

Risk Factors Comparison 2024-09-30 to 2023-09-28 Form: 10-K

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In addition to other information contained in this Annual Report, including certain cautionary and forward- looking statements, you should carefully consider the following factors in evaluating an investment in SunLink: Consolidated Operations Risks The COVID- 19 pandemic has significantly increased economic uncertainty. The continued spread of COVID- 19 and its sub-variants exacerbate and may extend the current adverse economic environment for healthcare providers. While certain healthcare spending is considered non- discretionary and may not be significantly affected by economic downturns, healthcare spending has been adversely impacted by such conditions. When patients are experiencing personal financial difficulties or have concerns about general economic conditions, they may choose a high- deductible insurance plan or no insurance at all, which increases a hospital' s dependence on self- pay revenue. Moreover, a greater number of persons may elect to forgo treatments and therapies provided by SunLink' s ~~hospital, clinics, extended care and rehabilitation center, and Pharmacy segment~~ business. As a result of the COVID- 19 pandemic and its aftermath, the Company and its subsidiaries have and continue to experience more variable demand for its services as well as increases in costs relating to less efficient operating procedures, increased cost of supplies, and increased salaries, wages and benefits. Accordingly, the continuing impact of the pandemic could result in ~~an increase in uncollectible self- pay revenues and a decreased in patient volumes at Trace Regional Hospital and Trace Extended Care and Rehabilitation Center, as well as~~ decreased sales volume by SunLink' s Pharmacy ~~segment~~ business. If our operations continue to generate operating losses, we could exhaust cash on hand and may not be able to generate sufficient cash flows to meet our liquidity needs. We rely upon cash on hand, cash from operations, and cash from asset sales to fund our cash requirements for working capital, capital expenditures, commitments, and payments of principal and interest on borrowings. Our ability to generate cash from operations has been negatively impacted by reduced Federal and state reimbursements, managed care efforts (including restrictions, limitations, administrative requirements and clawbacks in ~~both our Healthcare Services and Pharmacy businesses~~), ~~uncollectible self- pay net revenues of our Healthcare Services segment~~, increased salary expenses for employees in general, ~~including employed physicians and nursing staff, and decreased patient volume at our facilities~~ as a result of economic conditions in the locations we serve, as well as by decreased sales volume and earnings experienced by certain lines of business in our Pharmacy ~~segment~~ **operations**, and by our corporate overhead. Recent cost increases due to inflation and supply chain disruption has negatively impacted our operations, among other reasons, because most of our revenue is derived from government reimbursement which has not kept up with our cost increases. A substantial portion of corporate overhead is incurred because we are a public company with limited operations. We expect that these factors will continue to have a negative impact on our business for the foreseeable future. The impact of these factors were mitigated by government support payments (**Paycheck Protection Plan ("PPP ")**) loans and PRF) during the COVID- 19 pandemic in the fiscal years ended June 30, 2022 and 2021, respectively, but no new government support payment programs were implemented in response to the COVID- 19 pandemic. This pandemic resulted in reduced capacity in ~~our physicians and other~~ healthcare providers in our ~~Healthcare Services segment and our healthcare providers in our~~ Pharmacy ~~segment~~ **business**. Further deterioration in our operating environment in the aftermath of the COVID- 19 pandemic and the absence of new government support payments to address such deterioration would negatively impact our results of operations and cash flows. SunLink may require additional debt or equity capital in order to make significant capital investments including to expand our operations and make acquisitions, and the inability to make significant capital investments or expand our operations may negatively affect SunLink' s competitive position, reduce earnings (or increase losses), and negatively affect our results of operations and financial position. SunLink' s operations and growth by merger and or acquisition strategy may require significant capital investments from time to time. Significant capital investments were made in the ~~Healthcare Services Segment and the~~ Pharmacy **business** in **2024, 2023, and 2022 and 2021**, and may be required for capital improvements in connection with existing operations and for future acquired operations. SunLink' s ability to make capital investments depends on numerous factors, such as the availability of funds from operations and cost and access to additional debt and equity financing. No assurance can be given that the necessary funds will be available. Moreover, incurrence of additional debt financing, if available, may involve additional restrictive covenants that could negatively affect SunLink' s ability to operate its business in the desired manner, and raising additional equity likely would be dilutive to shareholders. The failure to obtain necessary funds could impair SunLink' s existing operations and could force SunLink to forego opportunities that may arise in the future. This could, in turn, have a negative impact on the competitive position of our operating subsidiaries, reduce earnings (or increase losses) and otherwise negatively affect future operations and our financial position. Healthcare reform initiatives have resulted in significant changes to the United States healthcare system some of which may adversely affect our business. Healthcare reform initiatives, including the enactment of the ACA, managed Medicaid initiatives, and commercially managed healthcare programs (including those relating to ~~acute care services, diagnostic procedures and tests, laboratory services, drug formularies,~~ pharmacy dispensing, and other programs) have impacted each of our businesses in some manner. These reforms are very significant and, ultimately, could further change the nature of our services, the methods and amounts of payment for our services, and the underlying regulatory environment. In general, a primary goal of recurrent efforts at healthcare reform is to reduce the cost to Federal and state governments of reimbursement to providers under various governmental programs, which includes reductions in the reimbursement paid to us and other healthcare providers. Moreover, healthcare reform could negatively impact insurance companies, other third- party payors and our customers, as well as other healthcare providers, which may in turn negatively impact our business. As such, healthcare reforms and changes resulting from the ACA, as well as other similar healthcare reforms, could have a material adverse effect on our

business, financial position, results of operations, and liquidity. SunLink conducts business in a heavily regulated industry; changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce revenue and profitability. The healthcare industry is subject to extensive federal, state and local laws and regulations relating to licensure; conduct of operations including ~~patient referrals, physician recruiting practices, pharmacy operations, cost reporting and billing practices; ownership~~, condition and operation of facilities; addition of facilities and services; confidentiality, maintenance, and security issues associated with medical records; billing for services; and ~~prices for services~~. These laws and regulations are extremely complex, and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation of these laws and regulations, including in particular, Medicare and Medicaid anti-fraud and abuse amendments, codified in Section 1128B (b) of the Social Security Act and known as the “anti-kickback statute.” This law prohibits providers and others from soliciting, receiving, offering or paying, directly or indirectly, any remuneration with the intent to generate referrals of orders for services or items reimbursable under Medicare, Medicaid, and other federal healthcare programs. HHS regulations describe some of the conduct and business relationships immune from prosecution under the anti-kickback statute. The fact that a given business arrangement does not fall within one of these “safe harbor” provisions does not render the arrangement illegal. However, business arrangements of healthcare service providers that fail to satisfy the applicable safe harbor criteria risk increased scrutiny by enforcement authorities. We have a variety of financial relationships with physicians who refer patients to our subsidiary’s hospital. We have contracts with physicians providing services under a variety of financial arrangements such as employment contracts and professional service agreements. We also provide financial incentives, including loans and minimum revenue guarantees, to recruit physicians into the communities served by our subsidiaries’ facilities and other operations. HIPAA broadened the scope of the fraud and abuse laws to include all healthcare services, whether or not they are reimbursed under a federal program. In addition, provisions of the Social Security Act, known as the Stark Act, also prohibit physicians from referring Medicare and Medicaid patients to providers of a broad range of designated health services in which the physicians or their immediate family members have an ownership interest or certain other financial arrangements. Due to the “opioid crisis”, the DEA has added regulations and increased its scrutiny of drug dispensing at both the retail and wholesale level. As a result, physicians and pharmacists are more cautious about dispensing certain drugs and wholesalers monitor drug purchases by their customers. In addition, wholesalers are more closely monitored by the DEA and may limit the volume and delivery of drugs. In addition, SunLink’s facilities will continue to remain subject to any state laws that are more restrictive than the regulations issued under HIPAA, which vary by state and could impose additional penalties. In recent years, both federal and state government agencies have announced plans for or implemented heightened and coordinated civil and criminal enforcement efforts. Government officials charged with responsibility for enforcing healthcare laws could assert that SunLink or any of the transactions in which the Company, or its subsidiaries or their predecessors is or was involved, are in violation of these laws. It is also possible that these laws ultimately could be interpreted by the courts in a manner that is different from the interpretations made by the Company or others. A determination that either SunLink or its subsidiaries or their predecessors is or was involved in a transaction that violated these laws, or the public announcement that SunLink or its subsidiaries or their predecessors is being investigated for possible violations of these laws, could have a material adverse effect on SunLink’s business, financial condition, results of operations or prospects and SunLink’s business reputation could suffer significantly. ~~The industry trend towards value-based purchasing may negatively impact our revenues. There is a trend in the healthcare industry toward “value-based” purchasing of healthcare products and services (including drugs). These value-based purchasing programs include both public reporting of quality data and preventable adverse events tied to the quality and efficiency of care provided. Governmental programs, including Medicare and Medicaid, currently require providers under such programs to report certain quality data to receive full reimbursement updates. In addition, Medicare does not reimburse for care related to certain preventable adverse events. Many large commercial payors currently require providers under such programs to report quality data, and several commercial payors do not reimburse providers under such programs for certain preventable adverse events. The ACA contains a number of provisions intended to promote value-based purchasing. The ACA prohibits the use of Federal funds under the Medicaid program to reimburse providers for medical assistance provided to treat hospital acquired conditions (“HACs”), conditions that are acquired by a patient while admitted as an inpatient at a hospital, such as a surgical site infection. Hospitals that fall into the top 25% of national risk-adjusted HAC rates for all hospitals in the previous year will receive a 1% reduction in their total Medicare payments. Hospitals with excessive readmissions for conditions designated by HHS will receive reduced payments for all inpatient discharges, not just discharges relating to the conditions subject to the excessive readmission standard. The ACA also requires HHS to implement a value-based purchasing program for inpatient hospital services. The ACA requires HHS to reduce inpatient hospital payments for all discharges by a percentage which currently is 2%. HHS will pool the amount collected from these reductions to fund payments to reward hospitals that meet or exceed certain quality performance standards established by HHS. HHS will determine from the pool of dollars created by these payment reductions the amount our subsidiary’s hospital will receive if it meets or exceeds the quality performance standards. We expect value-based purchasing programs, including programs that condition reimbursement on patient outcome measures, to become more common and to involve a higher percentage of reimbursement amounts. We are unable at this time to predict how this trend will affect our results of operations, but it could negatively impact our financial condition or results of operations.~~ Reforms in Pharmacy distribution and dispensing have impacted and may further impact our Pharmacy business. PBMs have undertaken a number of actions, primarily in an effort to reduce cost and increase their own profitability, which have impacted our Pharmacy ~~segment~~ business. These actions include limiting reimbursable drug formularies, requiring outcome and quality reporting, and implementing claw backs, takebacks and penalties for alleged and substantially defined noncompliance with various contract terms, some of which may not be known at the time a prescription is filled. In addition, PBMs and manufacturers have limited the drugs which independent pharmacies (including our pharmacy subsidiary) may dispense and receive reimbursement for; and in some cases have determined not to contract with independent pharmacies for dispensing

services at all, preferring to provide “ direct- to- consumers ” type distribution. In addition, the recent purchase or merger of PBMs and insurance companies effectively allows the combined business to control distribution, dispensing, pricing and payment of drugs from the manufacturer to the consumer. This “ vertical integration ” of the pharmacy distribution and dispensing system in the United States could have the effect of eliminating independent pharmacies, limiting the drugs available for dispensing to patients, and may reduce prices below dispensing costs. Any of these pharmacy reforms could result in an adverse effect on our Pharmacy ~~segment~~-business. Continued supply chain shortages could increase our costs of operations or adversely affect our results of operations. Shortages, delays, increased costs, and governmental restrictions arising in the aftermath of the COVID- 19 pandemic as well as increased demand have disrupted and may continue to disrupt the ability of our subsidiaries to procure items used in their operations especially with respect to access to respiratory equipment and certain personal protective equipment and cleaning products. A severe inability to obtain items or substantially increased costs for items, particularly items sold by our pharmacy operations, could have an adverse effect on our results of operations if we are unable to pass such costs along to patients and customers. Current economic events and sustained inflation could increase our costs of operations and adversely affect our results of operations. Current economic events (such as known or reasonably likely future increases in costs of labor or materials or price increases or inventory adjustments) are causing a material change in the relationship between our costs and revenues and we are unable to predict whether recent inflationary spikes since approximately October 2021 are transitory due to pandemic recovery related demand. Labor shortages in selected markets and supply chain issues may reflect the beginning of an inflationary cycle and substantially increased costs of personnel, goods, and services and are having an adverse effect on our results of operations because we are generally unable to pass such costs fully along to patients and customers. The concentration of our patients in persons for whom the cost of treatment is paid for under government programs substantially limits our ability to pass through such costs. The concentration of our services in states with continuing higher COVID- 19 rates may have an adverse impact on our ability to perform services that may generate higher revenues or increase the utilization of our extended care facilities. The rate of COVID- 19 infections and hospitalizations have been higher in more rural areas of the country due to, among other things, higher populations of unvaccinated persons. A higher infection and / or hospitalization rate is likely to have an adverse impact on the ability of Trace to perform services that may generate higher revenues and may prolong its material adverse effects in the aftermath of the COVID- 19 pandemic. General economic conditions **may have an adverse impact on our operations**. Much healthcare spending is discretionary and can be significantly impacted by economic downturns. When patients are experiencing personal financial difficulties or have concerns about general economic conditions, they may choose to defer or forego elective surgeries and other non- emergent procedures, which are generally more profitable lines of business for hospitals. In addition, employers may impose, or patients may select a high- deductible insurance plan or no insurance at all, which increases a hospital’ s dependence on self- pay revenue. We are unable to quantify the specific impact of the COVID- 19 pandemic or current or recent economic conditions on our business; however, we believe that the economic conditions in the rural service areas in which our subsidiaries operate have had an adverse impact on our operations. Such impact can be expected to continue to affect not only the healthcare decisions of our patients and potential patients but could also have an adverse impact on the solvency of certain managed care providers and other counterparties to transactions with us. Our subsidiaries are subject to potential claims for professional liability, including existing or potential claims based on the acts or omissions of third parties, which claims may not be covered by insurance. Our subsidiaries are subject to potential claims for professional liability (medical malpractice) in connection with current operations, as well as potentially acquired or discontinued operations. To cover such claims, professional malpractice liability insurance and general liability insurance is maintained in amounts believed to be sufficient for operations, although some claims may exceed the scope or amount of the coverage in effect and insurance may add limitations and exclusions to such insurance. However, SunLink currently purchases limited insurance policies to cover discontinued operations exposures. We may purchase such insurance in the future at levels providing for the retention of more risk by us and at lower aggregate limits. The assertion of a significant number of claims, either within a self- insured retention (deductible) or individually or in the aggregate in excess of available insurance, could have a material adverse effect on our results of operations or financial condition. Premiums for professional liability insurance have historically been volatile, and we cannot assure you that professional liability insurance will continue to be available on terms acceptable to us, if at all. The operations of our hospital and pharmacies also depend on the professional services of physicians, pharmacists and other trained healthcare providers and technicians in the conduct of their respective operations, including independent laboratories and physicians rendering diagnostic and medical services. There can be no assurance that any legal action stemming from the act or omission of a third party provider of healthcare services, would not be brought against our subsidiaries’ hospital, pharmacies, or SunLink, resulting in significant legal expenses in order to defend against such legal action or to obtain a financial contribution from the third- party whose acts or omissions occasioned the legal action. Risks Related to Our Operations SunLink has a limited staff of corporate employees and depends heavily on its corporate staff and subsidiaries’ management personnel; the loss of the services of one or more of SunLink’ s key personnel could weaken SunLink’ s management team and impair its ability to deliver ~~healthcare services and~~ pharmacy products and services. The success of our operations depends on the ability to attract and retain executive officers, managers, related health care employees and IT staff, as well as on the ability of subsidiary- based officers and key employees to manage growth successfully. SunLink’ s subsidiaries have been able to attract healthcare subsidiary management; however, if the subsidiaries or corporate staff is unable to attract and retain effective management, the operating performance could decline. SunLink’ s success depends on the ability of our operating subsidiaries to attract and retain qualified **pharmacists** healthcare professionals. A shortage of qualified ~~healthcare professionals including physicians, mid- level healthcare practitioners (such as physician assistants, or nurse practitioners) and~~ pharmacists in any of our markets could weaken the ability of our subsidiaries to deliver healthcare services. In addition to the management personnel which each subsidiary employs, our **Pharmacy Healthcare Services** operations are dependent on the efforts, ability, and experience of our ~~healthcare~~ professionals, such as ~~physicians,~~

nurses, therapists, pharmacists and lab technicians. ~~Nurses, pharmacists and~~ **Pharmacists**, lab technicians and other healthcare professionals are generally employees of an individual subsidiary ~~and physicians may be employed or join our medical staff as independent contractors~~. Each subsidiary's success has been, and will continue to be, influenced by its ability to attract and retain these skilled employees. A shortage of ~~healthcare~~ professionals in one of our markets, the loss of some or all of its key employees or the inability to attract or retain sufficient numbers of qualified ~~healthcare~~ professionals could cause the operating performance of one or more of our subsidiaries to decline. As a result of the COVID-19 pandemic and its aftermath, the ~~Healthcare Services and Pharmacy segments have~~ **operations has** both experienced reduced capacity and absences by our healthcare providers. The majority of SunLink's revenue is dependent on Medicare and Medicaid payments to its subsidiaries and possible reductions in Medicare or Medicaid payments or the implementation of other measures to reduce reimbursements may reduce our revenues. The majority of SunLink's consolidated revenues are derived from the Medicare and Medicaid programs, which are highly regulated and subject to frequent and substantial changes. Approximately **65 % and 63 %** ~~and 74 %~~ of our ~~consolidated~~ net revenues **from continuing operations** were derived from the Medicare and Medicaid programs for the years ended June 30, ~~2023~~ **2024** and June 30, ~~2022~~ **2023**, respectively. Previous legislative changes have resulted in, and future legislative changes may result in, limitations on and reduced levels of payment and reimbursement for a substantial portion of hospital procedures, pharmacy services and costs. ~~In addition, Mississippi has not expanded Medicaid or set-up healthcare exchanges. Further, Federal proposals to reduce physician payments may reduce physician participation in hospital services, lower referral of patients and increase the cost of attracting physicians.~~ Future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs may have a material adverse effect on our consolidated business, financial condition, results of operations or prospects. Revenue and profitability of our subsidiaries' operations may be constrained by future cost containment initiatives undertaken by purchasers of such services. Our subsidiaries' have been affected by the increasing number of initiatives undertaken during the past several years by all major purchasers of healthcare, including (in addition to Federal and state governments) insurance companies, PBMs and employers, to revise payment methodologies and monitor healthcare expenditures in order to contain ~~healthcare~~ **pharmacy** costs. ~~Our community hospital operations derived approximately 30 % and 11 % of their consolidated net patient revenues for the fiscal year ended June 30, 2023 and June 30, 2022, respectively, from private payors and other non-governmental sources who contributed less than 6 % of consolidated patient days. Initiatives such as managed care organizations offering prepaid and discounted medical services packages, have adversely affected hospital revenue growth throughout the country and such packages represent an increasing portion of our subsidiary's hospital's admissions and outpatient revenues and have resulted in reduced revenue growth at our current and former subsidiaries' hospitals. In addition, private payors increasingly are attempting to control healthcare costs through direct contracting with hospitals to provide services on a discounted basis, increased utilization review and greater enrollment in managed care programs such as HMOs and PPOs. If our subsidiaries, specifically our hospital subsidiary operations, are unable to contain costs through increased operational efficiencies and the trend toward declining reimbursements and payments continues, the results of our Healthcare Services facility segment operations and cash flow will be adversely affected and the results of our consolidated operations and our consolidated cash flow similarly likely would be adversely affected.~~ A cyber-attack or security breach could result in the compromise of our facilities, confidential data or critical data systems and give rise to potential harm to patients, remediation and other expenses, expose us to liability under HIPAA, consumer protection laws, common law or other theories, subject us to litigation and Federal and state governmental inquiries, damage our reputation, and otherwise be disruptive to our business. We rely extensively on our computer systems to manage clinical and financial data, communicate with our patients, payors, vendors and other third parties and summarize and analyze operating results. We have made investments in technology to protect our systems, equipment and medical devices and information from cybersecurity risks including continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access. Also in connection with any cyber-attack, we likely would be subject to one or more purported class action lawsuits, as well as government investigations by various State Attorneys General and the U. S. HHS Office for Civil Rights, and could be subject to additional litigation, potential governmental inquiries and potential reputation damages. In spite of our security measures, there can be no assurance that we will not be subject to cyber-attacks or security breaches in the future. Additionally, where we agree to provide transition services to the buyer in connection with the sale of assets, including access to our legacy information systems, for a defined transition period, we are exposed to cyber-attacks or security breaches that originate outside of our processes and practices designed to prevent such threats from occurring. Any such cyber-attacks or security breaches could impact the integrity, availability or privacy of protected health information or other data subject to privacy laws or disrupt our information technology systems, devices or business, including our ability to provide various healthcare services. Additionally, growing cyber-security threats related to the use of ransomware and other malicious software threaten the access and utilization of critical information technology and data. As a result, cybersecurity and the continued development and enhancement of our controls, process and practices designed to protect our information systems from attack, damage or unauthorized access likely will be required. Our ability to recover from a ransomware or other cyber-attack is dependent on these practices, including successful backup systems and other recovery procedures. As cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. If we are subject to cyber-attacks or security breaches in the future, this could result in harm to patients; business interruptions and delays; the loss, misappropriation, corruption or unauthorized access of data; litigation and potential liability under privacy, security, breach notification and consumer protection laws or other applicable laws; reputational damage and Federal and state governmental inquiries, any of which could have an adverse effect on our business, financial condition or results of operations. Continuing worsening or additional pandemics, epidemics or outbreaks of an infectious disease in the markets in which we operate or that otherwise impacts our facilities could adversely impact our

business. In addition to the current COVID- 19 pandemic and its aftermath, if one or more additional pandemics, epidemics, or outbreaks of an infectious disease or other public health crisis were to affect our markets, our business could be adversely affected. Any such crisis could diminish the public trust in healthcare facilities, especially in facilities that fail to accurately or timely diagnose or isolate infected persons, or that are treating (or have treated) patients affected by contagious diseases. ~~If any of our facilities were involved in treating patients for such a contagious disease, other patients might cancel elective procedures or fail to seek needed care at our facilities. Further, an additional pandemic might adversely impact our business by causing a temporary shutdown or diversion of patients, by disrupting or delaying production and delivery of materials and products in the supply chain or by causing staffing shortages in our facilities.~~In particular, while it is uncertain the extent to which the coronavirus may impact our business, given that a portion of pharmaceuticals and medical supplies used at our facilities are sourced from China, in the event that the coronavirus outbreak or another infectious disease outbreak, or any actions taken by the Chinese government or other governmental authorities in connection therewith, were to disrupt the supply of these pharmaceuticals and / or medical supplies, then our business could be adversely affected. In addition, although we have disaster plans in place and operate pursuant to infectious disease protocols, the potential impact of a worsening of the COVID- 19 pandemic or additional pandemics, epidemics or outbreaks of an infectious disease with respect to our markets or our facilities is difficult to predict and could adversely impact our business. ~~Our Healthcare Services operations face intense competition from other hospitals and extended care and rehabilitation centers and nursing homes which directly affect such segment and consolidated revenues and profitability. Although Trace operates in a community where it is currently the only general, acute care hospital, it faces substantial competition from other hospitals, including larger tertiary care centers. Although these competing hospitals may be as far as 30 to 50 miles away, patients in Trace’s market migrate to these competing facilities as a result of local physician referrals, services availability, managed care plan incentives or personal choice. Our Trace Extended Care and Rehabilitation Center also competes on a local and regional basis with other facilities providing similar services, including hospitals, extended care and rehabilitation centers, nursing home, assisted living facilities, home health agencies, and similar institutions. Some competitors may operate newer facilities and may provide services, including skilled nursing services, that we do not offer. Our competitors include government-owned, religious organization-owned, secular nonprofit and for-profit institutions. Many of these competitors have greater financial and other resources than we do. Although there is limited, if any, price competition with respect to Medicare and Medicaid residents (since revenues received for services provided to these residents are generally based on pre-established rates), there is substantial price competition for private payment residents. The Healthcare Services business is highly competitive and competition among hospitals, extended care and rehabilitation centers, nursing homes and other healthcare providers for patients has intensified in recent years. Some of these competing facilities offer services which are not offered by SunLink’s subsidiaries’ facilities. Some of the competing facilities are owned or operated by tax-supported governmental bodies or by private not-for-profit entities supported by endowments and charitable contributions which can finance capital expenditures on a tax-exempt basis and are exempt from sales, property, and income taxes. SunLink’s subsidiaries also face competition from other for-profit healthcare companies, some of which have substantially greater resources, as well as other providers, such as outpatient surgery and diagnostic centers and home health agencies. The intense competition from other providers of healthcare services directly affects the market share of our subsidiaries’ facilities, as well as their and our revenues and profitability. Changes in market demographics may increase competition for certain of our Healthcare Services subsidiaries. There is no assurance that we will have the financial resources to fund any substantial capital improvements for our Trace facility or any other subsidiary, which may face additional competition; or that even if financial resources are available to us, that projected operating results will justify such expenditures. An inability to fund or the infeasibility of funding capital improvements could directly or indirectly have an adverse impact on our revenues through lower utilization, increased difficulty in the recruitment of physicians or other service providers and otherwise as a result of increased competition. SunLink’s subsidiaries’ Healthcare Services may be subject to, and depend on, CON laws which could affect their ability to operate profitably. Mississippi currently has laws requiring approval for the purchase, construction or expansion of various Healthcare Services including hospitals, extended care and rehabilitation centers, nursing homes and ambulatory surgery centers and the provision of various services. Under such CON laws, prior state approval is required for the acquisition of major medical equipment or the purchase, lease, construction, expansion, sale or closure of covered healthcare facilities, based on a determination of need for additional or expanded facilities or services. The failure to obtain any required CON may impair SunLink’s subsidiaries’ ability to operate profitably. In addition, the elimination or modification of CON laws in Mississippi, where our hospital and extended care and rehabilitation center operates, could subject such facilities to greater competition making it more difficult to operate profitably. The success of SunLink’s hospital subsidiary depends upon, among other things, its ability to maintain good relationships with the physicians and, if the hospital is unable to successfully maintain good relationships with physicians, admissions and outpatient revenues may decrease and operating performance could decline. Because physicians generally direct the majority of hospital admissions and outpatient services, a hospital’s success is, in part, dependent upon the number and quality of physicians on the medical staffs, the admissions and referrals practices of the physicians, and the ability to maintain good relations with physicians. Many physicians are not employees of the hospitals at which they practice, and most physicians have admitting privileges at other hospitals. If our Trace hospital is unable to successfully maintain good relationships with physicians, admissions may decrease and operating performance could decline. Changes in the laws and regulations regarding payments for hospice services and “room and board” provided to hospice patients residing in skilled nursing facilities could reduce our net patient service revenue and profitability. For hospice patients receiving extended or nursing home care under certain state Medicaid programs who elect hospice care under Medicare or Medicaid, the state must pay, in addition to the applicable Medicare or Medicaid hospice per diem rate, an amount equal to at least 95 % of the Medicaid per diem skilled nursing facility rate for “room and board” furnished to the patient by the skilled nursing facility. The reduction or elimination of Medicare payments for hospice patients residing in skilled~~

nursing facilities could adversely affect the revenues of our skilled nursing facility. Changes in the laws which would increase minimum staffing levels for skilled nursing facilities The U. S. Department of Health and Human Services ("HHS") through CMS has issued a proposal that would establish comprehensive staffing requirements for nursing homes, including for the first time, national minimum nurse staffing standards. Under this proposal, nursing homes participating in Medicare and Medicaid would be required to meet specific nursing home staffing levels which, in our rural nursing facility are likely to be higher than the current required staffing levels prescribed by the state of Mississippi in which we operate. The potential increased cost of this proposal could adversely effect the operating profit of our nursing facility.

Risks Relating to our Pharmacy Operations The operations of our Pharmacy **segment business** may be adversely affected by changes in government reimbursement regulations and payment levels. For the years ended June 30, **2023-2024** and June 30, **2022-2023**, the operations of our Pharmacy **segment business** derived approximately **67 % and 62 % and 69%**, respectively, of its net revenues from government payors, principally Medicare and Medicaid. The Deficit Reduction Act of 2005 exempted rural providers of home care related services from the competitive acquisition program to which urban providers are subject. There is no assurance that the ASP reimbursement methodology will not be extended to the provision of all specialty pharmaceuticals or to the specialty pharmaceuticals most often sold by the Pharmacy **segment operations** or that the Pharmacy **segment operations** will continue to be able to operate our Pharmacy segment profitably at either existing or at lower reimbursement rates. Likewise, we cannot assure you that the Part B CAP program will not be extended to rural or exurban areas in general or to the areas in which the Pharmacy segment operates, or may seek to operate, in particular or the Pharmacy **segment business** would be able to meet the qualifications to become a Part B CAP vendor either now or at any time in the future. The operations of our Pharmacy **segment business** could be harmed by further changes in government purchasing methodologies and reimbursement rates for Medicare or Medicaid. In addition to the impact of MMA, in order to deal with budget shortfalls, some states are attempting to create state administered prescription drug discount plans, to limit the number of prescriptions per person that are covered, to raise Medicaid co-pays and deductibles, and are proposing more restrictive formularies and reductions in pharmacy reimbursement rates. Any reductions in amounts reimbursable by other government programs for pharmacy services or changes in regulations governing such reimbursements could materially and adversely affect our Pharmacy **segment business**, financial condition and results of operations. Louisiana, where our Pharmacy **segment business** operates, has implemented a managed Medicaid program which is administered by outside contractors. These managed Medicaid programs are designed to reduce the State's administrative costs and the cost of the products and services provided to beneficiaries. The DME service line of the Pharmacy **segment business** may be adversely affected by further changes in government reimbursement regulations and payment levels, especially if the DME service line becomes subject to additional competitive bidding procedures. The Pharmacy **segment business** is currently subject to the expanded provisions of the Medicare competitive bidding program which have had a negative impact on the prices we receive for DME. The current provisions could be expanded or changed in the future. Any additional changes in government reimbursement or payment amounts could have a further adverse effect on our consolidated results of operations. The operations of our Pharmacy **segment business** depend on a continuous supply of key products. Any shortages of key products could adversely affect the business of the Pharmacy **segment operations**. Many of the products distributed by the operations of our Pharmacy **segment business** are manufactured with ingredients that are susceptible to supply shortages. In addition, the manufacturers of these products may not have adequate manufacturing capability to meet rising demand. If any products distributed by the Pharmacy **segment business** are in short supply for extended periods of time, this could result in a material adverse effect on our business and results of operations. The operations of our Pharmacy **segment business** are highly dependent on our relationship with and the stability of one key supplier, and the loss of such key supplier could adversely affect the business of the Pharmacy **segment business**. Any termination of, or adverse change in, our relationships with our key supplier, or the loss of supply of one of our key products for any other reason, could have a material adverse effect on the business of the Pharmacy **segment operations** and our consolidated results of operations. The largest supplier for the Pharmacy **segment business** accounted for approximately **76 % and 77 % and 75%** of the segment's cost of goods sold in the fiscal years ended June 30, **2023-2024** and June 30, **2022-2023**, respectively. In addition, the Pharmacy **segment business** has few long-term contracts with its suppliers. Arrangements with most of its suppliers may be canceled by either party, without cause and on minimal notice; and many of these arrangements are not governed by written agreements. The loss of one or more of larger institutional pharmacy customers could hurt our business by reducing the revenues and profitability of the operations of our Pharmacy **segment business**. As is customary in the institutional pharmacy industry, the institutional pharmacy service line of our Pharmacy **segment business** has customer contracts, but generally not long-term contracts, with its institutional pharmacy customers. Loss of existing contracts or significant declines in the level of purchases by one or more of the larger institutional pharmacy customers could have a material adverse effect on the business of the Pharmacy **segment operations** and our consolidated results of operations. The failure of the Pharmacy **segment business** to maintain eligibility as a Medicare and Medicaid supplier could materially adversely affect its competitive position. Likewise, its failure to maintain and expand relationships with private payors, who can effectively determine the pharmacy source for their members, could materially adversely affect its competitive position. Changes in average wholesale prices ("AWP") could reduce our pricing and margins. Many government payors, including Medicare and Medicaid, have paid, or continue to pay, the operations of our Pharmacy **segment business** directly or indirectly at a rate based upon a drug's AWP less a percentage factor. The Pharmacy **segment business** also has contracted with some private payors to sell drugs at AWP or at AWP less a percentage factor. For most drugs, AWP is compiled and published by several private companies, including First DataBank, Inc. Several states have filed lawsuits against pharmaceutical manufacturers for allegedly inflating reported AWP for prescription drugs. In addition, class action lawsuits have been brought by consumers against pharmaceutical manufacturers alleging overstatement of AWP. We are not responsible for such calculations, reports or payments; however, there can be no assurance that the ability of our Pharmacy **segment business** to negotiate discounts from drug manufacturers will not be materially adversely affected by such

investigations or lawsuits. The federal government also has entered into settlement agreements with several drug manufacturers relating to the calculation and reporting of AWP pursuant to which the drug manufacturers, among other things, have agreed to report new pricing information, the “ average sales price ”, to government healthcare programs. The average sales price is calculated differently than AWP and may be expected to have the effect of indirectly reducing reimbursement. The Pharmacy ~~segment-business~~ faces numerous competitors and potential competitors in the market in which our Pharmacy ~~segment-business~~ operates, many of whom are significantly larger and who have significantly greater financial resources. Large national companies operate in the existing market in which our Pharmacy ~~segment-business~~ operates. We cannot assure you that one or more of such companies or other healthcare companies will not seek to compete or intensify their level of competition in the areas in which we conduct or may seek to conduct one or more of the components of the operations of our Pharmacy ~~segment-business~~. The operations of our Pharmacy ~~segment-business~~ may be adversely affected by industry trends in managed care contracting and consolidation. A growing number of health plans are contracting with a single provider of Pharmacy services. Likewise, manufacturers may not be eager to contract with regional providers of Pharmacy services. If the Pharmacy ~~segment-business~~ is unable to obtain managed care contracts in the areas in which we provide Pharmacy services or are unable to obtain pharmacy products at reasonable costs or at all, the business operations of our Pharmacy ~~segment-business~~ could be adversely affected. The Pharmacy ~~segment-business~~ market may grow slower than expected, which could adversely affect our revenues. We cannot predict the rate of actual future growth in product availability and spending, the extent to which patient demand or spending for specialty drug services in rural or exurban areas will match national averages or whether government payors will provide reimbursement for new products under Medicare or Medicaid on a timely basis, at what rates, or at all. Adverse developments in any of these areas could have an adverse impact on the business operations of our Pharmacy ~~segment-business~~. The profitability of our Pharmacy ~~segment-business~~ can be adversely affected by a decrease in the introduction of new brand name and generic prescription drugs. Sales and profit margins of the Pharmacy ~~segment-business~~ are materially affected by the introduction of new brand name and generic drugs. New brand name drugs can result in increased drug utilization and associated sales revenues, while the introduction of lower priced generic alternatives typically result in relatively lower sales revenues, but higher gross profit margins. Accordingly, a decrease in the number of significant new brand name drugs or generics successfully introduced could adversely affect our business and results of operations. Other Risks Future developments could affect our ability to maintain adequate liquidity. Additionally, our ability to access alternative sources of capital is limited. Historically, our available capital has been sufficient to meet our operating expenses, lease obligations, debt service requirements, and capital expenditures, and we have managed our liquidity such that our aggregate unrestricted cash at June 30, ~~2023-2024~~, was \$ ~~4-7~~, ~~486-170~~, of which a substantial portion was received as government support funds relating to the ~~COVID-19 pandemic and~~ is subject to extensive terms and conditions. Future circumstances could require us to materially increase our revenues, materially reduce our expenses, or otherwise materially improve operating results, dispose of existing assets or obtain material new sources of capital in order to maintain adequate liquidity. The Company is currently limited in its ability to raise capital, debt or equity, in the public or private markets on what it considers acceptable terms was likely nonexistent. The Company and its subsidiaries currently must fund working capital needs from cash on hand, cash from operations or cash from the sale of additional assets, and we cannot assure you that we will be successful in improving our results of operations, reducing our costs, obtaining additional credit facilities or selling additional assets. Forward- looking statements in this Annual Report may prove inaccurate. This document contains forward- looking statements about SunLink that are not historical facts but, rather, are statements about future expectations. Forward- looking statements in this document are based on management’ s current views and assumptions and may be influenced by factors that could cause actual results, performance or events to be materially different from those projected. These forward- looking statements are subject to numerous risks and uncertainties. Important factors, some of which are beyond the control of SunLink, could cause actual results, performance or events to differ materially from those in the forward- looking statements. These factors include those described above under “ Risk Factors ” and elsewhere in this Annual Report under “ Forward- Looking Statements. ”