

Medians for Healthcare

Standard & Poor's Ratings Services has recently released its not-for-profit health care median ratios for stand-alone hospitals and health care systems.

Weakening operating margins and lower non-operating revenue together lead to a decline in maximum annual debt service coverage for every rating category. Balance sheet metrics were mostly stable, although there is some unevenness among rating levels and categories as responses to the myriad of industry pressures vary among providers.

Stand-Alone Hospital Median Ratios By Rating Category: Fiscal Year-End 2016

	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Speculative Grade</u>
Sample Size	36	128	88	22
Maximum Annual Debt Service Coverage (x) *	6.2	4.4	2.7	1.7
Operating Margin (%) *	4.8	3.0	1.2	(1.6)
Days Cash on Hand *	344.0	251.1	163.6	94.8
Long-Term Debt / Capitalization (%) *	20.4	27.3	34.4	47.1

Health care system medians in 2016 saw a decline in all operating, cash flow, and net margins as well as non-operating income, leading to weaker maximum annual debt service (MADS) coverage. Absolute levels of unrestricted reserves rose, and while rising expenses led to a decline in days' cash on hand, unrestricted reserve metrics improved relative to debt, as debt levels remained flat.

Not-For-Profit Health Care System Medians Ratios By Rating Category: Fiscal Year-End 2016

	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Speculative Grade</u>
Sample Size	63	67	13	3
Maximum Annual Debt Service Coverage (x) *	5.2	3.7	2.3	0.3
Operating Margin (%) *	3.9	2.3	(0.9)	(3.3)
Days Cash on Hand *	264.4	168.6	115.8	53.6
Long-Term Debt / Capitalization (%) *	27.0	37.6	47.0	69.5

***Definitions:**

Maximum Annual Debt Service Coverage (x) – net revenue available for debt service / estimated future peak principal payments and interest expense

Operating Margin (%) – (total operating revenue – total operating expenses) / total operating revenue

Days Cash on Hand – (unrestricted cash and investments x 365) / (total operating expenses – depreciation and amortization expenses)

Long-Term Debt / Capitalization (%) – (long-term debt + short-term debt) / (long-term debt + short-term debt + unrestricted fund balance)

(Sources: S&P Global Ratings – RatingsDirect: U.S. Not-For-Profit Acute Health Care Stand-Alone Hospital Median Financial Ratios 2016 vs. 2015; August 24, 2017 AND U.S. Not-For-Profit Health Care System Median Financial Ratios 2016 vs. 2015; August 24, 2017)