

Rating Action: Moody's Affirms Jackson-Madison County General Hospital's (TN) A1; Stable Outlook

Global Credit Research - 15 Feb 2017

New York, February 15, 2017 -- Summary Rating Rationale

Moody's Investors Service affirms the A1 rating on Jackson-Madison County General Hospital's (doing business as West Tennessee Healthcare) outstanding debt of approximately \$277 million issued through the City of Jackson, TN. The outlook is stable.

The A1 reflects the system's leading market position in the primary service area, strong liquidity compared to daily expenses, good debt service coverage measures and a reduction in leverage. Inpatient acute care competition is limited in the primary service area but increases in the second service area with the presence of larger systems in Nashville and Memphis.

These attributes are offset by a decline in the operating cash flow margin since FY 2014 which continues through the first half of FY 2017. Management expects to improve performance by fiscal year end through expense reductions, however, an upcoming clinical and revenue cycle IT conversion may thwart such strategies over the near term.

Rating Outlook

The stable outlook reflects our expectations that performance will improve during the second half of FY 2017, enabling JMCGH to return to budget expectations of an 11.2% operating cash flow margin.

Factors that Could Lead to an Upgrade

Enterprise growth in size and scale that is commensurate with an Aa3 rating

Materially improved financial performance and debt service coverage

Material growth in liquidity

Factors that Could Lead to a Downgrade

Inability to stabilize financial performance to levels more in line with historical results

Increase in leverage without a greater level of cash flow growth

Decline in liquidity

Legal Security

The bonds are secured by a pledge of hospital revenues of Jackson-Madison County General Hospital. There is no mortgage pledge.

Use of Proceeds

Not applicable.

Obligor Profile

JMCGH is a four-acute-care hospital system located in western Tennessee. Its flagship is a 635-licensed bed acute care hospital located in Jackson and owned by the Jackson-Madison County General Hospital District. The other hospitals include: 70-bed acute care Milan General Hospital in Gibson County; 51-bed acute care Bolivar General Hospital located in Hardeman County; and 25-bed acute care Camden General Hospital located in Benton County. The system also includes a 25-bed psych and detox facility, a large employed physician group, and other outpatient facilities.

Methodology

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in November 2015. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

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