MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Affirms Community Health Network, Inc.'s (IN) A2; Outlook Positive

Global Credit Research - 12 Jun 2017

New York, June 12, 2017 -- Summary Rating Rationale

Moody's Investors Service affirms the underlying A2 rating assigned to Community Health Network, Inc.'s (IN) (CHNw) revenue bonds issued by the Indiana Finance Authority, affecting approximately $557 million of debt outstanding. The rating outlook is positive.

The A2 rating reflects the continuation of good financial performance, driven by CHNw's favorable market share as a very large community hospital network with an extensive integrated independent and employed physician network, driving volume growth across many key service lines. CHNw has good coverage of its debt burden. Management's proactive efforts to de-risk the debt structure and terminate the pension are viewed favorably given below average liquidity levels, one of the key credit challenges.

Additionally, operations are expected to remain somewhat constrained by ongoing reimbursement and wage pressures. While Indianapolis is a highly favorable market, with low unemployment and several large, long-standing employers, it is also highly competitive with a number of large regional and national systems and the absence of certificate of need (CON) regulations.

Rating Outlook

The outlook is positive pending further clarification around expectations of near and intermediate term financial performance, capital spending and funding sources that may require cash funding and limit accelerated cash growth. A rating upgrade will considered upon improvement in liquidity metrics and maintenance of current levels of financial performance.

Factors that Could Lead to an Upgrade

Sustained operating cash flow margins

Liquidity growth and deleveraging balance sheet more commensurate with A1 medians

Maintenance of debt service coverage ratios

Factors that Could Lead to a Downgrade

Material downturn in financial performance

Material weakening of balance sheet ratios from current levels

An increase in debt that stresses debt coverage measures

Legal Security

Bonds are secured by unrestricted receivables of the obligated group, which includes Community Hospital East (CHE), Community Hospital North (CHN), Indiana Heart Hospital, LLC (IHH), Community Hospital South (CHS) and Community Howard Regional Health, Inc. (CHRH which joined in July 2012). Additional debt tests of 1.10 times coverage; consultant call-in if fails to meet the tests.

Use of Proceeds

Not applicable.

Obligor Profile

Our analysis reflects the financial performance of Community Health Network, Inc. and Affiliates which in

addition to the obligated group includes Community Hospital of Anderson and Madison County (CHA), Community Westview Hospital (Westview which joined the system in 2011 and closed inpatient operations in 2016), Community Physician Network (CPN), Community Health Network Foundation (the Foundation), for-profit Visionary Enterprises, Inc. (VEI), Community Home Health Services (CHHS), and Community Health Network Rehabilitation Hospital, LLC (CHNRH). The obligated group makes up over 80% of total revenues and nearly 100% of total assets.

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.moodys.com for a copy of this methodology.

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