

FITCH UPGRADES AURORA HEALTH CARE (WI) REVS TO 'A+'; OUTLOOK REVISED TO STABLE

Fitch Ratings-Chicago-18 November 2016: Fitch Ratings has upgraded the rating on approximately \$1.3 billion in Wisconsin Health and Educational facilities Authority Bonds issued on behalf of Aurora Health Care (AHC), to 'A+' from 'A'.

The Rating Outlook is revised to Stable from Positive.

SECURITY

The bonds are secured by a limited pledge of gross revenues and a first mortgage lien on Aurora St. Luke's Medical Center. A debt service reserve fund provides additional security on the series 2009 and 2010 bonds.

KEY RATING DRIVERS

BETTER OPERATING PERFORMANCE MAINTAINED: The upgrade to 'A+' reflects sustained operating profitability through interim 2016, which reflects strong cash flow ahead of historical levels. AHC generated a healthy 13.6% operating EBITDA margin through the six-month interim period ended June 30, 2016, following the 15.5% generated in the same period prior year. While some softening is expected, cash flow is expected to remain above median levels going forward, driven by steady leading market position, growing clinical volumes as well as the significant completion of information system updates and related costs.

BALANCE SHEET IMPROVEMENT: The upgrade to 'A+' also reflects an expectation of further liquidity growth, bringing AHC's cash to debt and cushion ratios nearer to Fitch's 'A' category medians of 19.4 times (x) and 148.6% cash to debt. At June 30, 2016, AHC had \$1.8 billion in unrestricted liquidity, equal to 147 days of cash on hand (DCOH), 14x cushion ratio, and 115.2% cash to debt. AHC's balance sheet has consistently improved year-over-year (y-o-y), with additional incremental growth expected over the near to medium term.

LIMITED OPERATING RISK: The rating also reflects AHC's favorable operating risk profile resulting from its leading market share position and large base of employed physicians which allows for greater variance when compared to Fitch's 'A' category median financial ratios. AHC's leading market role, geographic reach, and alignment with area providers via the 'About Health' network, have all supported good physician recruitment, healthy volumes, and favorable payor contracts.

MANAGEABLE LEVERAGE: While AHC's overall debt burden remains somewhat elevated, its leverage has consistently moderated and is expected to continue to do so. Coverage of maximum annual debt service (MADS) by EBITDA was robust at 5.6x in interim 2016, and is expected to remain in line with Fitch's 'A' category median of 4.5x going forward. Capital needs near \$200 million annually will be cash flow funded, with no additional debt currently planned.

RATING SENSITIVITIES

IMPROVING LIQUIDITY: The upgrade to 'A+' incorporates Fitch's expectation that Aurora Health Care will sustain solid cash flow that will lead to further improvement in liquidity. There is only marginal room at the higher 'A+' rating level for unexpected deterioration in liquidity metrics or material increases in leverage.

CREDIT PROFILE

AHC is an integrated healthcare system consisting of 14 acute care hospitals and one behavioral health hospital (3,162 licensed beds), approximately 1,730 employed physicians, 160 clinic sites, and approximately 70 retail pharmacies located in the eastern third of Wisconsin. In 2015 (fiscal year ended Dec. 31), AHC had total operating revenues of \$4.9 billion.

Fitch's analysis is based on the consolidated system. Through June 30, 2016, total revenue of the Obligated Group was \$1.8 billion million, representing approximately 71% of the consolidated total revenue of the system. At June 30, 2016, the total assets of the obligated group represented 84% of consolidated assets.

STEADY OPERATING RESULTS

Despite its large base of employed physicians, AHC has been able to generate operating and operating EBITDA margins which are currently very favorable for the rating category. Performance has been supported by healthy clinical volumes, particularly at its relatively new Grafton and Summit hospitals. Further, AHC continues to incrementally increase its market share position in Southeast Wisconsin, to 39.7% through September 2016 from 37.6% in 2012. Its participation within the 'About Health' network of providers is also viewed favorably.

As a result of strong cash flow, AHC has consistently grown unrestricted liquidity by an impressive 46% from 2012 through 2015 (13.5% compound annual growth rate [CAGR]) against revenue growth of nearly 20% over the same time frame. Continued healthy operating performance is expected to bring AHC's liquidity metrics more in line with Fitch's 'A' category medians within the next 12-18 months. With an 8.4% operating margin (equal to \$211.2 million in income) through the six-month interim period, operating cash flow is expected to remain well ahead of capital outlays near \$200 million with enough surplus to generate further balance sheet growth over the near term.

DEBT PROFILE

AHC has approximately \$1.6 billion in total long-term debt, of which \$1.3 billion are bonds. Long-term debt mix is relatively conservative, with approximately 63% fixed to 36% variable. Its liquidity support providers for its VRDBs are sufficiently diverse, with three counterparties providing LOC agreements now extending into 2018. AHC's put exposure is manageable with cash to demand debt of 395.4% as of June 30, 2015.

AHC has a meaningful amount of capital leases outstanding, with \$71 million in expense in 2015. AHC also has a frozen defined benefit pension plan, a \$1.4 billion obligation which was 91% funded at fiscal year-end 2015. It terminated its one swap in August 2016, and has no other derivative instruments outstanding.

DISCLOSURE

AHC covenants to provide annual and quarterly disclosure for the first three quarters of each fiscal year through the Municipal Securities Rulemaking Board's EMMA system. The content of AHC's quarterly disclosure is viewed favorably and includes a management discussion, a balance sheet, an income statement, a cash flow statement, and utilization statistics. Fitch views AHC's timely and comprehensive disclosure as best practice.

Contact:

Primary Analyst
Emily Wadhvani
Director
+1-312-368-3347
Fitch Ratings, Inc.

70 W. Madison Street
Chicago, IL 60602

Secondary Analyst
Gary Sokolow
Director
+1-212-908-9186

Committee Chairperson
James LeBuhn
Senior Director
+1-312-368-2059

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)

<https://www.fitchratings.com/site/re/750012>

U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)

<https://www.fitchratings.com/site/re/866807>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United

Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001