MOODY'S RATINGS

CREDIT OPINION

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CommonSpirit Health

Update to credit analysis

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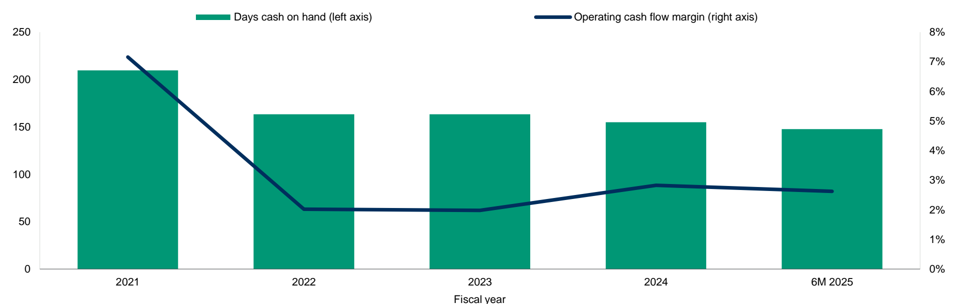
Summary

CommonSpirit Health's (A3 stable) credit profile benefits from its exceptional size, good diversification across 24 states, and favorable market position in most markets, with high acuity service offerings and diverse care delivery options. The health system has achieved many of the operational and organizational integration goals it established upon formation, and has prioritized realization of what it considers to be the full integration potential of the organization. Currently, operations continue to underperform, with normalized operating cashflow (OCF) margin measuring below management's target for fiscal 2025. Nevertheless, various one time items and an additional roughly $1 billion in debt have helped buoy liquidity balances as the organization works towards achieving more sustainable levels of cashflow in fiscal 2026. CommonSpirit remains highly leveraged relative to A3 peers, while liquidity is generally consistent with A3 medians.

The VMIG2 and P-2 short-term ratings on debt that is backed by CommonSpirit's own liquidity reflect adequate coverage with daily liquidity, the continuation of good treasury management practices, and CommonSpirit's long-term credit profile.

Yavapai Regional Medical Center (YRMC, A3 stable), a two hospital system located in Prescott, Arizona, is wholly owned by CommonSpirit, however it is not part of CommonSpirit's obligated group, and its bonds are separately secured by the gross receivables of YRMC. YRMC benefits from a very strong market position as the only acute care provider in its service area, good liquidity, good and improving operating performance, and the operational and strategic benefits it receives as a member of CommonSpirit.

Exhibit 1
Days cash will likely remain stable while margins are expected to improve



Based on financial statements for CommonSpirit Health for fiscal years ended June 30; see "Key Indicators" for a description of assumptions and adjustments
Source: Moody's Ratings

Credit strengths

- Good cash flow diversification and economies of scale derived from its very large size and significant presence in 24 states
- Good competitive position supported by strong brands, high concentration of assets in specific regions, and good market share in most markets
- Liquidity compares favorably to large, similarly rated peers
- Major beneficiary of California's provider fee equal to approximately $600 million per year on a normalized basis
- Manageable debt structure with 84% of debt issued as long term committed capital; history of active and capable debt and treasury management

Credit challenges

- Operating headwinds continue resulting in sustained underperformance, with normalized OCF margin measuring 2.6% through six months 2025
- Certain markets remain particularly impacted including the South (inclusive of Texas) and the Pacific Northwest
- Significant competition in most regions
- Debt measures are significantly weaker than most similarly sized organizations
- Somewhat elevated capital spending expected over next five years

Rating outlook

The stable outlook reflects our expectation that CommonSpirit's OCF margin will improve in fiscal 2026, making greater progress toward reaching a longer term run rate of 5%-6%, while liquidity and debt measures will not weaken below current levels.

Factors that could lead to an upgrade

- Sustained improvement of OCF margins to above 8%
- Strengthening of cash to debt and debt to operating revenue to levels consistent with the A2 rating
- Maintenance of liquidity above 200 days
- Short term ratings: Improvement in overall credit quality of CommonSpirit; improved coverage levels

Factors that could lead to a downgrade

- Inability to improve OCF margins to above 4%
- Days cash on hand or cash to debt sustained below 150 days or 80%, respectively
- Sizable acquisition that is dilutive
- Short term ratings: Decline in overall credit quality of CommonSpirit; decline in coverage levels

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2
CommonSpirit Health

	2021	2022	2023	2024	6M 2025
Operating Revenue ($'000)	32,655,000	34,230,000	34,626,000	36,989,000	38,310,000
3 Year Operating Revenue CAGR (%)	29.8	17.2	5.3	4.7	N/A
Operating Cash Flow Margin (%)	7.2	2.0	2.0	2.8	2.6
PM: Medicare (%)	45.0	44.6	45.8	46.0	N/A
PM: Medicaid (%)	21.0	21.2	21.3	20.2	N/A
Days Cash on Hand	210	163	163	155	148
Unrestricted Cash and Investments to Total Debt (%)	117	101	86	85	80
Total Debt to Cash Flow (x)	4.6	10.2	11.9	9.7	10.6

Based on financial statements for CommonSpirit Health for fiscal years ended June 30; 6M 2025 is annualized; swap cashflow expense added to interest expense; imputed pension expense added to operating expense; investment returns normalized at 5%; certain charges related to assets sales excluded from operating income, including a $598 million gain in 2021, a $190 million gain in 2022, and a $23 million loss in 2023; Medicare Advance Funds and deferred payroll tax excluded from all calculations; California State provider fee normalized in 2022, 2023, and 2024; $234 million 340B settlement excluded in 2024; $379 million FEMA payment excluded in 6M 2025
Source: Moody's Ratings

Profile

CommonSpirit Health is the product of the 2019 merger of Dignity Health and Catholic Health Initiatives, the latter of which changed its corporate name to CommonSpirit Health. CommonSpirit has operations in 24 states, and is headquartered in Chicago, IL. Its largest markets include California, Colorado, Arizona, the Pacific Northwest and Texas.

Detailed credit considerations

Market position

CommonSpirit will continue to benefit from its large size and good diversification, with significant operations in 24 states. The organization has a regional orientation, and is focused on being a leader in each of its markets, while developing a broad array of service offerings and delivery platforms in order to be competitive across the full spectrum of care delivery. Regional markets will continue to produce varied performance, with some (such as Colorado) delivering very strong results, and with others routinely operating with slimmer margins or currently underperforming with the potential to improve.

Favorably, management has shown a willingness to divest from markets when appropriate and we expect it to continue to pursue accretive opportunities. Recent transactions include exiting from San Francisco, selling a hospital in North Dakota, the termination of its joint venture in Colorado (which allowed the system to gain full control of its assets there), and the acquisition of five hospitals and over 40 clinics in adjacent Utah. Management will continue to consider both acquisitions and divestitures, which should enhance overall organizational performance. Growth, however, is not a stand alone goal, with current investments targeted within the existing footprint, and with strategy focused on improving current performance.

Operating performance, and liquidity

The pace of operating improvement may remain modest, with the risk that OCF margins in fiscal 2026 remain below 4-5%. Normalized OCF margin through six months of fiscal 2025 (excluding a $379 million FEMA grant) was 2.6%, below the 2.8% achieved in fiscal 2024 (normalized) and below management targets. Nevertheless, management remains committed to reaching an OCF margin of 4% within the next year and to make further progress towards achieving a run rate of 5%-6% thereafter. Strategies include revenue cycle improvements, increased reimbursement through better leveraging the national footprint, supply cost reductions through better GPO execution, ongoing productivity gains, and market specific strategies targeted at Arkansas, Texas, Utah, and the Pacific Northwest. Failure to demonstrate meaningful improvement could result in credit pressure.

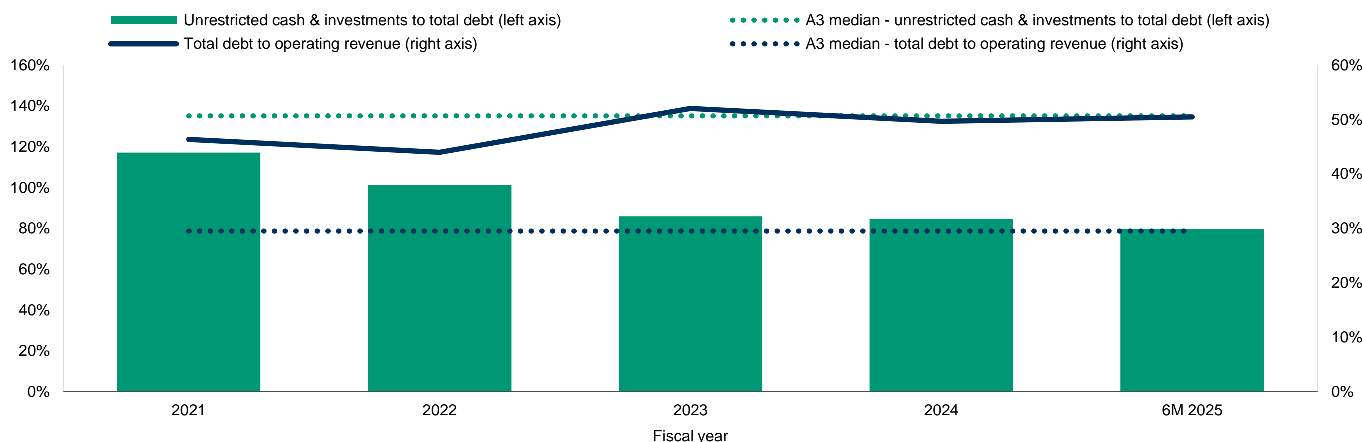
Liquidity

Management expects days cash to remain around 150 to 160 days, which compares favorably with other large organizations in the A3 category, and is an important offset to CommonSpirit's high debt load. Somewhat elevated levels of capital spending, targeted to

equal between 1.3 and 1.5 times depreciation over the next five years, could weaken liquidity depending on the success of operating improvements. Most major projects are concentrated in growth markets, including California, Arizona, Colorado and Texas, and have the goal of growing utilization and cash flow.

Investments are somewhat less liquid and more diverse than many peer organizations, with 31% currently invested in cash and fixed income, 37% in equities, and 32% in alternatives. 54% of investments is available within 30 days, with 16% locked up for more than a year.

Exhibit 3
Debt measure will likely remain modest relative to medians



Based on financial statements for CommonSpirit Health for fiscal years ended June 30; see "Key Indicators" for a description of assumptions and adjustments
Source: Moody's Ratings

Debt

CommonSpirit's high debt load will continue to be a credit challenge. Debt measures remain below the medians for the rating category and are weaker than similarly sized peers. As of December 31, 2024, cash to debt measured 80%, debt to revenue was 50%, and debt to cashflow was unfavorably high at 10.6 times. Favorably, debt structure risks are modest with 84% of debt issued as long term committed capital, mostly taxable and tax-exempt fixed rate bonds. Other debt instruments include self liquidity-backed VRDNs and commercial paper, put bonds, direct purchases, floating rate notes, and auction rate securities.

Legal Security

CommonSpirit's bonds are secured by a gross revenue pledge and are a joint and several obligation of the obligated group (OG). The OG represents the vast majority of revenues and net assets. YRMC's debt is separately secured, backed by YRMC's gross receivables pledge. CommonSpirit is not obligated on YRMC's debt and YRMC is not part of CommonSpirit's OG. YRMC's debt can not undergo a note substitution if it were to result in a lower rating.

Exhibit 4
CommonSpirit's most restrictive financial covenants

Governing document	Covenant	Remedy	Measurement
MTI	<1.0x rate covenant	EOD	Annual
Bank agreement	<75 days cash on hand	EOD	Annual
	>65% debt to capitalization	EOD	Annual
	Minimum rating: Baa3	EOD	Annual

Source: Moody's Ratings

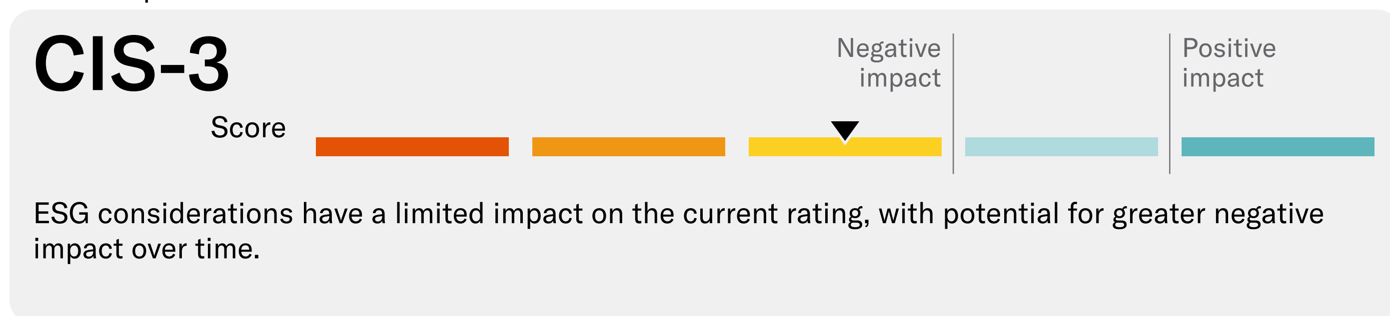
Debt-Related Derivatives
CommonSpirit has a swap portfolio with total notional of $2.2 billion consisting of approximately $450 million total return swaps, with most of the rest fixed payer swaps. Some of the swaps have collateral posting requirements, and the total return swaps have possible termination payments. CommonSpirit is currently posting $27 million in collateral. The current mark to market of the entire portfolio is -$102 million. Moody's reclassifies regular swap cashflow payments as interest expense, which in the current interest rate environment reduces CommonSpirit's debt service costs.

Pension and Operating Leases
The organization's unfunded pension liability was $1.4 billion at FYE 2024 and its operating lease liability was $1.4 billion. This adds to CommonSpirit's already high debt load.

ESG considerations

CommonSpirit Health's ESG credit impact score is CIS-3

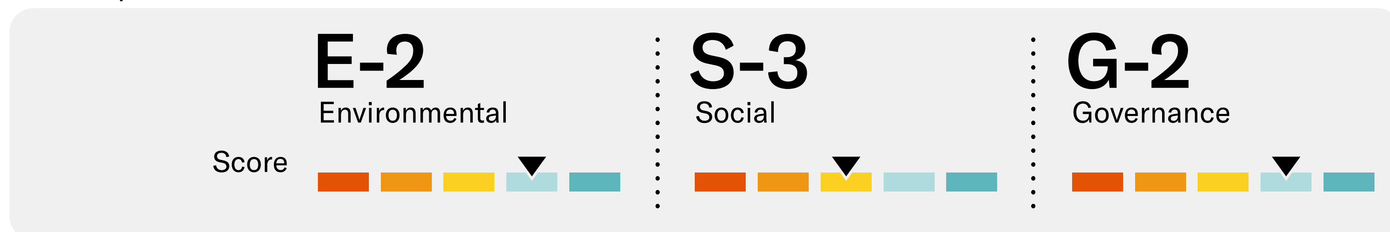
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

CommonSpirit's **CIS-3** reflects that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. CommonSpirit's ESG risks are concentrated in the social category reflecting risks related to demographic and societal trends as well as human capital, which is typical for the not-for-profit healthcare sector. Mitigants include the system's scale and diversification, history of strong management, and good financial resources.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental
CommonSpirit's **E-2** reflects the absence of significant environmental risks and the organization's geographic diversity across many states.

Social
CommonSpirit's **S-3** acknowledges risks inherent to the healthcare sector such as human capital and social and demographic issues related to reimbursement pressure from government payors. Exposure to government payors and policy and regulatory issues is average for the sector in the aggregate, though certain markets have greater exposure to governmental payers or have less favorable

state-based Medicaid reimbursement, which can exacerbate this risk. Other challenges inherent to the sector include: the labor shortage and increased labor costs; healthcare regulation; ongoing demographic shifts; and high exposure to cyber security risks. These risks are balanced against the organization's favorable customer relations which we assess to have low risk due to CommonSpirit's strong market position and large size, which enables it to leverage economies of scale to address certain challenges. Additionally, CommonSpirit's diversification across multiple markets reduces reliance on any single market or customer segment, which dilutes specific market risk. Other mitigants to these social risks include a history of stable and capable senior management, material financial resources, and good community relations stemming from the organization's mission orientation.

Governance

CommonSpirit's **G-2** reflects governance characteristics that are in line with the sector. CommonSpirit is a Colorado, nonprofit corporation with a self-perpetuating board of directors. The board may have between 9 and 22 members, and members serve for 3-year terms. The board is diverse and consists of prominent national and international leaders. Senior management has deep industry experience and many on the team have been with the organization for many years. Succession planning has been thoughtful and smoothly conducted. The organization has planning and disclosure protocols that are consistent with industry best practices. All governance sub factors are assessed as neutral.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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