

RatingsDirect®

Summary:

Atrium Health, North Carolina; System

Primary Credit Analyst:

Patrick Zagar, Dallas (1) 214-765-5883; patrick.zagar@spglobal.com

Secondary Contact:

Dev C Vithani, New York (1) 212-438-1714; dev.vithani@spglobal.com

Table Of Contents

Rationale

Outlook

Summary:

Atrium Health, North Carolina; System

Credit Profile

US\$50.0 mil var rate hlth care rev bnds ser 2018H due 01/15/2048

Long Term Rating AA-/A-1/Stable New

US\$50.0 mil var rate hlth care rev bnds ser 2018G due 01/15/2048

Long Term Rating AA-/A-1/Stable New

Rationale

S&P Global Ratings assigned its 'AA-/A-1' rating to Charlotte-Mecklenburg Hospital Authority, N.C.'s \$50 million series 2018G and \$50 million series 2018H variable-rate revenue bonds. The authority does business as Atrium Health (formerly known as Carolinas HealthCare System). The outlook is stable.

The short-term component of the rating for series 2018 G and H bonds reflects our assessment of the liquidity support provided by JP Morgan Chase Bank N.A. ('A-1') in the form of two standby bond purchase agreements (SBPAs).

The series 2018G and H bonds are the final component of Atrium Health's series 2018 plan of finance, which also includes the series 2018A-E bonds and has a total par amount of about \$564 million, of which \$400 million is new debt (including the series 2018G and H bonds).

The long-term rating reflects Atrium Health's continued healthy operating profile, highlighted by sustained volume growth and service line demand, favorable economic fundamentals within its core Charlotte service area, coupled with considerable geographic reach across the Carolinas, and a strong inpatient market share across most specialties. The aforementioned strengths underpin Atrium Health's robust financial performance that remains good for the rating and well ahead of budget through the first half of fiscal 2018. Atrium Health's solid balance sheet has strengthened further over the past several years as a result of robust cash flow and capital spending purposefully held below historical levels. Though we expect incremental weakening in leverage metrics following the added \$400 million in debt, we believe the pro forma balance sheet remains healthy and in line with our expectations for the rating.

The SBPAs provide coverage for the payment of purchase price for optional and mandatory tenders upon a failed remarketing at 34 days of interest coverage at the 12% maximum rate. The SBPAs only enhance bonds in the daily rate, weekly rate, and two-day rate (the covered modes) and will terminate upon a conversion of all of the bonds to a mode that is other than the respective covered modes. The SBPAs are scheduled to expire on March 6, 2024, at which time we will remove the short-term component of the ratings on series 2018 G and H unless the related SBPAs are either extended or terminated beforehand pursuant to its terms. The respective SBPA provider's obligations to purchase tendered bonds will automatically terminate should certain events of default set forth in the SBPA occur. These events, which we have deemed consistent with our published criteria, include the lowering of the rating on the bonds or any Atrium Health senior debt below 'BBB-'.

For additional information on Atrium Health, please see the full analysis published Oct. 1, 2018, on RatingsDirect.

Outlook

The stable outlook reflects our assessment of Atrium Health's robust and stable enterprise strengths, as well as our expectation that its overall financial profile will remain commensurate with the 'AA-' rating level. We expect Atrium Health will continue to post healthy financial performance metrics and maintain its balance sheet cushion throughout the outlook period. We also anticipate leadership will continue to respond to national and state-level challenges appropriately to preserve Atrium Health's financial strength.

Upside scenario

As Atrium Health's growth plans develop, we believe a positive outlook or higher rating could be considered if it is able to successfully integrate Navicent Health and execute on its capital plans while growing balance sheet metrics to a level in line with 'AA' rated systems. We would also expect Atrium Health to maintain its existing enterprise strengths, while producing financial performance metrics in line with 2017 and interim 2018 levels.

Downside scenario

Though we consider Atrium Health to have some cushion at the rating, we could revise the outlook to negative if there is a sharp and sustained decline in financial performance. We believe Atrium Health's balance sheet partly mitigates its material exposure to supplemental funds and, as a result, any sizable dilution of its balance sheet cushion could result in negative pressure on the rating.

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.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or 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.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.