Overview of Northern Light Health System

Northern Light Health System (NLH) and its subsidiaries provide a broad range of healthcare services throughout Maine. Acute care hospital affiliates include the flagship hospital, Eastern Maine Medical Center with 400 beds, Mercy Hospital of Portland (200 beds), Maine Coast Hospital (64 beds), Aroostoock Hospital (89 acute beds and 72 nursing home beds), Inland Hospital (48 acute and 105 long-term care beds), and three critical access hospitals (25 acute beds): Blue Hill Hospital, CA Dean Hospital, and Sebasticook Valley Hospital. It also operates Acadia Hospital, a 100-bed acute psychiatric hospital. Besides hospitals, NLH has several other subsidiaries in laboratory services, population health management, retail pharmacy, multiple types of nursing homes, occupational and workplace health, medical transport, and home health/hospice care.

NLH has a long-time clinical affiliation with Massachusetts General Hospital and a cancer collaborative with Dana Farber Cancer Institute.

NLH has two major service areas, Northern Maine (8 counties) and Southern Maine (7 counties). NLH inpatient market share in the Northern Maine market has been between 47 and 50% over the period 2017-2020. In Southern Maine, NLH market share has been between 6 and 7%. Their biggest competitors in Northern Maine were Maine General (16% market share), and Maine Health (12 – 13% market share). IN the Southern Maine market, Maine Health has a 65-66% share, Central Maine a 15% share, and Covenant a 7-8% share.

Financially, NLH has struggled with operating profitability, particularly in 2020 with Covid and 2022 with the workforce and supply expense pressures brought on industry -wide. Their investment portfolio has not been large enough to generate investment income sufficient to cushion those losses; days cash on hand have declined significantly, impairing both their financial resiliency (ability to absorb operating losses or invest in strategic opportunities) and their credit-worthiness. In February 2023, Moody's revised their outlook on NLH bonds from "positive" to "negative". However the full year 2023 performance (unaudited) shows an improvement over 2022, still experiencing operating losses but positive cash from operations sufficient to cover debt service.

NLH provides relatively little charity care despite the relatively low income of its service areas. Eligibilty for financial assistance is relatively stringent , and rates charged to patients eligible for financial assistance are based on both Medicare FFS and commercial rates, so are relatively high. Bad debt expense as reported in the 2022 IRS form 990's is 3 – 4 times greater than charity care in absolute dollars.

Detailed Financial Condition:

Profitability

Over the period 2019- 2022, Northern Light had two years with very high operating losses (2022 and 2020), which cumulatively resulted in operating losses of $131 Million, or 28% of all cash uses over the period (see Sources and Uses of Cash) over the period. Nonoperating revenue excluding unrealized gains/losses improved the bottom line in those two years, but did not offset the operating losses; unrealized losses in those years made the total margin even worse. 2023 (unaudited) operating losses were improved over 2022 but were still losses; nonoperating revenue including all forms of investment income (such as unrealized gains) brought them to a breakeven margin in 2023.

Northern Light	2023 (unaudited)	2022	2021	2020	2019
Profitability:					
Total Margin	**(0.018)**	**(0.063)**	**0.030**	**(0.020)**	**0.020**
Total Margin including Unrealized Gains/losses	**0.000**	**(0.088)**	**0.042**	**(0.040)**	**0.032**
Operating Margin	**(0.015)**	**(0.064)**	**0.028**	**(0.051)**	**0.017**
Operating Margin excl COVID Grant, Fema	**(0.015)**	**(0.090)**	**(0.013)**	**(0.096)**	**0.017**
EBITDA Margin (Exc Rev)	**0.02**	**(0.02)**	**0.07**	**0.02**	**0.07**

*in 2022 and 2021, realized and unrealized gains were not broken out, so both were omitted from the Total Margin calculation excluding unrealized gains/losses. In 2023, interest and dividends were also not broken out from realized and unrealized gains, so all investment income was left out of Total Margin excluding unrealized gains/losses.

Liquidity

NLH's liquidity situation deteriorated significantly in 2022 and 2023, going from a peak of 110 days (excluding Covid-related cash assistance) in 2021 to a low of 67 days in 2023 (unaudited). This reduction in days of cash on hand was primarily due to operating losses and capital expenditures, and not due to unrealized losses on their investment portfolio, which were largely offset by unrealized gains over the period 2019-2023.

They also had to repay Medicare and Social Security for cash advances and deferred payroll taxes in 2022 and 2023, representing almost $200 million in repayments.

In February, 2023, Moody's bond rating agency revised their outlook on the creditworthiness of NLH's bonds from "positive" to "negative" reflect the agency's concern over cash losses that occurred in 2022. The rating outlook noted that a key factor for the NLH rating status in the near future was the ability of NLH to show meaningful improvement in days cash on hand (without the benefit of short-term bank lines of credit). Unaudited results for 2023 indicate that days cash have not yet improved.

Liquidity:	**2023 (unaudited)**	**2022**	**2021**	**2020**	**2019**
Current Ratio	**1.41**	**1.32**	**1.51**	**1.99**	**2.19**
Days Cash on Hand including Board-designat	**67**	**75**	**136**	**144**	**108**
Days in Patient Accounts Receivable	**54**	**51**	**54**	**51**	**49**
Days in Accrued expenses/accts payable	**64**	**50**	**55**	**49**	**42**
Cash and Investments, all unrestricted source	**393,201**	**427,216**	**711,344**	**698,611**	**487,310**
Days Operating Cash in Covid grant (rev)	**0**	**9**	**16**	**16**	**0**
Days operating cash in AAPP and PayTaxDef	**0**	**7**	**26**	**41**	**0**
Days cash on hand excl AAPP and Tax Def Li	**67**	**68**	**110**	**103**	**108**

Solvency

Solvency metrics also deteriorated over the period. Long term debt rose as a percentage of total capitalization, due to losses eroding net assets (equity) in 2022, and an increase in longterm debt in

2023. The ability to repay debt from cash generated by operating activities (cash flow to total debt) was well below healthy levels (healthy being in the .10 - .15 range) especially in 2020, 2022, and 2023. Debt service coverage was negative in 2022, below their required coverage specified in their debt covenants, which was another contributing factor to the lowering of Moody's rating outlook in 2023, and triggered the need to hire an outside consultant to implement strategies to improve cash flow. The reduction in cash and investments also sent their cash/longterm debt ratio below 1, which meant that NLH lacked liquid resources sufficient to cover their long-term debt in the event that creditors wanted to require a full repayment of their long term debt (an unlikely but possible occurrence).

Solvency:	2023 (unaudited)	2022	2021	2020	2019
Longterm debt/total capitalization	0.485	0.464	0.419	0.468	0.425
Pension-adjusted LTD/Capitalization	0.524	0.511	0.471	0.531	0.476
Long term debt and pension plus operating le	0.534	0.523	0.483	0.531	0.476
Cash Flow to Total Debt	0.028	(0.051)	0.090	0.016	0.095
Debt Service Coverage (current, not max)	1.38	(1.13)	4.52	1.32	3.49
Cash and Investments/LTD only	0.67	0.82	1.33	1.27	0.94
Funded Status of DB Pension (% funded)	n/a	0.70	0.72	0.63	0.69

Adequacy of Capital Spending

NLH 's plant age was just slightly older than the industry medians (10 – 11 years) in 2019, but has gotten older since then. Capital expenditures kept up with depreciation expense, with a 1.29 cumulative ratio of capital expenditures over depreciation expense over the four years 2019-2022; but they have not been enough to bring down the age of plant. Under-investment in capital assets can have the effect of reducing the health system's attractiveness to physicians and patients over time. If NLH facilities lack updated patient areas, important new technologies, and/or effective electronic information systems (clinical and administrative), the system could be at competitive disadvantage, especially relative to MaineHealth, its largest competitor in the state.

They will need to improve operating performance to be able to raise new debt or internal capital to finance major capital improvements.

Capital Adequacy	2023 (unaudited)	2022	2021	2020	2019
Average Age of Plant	n/a	13.86	14.20	13.20	12.76
Capital expenditure / depreciation expense	n/a	1.34	1.68	1.13	1.03
Cumulative CapEx/Depr Exp	n/a	1.29			

Charity Care

Northern Light did not report bad debt expense in the audited financials. Charity care was well under 1% of operating cost over the period 2020 -2022; the highest value was in 2019, at 1.15%.

		2022	2021	2020	2019
Charity Care at Cost AFS		13996	12193	14777	19742
% Operating Expense AFS		0.65%	0.62%	0.80%	1.15%

Northern Light Health System's eligibility guidelines for charity care were similar to those of Maine Health, where up to 150% of Federal Poverty Level (FPL) was used as the qualifying limit for free care, and up to 250% of FPL for determining eligibility for discounted care. They also charged financial assistance-eligible patients at rates reflecting both Medicare FFS and all private health insurers paying claims in the prior 12 month period, which results in a relatively high charge for patients needing financial assistance. Perhaps related, their bad debt expense (as reported in the 2022 IRS 990) was over three times greater than their charity care cost in 2022, as the following chart (derived from the IRS Form 990 for each acute hospital entity) describes:

Charity care on 990 $000	2022	% TOE	Bad Debt on 990 in 2022	
EMMC	2521	0.002	5901	0.005
Maine Coast	272	0.003	n/a	
Mayo	31	0.000	3471	0.050
Aroostoock	211	0.001	1147	0.007
Sebasticook Valley	91	0.002	923	0.018
Mercy	1293	0.005	2416	0.009
CA Dean	46	0.002	385	0.018
Blue Hill	98	0.002	422	0.011
Total Charity Care in 990	4563	0.002	14665	0.008

Commercial Prices Relative to Medicare were not particularly high; the system ranked in bottom one third of relative prices overall, with inpatient commercial prices at 203% of Medicare, outpatient at 254%, and combined in and out-patient prices at 234% of Medicare.

In sum, NLH is struggling financially due to high operating losses and low financial resiliency (cash and investment balances). It is at its peak debt capacity, and is struggling to repay the debt it already has.

That said, NLH is not particularly generous in its charity care policies, and they may not be collecting much of what they are charging financially eligible patients. One could argue that bad debts should be reduced by expanding eligibility for free care and/or lowering the rates eligible patients are asked to pay, since NLH is not collecting on those bills anyway. It would be helpful to know what their collection rate on unpaid bills of financial -assistance-eligible patients has been.