

PeaceHealth Financial Stewardship

October 2022

Financial Health Facts

PeaceHealth **\$3.29B**

Mission-Driven Non-Profit
16,500+ Caregivers, 10 Medical Centers, 164 Clinics

WHERE OUR FUNDS GO

Labor **64%**

Salaries, benefits, payroll taxes

Supplies **16%**

Consumable medical supplies and pharmaceuticals

Purchased Services **12%**

Outsourced lab, food/nutrition, BioMed

All Other Costs **8%**

Business taxes, licenses

Surplus **-3%**

*We're working to achieve pre-COVID operating EBITDA margins of 8–10%

\$324.5 Million Community Benefit

FY22 Total Community Benefit

Financial Assistance (Charity Care) **15%**

Unreimbursed Medicaid Costs **80%**

Community Health Improvement **5%**

***FINANCIAL STEWARDSHIP** requires a 2–3% surplus margin to maintain our core facilities and 4–6% margins to invest in technology and advancements.



PeaceHealth

What does it mean to be a non-profit?

Our Mission is healing, not profit



Fulfilling our healing Mission

We are dedicated to promoting personal and community health – elevating the level of care in communities we serve, relieving pain and suffering, and treating each person in a loving and caring way. **PeaceHealth is routinely recognized as a leader in patient care, quality and safety.**



Reinvesting for community health

For-profit hospitals pay taxes and dividends to investors in shareholders. By contrast, as a non-profit, PeaceHealth reinvests any surplus revenue to **improve the health of the communities we serve**, and to ensure the sustainability of our charitable mission.



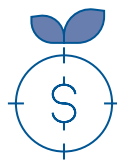
Serving those most in need

PeaceHealth models our care and culture on the healing ministry of Jesus: compassionate, inclusive, a servant of the poor and a seeker of justice. **We have a moral responsibility to advocate for and care for poor or powerless people.**



Advancing health justice for all

Driven by our belief that good health, prevention and community well-being are fundamental rights, we support health equity and health justice for all. We are called to promote inherent dignity and empower each person on their path not just to health but to wellness, providing access to affordable, high-quality care. **PeaceHealth earned an A-Rating for Social Responsibility.**



Being good stewards of precious resources

PeaceHealth resources exist to promote the common good in the communities we serve. **We must protect and preserve precious resources for those in our communities with the greatest need while keeping costs as affordable as possible for those who can pay.**

PeaceHealth invested \$324.5M in our communities in FY22, by providing free and discounted health services (charity care and unreimbursed Medicaid costs) as well direct funding and indirect/in-kind support for community programs that address the social determinants of health.

\$1.34B
total community benefit
over the past five years

For-profit or not, what's the difference?

As a mission-driven non-profit health system, PeaceHealth serves communities, not shareholders. We promote community health, not investor wealth.

- Non-profit health systems like PeaceHealth were created to serve unmet needs. We grow along with our communities and are committed to the long term.
- In contrast, for-profit healthcare companies provide medical services for financial gain. Their focus is on finding customers for their services rather than the other way around. They might stop serving a community when it is no longer profitable.

Non-profit health systems like PeaceHealth

- ✓ Serve **community stakeholders**, not investors
- ✓ Offer **health and wellness services communities need**, not just what is profitable
- ✓ Reinvest surplus for **community benefit** rather than paying dividends to investors
- ✓ Focus on **long-term vitality** rather than short-term profitability
- ✓ Are tax-exempt in return for providing **patient financial assistance and community benefit** programs
- ✓ Finance facilities with low-interest **tax-exempt bonds**
- ✓ Rely on **charitable support** from donors
- ✓ Have a **community-minded Governing Board** focused on stewardship rather than delivering financial returns to shareholders

HEALTHY SURPLUSES ARE NEEDED FOR HEALTHY COMMUNITIES

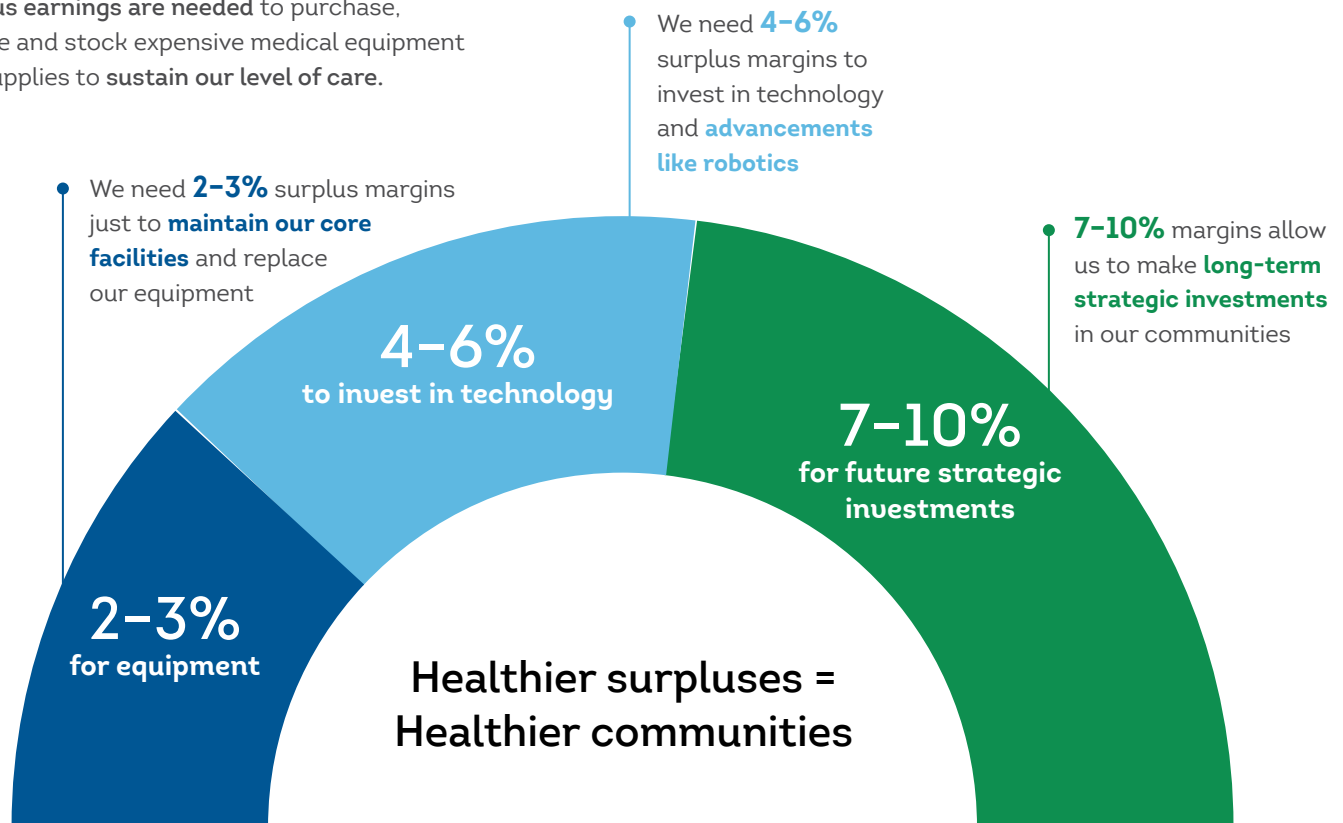
While PeaceHealth is a non-profit, surplus income is needed to purchase, service and stock expensive medical equipment and supplies. We maintain reserves for emergencies like natural disasters and pandemics and to reinvest in our future.

What happens if PeaceHealth earns a surplus?

We reinvest for healthier communities

We need healthy surpluses to fulfill our Mission.

Surplus earnings are needed to purchase, service and stock expensive medical equipment and supplies to sustain our level of care.

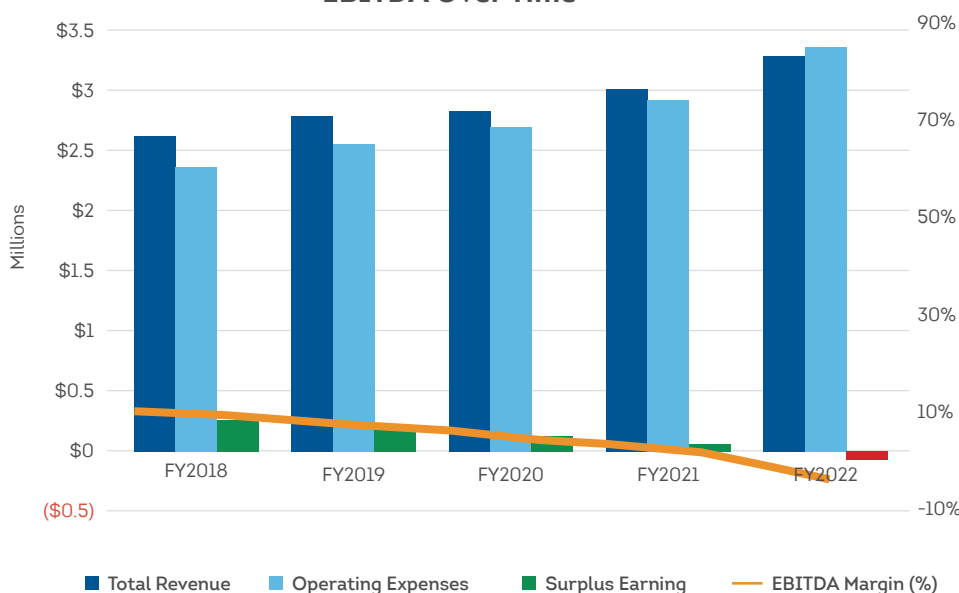


PeaceHealth reinvests its earnings into our operations and community partners to care for the most vulnerable and serve our communities' changing needs. While more complex, PeaceHealth's budget is not that different from your household budget. Just as each of us tries to allocate some of our paycheck for future expenses—like emergencies, college for kids, or retirement—PeaceHealth depends on surpluses and reserves to weather emergencies, secure favorable terms on loans, and invest in a healthier future for our communities.

Economic shocks deplete our surplus

- ✓ We try to achieve surpluses and maintain reserves so we can meet our financial obligations, regardless of unplanned emergencies, and invest in the future.
- ✓ When our earnings and surpluses decline, we have less funds available for new facilities or new equipment or to support the things – like community benefit – that are core to our mission.

EBITDA Over Time



How much cash we have on hand is a helpful snapshot of our financial health, but we also look at our earnings and surpluses in a different way called **EBITDA** to get a better measure of how much surplus is available to invest in and prepare for the future.

Our EBITDA margins fell from 10% in 2018 to -3% in 2022.

What is “EBITDA”?

EBITDA is short for **Earnings Before Interest, Tax, Depreciation, and Amortization**.

Why does PeaceHealth use EBITDA?

EBITDA reflects operating profits, or in the case of a non-profit like PeaceHealth, surpluses. Our EBITDA Margin is the percentage of our revenue that is cash surplus.

Surplus earnings are needed to reinvest in our community partners and services, facility upgrades, state-of-the-art equipment, and caregivers. **When planning our budgets, tracking EBITDA helps us know if we can absorb new costs, signaling when it is the right (or wrong) time to add expenses to grow.**

How is PeaceHealth addressing shrinking EBITDA margins?

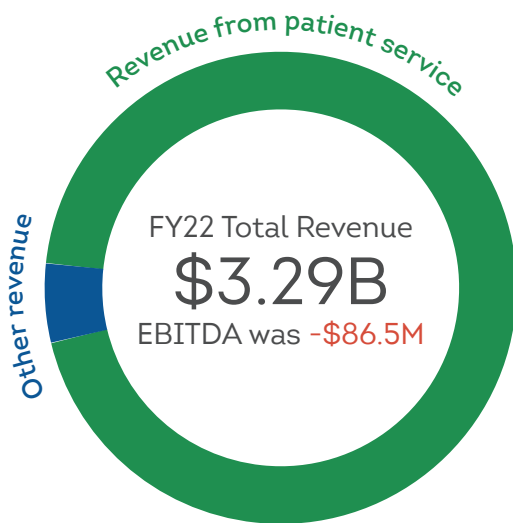
PeaceHealth strategies focused on volume recovery, performance improvements, and system optimization aim to achieve pre-COVID operating **EBITDA margins of 8-10%**, allowing long-term strategic investments in our communities.



PeaceHealth

Where do PeaceHealth funds come from?

Our funds come from providing compassionate care



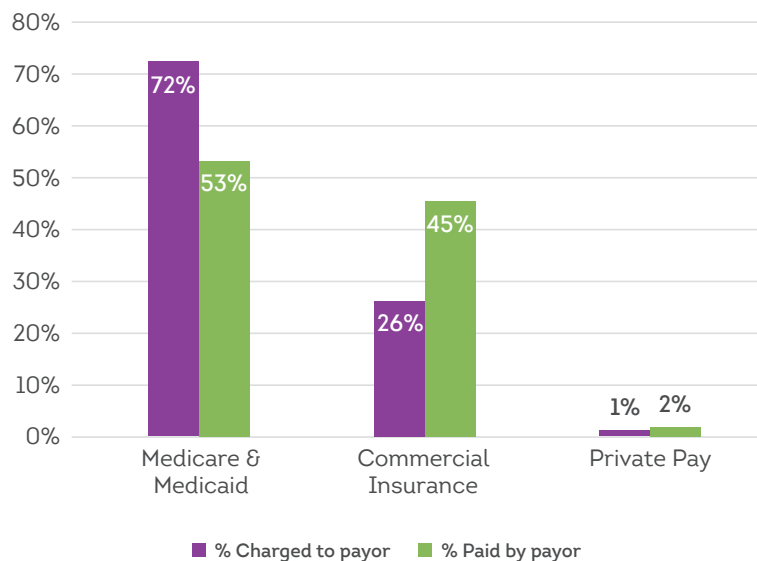
96%

of PeaceHealth's revenue comes from payments for services provided to patients.

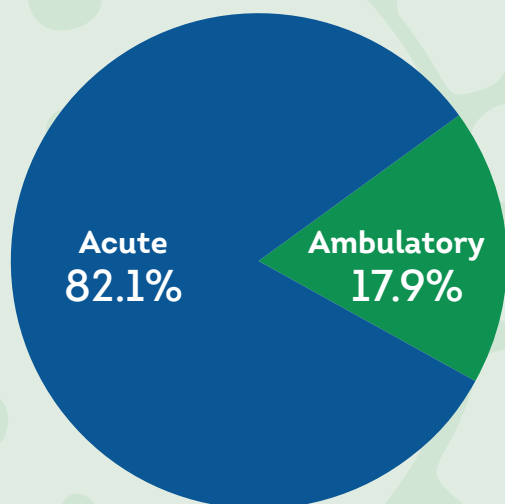
A healthy mix of private insurance helps balance the cost of care not reimbursed through Medicare and Medicaid.

Patients – and the insurers that pay for their care – want accessible, high-quality, affordable healthcare.

- ✓ We charge 72% of our patient services to Medicare and Medicaid, but only 53% of our payments come from them.
- ✓ Payments from commercial insurance make up 45% of PeaceHealth's net revenue.



Most of our revenue is from acute care.



Activity that generates most of our surplus is down.

- ✓ Discharges are **94%** of pre-COVID levels.
- ✓ Patients increasingly seek convenient, affordable care away from hospitals—and health innovations are making this easier and safer.

Fewer patients are being admitted, and average stays are longer.

- ✓ Length of stay has increased from 4.3 to **5.2** days on average
- ✓ Many payers cap reimbursements no matter how long patients are in the hospital.
- ✓ Sicker patients require more intensive and expensive care, so **longer stays don't mean more revenue**; they mean fewer new patients can be admitted.

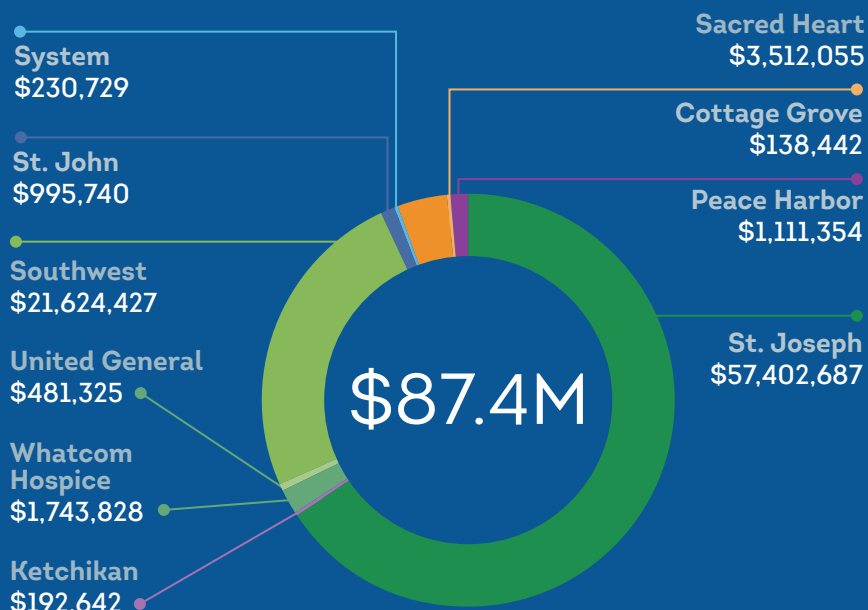
Philanthropy is increasingly important.

As traditional sources of revenue like acute care decline, PeaceHealth increasingly relies on the generosity of philanthropic partners to help support our Mission.

- ✓ In FY22, what we expended on philanthropy was returned more than ten-fold in the gifts we received.
- ✓ 1,186 caregivers contributed more than \$505,257 in 2022
- ✓ Eight community foundations support PeaceHealth.

Breakdown by foundation

Total dollars raised



PeaceHealth

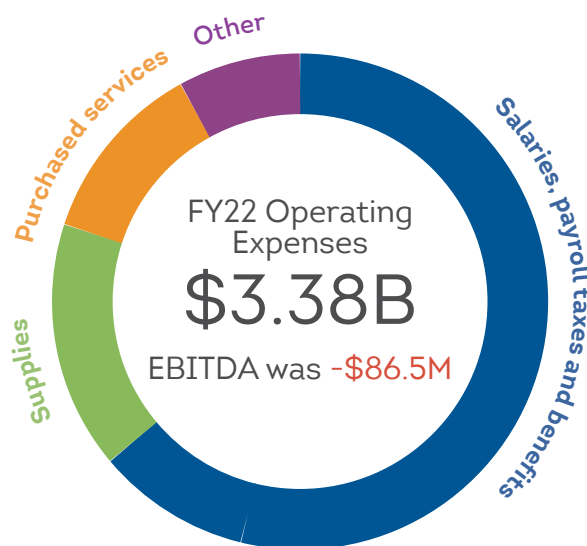
Where do PeaceHealth funds go?

Most of our earnings support caregivers

Running PeaceHealth costs more than \$9 million/day – more than \$5 million/day is invested in our caregivers.

Caregivers are our most vital resource, and our budget reflects that. Payroll makes up almost two-thirds of what PeaceHealth spends each year.

- ✓ Salaries, payroll taxes and benefits **64%**
- ✓ Supplies **16%** (consumable medical supplies and pharmaceuticals)
- ✓ Purchased services **12%** (outsourced lab, food/nutrition, BioMed)
- ✓ All other costs, just **8%** (business taxes, licenses)
- ✓ Revenue minus these operating expenses equals the surplus (EBITDA) available for reinvestment. In FY22, expenses exceeded revenue by \$86.5M.



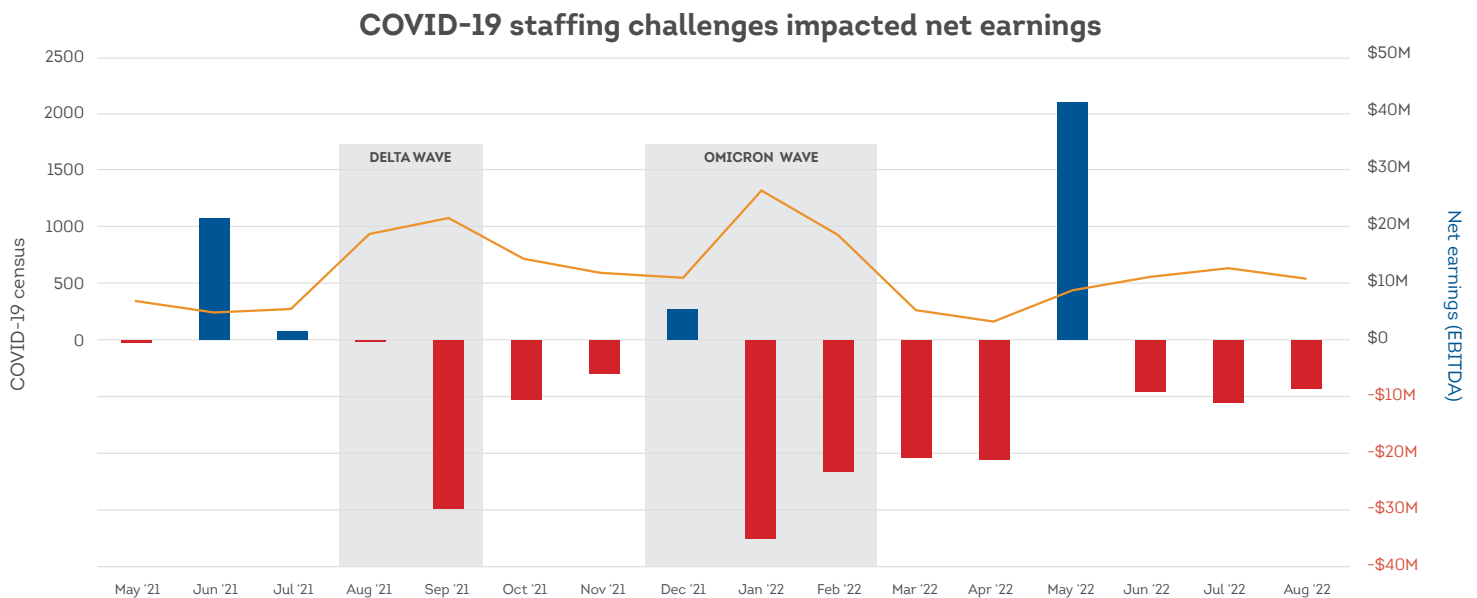
In FY22, PeaceHealth invested \$1.869 billion in our caregivers, not including expenditures on contract labor.

While pay alone is significant, other benefit costs also impact PeaceHealth's budget. We worked hard to offer competitively priced health plans in FY 2022.

	FY 2020	FY 2021	FY 2022
Caregiver compensation	\$1.35 billion	\$1.39 billion	\$1.49 billion
Retirement plan base & match	\$84 million	\$87.6 million	\$91.5 million
Cost of other benefits	\$273.7 million	\$295.8 million	\$287.9 million
Total caregiver investment	\$1.708 billion	\$1.773 billion	\$1.869 billion

PeaceHealth's labor costs increased 31% from FY19–FY22.

Because such a large percentage of PeaceHealth's budget supports caregivers, increases in those costs can have a dramatic effect. For instance, **staffing shortages caused by the pandemic and related spikes in contract labor costs had a substantial negative impact on PeaceHealth's net earnings.**



We're working to restore surplus earnings to invest in our Mission.

Our **Operational Excellence Plan** provides the structure and processes needed to ensure high-quality patient care – while also managing rising costs – so we can continue to invest in improving the overall health of our communities and advancing health justice for all.

All hospital costs have spiked dramatically.

- ✓ Over the past two years, U.S. hospital costs per patient have increased more than 20%.
- ✓ PeaceHealth costs for supplies and pharmaceuticals increased by 22% from FY19–FY22.
- ✓ Inflation and supply chain issues are compounding the problem.
- ✓ These dramatic cost increases are **not being matched** by reimbursements.

While PeaceHealth revenue has grown steadily at 6%, expenses have grown at an even faster rate of 10%. As a result, our surplus margins shrank from 10% in 2018 to **-3%** in 2022.

How much does PeaceHealth invest in our communities?

PeaceHealth is a leader in community benefit

9 cents of every dollar
PeaceHealth spends is
for community benefit.

As a leader in our communities, PeaceHealth is focused not just on individual patient outcomes but also on maximizing community health benefits and ensuring access to high-quality, affordable care.

- ✓ Healthier communities lead to healthier patients.
- ✓ PeaceHealth earned an **A-Rating for Social Responsibility**.
- ✓ As we grow, so does our community benefit. Conversely, when PeaceHealth doesn't thrive, we can't reinvest in community health at the same levels.



Unreimbursed Medicaid costs \$1.01B

The government does not fully cover costs associated with caring for low-income and other eligible patients. Unreimbursed costs have spiked 83% over the past five years.

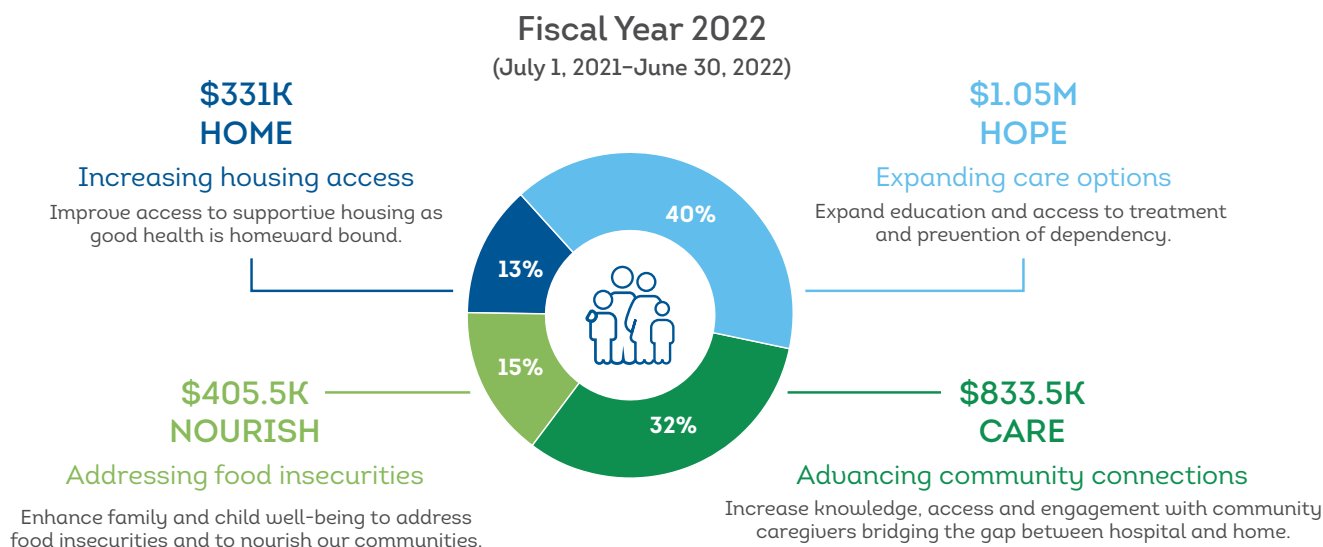
Financial assistance (charity care) \$258M

When patients can't afford the full cost of treatment, PeaceHealth provides financial assistance in the form of discounting or writing off bills.

Community health improvement \$69M

PeaceHealth directly and indirectly supports numerous community programs that address the social determinants of health and help grow healthy and strong communities to advance wellness and health justice.

As part of broader community health investments, PeaceHealth collaborates with community partners to drive local impact investments in our four focus areas. Each community's health needs define priorities.

HEALING MISSION
NON-PROFITREINVESTING IN OUR
COMMUNITIESPROVIDING
COMPASSIONATE CAREINVESTING IN OUR
CAREGIVERSPROMOTING
COMMUNITY HEALTHMODERNIZING
HEALTHCARE

- ✓ Driven by our belief that good health, prevention and community well-being are fundamental rights, we support health equity and health justice for all.
- ✓ We are called to promote inherent dignity and empower each person on their path not just to health but to wellness, providing access to affordable, high-quality care.
- ✓ Each PeaceHealth location conducts **community health needs assessments** and works with community-based partners to address key social determinants of health: **food insecurity, housing, access to care, and behavioral health.**

Here are just a few examples of our Mission-driven community collaborations:



NOURISH

PeaceHealth
Ketchikan Medical
Center

**Growing our
community, one
garden at a time**

*Improving
nutrition and
access to fresh,
local produce.*



HOUSING

PeaceHealth
United General
Medical Center

**New
opportunities
for housing**

*Collaboration
expands
access to
affordable
homes*



CARE

PeaceHealth
St. John Medical
Center

**Holistic care
for patients**

*Wraparound
support to
improve long-
term health and
reduce hospital
readmissions*



HOPE

PeaceHealth
Sacred Heart
Medical
Center at
RiverBend

**Life-saving
prevention**

*Syringe
exchange and
naloxone kit
distribution*

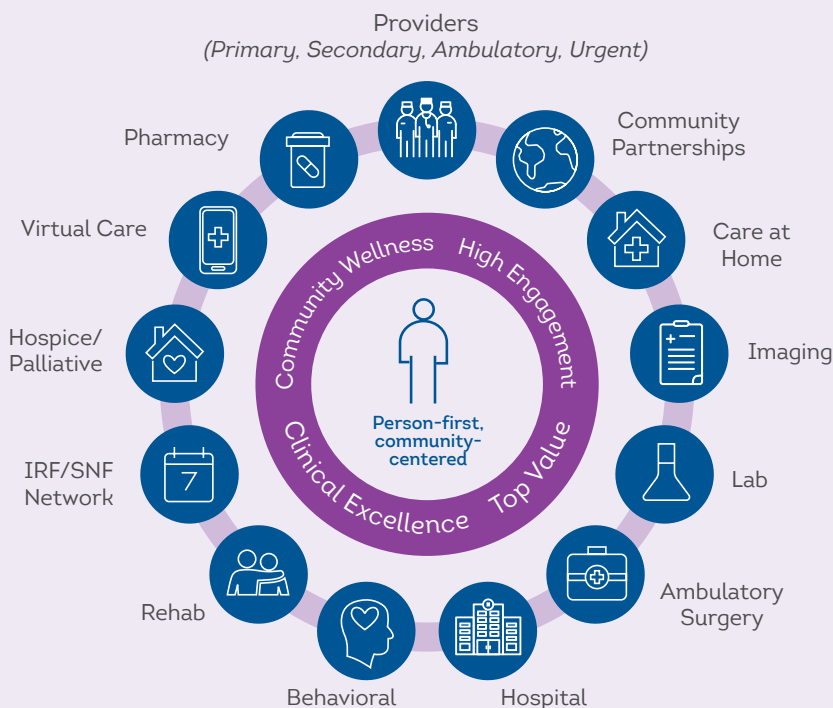


PeaceHealth

What does PeaceHealth's future look like?

We will modernize to deliver care consumers want

We're building an integrated healthcare ecosystem



Our future: Person-first, community-centered healthcare.

PeaceHealth is assembling an ecosystem of care that puts our consumers and communities at the center and forefront of everything we do.

- ✓ We are partnering with payers, community-based providers, innovators, and patients to deliver a care ecosystem that offers easy access to high-quality, low-cost, coordinated care.
- ✓ We are making targeted investments to drive growth and deliver greater value to people and health justice to communities.

Financial stewardship helps us build high-quality, low-cost, coordinated care for the future.

The work we do to keep PeaceHealth on the right track now will help us fulfill our healing Mission for years to come.

We're facing three big challenges

1

1 RISING COST OF LABOR

PeaceHealth's approach:
Balance rising labor costs with the need to restore earnings to pre-COVID-19 levels

Rising labor costs and shrinking margins make it harder to make the investments in facilities and equipment needed to grow. **Our Operational Excellence Plan** delivers high-quality patient care while managing rising costs to achieve 8-10% EBITDA margins by 2025.

2

2 SHIFT TO AMBULATORY CARE

PeaceHealth's approach:
Accelerate our shift from inpatient to ambulatory care

Patients are increasingly seeking care outside the walls of our hospitals in pursuit of more affordable, convenient and accessible services. **PeaceHealth is shifting to meet these consumer needs** through local/regional provider partnerships, acquisitions, new service lines and national partnerships.

3

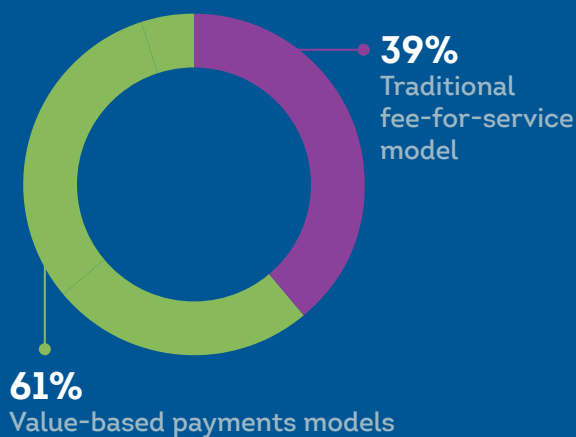
3 SHIFT TO ALTERNATIVE PAYMENT METHODS

PeaceHealth's approach:
Focus on patient-centered, value-based care

The traditional fee-for-service reimbursement model incentivizes the quantity of services – value-based care reimbursements reward providers based on the quality of care and health outcomes.

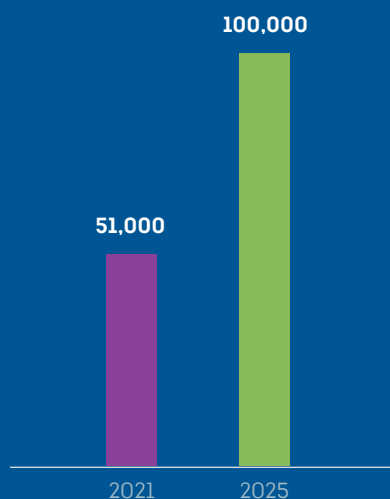
Meeting these challenges will help ensure we are well-positioned for the value-based shift to keeping patients healthy, instead of only treating them when they're sick.

National payment methodology distribution



31% Shared & savings bundles
25% Pay-for-performance
5% Population-based payments

Projected PeaceHealth patients in value-based payment models



PeaceHealth