

# MOODY'S RATINGS

Not-for-profit Healthcare

Moody's view on the state  
of the healthcare industry

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# Agenda

**MOODY'S**  
RATINGS

- 1 **Moody's not-for-profit healthcare landscape**
- 2 **Sector outlook & preliminary medians trends**
- 3 **Key risks & trends**

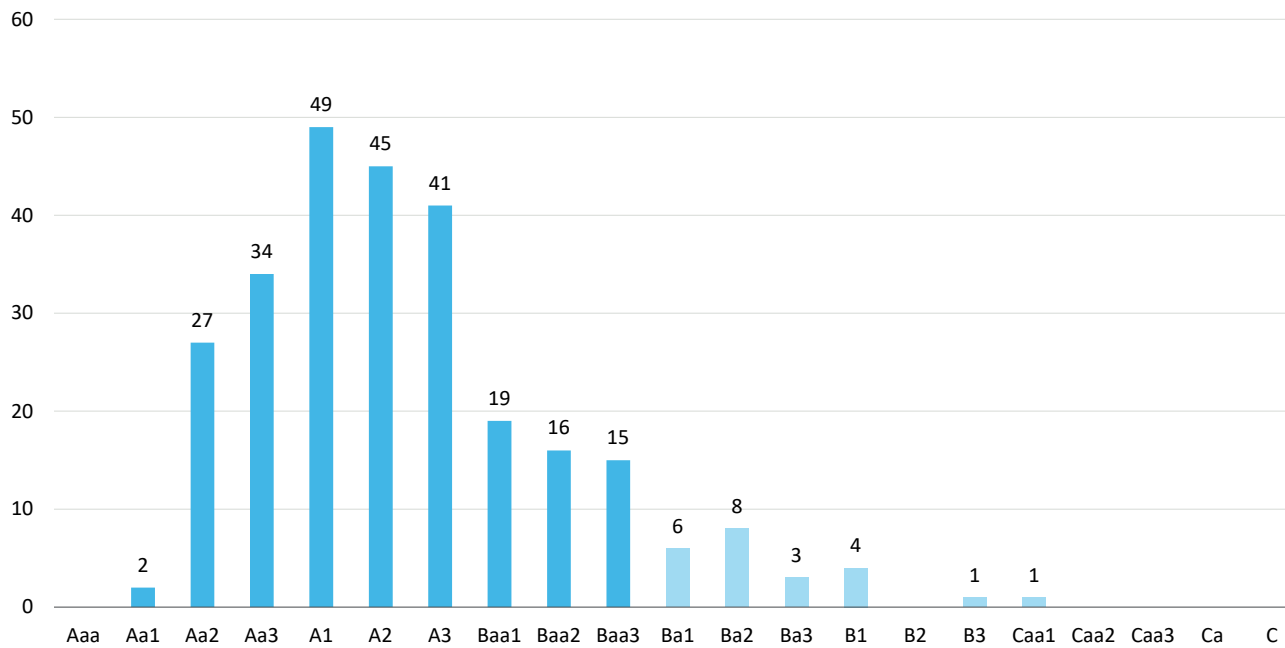


# Overview of our landscape

# Healthcare ratings remain strong

84% of outlooks stable and 92% of credits are investment grade

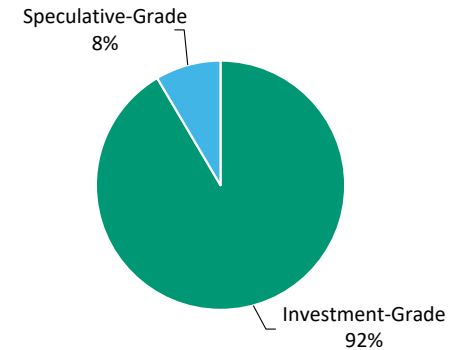
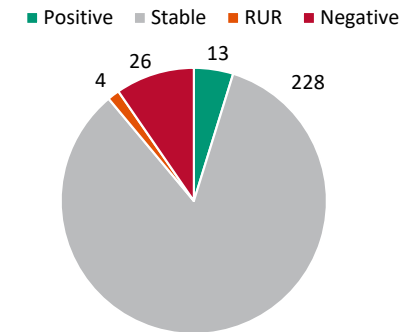
Ratings Distribution by Number of Issuers



Source: Moody's Ratings

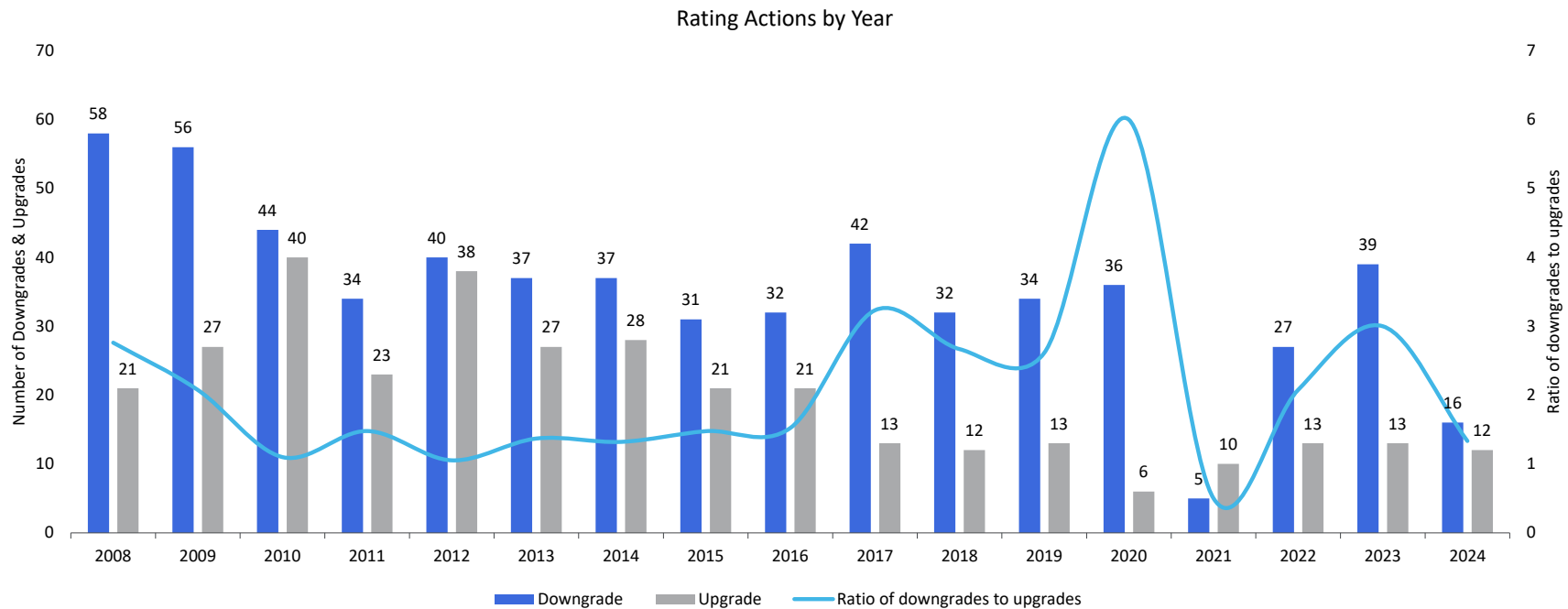


Outlook Distribution



# Active rating management for a more volatile sector

Strong balance sheets bolstered credit through downturn



Source: Moody's Ratings, as of August 2024

# NFP healthcare methodology overview

Broad Factors	Factor Weighting	Sub-Factors	Sub-Factor Weighting
Market Position	45%	Scope of Operations	25%
		Operating Revenue (\$000)	
		Market Demand	10%
		Three year Operating Revenue CAGR (%)	
		Market Landscape	10%
Operating Performance & Liquidity	35%	Operating Performance	10%
		Operating Cash Flow Margin (%)	
		Payor Concentration	10%
		Gross Revenue of Combined Medicare and Medicaid (%)	
		Financial Reserves	10%
		Cash on Hand (days)	
		Financial Management and Reinvestment	5%
Leverage	20%	Financial Leverage	10%
		Unrestricted Cash & Investments to Total Debt (%)	
		Debt Affordability	10%
		Total Debt to Cash Flow (x)	
Total Scorecard-Indicated Outcome			100%

## Other credit considerations:

- » Ownership model (university owned, city/county owned, for example)
- » Event risk
- » Multi-year trends
- » Liquidity quality
- » Debt structure considerations
- » Pension and other post-employment obligations, off balance-sheet obligations



**Sector outlook &  
preliminary median trends**

# NFP Healthcare outlook remains stable

Operating results are mixed although most are improving; full rebound will be gradual



**Operating cash flow and margins will improve**



**Revenue growth will slightly top expense growth**



**Liquidity will remain healthy despite use of cash for capital spending**



**Covenant headroom will improve for most issuers**



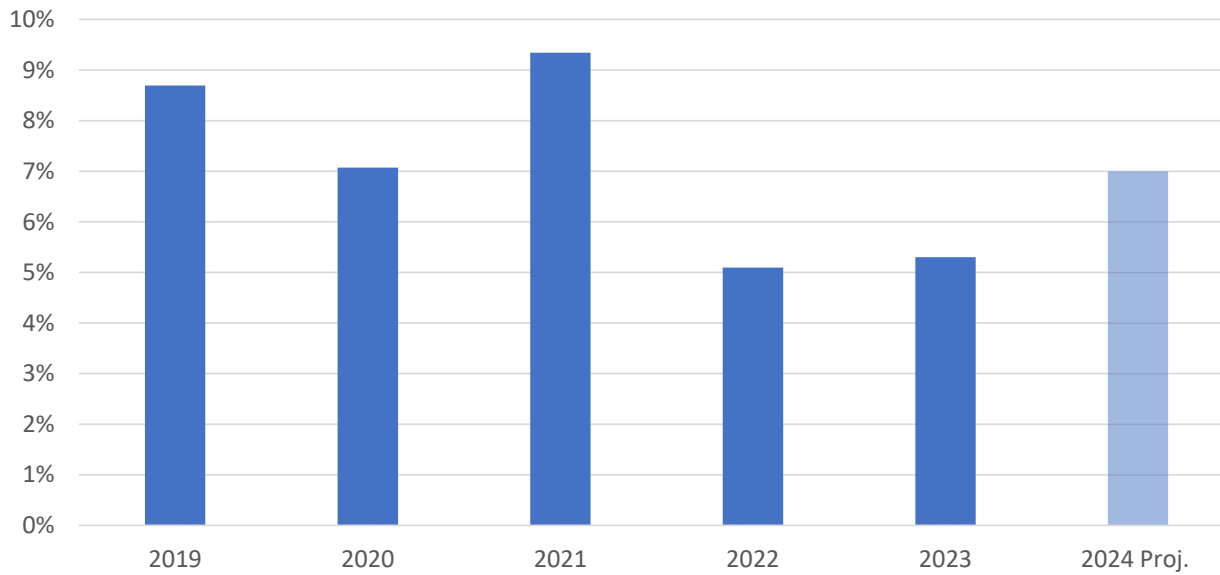
**Federal and state policies offer opportunities and risks**



# 2023 medians show stabilization

Operations stabilize as growth in labor costs ease

Median operating cash flow margin

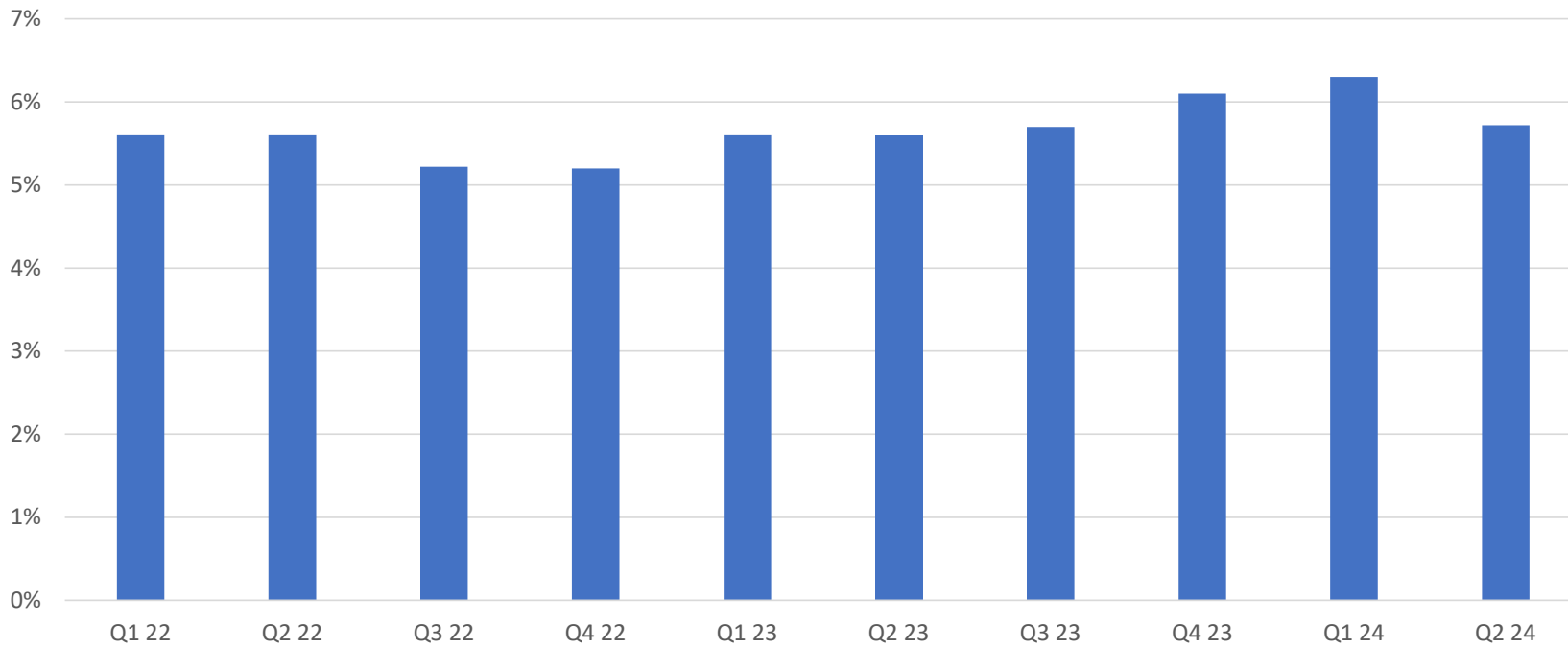


- 2023 medians evidence stabilization at modest levels
- 2024 operating performance is projected to improve but will remain below pre-pandemic highs
- Performance will vary widely depending on region and provider

\*Moody's Ratings; data based on preliminary medians and outlook

# Quarterly operations are improving

## Median operating cash flow margin

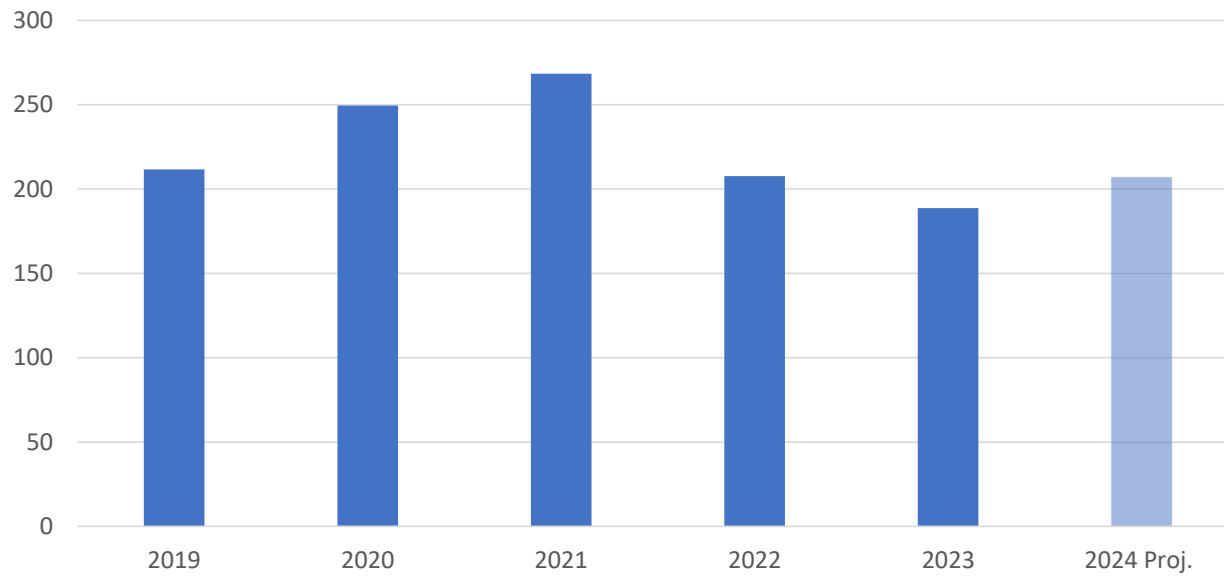


\* Moody's Ratings; Each quarter represents a sample of varying fiscal year-ends

# Liquidity remains a strength

Days cash will be roughly equal to pre-pandemic levels in 2024

Median days cash on hand



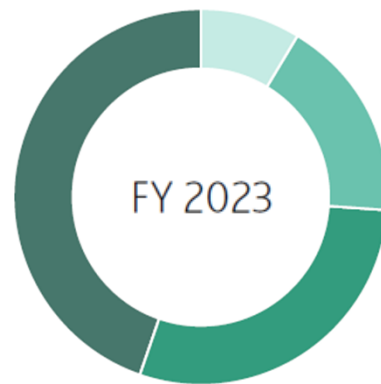
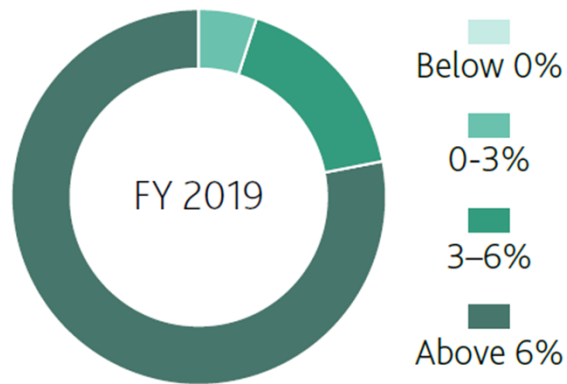
Moody's Ratings; data based on preliminary medians and outlook

- Still high expenses drove weaker days cash in 2023 results
- Days cash on hand will strengthen as operating cash flow improves
- Pent up demand will drive increased capital spending

# Performance is highly varied

Some factors can be differentiators

## Operating cash flow margin



### Underperformers

- Competitive labor market
- Limited outpatient network
- Weak fiscal discipline
- Low liquidity
- Significant covenant stress

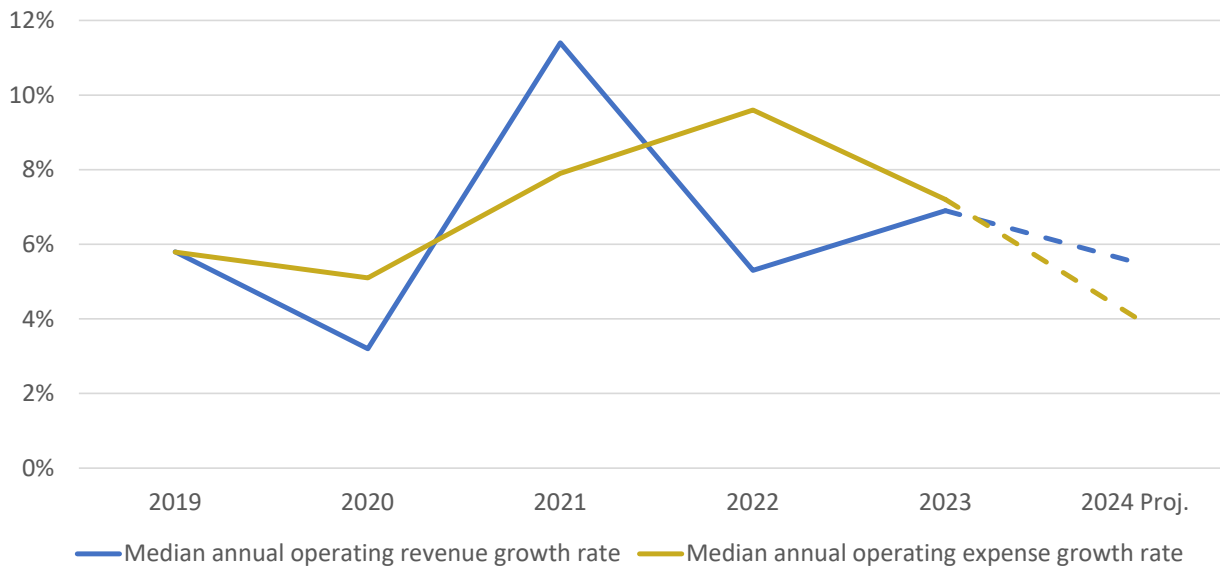
### Outperformers

- Growth market
- Speciality hospitals/ outpatient focus
- Strong management
- Ability to divest
- New governmental funding

# Expense growth is easing, but from a higher base

Revenue growth set to outpace expenses in 2024

Year-over-year revenue & expense growth trends



- 2023 results evidence a slow down in expense growth as labor costs ease
- Volumes, primarily outpatient, will drive stronger revenue growth
- Revenue growth is expected to eclipse expense growth in 2024

Moody's Ratings; data based on preliminary medians and outlook

The background of the slide is a dark blue color. It features several abstract, wavy, light blue lines that create a sense of movement and depth. These lines are composed of many thin, overlapping curves that flow across the frame. The lines are more densely packed in some areas and more sparse in others, creating a dynamic, organic pattern. The overall effect is modern and tech-oriented.

# Healthcare sector trends

# Developments to Watch

## 2024 trends

### Societal trends

- Labor shortages will remain a challenge
- Structurally higher labor costs to persist
- Unions emboldened
- Aging population will drive Medicare and Medicare Advantage
- Continued shift to outpatient will strain revenue growth

### M&A / partnerships

- Continued scrutiny at federal level
- Distressed systems will look to partner
- Non-traditional partnerships to bolster access and improve results, e.g. behavioral health, revenue cycle outsourcing

### Federal & State Policies

- State programs can be a big stabilizer, i.e. state directed payment programs
- 340B/drug pricing
- End of continuous Medicaid enrollment
- Minimum nurse-to-patient ratios

### Technology & Cyber

- Artificial Intelligence brings revenue cycle & clinical potential
- Ongoing cybersecurity investment will further raise costs
- Potential operating disruption

# Change Healthcare: a retrospective

## Impact from the attack

### A “manageable headache”

#### Generally, hospitals have weathered this attack

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NFP hospitals typically have solid liquidity and access to short term lines of credit for working capital

→ **Those who have low liquidity were most vulnerable**

#### Takeaways:

- Underscores increasing digitization of healthcare and complex systems
- Many providers will keep more diverse pool of clearinghouses going forward
- There will be various lawsuits, questions on whether cyber insurance will cover claims, renewed focus on M&A in the industry
- We expect some financial impact (though minimal) as a result of claims denials, A/R write-offs, additional expenses to implement workarounds

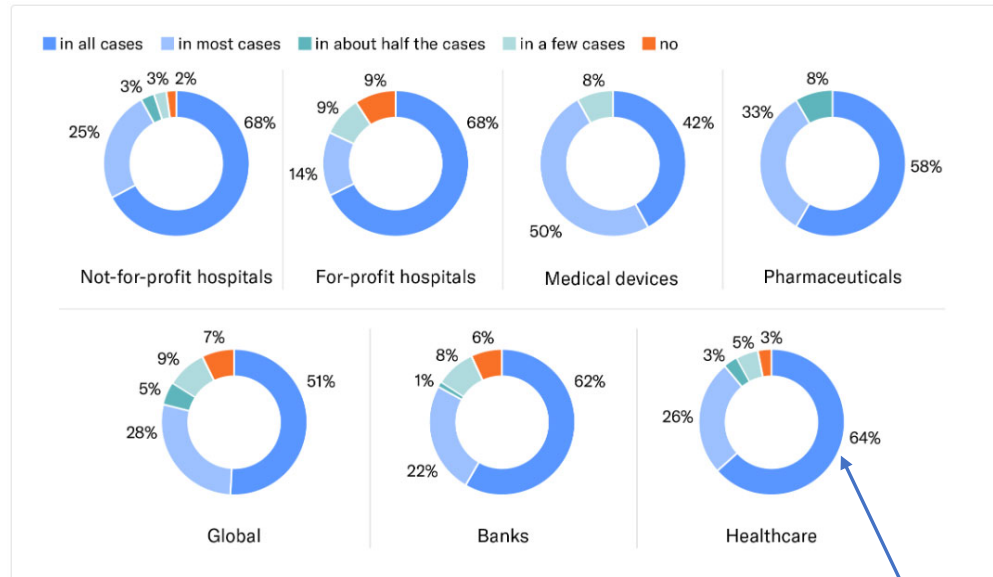
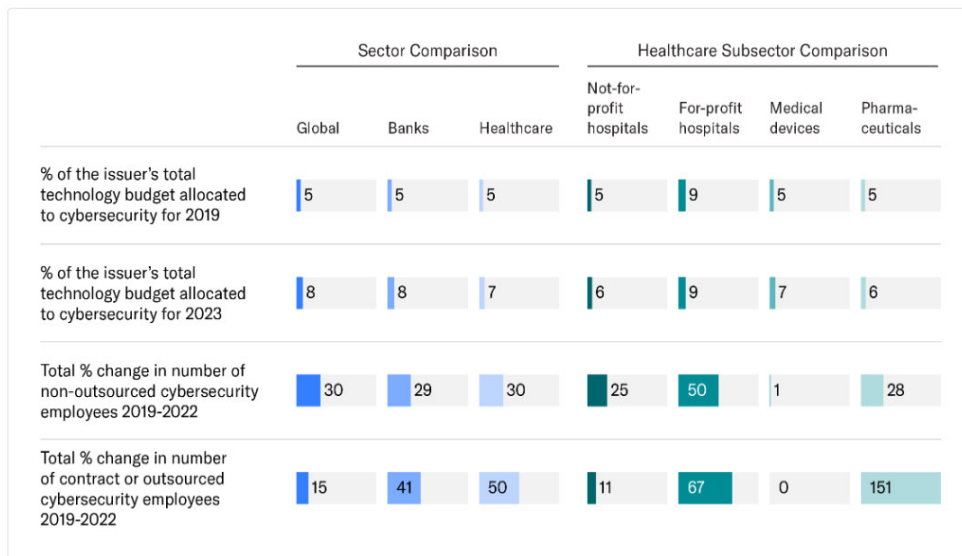


# Cyber Survey shows increasing security for Healthcare

Management of risk from third-party vendors will require continued focus

Cyber budgets as a % of IT spending continue to grow

Healthcare conducts more frequent initial cyber assessments of third-party vendors than banking or global

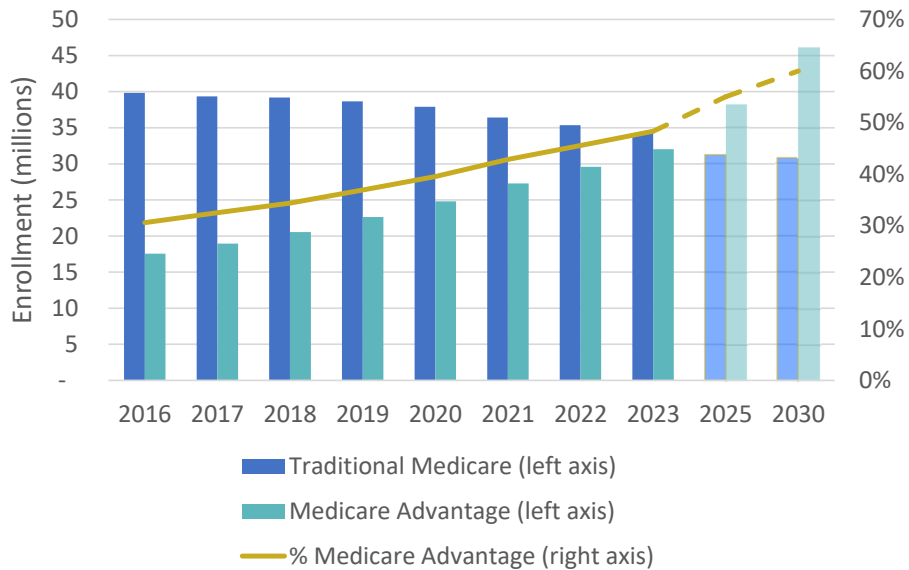


Source: Moody's Ratings 2024 Cyber Survey

# Risks to hospital revenue will rise with MA expansion

Hospitals cite an uptick in claim denials and delays in care authorization

MA is taking market share from traditional Medicare



Health insurers' earnings from MA have declined



# M&A considerations

M&A to continue though increasing scrutiny may slow down consolidation



## Benefits

- M&A arrangements are generally credit positive, providing an opportunity to diversify revenue and increase scale
- Scale can lead to greater market share and leverage in negotiations with insurers over reimbursement rates
- Increase in quality of care through sharing of best practices
- Increased efficiency through back-office consolidation



## Challenges

- Federal and state regulators increasing scrutiny
- Heightened concerns among regulators about consolidation carries risks for distressed systems
- Fewer opportunities for major health systems to expand within a given region
- Mergers between large systems are making it even harder for smaller providers to compete

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## Thank you

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