



Community Health Systems (NYSE: CYH)

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Investment Thesis

We are recommending an overweight position on Community Health Systems' 2028 6.875% unsecured notes. Community Health Systems (CYH), the "Company", is a hospital and care facilities operator with over 70 hospitals cross the United States. The Company has faced serious liquidity challenges coming out of the Covid-19 pandemic and have large a large maturity wall in 2027 which has caused investors to be wary of default. The company has strong investor support from Franklin Resources who have been willing to underwrite and take on more of their debt to offer the Company liquidity. This should help to manage the refinancing risk in 2027 and allow the company to pay the 2028 notes off as well. The Company has also engaged in divestitures and other portfolio management tactics to increase cash and to improve operations and margins. This should again allow for more investor confidence leading towards refinancing and avoidance of default. This is a unique investment opportunity because the market is overreacting to risk associated with these notes and upon realization there will be significant tightening of ~200-300 bps, allowing for a sale with massive price appreciation. The opportunity to sell to a hungry credit market will allow for these returns to be realized in a 1–2-year timespan.

Figure 1: Capitalization Table

Community Health Systems Capitalization Table										
	12/31/24	2/22/25		Interest	Cash				Debt / Adj. EBITDA	
	Face	Price	Market	Rate	Interest	Maturity	YTW	OAS	FY24A	FY25E
Cash & Cash Equivalents	\$37									
First Lien Secured Loans										
RCF due 2029	356		356	S + 175	22	6/05/29				
Term Loan A due 2026	174	98.5	172	S + 500	11	9/24/26	11.5%			
Term Loan DD due 2026	30	985.0	296	S + 500	2	9/24/26	11.5%			
Term Loan due 2029	13		13	S + 625	1	3/30/29				
Total First Lien Loans	\$573		\$836		\$35				0.38x	0.47x
Net First Lien Debt	536		799						0.35x	0.30x
First Lien Secured Bonds										
Notes due 2027	1757	97.218	1,708	5.625%	99	3/15/27	7.2%	318 bps		
Notes due 2029	643.9	92.085	593	6.000%	39	1/15/29	8.5%	452 bps		
Notes due 2031	1057.7	82.862	876	4.750%	50	2/15/31	8.5%	452 bps		
Notes due 2030	1535	86.383	1,326	5.250%	81	5/15/30	8.6%	459 bps		
Notes due 2032	2,225	104.6	2,328	10.875%	242	1/15/32	9.5%	546 bps		
Notes due 2027	700	99.6	697	8.000%	56	12/15/27	8.2%	418 bps		
Total First Lien Debt	\$8,492		\$8,364		\$601				5.59x	4.81x
Net First Lien Debt	8,455		8,327						5.57x	4.79x
Second Lien Secured Bonds										
Notes due 2029	1,245	72.8	907	6.875%	86	4/15/29	16.1%	1205 bps		
Notes due 2030	1,227	69.2	850	6.125%	75	4/01/30	14.7%	1069 bps		
Total Second Lien Debt	\$2,472		\$1,756		\$161					
Net Second Lien Debt	2,472		1,756						1.63x	1.40x
Senior Unsecured Bonds										
Notes due 2028	626	70.7	442	6.875%	43	4/01/28	20.5%	1646 bps		
Total Debt	\$11,589		\$10,563		\$805				7.63x	6.57x
Total Net Debt	11,552		10,526						7.61x	6.55x
Earnings										
FY24A Adj. EBITDA	\$1,519									
FY25E Adj. EBITDA	\$1,764									

Source: Company Filings, Bloomberg

Minutemen Fixed Income Fund

MFIF

Minutemen Fixed Income Fund

Security Data

Bond Maturity: 4/1/2028

Rating: Ca/CCC-

Rank: Senior Unsecured

Price: 70.59

Yield-to-worst: 20.06%

Coupon: 6.875%

OAS: 1589.7 bps

CUSIP: 12543DBE9

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Company Overview

Community Health Systems (CYH), founded in 1985 and headquartered in Franklin Tennessee, is one of the largest healthcare delivery systems in the nation with over 1000 sites of care and current holdings of 76 hospitals across the United States. These facilities provide a range of services from acute and specialty care hospitals, physician practices, urgent care centers, freestanding emergency departments, occupational medicine clinics, imaging centers, cancer centers, and ambulatory centers. The Company's experienced leadership and longstanding reputation allows it to provide expert guidance to the facilities that it operates. CEO Tim Hingtgen has been with Community Health since 2008 and has experience as CEO and COO at similar for-profit hospital facilities. CFO and President Kevin Hammons has been with the company since 1997 and has worked his way up to his current role since that time. The leadership team also has access to experienced medical professionals and industry expertise that allows it to have a well-rounded grasp on the industry.

Industry Overview

The United States Healthcare industry is one of the largest sectors of the economy and regarded as one of the most necessary industries in the country. Healthcare makes up ~18% of the US GDP each year, with the ~6000 hospital locations bringing in ~\$1.3 trillion in revenue annually. Some key growth drivers for the industry include an aging population requiring more medical care, increases in chronic diseases, and a commercialization of pharmaceuticals. Some interesting trends stem from the rising costs of operating hospitals and the unwillingness of Medicare, Medicaid, and private insurers to pay these higher prices. Many hospitals operators are pushing for smaller facilities and consolidation through urgent care centers and telemedicine to cut overhead costs. There is also a shortage of labor, specifically when looking for registered nurses, which drives wages up and working conditions down. There are also always regulatory uncertainties within the industry, relating to either Medicare/Medicaid or regulations on different medical practices and procedures.

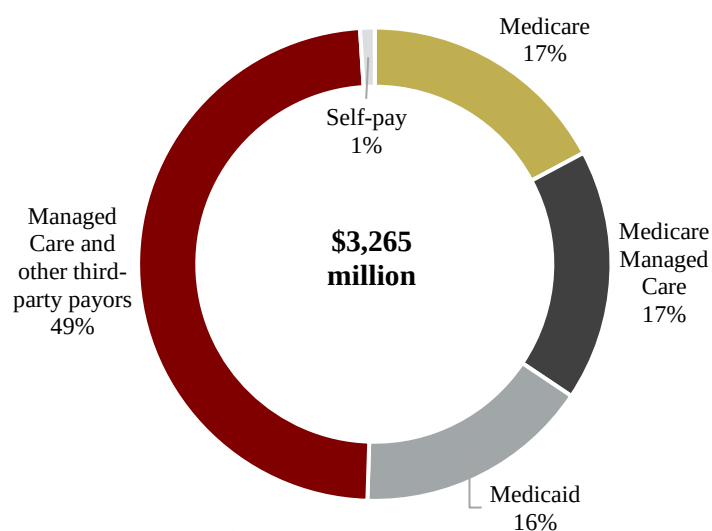
Risk Profile and Pricing Background

This section aims to understand the financial situation of Community Health Systems and how it relates to the investor risk in their 2028 6.875% notes. With these notes currently trading at ~70 cents on the dollar, there is a clear lack of investor confidence in the company's ability to repay these notes and to avoid a default. This stems from two main points, which are the company's dwindling liquidity and ability to generate strong FCF, and the large maturity wall of ~\$2.4 billion in 2027. These issues have drawn concern to their ability to either pay off or refinance their other debt obligations before the maturity of the 2028 notes.

In terms of liquidity, the company has \$438 million dollars available to draw down from their revolving credit facility due in 2029, and ~\$37 million in cash on hand. Following the Covid-19 pandemic, the company had a large influx of stimulus and government spending which allowed their liquidity to increase greatly, holding over \$450 million in cash coming into 2022. This has dwindled down over the past two years from increased operational costs, expensive interest and debt repayments, and challenges converting revenues into cash.

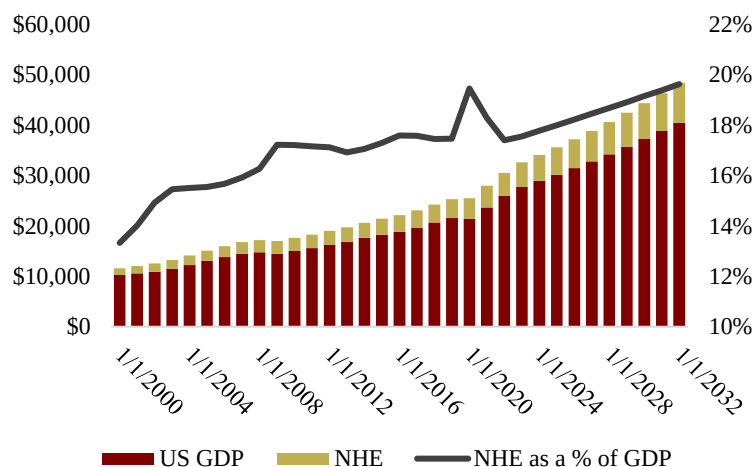
Currently the only maturity before the 2027 wall is ~\$175 million in a first lien Term Loan A which is likely to be refinanced or extended by the company for continued liquidity for debt repayment. This leaves two years for the company to generate enough positive liquidity and investor confidence to refinance the 2027 debt into a reasonable solution that is positive for all the company's creditors.

Figure 2: 4Q24 Revenue by Payor



Source: Company Filings

Figure 3: Net Health Expenditures vs. US GDP



Source: Centers for Medicare and Medicaid Services (CMS.gov)

The relevance of these risks is to understand the potential downside and worst-case scenario for holding these bonds to maturity. The reality of there being no investor support and insufficient liquidity is likely a default resulting in restructuring or Chapter 11 bankruptcy that is detrimental to the 2028 notes. Being unsecured and at the very bottom of the capital structure, it is unlikely there would be a payoff of these notes aside from an equity consideration in an in-court situation. The company is not yet at a point where this is their main concern, but it is the assumption of risk that is causing the notes to be traded at a discount. The street currently rates their one-year default risk at 5.06% and 7.24% over 2 years, which is down from their high of 29.59% in 2022.

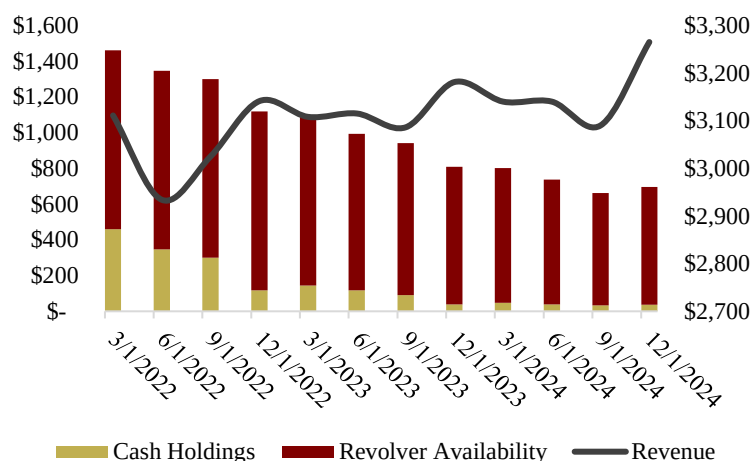
Investment Thesis

Franklin Resources financial commitment in Community Health System's debt across their investment funds as well as their proven willingness to underwrite debt will allow for the investor confidence required to refinance their 2027 maturity wall. Franklin Resources currently holds ~\$2.8 billion of Community Health debt across 12 tranches in their funds, which is ~25% of all of Community Health's current outstanding debt. It should also be noted they hold ~80% of the 2028 notes across their funds as well. Since 2017, Franklin has demonstrated their willingness and ability to underwrite debt for CYH. They notably have taken part in their issuance of the 10.875% notes due 2032, which they currently hold 28% of. They also have significant stakes of the second lien notes and at least some amount of each of the company's outstanding notes. This reaffirms their commitment to the company's success and future performance for the preservation of their debt funds. With them being aware of these issues, they will likely continue to supply liquidity and refinancing options to CYH to protect their holdings for years to come. The graph on the right shows the price reaction following the issuance of the 2032 10.875% notes. This is representative of the refinancing risk that gets priced in by investors and how it may be an overreaction of the possibility of default.

It is important to do a sanity check on this situation and see how beneficial and plausible it really is for Franklin Resources to put their capital on the line and on their ability to find enough investors. From a portfolio perspective, Franklin owns a large amount of debt from the Company and therefore carries an inherent risk in the event of a default. They also do not necessarily want to continuously lend to the Company and increase their stake of the risk. By facilitating increased investments in CYH, however, they give it access to needed liquidity and refinancing ability, lowering the risk of default. The underwriting of the 2032 10.875% notes is an example of their willingness to offer liquidity, but only at a high interested rate to compensate for risk. The notes very quickly traded at a premium and Franklin sold off from a 46% share to 28%, representative of investor hunger for high coupon notes. This proves the point that the transaction was beneficial for both the Company's issue of refinancing and allowed Franklin Resources to earn high yields without increasing their risk dramatically. Since this transaction was mutually beneficial and saved the Company from default, it is likely an option they will consider again as their 2027 notes come closer to maturity.

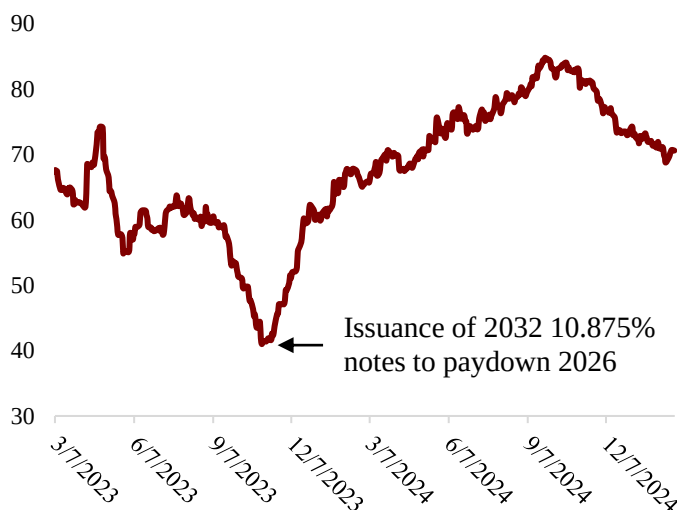
Looking at the holdings of Franklin, they have a stake in every outstanding bond and therefore are at the mercy of the Company's success not to take a massive loss. This is a scenario where both Community Health and Franklin have little bargaining power with one another, as they both have the same goal. Therefore, it is likely that a favorable deal is worked out between the two for a mutually beneficial outcome, which will inherently also benefit the holders of the 2028 6.875% notes.

Figure 4: Liquidity vs. Revenue



Source: Company Filings

Figure 5: 2028 6.875% Note Price History



Source: Company Filings

Figure 6: Franklin Resources Holdings

1st Lien Secured Bonds	
5.625% Notes due 2027	1.69%
6.00% Notes due 2029	3.88%
4.75% Notes due 2031	0.83%
5.25% Notes due 2030	1.21%
10.875% Notes due 2032	28.28%
8.00% Notes due 2027	49.85%
2nd Lien Secured Bonds	
6.875% Notes due 2029	47.93%
6.125% Notes due 2030	53.43%
Senior Unsecured Bonds	
6.875% Notes due 2028	80.56%

Source: Bloomberg

Community Health Systems divestiture from costly hospitals and shift towards smaller operations will allow for both increased cash and greater EBITDA margins over the investment horizon. The issue for Community Health is their continually decreasing liquidity since the end of the Pandemic while still seeing revenue growth consistently. As previously mentioned, this is from increasing operational costs, interest expense, and decreasing direct payments from Medicare/Medicaid. The current strategy for managing these liquidity and operational issues involves properly adjusting the hospital and facility holdings of the company. Community Health has announced and completed divestitures of 3 hospitals throughout FY2024, twice as many in FY 2023, and is expecting this trend to continue at least into the start of 2025. There is a projected ~\$1 billion in total proceeds from pending and expected transactions coming into 2025. The Company also notes that they are receiving offers at attractive multiples making it more beneficial for CYH to continue to divest. While also in the process of divesting, they have acquired more urgent care and ambulatory centers which inherently have better margins compared with full scale hospitals. The goal of these divestitures to both increase liquidity from the sales and use some of that cash to purchase care facilities that help keep their top line from dropping. They would also expect an increase in the bottom line from less operating expenses, less depreciation, and better overall care efficiency.

There is also the opportunity for other operational improvements through increased registered nurse retention and higher Medicare payment rates in southern hospitals. First, this past year Community Health has seen the highest registered nurse retention rate since 2020, which is positive because it is much cheaper for hospitals to retain nurses than it is to continuously be in a hiring struggle. It also allows management to focus on other operational expenses and issues with the confidence that their hospitals are consistently staffed. While most of the healthcare industry is struggling with staffing, it is a positive indicator of Community Health's hospitals that they are being staffed.

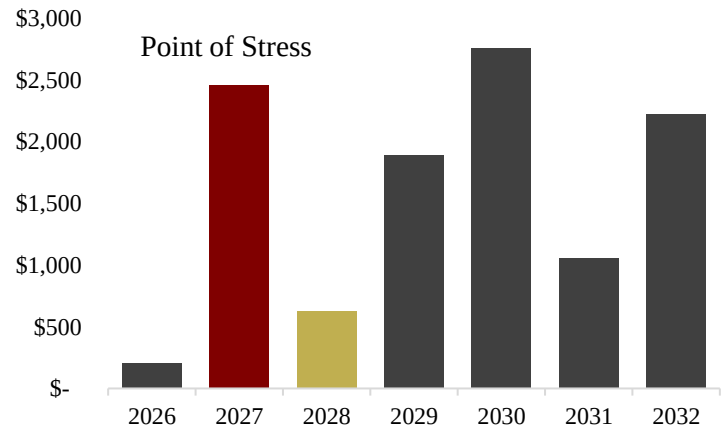
The company is also expecting an increase in cash from New Mexico from the new Delivery system and Provider Payment program pending approval for 1Q25. This program will increase access and usability of Medicare across New Mexico, driving up admissions and secured payments. The company chose not to include these revenues in their guidance because they are solely reliant on government action to realize these benefits, but they did note they were confident it would go through and allow them to recognize \$100-\$125 million dollars in EBITDA.

Rationale

The above points offer solutions to the two main issues the company faces, liquidity and refinancing their maturity walls. The Company has the ability, resources, and investor sentiment to refinance the 2027 maturity wall. Consider the scenario where the Company successfully refinances this maturity wall and there is no other debt due before 2028. Based on historical changes in price, the bonds should trade up as a signal of investors understanding the refinancing risk has gone down. The two options as an investor now are to hold to maturity and continue receiving interest payments, or to sell the bond and reap the benefits of the appreciation of the price and forget about the future risk of being involved in the Company. Our suggestion is to sell off if there is a dramatic price increase, as there is a newly introduced risk of refinancing of the 2029 and 2030 notes that could cause stress to these notes. This is because if the company saw a bankruptcy or default in the future from these later maturities, it would be cheaper for them to file before paying the unsecured 2028 notes. In a bankruptcy scenario, it is unlikely the 2028 notes would see and cash recoup, so the Company could save themselves ~\$600 in expenses.

A quick note on this point is that this future risk is very low and far in the future at this point, however if there is the option to realize a large price appreciation and considerable annualized return, it is worth it to exit the position and forget about future risk.

Figure 7: Debt Distribution



Source: Bloomberg

Relative Valuation

Community Health Systems has over \$11 billion in debt which is trading at a variety of prices below par, has been suffering liquidity problems, and has multiple large maturity walls over the next 7 years causing stress to investors. There are unique investment opportunities within this capital structure that could allow for massive returns and price appreciation if done carefully. There is a risk of default from an inability to refinance or pay off interest which is why making the correct bond choice is important. Compared to the other companies here, CYH has significantly more debt, but is not overleveraged significantly. This is partly due to their larger EBITDA margin and higher revenues comparably to these companies as well.

ModivCare (MODV) is a personal care company focusing on undeveloped regains by offering transportation, in-home treatment, and facilitating connections to doctors. Although their financials show a somewhat healthy picture, being able to convert revenue and cover their interest expense without a lot of debt, they are facing a securities fraud lawsuit that will likely put a lot of strain on them financially. Paired with their negative free cash flow, there is investor sentiment of a default or similar negative event to stakeholders. The street has the default risk at ~20%, which increased from just 5% in September of last year. The bonds have continued to trade down over this period, which is a likely sign they will have a limited recovery value after this lawsuit is resolved.

Owens and Minor (OMI) operates in supplies and logistics for the healthcare industry, delivering to both hospitals and home patients. While having ~\$10 billion less debt than CYH they still have comparable revenues but a much tighter EBITDA margin. They have strong interest coverage comparably, but minimal free cash flow is coming in. There are some amounts of debt due in the years leading up to 2029, but up to \$1 billion due in 2029, which is causing their 2030 notes to trade down. There is likely not enough yield from these notes in relation to the uncertainty or risk this company has over the investment horizon.

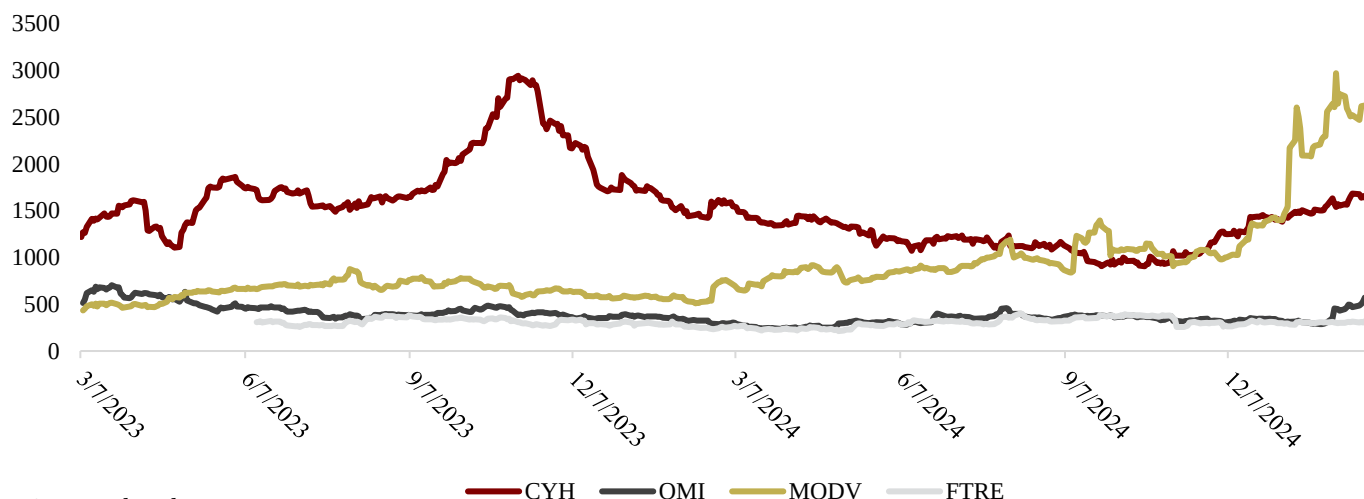
Fortrea Holdings (FTRE) is a pharmaceutical research company that contracts out resources for clinical trials and helps companies get their research to the market. Notable points from their financials are their very tight EBITDA margins as well as their less than 1x interest coverage. They do have positive free cash flows of \$220, which is greater than the other companies here, however their leverage and interest are concerning for a 5 year investment. If this continues, it is likely that the spread on these bonds will widen over that time as they are already at a premium. These notes do not compensate for that risk with enough yield and therefore are not a strong investment.

Figure 8: Comparable Companies

Comps (USD in millions)	CYH	MODV	OMI	FTRE
Market Cap	\$511	\$71	\$493	\$1,363
Total Debt	\$12,102	\$1,262	\$2,173	\$1,204
Cash	\$37	\$48	\$46	\$105
Preferred & Other	\$597	\$0	\$0	\$0
EV	\$13,173	\$1,285	\$2,620	\$2,661
Equity/Debt	0.04x	0.06x	0.23x	1.13x
Revenue, adj.	\$12,635	\$2,788	\$10,661	\$2,775
LTM Adj. EBITDA	\$1,562	\$160	\$683	\$117
FCF	\$120	(\$96)	\$4	\$220
Interest Expense, net	861	86	145	136
Debt/EBITDA	7.7x	7.9x	3.2x	10.3x
EBITDA/Interest Expense	1.8x	1.9x	4.7x	0.9x
EBITDA Margin	12.4%	5.7%	6.4%	4.2%
Individual Security Comps				
Rating	CCC-	CCC-	B	BB
Coupon	6.875%	5.000%	6.625%	7.500%
Maturity	4/1/2028	10/1/2029	4/1/2030	7/1/2030
Price	71.66	37.13	87.16	100.83
YTW	19.47%	32.02%	9.89%	7.21%
OAS	1,539.6	2,790.8	575.0	275.7
Next Call Date	3/13/2025	3/28/2025	4/1/2025	7/1/2026
Spread/Turn of Leverage	199 bps	353 bps	181 bps	27 bps

Source: Bloomberg

Figure 9: Comparable OAS



Source: Bloomberg

Figure 10: Summary Model

Financial Statement Model for Community Health Systems (CYH)													
Fiscal Year	FY22A	FY23A	1Q24A	2Q24A	3Q24A	4Q24A	1Q25E	2Q25E	3Q25E	4Q25E	FY25E	FY26E	FY27E
EOP Date	12/31/2022	12/31/2023	3/31/2024	6/30/2024	9/30/2024	12/31/2024	3/31/2025	6/30/2025	9/30/2025	12/31/2025	12/31/2025	12/31/2026	12/31/2027
Income Statement													
Net operating revenues	12,211	12,490	3,140	3,140	3,090	3,265	3,282	3,640	3,617	3,366	13,906	13,701	13,666
Operating expenses													
Salaries and benefits	5,330	5,415	1,368	1,329	1,359	1,363	1,370	1,520	1,510	1,405	5,805	5,720	5,705
Supplies	5,330	5,415	487	483	469	507	510	565	562	523	2,159	2,128	2,122
Lease cost and rent	317	319	77	73	73	75	75	84	83	77	319	315	314
Other operating expenses	3,336	3,388	845	882	1,010	905	910	1,009	1,003	933	3,854	3,798	3,788
Total operating expenses	11,390	11,533	2,909	2,902	3,295	2,986	2,984	3,296	3,275	3,056	12,613	12,427	12,391
as % of revenue	93%	92%	93%	92%	107%	91%	91%	91%	91%	91%	91%	91%	91%
EBIT	1,207	1,037	233	266	(203)	282	301	347	344	313	1,305	1,286	1,288
(+) Depreciation & amortization	534	505	115	125	117	129	119	119	118	118	474	467	461
EBITDA	1,741	1,542	348	391	(86)	411	420	466	463	431	1,780	1,753	1,749
(+) One-Time Charges	(108)	110	75	40	326	14	50	15	12	(13)	64	25	-
Adj. EBITDA	1,633	1,652	423	431	240	425	470	481	475	418	1,844	1,778	1,749
Balance Sheet Summary													
Cash and Cash Equivalents	118	38	48	39	33	37	22	70	158	337	337	569	406
Accounts Receivable	2,040	2,231	2,194	2,195	2,043	2,286	2,298	2,549	2,532	2,357	2,357	2,332	2,337
Total Current Assets	3,082	3,208	3,175	3,199	3,108	3,301	3,302	3,682	3,749	3,695	3,695	3,894	3,737
PP&E, net	5,365	5,207	5,219	5,222	4,964	4,776	4,753	4,731	4,712	4,700	4,700	4,636	4,579
Total Assets	14,669	14,455	14,417	14,411	13,905	14,054	14,043	14,467	14,500	14,280	14,280	14,392	14,183
Total Debt	11,614	11,466	11,533	11,504	11,467	11,432	11,401	11,401	11,401	11,401	11,401	11,360	10,869
Net Debt	11,496	11,428	11,485	11,465	11,434	11,395	11,379	11,331	11,243	11,064	11,064	10,791	10,463
Total Liabilities	14,669	14,455	14,417	14,411	13,905	14,054	14,043	14,467	14,500	14,280	14,280	14,392	14,183
Cash Flow Summary													
Net Income (loss)	179	16	(6)	26	(354)	(28)	68	101	99	77	345	358	443
Changes in Working Capital	121	194	102	75	421	244	86	86	131	250	552	486	458
Cash Flow from Operations	300	210	96	101	67	216	154	187	230	327	897	844	901
Capex	(424)	(505)	(94)	(88)	(70)	(133)	(96)	(97)	(99)	(106)	(398)	(403)	(404)
Cash Flow from Investing	(259)	(26)	(99)	(108)	75	(143)	(96)	(97)	(99)	(106)	(398)	(403)	(404)
Cash Flow from Financing	(430)	(264)	13	(2)	(148)	(69)	(73)	(42)	(42)	(42)	(199)	(209)	(659)
Net Change in Cash	(389)	(80)	10	(9)	(6)	4	(15)	48	89	179	300	232	(163)
FCF Reconciliation													
(+) EBIAT (OR NOPAT PICK ONE)	845	726	163	186	158	197	211	243	241	219	914	900	901
(+) D&A	534	505	115	125	117	129	119	119	118	118	474	467	461
(-) Capex	(424)	(505)	(94)	(88)	(70)	(133)	(96)	(97)	(99)	(106)	(398)	(403)	(404)
(-) Change in Working Capital	(121)	(194)	(102)	(75)	(151)	(244)	(86)	(86)	(131)	(250)	(552)	(486)	(458)
Free Cash Flow to Firm	834	532	82	148	54	(51)	148	179	130	(19)	437	478	500
Operating Metrics													
Operating Margin	6.7%	7.7%	7.4%	7.6%	-6.6%	8.5%	9.1%	9.4%	9.4%	9.2%	9.3%	9.3%	9.3%
Adj. EBITDA Margin	13.4%	13.2%	13.5%	13.7%	7.8%	13.0%	14.3%	13.2%	13.1%	12.4%	13.3%	13.0%	12.8%
FCF Margin	6.8%	4.3%	2.6%	4.7%	1.7%	-1.5%	4.5%	4.9%	3.6%	-0.6%	3.1%	3.5%	3.7%
Credit Metrics													
Net Debt/Adj. EBITDA	7.0x	6.9x	6.8x	6.8x	7.5x	7.5x	7.3x	7.0x	6.1x	6.0x	6.0x	6.1x	6.0x
Adj. EBITDA/Interest	1.9x	2.0x	2.0x	2.0x	1.8x	1.8x	1.8x	1.9x	2.2x	2.3x	2.3x	2.3x	2.7x
FCF/Interest	1.0x	0.6x	-0.2x	-0.2x	0.0x	0.1x	0.2x	0.3x	0.4x	0.6x	0.5x	0.6x	0.8x

Source: Bloomberg, Company filings