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INVESTORS SERVICE

CREDIT OPINION
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Update

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Aurora Health Care, Inc., WI

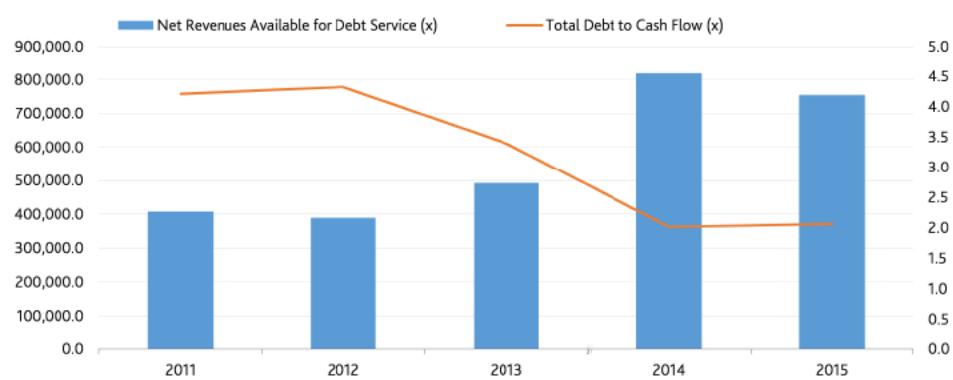
Update - Moody's Affirms Aurora Health Care, Inc.,'s (WI) A2; Outlook Stable

Summary Rating Rationale

Moody s nvestors Serv ce aff rms the A2 ass gned to Aurora Hea th Care nc s (Aurora) bonds Th s act on affects approx mate y $1 3 b on of revenue bonds ssued through the W scons n Hea th and Educat ona Fac t es Author ty The rat ng out ook s stab e

The A2 acknow edges Aurora s strong pos t on as a arge ntegrated hea thcare de very system w th a s gn f cant footpr nt and ead ng market share of southeastern W scons n a track record of prof tab e and now strong operat ng performance prov d ng for amp e debt serv ce coverage and marked ba ance sheet growth The rat ng s constra ned by st modest ba ance sheet metr cs re at ve to s m ar y rated peers a h gh y compet t ve market operat ng env ronment and r sk of entry nto the nsurance bus ness

Exhibi 1
Strengthened Operations Translate to Ample Debt Cushion



Source: Moody's Investors Service

Credit Strengths

» ead ng and grow ng market share at near y 39% of a broad serv ce area cover ng southeastern W scons n

» Notab e sca e of operat ons

» Strong operat ng prof e w th a ong trend of prof tab e operat ons

» Cons stent growth n qu d ty has moderated measures of everage

» S zab e base of emp oyed phys c ans prov des for a re ab e and pred ctab e referra base

- nvestment a ocat ons have been very conservat ve w th near y 100% of unrestr cted assets ava ab e month y
- Cap ta spend ng for the next severa years s manageab e at ess than operat ng cash-f ow and there are no p ans for new debt

Credit Challenges

- Ba ance sheet rema ns evered re at ve to the A2 rat ng category
- Dynam c compet t ve operat ng env ronment w th presence of arge f nanc a y so d systems throughout eastern W scons n
- Comprehens ve ab t es n the form of an unfunded pens on ab ty and operat ng eases temper a ready evered ba ance sheet resources
- Entry nto nsurance bus ness carr es r sk

Rating Outlook

The stab e out ook ncorporates our expectat on that f nanc a performance w be ma nta ned at current eve s over the near term Furthermore w th the projected strong cash f ow generat on and cap ta spend ng part a y supported by rema n ng bond funds we expect qu d ty measures to cont nue to mprove

Factors that Could Lead to an Upgrade

- Marked mprovement n abso ute and re at ve ba ance sheet measures wh e ma nta n ng strong f nanc a performance

Factors that Could Lead to a Downgrade

- Notab e ncrease n debt w thout commensurate ncrease n qu d ty
- Contract on of qu d ty
- Measurab y weaker operat ng performance
- Mater a oss of market share
- D ut ve acqu s t on

Key Indicators

Exhibi 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

nves men income reclassified o non-opera ing income
nves men re urns smoo hed a 6% FY 2014 and prior and 5% in FY 2015 and beyond unless o herwise no ed
Source: Moody's Investors Service

Recent Developments

Recent deve opments are ncorporated n the Deta ed Rat ng Cons derat ons sect on

Detailed Rating Considerations

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

Aurora s key strength rema ns market presence over a broad serv ce area Based on management data Aurora captures the number one and grow ng market pos t on n southeastern W scons n at near y 39% share Aurora Hea th Care s ead ng market pos t on rema ns we supported by ts strong re at onsh p between ts hosp ta s and phys c an c n cs Part cu ar y noteworthy s the demand trend wh ch has arge y shown growth dur ng a per od of genera acute care contract on The System cont nues to report h gh qua ty and eff c ency metr cs cons stent w th hea th care reforms goa s of va ue

Compet t on n greater M waukee rema ns tang b e though Aurora dent f es Wheaton Franc scan Serv ces (now part of Ascens on Hea th) Froedtert ProHea th Care nc (bonds rated A1 stab e) and Co umb a-St Mary s as ts pr mary compet tors though the market shares for these systems ag Aurora s marked y

Aurora s emp oyed phys c an group tota s over 1 700 Th s arge referra base prov des protect on aga nst arge-sca e dec nes n revenues and pos t ons the system we for care redes gn bu t on a fu y ntegrated mode of c n ca care We do v ew the osses ncurred by the group as an ongo ng r sk for the organ zat on though the mputed va ue rema ns ev dent n grow ng demand for both npat ent and outpat ent serv ces A major strategy for Aurora s ts entry nto the nsurance bus ness wh ch prov des a p atform for greater care coord nat on and ower ng the cost of care The arge phys c an network prov des a so d foundat on for the bu d of the nsurance p atform n add t on the System has seen marked success on the outpat ent s de w th a so d and grow ng 70% of net revenue from outpat ent bus nesses The System s trans t on to greater care coord nat on and ab ty to manage f nanc a performance w th the vo ume dec nes that are nev tab e to the r sk shar ng mode w be key to future cred t strength

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

n aud ted FY 2015 Aurora s adjusted operat ng cash f ow marg n measured a robust 14 5% (adjusted to rec ass fy nvestment ncome to non-operat ng) and ts operat ng marg n measured a very hea thy 9 4% Performance cont nues to be strong through n ne months of FY 2016 (per od ended September 30 2016) w th an adjusted operat ng cash f ow marg n measured at 12 3% and an operat ng marg n of 7 0% Though marg ns are moderat ng from the ofty eve s of FY 2014 those were not eve s we expected to cont nue Go ng forward our expectat on s that performance w rema n favorab e to peer rated med ans Factors dr v ng the very hea thy performance over the ast severa years have nc uded very strong vo umes n the npat ent and outpat ent sett ngs favorab e ma pract ce exper ence mproved hosp ta eff c enc es favorab e revenue cyc e act v ty and benef ts re at ng to the expans on of Med ca d benef ts to ch d ess adu ts nc ud ng a reduct on of bad debt and a decrease n the exposure to se f-pay pat ents

LIQUIDITY

Ba ance sheet measures rema n be ow average for the A2 rat ng category and a major focus for management W th the strong cash f ow generat on management s focus on everage and cap ta spend ng part a y supported by ex st ng bond funds however we expect qu d ty to cont nue to grow As of September 30 2016 abso ute qu d ty was over $1 8 b on or a notab y strengthened 150 days cash on hand though st we be ow the A2 med an of 223 Unrestr cted cash and nvestments to tota debt of 113% s a so be ow the A2 med an of 152% Based on management data at FYE 2015 near y 100% of Aurora s unrestr cted cash and nvestments cou d be qu dated w th n one month w th more than 75% a ocated to cash and f xed ncome secur t es

Debt Structure and Legal Covenants

Operat ng measures of everage are favorab e at the A2 rat ng eve Based on FY 2015 resu ts debt-to-cash f ow measures 2 1 t mes (A2 med an s 2 7 t mes) max mum annua debt serv ce coverage measures 5 9 t mes (A2 med an s 4 8 t mes) and debt-to-tota operat ng revenue measures 31 6% (A2 med an s 35 8%)

DEBT STRUCTURE

Approx mate y 41% of Aurora s d rect debt s n some form of demand mode most y var ab e rate ob gat ons backed by etters of cred t and d rect bank p acements There s a d vers ty of banks w th staggered exp rat ons The system s month y qu d ty-to-demand debt measured a modest 251% at FYE 2015 (A2 med an s 417%)

DEBT RELATED DERIVATIVES

Aurora term nated ts on y swap n August 2016

PENSIONS AND OPEB

Though measurab y mproved tota adjusted debt rema ns a cred t ssue g ven the more modest ba ance sheet resources Comprehens ve debt equ va ents nc ude an unfunded pens on ab ty of $118 m on (91% on PBO bas s at FYE 2015) as we as the equ va ent of $184 m on of operat ng eases based on a four t mes mu t p er wh ch exacerbate a ready everaged ba ance sheet resources The pens on p an was frozen effect ve December 31 2012 Durat on match ng strateg es have been emp oyed to m t gate vo at ty due to changes n the d scount rate wh e a ump sum buyout n 2015 has reduced the ab ty

Management and Governance

Aurora has a seasoned management team n p ace The structure and overs ght of Aurora s support funct ons (e g account ng bus ness off ce managed care contract ng human resources nformat on techno ogy etc) are h gh y centra zed fac tat ng eff c ency and cons stency Management s consc ous effort to reduce everage and bu d the ba ance sheet s noted favorab y

Legal Security

The Ob gated Group s compr sed of Aurora Hea th Care nc (the parent) Aurora Hea th Care Metro nc (d/b/a Aurora St uke s Med ca Center Aurora St uke s South Shore and Aurora S na Med ca Center) Aurora Hea th Care Centra nc (d/b/a Aurora Sheboygan Memor a Med ca Center) Aurora Hea th Care Southern akes nc (d/b/a Aurora Memor a Hosp ta of Bur ngton Aurora ake and Med ca Center Aurora Med ca Center-Kenosha and Aurora Med ca Center-Summ t) Aurora Med ca Center of Wash ngton County nc Aurora Hea th Cre North nc Aurora Med ca Center of Oshkosh nc Aurora Med ca Group nc and Aurora Med ca Center - Grafton C

Use of Proceeds

Not app cab e

Obligor Profile

Aurora s a pr vate not-for-prof t ntegrated hea th care prov der headquartered n M waukee W Aurora s compr sed of 14 who y owned hosp ta fac t es a major ty nterest n one acute care hosp ta a m nor ty nterest n one acute care fac ty more than 150 phys c an c n c fac t es approx mate y 70 pharmac es a home hea th organ zat on and approx mate y 1 700 emp oyed phys c ans Aurora s the argest prov der of npat ent and outpat ent care n W scons n and s among the argest pr vate emp oyers n the State w th over 31 000 emp oyees Aurora s serv ce area covers approx mate y the eastern th rd of the State of W scons n a geograph c area compr s ng approx mate y 60% of the State s popu at on as we as port ons of two count es n northern no s that are cont guous to the W scons n border

Methodology

The pr nc pa methodo ogy used n th s rat ng was Not-for-Prof t Hea thcare Rat ng Methodo ogy pub shed n November 2015 P ease see the Rat ng Methodo og es page on www moodys com for a copy of th s methodo ogy

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