KaufmanHall

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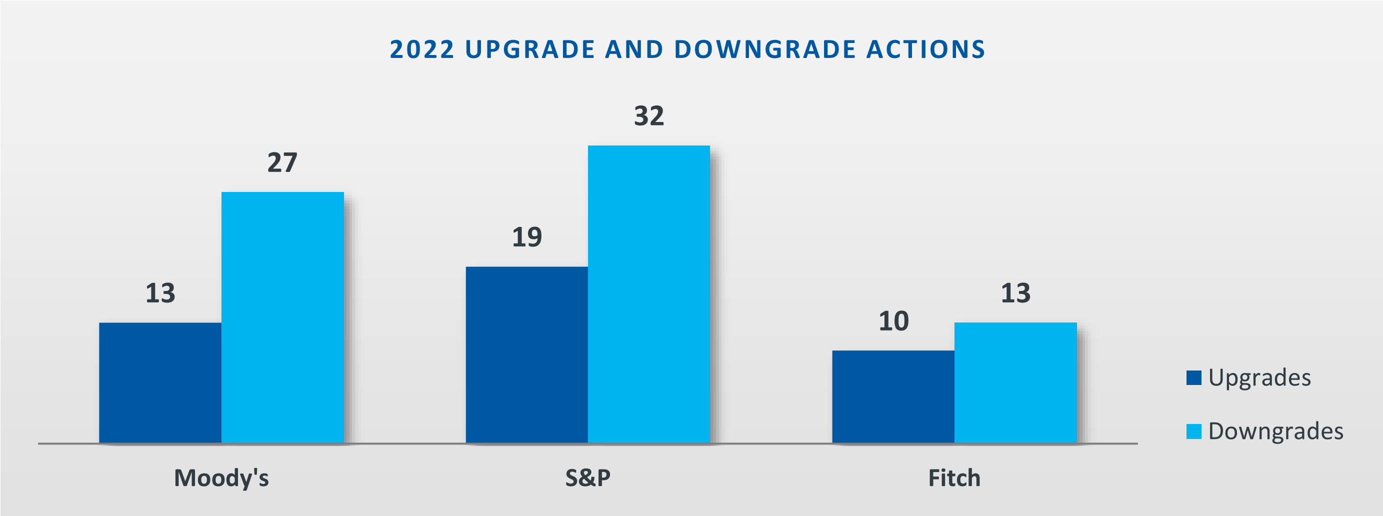
Five Key Takeaways from Rating Activity in 2022



Rating downgrades exceeded upgrades for all three rating agencies in 2022. Below are five key takeaways:

1. Downgrades covered a wide swath of hospitals including single-site hospitals and regional systems, safety net and community providers, integrated delivery systems and academic medical centers.
2. 2022 saw several multi-notch downgrades, mainly at the lower rating levels, as operating losses deepened and cash declined precipitously given investment losses and the use of reserves to fund operating expenses. They also highlighted the likelihood of covenant violations and the ability of investors to accelerate.
3. Some of the rating upgrades reflected fundamental improvement in financial performance and debt service coverage, while other upgrades followed a change in debt security or substitution of notes by a higher rated organization following a merger.
4. As in prior years, affirmations represented the overwhelming majority of rating actions in 2022, although many of the affirmations were accompanied by negative changes in rating outlooks (to negative from stable or to stable from positive).
5. All three rating agencies maintain negative or deteriorating outlooks on the not-for-profit healthcare sector given the tough business conditions of the industry, largely driven by the labor shortage, high inflation, low reimbursement rates, and volume levels that are not back to pre-pandemic levels.

Rating presentations make a difference. For more information, please contact Lisa Goldstein (lgoldstein@kaufmanhall.com) or Robert Turner (rturner@kaufmanhall.com)