MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A2 to UPMC's (PA) Ser. 2022A&B and Ser. 2017C & 2017D-2; outlook stable

28 Mar 2022

New York, March 28, 2022 -- Moody's Investors Service has assigned an A2 to UPMC's (PA) proposed $204.0 million UPMC Revenue Bonds, Series 2022A and $180.7 million UPMC Revenue Bonds, Series 2022B. In addition, Moody's is assigning an A2 to UPMC's outstanding $135 million Revenue Bonds, Series 2017C and $400 million Revenue Bonds, Series 2017D-2 which will be remarketed to a new interest rate mode. Concurrently, Moody's affirmed the A2 on the bonds and notes of UPMC and the A2 on the bonds of Pinnacle Health System (PHS), which are parity obligations under UPMC's indenture. The outlook for both UPMC and PHS is stable. UPMC will have approximately $5.6 billion of debt outstanding after the issuance.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM907640297 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Affirmation and assignment of the A2 reflect Moody's expectation that UPMC will at least sustain the operating cash flow (OCF) margin generated in fiscal 2021 into fiscal 2022 despite industry-wide labor shortages and high capital spend, with momentum supported by financial discipline, anticipated growth of health plan membership and strong clinical demand. Also, UPMC will continue to benefit from its long-established strengths including alignment with the University of Pittsburgh, a diversified market position with a broad geographic footprint, premier clinical reputation, and substantial insurance services. The health plan is expected to be a driver of revenue growth in fiscal 2022 with expansion of the Medicaid business across a larger geography in Pennsylvania.

High capital spending over the next several years and the repayment of Medicare advances will reduce absolute liquidity from currently higher than normal levels. That said, Moody's expects days cash to remain above pre-pandemic levels. Unrestricted cash and investments provides for only adequate resources relative to consolidated operations given the scale of the system when including insurance services, but days cash is notably stronger as measured to just the health services division. Unrestricted cash and investments to total debt is also expected to remain above pre-pandemic levels and debt structure risk is expected to remain very manageable. Management's demonstrated ability to address operating challenges will continue to undergird pandemic recovery, which includes mitigating the measurable impact of industry-wide staffing shortages.

Challenges include a modest debt cushion relative to medians, an increased dependency on the state for adequate rates as the Medicaid business grows in the health plan, and intense competition in virtually all Pennsylvania markets because other healthcare systems are extending their geographic reach through acquisitions or new construction.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that consolidated margins will be sustained at current levels, with expectations that UPMC's payor provider model will continue to provide revenue diversification and mitigate risk. The outlook also assumes that that liquidity and related metrics will be maintained at levels higher than in 2019, even when excluding repayment of Medicare advanced funds and expected capital investment.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Ongoing strengthening of balance sheet metrics, particularly unrestricted cash and investments to total debt

- Sustained improvement in margins, with emphasis on the health services division

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Material departure from consolidated enterprise margins or a rise of the insurance plan's medical costs that dampens the current financial profile

- Meaningful reduction in absolute cash, beyond expectations, and a departure from the historic trend of strengthening liquidity relative to leverage

- Materially dilutive acquisition or merger or debt-financed strategy

LEGAL SECURITY

UPMC's parity debt is a joint and several commitment of the obligated group secured by a lien on gross revenues. The Obligated Group under the 2007 Master Trust Indenture consists of the Parent Corporation, UPMC Presbyterian Shadyside Hospital, UPMC Magee Womens Hospital, UPMC Passavant and UPMC St. Margaret. The system also includes several additional hospitals throughout western Pennsylvania, international operations and a variety of insurance subsidiaries as part of its integrated delivery and financing system. The Insurance Division, which is not in the OG, accounts for over 50% of system operating revenues (before eliminations).

USE OF PROCEEDS

Proceeds from the Series 2022A bonds will be used for approximately $100 million of capital projects and for the refunding of the outstanding Series 2012A bonds originally issued for Pinnacle Health. Proceeds from the Series 2022B bonds will be used to refund a portion of

the Series 2012 bonds originally issued for UPMC. Also, the Series 2017C and Series 2017D-2 bonds are expected to be remarketed to a new interest rate mode.

PROFILE

UPMC ($24.4 billion revenue FY 2021) is an integrated delivery and financing system (IDFS) based in Pittsburgh, Pennsylvania, serving residents of western and central Pennsylvania, southwestern New York, and western Maryland. UPMC's 40 hospitals and more than 800 clinical locations comprise the largest health care delivery system in Pennsylvania. UPMC employed more than 5,200 physicians as of December 31, 2021. UPMC is the largest nongovernment employer in the Commonwealth. UPMC also offers a variety of insurance products that cover approximately four million lives.

METHODOLOGY

The principal methodology used in these ratings was Not-For-Profit Healthcare published in December 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1154632 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM907640297 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Rating Solicitation

- Issuer Participation

- Participation: Access to Management

- Participation: Access to Internal Documents

- Endorsement

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Beth Wexler
Lead Analyst
PF Healthcare
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Susan Fitzgerald
Additional Contact
Higher Education
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE