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University of Oklahoma Health Sciences Center: Fitch New Issue Report

Key Rating Drivers Revenue Defensibility: 'a'; Solid Student Demand; Diverse Revenue Base: The Revenue Defensibility assessment of 'a' incorporates the significant change in revenue mix that started in fiscal 2022 from the transfer of OU Physicians out of OUHSC into the legally separate OU Medicine Inc (OUMI; d/b/a OU Health [OUH]) entity. Operations were historically driven by clinical healthcare revenues related to OUHSC's large physician practice plan, roughly 46% of revenues pre-transfer. Operating Risk: 'a'; Adequate Operating Margins, Short-Term Volatility Likely: The 'a' Operating Risk assessment reflects OUHSC's modest cash flow margins for the rating category, and expected operating volatility in fiscals 2022 and 2023. In line with Fitch's expectations, OUHSC's fiscal 2022 adjusted cash flow margins declined to 6.3% due in large part to a one-time capitalization payment to OUH (\$37.5 million), forgoing about \$50 million in scheduled OU Physicians revenue payments, a \$19 million cash payment to OUH, as well as various budget expense adjustments. Financial Profile: 'aa'; Exceptionally Strong Balance Sheet Resources: The 'aa' Financial Profile assessment for OUHSC reflects very strong debt leverage for the rating category, measured as adjusted available funds (AF) to adjusted debt. Strong leverage is sustained through a stress scenario. Fitch includes adjusted pensions in debt liabilities, which are substantial. In addition, adjusted OU Foundation (OUF) resources (OUHSC's approximate 30.5% share or \$259 million in fiscal 2022) is included in the combined AF amount.

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