

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

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# 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

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

- **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

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

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

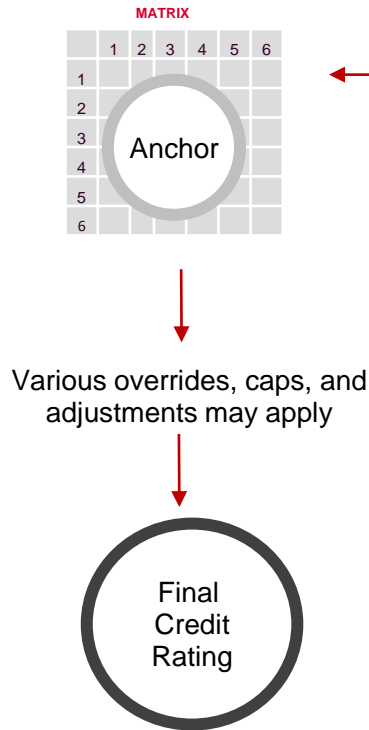
Enterprise profile

- Economic Fundamentals:**
- Demographic profile
  - Geographic diversity
- Industry risk:**
- Economic cyclicalities
  - 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 40%
- Liquidity and financial flexibility 30%
- Debt 30%

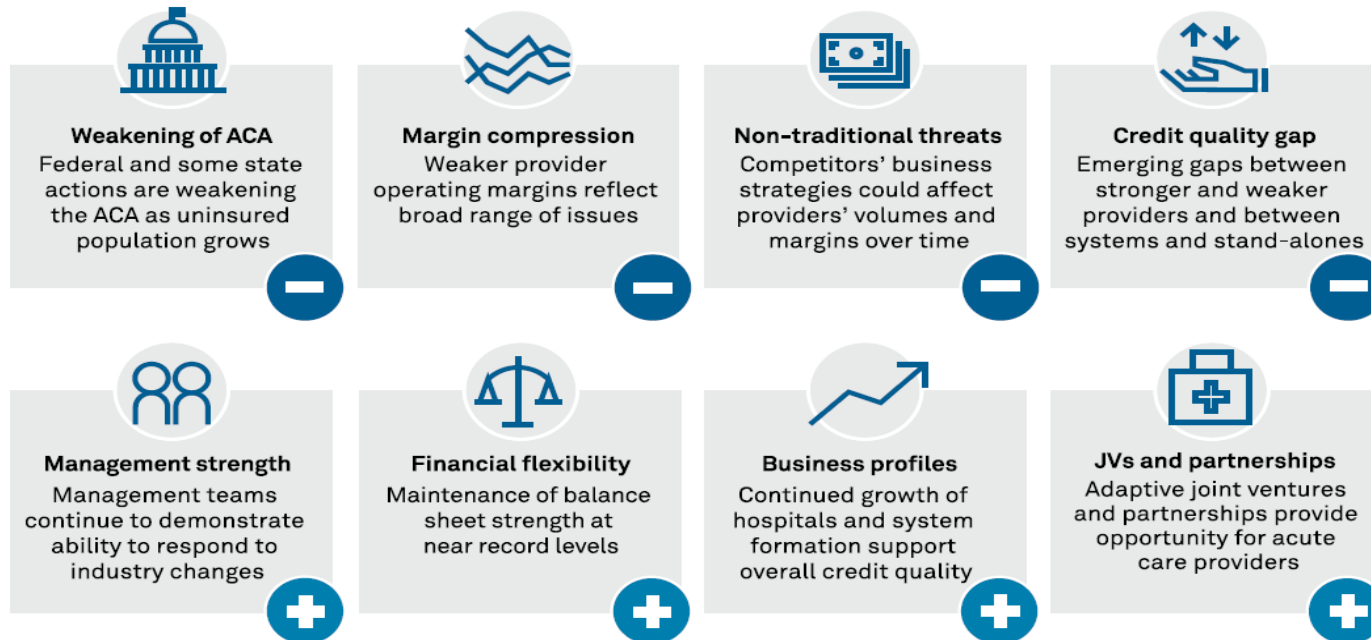
Financial profile

- 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



# Entering into 2020...precarious balance for the sector

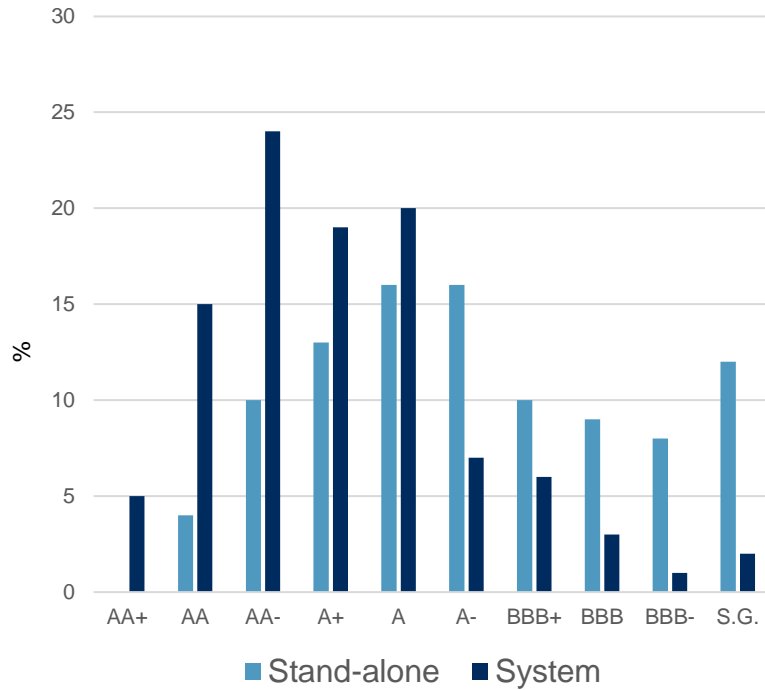
## Key Risks And Opportunities - U.S. Not-For-Profit Health Care



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

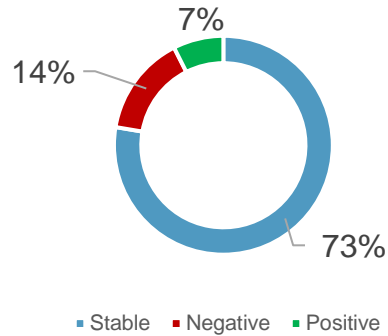
# Rating and outlook distribution: COVID-19 impacting outlooks

U.S. Not-for-Profit Acute Health Care Sector Rating Distribution

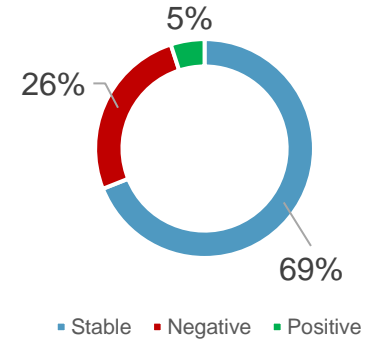


S.G. – Speculative grade. As of Jun. 30, 2020

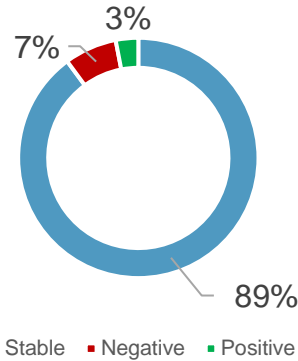
Stand-alone outlook distribution (Dec. 31, 2019)



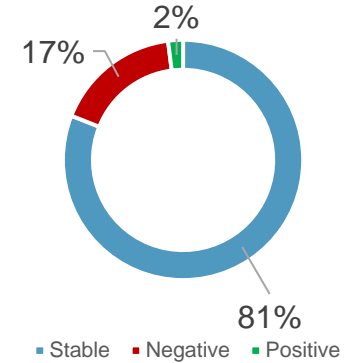
Stand-alone outlook distribution (Jun. 30, 2020)



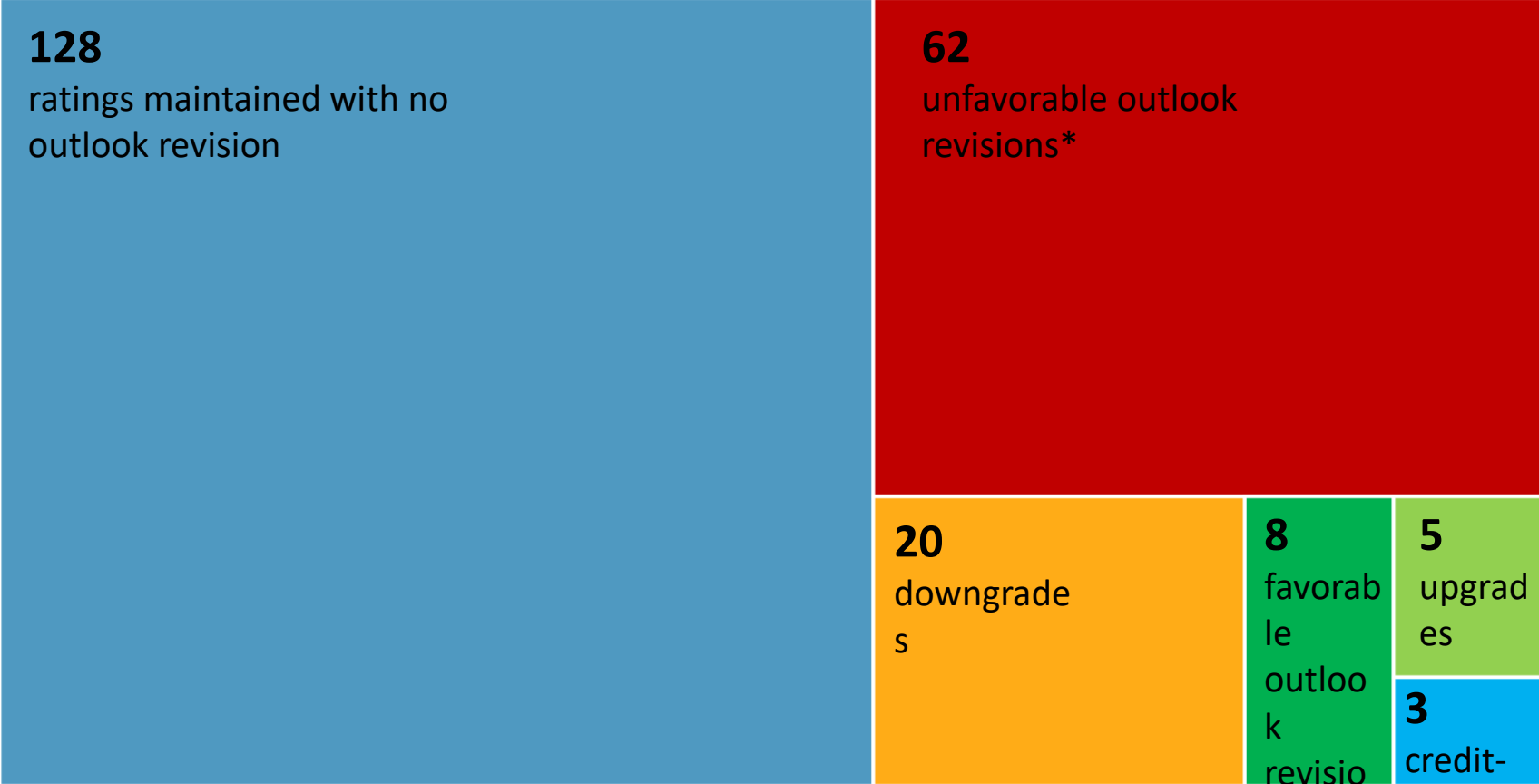
System outlook distribution (Dec. 31, 2019)



System distribution (Jun. 30, 2020)



# 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.

# 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 repaid 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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