Edward Jones

Tower Health

Municipal Bond Research

Rating: Sell

Investment Classifications

Investment Category: Aggressive Income
Sector: Health Care
Recommended Sector Weight: 0% - 5%

Entity Description

Tower Health is a not-for-profit health system based in West Reading, Pennsylvania, that operates five hospitals, 150 outpatient practices, urgent-care facilities, and a physician network with about 2,000 physicians. Tower Health has an academic affiliation with Drexel University College of Medicine and a strategic alliance with Penn Medicine.

Related Bonds

Berks County PA Municipal Authority

Berks County PA Industrial Development Authority

Tower Health bonds are issued through Berks County PA authorities but are solely obligations of Tower Health and are not backed by the county or the authorities.

Credit Ratings

Moody's	Not rated
S&P	B / Negative outlook
Fitch	CCC+

Analyst: Brian Therien, CFA

INVESTMENT SUMMARY

We rate Tower Health bonds a Sell. Tower's cash and investment position is declining, as these funds have been used to cover operating losses and repay Medicare advance payments. Turnaround efforts are also becoming more challenging due to rising expenses. Financial performance deteriorated in recent years, caused by debt taken on to acquire a group of hospitals, by the underperformance of these acquired hospitals, by deferred elective medical procedures due to COVID-19, and by higher expenses. Credit ratings on these bonds have been downgraded to below investment grade as a result. Operations have begun to improve, driven by the resumption of elective medical procedures, as well as revenue enhancements and cost savings recommended by a consultant. However, the urgency to accelerate turnaround efforts and the risk that Tower Health could be forced to file bankruptcy is rising, in our view.

BOND OVERVIEW

Cash and investment position is declining. Sufficient cash and investments need to be maintained to support operations and pay interest and principal on debt while performance improvements are implemented. Tower Health has been using these funds to cover operating losses and repay Medicare advance payments. Tower Health could be forced to file bankruptcy if cash and investments decline too much.

Large debt load requires substantial cash flow to pay interest and principal. Tower Health increased its debt to $1.5 billion to acquire a group of five hospitals in 2017. This large debt load increases the interest and principal on its bonds to be paid from available cash flow.

Financial performance deteriorated in recent years, resulting in bond-rating downgrades. Key drivers have been weak results of acquired hospitals, deferred elective medical procedures due to COVID-19, and higher expenses. The acquired hospitals have performed worse than expected, resulting in significant losses and requiring substantial investments to upgrade facilities and systems in order to improve results. Elective medical procedures were deferred for several months to preserve capacity for potential demand for care due to COVID-19, which never fully materialized, resulting in lost revenues. Expenses have also increased due to rising employee salaries and higher prices of pharmaceuticals, medical equipment and supplies. Credit ratings on these bonds have been downgraded to below investment grade as a result of these challenges.

Rising expenses making turnaround efforts more challenging. The resumption of elective medical procedures has been a key driver in growing revenues. Revenue enhancements and cost savings recommended by a consultant have also contributed to improved performance. However, rising expenses are making turnaround efforts more challenging.

Valuation - Valuation is based on our analysis of yields relative to bonds of comparable quality and potential recovery in the event of bankruptcy.

Risks - Primary upside risks are that turnaround efforts could accelerate or that Tower Health could be acquired by a larger, financially stronger hospital system.

Please see important disclosures and certification on page 2 of the report.

Required Research Disclosures

Appropriate for Income	Appropriate for Aggressive Income	Sell	FYI
Appropriate for Income – We consider bonds to be an appropriate holding for investors seeking Income within a well-diversified portfolio. Our time horizon is 3-5 years.	**Appropriate for Aggressive Income –** We consider bonds appropriate only as a small Aggressive Income portion within a well-diversified portfolio. Bonds within this category are riskier, with a higher possibility of loss due to default, than bonds classified as Income. Our time horizon is 3-5 years.	**Sell –** We recommend investors sell these bonds. We believe these bonds are no longer an appropriate fixed-income holding because, in our opinion, they offer an unattractive risk/reward scenario at current prices. Our time horizon is 3-5 years.	FYI - For informational purposes only; factual, no opinion.

Initiated Coverage (Appropriate for Aggressive Income) 07/13/22.....(Appropriate for Aggressive Income) 07/13/22-08/29/22...(Sell) 08/29/22-

Analyst Certification

- I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Brian Therien, CFA

- Analysts receive compensation that is derived from revenues of Edward Jones as a whole which include, but are not limited to, investment banking revenue.
- Edward Jones trades as principal in the debt securities that are the subject of this research report.

Other Disclosures

- This report does not take into account your particular investment profile and is not intended as an express recommendation to purchase, hold or sell particular securities, financial instruments or strategies. You should contact your Edward Jones Financial Advisor before acting upon this report.
- This report is a product of the Edward Jones Securities Research Department.
- All investment decisions need to take into consideration individuals' unique circumstances such as risk tolerance, taxes, asset allocation and diversification.
- Before investing in bonds, you should understand the risks involved, including interest rate risk, credit risk and market risk. Bond investments are subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.
- Edward Jones limits inventory positions for fixed income securities. This security may currently be subject to these internal limits; however, this should not be considered contrary to our current recommendation.
- This opinion is based on information believed reliable but not guaranteed. The foregoing is for INFORMATION ONLY. Additional information is available on request. Past performance is no guarantee of future results.
- This issuer may have issued bonds in both large and small offering sizes. Bonds which are part of small offerings are generally less liquid, which may cause the price you receive in the secondary market to be lower than prices received by investors in large issues of the same issuer's bonds.
- If you sell this security prior to maturity, you may receive more, less, or the same dollar amount you originally invested because the security's market value may fluctuate over time due to various market factors (e.g., interest rates).
- Information about research distribution is available through the Investments and Services link on www.edwardjones.com.
- For U.S. clients only: Member SIPC --- For Canadian clients only: Member - Canadian Investor Protection Fund
- Diversification does not guarantee a profit or protect against loss in declining markets.
- In general, Edward Jones analysts do not view the material operations of the issuer.
- Credit ratings generally represent the rating company's opinion of the bond's ability to meet its ongoing contractual obligations. These ratings are estimates and should be one of many factors considered in evaluating fixed income investments. These ratings do not address suitability or future performance. N/A indicates no rating available.
- When investing in issuers incorporated outside your own country of residence, you should consider all other material risks such as currency risk, political risk, liquidity risk and accounting rules differences, which can adversely affect the value of your investment. Please consult your Financial Advisor for more information.
- Ratings from Standard & Poor's ("S&P"), Moody's and Fitch may be shown for certain securities. S&P requires we inform you: (1) Ratings are NOT recommendations to buy, hold, sell or make any investment decisions and DO NOT address suitability or future performance; (2) S&P DOES NOT guarantee the accuracy, completeness, or availability of any ratings and is NOT responsible for results obtained from the use of any ratings. Certain disclaimers related to its ratings are more specifically stated at http://www.standardandpoors.com/disclaimers.