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INVESTORS SERVICE

Rating Action: Moody's upgrades Cullman Regional Medical Center (AL) to Baa3; outlook remains stable

Global Credit Research - 20 Dec 2017

\$59 million of rated debt outstanding

New York, December 20, 2017 -- Moody's Investors Service has upgraded Cullman Regional Medical Center, AL (CRMC) revenue bonds issued through the Health Care Authority of Cullman County to Baa3 from Ba1. The upgrade to Baa3 affects approximately \$59 million of debt. The outlook remains stable at the higher rating level.

RATINGS RATIONALE

The upgrade to Baa3 reflects our expectation that CRMC will continue to generate strong margins and add unrestricted cash to the balance sheet, continuing a multi-year improvement in leverage and liquidity metrics. Additionally, the upgrade to Baa3 reflects the system's favorable market position and strong management team. Offsetting these strengths are the system's large debt burden, size and scope of operations, and limited opportunities for material growth.

RATING OUTLOOK

The stable outlook at the higher rating level incorporates our view that Cullman will continue to improve debt metrics driven by regular debt service payments and no plans for additional borrowing. Additionally, we expect the system will be able to continue to build its balance sheet and maintain strong operating performance in order to support the unfavorable leverage.

FACTORS THAT COULD LEAD TO AN UPGRADE

Material enterprise growth and geographic diversification

Significant reduction in leverage and growth of liquidity

FACTORS THAT COULD LEAD TO A DOWNGRADE

Increase in debt

Inability to maintain operating cash flow to support high debt burden

Deterioration of liquidity

Erosion in market share resulting in constrained utilization metrics

LEGAL SECURITY

The bonds are secured by a revenue pledge (as defined in the bond documents) of the Obligated Group, which consists of Cullman Regional Medical Center (an Alabama nonprofit corporation and a 501(c)(3) organization) and the Health Care Authority of Cullman County, and a mortgage on the land and buildings.

USE OF PROCEEDS

Not Applicable

PROFILE

Cullman Regional Medical Center is a small, 145 bed and \$115 million in revenue hospital located in the county and city of Cullman. CRMC is a blended component unit of the Authority which is component unit of Cullman County, Alabama. CRMC is a level III trauma center and operates a cardiac center.

METHODOLOGY

The principal methodology used in this rating was Not-For-Profit Healthcare published in November 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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