

US Special Situations: GOP's healthcare wish list spells uncertainty for levered borrowers Aveanna, Ingenovis, Tenet, Owens & Minor, more

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A menu of \$5.7tn in potential federal spending cuts that is under consideration by House Republicans includes more than \$3 trillion in healthcare cuts. The 50-page, untitled document obtained by *LFI*, is one of several outlines circulating among GOP lawmakers across congressional committees as they gear up to execute an agenda for President Trump.

As for what that agenda aims to accomplish, the trillions in targeted spending cuts being passed around by House Budget Chair Jodey Arrington take particular aim at Medicaid. The outline puts into writing more than \$1.7tn in Medicaid cuts over the next decade by eliminating enhanced subsidies under the ACA, reviving Medicaid work requirements and restricting state usage of provider taxes.

"Medicaid has a gigantic bulls-eye on it," Spencer Perlman, director of healthcare research at Veda Partners, tells *LFI*. "[The administration] wants to examine ways to reduce federal exposure or cut items all together, but I don't think the votes exist to dramatically change Medicaid."

Nonetheless, levered borrowers and their investors are bracing for the possible impact from the following measures floated by House Republicans:

- Medicaid Funding Caps:
 - Switching to a per-capita funding model and eliminating ACA Medicaid expansion payments could cut \$900bn over the next decade, the House document estimates. Such a shift would leave providers like [Modivcare](#) and [Aveanna Healthcare](#), which derive a significant portion of their revenue from Medicaid, to absorb the resulting care gaps and financial strain, sources noted.
 - If enacted, the changes would shift the financial burden onto state budgets rather than federal, reduce coverage for low-income people and increase the rate of uninsured. Providers could see higher uncompensated care and bad debt expenses, especially in Medicaid-dependent regions.
- Site-Neutral Medicare Payments:
 - Equalizing payment rates across outpatient settings would save an estimated \$146bn but could devastate hospital revenues, particularly for rural operators like Quincy Health.
 - Dependence on outpatient revenue would put hospital operators like [Community Health Systems](#), [Lifepoint Health](#) and [Tenet Healthcare](#) under margin pressure, sources noted. These companies rely on outpatient services, or ASC, with Tenet especially dependent on ambulatory surgery centers to drive growth.
 - *CreditSights* Head of Healthcare Eric Axon writes that 2025 could be the year [Tenet explores a separation of its ASC business](#) given the segment's higher EBITDA multiples than its inpatient services and significant expansion.
- Elimination of Nonprofit Hospital Tax Exemptions:
 - Taxing nonprofits could raise \$260bn and herald higher operational costs that would weigh on cash flow and liquidity, according to House Republican estimates.
- Insurance Marketplace Adjustments:

- Also up for consideration is an end to enhanced ACA subsidies, which while not explicitly mentioned in the document, expire in 2025 without an act of Congress. Enacted in 2021 under the Biden administration and extended by the Inflation Reduction Act, the subsidies cut premium payments by an estimated 44%, according to Kaiser Family Foundation estimates. Letting them expire would result in a 79% average increase in premium costs and result in a larger uninsured population.
- Under the outline circulating among House Republicans, scaling back premium tax credits and reinstating the “family glitch” policy, which prevents some dependents from accessing affordable coverage, would further depress enrollment numbers.
- Tightened ACA subsidies and reinstating the “family glitch” can increase the uninsured population, affecting hospitals and managed-care organizations that rely on Marketplace enrollments, sources noted.
- Staffing and Telehealth:
 - A proposed elimination of telehealth facility fees and reductions in funding for training healthcare professionals could slow the adoption of telehealth services and limit access in rural areas. The fallout could exacerbate labor pressures in the healthcare sectors with providers who depend on telehealth as a revenue stream likely seeing their margins decline.
 - Workforce shortages intensifying due to cuts in funding for training programs would strain issuers like [Ingenovis Health](#) and [Medical Solutions](#), two companies where lenders have already organized to seek out balance sheet solutions and address declining demand in nurse staffing and subsequent margin compression.

HY Healthcare Bonds						
Issuer	Industry	Coupon	Maturity	Face	Price	YTW
ModivCare Inc	Health Services	5%	10/1/2029	500	46.8	24.8%
MPH Acquisition Holdings LLC	Managed Care	5.75%	11/1/2028	980	62.4	20.5%
Community Health Systems Incorporated	Health Facilities	6.875%	4/1/2028	626	72.7	18.6%
Community Health Systems Incorporated	Health Facilities	6.875%	4/15/2029	1244	74.0	15.5%
Community Health Systems Incorporated	Health Facilities	6.125%	4/1/2030	1227	68.7	15.0%
MPH Acquisition Holdings LLC	Managed Care	5.5%	9/1/2028	1050	77.1	13.8%
Axar Cemetery Parent Corp	Health Services	8.5%	5/15/2029	400	89.6	11.6%
Radiology Partners Inc.	Health Services	9.781%	2/15/2030	688	94.3	11.3%
LifePoint Health Inc	Health Facilities	10%	6/1/2032	800	97.4	10.5%
Prime Healthcare Services Inc	Health Facilities	9.375%	9/1/2029	1500	96.1	10.5%
HAH Group Holding Co. LLC	Health Facilities	9.75%	10/1/2031	675	100.0	9.7%
Community Health Systems Incorporated	Health Facilities	10.875%	1/15/2032	2225	104.0	9.7%
Radiology Partners Inc.	Health Services	7.775%	1/31/2028	737	98.8	8.9%
Community Health Systems Incorporated	Health Facilities	5.25%	5/15/2030	1535	85.0	8.8%
Community Health Systems Incorporated	Health Facilities	4.75%	2/15/2031	1058	81.1	8.8%
U S Acute Care Solutions LLC	Health Services	9.75%	5/15/2029	1000	102.6	8.8%
LifePoint Health Inc	Health Facilities	5.375%	1/15/2029	500	88.7	8.8%
Community Health Systems Incorporated	Health Facilities	6%	1/15/2029	644	91.5	8.6%
Community Health Systems Incorporated	Health Facilities	8%	12/15/2027	700	99.8	8.1%
LifePoint Health Inc	Health Facilities	11%	10/15/2030	1100	109.4	8.0%
LifePoint Health Inc	Health Facilities	9.875%	8/15/2030	800	106.2	7.8%
Star Parent Inc.	Health Services	9%	10/1/2030	1000	104.1	7.7%
Toledo Hospital	Health Facilities	4.982%	11/15/2045	273	73.3	7.6%
Owens & Minor Inc	Health Services	6.625%	4/1/2030	552	96.4	7.5%
Fortrea Holdings Inc.	Health Services	7.5%	7/1/2030	570	100.2	7.4%
Minerva Merger Subordinated Inc.	Health Services	6.5%	2/15/2030	2350	96.1	7.4%
Owens & Minor Inc	Health Services	4.5%	3/31/2029	479	90.5	7.2%
Toledo Hospital	Health Facilities	6.015%	11/15/2048	400	87.7	7.1%
Sotera Health Holdings LLC	Health Services	7.375%	6/1/2031	750	101.5	7.1%
Community Health Systems Incorporated	Health Facilities	5.625%	3/15/2027	1757	97.2	7.0%

Source: ICE BofA HY index; displaying YTW +7%

New Administration, New Risks

Trump's second term is expected to herald in major changes in the direction of healthcare policy. While Republican lawmakers are taking the first steps to bankroll the administration's agenda with a laundry list of potential spending cuts, the gap between proposals and legislation remains wide, a mix of healthcare-focused buy-side, sell-side and advisory sources tell *LFI*.

As such, the trajectory of the healthcare sector will largely hinge on sentiment, which is likely to drive volatility in the near term, according to Veda's Perlman. "Every new administration comes in and makes promises of what they want to do, then there are the resources and time needed," Perlman said. "There's a specific cadence and process that has to be followed in government."

Any change in policy will dovetail with lingering effects of inflation, labor shortages and post-pandemic operational challenges that have weighed on liquidity and top-line growth of a host of levered borrowers. Healthcare is already witnessing a "perfect storm" of elevated input costs, inflation and reimbursement challenges, notes Brian Lohan, head of US restructuring and insolvency at international law firm Clifford Chance.

Political calculus promises to be sensitive at least for the next two years with Republicans holding a slim 53-to-47 majority in the Senate and a five-seat lead in the House. The narrow margins make a Republican carte blanche more of a fever dream than a reality. House Speaker Mike Johnson has a numerical majority, not an actual one, Perlman said, adding that anywhere from 30-40 of the Republican representatives are prone to break from the herd on niche policy matters.

To push through a stopgap spending bill by March 14 and avert a government shutdown, inter-Republican dynamics will likely necessitate some concessions, sources said. Democrats know they have leverage here, Perlman noted, adding that even for the Senate to pass an appropriations bill and debt ceiling change, 60 votes are needed, meaning Majority Leader John Thune will need at least seven Democrats to pass anything through.

A likely target for negotiation is extending the ACA's enhanced subsidies, which are set to expire at year-end without an act of Congress, several sources said.

Hospitals and Managed Care

Though operating margins in the hospital industry have staged a modest post-pandemic rebound, many facilities remain vulnerable to revenue pressures, labor costs and declining patient volumes. Medicaid redeterminations and rising Medicare Advantage enrollment further complicate reimbursement dynamics.

An issuer like Community Health, while struggling to maintain its nearly \$12bn capital structure, has the benefit of putting a strategy in place as a larger player with facilities to unload, which buy it time, unlike smaller operations in non-urban areas, sources said.

"There will definitely be some combination of hospitals and communities shutting down access or reducing their services," Krist Werling, global head of McDermott Will & Emery's health and life-sciences practice, said.

Closures and service reductions in non-urban areas are inevitable, adds Felicia Perlman, global head of McDermott, Will & Emery's business restructuring practice group. "Reimbursement rates are not high enough to support liquidity ... Fifty percent of rural hospitals are worried about keeping their door open," she said.

But even large operators aren't guaranteed safety based on size. Ongoing patient claims denials and downgrades from commercial insurers are expected to weigh on EBITDA and free cash flow in FY 2025, sources noted. Volume tailwinds are also set to subside as the post-Covid backlog of deferred procedures has largely been addressed, sources noted, echoing a recent [CreditSights report](#) on the outlook for the hospital sector.

Moreover, the expiration of Medicaid continuous enrollment policies is estimated to reduce membership by another 4.4% in 2025, following a 7.5% decline in FY 2024, according to a [Kaiser Family Foundation report](#). The expiration of enhanced subsidies could tank Medicaid enrollment even more and push up the population of uninsured with the [Congressional Budget Office expecting](#) a decline of 22.8mn members in 2025, 18.9mn in 2026 and 15.4mn in 2030.

"There are very significant committee changes in the committees that impact healthcare in America," added McDermott's Perlman, "but hospital lobbyists are one of the strongest in DC. We do think they will have a seat at the table."

The continued shift toward Medicare Advantage instead fits more into Trump's agenda, sources noted, and will continue pressuring margins, they added. Community's managed Medicare payor split increased 140bps year-over-year to 17.5% of net revenue in Q3'24, reflecting the migration from traditional fee-for-service Medicare to Medicare Advantage, according to company filings.

"A lot of the reimbursement issues come as hospitals continue to wrestle with the shift to Medicare Advantage" McDermott's Werling said. "It means lower overall rates, and they pay a lot less than traditional Medicare – that's driving some of the distress you're seeing."

Private companies contract with Medicare to provide these plans to beneficiaries, but because the plans operate on a fixed payment per member basis, insurers are incentivized to restrict care through prior authorization requirements and narrow provider networks.

As such, many hospitals and physicians do not contract with MA plans as administrative costs weigh heavily on margins, as is the case with **Better Health**, which [curbed its expansion plans](#) last year as utilization rates skyrocketed. The issuer is in the midst of executing an uptiering liability management transaction that could bypass the Fifth Circuit's New Year's Eve Serta decision, [Covenant Review writes](#).

While MA expansion is seen as a negative for levered providers by some, sources note, 2026 could be a year of silver linings for the program, they added. The Centers for Medicare and Medicaid's 2026 Advance Notice suggests MA payments from the government could increase by 4.33% in 2026 compared with 2025, or \$21bn, according to [agency estimates](#). CMS issued a blow to providers last year, finalizing a 0.16% reduction to MA plan base payments for 2025, but with a major lift in the agency's 2026 proposal, base rates could go even higher in the final notice come April under Trump, sources speculate.

Tariffs: A Threat to Margins

Trump's latest remark that he will implement sweeping tariffs by Feb. 1 promises to weigh on distressed medical-supply and device issuers that rely on foreign manufacturing to keep a lid on costs. Specifically, Trump has threatened to implement 25% tariffs on imports from Mexico and Canada as well as an additional 10% tariff on Chinese goods. Carve-outs, however, are likely to be made for pharmaceuticals, given a bipartisan push to lower drug prices and the lengthy regulatory approvals and timeline needed to reshore pharmaceutical production, sources noted.

Distributors that source medical products from China, such as **Medline Borrower** and **Owens & Minor**, are likely to see margins squeezed if they are unable to pass down those higher costs to the consumer, sources said. Last year, the Biden administration increased tariffs on China for syringes and needles to 50% from 0% and personal protective equipment to 25% from 0%-7.5% in an effort to stimulate domestic manufacturing.

It's a mistake to think that Trump is talking only about tariffs as a negotiation ploy, according to Veda's Perlman. "There are a lot of people in his administration that think of tariffs as a tool to drive manufacturing back to the US," he said. Namely, Trump's pick for U.S. trade representative, Jamieson Greer, Treasury Secretary pick, Scott Bessent, and Commerce Secretary pick, Howard Lutnick, are all proponents of imposing tariffs.

With those three picks expected to head up key trade and commerce positions, Perlman says it's too "cavalier" to assume that they aren't going to apply these tariffs.

M&A Hopes

Since her tenure began in 2021, Federal Trade Commission Chair Lina Khan has amplified oversight on the healthcare sector and put the kibosh on a number of major deals. **Novant Health's** \$320mn acquisition of two Community Health facilities broke down in June over antitrust concerns, and earlier during her tenure, **Steward Health's** blocked sale of five Utah hospitals to **HCA Healthcare** punctuated a slew of axed hospital M&A deals at the time. Hopes for a more relaxed regulatory environment under new chair Andrew Ferguson have already stirred the strategic appetite for deal-making in the C-suites of more stable issuers like Aveanna, where management recently [talked up an M&A offensive strategy](#) at the JPMorgan Global Healthcare conference.

Community Health floated the possibility of [becoming an acquirer in November](#) at the UBS Global Healthcare conference, with management expressing interest in expanding its footprint in physician clinics, ambulatory surgery centers and acute-care facilities. Executing on that vision, however, is unlikely given the company's \$1bn divestiture goal needed to shore up liquidity and address its \$2.5bn maturity wall in 2027, sources said.

Veronica Graff

veronica.graff@levfininsights.com

Mobile: +1 714 235 7326