

Beaumont

**Period Ended
June 30, 2020**

Beaumont Health

July 29, 2020

Re: Beaumont Health Management Discussion:
Unaudited Results for the Six Months Ended June 30, 2020

John G. Kerndl
Executive Vice President and
Chief Financial Officer

Beaumont Health

The COVID-19 pandemic that began in Michigan in mid-March 2020, has impacted Beaumont Health's operations and volumes. As a result, Beaumont experienced year-over-year volume decreases across the board, impacting inpatient discharges, observations, deliveries, emergency visits, surgeries and physician encounters, as shown in the table below.

| Key Patient Metrics | 6-Months Ended June 30, 2020 | 6-Months Ended June 30, 2019 | % Change |
|----------------------|------------------------------------|------------------------------------|----------|
| IP Discharges | 74,519 | 88,607 | (15.9%) |
| Observations | 18,734 | 28,462 | (34.2%) |
| Deliveries | 8,527 | 8,681 | (1.8%) |
| Emergency Visits | 229,961 | 287,622 | (20.0%) |
| Surgeries | 43,729 | 60,303 | (27.5%) |
| Physician Encounters | 1,493,062 | 1,642,757 | (9.1%) |

The COVID-19 pandemic in Michigan continues to put a strain on Beaumont Health's patient volumes, operating income and non-operating income throughout the second quarter of 2020. The effects of the pandemic are expected to continue throughout the remainder of the year as Beaumont has cared for more COVID-19 patients than any other health care system in Michigan. The Beaumont team remains focused on providing high-quality care as demonstrated by our recent designation of 19 national rankings by US News and World Report. Surgeries, ER Visits and diagnostic services have begun to recover, but are not back to pre-COVID-19 levels.

As of June 30, Beaumont's net loss was \$146.7 million, a decrease of \$355.6 million over the same period in 2019. Operating revenues fell to \$2.10 billion; a \$220.4 million decrease over the \$2.32 billion reported at the end of the second quarter of 2019.

Net operating losses, before other non-recurring expenses (such as restructuring charges, settlements, divestitures, etc.) for the first six months of 2020 were \$48.4 million (-2.3% operating margin), a \$124.6 million decrease from 2019's net operating income of \$76.2 million (3.3% operating margin). Non-operating losses through the second quarter were \$79.8 million, compared to a non-operating gain of \$142.7 million in the same period last year.

While Beaumont has a strong balance sheet with liquidity to weather financial challenges, the system continues to work on recovery plans and has taken multiple steps to improve financial performance:

- Pursuing all Federal and State programs including FEMA, CARES and other COVID-19 programs
- Deferring all non-essential and non-COVID-19 related capital expenditures
- Evaluating all expenses, including staffing levels, and identifying ways to align costs and current volume levels. As of July 30, Beaumont has returned 1360+ employees back to work and continues to bring more back as patient volumes increase. (Federal COVID-19 funds Beaumont has received are not contingent upon returning employees back to work.)

Beaumont's treasury indicators remain strong, primarily as a result of cash increases related to Medicare Advanced Payments of \$504 million, a \$100 million Line of Credit, CARES Act payments and deferred payroll taxes in the second quarter. The treasury indicators as of June 30 are as follows:

- Cash and investments: \$3.233 billion at the end of the second quarter for 2020, compared to \$2.1 billion for the same period in 2019
- Unrestricted days cash on hand was 288.8 days in 2020 versus 182.4 days in 2019
- Total debt for 2020 was \$1.61 billion compared to \$1.56 billion for 2019

In June, Beaumont Health and Advocate Aurora Health signed a non-binding letter of intent to further discussions that began in late 2019 to create a leading-edge high-quality health care system that would span across Michigan, Wisconsin and Illinois. Exploratory and due diligence work continues.

Questions are welcomed and can be directed to John Kerndl at (248) 213-3346 or via e-mail at John.Kerndl@beaumont.org.

Respectfully submitted,



John G. Kerndl
Executive Vice President and Chief Financial Officer

BEAUMONT HEALTH
Statement of Operations-Consolidated
FOR THE PERIOD ENDED June 30, 2020
\$(000)

| | YEAR-TO-DATE | | | |
|---|--------------------|------------------|--------------------|-----------------|
| | YTD 2020 | YTD 2019 | VARIANCE | VARIANCE % |
| NET PATIENT SERVICE REVENUE | 1,786,938 | 2,193,438 | (406,500) | (18.5%) |
| Other Operating Revenue | 304,575 | 121,826 | 182,749 | 150.0% |
| Net Assets Released from Restrictions - Operations | 10,747 | 7,347 | 3,399 | 46.3% |
| TOTAL REVENUE | 2,102,259 | 2,322,611 | (220,352) | (9.5%) |
| EXPENSES: | | | | |
| Salaries and Professional Services Compensation | 1,069,342 | 1,114,061 | 44,719 | 4.0% |
| Benefits (Including Pension) | 189,845 | 194,308 | 4,463 | 2.3% |
| Supplies | 368,136 | 374,499 | 6,363 | 1.7% |
| Services & General | 332,889 | 362,527 | 29,638 | 8.2% |
| Depreciation and Amortization | 133,286 | 136,574 | 3,288 | 2.4% |
| Interest Expense | 28,393 | 28,017 | (376) | (1.3%) |
| Professional Liability & General Insurance | 28,722 | 36,403 | 7,680 | 21.1% |
| TOTAL EXPENSES | 2,150,614 | 2,246,388 | 95,774 | 4.3% |
| Net Operating Income (Loss) before Other Items | (48,355) | 76,223 | (124,578) | (163.4%) |
| Operating Income before Other Items% | (2.3%) | 3.3% | (5.6%) | |
| OTHER ITEMS: | | | | |
| Restructuring Charges, Settlements & Other | 20,337 | 4,362 | (15,975) | (366.2%) |
| Divestitures and Discontinued Operations | (1,801) | 5,627 | 7,427 | 132.0% |
| TOTAL OTHER ITEMS | 18,537 | 9,989 | (8,548) | (85.6%) |
| Net Operating Income (Loss) after Other Items | (66,892) | 66,234 | (133,126) | (201.0%) |
| Operating Income % | (3.2%) | 2.9% | (6.0%) | |
| NON OPERATING: | | | | |
| TOTAL NON OPERATING | (79,766) | 142,746 | (222,512) | (155.9%) |
| EXCESS OF REVENUES OVER EXPENSES | (\$146,658) | \$208,980 | (\$355,639) | (170.2%) |
| Net Income (Loss) % | (7.3%) | 8.5% | (15.7%) | |

BEAUMONT HEALTH
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2020 AND DECEMBER 31, 2019
(\$000)

| | UNAUDITED JUNE 2020 | AUDITED DECEMBER 2019 |
|--|---------------------------|-----------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,556,633 | \$ 519,890 |
| Short-term investments | \$ - | \$ - |
| Accounts receivable: | | |
| Patients and third-party payors, net of allowance for uncompensated care, contractals and doubtful accounts | \$ 401,255 | \$ 635,054 |
| Other Accounts Receivable | \$ 99,416 | \$ 117,859 |
| Accounts receivable - net | 500,672 | 752,913 |
| Estimated third-party payor settlements under Blue Cross, Medicare and Medicaid programs | \$ 43,759 | \$ 60,172 |
| Inventories and prepaid expenses | \$ 151,802 | \$ 143,969 |
| Current portion - cash, investments and pledges whose use is limited or restricted | \$ 37,495 | \$ 43,017 |
| Total current assets | 2,290,361 | 1,519,961 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 2,002,519 | 2,069,411 |
| INVESTMENTS | 1,675,336 | 1,751,921 |
| INVESTMENTS IN NONCONSOLIDATED ENTITIES | 54,188 | 57,793 |
| GOODWILL | 13,273 | 13,273 |
| INTANGIBLES AND OTHER ASSETS | 158,205 | 176,335 |
| CASH, INVESTMENTS AND PLEDGES WHOSE USE IS LIMITED OR RESTRICTED: | | |
| Board Designated | 322 | 325 |
| Bond construction and reserve funds | 455 | 455 |
| Professional liability | 28,322 | 36,391 |
| Deferred compensation and other | 89,933 | 101,238 |
| Donor restricted assets | 130,999 | 140,752 |
| Total cash, investments and pledges whose use is limited or restricted | 250,032 | 279,162 |
| TOTAL ASSETS | \$ 6,443,914 | \$ 5,867,856 |

BEAUMONT HEALTH
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2020 AND DECEMBER 31, 2019
(\$000)

| | UNAUDITED JUNE 2020 | AUDITED DECEMBER 2019 |
|--|------------------------------------|--------------------------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Trade accounts payable | \$ 130,571 | \$ 180,035 |
| Accrued liabilities: | | |
| Employee benefits & payroll related liabilities | 291,378 | 300,338 |
| Other | 267,560 | 96,918 |
| Total accrued liabilities | 558,938 | 397,257 |
| Current portion - estimated professional and general liability | 32,519 | 41,367 |
| Current portion of long-term debt | 53,469 | 53,435 |
| Current portion of estimated third-party payor settlements & Other | 544,679 | 34,191 |
| Total current liabilities | 1,320,176 | 706,285 |
| LONG-TERM LIABILITIES: | | |
| Long-term debt - net | 1,558,540 | 1,467,456 |
| Estimated third-party payor settlements under | | |
| Professional and general liability | 142,479 | 137,409 |
| Other long-term liabilities | 209,614 | 201,182 |
| Pension liability | 384,402 | 373,208 |
| Postretirement benefits other than pensions | 13,362 | 13,559 |
| Total long-term liabilities | 2,308,397 | 2,192,814 |
| Total liabilities | 3,628,574 | 2,899,099 |
| NET ASSETS: | | |
| Unrestricted | 2,666,498 | 2,809,943 |
| Temporarily restricted | 90,952 | 102,472 |
| Permanently restricted | 57,890 | 56,341 |
| Total net assets | 2,815,340 | 2,968,757 |
| TOTAL LIABILITIES & NET ASSETS | \$ 6,443,914 | \$ 5,867,856 |

BEAUMONT HEALTH
KEY RATIOS
FOR THE PERIODS ENDED JUNE 30, 2020 AND DECEMBER 31, 2019

| | | | June 30, 2020 | December 31, 2019 |
|---|------------------------|--------------------|--------------------|----------------------|
| | Moody's "A1" (2017) | S&P "A+" (2017) | Beaumont Health | Beaumont Health |
| Net Patient Service Revenue | | | \$ 1,786.9 | \$ 4,435.1 |
| Operating Income | | | \$ (66.9) | \$ 185.2 |
| Operating EBIDA | | | \$ 94.8 | \$ 520.3 |
| Unrestricted Cash & Investments | | | \$ 3,232.3 | \$ 2,272.1 |
| Bond Reserve Fund (Restricted) | | | \$ 0.5 | \$ 0.5 |
| Subtotal Cash & Investments | | | \$ 3,232.7 | \$ 2,272.6 |
| Total Debt | | | \$ 1,612.0 | \$ 1,520.9 |
| Net Patient Receivable Days (Hospital / EPIC Only) | | | 62.7 | 58.6 |
| <u>Profitability:</u> | | | | |
| Operating Margin * | 2.6% | 1.8% | -2.3% | 4.2% |
| Operating EBIDA Margin * | 9.0% | 7.9% | 5.4% | 11.3% |
| <u>Debt Position:</u> | | | | |
| Debt to Capitalization | 28.9% | 33.1% | 37.1% | 35.9% |
| <u>Liquidity:</u> | | | | |
| Cash to Total Debt | 191.6% | 164.0% | 200.5% | 149.4% |
| Unrestricted Days Cash on Hand | 252.4 | 188.6 | 288.8 | 195.1 |

* 2019 Excludes restructuring and settlement costs of \$10.7M and divestiture costs of \$0.4M

* 2020 Excludes restructuring and settlement costs of \$20.3M and divestiture costs of (\$1.8M)

BEAUMONT HEALTH
NET PATIENT SERVICE REVENUE BY PAYOR SOURCES
FOR THE PERIOD ENDED JUNE 30, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--------------|--------------------|--------------------|
| Medicare | 36.4% | 39.6% |
| Medicaid | 16.8% | 17.1% |
| Blue Cross | 21.3% | 23.0% |
| Patient Pay | 0.5% | 1.2% |
| Managed Care | 15.3% | 11.8% |
| Commercial | 5.0% | 3.6% |
| Other | 4.7% | 3.7% |
| Total | 100.0% | 100.0% |