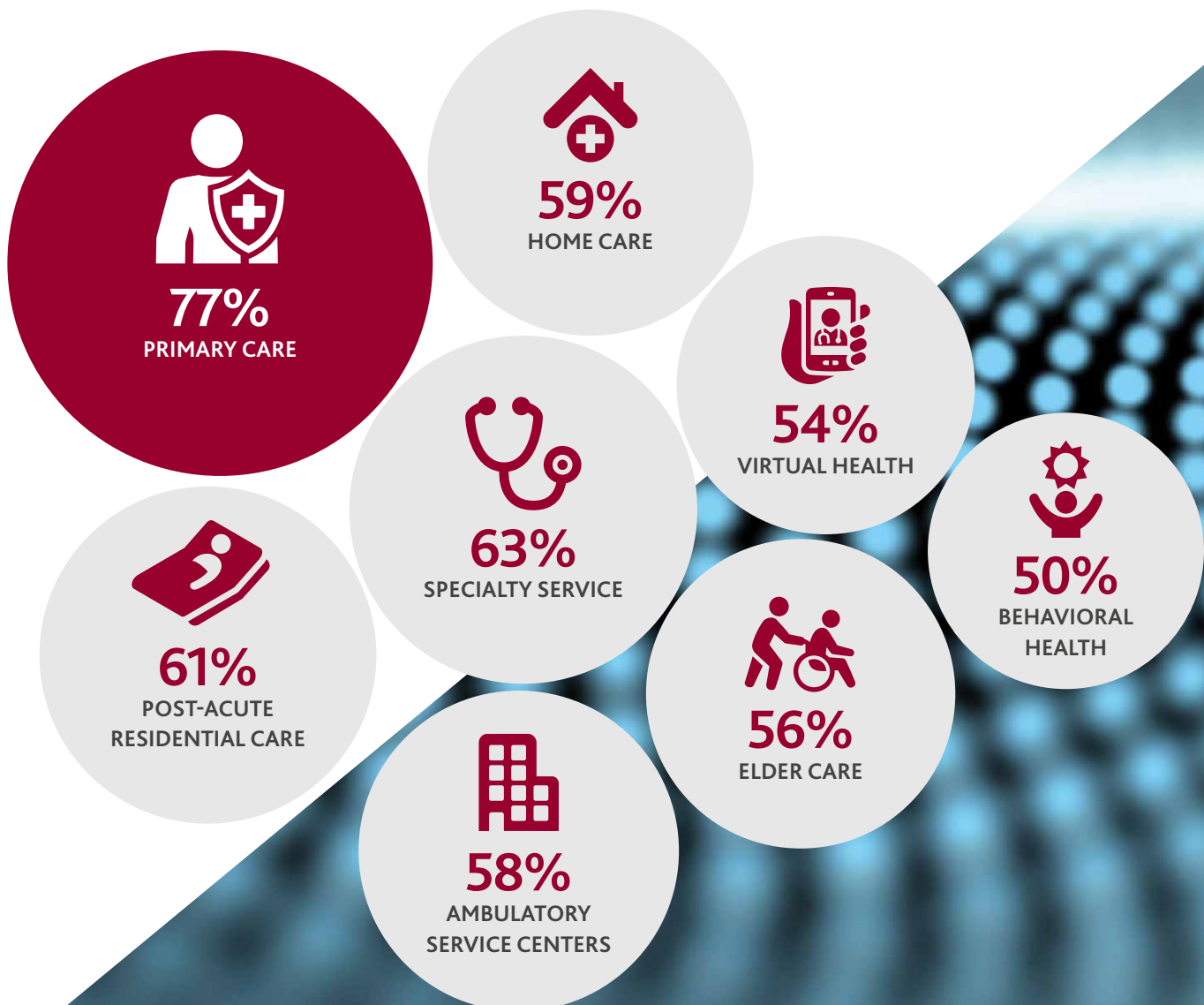
Healthcare organizations also viewed the crisis as a driving force to reset their areas of focus and specialties given both the short- and long-term needs of their patient populations. In some cases, healthcare executive teams will make moves based on essentialism. In others, it will be about changes in demand for care.

For example, as demand for virtual and behavioral health surged in 2020, many healthcare practices saw slower demand for primary care, dental, vision and other areas of care that consumers decided to put off. Looking ahead, healthcare organizations are hoping to fund and fuel a shift back to the primary care office as the center of health. More than three

in four CFOs say they will invest in primary care in the next two years, a notable increase over 51% who reported planned investment in primary care last year. A majority of healthcare organizations also plan investments in digital and behavioral health services to meet growing needs.

Even if consumer confidence can be restored and generational care preferences can be evolved, the reality is no one service or provider has a full view of the patient. No matter the investment or area of focus, access to data and coordination across specialties will be critical to both preventative and reactive care.

AREAS OF INVESTMENT



CONSUMER EXPERIENCE

It's telehealth's time to shine as the digital health industry surges amid enthusiasm from patients and investors alike. More than one in four healthcare CFOs say the pandemic has increased the industry's focus on opportunities in telehealth, but it is not without challenges.

CFOs' TOP-CITED CONCERNS RELATED TO TELEHEALTH



46%

Efficacy of care



39%

Consumer experience



34%

Productivity

When it comes to consumer experience, getting it right will require coordinated investment in technology, education, and change management. That's likely one reason why 24% of healthcare CFOs say their biggest priority is investing in technology or infrastructure, and 61% will be spending more in IT this year. Nearly three in four healthcare executives also pointed to improved consumer experience as a top digital objective in [BDO's 2020 Healthcare Digital Transformation Survey](#). Patients will be expecting high quality support, with both speed and personalization—whether in person or online.

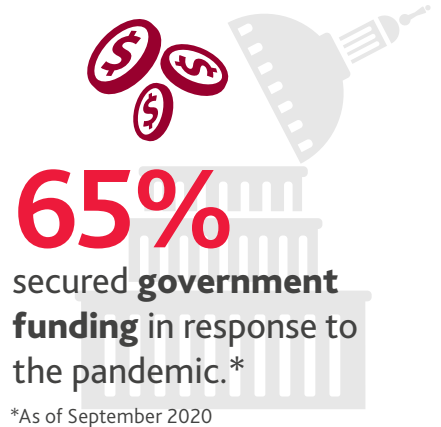
As digital health becomes mainstream, healthcare organizations must also keep in mind that telehealth works best when it supplements versus replaces in-person care. It's a tool in the shed, rather than a brand-new type of shed.

52%
will increase spending in R&D this year, in part as healthcare organizations focus on developing alternative revenue streams.



Resilience Through Distress

Even amid optimism that healthcare organizations are on the right path for recovery, for more than one in three, that path will require restructuring or reorganization. The pandemic brought a financial cliff to many healthcare organizations who lacked more than a month or two of cash on hand. Government assistance helped stave off crisis for some, but the events of this year provided clarity to healthcare organizations across every sector around the importance of liquidity, what are truly essential services and operations, and where they have underperforming assets or specialties.



LIQUIDITY LENS

Whether in times of calm or crisis, liquidity is critical to maintaining operations, ensuring payroll and having the financial flexibility to meet opportunity. Forecasted revenue increases will be welcome to stable healthcare organizations and key to survival for those in distress.



44% say maintaining adequate liquidity will be a high or moderate challenge in the next year



A plurality (**46%**) have 31-60 days of cash on hand



Just **27%** have more than 60 days of cash on hand



Most organizations report their largest financial obligations are in payables (**34%**) and bank loans (**32%**)



17% will pursue debt restructuring in the next year

CUTTING COSTS

While healthcare CFOs are optimistic for profitability increases in the next year, cost optimization will be a key part of the strategy.

34%



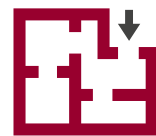
will pursue a strategic cost reduction

13%



say cutting costs is the biggest business priority

34%



will eliminate or consolidate floor space, as care is delivered in new channels and organizations look to optimize their real estate footprint

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While the pandemic certainly exacerbated areas of distress for some organizations, it's important that healthcare organizations take a critical look at issues that may continue to present problems when the crisis abates. Unwieldy administrative structures, high reliance on Medicaid funding and lack of affiliation with a healthcare system will continue to put organizations in a position of weakness and should be addressed as part of any reorganization strategy.

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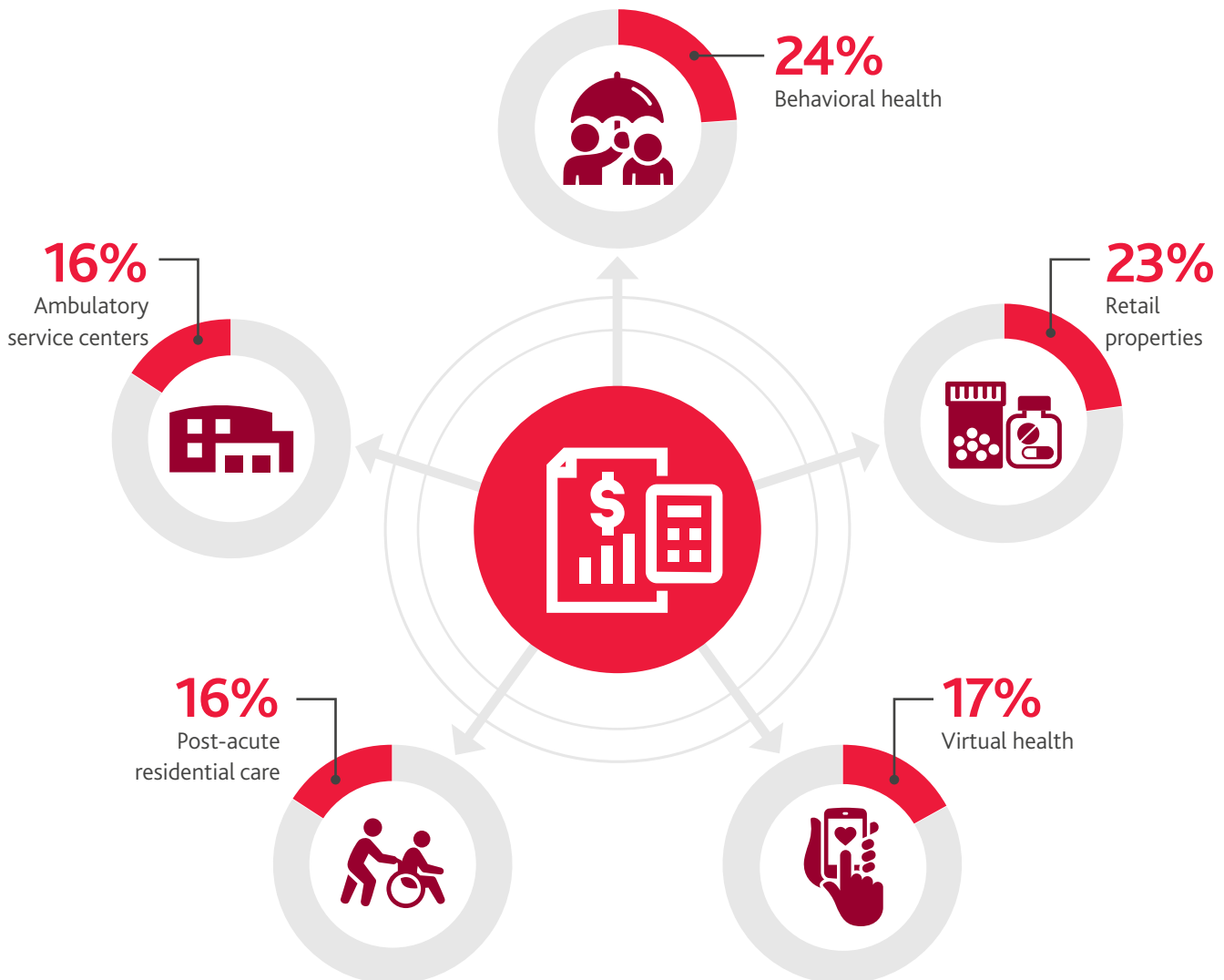


JIM LOUGHLIN

Managing Director and National Leader of BDO's Business Restructuring & Turnaround Services

DIVEST DECISIONS

Even with care coordination a key goal, many healthcare organizations will need to focus on core capabilities and profitability in 2021. Healthcare CFOs plan to divest from the following areas:



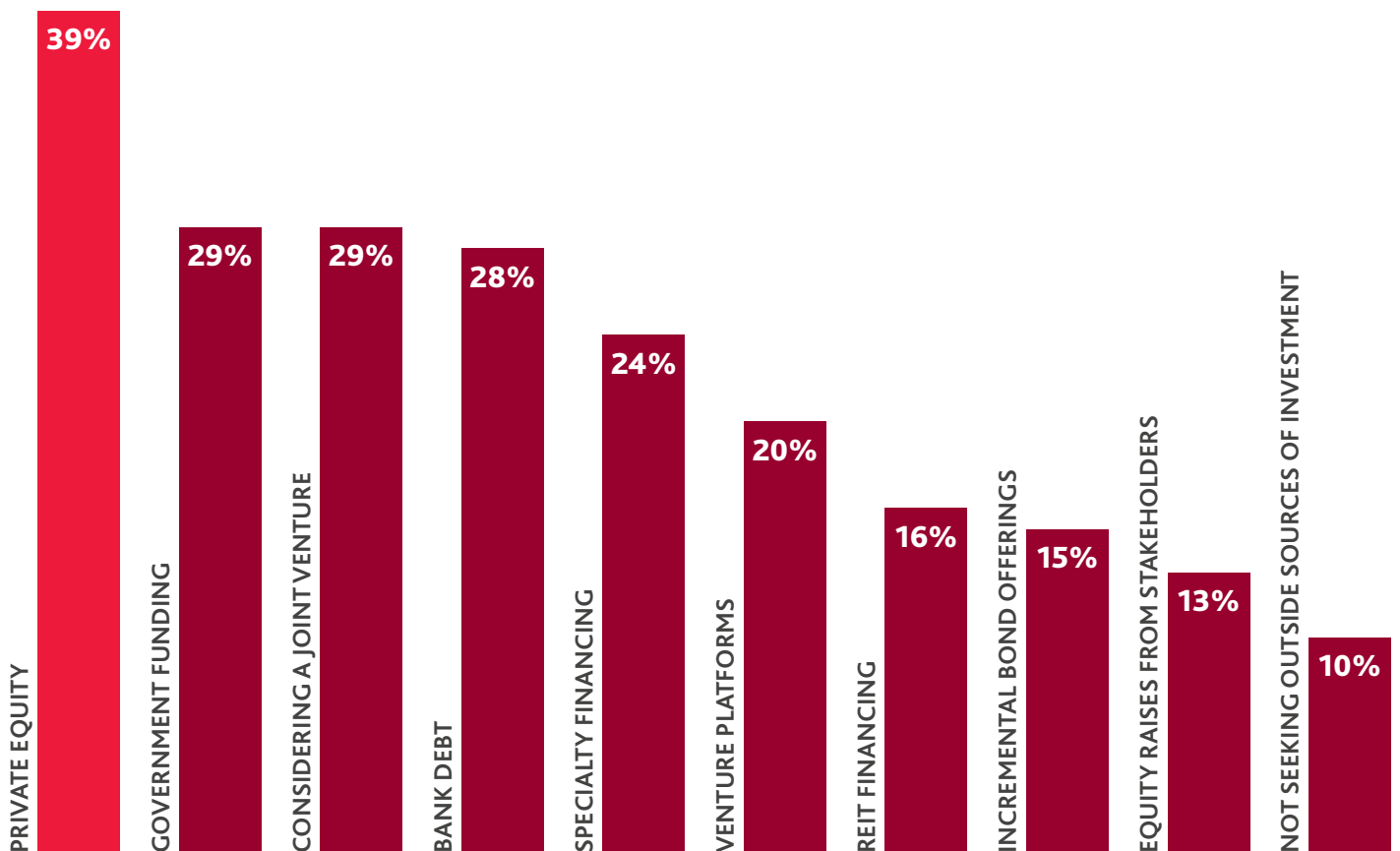


An effective reorganization or restructuring strategy will be a major contributor to healthcare resilience in 2021, but so too will sources of capital. In fact, 90% of healthcare organizations will seek outside capital this year.

While there is no north star in terms of sources of capital, healthcare CFOs give an edge to private equity as a preferred source of capital, in addition to accessing continued government funding and assistance. Private equity appears ready to invest.

[PitchBook reports](#) that healthcare continues to be a top industry for PE investment, with healthcare accounting for 13-14% of overall PE deal value in the past two years, including during the COVID-19 pandemic. Healthcare providers and services make up the largest percentage of those deals.

PLANNED OUTSIDE CAPITAL SOURCES





Risk in Perspective

In context of a global pandemic, healthcare organizations' risk profiles and areas of concern have evolved. At the end of 2019, healthcare CFOs most commonly cited a data privacy breach (22%) as the biggest threat to the organization, and a potential economic downturn was noted by just 13% as the top threat. The tables have turned. This year, concern over a prolonged economic downturn is the most cited threat (25%) while a breach was the top threat of just 10% of healthcare organizations.

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Restoring healthcare consumer confidence and enhancing the patient experience have never been more challenging—and more critical—to the long-term success of a healthcare organization. In some ways, COVID-19 has leveled the playing field and created an opportunity for organizations to secure competitor advantage by investing in elevating patient experience and addressing quality and cost concerns.

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DEB SHEEHAN
Managing Director,
Healthcare Advisory

But the pandemic and its resulting economic and societal impacts, coupled with the election year, have also brought new risks to the forefront.



RESTORING CONSUMER CONFIDENCE

An August survey by HealthGrades found that 35% of consumers did not feel safe visiting their doctor. For the industry to truly move from recovery to thrive in 2021, improved consumer confidence and a full return to elective procedures and standard well visits will be essential. [Investing in key patient satisfaction measures](#) from Star Ratings to care quality is both a necessity and opportunity.

- ▶ **57%** say restoring consumer confidence will be a high or moderate challenge
- ▶ Healthcare organizations know that patient-doctor trust will be critical to the return to care
- ▶ **18%** say retaining top talent is their top workforce concern challenge this year



SHORING UP SUPPLY CHAIN

During the nationwide push to “flatten the curve” in the spring, the concern around overwhelming the healthcare system came down to worries over insufficient beds, healthcare worker safety, and supply. Healthcare CFOs have focused on expanding and diversifying their supply chain vendors, building up redundant inventory and adjusting their demand planning.

- ▶ **14%** say supply chain disruption is their biggest threat
- ▶ Hospitals and academic medical centers were most likely to cite supply chain disruption as a top risk
- ▶ As healthcare organizations look to optimize their supply chain, **61%** will invest more in improving operations this year



EXPLORING REGULATION & COMPLIANCE

As healthcare CFOs planned for the 2020 election, healthcare reform was their top-cited policy concern (43%). But as organizations adjust their operating models, seek funding, and expand or divest offerings, they must also be mindful of the resulting tax and accounting impacts.

- ▶ **50%** say complying with the [Health Care Price Transparency Act](#) will be a high or moderate challenge this year
- ▶ **23%** say understanding total tax liability will be their biggest tax challenge
- ▶ **25%** report preparing for new standard implementation, including lease accounting, will be their top financial reporting challenges
- ▶ Another **17%** say managing disclosures and risk factors and **15%** point to concern over reporting requirements from government assistance programs as top financial reporting challenges

Given what 2020 brought, healthcare organizations' positive outlook for 2021 is a sign of their resilience. But the intentional decisions, investments and partnerships forged in crisis will no doubt position the industry to accelerate a long-expected evolution. The beneficiaries won't just be the bottom line, but patients and communities all over the world as access to care is expanded in an era of cost reduction.

Our research goes beyond healthcare.

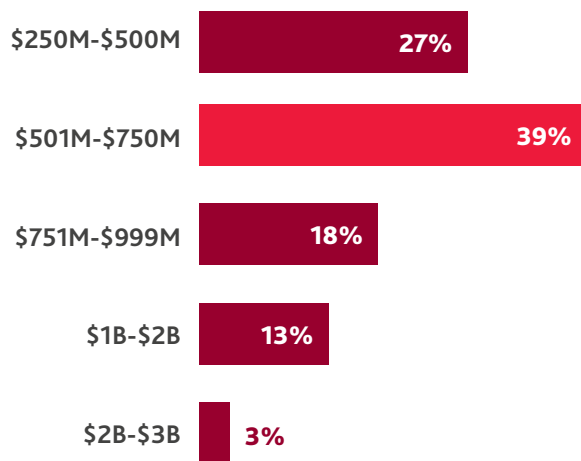
View the survey results from 600 CFOs across industries in our [2021 BDO Middle Market CFO Outlook Survey](#).

Respondent Profile

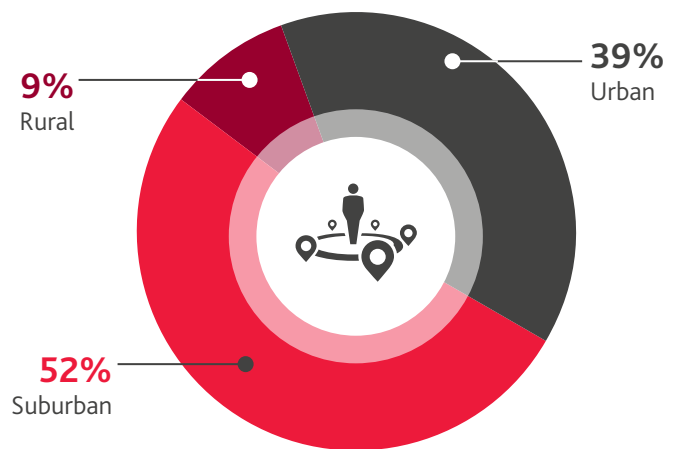
The **2021 BDO Healthcare CFO Outlook Survey** polled 100 CFOs at hospitals, physician offices, long-term and post-acute care, home health, hospice, and outpatient and ambulatory service providers with revenues ranging from \$250 million to \$3 billion in September 2020. The survey was conducted by Rabin Research Company, an independent marketing research firm, using Op4G's panel of executives.

Average tenure in current CFO role: 5.1 years

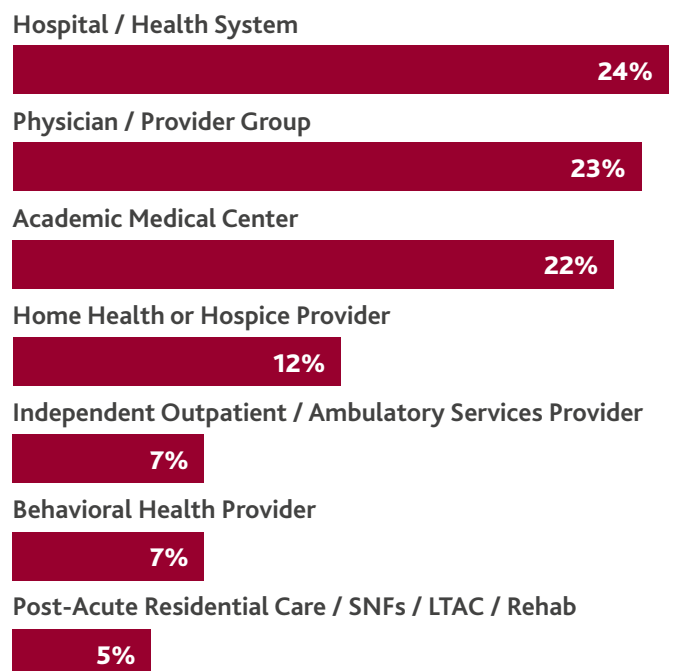
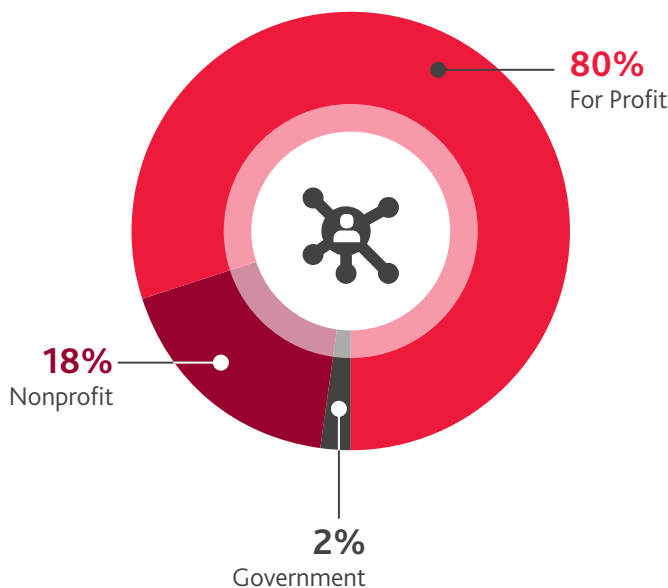
ANNUAL REVENUE



LOCATION OF PATIENT POPULATION



TYPE OF HEALTHCARE ORGANIZATION





ABOUT THE BDO CENTER FOR HEALTHCARE EXCELLENCE & INNOVATION

The BDO Center for Healthcare Excellence & Innovation is devoted to helping healthcare organizations thrive, clinically, financially, and digitally. We help clients redefine their strategies, operations and processes based on both patient-centric demands and rigorous best business practices—responding to the industry's new market disrupters, cost pressures and outcomes-based reimbursement models.

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