

## “Restructuring is a Financing”

### Introduction

According to a study published by Gibbins Advisors, healthcare bankruptcy filings in 2025 are on pace to decline 16% year over year, with 48 expected by year-end compared to 57 in 2024. However, the sector faces an uncertain economic environment due to rising costs from labor shortages, Medicaid cuts, payor cost pressures, slowing GDP growth, and shrinking operating margins.

In this newsletter, we will explore some alternatives available to a company considering restructuring its debt obligations, ranging from the least to most invasive.

### First-Get Real

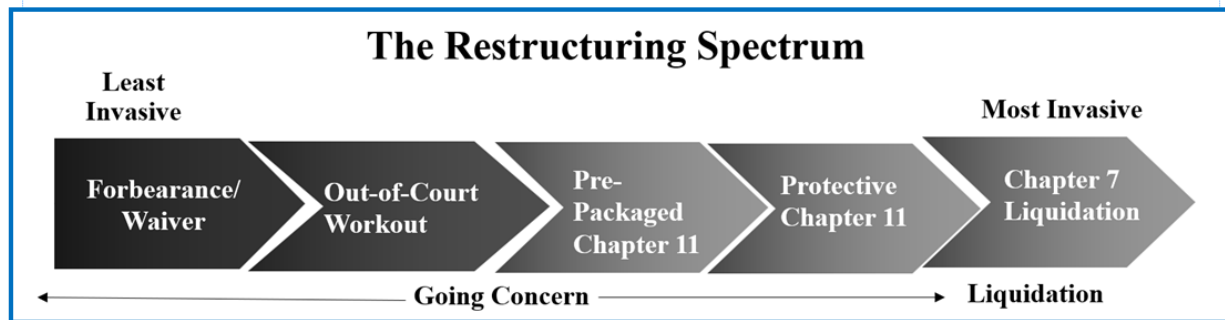
One of my restructuring mentors had a great quip: “Denial is not a river in Egypt.” So often, a management team is not ready to accept the fact that it needs some help getting through a challenging time. I have seen multiple cases in which they consistently postponed hard decisions until it is too late to fix the issue.

**Step One – Quick, objective diagnosis:** Is the problem short-term or long-term? A short-term issue can be resolved with a waiver. If the issue is long-term or systemic, it is important to consider that it may be insolvent. “Insolvency” occurs when a company’s liabilities are greater than the fair market value of its assets. In many cases, “fair value” is the orderly liquidation value, not the hopes and dreams value. More often, the causes of insolvencies are economic factors, competitive position erosion, too much leverage, or poor execution of a strategy. Another issue is the mismatch of the tenor of a debt to the useful life of an asset. Companies often face issues when they use short-term debt to fund long-term assets.

**Step Two - Change the board’s priorities:** Once the company is insolvent, the board’s fiduciary obligation shifts from the equity investors to the debt holders. In some cases, it may be helpful to reconstitute the board, for example, by installing a representative of the debtholders.

**Step Three - Prepare a Realistic and Conservative Operating Plan:** A thoughtful operating plan can provide a roadmap for the restructuring. The plan must be realistic. Some areas to consider are: (i) Are revenues sustainable at current levels? Even if they are, it is prudent to project lower revenues: (ii) In what areas can expenses be reduced? Certain expenses to look at are supply redundancies, unnecessary overtime, supply costs, and staffing levels. Having outside advisors assisting this process is critical, as they can review these changes more objectively.

## Restructuring Alternatives



After completing these steps, the company should have open conversations with its creditors, whether negotiating directly or using an advisor. The options available, in order of preference, are: (i) Forbearance/Waiver; (ii) Out-of-Court Workout; (iii) Pre-Package Chapter 11; (iv) Protective Chapter 11; (v) Chapter 7 Liquidation

Forbearance/Waiver is a temporary agreement with lenders that enables the company to pause and/or lower interest/principal payments. It may also allow for short-term relief from certain financial covenants. The term of this agreement is typically less than a year, allowing management time to address short-term issues.

1. ***Out-of-Court Workout*** is a private agreement between the company and creditors to reduce, reschedule, or eliminate debt payments. This option is preferred to bankruptcy due to its reduced legal expenses, greater confidentiality, and expedited process. Another structure to consider is a debt for equity conversion. The objective of this approach is to provide management time and cash flow to implement its operational changes. As such, the company can utilize this option when it is a long-term going concern or when the company intends to enter a distressed sale process to repay or reduce outstanding debt.
2. ***Pre-Packaged Chapter 11*** is a restructuring that is pre-negotiated with the creditors and approved by shareholders before filing a petition with the court. The court then reviews and confirms the plan. The advantages of a pre-pack over an out-of-court include forcing holdouts to comply with the terms of the restructure and putting facility leases back to the landlords.
3. ***Protective Chapter 11*** is protection offered to companies under the U.S. Bankruptcy Code. Key aspects of this alternative are: (i) there is an automatic stay which halts the collection actions of creditors; (ii) the company remains “in possession” of the operations; (iii) a creditors’ committee is formed to lead the negotiations with the company; and (iv) the company files an organization plan. The advantage of the Protective Chapter 11 is time. In addition, the debtor may get access to Debtor in Possession financing, which is typically debt that is senior to all legacy loans. Some of

the tools we have used in this scenario include 363 Sales and debt restructuring that may include debt for equity conversions.

The key difference between Alternatives 3 and 4 is timing. In Alternative 3, the company and creditors first negotiate a solution and then go to court. In Alternative 4, it is the opposite.

4. **Chapter 7 Liquidation** is a legal process of liquidating non-exempt assets to repay creditors. A grim outcome.

Alternatives 1 through 4 are de facto financings as they help the company retain cash and can improve the strength of the balance sheet by extending maturity dates and/or converting debt into equity.

### **Summary**

When a company faces insolvency, management should prioritize creditor protection and develop a realistic operational plan. Options for addressing financial distress include negotiating forbearance agreements for short-term relief, pursuing out-of-court workouts to restructure debt privately, and, if necessary, initiating formal bankruptcy proceedings through pre-packaged or protective Chapter 11 filings. Each alternative offers varying degrees of confidentiality, speed, and creditor involvement, with Chapter 7 liquidation serving as the final step to repay debts through asset sales if other solutions fail.

### **About River Corporate Advisors**

Founded in 2009, River Corporate Advisors, LLC is a specialty healthcare advisory firm bringing senior-level focus and a profound understanding of the industry to complex strategic, financing, and restructuring transactions as well as interim CFO services.

For more information, please go to [rivercorp advisors.com](http://rivercorp advisors.com).