23-Dec-2022 | 12:15 EST

City of Hope, CA Debt Rating Lowered To 'A' From 'A+' On Increased Leverage, Weaker Operating Performance

NEW YORK (S&P Global Ratings) Dec. 23, 2022--S&P Global Ratings lowered its long-term rating to 'A' from 'A+' on City of Hope (COH), Calif.'s debt outstanding. In addition, S&P Global Ratings assigned its 'A' rating to COH's $600 million series 2022B, 2022C, 2022D, 2022E, and 2023A direct-obligation notes (new money bonds). S&P Global Ratings also assigned its 'SP-1' rating, based on its bond anticipation note criteria, to COH's $650 million taxable bonds that mature in November 2023 (bridge loan), issued by Illinois Finance Authority. The outlook is negative.

"The downgrade reflects the significant increase in leverage following the acquisition of Cancer Treatment Centers of America, as well as significantly lower pro forma unrestricted reserves to long-term debt and days' cash on hand," said S&P Global Ratings credit analyst Anne Cosgrove.

In addition, COH's operating performance has weakened significantly over the past two years because of reduced volumes due to the COVID-19 pandemic, elevated labor costs, integration costs, and the loss of royalty revenue; we expect operations will remain suppressed during the outlook period and note that Cancer Treatment Centers of America (CTCA) had weak financial performance prior to the acquisition. These challenges also coincide with a period of significant capital spending to broaden COH's footprint, and we believe that there is significant integration risk over the outlook period as management integrates CTCA.

The negative outlook reflects our view that there is less flexibility at the current rating, given significantly weaker operating performance that comes during a period of heightened capital spending and industry headwinds, as well as operating improvement at the newly acquired CTCA. We also expect operating performance and cash flow growth will remain muted during the outlook period, which will limit balance sheet accretion. In addition, there is project and execution risk associated with the capital projects.

We could lower the rating if COH is unable to significantly improve operations over the outlook period and maintain close to mid-200 days' cash on hand. We would also consider a lower rating if COH were unable to generate adequate maximum annual debt service coverage. There could also be rating pressure if there are significant project cost overruns or integration challenges associated with integrating CTCA.

We could revise the outlook to stable if COH's operating performance improves significantly and days' cash on hand and unrestricted reserves to long-term debt increase. Over time, we could raise the rating if COH is able to produce ratios in line with the 'A+' rating level while demonstrating success on its strategy. In addition, we would view positively successful integration with CTCA and growth strategies coming to fruition.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

European Endorsement Status

Global-scale credit rating(s) issued by S&P Global Ratings' affiliates based in the following jurisdictions [**To read more, visit Endorsement of Credit Ratings**] have been endorsed into the EU and/or the UK in accordance with the relevant CRA regulations. Note: Endorsements for U.S. Public Finance global-scale credit ratings are done per request. To review the endorsement status by credit rating, visit the spglobal.com/ratings website and search for the rated entity.

lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

Contact the analysts:

Anne E Cosgrove

Primary Credit Analyst, New York

P. + 1 (212) 438 8202

E. anne.cosgrove@spglobal.com

Suzie R Desai

Secondary Contact, Chicago

P. + 1 (312) 233 7046

E. suzie.desai@spglobal.com

Aamna Shah

Secondary Contact, San Francisco

P. + 1 (415) 371 5034

E. aamna.shah@spglobal.com

Stephen Infranco

Secondary Contact, New York

P. + 1 (212) 438 2025

E. stephen.infranco@spglobal.com