State of Skilled Nursing Facility (SNF) Industry

March 2022

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Forward Looking Statements — Disclaimer

Certain information set forth in this presentation contains "forward-looking information", including "future-oriented financial information" and "financial outlook" (collectively referred to herein as forward-looking statements). Except for statements of historical fact, the information contained herein constitutes forward-looking statements and includes, but is not limited to, (i) projected median operating margin performance of national skilled nursing facilities; (ii) projected occupancy levels; and (iii) projected inflation. These forward-looking statements are provided to allow industry professionals and policy makers the opportunity to understand CLA's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating the performance of the skilled nursing industry.

These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements.

Although forward-looking statements contained in this presentation are based upon what CLA believes are reasonable assumptions, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. CLA undertakes no obligation to update forward-looking statements if circumstances or industry's estimates or opinions should change except. The reader is cautioned not to place undue reliance on forward-looking statements.

Executive Summary

For skilled nursing facility (SNF) operators, the current operating environment puts tremendous pressure on operating margins due to the heavy reliance on government payment sources. The added pressures of the COVID-19 pandemic have resulted in ongoing, increased costs and declines in occupancy far beyond historical trends. Temporary funding received through various Public Health Emergency (PHE) sources has, so far, largely offset the negative financial impacts of the challenges.

For many SNF stakeholders, the current business challenges are all-consuming — most notably, slow occupancy recapture and workforce challenges. The American Health Care Association (AHCA) has commissioned CLA (CliftonLarsonAllen LLP) to perform a study of the current and potential future state of the SNF industry. Utilizing available data, this report highlights the negative operating margins, increasing cost of care, and contributing factors to revenue loss such as occupancy and staffing challenges incurred by SNFs.

The unprecedented changes in the skilled nursing industry are only partially captured in YE 2020 data and results.

A wholistic view of available 2021 data suggests the changes that began in 2020 may be more persistent and onerous than is suggested in the 2020 data.

Key Findings

While CLA's fiscal year 2020 margin findings align with MedPAC's similar analyses, we have found significant risk associated with the SNF sector using currently available 2021 data that was not seen in the 2020 data.

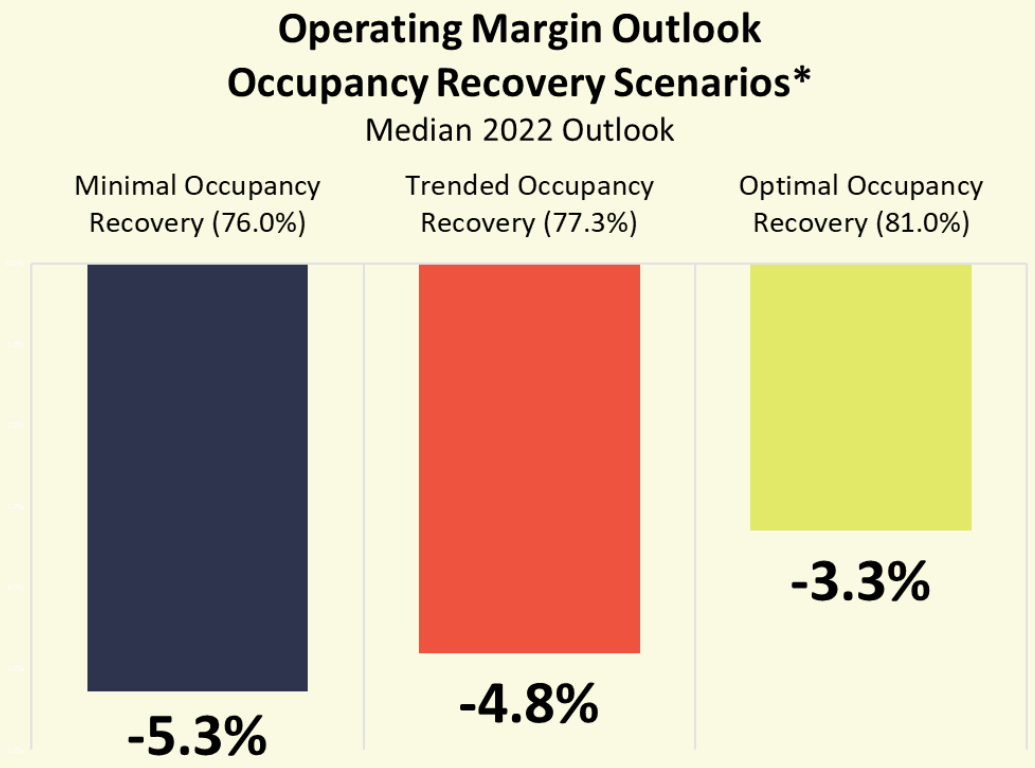
Negative margins	Enhanced possibility of closures	Challenges with access to capital

MedPAC does not incorporate other key factors impacting SNFs such as **occupancy linkage to revenue**, **regulatory requirements which result in fixed overhead** (regardless of revenue), and the **impacts of ending temporary funding assistance**, including Provider Relief Funds and Medicaid.

Assessing SNF Outlook

In order to understand the broader outlook of the financial performance of the SNF industry, CLA constructed over 12,800 site level simulations to assess the 2022 outlook utilizing various key driver assumptions.

Looking at potential occupancy recovery in 2022, CLA simulations indicate negative median operating margins in all scenarios due to inflation and continued increases in labor and other costs.



** Simulations assume 1) all state PHE funding retained, 2) no budget neutrality adjustments, and 3) post-COVID inflation levels*

Other Factors Impacting SNFs

MedPAC and other analytic groups also appear to view the SNF sector through the lens of a single, national payment system. This results in a misleading outlook about the health of the sector. Based on an evaluation of industry data, CLA believes national figures mask serious issues with the health of the SNF sector.

Factors with wide variations of impact across states and markets include:

- Occupancy
- Inflation
- Labor costs
- Medicaid Rates and Upper Payment Limits on Medicaid Rates
- Medicare Advantage Penetration Rates and Payment Rates

Conclusion

CLA views the most probable 2022 year-end SNF sector performance to be a negative 4.8% median operating margin and median occupancy of 77.3%. This outlook is predicated in large part on retention of current PDPM and state PHE funding levels.

In light of our findings, additional reimbursement decreases could result in serious access and quality issues. Possible risks to the sector include a reduction in Medicare Part A fee-for-service rates through a "parity adjustment" and the end of PHE funding.

Datasets Utilized by CLA

Medicare Cost Report data

- Incorporates January 12, 2022 data release included most December 31, 2020 year ends as well as 2021 Medicare cost reports filed through fiscal year's end June 30.
- 2021 Medicare cost reports for fiscal year's end after June 30, provided directly from various organizations in most markets across the country
- Includes CLA CLArity data transformations and calculations

Payroll Based Journal (PBJ) data through 3rd Quarter 2021

COVID-19 Nursing Home data including facility reported census through 12/26/2021

Most currently available Five Star rating data from CMS's Care Compare

Medicare Advantage penetration data through December 2021

Medicare Standard Analytical Files Claims Data — calendar years 2019 and 2020

MedPAC Comparison

Observations Regarding MedPAC 2020 Commentary

- Overall assessment — accurate datapoints but insufficient to fully understand the implications of COVID on the outlook of the nation's skilled nursing facilities
  - Medicare and overall margins consistent with CLA CLArity analysis of similar data
  - 2020 Medicare margins increased to 16%+ → consistent with CLA analysis
  - 2020 Overall margins increased to 3% (inclusive of PHE Funding) → PHE funding data available but not analyzed by MedPAC
    - 2020 CLA Median operating margin excluding PHE was **-1.5%**
- Medicare margins and PHE related funding provided positive impact during 2020 and provided sufficient funding to mitigate significant increases of financial risk at many facilities
- MedPAC mentions occupancy at 74% in September 2021 vs. 85% pre covid but doesn't connect this **significant** negative impact in its overall positive outlook

Observations Regarding MedPAC 2020 Commentary

MedPAC Outlook

- "Stable Supply"
- No mention of occupancy in its outlook
- Access to capital → "expected to be adequate in 2022"
  - Favorable demographics
  - Lower cost post acute setting
  - Stability of government funding
- Lower therapy costs as a result of new payment system
- "Relatively efficient" margins too high
- Medicare FFS rates 27% higher than Medicare Advantage

Observations Regarding MedPAC 2020 Commentary

CLA Outlook

- "Stable Supply" — for now
- Occupancy decreased to 77% in 2020, 2021 data suggests occupancy of 73% +/-
- Access to capital → indicators point to significant challenges
  - Occupancy still significantly far below historical levels
  - Call for 5% "budget neutrality" reduction in PDPM rates
  - Continuation of state MA supports
  - Capital access more closely linked to "post COVID" occupancy and its longer term trend
  - PRF and temporary Medicaid supplemental payments are not recognized by lenders
- Therapy costs PPD down 33% between 2019 and 2020 while at least 28% of available therapy days during 2020 were lost due to the PHE. Not enough data available to evaluate new payment model impact on therapy costs
- CLA analysis suggests low cost and high quality SNFs have significantly lower attributed Total Cost of Care than other SNFs, even when factoring in higher SNF margins
- CLA experience suggests large variations in Medicare Advantage rates by state (3% more to 34% less) and provider → Recent study indicates PPD cost rates are approximately the same*

** The American Journal of Managed Care, April 2021, Volume 27, Issue 04 https://doi.org/10.37765/ajmc.2021.88616*

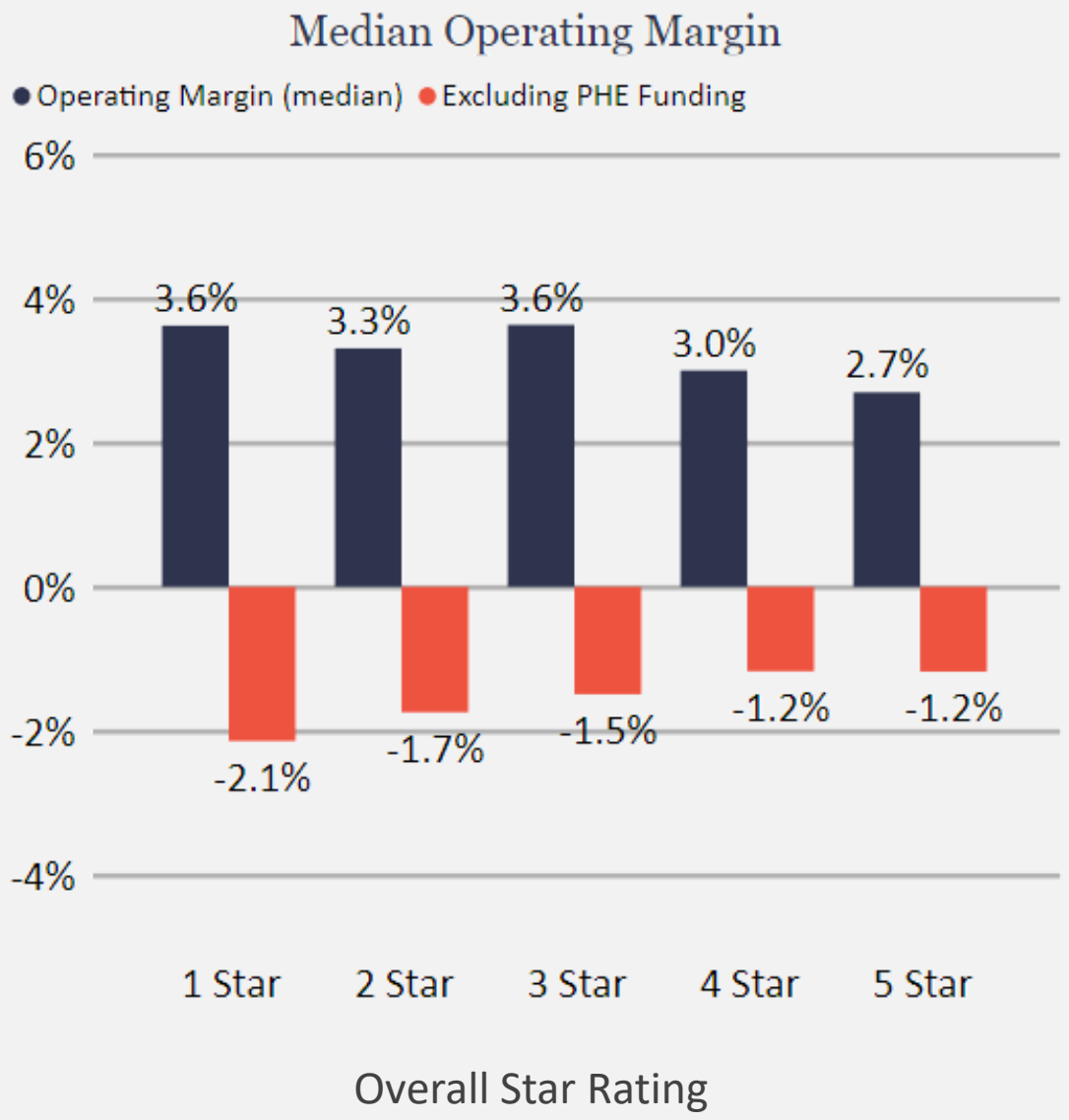
"Efficient" SNF

- MedPAC's definition of an efficient SNF include comparisons of SNF to other SNFs that had:
  - Successful discharge to community: 15% higher
  - Hospitalizations: 21% lower
  - Standardized cost per day: 7% lower
  - Payments per day: 4% higher

- Definition does not account for quality as identified per the five-star rating per CMS's Care Compare.

Achieving Quality Does Not Correlate With Financial Health

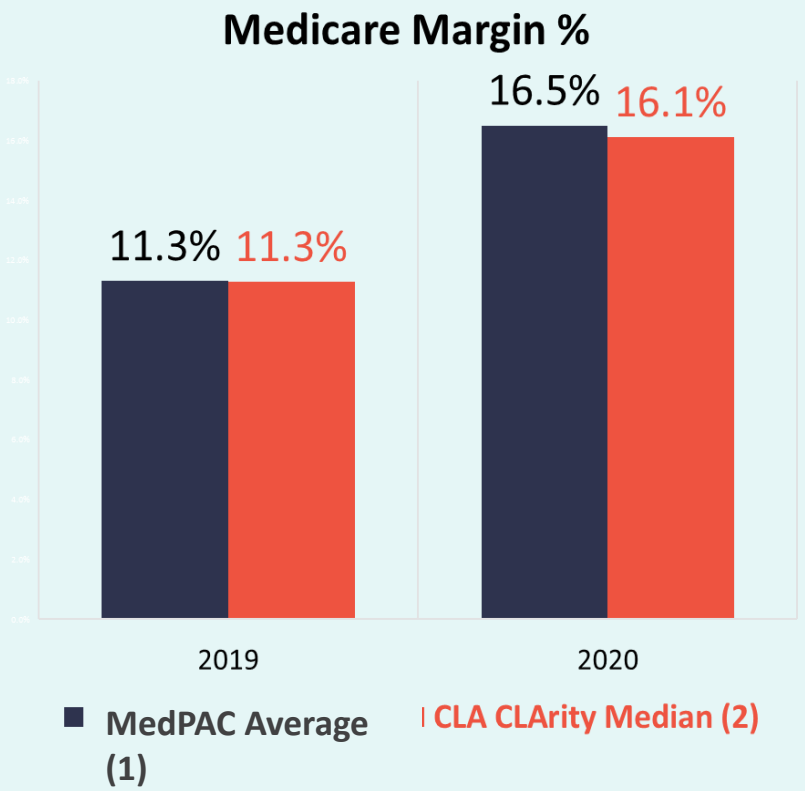
Based upon 2020 cost report data, it appears all facilities, regardless of overall star ratings, were facing negative operating margins absent PHE support.



Industry Impacts Through 2020 and 2021

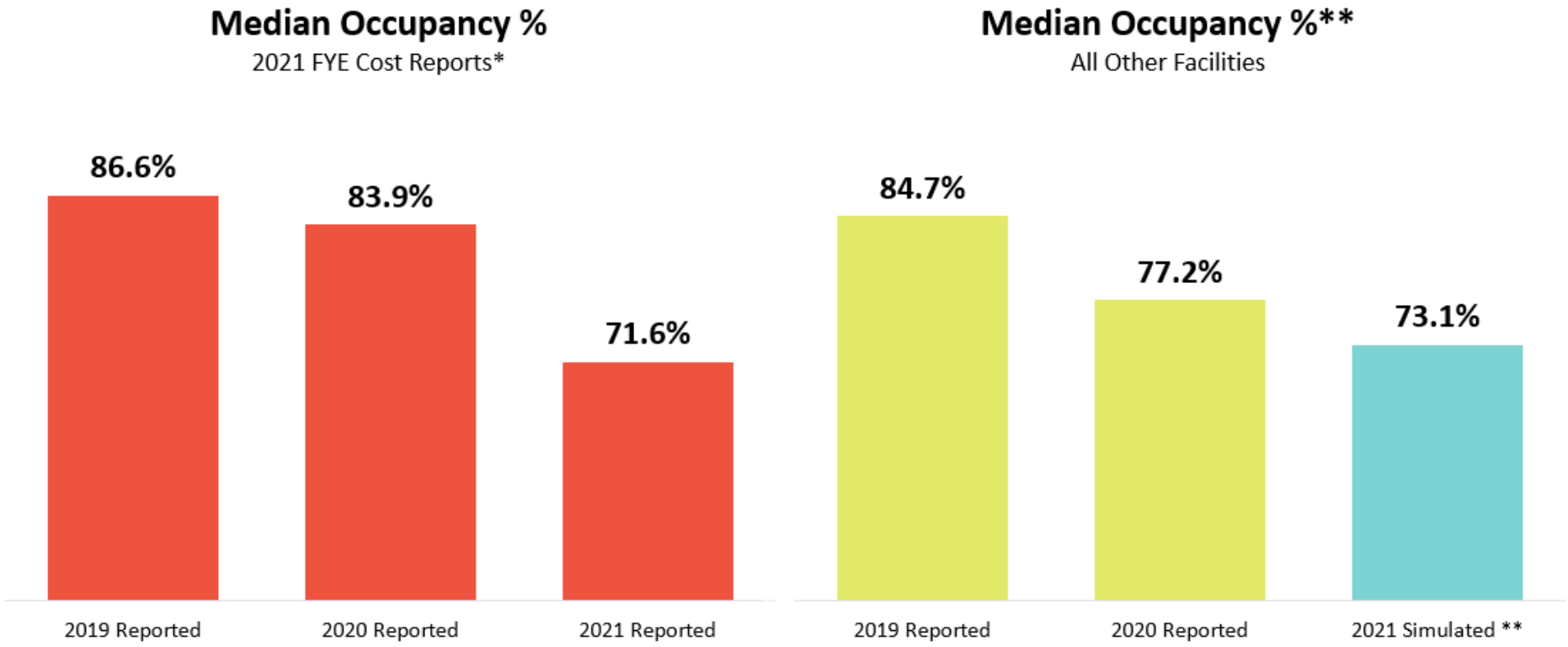
Medicare Margins

- A comparison of MedPAC and CLA measured Medicare margins is presented in the chart at right
  - MedPAC approach is based on overall average and includes estimated costs utilizing MDS data
  - CLA approach is median and incorporates higher nursing costs based on an evaluation of the differences in nursing hours per day between low and high Medicare mix facilities
- Medicare margins improved in 2020 cost reports in both MedPAC and CLA data
- Primary drivers of increased margins between 2019 and 2020 included:
  - Increase in average Medicare rates of 5% (MedPAC) and 6.3% (CLA Est)
    - CLA estimated that approximately 2.0% of the overall increase in average rates was related to changes in ICD-10 coding necessitated by COVID-19
  - Overall increase in total cost of 2.3% (MedPAC) and 1.3% (CLA Est)
    - CLA estimate indicated average PPD nursing costs increased 10.4%, ancillary costs decreased 14.6% and overhead costs increased 12.6%



(1) MedPAC. Assessing payment adequacy and updating payments: Skilled nursing facility services. December 10, 2020
(2) Based on Medicare cost report data simulation. CLA CLArity Median includes CLA simulation of higher nursing costs associated with Medicare days.

Looking Beyond 2020 Cost Report Data Occupancy

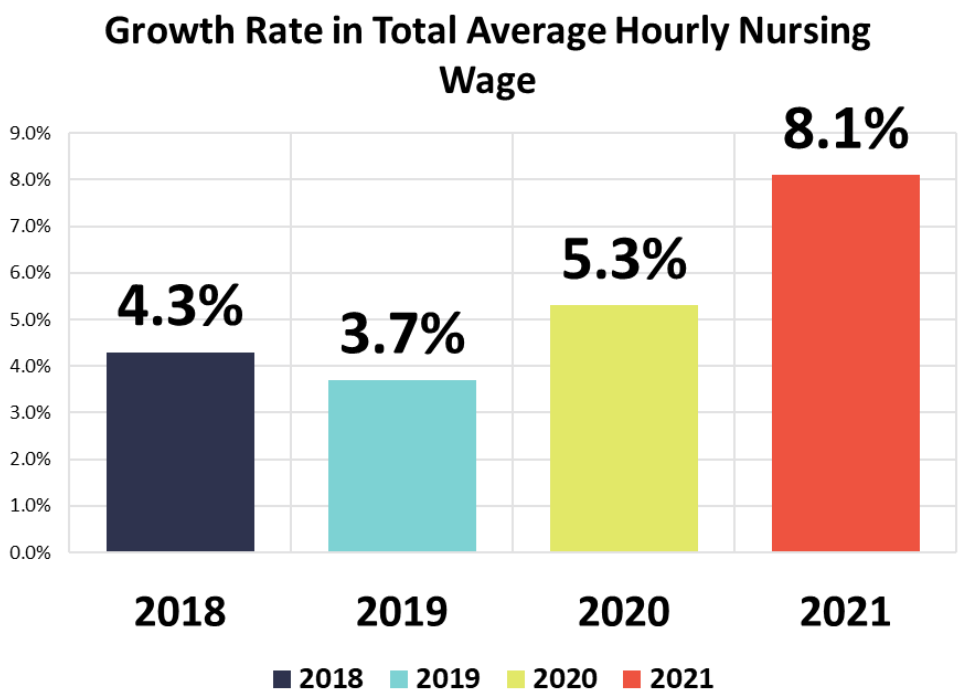


** Based on public data on FYE 2021 cost reports released by CMS on 1/12/2022. Primary FYE through June*

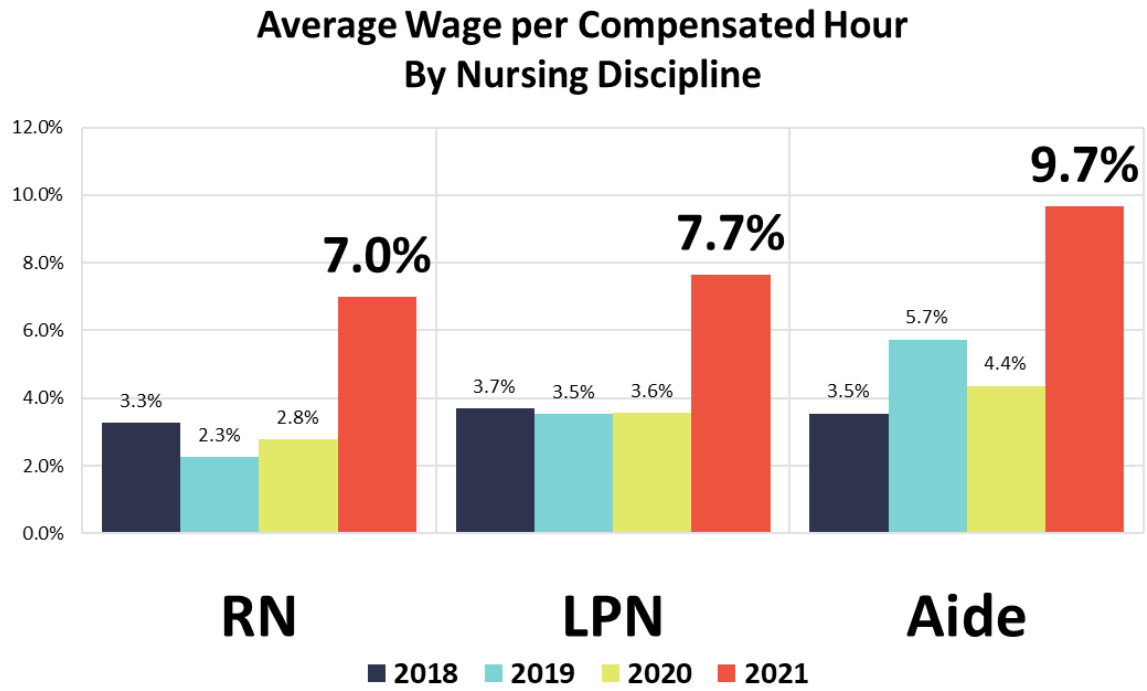
*** Based YE July through December. Simulation of occupancy for 2021 YE's not yet available. Occupancy for YE 2021 simulation based on reported ADC from the COVID-19 nursing home data.*

Looking Beyond 2020 Data
Nursing Average Hourly Wages: 2021 Year Ends*

Overall Nursing



Nursing by Discipline

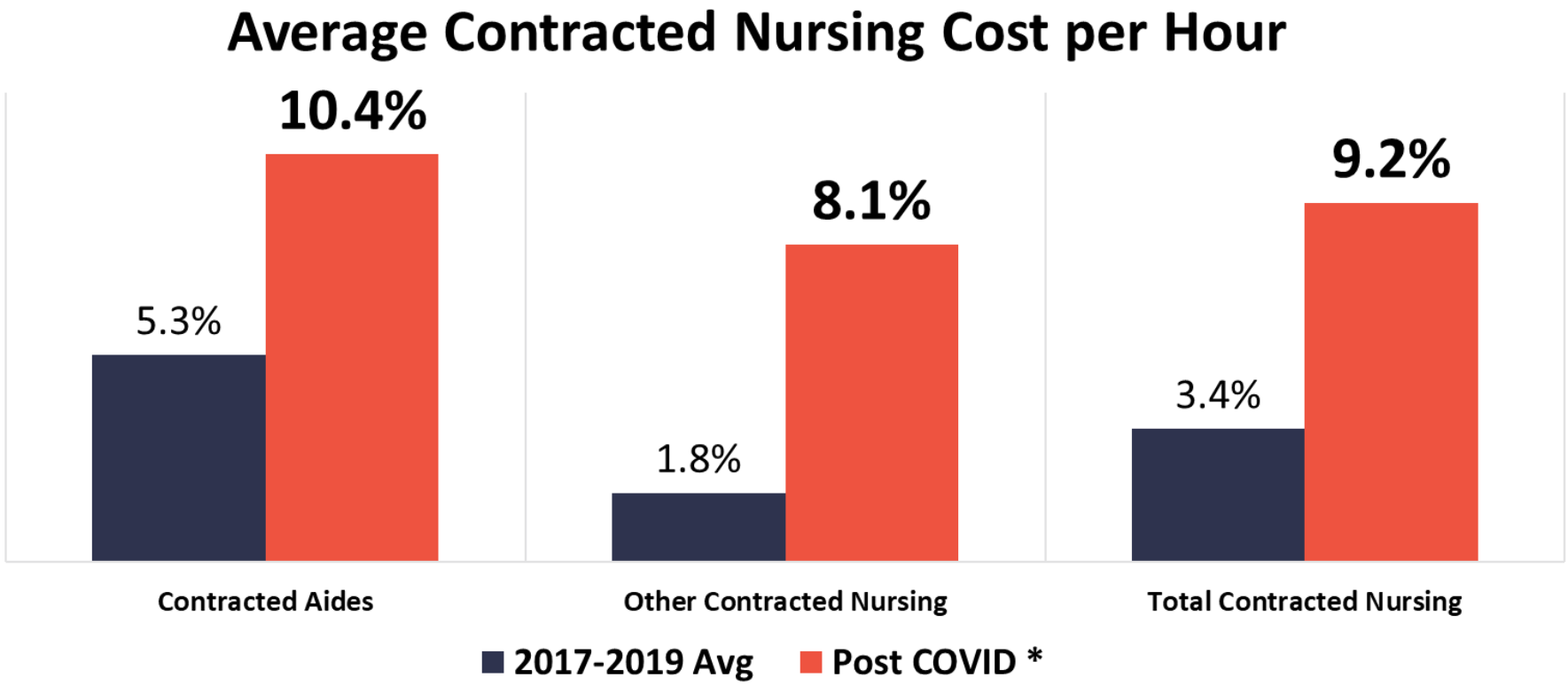


** based on public data on FYE 2021 cost reports released by CMS on 1/12/2022. Includes primarily FYE through June.*

Avg Wage Rate increases at all levels doubled in 2021!

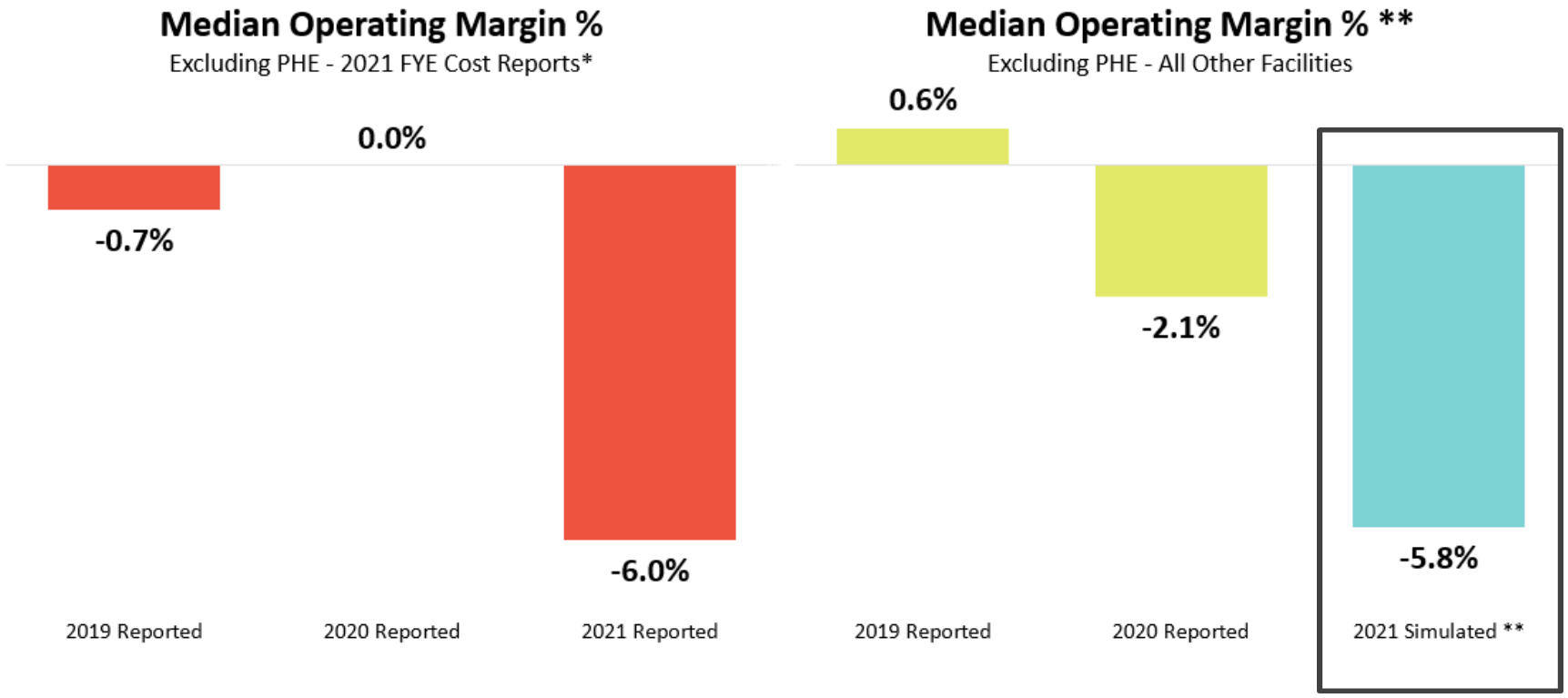
National Skilled Contracted/Agency Nursing Cost Trend

Post COVID, contracted nursing costs per hour have increased 2x to 3x historical levels



** Post COVID includes 2021 (where available) and 2020 data*

Looking Beyond 2020 Cost Report Data
Operating Margins (All Payor): 2021 Year Ends

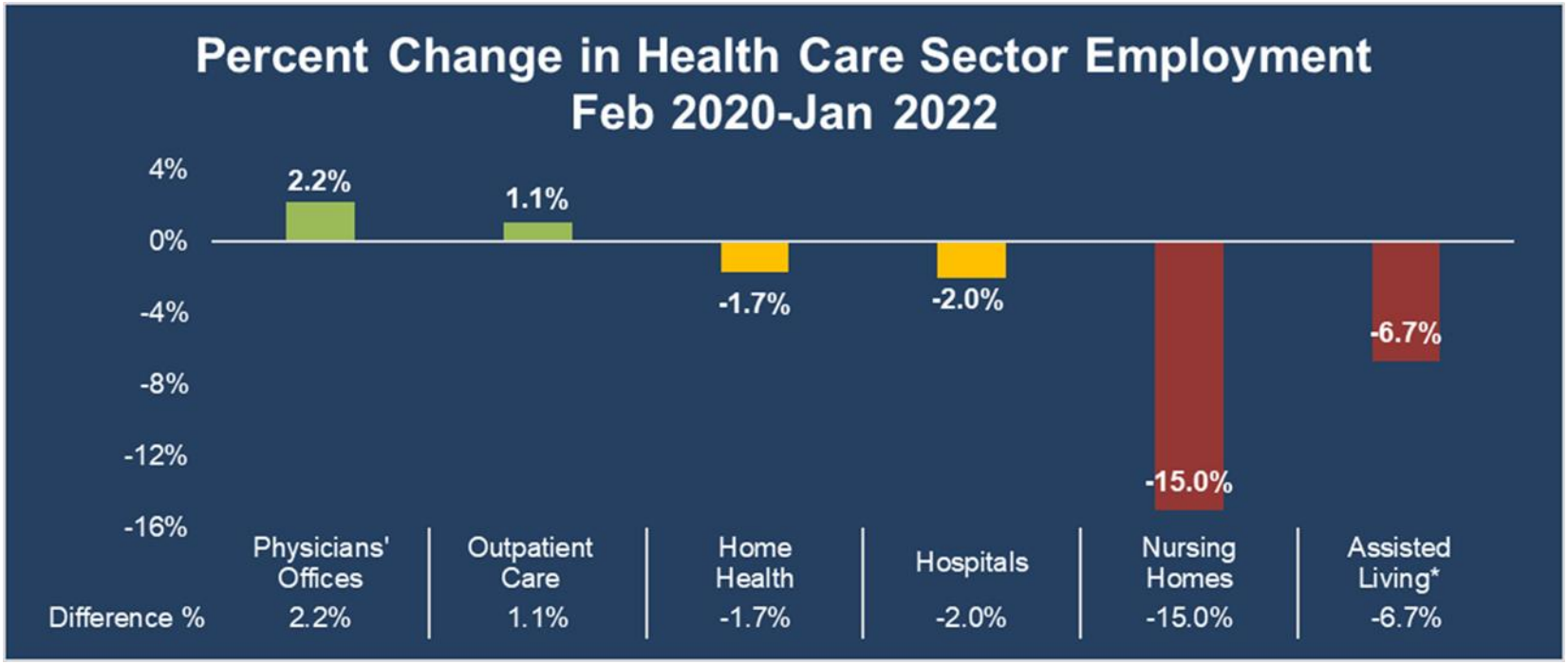


** based on public data on FYE 2021 cost reports released by CMS on 1/12/2022. Primary FYE through June.*

*** Based YE July through December. 2021 operating margin simulated for these sites based on 2020 reported performance adjusted for 1) market level inflation based on available cost report data from 2021 and 2) estimated revenue and margin impacts of differences between YE 2021 occupancy (from COVID-19 NH Data) and YE 2020 occupancy*

Industry Challenges – Workforce

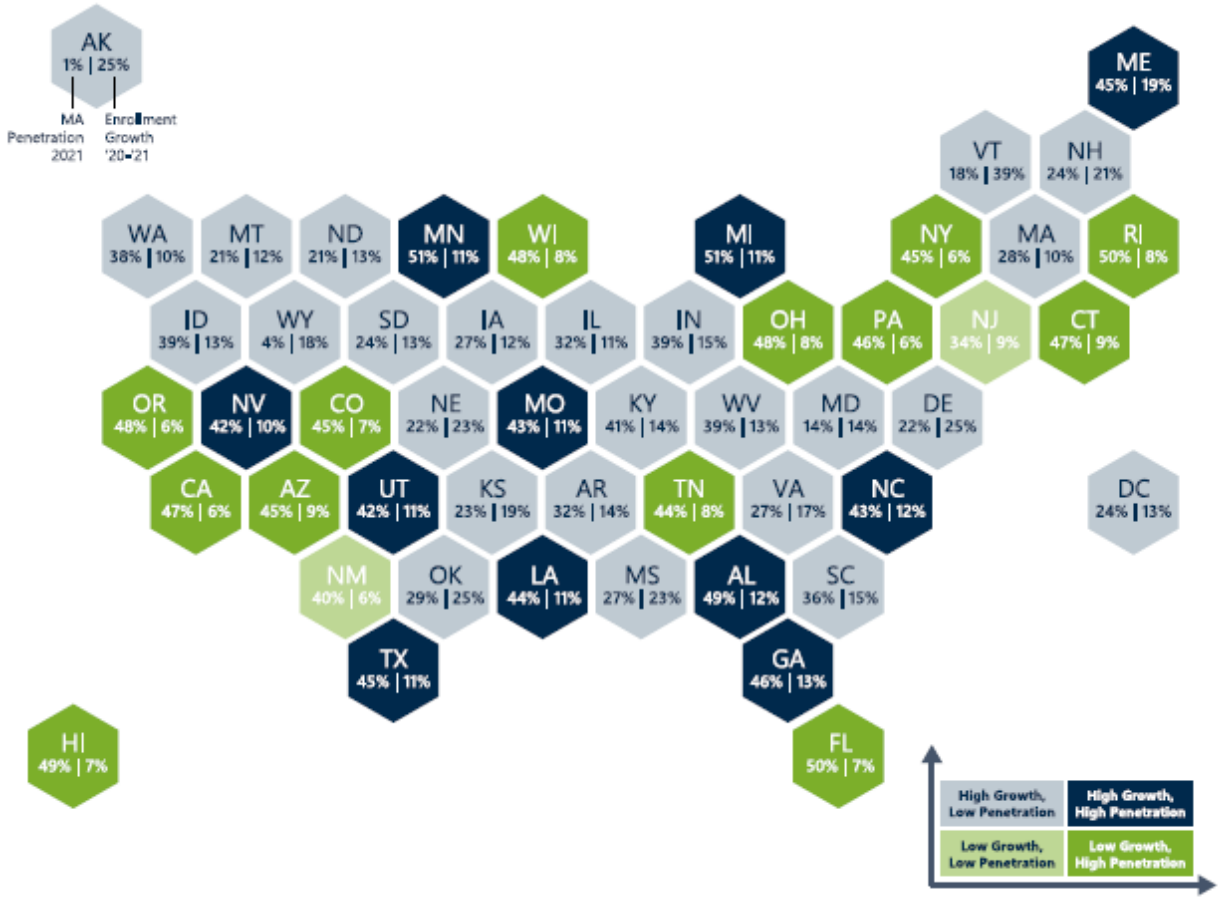
As a result of the workforce shortage, providers are dealing with wage increase pressures and reliance on contracted or agency nursing, resulting in significant expense increases.



Source: Bureau of Labor Statistics (BLS) February 2020 – January 2022
**Assisted Living BLS data through December 2021*

Medicare Advantage Growth By State

- Medicare Advantage is a growing part of Skilled Nursing mix. However, growth is occurring at different rates and levels in each state
- CLA experience suggests large variations in Medicare Advantage rates by payer, state and provider
  - 3% more to 34% less than Medicare fee for service
  - Not enough data to evaluate implications post PDPM implementation
- Recent study indicates PPD cost rates are approximately the same while SNF utilization is significantly lower*



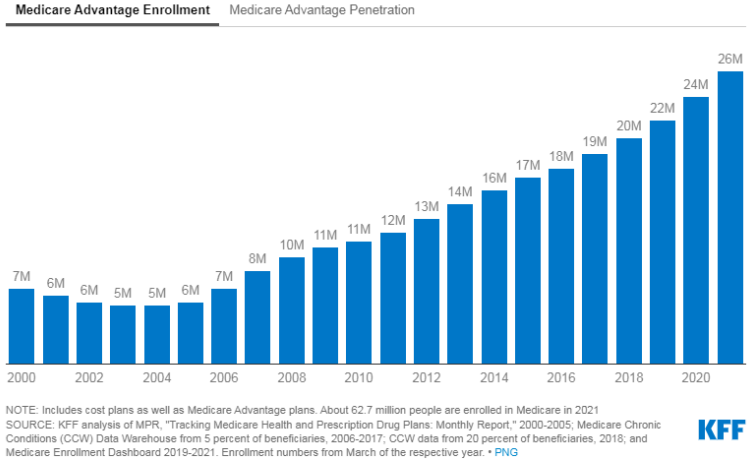
https://www.chartis.com/as-medicare-advantage-enrollment-booms-healthcare-entities-need-to-plan-around-key-trends

** The American Journal of Managed Care, April 2021, Volume 27, Issue 04*
https://doi.org/10.37765/ajmc.2021.88616

Shifts to Medicare Advantage

Figure 1

Total Medicare Advantage Enrollment, 2000-2021

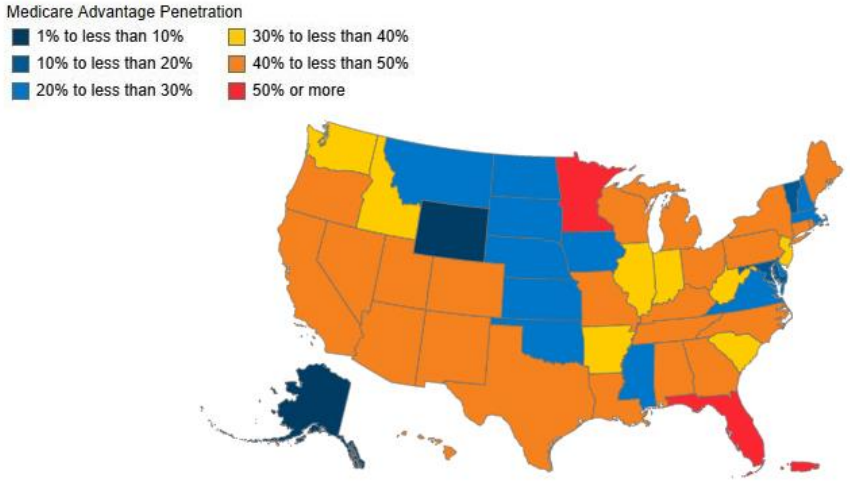


NOTE: Includes cost plans as well as Medicare Advantage plans. About 62.7 million people are enrolled in Medicare in 2021
SOURCE: KFF analysis of MPR, "Tracking Medicare Health and Prescription Drug Plans: Monthly Report," 2000-2005; Medicare Chronic Conditions (CCW) Data Warehouse from 5 percent of beneficiaries, 2006-2017; CCW data from 20 percent of beneficiaries, 2018; and Medicare Enrollment Dashboard 2019-2021. Enrollment numbers from March of the respective year. • PNG

KFF

Figure 6

Share of Beneficiaries Enrolled in Medicare Advantage in 2021, by State and County



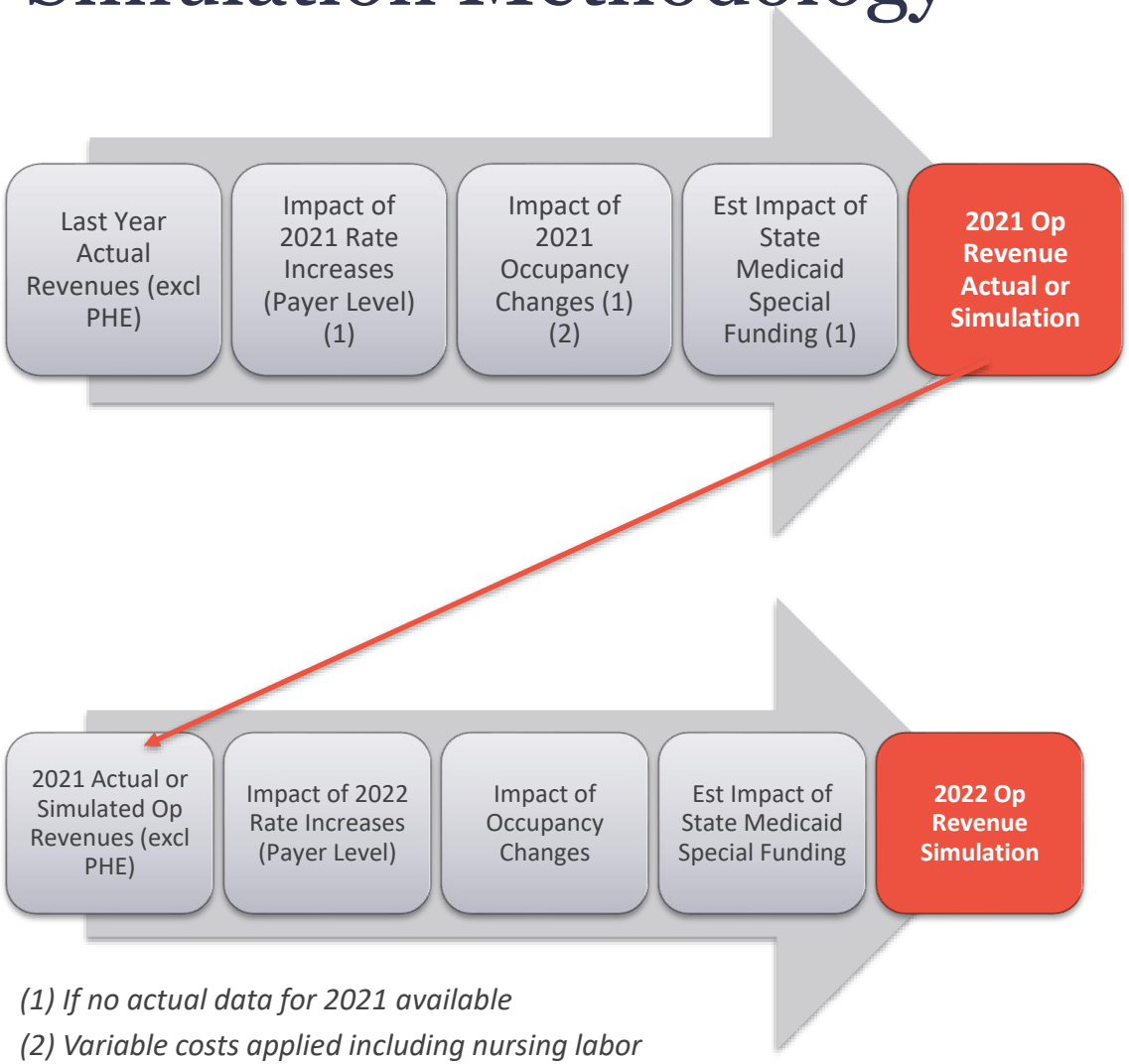
Medicare Advantage (MA) penetration rates have increased by approximately 15% between 2018 and 2021. MA rates also vary widely by plan and by plan region. CMS is statutorily prohibited from establishing rate floors or payment methodologies. In markets with very high MA penetration rates, where fee-for-service is a small portion of revenue, providers must accept offered MA rates for referrals. Assumptions that MA rates must be adequate because providers accept them does not reflect provider experience and is misleading due to plan dominance as the source of payment. Use of large national company data as a proxy for SNF experience with MA plan rates also presents a limited picture. Large companies may have more capacity to negotiate rates because of plans' network adequacy requirements.

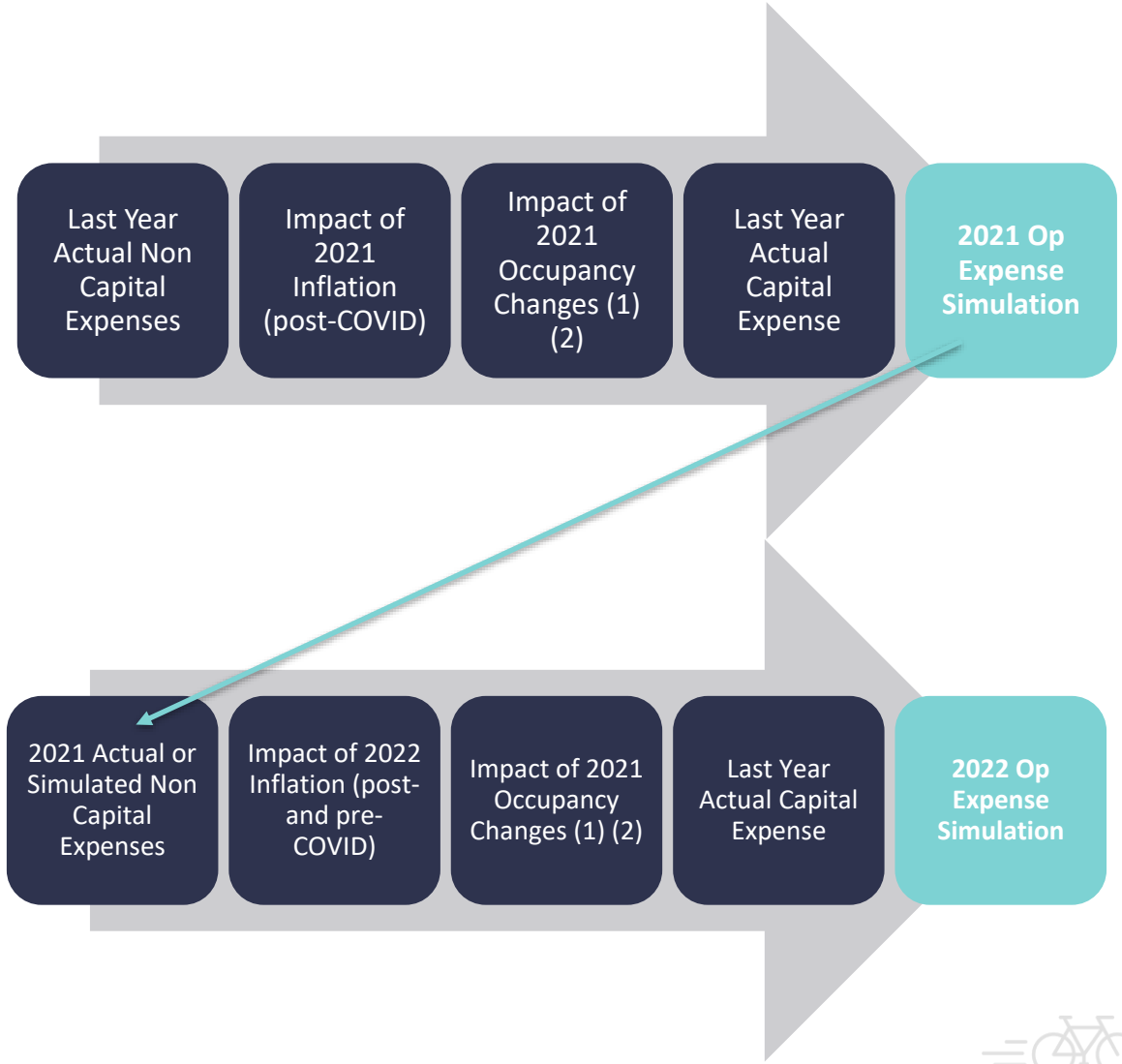
CLA estimates using county level Medicare Advantage penetration and Medicare Advantage utilization assumptions based on The American Journal of Managed Care, April 2021, Volume 27, Issue 04 https://doi.org/10.37765/ajmc.2021.88616
https://www.kff.org/medicare/issue-brief/medicare-advantage-in-2021-enrollment-update-and-key-trends

2022 Outlook

Simulation Methodology

Data from 12,895 nursing facility sites used for simulation to evaluate 2021 and 2022 Outlook

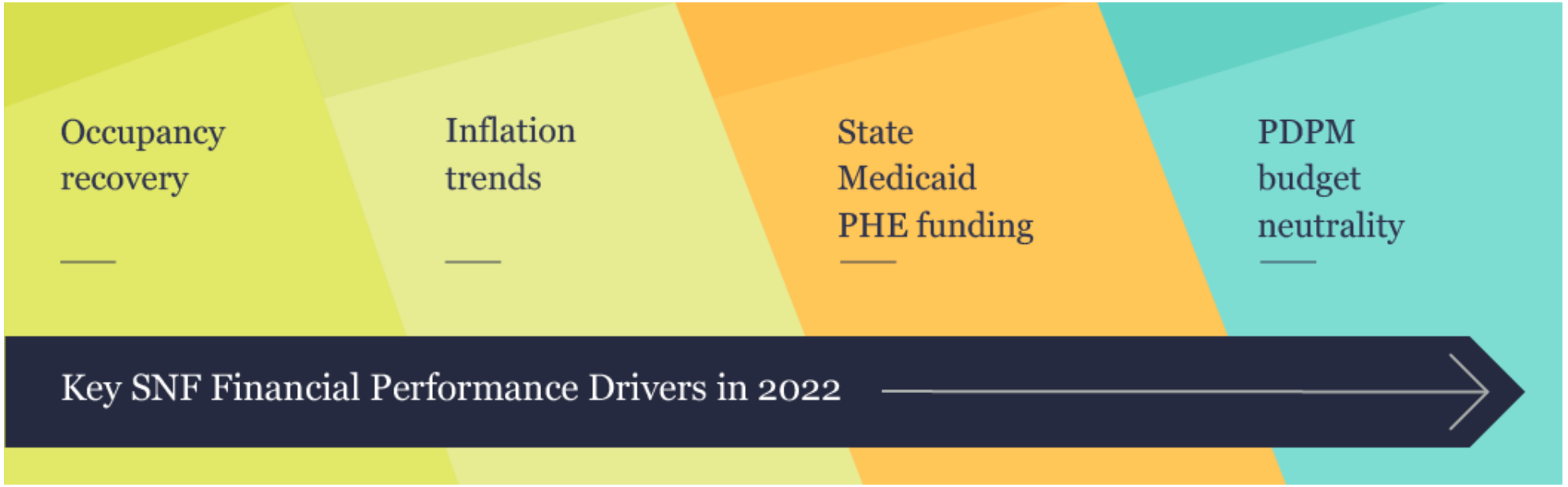




(1) If no actual data for 2021 available

(2) Variable costs applied including nursing labor and other, other dietary and ancillary costs

Key SNF Financial Performance Drivers



CLA considered a variety of key performance drivers in its evaluation of the 2022 financial outlook for the nation's skilled nursing facilities.

Where available, data was gathered to assess current state as well as emerging trends in evaluating the potential impact of 2022 key drivers.

Occupancy Recovery

- CLA evaluated available facility level occupancy data through December 26, 2021
- This occupancy data was utilized to simulate 2021 occupancy for facilities with no actual 2021 cost report data available.
- Additionally, CLA evaluated available facility level occupancy data for the period July through December 2021 and the month of December 2021
- This data was utilized to understand trends in occupancy recovery that could be considered for the 2022 outlook

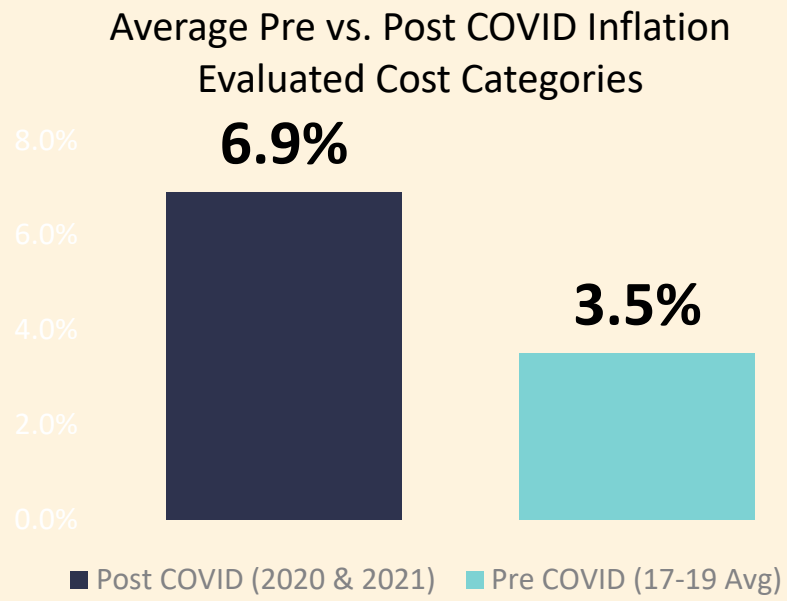
77%

A continuation of occupancy trends observed in the last half of 2021 suggests 2022 Median Occupancy of 77%

Inflation

- CLA evaluated market and state level inflation data for the pre-COVID (2017 – 2019 average) and post-COVID (2021 data [where available] or 2020) for several cost categories, including:
  - Avg RN Salaries / Hour
  - Avg LPN Salaries / Hour
  - Avg Aides Salaries / Hour
  - All Other Salaries Avg / Hour
  - Avg Contracted Aide Cost / Hour
  - RN/LPN Avg Contracted Cost / Hour
  - Other Dietary Costs / Meal
- This data indicates that post-COVID overall inflation rates have, in general, doubled from pre COVID levels
- This data also suggests wide variations in post-COVID inflation rates between states, markets, and cost categories
- Additionally, current and trended BLS CPI data was considered. This data suggests that inflation may be accelerating from levels seen in 2020 and early 2021.

Key observation: Overall post COVID inflation trends are significantly higher than historical pre COVID trends. However, these trends are not consistent nationally as the data suggests wide variations in state and market levels of inflation.



CLA Perspective on Key Drivers

Occupancy Recovery

Occupancy recovery trends noted in COVID nursing home data between July through December 2021 will continue during 2022.

Inflation

Post COVID inflation trends will continue during 2022.

State Medicaid PHE Funding and PDPM Budget Neutrality

No way to predict disposition of State Medicaid PHE funding and PDPM budget neutrality in 2022. High end of operating margin outlook assumes current funding levels retained while low end of outlook assumes funding levels eliminated (State Medicaid PHE) or reduced (PDPM Budget Neutrality).

2022 Performance Outlook

Operating Margin	**-3% to -8%**
Occupancy	**76% to 81%**
Average Daily Census (ADC) in SNFs Financially "At Risk"*	**32% to 40%** **353,000 – 417,000 ADC (172,000 in 2019)**

** **Facilities at Financial Risk** defined as facilities with operating margins in the lowest quintile of performance based on 2019 industry performance (operating margins < -7.5%)*

Sensitivity of Key Drivers

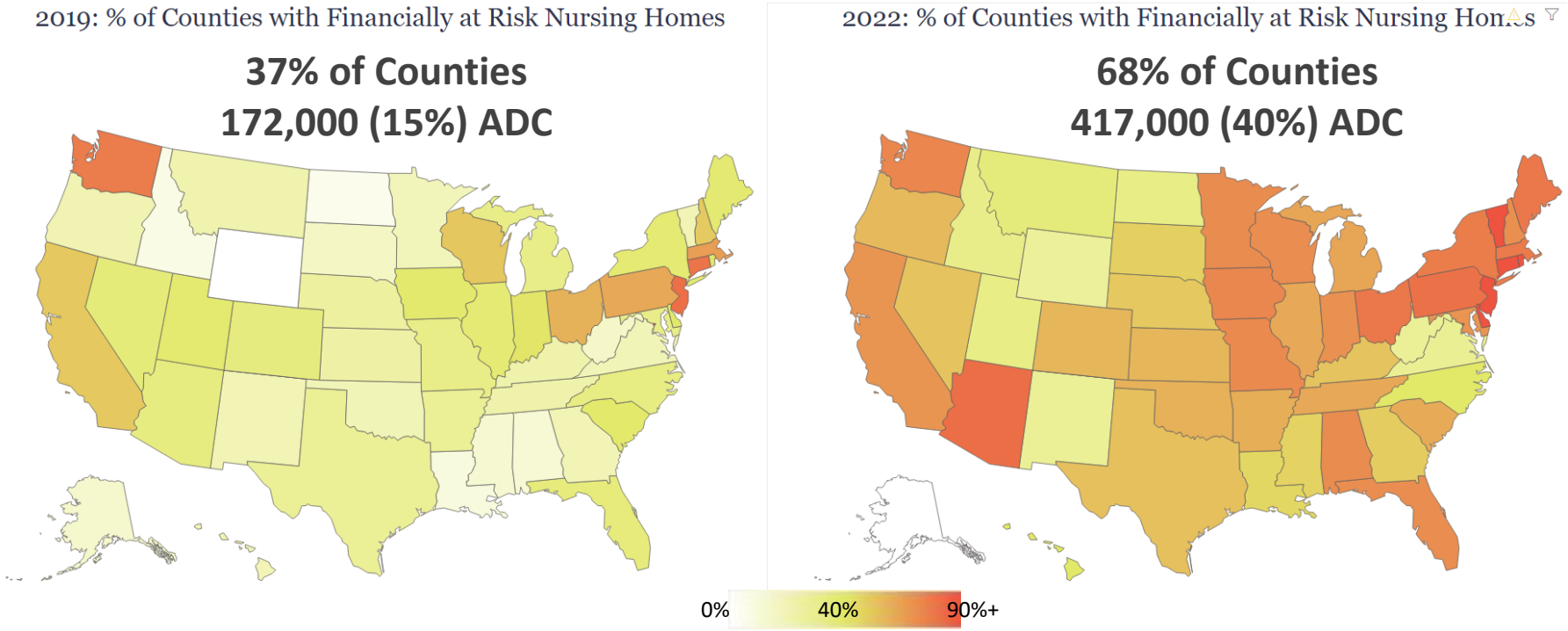
Outlook Simulation	A	B	C
	No PDPM Budget Neutrality + Retain State PHE Funding	-5% PDPM Budget Neutrality + Retain State PHE Funding	-5% PDPM Budget Neutrality + Lose State PHE Funding
Minimal occupancy recovery (76.0%)	-5.3%	-6.3%	-8.1%
Trended Occupancy Recovery (77.3%)	-4.8%	-5.9%	-7.6%
Optimal Occupancy Recovery (81.0%)	-3.3%	-4.3%	-6.0%

Our 2022 operating margin outlook is impacted in a significant way by assumptions related to the status of funding from Federal and State government programs.

This table depicts the implications for the median operating margin outlook applying different assumptions related to occupancy and the status of PDPM budget neutrality and state Medicaid PHE funding.

Implications of Facilities at Financial Risk*

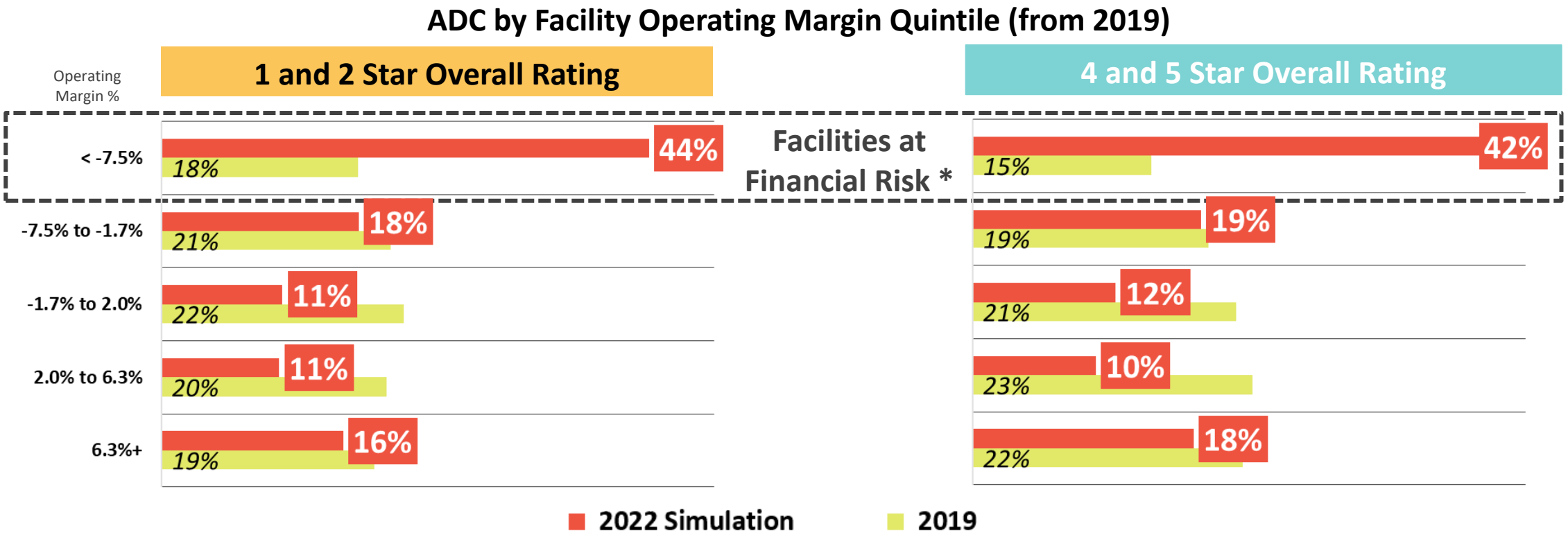
The 2022 outlook indicates a significant negative shift in financial performance since 2019. The maps below compares the percentage of counties with nursing facilities at financial risk* by state in 2019 and in the 2022 outlook assuming loss of state Medicaid PHE funding and a 5% PDPM budget neutrality reduction.



** **Facilities at Financial Risk** defined as facilities with operating margins in the lowest quintile of performance based on 2019 industry performance (operating margins < -7.5%)*

2019 vs 2022 Change in Margin Profile

The 2022 outlook suggests significant erosion of performance for both lower and higher quality facilities. The chart below compares the percentages of evaluated facilities in selected quintiles in the 2019 vs 2022 simulation using trended occupancy recapture with a 5% PDPM budget neutrality reduction and loss of all state Medicaid PHE funding.



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Create Opportunities

CLA exists to
create opportunities —
for our clients, our people,
and our communities.

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Appendix

Glossary

Operating Margin — Operating income minus operating expenses divided by operating income per data on Medicare cost reports

Medicare Margin (CLA Methodology) — Inpatient PPS amount less sequester, unrecovered bad debts, and allocable portion of direct care nursing plus allowance for higher nursing hours PPD, therapy, other ancillaries, and general services (e.g. capital, dietary, etc.), per Medicare cost reports

PHE Funding (COVID Adjusted Data) — Adjusted to exclude Public Health Emergency funds reported on line 24.50 of Medicare Cost Report

Total Cost of Care — Total attributed payments made by CMS to all providers where Medicare beneficiary utilized a provider

SNF Total Cost of Care — Total payments to SNF for patient stay (i.e. rate per day x length of stay)

Basis for 2021 Simulations

- Data from 12,895 nursing facility sites used for simulation
  - Data from 2,115 actual cost reports with 2021 data
  - 10,780 simulated results based on 2020 data adjusted for changes discussed below
  - Included only full year cost reports in the baseline simulation group
  - Simulation group included only full year cost reports with enough reported data to facilitate the application of simulation assumptions
- 2021 results for facilities with only 2020 data simulated as follows:
  - Actual occupancy for 2021 from COVID-19 Nursing Home database
  - 2021 nursing home rates simulated based on 2020 estimated average nursing rates (by payer) adjusted for following inflation rates
    - Medicare FFS based on regulatory average increases, actual sequester impacts only (no sequester impact in simulated year ends)
    - Medicare Advantage increases tied to Medicare FFS increases (Medicare advantage data simulated based on county level penetration and national Medicare FFS vs. Medicare Advantage utilization
    - Medicaid = Tied to state general rate and special allocations data provided by AHCA
    - Private Pay = 4%
  - 2021 market level (if sufficient actual 2021 data available) or state level inflation rates obtained from 2,115 actual cost reports with 2021 reported data
    - RN, LPN, Aide, Contact Aide, Other Contract Nursing and All Other averages salaries per hour
    - Other dietary costs per meal
    - Ancillary costs PPD
    - Use combined inflation rates of above elements for all other expenses
  - Revenue and expense impact of occupancy changes between 2020 and 2021 based on estimated overall average PPD nursing home rates (net revenues) and variable costs PPD
    - Variable Costs = Nursing Labor, Nursing Other, Other Dietary, Ancillary Costs (weighted to short stay mix) – adjusted for inflation

Basis for 2022 Simulation

- Utilized 2021 actual and simulated data as baseline (12,895 total sites simulated)
- Occupancy models evaluated ranged from no change in occupancy vs 2021 to a full return to December 2019 occupancy levels ("FULL Recovery")
  - Revenue and expense impact of occupancy changes between 2020 and 2021 based on estimated overall average PPD nursing home rates (net revenues) and variable costs PPD
    - Variable Costs = Nursing Labor, Nursing Other, Other Dietary, Ancillary Costs (weighted to short stay mix) – adjusted for inflation
- 2022 nursing home rates simulated based on 2021 simulated average nursing rates (by payer) adjusted for following inflation rates
    - Medicare FFS based on regulatory average increases, Sequester 1% Apr-June 2020 / 2% thereafter
    - Medicare Advantage increases tied to Medicare FFS increases
    - Medicaid = Tied to state general rate and special allocations data provided by AHCA
    - Private Pay = 8% (2 x 2021 assumptions)
- 2 Expenses inflation models applied – Post-COVID and Pre-COVID
  - Post COVID: 2021 market level (if sufficient actual 2021 data available) or state level inflation rates obtained from 2,115 actual cost reports with 2021 data
    - RN, LPN, Aide, Contact Aide, Other Contract Nursing and All Other averages salaries per hour
    - Other dietary costs per meal
    - Ancillary costs PPD
    - Use combined inflation rates of above elements for all other expenses
  - Pre-COVID: 2017-2019 average market level (if sufficient actual 2021 data available) or state level inflation rates obtained from actual cost report data