

Bond Case Briefs

Municipal Finance Law Since 1971

S&P U.S. Not-for-Profit Acute Health Care Ratios: 2018 Medians Show Operating Margin Improvement But Are Otherwise Stable

Table of Contents

- Upgrades Exceeded Downgrades Through August 2019, But Outlooks Are Skewed Toward Negative
- Industry Trends Influencing These Medians: Management Teams Continue To Be Proactive
- Ratio Highlights: Providers Continue To Invest To Remain Competitive
- Overall Leverage Has Decreased And Contingent Debt Has Continued To Decline
- Many Operating Margins Were Boosted By FASB ASU 2017-17; Should Provide More Year-Over-Year Consistency In Operating Income
- Defined Benefit Funded Ratios Increased In Fiscal 2018 Due To A Higher Bond Rate
- Forward View: Broad Stability But Headwinds Will Continue
- Ratio Analysis
- Related Research

The 2018 U.S. not-for-profit acute health care medians highlight continued stability in the sector and demonstrate that some of the operating concerns S&P Global Ratings had last year did not affect the 2018 medians. Operating income and operating cash flow have ceased their multi-year decline (although there are numerous individual exceptions), while balance sheets remain stable at very strong levels, with many exceeding the prior peaks before the Great Recession. Overall enterprise profiles are improving as consolidation continues, including a growing array of diversifying joint ventures, even as new market entrants pressure existing business models. The vast majority of ratings remain stable with only 20 upgrades and 18 downgrades in 2019 through Aug. 15. In addition, 83% of rated health care providers have stable outlooks, but of the non-stable outlooks the majority are skewed toward negative at 12% compared to 5% positive. We expect continued stability for the near to medium term but note that the industry faces ongoing systemic risks. These risks include a potential recession, continued Medicaid changes, increased traction from nontraditional competitors, the need to build out ambulatory care capacity, and heightened cost and revenue pressure in part due to an aging population. Management teams have continued to navigate through these industry pressures and risks by being proactive and adopting and refining strategies to contend with these challenges. The potential ramifications of a recent court ruling that the Affordable Care Act (ACA) is unconstitutional could be severe if upheld, although in our view this threat, in the unlikely event that it occurs, would likely be a factor in 2020 or later.

[Continue reading.](#)