

CREDIT OPINION

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Update

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Aurora Health Care, Inc., WI

Update - Moody's Affirms Aurora Health Care, Inc.'s (WI) A2; Outlook Stable

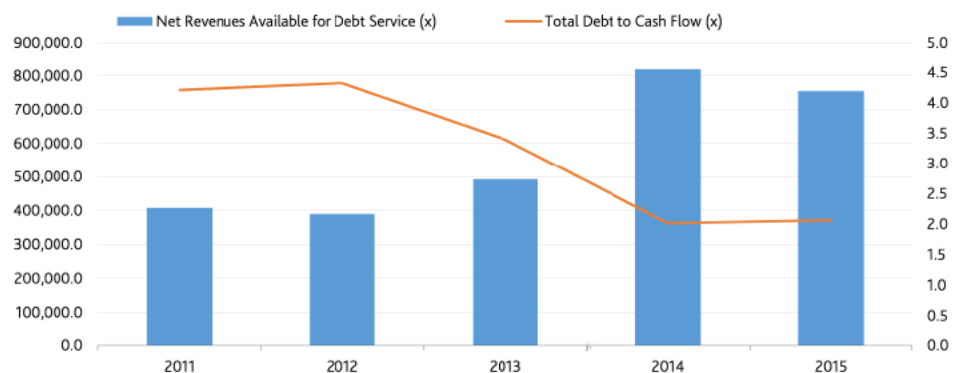
Summary Rating Rationale

Moody's Investors Service affirms the A2 assigned to Aurora Health Care, Inc.'s (Aurora) bonds. This action affects approximately \$1.3 billion of revenue bonds issued through the Wisconsin Health and Education Facilities Authority. The rating outlook is stable.

The A2 acknowledges Aurora's strong position as a large integrated healthcare delivery system with a significant footprint and leading market share of southeastern Wisconsin, a track record of profitable and now strong operating performance providing for ample debt service coverage and marked balance sheet growth. The ratings are constrained by still modest balance sheet metrics relative to similarly rated peers, a highly competitive market operating environment and risk of entry into the insurance business.

Exhibit 1

Strengthened Operations Translate to Ample Debt Cushion



Source: Moody's Investors Service

Credit Strengths

- » Leading and growing market share at nearly 39% of a broad service area covering southeastern Wisconsin
- » Notable scale of operations
- » Strong operating profile with a long trend of profitable operations
- » Consistent growth in quality has moderated measures of leverage
- » Substantial base of employed physicians provides for a reliable and predictable referral base

- » Investment allocations have been very conservative with nearly 100% of unrestricted assets available monthly
- » Capital spending for the next several years is manageable at less than operating cash-flow and there are no plans for new debt

Credit Challenges

- » Balance sheet remains levered relative to the A2 rating category
- » Dynamic competitive operating environment with presence of large financial systems throughout eastern Wisconsin
- » Comprehensive liabilities in the form of an unfunded pension liability and operating leases temper a readily levered balance sheet resources
- » Entry into insurance business carries risk

Rating Outlook

The stable outlook incorporates our expectation that financial performance will be maintained at current levels over the near term. Furthermore, with the projected strong cash flow generation and capital spending partially supported by remaining bond funds, we expect liquidity measures to continue to improve.

Factors that Could Lead to an Upgrade

- » Marked improvement in absolute and relative balance sheet measures while maintaining strong financial performance

Factors that Could Lead to a Downgrade

- » Notable increase in debt without commensurate increase in liquidity
- » Contracting liquidity
- » Measurably weaker operating performance
- » Material loss of market share
- » Deteriorating acquisition

This publication does not constitute a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/eni page on www.moody.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

Aurora Health Care, Inc.

	2011	2012	2013	2014	2015
Operating Revenue (\$'000)	4,277,380	4,105,561	4,235,661	4,708,929	4,928,681
3 Year Operating Revenue CAGR (%)	5.9	2.2	2.2	4.9	6.3
Operating Cash Flow Margin (%)	8.6	8.5	10.4	16.3	14.5
PM: Medicare (%)	41.0	42.4	43.7	43.8	43.8
PM: Medicaid (%)	12.9	12.9	12.9	13.7	14.3
Days Cash on Hand	84	105	125	142	137
Unrestricted Cash and Investments to Total Debt (%)	53.2	65.0	79.2	94.2	102.8
Total Debt to Cash Flow (x)	4.2	4.3	3.4	2.0	2.1

Investment income reclassified to non-operating income
 Investment returns smoothed at 6% FY 2014 and prior and 5% in FY 2015 and beyond unless otherwise noted
 Source: Moody's Investors Service

Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations section.

Detailed Rating Considerations

Market Position: Leading Market Share of Southeastern Wisconsin; Broader Market Competition Palpable

Aurora's key strength remains market presence over a broad service area. Based on management data, Aurora captures the number one and growing market position in southeastern Wisconsin at nearly 39% share. Aurora Health Care's leading market position remains well supported by its strong relationship between its hospitals and physical clinics. Particular noteworthy is the demand trend which has largely shown growth during a period of general acute care contraction. The System continues to report high quality and efficiency metrics consistent with health care reforms goals of value.

Competition in greater Milwaukee remains tangible though Aurora defines Wheaton Franciscan Services (now part of Ascension Health) Froedtert ProHealth Care Inc (bonds rated A1 stable) and Columbia-St. Mary's as its primary competitors though the market shares for these systems against Aurora's marked.

Aurora's employed physical group totals over 1700. This large referral base provides protection against large-scale declines in revenues and positions the system well for care redesign built on a fully integrated model of clinical care. We do view the losses incurred by the group as an ongoing risk for the organization though the imputed value remains evident in growing demand for both inpatient and outpatient services. A major strategy for Aurora's entry into the insurance business which provides a platform for greater care coordination and lowering the cost of care. The large physical network provides a solid foundation for the build of the insurance platform. In addition, the System has seen marked success on the outpatient side with a solid and growing 70% of net revenue from outpatient businesses. The System's transition to greater care coordination and ability to manage financial performance with the volume declines that are inevitable to the risk sharing model will be key to future credit strength.

Operating Performance, Balance Sheet and Capital Plans: Robust Margins Translating to Improved Leverage Measures

In audited FY 2015, Aurora's adjusted operating cash flow margin measured a robust 14.5% (adjusted to recastify investment income to non-operating) and its operating margin measured a very healthy 9.4%. Performance continues to be strong through the nine months of FY 2016 (period ended September 30, 2016) with an adjusted operating cash flow margin measured at 12.3% and an operating margin of 7.0%. Though margins are moderating from the lofty levels of FY 2014, those were not levels we expected to continue. Going forward, our expectations that performance will remain favorable to peer rated medians. Factors driving the very healthy performance over the last several years have included very strong volumes in the inpatient and outpatient settings, favorable management practice experience, improved

hospital efficiencies, favorable revenue cycle activity, and benefits relating to the expansion of Medicaid benefits to children, adults, and nursing a reduction of bad debt, and a decrease in the exposure to self-pay patients.

LIQUIDITY

Balance sheet measures remain below average for the A2 rating category and a major focus for management. With the strong cash flow generation, management's focus on leverage and capital spending partly supported by existing bond funds, however, we expect liquidity to continue to grow. As of September 30, 2016, absolute liquidity was over \$1.8 billion or a notably strengthened 150 days cash on hand, though still well below the A2 median of 223. Unrestricted cash and investments to total debt of 113% is also below the A2 median of 152%. Based on management data at FYE 2015, nearly 100% of Aurora's unrestricted cash and investments could be liquidated within one month, with more than 75% allocated to cash and fixed income securities.

Debt Structure and Legal Covenants

Operating measures of leverage are favorable at the A2 rating level. Based on FY 2015 results, debt-to-cash flow measures 2.1 times (A2 median is 2.7 times), maximum annual debt service coverage measures 5.9 times (A2 median is 4.8 times), and debt-to-total operating revenue measures 31.6% (A2 median is 35.8%).

DEBT STRUCTURE

Approximately 41% of Aurora's direct debt is in some form of demand mode, mostly variable rate obligations backed by letters of credit and direct bank placements. There is a diversity of banks with staggered expirations. The system's monthly liquidity-to-demand debt measured a modest 251% at FYE 2015 (A2 median is 417%).

DEBT RELATED DERIVATIVES

Aurora terminated its on-year swap in August 2016.

PENSIONS AND OPEB

Though measurably improved, total adjusted debt remains a credit issue given the more modest balance sheet resources. Comprehensive debt equivalents include an unfunded pension liability of \$118 million (91% on PBO basis at FYE 2015) as well as the equivalent of \$184 million of operating leases based on a four times multiplier which exacerbate a readily leveraged balance sheet resources. The pension plan was frozen effective December 31, 2012. Duration matching strategies have been employed to mitigate volatility due to changes in the discount rate while a lump sum buyout in 2015 has reduced the liability.

Management and Governance

Aurora has a seasoned management team in place. The structure and oversight of Aurora's support functions (e.g., accounting, business office, managed care, contracting, human resources, information technology, etc.) are highly centralized, facilitating efficiency and consistency. Management's conscious effort to reduce leverage and build the balance sheet is noted favorably.

Legal Security

The Obligated Group is comprised of Aurora Health Care, Inc. (the parent), Aurora Health Care Metro, Inc. (d/b/a Aurora St. Luke's Medical Center, Aurora St. Luke's South Shore and Aurora Sunnyside Medical Center), Aurora Health Care Central, Inc. (d/b/a Aurora Sheboygan Memorial Medical Center), Aurora Health Care Southern Lakes, Inc. (d/b/a Aurora Memorial Hospital of Burlington, Aurora Lake and Medical Center, Aurora Medical Center-Kenosha and Aurora Medical Center-Summertown), Aurora Medical Center of Washington County, Inc., Aurora Health Care North, Inc., Aurora Medical Center of Oshkosh, Inc., Aurora Medical Group, Inc., and Aurora Medical Center - Grafton, WI.

Use of Proceeds

Not applicable.

Obligor Profile

Aurora is a private, not-for-profit integrated health care provider headquartered in Milwaukee, WI. Aurora is comprised of 14 wholly owned hospital facilities, a majority interest in one acute care hospital, a minority interest in one acute care facility, more than 150 physician and clinic facilities, approximately 70 pharmacies, a home health organization, and approximately 1,700 employed physicians. Aurora is the largest provider of inpatient and outpatient care in Wisconsin and is among the largest private employers in the State with over 31,000 employees. Aurora's service area covers approximately the eastern third of the State of Wisconsin, a geographic area

comprising approximately 60% of the State's population as well as portions of two counties in northern Illinois that are contiguous to the Wisconsin border.

Methodology

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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