New York, April 20, 2020 -- Moody's Investors Service has assigned a Aa3 rating to up to $700 million of Advocate Aurora Health's proposed Taxable Bonds Series 2020A (Advocate Aurora Health Credit Group). The bonds are expected to be issued as fixed rate obligations. Concurrently, the outstanding ratings of Advocate Aurora Health's obligations, which include legacy borrower Aurora Health Care, Inc., have been affirmed at Aa3, Aa3/VMIG 1 and Aa3/P-1. The outlook is positive. These actions affect approximately $2.8 billion of debt.

RATINGS RATIONALE

Affirmation and assignment of the Aa3 reflect expectation that Advocate Aurora Health's (AAH) significant size, diversified and leading locations across two states, and very strong liquidity will provide resources during COVID-19 challenges. AAH will continue to integrate its two legacy systems without major disruption and will realize further synergies because of its streamlined management structure and common IT platform. The coronavirus (COVID-19) outbreak, a social risk under Moody's ESG framework given the substantial implications for public health and safety, will have a significant impact and likely protract the time period in which AAH will benefit from further synergies and enterprise growth. However, as seen over the last 18 months, the rating and outlook expect that AAH will maintain low leverage, a favorable liquidity position, and healthy long-term margins, despite the near-term impact from COVID-19. Very strong liquidity will partly absorb the impact of COVID-19, including $8.9 billion of investments and $1.7 billion of current availability under bank lines, commercial paper, and liquidity from the investment program within 3 days. AAH is also nearing completion on a syndicated credit facility of approximately $1.0 billion. Offsets include fierce competition in rapidly consolidating markets, pricing pressure and unfavorable payor mix shifts, particularly in the Illinois region. While the system had targeted elevated capital spending over the next two years, it is reconsidering projects in light of the near-term and long-term impact of COVID-19.

The VMIG 1 rating reflects the availability of bank standby bond purchase agreements for unremarketed tenders of variable rate bonds. The P-1 rating for bonds in the Windows mode reflects market access based on the system's ample liquidity and notice to pay unremarketed tenders.

There is a high degree of uncertainty around the extent and length of the impact of the COVID-19 outbreak as well as the magnitude and timing of federal and other relief. The rapid and widening spread of the outbreak, deteriorating global economic outlook, falling oil prices, and financial market declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. If our view of the credit quality of AAH changes, we will update our opinion at that time.

RATING OUTLOOK

The positive outlook reflects expectations that AAH will resume pre COVID-19 operating cash flow margins in the 9% to 10% range, aided by diversification of revenues and achievement of synergy targets. Moody's expects that this successful execution will continue to be supported by a more streamlined management structure. While near-term liquidity may decline due to COVID-19 losses, a strong investment balance and additional external liquidity sources will partly offset this impact.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained improvement in balance sheet measures
- Sustained operating cash flow margins in the 9% to 10% range
- Unenhanced short-term rating: Not applicable
- Enhanced short-term rating: Not applicable
FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Meaningful liquidity decline
- Sustained lower operating cashflow margin
- Increased leverage resulting in notable impairment of debt metrics
- Unexpected high level of operating disruption associated with COVID-19 or prolonged severe downturn in the economy
- Unenhanced short-term rating: downgrade by Moody's of AAH's long-term rating below A2
- Enhanced short-term ratings: a downgrade by Moody's of the short-term Counterparty Risk Assessment of the Bank that provides the SBPA

LEGAL SECURITY

Under an Amended and Restated Master Trust Indenture, issued in 2018, security is a general, unsecured obligation of the obligated group. There are no additional indebtedness tests. The members of the obligated group under the Master Indenture are: Advocate Aurora Health, Inc., Advocate Health Care Network, Advocate Health and Hospitals Corporation, Advocate Sherman Hospital, Advocate North Side Health Network, Advocate Condell Medical Center, Aurora Health Care, Inc., Aurora Health Care Metro, Inc., Aurora Health Care Southern Lakes, Inc., Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center, Aurora Medical Center of Washington County, Inc., Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County, Aurora Medical Center of Oshkosh, Inc., Aurora Medical Group, Inc., Aurora Medical Center Grafton LLC. The Amended and Restated MTI contains a substitution of notes provision.

USE OF PROCEEDS

Bond proceeds will be used for general corporate purposes ($500 million) and to refinance certain outstanding obligations (up to $200 million).

PROFILE

Advocate Aurora Health, Inc. (AAH; $12.8 billion revenue), provides a continuum of care through its 26 acute care hospitals, an integrated children's hospital and a psychiatric hospital, which in total have over 6,600 licensed beds, primary and specialty physician services with approximately 3,800 employed physicians, outpatient centers, physician office buildings, pharmacies, behavioral health care, rehabilitation, home health and hospice care in northern and central Illinois, eastern Wisconsin and the upper peninsula of Michigan.

METHODOLOGY


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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