

**Rating Action: Moody's assigns Aa3 to Memorial Sloan-Kettering Cancer Ctr.'s, NY Ser. 2017; outlook stable**

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**Global Credit Research - 05 Dec 2017**

New York, December 05, 2017 -- Issue: Revenue Bonds, 2017 Series 1; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: \$304,860,000; Expected Sale Date: 12/11/2017; Rating Description: Revenue: Other;

**Summary Rating Rationale**

Moody's Investors Service assigns an Aa3 to Memorial Sloan-Kettering Cancer Center's, NY proposed \$304.9 million Revenue Bonds, 2017 Series 1 to be issued through the Dormitory Authority of the State of New York. The bonds are expected to be issued as fixed rate, tax exempt securities to mature in 2047. The rating outlook is stable. Simultaneously, Moody's affirms the Aa3 on Memorial Sloan-Kettering Cancer Center's outstanding bonds. These actions affect \$2.2 billion of debt outstanding. Memorial Sloan-Kettering Cancer Center and its Affiliated Corporations are collectively referred to as MSKCC in this report.

The affirmation and assignment of Aa3 reflects MSKCC's preeminent reputation for cancer research and clinical care, large base of total cash and investments, and robust philanthropy. The rating also favorably acknowledges strong growth of operating revenue and cash flow at a time when the enterprise is undergoing rapid expansion and diversification the clinical footprint. The rating remains constrained by very high financial leverage and extensive capital plans at multiple sites, which require careful management oversight.

**Rating Outlook**

The stable outlook reflects our view that MSKCC will continue to demonstrate an ability to leverage its preeminent brand into expanding geographic revenue diversification while sustaining strong cash flow. Additionally the stable outlook incorporates the expectation that large capital projects and multiple regional growth strategies will be executed without disruption.

**Factors that Could Lead to an Upgrade**

- Lower financial leverage and continued growth in cash and investment cushion
- Consistently stronger cash flow and operating margins
- Successful execution of complex, multi-phased capital plan

**Factors that Could Lead to a Downgrade**

- Notable rise in financial leverage
- Sustained weaker operations and thinner debt service coverage
- Significant decline in investments and liquidity, including protracted weak investment performance

**Legal Security**

All rated bonds are unsecured general obligations of the Memorial Sloan Kettering Cancer Center (the Center), which holds over 70% of unrestricted cash and investments consolidated in the audited financial statements. The Series 2017 and Series 2015 taxable bonds are unsecured general obligations of the Center, issued under the 2012 indenture, same as the Series 2012A taxable bonds, between the Center and the bond trustee. The Sloan-Kettering Institute for Cancer Research (the Institute) and SKI Realty have also entered into unsecured guaranties for the Center's payments under the indenture. If certain Funding Events occur, the Center and Hospital will be required to provide bondholders with a lien on certain Shared Collateral. Shared Collateral would be released at the time when there is no Funding Event. This Shared Collateral includes, but is not limited to, a security interest in gross receipts of the Center and related corporations (excluding the Hospital), and a mortgage on certain property including Hospital property (excluding research facilities). Funding events include, but are not limited to: downgrade of MSKCC below the "A" rating category by two rating agencies (if

MSKCC rated by 3 rating agencies) or breach of certain financial covenants. MSKCC currently has good headroom under the funding event financial covenants and rating trigger, and as such all of MSKCC's rated bonds are rated Aa3. If a Funding Event were to occur, the ratings across the different legal securities could differ.

The Series 2011A taxable bonds are issued under an indenture between the Center and the trustee. They are unsecured general obligations of the Center and also include unsecured guaranties from the Institute and SKI Realty. Upon the occurrence and continuation of a Funding Event (which are identical to the Funding Events under the Series 2012 indenture) the bond trustee would be granted a lien on Shared Collateral (as described above).

The Series 2008A-1, 2008A-2 and 2012 tax-exempt bonds were issued under the 2002 bond resolution. In addition to being unsecured general obligations of the Center with unsecured guaranties from the Institute and SKI Realty, upon the occurrence and continuation of certain Funding Events, the bond trustee would be given a lien on Shared Collateral (as described above). The Series 2008 and 2012 bondholders also have a springing lien on the Gross Receipts of the Hospital. Collateral is released from the pledge when a Funding Event is no longer continuing. Funding Events include downgrade of MSKCC's debt rating below the "A" rating category by two rating agencies or breach of certain financial covenants.

The 2012 Series 1 bonds, as well as certain unrated bonds privately placed with banks, were issued under the 2003 bond resolution. In addition to being unsecured general obligations of the Center with unsecured guaranties from the Institute and SKI Realty, upon the occurrence and continuation of certain Funding Events, the bond trustee would be given a lien on Shared Collateral (as described above). The springing collateral pledge for these bonds would also include a mortgage on a 23-story research building. Collateral is released from the pledge when a Funding Event is no longer continuing. Funding Events include downgrade of MSKCC's debt rating below the "A" rating category by two rating agencies or breach of certain financial covenants.

The Series 1998 bonds are an unsecured general obligation of the Center. They do not have a guaranty from the Institute or Realty. Bondholders have a security interest in pledged revenues related to certain residential facilities owned by MSKCC (up to \$6.5 million) but do not have a springing lien on Shared Collateral, the Research Building, or gross receipts of the Hospital. MSKCC will not issue additional debt under the 1989 resolution.

#### Use of Proceeds

The 2017 Series 1 Bonds are being issued for the purpose of paying a portion of the costs of constructing, improving, and equipping (i) an ambulatory care facility in Uniondale, New York; (ii) an ambulatory care and inpatient facility near East 74th Street in New York, New York; (iii) certain equipment, (iv) certain facilities in New York, New York related to converting a steam-based system to a hot water-based system for heating and domestic hot water; (v) refinancing all of the 2015 Series 1 Bonds and (vi) paying costs of issuance on the 2017 Series 1 Bonds.

#### Obligor Profile

MSKCC benefits from an excellent market position as a leading provider of cancer research and clinical care. Unless stated otherwise, the figures in this report present a combined view of Memorial Sloan Kettering Cancer Center (the Center) and Affiliated Corporations. The audit consolidates financial information for Memorial Sloan Kettering Cancer Center, Memorial Hospital for Cancer and Allied Diseases (514 licensed beds), Sloan-Kettering Institute for Cancer Research, S.K.I. Realty, the Graduate School of Biomedical Sciences, the captive insurance company, and other smaller affiliates. The Center and Affiliated Corporations are collectively referred to as MSKCC in this report.

#### Methodology

The principal methodology used in this rating was Not-For-Profit Healthcare published in November 2017. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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