

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms UPMC's (PA) A2; outlook stable

03 May 2024

New York, May 03, 2024 -- Moody's Ratings (Moody's) has affirmed UPMC's (PA) A2 revenue bond ratings. The outlook is stable. UPMC has \$6.8 billion of debt outstanding.

The affirmation of the A2 reflects anticipated improvement in operating cash flow (OCF) margins in fiscal 2024 and thereafter, following two years of weakening to breakeven levels. The turnaround will be driven by performance improvement initiatives and expansion of Pennsylvania's directed payment program. Management's ability to maintain sizeable liquidity balances which provide for adequate cash to debt and steady, albeit below-average, days cash further support the stable outlook.

RATINGS RATIONALE

UPMC's A2 reflects a number of fundamental strengths including its large absolute size (\$27.7 billion annual revenue), alignment with the University of Pittsburgh (University), formidable market share across a broad geography and cash flow diversity with a comprehensive array of clinical and insurance services. Challenges, including a large share of government payors and intense competition in certain markets, are in line with sector norms. Debt to cash flow, which was a very high 9.6x in 2023, will decline to under 5.0x by 2025 as the OCF margin trends toward 4% (it was under 1% in 2023). OCF margins will incrementally recover beginning in FY 2024 to approximately 2.4%, as extensive revenue and expense initiatives take hold. Moody's calculation of OCF reclassifies interest expense and academic support payments as operating expenses. Additionally, recent expansion of Pennsylvania's directed payment program will support margin recovery. Though days cash is modest at 109 days, absolute liquidity of over \$8.2 billion is strong and when measured against just the health services division days cash of approximately 240 days compares favorably to peers.

RATING OUTLOOK

The stable outlook incorporates the likelihood that UPMC's adjusted OCF margin will approach 2.4% in 2024, and continue to build thereafter, enabling the system to internally fund capital expenditures while sustaining days cash at or above 110.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Durable improvement in operating cash flow margins to the mid-single digit range and material reduction of debt to cashflow
- Marked growth in absolute cash that translates to cash to debt approaching 150%

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to achieve fiscal 2024 OCF margins approaching 2.4% in 2024 as well as ongoing improvement thereafter
- Inability to sustain days cash in the 110 day range or cash to debt at 120% or stronger

LEGAL SECURITY

UPMC's parity debt is a joint and several commitment of the obligated group secured by a lien on gross revenues. The Obligated Group under the 2007 Master Trust Indenture consists of the Parent Corporation, UPMC Presbyterian Shadyside Hospital, UPMC Magee Women's Hospital, UPMC Passavant and UPMC St. Margaret. The system also includes several additional hospitals throughout Pennsylvania, southwestern New York, and western Maryland, international operations and a variety of insurance subsidiaries as part of its integrated delivery and financing system. The Insurance Division, which is not in the OG, accounts for nearly 51% of system operating revenues (before eliminations). Though the health plan is not part of the Obligated Group, it is included in the systemwide gross revenue pledge.

PROFILE

UPMC (\$27.7 billion revenue FY 2023) is an integrated delivery and financing system (IDFS) based in Pittsburgh, Pennsylvania, serving residents of western and central Pennsylvania, southwestern New York, and western Maryland. UPMC's 40 hospitals and more than 800 clinical locations comprise the largest health care delivery system in Pennsylvania. UPMC employed more than 5,200 physicians as of December 31, 2023. UPMC is the largest nongovernment employer in the Commonwealth. UPMC also offers a variety of insurance products that cover nearly 4.3 million lives.

METHODOLOGY

The principal methodology used in these ratings was US Not-for-profit Healthcare

published in February 2024 and available at <https://ratings.moodys.com/rmc-documents/415013>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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