Moody's
INVESTORS SERVICE

Rating Action: Moody's downgrades Evangelical Lutheran Good Samaritan Society (ND) to Baa1 & assigns Baa1 to Ser. 2015; outlook stable

Global Credit Research - 28 May 2015

Society to have $540M rated debt

New York, May 28, 2015 --

Moody's Rating

Issue: Series 2015 Health Facilities Revenue Bonds; Rating: Baa1; Sale Amount: $215,150,000; Expected Sale Date: 06/16/2015; Rating Description: Revenue: Other

Opinion

Moody's Investors Service assigns a Baa1 rating to Evangelical Lutheran Good Samaritan Society's ("the Society) proposed Series 2015 fixed rate bonds to be issued through the Colorado Health Facilities Authority. The bonds are expected to mature 2045. The rating outlook is stable. At this time, we are downgrading the rating on outstanding bonds to Baa1 from A3.

SUMMARY RATING RATIONALE

The rating downgrade reflects multi-year declines in operating cashflow margins and challenges to return to historical levels given generally flat government reimbursement combined with increased leverage over the last several years, weaker debt metrics, and continued high capital spending which will likely require additional debt.

The Baa1 rating reflects the Society's large and diversified revenue base which allows economies of scale and reduces risks of high Medicaid exposure in any one state, a stable and adequate unrestricted investment level, and recent management restructuring strategies which should drive savings from centralization. The Society also has a defined contribution pension plan.

OUTLOOK

The stable outlook reflects an expected increase in the operating cashflow margin in FY 2015 as indicated in projections and supported by recent cost reduction strategies, maintenance of days cash on hand, and improvement in debt metrics as cashflow growth supports incremental debt. The outlook also assumes that acquisitions are not materially dilutive to operations or the balance sheet.

WHAT COULD MAKE THE RATING GO UP

• Material and sustained improvement in operating cashflow margin

• Reduction in leverage, resulting in improved balance sheet (cash-to-debt) and operating debt metrics (debt-to-cashflow and debt service coverage)

• Significant growth in unrestricted investment level

WHAT COULD MAKE THE RATING GO DOWN

• Decline in operating cashflow margin from FY 2014 level

• Acquisitions that are dilutive individually or in combination over a year

• Increase in debt in the absence of cashflow growth, resulting in worsening of debt metrics from proforma FY 2014 levels

• Material decline in investments

OBLIGOR PROFILE

The Evangelical Lutheran Good Samaritan Society operates skilled nursing facilities, residential housing for seniors and home health services in more than 230 locations across the United States. The Society is the largest not-for-profit provider of senior care and services in the country. In addition to the obligated group members discussed below, the Society includes a HUD and Affordable Housing entities, a captive insurance company and a newly formed subsidiary for certain home care service lines.

Our assessment and Key Indicators above are based on the consolidated Society, given the importance of non-obligated entities to the strategies and mission of the Society as well as management and financial interrelationships. While not obligated on related debt, the Society provides management, governance and intercompany loans to the Affordable Housing operation.

LEGAL SECURITY

Bonds are secured by a gross revenue pledge of the members of the obligated group. Current members of the obligated group include The Evangelical Lutheran Good Samaritan Society and The Evangelical Lutheran Good Samaritan Foundation. The bonds are not secured by a mortgage on any property of the members of the obligated group. A debt service reserve fund is required. The obligated group represents approximately 99% of revenue.

USE OF PROCEEDS

Bond proceeds will be used to refund part or all of the Series 2004A, Series 2005, and Series 2006 bonds, repay a portion of a bank line of credit and provide approximately $68 million for projects.

RATING METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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