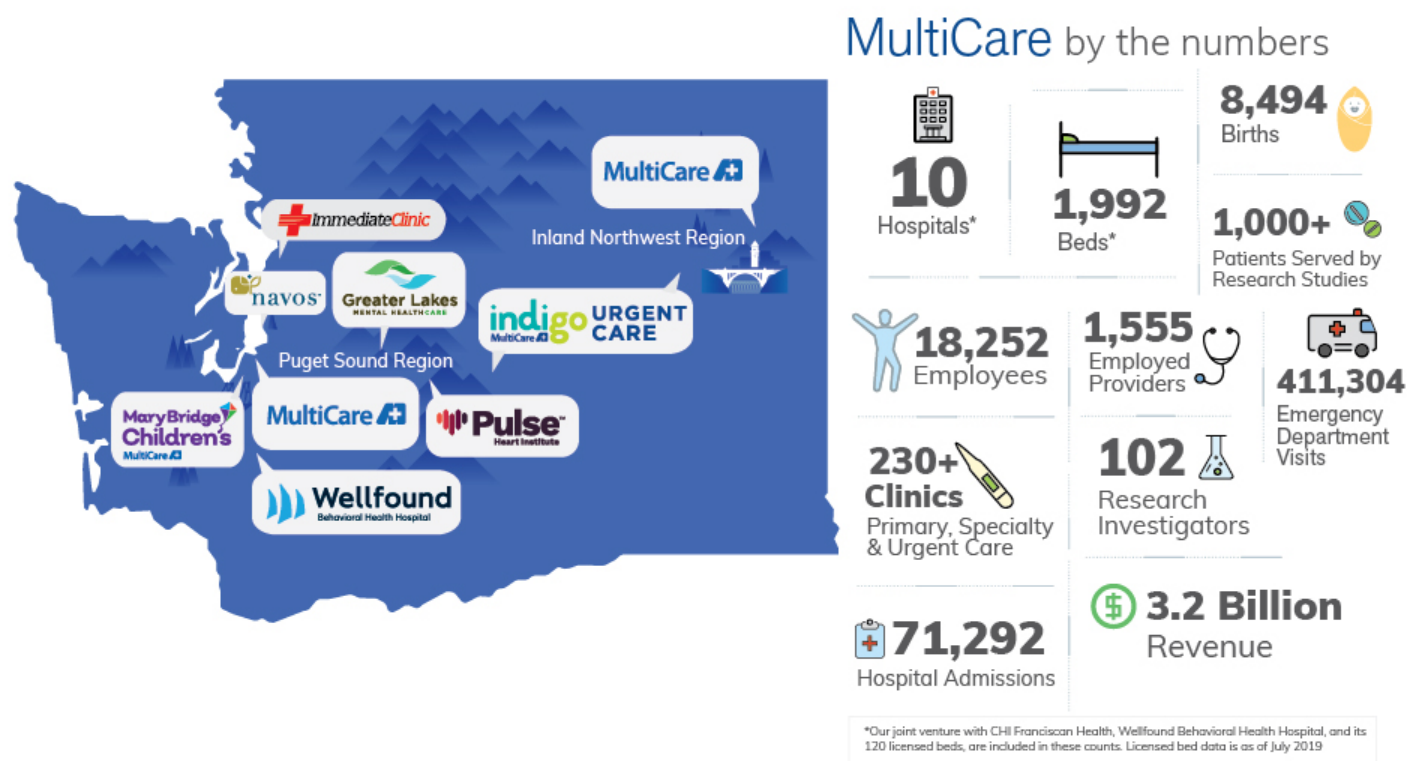


MultiCare Health System Fourth Quarter 2019 Results December 31, 2019

MultiCare Health System (MHS), a Washington nonprofit corporation, is an integrated healthcare delivery system providing inpatient, outpatient, and other healthcare services primarily to the residents of Pierce, King and Spokane Counties and, with respect to pediatric care, much of the southwest Washington region. MHS is currently licensed for 1,992 inpatient hospital beds, including 120 beds associated with a joint venture psychiatric hospital in Tacoma, Washington that opened in May 2019 and 58 beds associated with the newly constructed Covington Hospital that opened in April 2018. MHS now operates eight acute care facilities (Tacoma General Hospital, Good Samaritan Hospital, Allenmore Hospital, Mary Bridge Children's Hospital, Auburn Medical Center, Covington Hospital, Deaconess Hospital and Valley Hospital) and one behavioral health hospital (Navos). Greater Lakes Mental Healthcare affiliated with MHS effective July 1, 2018. No consideration was exchanged and MHS became the sole corporate member of Greater Lakes Mental Healthcare. MHS also operates eight outpatient surgical sites, three free-standing emergency departments, home health, hospice, and multiple urgent care, primary care and multispecialty clinics located throughout the MHS service areas. The consolidated financial statements include the operations of these services as well as those of two wholly owned subsidiaries (Medis, Inc. and MultiCare Rehabilitation Specialists, P.C.), a wholly owned professional services organization supporting cardiovascular services at MHS (CHVI Professional Corp), a wholly owned accountable care organization (MultiCare Connected Care), and two fundraising foundations (Mary Bridge Children's Foundation and MultiCare Foundations). MultiCare Foundations is doing business as MultiCare Health Foundation, Good Samaritan Foundation, MultiCare South King Health Foundation, MultiCare Behavioral Health Foundation and MultiCare Inland Northwest Foundation.

The following graphic depicts the breadth of services that MHS is providing across its service areas today:



As of 12/31/19

Summary of Revenues and Expenses

The following summary of revenues and expenses has been derived from MHS's consolidated financial statements. The consolidated financial statements for the year ended December 31, 2018 have been audited by independent certified public accountants and should be reviewed in conjunction with the complete footnote disclosures contained within those audited year-end statements. The consolidated financial statements for the year ended December 31, 2019 have been derived from the unaudited financial statements of MHS and are prepared by MHS's management. The unaudited financial information presented includes all adjustments that MHS management considers necessary at this time for a fair presentation of the financial position and results of operations for the periods presented.

	Year Ended December 31, (in thousands)	
	2019 (Unaudited)	2018 (Audited)
Revenues:		
Patient Service Revenue	3,107,525	2,780,371
Other operating revenue	120,355	137,909
Net assets released from restriction	6,225	4,687
Total operating revenue	3,234,105	2,922,967
Expenses		
Salaries and wages	1,548,101	1,392,503
Employee benefits	241,346	212,568
Supplies	501,688	465,673
Purchased services	271,114	238,570
Depreciation and amortization	165,670	149,522
Interest	46,585	42,915
Other	357,486	317,815
Total expenses	3,131,990	2,819,566
Operating income	102,115	103,401
Nonoperating income/(loss):		
Investment income (loss)	255,460	(95,684)
Swap cash settlements	(2,816)	(4,076)
Change in fair value of swaps	(42,620)	17,543
Other nonoperating income	869	21,669
Total nonoperating income/(loss)	210,893	(60,548)
Excess of revenues over expenses	\$ 313,008	42,853

Consolidated Balance Sheets
(in thousands)

	December 31, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 434,854	\$ 386,409
Net Accounts Receivable, Patient	376,500	375,841
Supplies Inventory	41,738	43,387
Other Current Assets, Net	71,397	57,450
Total Current Assets	<u>924,489</u>	<u>863,087</u>
DONOR - RESTRICTED ASSETS	70,783	75,166
LONG-TERM INVESTMENTS	1,797,483	1,490,739
PROPERTY, PLANT AND EQUIPMENT:		
Land and Improvements	131,635	125,934
Buildings	2,094,270	2,030,190
Equipment	1,020,402	934,127
Total Property, Plant and Equipment	<u>3,246,307</u>	<u>3,090,251</u>
Less: Accumulated Depreciation	<u>(1,585,761)</u>	<u>(1,442,014)</u>
Net Property, Plant and Equipment	1,660,546	1,648,237
Construction in Progress	102,799	128,022
Total Property, Plant and Equipment, Net	<u>1,763,345</u>	<u>1,776,259</u>
RIGHT OF USE LEASE ASSET, NET	144,140	-
OTHER ASSETS	384,004	320,290
TOTAL ASSETS	<u><u>5,084,244</u></u>	<u><u>4,525,541</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	195,356	201,304
Accrued Compensation and Related Liabilities	247,971	221,854
Accrued Interest Payable	15,168	16,364
Current Portion of Long-Term Debt	13,668	19,058
Current Portion of Right of Use Lease Liability	28,322	-
Total Current Liabilities	<u>500,485</u>	<u>458,580</u>
INTEREST RATE SWAP	88,311	45,833
LONG-TERM DEBT, NET	1,276,973	1,287,189
RIGHT OF USE LEASE LIABILITY, NET	120,345	-
OTHER LIABILITIES	155,320	127,406
NET ASSETS		
Without donor restrictions	2,819,420	2,490,997
With donor restrictions	123,390	115,536
Total Net Assets	<u>2,942,810</u>	<u>2,606,533</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 5,084,244</u></u>	<u><u>\$ 4,525,541</u></u>

Consolidated Cash Flow Statements
(in thousands)

	Year Ended December 31, (Unaudited) <u>2019</u>	Year Ended December 31, (Audited) <u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 336,277	\$ 34,415
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	165,670	149,522
Amortization of bond premiums, discounts, and issuance costs	(2,728)	(2,659)
Realized and change in unrealized (gains) losses on investments, net	(216,859)	123,495
Change in fair value of interest rate swaps	42,620	(17,542)
(Gain) loss on disposal of assets, net	824	(198)
(Gain) loss on bond refinancing	(869)	-
Undistributed (earnings) losses on joint ventures	8,002	(1,741)
Restricted contributions for long-term purposes	(2,795)	(4,477)
Gain on forgiveness of debt	-	(6,425)
Contribution of other assets and liabilities, net	-	(15,143)
Changes in operating assets and liabilities:		
Accounts receivable	(659)	(16,007)
Supplies inventory and other current assets	(12,712)	1,700
Other assets, net	13,322	31,962
Accounts payable and accrued expenses and interest payable	(7,144)	3,821
Accrued compensation and related liabilities	26,117	6,509
Other liabilities	2,919	(13,048)
Net cash provided by operating activities	<u>351,985</u>	<u>274,184</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(195,206)	(233,314)
Cash obtained through affiliation	-	9,335
Proceeds from disposal of property, plant and equipment	1,157	2,240
(Contributions to) distributions from joint ventures, net	(15,084)	(17,650)
Purchases of investments	(2,317,815)	(2,160,128)
Sales of investments	2,238,193	2,165,472
Change in donor trusts	(5,571)	6,635
Net cash used in investing activities	<u>(294,326)</u>	<u>(227,410)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(12,009)	(32,870)
Restricted contributions for long-term purposes	2,795	4,477
Net cash used in financing activities	<u>(9,214)</u>	<u>(28,393)</u>
Net increase in cash and cash equivalents	48,445	18,381
CASH AND CASH EQUIVALENTS, beginning of year	386,409	368,028
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 434,854</u>	<u>\$ 386,409</u>

SUMMARY OF REVENUE SOURCES

The following table shows the combined gross patient service charge percentages for MHS by payer (note that part of 2018 excludes Deaconess and Valley Hospitals, and Rockwood Clinic):

Source	Calendar Year Ended December 31,	
	2019	2018
Medicare	39.3 %	36.6 %
Medicaid	24.5	26.8
Premiera/Blue Cross	9.0	7.3
Regence/Blue Shield	6.2	8.0
Personal Pay	2.2	2.3
All Other	18.8	19.0
Total	100.0 %	100.0 %

SUMMARY OF OPERATING DATA

The following table presents selected statistical indicators of MHS's patient activity:

	Calendar Year Ended December 31,	
	2019	2018
Statistical Summary		
Admissions ¹⁾	71,292	67,694
Adjusted Admissions	171,254	159,314
Patient Days ¹⁾	377,748	367,471
Average Length of Stay (Days)	5.30	5.43
Average Daily Census	1,035	1,007
Percent Occupancy (of beds in service)	65.4%	66.4%
Emergency Room Visits	411,304	375,510
Provider Visits (primary, specialty & urgent care)	2,853,290	2,755,848
Outpatient Visits ²⁾	499,439	441,188
Overall Case Mix Index	1.53	1.52
Surgical Cases	55,863	51,789

1) Admissions and patient days include acute care and rehabilitation volumes and exclude newborns.

2) Outpatient visits exclude ER visits, physician visits, outpatient surgery and lab tests. For the data reported in 2018, this metric excludes visits associated with Deaconess and Valley Hospitals, Rockwood Clinic and Navos.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Income Summary. MHS generated operating income of \$102.1 million (3.2% operating margin) for the year ended December 31, 2019 compared to \$103.4 million (3.5% operating margin) during the year ended December 31, 2018¹. MHS continues to see strong volumes and growth in 2019. Inpatient admissions increased 5.3% and patient days increased 2.8%. Adjusted admissions, which takes into consideration the outpatient volume changes, grew 7.5%. Emergency room visits increased 9.5% while provider visits have increased 3.5%.

Operating Revenue. Total operating revenue increased \$311.1 million (10.6%) to \$3.23 billion in 2019 compared to \$2.92 billion in 2018. Higher volumes along with the strategic growth initiatives were the primary drivers. The overall reimbursement rate of 26.9% improved from last year's 26.5%.

Operating Expenses. Total operating expenses increased \$312.4 million (11.1%) to \$3.13 billion from \$2.82 billion for the same period in 2018, primarily driven by increased volumes. MHS has experienced increases in salaries and wages associated with volume and wage rate increases. Supplies have also increased due to patient volume increases and new technologies. Other costs have similarly increased due to volumes and inflationary factors. Many initiatives are in progress to continually reduce expense wherever possible.

Nonoperating Income. MHS recognized nonoperating income of \$210.9 million during 2019 compared to a loss of \$60.5 million in 2018. Investment performance in 2019 generated a \$255.5 million gain, compared to a loss of \$95.7 million in 2018. Much of the remaining variance is a result of changes in the estimated fair value of interest rate swaps, which produced a loss of \$42.6 million in 2019 compared to a gain of \$17.5 million in 2018. The gains and losses on the interest rate swaps is entirely due to the global interest rate environment. In 2018, other nonoperating income was reflected in the results associated with the assumption of net assets from the Greater Lakes Mental Healthcare affiliation (effective July 1, 2018) and a gain resulting from the elimination of certain debt previously held by Navos. No similar activity of this size and scope occurred in 2019.

Net Income. Operating income of \$102.1 million, combined with the nonoperating income of \$210.9 million, produced an excess of revenues over expenses of \$313.0 million for the year ended December 31, 2019 compared to \$42.9 million in 2018. Net income increased in 2019 primarily due to the favorable investment performance in 2019 compared to 2018.

Balance Sheet / Financial Position. As of December 31, 2019, unrestricted cash and investments were \$2.23 billion, increased by \$354.8 million from December 31, 2018. This increase was largely driven by the investment gains experienced during the year of \$255.5 million, the collection of outstanding receivables generating a reduction in days receivables outstanding and the positive operating results.

As of December 31, 2019, total net assets were \$2.94 billion compared to \$2.61 billion as of December 31, 2018. Net assets without donor restrictions increased \$328.4 million to \$2.82 billion as of December 31, 2019. The MHS balance sheet and cash position remain strong as of December 31, 2019 due to strong investment and operating performance.

KEY BALANCE SHEET INDICATORS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Days cash on hand	275	257
Cash to long-term debt	173.0%	143.7%
Long-term debt to capitalization	31.4%	34.4%

¹ Note that, unless stated otherwise, all comparisons described in the Management Discussion and Analysis above compare the results of the twelve months ended December 31 of each year referenced.