

Rating Update for Schön Klinik SE

Rating of 10 January 2018				
Issuer Rating		Outlook		
BBB		negative		
Rating History	24 April 2014	30 April 2015	29 April 2016	30 May 2017
Notation / Outlook	BBB / stable	BBB / stable	BBB / stable	BBB / stable

Euler Hermes Rating has reviewed the rating of Schön Klinik SE in the context of the monitoring. The issuer rating of BBB is maintained. However, the outlook is changed from stable to negative.

Euler Hermes Rating expects a negative tendency of the rating for Schön Klinik SE. The business year 2017 has not met expectations and has been unsatisfactory. Especially the forecast revenue targets have remained below plan, which is mostly due to a smaller amount of foreign patients being treated than planned. Partly compensating this by treating domestic patients had a negative impact on profitability and cash flow generation due to the statutory fix cost degeneration discount (Fixkostendegressionsabschlag) combined with losses in revenue at the high fixed costs that are typical for the industry. In our view this shows that the increased profitability risks in the hospital industry resulting from the regulation (payment vs. cost increases) are increasingly materializing. Schön Klinik has addressed these changes vigorously, in our view, by constantly improving its service portfolio, increasing its attractiveness to privately insured patients and self-payers, and executing its internationalisation strategy with specialised hospitals.

Over the medium to long term, we expect domestic profitability to decline slightly for Schön Kliniken due to the ongoing structural cost problem in the hospital industry. When combined with the risks of international expansion and the possibility of higher investment budgets for digitisation, we expect a slight worsening of the financial risk profile.

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Principal sources of information

- Quarterly statements for Q2 and Q3 2017

Rating methodology

Issuer Rating of Euler Hermes Rating GmbH of May 2016
(<http://www.ehrg.de/seiten/Methodik2016.pdf>)

Rating categories

Category	Explanation
AAA	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHRG, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) MINUS (-)	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

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