

MOODY'S

RATINGS

Rating Action: Moody's Ratings revises outlook to positive for Advocate Health, Inc. members; Wake Forest Baptist's (NC) rating upgraded to A1 from A2 and outstanding Aa3 ratings affirmed

16 May 2024

New York, May 16, 2024 -- Moody's Ratings (Moody's) has revised the outlook to positive from stable for Advocate Aurora Health (WI), Atrium Health (legally known as Charlotte Mecklenburg Hospital Authority) (NC), and Wake Forest Baptist (NC), and affirmed the Aa3 ratings for Advocate Aurora Health and Atrium Health, and upgraded Wake Forest Baptist's outstanding ratings to A1 from A2. We have also affirmed the VMIG 1 and P-1 short term ratings assigned to various series of debt at Advocate Aurora Health and Atrium Health. Following establishment of a joint operating agreement, Advocate Health, Inc. was created as the parent organization with Advocate Aurora Health, Atrium Health and each of their subsidiaries (including Wake Forest Baptist) as member organizations. The debt of the various member organizations remains separately secured, however, we consider the linkages between them and the credit quality of the entire Advocate Health system in our analysis. In conjunction with this review, Moody's Ratings has corrected the display on its websites to reflect that Advocate Aurora Health is the obligor for the Aurora Health Care, INC., (WI) bonds. The organizations have about \$7.4 billion of debt outstanding.

Revision of the outlooks to positive reflects our assessment that Advocate Health's combination of large absolute scale and strong position in several major markets, will enable the organization to capture growth opportunities and respond to challenges in ways that will durably enhance its credit profile over multiple years. The upgrade of Wake Forest Baptist's rating to A1 reflects the material financial and strategic benefits it receives through its membership in Advocate Health.

RATINGS RATIONALE

The Aa3 for Advocate Aurora Health and Atrium Health is supported by a number of key credit factors including its significant scale, strong market share across several major metro areas, and good financial performance and liquidity. The system

generally operates in demographically favorable markets where its strong position is built on a large number of convenient access points for outpatient care and physician clinics, and high acuity inpatient care including several academic hospitals. It will soon open a second branch of the Wake Forest University school of medicine in Charlotte that will increase its prominence in that market and, over time, will provide a pipeline of physicians and other medical staff. Disciplined financial and capital planning will enable both organizations to fund capital spending and capture growth opportunities while maintaining favorable leverage and liquidity metrics. Competition will remain high, but population growth and its strong reputation will enable it to maintain or grow market share. Governance is a driver for the revision in the outlook to positive from stable, reflecting our assessment that management's execution of growth and integration strategies will be integral to Advocate Health's financial and operational success.

The A1 for Wake Forest Baptist reflects the organization's good market position in Winston Salem, supported by its status as an academic medical center, and the fact that it is a member of Advocate Health. Membership in Advocate Health imparts a number of strategic and financial benefits including access to capital and the resources of a much larger system.

The P-1 reflects Atrium Health's long term Aa3 rating and the organization's strong treasury management and daily liquid assets that provide for adequate coverage of debt backed by Atrium Health's internal liquidity. Atrium Health's VMIG 1 reflects the credit quality of the bank providing liquidity and the long term Aa3 rating on the bonds. Advocate Aurora's VMIG 1 reflects its long term Aa3 rating and our approach to market access instruments.

RATING OUTLOOK

The positive outlook for all three organizations reflects our assessment that Advocate Health's combination of large absolute scale and strong position in several major markets, will enable the organization to capture growth opportunities and respond to challenges in ways that will durably enhance its credit profile over multiple years.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Maintenance of operating cash flow at a level allowing the organization to fund capital spending without the need for material additional debt with debt to cash flow at or near 2.0x
- Further coalescing of strategic and operational synergies across the legacy organizations, enabling the organization to maintain good financial performance while pursuing growth opportunities
- Short term ratings: not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained operating losses
- Material additional debt that dilutes leverage metrics
- For the P-1: material reduction in coverage level of assets backing the self-liquidity program or downgrade of SHC's long term rating to A2 or lower
- For the VMIG 1: downgrade of Advocate Aurora's rating to A2 or lower

LEGAL SECURITY

Debt of Advocate Aurora Health, Atrium Health and Wake Forest Baptist is separately secured. Management is continuing to evaluate the existing debt structures of the member organizations, with the goal of combining credits where reasonably possible, if Advocate Health concludes such restructuring could benefit the system.

Advocate Aurora Health's debt is an unsecured general obligation of the obligated group. The members of the obligated group under the Master Indenture are: Advocate Aurora Health, Inc., Advocate Health Care Network, Advocate Health and Hospitals Corporation, Advocate Sherman Hospital, Advocate North Side Health Network, Advocate Condell Medical Center, Aurora Medical Center Bay Area, Inc., Aurora Health Care, Inc., Aurora Health Care Metro, Inc., Aurora Health Care Southern Lakes, Inc., Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center, Aurora Medical Center of Washington County, Inc., Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County, Aurora Medical Center of Oshkosh, Inc., Aurora Medical Group, Inc., Aurora Medical Center Grafton LLC. The MTI contains a substitution of notes provision.

Atrium Health's debt is secured by a revenue pledge of the obligated group which is comprised essentially of the "Primary Enterprise" (primarily the four acute care hospitals located in Mecklenburg County, Atrium Health Cabarrus, located in Cabarrus County, Atrium Health Lincoln, located in Lincoln County, Atrium Health Union, located in Union County, Atrium Health Stanly, located in Stanly County, Atrium Health Cleveland, Atrium Health Kings Mountain, both located in Cleveland County), Atrium Health Anson, and one of Atrium's discretely presented "Component Units", The Atrium Health Foundation.

Wake Forest Baptist's debt secured by revenue of the obligated group. Under the MTI, the Combined Group consists of the Members of the Obligated Group (WFBMC, WFUHS and NCBH) and the Designated Members (Lexington, Davie and High Point Medical Centers). Cornerstone and Wilkes Medical Center are non-designated members. Only the members of the Combined Group will have a direct or indirect obligation to pay amounts due with respect to the bonds. At December 31, 2023, the Combined Group generated about 93% of WFB's revenue. Wake Forest University and Atrium Health are not obligated on any of the outstanding bonds, nor are their

assets pledged, for the repayment of debt of any member of the WFB Obligated Group, or vice versa.

PROFILE

Advocate Health, Inc. has significant patient care operations in four states spanning multiple major metro areas. It provides services across the care continuum with nearly 70 hospitals, numerous ambulatory and clinic locations, and 8,000 employed physicians. It is headquartered in Charlotte, NC.

METHODOLOGY

The principal methodology used in the long-term ratings was US Not-for-profit Healthcare published in February 2024 and available at <https://ratings.moodys.com/rmc-documents/415013>. The principal methodology used in the short-term ratings was US Municipal Short-term Debt Methodology published in May 2023 and available at <https://ratings.moodys.com/rmc-documents/398329>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

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