EVENT NOTICE

Rating Change

Related CUSIPS: See Attachment 1

Bon Secours Mercy Health, Inc. (“BSMH”) hereby provides notice that on October 5, 2023, Moody’s Investors Service, Inc. (“Moody’s”) downgraded BSMH’s long-term bond rating to “A2” from “A1.” Additionally, Moody’s revised the outlook to “stable” from “negative.” Moody’s also affirmed BSMH’s “P-1” commercial paper rating and the “VMIG 1” short-term rating. A copy of the Moody’s press release is attached hereto as Attachment 2.

A rating reflects only the view of the agency assigning such rating and is not a recommendation to buy, sell or hold any outstanding bonds of BSMH. A rating may be changed at any time and no assurance can be given that it will not be subject to further revision by a rating agency if, in the judgment of such rating agency, circumstances so warrant. This notice speaks only as of its date. BSMH neither undertakes nor assumes any obligation to update or supplement this filing except as provided herein or as required by law.

October 16, 2023

BON SECOURS MERCY HEALTH, INC.
Attachment 1

**BON SECOURS MERCY HEALTH**

Master Obligation CUSIPs

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New York, October 05, 2023 – Moody’s Investors Service has downgraded Bon Secours Mercy Health’s (BSMH) long-term bond ratings to A2 from A1, and affirmed the P-1 and VMIG 1 short-term ratings. The outlook was revised to stable from negative. The system had $4.9 billion in outstanding debt at fiscal yearend 2022.

RATINGS RATIONALE

The downgrade to A2 reflects a prolonged period of modest performance combined with high capital spending, which will result in a further decline in cash and continuation of high leverage. While investments in growth markets and acquisitive strategies will diversify revenue and enhance cashflow, the cost of these initiatives will require cash or leverage at a time when core operations are under stress. Covenant headroom will be narrow for a second year, although we expect the system will exercise levers to avoid a breach if needed. However, margins will grow from a low point in fiscal 2022 due to ongoing improvement efforts and Medicaid supplemental funding that is stabilizing at higher levels. Centralized governance and common IT platforms will help meet operating goals. Currently solid cash on hand will provide some cushion and additional opportunities to monetize assets could provide liquidity.

The affirmation of the P-1 commercial paper rating is based on strong management and liquidity to support commercial paper maturities. The affirmation of the VMIG 1 rating is based on a standby bond purchase agreement provided by the State of Ohio (Liquidity Provider) for the Series 2012B bonds.

RATING OUTLOOK

The stable outlook reflects modest improvement in operating cashflow margins to around 4% by FYE 2024 and to 5-6% thereafter, which would lower debt-to-cashflow to under five times, assuming no material incremental debt. The outlook anticipates that cash on hand and cash-to-debt will decline over the next two years but remain above 180 days and 120%, respectively.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant and sustained reduction in leverage, including higher cash-to-debt and lower debt-to-cashflow
- Material and sustained increase in operating cashflow margin
- Further diversification of geographic locations and business lines
- Short-term ratings: Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to reduce debt-to-cashflow to under five times by FYE 2025 or sustained decline in cash-to-debt to under 120%
- Operating cashflow margin under 3%
- Days cash on hand falls below 170 days
- Dilutive acquisition or merger
- For P-1: downgrade of BSMH's long-term rating or material reduction of daily liquidity
- For VMIG 1: downgrade of the short-term rating of the Liquidity Provider or downgrade of BWMH's long-term rating

LEGAL SECURITY

The bonds and commercial paper are the obligations of Bon Secours Mercy Health only; individual hospitals and other affiliates are not directly legally liable for the debt. This is a weaker security than a joint and several obligated group structure, whereby all operating entities are liable for the debt. However, BSMH has formal affiliate agreements with its affiliates, which allow BSMH to exercise extensive control over affiliates, including the ability to upstream funds as needed. Under the MTI, BSMH is obligated to exercise its rights under the affiliate agreements or through its control as the sole corporate member to access sufficient funds. The bonds are secured by a gross receivable pledge of BSMH. Cash management for the affiliates is largely centralized, which provides direct access to and control of investments.

PROFILE

Bon Secours Mercy Health serves seven states in the US and five cities in Ireland and generated over $11 billion in revenue in fiscal 2022. The system includes 47 hospitals with operations in Ohio, Virginia, South Carolina, Florida, Kentucky, Maryland, New York, and Ireland.

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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