New York, August 02, 2023 -- Moody's Investors Service has downgraded North Memorial Health Care’s, MN (NMH) and Maple Grove Hospital's, MN (MGH) revenue bond ratings to Baa2 from Baa1. The outlook has been revised to stable from negative. While MGH is not part of NMH’s obligated group, NMH guarantees 100% of MGH’s debt. The rated entities have $181 million of combined debt.

Please click on this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908244346](http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908244346) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The downgrade to Baa2 reflects our expectation that NMH will continue to face significant operating headwinds, while maintaining lower days cash. Additional challenges include ongoing exposure to unions (which staged a strike in 2022), higher than average exposure to governmental payers, and material competition in the greater Twin Cities region. Ongoing strengths include NMH’s role as an essential provider, its leading market share in northwest Minneapolis, its high acuity service offerings, its innovative management approach, and the favorable demographics and ongoing growth of its Maple Grove Hospital.

MGH’s Baa2 rating is based on a 100% debt guarantee from NMH.

While there are two separate obligated groups, our credit analysis takes into account all of NMH, which includes and consolidates the financials of MGH.

RATING OUTLOOK

The stable outlook anticipates that operating cash flow (OCF) margins will improve in the second half of 2023, and in 2024. The outlook also assumes that days cash will not drop much below current levels.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- OCF margin sustained at or above 8%
- Meaningful improvement in days cash on hand to around 180 days
- Maintenance of leverage metrics that are consistent with the rating category

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to attain and sustain OCF margins of at least 5%-6% over the next 12-18 months
- Further decline in days cash on hand to around or below 100 days
- Drop in cash to debt to below 100%
LEGAL SECURITY

NMH's bonds are secured by a revenue pledge from its Obligated Group, which consists of North Memorial Health Hospital, NMH's distributions from Maple Grove Hospital, employed physician services, medical transportation, and home health.

The Maple Grove Hospital bonds are secured by a revenue pledge from its Obligated Group, which consists of Maple Grove Hospital (MGH). The bonds are further supported by a 100% guarantee by NMH. MGH was founded as a joint venture between Fairview Health Services (Baa1 negative) and NMH. Fairview had a 25% ownership share and guaranteed 25% of the debt, and NMH had a 75% ownership share and guaranteed 75% of the debt. MGH's rating had historically reflected the lesser of the ratings of the two guarantors. On May 1, 2022, NMH purchased Fairview's 25% ownership stake in MGH, and increased its guarantee of MGH's debt to 100%.

PROFILE

NMH provides a broad array of health care services in Minnesota around the Minneapolis metro area. Its flagship facility is North Memorial Health Hospital, which is a 353-bed tertiary hospital located in Robbinsdale, Minnesota. It is one of four Level I trauma centers in Minnesota, and also has a Level III NICU. NMH also owns and operates a 130-bed community hospital in Maple Grove, Minnesota and runs numerous clinics and outpatient centers. An additional service line is medical transport, which includes 120 ground-based ambulances (serving many communities throughout Minnesota and western Wisconsin), and nine emergency medical helicopter flight bases (Air Care), located in Bemidji, Brainerd, Faribault Princeton, Redwood Falls, Eveleth-Virginia, MN and Siren, WI. This service line is equal to approximately 10% of NMH's revenues, and historically has produced strong profitability.

METHODOLOGY

The principal methodology used in rating Maple Grove Hospital was Guarantees, Letters of Credit and Other Forms of Credit Substitution Methodology published in July 2022 and available at https://ratings.moodys.com/rmc-documents/386295. The principal methodology used in rating North Memorial Health Care 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 these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody’s Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908244346 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody’s disclosures on the following items:

- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
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- Endorsement

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
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