

FITCH PLACES COVENANT HEALTH (DBA COVENANT HEALTH SYSTEM) (MA) ON RATING WATCH NEGATIVE

Fitch Ratings-New York-30 May 2019: Fitch Ratings has placed on Rating Watch Negative Covenant's Health's 'BBB+' Issuer Default Rating (IDR) and the 'BBB+' rating on various series of bonds issued on behalf of the obligated group of Covenant Health by the Massachusetts Development Finance Agency, the Massachusetts Health & Educational Facilities Authority, and the New Hampshire Health & Education Facilities Authority.

SECURITY

The bonds are secured by a gross revenue pledge of the obligated group (OG) and a mortgage pledge on St. Joseph Hospital in Nashua, NH. The OG includes the parent, Covenant Health, St. Joseph Hospital in Nashua (the only hospital in the OG), and other entities including assisted and skilled nursing facilities. The OG comprised approximately 63% of total assets and 45% of operating revenues of the consolidated system in fiscal 2017.

ANALYTICAL CONCLUSION

Negative Watch Reflects Weaker than Expected Performance

The Rating Watch Negative reflects Covenant's Health breach of a debt service covenant in FY18 as the OG coverage was at 0.6x at the end of the year, below the 1.2x requirement. Fitch anticipated negative performance in FY18; however, Covenant Health's operating loss of approximately \$61 million was weaker than Fitch expected. Covenant Health is in the process of negotiating a waiver with its lender, and the current 'BBB+' rating assumes that Covenant Health will receive this waiver within days. Additionally, as per its lending documents, Covenant Health has retained the services of a consultant. The Rating Watch is expected to be resolved after the waiver is granted, and Fitch is in receipt of the 2018 audit and has met with the newly installed management team. Resolution of the Watch should occur within the next six months. Through the first quarter of FY19, Covenant Health has narrowed its operating losses, and OG coverage was 2.2x. In addition, a new CEO and CFO are in place.

RATING SENSITIVITIES

WAIVER: A downgrade would be likely if Covenant Health fails to receive a waiver.

OPERATIONAL PERFORMANCE: The resolution of the Rating Watch will occur after Fitch has reviewed Covenant Health's credit profile, including a meeting with Covenant Health's new management team. The rating at that time will be determined by Covenant Health revenue defensibility, operational risk and financial profile assessments as per Fitch's criteria, along with an assessment of Covenant's Health's expected performance moving forward.

CREDIT PROFILE

Covenant Health consists of three acute care hospitals (St. Joseph Hospital in Nashua, NH, St. Joseph Healthcare in Bangor, ME, and St. Mary's Health System in Lewiston, ME) and 11 skilled nursing and assisted living facilities located in the states of Rhode Island, Maine, Massachusetts, and Pennsylvania. CH also manages five long-term care facilities, has management relationships with three long-term providers and is affiliated with seven other long-term care providers. Fitch's

analysis is based on the consolidated system, which had total revenue of \$670.1 million in 2017, but also reviews the financial performance of the OG.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 28 May 2019)

<https://www.fitchratings.com/site/re/10064680>

U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria (pub. 28 May 2019)

<https://www.fitchratings.com/site/re/10076051>

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