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U.S. Not-For-Profit Health Care System Median Financial Ratios -- 2015 vs. 2014

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System medians, similar to the stand-alone medians, demonstrated operating margin improvement in 2015, which when combined with softer non-operating income produced modest coverage gains in the higher rating categories, with slight declines in the lower rating categories. Balance sheet metrics remained largely stable.

The rating distribution for health care systems continues a trend of slightly stronger ratings overall with an increase in 'AA'-category rated systems offset by declines in the 'BBB' and speculative grade categories (see chart 1). S&P Global Ratings has outstanding ratings on 156 health care system of which 142 (90%) are included in the median ratios. At June 30 we had just 14 (9%) systems rated below 'A'--in contrast stand-alone hospitals, where almost 40% were below 'A'--reflecting core strengths demonstrated by systems, including financial dispersion, geographic diversity, size, scale and generally deeper and more-seasoned management teams.

While the rating distribution remains considerably more favorable compared to stand-alone hospitals, the outlook distribution has become incrementally more volatile in both the positive and negative direction with just 72% of outlooks stable at June 30 compared to more than 84% in 2014 (see chart 2). We believe this reflects the high amount of merger and acquisition activity by health care systems, which in some cases has diluted credit quality but in others has benefitted credit ratings. In addition, when mergers are pending, we may change the outlook in anticipation of the merger if appropriate, but not finalize the rating change, if any, until the merger is consummated. Over time there are more entities in this mid-stage. With over one-quarter of the health care system outlooks nonstable we believe there could be a higher rate of rating changes for systems over the next several years.

With the exception of the lower rating levels, net patient service revenue growth reflects system consolidation and acquisitions, especially as the rate of revenue growth in several categories was quite robust (see table 1, table 2, and table 3). Despite the revenue growth, maximum annual debt service coverage and excess margins, while not consistent across individual rating levels, were constrained due to softer nonoperating revenue in 2015. Days' cash on hand trends were mixed depending on the rating level, but generally did not move up or down dramatically. Contingent liabilities to debt declined across many rating levels between 2014 and 2015 as many credits took the opportunity to convert variable rate debt and direct purchase transactions to low cost long term fixed rate debt.

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

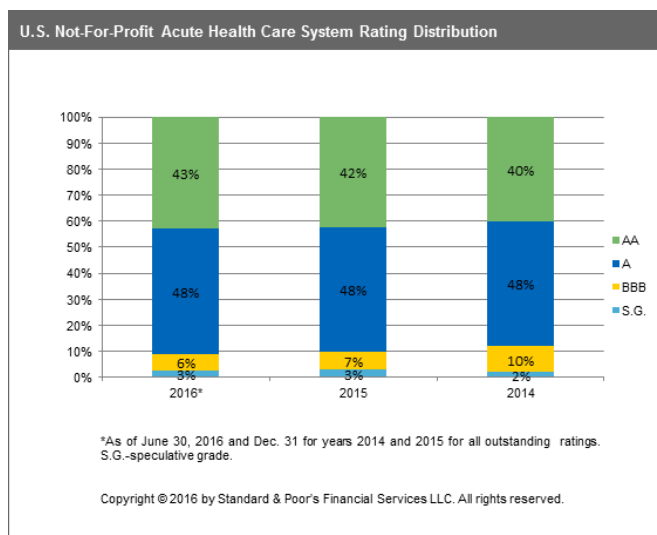


Chart 2

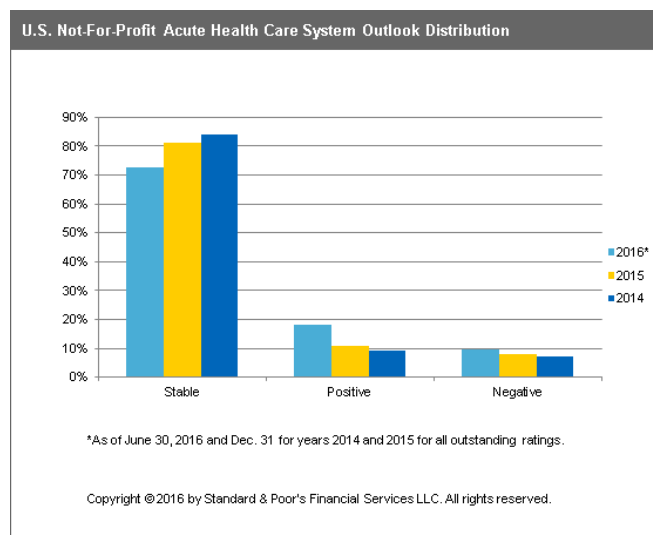


Table 1

U.S. Not-For-Profit Health Care System Medians (2009-2015)							
Fiscal year-end	2015	2014	2013	2012	2011	2010**	2009**
Sample size	142	140	138	143	143	143	140
Statement of operations							
Net patient revenue (NPR; \$000)	1,873,321	1,718,626	1,590,127	1,471,157	1,383,643	1,341,429	1,292,069
Salaries & benefits/NPR (%)	56.4	57.8	57.7	57.5	56.6	52.4	53.4
Maximum annual debt service coverage (x)	5.0	4.6	4.2	4.2	4.2	4.1	3.3
Operating lease-adjusted coverage (x)*	3.4	3.4	3.3	3.1	3.1	3.1	N.A.
Debt burden (%)	2.3	2.4	2.6	2.7	2.8	2.7	2.6
EBIDA (\$000)	278,605	247,243	204,975	198,121	192,370	170,792	132,791
Nonoperating revenue/total revenue (%)	2.0	2.6	2.5	1.8	2.0	1.7	0.3
EBIDA margin (%)	11.5	12.0	11.3	11.6	11.7	11.1	9.1
Operating EBIDA margin (%)	10.2	9.5	9.1	9.7	10.1	9.8	9.5
Operating margin (%)	3.6	2.9	2.2	2.9	2.9	3.0	3.0
Excess margin (%)	5.3	5.1	4.2	4.7	4.9	4.4	2.7
Capital expenditures/depr. & amort. exp. (%)	126.0	123.8	130.0	130.2	127.2	121.9	148.3
Balance sheet							
Average age of plant (years)	10.5	10.4	10.5	10.4	10.2	10.0	9.7
Cushion ratio (x)	21.4	19.6	18.2	17.3	16.0	16.1	14.9
Days' cash on hand	205.5	203.1	204.6	193.8	188.8	175.2	154.0
Days in accounts receivable	48.0	48.1	50.2	50.8	49.5	44.8	46.6
Cash flow/total liabilities (%)	16.2	16.9	15.0	14.6	15.5	14.9	12.0
Unrestricted reserves (\$000)	1,191,485	1,086,026	901,350	834,947	754,364	N.A.	N.A.

Table 1

U.S. Not-For-Profit Health Care System Medians (2009-2015) (cont.)							
Fiscal year-end	2015	2014	2013	2012	2011	2010**	2009**
Unrestricted reserves/long-term debt (%)	161.0	153.4	141.5	137.3	133.7	122.1	110.4
Unrestricted reserves/contingent liabilities (%)*	462.6	451.2	N.A.	N.A.	N.A.	N.A.	N.A.
Contingent liabilities/long-term debt (%)*	34.4	36.7	N.A.	N.A.	N.A.	N.A.	N.A.
Long-term debt/capitalization (%)	33.7	34.6	35.1	39.2	38.1	39.5	41.8
DB pension funded status (%)*	78.2	82.0	83.6	68.7	73.6	73.4	N.A.
Pension-adjusted long-term debt/capitalization (%)*	38.2	38.2	37.8	42.9	42.7	N.A.	N.A.

*These five ratios are only for organizations that have defined-benefit (DB) pension plans, operating leases, or contingent liabilities. **Fiscal years 2010 and earlier do 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 -- 2015 vs. 2014								
Fiscal year-end	AA		A		BBB		Speculative Grade	
	2015	2014	2015	2014	2015	2014	2015	2014
Sample size	58	59	70	67	10	10	4	4
Statement of operations								
Net patient revenue (NPR; \$000)	2,549,595	2,216,150	1,814,233	1,594,812	1,156,243	1,089,690	1,153,180	1,203,972
Salaries & benefits/NPR (%)	55.2	57.3	56.7	57.6	61.9	62.1	62.4	64.0
Maximum annual debt service coverage (x)	6.3	5.9	4.4	4.1	2.4	2.5	1.6	1.8
Operating lease-adjusted coverage (x)*	4.3	4.2	3.3	3.1	2.0	2.2	1.3	1.5
Debt burden (%)	2.2	2.2	2.5	2.7	2.5	2.6	2.0	2.5
EBIDA (\$000)	451,713	409,213	233,435	220,303	85,871	92,823	39,400	51,832
Nonoperating revenue/total revenue (%)	2.6	3.2	1.6	2.1	1.3	1.5	0.8	2.2
EBIDA margin (%)	13.1	13.8	11.0	11.4	8.0	8.5	4.1	4.4
Operating EBIDA margin (%)	10.5	10.6	10.2	9.4	6.4	6.2	2.2	2.0
Operating margin (%)	4.7	4.0	3.5	2.7	0.7	0.6	(1.7)	(2.9)
Excess margin (%)	7.1	7.4	5.1	4.8	2.1	2.7	0.2	(0.4)
Capital expenditures/depr. & amort. exp. (%)	129.9	133.5	124.2	118.7	100.4	131.9	77.2	78.2
Balance sheet								
Average age of plant (years)	9.8	9.7	10.7	10.9	11.1	10.9	14.8	13.3
Cushion ratio (x)	30.4	27.9	18.2	17.5	11.0	11.9	7.3	6.5
Days' cash on hand	280.7	292.7	183.4	181.7	115.4	137.7	74.2	82.1
Days in accounts receivable	48.8	49.3	46.7	47.7	48.5	49.0	49.4	50.2
Cash flow/total liabilities (%)	19.8	19.5	15.1	15.1	9.9	9.6	5.2	3.9
Unrestricted reserves (\$000)	2,096,967	1,894,038	922,899	892,281	528,345	518,620	179,042	236,438
Unrestricted reserves/long-term debt (%)	214.7	206.5	142.6	137.5	132.7	131.7	82.3	46.9

Table 2

U.S. Not-For-Profit Health Care System Medians By Rating Category -- 2015 vs. 2014 (cont.)								
Fiscal year-end	AA		A		BBB		Speculative Grade	
	2015	2014	2015	2014	2015	2014	2015	2014
Unrestricted reserves/contingent liabilities (%)*	606.8	534.3	417.8	411.3	397.8	466.9	237.7	260.8
Contingent liabilities/long-term debt (%)*	39.0	38.3	33.6	33.1	28.4	20.6	43.9	46.1
Long-term debt/capitalization (%)	27.8	27.2	37.6	37.8	42.1	44.6	75.6	85.4
DB pension funded status (%)*	78.7	82.0	78.8	82.9	74.3	79.9	65.6	76.4
Pension-adjusted long-term debt/capitalization (%)*	29.3	29.5	41.2	42.2	44.6	47.2	76.5	85.9

*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 -- 2015 vs. 2014								
Fiscal year-end	AA+		AA		AA-		A+	
	2015	2014	2015	2014	2015	2014	2015	2014
Sample size	6	5	18	20	34	34	30	28
Statement of operations								
Net patient revenue (NPR; \$000)	3,389,627	2,678,034	2,231,303	1,989,096	2,360,641	2,130,677	1,664,766	1,539,478
Salaries & benefits/NPR (%)	54.7	56.2	56.2	58.5	54.3	57.2	56.1	56.6
Maximum annual debt service coverage (x)	7.3	7.9	6.5	7.2	5.8	5.1	5.0	4.6
Operating lease-adjusted coverage (x)*	5.1	4.5	4.7	5.2	4.1	3.8	3.5	3.4
Debt burden (%)	1.8	1.7	1.8	1.9	2.3	2.3	2.4	2.5
EBIDA (\$000)	642,549	538,975	484,149	421,930	399,750	353,020	217,416	214,196
Nonoperating revenue/total revenue (%)	3.3	4.0	2.7	3.8	2.4	2.7	1.8	2.3
EBIDA margin (%)	14.8	15.2	13.3	14.4	12.7	12.9	12.3	12.0
Operating EBIDA margin (%)	13.1	12.1	10.6	10.9	10.4	9.9	10.3	10.1
Operating margin (%)	6.2	6.5	4.9	5.3	3.5	3.2	4.1	2.9
Excess margin (%)	8.4	9.9	7.2	8.5	6.4	6.0	5.6	5.1
Capital expenditures/depr. & amort. exp. (%)	132.1	186.9	139.8	143.0	124.2	119.5	124.2	110.1
Balance sheet								
Average age of plant (years)	7.9	8.9	9.8	9.4	10.0	10.2	10.3	10.1
Cushion ratio (x)	44.4	47.6	37.9	38.2	25.1	24.9	20.8	19.4
Days' cash on hand	426.2	440.5	292.9	296.6	258.2	259.1	200.3	190.6
Days in accounts receivable	45.8	45.5	49.9	51.5	48.8	48.1	46.2	46.3
Cash flow/total liabilities (%)	19.3	23.1	21.0	22.0	18.9	18.7	16.6	16.7
Unrestricted reserves (\$000)	4,108,597	4,024,012	2,464,462	2,395,574	1,920,207	1,726,188	890,833	905,785
Unrestricted reserves/long-term debt (%)	304.8	295.7	250.8	256.4	180.9	171.6	154.8	153.4
Unrestricted reserves/contingent liabilities (%)*	679.0	663.3	582.2	518.4	568.9	480.6	446.9	386.3

Table 3A

U.S. Not-For-Profit Health Care System Medians By Rating Level -- 2015 vs. 2014 (cont.)								
Fiscal year-end	AA+		AA		AA-		A+	
	2015	2014	2015	2014	2015	2014	2015	2014
Contingent liabilities/long-term debt (%)*	39.4	44.2	45.5	42.1	31.8	37.5	33.6	45.5
Long-term debt/capitalization (%)	23.3	24.1	25.5	24.6	31.4	30.5	35.9	33.7
DB pension funded status (%)*	93.8	94.6	82.0	83.8	76.3	79.4	79.8	82.7
Pension-adjusted long-term debt/capitalization (%)*	25.1	26.3	28.6	28.3	34.7	34.1	40.2	38.3

*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 -- 2015 vs. 2014										
Fiscal year-end	A		A-		BBB+		BBB/BBB-**		Speculative Grade	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Sample size	20	20	20	19	7	8	3	2	4	4
Statement of operations										
Net patient revenue (NPR; \$000)	1,829,392	1,750,447	1,929,035	1,594,812	1,003,597	1,280,044	1,308,889	1,076,356	1,153,180	1,203,972
Salaries & benefits/NPR (%)	57.7	56.1	58.1	59.7	61.1	59.0	62.7	63.1	62.4	64.0
Maximum annual debt service coverage (x)	4.1	4.0	4.1	3.6	2.5	2.6	1.8	2.4	1.6	1.8
Operating lease-adjusted coverage (x)*	3.2	3.1	3.2	2.8	2.3	2.3	1.5	1.8	1.3	1.5
Debt burden (%)	2.7	2.8	2.4	2.5	2.5	3.2	2.5	2.3	2.0	2.5
EBIDA (\$000)	245,963	247,243	217,696	190,681	96,361	123,384	63,606	62,749	39,400	51,832
Nonoperating revenue/total revenue (%)	1.5	2.4	1.6	2.0	2.0	2.3	0.6	0.5	0.8	2.2
EBIDA margin (%)	11.1	11.6	10.8	10.2	8.7	8.9	4.6	5.6	4.1	4.4
Operating EBIDA margin (%)	10.6	9.1	9.5	9.0	6.8	6.4	4.2	5.2	2.2	2.0
Operating margin (%)	3.6	2.9	2.9	2.3	0.8	0.6	(0.6)	0.5	(1.7)	(2.9)
Excess margin (%)	5.2	4.7	3.9	3.7	3.4	2.8	(0.2)	0.9	0.2	(0.4)
Capital expenditures/depr. & amort. exp. (%)	130.9	127.6	119.3	115.1	80.7	103.5	166.1	203.6	77.2	78.2
Balance sheet										
Average age of plant (years)	11.6	11.3	10.4	11.0	11.5	11.0	9.9	10.8	14.8	13.3
Cushion ratio (x)	18.1	17.5	16.3	14.7	15.3	12.6	9.5	10.1	7.3	6.5
Days' cash on hand	182.5	196.4	156.6	148.6	148.7	155.8	94.5	89.2	74.2	82.1
Days in accounts receivable	49.1	48.6	46.2	46.1	47.6	49.0	49.5	48.2	49.4	50.2
Cash flow/total liabilities (%)	15.6	15.3	13.5	13.5	11.9	10.3	6.4	7.7	5.2	3.9

Table 3B

U.S. Not-For-Profit Health Care System Medians By Rating Level -- 2015 vs. 2014 (cont.)										
Fiscal year-end	A		A-		BBB+		BBB/BBB-**		Speculative Grade	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Unrestricted reserves (\$000)	942,282	917,857	992,216	753,278	597,183	601,081	399,065	275,372	179,042	236,438
Unrestricted reserves/long-term debt (%)	116.0	129.9	140.3	123.1	159.6	158.0	66.8	79.7	82.3	46.9
Unrestricted reserves/contingent liabilities (%)*	411.4	409.5	409.4	413.1	561.2	446.9	262.2	509.1	237.7	260.8
Contingent liabilities/long-term debt (%)*	33.7	30.5	33.6	30.7	24.1	42.2	40.1	15.5	43.9	46.1
Long-term debt/capitalization (%)	40.6	41.5	40.4	40.5	37.1	44.6	57.4	46.7	75.6	85.4
DB pension funded status (%)*	77.2	81.2	78.4	84.8	73.3	71.5	74.3	80.2	65.6	76.4
Pension-adjusted long-term debt/capitalization (%)*	44.0	44.1	45.5	45.7	41.4	47.2	58.5	48.8	76.5	85.9

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

Related Research

- U.S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios -- 2015 vs. 2014, Sept. 21, 2016
- U.S. Not-For-Profit Health Care Small Stand-Alone Hospital Median Financial Ratios -- 2015, Sept. 21, 2016
- U.S. Not-For-Profit Health Care Children's Hospital Median Financial Ratios -- 2105, Sept. 21, 2016
- U.S. Not-For-Profit Acute Health Care Speculative Grade Median Financial Ratios -- 2015, Sept. 21, 2016

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 2015, Jan. 27, 2016
- U.S. Not-For-Profit Health Care Rating Actions, November 2015, Dec. 15, 2015
- U.S. Not-For-Profit Health Care Rating Actions, October 2015, Nov. 16, 2015
- U.S. Not-For-Profit Health Care Rating Actions, September 2015, Oct. 21, 2015
- U.S. Not-For-Profit Health Care Rating Actions, August 2015, Sept. 23, 2015
- U.S. Not-For-Profit Health Care Rating Actions, July 2015, Aug. 19, 2015
- U.S. Not-For-Profit Health Care Rating Actions, June 2015, July 15, 2015
- U.S. Not-For-Profit Health Care Rating Actions, May 2015, June 25, 2015
- U.S. Not-For-Profit Health Care Rating Actions, April 2015, May 20, 2015
- U.S. Not-For-Profit Health Care Rating Actions, March 2015, April 17, 2015
- U.S. Not-For-Profit Health Care Rating Actions, February 2015, March 31, 2015
- U.S. Not-For-Profit Health Care Rating Actions, January 2015, Feb. 25, 2015

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, 2016, Sept. 21, 2016

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