FitchRatings

Fitch Rates NYU Hospitals Center (NY) Rev Bonds 'A-'; Outlook Stable

Fitch Ratings-New York-14 April 2017: Fitch Ratings has assigned an 'A-' rating to the expected issuance of the following bonds issued on behalf of NYU Hospitals Center (NYUHC):

--$600,000,000 New York University Hospitals Center taxable bonds series 2017A.

In addition, Fitch has affirmed the 'A-' rating on the outstanding debt listed at the end of this release.

The Rating Outlook is Stable.

NYUHC plans to issue $600 million of fixed rate taxable series 2017A bonds, expected to price the week of April 24, 2017. Bond proceeds will go towards various corporate purposes, including: refinancing approximately $291 million of draws on lines of credit used during the Kimmel Pavilion construction and various Brooklyn projects, refinancing of a $140 million loan for the Center for Musculoskeletal Care, as well as providing $168.5 million for various planned future projects. The series 2017A is fully amortizing and wraps around existing debt service. Maximum annual debt service (MADS), provided by the issuer, based on the master trust indenture (MTI) definition, is estimated at $142.7 million.

SECURITY

Bond payments are secured by a gross revenue pledge of NYUHC, which is the sole member of the Obligated Group, and a mortgage on certain of its Manhattan facilities. Fitch's analysis is based on the consolidated audit, which includes the non-obligated entity, CCC550 Insurance, SCC. (CCC550), its wholly owned captive insurance company. Effective Jan. 1, 2016, the obligated group included NYU Lutheran Medical Center (Lutheran).

KEY RATING DRIVERS

STRONG MARKET POSITION: NYUHC's reputation for tertiary and quaternary services, increase in the size of the faculty group practice and the affiliated physician component, high level of integration with the NYU School of Medicine, expansion of ambulatory coverage, strong focus on operating performance, and robust information technology platform, have translated into a solid market position in a very competitive and fragmented New York City health care market.

SOLID OPERATING RESULTS: NYUHC's operating performance has been excellent over the last three and half years, with operating EBITDA margins averaging 13.9% during this period and most recently 13% in fiscal 2016 based on operating income of $254.8 million, materially above Fitch 'A' category median of 10.3%. Operating results for the six month ended Feb. 28, 2017 (the interim period), were still favorable compared to the rating category, but slightly below the prior year period due to continued investment in ambulatory expansions, the expense of a new Electronic Medical Record (EMR) roll out at Lutheran and higher depreciation expenses, as certain main campus projects were brought on line. The results, which for 2016 and the interim period include the performance of NYU Lutheran, are supported by solid trends in both inpatient and outpatient volumes.

KIMMEL CONSTRUCTION PROGRESSES: NYUHC is currently building a $1.4 billion new inpatient tower (the Kimmel Pavilion) on NYUHC's main Manhattan campus. All the debt has been issued for the project, and Fitch anticipates the remaining approximately $633 million of construction costs to come from a combination of $200 million of philanthropy and the remainder from operating cash flow, which averaged $250 million annually over the last three years. NYUHC has spent approximately $743 million to date. The expected date of completion is 2018. A recent fire at the construction site will be fully covered by insurance and may have only slowed construction completion by a couple of months.

HIGH LEVERAGE: Capital ratios show the stress of NYUHC's $1.9 billion in pro-forma total long-term debt, which reflects the continuing investment in system facilities and ambulatory strategy. At Feb. 28, 2017, pro-forma MADS of $142.7 million as a percent of revenue of 3.8% and coverage of pro-forma MADS by EBITDA at 3.3x were unfavorable to the 'A' category medians of 2.7% and of 4.5x. The high debt burden increases the pressure on NYUHC to maintain strong cash flow.

AFFILIATION WITH WINTHROP: As of April 1, 2017 NYU Langone Health System became the sole member of Winthrop University Hospital (Winthrop; rated 'BBB+'/Stable Outlook), located on Long Island in Mineola, NY. Winthrop will not be joining the obligated group, but NYU Langone Health System will get five seats on the Winthrop board and Winthrop will get one seat on the Langone Health System's board. A full merger is expected by 2022. NYUHC derives approximately 10% of its revenues from Long Island and views that market as a source of potential growth, similar to the strategic focus with the Lutheran acquisition in Brooklyn. The plan is to assist Winthrop with implementation of a new EMR and the expansion of their ambulatory coverage.

STABLE BUT WEAKER LIQUIDITY: As of Feb. 28, 2017, NYUHC had $862.8 million in unrestricted cash and investments, which equated to 93.9 days cash on hand (DCOH), 6x cushion ratio, and cash equal to 49% of debt. Including $168.5 million of funds that will be added to available liquidity through the 2017A transaction, cash and unrestricted investments will increase to $1.04 billion, DCOH to 112.7 and cash to pro forma debt will be 54.2%, all still lower than Fitch's 'A' category medians of 215.5 DCOH, 19.4x cushion ratio and 148.6% cash to debt.

Liquidity is somewhat understated due to funds that are expected, but not yet received, of approximately $100 million, including moneys owed to NYUHC from FEMA and the New York State DSRIP. Additionally, NYUHC has access to $30 million of investments in its captive insurance company, which are not restricted. Projections call for cash-to-debt to reach 100% by fiscal end 2022 incorporating Winthrop into system metrics.

RATING SENSITIVITIES

MAINTENANCE OF STRONG OPERATING PERFORMANCE: Fitch expects New York University Hospitals Center to continue to produce solid cash flow allowing it keep investing in planned system growth that includes several large capital projects over the next two to three years. Positive rating movement would require material improvement in the system's liquidity.

CREDIT PROFILE

NYUHC is an academic medical teaching institution with four inpatient campuses including NYU Lutheran in Brooklyn, 1,519 licensed beds and a wide network of ambulatory facilities, including the Clinical Cancer Center, the Center for Musculoskeletal Care and an Ambulatory Surgery Center, all located within several blocks of the First Avenue campus in Manhattan. NYUHC had total operating revenue of $3.49 billion in FY2016 (Aug. 31 year end).

SYSTEM GROWTH

The signing of an affiliation agreement with Winthrop is part of NYUHC's strategy to increase its footprint in Brooklyn and Nassau County, from which it has historically been drawing referrals. Similar to the acquisition of NYU Lutheran, which further bolstered NYUHC's presence in the borough of Brooklyn, from which 50% of NYUHC's patients originated, NYUHC considers the Long Island market a source of potential growth.

Winthrop is a 591-bed hospital providing a comprehensive array of services, including: tertiary care, characterized by a good market position with estimated 17% market share, modest debt burden, and an excellent payor mix with 55% commercial sources of revenues. Winthrop reported assets of $1.08 billion and revenues of $1.37 billion in fiscal 2016 (year-end Dec. 31). However, financial performance and liquidity have been light, but the affiliation will allow for further investment in both facilities and expansion of ambulatory care, which historically serves as a strong source of referral for the high-end, well reimbursed programs at NYUHC. As part of the affiliation, NYUHC will provide a $100 million subordinated interest free loan to Winthrop to invest in operational improvements. NYUHC expects the immediate synergies from the affiliation to generate $7 million of value to the organization.

OPERATING RESULTS

NYUHC reported operating income of $254.8 million for fiscal 2016, equal to operating margin of 7.2% and operating EBITDA margin of 13%, both favorable to Fitch's 'A' category medians of 3.8% and 10.3%, respectively. Through the six-month interim period ended Feb. 28, 2017, NYUHC earned operating income of $123.2 million, translating to operating margin of 6.5% and operating EBITDA margin of 13.2%. Both are slightly lower than the prior year period due to several factors, including the continued investments in improving the efficiency of operations at NYU Lutheran, investments in additional ambulatory locations in Brooklyn and physician recruitment.

The EPIC EMR was rolled out at NYU Lutheran in August 2016, which had a temporary negative impact on operating profitability. The performance of NYU Lutheran has been included in both the fiscal 2016 and the 2017 interim period and, as is evidenced from the operating results, the incorporation of the NYU Lutheran operations into the system has not had a material negative impact on the system's performance. NYUHC's budget for fiscal 2017 is for operating income of $305 million (8% operating margin).

Fitch notes that the NYUHC's transfers to the school of medicine (approximately $50 million a year) also suppress liquidity growth. These transfers are in non-operating expense, which are excluded from income available for debt service per MTI covenant calculation, but included in Fitch's coverage ratio. Actual debt service coverage per covenant calculation was 3.7x in fiscal 2016 and on a pro-forma basis would be estimated at 3.5x

DEBT PROFILE AND PLANS

NYUHC has a very conservative debt structure, with approximately 85% of its debt fixed rate post 2017A issuance. There are no swaps outstanding. The system has several planned projects for the next two to three years. They include: the build-out of the free standing ED at the Cobble Hill location in Brooklyn, which will include a large ambulatory facility; as well as large a multi-specialty practice on Manhattan's Lower East Side; and a 25-story

facility at 41 Street to house a number of outpatient services. The system's capital budget is $700 million for the next two years.
DISCLOSURE

NYUHC covenants to disclose annual and quarterly information to the MSRB's EMMA system.

Outstanding debt:

--$157,270,000 New York State Dormitory Authority tax-exempt series 2016A;
--$77,770,000 New York State Dormitory Authority tax-exempt series 2014;
--$300,000,000 New York University Hospitals Center taxable series 2014A;
--$350,000,000 New York University Hospitals Center taxable series 2013A;
--$250,000,000 New York University Hospitals Center taxable series 2012A;
--$15,725,000 New York State Dormitory Authority tax-exempt series 2011A.

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Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
(https://www.fitchratings.com/site/re/750012)
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015) (https://www.fitchratings.com/site/re/866807)

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