

U.S. Not-for-Profit Acute Health Care: Industry Update and 2023 Outlook

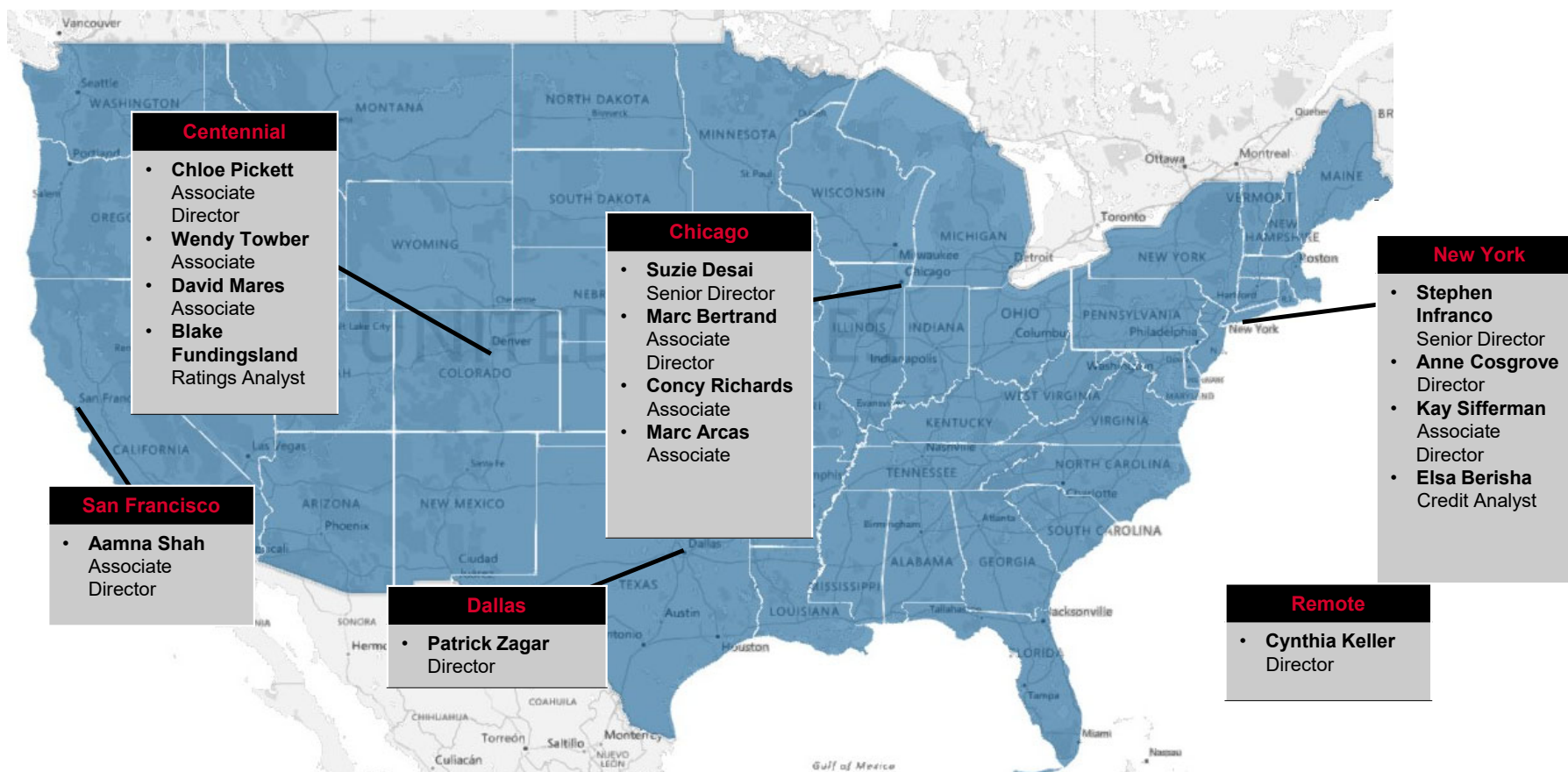
A Long Road Ahead



Agenda

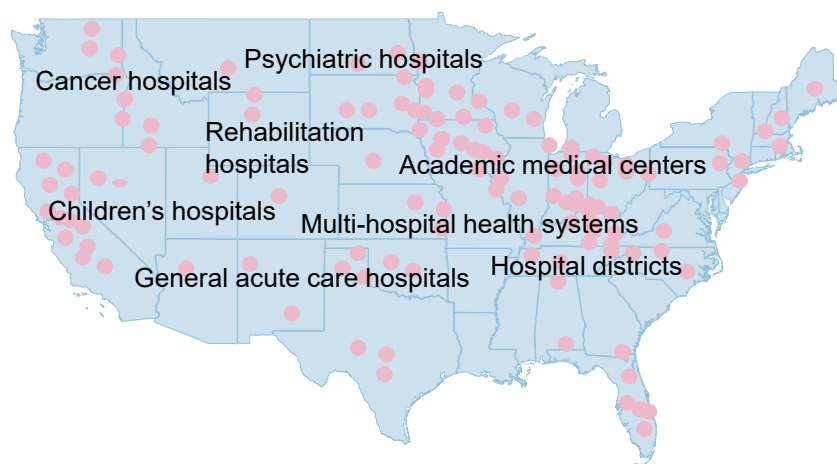
- Overview: U.S. not-for-profit health care team and criteria
- Outlook for 2023 & what we are watching
- Review of the rating changes in 2022 and YTD 2023
- Considering credit quality and ratings in 2023
- Q&A

U.S. Not-For-Profit Health Care Team



U.S. Public Finance Healthcare Ratings Universe

- Not-for-profit, acute care stand-alone hospitals and health care systems, senior living facilities, and human service providers (approximately 500 ratings in total).

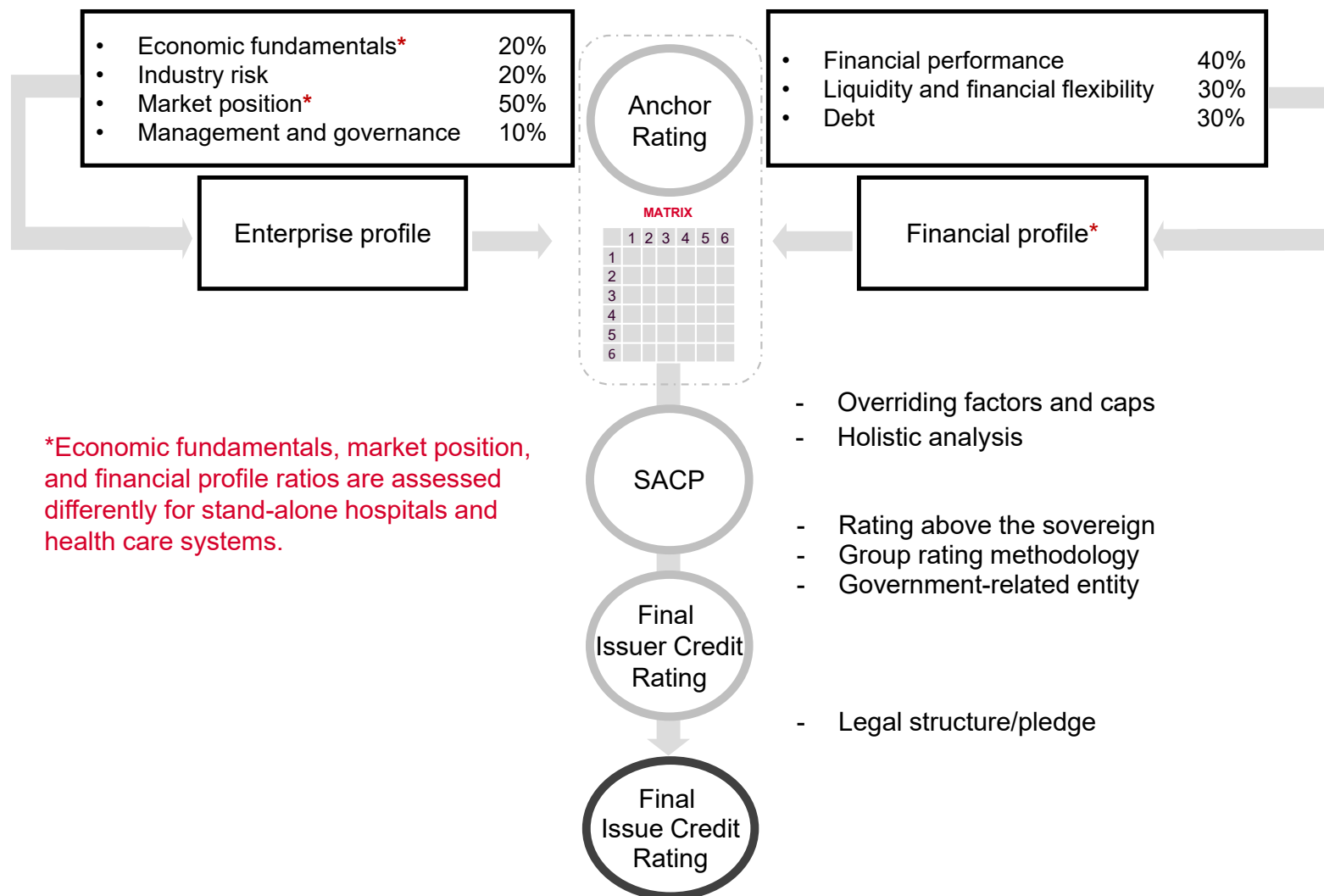


Latest criteria update:

Revised criteria for U.S. and Canadian Not-for-Profit Acute Care Health Care Organizations released

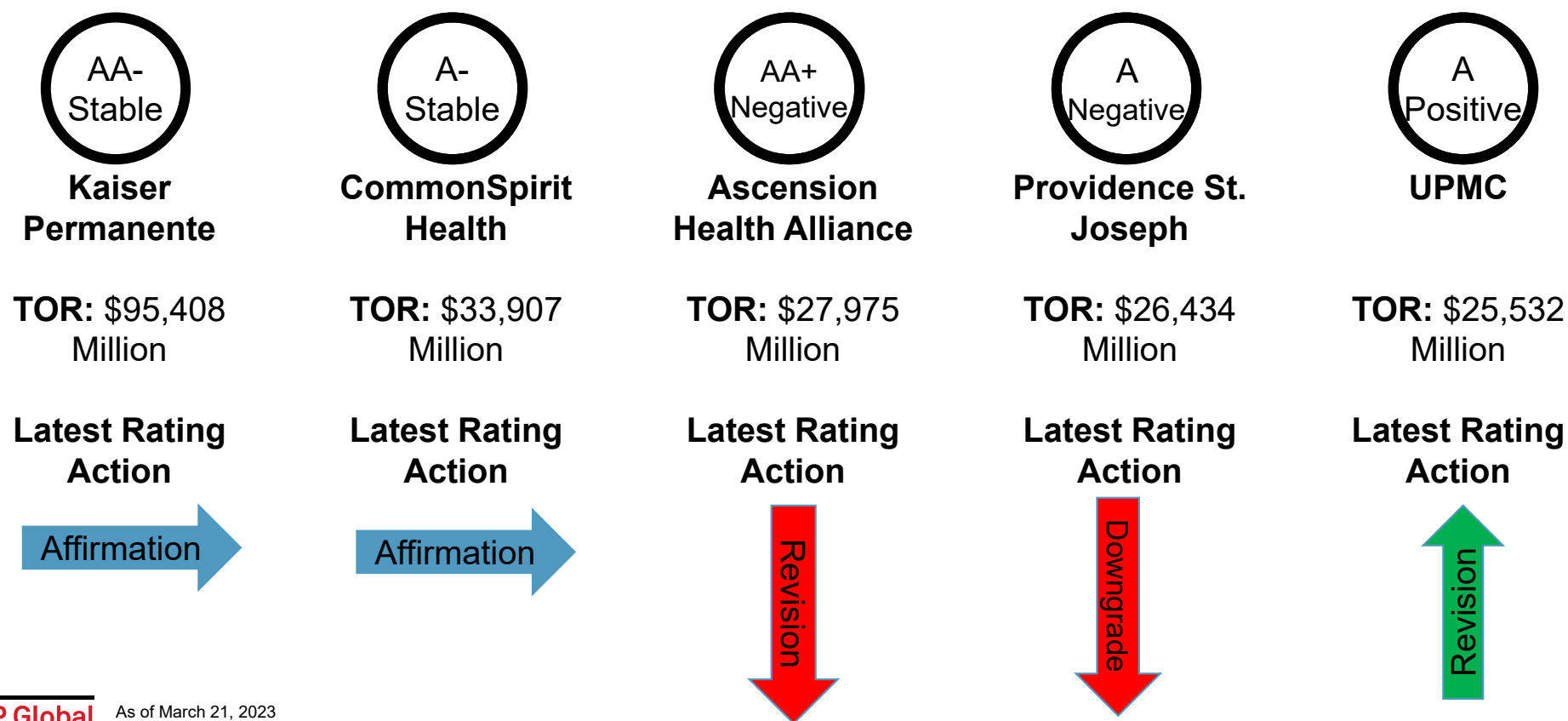
March 19, 2018

Analytical Framework – Not-for-Profit Acute Health Care credits

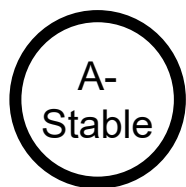


Not-for-Profit Acute Health Care

Total Operating Revenues Range from \$95 Billion...



... to \$21 Million.

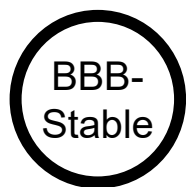


**Huron Regional
Medical Center**

**TOR: \$47.6
Million**

**Latest Rating
Action**

Affirmation →

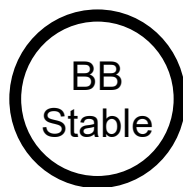


**Shodair
Children's
Hospital**

**TOR: \$41.2
Million**

**Latest Rating
Action**

Affirmation →

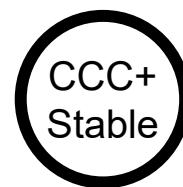


**Bibb County
Healthcare
Authority**

**TOR: \$27.9
Million**

**Latest Rating
Action**

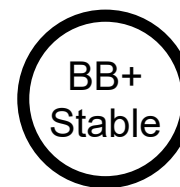
Affirmation →



**Dawson County
Hospital District**

**TOR: \$22.9
Million**

**Latest Rating
Action**



**Winkler County
Hospital
District**

**TOR: \$21.3
Million**

**Latest Rating
Action**

Affirmation →

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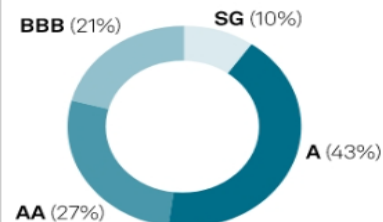
Key Take Aways Leading To Negative Sector View For Acute Health Care

- **Continued cash flow compression.** We believe many hospitals, though not all, will be in a tighter space for credit quality given higher labor costs, inflationary expenses, and a mixed revenue outlook.
- **Waning unrestricted reserves.** Unrestricted reserves and a generally low leveraged sector supported credit quality in 2022, however, without cash flow growth or investment rebound, the overall balance sheet could be less supportive of credit quality in 2023.
- **Expected negative bias in ratings and outlooks.** Negative outlooks have increased through the second half of the year and we expect a continuation of that trend with more negative outlooks and downgrades in 2023, though there will continue to be affirmations for many of our credits that are well positioned at their rating, both financially and enterprise-wise.

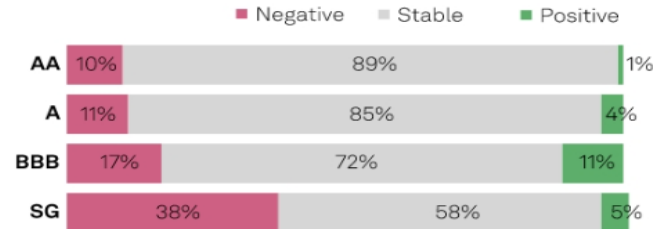
U.S. Not-For-Profit Health Care: By The Numbers

Rated acute care provider characteristics

Rating category distribution



Outlook distribution



Rating and outlook actions

Downgrades to upgrades§

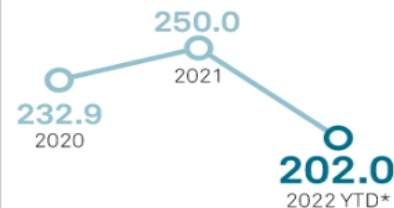
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Unfavorable to favorable outlook revisions

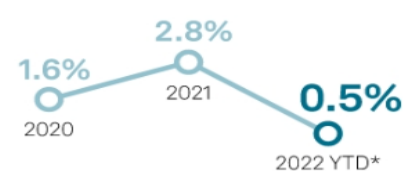
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Key financial metrics

Median days' cash on hand

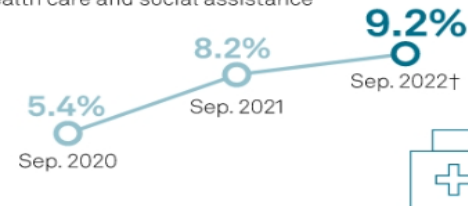


Median operating margin



BLS job opening rate

Health care and social assistance



Annual return for an investment portfolio in 60% stocks and 40% bonds

16.1% vs **-15.1%**
2021 vs 2022 YTD

Expected growth in clinical labor costs between 2023-2024

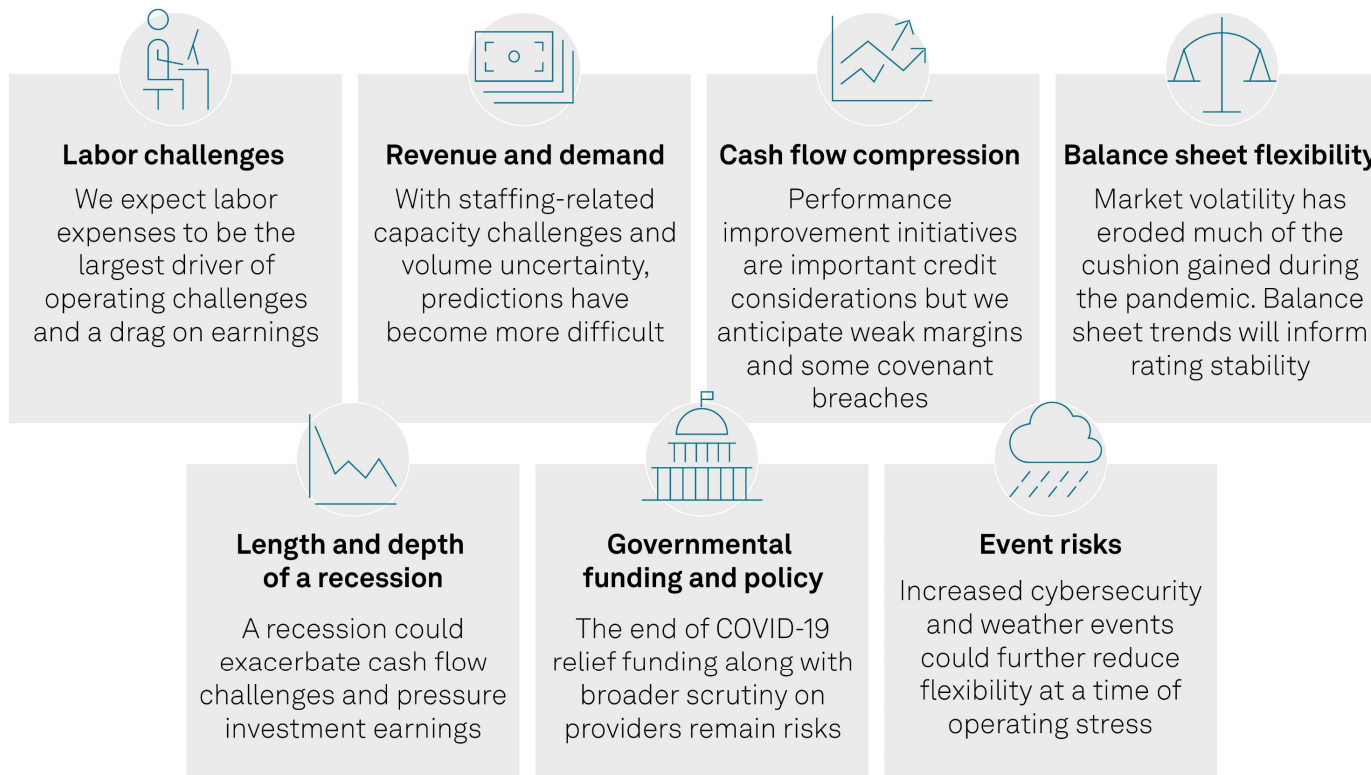
6% to 10%

Increase in Medicaid enrollees between Feb. 2020 and Jul. 2022

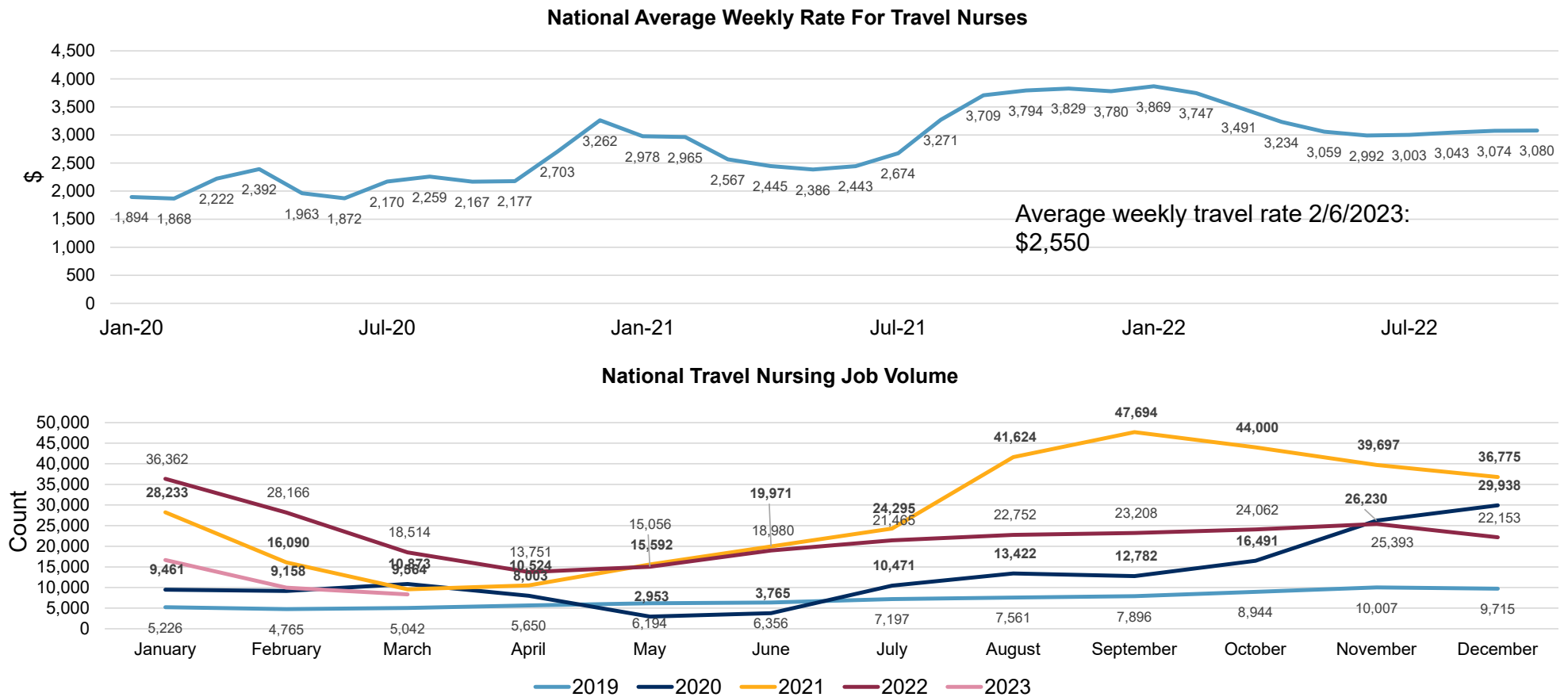
+26%

Data as of Oct. 31, 2022. *Includes only available audits and full year unaudited statements (S&P Global data). †September is preliminary data. SG--speculative grade. Sources: S&P Global Ratings Data; Wall Street Journal, Leuthold Group, Nov. 12, 2022; McKinsey & Company analysis ("The gathering storm: The transformative impact of inflation on the healthcare sector," Sept. 19, 2022); U.S. Bureau of Labor Statistics (seasonally adjusted data); Kaiser Family Foundation.
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U.S Not-for-Profit Health Care: What We're Watching



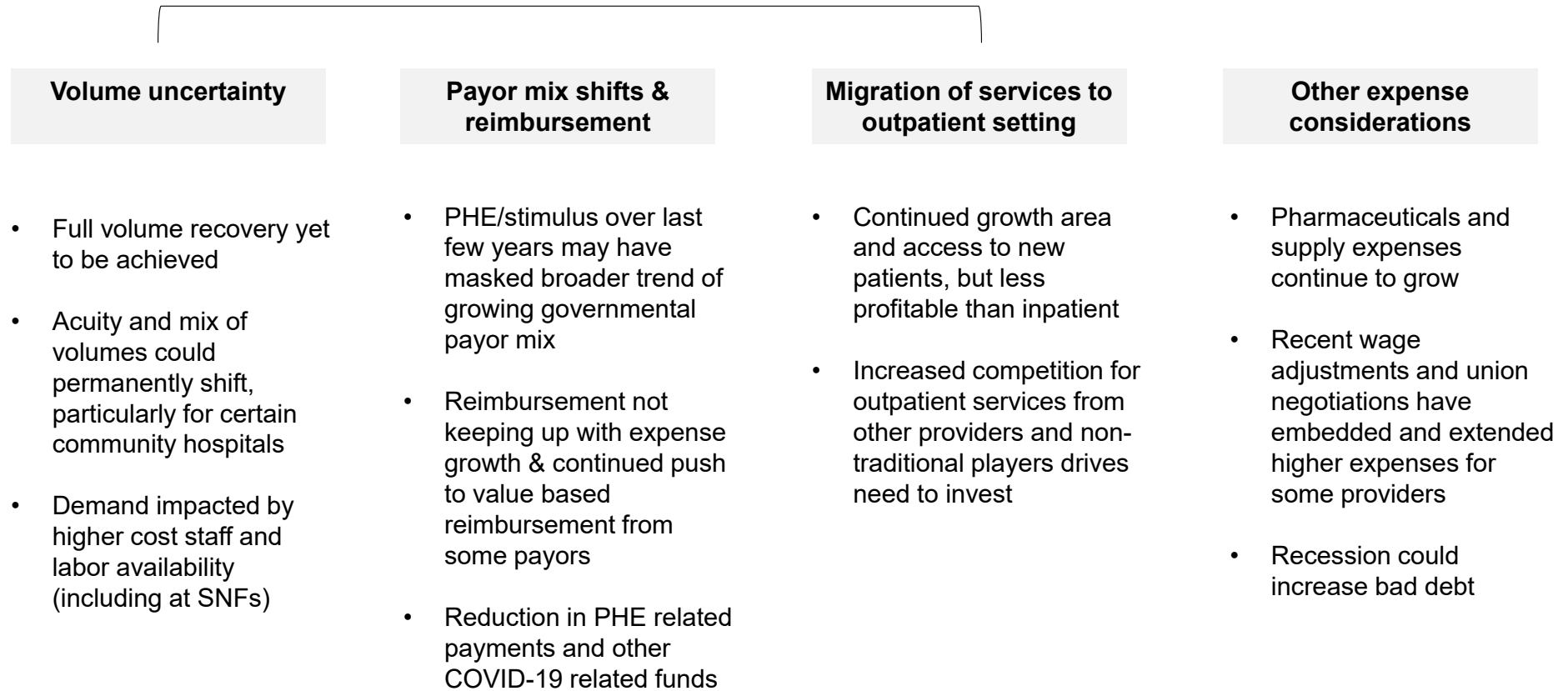
Labor Improving, But Not Back To Pre-Pandemic Levels



Source: Vivian Health, data through October 2022 (from <https://www.healthcaredive.com/news/travel-nurse-pay-high-hospitals-staffing/637412/>); Aya Health Care Staffing Data

Additional Drivers of Margin Compression

Revenues & Demand



2023 Federal Developments & Policy Views

It's no longer 2020/2021

- End of COVID-19 stimulus funds may leave hole in some budgets with FEMA funds more limited and uncertain
- Sequestration restarted in 2022
- 2% physician cuts in 2023
- DSH cuts to begin in 2024

End of Public Health Emergency

- Medicaid eligibility redetermination to shift payor mix over coming year beginning in April 2023 regardless of PHE
- Removal of COVID-19 add-on payments, which has already been limited by lack of funding
- Reduction in 6.2% FMAP increase

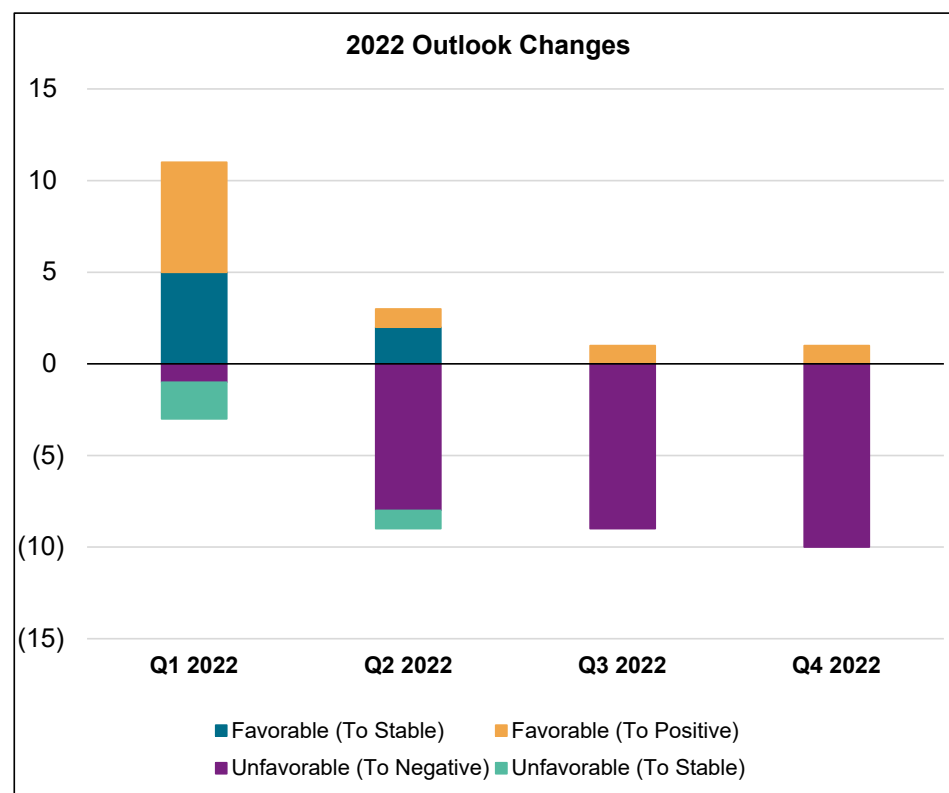
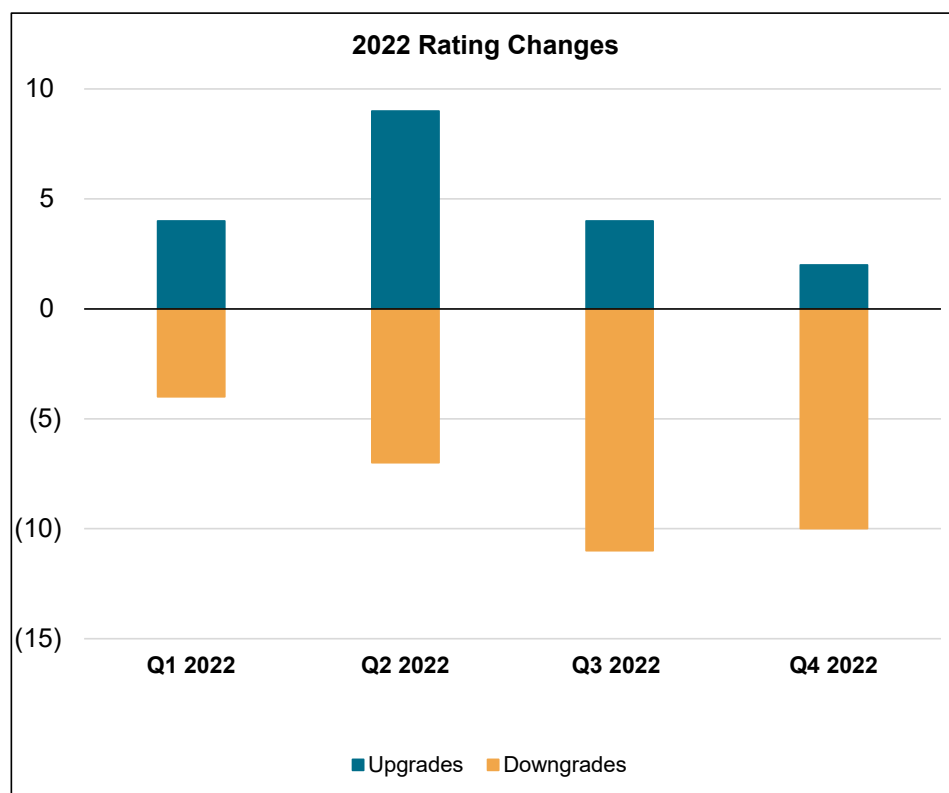
Other Updates

- Medicare hospital rates slightly better than anticipated, but lower than needed and further impacted by 340B ruling
- Telehealth reimbursement extended to December 2024
- M&A could be more difficult within markets, though larger strategic plays may be okay

Agenda

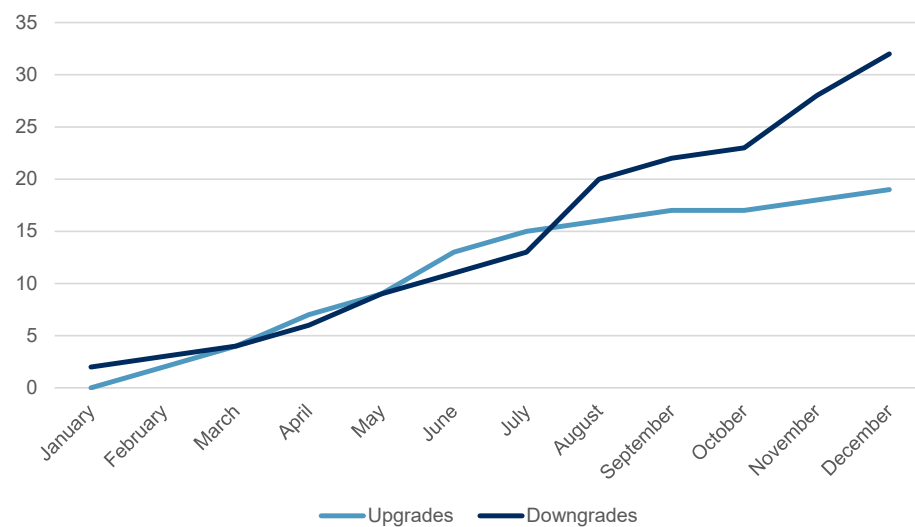
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Quarterly Rating & Outlook Changes: **Momentum Shifting in 2022**

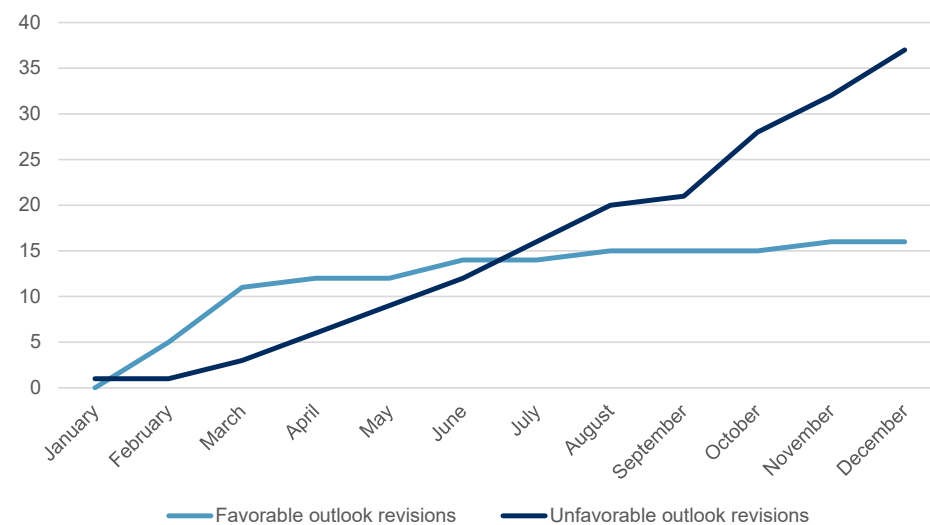


2022 Rating Actions

U.S. Not-For-Profit Acute Health Care Rating
Cumulative Actions By Month, 2022



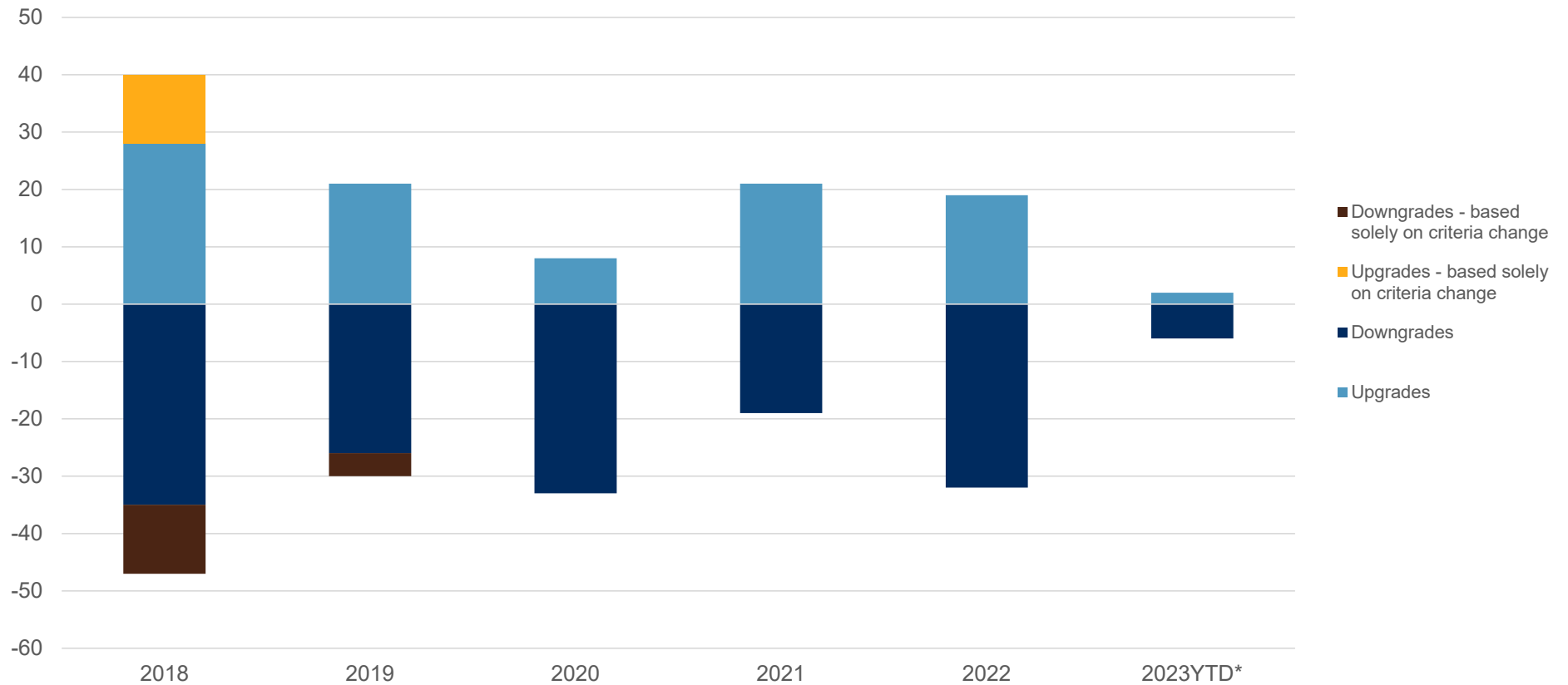
U.S. Not-For-Profit Acute Health Care Outlook
Cumulative Revisions By Month, 2022



Data as of December 2022.

Downgrades in 2022 Higher Compared To Prior Year

U.S. Not-For-Profit Acute Health Care Sector Rating Actions



Data represents all ratings reviewed including some with multiple rating actions. Criteria actions in 2018 and 2019 relate to "U.S. And Canadian Not-For-Profit Acute-Care Health Care Organizations" criteria, published on March 19, 2018. 2023 YTD is through February 2023.

2022 Rating Actions



Upgrades

Beaumont Health, MI (merger)

Bowling Green-Warren Cnty Community Hospital Corp., KY
 Cheyenne Regional Medical Center, WY
 Children's Mercy Hospital, MO
 Cooper Health System, NJ
 Dawson County Hospital District, TX
 Edward-Elmhurst Healthcare, IL (merger)
 Fort Healthcare, WI
 Freeman Health System, MO
 King's Daughters Medical Center, KY
 Long Island Community Hospital, NY (merger)
 Memorial Hospital, NH
 MetroHealth System, OH
 NJH-SJH Center for Outpatient Health, CO (merger)
North Broward Hospital District, FL
NYU Langone Hospitals, NY
 Saint Peter's University Hospital, NJ
SCL Health, CO (merger)
 Loma Linda University Medical Center, CA



Downgrades

Adventist Health System/West, CA

Augusta University Health System, GA
 Beverly Community Hospital Association, CA
 Brooks Rehabilitation, FL
Catholic Health System, NY
 City of Hope, CA
 Decatur Hospital Authority, TX
 Doylestown Hospital Authority, PA
 Good Shepherd Group, PA
 Grand View Hospital, PA
 Holy Redeemer Health System, PA
 Jackson Hospital and Clinic, AL
 King County Public Hospital District No. 1 (dba Valley Medical Center), WA
 Lawrence Mem Hosp, KS
 Main Line Health System, PA
 Marin General Hospital, CA
 Milford Regional Medical Center, MA
MultiCare Health System, WA
 Norman Regional Health System, OK
Nuvance Health, CT
 Opelousas General Hospital Authority, LA
 Orangeburg-Calhoun Counties Regional Medical Center, GA
 OU Medicine, OK
ProMedica Health System, OH
Providence St. Joseph Health, WA
 Renown Regional Medical Center, NV
 Southern Illinois Healthcare Enterprises, IL
Sparrow Health System, MI
 St. Charles Health System, WA
 Trinity Health, ND

2023 Rating Actions (Through February)



Upgrades

University Health, GA (merger)
Vernon Memorial Hospital, WI



Downgrades

Fairview Health Services, MN
Marshfield Clinic Health System, WI
Milford Regional Medical Center, MA
Ochsner LSU Health System of Northern Louisiana, LA
Tower Health, PA
UC Health, OH

Wisconsin Credits Rated By S&P Global



S&P Global
Ratings



Wisconsin 2021 Not-For-Profit Health Care Rated Credit Medians

	Portfolio	Wisconsin
Sample size	391	11
Financial performance		
Net patient revenue (\$000s)	996,903	916,723
Total operating revenue (\$000s)	1,176,202	1,256,325
Total operating expenses (\$000s)	1,118,932	1,165,104
Operating income (\$000s)	26,168	54,346
Operating margin (%)	2.8	6.8
Net nonoperating income (\$000s)	34,789	58,264
Excess income (\$000s)	67,603	99,362
Excess margin (%)	6.0	11.5
Operating EBIDA margin (%)	8.6	11.7
EBIDA margin (%)	11.7	16.4
Net available for debt service (\$000s)	139,751	179,707
Maximum annual debt service (\$000s)	26,402	27,616
Maximum annual debt service coverage (x)	5.4	7.3
Operating lease-adjusted coverage (x)	4.1	5.6
Nonrecurring operating income adjusted operating margin (%)**	0.6	4.7

	Portfolio	Wisconsin
	391	11
Liquidity and financial flexibility		
Unrestricted reserves (\$000s)	819,247	1,128,213
Unrestricted days' cash on hand	250.0	314.3
Unrestricted reserves/total long-term debt (%)	211.7	311.9
Unrestricted reserves/contingent liabilities (%)*	895.9	1491.83
Average age of plant (years)	12.2	10.15
Capital expenditures/depreciation and amortization (%)	107.4	85.61
Debt and liabilities		
Total long-term debt (\$000s)	360,330	390,508
Long-term debt/capitalization (%)	27.8	18.9
Contingent liabilities (\$000s)*	134,075	62,009
Contingent liabilities/total long-term debt (%)*	25.7	24.54
Debt burden (%)	2.2	2.38
Defined-benefit plan funded status (%)*	91.4	95.42

**Nonrecurring operating income is largely attributable to COVID-19 stimulus funds recognized, but could be comprised of other non-recurring items.

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Some Near-Term **Mitigation** Strategies

- Labor management and reduction in agency labor/over-time pay
- Length of stay/Access
- Rationalization of care/closure or consolidation of services & hospitals (temporary or permanent)
- Revenue cycle improvements
- Diversification into growing markets and services/monetization of assets
- Expense management (other than labor)
- Optimizing supplemental funds (e.g., Medicaid Directed Payment Program)



Longer-term strategies likely to involve data/technology for care delivery redesign & efficiencies, clinical developments, M&A and affiliations, and/or broader diversification.

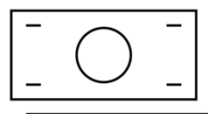
Considerations for Credit Rating/Review Approach in 2023



**Not All Credits
Performing Poorly**



**Credit rating and
relative strength of
the rating**



**Financial flexibility
could provide time
for recovery**



**Enterprise
strengths may
provide near-term
stability**



**Management
acumen and
operating culture**

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Not-for-Profit Health Care Group: Contact Information



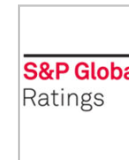
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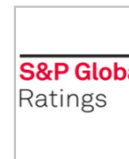
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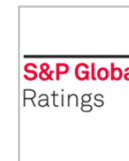
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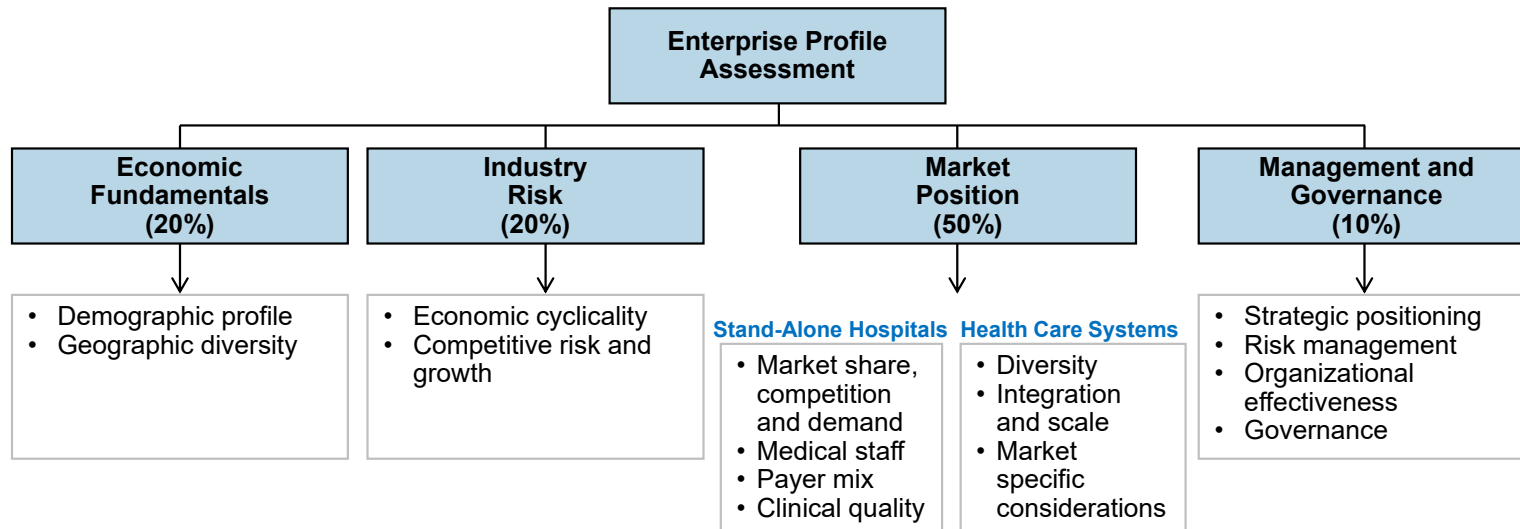
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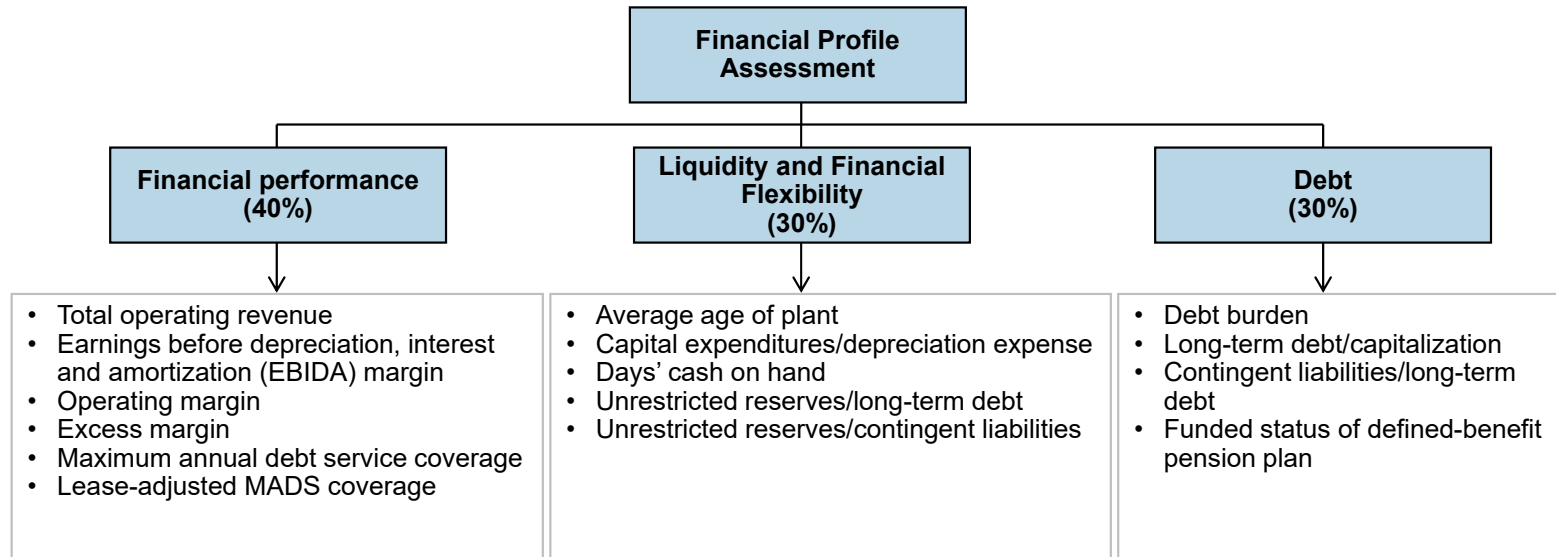
Appendix

Analytical Framework: **Enterprise Profile**



- Assesses operating environment and incorporates broad industry and organization-specific factors.
- Assessments for each factor range from 1 (strongest) to 6 (weakest) based on a combination of quantitative and qualitative factors.

Analytical Framework: **Financial Profile**



- Assesses the financial strength of health care organizations.
- Assessments for each factor range from 1 (strongest) to 6 (weakest) based on a combination of quantitative and qualitative factors.

S&P Not-For-Profit Health Care Criteria – Financial and Enterprise Profile Anchor Chart

	Financial Profile					
Enterprise Profile	1	2	3	4	5	6
	Extremely Strong	Very Strong	Strong	Adequate	Vulnerable	Highly Vulnerable
1 Extremely strong	aaa	aa+	aa-	a	bbb+/bbb	bb+/bb
2 Very strong	aa+	aa/aa-	a+	a-	bbb/bbb-	bb/bb-
3 Strong	aa-	a+	a	bbb+/bbb	bbb-/bb+	bb-
4 Adequate	a	a/a-	a-/bbb+	bbb/bbb-	bb	b+
5 Vulnerable	bbb+	bbb/bbb-	bbb-/bb+	bb	bb-	b
6 Highly Vulnerable	bbb-	bb	bb-	b+	b	b-

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