Trinity Health Reports $2 billion FY16 Revenue Growth and Margin Improvements in Second Half of Year

Summary Highlights for the Year-ended June 30, 2016

Trinity Health ended its fiscal year 2016 having experienced both the benefit of its strategic initiatives and the challenge of recent industry trends. The year was marked by $2 billion in year over year revenue growth as a result of acquisitions and same ministry increases. After a challenging start to the fiscal year, margin results improved in the second half of the year with operating margin before other items increasing from 0.5% to 1.3%, but the system ended the year with margins below prior year levels. Trinity Health also acted boldly in fiscal year 2016, investing early in future growth, strategic investments in its People Centered 2020 strategy, and in people – all with the intention to lead in the delivery of people-centered care.

For the year ended June 30, 2016, Trinity Health reported operating income, before other items, of $151.3 million, an operating margin of 0.9%, and an operating cash flow margin of 7.2%. This compares with fiscal year 2015 operating income of $470 million, operating margin of 3.3% and operating cash flow margin of 9.6%. The operating income decline in fiscal year 2016 includes $13 million related to the acquisitions of St. Joseph's Health, in Syracuse, NY, and St. Francis Care, in Hartford, CT. In addition, the year over year change in margins was due primarily to increased labor costs (including contract labor), supply costs, purchased services, and unfavorable trends in claims experience in the Ohio Medicare Advantage health plans. Unfavorable shifts in payor and service mix also impacted fiscal year 2016 margins.

Increasing costs were partially offset by volume growth, improved payment rates and increasing case mix indices. Improved margins in the second half of fiscal year 2016 were driven by cost savings of approximately $120 million as a result of focusing on improving the performance of challenged ministries and a number of other cost reduction initiatives.

Highlights of results for the fiscal year ended June 30, 2016, include:

- Total assets of $23.4 billion
- Total net assets of $10.2 billion
- Total unrestricted revenue of $16.3 billion, a 14% increase over fiscal 2015 with a 4.1% increase prior to the impact of acquisitions
- Operating income, before other items, of $151.3 million
- Unrestricted cash and investments of $7.8 billion
- Days cash on hand of 185 days
Introduction to Management's Discussion & Analysis

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances, provisions for bad debt and charity care; premium revenue; recorded values of investments, derivatives and goodwill; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from those estimates.

The Patient Protection and Affordable Care Act ("ACA") was enacted in March 2010. This legislation addresses almost all aspects of hospital and provider operations and health care delivery and is changing how health care services are covered, delivered, and reimbursed. These changes will result in new payment models with the risk of lower hospital reimbursement from Medicare, utilization changes, increased government enforcement and the necessity for health care providers to assess, and potentially alter, their business strategy and practices, among other consequences. While many providers may receive reduced payments for care, millions of previously uninsured Americans may have coverage. Management of the Corporation has analyzed the ACA and will continue to do so in order to assess the effects of the legislation and evolving regulations on current and projected operations, financial performance and financial condition. However, management of the Corporation cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

Trinity Health Corporation and its subsidiaries ("Trinity Health" or the "Corporation"), an Indiana nonprofit corporation headquartered in Livonia, Michigan, controls one of the largest health care systems in the United States. It is the result of the consolidation of Catholic health systems over the last sixteen years.

Recent Developments

Mercy Health Network

The Corporation has a 50% interest in Mercy Health Network ("MHN"), a nonstock basis membership corporation with Catholic Health Initiatives ("CHI") holding the remaining 50% interest. Effective March 1, 2016, the Corporation and CHI amended and restated their existing MHN Joint Operating Agreement ("JOA") that governs certain of their respective legacy operations in Iowa to strengthen MHN’s management responsibilities over the Iowa Operations, to jointly acquire health care operations in Iowa and contiguous markets; and to provide for greater financial, governance, and clinical integration. The JOA provides for the Corporation and CHI to maintain ownership of their respective assets in Iowa while agreeing to operate the Corporations Iowa hospitals in collaboration with CHI’s Mercy Hospital Medical Center, Des Moines, Iowa, as one organization with common governance and management. MHN has developed a regional healthcare network that provides for a collaborative effort in the areas of community healthcare development, enhanced access to health services for the poor and sharing of other common goals. Under the JOA, the Corporation and CHI will equally share adjusted operating cash flow from Iowa operations commencing in July 2016.

On May 1, 2016, MHN became the sole member of Wheaton Franciscan Services, Inc. ("WFSI"). WFSI operates three hospitals in Iowa located in Waterloo (Covenant Medical Center), Cedar Falls (Sartori Memorial Hospital) and Oelwein (Mercy Hospital of Franciscan Sisters). WFSI is consolidated in MHN’s financial statements. As a result of this transaction, MHN recognized an inherent contribution in their consolidated statement of operations and changes in net assets, of
which, the Corporation's share is $87.2 million. As of June 30, 2016, the Corporation's investment in MHN totaled $91.0 million.

**St. Francis Care**

Effective October 1, 2015, the Corporation became the sole corporate member of Saint Francis Care and subsidiaries ("SFC"), a Connecticut non-stock corporation. On November 17, 2015, Saint Francis Care, Inc. changed its name to Trinity Health-New England, Inc. SFC is the sole member of Saint Francis Hospital and Medical Center, a Connecticut non-stock corporation that operates a hospital in Hartford, Connecticut and is also the sole member of Mount Sinai Rehabilitation Hospital, a Connecticut non-stock corporation that operates a rehabilitation facility. As a result of this transaction, the Corporation recognized an inherent contribution of $70.9 million in the consolidated statement of operations and changes in net assets.

Furthermore, on January 1, 2016, SFC acquired the assets of Johnson Memorial Medical Center, Inc. ("Johnson"), a non-profit, non-stock holding company located in Stafford Springs, Connecticut. Johnson, through its subsidiaries, provides health care services throughout the Hartford and Tolland Connecticut counties. As a result of this transaction, the Corporation recognized an inherent contribution of $4.0 million in the consolidated statement of operations and changes in net assets. SFC, inclusive of Johnson, has been consolidated in the fiscal year 2016 financial statements.

**St. Joseph’s Hospital Health Center**

On July 1, 2015, the Corporation became the sole corporate member of Saint Joseph’s Hospital Health Center ("SJHHC"), a regional health care system located in Syracuse, New York as part of a member substitution. As a result of this transaction, the Corporation recognized an inherent contribution of $58.3 million in the consolidated statement of operations and changes in net assets. SJHHC has been consolidated in the fiscal year 2016 financial statements.

**Siouxland Surgery Center LLP**

Effective July 1, 2014, a venture was created between Mercy Health Services – Iowa, Corp. ("Mercy") and USP Health Ventures, LLC ("USP"), (collectively, "Mercy/USP"). Mercy owns a controlling interest of 55.71% and USP owns the remaining 44.29% interest of the venture. Mercy/USP then entered into a Securities Purchase Agreement with SSC Physician Investors, LLC ("Physician Investors"), whereby Mercy contributed 30.9% of their pre-existing ownership of Siouxland Surgery Center ("Siouxland") and USP contributed their newly acquired 24.6% ownership of Siouxland, resulting in Mercy/USP owning a controlling interest of 55.54% of Siouxland with the remaining 44.46% interest owned by Physician Investors. As a result of the transaction, Mercy reported a gain of $40.3 million on its preexisting ownership interest in other nonoperating items in the consolidated statement of operations and changes in net assets in July 2014 and recognized goodwill of $136.3 million in the consolidated balance sheets. Siouxland operates a surgical specialty hospital and medical facility in Dakota Dunes, South Dakota.

**Debt Refinancing**

The acquisitions of SFC and SJHHC resulted in the assumption of debt of $617 million. The majority of this debt was retired or defeased using proceeds from the issuance of $372 million of commercial paper and a $190 million draw on a general purpose credit facility, both of which were later replenished with proceeds from the issuance of long-term debt in January and February 2016. During January and February 2016, the Credit Group issued $555.6 million par value in tax-exempt fixed rate hospital revenue bonds at a premium of $76.7 million, $263.8 million par value in tax-exempt variable rate private placement bonds and $54.7 million par value in taxable variable rate private placement bonds. Proceeds from these issuances were used to retire $600 million of then outstanding taxable commercial paper obligations, pay down $152.1 million of the then outstanding line of credit draw, extinguish the remaining $43.9 million of debt assumed with the acquisition of SJHHC and pay related transaction costs and to defease $25.5 million of tax-exempt bonds. The remaining proceeds will be used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities and to pay related costs of issuance.
Results from Operations

Operating Income
After a challenging start to the fiscal year, margin results improved in the second half of the year with operating margin before other items increasing from 0.5% to 1.3%, but the system still ended the year with margins below prior year levels. Operating income before other items for fiscal year 2016 was $151.3 million compared to $470.0 million in fiscal year 2015. The acquisitions of SJHHC and SFC unfavorably impacted operating income with a combined operating loss of $13.0 million reported for fiscal year 2016. Operating margin and operating cash flow margin, before other items, were 0.9% and 7.2%, respectively, for fiscal year 2016 compared to 3.3% and 9.6% for fiscal year 2015. Excluding the impact of acquisitions, fiscal year 2016 operating margin and operating cash flow margin, before other items, were 1.1% and 7.4%, respectively. Excluding the impact of acquisitions, the change in margins was due primarily to increased labor costs (including contract labor), supply costs, purchased services costs, and increasing claims costs in the Ohio Medicare Advantage health plans. Unfavorable shifts in payor and service mix also impacted margins. These items were partially offset by volume growth, favorable payment rates and case mix improvements. In addition, improved margins in the second half of fiscal year 2016 were driven by cost savings of approximately $120 million as a result of focusing on improving the performance of challenged ministries and a number of other cost reduction initiatives.

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>FY15</th>
<th>FY16</th>
<th>FY16 *</th>
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<tbody>
<tr>
<td>Operating Income **</td>
<td>$470.0</td>
<td>$151.3</td>
<td>$164.3</td>
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<tr>
<td>Operating Revenue</td>
<td>$14,338</td>
<td>$16,339</td>
<td>$14,927</td>
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<tr>
<td>Operating Margin**</td>
<td>3.3%</td>
<td>0.9%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Operating Cash Flow Margin**</td>
<td>9.6%</td>
<td>7.2%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

* Excluding the impact of FY16 acquisitions of SJHHC and SFC
** Before other items

Revenue
Total unrestricted revenue of $16.3 billion increased $2.0 billion, or 14.0%, for fiscal year 2016 compared to fiscal year 2015. Revenue from the acquisitions of SJHHC and SFC accounted for $1.4 billion of the increase or 9.9%. Excluding the impact of the aforementioned acquisitions, the increase was due primarily to the following: (i) $419.1 million in volume growth resulting from a slight increase in inpatient discharges and continued growth in the ambulatory services area, (ii) a $128.6 million net increase in payment rates, and (iii) an increase of $151.3 million in other revenue over the prior year. These increases were partially dilated by an unfavorable shift in payor and service mix. Same facility volumes were favorable to prior year with 17 of the 19 Regional Health Ministries experiencing increases in case mix adjusted equivalent discharges.

Expenses
Total operating expenses of $16.2 billion increased $2.3 billion, or 16.7% for fiscal year 2016 compared to fiscal year 2015. Expenses from the acquisitions of SJHHC and SFC accounted for $1.4 billion of the increase or 10.3%. Excluding the impact of the aforementioned acquisitions, the change was due primarily to the following: (i) labor expense increase of $504.9 million (salaries and wages $344.5 million primarily due to a 2.6% increase in rate and a 3.1% increase in FTEs driven by higher volumes, employee benefits of $103.8 million and contract labor of $56.6 million), (ii) purchased services increase of $152.7 million, (iii) supplies increase of $126.7 million driven by a rate increase and higher volumes and (iv) medical claims increase of $51.4 million due to increased membership as well as increasing claims experience at Medigold, the Corporation’s Medicare Advantage plans in Ohio. Expenses for depreciation and amortization, occupancy, interest, and other expenses increased $58.6 million in fiscal year 2016 compared to fiscal year 2015.
Other Items
For the year ended June 30, 2016, other items include a $65.3 million charge for the estimated impact of identified data submission errors, ranging over a six year period, related to Medigold. Also included are asset impairment charges of $39.6 million related to certain facilities at St. Peter’s Health Partner’s in Albany, New York. For the fiscal year ended June 30, 2015, other items totaled a net charge of $12.3 million which included $23.4 million of asset impairment charges, partially offset by an $11.1 million pension curtailment gain.

Nonoperating Items
The Corporation reported gains in nonoperating items of $43.4 million for fiscal year 2016 compared to $213.9 million for fiscal year 2015. The change was primarily due to a $305.9 million difference in nonoperating investment earnings, increased losses on interest rate swaps of $84.6 million and a $20.8 million reduction of equity in earnings of unconsolidated affiliates (all primarily driven by overall global investment market conditions), partially offset by inherent contributions of $133.4 million related to the acquisitions of SJHHC and SFC, an inherent contribution of $87.2 million related to MHN’s acquisition of WFSI and a decrease in loss from early extinguishment of debt of $53.9 million. Fiscal year 2015 results include a $40.3 million noncash gain for a step-up in basis to fair value related to the acquisition of a controlling interest in Siouxland.

Excess of Revenue over Expenses
Excess of revenue over expenses for fiscal year 2016 was $41.3 million compared to $636.8 million for fiscal year 2015. The change was primarily due to a $318.7 million decrease in operating income before other items, a $170.5 million decrease in nonoperating items, and a $92.6 million increase in net changes in other items in fiscal year 2016.

Balance Sheet
Balance sheet metrics remained strong, although certain metrics were impacted by a reduction in nonoperating investment income reflective of global market financial conditions and volatility caused by the “Brexit” vote the last part of June. Total assets of $23.4 billion increased $1.6 billion, or 7.4% as of June 30, 2016, compared to June 30, 2015, primarily due to the acquisitions of SJHHC and SFC which accounted for $1.5 billion of the increase. Excluding the acquisitions, asset growth was impacted by investment losses and capital expenditures net of depreciation and amortization costs. Total assets include unrestricted cash and investments of $7.8 billion or 185 days of cash on hand. Days cash on hand decreased by 31 days during the year, of which 27 days was for capital expenditures, 11 days due to the aforementioned acquisitions and 5 days due to investment losses. Net days in accounts receivable increased by 1.5 days to 43.5 days as of June 30, 2016 compared to fiscal year 2015. Total liabilities of $13.1 billion increased $2.2 billion, or 19.6%, primarily due to the aforementioned acquisitions, which accounted for $1.2 billion of the increase. Accrued pension and retiree health costs increased $669.7 million due mainly to an 85 basis point decrease in discount rates used to measure liabilities, and to a lesser extent, actual asset returns below expected returns. Debt to capitalization as of June 30, 2016 increased to a ratio of 40.3% from 35.6% compared to June 30, 2015 due primarily to debt assumed with the acquisitions of SJHHC and SFC and the June 30, 2016 charge to unrestricted net assets of $990.3 million related to actuarial losses in pension and retiree health plans.
Statement of Cash Flows
Cash and cash equivalents increased $201 million during the year. Operating activities provided $877 million of cash. Investing activities used $757 million of cash including $958 million for net purchases of property and equipment partially offset by $101 million of cash acquired from acquisitions and $98 million of net proceeds from the sale of investments. Financing activities provided $81 million of cash due primarily to the proceeds from the issuance of debt of $982 million partially offset by repayments of debt of $924 million.
## TRINITY HEALTH
### Liquidity Reporting
Summary as of June 30, 2016

### ASSETS

#### Daily Liquidity
- Money Market Funds (Moody's rated Aaa) $829
- Checking and Deposit Accounts (at P-1 rated bank) -
- Repurchase Agreements -
- U.S. Treasuries & Aaa-rated Agencies 141
- Dedicated Bank Lines 931
  - Subtotal Daily Liquidity (Cash & Securities) $1,902

- Undrawn Portion of $600M Taxable Commercial Paper Program 454
  - Subtotal Daily Liquidity Including Taxable Commercial Paper Program $2,356

#### Weekly Liquidity
- Exchange Traded Equity $1,246
- Publicly Traded Fixed Income Securities Rated at least Aa3 and Bond Funds 1,026
- Equity Funds 1,162
- Other 536
  - Subtotal Weekly Liquidity 3,970

#### TOTAL DAILY AND WEEKLY LIQUIDITY
$6,326

#### Longer Term Liquidity
- Funds, vehicles, investments that allow withdrawals with less than one month notice 1,564
- Funds, vehicles, investments that allow withdrawals with one month notice or longer 1,904
  - Total Longer Term Liquidity $3,467

### LIABILITIES (Self-liquidity Variable Rate Demand Bonds & Commercial Paper)

#### Weekly Put Bonds
- VRDO Bonds (7-day) $340

#### Long-Mode Put Bonds
- VRDO Bonds (Commerical Paper Mode) 426

#### Taxable Commercial Paper Outstanding
146

#### TOTAL SELF-LIQUIDITY DEBT AND COMMERCIAL PAPER $912