

**Rating Action: Moody's Upgrades Indiana University Health's Rating to Aa2;
Outlook Stable**

Global Credit Research - 14 Jun 2017

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

Moody's Investors Service upgrades Indiana University Health's (IU Health) ratings to Aa2 from Aa3, affecting approximately \$1 billion in debt. The outlook is revised to stable from positive. The upgrade reflects very strong and sustained margins and material liquidity growth, providing resources to fund a large capital program. IU Health's moderate leverage also allows some debt financing of projects, while maintaining good leverage metrics. The system is well positioned to manage a large upcoming capital program given strong cashflow and liquidity resources, treasury risk reduction strategies to reduce current leverage and manage liquidity needs, and a high degree of planning to allow for flexibility as projects are phased. The Aa2 is further supported by IU Health's strong regional market position, statewide draw of patients for quaternary services and close affiliation with IU School of Medicine, one of the largest medical schools in the US. Challenges include a competitive market, dependency on state payments to support Medicaid patients and increasing capital spending.

Rating Outlook

The stable outlook reflects expected maintenance of current margins and liquidity to support higher capital spending and incremental debt for projects. We expect capital will be funded with a combination of some debt and cashflow, enabling the system to maintain strong debt metrics and liquidity. Plans to phase projects allows for a measured approach to spending and leverage.

Factors that Could Lead to an Upgrade

Significantly reduced competitive threats and material growth in market share

Increased size with strong geographic diversification

Material growth in liquidity combined with deleveraging

Factors that Could Lead to a Downgrade

Large debt increase above expectations and significant weakening of debt metrics

Notably dilutive acquisition

Prolonged and significant decline in margins

Material reduction or abatement of the Medicaid provider fee program that is not quickly absorbed

Legal Security

The bonds have a Gross Revenue Pledge. Indiana University Health is the sole member of the obligated group. Among other entities, Indiana University Health operates the Academic Medical Center downtown facilities (Methodist Hospital, University Hospital and Riley Hospital) which comprise a large portion of system revenue. The system has several sizable operations not in the obligated group, but closely integrated and controlled by the system; the largest of these operations include Arnett, Ball Memorial, Bloomington, North Hospital, West Hospital, Physicians and Health Plans.

Use of Proceeds

Not applicable.

Obligor Profile

Indiana University Health is the largest health care delivery system in the State of Indiana by revenues and

provides services throughout the State. The system provides a continuum of care through its 14 acute care hospitals (of which 4 operate under a single license), physician operations, ambulatory care ranging from home health to surgery centers, and medical risk. Within the acute care hospital operations is an Academic Health Center, affiliated with the Indiana University School of Medicine, one of the largest medical schools in the United States by student body. The Academic Health Center includes Indiana University Health Methodist Hospital, Indiana University Health University Hospital and Outpatient Center, and James Whitcomb Riley Hospital for Children at Indiana University Health. All are located within two miles of each other in the City of Indianapolis, Indiana.

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.com for a copy of this methodology.

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