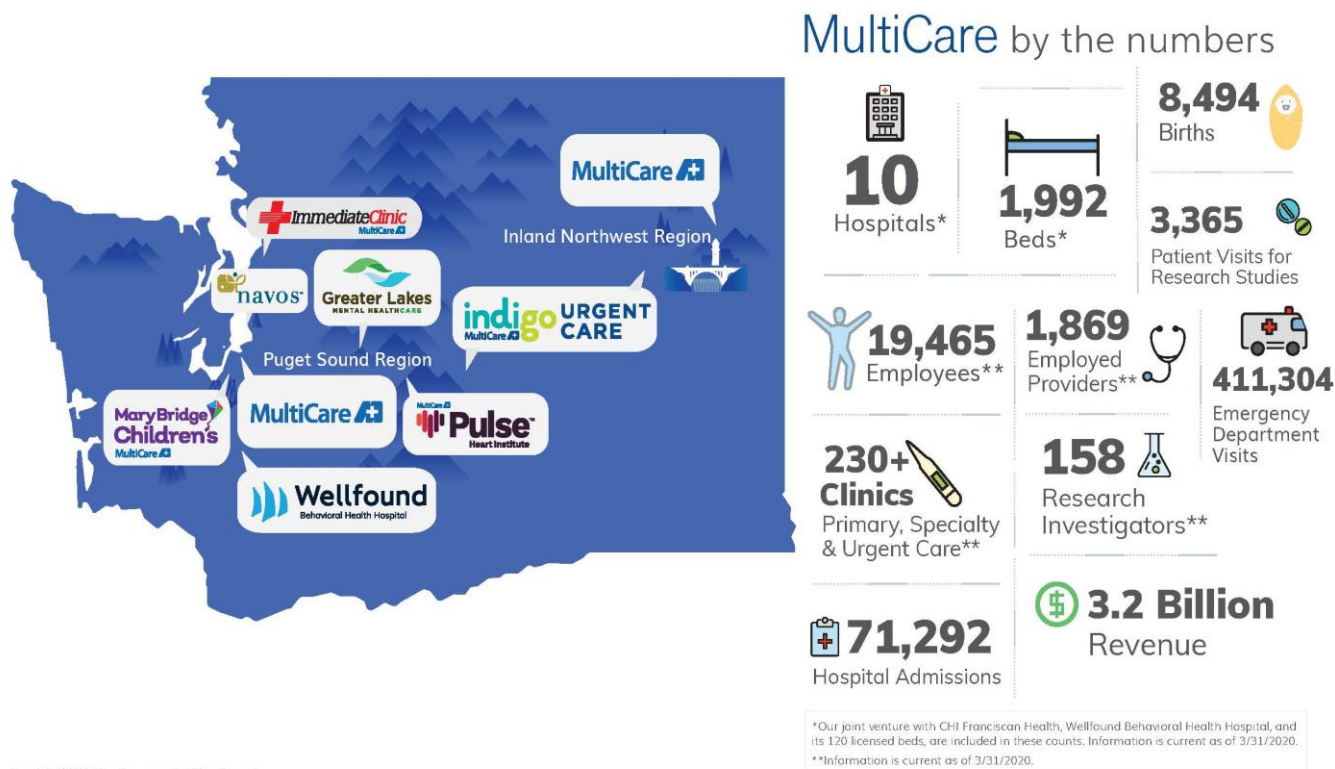


MultiCare Health System Second Quarter 2020 Results June 30, 2020

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. MHS 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). 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 three wholly owned subsidiaries (Greater Lakes Mental Healthcare, 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:





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, 2019 and 2018 have been audited by independent certified public accountants and should be reviewed in conjunction with the complete footnote disclosures contained within the audited year-end consolidated financial statements. The consolidated financial statements for the six months ended June 30, 2020 and 2019 have been derived from the unaudited consolidated financial statements of MHS and prepared internally 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)	
	(Unaudited)		(Audited)	
	2020	2019	2019	2018
Revenues:				
Patient service revenue	1,456,874	1,530,726	3,107,525	2,780,371
Other operating revenue	119,104	51,043	120,355	137,909
Net assets released from restriction	1,690	2,812	6,225	4,687
Total operating revenue	1,577,668	1,584,581	3,234,105	2,922,967
Expenses				
Salaries and wages	792,941	754,289	1,548,101	1,392,503
Employee benefits	124,139	120,151	241,346	212,568
Supplies	240,521	249,215	501,688	465,673
Purchased services	144,092	127,203	271,114	238,570
Depreciation and amortization	84,062	78,937	165,670	149,522
Interest	21,619	23,733	46,585	42,915
Other	184,453	168,263	357,486	317,815
Total expenses	1,591,827	1,521,791	3,131,990	2,819,566
Operating income	(14,159)	62,790	102,115	103,401
Nonoperating income/(loss):				
Investment income (loss)	(34,922)	158,440	255,460	(95,684)
Swap cash settlements	(2,827)	(1,181)	(2,816)	(4,076)
Change in fair value of swaps	(117,012)	(38,841)	(42,620)	17,542
Other nonoperating income	(3,388)	12	869	21,670
Total nonoperating income/(loss)	(158,149)	118,430	210,893	(60,548)
Excess of revenues over expenses	\$ (172,308)	181,220	313,008	42,853



Consolidated Balance Sheets
(in thousands)

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 488,573	\$ 434,854
Net Accounts Receivable, Patient	361,912	376,500
Supplies Inventory	42,365	41,738
Other Current Assets, Net	73,012	71,397
Total Current Assets	965,862	924,489
DONOR - RESTRICTED ASSETS	72,298	70,783
LONG-TERM INVESTMENTS	1,712,885	1,797,483
PROPERTY, PLANT AND EQUIPMENT:		
Land and Improvements	131,757	131,635
Buildings	2,151,408	2,094,270
Equipment	1,067,815	1,020,402
Total Property, Plant and Equipment	3,350,980	3,246,307
Less: Accumulated Depreciation	(1,668,476)	(1,585,761)
Net Property, Plant and Equipment	1,682,504	1,660,546
Construction in Progress	62,645	102,799
Total Property, Plant and Equipment, Net	1,745,149	1,763,345
RIGHT-OF-USE LEASE ASSET, NET	153,483	144,140
OTHER ASSETS	407,444	384,004
TOTAL ASSETS	5,057,121	5,084,244
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	183,200	195,356
Accrued Compensation and Related Liabilities	221,383	247,971
Accrued Interest Payable	15,181	15,168
Current portion of Right-of-Use Lease Liability	30,772	28,322
Current Portion of Long-Term Debt	8,024	13,668
Total Current Liabilities	458,560	500,485
INTEREST RATE SWAP	203,885	88,311
RIGHT OF USE LEASE LIABILITY	128,392	120,345
LONG-TERM DEBT, NET	1,332,015	1,276,973
OTHER LIABILITIES	162,583	155,320
NET ASSETS		
Without donor restrictions	2,649,181	2,819,420
With donor restrictions	122,505	123,390
Total Net Assets	2,771,686	2,942,810
TOTAL LIABILITIES & NET ASSETS	\$ 5,057,121	\$ 5,084,244



Consolidated Cash Flow Statements
(in thousands)

	Six Months Ended June 30, (Unaudited) <u>2020</u>	Year Ended December 31, (Audited) <u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ (171,124)	\$ 336,277
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	84,062	165,670
Amortization of bond premiums, discounts, and issuance costs	(1,336)	(2,728)
Realized and change in unrealized (gains) losses on investments, net	44,708	(216,859)
Change in fair value of interest rate swaps	117,012	42,620
Loss on disposal of assets, net	47	824
Gain on bond refinancing	-	(869)
Undistributed losses on joint ventures	5,360	8,002
Restricted contributions for long-term purposes	(3,701)	(2,795)
Changes in operating assets and liabilities:		
Accounts receivable	14,588	(659)
Supplies inventory and other current assets	(2,245)	(12,298)
Right-of-use lease asset	(9,343)	29,282
Other assets, net	(14,166)	(16,374)
Accounts payable and accrued expenses and interest payable	(12,141)	(7,144)
Accrued compensation and related liabilities	(26,588)	26,117
Right-of-use lease liability	10,497	(24,756)
Other liabilities, net	7,138	27,675
Net cash provided by operating activities	<u>42,768</u>	<u>351,985</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(66,108)	(195,206)
Proceeds from disposal of property, plant and equipment	321	1,157
Contributions to joint ventures	(17,648)	(15,084)
Purchases of investments	(2,199,669)	(2,342,719)
Sales of investments	2,235,220	2,263,097
Change in donor trusts	4,400	(5,571)
Net cash used in investing activities	<u>(43,484)</u>	<u>(294,326)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(10,880)	(12,009)
Proceeds from debt issuance	61,614	-
Restricted contributions for long-term purposes	3,701	2,795
Net cash provided by (used in) financing activities	<u>54,435</u>	<u>(9,214)</u>
Net change in cash and cash equivalents	53,719	48,445
CASH AND CASH EQUIVALENTS, beginning of year	434,854	386,409
CASH AND CASH EQUIVALENTS, end of period	\$ <u>488,573</u>	\$ <u>434,854</u>

SUMMARY OF REVENUE SOURCES

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

Source	Six Months Ended		Calendar Year Ended	
	June 30,		December 31,	
	2020	2019	2019	2018
Medicare	38.6 %	39.6 %	39.3 %	36.6 %
Medicaid	24.6	24.8	24.5	26.8
Premera/Blue Cross	9.0	8.6	9.0	7.3
Regence/Blue Shield	6.1	6.1	6.2	8.0
Personal Pay	2.2	2.0	2.2	2.3
All Other	19.5	18.9	18.8	19.0
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:

Statistical Summary	Six Months Ended		Year Ended	
	June 30,		December 31,	
	2020	2019	2019	2018
Admissions ¹⁾	32,163	35,489	71,292	67,694
Adjusted Admissions	76,134	83,356	171,254	159,314
Patient Days ¹⁾	176,165	192,435	377,748	367,471
Average Length of Stay (Days)	5.48	5.42	5.30	5.43
Average Daily Census	968	1,063	1,035	1007
Percent Occupancy (of beds in service)	61.2%	67.7%	65.4%	66.4%
Emergency Room Visits	185,414	200,082	411,304	375,510
Provider Visits (primary, speciality, & urgent care)	1,273,384	1,398,124	2,853,290	2,755,848
Outpatient Visits ²⁾	236,290	245,088	499,439	441,188
Overall Case Mix Index	1.59	1.61	1.53	1.52
Surgical Cases	23,451	27,409	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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operational impact of COVID-19. MHS, along with most other healthcare providers across the United States, is experiencing operational challenges related to the outbreak of COVID-19. On February 29, 2020, the Governor of the State of Washington (the "Governor") declared a state of emergency after the State of Washington reported its first known death from COVID-19 in the State. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020, and on March 13, 2020, the President of the United States declared a national emergency as a result of the pandemic. On March 23, 2020, the Governor implemented a stay at home order called "Stay Home, Stay Healthy." The pandemic impacted all hospitals and physician offices throughout the health system.

Starting on March 16, 2020, MHS canceled or postponed all non-emergent procedures as a precautionary measure to allow for the preservation of Personal Protective Equipment ("PPE") for other areas. MHS quickly acted by seeking to ensure appropriate levels of PPE for its care givers and in deferring all non-emergent / non-critical procedures and changing visitation policies in its facilities to preserve PPE and to reduce numbers of people and patients in close proximity to each other. Further, MHS set up temporary facilities and secured additional patient beds to accommodate the surge impacts that were projected in the early stages of the pandemic. MHS continues to take precautions in accordance with national, state and local guidance including implementing social distancing measures and providing PPE to all staff and patients when entering any MHS facility. On May 18, 2020, the Governor modified the restrictions on elective procedures for all medical and dental facilities. Based on this modification, MHS has been able to resume all procedures within its facilities as long as sufficient PPE is maintained, and MHS maintains surge capacity of at least 20% within the hospital facilities. Since the restrictions were modified on May 18, MHS has maintained adequate surge capacity and PPE to meet these requirements. While MHS has been able to secure and ensure adequate levels of PPE, changes or disruptions to current supply chains could limit its ability to provide adequate PPE levels.

In March 2020, MHS chose to support employees by protecting pay and benefits for those that were unable to work due to the cancellations / postponements of procedures. MHS protected the pay and benefits for those individuals through April 25, 2020. Approximately 50% of this cost has been recovered through the employee retention credits offered to employers as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which totaled about \$2.4 million. Since April 26, 2020, MHS had returned to normal staffing operations, which includes low census of staff when work is not available. Effective May 4, 2020, MHS implemented a mandatory furlough program, covering approximately 6,000 non-clinical employees. Those included in the mandatory furlough program are required to take a minimum of 17 days of furlough time as either PTO or unpaid time off by January 2, 2021. On April 14, 2020, Bill Robertson, President and CEO of MHS, announced several organization initiatives to reduce expenses. One of these was a reduction in executive compensation through the remainder of the year. The President and CEO took a 41% reduction in compensation, all executive and senior vice presidents took a 32% reduction in compensation and all vice presidents took a 25% reduction in compensation. Other items that MHS has implemented to reduce expenses to the organization include deferred hiring of some critical open positions, eliminated hiring of over 200 open positions, cost reductions in supplies, analysis of all contracts for opportunities to eliminate duplicate contracts or renegotiate contracts to reduce expenses as well as reduction of travel and training expenses.

The COVID-19 pandemic has had a significant impact on the financial position and operations of MHS during the months of March, April and May. In accordance with direction and mandates from the Governor, non-emergent / non-critical procedures were cancelled or postponed throughout the health system mid-March through mid-May. This had a significant impact on volumes and resulting revenues. January and February 2020 results were at expected levels, but most volume metrics declined more than 30% throughout the health system in the latter half of March creating a significant reduction in revenue and deteriorated results for the first quarter. April continued to see lower volumes and revenues with most volume metrics lower than plan by between 20%-40% and total operating revenue lower than plan by 18%. May saw similar lower volumes and revenues with most volume metrics lower than plan by between 20%-30% and total operating revenue lower than plan by 18%. June performance was substantially improved as non-emergent surgeries were rescheduled. While many volume metrics were still lower than plan by about 10%, surgical cases for June were 9% higher than plan and total operating revenue was 9% higher than plan as well. The national and global economy saw impact from this global pandemic as well, which resulted in negative performance in investment markets in the first quarter. However, the second quarter saw improved performance in investment markets, but this performance has not completely reversed the negative performance seen in the first quarter.

While management believes that MHS has a strong balance sheet and liquidity to weather this pandemic (including 266 days of cash on hand—down from 275 days at year-end), many initiatives were put in place to ensure the ability to continue providing care to patients well into the future. In April 2020, \$46.2 million was received from the CARES Act Provider Relief Fund and recognized within the April results. In May 2020, approximately \$2.4 million has been saved as an employee retention credit under the CARES Act as well as an additional \$0.8 million from the CARES Act Provider Relief Fund was received and



recognized within the May results. An additional \$16.1 million from the CARES Act Provider Relief Fund was received in June 2020. Liquidity was enhanced through securing a \$200 million line of credit. This line of credit is currently not being drawn on. The line of credit matures on April 13, 2021. Capital spending plans have been reduced to those plans that are deemed most critical and other forms of liquidity were set in place to further improve MHS's ability to have the cash on hand to support operations. Other sources of liquidity and their approximated impact during the year 2020 include the removal of the 2% Medicare sequestration worth approximately \$11.1 million, deferral of the employer portion of payroll taxes worth approximately \$55.4 million, and a Medicare DRG add-on payment for COVID-19 worth approximately \$1.2 million. Further steps are being taken to recover lost revenue and additional expenses associated with COVID-19 through the Federal Emergency Management Agency ("FEMA"), the CARES Act, insurance and other sources. MHS also considered whether to utilize the Medicare Advanced Payment Program ("MAPP") to obtain additional cash flow. MAPP allows MHS to request an advanced payment equal to 100% of the prior three months of Medicare payments, which is then repaid 120 days after the payment is issued by offsetting paid claims. MHS chose not to request an advance under MAPP due to the additional administrative burden needed to reconcile these advances. Decisions are continuing to be made to reduce expenses and recover lost revenue through all available avenues to MHS.

The following table shows the various governmental funding that has been received through June 30, 2020 related to COVID-19:

Source	Amounts (in thousands)
CARES Act Provider Relief Fund	\$63,159
CARES Act Employee Retention Credit	\$2,409
Total	\$65,568

An additional \$5.6 million in CARES funding for High-impact Providers was received in July.

Operating Income Summary. MHS generated an operating loss of \$14.2 million (-0.9% operating margin) for the six months ended June 30, 2020. This is a decrease in operating margin of \$76.9 million compared to the operating margin of \$62.8 million (4.0% operating margin) during the six months ended June 30, 2019¹. The negative operating margin in 2020 is driven by the operational impacts of COVID-19, which has been discussed above.

Operating Revenue. Total operating revenue was \$1.58 billion which was approximately the same total operating revenue compared to 2019. Patient service revenue decreased \$73.9 million (4.8%) due to the operational impacts of COVID-19. Other operating revenue increased \$68.1 million (133%) primarily due to CARES Act funding received.

Operating Expenses. Total operating expenses increased \$70.0 million (4.6%) to \$1.59 billion from \$1.52 billion in 2019. MHS has experienced increases in salaries and wages associated with wage rate increases and use of contract labor. Purchased services has increased year over year due to the addition of several strategic initiatives targeted toward further growth in volumes.

Nonoperating Income. MHS saw a nonoperating loss of \$158.1 million, which is a decrease of \$276.6 million compared to nonoperating income of \$118.4 million in 2019. Investment performance for 2020 was a loss of \$34.9 million from a significant decline in the first quarter of 2020 and improved market performance in the second quarter. Losses on the change in the estimated fair value of interest rate swaps were \$117.0 million due to the significant decreases in interest rates.

Net Income. Operating loss of \$14.2 million, combined with the nonoperating loss of \$158.1 million, produced a deficit of revenues over expenses of \$172.3 million for the period ended June 30, 2020 compared to an excess of revenue over expenses of \$181.2 million in 2019. Both operating and nonoperating performance were significantly impacted by COVID-19.

Balance Sheet / Financial Position. As of June 30, 2020, unrestricted cash and investments were \$2.2 billion, a decrease of \$30.9 million from December 31, 2019. This decrease was largely due to the negative investment and swap performance in the first quarter that has not fully recovered in the second quarter. MHS closed on a sale leaseback transaction relating to its Puget Sound based off campus emergency departments during the second quarter, which generated approximately \$62 million in additional cash, which is also reflected as an increase of the same amount in long-term debt. This transaction



provided additional liquidity for MHS and resulted in an improved return on investment associated with the off campus emergency departments. At the conclusion of the 20-year lease, the assets will revert back to MHS ownership.

As of June 30, 2020, total net assets were \$2.77 billion compared to \$2.94 billion as of December 31, 2019. Net assets without donor restrictions decreased \$170.2 million to \$2.65 billion as of June 30, 2020. The MHS balance sheet and cash position remain strong as of June 30, 2020, despite the operating losses and investment declines associated with COVID-19. Operating performance has been steadily improving beginning in May 2020, as service lines were re-opened and volumes began to increase.

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Days cash on hand	266	275
Cash and investments to long-term debt	164.3%	173.0%
Long-term debt to capitalization	33.6%	31.4%

Subsequent to quarter-end, MHS issued \$300 million in 30-year taxable bonds with an interest rate of 2.803%. This transaction closed in July.

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.