SSM Healthcare

Additional Intelligence on this Topic: Weekly Monitor: April 16, 2018

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SSM Wins Health-Care Spread Battle vs. Comparably Rated Peers

(Bloomberg Intelligence) -- The landscape of comparable health-care deals varies in any given week, but upcoming activity pits three similarly rated entities against each other. Debt for A+ rated SSM Health Care may offer the best value relative to bonds of Thomas Jefferson University (A2) and Hackensack Meridian Health (AA-). (04/17/18)

1. Growth at SSM Health Care Driven by Deals

SSM is at the forefront of the health-care industry consolidation trend. Through a spate of acquisitions, namely Dean Health Systems, St. Louis University Hospital and Agnesian, the company's system now covers Missouri, Illinois, Wisconsin and Oklahoma. Operating revenue should reach a multiyear peak of $7.1 billion vs. just $5.5 billion in 2015, though we expect growth will be more muted beyond 2018.

Revenue to Reach Peak of $7.1 Billion

	2015	2016	2017	PF
Net Patient Service Revenue	$3,802	$4,220	$4,359	$4,999
Premium Revenue	1,258	1,309	1,319	1,319
Other Revenue	399	580	819	843
Total Operating Revenue	5,459	6,109	6,497	7,161
Total Operating Expenses	5,016	5,734	6,132	6,739
Operating EBITDA	$443	$375	$365	$422

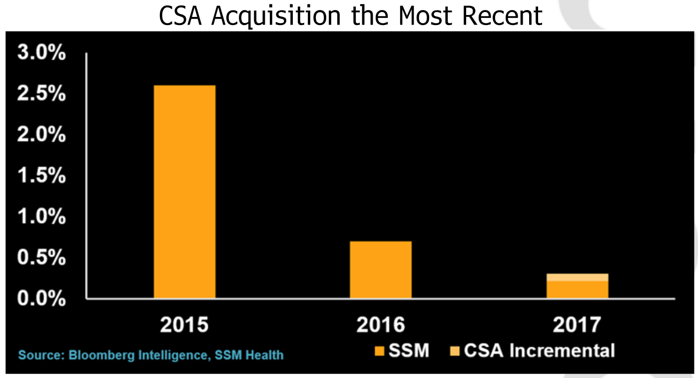
Source: Bloomberg Intelligence, SSM Health

SSM's operations include 24 inpatient hospitals, 10 post-acute-care facilities, a network of physician practices with more than 300 offices and outpatient locations, and a network of almost 9,900 affiliated doctors. (04/17/18)

2. Acquisitions Weighing on SSM's Margin

Plans to reduce unnecessary expenditures and redesign workflows could provide $200 million of cost savings and help SSM offset margin compression from the acquisitions of Saint Louis University Hospital (2015) and Agnesian HealthCare (2017-18). Over that period, the company's operating margin declined to just 0.3% from 2.6%, while Ebitda margin narrowed 220 bps to 5.9%. Outside of SSM's financial-improvement plan, the costs associated with bringing additional organizations under the SSM umbrella will dissipate, with organic growth eventually winning out. (04/17/18)

CSA Acquisition the Most Recent

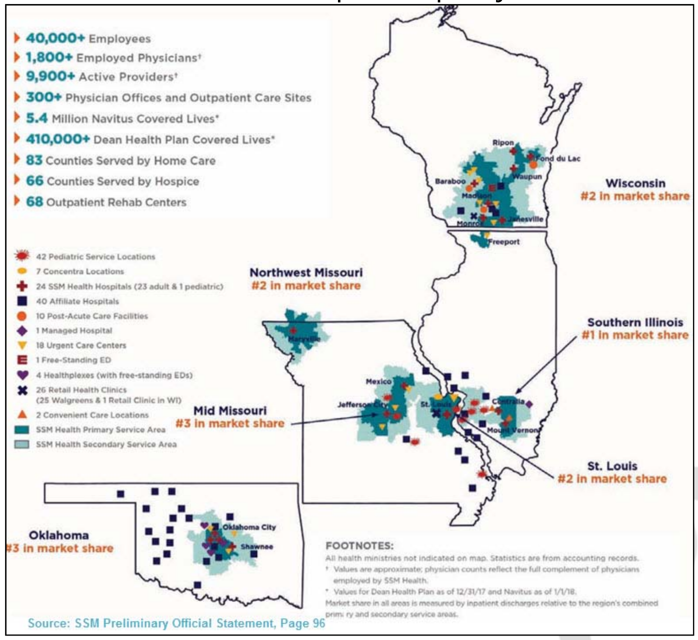


3. Epic Implementation to Create Annual Savings

SSM's adoption of Epic Systems' electronic-health-record (EHR) system should foster savings of $10 million a year, starting in 2020. The single Epic system will improve the workflow and documentation processes for SSM's physicians and clinicians, and reduce patient errors and spending. The EHR from Wisconsin-based Epic, one of the most well-known health-care IT providers, is used by several of the largest U.S. hospital health-care systems and should complete what has been a drawn-out IT-implementation process for SSM.

SSM started to embrace EHR technology in 2008 for separate locations, but acquisitions have slowed full-scale adoption. Full implementation is likely to take about two more years. (04/17/18)

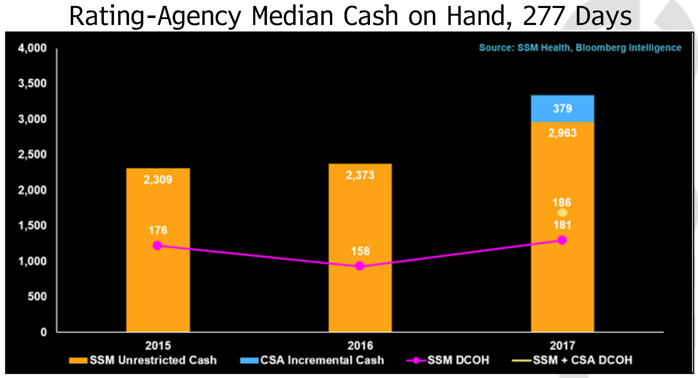
SSM Had Three Separate Epic Systems



4. SSM's Balance Sheet Is Light, But Brightening

SSM's 181 days of cash on hand is well below median levels of 277 for AA rated peers, but its ratio should continue to improve upon a low of 158 in 2016. When incorporating acquired CSA's cash on hand, SSM is closer to 186 days. The company's cash-to-debt ratio has also risen year-over-year, to 125.2% from 109.4%. Adding CSA's financials to the mix, that ratio improves to 127.2%.

Rating-Agency Median Cash on Hand, 277 Days

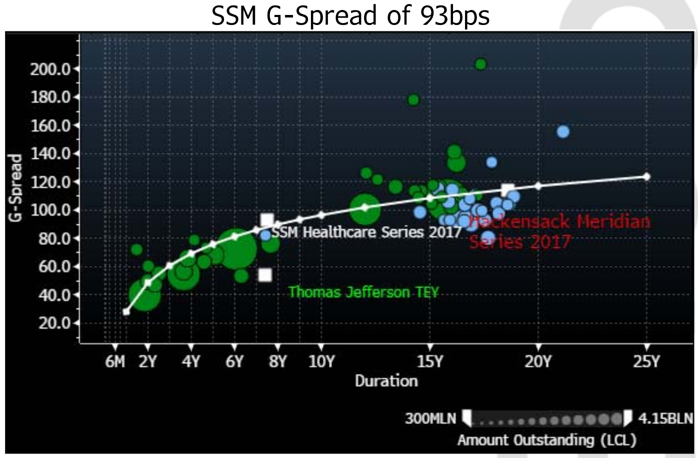


We expect both of these gauges to increase over the next few years as operational efficiencies and a slowdown in deal activity work their way through the system. (04/17/18)

5. SSM Spreads Outpace Health-Care Alternatives

With a G-Spread of 93 bps, outstanding taxable bonds for SSM Health Care offer additional spread over the universe of Bloomberg Barclays US Aggregate Bond Index (LBUSSTAT) health-care debt, as well as Hackensack Meridian and Thomas Jefferson University. To compare the bonds of tax-exempt Thomas Jefferson, a corporate tax rate of 21% was assumed and the current bonds were converted to a taxable equivalent yield.

SSM G-Spread of 93bps



Furthermore, a yield and spread analysis model on similar-duration 5% coupon bonds was used to come up with the final spread and duration figures for the fixed-income worksheet. (04/17/18)

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