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Fitch: Improved Medians Prep U.S. NFP Children's Hospitals for Inflationary Pain

Fitch Ratings-Austin-11 October 2022: U.S. NFP children's hospitals staged a remarkable comeback following a challenging pandemic environment and are now bracing for a different kind of pain in the coming months, according to Fitch Ratings in its latest annual medians report for the sector.

2022 medians (using audited 2021 data) showed a 31% increase in cash to adjusted debt to 325% for the 23 children's hospitals reviewed for Fitch's report. That said, balance sheet metrics will be under pressure over the next year and possibly beyond, according to Director Richard Park. Like the broader NFP hospital sector, the biggest impediment will be labor.

"Children's hospitals have not been immune to the staffing shortages pressuring the overall healthcare industry," said Park. "That said, children's hospitals generally experience lower turnover levels and have more balance sheet and margin flexibility to recruit and retain staff."

The higher median rating for children's hospitals, compared to adult providers, demonstrates the subsector's robust liquidity, solid operating profitability, unique market positions, strong philanthropic support and highly specialized clinical services. Nonetheless, Fitch expects labor shortages to continue well into 2023 and likely longer in some markets, with high growth markets being better able to mitigate labor issues.

"The pandemic has exposed the sector's need for additional investment and better care models for behavioral health," said Park. "The potential end of the COVID-19 public health emergency declaration will likely lead to significant Medicaid disenrollments, which along with an increasing likelihood of recession further muddies what is already an unpredictable post-pandemic future."

Fitch's "2022 Median Ratios for Not-for-Profit Children's Hospitals" is available at www.fitchratings.com.

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