MOODY'S INVESTORS SERVICE

Rating Action: Moody's affirms Cooper Health System's (NJ) Baa1; outlook stable

17 Sep 2018

New York, September 17, 2018 -- Moody's Investors Service has affirmed The Cooper Health System's (NJ)(Cooper) Baa1 rating. This action affects approximately $236 million of outstanding revenue bonds. The outlook is stable.

RATINGS RATIONALE

The affirmation of the Baa1 is supported by expectation that Cooper will continue to improve operating performance in the near term following a period of stressed operations in fiscal 2017. Improved performance will be driven by growth strategies and expense control initiatives. Continued growth of its centers of excellence and significant partnerships with providers such as MD Anderson Cancer Center will solidify Cooper as an essential provider of services for Southern New Jersey in the near term. The affirmation further incorporates our view that the system will be able to maintain favorable leverage metrics and continue to build liquidity. Although less reliant on state charity subsidies than in the past, the system's high reliance on governmental payors and other supplemental funding sources exposes the system to State funding challenges in the future.

RATING OUTLOOK

The stable outlook reflects our view that many of the challenges experienced in fiscal 2017 that drove a significant decline in operating performance are one time and that improved financial performance through six months fiscal 2018 will be maintained. Challenges as the result of the system's electronic medical record installation and letter of intent to acquire the New Jersey Trinity hospitals, that included Lourdes Hospital System and Saint Francis Medical Center, are largely behind the system. Additionally, the stable outlook reflects our view that the system will continue to maintain its market position in a highly competitive market while continuing to grow liquidity metrics.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Ability to improve and sustain operating margins

- Continued liquidity growth more in line with medians

- Further geographic reach resulting in improved payor mix

- Reduction in reliance on supplemental funding, while maintaining margins

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Inability to achieve projected operating performance

- Increase in debt without a commensurate increase in cash or cash flow

- Reduction in market share as a resulting in a decline in utilization

- Inability to sustain current liquidity metrics

LEGAL SECURITY

Bonds are secured by the gross receipts of the obligated group and a mortgage pledge on One Cooper Plaza (the main hospital campus). The obligated group represents 99% of the system revenues and does not include the foundation, collection services, properties and medical service groups.

As of FYE 2017 Cooper had sufficient headroom to meet financial covenants. The Series 2002 bonds require a debt service coverage ratio equivalent of at least 1.10 times. Under the Master trust indenture financial covenants are a 1.25 times debt service coverage covenant and minimum 60 days cash on hand. Debt service coverage as of FYE 2017 was 3.7 times and days cash on hand was 147 days.

PROFILE

The Cooper Health System is comprised of Cooper University Hospital, a network of more than 100 outpatient offices, surgical and urgent care centers. Cooper also has partnerships with Rowan University (A2 stable), through the Cooper Medical School of Rowan University and MD Anderson through the MD Anderson Cancer Center at Cooper.

METHODOLOGY

The principal methodology used in these ratings 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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