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Catholic Health East, PA Debt Rating Outlook Revised To Stable; 'A' Ratings Affirmed

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NEW YORK (Standard & Poor's) May 20, 2011--Standard & Poor's Ratings Services has revised the outlook on its rating on debt issued for Catholic Health East (CHE), Pa. by various issuers in seven states to stable from negative. At the same time, Standard & Poor's affirmed its 'A' long-term rating and underlying rating (SPUR) on CHE's debt.

The outlook revision reflects Standard & Poor's opinion that the credit has stabilized at the current rating level as management has addressed operations in three challenged markets identified last year and also enhanced operating flexibility by increasing unrestricted cash and investments.

"The stable outlook reflects our opinion that CHE's management team and board are increasingly committed to improved financial performance as demonstrated by various actions at several regional health corporations that have positively affected CHE's financial profile," said Standard & Poor's credit analyst Cynthia Keller MacDonald. "With a system of this size, there is always likely to be underperforming assets, but, as long as debt continues to moderate and overall earnings improve toward target levels, the rating should remain stable. A higher rating is unlikely over the two-year outlook period since the negative outlook was just removed. A lower rating is possible with a return to slim margins or if operating and financial pressures at individual regional health corporations collectively and significantly diminish CHE's overall financial profile," she added.

The 'A' rating reflects Standard & Poor's view of CHE's:

- Geographic and financial dispersion throughout the east coast and south;
- Actions to address underperforming ministries through the sale of Mercy Hospital in Miami, a turnaround at Our Lady of Lourdes Health Care

Services in N. J., and the planned joint venture between Emory Healthcare and CHE's Saint Joseph's Health System in Atlanta;

- Continued strengthening of the balance sheet, particularly in unrestricted cash and investments compared with 2008; and
- Earnings performance that met expectations in 2010 and CHE's increasingly metric-driven approach to financial and operational strategies.

Offsetting factors include CHE's fluctuating financial performance on a market-by-market basis as there have been several material operating issues in varying markets over the past three years. In addition, CHE's mission-driven philosophy means that many of its assets are located in challenging economic markets with limited market shares.

Securing the bonds is a gross revenue pledge of the obligated group.

RELATED CRITERIA AND RESEARCH

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006

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