

Healthcare Bonds: A Checklist of Do's and Don'ts



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Healthcare Bonds: Checklist Of Do's And Don'ts

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Agenda

- I. Setting The Stage – The Hospital Sector Today
- II. Do's: What Strong Hospital Credits Get Right
- III. Don'ts: Common Pitfalls And Warning Signs
- IV. Forward Looking Statements

I. Setting The Stage – The Hospital Sector Today

Current NFP Healthcare Outlook is Stable

Revenue growth and cost controls drive stabilization



Median operating cash flow margin in the 6-7% range



Labor and other inflationary costs will remain a hurdle for the sector



Stable liquidity provides buffer as organizations work towards financial sustainability



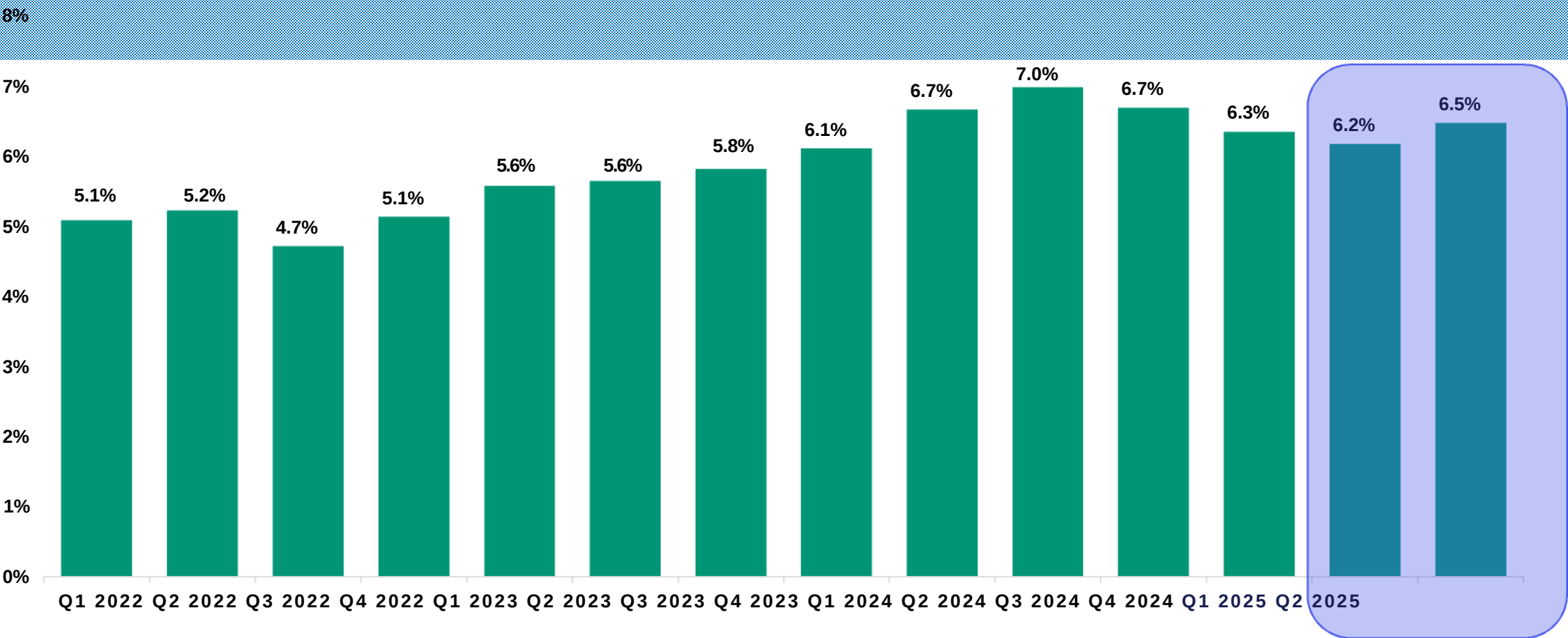
Cyber and environmental events present growing operational risk



Federal and state policies will yield potential headwinds over the intermediate term

Hospital performance treading water

Median Operating Cash Flow (OCF) % expected to remain in the 6-7% range



Source: Moody's Ratings

Labor and supply inflationary headwinds remain hurdle

Structurally higher labor expenses driving lower margins



Source: Moody's Ratings

Impact of Federal Policy

OBBB poses credit risk



Medicaid Cuts

- **\$1.1 Trillion** in federal Medicaid cuts by FY2034
- **Safety-net & rural hospitals** most vulnerable



Medicaid Eligibility

- Stricter verification → **coverage drop**
- **+11.8 million** uninsured by FY2034
- Increased **uncompensated care** burden



Federal Medicaid funding

- **Medicaid state-directed payments** capped
- Restrictions on **Medicaid provider taxes** - 3.5% from 6%



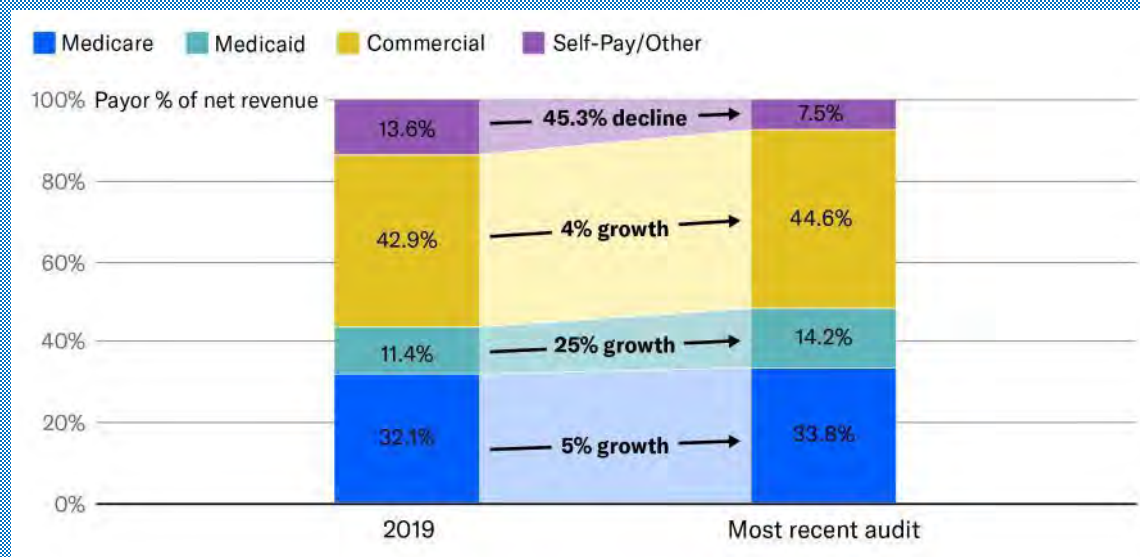
Limited Relief

- **\$50B fund** for rural hospitals – insufficient to offset losses
- Gradual phase-in and 2028 elections

Source: Moody's Ratings

Provider taxes and state directed payment programs boost Medicaid

25% growth in Medicaid since 2019

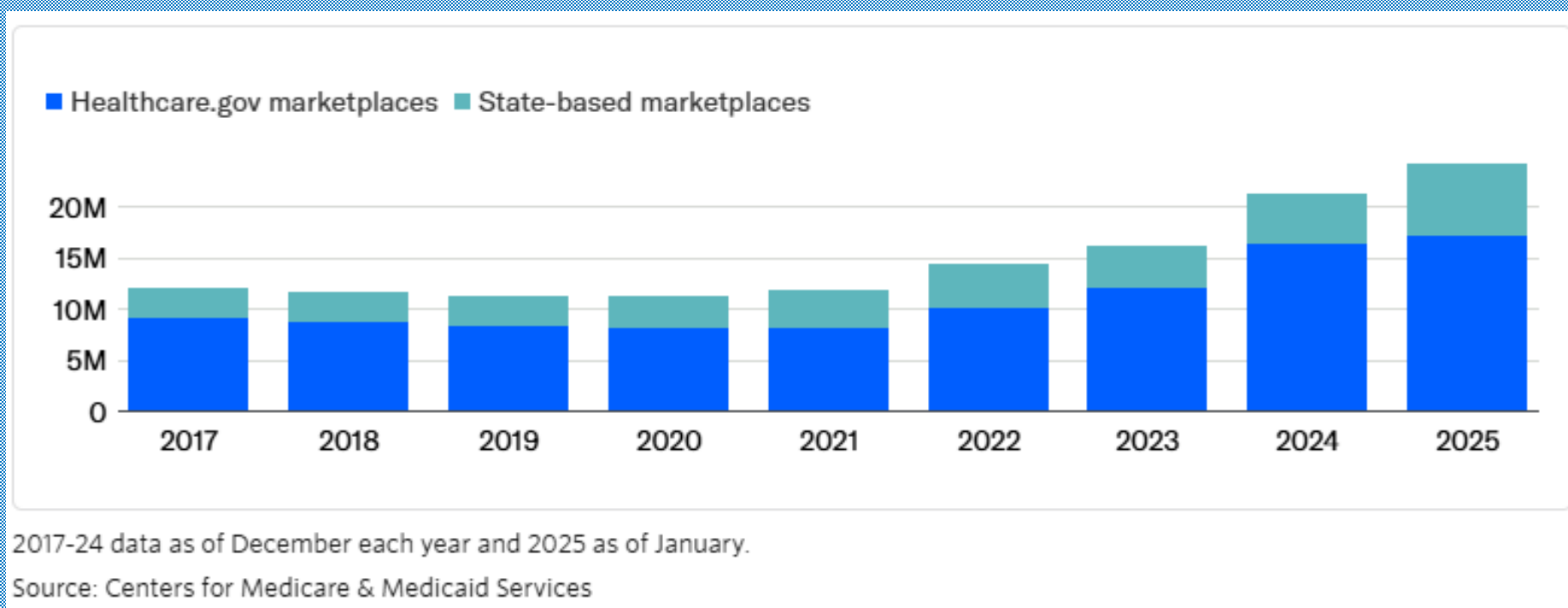


Source: Moody's Ratings

Subsidies play key role in sector recovery

- ☐ Medicaid patient volume increased about 9% since 2019
- ☐ Medicaid reimbursement increased to the average of commercial rates for providers in many states
- ☐ Reduction to existing directed payment programs will be phased in beginning in 2028

Soon-to-expire marketplace subsidies could shift commercial payor mix



Source: Moody's Ratings

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II. Do's: What Strong Hospital Credits Get Right

III. Don'ts: Common Pitfalls And Warning Signs

Acute Care

 Market Overview	 Opportunities/Tailwinds	 Challenges/Headwinds	 Outlook
The acute care market is projected to expand in the coming years as hospitals continue to broaden their critical and specialized service offerings. Increased access to private insurance and growing demand from the elderly population will continue to support revenue growth. ■ The industry has seen overall revenue growth at an annualized rate of 2.0% since 2020, bringing revenue to \$1.5T in 2025. ■ Short-term acute care hospitals account for 51.9% of all hospitals in the U.S., making it the most common hospital type with 3,867 sites of care (as of May 2025). ■ M&A volumes still have not rebounded to pre-Covid levels. Non-profit buyers and distressed sellers are making up an increasing proportion of recent volume.	■ Increased demand from the aging population, expected to sustain inpatient volumes. ■ Volume stabilization, shifting focus to improve access and capacity. ■ Gradual shift from inpatient to outpatient care, resulting in steady revenue increases due to higher volumes and cost-effectiveness. ■ Continuous decreases in average length of stay. ■ Transitioning from fee-for-service to value-based care. ■ Developing workforce-related (recruitment & retention) strategies. ■ Cost mitigation and decreased reliance on contract labor. ■ Redefining location of care. ■ Synergies through consolidation.	■ Increasingly competitive environment. ■ Uncompensated care. ■ Inflation outpacing increases in reimbursement rates. ■ Longer stays for both inpatients and outpatients under Medicare Advantage plans. — Lower reimbursement coupled with increased hospital costs. ■ Staffing shortages among physicians, nurses, and administrative and clinical support staff. ■ Higher labor and wage costs, dominating overall hospital spend. ■ Increased medical device and drug expenses, as well as supply chain complications. ■ Margin pressures. ■ Liquidity pressures.	Revenue for the hospitals industry is expected to gradually return to more stable, pre-COVID growth rates over the next several years. ■ The industry's projected growth rate through 2030 is 2.4%, largely attributed to: — Greater consolidation activity driven by smaller hospitals. — Rising prevalence of chronic diseases. — Higher demand associated with the geriatric population. — Technological advancements aimed at improving quality of treatment and accessibility. ■ 2025 expects that most large health systems will realize improvements in operating margin. — Some struggling hospitals are likely to pursue strategic partnerships, given the growing, notably uneven distribution of gains and losses between top and bottom performers.

IV. Forward Looking Statements