MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns A2 to UPMC's (PA) Ser. 2025A,B&C and affirms A2; outlook stable

10 Mar 2025

New York, March 10, 2025 -- Moody's Ratings (Moody's) has assigned an A2 to UPMC's (PA) proposed $315 million UPMC Revenue Bonds, Series 2025A (Term Rate Mode), $400 million UPMC Revenue Bonds, Series 2025B (Fixed Rate Mode), and $35 million UPMC Revenue Bonds, Series 2025C. Concurrently, we affirmed the A2 on the bonds and notes of UPMC. The outlook is stable. UPMC will have approximately $6.8 billion of debt outstanding after the issuance.

The affirmation and assignment of the A2 reflects UPMC's critical role in the region's healthcare delivery network, which helped secure meaningful rate increases from the Commonwealth that will enable materially improved financial performance in 2025, supporting consolidated operating cash flow margins in the low single digit range and UPMC's ability to fund capital while maintaining unrestricted liquidity.

RATINGS RATIONALE

The A2 balances UPMC's comprehensive clinical breadth and substantial market share in its provider and payor markets ensuring the system's essentiality and driving strong utilization against operational headwinds. Our expectation is that consolidated operating cashflow (OCF) margins will remain around 2-3% over the next two years. Our calculation of OCF reclassifies interest expense and academic support payments as operating expenses. Liquidity will stabilize, with days cash measured against the entire enterprise sustained at around 90 days (approximately 200 days excluding insurance operations). The rating also expects that debt to cash flow, which was a very high 12.0x in 2024, will fall to under 6.0x in 2025; though still high for the rating category, improvement to this level will afford the organization greater financial flexibility. Highly competitive and evolving competitive dynamics, as other healthcare systems extend their geographic reach through acquisitions or new construction, will continue to pose challenges.

RATING OUTLOOK

The stable outlook reflects our view that UPMC will strengthen consolidated cash flow margins to the 2% range in 2025 which will allow it to fund capital needs while maintaining unrestricted liquidity. Though UPMC missed budget in 2024, the largest factor behind the variance to budget are the Commonwealth's Medicaid rates paid to UPMC's health plan, which have been adjusted for 2025. UPMC's ability to restore margins following a challenging fiscal 2024 and its ability to hit financial targets in support of its long range financial and capital spending plans will be critical to maintaining credit quality over the next several years.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Durable improvement in consolidated operating cash flow margins to the mid-single digit range and material reduction of debt to cashflow

- Marked growth in absolute cash that translates to cash to debt approaching 150%

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to achieve consolidated OCF margin approaching 2.0% in 2025 as well as ongoing improvement thereafter

- Inability to sustain 110% cash to debt and days cash above 90 days

LEGAL SECURITY

UPMC's parity debt is a joint and several commitment of the Obligated Group (OG) secured by a lien on gross revenues. The OG under the 2007 Master Trust Indenture consists of the Parent Corporation, UPMC Presbyterian Shadyside Hospital, UPMC Magee Women's Hospital, UPMC Passavant and UPMC St. Margaret. With the Series 2025 issuance, UPMC plans to expand the OG to include nine additional hospitals. The Insurance Division, which is not in the OG, accounts for approximately 50% of system operating revenues (before eliminations). Though the health plan is not part of the Obligated Group, it is included in the systemwide gross revenue pledge.

USE OF PROCEEDS

The proceeds of the Series 2025A,B&C bonds, together with other available funds, will be applied to (i) finance various capital expenditures, (ii) refund all or a portion of certain outstanding debt, and (iii) pay certain costs of issuance.

PROFILE

UPMC is an integrated delivery and financing system (IDFS). Based in Pittsburgh, UPMC serves western and central PA, southwestern New York, and western Maryland. UPMC's 40 hospitals, more than 800 clinical locations and 5,700 physicians comprise both the largest health care delivery system and the largest non-government employer in the Commonwealth. UPMC also offers a variety of insurance products that cover approximately 4 million lives.

METHODOLOGY

The principal methodology used in these ratings was Not-for-profit Healthcare published in October 2024 and available at https://ratings.moodys.com/rmc-documents/430698. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this 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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