



**DRAFT**

**NEWS RELEASE**

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**SUNLINK HEALTH SYSTEMS, INC. ANNOUNCES FISCAL 2022  
FOURTH QUARTER AND ANNUAL RESULTS AND COVID-19 UPDATE**

ATLANTA, Georgia (September 29, 2022) – SunLink Health Systems, Inc. (NYSE American: SSY) today announced a loss from continuing operations of \$2,317,000 (or a loss of \$0.33 per fully diluted share) for its fourth fiscal quarter ended June 30, 2022 compared to earnings from continuing operations of \$4,555,000 (or \$0.64 per fully diluted share) for the fourth fiscal quarter ended June 30, 2021. Net loss for the quarter ended June 30, 2022 was \$2,365,000 (or a loss of \$0.34 per fully diluted share) compared to net earnings of \$4,687,000 (or \$0.66 per fully diluted share) for the quarter ended June 30, 2021.

The fiscal quarter ended June 30, 2021 included recognition (through other income or reduction of expense) of \$5,271,000 of U.S. government COVID-19 related programs which did not reoccur in the fiscal quarter ended June 30, 2022. The fiscal quarter ended June 30, 2021 included the Employee Retention Credit ("ERC") \$3,586,000 (pre-tax) (included as a reduction of salaries, wages and benefits in the consolidated statement of earnings), Provider Relief Funds ("PRF") of \$1,421,000 (pre-tax) and forgiveness of Paycheck Protection Plan ("PPP") loans of \$264,000 (pre-tax). PRF distributions and PPP loans forgiveness has been recognized as other income.

Consolidated net revenues for the quarters ended June 30, 2022 and 2021 were \$9,881,000 and \$10,335,000, respectively, a decrease of 4.4% in the current year's quarter compared to the comparable quarter of the prior fiscal year. Net revenues decreased in the current fiscal quarter primarily due to a decrease in Healthcare Services Segment net revenues partially offset by increased Pharmacy Segment institutional pharmacy net revenues.

SunLink reported an operating loss for the quarter ended June 30, 2022 of \$2,211,000 compared to an operating profit for the quarter ended June 30, 2021 of \$2,988,000. The substantial negative change in operating loss from last year's comparable quarter was due primarily to the non-recurrence of the ERC of \$3,586 recorded in last year's comparable quarter and the higher costs of goods sold, salaries, wages and benefits, and purchased services incurred this year. The Company is experiencing substantial increases in its salaries and in wage rates, as well as difficulty hiring for new and replacement staff. As a result, the Company, particularly in the Healthcare Services Segment, has incurred higher costs for temporary staff, agency staffing and overtime.

Loss from discontinued operations was \$48,000 (or a loss of \$0.01 per fully diluted share) for the quarter ended June 30, 2022 compared to earnings from discontinued operations of \$132,000 (or \$0.02 per fully diluted share) for the quarter ended June 30, 2021. Included in the

results for the quarter ended June 30, 2021 was a positive Medicare cost report settlement for a business previously sold.

For the twelve months ended June 30, 2022, SunLink reported a loss from continuing operations of \$1,722,000 (or a loss of \$0.25 per fully diluted share) compared to earnings from continuing operations of \$6,937,000 (\$0.99 per fully diluted share) for the twelve months ended June 30, 2021. Net loss for the twelve months ended June 30, 2022 was \$2,009,000 (or a loss of \$0.29 per fully diluted share) compared to net earnings of \$6,890,000 (\$0.99 per fully diluted share) for the twelve months ended June 30, 2021. Forgiveness of PPP loans of \$3,010,000 (pre-tax) received in the fiscal year ended June 30, 2021 and PRF income of \$720,000 (pre-tax) received in quarter ended December 31, 2021 were included in the results for the twelve months ended June 30, 2022. Forgiveness of PPP loans of \$264,000 (pre-tax), PRF income of \$4,880,000 (pre-tax) and ERC recognized of \$3,586,000 (pre-tax), respectively, were included in the results for the twelve months ended June 30, 2021.

Consolidated net revenues for the twelve months ended June 30, 2022 and 2021 were \$41,344,000 and \$40,685,000, respectively, an increase of 1.6% in the current year's twelve months compared to the comparable period of the prior fiscal year. The increased net revenues in the current twelve-month period occurred primarily in the Pharmacy Segment's institutional pharmacy business and increased hospital net revenues in the Healthcare Services Segment.

Capital expenditures for the twelve months ended June 30, 2022 were \$3,190,000. The majority of the expenditures were under its previously announced Trace Forward Capital Plan which expands, upgrades and improves the physical plant, patient care, ancillary services at our Trace hospital and for capitalizable durable medical equipment purchased by the Pharmacy Segment, which are rented to customers. Remaining commitments under the Trace Forward Capital Plan approximate \$350,000 on June 30, 2022.

Loss from discontinued operations was \$287,000 (or a loss of \$0.04 per fully diluted share) for the twelve months ended June 30, 2022 compared to a loss from discontinued operations of \$47,000 (or a loss of \$0.01 per fully diluted share) for the twelve months ended June 30, 2021.

### **COVID-19 Pandemic**

COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. We have continued to monitor the impact in our operations of the COVID-19 pandemic and its aftermath, and we have taken significant steps intended to minimize the risk to our employees and patients. Certain employees have been working remotely, but we believe these remote work arrangements have not materially affected our ability to maintain critical business operations, which are being conducted substantially in accordance with our understanding of applicable government health and safety protocols and guidance issued in response to the COVID-19 pandemic, although such protocols and guidance have been subject to frequent changes and at times have been unclear. Nevertheless, as in many healthcare environments, we have experienced disruptions of our operations, COVID-19 illness, including deaths, and some employees have tested positive and were placed on leave or in quarantine. We

believe the effect of the COVID-19 pandemic and certain public and governmental responses to it have negatively affected our last ten quarter's results.

In late December 2020, we began receiving allotments of COVID-19 vaccine and have vaccinated patients, providers, employees, and staff in accordance with the protocols and guidelines in the states where we operate. Not all such individuals have been vaccinated to date and some individuals have not consented to vaccination. The Company and its subsidiaries are currently developing and implementing plans to vaccinate employees to the extent required by the final rules issued by CMS. The Company believes the vaccine mandates resulted in the loss of staff, including clinical staff, and together with the current state of the labor market, have negatively affected the Company's ability to maintain the current levels of service.

In our Healthcare Services businesses, we have experienced material reductions in demand and net patient revenues due to the COVID-19. There continues to be reduced current demand for certain hospital services, and for extended care, rehabilitation center and nursing home admissions, and clinic visits.

During the COVID-19 pandemic, our Pharmacy business has experienced reduced sales trends in certain areas, increased costs and reduced staff. Many of our primary physician referral sources have been operating at reduced capacity, and until these referral sources resume operating at full capacity, we believe the COVID-19 pandemic will have continuing effects on the demand for DME products and Retail and Institutional Pharmacy drugs and products. Reductions in employee hours have been made in response to the lower demand. Extended care facilities and rehabilitation centers, nursing homes and other customers of our Institutional Pharmacy services continue to be adversely affected by the COVID-19 pandemic. Our Institutional Pharmacy services have experienced increased costs and operational inefficiencies due to measures taken to protect our employees and by access controls and other restrictions implemented by our institutional customers. The impact of the COVID-19 pandemic and its aftermath also continues to negatively affect our supply processes and costs generally, especially with respect to access to respiratory equipment and certain personal protective equipment and cleaning products.

Our Healthcare and Pharmacy segments have received approximately \$6,173,000 in general and targeted Provider Relief Funds ("PRF") during the period April 1, 2020 through June 30, 2022 under the CARES Act, which was enacted in March 2020 in response to the COVID-19 pandemic. The PRF distributions have been accounted for as government grants, and a total of \$5,652,000 has been recognized since April 1, 2020 as other income under the gain contingency recognition method.

During the quarter ended June 30, 2020, our Healthcare and Pharmacy segments received \$3,234,000 in Paycheck Protection Plan ("PPP") loans provided under the CARES Act. These loans were forgivable upon compliance with conditions specified under the PPP loan program. As of June 30, 2022, all our PPP loans have been forgiven. The Small Business Administration which administers the PPP loan program has requested additional information with regards to one of the forgiven PPP loans which we are in the process of supplying.



The Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted December 27, 2020, made a number of changes to employer retention tax credits previously made available under the CARES Act, including modifying and extending the Employee Retention Credit ("ERC") for the six calendar months ending June 30, 2021. As a result of such legislation, the Company qualified for ERC for the first and second calendar quarters of 2021 due to the decrease in its gross receipts and has applied for ERC of \$3,586 through amended quarterly payroll tax filings for the applicable quarters. Through the date of this filing, the Company has received \$1,802,000 of ERC which we applied for. We continue to monitor compliance with the terms and conditions of the ERC and PPP programs and developing interpretations and enforcement of the ERC and PPP program rules and the regulations.

PRF distributions are, subject to Federal audits and Single audits, not subject to repayment provided we are able to attest to and comply with the terms and conditions of the funding, including demonstrating that the funds received have been used for designated, allowable healthcare-related expenses and capital expenditures attributable to COVID-19 and for "Lost Revenues" as defined by the department of "HHS". We continue to monitor compliance with the terms and conditions of the PRF and developing interpretations and enforcement of PRF rules and regulations, as well as the impact of the pandemic on our revenues and expenses. If we are unable to attest to or comply with current or future terms and conditions, and there is no assurance we will be able to do so, our ability to retain some or all of the PRF received may be impacted, and we may have to return the unutilized portion of those funds, if any, in the future.

The Company is unable to determine the extent to which the COVID-19 pandemic and its aftermath will continue to affect its assets and operations. Our ability to make estimates of the effect of the COVID-19 pandemic on revenues, expenses or changes in accounting judgments that have had or are reasonably likely to have a material effect on our financial statements continues to be limited. The nature and extent of the continuing effect of the COVID-19 pandemic and its aftermath on our balance sheet and results of operations will depend on the severity and length of the pandemic or its evolving strains of COVID-19; any further government actions to address the pandemic's continuing effect; regulatory changes in response to the pandemic, especially those that affect our hospital, extended care, rehabilitation center, nursing home, clinics, and our pharmacy operations; existing and potential government assistance that may be provided; and the requirements of PRF receipts, including our ability to retain such PRF received.

SunLink Health Systems, Inc. is the parent company of subsidiaries that own and operate healthcare properties and businesses in the Southeast. Each of the Company's businesses is operated locally with a strategy of linking patients' needs with healthcare professionals. For additional information on SunLink Health Systems, Inc., please visit the Company's website.

This press release contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding the company's business strategy. These forward-looking statements are subject to certain risks, uncertainties, and other factors, which could cause actual results, performance, and achievements to differ materially from those anticipated. Certain of those risks, uncertainties

and other factors are disclosed in more detail in the company's Annual Report on Form 10-K for the year ended June 30, 2021 and other filings with the Securities and Exchange Commission which can be located at [www.sec.gov](http://www.sec.gov).

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FISCAL 2022 FOURTH QUARTER RESULTS AND  
ANNUAL RESULTS AND COVID-19 UPDATE**

Amounts in 000's, except per share

**CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)**

	Three Months Ended June 30,				Twelve Months Ended June 30,			
	2022		2021		2022		2021	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net Revenues	\$ 9,881	100.0%	\$ 10,335	100.0%	\$ 41,344	100.0%	\$ 40,685	100.0%
Costs and Expenses:								
Cost of goods sold	4,248	43.0%	3,944	38.2%	16,416	39.7%	15,614	38.4%
Salaries, wages and benefits	4,783	48.4%	983	9.5%	19,006	46.0%	13,797	33.9%
Supplies	397	4.0%	248	2.4%	1,276	3.1%	989	2.4%
Purchased services	936	9.5%	635	6.1%	3,546	8.6%	2,471	6.1%
Other operating expenses	1,135	11.5%	1,006	9.7%	4,345	10.5%	4,029	9.9%
Rents and leases	133	1.3%	127	1.2%	552	1.3%	553	1.4%
Depreciation and amortization	460	4.7%	404	3.9%	1,543	3.7%	1,361	3.3%
Operating profit (loss)	(2,211)	-22.4%	2,988	28.9%	(5,340)	-12.9%	1,871	4.6%
Forgiveness of PPP loans and accrued interest	0	0.0%	264	2.6%	3,010	7.3%	264	0.6%
Interest Expense - net	3	0.0%	(7)	-0.1%	(15)	0.0%	(28)	-0.1%
Federal pandemic stimulus- provider relief funds	0	0.0%	1,421	13.7%	720	1.7%	4,880	12.0%
Gain (loss) on sale of assets	(2)	0.0%	(1)	0.0%	10	0.0%	13	0.0%
Earnings (Loss) from Continuing Operations before Income Taxes	(2,210)	-22.4%	4,665	45.1%	(1,615)	-3.9%	7,000	17.2%
Income Tax (benefit) expense	107	1.1%	110	1.1%	107	0.3%	63	0.2%
Earnings (Loss) from Continuing Operations	(2,317)	-23.4%	4,555	44.1%	(1,722)	-4.2%	6,937	17.1%
Earnings (loss) from Discontinued Operations, net of tax	(48)	-0.5%	132	1.3%	(287)	-0.7%	(47)	-0.1%
Net Earnings (Loss)	<u>\$ (2,365)</u>	<u>-23.9%</u>	<u>\$ 4,687</u>	<u>45.4%</u>	<u>\$ (2,009)</u>	<u>-4.9%</u>	<u>\$ 6,890</u>	<u>16.9%</u>
Earnings (Loss) Per Share from Continuing Operations:								
Basic	<u>\$ (0.33)</u>		<u>\$ 0.66</u>		<u>\$ (0.25)</u>		<u>\$ 1.00</u>	
Diluted	<u>\$ (0.33)</u>		<u>\$ 0.64</u>		<u>\$ (0.25)</u>		<u>\$ 0.99</u>	
Earnings (Loss) Per Share from Discontinued Operations:								
Basic	<u>\$ (0.01)</u>		<u>\$ 0.02</u>		<u>\$ (0.04)</u>		<u>\$ (0.01)</u>	
Diluted	<u>\$ (0.01)</u>		<u>\$ 0.02</u>		<u>\$ (0.04)</u>		<u>\$ (0.01)</u>	
Net Earnings (Loss) Per Share:								
Basic	<u>\$ (0.34)</u>		<u>\$ 0.68</u>		<u>\$ (0.29)</u>		<u>\$ 1.00</u>	
Diluted	<u>\$ (0.34)</u>		<u>\$ 0.66</u>		<u>\$ (0.29)</u>		<u>\$ 0.99</u>	
Weighted Average Common Shares Outstanding:								
Basic	<u>6,954</u>		<u>6,922</u>		<u>6,945</u>		<u>6,907</u>	
Diluted	<u>6,954</u>		<u>7,112</u>		<u>6,945</u>		<u>6,989</u>	

**SUMMARY BALANCE SHEETS**

	June 30, 2022	June 30, 2021
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 6,794	\$ 9,962
Accounts Receivable - net	4,624	4,189
Other Current Assets	5,397	7,790
Property Plant and Equipment, net	8,217	6,554
Long-term Assets	2,911	3,069
	<u>\$ 27,943</u>	<u>\$ 31,564</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities	\$ 7,691	\$ 9,665
Long-term Debt and Other Noncurrent Liabilities	1,132	1,089
Shareholders' Equity	19,120	20,810
	<u>\$ 27,943</u>	<u>\$ 31,564</u>