

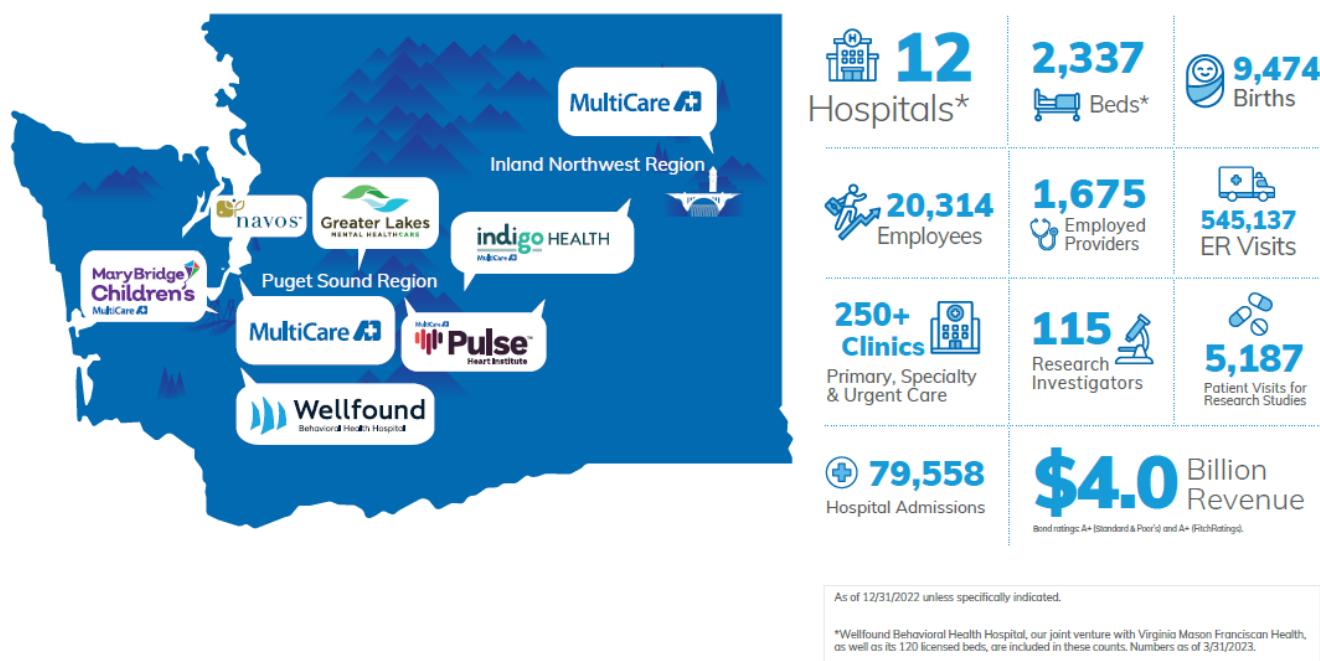


MultiCare Health System First Quarter 2023 Results March 31, 2023

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, Spokane, Thurston, and Yakima Counties and, with respect to pediatric care, much of the southwest Washington region. As of March 31, 2023, MHS was licensed to operate 2,337 inpatient hospital beds, including one hospital with 120 beds associated with a joint venture psychiatric hospital in Tacoma, Washington (Wellfound Behavioral Health Hospital). MHS operates ten acute care facilities (Tacoma General Hospital, Good Samaritan Hospital, Allenmore Hospital, Mary Bridge Children's Hospital, Auburn Medical Center, Covington Hospital, Deaconess Hospital, Valley Hospital, Capital Medical Center, and Yakima Memorial Hospital) and one behavioral health hospital (Navos). MHS also operates eight outpatient surgical sites, five 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 four wholly owned subsidiaries (Greater Lakes Mental Healthcare, Medis, Inc., MultiCare Rehabilitation Specialists, P.C. (MRS), and PNW Pace Partners, LLC), 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.

On January 17, 2023, MHS affiliated with Yakima Valley Memorial Hospital, now known as MultiCare Yakima Memorial Hospital, located in Central Washington and anchors our newly created Yakima Valley Region. This affiliation resulted in the addition of 238 inpatient hospital beds. The affiliation also included primary care and multispecialty clinics and a foundation. No consideration was exchanged with the affiliation and MHS became the sole corporate member. Net assets assumed as part of this affiliation was approximately \$230 million.

The following graphic depicts the breadth of services that MHS is providing across its service areas today (note that some of the metrics are 2022 annual figures while others are as of 3/31/2023 as indicated):



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 years ended December 31, 2022 and 2021 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 three months ended March 31, 2023 and 2022 are 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.

	Three Months Ended March 31, (in thousands)		Year Ended December 31, (in thousands)	
	2023	2022	2022	2021
			(Audited)	(Audited)
Revenues:				
Patient service revenue	1,092,185	891,013	3,765,888	3,504,691
Other operating revenue	69,985	51,726	231,429	314,323
Net assets released from restriction	601	98	6,382	5,170
Total operating revenue	1,162,771	942,837	4,003,699	3,824,184
Expenses				
Salaries and wages	622,628	547,410	2,199,265	1,870,645
Employee benefits	99,251	85,255	297,613	278,185
Supplies	197,857	157,153	658,470	600,757
Purchased services	117,972	95,383	396,747	349,159
Depreciation and amortization	40,409	34,685	140,892	126,307
Interest	20,738	11,747	56,842	47,670
Other	123,809	128,618	541,246	486,005
Total expenses	1,222,664	1,060,251	4,291,075	3,758,728
Operating (loss) income	(59,893)	(117,414)	(287,376)	65,456
Nonoperating (loss) income:				
Investment (loss) income	97,683	(128,221)	(344,301)	213,993
Swap cash settlements	1,744	(2,319)	(5,439)	(9,374)
Change in fair value of swaps	(12,661)	49,857	133,127	35,247
Other nonoperating loss	2,885	1,589	(11,047)	(13,729)
Total nonoperating (loss) income	89,651	(79,094)	(227,660)	226,137
Excess (deficit) of revenues over expenses	\$ 29,758	(196,508)	(515,036)	291,593

Consolidated Balance Sheets (in thousands)

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 534,436	\$ 542,067
Accounts Receivable	583,474	511,727
Supplies Inventory	68,929	60,070
Other Current Assets, Net	208,666	165,586
Total Current Assets	<u>1,395,505</u>	<u>1,279,450</u>
DONOR - RESTRICTED ASSETS	124,152	119,526
LONG-TERM INVESTMENTS	1,987,535	1,968,205
PROPERTY, PLANT AND EQUIPMENT:		
Land and Improvements	199,429	164,041
Buildings	2,488,839	2,360,383
Equipment	1,240,249	1,051,004
Total Property, Plant and Equipment	<u>3,928,517</u>	<u>3,575,428</u>
Less: Accumulated Depreciation	<u>(1,811,123)</u>	<u>(1,640,005)</u>
Net Property, Plant and Equipment	2,117,394	1,935,423
Construction in Progress	172,156	173,830
Total Property, Plant and Equipment, Net	<u>2,289,550</u>	<u>2,109,253</u>
RIGHT OF USE LEASE ASSET, NET	215,620	186,621
OTHER ASSETS	617,174	583,082
TOTAL ASSETS	<u><u>6,629,536</u></u>	<u><u>6,246,137</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	324,222	326,664
Accrued Compensation and Related Liabilities	317,307	329,672
Accrued Interest Payable	9,899	23,643
Line of credit	55,000	-
Current Portion of Long-Term Debt	18,627	18,496
Current Portion of Right of Use Lease Liability	39,958	34,873
Total Current Liabilities	<u>765,013</u>	<u>733,348</u>
INTEREST RATE SWAP	17,484	9,470
RIGHT OF USE LEASE LIABILITY, NET	185,643	159,607
LONG-TERM DEBT, NET	2,021,702	1,991,113
OTHER LIABILITIES	221,672	212,069
NET ASSETS		
Controlling interest	3,192,862	2,930,546
Noncontrolling interest	29,676	34,471
Without donor restrictions	<u>3,222,538</u>	<u>2,965,017</u>
With donor restrictions	195,484	175,513
Total Net Assets	<u>3,418,022</u>	<u>3,140,530</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 6,629,536</u></u>	<u><u>\$ 6,246,137</u></u>

Consolidated Cash Flow Statements (in thousands)

	Three Months March 31, (Unaudited) <u>2023</u>	Year Ended December 31, (Audited) <u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets, net of assets assumed in affiliation	\$ 39,126	\$ (466,221)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	40,411	140,892
Amortization of bond premiums, discounts, and issuance costs	(55)	(2,163)
Realized and change in unrealized gains on investments, net	(85,210)	378,740
Change in fair value of interest rate swaps	12,660	(133,126)
(Gain) Loss on disposal of assets, net	(34,708)	(3,009)
(Gains) Losses on joint ventures, net	776	7,032
Restricted contributions for long-term purposes	(6,364)	(4,968)
Changes in operating assets and liabilities:		
Accounts receivable	(6,926)	(51,158)
Supplies inventory and other current assets	(28,577)	(43,673)
Right-of-use lease asset	(10,776)	35,690
Other assets, net	74,986	80,665
Accounts payable and accrued expenses and interest payable	(67,897)	27,421
Accrued compensation and related liabilities	(42,819)	(14,765)
Right-of-use lease liability	32,435	(30,021)
Other liabilities, net	(19,415)	21,842
Net cash (used in) provided by operating activities	<u>(102,353)</u>	<u>(56,822)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(53,342)	(237,295)
Proceeds from disposal of property, plant and equipment	53,732	6,360
Purchase of additional ownership in PSW and OSS	-	(86,915)
Investments in joint ventures, net	(30,054)	(11,445)
Purchases of investments	(1,542,349)	(8,060,868)
Sales of investments	1,648,925	8,305,732
Change in donor trusts	(22,602)	(2,833)
Net cash provided by (used in) investing activities	<u>54,310</u>	<u>(87,264)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(19,638)	(415,646)
Proceeds from bond issuance	-	798,300
Proceeds from (repayment of) line of credit, net	55,000	-
Payment of debt issue expenses	-	(5,702)
Principal payments on finance lease obligations	(1,314)	(4,499)
Restricted contributions for long-term purposes	6,364	4,968
Net cash provided by (used in) financing activities	<u>40,412</u>	<u>377,421</u>
Net change in cash and cash equivalents	(7,631)	233,335
CASH AND CASH EQUIVALENTS, beginning of year	542,067	308,732
CASH AND CASH EQUIVALENTS, end of period	<u><u>\$ 534,436</u></u>	<u><u>\$ 542,067</u></u>

SUMMARY OF REVENUE SOURCES

The following table shows the combined gross patient service charge percentages for MHS by payor (excluding Yakima):

Source	Three Months Ended March 31,		Calendar Year Ended December 31,	
	2023	2022	2022	2021
Medicare	39.4 %	39.5 %	39.7 %	38.2 %
Medicaid	25.7	25.1	25.4	25.8
Premiera/Blue Cross	8.5	8.7	8.4	9.1
Regence/Blue Shield	5.9	6.0	6.0	7.5
Personal Pay	1.8	2.1	2.1	1.9
All Other	18.7	18.6	18.4	17.5
Total	100.0 %	100.0 %	100.0 %	100.0 %

SUMMARY OF OPERATING DATA

The following table presents selected statistical indicators of MHS's patient activity. YMH is included in 2023 numbers.

	Three Months Ended March 31,		Calendar Year Ended December 31,	
	2023	2022	2022	2021
Statistical Summary				
Admissions ¹⁾	23,432	18,862	79,558	76,043
Adjusted Admissions	61,698	45,848	200,486	184,634
Patient Days ¹⁾	132,300	122,137	480,092	449,118
Average Length of Stay (Days)	5.65	6.48	6.03	5.91
Average Daily Census	1,470	1,357	1,315	1,230
Percent Occupancy (of beds in service)	77.3%	82.1%	79.2%	75.0%
Emergency Room Visits	135,755	119,017	545,137	458,921
Provider Visits (primary, specialty, & urgent care)	782,646	793,236	3,086,106	3,127,452
Outpatient Visits ²⁾	272,240	228,630	902,741	892,591
Overall Case Mix Index	1.64	1.69	1.66	1.65
Surgical Cases	19,632	13,359	58,463	55,741

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operational Summary. MHS generated an operating loss of \$59.9 million (5.2% operating loss) for the three months ended March 31, 2023 compared to an operating loss of \$117.4 million (12.5% operating loss) for the same period in 2022¹. MHS continues to be impacted by higher expenses due to inflationary pressures and other market conditions. MHS has seen these conditions mainly impact salaries and wages and supplies due to increases in employee pay rates, increases in contract labor rates and usage, and supply chain issues increasing costs within supplies. MultiCare management developed and implemented plans to improve revenue generation and address rising costs and those plans continue. Initiatives include reducing contract labor reliance, recruitment and retention of employed staff, increase in surgical volumes, increased use of technology to optimize patient experience and improve capture of all revenue, reducing average inpatient lengths of stay where appropriate, review and optimization of other expense areas, especially supplies and purchased services, along with a number of other areas of focus, with the overall expectation of improving the operating margin of the health system moving forward.

Operating Revenue. Total operating revenue increased \$219.9 million (23.3%) to \$1.16 billion for the three months ended March 31, 2023 compared to \$942.8 million in 2022. The Yakima affiliation contributed approximately \$125 million toward the increase in revenue. Other increases are from higher volumes, and a gain of approximately \$35 million on sales of certain capital assets. Key volume increases (including Yakima) driving the revenue growth stemmed from admissions (24.2%), emergency department visits (14.1%), and surgical cases (47.0%). Gross charges increased due to volumes, and reimbursement rate of 26.9% was similar to prior year.

Operating Expenses. Total operating expenses for the three months ended March 31, 2023 were \$1.22 billion, an increase of \$162.4 million (15.3%) compared to prior year. The addition of Yakima accounts for approximately \$135 million 13% of the increase. Volume increases and inflationary pressures account for the remaining expense increase with average length of stay decreasing 12.5% from prior year. Total salaries and wages increased \$75.2 million (13.7%) associated with increases from Yakima operations and the result of increased volumes throughout the organization. Average hourly rate decreased 6.1% from the first three months of 2022, primarily due to reduced usage and pay rates for contract labor. Contract labor rates decreased 29.2% from the first three months of the prior year, and contract labor FTEs decreased 11.5%. Though results show good improvements in contract labor costs compared to prior year, reliance on contract labor and contract labor rates remain a significant challenge. MHS continues to see higher supply expenses associated with high volumes and higher inflationary impacts in this area. Additionally, MHS experienced increases in professional fees, purchased services and other costs due to inflationary impacts including for technology licenses and fees and other required services. Interest expense increased \$9.0 million (76.5%) from prior year stemming from the issuance of additional debt later in 2022 and due to rising variable rates.

Nonoperating Income. MHS recognized nonoperating income of \$89.7 million for the first three months in 2023, compared to a nonoperating loss of \$79.1 million in 2022. Investment performance generated a gain of \$97.7 million, compared to the loss of \$128.2 million in 2022. The remaining variance primarily resulted from changes in the estimated fair value of interest rate swaps, which produced a loss of \$12.7 million in 2023 compared to a gain of \$49.9 million in 2022. The gains and losses on the interest rate swaps are due to fluctuations in the global interest rate environment, with interest rates increasing in 2022 and more variable in 2023.

Net Income. Operating loss of \$59.9 million, combined with the nonoperating gain of \$89.7 million, produced net income of \$29.8 million for the three months ended March 31, 2023 compared to a loss of \$196.5 million in 2021.

Balance Sheet / Financial Position. As of March 31, 2023, unrestricted cash and investments were \$2.52 billion, a decrease of \$14.3 million from December 31, 2022. The change is driven by operating losses and other cash uses.

As of March 31, 2023, total net assets were \$3.42 billion compared to \$3.14 billion as of December 31, 2022. Net assets without donor restrictions increased \$257.5 million to \$3.22 billion as of March 31, 2023.

KEY BALANCE SHEET INDICATORS

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Days cash on hand	214	221
Cash to long-term debt	120.5%	126.1%
Long-term debt to capitalization	39.4%	40.2%

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