Advocate Health, North Carolina

September 16, 2025

This report does not constitute a rating action.

Credit Highlights

- S&P Global Ratings' long-term rating on various series of debt issued by Atrium Health (Charlotte-Mecklenburg Hospital Authority; CMHA), N.C., as well as various series of taxable debt issued by Advocate Aurora Health, Inc. (AAH), Ill. and various series of tax-exempt debt issued by the Illinois Finance Authority (IFA) and the Wisconsin Health & Education Facilities Authority for AAH is 'AA'.
- In addition, our long-term rating on various series of debt issued by the North Carolina Medical Care Commission for Wake Forest Baptist Obligated Group (WFB) is 'AA', and our long-term rating on WFB's series 2016 taxable bonds is 'AA'.
- Our dual rating on CMHA's series 2018F variable-rate demand bonds (VRDBs), supported by its self-liquidity, is 'AA/A-1+' and our short-term rating on its commercial paper (CP) program, also supported by self-liquidity, is 'A-1+'.
- Our dual rating on CMHA's series 2007B, 2007C, 2018G, and 2018H VRDBs is 'AA/A-1+'; all of these are supported by standby bond purchase agreements (SBPAs) from JPMorgan Chase Bank. In addition, our dual rating on its series 2007E VRDBs is 'AA+/A-1' and our underlying rating (SPUR) is 'AA'.
- Our dual rating on the IFA's series 2011B VRDBs issued for AAH and supported by AAH's self-liquidity is 'AA/A-1+' and our short-term rating on AAH's CP program, also supported by self-liquidity, is 'A-1+'.
- Our dual rating on IFA's series 2008C-1 and 2008C-2B VRDBs, which are supported by SBPAs from JPMorgan Chase Bank, is 'AA/A-1+'. In addition, our dual rating on IFA's series 2008C-3A VRDBs, which are supported by an SBPA from Northern Trust, is 'AA/A-1+'. These bonds were all issued for AAH.
- The outlook on all ratings, where applicable, is stable.

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Rationale

Security

CMHA bonds are secured by a revenue pledge of CMHA and the Atrium Health Foundation, and guarantees of the other members of the CMHA obligated group. Wake Forest Baptist Obligated Group bonds are general, unsecured obligations of its obligated group, which includes North Carolina Baptist Hospital, Wake Forest University Health Sciences, and Wake Forest University Baptist Medical Center; Wake Forest University is not a member of the obligated group; CMHA and WFB are part of the Atrium Health enterprise (Atrium Health). Lastly, Advocate Aurora Health bonds are general, unsecured obligations of its obligated group.

Although CMHA, Wake Forest Baptist, and Advocate Aurora Health currently maintain rated debt across separate obligated groups, all are part of the consolidated Advocate Health following the execution of a joint operating agreement in December 2022 between Atrium Health and Advocate Aurora Health. We rate the systems based on the group credit profile of Advocate Health per our group rating methodology criteria, with each affiliate considered core. As such, this analysis focuses on the enterprise and financial profile characteristics of Advocate Health as a whole, and all metrics cited are for the entire system unless stated otherwise. We understand management intends to consolidate its obligated group structure over the outlook period, which we would not expect to have an effect on the existing ratings, all else unchanged.

For VRDBs supported by SBPAs, the long-term rating reflects the 'AA' long-term rating on the health care obligor, and the short-term rating reflects the short-term rating on the respective bank. For CMHA's series 2007E VRDBs supported by a letter of credit (LOC) from TD Bank, we base the long-term rating on the application of low correlation joint criteria between TD Bank and the 'AA' SPUR on CMHA. The short-term rating reflects the 'A-1' short-term rating on TD Bank.

Credit overview

The rating reflects our view of the credit strength of the consolidated Advocate Health, namely an extremely broad and diverse service area spanning several noncontiguous states across the Midwest and Southeast and a robust and diverse medical staff with numerous academic relationships anchored by the full integration with Winston-Salem-based Wake Forest Baptist. In addition to its large and geographically diverse revenue base, Advocate Health maintains solid balance sheet metrics characterized by sound days' cash on hand and only moderate debt levels, which have improved further in recent years given a lack of new money borrowing activity. We understand management is contemplating some debt activity over the coming quarters and we believe this could be absorbed at the current rating given preliminary expectations from management.

System operating performance improved soundly in fiscal 2024 (ended Dec. 31), further recovering from a loss in fiscal 2022, aided by strong demand, above-budget integration synergies and cost savings, added revenue from North Carolina's Healthcare Access Stabilization Program (HASP), and $200 million of FEMA funds. Within the consolidated Advocate Health, all three rated legacy entities produced positive operating results for the year, with the most pronounced improvement observed at Atrium Health. This progress has been enabled by successful integration efforts across the system, with management citing nearly $1.1 billion in annual synergies already achieved, ahead of its initial three-year target. Performance metrics have improved further midway through fiscal 2025 due in part to rising supplemental funding and

additional one-time items recognized, and we expect year-end results comparable to current levels.

We view the unified management team's integration efforts favorably, with further progress made since our last review. Key milestones include the consolidation of all vendor contracts and the system's investment platform, standardizing quality scorecards and charity care policies, and harmonizing IT systems, including a new holistic enterprise resource planning (ERP) system launched earlier in 2025. In addition, Advocate Health operates with a single CEO structure under Gene Woods (formerly of Atrium Health) and the remainder of the leadership team remains stable. The system is embarking on its next five-year strategic roadmap, called Rewire 2030, which aims to position Advocate Health as an integrated national health learning platform and leverage the inherent strengths of its size, scale, and clinical competencies. We anticipate strategic focus will shift from integration efforts to implementation of Rewire 2030 and management's new operating model. Advocate Health, like peers in the sector, retains exposure to the recently passed U.S. tax and spending bill partly due to its operations in Medicaid expansion states and participation in directed payment programs such as HASP. In subsequent reviews, we will monitor the system's response to these reforms, which most materially begin in fiscal 2028. Management believes its goals under Rewire 2030 align well with positioning Advocate Health to adapt to the expected reimbursement pressures.

The long-term rating is based on our view of the following Advocate Health credit strengths:

- Substantial geographic and revenue diversity, anchored around acute-care operations in Illinois, Wisconsin, North Carolina, and Georgia, generating operating revenue in excess of $34 billion in its fiscal 2024;
- Healthy unrestricted reserves, with days' cash on hand above 250 and lighter debt load relative to net assets and revenue;
- Healthy operating performance in fiscal 2024 and interim 2025, aided in part by strong synergy realization and added HASP funds in North Carolina;
- Expansive and diverse clinical staff of about 18,000 active physicians, including faculty, employed and independent physicians, residents, and fellows; and
- Compelling and ambitious Rewire 2030 strategy to enhance Advocate Health's position in the sector, supported by a solidified leadership team that we view as well-qualified.

The strengths are partly offset, in our view, by the following credit weaknesses:

- Growing exposure to supplemental funding programs to support operating earnings, with HASP being especially meaningful; and
- Competitive markets and heightened expected capital spending, which we believe could pressure reserve growth, particularly if operating cash flow is not sustained or if investment market volatility occurs.

Environmental, social, and governance

We view favorably Advocate Health's social capital factors given the size and diversification of its multistate service area, including several markets with healthy demographic trends such as population and employment growth, though this is partially offset by markets with weaker growth prospects. In addition, the system, like its peers, remains subject to higher human capital risks tied to clinical labor supply, though workforce measures such as contract labor exposure have trended favorably in fiscal 2024 and interim 2025.

We view Advocate Health's environmental and governance factors as neutral in our credit rating analysis. We believe the system's geographic diversity provides some hedge against the physical risks faced in each service area. In addition, the Advocate Health board is transitioning to a self-perpetuating structure following inaugural appointments. Atrium Health includes multiple governing boards with various levels of local authority and specific legacy appointment structures, but key reserve powers rest with the Advocate Health board. The Advocate Health board currently includes 14 members, reduced from the initial 20; Wake Forest Baptist controls two of the board seats by way of the same appointments at the Atrium Health level. Management believes the smaller size is more effective for the system, in addition to creating some capacity for new seats to be added over time via system growth. Per management, no material merger and acquisition plans are imminent at this time, following the integration of Elkin, N.C.-based Hugh Chatham Health into WFB in July 2025.

Outlook

The stable outlook reflects our view that Advocate Health's geographic diversity and scale, coupled with healthy balance sheet measures, lend stability to the rating amid general sector earnings pressure and uncertainty that will likely become more pronounced beyond the outlook period. The outlook is further supported by the system's strengthening performance in fiscal year 2024 and interim 2025, with management's integration execution positioning it well to sustain such progress, in our view.

Downside scenario

We consider there to be some cushion at the current rating, but believe below-expectation operating performance would be the most likely contributor to rating pressure over time. While we believe Advocate Health possesses numerous credit strengths, failure to sustain healthy earnings could eventually weaken the credit profile. Erosion of balance sheet measures, whether due to lighter earnings, continued system growth, or higher capital spending, could also pressure the rating.

Upside scenario

We do not expect to raise the rating over the outlook period. Over the longer-term, a higher rating would be predicated on sustained robust profitability with less exposure to supplemental funding, with continued accumulation of balance sheet cushion and successful realization of key components of its Rewire 2030 strategic vision.

Credit Opinion

Enterprise Profile--Very Strong

Broad, diverse, noncontiguous service area

As a whole, we view the system's footprint, among the largest nationally, favorably as we believe it lends considerable geographic diversity to Advocate Health. The system serves a large population of over 17 million based on the combined service areas of AAH (12.1 million) and Atrium Health (5.8 million). Demographics and growth projections contrast significantly across and within regions, with slight population decline projected in the large Illinois and Wisconsin markets

(AAH) and smaller Georgia service area (Atrium Health Navicent and Atrium Health Floyd), rapid expansion in the Charlotte, N.C. metropolitan statistical area (Atrium Health), and growth in line with national averages in Winston-Salem, N.C. (WFB). Though the system is investing capital across all markets, spending is proportionally higher in North Carolina markets given the region's population growth and ongoing master facility plan at Carolinas Medical Center, the system's largest hospital.

Each system has maintained a sound payor mix, with a healthy 49% of 2024 net patient revenue coming from commercial insurers. AAH yields a slightly higher commercial mix despite the softer demographics, and we consider this a testament of its strong market position and clinical offerings, as well as Atrium Health's role as the major safety net provider in Charlotte. The system reports healthy conversations with national and regional payors, with an increased openness to partnership and shared-value arrangements enabled by Advocate Health's market reach.

Diverse portfolio of access points and robust medical staff support national market position

We view Advocate Health as having a relevant, though not always leading, market share across all its discrete service areas. The system competes directly with several strong regional systems and academic medical centers including NorthShore University Health System, Northwestern Memorial HealthCare, Novant Health, among many other well-regarded providers. In addition, many Advocate Health hospitals are in rural markets, which generally face lighter competitive dynamics but different demographics; addressing health disparities across rural and urban markets is a key goal of Rewire 2030.

In addition to robust coverage of the care continuum through both inpatient, outpatient, patient home, and digital access points, this view is further supported by the system's medical staff of nearly 18,000 active physicians, further supported by 45,000 nurses. Employed physician groups across the Midwest and Southeast regions report to a common leader with consistent compensation structures, and management reports strong clinical collaboration across legacy systems.

Clinical offerings are also enhanced by academic affiliations including several long-term teaching affiliations at AAH, as well as Wake Forest Baptist at Atrium Health. We expect the system will continue to integrate and leverage translational research and educational activities across its footprint as a means of market differentiation and innovation. Most notably, a new Wake Forest School of Medicine campus in Charlotte welcomed its first class in fall 2025, anchoring a new health care and innovation district called The Pearl, a multi-year development that is already home to several international healthcare corporations.

Advocate Health, North Carolina--Enterprise statistics

	--Six months ended June 30--	--Fiscal year ended Dec. 31--		
	2025	2024	2023	2022*
Inpatient admissions	287,323	538,779	494,640	447,734
Equivalent inpatient admissions	668,099	1,231,784	1,254,940	1,155,387
Emergency visits	1,180,131	2,276,741	2,184,381	2,048,726
Inpatient surgeries	63,793	127,853	124,544	117,263
Outpatient surgeries	161,694	324,814	316,577	298,967
Medicare case mix index	1.7700	1.7900	1.8100	N.A.
FTE employees	145,714	140,860	133,966	127,851
Active physicians	N.A.	17,592	15,800	15,400

Advocate Health, North Carolina--Enterprise statistics

	--Six months ended June 30--	--Fiscal year ended Dec. 31--		
	2025	2024	2023	2022*
Based on net/gross revenues	Net	Net	Net	N.A.
Medicare (%)	31.2	31.0	32.4	N.A.
Medicaid (%)	16.2	16.0	15.7	N.A.
Commercial/Blues (%)	48.4	49.0	48.0	N.A.

*Based on S&P Global Ratings internal consolidation. Inpatient admissions exclude normal newborn, psychiatric, rehabilitation, and long-term care facility admissions. N.A.--Not available.

Financial Profile--Very Strong

Performance aided by operating synergies, supplemental funding, and one-time items; positive results expected to continue

Following a moderate loss in 2022 (calculated on a pro forma basis by S&P Global Ratings) driven by sector-wide labor challenges as well as broader inflationary expense pressures, earnings in fiscal 2023 (the system's first full year of operations following the joint operating agreement) recovered with a 1.8% operating margin. The 2023 budget targeted breakeven operations, but excluded the system's $546 million net HASP gain as well as its $238 million one-time 340B payment. Momentum continued in 2024 with results aided by synergy tailwinds, reduced corporate overhead, and improving workforce and productivity measures. Notably, 2024 results would be largely on-budget if excluding Atrium Health's FEMA funds recognized, as well as HASP revenue received related to the prior year, both items unbudgeted.

Fiscal 2025 operating results remain healthy midway through the year, ahead of management's operating target, supported by strong HASP funding and the receipt of about $140 million one-time items, including FEMA funds and employee retention tax credits related to the pandemic. Other factors positively affecting performance include sustained patient demand and strong growth in retail and specialty pharmacy operations. We expect operating performance to remain consistent through year-end and into 2026.

Prior to 2023, both systems maintained solid operating results though Atrium Health's performance had trailed that of Advocate Aurora Health. This reversed in 2023 as added HASP funds accelerated earnings growth in North Carolina. The HASP program has been a material driver of system earnings in recent years, which we view as a risk over the medium term as new federal policies relating to directed payment programs are implemented. Both North Carolina and Illinois expanded Medicaid coverage under the Affordable Care Act, requiring a taper down of directed payment programs to 100% of Medicare beginning in 2028, with a similar phased implementation of a 3.5% provider tax cap. Management is quantifying the expected financial effect and views Advocate Health as having a sound foundation to address these concerns given the integration and operating efficiencies already achieved, as well as the further progress expected under Rewire 2030.

Our performance figures remove unrestricted contributions and investment activity from operating revenue and add non-controlling interest to operating expenses. In addition, fiscal 2023 results exclude a $150 million impairment related to the system's divestment of Advocate Health Enterprises, namely its Senior Helpers and MobileHelp holdings, as well as an associated gain on sale of $88 million in fiscal 2024. These entities were deemed non-core to the system

strategy and carried an operating loss of around $50 million in recent years. We consider this one example of management's approach of making critical decisions early in the integration process.

Healthy unrestricted reserve cushion should remain sound amid progress on major capital projects

The system's unrestricted reserve position has remained very sound and is supportive of the rating. The system expended a combined $2.1 billion on capital items in 2024, near 170% of depreciation expense. We anticipate healthy capital spending over the outlook period given ongoing and contemplated growth projects, with management indicating an annual capital spending baseline near $2.0 billion, with actual spending based on achieved operating cash flow. Meaningful ongoing projects include master campus plans and discrete growth projects across regions. Following the completion of the Julie Ann Freischlag Tower in Winston-Salem in mid-2025, the largest ongoing project is the expansion and renovation of its Charlotte flagship campus, Carolinas Medical Center, to be completed in late 2027. Despite its capital plans, which also include outpatient access points such as ambulatory surgical centers, we anticipate sustaining strong operating liquidity will remain a key pillar of management's plan, and expect strong cash flow will sufficiently support these plans over the outlook period. In addition, we understand forecasted capital capacity grows over the coming years, providing the system with added flexibility as Medicaid reforms come online.

We view the consolidated investment portfolio as appropriate for the system, and note the vast majority of unrestricted reserves are now under a unified investment management platform; this transition drove high realized investment earnings in 2024. The system has $2.8 billion of alternative investment commitments over the coming nine years.

Ample liquidity support supplements balance sheet

The system retains ample liquidity within its unrestricted reserves, further supplemented by AAH's $1.0 billion authorized CP program ($270 million outstanding as of June 30, 2025) and $950 million line-of-credit capacity, CMHA's $800 million authorized CP program (upsized from $400 million in May 2025; $400 million outstanding), and $300 million line of credit via WFB ($200 million outstanding). CP balances and line of credit draws are deducted from unrestricted reserves and excluded from debt measures; Advocate Health’s combined CP balance declined to $470 million as of July 31, 2025.

Advocate Health has identified approximately $2.6 billion in combined assets (market value discounted by S&P Global Ratings) as of July 31, 2025, to cover authorized CP programs and self-liquidity VRDBs including AAH's series 2011B VRDBs ($70 million) and CMHA's series 2018F VRDBs ($100 million). The identified assets are a subset of Advocate Health's unrestricted reserves and include cash and equivalents, money market funds, and U.S. government fixed-income securities. In the event of a failed remarketing, it is our opinion that the assets identified in the portfolio would provide sufficient liquidity. The system has also provided us with the operational procedures that will be followed to provide for timely payment in the event of a failed CP rollover or remarketing of the VRDBs. We monitor the credit quality, liquidity, and sufficiency of the assets identified by management on a monthly basis.

Lighter debt load and benefit exposure ahead of potential new borrowings

We view the system's leverage as sound for the rating, falling below 20% in 2024 with a low debt burden near 1.3x aided by the large total revenue base. Management is currently contemplating debt activity in early 2026, possibly inclusive of $300 million in new money reimbursement debt

and repayment of WFB's $200 million line-of-credit draw with long-term debt. Given we exclude line of credit draws from unrestricted reserves and long-term debt, we would estimate a $500 million increase in long-term debt concurrent with a $500 million increase in reserves. We will fully evaluate Advocate Health's plan of finance once it is finalized, but believe the system has ample capacity for the preliminary transaction at the current rating. Borrowings presented in current liabilities given put, tender, or bank expiration dates within one year are moved into our long-term debt figures.

Just over 40% of long-term debt is considered contingent per S&P Global Ratings, inclusive of VRDBs, direct placement debt, and put bonds. All obligated groups and entities were compliant with financial covenants in fiscal 2024.

The system's interest rate swap portfolio includes five swaps from AAH ($348 million notional value as of Dec. 31, 2024) and 10 swaps from Atrium Health ($787 million notional value). Just $750,000 in combined collateral was posted at year-end, related to WFB's lone swap. The swaps support a debt structure that is 65% fixed rate or synthetically fixed.

Advocate Health includes seven distinct defined-benefit pension plans of various legal classifications, with all closed to new participants with benefit accruals frozen. The combined net shortfall across all plans was about $790 million as of Dec. 31, 2024, assuming an average discount rate of 5.7% (up from 5.1% in 2023), equating to moderate funded status of 81%. The most material pension exposure stems from the Atrium Health Charlotte Defined-Benefit Pension Plan, which carries a $528 million shortfall. When viewed in the context of the system's consolidated financial profile, we anticipate pension exposure will remain manageable, with combined contributions of $66 million in 2024.

Long-term operating lease liabilities were $1.1 billion as of June 30, 2025, an amount we view as consistent with the system's overall debt load.

Advocate Health, North Carolina--Financial statistics

	--Six months ended June 30--	--Fiscal year ended Dec. 31--			Medians for 'AA' rated health care systems
	2025	2024	2023	2022*	2024
Financial performance					
Net patient revenue ($000s)	16,203,193	30,405,450	27,996,077	25,046,827	8,033,218
Total operating revenue ($000s)	18,795,915	34,675,160	31,631,306	28,081,026	8,370,980
Total operating expenses ($000s)	18,042,901	33,734,480	31,050,923	28,452,749	7,733,900
Operating income ($000s)	753,014	940,680	580,383	(371,723)	204,345
Operating margin (%)	4.01	2.71	1.83	(1.32)	3.50
Net nonoperating income ($000s)	978,353	1,645,394	389,982	613,386	418,034
Excess income ($000s)	1,731,367	2,586,074	970,365	241,663	463,002
Excess margin (%)	8.76	7.12	3.03	0.84	7.80
Operating EBIDA margin (%)	7.96	6.94	6.61	3.76	8.10
EBIDA margin (%)	12.51	11.15	7.75	5.82	12.00
Net available for debt service ($000s)	2,473,620	4,050,209	2,481,268	1,670,124	834,286
Maximum annual debt service ($000s)	460,040	460,040	460,040	460,040	147,371
Maximum annual debt service coverage (x)	10.75	8.80	5.39	3.63	7.20
Operating lease-adjusted coverage (x)	7.01	5.80	3.68	2.62	5.70

Advocate Health, North Carolina--Financial statistics

	--Six months ended June 30--	--Fiscal year ended Dec. 31--			Medians for 'AA' rated health care systems
	2025	2024	2023	2022*	2024
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	24,254,027	23,988,702	21,542,090	19,440,700	7,354,302
Unrestricted days' cash on hand	254.0	269.1	263.5	260.1	314.9
Unrestricted reserves/total long-term debt (%)	352.0	342.3	297.6	259.3	351.1
Unrestricted reserves/contingent liabilities (%)	826.1	813.8	705.9	614.2	1,178.3
Average age of plant (years)	11.6	11.4	11.4	11.4	10.5
Capital expenditures/depreciation and amortization (%)	189.1	171.9	122.3	105.9	146.8
Debt and liabilities					
Total long-term debt ($000s)	6,891,253	7,007,883	7,238,031	7,498,272	2,096,105
Long-term debt/capitalization (%)	18.5	19.8	22.3	24.4	18.3
Contingent liabilities ($000s)	2,935,820	2,947,565	3,051,615	3,165,423	684,404
Contingent liabilities/total long-term debt (%)	42.6	42.1	42.2	42.2	29.1
Debt burden (%)	1.16	1.27	1.44	1.60	1.60
Defined benefit plan funded status (%)	N.A.	81.08	77.26	78.16	97.80
Miscellaneous					
Medicare advance payments ($000s)¶	0	0	0	11,000	MNR
Short-term borrowings ($000s)¶	870,000	470,000	369,199	400,000	MNR
COVID-19 stimulus recognized ($000s)	140,000	200,000	39,700	181,113	MNR
Total net special funding ($000s)	814,767	991,815	908,507	333,790	MNR

*Based on S&P Global Ratings internal consolidation. ¶Excluded from unrestricted reserves, long-term debt, and contingent liabilities. N.A.--Not available. N/A--Not applicable. MNR--Median not reported.

Credit Snapshot

- Group rating methodology: We consider the obligated groups of Advocate Aurora Health, CMHA, and Wake Forest Baptist to all be core to the group credit profile of Advocate Health. The obligated groups remain separate and do not secure or guarantee any debt of each other. Atrium Health Navicent and Atrium Health Floyd are not members of the CMHA obligated group.
- Financial presentation: Our analysis utilizes the system's 2024 audit, which includes all legacy affiliates, combining FASB entities (AAH and WFB) with GASB entities (CMHA) under FASB standards. We consider this to be the most accurate approach for assessing the system's creditworthiness.
- Organization description: Advocate Health is the governing entity of the combined system that includes Advocate Aurora Health and Atrium Health. The latter also includes Wake Forest Baptist, Atrium Health Navicent, and Atrium Health Floyd. The system has 69 inpatients facilities across Illinois, Wisconsin, North Carolina, and Georgia, supplemented by hundreds of various outpatient access points. The system is headquartered in Charlotte, N.C.

Ratings List
Current Ratings
Healthcare

Ratings List	
Advocate Hlth Care, IL Health Care System General Obligation	AA/Stable
Advocate Hlth Care, IL Health Care System General Obligation	A-1+
Atrium Hlth, NC Health Care System Revenues	AA/Stable
Atrium Hlth, NC Health Care System Revenues	A-1+
Wake Forest Baptist Oblig Grp, NC Health Care System Revenues	AA/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.