MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's affirms CommonSpirit Health's Baa1; outlook revised to positive

22 Nov 2021

New York, November 22, 2021 -- Moody's Investors Service has affirmed the Baa1, P-2, and VMIG 2 ratings on CommonSpirit Health's (formerly named Catholic Health Initiatives (CHI)) debt. At this time, we are also affirming the Baa1 ratings on Dignity Health's debt, which joined CHI to form CommonSpirit Health and is part of the obligated group. The rating outlooks on CommonSpirit Health and Dignity Health's debt have been revised to positive from stable. Total debt outstanding is $15.5 billion.

RATINGS RATIONALE

The Baa1 rating and positive outlook reflect our expectation that operating margins will be sustained at recently improved levels, that balance sheet measures will remain favorable, and that debt measures will continue to improve over time. Additional strengths include: exceptional size and good diversification across 21 states; high acuity service offerings; and good concentration and diverse care delivery options in most markets. Much progress has been made in consolidating the two legacy organizations (Catholic Health Initiatives, and Dignity Health, which merged on February 1, 2019), and we expect additional efficiencies and synergies to be achieved over time. Nevertheless, certain markets remain particularly challenging, and in some cases we expect improvement to be slow. Additional challenges include: debt measures that remain modest for the rating category; material, although improved, pension and operating lease debt; a major labor shortage in most markets; and ongoing challenges related to the pandemic.

Affirmation of the VMIG 2 and P-2 short-term ratings on debt that is backed by CommonSpirit Health's own liquidity is a function of sufficient liquidity headroom at those levels, and the continuation of good treasury management practices.

RATING OUTLOOK

The positive outlook reflects our expectation that the recent gains to operating performance and balance sheet measures will be sustained, that certain underperforming markets will continue to improve, and that debt measures will strengthen over time.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained improvement of operating and balance sheet measures

- Continued operating cashflow growth

- Continued successful integration of legacy organizations

- Short term rating: Improvement in overall credit quality of borrower; improved coverage levels

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Return to modest operating margins

- Material dilution of balance sheet measures

- Decline in debt measures

- Sizable acquisition that is dilutive

- Short term rating: Decline in overall credit quality of borrower: further decline in coverage levels

LEGAL SECURITY

Bonds are secured by a gross revenue pledge and are a joint and several obligation of the obligated group. All outstanding debt, including debt originally issued by CHI and Dignity Health, is on parity. As part of the 2019 financing, CHI's COD and Dignity Health's MTI were consolidated into a new MTI under CommonSpirit Health. Both legacy organizations are part of the obligated group.

Key MTI covenants include a rate covenant of 1.1 times. Less than 1.0 times for two consecutive years constitutes an event of default. There are additional requirements in certain bank agreements, including: minimum 75-days cash on hand; maximum debt to capitalization of 65%; and minimum rating of Baa3 or BBB- by at least two rating agencies.

PROFILE

CommonSpirit Health represents the February 1, 2019 merger of Dignity Health and Catholic Health Initiatives, the latter of which changed its corporate name to CommonSpirit Health. CommonSpirit Health has approximately $33 billion of consolidated revenues and is headquartered in Chicago. CommonSpirit Health operates in 21 states. Its largest markets include California, Colorado, Arizona, the Pacific Northwest and Texas.

METHODOLOGY

The principal methodology used in the long-term ratings was Not-For-Profit Healthcare published in December 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1154632 . The principal methodology used in the short-term ratings was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1210749 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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