Ascension Bringing Massive Healthcare Deal

By Yvette Shields
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Ascension Health Alliance will sell its tax-exempt debt through conduit issuers in four states.

CHICAGO — St. Louis-based Ascension Health Alliance is set to bring $1.9 billion to market, much of it on Tuesday, in deals that fold into one package the system's new money needs, refunding opportunities and refinancing of inherited debt.

Morgan Stanley is senior manager and Bank of America Merrill Lynch and JPMorgan are co-managers and remarketing agents.

Kaufman Hall & Associates LLC is advising the nation's largest not-for-profit health system and Orrick Herrington & Sutcliff LLP is bond counsel.

The deal appears to be the largest from the healthcare sector in a few years; its size and the system's strong double-A ratings and reputation will entice a range of buyers, said Adam Buchanan, a senior vice president in Ziegler's institutional sales and trading group.

"I think its size will help it because there is a lack of yield [in the market] and because of general market dynamics," he said, with non-traditional buyers potentially enticed by a big, liquid deal. "It's one of the most well-known names in healthcare and benefits from its size and geographic diversity. I think it will have a nice reception."

About $1.1 billion of the transaction is structured with a fixed rate and will sell Tuesday through the Wisconsin Health & Educational Facilities Authority, the Alabama Special Care Facilities Authority of Birmingham, the Alabama Special Care Facilities Authority of Mobile, and the Michigan Finance Authority.

The overall deal also includes another $575 million of variable-rate issuance structured as either mandatory tender bonds with remarketing periods over the next three years or as variable rate demand bonds with weekly resets. Those bonds are being sold by the Wisconsin and Michigan authorities, some on Tuesday and some the following week.

The system is also pricing $250 million of taxable bonds as soon as Tuesday.

The deal accomplishes a series of goals for the system, said Ascension's capital finance director Stephen Gilmore. It raises $250 million of new money to reimburse the system for recent capital expenses and refunds 2006 debt for present value savings.

It also takes out commercial paper tapped to defease the debt of Wheaton Franciscan system in Wisconsin and Crittenton Hospital Medical Center in Michigan, both of which Ascension recently acquired.

The deal also allows the system to "take an important step toward the further consolidation of our credit structure by refunding the remaining outstanding Ministry and Howard Young bonds, which have remained outstanding under legacy Master Trust Indentures since the Marian affiliation in 2013," Gilmore said, referring to other acquisitions.

The mix of securities helps the system meet "management's internal targets related to cost of capital, diversification, and risk management," Gilmore added. "We evaluated the needs of different geographic regions within the system before deciding on an issuance strategy with the states of Wisconsin, Alabama, and Michigan for tax-exempt debt, as well as the flexibility offered by a $250 million taxable component."

The transaction will leave the system with a debt portfolio that is 65% fixed rate and 35% variable.

The system isn't planning any special investor outreach but "given the size of the transaction, the preliminary offering statement was mailed two weeks in advance of the first pricing date of 4/26, allowing potential investors ample time to review the transaction," Gilmore said.

Ascension operates 110 general acute care hospitals and other long-term, psychiatric and rehabilitation facilities in 24 states and Washington, D.C. that generated $21 billion in revenues last year.

Ahead of the sale, Moody's Investors Service affirmed the system's Aa2 rating and Fitch Ratings and Standard & Poor's affirmed their AA-plus ratings on the system's post issuance debt load of $6.8 billion.

"The ratings reflect our view of Ascension's excellent geographic and financial dispersion as the largest nongovernmental not-for-profit health system in the country; continued robust financial performance in fiscal 2016 … significant unrestricted liquidity; and strong management practices." wrote S&P analyst Kevin Holloran.

Ascension is at S&P's highest rating level for the health care sector; it has no systems at AAA due to general industry risk.

Operating profitability has been consistent over the past six years and its debt burden light with maximum annual debt service coverage equal to 1.95 % of operating revenue. The system also benefits from solid liquidity with cash covering 240 days of operations, Fitch said.

The system provides its own liquidity to support its floating rate debt.

Since Fitch's last review in August the system has acquired 13 hospitals in Wisconsin, Tennessee and Michigan.

"Fitch views the transactions and Ascension's proactive approach to managing its operating portfolio as a credit strength," analysts wrote.

"The system's challenges include moderate operating margins (even with recent improvement) suppressed by significant investments in a major enterprise resource project, concentration in states that have not yet expanded Medicaid eligibility under the Affordable Care Act, and competition in most markets," Moody's said.