S&P Global Ratings

Health Care

Ratings deterioration to moderate, but challenges abound

This report does not constitute a rating action.

Arthur Wong
Toronto
arthur.wong@spglobal.com
+1 416 507 2561

What's changed?

Credit deterioration has peaked? With the normalization of demand and moderation of inflationary pressures, we expect overall ratings deterioration to slow in second half of 2024, though the health care services-heavy lower end of the ratings universe continues to face stubbornly high leverage and weak cash flows.

Defaults back on record pace. Despite the improving environment, defaults in the sector remain historically high, as recent improved operating performances have not offset high leverage, weak cash flows, and decreasing liquidity for many companies.

Spotlight on pharma pricing getting brighter. Growing GLP-1 demand and newly approved, albeit expensive, Alzheimer's treatments have increased scrutiny of pharma pricing. The Federal Trade Commission (FTC) is also preparing to sue pharmacy benefit managers (PBMs).

What to look out for?

Pace of margin improvement. We are projecting EBITDA margin improvement for all subsectors in 2024. The pace of improvement will be especially critical for the lower-margin, higher-leveraged health care services companies.

M&A pressures. Mergers and acquisitions continue to be a focus, especially for the pharma and life sciences industries, and we expect private equity will again become more active in health care services.

Regulatory and legislative noise increasing. Continued FTC scrutiny on health care mergers and PBM practices and the U.S. Supreme Court overturning Chevron deference are among developments that hold potentially significant impacts to the industry.

What are the key risks around the baseline?

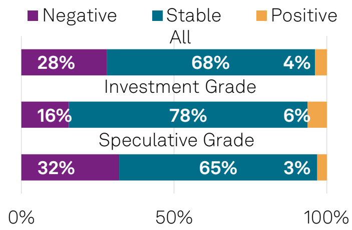
Inflationary/labor pressures, persistent elevated interest rates. Execution risk remains high for leveraged health care service providers, whose margins and cash flows continue struggle against high labor costs and elevated interest expenses.

Topline growth supports ratings. We have limited concern on health care demand/topline growth currently, but EBITDA margins and cash flows remain pressured. Should revenue growth disappoint, we can see more ratings deterioration.

Reimbursement concerns increasing. Health insurers' rising medical cost ratios, due to increased utilization, growing GLP-1 and behavioral health spend, and pressures on Medicare Advantage rates, likely leads to tougher reimbursement rates going forward.

Rating Trends

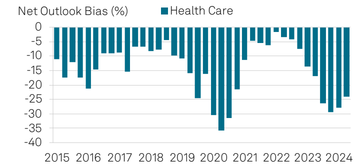
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	32	97	129
Downgrades	1	11	12
Upgrades	0	9	9

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	2.9	5.3
EBITDA growth (Y/Y%)	5.7	12.3
EBITDA margin (%)	29.4	15.4
Capex growth (Y/Y%)	3.9	6.7
Debt/EBITDA (x)	2.4	6.7
FFO/Debt (%)	32.5	6.2
FOCF/Debt (%)	24.2	2.4

All data as of end-June 2024.
* Year-to-date. Current ratings only.

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