U.S. Not-for-Profit Health Care: Analyzing COVID-19 and Provider Fund Relief on Credit Ratings

Aug 3, 2020

S&P Global
Ratings

S&P Global: U.S. Not-for-profit acute care health care ratings

What do our credit ratings mean?

- Hospital's willingness and likelihood to pay back its bond-holders/investors
- Rating is a long-term (but can be short-term, too)
- Issuance of debt usually for strategic and large capital investments, but can be for other long and short-term purposes

How do we assess credit risk for acute care hospitals?

- S&P uses specific criteria for acute care hospitals (next slide)
- Criteria incorporates a model but with analytical judgement throughout analysis
- Ratings reviewed annually with updated data / management meetings

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- Acute care hospitals: community hospitals, academic medical centers, stand-alone hospitals, rural hospitals, children's hospitals, hospital districts, critical access hospitals, regional health systems, and multi-state health systems
- ~ 420 rated hospitals and health care systems across the country

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Not-for-profit acute health care criteria – a snapshot

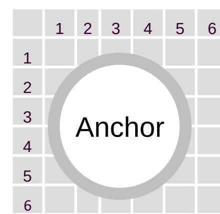
• Economic fundamentals	20%
• Industry risk	20%
• Market position	50%
• Management and governance	10%

Enterprise profile

• Financial performance	40%
• Liquidity and financial flexibility	30%
• Debt	30%

Financial profile

MATRIX



Various overrides, caps, and adjustments may apply

Final Credit Rating

Economic Fundamentals:
- Demographic profile
- Geographic diversity

Industry risk:
- Economic cyclicality
- Competitive risk & growth

Market position:
- Market share, competition, and demand
- Diversity, integration, and scale (if a system)
- Medical staff
- Payer mix
- Clinical quality

Management & governance:
- Strategic positioning
- Risk management
- Organizational effectiveness

Financial performance:
- Various ratios measuring performance, cash flow, and ability to pay for annual debt service / liabilities

Liquidity & financial flexibility:
- Cash/reserves relative to debt, debt structure, and operating base
- Capital spending trend and average age of plant

Debt:
- Overall debt, relative to revenues and net assets
- Debt structure
- Other long-term liabilities like pensions

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Entering into 2020…precarious balance for the sector

Key Risks And Opportunities - U.S. Not-For-Profit Health Care

Weakening of ACA (−)
Federal and some state actions are weakening the ACA as uninsured population grows

Margin compression (−)
Weaker provider operating margins reflect broad range of issues

Non-traditional threats (−)
Competitors' business strategies could affect providers' volumes and margins over time

Credit quality gap (−)
Emerging gaps between stronger and weaker providers and between systems and stand-alones

Management strength (+)
Management teams continue to demonstrate ability to respond to industry changes

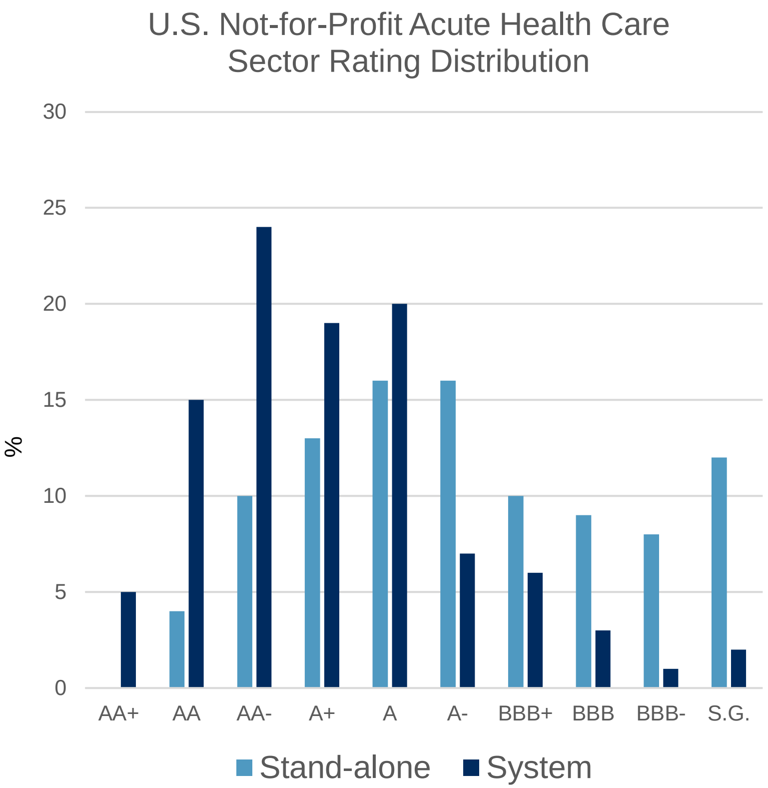
Financial flexibility (+)
Maintenance of balance sheet strength at near record levels

Business profiles (+)
Continued growth of hospitals and system formation support overall credit quality

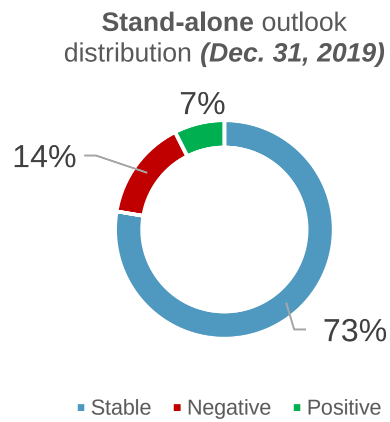
JVs and partnerships (+)
Adaptive joint ventures and partnerships provide opportunity for acute care providers

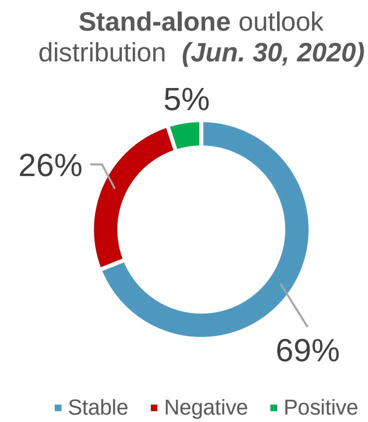
COVID-19 caused us to revise outlook on the sector to negative from stable in late March

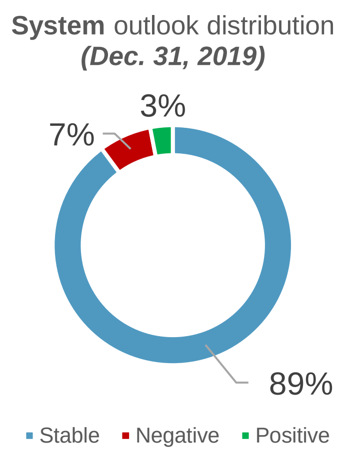
Rating and outlook distribution: COVID-19 impacting outlooks

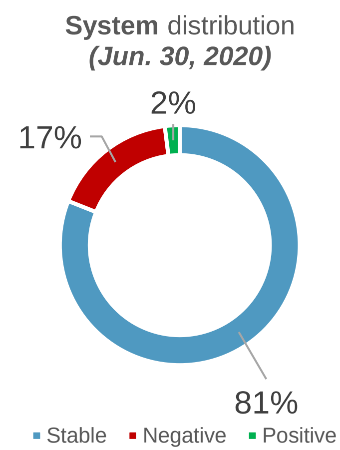


S.G. – Speculative grade. As of Jun. 30, 2020









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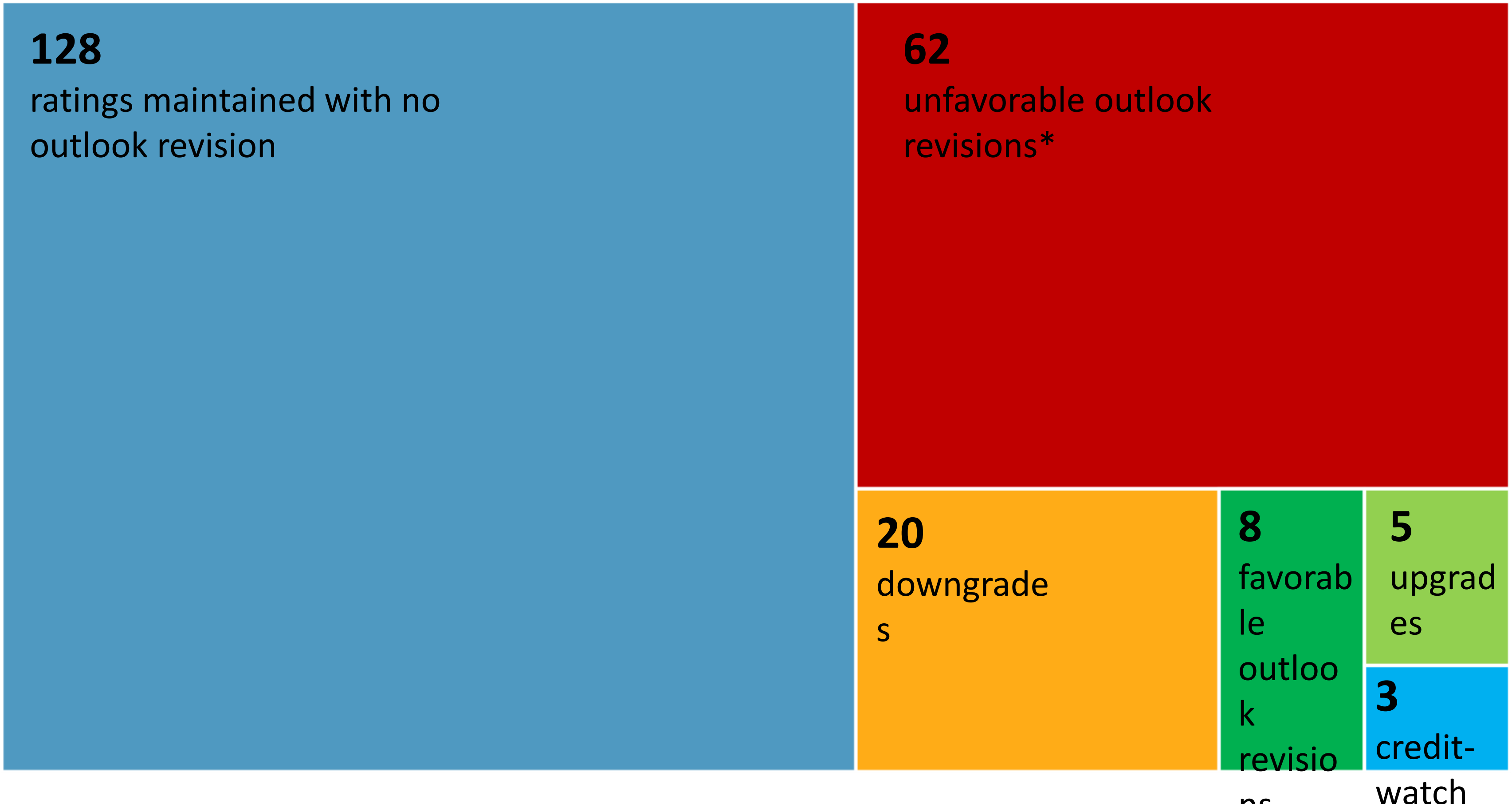
Rating & outlook actions through June 2020: Many still stable, but unfavorable rating actions and outlooks rising



Unfavorable outlook revisions = outlooks going from stable to negative and positive to stable; Favorable outlook revisions = outlooks going from stable to positive or from negative to stable.
Rating actions as of Jun. 30, 2020.
*Includes 42 unfavorable outlook revisions that were part of a multi-credit rating action in April 2020.

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Negative outlook: Recovery continues, but likely uneven and challenging

Uneven volume recovery with COVID-19 ebbs and flow makes it challenging to determine new normal.

Recessionary environment could result in payer mix shifts and further volume declines.

Revenue weakness coupled with expense increases will likely keep operating margins depressed for the remaining part of 2020 and going into 2021.

Federal stimulus grants and Medicare advance payments (MAP) helpful, but much uncertainty remains and as MAP starts being re-paid for many this month.

- Credit fundamentals matter
- Stronger credits should be able to better withstand the pressures from the COVID-19 pandemic, but prolonged stress could cause us to revisit that view
- Credit quality gap may widen. Hospitals need to invest in capital, technology, and future strategies and maintaining financial strength will be key
- Other post COVID-19 considerations for hospitals include health policy decisions, ongoing evolution of technology investment in health care, and reimbursement models

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