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Fitch Ratings: Operating Margins Remain Under Siege for U.S. NFP Hospitals

Fitch Ratings-Austin-20 September 2018: Stunted operating margins remain a thorn in the side for U.S. not-for-profit hospitals, though balance sheets are healthier, according to Fitch Ratings in a new report.

Ongoing struggles with operating margins reflect a broader sector trend in which healthcare reform pressures have only been alleviated not eliminated.

“Labor and wage pressures for experienced staff will continue with the U.S. labor market improving and the need for clinicians still strong,” said Senior Director Kevin Holloran. “Another factor that will add to operating margin woes is the ongoing transition to population health and at-risk contracting.”

Fitch Ratings’ 2018 medians show that operating margins have declined across the board for the entire rating spectrum of hospitals. Key balance sheet metrics like days’ cash on hand, cash to debt and leverage, however, have improved over the last year and are now at all-time highs. Whether this means better days ahead for the sector remains to be seen. One thing is clear, however. “Operating margins remain under pressure for the second straight year, which means stress is not letting up for not-for-profit hospitals,” said Holloran.

Though Fitch’s revised rating criteria places more emphasis on balance sheet strength, operating profitability is still very much a pivotal factor in determining a hospital’s fiscal health. Despite weakening operating margins, the median rating for Fitch’s rated credits remains at ‘A’. That said, “should operational pressures continue for an extended period of time, even strong balance sheets will begin to come under pressure,” said Holloran.

Fitch has augmented its analysis of not-for-profit hospitals with two new key ratios: Cash to Adjusted Debt and Net Adjusted Debt to Adjusted EBITDA. Fitch’s “2018 Median Ratios for Non-profit Hospitals and Healthcare Systems” special report is available at www.fitchratings.com or by clicking on the above link.

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