Ohio Health System Performance Analysis

Raymond James Healthcare Finance

RAYMOND JAMES

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Section 1

NOT-FOR-PROFIT HEALTHCARE SECTOR RATING OUTLOOKS

Not-for-profit Healthcare Sector Rating Outlooks: Moody's, S&P and Fitch

Rating Agency	Moody's	S&P	Fitch
Outlook	**Stable**	**Negative**	**Deteriorating**
Outlook Commentary	*"The outlook for the not-for-profit healthcare sector has been revised to stable from negative as expense growth decelerates, especially labor costs. At the same time, a modest rebound in patient volumes and higher reimbursement rates in many cases will lift revenue. These factors signal that a financial recovery will increasingly take hold in 2024, marked by an uptick in cash flow margins. While some government initiatives pose risks, increased state financial backing and Federal Emergency Management Agency (FEMA) funds will aid some healthcare providers' financial turnaround.."*	*"S&P Global Ratings expects a constrained operating environment in 2024 largely due to persistently high labor and operating costs, which, for many organizations, have not been entirely offset by generally improving revenue trends. Although acute contract labor expenses have dropped, many providers continue to contend with an imbalance between the rate of growth across expenses and revenue. As organizations ramp up longer-range capital plans and strategic investments, additional spending or debt issuances could also be a factor influencing credit quality, depending on balance-sheet strength and the level of cash flow improvement. The pace of margin recovery, supported by labor management, throughput and efficiency gains, and performance improvement plans, coupled with balance-sheet and enterprise strengths, will be key for providers to maintain credit quality in the coming year."*	*"Fitch Ratings continues to expect core credit drivers for the sector to remain challenged for the sector writ large again in 2024, coming off a generationally challenged period in 2022 and 2023. The industry continues to struggle with labor shortages and salary/wage/benefit pressure that is still compressing margins for a sizable portion of the sector, even as other core credit drivers, specifically volumes and overall liquidity, begin to improve…The larger macroeconomic headwinds, specifically the labor supply shortage, became highly pronounced in calendar year 2022 and remained a pressure point, with operating metrics challenged for many providers in 2023, some significantly. Fitch believes this pressure will remain for the foreseeable future yet slowly resolve, with the expectation for added incremental operational recovery in 2024. Fitch also expects a number of health providers to lag significantly behind any recovery."*
Other Notes	• Median operating cash flows (OCF) are expected to grow about 10%-20%, while OCF margins will rise to 7% from 6% in 2023; the median OCF margin pre-pandemic was 8%-9%. • Revenue growth will narrowly exceed expense growth. Higher reimbursement rates from insurers and modest patient volume growth will drive revenue growth, however, growth in labor costs, will remain a challenge. • Liquidity will remain healthy despite many hospitals using cash for capital investment after deferrals during the pandemic; most will still maintain solid days cash on hand. • Covenant headroom will improve given increases in operating cash flows. Yet the risk of covenant breaches will remain high for providers facing weak cash positions. • Legislative, regulatory and judicial activity will add risk. • An increase in the median OCF margin above 8% could move the outlook to positive. However a substantial rise in labor or supply costs or a disruption in volume recovery could lead to a negative outlook.	• Although rates and usage of contract labor are generally falling, the pace of labor expense pressures has been slow to ease. • Generally good demand exists, but revenue is strained by payer and service mix dynamics. • Many lower-rated and more pressured entities will have a difficult 2024 without meaningful partnerships or significantly improved labor conditions. • There is a mixed trends of divestitures and joint ventures, all seeking stronger control and focus on core service lines. • Performance improvement plans, many with the aid of consultants due to requirements after a covenant violation or a desire to accelerate progress, are widespread. • Increased capital spending and debt issuance are likely. • There is potential for reduced balance-sheet flexibility as organizations consider capital needs and other spending strategies. • Further cash flow recovery in 2024, following broad but slow improvement in 2023, will be a key credit consideration.	• A sector outlook reassessment would likely require significant improvement in labor productivity given the current scarcity of available labor industrywide and for clinical positions, in particular. Gains in labor productivity will likely be achieved only through redesigned labor processes. Recent years have seen enhanced recruitment and retention efforts, emerging as one of if not the single most meaningful differentiator between operational success and failure. • Local demographics have proven to be among the most important factors in determining credit quality. Robust population growth and a favorable payor mix provide more topline revenue growth opportunities and a greater ability to attract staffing talent. • Equity market stability and a return to materially positive returns yoy could restore and increase rating headroom. • Though not expected to be a widespread event, a second year of debt service covenant (DSC) violations are of particular concern this year. Second year violations, which would occur in calendar 2024 as late fiscal 2023 and early 2024 audits are finalized, may intensify the potential for bondholders to declare an event of default and accelerate bond payments.

Moody's: "2024 Outlook - Revised to stable as financial recovery gains momentum", dated November 7, 2023.
S&P: "Historical Peak Of Negative Outlooks Signals Challenges Remain For U.S. Not-for-Profit Acute Health Care Providers", dated December 6, 2023.
Fitch: "U.S. Not-For-Profit Hospitals and Health Systems Outlook 2024", dated December 5, 2023.

Section 2

12/31/2023 OHIO HEALTH SYSTEM PERFORMANCE ANALYSIS

Ohio Peer Group Summary

- The peer group used for this analysis includes the 14 health systems listed below.
- This analysis summarizes trailing twelve months ending 12/31/2023 performance. As a result, some systems that have not published 12/31/2023 financials are excluded.

#	Name	Abbreviation	Moody's	S&P	Fitch	FYE	TTM 12/31/23 Revenue ($000s)
1	Cleveland Clinic	CC	Aa2	AA	NR	12/31	14,482,677
2	OhioHealth	OH	Aa2	AA+	AA+	6/30	6,092,497
3	University Hospitals Health System	UH	A2	A	NR	12/31	5,859,315
4	ProMedica Health System	ProMedica	Ba2	BB	BB	12/31	3,281,834
5	TriHealth	TriHealth	NR	A+	AA	6/30	2,420,482
6	UC Health	UCH	Baa3	BBB+	NR	6/30	2,367,452
7	Premier Health	Premier	Baa1	NR	A	12/31	2,336,975
8	Summa Health	Summa	NR	BBB+	BBB+	12/31	1,859,449
9	MetroHealth	Metro	Baa2	BBB	NR	12/31	1,812,360
10	Christ Hospital	Christ	A3	A	NR	6/30	1,321,861
11	Adena Health System	Adena	A3	A-	NR	12/31	741,570
12	Genesis Health System	Genesis	Ba2	BB+	NR	12/31	786,466
13	Southern Ohio Medical Center	SOMC	Baa1	NR	NR	6/30	580,924
14	Blanchard Valley Health System	BVHS	A2	NR	A+	12/31	475,291

Ohio Peer Group Analysis: Over $2 billion of Revenue

- 7 of the 14 systems in the Ohio peer group have over $2 billion of revenue.
- Within these 7 systems the best operating margin was 6.6% (OhioHealth).

	Cleveland Clinic	OhioHealth	University Hospitals Health System	ProMedica Health System	TriHealth	UC Health	Premier Health
Rating	Aa2 / AA / NR	Aa2 / AA+ / AA+	A2 / A / NR	Ba2 / BB / BB	NR / A+ / AA	Baa3 / BBB+ / NR	Baa1 / NR / A
FYE	12/31	6/30	12/31	12/31	6/30	6/30	12/31
Twelve Months Ending 12/31/23							
Net Patient Service Revenue	12,654,257	5,835,605	5,400,151	2,690,992	2,174,899	2,190,804	2,258,406
Total Operating Revenue	14,482,677	6,092,497	5,859,315	3,281,834	2,420,482	2,367,452	2,336,975
Operating Margin	0.4%	6.6%	-4.4%	-4.9%	2.0%	-4.0%	-3.4%
Operating EBITDA Margin	5.5%	11.3%	0.8%	4.2%	6.7%	0.4%	3.0%
SWB Expense % TOR	57.8%	54.7%	57.6%	47.0%	53.6%	56.4%	58.2%
Days Cash on Hand	316	505	142	100	207	56	144
Cash to Debt	228.0%	380.0%	114.6%	47.2%	211.4%	43.6%	106.4%
Debt to Capitalization	27.5%	19.0%	46.8%	78.6%	27.9%	56.0%	56.2%

Source: EMMA Filings, Rating Reports, and Raymond James Analysis.

Ohio Peer Group Analysis: Less than $2 billion of Revenue

- 7 of the 14 systems in the Ohio peer group have less than $2 billion of revenue.
- Within these 7 systems the best operating margin was 1.4% (Southern Ohio Medical Center).

	Summa Health	MetroHealth	Christ Hospital	Adena Health System	Genesis Health System	Southern Ohio Medical Center	Blanchard Valley Health System
Rating	NR / BBB+ / BBB+	Baa2 / BBB / NR	A3 / A / NR	A3 / A- / NR	Ba2 / BB+ / NR	Baa1 / NR / NR	A2 / NR / A+
FYE	12/31	12/31	6/30	12/31	12/31	6/30	12/31
Twelve Months Ending 12/31/23							
Net Patient Service Revenue	1,170,449	1,257,523	1,191,276	704,075	652,152	N/A	459,765
Total Operating Revenue	1,859,449	1,812,360	1,321,861	741,570	786,466	580,924	475,291
Operating Margin	-2.3%	-3.7%	-0.5%	-2.5%	-2.0%	1.4%	0.5%
Operating EBITDA Margin	3.1%	5.0%	5.2%	3.3%	3.1%	6.0%	4.7%
SWB Expense % TOR	44.3%	53.5%	51.4%	55.9%	48.6%	55.8%	59.1%
Days Cash on Hand	172	144	143	184	97	234	356
Cash to Debt	104.3%	68.5%	134.3%	131.0%	74.2%	339.0%	508.9%
Debt to Capitalization	48.3%	73.6%	32.1%	39.0%	47.2%	20.0%	13.4%

Source: EMMA Filings, Rating Reports, and Raymond James Analysis.

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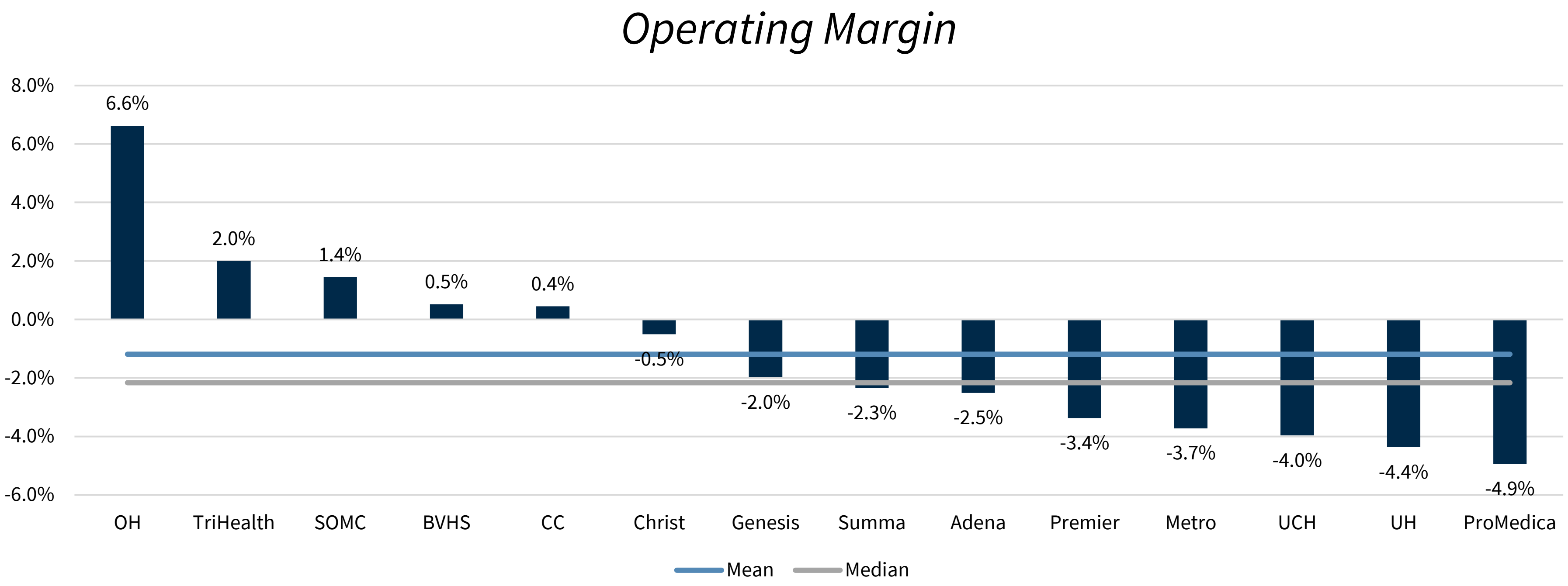
Operating Margin Analysis

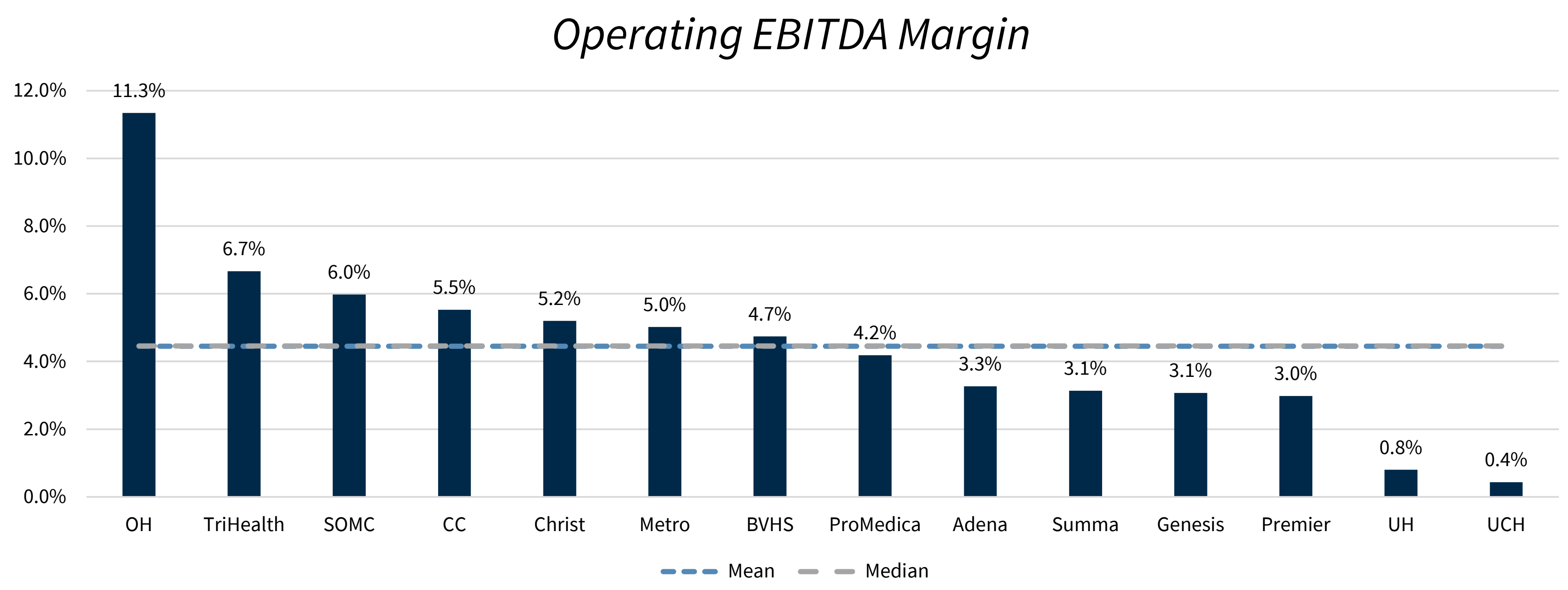
- The mean Operating Margin was -1.2%.
- The median Operating Margin was -2.2%.



Source: EMMA Filings, Rating Reports, and Raymond James Analysis.

Operating EBITDA Margin Analysis

- The mean and median Operating EBITDA Margin was 4.5%.



Source: EMMA Filings, Rating Reports, and Raymond James Analysis.

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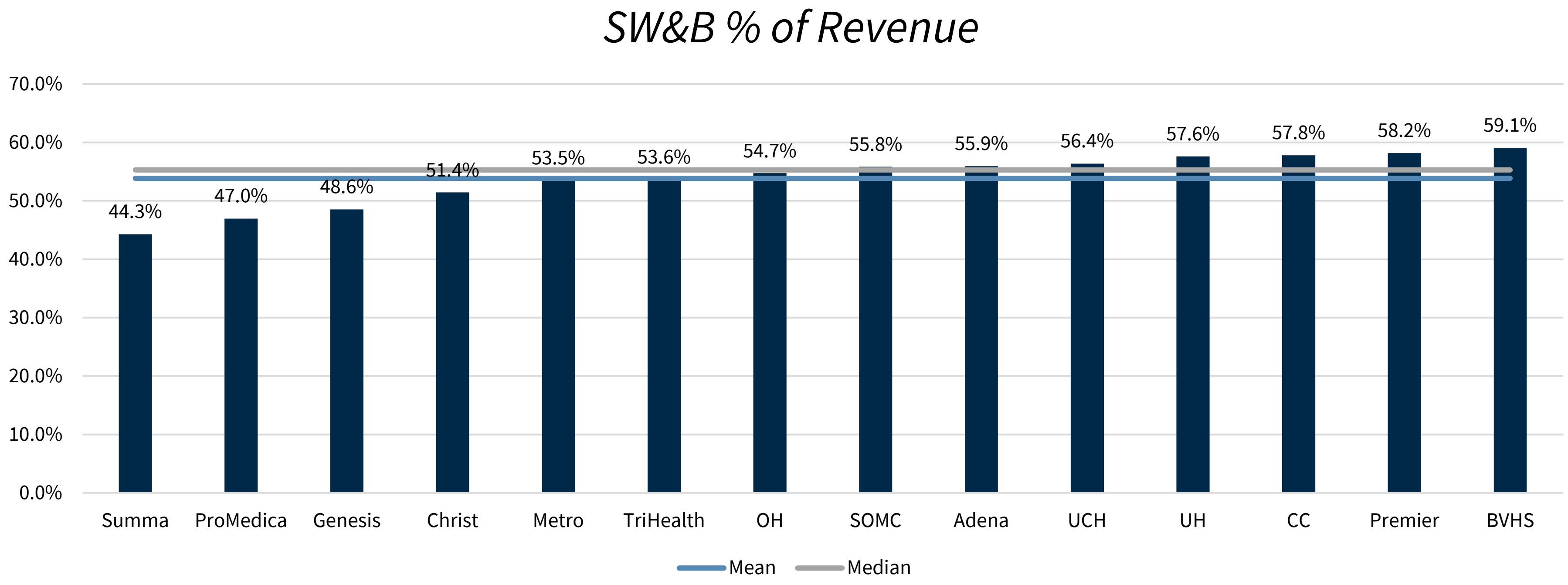
Salaries, Wages & Benefits Analysis

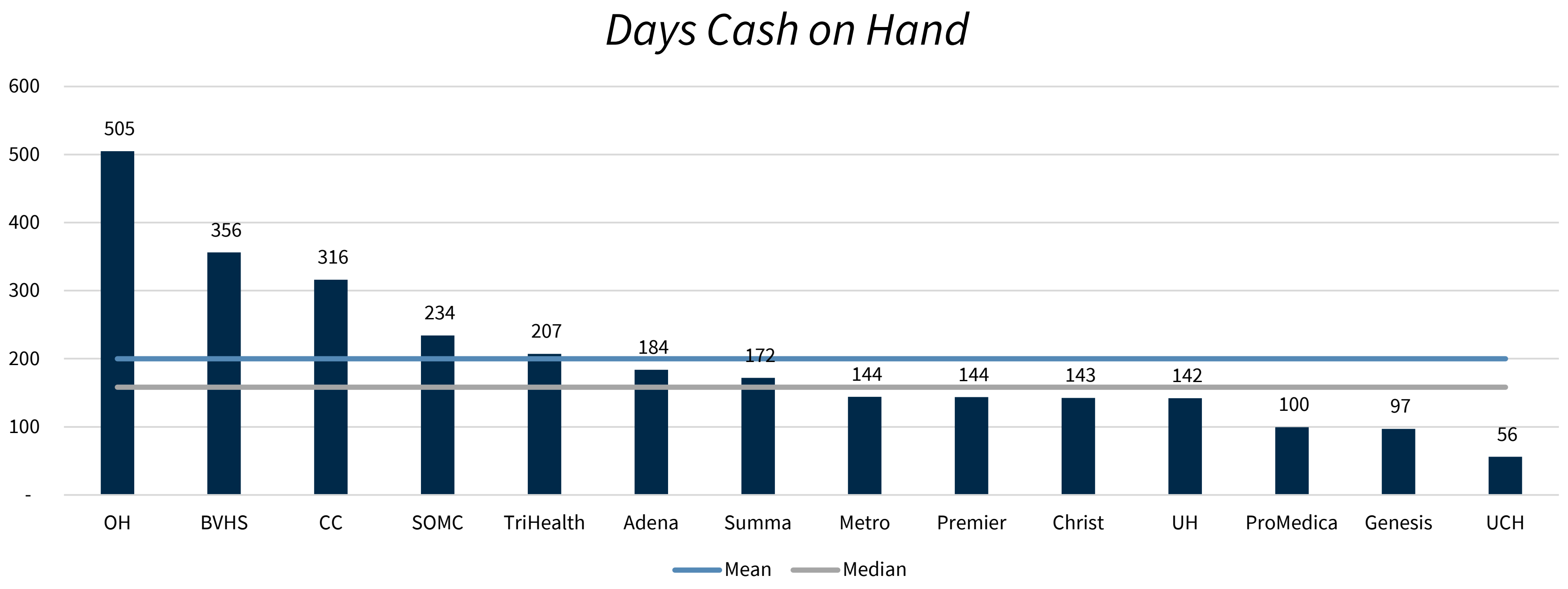
- The mean Salaries, Wages & Benefits expense was 53.8% of revenue.
- The median Salaries, Wages & Benefits expense was 55.3% of revenue.



Source: EMMA Filings, Rating Reports, and Raymond James Analysis.

Days Cash on Hand Analysis

- The mean Days Cash on Hand was 200 days.
- The median Days Cash on Hand was 158 days.



Source: EMMA Filings, Rating Reports, and Raymond James Analysis.

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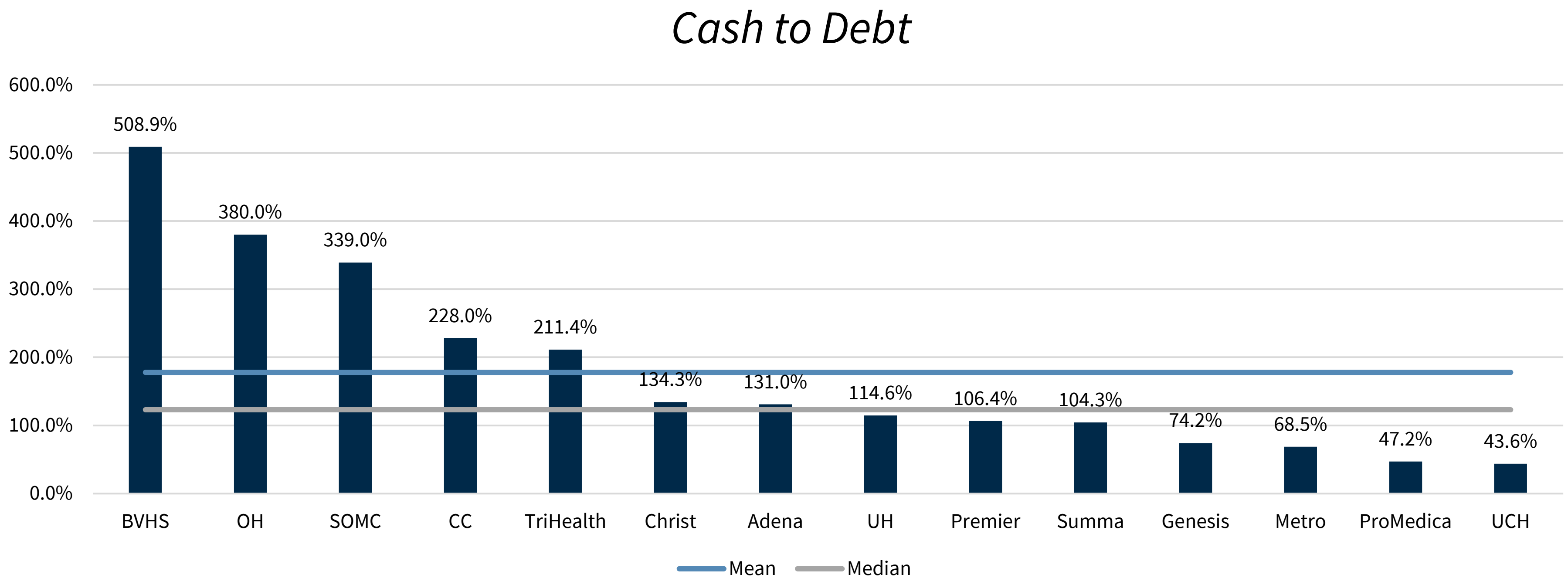
Cash to Debt Analysis

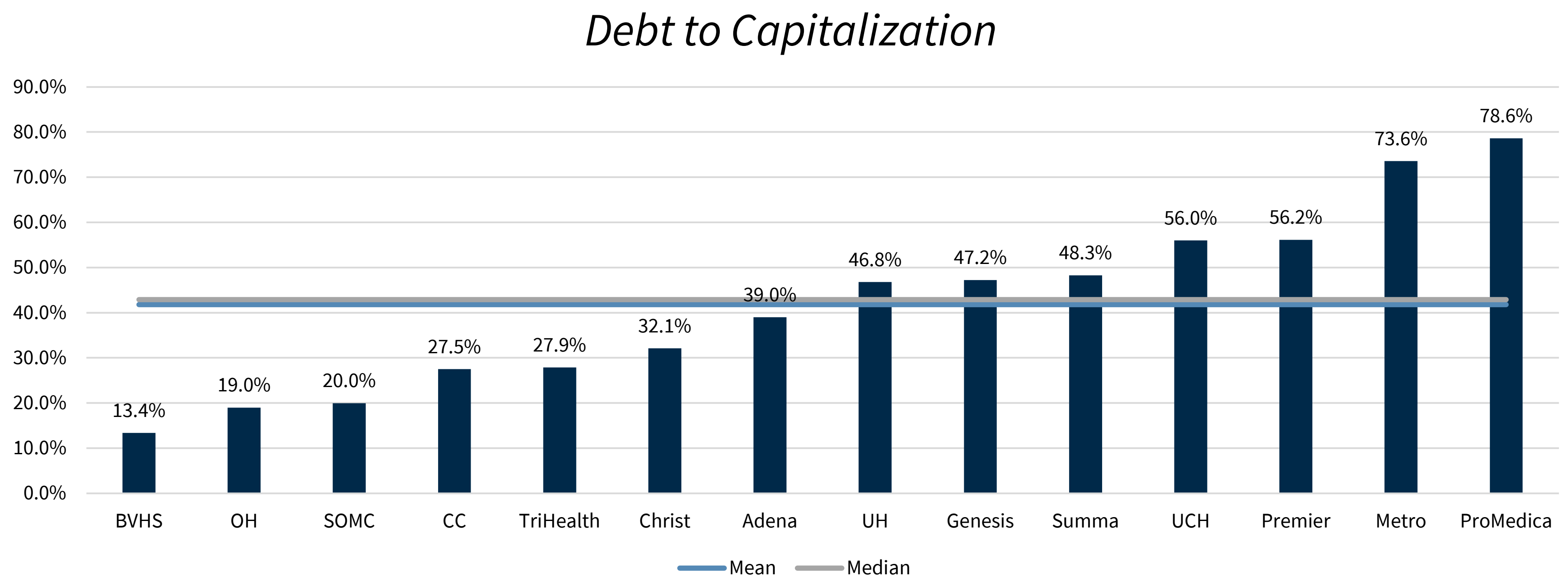
- The mean Cash to Debt ratio was 178%.
- The median Cash to Debt ratio was 123%.



Source: EMMA Filings, Rating Reports, and Raymond James Analysis.

Debt to Capitalization Analysis

- The mean Debt to Capitalization ratio was 42%.
- The median Debt to Capitalization ratio was 43%.



Source: EMMA Filings, Rating Reports, and Raymond James Analysis.

Section 3

RAYMOND JAMES COMMITMENT TO OHIO

Raymond James Commitment to Ohio

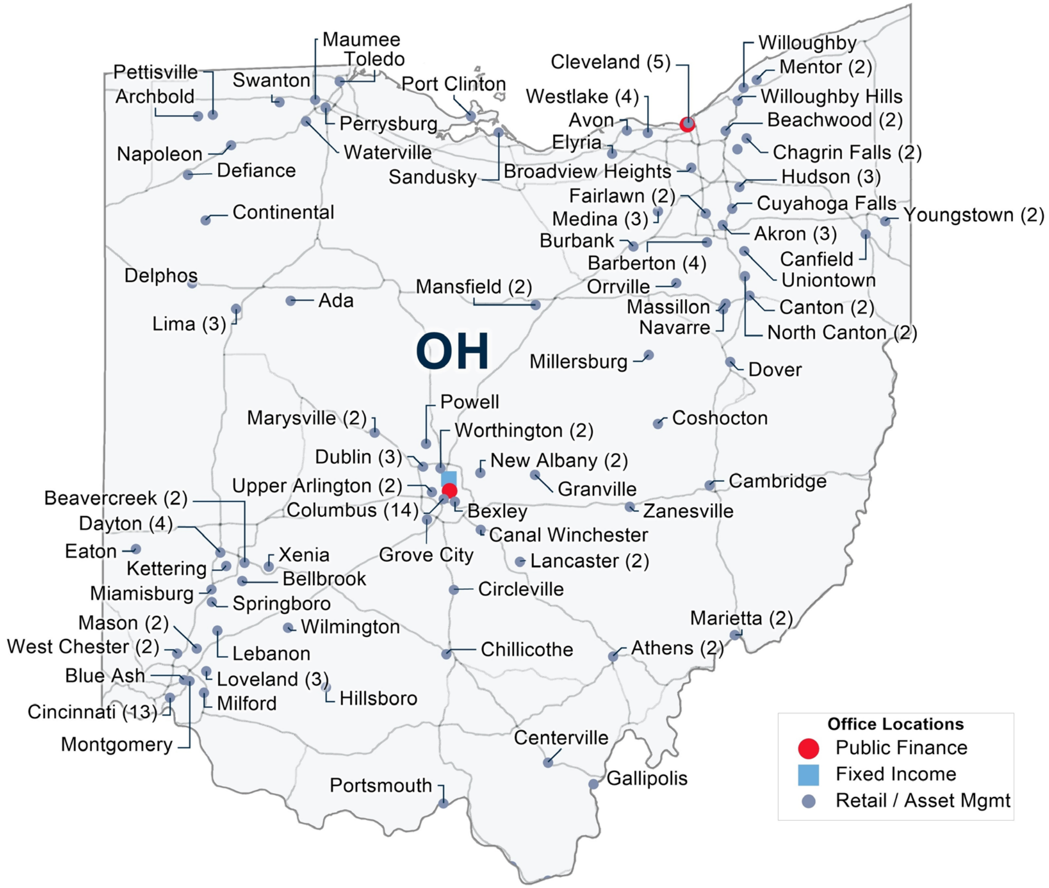
180 Office locations

606 Employees

344 Financial advisors

188,043 Retail accounts

$42.5B Assets under management



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