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## Moody's: Mergers and Acquisitions Will Grow as Distressed Not-for-Profit Hospitals Seek Fiscal Solutions.

New York, June 22, 2015 — Merger and acquisition activity will remain elevated for the next two years as fiscally distressed not-for-profit hospitals increasingly seek consolidation with larger, for-profit entities, Moody's Investors Service says in a new report.

NFP hospitals with revenues less than $500 million are the most likely to consider consolidating with a larger provider to avoid a payment default, a bankruptcy filing, or to fund unaffordable but necessary capital needs.

"Many independent hospitals face increasing pressure to consolidate with larger ones due to regulatory and financial changes in the industry. Declining reimbursement, shifting patient volumes and emerging critical projects like IT upgrades are increasing financial pressures on smaller entities," Lisa Goldstein, Moody's Associate Managing Director says in "Under Threat of Default, Distressed Hospitals Turn to Mergers and Acquisitions."

Notable examples of smaller hospitals that sought a capital partner include St. Joseph Health Services of Rhode Island (rating withdrawn), Citrus Memorial Hospital (rating withdrawn) in Florida, and Somerset Hospital (Ba2 stable before consolidating) in New Jersey. Before they were acquired, both St. Joseph and Citrus Memorial were rated well below investment grade.

All were burdened with either low liquidity or fiscal deterioration, had weakening financial metrics, and were possibly headed toward default or bankruptcy prior to their M&A strategies.

Moody's notes that while the smaller, distressed non-profit hospitals are commonly rated below investment grade and the for-profits are often highly leveraged, the latter possess a sizable revenue base and access to capital.

Additionally, larger hospitals have greater size and resources to absorb these same pressures as the smaller ones, and they are usually better able to navigate challenges facing the health care sector.

While a merger or acquisition is credit positive for the bondholders of the smaller providers, the transactions are complicated and not all make it to fruition. For the NFP, the inability to execute a M&A strategy could increase the probability of a payment default or bankruptcy filing as well as intensify the search for a new capital partner.

The report is available to Moody's subscribers here.