MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 to Stanford Health Care's (CA) Ser. 2020; outlook stable

12 Mar 2020

New York, March 12, 2020 -- Moody's Investors Service has assigned an Aa3 to Stanford Health Care's (CA) proposed Taxable Bonds Series 2020 ($524 million par, expected maturity 2055), Variable Rate Revenue Bonds (Stanford Health Care) 2020 Series A ($148.9 million par, expected maturity 2051), Variable Rate Revenue Bonds (Stanford Health Care) 2020 Series B ($146 million par, expected maturity 2054), and Fixed Rate Revenue Bonds (Stanford Health Care) 2020 Series C ($127.7 million par, expected maturity 2051). The Series 2020A bonds are expected to be issued as 7 year put bonds and the 2020B as 10 year put bonds. At this time we also affirm our Aa3 long term ratings and VMIG 1 and P-1 short term ratings. The rating action affects $2.2 billion of rated debt, including bonds expected to be refinanced as part of this transaction. The outlook is stable.

RATINGS RATIONALE

Assignment and affirmation of the Aa3 long term rating reflects expectations that Stanford Health Care will maintain very strong patient demand, translating into growing patient volumes-particularly among higher acuity service lines-as the organization takes advantage of new clinical space afforded by the recent opening of the New Stanford Hospital. The rating incorporates expectations that although Stanford Health Care incurred significant one-time costs in fiscal 2019 and early 2020 related to opening the new hospital, absolute cash flow will grow over the next several years. The rating also incorporates expectations of high capital spending over the next several years as the organization adds outpatient and repurposes other clinical space to accommodate volume growth. The organization will continue to benefit from multiple strengths including its large size, strong reputation for patient care and research, unique clinical offerings and its ownership by Stanford University (Aaa stable).

Affirmation of the VMIG 1 on Stanford Health Care's self-liquidity backed debt reflects adequate coverage provided by daily assets (after applying Moody's discounts) used to support the tender features of the affected debt.

Affirmation of the P-1 on Stanford Health Care's market access debt reflects the long lead time between a failed remarketing and required payment on the debt, the organization's history of successfully accessing the market, and SHC's own ample liquidity to repay the debt in the event of a lack of market access.

RATING OUTLOOK

The stable outlook reflects expectations that strong patient demand will enable Stanford Health Care to maintain favorable cash flow as it continues to spend heavily to expand patient capacity.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Significant growth in cash flow translating into increased liquidity and reduced leverage

- Material growth in fundraising leading to increases in unrestricted liquidity

- For the VMIG 1 and P-1 ratings: not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Sustained weakening of absolute cash flow or cash flow margin

- Continued increases in debt

- Material growth in capital spending beyond current projections that results in draw down of liquidity or material additional debt

- For the VMIG 1: a material reduction in coverage level of assets backing the self-liquidity program or

downgrade of SHC's long term rating to A2 or lower

- For the P-1: a downgrade of SHC's long term rating or material reduction in the organization's liquidity

LEGAL SECURITY

The bonds are secured by a gross revenue pledge of Stanford Health Care and have a negative pledge subject to permitted encumbrances. The lien basket would be increased to 30% of assets when the new MTI changes come into effect. Stanford Health Care will introduce or eliminate several provisions of the MTI with this offering that will likely be sprung into effect over the next two years as debt is refinanced and a majority of bondholders consent by participating in refinancings, remarketings and debt amortization. Key changes include a change in the debt service coverage covenant such that coverage below 1.1x will require SHC to bring in a consultant but will not trigger an event of default. The revenue pledge will be replaced by a receivables pledge and limitations on additional indebtedness, mergers and asset transfers will be removed.

USE OF PROCEEDS

Bond proceeds will refinance several series of debt and provide $430 million in new proceeds including reimbursement for money spent on the New Stanford Hospital and money to be used for general corporate purposes.

PROFILE

Stanford Health Care ($5.4 billion of revenue in fiscal 2019) is an academic medical center that is wholly owned subsidiary of Stanford University. It operates a hospital on the university campus in Palo Alto, one community hospital in the East Bay, and several outpatient centers throughout the Bay Area, in addition to numerous physician offices.

METHODOLOGY

The principal methodology used in the long-term ratings was Not-For-Profit Healthcare published in December 2018. The principal methodology used in the short-term Series 2008B1 rating was Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity Methodology published in October 2019. The principal methodology used in the short-term Series 2012C rating was US Bond Anticipation Notes and Related Instruments Methodology published in October 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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