

A nighttime cityscape featuring a dense cluster of illuminated skyscrapers, including the Burj Khalifa, and a complex highway interchange with light trails from traffic in the foreground.

Moody's Not-for-Profit Healthcare and Higher Education Sectors

NAHEFFA

September 9, 2021

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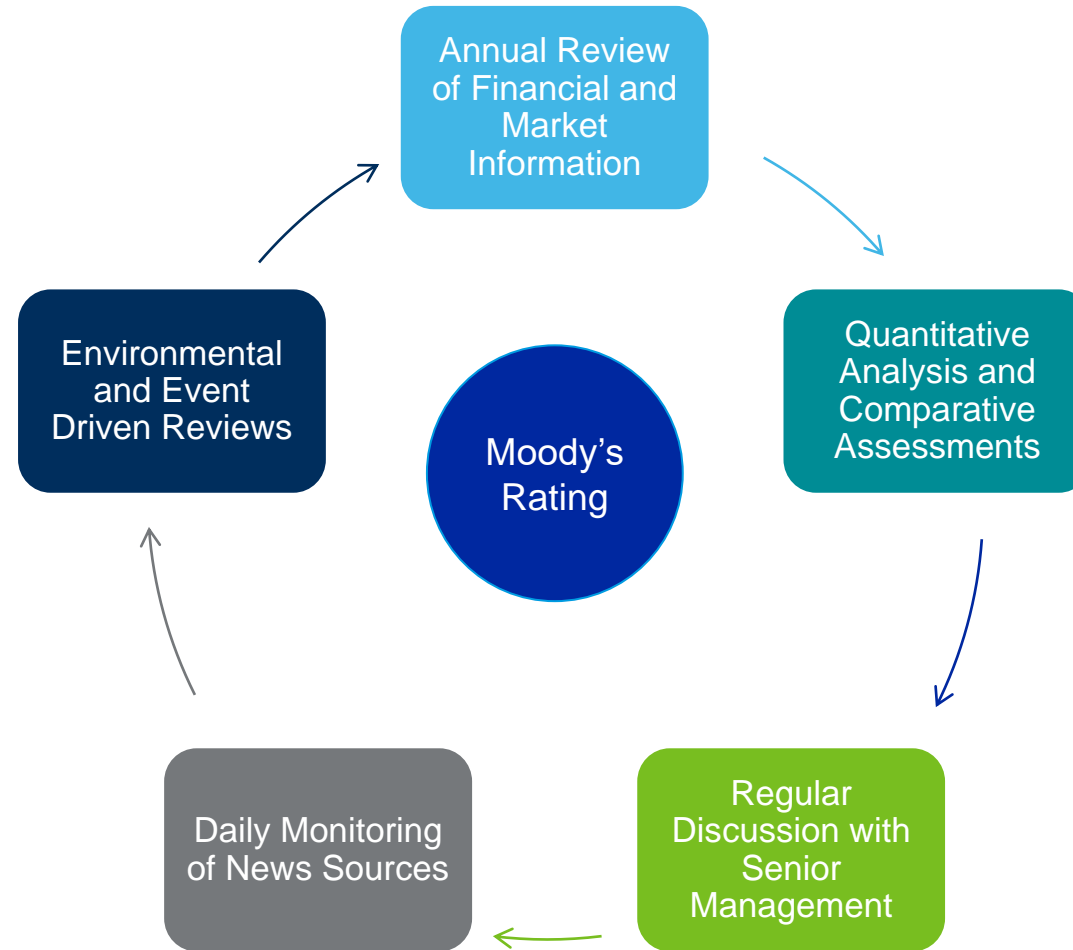
Agenda

1. Key elements for evaluating credit
2. Not-for-profit Healthcare
3. Higher Education

1

Key Elements for
Evaluating Credit

Long-term rating relationship with regular monitoring



NFP Healthcare Methodology

- » Summarizes our analytical approach to assessing credit risk for not-for-profit healthcare systems in the United States
- » Framework is robust enough to have explanatory power yet still applicable to a wide range of providers (ex.- Academic medical centers, county owned facilities, private 501c3, etc.)
- » Three primary factors:
 - » Market position
 - » Operating performance and liquidity
 - » Leverage

NFP Healthcare Scorecard

Not-For-Profit Healthcare Scorecard

Broad Factors	Factor Weighting	Sub-Factors	Sub-Factor Weighting
Market Position	45%	Scope of Operations	25%
		Operating Revenue (\$000)	
		Market Demand	10%
		Three-year Operating Revenue CAGR (%)	
		Market Landscape	10%
Operating Performance & Liquidity	35%	Operating Performance	10%
		Operating Cash Flow Margin (%)	
		Payor Concentration	10%
		Gross Revenue of Combined Medicare and Medicaid (%)	
		Financial Reserves	10%
		Cash on Hand (days)	
		Financial Management and Reinvestment	5%
Leverage	20%	Financial Leverage	10%
		Unrestricted Cash & Investments to Total Debt (%)	
		Debt Affordability	10%
		Total Debt to Cash Flow (x)	
Total Scorecard-Indicated Outcome			100%

Key higher education methodology changes

- » Combined the higher education and revenue-backed community college methodologies and scorecards
- » Expanded qualitative factors from one to three and increase overall scorecard weight of qualitative factors to 30%
- » Assigned issuer level ratings to all US credits rated under this methodology, and provide guidance around notching conventions
- » Increased the dependence on third party verified data within scorecard metrics
- » Updated and replaced certain metrics and financial ranges for each rating category

High level scorecard updates

Increase the number of qualitative factors	Replace leverage metric with total adjusted debt	Replace coverage metric with debt service coverage	Replace quantitative metrics that depend on issuer-reported data
Improves ability to differentiate and capture credit characteristics that may not be explicitly captured in financial metrics and ratios	Allows for a more complete view of an entity's financial obligations	Debt service coverage is globally recognized metric and a strong indicator of an entity's ability to meet current principal and interest payments	Use of third party verified data provides for greater transparency and accuracy
<u>Relevant sub-factors:</u> <ul style="list-style-type: none"> ▪ Brand and strategic positioning ▪ Financial policy and strategy ▪ Operating environment 	<u>Relevant sub-factor:</u> <ul style="list-style-type: none"> ▪ Total cash and investments to total adjusted debt 	<u>Relevant sub-factor:</u> <ul style="list-style-type: none"> ▪ Annual debt service coverage 	<u>Eliminated sub-factors:</u> <ul style="list-style-type: none"> ▪ Spendable cash and investments to total debt ▪ Spendable cash and investments to expenses ▪ Monthly days cash on hand

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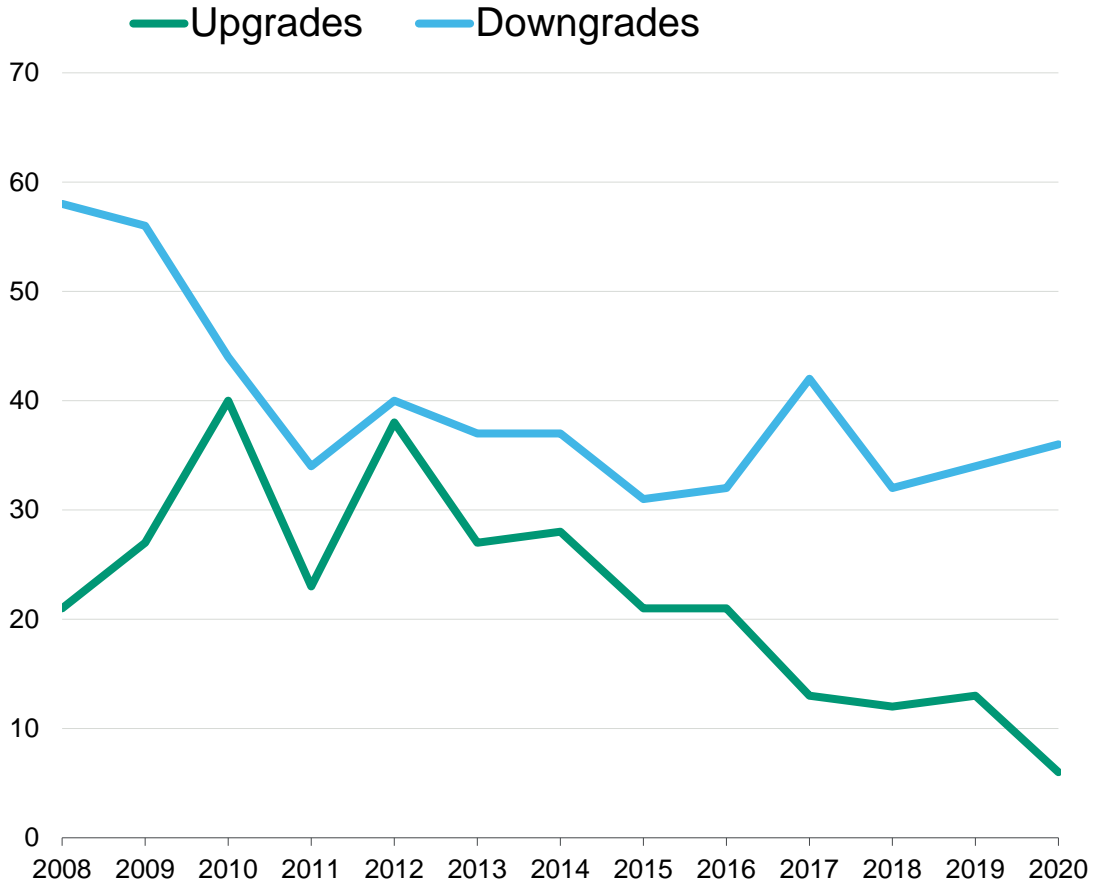
Healthcare

Ratings distribution for not-for-profit healthcare portfolio

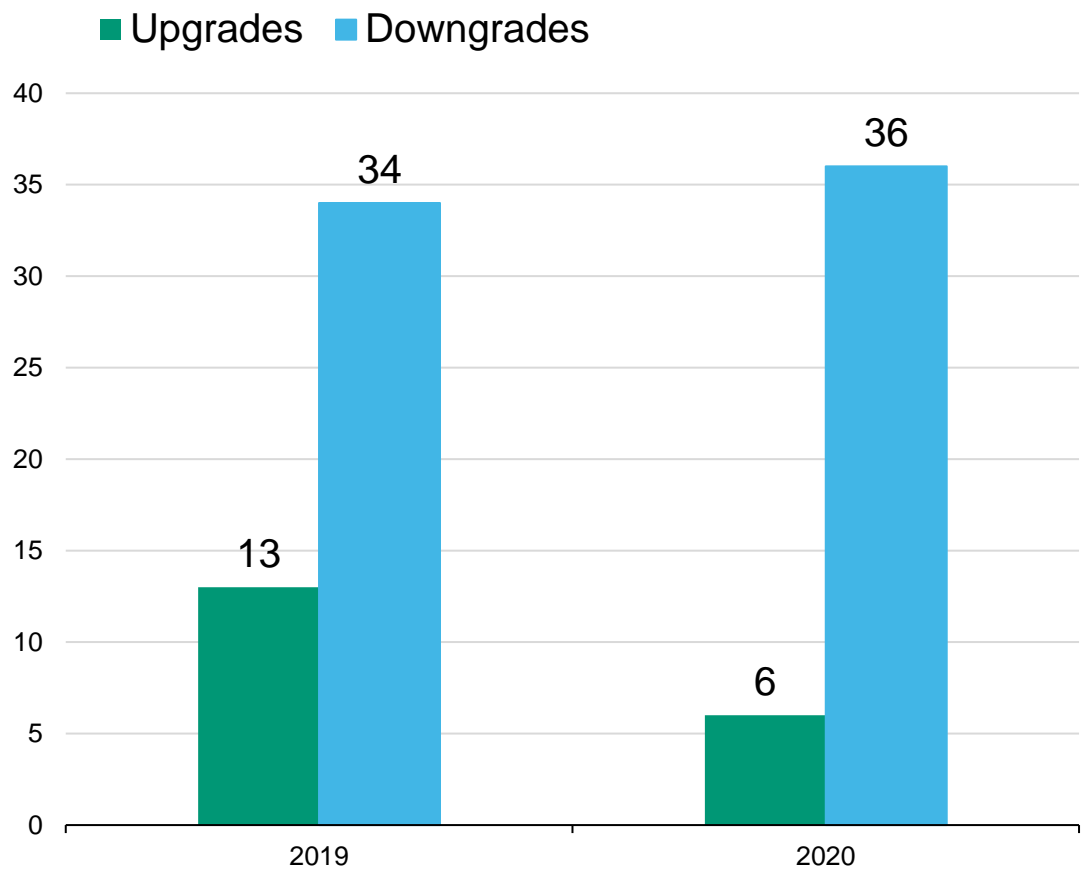


Source: Moody's Investors Service; as of March 23, 2021

Gap widens between downgrades and upgrades, mainly due to fewer upgrades



Source: Moody's Investors Service



Source: Moody's Investors Service

NFP Healthcare Outlook

Outlook remains negative as revenue constraints, rising expenses hurt cash flow

Volume disruption, reductions in employer-sponsored insurance and rising expenses will weigh on hospitals. Hospitals will also face cash flow constraints as treatment moves to lower-cost settings, a trend that began before the outbreak.

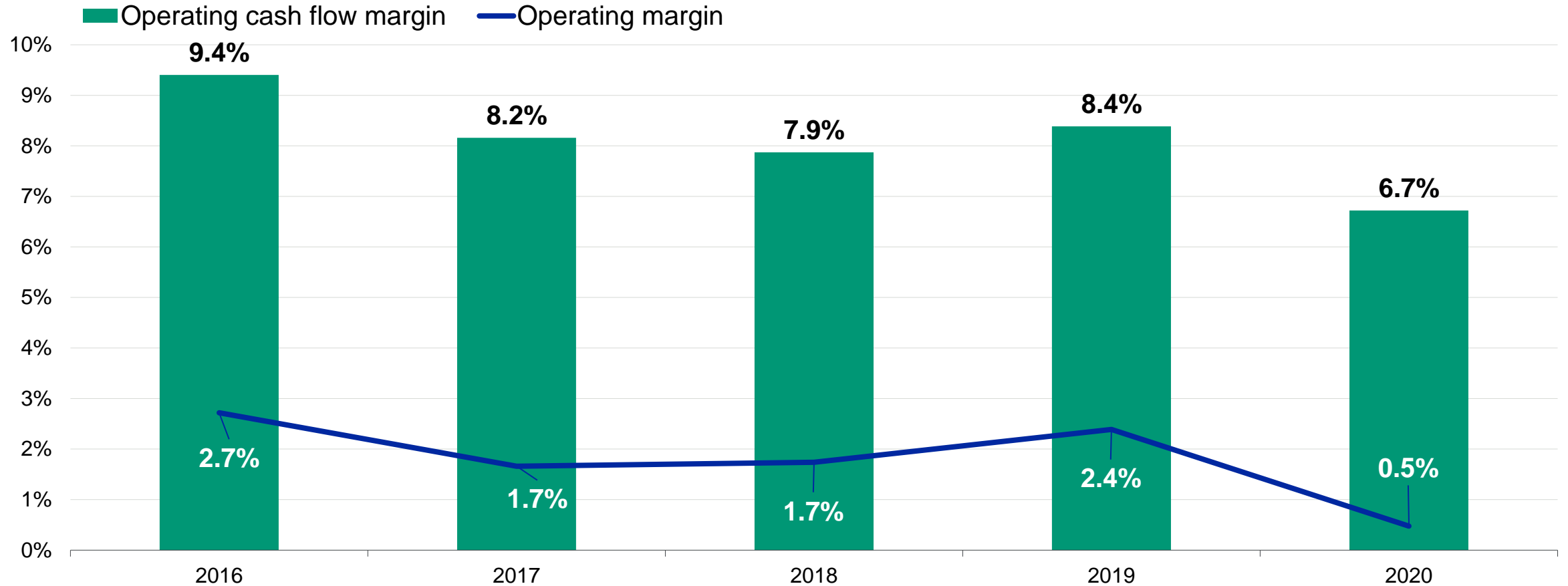
- » Operating cash flow constrained by soft demand for certain services and higher expense growth
- » Pre-pandemic shift to lower cost settings will continue
- » Labor costs and resumption of certain compensation benefits will contribute to rising expenses
- » Unemployment and aging population will reduce commercial insurance revenue
- » Uneven recovery but large, diverse systems and those with cash will be better positioned
- » Judicial, legislative and regulatory activity will add risk

Industry outlooks reflect our view of fundamental business conditions for an industry over the next 12-18 months. Since outlooks represent our forward-looking view on business conditions that factor into our ratings, a negative (positive) outlook suggests that negative (positive) rating actions are more likely on average. However, the industry outlook does not represent a sum of upgrades, downgrades or ratings under review, or an average of the rating outlooks of issuers in the industry, but rather our assessment of the main direction of business fundamentals within the overall industry.

How do we evaluate credit during a pandemic?

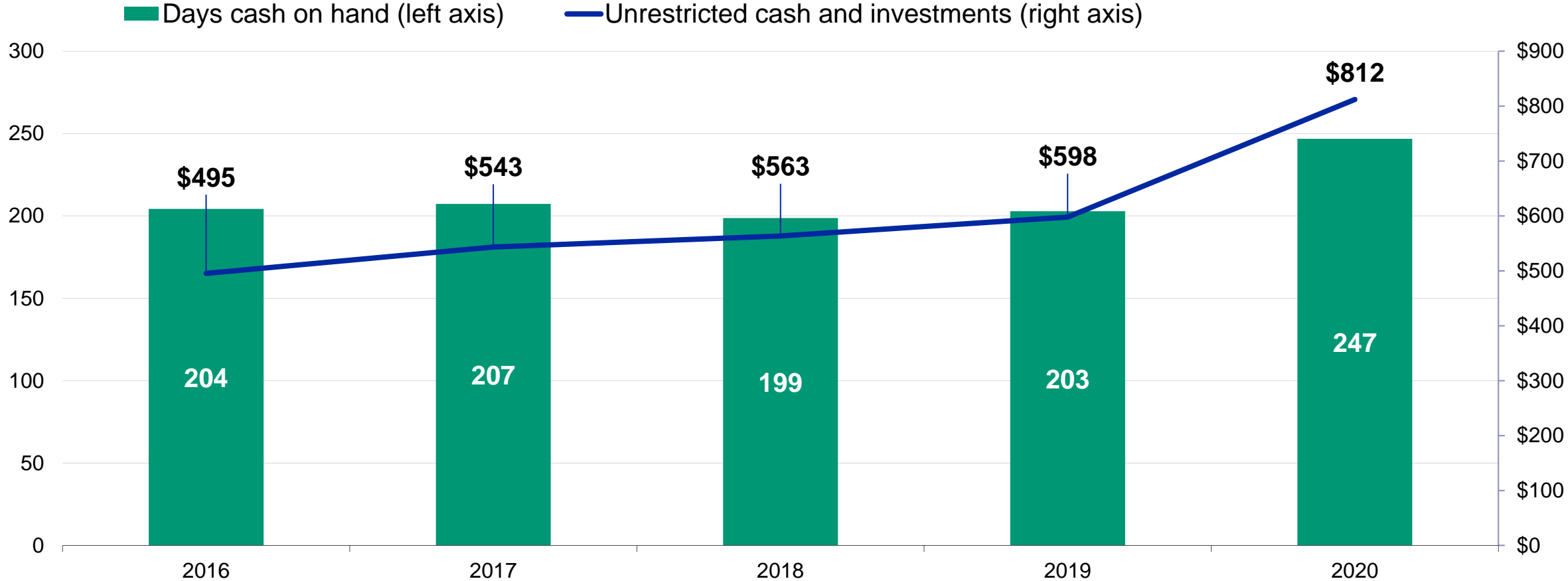
- » Measured approach; every story is unique, even within the same market
- » Pandemic is ongoing issue (not “one-time”) and evolving
- » Understand 2020 was very difficult year
- » Focus on longer time horizon, relative to pre-pandemic performance; assessment weighted to forward view
- » Permanent vs. temporary changes to credit profile
- » Focus on “steady-state” liquidity and leverage metrics

Financial performance declines after improving trend



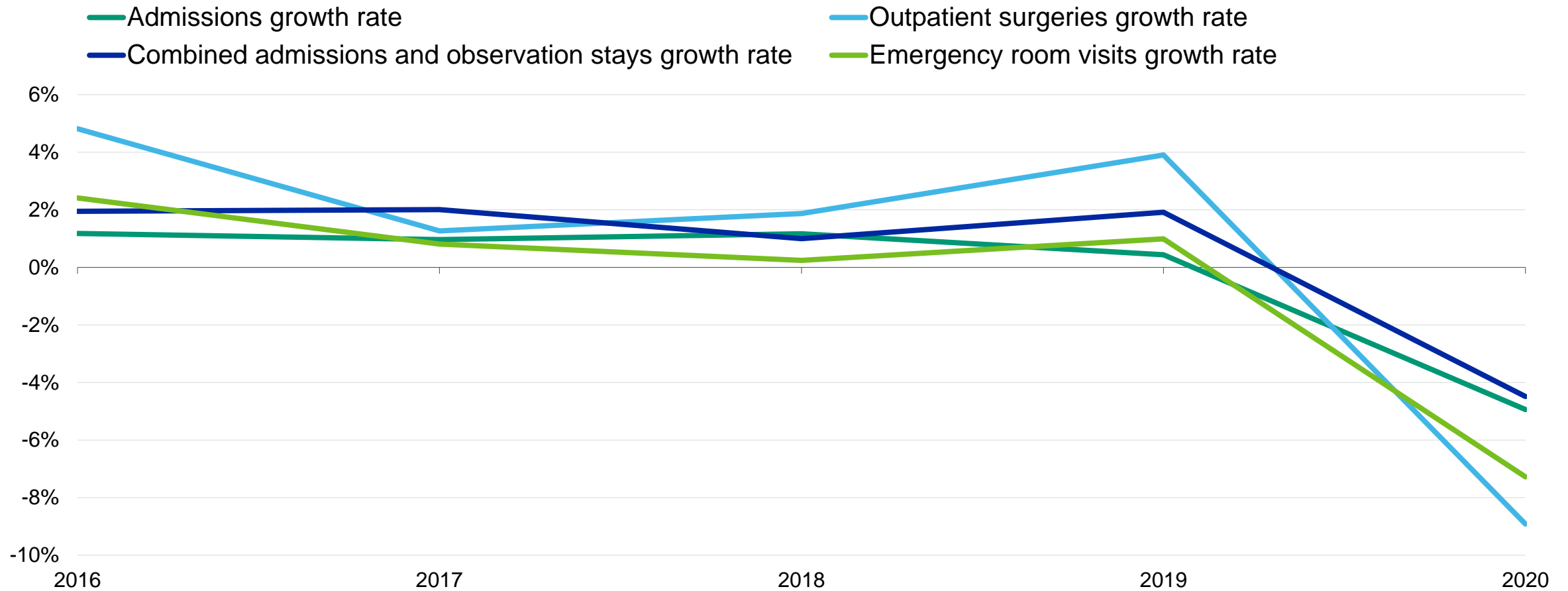
Source: Moody's Investors Service *Preliminary Medians*; CARES funds included in 2020

Liquidity reaches pinnacle in 2020 with Medicare payments, deferred pension, capital and payroll tax



Source: Moody's Investors Service Preliminary Medians; Medicare funds included in 2020

Shutdown, surges and patient hesitation drive 2020 volume down



Source: Moody's Investors Service *Preliminary Medians*

Fundamental competitive and labor challenges will drive rating changes



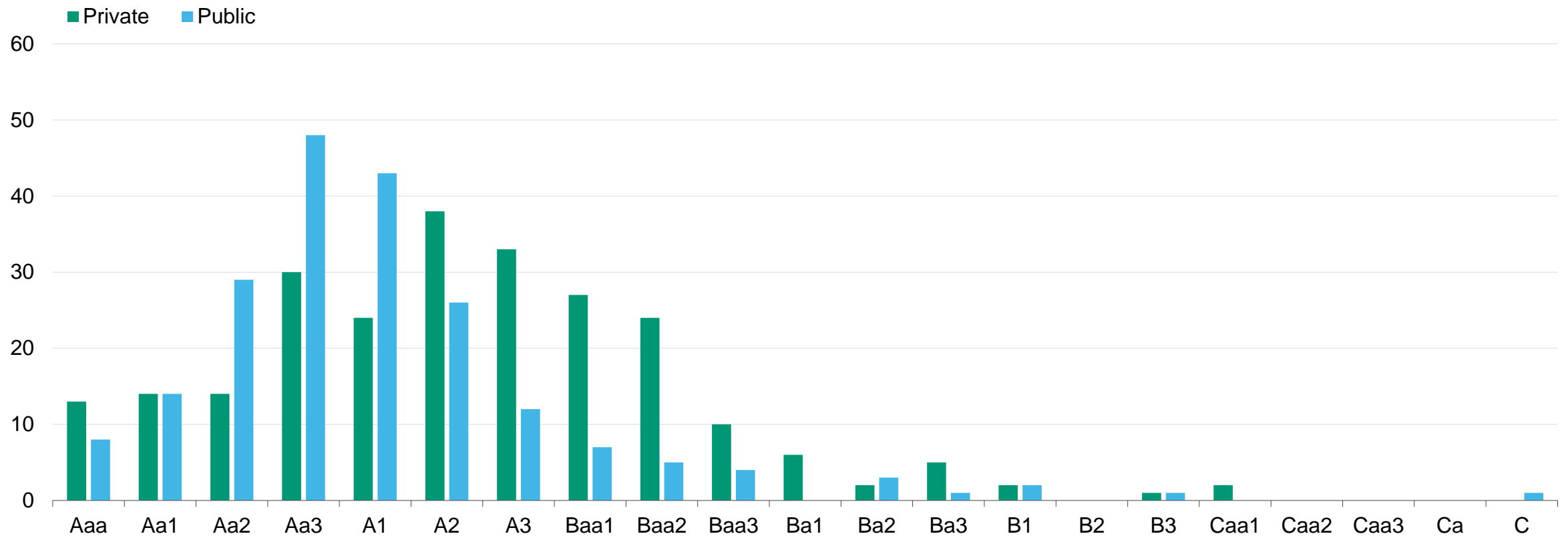
- » “Where to Care?” issues
 - » decline in inpatient case
 - » rapid rise in observation stays
 - » decline in outpatient cases to competing centers
- » Staffing, workforce and productivity challenges
 - » high cost of agency nurses
 - » burnout and retirement issues
 - » right-sizing for the longer-term trend of volume levels

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Higher Education

Higher education is a highly rated sector

Significant governmental support, healthy balance sheets and strong student demand underpin credit quality



Footnote: Rating distribution as of January 21, 2021

Multiple factors underpin overall sector strength

Inherent strengths

- Increasing demand because of individual ROI
- Strong government support because of public good element: education, research, health
- Multiple vested constituents: alumni, government, local communities
- Mission driven philanthropic support
- Long term horizon leads to accumulation of significant cash and reserves
- Adaptable to changing consumer preferences over time

Inherent challenges

- Limits on pricing power, both market and policy, with less willingness to take on student loans
- Shifting demographics, with declining numbers of high school graduates in some states
- Focus on accountability, scrutiny of ROI
- Rigid labor force, including tenure and unions
- Shared governance structure can constrain rapidity of action

Four broad categories of credit considerations

A mix of quantitative and qualitative elements; scorecard is a tool



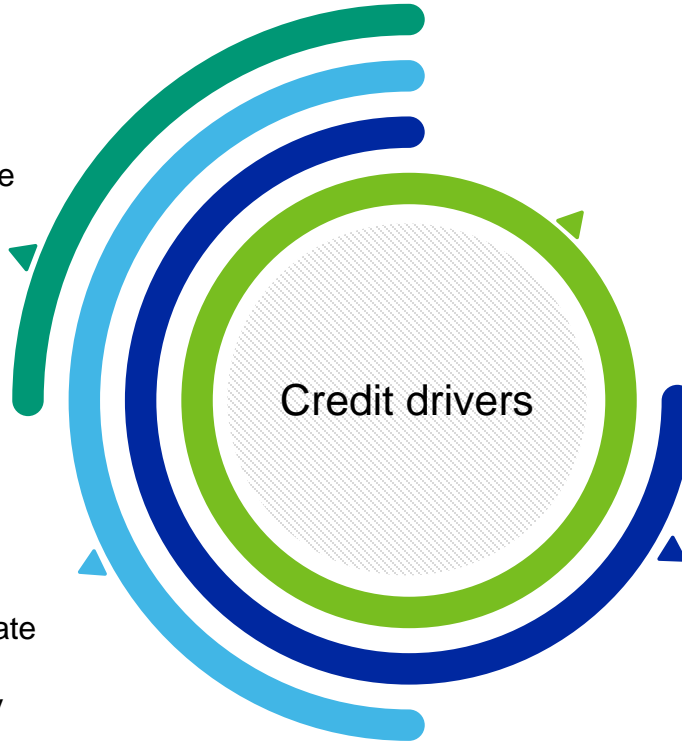
Market Profile

Key considerations include scale and scope of operations; ability to attract and retain students, donors, faculty and staff through forward planning and investment



Operating Performance

Key considerations include ability to generate sufficient operating cash flow to cover debt service and strategic investments, diversity and strength of individual revenue streams



Wealth & Liquidity

Key considerations include total amount of cash and investments, levels of external restriction, investment management and strategy

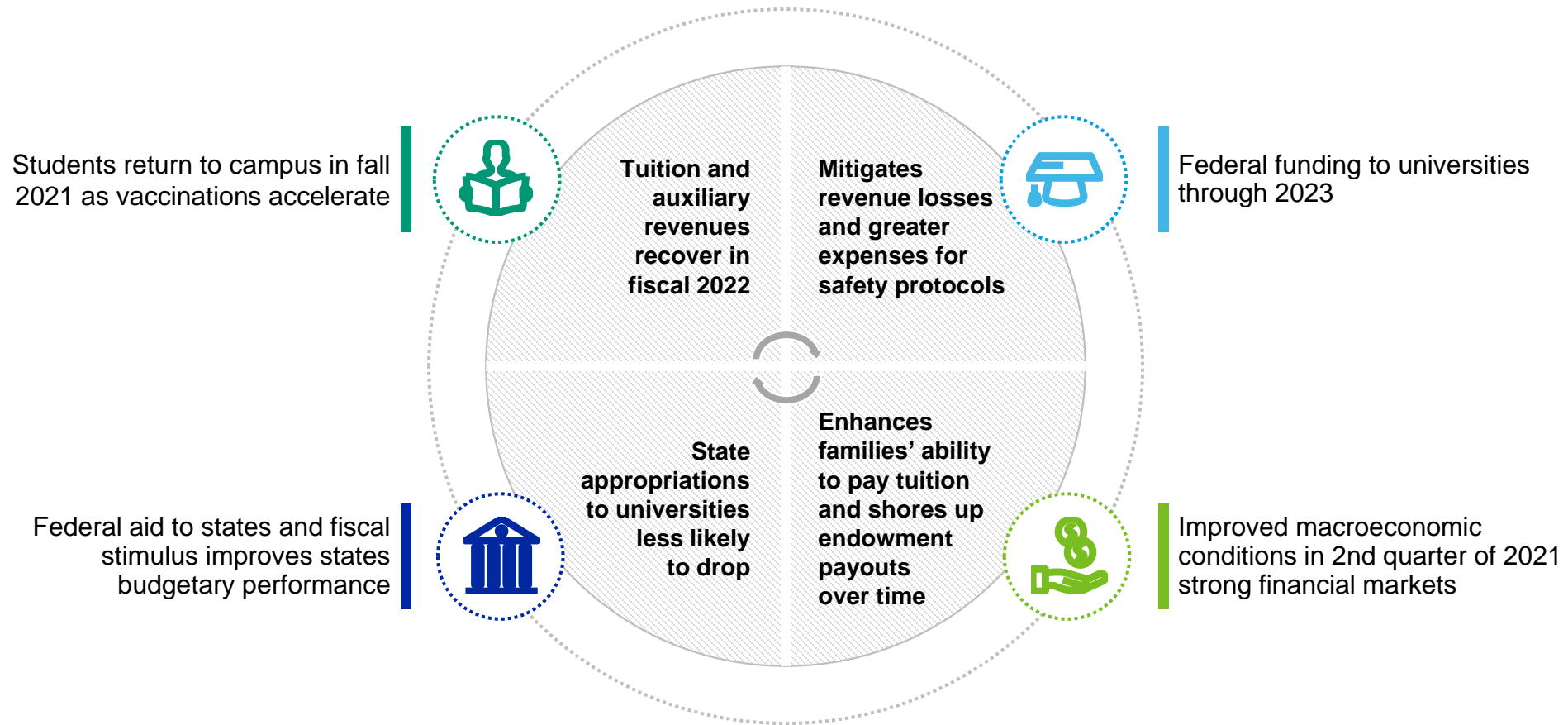


Leverage

Key considerations include amount of debt relative to operations and reserves, ability to service debt from operations, capital plan along with sources and uses of funding

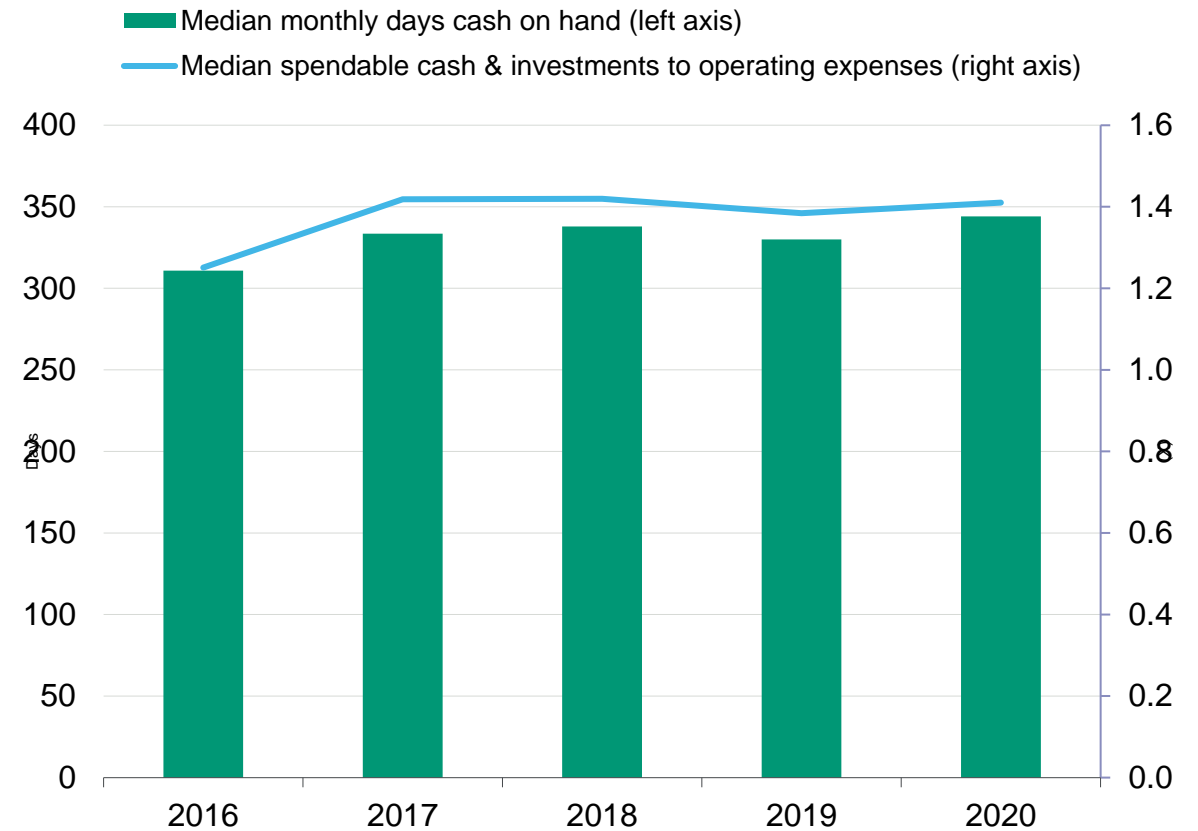
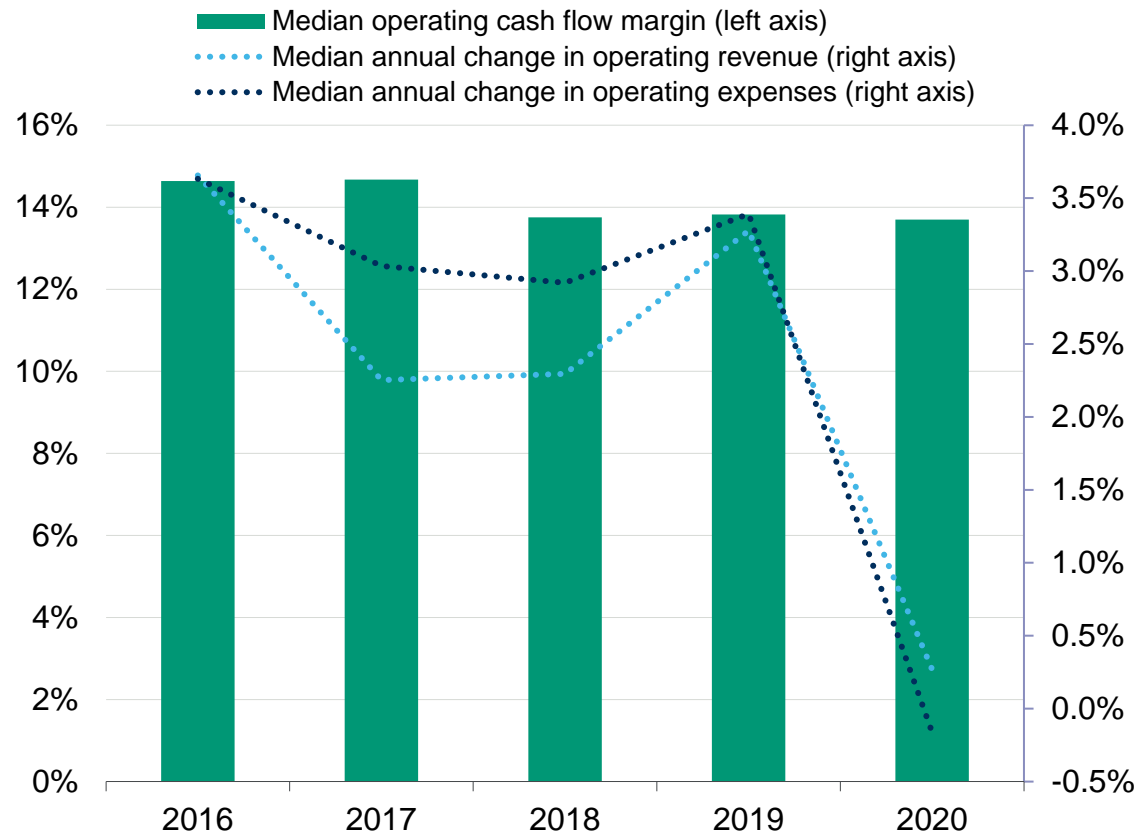


Outlook stabilized in the spring, reflecting improved revenue prospects over next 18 months



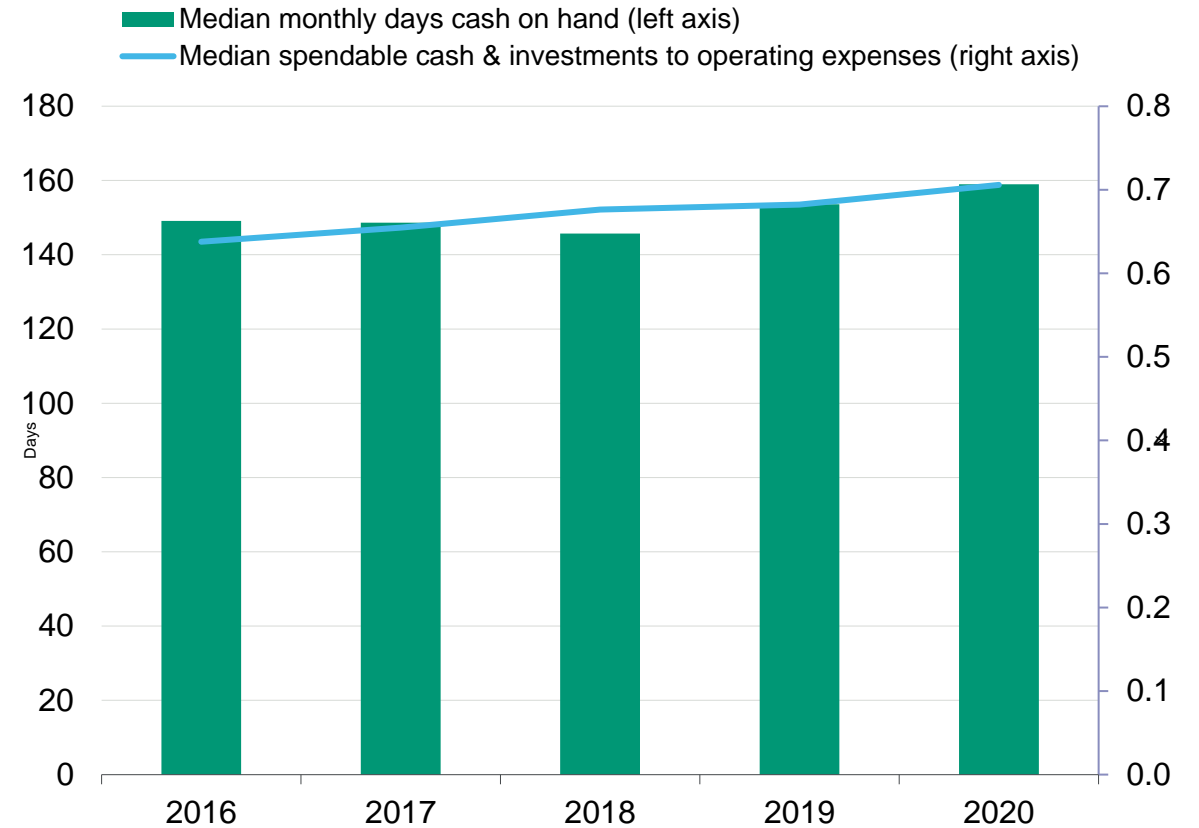
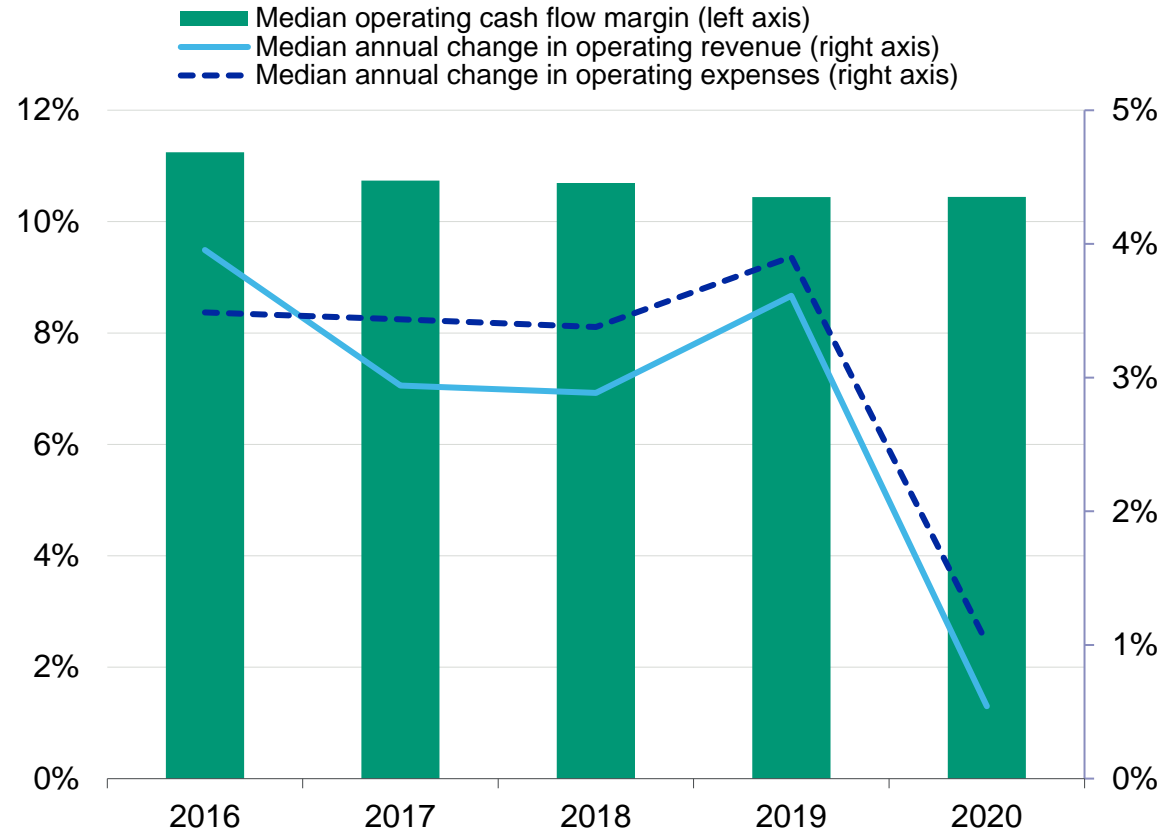
Private universities rapidly adjusted to 2020 shock

Good expense controls and strong balance sheets help absorb significant operational disruption

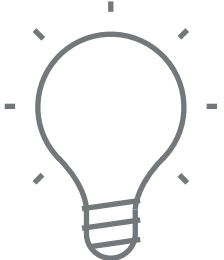


Public universities exhibit similar ability to adjust

Expense reductions largely offset revenue shock; balance sheets provide solid buffer



Key challenges to outlook



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