

## Research Update:

# Ballad Health, TN Bond Outlook Revised To Positive On Improved Performance; 'A-' Ratings Affirmed

December 5, 2025

## Overview

- S&P Global Ratings revised the outlook to positive from stable and affirmed its 'A-' long term and underlying ratings on [Ballad Health](#) (Ballad), Tenn.'s various bonds outstanding, and 'AA/A-1' joint ratings on specific series of revenue bonds outstanding.
- The outlook revision reflects Ballad's improved operating performance related to management's execution of a disciplined plan that we expect will be sustained over the outlook period. In addition, management has progressed with integrating the system over the past several years.

## Rationale

### Security

Securing the bonds is a gross revenue pledge of the obligated group, which includes the parent Ballad Health, Mountain States Health Alliance (MSHA), Wellmont Health System (Wellmont), and a majority of the hospital facilities. The only Ballad hospital that is not a member of the obligated group is Johnston Memorial Hospital.

For the 'AA/A-1' joint criteria ratings, the long-term component is based on the application of our joint criteria assuming low correlation between the obligor and the irrevocable direct-pay letter of credit (LOC) provided by the banks. The short-term component of the rating is based on our short-term issuer credit rating on the respective banks. The short-term component of the rating addresses the likelihood that bondholders will receive interest and principal payments if they exercise the put option.

### Credit highlights

The rating reflects our opinion of Ballad's strong enterprise profile, with a solid business position covering a wide geographic area, good size and scale, and experienced management team. Ballad also maintains a sound financial profile and recorded solid results in fiscal 2025 and for the first

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quarter ended Sept. 30, 2025. Ballad's overall special funding has increased, specifically from the Tennessee Directed Payment Program that boosted operations by \$124.3 million in fiscal 2025. We expect that there could be some changes in special funding but believe management's focused performance improvement initiatives will partially offset any decreases. Balance-sheet metrics are favorable and days' cash on hand (DCOH) has been stable.

Management is continuing key strategies following the 2018 merger of MSHA and Wellmont, among them enhancing its digital and information technology capabilities, focusing on opportunistic growth initiatives with increased access and expansion of services in core markets, and continued consolidation where necessary to gain efficiencies and improve patient quality. In our opinion, management has successfully executed its integration strategy and realized synergies, despite the disruption caused by recent industry pressures.

We believe that there is some balance-sheet flexibility with more than 200 DCOH to contend with any potential weaker operational performance.

The rating also reflects a negative holistic adjustment given that we would like to see a longer track record of sustained operating performance consistent with a higher rating, particularly given federal policies will be implemented in the near term that could reduce special funding.

The rating further reflects our assessment of Ballad's:

- Excellent business position, with a leading inpatient market share at 72.8% in its 21-county primary service area that has relatively stable demographics, although limited economic characteristics;
- Generally solid unrestricted reserves with DCOH of 218 and 148.7% unrestricted reserves to long-term debt as of Sept. 30, 2025;
- Solid maximum annual debt service (MADS) coverage of 4.15x as of Sept. 30, 2025; and
- Experienced management team that continues to focus on integration and care coordination to transform Ballad into a high-performing consolidated system.

In our view, partially offsetting rating factors include our assessment of Ballad's:

- Challenged payer mix with a modestly declining commercial component and increasing reliance on governmental payers;
- Reliance on special funding that has increased; and
- Somewhat high leverage with a debt to capitalization of 35.6%

## **Environmental, social, and governance**

While we view social risk as neutral in our credit analysis, we note that Ballad has a somewhat high reliance on special funding and a high reliance on governmental payers. We believe the sector remains exposed to elevated labor costs, which has led to weaker operations, although this has abated to a degree. We believe environmental and governance factors are neutral in our credit analysis.

## **Outlook**

The positive outlook reflects our view that Ballad's operational performance will be sustained at higher levels and federal policy changes will not significantly reduce operating income. We expect Ballad will retain its solid unrestricted reserves and preserve its business position while it

complies with certificate of public advantage (COPA) and cooperative agreement (CA) guidelines. In addition, we believe management will continue positioning the organization to sustain its leading market position while pursuing strategic growth and integration opportunities.

### **Downside scenario**

We could revise the outlook to stable due to a reversal of current positive operating income or a large decline in unrestricted reserves. In addition, an increase in debt or significant weakness in the enterprise profile could result in credit pressure.

### **Upside scenario**

We could raise the rating if Ballad sustains its current trend of stronger operations over the outlook period and maintains current balance-sheet metrics. We also would view favorably management's ability to offset any near-term declines in special funding with performance improvement initiatives.

## **Credit Opinion**

### **Enterprise Profile: Strong**

#### **Formation of Ballad Health**

Ballad Health was formed on Feb. 1, 2018, following a full asset merger between Wellmont and MSHA. The two health systems applied for a COPA under the Tennessee Hospital Cooperation Act of 1993 amended in 2015; and a CA, a similar document, in Virginia as authorized by Virginia law passed in 2015. Both the COPA and CA were issued by the states under clearly articulated policy passed by the legislature and signed by the governors with a series of contingencies aimed at improving the overall health of the population, expanding access points, and supporting health research and medical education. Both states monitor the system and the fulfillment of COPA and CA conditions on an ongoing basis.

#### **Organizational overview and business position**

Ballad is a 2,538-bed (1,690 beds in service) acute-care regional health system that serves 29 counties in northeast Tennessee, southwest Virginia, southeastern Kentucky, and western North Carolina. Local economic fundamentals are limited, with generally stagnant population growth expected, while per capita personal incomes and employment growth are projected to be significantly below state and national rates over the next five years.

Ballad garners 72.8% inpatient market share in its 21-county primary service area that includes about a million residents. The system captures a very healthy 63.2% from its total 29-county service area. Competition for inpatient services is limited to several smaller hospitals, mainly in counties within the service area surrounding the Tri-Cities region of Kingsport, Johnson City, and Bristol, Tenn. The system's primary competitors providing comparable tertiary services are in areas within the four states where Ballad operates, but outside of the service area. Ballad also includes the region's only children's hospital; a range of outpatient facilities; and ancillary services, including a home health agency, a hospice, and other activities such as the ownership and management of medical office buildings. The market for outpatient services remains competitive.

## Steady leadership team that has been focused on integration and execution

The senior leadership team includes members of both organizations as well as executives from outside Ballad. Shane Hilton has been chief financial officer (CFO) for almost two years following the retirement of the former CFO; he has 25 years of experience at Ballad. In our opinion, Ballad has an experienced management team that has responded well to industry challenges and taken a proactive approach to the merger that includes developing a strong strategic vision, setting explicit financial and nonfinancial goals, aligning executive and functional leadership, integrating cultures, and leveraging integration best practices. Furthermore, we believe management is making some difficult decisions around the need to consolidate services across the system, and to improve quality and performance, while maintaining access across the region.

### Ballad Health, Tennessee-enterprise statistics

		--Fiscal year ended June 30--		
	--Three months ended Sept. 30--	2025	2024	2023
PSA population	N.A.	967,500	953,000	N.A.
PSA market share (%)	N.A.	72.8	73.7	74.1
Inpatient admissions	20,832	82,093	81,570	78,688
Equivalent inpatient admissions	48,642	188,626	189,078	188,459
Emergency visits	99,844	383,924	388,535	388,129
Inpatient surgeries	4,841	18,664	18,039	17,815
Outpatient surgeries	9,043	35,597	36,124	38,370
Medicare case mix index	1.6900	1.6900	1.7100	1.7500
FTE employees	12,216	12,210	11,810	11,574
Active physicians	1,435	1,473	1,649	1,590
Top 10 physicians admissions (%)	N.A.	N.A.	N.A.	N.A.
Based on net/gross revenues	Net	Net	Net	Net
Medicare (%)	44.4	43.9	45.8	47.0
Medicaid (%)	17.7	19.2	16.3	15.3
Commercial/Blues (%)	33.4	32.4	33.5	33.3

Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. PSA--Primary service area. FTE--Full-time equivalent. N.A.--Not available.

## Financial Performance: Strong

### Recent financial improvement driven by management initiatives and increased special funding

Ballad's operating performance has improved over the past few years following weakness due to industry-related challenges, notably elevated labor costs and inflationary pressures. We also note that Ballad has received significantly higher special funding, with increased TN Hospital Investment Program (HIP) funding of about \$123.8 million that management expects will be recurring over the outlook period. The team has also been proactively executing on a significant performance improvement plan and realized improvements of \$102.1 million in fiscal 2025.

## **Ballad Health, TN Bond Outlook Revised To Positive On Improved Performance; 'A-' Ratings Affirmed**

Fiscal 2025 showed significant improvement over fiscal 2024, with a 1.21% operating margin versus 0.35%. For the first three months of fiscal 2026, Ballad reported a 2.7% operating margin.

Nonoperating income increased significantly due to the strong performance of the balance-sheet investments.

Ballad's financial performance has historically been solid despite recent operating pressures. We believe management has navigated recent challenging periods while maintaining solid liquidity, good cash flow, and continued solid MADS coverage, with significant cushion under the rate and other financial covenants.

Although Ballad still needs to demonstrate consistently positive operating results over a longer period, we believe management has successfully executed a strategy for improvement through cost containment and further consolidation of services where appropriate. It has also been opportunistic in adding services or expanding access, which combined should bode well and support the long-term growth and strategy of the organization. Furthermore, liquidity has remained a core credit strength and provides some financial flexibility at the current rating, while MADS coverage has remained solid and was 4.15x for the three months ended Sept. 30, 2025.

### **Liquidity and financial flexibility remain solid but have dipped slightly**

We consider Ballad's balance sheet solid for the rating, with unrestricted cash and investments of \$1.6 billion (218 DCOH and 1.48x long-term debt). The long-term debt includes total system debt but excludes the \$84.3 million (aggregate long term balance as of Sept. 30, 2025) promissory notes that Ballad used to fund its noncontrolling interest in Johnston Memorial, which are fully collateralized by and paid out of an escrow account. The system's current average age of plant is about 18 years, which is above medians, with modest capital spending over the past few years, but we note spending has increased and is projected to be 1x depreciation and amortization going forward. We believe that Ballad can comfortably maintain healthy DCOH, which should help offset near-term operating pressures.

Ballad continues to proactively manage the investment portfolio. As of fiscal year-end 2025, approximately 13% of the combined system's assets are invested in cash and cash equivalents, 15% in fixed income, 55% in equities, and the remaining 17% in alternative investments. We believe there is sufficient liquidity in the portfolio to cover the amount of direct-purchase and variable-rate debt outstanding, with \$1.6 billion of available cash compared with about \$366.3 million of contingent-liability debt.

### **High leverage with limited defined-benefit-plan risk and no new money debt plans**

Ballad's long-term debt of \$1.1 billion is structured with 66% fixed-rate bonds and 34% of either variable-rate or direct-purchase debt. The contingent-liability debt is spread across three banks, with staggered expiration dates, which we view favorably. The direct-purchase debt includes covenants that are outside of the master trust indenture, including 1.15x debt service coverage and 75 DCOH. The private-placement document contains a downgrade termination event if one rating agency lowers its rating on Ballad below 'BBB'. Ballad is also party to two basis swaps and two total-return swaps. The aggregate mark to market was negative \$4.9 million as of fiscal 2025. If the mark to market exceeded \$22 million, Ballad Health would be required to post collateral.

Ballad has no debt plans during the outlook period. It maintains defined-contribution plans and some legacy defined-benefit plans, including Wellmont Health and Norton Community Hospital,

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both of which are frozen; the plans have minimal unfunded liabilities and are not considered a credit risk.

### Ballad Health, Tennessee-financial statistics

	--Three months ended Sept. 30--	--Fiscal year ended June 30--			Medians for 'A-' rated health care systems
	2025	2025	2024	2023	2024
<b>Financial performance</b>					
Net patient revenue (\$000s)	695,342	2,706,601	2,401,491	2,271,983	2,599,145
Total operating revenue (\$000s)	724,404	2,822,273	2,528,159	2,357,365	2,873,377
Total operating expenses (\$000s)	704,816	2,788,005	2,519,354	2,387,500	2,895,690
Operating income (\$000s)	19,588	34,268	8,805	(30,135)	(14,427)
Operating margin (%)	2.70	1.21	0.35	(1.28)	(1.20)
Net nonoperating income (\$000s)	13,160	121,303	64,571	43,852	52,012
Excess income (\$000s)	32,748	155,571	73,376	13,717	19,244
Excess margin (%)	4.44	5.29	2.83	0.57	1.30
Operating EBIDA margin (%)	8.44	7.43	8.17	7.22	4.00
EBIDA margin (%)	10.08	11.25	10.46	8.92	5.90
Net available for debt service (\$000s)	74,321	331,053	271,151	214,082	218,112
Maximum annual debt service (\$000s)	71,716	71,716	71,716	71,716	70,316
Maximum annual debt service coverage (x)	4.15	4.62	3.78	2.99	2.60
Operating lease-adjusted coverage (x)	3.42	3.87	3.25	2.59	2.10
<b>Liquidity and financial flexibility</b>					
Unrestricted reserves (\$000s)	1,612,714	1,512,594	1,481,218	1,339,604	1,336,080
Unrestricted days' cash on hand	218.0	207.3	227.5	218.0	156.8
Unrestricted reserves/total long-term debt (%)	148.72	134.55	128.06	112.85	124.90
Unrestricted reserves/contingent liabilities (%)	440.29	410.77	400.20	360.18	400.20
Average age of plant (years)	18.79	17.61	14.84	15.03	13.60
Capital expenditures/depreciation and amortization (%)	112.23	127.90	78.72	87.14	128.80
<b>Debt and liabilities</b>					
Total long-term debt (\$000s)	1,084,427	1,124,194	1,156,636	1,187,060	1,073,045
Long-term debt/capitalization (%)	35.6	37.5	41.3	44.1	40.9
Contingent liabilities (\$000s)	366,285	368,235	370,115	371,930	361,884
Contingent liabilities/total long-term debt (%)	33.8	32.8	32.0	31.3	23.9
Debt burden (%)	2.43	2.44	2.77	2.99	2.60
Defined-benefit plan funded status (%)	N.A.	N.A.	N.A.	N.A.	95.10
<b>Miscellaneous</b>					
Medicare advance payments (\$000s)*	0	0	0	0	MNR
Short-term borrowings (\$000s)*	0	0	0	0	MNR
COVID-19 stimulus recognized (\$000s)	151	3,252	7,257	6,691	MNR
Risk based capital ratio (%)	N/A	N/A	N/A	N/A	MNR
Total net special funding (\$000s)	70,115	295,627	179,412	138,403	MNR

Ballad Health, Tennessee-financial statistics

	--Three months ended Sept. 30--	--Fiscal year ended June 30--			Medians for 'A-' rated health care systems
	2025	2025	2024	2023	2024

\*Excluded from unrestricted reserves, long-term debt, and contingent liabilities. N/A--Not applicable. N.A.--Not available. MNR--Median not reported.

Credit Snapshot

- Organization description: Ballad Health was formed Feb. 1, 2018, and operates 20 hospitals in Tennessee, Virginia, Kentucky, and North Carolina. In addition, Ballad operates at multiple non-acute-care sites throughout the service area, providing ambulatory surgery, diagnostic services, and testing, among other things.
- The obligated group represents the majority of assets and revenues of the consolidated system and is therefore considered core under our group rating methodology criteria. The only Ballad hospital that is not a member of the obligated group is Johnston Memorial. The obligated group members comprise approximately 84% of Ballad's total assets and 89% of its total revenue.

Ratings List

Outlook Action		
	To	From
Healthcare		
Ballad Hlth, TN Health Care System Revenues	A-/Positive	A-/Stable
Mountain States Hlth Alliance, TN Health Care System Revenues	A-/Positive	A-/Stable
Wellmont Hlth Sys, TN Health Care System Revenues	A-/Positive	A-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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