



Hospitals at a Turning Point: Our Prognosis for Recovery

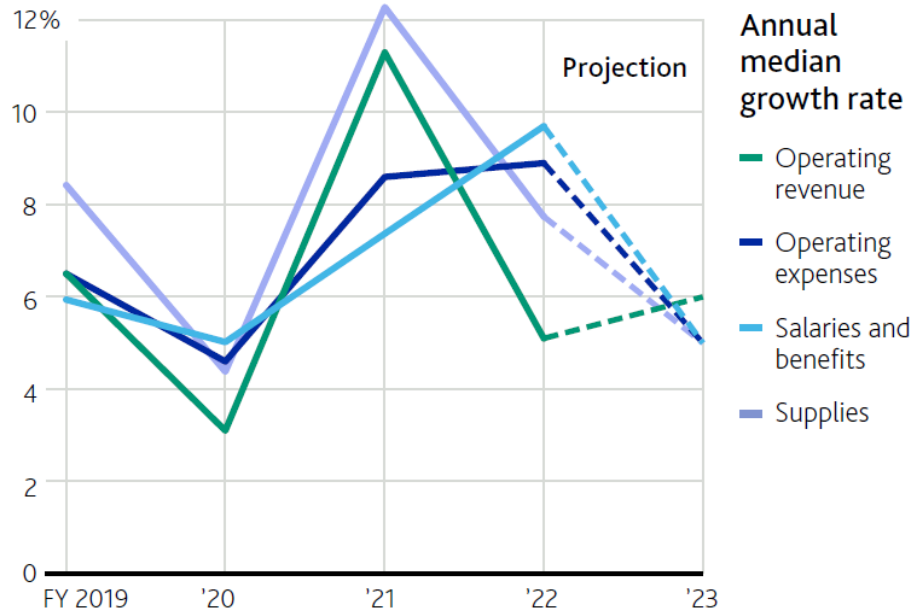
Agenda

- Prognosis for financial recovery: green shoots & headwinds
- Characteristics that differentiate financial performance & credit quality
- Key takeaways from our medians reports
- Opportunities & threats: cyber, M&A, AI, partnerships, federal and state funding and programs
- Ratings management through the “cycle”

Performance may be turning a corner

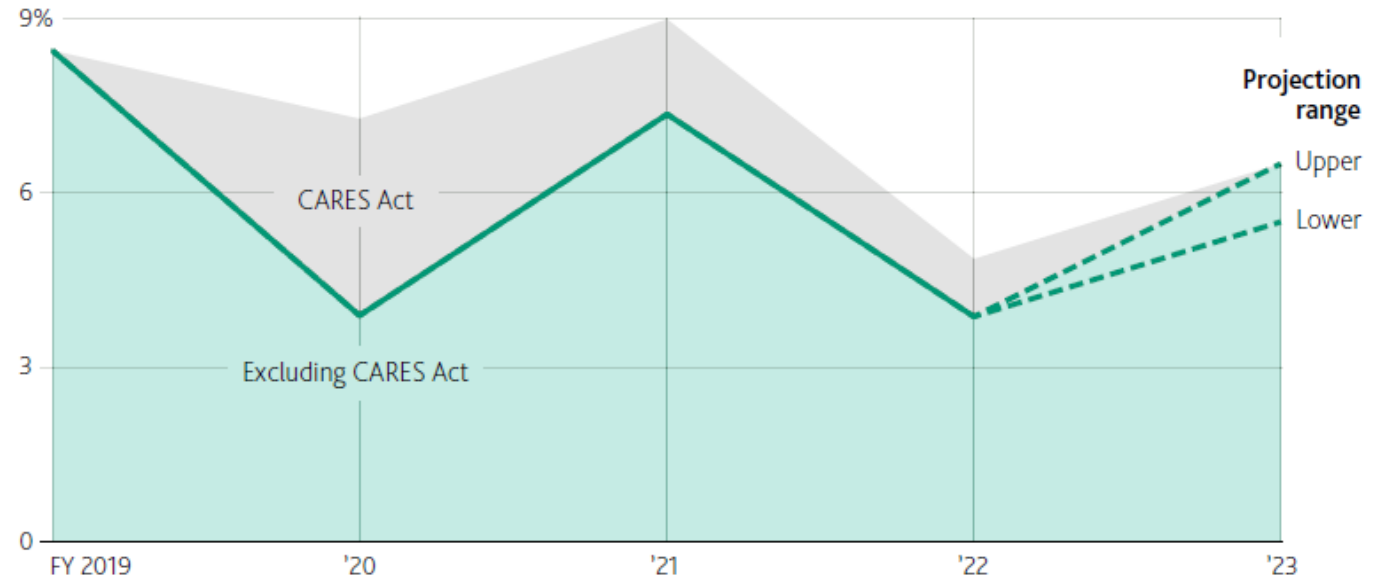
But there is still extreme variation and uncertainty

Revenue growth eclipses expenses



... causing an uptick in performance

Median operating cash flow margin



Recovery is bumpy, and a full rebound will take a while

Green Shoots



- Reduction in contract labor
- Small wins in commercial reimbursement
- Easing inflation
- Increased Medicaid funding

Dark Clouds

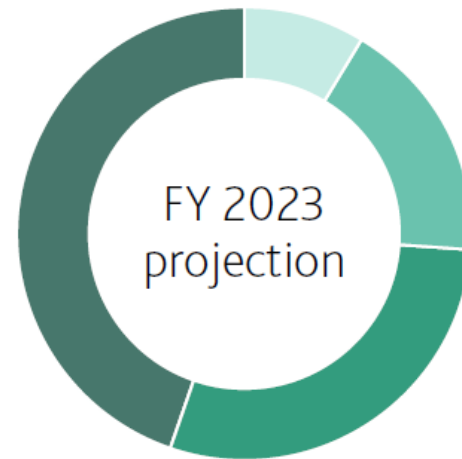
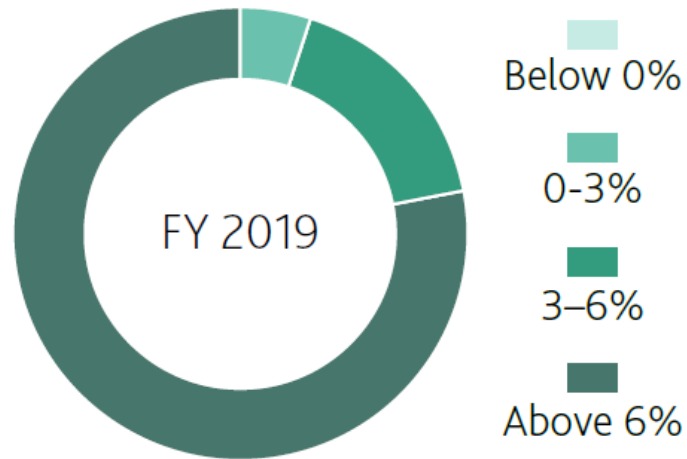


- Permanently higher labor costs
- Payor mix shift to lower reimbursable Medicare
- Redetermination of Medicaid eligibility
- Anemic inpatient volume growth

Performance is highly varied

Some factors can be differentiators

Operating cash flow margin



Underperformers

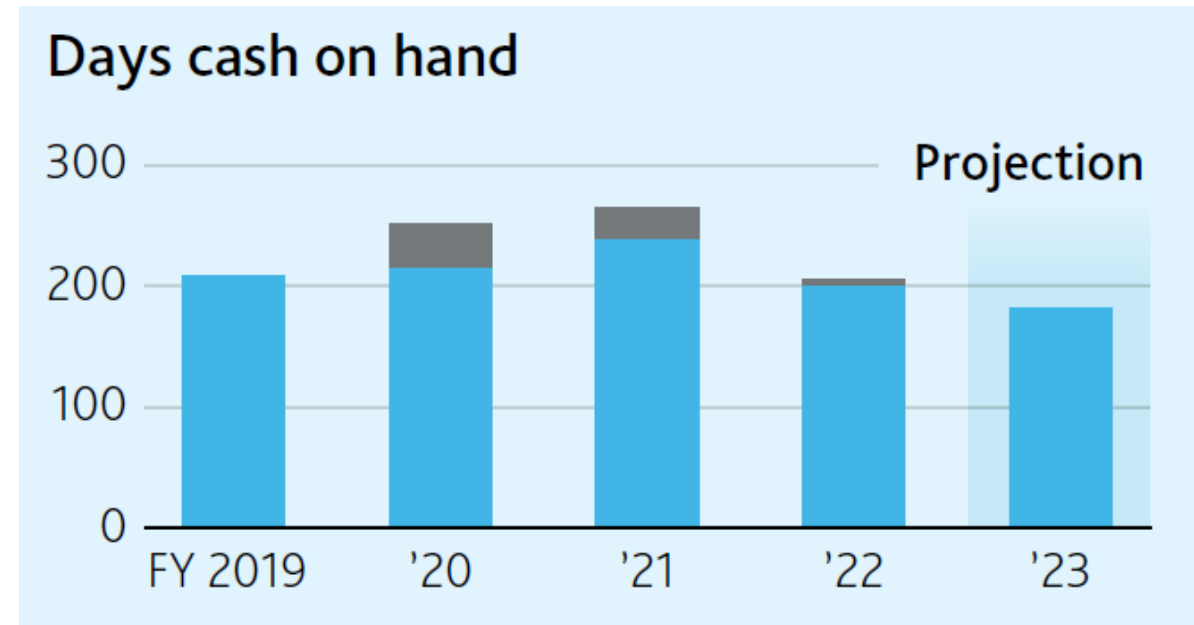
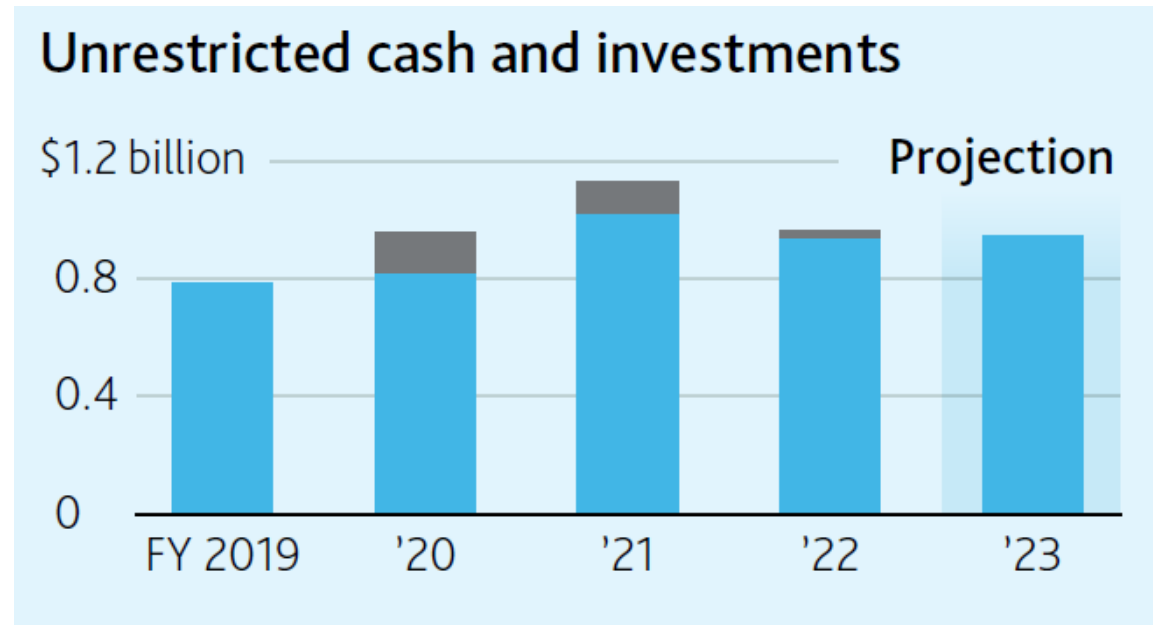
- Competitive labor market
- Limited outpatient network
- Weak fiscal discipline
- Low liquidity
- Significant covenant stress

Outperformers

- Growth market
- Speciality hospitals/ outpatient focus
- Strong management
- Ability to divest
- New governmental funding

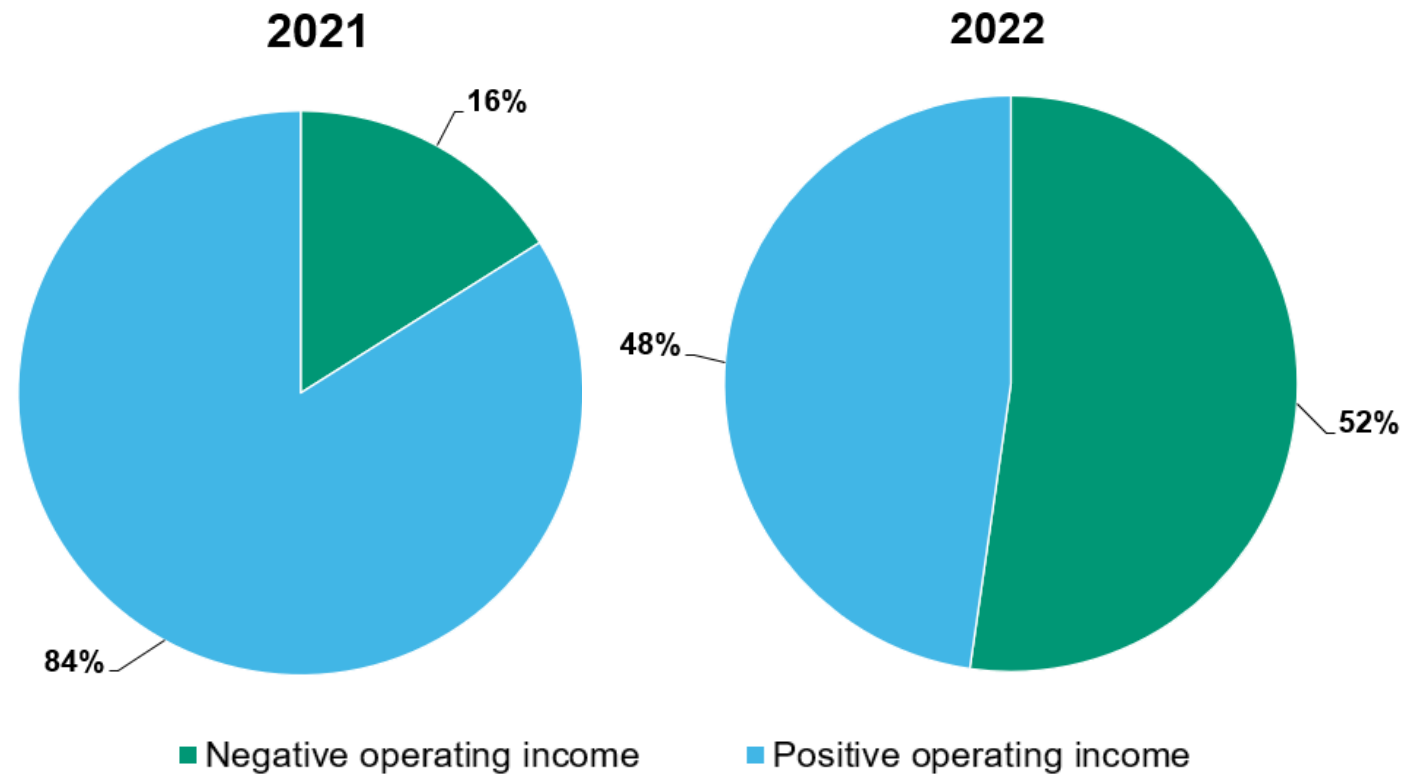
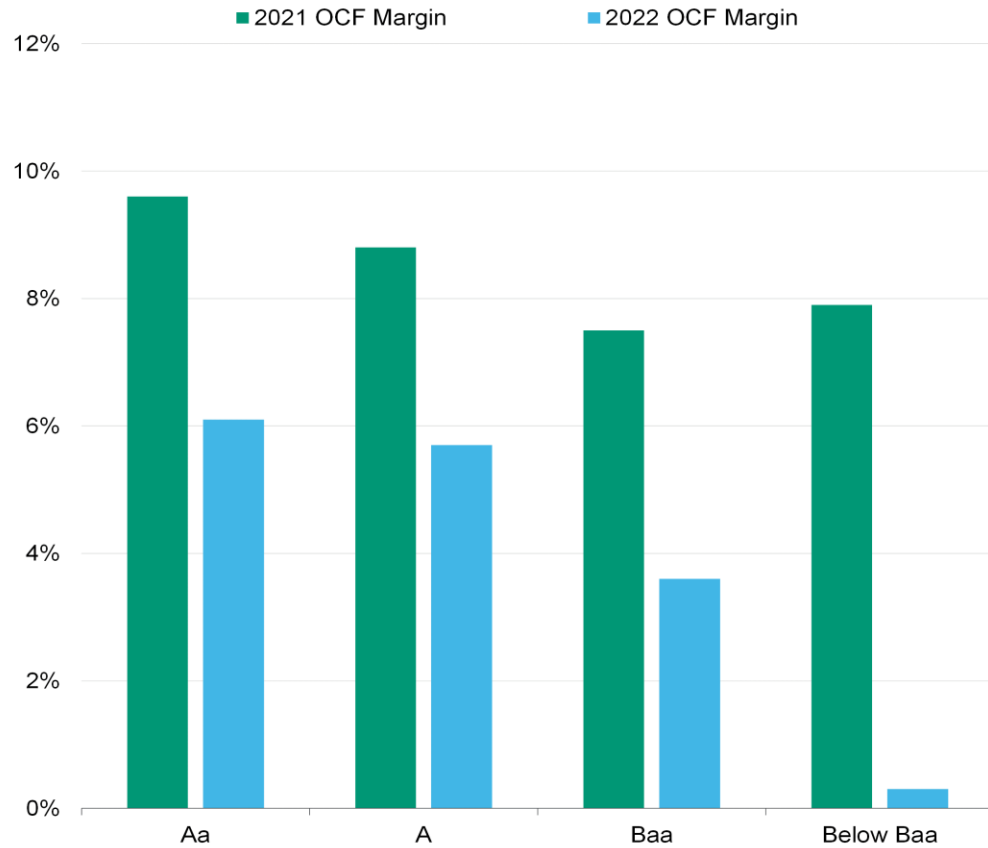
Liquidity, though weakened, remains a ballast

We expect slight erosion in 2023, after steep declines in 2022



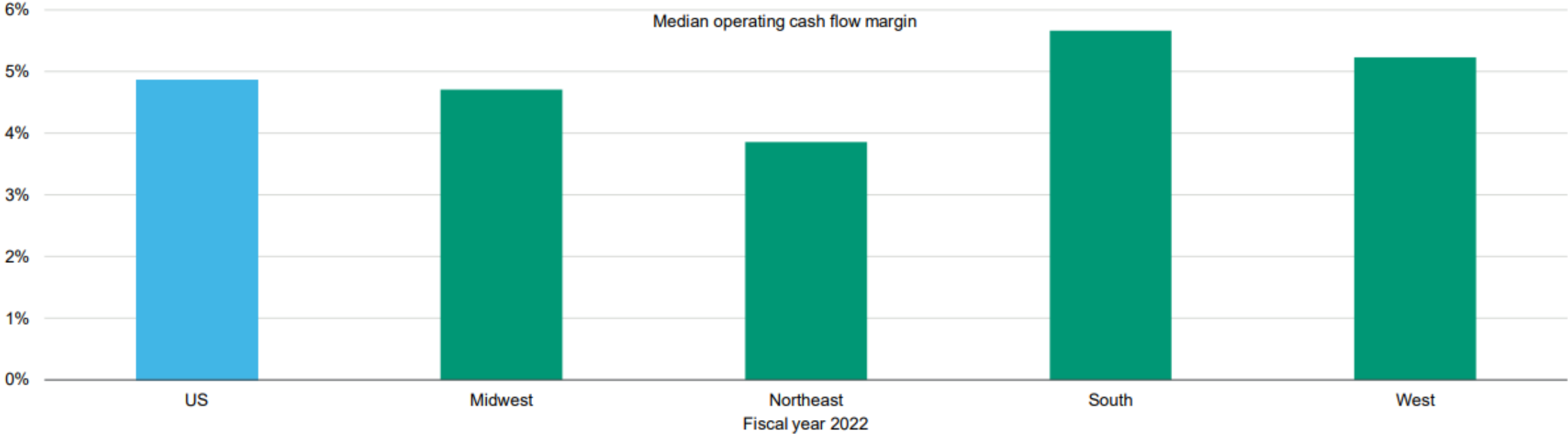
All figures are medians representing varied fiscal year ends; ■ = Medicare advance payments

2022 medians - performance: weak across the sector



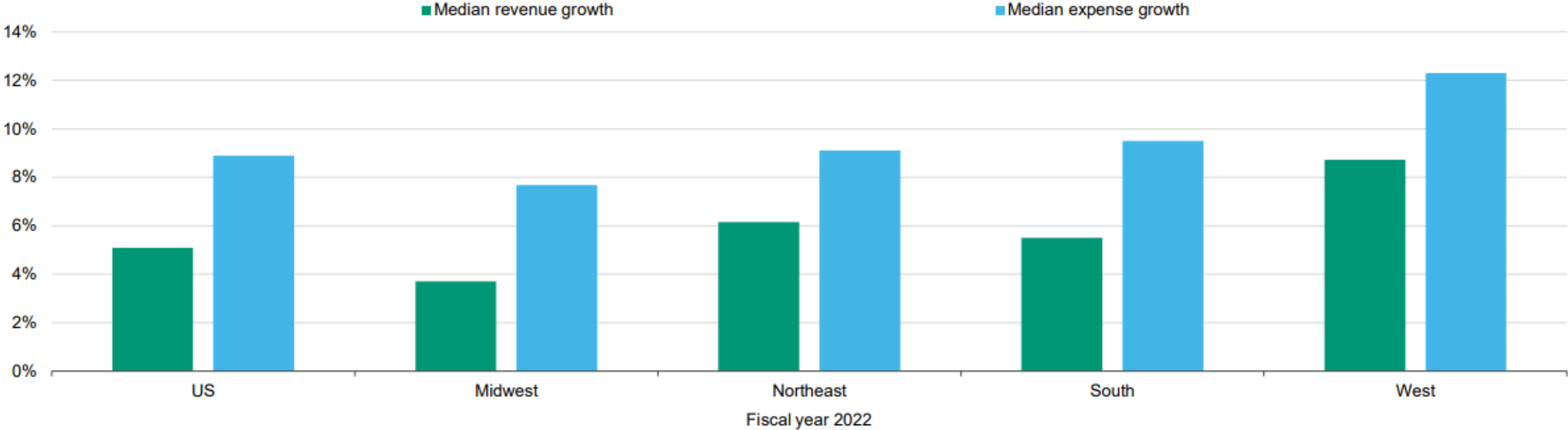
2022 Medians - performance: regional variations

The South maintained the strongest OCFM; and northeast the weakest



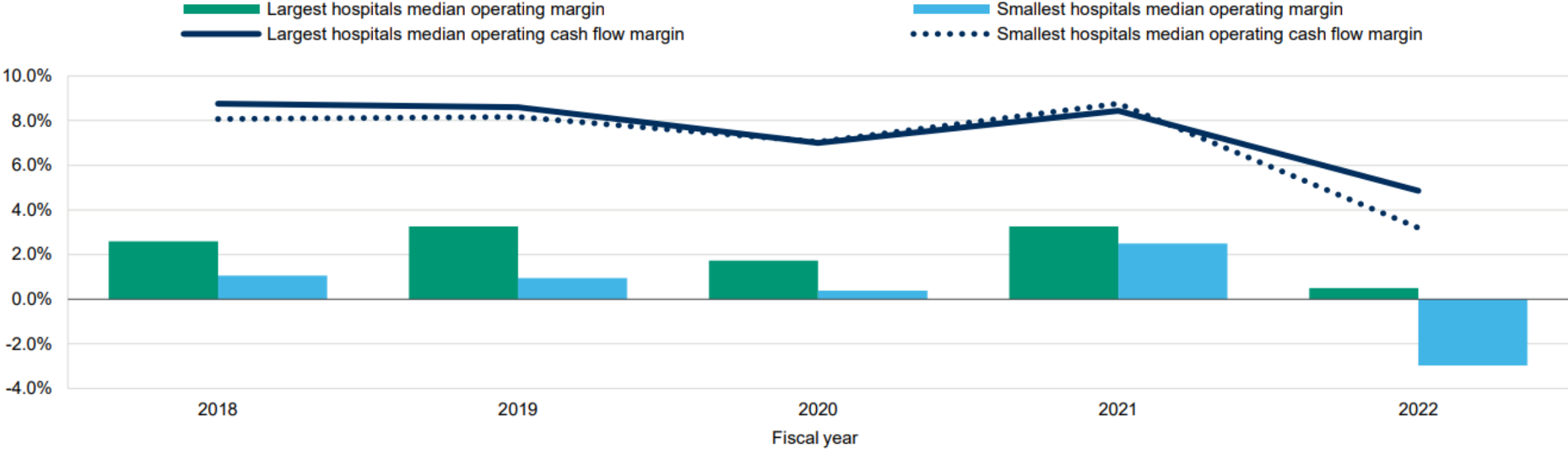
2022 medians - performance: regional variations

West dominates both revenue & expense growth; weakest revenue growth in the Midwest

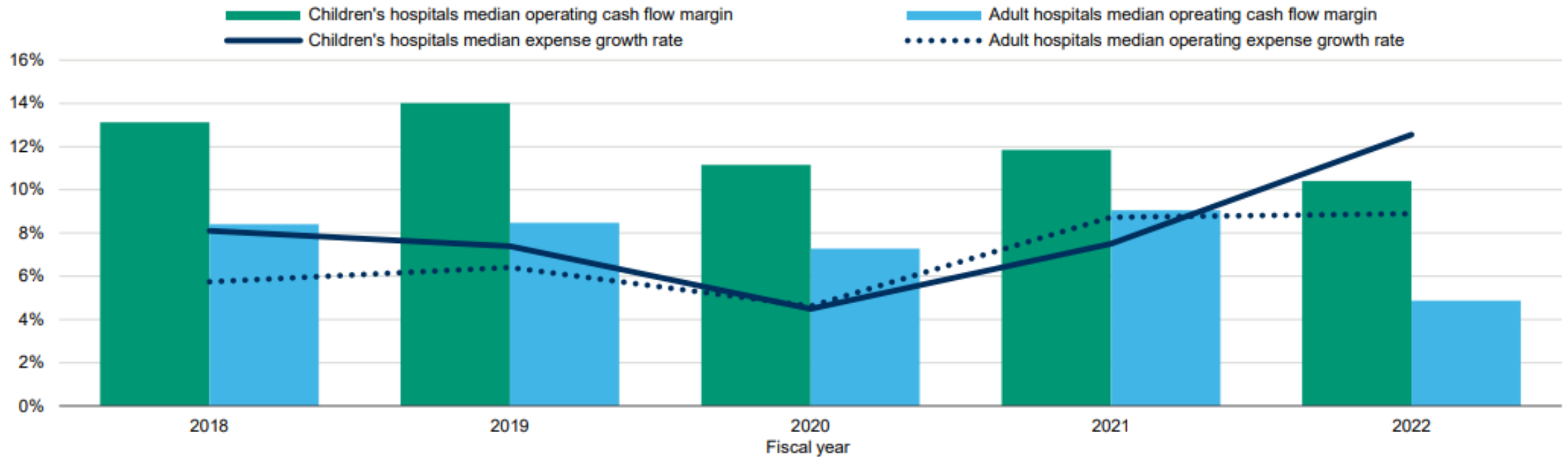


2022 medians - performance: size a key differentiator

Smaller hospitals are more vulnerable to operating variability

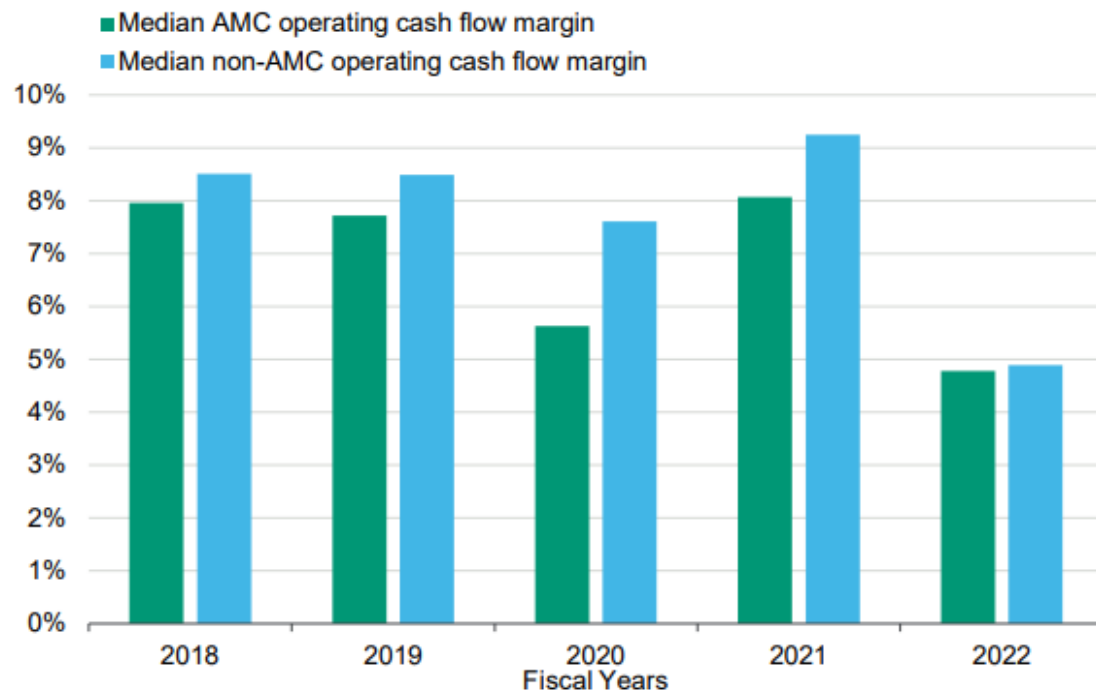


2022 medians – performance: children’s hospitals outperform



2022 medians – performance: AMCs

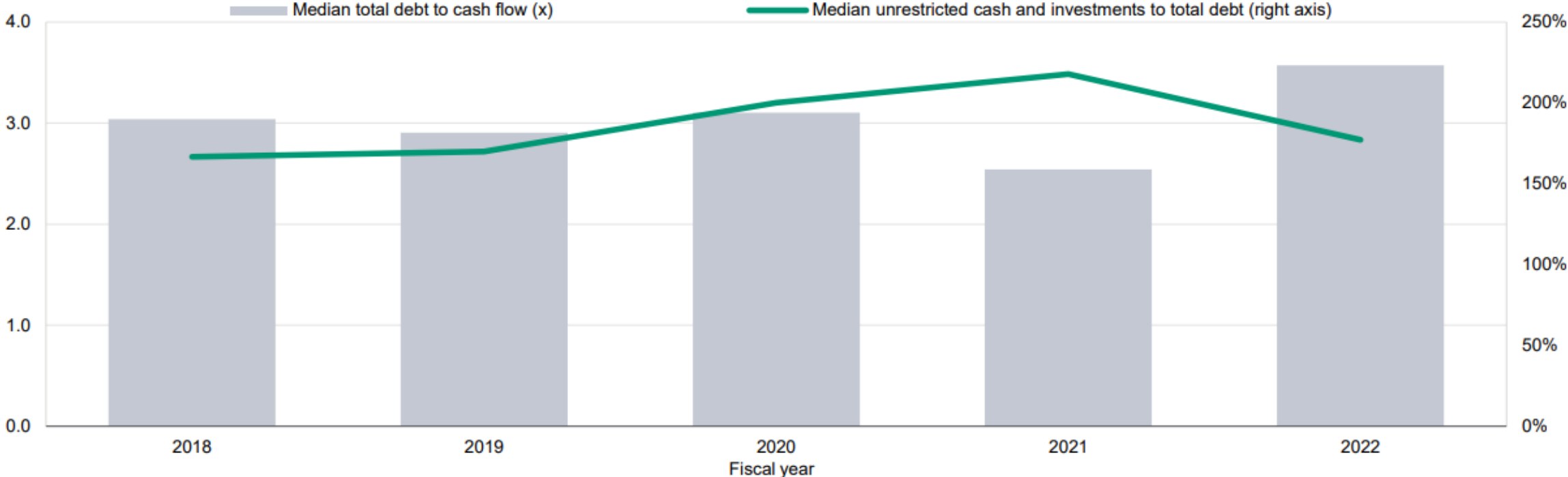
AMCs closed the gap with stronger revenue and volume growth



- AMCs were hit equally on OCF
- Larger scale & better volume recovery resulted in higher revenue growth (6.1%) than non-AMCs (4.7%)
- Inpatient admissions recovered to nearly 98% of pre-pandemic levels

2022 medians: debt affordability decreased across the sector

Leverage increased following cash flow losses and lower liquidity



Opportunities & threats to watch in 2023 and 2024



Labor

- Lower agency usage
- Compounding effect of high wages
- Investment in culture
- Efficiency measures
- Union activity



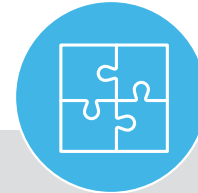
Volumes

- Shift to outpatient continues
- Recovery vs pre-COVID



Reimbursement

- Better rates/negotiations
- State programs can be a big stabilizer
- 2023:full year of sequestration
- 340B/drug pricing



Diversification strategies

- M&A
- Partnerships
- JVs
- Outsourcing

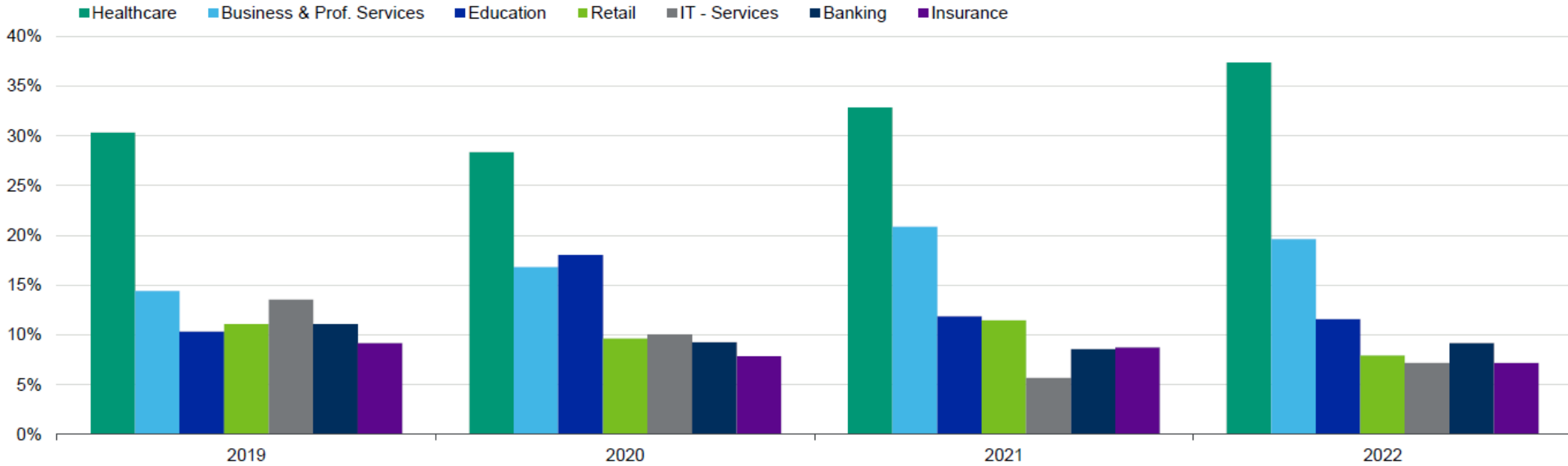


Technology/Cyber

- AI revenue cycle & clinical potential
- Ongoing cybersecurity investment costs
- Potential operating disruption

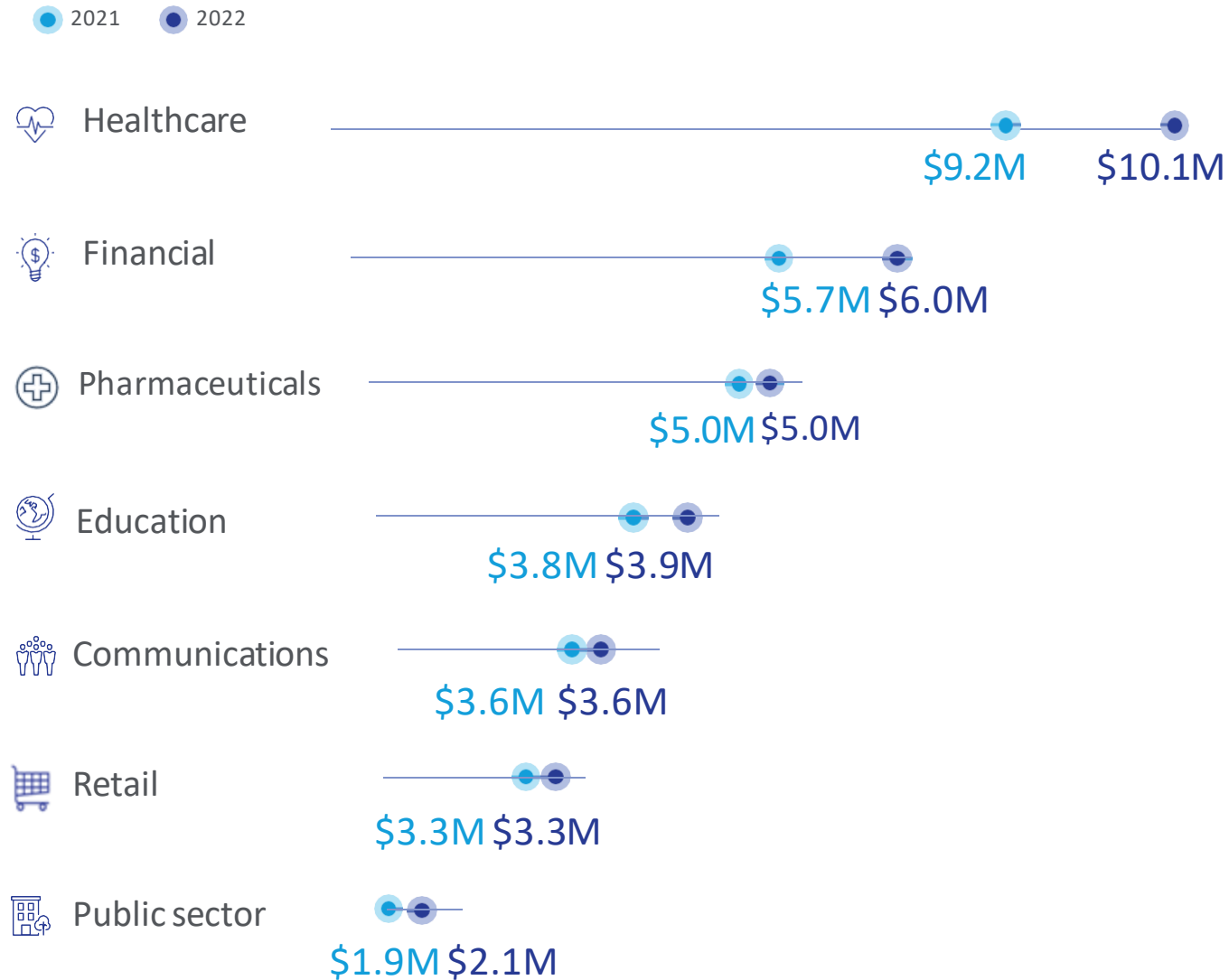
Healthcare is most targeted sector for data breaches

Share of data breach by sector (for sectors with 500 or more incidents recorded by Moody's RMS)

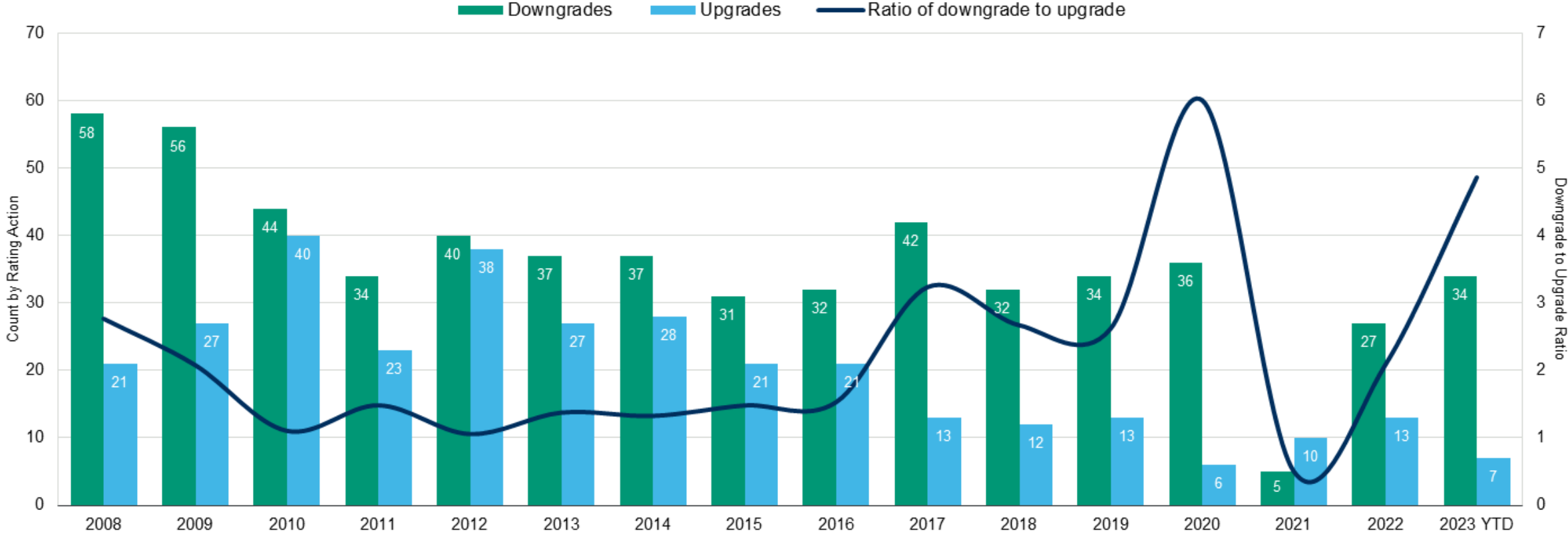


Per US disclosure requirements, US healthcare entities may report breaches more frequently than those in other countries.
Moody's RMS includes both not-for-profit and corporate healthcare in one sector
Source: Moody's RMS

And... Healthcare had the highest average cost of a data breach



Sector largely stable, but persistent & acute stress drive downgrades in 2023



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INVESTORS SERVICE

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Eva Bogaty
Public Finance Regional Office
405 Howard Street
San Francisco, CA 10007
Eva.Bogaty@moodys.com
415-274-1765

Matt Cahill
7 World Trade Center
250 Greenwich Street
New York, NY 10007
Matthew.Cahill@moodys.com
212-553-0299

Vanessa Chebli
7 World Trade Center
250 Greenwich Street
New York, NY 10007
Vanessa.Chebli@moodys.com
212-553-3624

Dan Steingart
Public Finance Regional Office
405 Howard Street
San Francisco, CA 10007
Daniel.Steingart@moodys.com
718-314-7863

moodys.com

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