

**Rating Action: Moody's revises Catholic Health System's (NY) outlook to negative; Baa1 affirmed**

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Global Credit Research - 10 Aug 2017

New York, August 10, 2017 -- Summary Rating Rationale

Moody's Investors Service revises Catholic Health System's (CHS) outlook to negative from stable, affecting \$98 million of debt. The Baa1 rating is affirmed.

The outlook revision to negative reflects the third year of weak operating cashflow margins and challenges to sustaining improvement given increasing outpatient competition. Absolute cashflow is insufficient to cover front-loaded debt service and normal capital needs, requiring the health system to increase leverage in the absence of operating improvement. The Baa1 rating further reflects challenges operating in a competitive and demographically challenged service area, large pension obligation and high counterparty risk. The rating favorably incorporates CHS's leading market position and favorable relationship with a sizable independent physician group, adequate liquidity and moderate direct leverage.

Rating Outlook

The outlook revision to negative reflects the third year of weak operating cashflow margins and challenges to sustaining improvement given increasing outpatient competition. Absolute cashflow is insufficient to cover front-loaded debt service and normal capital needs, requiring the health system to increase leverage in the absence of operating improvement.

Factors that Could Lead to an Upgrade

Sustained improvement in operating cashflow margin

Growth in unrestricted investments and days cash on hand

Reduction in counterparty risk and pension obligation

Factors that Could Lead to a Downgrade

Inability to improve operating cashflow margin from FY16 level

Material increase in leverage without significant improvement in operating cash flow

Meaningful reduction in investment position

Notable reduction in headroom under financial covenants, leading to greater acceleration risk, given counterparty concentration

Markedly dilutive merger or acquisition

Legal Security

Legal security is gross receipts as well as mortgage lien and security interests in certain properties, including the acute care campuses of the obligated group. The obligated group consists of Catholic Health System, Inc., Mercy Hospital, Sisters of Charity Hospital, and Kenmore Hospital; Mount St. Marys is not included in the obligated group.

Use of Proceeds

Not applicable.

Obligor Profile

The Catholic Health System, with over 48,000 admissions in 2016, serves the residents of Erie County, New

York and its surrounding counties. The system includes four acute-care hospitals, primary care and diagnostic centers, long-term care facilities, home care agencies and other healthcare services.

#### 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](http://www.moody's.com) for a copy of this methodology.

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