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U.S. Not-For-Profit Health Care System Median Financial Ratios -- 2016 vs. 2015

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Health care system medians in 2016 saw a decline in all operating, cash flow, and net margins as well as non-operating income, leading to weaker maximum annual debt service (MADS) coverage (see table 1). Absolute levels of unrestricted reserves rose, and while rising expenses led to a decline in days' cash on hand, unrestricted reserve metrics improved relative to debt, as debt levels remained flat. Capital spending remained very consistent with prior years resulting in an average age of plant which has steadily remained between 10 and 11 years.

Over the past two years, there has been a slight increase in the percent of 'AA' and 'BBB' category ratings, offset largely by a decline in the 'A' category (see chart 1). S&P Global Ratings has outstanding ratings on 156 health care systems, of which 146 (94%) are included in the median ratios. At June 30, 2017, we had just 16 health care systems (10%) rated below 'A-', compared with 38% of all stand-alone hospitals. This reflects the core strengths demonstrated by health care systems, including financial dispersion, geographic diversity, size, scale and generally deeper and more-seasoned management teams.

While the percent of stable outlooks has remained consistent over the past three years, at about 81%, the gap between positive and negative outlooks has narrowed over the past year, with 8% negative and 11% positive outlooks at June 30, 2017, compared with just 5% negative and 15% positive outlooks as of December 2016. We think the increase in the number of negative outlooks indicates greater revenue and expense pressures, as well as the shift of the health care delivery system to value from volume, which has constrained utilization and overall profitability for those providers. We think these pressures were masked over the past two years by the benefits of ACA driven Medicaid expansion, which contributed to revenue and volume growth and an improved payor mix in expansion states as the number of uninsured individuals declined. However, as these benefits are now waning, we think underlying operating pressures are reemerging and could contribute to an increase in negative outlooks and downgrades over the coming years. However, these negative pressures could also be offset by the generally positive impact of mergers and acquisitions, which tend to improve enterprise profiles and provide flexibility especially during periods of financial and industry uncertainty.

Trends across rating categories were fairly consistent with a decline in MADS coverage due to softness in both operating performance and nonoperating revenue (see table 2). For most rating categories, unrestricted reserves relative to operating expenses and debt weakened. The only exceptions were in the 'BBB' category where days' cash on hand remained steady, and in the 'A' category where unrestricted reserves relative to debt grew slightly. Capital spending remained fairly stable across all rating categories and well above depreciation expense, with the exception of the speculative grade category. Because of the small number of speculative grade health systems, the medians can fluctuate materially from year to year.

With the exception of the 'AA-' and speculative grade rating levels, growth in net patient revenue was evident across the rating spectrum in 2016, albeit at varied percentages depending on the rating level (see tables 3A and 3B). This was partly due to mergers and acquisitions, as well as increased revenues from physician employment and in some cases, the presence of provider sponsored health plans. Despite this growth, and due to a variety of expense pressures,

operating margins declined and when combined with weaker investment markets, led to lower MADS coverage across all rating levels. At the higher rating levels, capital spending remains strong due to continued spending on information technology, ambulatory care, and population health infrastructure.

Ratio Analysis

While we view ratio analysis as an important tool in our assessment of the credit quality of not-for-profit hospitals and health care systems, it is only one of several factors that we take into consideration. Our analysis of the enterprise profile is as important. However, median ratios offer a snapshot of the financial position of our rated hospitals and help in the comparison of credits across rating categories. In addition, we believe tracking median ratios over time allows for a clearer understanding of industrywide trends and provides a tool to better assess the sector's future credit quality. Because of the intertwining of mission and operations among all members of an organization, the financial statements we generally use for the medians and our analyses are the systemwide results, which include results for obligated and nonobligated group members.

Chart 1

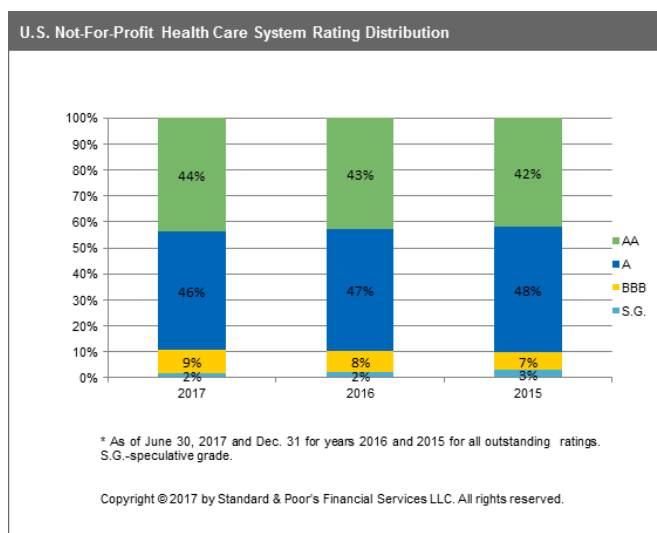


Chart 2

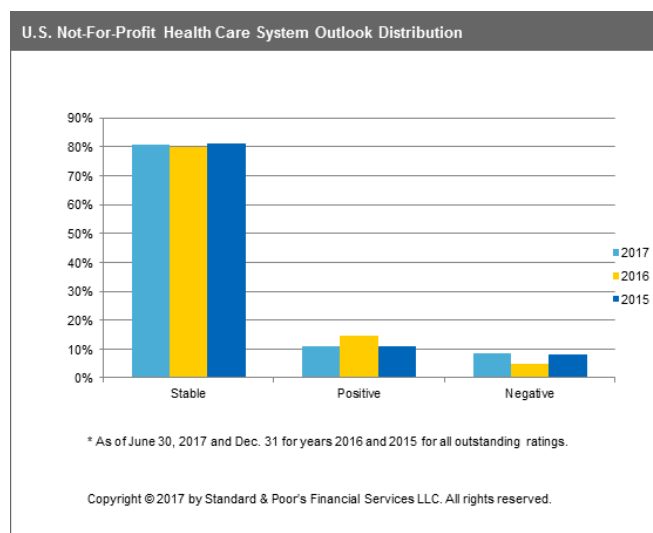


Table 1

U.S. Not-For-Profit Health Care System Medians (2010-2016)							
Fiscal year	2016	2015	2014	2013	2012	2011	2010**
Sample size	146	142	140	138	143	143	143
Statement of operations							
Net patient revenue (NPR; \$000)	2,022,277	1,873,321	1,718,626	1,590,127	1,471,157	1,383,643	1,341,429
Salaries & benefits/NPR (%)	57.2	56.4	57.8	57.7	57.5	56.6	52.4
Maximum annual debt service coverage (x)	4.3	5.0	4.6	4.2	4.2	4.2	4.1
Operating lease-adjusted coverage (x)*	3.1	3.4	3.4	3.3	3.1	3.1	3.1
Debt burden (%)	2.3	2.3	2.4	2.6	2.7	2.8	2.7
EBIDA (\$000)	223,165	278,605	247,243	204,975	198,121	192,370	170,792

Table 1

U.S. Not-For-Profit Health Care System Medians (2010-2016) (cont.)							
Fiscal year	2016	2015	2014	2013	2012	2011	2010**
Nonoperating revenue/total revenue (%)	1.1	2.0	2.6	2.5	1.8	2.0	1.7
EBIDA margin (%)	9.9	11.5	12.0	11.3	11.6	11.7	11.1
Operating EBIDA margin (%)	9.0	10.2	9.5	9.1	9.7	10.1	9.8
Operating margin (%)	2.4	3.6	2.9	2.2	2.9	2.9	3.0
Excess margin (%)	3.7	5.3	5.1	4.2	4.7	4.9	4.4
Capital expenditures/depr. & amort. exp. (%)	125.1	126.0	123.8	130.0	130.2	127.2	121.9
Balance sheet							
Average age of plant (years)	10.6	10.5	10.4	10.5	10.4	10.2	10.0
Cushion ratio (x)	21.4	21.4	19.6	18.2	17.3	16.0	16.1
Days' cash on hand	197.6	205.5	203.1	204.6	193.8	188.8	175.2
Days in accounts receivable	48.2	48.0	48.1	50.2	50.8	49.5	44.8
Cash flow/total liabilities (%)	13.9	16.2	16.9	15.0	14.6	15.5	14.9
Unrestricted reserves (\$000)	1,213,897	1,191,485	1,086,026	901,350	834,947	754,364	N.A.
Unrestricted reserves/long-term debt (%)	169.5	161.0	153.4	141.5	137.3	133.7	122.1
Unrestricted reserves/contingent liabilities (%)*	507.6	462.6	451.2	N.A.	N.A.	N.A.	N.A.
Contingent liabilities/long-term debt (%)*	31.9	34.4	36.7	N.A.	N.A.	N.A.	N.A.
Long-term debt/capitalization (%)	34.0	33.7	34.6	35.1	39.2	38.1	39.5
DB pension funded status (%)*	74.0	78.2	82.0	83.6	68.7	73.6	73.4
Pension-adjusted long-term debt/capitalization (%)*	37.3	38.2	38.2	37.8	42.9	42.7	N.A.

* These five ratios are only for organizations that have defined-benefit (DB) pension plans, operating leases, or contingent liabilities. **Fiscal year 2010 does not incorporate FASB 2011-07 (bad debt accounting treatment). N.A.--not available.

Table 2

U.S. Not-For-Profit Health Care System Medians By Rating Category -- 2016 vs. 2015								
Fiscal year	AA		A		BBB		Speculative Grade	
	2016	2015	2016	2015	2016	2015	2016	2015
Sample size	63	58	67	70	13	10	3	4
Statement of operations								
Net patient revenue (NPR; \$000)	2,366,500	2,549,595	1,998,885	1,814,233	1,391,263	1,156,243	1,134,945	1,153,180
Salaries & benefits/NPR (%)	56.6	55.2	57.5	56.7	59.1	61.9	63.7	62.4
Maximum annual debt service coverage (x)	5.2	6.3	3.7	4.4	2.3	2.4	0.3	1.6
Operating lease-adjusted coverage (x)*	3.8	4.3	2.9	3.3	1.9	2.0	0.6	1.3
Debt burden (%)	2.1	2.2	2.4	2.5	2.6	2.5	2.8	2.0
EBIDA (\$000)	360,200	451,713	189,427	233,435	89,115	85,871	4,893	39,400
Nonoperating revenue/total revenue (%)	1.2	2.6	1.2	1.6	1.0	1.3	(0.2)	0.8

Table 2

U.S. Not-For-Profit Health Care System Medians By Rating Category -- 2016 vs. 2015 (cont.)								
Fiscal year	AA		A		BBB		Speculative Grade	
	2016	2015	2016	2015	2016	2015	2016	2015
EBIDA margin (%)	11.4	13.1	9.4	11.0	5.7	8.0	0.4	4.1
Operating EBIDA margin (%)	10.2	10.5	8.4	10.2	5.2	6.4	0.6	2.2
Operating margin (%)	3.9	4.7	2.3	3.5	(0.9)	0.7	(3.3)	(1.7)
Excess margin (%)	5.6	7.1	3.3	5.1	0.2	2.1	(3.5)	0.2
Capital expenditures/depr. & amort. exp. (%)	128.5	129.9	126.7	124.2	95.8	100.4	76.4	77.2
Balance sheet								
Average age of plant (years)	9.9	9.8	11.1	10.7	10.3	11.1	13.2	14.8
Cushion ratio (x)	30.2	30.4	18.8	18.2	11.7	11.0	4.3	7.3
Days' cash on hand	264.4	280.7	168.6	183.4	115.8	115.4	53.6	74.2
Days in accounts receivable	49.1	48.8	47.6	46.7	44.0	48.5	51.6	49.4
Cash flow/total liabilities (%)	17.0	19.8	12.0	15.1	6.6	9.9	(0.2)	5.2
Unrestricted reserves (\$000)	2,144,798	2,096,967	982,547	922,899	494,797	528,345	169,339	179,042
Unrestricted reserves/long-term debt (%)	204.7	214.7	146.2	142.6	92.9	132.7	29.3	82.3
Unrestricted reserves/contingent liabilities (%)*	579.0	606.8	420.5	417.8	490.0	397.8	1,247.3	237.7
Contingent liabilities/long-term debt (%)*	37.7	39.0	29.2	33.6	24.8	28.4	14.4	43.9
Long-term debt/capitalization (%)	27.0	27.8	37.6	37.6	47.0	42.1	69.5	75.6
DB pension funded status (%)*	73.9	78.7	76.1	78.8	71.9	74.3	68.4	65.6
Pension-adjusted long-term debt/capitalization (%)*	30.4	29.3	42.6	41.2	50.7	44.6	69.8	76.5

* These five ratios are only for organizations that have defined-benefit (DB) pension plans, operating leases, or contingent liabilities.

Table 3A

U.S. Not-For-Profit Health Care System Medians By Rating Level -- 2016 vs. 2015								
Fiscal year	AA+		AA		AA-		A+	
	2016	2015	2016	2015	2016	2015	2016	2015
Sample size	7	6	18	18	38	34	28	30
Statement of operations								
Net patient revenue (NPR; \$000)	3,705,900	3,389,627	2,648,196	2,231,303	2,239,550	2,360,641	1,743,600	1,664,766
Salaries & benefits/NPR (%)	53.7	54.7	56.1	56.2	57.1	54.3	57.2	56.1
Maximum annual debt service coverage (x)	6.4	7.3	5.9	6.5	4.6	5.8	4.6	5.0
Operating lease-adjusted coverage (x)*	5.0	5.1	4.2	4.7	3.2	4.1	3.4	3.5
Debt burden (%)	1.7	1.8	2.0	1.8	2.3	2.3	2.2	2.4
EBIDA (\$000)	661,416	642,549	477,823	484,149	256,206	399,750	174,032	217,416
Nonoperating revenue/total revenue (%)	0.8	3.3	1.6	2.7	1.1	2.4	1.4	1.8
EBIDA margin (%)	13.3	14.8	12.7	13.3	10.8	12.7	10.0	12.3
Operating EBIDA margin (%)	11.6	13.1	11.0	10.6	9.6	10.4	9.0	10.3

Table 3A

U.S. Not-For-Profit Health Care System Medians By Rating Level -- 2016 vs. 2015 (cont.)								
Fiscal year	AA+		AA		AA-		A+	
	2016	2015	2016	2015	2016	2015	2016	2015
Operating margin (%)	4.0	6.2	4.8	4.9	3.3	3.5	2.3	4.1
Excess margin (%)	6.5	8.4	6.6	7.2	4.4	6.4	3.7	5.6
Capital expenditures/depr. & amort. exp. (%)	110.3	132.1	130.7	139.8	129.1	124.2	127.7	124.2
Balance sheet								
Average age of plant (years)	8.3	7.9	10.6	9.8	9.7	10.0	11.1	10.3
Cushion ratio (x)	51.0	44.4	35.4	37.9	26.9	25.1	21.4	20.8
Days' cash on hand	398.8	426.2	316.1	292.9	220.4	258.2	183.7	200.3
Days in accounts receivable	49.7	45.8	51.0	49.9	47.7	48.8	47.9	46.2
Cash flow/total liabilities (%)	17.5	19.3	20.3	21.0	14.4	18.9	14.0	16.6
Unrestricted reserves (\$000)	4,510,478	4,108,597	2,461,025	2,464,462	1,801,580	1,920,207	864,375	890,833
Unrestricted reserves/long-term debt (%)	314.2	304.8	246.2	250.8	189.6	180.9	154.1	154.8
Unrestricted reserves/contingent liabilities (%)*	856.7	679.0	470.4	582.2	567.3	568.9	477.9	446.9
Contingent liabilities/long-term debt (%)*	36.7	39.4	55.7	45.5	32.5	31.8	28.2	33.6
Long-term debt/capitalization (%)	21.9	23.3	24.7	25.5	30.1	31.4	35.0	35.9
DB pension funded status (%)*	89.3	93.8	71.6	82.0	73.0	76.3	78.4	79.8
Pension-adjusted long-term debt/capitalization (%)*	23.2	25.1	26.8	28.6	34.5	34.7	38.2	40.2

* These five ratios are only for organizations that have defined-benefit (DB) pension plans, operating leases, or contingent liabilities.

Table 3B

U.S. Not-For-Profit Health Care System Medians By Rating Level -- 2016 vs. 2015										
Fiscal year	A		A-		BBB+		BBB/BBB-**		Speculative Grade	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Sample size	24	20	15	20	9	7	4	3	3	4
Statement of operations										
Net patient revenue (NPR; \$000)	2,107,961	1,829,392	2,004,428	1,929,035	1,067,652	1,003,597	1,423,568	1,308,889	1,134,945	1,153,180
Salaries & benefits/NPR (%)	57.6	57.7	58.5	58.1	59.1	61.1	60.9	62.7	63.7	62.4
Maximum annual debt service coverage (x)	3.4	4.1	3.4	4.1	2.3	2.5	1.7	1.8	0.3	1.6
Operating lease-adjusted coverage (x)*	2.6	3.2	2.7	3.2	2.0	2.3	1.4	1.5	0.6	1.3
Debt burden (%)	2.6	2.7	2.4	2.4	2.6	2.5	2.5	2.5	2.8	2.0
EBIDA (\$000)	221,544	245,963	183,923	217,696	91,412	96,361	69,928	63,606	4,893	39,400
Nonoperating revenue/total revenue (%)	1.1	1.5	1.4	1.6	1.0	2.0	0.6	0.6	(0.2)	0.8
EBIDA margin (%)	8.8	11.1	9.5	10.8	7.2	8.7	4.7	4.6	0.4	4.1

Table 3B

U.S. Not-For-Profit Health Care System Medians By Rating Level -- 2016 vs. 2015 (cont.)										
Fiscal year	A		A-		BBB+		BBB/BBB-**		Speculative Grade	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Operating EBIDA margin (%)	7.8	10.6	9.4	9.5	5.7	6.8	4.6	4.2	0.6	2.2
Operating margin (%)	2.0	3.6	2.3	2.9	0.0	0.8	(1.4)	(0.6)	(3.3)	(1.7)
Excess margin (%)	2.9	5.2	2.9	3.9	1.0	3.4	(1.1)	(0.2)	(3.5)	0.2
Capital expenditures/depr. & amort. exp. (%)	114.6	130.9	150.4	119.3	95.8	80.7	82.1	166.1	76.4	77.2
Balance sheet										
Average age of plant (years)	11.9	11.6	11.1	10.4	10.3	11.5	12.2	9.9	13.2	14.8
Cushion ratio (x)	18.4	18.1	15.3	16.3	13.6	15.3	8.8	9.5	4.3	7.3
Days' cash on hand	174.2	182.5	148.5	156.6	155.9	148.7	79.9	94.5	53.6	74.2
Days in accounts receivable	48.5	49.1	44.3	46.2	43.9	47.6	48.1	49.5	51.6	49.4
Cash flow/total liabilities (%)	10.7	15.6	11.3	13.5	9.2	11.9	4.5	6.4	(0.2)	5.2
Unrestricted reserves (\$000)	1,195,919	942,282	809,463	992,216	620,513	597,183	300,448	399,065	169,339	179,042
Unrestricted reserves/long-term debt (%)	134.7	116.0	103.9	140.3	118.3	159.6	58.3	66.8	29.3	82.3
Unrestricted reserves/contingent liabilities (%)*	399.5	411.4	459.1	409.4	524.1	561.2	361.7	262.2	1,247.3	237.7
Contingent liabilities/long-term debt (%)*	32.8	33.7	22.2	33.6	26.1	24.1	10.2	40.1	14.4	43.9
Long-term debt/capitalization (%)	41.1	40.6	48.1	40.4	45.8	37.1	60.3	57.4	69.5	75.6
DB pension funded status (%)*	68.9	77.2	77.9	78.4	71.7	73.3	74.4	74.3	68.4	65.6
Pension-adjusted long-term debt/capitalization (%)*	44.4	44.0	50.0	45.5	46.7	41.4	63.0	58.5	69.8	76.5

* These five ratios are only for organizations that have defined-benefit (DB) pension plans, operating leases, or contingent liabilities. **Includes two 'BBB-' and two 'BBB' rated systems.

Related Research

- U.S. Not-For-Profit Acute Health Care Ratios: Operating Performance Weakens While Balance Sheets Are Stable, Aug. 24, 2017
- U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios -- 2016 vs. 2015, Aug. 24, 2017
- U.S. Not-For-Profit Health Care Small Stand-Alone Hospital Median Financial Ratios – 2016 vs. 2015, Aug. 24, 2017
- U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios – 2016 vs. 2015, Aug. 24, 2017
- U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios, Aug. 24, 2017

Glossary of our ratios

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011

Monthly rating changes

- U.S. Not-For-Profit Health Care Rating Actions, December 2016, Jan. 18, 2017
- U.S. Not-For-Profit Health Care Rating Actions, November 2016, Jan. 6, 2017
- U.S. Not-For-Profit Health Care Rating Actions, October 2016, Nov. 18, 2016
- U.S. Not-For-Profit Health Care Rating Actions, September 2016, Oct. 20, 2016
- U.S. Not-For-Profit Health Care Rating Actions, August 2016, Sept. 15, 2016
- U.S. Not-For-Profit Health Care Rating Actions, July 2016, Aug. 29, 2016
- U.S. Not-For-Profit Health Care Rating Actions, June 2016, July 15, 2016
- U.S. Not-For-Profit Health Care Rating Actions, May 2016, June 17, 2016
- U.S. Not-For-Profit Health Care Rating Actions, April 2016, May 13, 2016
- U.S. Not-For-Profit Health Care Rating Actions, March 2016, May 6, 2016
- U.S. Not-For-Profit Health Care Rating Actions, February 2016, March 29, 2016
- U.S. Not-For-Profit Health Care Rating Actions, January 2016, Feb. 12, 2016

For a list of outstanding acute care stand-alone and health system ratings and outlooks please see:

- U.S. Not-For-Profit Acute Health Care Outstanding Ratings And Outlooks As Of June 30, 2017, Aug. 24, 2017

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