

MultiCare Health System Second Quarter 2023 Results June 30, 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 June 30, 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 (MYMH), 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 6/30/2023 as indicated):



As of 12/31/2022 unless specifically indicated.

*Wellfound Behavioral Health Hospital, our joint venture with Virginia Mason Franciscan Health, as well as its 120 licensed beds, are included in these counts. Numbers as of 3/31/2023.



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 six months ended June 30, 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.

	Six Months Ended		Year Ended	
	June 30,		December 31,	
	(in thousands)		(in thousands)	
	2023	2022	2022	2021
			(Audited)	(Audited)
Revenues:				
Patient service revenue	2,203,588	1,822,297	3,765,888	3,504,691
Other operating revenue	175,668	123,403	231,429	314,323
Net assets released from restriction	3,392	2,621	6,382	5,170
Total operating revenue	2,382,648	1,948,321	4,003,699	3,824,184
Expenses				
Salaries and wages	1,260,469	1,119,697	2,199,265	1,870,645
Employee benefits	197,523	154,174	297,613	278,185
Supplies	396,289	317,930	658,470	600,757
Purchased services	244,287	190,097	396,747	349,159
Depreciation and amortization	80,641	70,330	140,892	126,307
Interest	40,366	23,957	56,842	47,670
Other	308,993	267,064	541,246	486,005
Total expenses	2,528,568	2,143,249	4,291,075	3,758,728
Operating (loss) income	(145,920)	(194,928)	(287,376)	65,456
Nonoperating (loss) income:				
Investment (loss) income	163,827	(352,231)	(344,301)	213,993
Swap cash settlements	3,711	(4,336)	(5,439)	(9,374)
Change in fair value of swaps	2,736	101,446	133,127	35,247
Other nonoperating loss	4,894	3,244	(11,047)	(13,729)
Total nonoperating (loss) income	175,168	(251,877)	(227,660)	226,137
Excess (deficit) of revenues over expenses	\$ 29,248	(446,805)	(515,036)	291,593



Consolidated Balance Sheets
(in thousands)

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 552,071	\$ 542,067
Accounts Receivable	580,730	511,727
Supplies Inventory	70,443	60,070
Other Current Assets, Net	196,045	165,586
Total Current Assets	1,399,289	1,279,450
DONOR - RESTRICTED ASSETS	123,349	119,526
LONG-TERM INVESTMENTS	1,886,526	1,968,205
PROPERTY, PLANT AND EQUIPMENT:		
Land and Improvements	206,181	164,041
Buildings	2,503,232	2,360,383
Equipment	1,247,171	1,051,004
Total Property, Plant and Equipment	3,956,584	3,575,428
Less: Accumulated Depreciation	(1,846,423)	(1,640,005)
Net Property, Plant and Equipment	2,110,161	1,935,423
Construction in Progress	224,489	173,830
Total Property, Plant and Equipment, Net	2,334,650	2,109,253
RIGHT OF USE LEASE ASSET, NET	256,336	186,621
OTHER ASSETS	621,748	583,082
TOTAL ASSETS	6,621,898	6,246,137
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	260,097	326,664
Accrued Compensation and Related Liabilities	347,262	329,672
Accrued Interest Payable	25,047	23,643
Line of credit	62,935	-
Current Portion of Long-Term Debt	18,507	18,496
Current Portion of Right of Use Lease Liability	42,782	34,873
Total Current Liabilities	756,630	733,348
INTEREST RATE SWAP	7,781	9,470
RIGHT OF USE LEASE LIABILITY, NET	223,557	159,607
LONG-TERM DEBT, NET	1,989,206	1,991,113
OTHER LIABILITIES	221,766	212,069
NET ASSETS		
Controlling interest	3,173,198	2,930,546
Noncontrolling interest	35,475	34,471
Without donor restrictions	3,208,673	2,965,017
With donor restrictions	214,285	175,513
Total Net Assets	3,422,958	3,140,530
TOTAL LIABILITIES & NET ASSETS	\$ 6,621,898	\$ 6,246,137



Consolidated Cash Flow Statements (in thousands)

	Six Months June 30, (Unaudited)	Year Ended December 31, (Audited)
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets, net of assets assumed in affiliation	\$ 44,062	\$ (466,221)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	80,645	140,892
Amortization of bond premiums, discounts, and issuance costs	66	(2,163)
Realized and change in unrealized (gains) losses on investments, net	(141,130)	378,740
Change in fair value of interest rate swaps	(2,737)	(133,126)
Gain on disposal of assets, net	(34,734)	(3,009)
Loss on joint ventures, net	1,605	7,032
Restricted contributions for long-term purposes	(5,888)	(4,968)
Changes in operating assets and liabilities:		
Accounts receivable	(4,182)	(51,158)
Supplies inventory and other current assets	(17,470)	(43,673)
Right-of-use lease asset	(51,492)	35,690
Other assets, net	80,390	80,665
Accounts payable and accrued expenses and interest payable	(116,876)	27,421
Accrued compensation and related liabilities	(12,864)	(14,765)
Right-of-use lease liability	74,520	(30,021)
Other liabilities, net	(38,363)	21,842
Net cash used in operating activities	(144,448)	(56,822)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(138,617)	(237,295)
Proceeds from disposal of property, plant and equipment	53,766	6,360
Purchase of additional ownership in PSW and OSS	-	(86,915)
Investments in joint ventures, net	(35,537)	(11,445)
Purchases of investments	(4,304,907)	(8,060,868)
Sales of investments	4,569,835	8,305,732
Change in donor trusts	(22,851)	(2,833)
Net cash provided by (used in) investing activities	121,689	(87,264)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(33,399)	(415,646)
Proceeds from bond issuance	-	798,300
Proceeds from (repayment of) line of credit, net	62,935	-
Payment of debt issue expenses	-	(5,702)
Principal payments on finance lease obligations	(2,661)	(4,499)
Restricted contributions for long-term purposes	5,888	4,968
Net cash provided by (used in) financing activities	32,763	377,421
Net change in cash and cash equivalents	10,004	233,335
CASH AND CASH EQUIVALENTS, beginning of year	542,067	308,732
CASH AND CASH EQUIVALENTS, end of period	\$ 552,071	\$ 542,067

SUMMARY OF REVENUE SOURCES

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

Source	Six Months Ended		Calendar Year Ended	
	June 30,		December 31,	
	2023	2022	2022	2021
Medicare	39.4 %	39.9 %	39.7 %	38.2 %
Medicaid	25.5	25.2	25.4	25.8
Commercial and Other	33.2	32.8	32.8	34.1
Personal Pay	1.9	2.1	2.1	1.9
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. MYMH is included in 2023 numbers.

Statistical Summary	Six Months Ended		Calendar Year Ended	
	June 30,		December 31,	
	2023	2022	2022	2021
Admissions ¹⁾	47,071	38,929	79,558	76,043
Adjusted Admissions	125,284	96,908	200,486	184,634
Patient Days ¹⁾	261,063	240,775	480,092	449,118
Average Length of Stay (Days)	5.55	6.18	6.03	5.91
Average Daily Census	1,442	1,330	1,315	1,230
Percent Occupancy (of beds in service)	75.7%	80.3%	79.2%	75.0%
Emergency Room Visits	319,523	255,641	545,137	458,921
Provider Visits (primary, specialty, & urgent care)	1,562,685	1,579,938	3,086,106	3,127,452
Outpatient Visits ²⁾	453,002	461,340	902,741	892,591
Overall Case Mix Index	1.65	1.67	1.66	1.65
Surgical Cases	40,573	28,780	58,463	55,741

1) Admissions and patient days include acute care, psychiatric 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 \$145.9 million (6.1% operating loss) for the six months ended June 30, 2023 compared to an operating loss of \$194.9 million (10.0% 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, reductions in force in corporate and support service areas, 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 \$434.3 million (22.3%) to \$2.38 billion for the six months ended June 30, 2023 compared to \$1.95 billion in 2022. The Yakima affiliation contributed approximately \$255 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 (20.9%), emergency department visits (25.0%), and surgical cases (41.0%). Gross charges increased due to volumes, and reimbursement rate of 26.9% was slightly higher than prior year.

Operating Expenses. Total operating expenses for the six months ended June 30, 2023 were \$2.53 billion, an increase of \$385.3 million (18.0%) compared to prior year. The addition of Yakima accounts for approximately \$270 million (13%) of the increase. Volume increases and inflationary pressures account for the remaining expense increase with average length of stay decreasing 10.3% from prior year. Total salaries and wages increased \$140.8 million (12.6%) associated with increases from Yakima operations and the result of increased volumes throughout the organization. Average hourly rate decreased 4.7% from the first six months of 2022, primarily due to reduced usage and pay rates for contract labor. Contract labor rates decreased 18.5% from the first six months of the prior year, and contract labor FTEs decreased 28.1%. 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 \$16.4 million (68.5%) from prior year stemming from the issuance of additional debt since June 2022 and due to rising variable rates.

Nonoperating Income. MHS recognized nonoperating income of \$175.2 million for the first six months in 2023, compared to a nonoperating loss of \$251.9 million in 2022. Investment performance generated a gain of \$163.8 million, compared to the loss of \$352.2 million in 2022. The remaining variance primarily resulted from changes in the estimated fair value of interest rate swaps, which produced a gain of \$2.7 million in 2023 compared to a gain of \$101.4 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 \$145.9 million, combined with the nonoperating gain of \$175.2 million, produced net income of \$29.2 million for the six months ended June 30, 2023 compared to a loss of \$446.8 million in 2022.

Balance Sheet / Financial Position. As of June 30, 2023, unrestricted cash and investments were \$2.4 billion, a decrease of \$71.6 million from December 31, 2022. The change is driven by operating losses and other cash uses.



As of June 30, 2023, total net assets increased \$282.4 million (\$227.4 million is due to Yakima) to \$3.42 billion compared to \$3.14 billion as of December 31, 2022. Net assets without donor restrictions increased \$243.7 million (\$204.6 million is due to Yakima) to \$3.21 billion as of June 30, 2023.

KEY BALANCE SHEET INDICATORS

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Days cash on hand	197	221
Cash to long-term debt	117.8%	126.1%
Long-term debt to capitalization	39.2%	40.2%

¹ Note that, unless stated otherwise, all comparisons described in the Management Discussion and Analysis above compare the results of the six months ended June 30 of each year referenced.