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Early Median Signs Show 'Signs of Life' Amid Stress for U.S. NFP Hospitals: Fitch

Fitch Ratings-New York/Austin-04 January 2024: U.S. not-for-profit hospitals are beginning to dig out of a formidable operating trench, according to Fitch Ratings during a webinar hosted earlier today. However, results for the sector are still nowhere near pre-pandemic levels.

While median operating margins will gradually improve, a larger expense base will keep huge gains unlikely over the next two years, according to Senior Director and Sector Head Kevin Holloran. "2024 will not be markedly better and certainly not the V-shaped recovery we're hoping for," said Holloran. "NFP hospital margins are still below both pre-pandemic levels, but more importantly they will tread below the "magic number" operating margin of 3%."

A theme likely to dominate this year is ratings "trifurcation", which Fitch discussed its outlook report for the sector. This means a heightened risk of downgrades for a portion of hospitals already struggling to return to some degree of pre-pandemic normalcy. This follows a 2023 that saw a 3:1 ratio of hospital downgrades to upgrades.

Of note are recent Fitch downgrades among providers with smaller size and scale, and in hospital systems in two states now seen as challenging states in which to operate. "IT implementation issues, significant capital spending and aggressive expansion initiatives that simply did not work out as intended will further cloud outlooks for smaller hospitals and some providers in Washington and Pennsylvania," said Holloran.

Also of concern is what Holloran called a "dreaded" second year of debt service covenants violations, which "may intensify the potential for bondholders to declare an event of default and perhaps accelerate bond repayment."

A replay of the webinar in its entirety will be available shortly. Fitch will release its latest NFP hospital medians later in the year.

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