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Fitch: Pandemic Likely to Sting Over Time for U.S. NFP Hospitals

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Fitch Ratings-Austin-01 September 2020: Median ratios improved for a second straight year for U.S. not-for-profit hospitals and health systems, though the unprecedented coronavirus pandemic will still likely stress healthcare providers as the pandemic continues, and as future pandemic readiness requirements and payor mix shifts erode margins over time, according to Fitch Ratings in a new report.

“Additionally, capital spending will generally be reduced in the initial years post-pandemic as organizations scrutinize every dollar of capital spending,” said Senior Director Kevin Holloran. “However, we expect that providers who emerge from the pandemic as strong as they are now or stronger will ultimately accelerate spending in anticipated merger, acquisition and expansion activity.”

2020 median operating margins and operating EBITDA increased incrementally to 2.3% and 8.7%, respectively, from 2.1% and 8.6% in the prior year. Median operating profitability also improved for the second straight year following prior years of operating income declines. Additionally, days cash on hand increased approximately five days (2.3%) to 219.8, compared to 214.9 in the prior year.

The across-the-board median improvements obviously do not yet address the direct impact of coronavirus on hospitals, with the first signs likely to emerge in Fitch’s 2021 medians update. “Health organizations will be trying to adapt to a new normal in moving further away from traditional fee-for-service reimbursement due to their experience during the coronavirus pandemic which results in no services and no fees,” said Holloran. “The pandemic is already resulting in increased expenses, initially significantly lower revenues and significant questions about the path forward for the remainder of the year.”

In order to shed some light on what lies ahead, Fitch conducted a brief prospective analysis of the fallout that the coronavirus is likely to create for the sector. Absent stimulus relief and re-bounding elective procedural volumes, hospitals would have taken a considerable shock to all key financial metrics. Thus, it is safe to say that the pandemic fallout will be felt by hospitals for some time to come. “With Medicaid likely to be cut by states balancing their own budgets, additional federal assistance is likely still to come in order to help hospitals stem the proverbial bleeding that the pandemic has and will continue to precipitate.”

Fitch’s ‘2020 Median Ratios: Not-for-Profit Hospitals and Healthcare Systems’ is available at ‘www.fitchratings.com’.

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