

S&P bumps up Centegra's bond rating after health system merger

McHENRY COUNTY

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Centegra's financial outlook has improved only a month after its merger with Northwestern Memorial HealthCare, according to at least one bond ratings company.

S&P Global Ratings raised its rating this month on a series of bonds issued to Centegra that formerly held a BB+ status rating, according to an alert from the ratings organization.

S&P upgraded the Illinois Finance Authority's series 2012 and 2014A fixed-rate bonds issued for Centegra Health System from BB+ to AA+, and the outlook is stable, according to S&P.

Credit ratings reflect opinions on credit risk and quality, as well as likelihood of default and the ability or willingness of an organization to meet its financial obligations.

Northwestern Memorial acquired Centegra Health System on Sept. 1 after two years of negotiations.

"The upgrade reflects [Northwestern's] assumption of Centegra's debt on that date under the [Northwestern] master trust indenture on parity with outstanding debt," S&P Global Ratings credit analyst Anne Cosgrove said. "Both organizations took steps to align their debt structures, and all outstanding notes under the Centegra master indenture have been substituted by notes issued under the [Northwestern] master indenture."

Centegra Health System bonds now will have the same ratings and outlook as Northwestern Memorial HealthCare's bonds, according to S&P.

The health systems signed a letter of intent to discuss an affiliation in 2016, and in June 2017, representatives said it was likely that Centegra would join Northwestern by the end of the year. That didn't happen, but the merger was complete Sept. 1.

For purposes of the sale, Centegra is valued between \$82.2 million and \$116.2 million, considering its net long-term liabilities, according to a filing with the Illinois Health Facilities and Services Review Board.

The changes come after a tough financial period for Centegra.

Centegra had \$21.3 million in operating losses for the final six months of 2017, according to the most recent unaudited financial statement found on Electronic Municipal Market Access, a municipal security website.

The most recent filings available for Northwestern show it had a gain of \$88.5 million for the final

three months through the end of February.

Fitch Ratings placed a negative watch in May on two series of Centegra's outstanding bonds, pending the Northwestern Medicine acquisition.

Fitch Ratings previously had rated Centegra's bonds at BBB- with a negative outlook, but withdrew those in September, according to the agency.

Fitch does not rate Northwestern Memorial HealthCare.