

SCH Financial Condition

September 18, 2025

Sources

- FY25 quarterly financial information from Seattle Children's Healthcare System unaudited FY25 Q3 financial statements:
<https://emma.msrb.org/P21954216-P21491883-P21943663.pdf>
- FY19, FY20, FY21, FY22, FY23, and FY 24 from Seattle Children's Healthcare System audited financial statements. FY24:
<https://emma.msrb.org/P21874770-P21434197-P21879426.pdf>

Common Goals

Patient care and patient safety

Financial stewardship

Good, safe jobs for nurses & staff

Racial justice & equity

Community partnership

Financial Metrics

- **Operating income:** the amount of money generated (or lost) from the core business (i.e., provision of health care services).
 - Primary revenue source is patient services revenue (Medicaid, Medicare, private insurance, self pay).
 - Plurality of operating expense items is 'salary and benefits.'
- **Operating EBITDA:** earnings before interest, taxes, depreciation, and amortization from operations. This metric filters out financial decisions (like how much debt an organization takes on) and measures core profitability of the operation. Also, 'depreciation and amortization' is not a cash expense. Equivalent to cash flow from operations.
- **Net income:** overall **profit** (or loss). This includes other business activity outside of core business. For wealthy hospitals, this is primarily return on financial investments.
- **Days cash on hand:** the most common metric to measure the liquidity and financial stability of hospitals. It is a measure of how many days a hospital could continue to operate without generating any revenue.

FY24 Profitability

SCH Income Statement (in 000s) (FY ends 9/30)	
	FY24
Total operating revenues and support	\$ 2,548,330
Total operating expenses	\$ 2,427,619
Operating income (loss)	\$ 120,711
Operating income (loss)	\$ 120,711
Depreciation	\$ 142,060
Interest and amortization	\$ 26,219
Operating EBITDA	\$ 288,990
Operating income (loss)	\$ 120,711
Net nonoperating (expense) income	\$ 265,172
Excess (deficiency) of revenues over expenses	\$ 385,883
Operating Margin	4.7%
Operating EBITDA Margin	11.3%
Net Margin	13.7%

\$121M profit from operations

\$289M cash flow from operation (operating EBITDA)

\$386M in annual profit

Margins provide context; how do they stack up for SCH?

FY24 Profitability

- Comparators: Multicare, CommonSpirit (VMFH), Providence, and PeaceHealth systems.
- Fiscal years vary.

FY24 Margin Comparison		
	SCH	Large Non-Profit Average
Operating Margin	5%	-2%
Operating EBITDA	11%	3%
Net Margin	14%	3%

- Seattle Children's profitability metrics far outpace all other major healthcare systems in WA.
- Operating margin is important but a positive operating margin is not necessary for overall profitability. Three of the four other health systems had a negative operating margin with an overall profit.
- FY25 preliminary figures show similar profitability gaps between Seattle Children's and the field.

Source: Hospital systems audited financial statements

FY25 Profitability (through 3Qs)

SCH Income Statement (in 000s) (FY ends 9/30)	
	2025 (annualized from Q1, Q2, Q3)
Total operating revenues and support	\$ 2,859,641
Total operating expenses	\$ 2,611,241
Operating income (loss)	\$ 248,400
Operating income (loss)	\$ 248,400
Depreciation	\$ 149,249
Interest and amortization	\$ 26,512
Operating EBITDA	\$ 424,161
Operating income (loss)	\$ 248,400
Net nonoperating (expense) income	\$ 139,001
Excess (deficiency) of revenues over expenses	\$ 387,401
Operating Margin	8.7%
Operating EBITDA Margin	14.8%
Net Margin	12.9%

- Operating results (operating income and operating EBITDA) are even better than FY24.
- Net income is slightly down from FY24 due to less robust returns from financial investments.
- All margins are on the high end for all (not just WA) non-profit healthcare.

Recent Trends

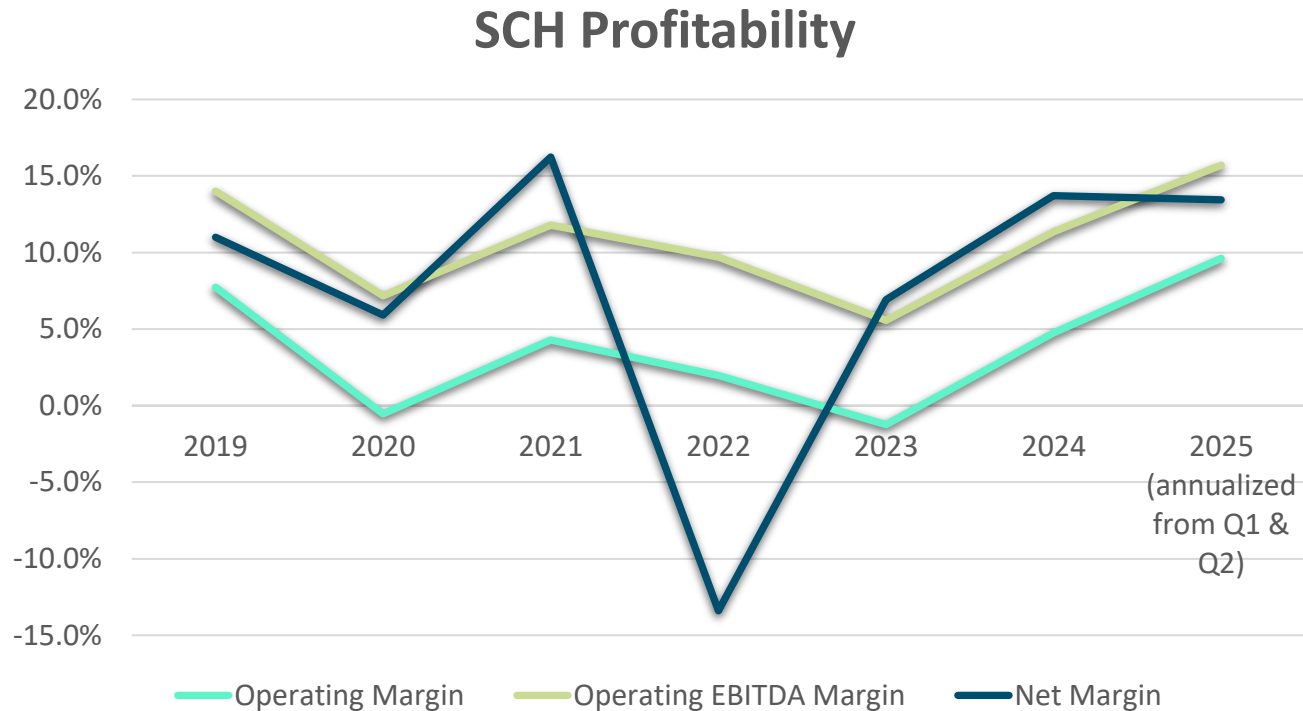
SCH Income Statement (in 000s) (FY ends 9/30)			
		2025 (annualized from Q1, Q2, Q3)	% Change from 2022 to annualized 2025
OPERATING REVENUES			
Net patient service revenues	\$ 1,702,443	\$ 2,369,352	39%
Research revenues	\$ 201,136	\$ 183,839	-9%
Other operating revenues	\$ 118,789	\$ 129,939	9%
COVID Relief Funding	\$ 17,052	\$ -	-100%
Unrestricted contributions	\$ 18,371	\$ 67,607	268%
Net assets released from restriction for operations	\$ 60,328	\$ 108,905	81%
Total operating revenues and support	\$ 2,118,119	\$ 2,859,641	35%
OPERATING EXPENSES			
Salaries, benefits, supplies, purchased services and other	\$ 1,912,753	\$ 2,435,480	27%
Depreciation	\$ 142,701	\$ 149,249	5%
Interest and amortization	\$ 20,874	\$ 26,512	27%
Total operating expenses	\$ 2,076,328	\$ 2,611,241	26%
Operating income (loss)	\$ 41,791	\$ 248,400	494%
NONOPERATING (EXPENSE) INCOME			
Interest and dividend income, net of fees	\$ 29,903	\$ 47,933	60%
Realized gains on trading securities, net	\$ 52,061	\$ 94,252	81%
Unrealized (losses) gains on trading securities, net	\$ (360,763)	\$ (5,380)	99%
Change in valuation of interest rate swap agreements	\$ 10,317	\$ 952	-91%
Other nonoperating income	\$ 1,007	\$ 2,372	136%
Other nonoperating expense	\$ (19,636)	\$ (1,128)	94%
Net nonoperating (expense) income	\$ (287,111)	\$ 139,001	148%
Excess (deficiency) of revenues over expenses	\$ (245,320)	\$ 387,401	

FY25 Trends

2022 to 2025 Notable Movement

- Operating revenue: increased by 35%
- Operating expenses: increased by 26%
- Non-operating income:
 - -\$245M in 2022
 - \$387M in 2025 (annualized)
- Result:
 - Solid operating margins became excellent margins
 - Overall loss (driven entirely by financial investment losses) became 13% profit margin

Historical Profitability



Source: Seattle Children's Audited Financial Statements

FY25 Trends

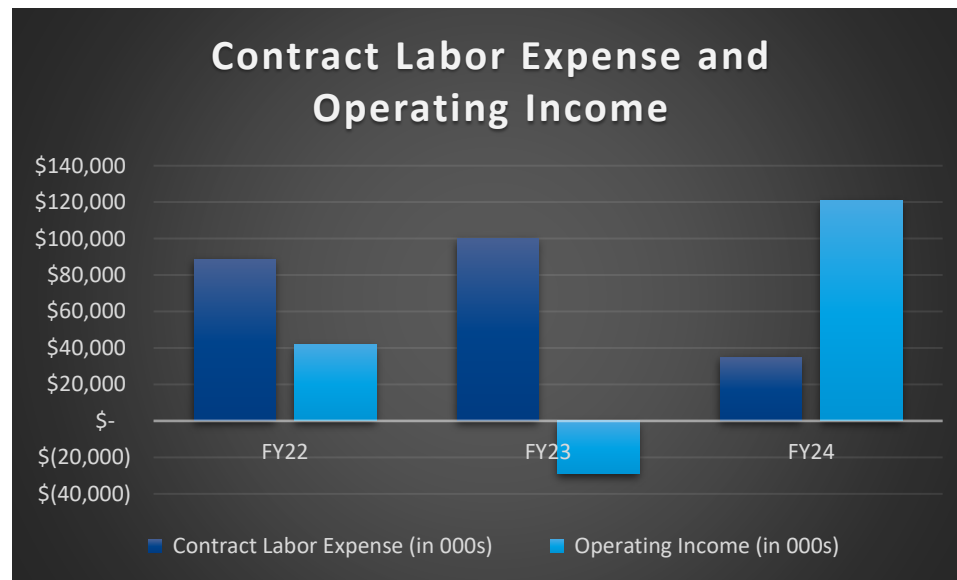
Industry Big Picture

- **2022/2023** – industry headwinds were strong: inflation, lagging private insurance contracts, contract labor expense.
- **2025**—industry has bounced back from 2022/2023 but still not where most hospital executives would hope.
- Reduction in contract labor expense one of the biggest factors in turnaround.
- Seattle Children's performed admirably in 2022/2023 and has thrived in 2024 and 2025.
- Seattle Children's profitability and liquidity is at a different level than other hospitals/systems in Washington in both good times and bad.

SCH Contract Labor Expense

There has been an inverse relationship between contract labor spending and profitability of operations.

	FY22	FY23	FY24
Contract Labor Expense (in 000s)	\$ 88,800	\$ 100,100	\$ 34,900
Operating Income (in 000s)	\$ 41,791.00	\$ (28,856.00)	\$ 120,711.00



SCH Liquidity

	9/30/2022	9/30/2023	9/30/2024	6/30/2025
Days Cash-on-Hand	331	286	331	335

- Seattle Children's could operate its entire system at full capacity for nearly a year without any money coming in.
- This equates to \$2.3 billion in 'unrestricted cash and investments.'
- ~200 days is considered a *good* figure in the industry. There is an opportunity cost associated with a large cash & cash equivalents balance.
- Seattle Children's has the flexibility to build its cash balance up even more due to its consistent profitability. The level of cash reserves is a choice for hospitals as profitable as SCH.

SCH Liquidity

- Comparators: Multicare, CommonSpirit (VMFH), Providence, and PeaceHealth systems.
- SCH effective date: 6/30/25. Comparator effective dates: 3/31/25 or 6/30/25.

2025 Days Cash on Hand	
Seattle Children's	Large Non-Profit Average
335	147

Current Challenges

Potential Challenge	Concern	Mitigating Factor
Research Revenue Uncertainty	5-10% of SCH's operating revenue is from research grants.	Research grants have corresponding research expenses – cutbacks in research funding shouldn't impact hospital operations or patient care jobs.
Inflation	Inflation caused industry-wide concern in 2022/2023.	The industry bounced back in 2024 and 2025, in large part by renegotiating insurance contracts. It is unlikely that annual inflation levels from recent past.
Medicaid	HR 1 is projected to cut \$1 trillion from Medicaid over ten years.	(See next slide)
Contract Labor Expense	Travel RN expenses will skyrocket again.	The industry effectively brought down contract labor expenses in 2023/2024 with investments in long-term staff.. Hospital investment in full term staff preempts the threat of inflated contract labor expense.

Medicaid Uncertainty

There is uncertainty over the future of Medicaid eligibility, which will have an impact on Seattle Children's reimbursements, but Seattle Children's is very well positioned to navigate the changing healthcare landscape.

- Profit margins of 14% (FY24) and 13% (FY 25 through Q3) mean that—should all else remain the same—SCH could afford to lose in excess of \$350M in annual revenue and maintain profitability.
- With SCH's huge cash balance it could finish in the red for many years before its viability is at risk.
- Most of the Medicaid changes do not take effect until January 1, 2027, so SCH has 15 months to prepare for HR1's impact.
- The work requirement for Medicaid eligibility does not apply to children. How does this factor into HR1's impact on SCH?
- SCH's excellent financial foundation relative to other healthcare providers shields it from financial distress.

Main Takeaways

- Seattle Children's profitability and liquidity results have been excellent over a long period of time.
- Seattle Children's is well-positioned to deal with industry uncertainty.
- Seattle Children's investment in staff last contract negotiation worked in reducing contract labor expenses and allowing it to build up a larger, stable, workforce.
- The opportunity cost of investing in financial instruments and expansion is quality of care. SCH is wealthy and profitable enough that it can invest in all three, but, if the circumstances change, ***SCH should prioritize quality of care above other organizational objectives by investing in its nurses.***