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## **Fitch's Tolerance for U.S. NFP Hospitals to Stay Viable and Profitable: Five Years**

Fitch Ratings-Austin-16 May 2018: Capital projects are an inevitability in order for U.S. not-for-profit hospitals to stay viable and so are the disruptions to profitability that arise from seeing those projects to fruition, according to Fitch Ratings in a new report.

Taking those two commonalities into account, a question Fitch frequently receives from investors is "How long will you be patient with the rating before you see our improved results?" Fitch's answer: an uncharacteristically direct "five years". More specifically, Fitch's five-year scenario analysis, which offers a look ahead into a hospital's ability (or inability) to maintain its rating through a cycle.

'Since a hospital's balance sheet will inevitably take a hit once a capital project goes through its various stages up to completion, the key will be how much cash the hospital can generate in order to soften the impact on the balance sheet,' said Senior Director Kevin Holloran 'Whether the hospital can generate enough cash flow until the capital project is completed will go a long way in dictating whether the rating is affirmed, upgraded or downgraded.'

This may raise questions among some investors as to whether hospitals have more difficulty adhering to Fitch's five-year scenario analysis in light of heightened sector pressure. 'Not necessarily. Hospitals are showing surprising resiliency thus far in light of recent broader tax reform changes and other secular pressures,' said Holloran. 'If there is a subset of not-for-profit hospitals that could be affected, however, it would be those organizations that either begin capital projects from a position of financial weakness or are unable to grow top line revenues.'

'Rating Tolerance through Capital and Strategic Projects' is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Contact:

Kevin Holloran  
Senior Director  
+1 512 813-5700  
Fitch Ratings, Inc.  
111 Congress Avenue  
Austin, TX 78701

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: [sandro.scenga@fitchratings.com](mailto:sandro.scenga@fitchratings.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)