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[Fitch: Operating Margins Reset a Potential ‘Pain Point’ for U.S. NFP Hospitals]

Fitch Ratings-Chicago/Austin-29 January 2024: The long-time ideal range for healthy operating margins is in danger of a permanent reset for U.S. NFP hospitals, according to Fitch Ratings in a new 2024 outlook report.

A question that has become top-of-mind among investors of late is whether operating margins resetting in the 1%-2% range (instead of 3%+) will lead to widespread downgrades. According to sector head Kevin Holloran, “Hospital downgrades en masse would be unlikely because many systems have built up robust balance sheets and learned to economize on capital spending to a certain degree.”

Fitch does not view this scenario as a “sector-ending incident”, but rather a “pain point” that each provider must balance against their respective liquidity cushions. That said, hospital-specific declines are a real possibility if they can’t afford to defer capital longer and operations never improve. Of particular concern is the year 2030, according to Holloran. “The final ‘Baby Boomer’ generation will reach age 65, which will potentially pose the scenario of a smaller workforce serving a larger population in need of heightened care,” said Holloran.

Another lingering question that still generates much attention revolves around days’ cash on hand (DCOH), specifically whether 200 days-250 days may be too high given the sector’s lofty struggles. With DCOH coming in at above 200 days nine of the last 10 years and the overall median being 216 days based on 2022 financials, the answer appears to be “no”. However, DCOH will improve very little despite better profitability and inherent gains on investments.

Fitch’s report, “What Investors Want to Know: Not-for-Profit Hospital and Health System 2024 Outlook”, is available at www.fitchratings.com.

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