

# State of the Not-for-Profit Healthcare Industry and Market Outlook

Wendy Towber  
Associate  
S&P Global

Allison Bretz  
Associate Director  
S&P Global

Denver, Colorado

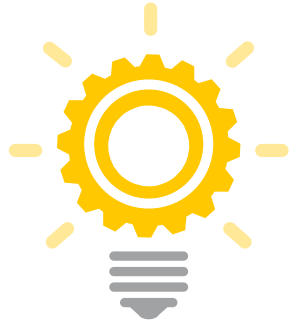
November 9, 2017

Copyright © 2017 by S&P Global.  
All rights reserved.



# Agenda

## S&P / Ratings Overview



- S&P staff & locations
- Credit ratings overview
- Not-for-profit healthcare

## Acute Stand-alone / Systems



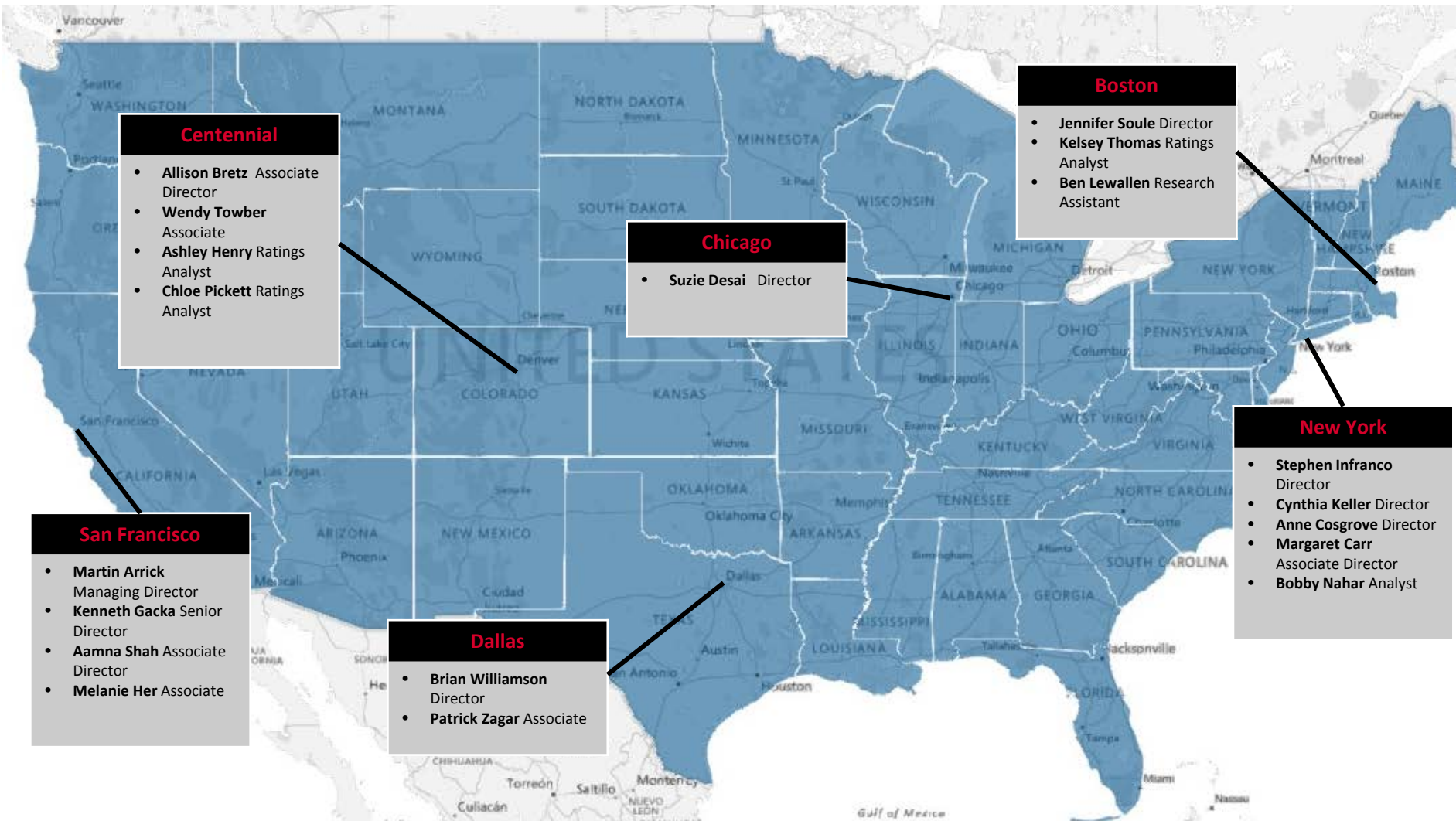
- Medians Overview

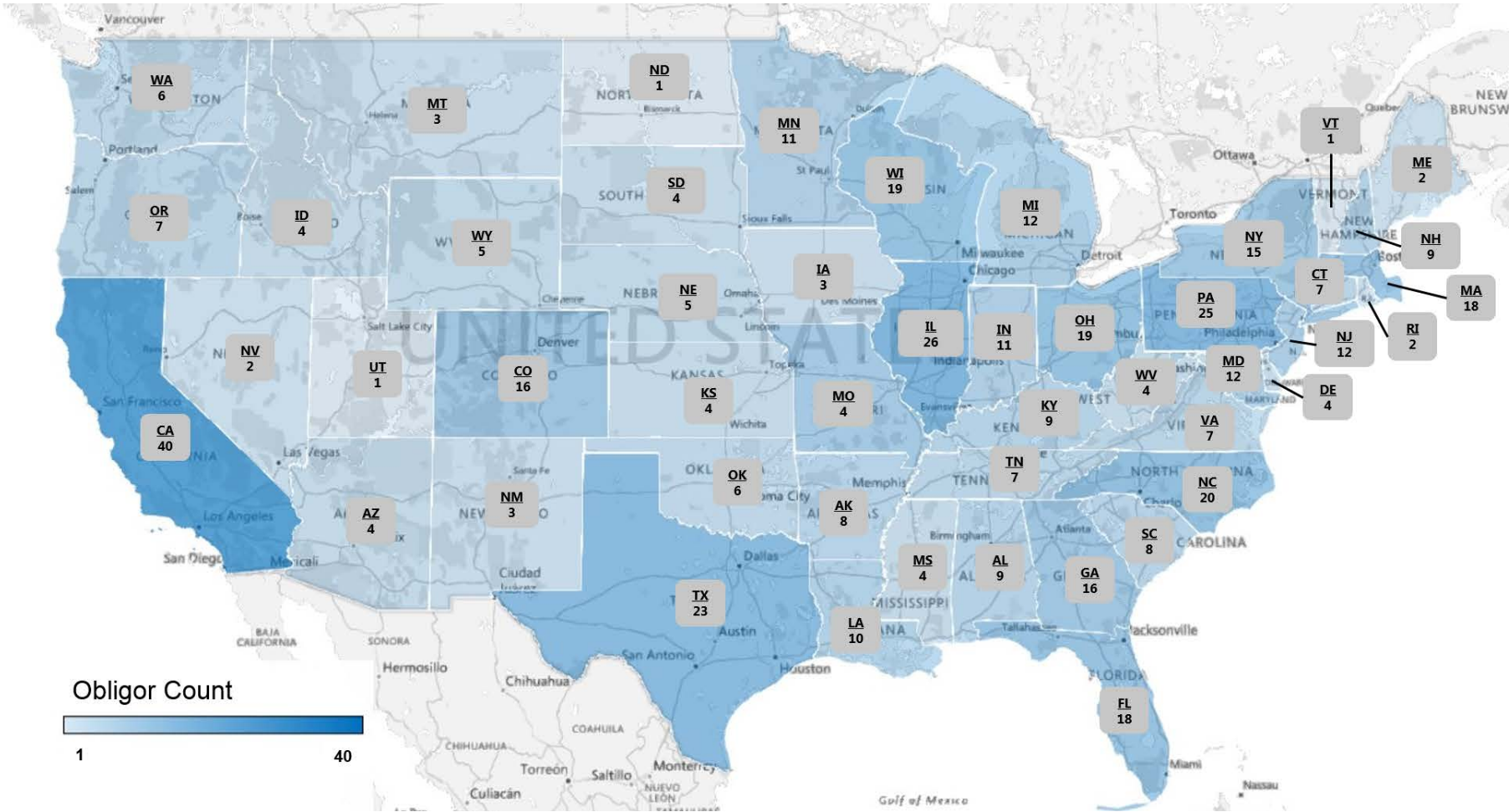
## Long Term Care and Senior Living



- Overview
- Trends
- State of ACA & Policy Updates
- Market-Driven Reform Mergers & Acquisitions

# S&P / Ratings Overview





\*\* AK - 1  
 HI - 3  
 PR - 3

# Credit Ratings Are

- Opinions - *relative* credit risk
- Opinions - willingness / ability to pay
- Forward looking

# Credit Ratings Are Not

- Investment advice
- Trading recommendations
- Guarantees of credit quality (or future credit risk)
- Absolute default probability indication

# S&P Rating Scale

***Capacity To Pay Principal and Interest on Time Is:***

## Investment-Grade

AAA	→	Strongest
AA+	}	Very Strong
AA		
AA-		
A+	}	Strong
A		
A-		
BBB+	}	Adequate
BBB		
BBB-		

## Speculative-Grade

BB+	}	Least Speculative
BB		
BB-		
B+	}	Speculative
B		
B-		
CCC	}	Highly Speculative
CC		
C		
D	→	In Default

Please see our web site: [www.standardandpoors.com](http://www.standardandpoors.com)

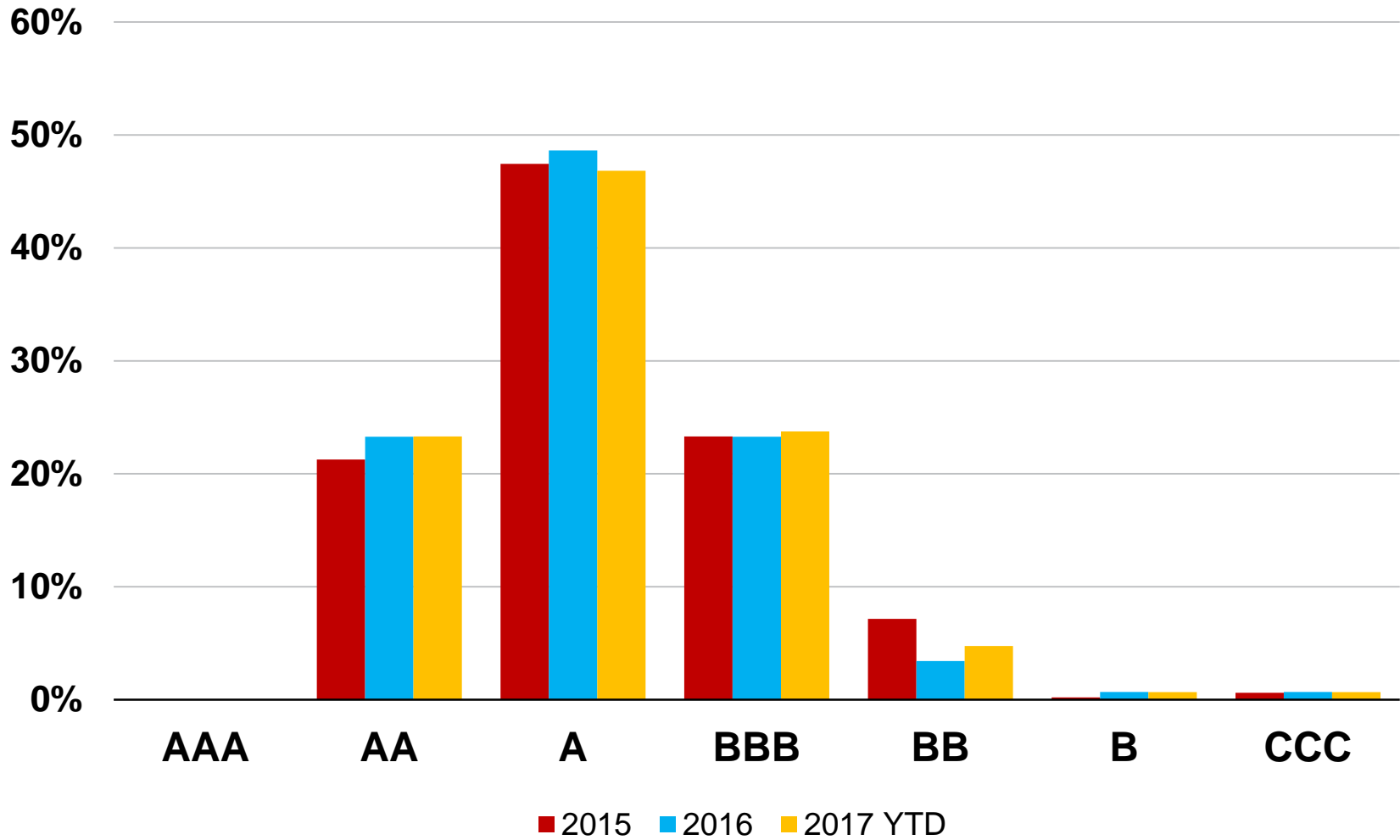


# Rating Outlooks

- Definition
- Options
- Timeline

# Not-for-Profit Health Care Rating Distribution

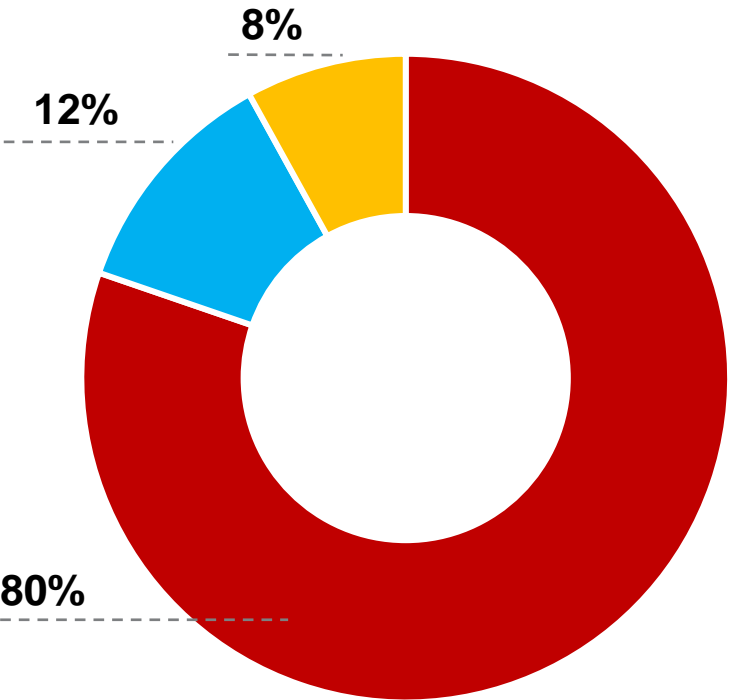
Three-Year Glance



Ratings as of 10/25/2017; Source: S&P Global Ratings

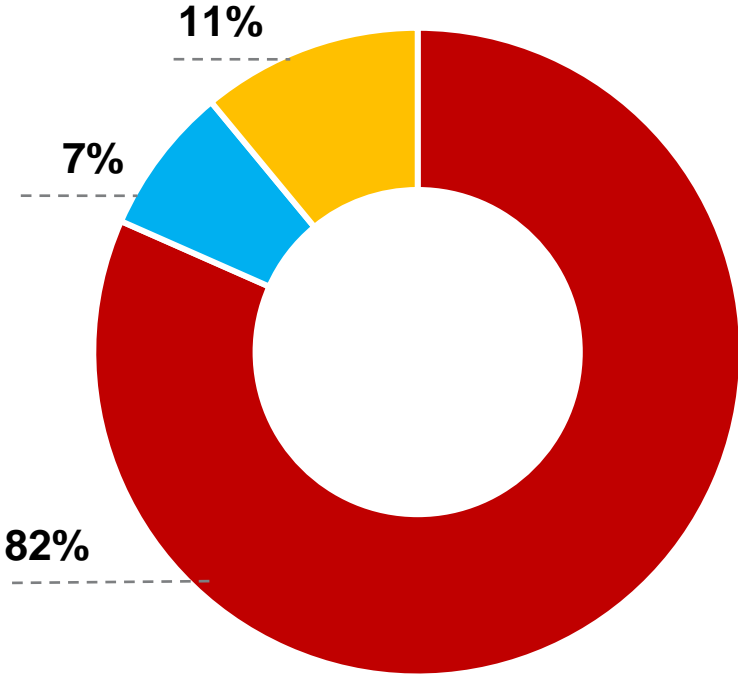
# Not-for-Profit Health Care Outlook Distribution

2016



■ Stable ■ Positive ■ Negative

2017 YTD



■ Stable ■ Positive ■ Negative

Ratings as of 10/25/2017; Source: S&P Global Ratings

# 2017 Rating Actions Reflect Stability

- Overall, credits remain quite stable
- 377 total affirmations for the health care sector

Upgrades/Downgrades (count)	2016	2017 YTD
Upgrade	44	28
Downgrade	38	35

Upgrades/Downgrades (%)	2016	2017 YTD
Upgrade	54%	43%
Downgrade	46%	57%

Ratings as of 10/25/2017; Source: S&P Global Ratings

# Highlights of the 2016 Median Reports

- Income statements
- Balance sheets
- Trends

# Not-For-Profit Healthcare Sector Outlook: Stable

Recent operating softness is beginning to emerge, although stronger non-operating revenues, sound balance sheets and generally stable business positions are supporting the stable industry outlook. We expect balanced upgrades versus downgrades for 2017.

- Broad market confusion remains
- Balance sheets - credit strength
- M&A activity
- Population health management capacity
- ACA uncertainty

# Not-For-Profit Healthcare Sector Outlook: Stable

Recent operating softness is beginning to emerge, although stronger non-operating revenues, sound balance sheets and generally stable business positions are supporting the stable industry outlook. We expect balanced upgrades versus downgrades for 2017.

- Negative pressures re-emerge:
  - Payor mix
  - Provider sponsored healthplan operations
  - High labor / supply costs
  - Strategic capital spending

# Acute Care: Stand Alone and Systems



# Acute Care Criteria Overview

## Enterprise Factors

- Industry Risk
- Economic Fundamentals
- Market Position
  - Market share
  - Competition and demand
  - Medical staff
  - Payor mix
  - Clinical quality
- Management and Governance

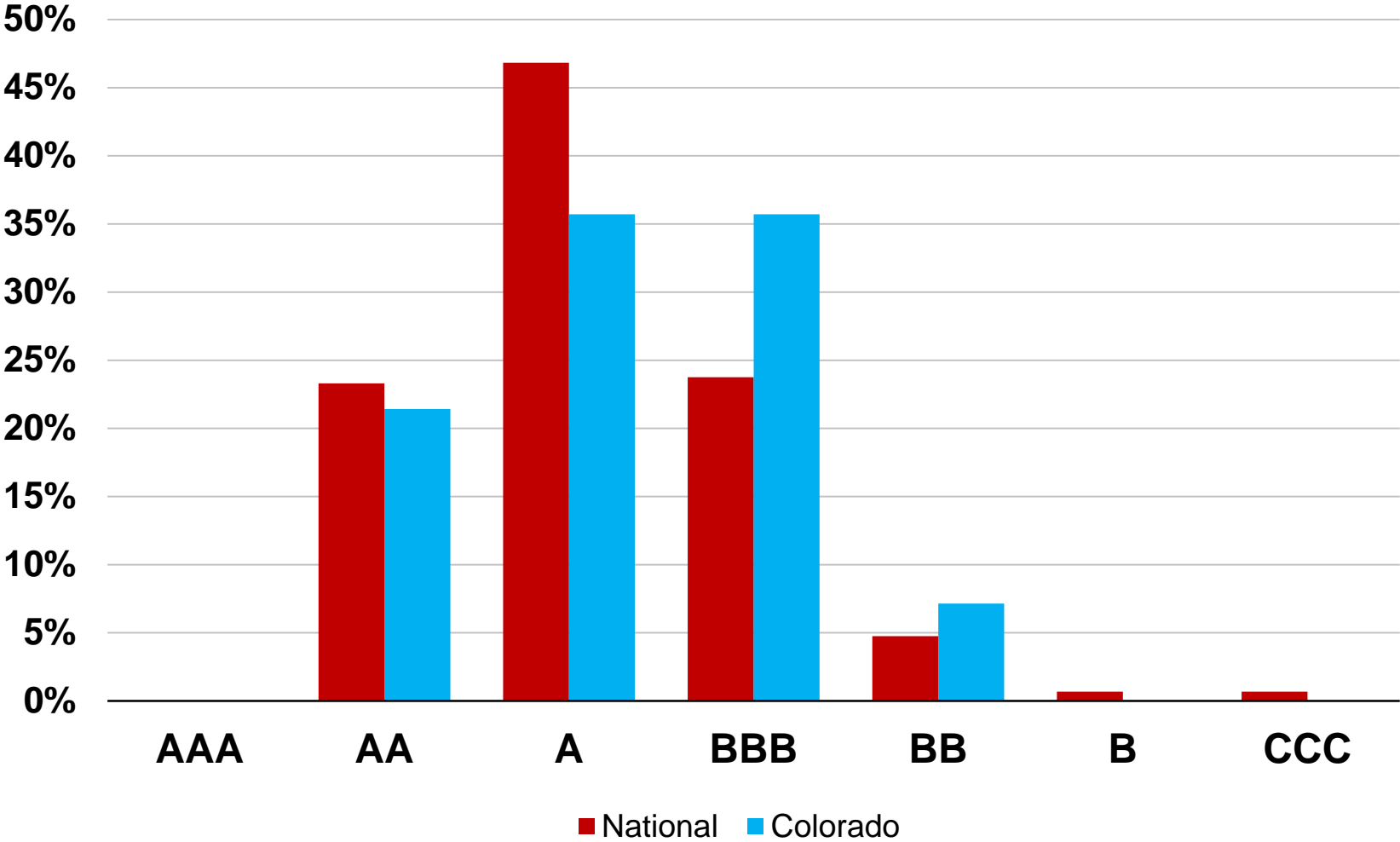
# Acute Care Criteria Overview

## Financial Factors

- Financial Policies
- Financial Performance
- Liquidity and Financial Flexibility
- Debt and Contingent Liabilities

# Not-for-Profit Health Care Rating Distribution

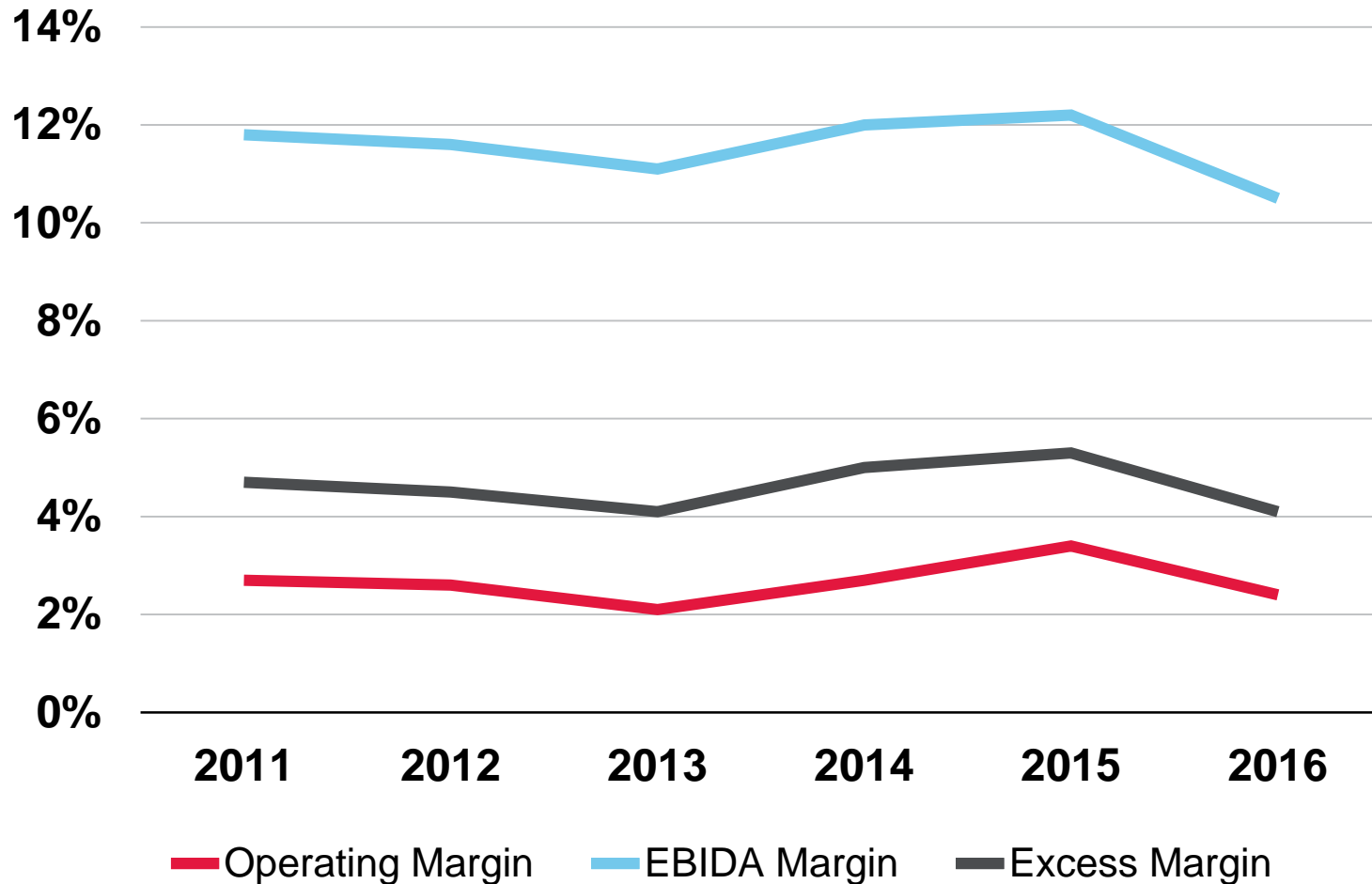
National vs. Colorado



Ratings as of 10/25/2017; Source: S&P Global Ratings

# Not-for-Profit Health Care Medians

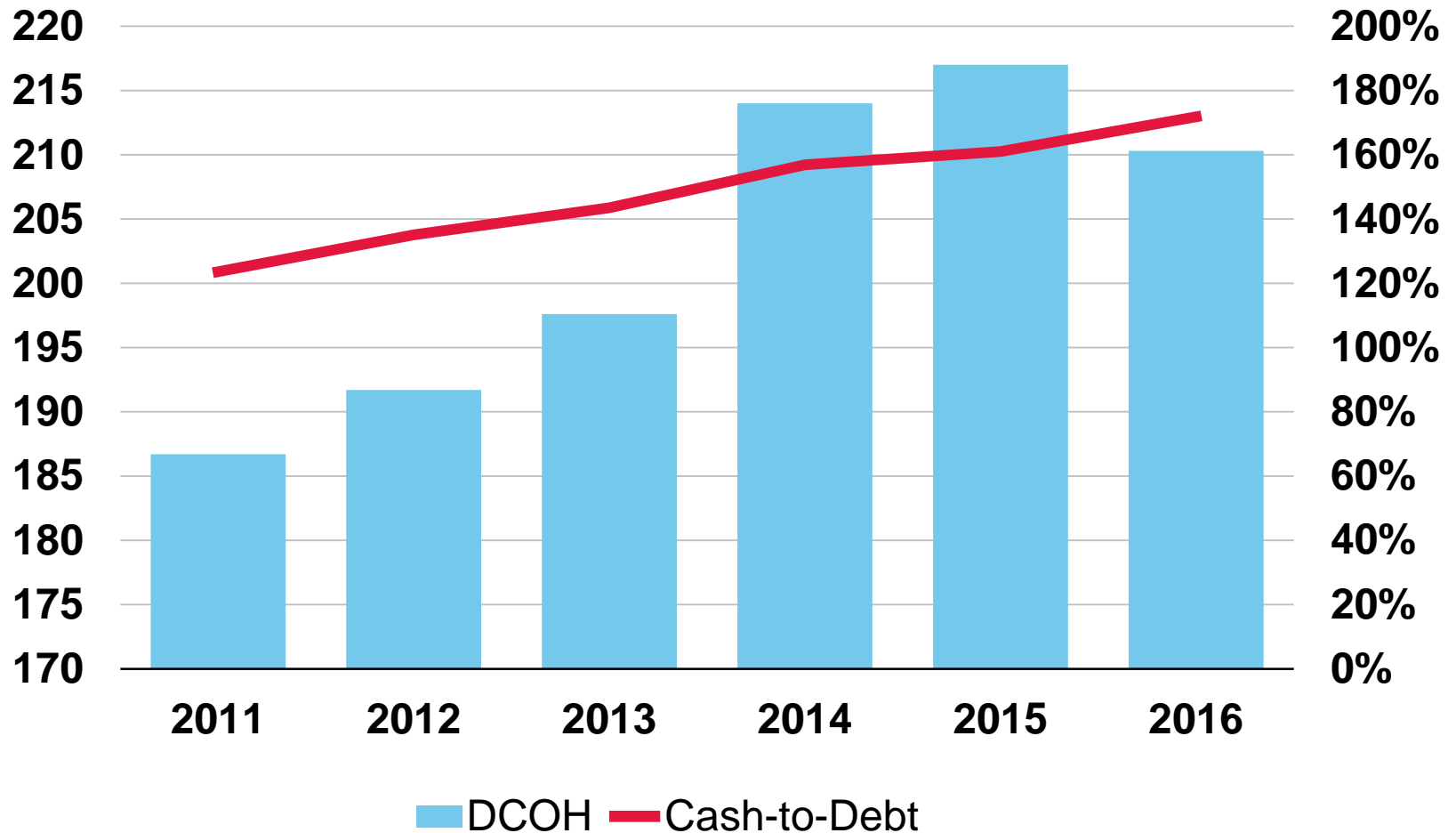
Financial Performance, 2011 - 2016



Source: S&P Global Ratings

# Not-for-Profit Health Care Medians

Liquidity, 2011 - 2016



Source: S&P Global Ratings

**S&P Global**  
Ratings

# U.S. Not for Profit Acute Care Sector Overview - Enterprise

- Changing consumption patterns
- Payor mix deterioration
- Staffing challenges
- Ongoing shift towards value/risk
- Strategic alliances

# U.S. Not for Profit Acute Care Sector Overview - Financial

- Softening operating income
- Strong investment returns
- Stable balance sheets
- Ongoing capital investment
- New issuances

# Long Term Care (Senior Living)



# Senior Living Criteria Overview

## Enterprise Factors

- Organizational Structure
- Management
- Demand
  - Competition
  - Demographics & Geography
  - Economic Characteristics
  - Operating Statistics

# Senior Living Criteria Overview

## Financial Factors

- Contract Types
- Financial Performance
- Balance Sheet
- Capital Program

# U.S. Not for Profit Senior Living Sector Ratings Overview

- Current universe
- Contraction trend
- Recent activity

# U.S. Not for Profit Senior Living Sector Economic Outlook

- Accelerating economic growth
- Uncertainty
- Improving labor markets
- Macro-economic trends

# U.S. Not for Profit Senior Living Sector Overview - Financial

- Recent trends
- Operating revenues
- Investment income
- Core operations
- Capital spending / expansion

# U.S. Not for Profit Senior Living Sector Expectations - Enterprise

- Increased demand
- Increased collaboration
- Strategic alliances
- Delivery models

# U.S. Not for Profit Senior Living Conclusion

- Research
  - Senior Living criteria - [SPRatings.com/healthcare](https://www.spratings.com/healthcare)
- Resource
- Reach out

# Questions?



# U.S. Not for Profit Healthcare Sector Risks and Opportunities

## ■ Risks

- Legislative/regulatory uncertainty
- Declining reimbursement
- Volume pressures

## ■ Opportunities

- “No-risk” investments
- Strategic partnerships
- Underlying balance sheet strength

# Health Care Research Page



RELATED TOPICS

-  Insurance: Evolving Risks And Challenges
-  Global Corporate Research
-  U.S. Public Finance Ratings

eNEWSLETTERS

CreditMatters Weekly

To register for newsletters, please visit our registration page

HEALTH CARE : TOPICS



### Health Care: Seeking Common Ground

As the future of the Affordable Care Act remains subject to legislative action and changing interpretations from the current Administration, our outlooks in the three segments remain stable. Through mid-April 2017, providers are developing a bit more of a negative bias, while the negative bias for health insurers (in effect since July 2015) is moderating.

FEATURED COMMENTARY

VIDEO : HEALTH CARE

#### Moving From "Repeal And Replace" To "What's Next" For U.S. Health Care

Mar. 29, 2017



On Friday, March 24, 2017, the American Health

ARTICLE : HEALTH CARE

#### Moving From "Repeal and Replace" To "What's Next" For U.S. Health Care

Mar. 27, 2017

On Friday, March 24, 2017, the proposed replacement bill for the Affordable Care Act (ACA), the American Health Care Act (AHCA) was pulled from the floor of the House of Representatives before the scheduled vote.

[Continue Reading →](#) | [Share](#)

ARTICLE : HEALTH CARE

#### Proposed ACA Replacement Would Pressure Hospital Revenues And Margins

Mar. 8, 2017

A replacement for the Affordable Care Act (ACA)—promised by Donald Trump and Republican leaders—has now been put forth for Congressional consideration. There had been much speculation about the details, but the main provisions of the proposed American Health Care Act (AHCA) are not a surprise.

# Thank you

**Allison Bretz**

Associate Director

303-721-4119

[allison.bretz@spglobal.com](mailto:allison.bretz@spglobal.com)

**Wendy Towber**

Associate

303-721-4230

[wendy.towber@spglobal.com](mailto:wendy.towber@spglobal.com)

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

#### Australia

Standard & Poor's (Australia) Pty. Ltd. holds Australian financial services license number 337565 under the Corporations Act 2001. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.