New York, October 18, 2022 -- Moody's Investors Service has affirmed the Aa3, Aa3/VMIG 1, and Aa3/P-1 ratings assigned to Advocate Aurora Health's (AAH) outstanding debt, which includes the obligations of legacy borrower, Aurora Health Care, Inc., WI. The outlook has been revised to stable from positive. AAH had approximately $3.5 billion of debt outstanding at fiscal year end 2021.

RATINGS RATIONALE

The revision of the outlook to stable from positive reflects Moody's view that AAH's operating cash flow (OCF) margin will not likely rebuild to pre-COVID levels, as anticipated in fiscal 2023, following moderation in fiscal 2022, due to labor challenges and general inflation as well as uneven volume recovery. Also, a return to pre-pandemic levels of operating cash flow was expected to provide ongoing strengthening in cash levels. That said, days cash and cash to total debt will remain solid with unrestricted cash and investments largely sustained at current levels. The affirmation of the Aa3 reflects AAH's scale and broad geographic reach, centralized governance and IT model, and still sound balance sheet resources, which will support AAH's operating flexibility and efforts to rebuild margins. AAH's leading market positions across two regions, business line breadth and strong financial discipline will be integral to ongoing recovery as the system pursues transactional growth. Operating and balance sheet leverage will likely remain in line with peers, with management expecting to maintain current levels of debt and well-funded frozen and highly hedged pension plans.

The affirmation of the short-term P-1 rating is supported by Moody's market access cash flow approach to longer-term variable rate instruments and our estimation of AAH's ability to pay the purchase price of a mandatory tender when due at the end of the mandatory tender "window" as well as AAH's strong liquidity position. The P-1 rating reflects expectations that AAH will be able to access the market given its strong revenue bond rating and the system's frequency of market participation. Affirmation of the VMIG 1 reflects the presence of standby bond purchase agreements and the creditworthiness of AAH.

RATING OUTLOOK

The revision of the outlook to stable from positive reflects our view that protracted challenges will result in AAH's financial profile to remain solid but not in line with a higher rating over the outlook period. The outlook also reflects the potential for near term challenges as AAH pursues transactional growth.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Return to and durable pre-pandemic operating cash flow margins
- Evidence that operating leverage as measured by debt to cash flow will be sustained at or below 2.0 times
- Ongoing improvement in cash to total debt and days cash
- Unenhanced ST rating: Not applicable
- Enhanced ST rating: Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained decline in operating cash flow margin
- Meaningful decline in days cash or cash to debt metrics
- Additional debt resulting in material rise in leverage
- Dilutive acquisition or merger
- Unenhanced ST rating: downgrade by Moody's of AAH's long-term rating below A2 or material adverse changes to AAH's access to the capital markets

- Enhanced ST ratings: downgrade by Moody's of the short-term Counterparty Risk Assessment of the banks that provide the SBPAs or the long-term rating of AAH

LEGAL SECURITY

Under the 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 Medical Center Bay Area, Inc., 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 MTI contains a substitution of notes provision.

PROFILE

Advocate Aurora Health, Inc. (AAH; $14 billion revenue in fiscal 2021), provides a continuum of care through its 24 acute care hospitals, an integrated children's hospital and a psychiatric hospital, which in total have 6,475 licensed beds. AAH also offers primary and specialty physician services with approximately 3,600 employed physicians, outpatient centers, pharmacy services, behavioral health care, rehabilitation, home health and hospice care in northern 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 on https://ratings.moodys.com/rating-definitions.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody’s general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

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