Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns Ba2 rating to HCA's new unsecured notes

11 Feb 2020

New York, February 11, 2020 -- Moody's Investors Service ("Moody's") assigned a Ba2 rating to HCA Inc.'s new unsecured notes. HCA Inc. is a wholly owned subsidiary of HCA Healthcare, Inc. (collectively "HCA"). There are no changes to any of the company's existing ratings, including its Ba1 corporate family rating, or its stable outlook.

Proceeds will be used for general corporate purposes and to redeem all $1 billion of the company's 6.25% senior notes due 2021.

Ratings assigned:

HCA Inc.

New senior unsecured notes due 2030 at Ba2 (LGD 5)

RATINGS RATIONALE

HCA's Ba1 CFR is supported by the company's significant scale and strong competitive positions in growing urban and suburban markets. HCA also has industry leading profit margins and makes significant investments in its key markets in order to drive future organic growth. HCA has a long track record of stable operating performance and strong cash flow. The CFR is constrained by HCA's geographic concentration in Florida and Texas and its track record of shareholder friendly policies. It is also constrained by Moody's expectation that, including acquisitions, financial leverage will remain moderately high with debt to EBITDA in the 4.0 to 4.5 times range (including Moody's standard adjustments).

The stable outlook reflects Moody's view that adjusted debt/EBITDA will stay within HCA's targeted range of 3.5 to 4.5 times (or 4.0 to 5.0 times including Moody's adjustments) and the ability to invest in its markets will help HCA grow revenue and earnings despite ongoing industry headwinds. The outlook also reflects Moody's expectation for a relatively stable regulatory and reimbursement environment over the next 12-18 months.

With respect to governance, HCA is currently operating with financial leverage that is below that of its publicly stated target range. That said, Moody's expects this to be temporary given that acquisitions represent a key element of HCA's growth strategy. Further, there are several underperforming and/or distressed assets in the hospital sector that, if acquired by HCA, would be leveraging. As a for-profit hospital operator, HCA also faces high social risk. The affordability of hospitals and the practice of balance billing has garnered substantial social and political attention. Hospitals are now required to publicly provide the list price of all of their services, although compliance and practice is inconsistent across the industry. Additionally, hospitals rely on Medicare and Medicaid for a substantial portion of reimbursement. Any changes to reimbursement to Medicare or Medicaid directly impacts hospital revenue and profitability. In addition, the social and political push for a single payor system would drastically change the operating environment.

The Speculative Grade Liquidity Rating of SGL-1 reflects Moody's expectation of very good liquidity over the next 12-18 months. HCA had $621 million of cash at December 31, 2019. Further, Moody's expects HCA to generate about $2 billion of free cash flow over the next 12 months after dividends. Liquidity is also supported by full availability under its $2 billion revolving credit facility and ample cushion under its financial maintenance covenants.

The ratings could be upgraded if Moody's expects HCA to sustain debt to EBITDA below 4.0 times and commit to more conservative financial policies. An upgrade could also result from stable volume and operating trends, greater geographic diversity, and a stable reimbursement and regulatory environment.

The ratings could be downgraded if HCA engages in material debt-financed dividends, share repurchases, or acquisitions. A downgrade could also occur if Moody's expects HCA to encounter significant reimbursement or regulatory challenges or sustain debt to EBITDA above 5.0 times.

HCA is the largest for-profit acute care hospital operator in the US as measured by revenues. In addition, the company operates psychiatric facilities, two rehabilitation hospitals, as well as ambulatory surgery centers and cancer treatment and outpatient rehab centers. Facilities are located in 21 states in the U.S. and in England. HCA, headquartered in Nashville, Tennessee, generated net revenue of approximately $51 billion over the last 12 months.

The principal methodology used in these ratings was Business and Consumer Service Industry published in October 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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