

Rating Action: Moody's affirms Palmetto Health Alliance's (SC) Baa1; Outlook stable

Global Credit Research - 16 May 2017

New York, May 16, 2017 -- Summary Rating Rationale

Moody's Investors Service affirms the Baa1 assigned to Palmetto Health Alliance's (SC) bonds. Affirmation of the Baa1 reflects Palmetto's large size and good market position and important role in the Columbia market as an academic medical center and teaching hospital for the University of South Carolina School of Medicine, and provider of high acuity services. Primary credit challenges include recent weakness in operating performance and a debt structure that poses some liquidity risk. The rating outlook remains stable. The rating action applies to approximately \$470 million of rated debt.

Rating Outlook

The stable outlook, despite the weak operating performance in the first half of FY 2017, reflects our expectation that management can significantly improve results in the second half of FY 2017 and achieve cash flow that is in line with the historical variability that Palmetto has exhibited.

Factors that Could Lead to an Upgrade

Improvement and stabilization of operating performance

Significant growth in balance sheet resources and strengthening of cash to debt

Factors that Could Lead to a Downgrade

Inability to return financial performance to historical levels

Further weakening of balance sheet measures

Legal Security

The bonds are secured by revenue pledge by Palmetto Health and leasehold mortgages on all the acute care hospital facilities. Covenants include debt service coverage and additional indebtedness tests.

Use of Proceeds

Not applicable.

Obligor Profile

Palmetto Health operates two tertiary and one community hospital in the Midlands of South Carolina with a combined 1,138 licensed beds. Palmetto Health also operates one community hospital in Sumter, South Carolina with 301 additional licensed beds. In addition, Palmetto Health has a joint venture with Greenville Health System for a fifth hospital. Palmetto is affiliated with the University of South Carolina School of Medicine and two campuses serve as teaching sites; additionally Palmetto employs the residents and contracts with the USCSOM for the teaching faculty.

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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