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SSM Health shines light on finances, ESG as it readies deal

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While St. Louis-based SSM Health's improving balance sheet takes center stage as it looks to attract investors on a $323 million issue, the system also features prominently its efforts on the environmental, social, and governance front.

SSM expects to price the tax-exempts Thursday through the Missouri Health and Educational Facilities Authority with RBC Capital Markets and Citigroup Global Markets as senior managers.

Ahead of the deal, rating agencies affirmed SSM's ratings on $2.6 billion of debt with a AA-minus from Fitch Ratings, A1 from Moody's Investors Service, and A-plus from S&P Global Ratings with all assigning a stable outlook. SSM operates hospitals in Illinois, Missouri, Oklahoma, and Wisconsin where it is the top or second-ranked market leader in each.

The deal restructures existing debt that financed construction of SSM's St. Louis University replacement hospital providing cash-flow relief and moving the debt to a long-term structure that reduces variable-rate exposure. **SSM**

Investor questions that accompanied a recorded investor presentation may have focused primarily on finances, partnership strategies, and managing the labor shortage, but promoting ESG efforts in its presentation is wise as it can help a "I hope it is self-evident how our mission, strategies and goals naturally lead to an environmental, social and governance focus," Laura Kaiser, chief executive officer, said in the presentation.

On the social front, the system is promoting affordable behavior health care, telehealth and specialty screenings for lower-income and uninsured patients to promote health equity.

On diversity and inclusion, the system promoted its internal and external efforts joining the "We Are Called" pledge of the Catholic Health Association that aims to confront racism with the goal of promoting health equity. Internally, it's promoting racial and ethnic diversity especially among its leadership staff "to be more representative of the communities we serve," Kaiser said.

On the environmental front, the system set a goal to reduce energy use at all of its hospitals with each being held accountable to improve Energy Star benchmarks. Preservation of the planet is a longstanding priority that dates back to the system's Franciscan Sisters founders, Kaiser said.

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"The series 2022 A financing reduces SSM's overall cost of debt, increases committed capital, and provides flexibility to help the organization achieve its long term objectives" with no new debt added to its portfolio, said Mark Cagwin, vice president treasury and chief investment officer.

SSM is changing some master trust indenture provisions in the deal that will take effect once a majority of bondholders consent, which is expected over the next two years.

The provisions change the debt service coverage test so that an event of default occurs only if coverage falls below one times for two consecutive years, days cash on hand falls below 150 days and debt to capitalization exceeds 67%. The definition of investment returns included in the debt service coverage test changes to take an average of the prior three year's returns instead of just the most recent year.

After posting a small loss for fiscal 2020, performance picked up last year even as pandemic challenges on expenses, labor and volumes continued. The system's revenues grew 10% last year to $9.1 billion and unrestricted cash and investments rose to $5.1 billion from $4.5 billion.

SSM Health operates 23 hospitals and a broader healthcare network of home care and hospice services along with a health insurance company, Dean Health Plan. The system sold a majority interest to Medica. It's also entered into a partnership with a majority ownership in the pharmacy benefit company, Navitus Health Solutions and Lumicera Health Services that operate across the country. While mergers and acquisition remain steady, the sector has increasingly turned to strategic partnerships during the pandemic.

“Our scale and diversity in terms of geography and service offering helped us weather the challenges brought about by the COVID-19 pandemic over the last two years,” said Chief Financial Officer Randy Combs.

Fitch said its rating reflects SSM Health's “strong financial profile, multi-state size and scale … and Fitch's expectation that unrestricted liquidity will continue to improve as SSM's previously intensive capital needs have subsided.”

The rating in part reflects the system's strengthening balance sheet with ratios largely in line with rating level expectations due to additional unrestricted reserves from asset sales, improving cash flow, and particularly healthy investment returns in fiscal 2021," said S&P analyst Cynthia Keller.

Moody’s said the system’s large base of operations and cash flow diversified both by market and business lines supports the rating. “Though margins will remain modest compared to peers, we expect SSM Health will maintain good liquidity and debt service coverage metrics over the near term,” Moody’s said.

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