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Fitch: US NFP Hospital Median 2023 Preview Shows Decline; Improvement Expected

Fitch Ratings-Chicago/New York/Austin-21 February 2024: A preview of calendar year (CY) 2023 Fitch-rated not-for-profit (NFP) hospital performance medians initially reveals a continued decline in operating results, albeit not as severe as in CY2022, but likely marks a turning point, Fitch Ratings says. We anticipate that the full CY2023 median results will improve, but remain well below pre-pandemic levels. More positively, early medians, which reflect audited financial results for hospitals with a FYE in 1H2023, highlight balance sheet stability and stronger leverage metrics compared with the prior year, which are consistent with Fitch's final CY2023 median expectations.

Our full year median projections of operational performance metrics are based on several factors. Improvement in key indicators such as personnel expense as a percent of total revenue and revenue growth versus expense growth in 1H2023 relative to 1H2022 is likely to continue in 2H2023. We anticipate the results of hospitals with later FYEs (Sept. 30 and Dec. 31) will reflect the comparatively more profitable months in the latter half of fiscal 2023, pulling up the full year medians for all rated hospitals.

Fitch's full CY2022 medians marked a low point in the sector, with significantly pressured operating margins falling to just 0.2% from the 0.9% operating margin median suggested by providers with mid-year FYEs. We anticipated this decline at this time last year, with materially weaker profitability and reduced liquidity due to expense increases and investment market losses in 2022.

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