

**Rating Action: Moody's Downgrades ProMedica Health System, OH to A1;
Outlook Stable**

Global Credit Research - 14 Mar 2017

New York, March 14, 2017 -- Summary Rating Rationale

Moody's Investors Service downgrades ProMedica Health System's rating to A1 from Aa3, affecting approximately \$775 million of debt. The outlook is stable.

The downgrade is due to a large operating loss and unexpected liquidity decline in FY 2016, material operating and capital costs to execute multiple strategies, and expected further liquidity decline and lower margins than historical and previously projected levels. The downgrade reflects execution risks related to transforming the business model to an academic enterprise and one that is more dependent on the health insurance business, which accounts for 43% of revenue and has variable performance. The A1 rating favorably considers the system's substantial revenue and cost initiatives to improve performance, leading market position, expected adequate liquidity even with declines, and minimal debt structure risks.

Rating Outlook

The stable outlook reflects expected margin improvement, maintenance of adequate liquidity, and no material incremental leverage.

Factors that Could Lead to an Upgrade

Significantly higher sustained operating cashflow margin

Decrease in operating leverage, driving improved debt metrics

Growth in market presence

Factors that Could Lead to a Downgrade

Failure to demonstrate trend of improving margins

Sustained decline in unrestricted investments below expectations

Sizable increase in leverage in the absence of cashflow growth

Materially dilutive acquisition or merger

Legal Security

Security is a gross revenue pledge of the ProMedica Healthcare obligated group. The obligated group consists of The Toledo Hospital, Flower Hospital, ProMedica Continuing Care Services Corp., Bay Park Community Hospital, Defiance Hospital Inc., Fostoria Hospital Association, Memorial Hospital, Emma L. Bixby Medical Center, Herrick Memorial Hospital Inc., and Lenawee Long Term Care. The system's foundations and Paramount are not obligated on the bonds; however, these entities are included in our assessment given tight integration and prior support.

Use of Proceeds

Not applicable.

Obligor Profile

ProMedica is a large healthcare system with \$3 billion in revenue. The system operates 12 hospitals in two states, Ohio and Michigan, and a large health insurance company. Paramount has approximately 334,000 members and offers Medicare, Medicaid and commercial plans. The system employs more than 900 primary

care and specialist physicians organized under the ProMedica Physician Group.

Methodology

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

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