

RatingsDirect®

Summary:

Atrium Health, North Carolina; CP; Joint Criteria; System

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Credit Profile

Series 2011A, 2012A, 2013A, 2016A, 2018A-E

Long Term Rating

AA-/Stable

Affirmed

Rationale

S&P Global Ratings affirmed its 'AA-' long-term rating on Charlotte-Mecklenburg Hospital Authority (doing business as Atrium Health), N.C.'s series 2011A, 2012A, 2013A, 2016A, and 2018A-E bonds. We also affirmed our 'AA-/A-1+' rating on the authority's series 2018F variable rate demand bonds (VRDBs) supported by the authority's own self-liquidity, as well as our 'A-1+' short-term rating on the authority's taxable health care commercial paper (CP) program.

Concurrently, we affirmed our 'AA-/A-1' dual-rating on the authority's series 2007B, 2007C, 2018G, and 2018H bonds, all of which are supported by standby bond purchase agreements (SBPAs) from JPMorgan Chase Bank N.A. The long-term rating component reflects the 'AA-' long-term rating on the authority, and the short-term rating component reflects the 'A-1' short-term rating on JPMorgan Chase Bank.

Finally, we affirmed our 'AAA/A-1+' dual-rating and 'AA-' underlying rating (SPUR) on the series 2007E bonds. A letter of credit (LOC) from TD Bank supports the 2007E bonds. We based the long-term rating component on the application of joint criteria between TD Bank and the 'AA-' SPUR on the authority. The short-term rating component reflects the 'A-1+' short-term rating on TD Bank. The series 2007E bonds are also supported by insurance from Assured Guaranty Municipal Corp.

The outlook, where applicable, is stable.

On Oct. 29, 2019, Charlotte-based Atrium Health and Wake Forest Baptist (Winston-Salem) executed a strategic combination agreement with an expected close date of early calendar 2020. This agreement follows an April 2019 memorandum of understanding between the two organizations, which outlined a shared vision to create a transformative academic health system and develop a second Wake Forest School of Medicine campus in Charlotte.

The affirmation reflects our view that the Atrium's Health's credit profile would likely remain consistent with the current rating should the combination agreement, which is still subject to regulatory approval, close as expected. On a pro forma basis, we anticipate the consolidation of Wake Forest Baptist would result in some weakening of Atrium Health's financial profile--including both performance and balance sheet metrics. This is based on an S&P Global Ratings internal consolidation of each entity's latest audited financial statements. That said, we believe these measures would remain consistent with the current rating and be supported by a strengthened market position. In our view, the

larger system--which would have total annual operating revenue of about \$10 billion and own 19 acute care hospitals across North Carolina and Georgia--would possess significant academic and clinical competencies, and be better able to scale population health initiatives and continued capital investment in facilities and information technology.

The two organizations currently have very little market overlap, which we believe lessens the chance of regulatory intervention. Atrium Health and WFB have Dec. 31 and June 30 fiscal years, respectively.

We plan to meet with management over the coming months to discuss the new organization's new strategic vision, long-range financial forecasts, and capital structure strategy. Though we believe there would be no immediate rating impact on Atrium Health should the deal close, we would continue to monitor integration efforts and consolidated performance over the outlook period with the understanding that material deviations from expectations or Atrium Health's current operating baseline could pressure the rating over time.

In February 2018, the Charlotte-Mecklenburg Hospital Authority changed its enterprise name from Carolinas HealthCare System to Atrium Health as part of its long-term vision to expand the level of care it provides in the Southeast region beyond North Carolina and South Carolina. This shift is exemplified by the January 2019 merger with the Macon, Ga.-based Navicent Health, as well as the pending agreement with Wake Forest Baptist.

For our last full report on Atrium Health, please see the article published Oct. 1, 2018, on RatingsDirect. For additional information on Wake Forest Baptist, please see our most recent report published on Feb. 12, 2019, 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 even with the potential combination with Wake Forest Baptist. We anticipate leadership will continue to respond to national and state-level challenges appropriately to preserve Atrium Health's financial strength.

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, due to integration challenges or otherwise. 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.

Upside scenario

Given the recent merger with Navicent Health--and pending combination with Wake Forest Baptist and the expected softening of some financial metrics--we do not expect to raise the rating in the near term. Positive rating movement would be predicated on successful integration of new affiliates, as demonstrated by margins and balance sheet metrics in line with the higher rating.

Ratings Detail (As Of November 4, 2019)

Atrium Health Commercial Paper

Short Term Rating

A-1+

Affirmed

Ratings Detail (As Of November 4, 2019) (cont.)

Series 2007B

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

Series 2007C

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

Series 2007E

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Long Term Rating AAA/A-1+ Affirmed

Series 2018F

Long Term Rating AA-/A-1+/Stable Affirmed

Series 2018G

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

Series 2018H

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

Many issues are enhanced by bond insurance.

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.

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