



# (/en\_US/web/guest/home) Greenville Health System, SC Fixed-Rate Debt Rating Lowered to 'A+' From 'AA-' On Weaker Operating Performance

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NEW YORK (S&P Global Ratings) Feb. 24, 2017--S&P Global Ratings lowered its long-term rating on Greenville Health System (GHS), S.C.'s long-term fixed-rate debt to 'A+' from 'AA-'. At the same time, S&P Global Ratings lowered its rating on GHS's 2008B refunding variable-rate hospital bonds to 'AA+/A-1+' from 'AAA/A-1+'. The outlook is stable.

"The downgrade reflects our view of GHS's weaker operating performance over the past couple of years and our expectation of potentially lighter-than-historical margins," said S&P Global Ratings credit analyst Margaret McNamara. GHS has invested heavily over the past several years in information technology and to prepare the organization for population health. This has placed pressure on margins and key balance-sheet metrics. In addition we expect an increase in capital spending over the next several years, which could further pressure the balance sheet depending on cash flow. We believe the lower rating gives the system flexibility to continue to pursue its strategic plan over the next several years.

The 'A+' rating reflects our opinion of GHS':

Favorable market position as the largest health system in South Carolina and the market leader in Greenville County, with a 58% market share in 2015;  
Solid patient volumes, with growing inpatient admissions, outpatient clinic, emergency, and surgery visits for fiscal 2016;  
Qualified, active, and integrated medical staff, with approximately 1,300 physicians, including 997 directly employed; and  
Strong and diverse Greenville County economy; GHS remains one of the county's largest employers with more than 12,500 employees (other major county employers include Michelin North America Inc., BMW North America, and General Electric Co.).

Partially offsetting the above strengths, in our view are GHS's

Adequate financial profile for the rating, with operating and excess margins of 0.84% and 1.20%, respectively, as of unaudited fiscal year-end 2016 (Sept. 30); operating lease-adjusted maximum annual debt service (MADS) coverage of 2.5x; and moderate leverage (36%) and liquidity, with cash-to-debt of 146%; and  
Expectation for lighter operating performance over the next couple of years as the system continues to pursue strategic initiatives; and  
Relatively high degree of contingent liabilities, although the system's solid liquidity mitigates this somewhat.

The stable outlook reflects our view of the system's leading business position and ongoing strategic investment in service lines and physician integration. In addition, the outlook reflects our view of GHS's adequate financial profile, which should allow it to maintain the ratings over the next two years and meet any challenges from market dynamics or health reform.

Given we expect a turnaround of longer than a year, we do not expect to raise the rating over the outlook period. However, we could do so if the system brings operating cash flow and margins closer to levels commensurate with a higher rating while improving MADS coverage to 4.5x-5.0x consistently. A higher rating would also be contingent on incremental improvement to unrestricted reserves and maintenance of solid debt-related ratios.

Although we do not expect to do so, we could lower the rating if the system substantially misses its operating budget for fiscal 2017 or unrestricted reserves decline significantly as capital spending ramps up. A sizable debt offering without some improvement to operations and cash flow could also cause some rating pressure.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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