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Fitch: Summa Health Acquisition an 'Unusual' Litmus Test for U.S. NFP Hospitals.

Fitch Ratings-Austin-31 January 2024: Summa Health's announcement that it will be acquired by General Catalyst's Health Assurance Transformation Corporation (HATCo) and converted into a for-profit organization adds an unusual wrinkle to what Fitch Ratings has already deemed another make or break year in 2024 for U.S. not-for-profit (NFP) hospitals.

The acquisition by HATCo is expected to be completed by the end of the year, once due diligence and a definitive agreement are finalized over the next several months. How it ultimately fares for Summa and how it potentially shapes the NFP hospital sector remain to be seen.

Day to day operations should not look much different for Summa, which remains the market leader in its Northeast Ohio service area. Though leverage is elevated, Summa's balance sheet remains adequate to cushion against operating margins that are expected to be breakeven or better in FY24, which led Fitch to affirm its ratings and Stable Rating Outlook for Summa Health last June.

Summa, like many of its peers, is struggling with containing higher labor expenses and the need to use expensive agency nurses and other personnel to maintain staffing levels in support of rebounding patient volumes post-pandemic. The HATCo acquisition should not alter the staffing picture dramatically for Summa.

Summa's planned conversion into a for-profit organization sheds more light on the longer-term transformation taking place within health care, (i.e., operating as efficiently as possible while improving patient access and patient care, and making more and better use of technology). Some of these things are being done as vendor/customer relationships and some through alignment/partnerships. This is a move that is likely to draw some regulatory scrutiny. That said, private equity purchasing NFP hospitals could proliferate over time, if Summa/HATCo proves to be successful.

Fitch will closely monitor the planned Summa/HATCo merger and share its perspective with the market as developments evolve.

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