FIRST SIX MONTHS FISCAL YEAR 2013
FINANCIAL RESULTS

FEBRUARY 6, 2013
**UPMC’S FINANCIAL PICTURE**

- Strong balance sheet allows UPMC to meet the needs of western Pennsylvania
  - Efficiently run operations
  - Provide high-quality clinical excellence
  - Fund capital expenditures
  - Create new programs to improve patient care

- UPMC Health Plan membership up 22%; now exceeds 2 million

- Substantial reinvestment in western Pennsylvania
  - $281 million in capital spending

- $136 million pension contribution protects employees’ retirement plans
  - 100% funded based on ERISA funding rules

**RESULTS IN BRIEF:**

$85M operating income / $247M net income / $3.9B investment reserve portfolio
**UPMC’s Two Businesses**

**Operations**

- Operating income of **$85 million** used to run operations, fund capital expenditures and create new programs
  - Key drivers include UPMC Health Plan membership (↑22%), physician revenue (↑6%), outpatient revenue (↑5%), and inpatient volume (↑5%)

**Investment Reserve Portfolio**

- **$3.9 billion** investment reserve portfolio provides for long-term sustainability
  - Value rises and falls based on market conditions
  - Fiscal year-to-date return ↑5.6%
UPMC OPERATING REVENUE
(Dollars In Millions)

- UPMC’s operating revenue has increased by 32% since 2009
- Provider growth flattening; insurance growth accelerating
- 7% compound annual growth rate allows UPMC to pursue various growth and community initiatives

First Six Months of Fiscal Years Ended June 30

2009: $3,748
2010: $3,933
2011: $4,108
2012: $4,758
2013: $4,961

7% ANNUAL GROWTH IN OPERATING REVENUE
Results reflect restructuring of the healthcare market

- Lower government reimbursement
- “Supra-competitive” insurance market emerging in the region
- Insurance companies ratcheting down utilization
- Declining research funds available from governmental sources
- Declining in-patient admissions

UPMC best-positioned for future success by continuing to:

- Invest in world-class patient care
- Improve administrative efficiencies to realize economies of scale
CHANGE IN OPERATING INCOME
(Fiscal Years Ended June 30 – Dollars In Millions)

$220

Q2 FY12

Meaningful Use
($28)

Nuance Transaction
($6)

Insurance Revenue Adjustments
($8)

Nonrecurring Adjustments
($42)

Q2 FY12 Adjusted

$178

Patient Volume
$14

State/Federal Revenue Adjustments
($14)

Insurance Rate Compression
($49)

Physician Investment
($39)

Net Inflation
($5)

Q2 FY13

$85

UPMC
LIFE CHANGING MEDICINE
Consistently achieving income levels necessary to run operations, fund capital expenditures and create new programs for the residents of western Pennsylvania.

* - Excludes non-recurring asset impairments and separation expenses in the period incurred.
UPMC OPERATING METRICS
(First Six Months of Fiscal Years Ended June 30)

TOTAL ADMISSIONS & OBSERVATIONS
- 2012: 125,370
- 2013: 131,167

OUTPATIENT REVENUE/WORKDAY
- 2012: $7.277M
- 2013: $7.613M

PHYSICIAN SERVICE REVENUE/WEEKDAY
- 2012: $4.269M
- 2013: $4.504M

UPMC HEALTH PLAN MEMBERSHIP
- 2012: 1,665,677
- 2013: 2,038,894

# OF EMPLOYED PHYSICIANS
- 2012: 3,240
- 2013: 3,384
Western Pennsylvania in-patient market contracting by 2.6% annually
- 15,000 fewer admissions in FY11
- Another 18,000 fewer admissions in FY12

At UPMC shift underway as a result of reimbursement practices
- In-patient medical-surgical admissions flat
- 21.7% increase in observation cases

UPMC’s market share increasing despite changing market
- Allegheny Co. = 60.0% vs. 58.6% same period year-ago
- 10-Co. SW PA = 39.8% vs. 38.6%
- 29-Co. W PA = 35.7% vs. 33.0%
SUCCESS OF UPMC HEALTH PLAN

- During the open enrollment period for January, membership continued to grow at double-digit rates
  - Commercial health products up by 13.0%
  - UPMC for Life Medicare membership up by 14.4%
  - UPMC for You Medicaid membership up by 52.3%
- 1,900+ new employer groups added
- UPMC Health Plan upgraded by A.M. Best to “A- (Excellent)” from “B+ (Good)”
- New competitive insurance market benefits community; reduces UPMC’s profitability
- $3.9 billion diversified portfolio provides for long-term sustainability
- Value changes as market fluctuates
- Q2FY13 gain of $155M compared to ($192M) for Q2FY12
### UPMC’s Community Benefits

**(Dollars In Millions)**

<table>
<thead>
<tr>
<th></th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>% Change FY07-FY12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncompensated Care</td>
<td>$126</td>
<td>$157</td>
<td>$195</td>
<td>$218</td>
<td>$206</td>
<td>$238</td>
<td><strong>89%</strong></td>
</tr>
<tr>
<td>Community Service Programs</td>
<td>$71</td>
<td>$99</td>
<td>$90</td>
<td>$91</td>
<td>$93</td>
<td>$96</td>
<td><strong>35%</strong></td>
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<tr>
<td>Research &amp; Education</td>
<td>$227</td>
<td>$241</td>
<td>$258</td>
<td>$254</td>
<td>$266</td>
<td>$288</td>
<td><strong>27%</strong></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$424</td>
<td>$497</td>
<td>$543</td>
<td>$563</td>
<td>$565</td>
<td>$622</td>
<td><strong>47%</strong></td>
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</tbody>
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- **97% of UPMC’s tax-exempt properties are hospital campuses**
  - Each operates as an “institution of purely public charity”
  - Unquestionably meet all requirements for tax-exempt status

- **$238M in uncompensated care in FY12 vastly more than enough to offset tax exemptions extended**

- **UPMC relieves local gov’ts of the responsibility to provide healthcare for poor and uninsured**
  - Public hospitals would cost taxpayers millions annually to run (e.g., Chicago’s Cook County Hospital)
1. Financially strong, “AA-” credit-rated, provider-driven IDFS
2. Excellence in service and quality continues to attract patients; growing share despite contraction of market
3. Thriving UPMC Health Plan; all products ranked in the top 10% of health plans nationally
4. State-of-the-art facilities among most modern in nation
5. Leaders in the deployment of electronic health records; 90% at HIMSS Stage 6 or higher in implementation
6. Highly integrated back-office functions uncommon in healthcare
7. More than 3,300 employed physicians
8. Extending our footprint
9. Developing new sources of revenue by commercializing clinical/Health Plan expertise and pursuing international/corporate strategic alliances
10. Reinvesting earnings to advance good science, smart technology and accountable patient care