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Fitch: Children's Hospital Sector Remains Strong in the Midst of Coronavirus Operating Pressures

Fitch Ratings-New York/Austin-31 August 2021: Fiscal 2020 was a very challenging operational year for children's hospitals, but the medians confirmed that the sector's specialized service mix and high acuity of care translated into favorable profitability compared to adult hospitals. That being said, Fitch Ratings' analysis shows that stimulus relief provided significant support as the 2021 median operating margin and operating EBITDA of 3.8% and 9.8% would have decreased significantly to negative 0.8% and 7.1% without the support of CARES Act funding.

Management teams did not halt their focus on strategic efforts as many children's hospitals took advantage of low interest rates to fund upcoming projects using tax-exempt and taxable debt issuances, resulting in increased liquidity and leverage. "Capital spending was lower in the past fiscal year, but this is expected to be a temporary reaction to conserve liquidity given the unknown risks of the pandemic during the March/April 2020 timeframe," said Fitch Director Richard Park. 2021 median cash-to-adjusted debt decreased to 229.6% from 240.9% in the prior year. Yet days cash on hand improved to 396.1 days, compared with 350.4 in the prior year.

The 2021 medians largely reflect the reduction in patient care revenues with children's hospitals being forced to temporarily cease elective procedures and caretakers deferring care even though COVID-19 has not had the same physical effect on children as it has had on adults. Fitch believes the coronavirus pandemic remains a significant operating risk as the Delta variant appears to be more easily spread than other coronavirus variants to the pediatric population and children under the age of 12 are still not eligible for vaccination.

Fitch's '2021 Median Ratios for Not-for-Profit Children's Hospitals' is available at www.fitchratings.com.

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