



Rating Action: Moody's assigns Aa2 to Indiana University Health's Series 2023A, B, and C bonds; stable outlook

30 May 2023

New York, May 30, 2023 – Moody's Investors Service assigned Aa2 ratings to Indiana University Health's (IU Health) proposed \$325 million Health System Revenue Bonds, Series 2023A (Indiana University Health), \$300 million Health System Revenue Bonds, Series 2023B (Indiana University Health), and \$100 million Health System Revenue Bonds, Series 2023C (Indiana University Health) to be issued by the Indiana Finance Authority. At the same time, Moody's affirmed the Aa2 on outstanding revenue bonds. The outlook is stable. IU Health will have approximately \$2.2 billion in proforma debt.

RATINGS RATIONALE

The assignment and affirmation of the Aa2 revenue rating reflects Moody's view that IU Health's strong demand and cost control measures will drive a steady improvement in margins toward historical levels and very good liquidity to support a sizable increase in debt. Comparatively low leverage, including operating leases and pension obligations, will allow the system to absorb the proposed debt and maintain leverage metrics in line with the rating category. Disciplined long-term budget and capital planning will support the system as it executes on carefully planned expansion strategies. IU Health's centralized governance and corporate structure, along with its close affiliation with IU School of Medicine, the largest medical school in the US, will remain key credit strengths. IU Health's strong market position will continue to come from its statewide draw of patients for quaternary services. The most significant challenges will be elevated labor costs and execution risk related to a very large project underway to consolidate the downtown adult Indianapolis campuses. Also, there will be competition from several other sizable health systems in the region.

RATING OUTLOOK

The stable outlook reflects Moody's expectations that IU Health's operating cashflow margins will improve from a low point in fiscal 2022 to around 8% in fiscal year 2023 with further improvement in the subsequent years. This will allow the system to keep debt-to-cashflow under 3 times, even incorporating additional borrowings over the next several years to complete the downtown project. Absent large market-related changes, the outlook reflects an expectation that cash on hand will remain well above 300 days.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significantly reduced competitive threats and material growth in market share
- Increased size with broad geographic diversification
- Material growth in liquidity
- Meaningful and sustained increase in operating cashflow margin

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant weakening of leverage and cash metrics

- Notably dilutive acquisition
- Inability to progressively improve operating cash flow margins
- Material reduction or abatement of the Medicaid provider fee program that is not quickly absorbed

LEGAL SECURITY

The bonds have a Gross Receivables Pledge. Indiana University Health, Inc. is the sole member of the obligated group. Among other operations, Indiana University Health operates the Academic Health Center downtown facilities (Indiana University Health Methodist Hospital, Indiana University Health University Hospital, and Riley Hospital for Children at Indiana University Health) which comprise a large portion of system revenue. The system has several sizable operations not in the obligated group, but closely integrated and controlled by the system. The largest of these operations include Indiana University Health Arnett Hospital, Indiana University Health Ball Memorial Hospital, Indiana University Health Bloomington Hospital, Indiana University Health North Hospital, Indiana University Health West Hospital, IU Health Physicians and Indiana University Health Plans. While approximately 81% of the system's total assets are in the credit group, only 58% of revenue is in the credit group.

USE OF PROCEEDS

The proceeds from the sale of the Series 2023A, B, and C Bonds will be used for the purposes of (1) financing or refinancing certain improvements and additions to hospital facilities, (2) funding capitalized interest on the Series 2023A, B, and C Bonds, (3) refinancing certain prior indebtedness incurred to finance or refinance certain improvements and additions to hospital facilities, and (4) paying all or a portion of the costs of issuance related to the Series 2023A, B, and C Bonds. The projects expected to be financed with a portion of the proceeds include: constructing and equipping a new downtown Indianapolis adult services medical campus with 864 private inpatient and observation beds, a full-service outpatient center, a medical education building, and on-site faculty offices to enhance ongoing collaboration with the Indiana University School of Medicine.

PROFILE

Indiana University Health (\$8.1 billion in revenue in fiscal 2022) is the largest health care delivery system in the State of Indiana based on revenue and provides services throughout the State. The system provides a continuum of care through its 16 acute care hospitals (of which 4 operate under a single license), physician operations, ambulatory care ranging from home health to surgery centers, and medical risk. Within the acute care hospital operations is an Academic Health Center, affiliated with the Indiana University School of Medicine, the largest medical school in the United States by student body. The Academic Health Center, located in Indianapolis, includes Indiana University Health Methodist Hospital, Indiana University Health University Hospital, and Riley Hospital for Children at Indiana University Health.

METHODOLOGY

The principal methodology used in these ratings was Not-For-Profit Healthcare published in December 2018 and available at <https://ratings.moodys.com/rmc-documents/70886>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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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