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

**Enterprise profile**

- **Economic Fundamentals**: 20%
  - Demographic profile
  - Geographic diversity

- **Industry risk**: 20%
  - Economic cyclicality
  - Competitive risk & growth

- **Market position**: 50%
  - Market share, competition, and demand
  - Diversity, integration, and scale (if a system)
  - Medical staff
  - Payer mix
  - Clinical quality

- **Management & governance**: 10%
  - Strategic positioning
  - Risk management
  - Organizational effectiveness

**Financial profile**

- **Financial performance**: 40%
  - Various ratios measuring performance, cash flow, and ability to pay for annual debt service / liabilities

- **Liquidity and financial flexibility**: 30%
  - Cash/reserves relative to debt, debt structure, and operating base
  - Capital spending trend and average age of plant

- **Debt**: 30%
  - Overall debt, relative to revenues and net assets
  - Debt structure
  - Other long-term liabilities like pensions

**Matrix**

Various overrides, caps, and adjustments may apply

**Final Credit Rating**
Entering into 2020...precarious balance for the sector

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

Stand-alone outlook distribution (Dec. 31, 2019)
- Stable: 73%
- Negative: 7%
- Positive: 14%

Stand-alone outlook distribution (Jun. 30, 2020)
- Stable: 69%
- Negative: 5%
- Positive: 26%

System outlook distribution (Dec. 31, 2019)
- Stable: 89%
- Negative: 3%
- Positive: 7%

System outlook distribution (Jun. 30, 2020)
- Stable: 81%
- Negative: 2%
- Positive: 17%

S.G. – Speculative grade. As of Jun. 30, 2020
Rating & outlook actions through June 2020: Many still stable, but unfavorable rating actions and outlooks rising

128 ratings maintained with no outlook revision

62 unfavorable outlook revisions*

20 downgrades

8 favorable outlook revisions

5 upgrades

3 credit-watch

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.
*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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