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## **S&P U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios -- 2019 vs. 2018**

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The rating distribution for stand-alone hospitals remains generally stable overall compared with the distribution in August 2019 (see chart 1). However, a longer multi-year view shows incremental shifts away from the 'A' and 'BBB' categories and into speculative grade. We expect future shifts based on the high number of non-stable outlooks.

While the financial medians do not yet reflect financial stress from the COVID-19 pandemic, the June 30 outlook distribution is significantly less favorable compared to the distribution published last year (see chart 2) and with outlooks on health care systems. Currently 27% of stand-alone hospitals carry a negative rating outlook compared with just 16% last year. This is partially due to a mid-April action that revised 42 outlooks to negative from stable or to stable from positive (see "Outlooks Revised On Certain U.S. Not-For-Profit Health Care Organizations Due To Potential COVID-19 Impact," published April 21, 2020, on RatingsDirect) based on their speculative grade ratings and limited balance sheet flexibility (less than 100 days' cash on hand).

Based on fiscal 2019 data, stand-alone hospitals rated by S&P Global Ratings exhibited slightly improved debt service coverage and a lower debt burden in every rating category, due in part to rising revenue but also reflecting a favorable interest rate environment that yielded refinancing savings and generally affordable access to capital (see table 1). Balance sheet metrics showed generally widespread improvement in the 'AA' and 'A' rating levels but more mixed metrics in the 'BBB' and speculative grade categories.

Medians at the individual rating levels remained remarkably stable year over year (see tables 2A and 2B). At most rating levels, defined benefit pension plan funding weakened primarily due to declining discount rates. We expect that the financial repercussions associated with the pandemic, which have contributed to the trend of unfavorable rating and outlook actions throughout the sector this year, will be evident in the medians based on fiscal 2020 results published in 2021.

S&P Global Ratings has outstanding rating on approximately 265 stand-alone hospitals, of which 249 (94%) are included in these median ratios. The number of stand-alone hospitals we rate declined from 279 last year, which we believe reflects ongoing mergers and acquisitions.

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