Trinity Health Posts Net Excess of $786 Million for FY19

Summary Highlights for the Year Ended June 30, 2019

Trinity Health reported $19.3 billion in operating revenue, and excess of revenue over expenses of $786 million for its fiscal year ending June 30, 2019. Operating revenue increased $947.8 million, or 5.2 percent, over the prior year, attributable to increases in patient volumes, improvements in payment rates, case mix acuity and the acquisition of MacNeal Hospital in Berwyn, Illinois, and related entities. The MacNeal acquisition generated $229.2 million of the total increase.

Other results for the year ended June 30, 2019, include (before other items) operating income of $325.8 million, operating margin of 1.7 percent and operating cash flow margin 7.4 percent. Operating income before other items fell $75.5 million as compared to the prior year, with $32.1 million of the reduction related to health plans accounted for on the equity method, $2.5 million related to the impact of the MacNeal acquisition, and increases in operating expenses that outpaced revenue growth. The acquisition of MacNeal Hospital and related entities added $231.7 million of operating expenses or a 1.3 percent increase over the prior fiscal year. Excluding the acquisition of MacNeal, expenses increased by $791.5 million, or 4.4 percent, primarily due to labor and supply costs, including pharmaceuticals. An increase in claim denials by payers further negatively affected margins. For the year ended June 30, 2019, other items included restructuring costs of $82.4 million related to restructuring of staffing for revenue cycle billing services, voluntary severance programs and information technology staffing changes due to the Trinity Health’s decision to transition away from some technologies, a $57.4 million loss on transfer of membership interests in Lourdes Health, and asset impairment charges of $25.2 million.

During fiscal year 2019, volatile investment markets, predominant in the second quarter, affected bottom-line results. However, improvements in investment earnings during the second half of fiscal year 2019 drove an increase of $1.1 billion in excess revenue over expenses from Trinity Health's reported December 31, 2018, bottom line. Trinity Health reported non-operating gains of $673.5 million in fiscal year 2019 (after recognizing $419.6 million of losses through December 31, 2018) compared to non-operating gains of $812.2 million in the prior fiscal year. Trinity Health’s year ended June 30, 2019, excess of revenue over expenses of $786.0 million compared to $901.5 million for fiscal 2018.

Highlights of results for the year ended June 30, 2019, include:

- Total assets of $27.0 billion and net assets of $13.8 billion
- Total operating revenue of $19.3 billion, a 5.2 percent increase over fiscal year 2018
- Operating income before other items of $325.8 million, with a 1.7 percent operating margin
- Excess of revenue over expense of $786.0 million
- Unrestricted cash and investments of $9.0 billion
- Days cash on hand of 181 days
Discussion and Analysis of Financial Condition and Results of Operations for Trinity Health

June 30, 2019
Introduction to Management's Discussion & Analysis

Trinity Health Corporation, an Indiana nonprofit corporation headquartered in Livonia, Michigan, and its subsidiaries (“Trinity Health” or the “Corporation”), controls one of the largest health care systems in the United States.

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 patient service revenue, which includes explicit and implicit price concessions; premium revenue; recorded values of investments, derivatives and goodwill; evaluation of long-lived assets for impairment; 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.

Recent Developments

MacNeal Hospital and MacNeal Health Providers (“MacNeal”)

On March 1, 2018, the Corporation’s Loyola University Health System, through a wholly controlled subsidiary, purchased the assets of MacNeal Hospital, located in Berwyn, Illinois, and certain other health care operations affiliated with the hospital from an affiliate of Tenet Healthcare Corporation. As a result of this transaction, the Corporation recognized goodwill of $142.4 million as cash consideration paid exceeded net assets acquired for the year ended June 30, 2018.

St. Joseph Mercy Chelsea Hospital (“Chelsea”)

Effective July 1, 2018, the Corporation, through its subsidiary Trinity Health - Michigan, sold a 49% noncontrolling membership interest to the Regents of the University of Michigan as part of a broader initiative to develop and implement new collaborations on a statewide basis throughout Michigan to improve the health of the communities that they serve and enhance the efficiencies and value of the systems’ delivery of health care. The Corporation maintains control of Chelsea, which is consolidated in the financial statements. At the effective date, $53.8 million was recorded as noncontrolling ownership interest in subsidiaries in the consolidated statements of operations and changes in net assets and on the consolidated balance sheet.

Membership Transfer Agreement Lourdes Health System (“Lourdes”)

Effective June 30, 2019, Maxis Health System ("Maxis"), a wholly-controlled subsidiary of Trinity Health, transferred membership interests of Our Lady Of Lourdes Health Care Services, Inc. (the Lourdes legal entity) from Maxis to Virtua Health, Inc. ("Virtua"). The transfer to Virtua included substantially all of the health care operations and certain assets and working capital of Lourdes effective June 30, 2019. As a result of the Membership Transfer agreement executed on June 4, 2018, certain assets and liabilities met the criteria to be classified as held for sale in the accompanying consolidated balance sheet as of June 30, 2018. These assets and liabilities were recorded at the lower of their carrying amount or their fair value less estimated costs to sell. As a result of the transaction, a loss on transfer of $57.4 million was recorded in the statement of operations and changes in net assets for the year ended June 30, 2019. Also, as a result of this transfer, the Corporation defeased approximately $85.2 million of bonds through the funding of various escrow accounts on June 28, 2019. In addition, the Corporation redeemed approximately $1.3 million of bonds on June 28, 2019.
Debt Issuance
During fiscal year 2019, the Trinity Health Credit Group issued $347.0 million par value tax-exempt fixed-rate hospital revenue bonds at a premium of $36.5 million under its amended and restated master trust indenture. Proceeds were used to partially refund $78.9 million of certain tax-exempt bonds. The remaining proceeds will be used to refinance and reimburse a portion of the costs of acquisition, construction, and renovation and equipping of health facilities. Also during fiscal year 2019, $75.0 million of tax-exempt variable-rate direct placement bonds were converted to a floating rate note.

Results from Operations

Operating Income
Operating income before other items for fiscal year 2019 was $325.8 million compared to $401.3 million for fiscal year 2018. Operating margin and operating cash flow margin before other items were 1.7% and 7.4%, respectively, for fiscal year 2019 compared to 2.2% and 8.1% for fiscal year 2018. MacNeal reported operating losses of $4.4 million in fiscal 2019 compared to losses of $1.9 million in the prior year. Expense growth year over year exceeded revenue growth leading to compressed margins. Increased labor and supplies (mainly in pharmaceuticals and specialty pharmaceuticals) contributed largely to the growth in operating expenses year over year. Volume increases and improved payment rates lifted revenue. However, these gains were partially negated by an increase in third party payer denials and downgrade of payments (which are both vigorously challenged) and a reduction in earnings in health plans accounted for on the equity method.

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>FY18</th>
<th>FY18*</th>
<th>FY19</th>
<th>FY19*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income**</td>
<td>$401.3</td>
<td>$403.2</td>
<td>$325.8</td>
<td>$330.3</td>
</tr>
<tr>
<td>Operating Revenue</td>
<td>$18,345</td>
<td>$18,229</td>
<td>$19,293</td>
<td>$18,948</td>
</tr>
<tr>
<td>Operating Margin**</td>
<td>2.2%</td>
<td>2.2%</td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Operating Cash Flow Margin**</td>
<td>8.1%</td>
<td>8.1%</td>
<td>7.4%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

* Excluding the impact of the MacNeal acquisition
** Before other items

Revenue
Total operating revenue of $19.3 billion increased $947.8 million, or 5.2%, for fiscal year 2019 compared to fiscal year 2018. Revenue from the MacNeal acquisition accounted for $229.2 million, or 1.2%, of the increase over the prior year. The composition of operating revenue based on service lines is approximately 39.0% acute care inpatient, 32.9% acute care outpatient, 10.3% physician services, 3.8% long term care and home health care, 3.2% premium revenue, 2.3% capitation revenue, and 8.5% revenue from other sources. The increase in revenue, excluding the acquisition impact of MacNeal, is primarily attributed to: (i) $337 million from volume growth, (ii) $321 million of payment rate increases, (iii) $82 million from improvements in case mix, and (iv) an increase of $171.5 million in other revenue, primarily an increase in retail pharmacy revenue of $45.2 million, $28.3 million in earnings of health plans accounted for on the equity method. Same facility volumes were favorable to prior year with 12 of the 19 Regional Health Ministries experiencing increases in case mix adjusted equivalent discharges.

Expenses
Total operating expenses of $19.0 billion increased $1.0 billion, or 5.7% for fiscal year 2019 compared to fiscal year 2018. Expenses from the MacNeal acquisition accounted for $231.7 million of the increase or 1.3% over the prior year. The remaining increase in operating expenses is attributed to: (i) salaries and wages increase of $313.8 million (driven by a 2.4% increase in rate and a 1.6% increase in FTEs), (ii) supplies and pharmaceuticals increase of $211.1 million, impacted by volumes, service...
mix and rate, (iii) employee benefits increase of $109.2 million primarily due to employee healthcare, FICA on higher wages and defined contribution retirement costs, (iv) purchased services increase of $98.5 million including $51.4 million of medical professional fees, and (v) other expense increase of $35.0 million, primarily $18.3 million of insurance and $11.1 million of provider taxes. Expenses for occupancy, interest and depreciation and amortization, did not materially change million for fiscal year 2019 compared to fiscal year 2018.

Other Items
Fiscal year 2019 operating income including other items of $776.4 million exceeded that of fiscal year 2018 by $23.9 million. For the fiscal year ended June 30, 2019, other items of $165.0 million include $82.4 million of restructuring costs related to the Corporation’s decision to consolidate and restructure staffing in revenue cycle billing services, voluntary severance programs and information technology staffing changes due to the Corporation’s decision to transition away from some technologies, a $57.4 million loss on transfer of Lourdes, and $25.2 million of non-cash asset impairment charges.

For the fiscal year ended June 30, 2018, other items include non-cash asset impairment charges of $264.4 million. $107.8 million of the impairments were due to the Corporation’s decision to move to a single, enterprise-wide electronic health record and revenue cycle management system platform. The integrated system will enable the health system to improve experiences for patients and clinicians. $69.9 million of the impairments were due to the planned divestiture of Lourdes. Additional asset impairments of $86.7 million were recorded primarily at three other health ministries across the Corporation. The total impairments were comprised of $15.7 million of land, $244.4 million of property and equipment, and $4.3 million of intangible other assets.

Nonoperating Items
The Corporation reported nonoperating gains of $673.5 million for fiscal year 2019 compared to gains of $812.2 million for fiscal year 2018. The decrease was largely due to a $79.9 million reduction in the valuation of interest rate swaps, a $67.6 million decrease in investment returns (5.5% return for fiscal year 2019 versus a 7.0% return in fiscal year 2018), and a $9.8 million reduction in equity in earnings of unconsolidated affiliates (all primarily driven by overall global investment and market conditions). These reductions were partially offset by a reduction in loss from early extinguishment of debt.

Excess of Revenue over Expenses
Excess of revenue over expenses for fiscal year 2019 was $786.0 million compared to an excess of revenue over expenses of $901.5 million for fiscal year 2018. Excess of revenue over expenses improved $1.1 billion over the last six months of the year for fiscal year 2019. The variance to prior year was primarily due to significant declines in global investment and financial market conditions during the fiscal year.

Balance Sheet
Total assets of $27.0 billion increased $776.4 million, or 3.0% as of June 30, 2019, compared to June 30, 2018. The increase in assets was mainly driven by increases in investments in unconsolidated affiliates and property and equipment, partially offset by the $150.1 million reduction in assets from the transfer of Lourdes. Total assets include unrestricted cash and investments of $9.0 billion, a $94 million increase from June 30, 2018. Days of cash on hand of 181 days at June 30, 2019 decreased by 6 days from June 30, 2018, primarily due to capital expenditures, retirement plan funding and reduction in accounts payable and accrued expenses, partially offset by positive operating cash flow, investment returns and to a lesser extent the debt issuance. Net days in accounts receivable decreased by 1.9 days to 42.7 days as of June 30, 2019 compared to fiscal year June 30, 2018. Total liabilities of $13.1 billion increased $285 million, or 2.2%, primarily due to an increase in accrued pension and retiree health costs of $245.0 million largely due to net actuarial losses, $554 million of which were due to a 70 basis point reduction in discount rates, partially offset by cash funding of $129.3 million and pension income. The issuance of debt net of payments and the defeasance of Lourdes debt also added $66.4 million of liabilities. These increases in liabilities were partially offset by a decrease in accounts payable and accrued expenses of $112.8 million primarily due to recognition of deferred revenue at June 30, 2018 and timing differences. Debt to capitalization as of June 30,
2019 decreased slightly to a ratio of 35.4% from 36.0% compared to June 30, 2018.

**Statement of Cash Flows**
Cash and cash equivalents decreased $497.4 million during the fiscal year 2019. Operating activities provided $919.6 million of cash. Investing activities used $1.5 billion of cash including $1.3 billion for purchases of property and equipment and $216.3 million for net purchases of investments. Financing activities provided $102.4 million of cash primarily due to proceeds from issuance of debt in excess of repayments.
## TRINITY HEALTH
Liquidity Reporting
June 30, 2019

($ in millions)
(unaudited)

### ASSETS

#### Daily Liquidity
Money Market Funds (Moody's rated Aaa) $ 48
Checking and Deposit Accounts (at P-1 rated bank) 520
Repurchase Agreements -
U.S. Treasuries & Aaa-rated Agencies -
Dedicated Bank Lines 900

**Subtotal Daily Liquidity (Cash & Securities)** $ 1,468

Undrawn Portion of $600M Taxable Commercial Paper Program 500

**Subtotal Daily Liquidity Including Taxable Commercial Paper Program** $ 1,968

#### Weekly Liquidity
Exchange Traded Equity $ 2,970
Publicly Traded Fixed Income Securities Rated at least Aa3 and Bond Funds 1,620
Equity Funds 915
Other 442

**Subtotal Weekly Liquidity** 5,947

**TOTAL DAILY AND WEEKLY LIQUIDITY** $ 7,916

#### Longer Term Liquidity
Funds, vehicles, investments that allow withdrawals with less than one month notice 1,245
Funds, vehicles, investments that allow withdrawals with one month notice or longer 2,283

**Total Longer Term Liquidity** $ 3,528

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

#### Weekly Put Bonds
VRDO Bonds (7-day) $ 217

#### Long-Mode Put Bonds
VRDO Bonds (Commerical Paper Mode) 168

**Taxable Commercial Paper Outstanding** 100

**TOTAL SELF-LIQUIDITY DEBT AND COMMERCIAL PAPER** $ 485

**Ratio of Daily and Weekly Liquidity to Self Liquidity Debt and Commercial Paper** 16.33
Trinity Health
Financial Ratios and Statistics (Unaudited)

Financial Indicators

<table>
<thead>
<tr>
<th>Liquidity Ratios (at June 30)</th>
<th>June 30, 2019</th>
<th>June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Cash on Hand</td>
<td>181</td>
<td>187</td>
</tr>
<tr>
<td>Days in Accounts Receivable, Net</td>
<td>42.7</td>
<td>44.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Leverage Ratios (at June 30)</th>
<th>June 30, 2019</th>
<th>June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt to Capitalization</td>
<td>35%</td>
<td>36%</td>
</tr>
<tr>
<td>Cash to Debt</td>
<td>126%</td>
<td>125%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profitability Ratios (For the Year Ended June 30)</th>
<th>June 30, 2019</th>
<th>June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margin Before Other Items</td>
<td>1.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Operating Cash Flow Margin Before Other Items</td>
<td>7.4%</td>
<td>8.1%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Statistical Indicators (For the Year Ended June 30)</th>
<th>Rounded to nearest thousand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discharges</td>
<td>588,000</td>
</tr>
<tr>
<td>Patient Days</td>
<td>2,731,000</td>
</tr>
<tr>
<td>Outpatient Visits</td>
<td>21,110,000</td>
</tr>
<tr>
<td>Emergency Room Visits</td>
<td>2,354,000</td>
</tr>
<tr>
<td>Observation Cases</td>
<td>144,000</td>
</tr>
</tbody>
</table>

Continuing Care

| Home Health Admissions | 94,000 | 95,000 |
| Long-term Care Patient Days | 952,000 | 1,060,000 |