

Credit Snapshot

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University of Colorado Hospital Authority

Highlights

Key Positives

- The University of Colorado Hospital Authority (UCHA) is a non-profit that owns and operates a 673-licensed-bed, non-sectarian, general acute care hospital as well as The Anschutz Centers for Advanced Medicine and various outpatient primary care and specialty clinics around Denver, CO.
- UCHA has exhibited strong revenue growth over the periods reviewed (see spreadsheet).
- The Organization has generated steady EBITDA margins of >20%.
- UCHA has delivered strong free cash flows that have provided interest coverage ratios of ~8.0X over the past few years.
- UCHA had significant liquidity on their balance sheet as of June 30, 2019 that included available liquidity of \$114 million in cash and \$283 million of investments.
- UCHA's net asset position has climbed steadily over the past few years, which is a healthy sign for a non-profit.
- Much of UCHA's debt is in long-term revenue bonds and their P&I payments over the next five years average just ~\$68 million, easily covered by their free cash flows.
- In 2017-2018, UCHA was named as the 15th-best Hospital in the U.S.

Key Negatives/Risks

- With the most recent financial data as of June 30, 2019, we have limited visibility into how the Organization's results have held up throughout the COVID-19 disruptions.
- Many elective surgeries and other non-emergency health services have been delayed by COVID-19 and UCHA's 2020 revenues could be down significantly if there is not a bounce-back through year-end.
- UCHA has a significant debt load that yielded a leverage ratio of 3.6X and a net-debt-to-EBITDA ratio of 3.4X as of FYE 2019, although this is still well below the 5.0X level that we consider "highly leveraged."
- All hospitals are exposed to reimbursement risk and profitability could be pressured by changes to Medicare and other government healthcare rates.

Financial Highlights

(\$ 000)	2017	2018	2019	2020P
Revenues	\$1,646,038	\$1,866,784	\$2,143,813	\$2,230,570
Change in net assets	432,697	435,212	462,060	405,753
Cash & equivalents	N/A	170,384	113,986	N/A
Total assets	----	4,491,103	5,109,990	----
Total debt	----	1,430,715	1,658,732	----
Net assets	----	2,628,069	3,090,129	----

Conclusions

Risk Assessment/Credit Quality

University of Colorado Hospital Authority operates a large hospital and a vast care network in and around Denver, CO, and they are considered one of the top hospitals in the U.S. The Organization's financial performance has been quite strong over the periods reviewed with good margins and a healthy balance sheet.

We do have some concerns about only having access to financial results through June 2019 given the significant disruption COVID-19 has had on hospital operators. Elective surgeries have been pushed out and patients have tried to avoid the hospital and all healthcare facilities unless necessary. However, healthcare is typically a non-discretionary service and even delayed procedures and care must be addressed at some point, and we would expect a significant bounce-back in activity when things normalize.

Even if there is a second wave of COVID-19, UCHA's ample liquidity of ~\$400 million in cash and investments should help them weather the storm. We would rate UCHA's credit as healthy.

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**University of Colorado Hospital Authority
Financial Spreadsheet**

(\$ in thousands) Fiscal year ending June 30	2017	2018	2019	2020P
For the period				
Revenues	\$1,646,038	\$1,886,784	\$2,143,813	\$2,230,570
Year-to-year growth rate	N/A	15%	14%	4%
Change in net assets	432,697	435,212	462,060	405,753
EBITDA (adjusted)	332,829	386,987	458,670	377,470
Margins				
Operating margin	15.5%	16.4%	17.8%	11.3%
EBITDA margin	20.2%	20.5%	21.4%	16.9%
Expense ratios (% of revs.)				
Wages & benefits expense	33.8%	32.1%	30.8%	N/A
Supplies expense	23.4%	24.6%	25.1%	---
Purchased service expense	22.6%	22.7%	22.7%	---
Cash Flow				
EBITDA	332,829	386,987	458,670	377,470
Capital expenditures	(46,600)	(45,559)	(58,096)	---
Free cash flow	286,229	340,428	400,574	---
Interest expense	(35,420)	(42,709)	(49,374)	---
Interest coverage	8.1X	8.0X	8.1X	---
From operating activities	N/A	132,272	134,763	N/A
From investing activities	---	(108,210)	(168,561)	---
From financing activities	---	(30,511)	(22,600)	---
Net change in cash & equiv.	---	(6,449)	(56,398)	---
At period end¹				
Assets				
Cash & equivalents	---	170,384	113,986	---
Patients acct. receivable	---	237,614	257,521	---
Receivables from rel. party	---	333,669	609,608	---
Inventories	---	40,570	44,200	---
Investments for liquidity	---	102,315	283,195	---
Total current assets	---	931,625	1,364,995	---
Prop., plant & equip. (net)	---	845,466	836,173	---
Rec. from affiliates (for debt)	---	763,840	945,703	---
Long-term investments	---	1,904,108	1,916,071	---
Total assets	---	4,491,103	5,109,990	---
Liabilities/Equity				
Accts payable & accrued	---	133,804	188,808	---
Current portion of LT debt	---	24,045	22,519	---
Total current liabilities	---	411,995	607,505	---
Long-term debt	---	1,406,670	1,636,213	---
Net assets	---	2,628,069	3,090,129	---
Key financial ratios				
Current ratio	---	2.3	2.2	---
Quick ratio	---	2.2	2.2	---
Leverage ratio	---	3.7	3.6	---
Net debt/EBITDA	---	3.3	3.4	---

¹ These are balance sheet highlights. Certain line items have been excluded.