Management's Discussion and Analysis of Financial Condition and Results of Operations for Ascension

For the six months ended December 31, 2020 and 2019

Ascension

The following information should be read in conjunction with Ascension's consolidated financial statements and related notes to the consolidated financial statements.

Introduction to Management's Discussion and Analysis

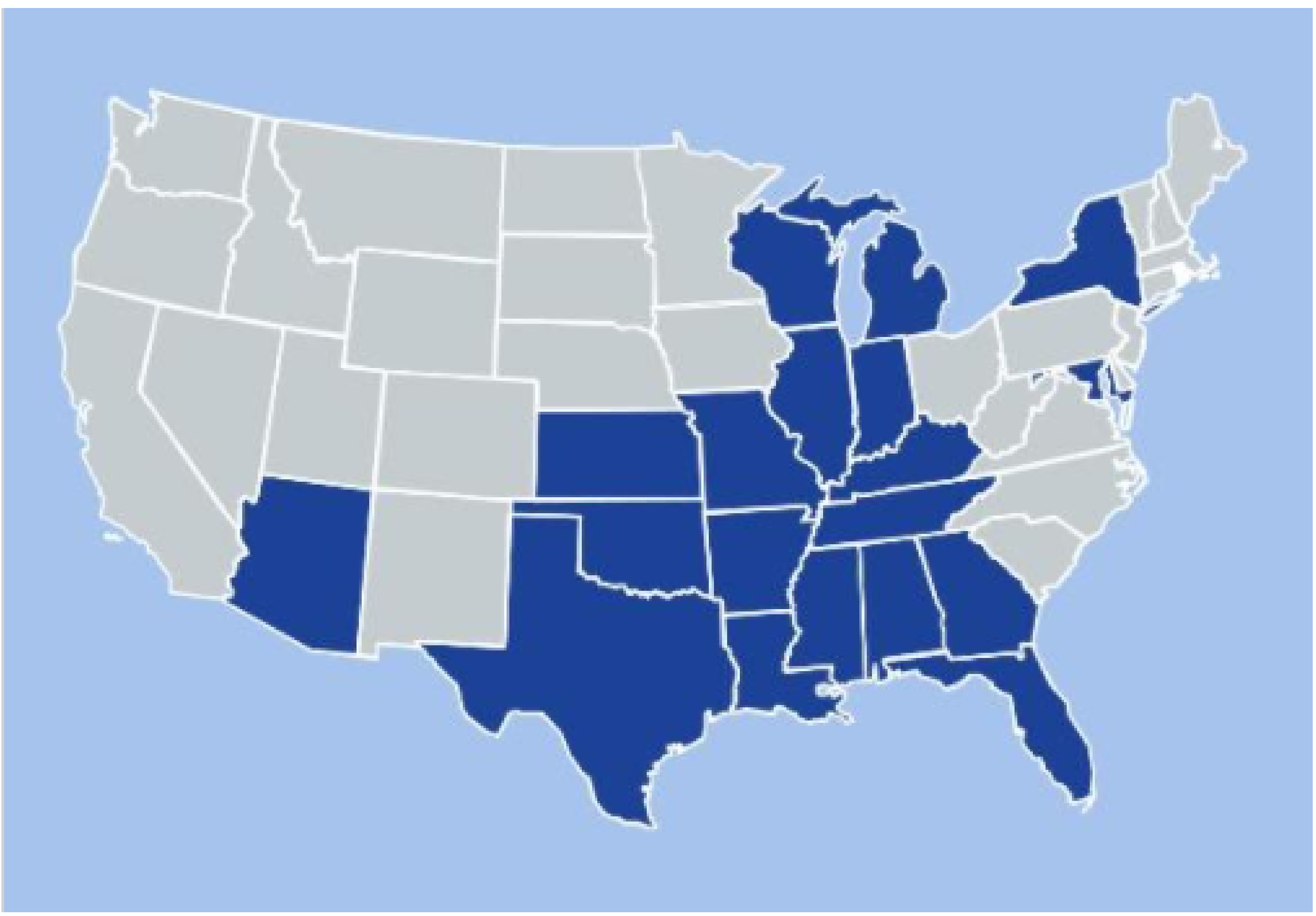
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

The MD&A includes the following sections:

- Organization and Mission
- Executive Overview
- Organizational Changes
- Novel Coronavirus (COVID-19)
- Select Financial Information

Organization and Mission

Ascension is a faith-based healthcare organization dedicated to transformation through innovation across the continuum of care. As the largest non-profit and Catholic health system in the U.S., Ascension is committed to its Mission, Vision, and Values by delivering compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable. At December 31, 2020, the System included more than 160,000 associates and 40,000 aligned providers, operating more than 2,600 sites of care – including 145 hospitals and more than 40 senior living facilities – in 19 states and the District of Columbia, while providing a variety of healthcare-related services including clinical and managed care services, investment management (including venture capital and direct strategic investing), facilities management, risk management, and contracting through Ascension's own group purchasing organization.



Executive Overview

For the six months ended December 31, 2020, Ascension's operations and volumes experienced significant volatility as a result of the COVID-19 pandemic. Local government COVID-related ordinances resulted in the cancellation or deferral of elective procedures in the third and fourth quarters of Ascension's fiscal 2020. Such governmental mandates, along with consumer hesitation continue to have an adverse impact on the System's overall volumes in the current fiscal year. Recent government funding and favorable investment performance have contributed to the System's ability to sustain operations during this unprecedented time, continuing its Mission to provide care for those we serve, particularly those most vulnerable. Ascension is committed to managing discretionary expenses to focus on top priorities of caring for our patients and caregivers.

Organizational Changes

Ascension continues to make strategic and purposeful decisions to improve the health of individuals and communities served, engage with consumers in new ways, and support the shift to expanded ambulatory and telehealth presence. To strengthen hospital operations and gain capabilities for the future, the organization is making changes to its portfolio as further discussed below.

Effective July 1, 2020, Ascension St. Vincent's in Birmingham and The University of Alabama at Birmingham Health System ("UABHS") formed an alliance that will increase access to high-quality, innovative medical care through multiple outlets and health programs.

Effective August 1, 2020, Ascension divested substantially all the assets of St. Clare's Hospital in Weston, Wisconsin, to Marshfield Clinic Health System.

Effective September 1, 2020, St. Mary's Healthcare in Amsterdam, New York, separated from the Ascension System and began to operate as an independent, Catholic healthcare organization under the governance of a local Board.

In January 2021, Ministry Health Care, Inc. (Ministry), a wholly owned subsidiary of Ascension, and Aspirus, Inc. (Aspirus) entered into an agreement whereby Ministry will transition its sole membership interest in seven hospitals and related clinical and other business, representing substantially all operations in the Northern and Central Wisconsin markets, to Aspirus. This transition is expected to close after all necessary approvals are obtained.

Novel Coronavirus (COVID-19)

The global novel coronavirus (COVID-19) pandemic has had significant economic and operational impact on the U.S. healthcare industry. Ascension's patients, employees, business operations and communities served by the System remained adversely impacted for the six months ended December 31, 2020.

Recurrent surges of COVID-19 cases across the nation during the first half of fiscal year 2021 have had a significant impact on Ascension's volumes and created financial hardship as further discussed below. Governmental relief funds and programs helped to offset the impacts of mandatory and discretionary shutdowns throughout the pandemic. Lower consumer confidence and healthcare hesitation continue to impact Ascension's markets to varying degrees, however. The System's operations and volumes remain below pre-pandemic levels for the six months ended December 31, 2020.

The System received distributions from the CARES Act both during and since the System's fiscal year ended June 30, 2020. The CARES Act increased funding for the Public Health and Social Services Emergency Fund (Provider Relief Fund) to reimburse eligible healthcare providers for lost revenues or healthcare-related expenses attributable to COVID-19, as well as increased Medicare reimbursement rates for inpatients diagnosed with COVID-19.

Due to uncertainty in the terms and conditions associated with the governmental funding, Ascension was unable to recognize all funds received and recorded deferred revenue as of June 30, 2020. Recently, the federal government clarified the terms and conditions, which resulted in the System recognizing substantially all Provider Relief Fund amounts received to date as revenue during the first half of the fiscal year.

While recognition of government funds favorably contributed to the System's recent financial performance, the impact from significant and ongoing patient volume reductions, market uncertainties, and increased supply and staffing costs have not been fully offset, as further discussed in this document.

Select Financial Information (dollars in millions)

Consolidated Operations

The following table reflects selected financial information on a consolidated basis for the six months ended December 31, 2020 and 2019.

Six months ended December 31,

	2020	2019
Net Patient Service Revenue	$ 12,182	$ 12,274
Other Operating Revenue	1,767	833
Operating Expenses	13,219	12,973
Income from Recurring Operations*	730	134
Recurring Operating Margin	5.2%	1.0%
Operating EBITDA Margin	11.3%	6.5%
Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	1,230	1,188

* Excluding Self-Insurance Trust Fund investment return

On a consolidated basis, recurring operating margin was 5.2% for the six months ended December 31, 2020, as compared to 1.0% for the same period in the prior year. Operating EBITDA margin was 11.3% for the six months ended December 31, 2020, as compared to 6.5% in the same period of the prior year. Increases in margins are directly related to the recent recognition of government funding intended to partially offset losses incurred during the pandemic and appropriate cost containment efforts.

Unaudited Pro-Forma Calendar Year Financial Information

Despite recognition of Provider Relief Funds, the financial results for the first six months of this fiscal year do not fully reflect the impact of the pandemic on Ascension's operations. The following table is an unaudited pro-forma calendar year presentation of the System's financial results for the twelve months ended December 31, 2020 (pandemic period) and 2019 (pre-pandemic period) to illustrate the impact of the pandemic and the government's relief efforts on operational performance.

Unaudited Pro-Forma Financial Information for the Twelve months ending December 31,

	2020	2019
Net Patient Service Revenue	$ 22,687	$ 24,221
Other Operating Revenue*	1,754	1,602
Total Operating Expense	25,959	25,567
Income (loss) from Recurring Operations*	(1,518)	256
Provider Relief Funds	1,662	-
Income (loss) from Recurring Operations**	144	256
Recurring Operating Margin	0.6%	1.0%

* Excluding Provider Relief Funds for illustrative purposes

** Excluding Self-Insurance Trust Fund investment return

As shown above, net patient service revenue declined from the previous year due primarily to the suspension of elective procedures during the first and second quarters of calendar year 2020 and expenses rose due to additional resources needed to care for our patients and our caregivers. For Ascension, the Provider Relief Funds provided the necessary level of financial assistance, to partially offset the pandemic's significant adverse financial impact on operations. Consistent with our mission to serve patients and communities and because of strong stewardship in prior years, Ascension was able to absorb the remaining negative financial impact.

Volume Trends

The following table reflects certain patient volume information, on a consolidated basis, for the six months ended December 31, 2020 and 2019.

Volume Trends	Six months ended December 31 2020	2019
Equivalent Discharges	777,989	871,829
Total Admissions	373,837	408,676
Case Mix Index	1.83	1.72
Emergency Room Visits	1,320,826	1,671,391
Surgery Visits (IP & OP)	302,881	329,571
Physician Office and Clinic Visits	7,716,582	7,960,367
Virtual Provider Office Visits (VPO)	810,861	18,693
Urgent Care Visits	214,917	333,022

For the six months ended December 31, 2020, the System's volumes remain impacted by the pandemic. Equivalent discharges, admissions, ER visits, and outpatient visits during the six months ended December 31, 2020, were less than the prior year by 10.8%, 8.5%, 21%, and 8.9%, respectively.

Physician office and clinic visits for the six months ended December 31, 2020, decreased 3.1% as compared to the same period in the prior year. On a same facility basis, physician office and clinic visits decreased 1.6% for the six months ended December 31, 2020, as compared to the same period in the prior year.

The pandemic resulted in shifts to care delivery, specifically in virtual provider office visits (VPO). The System provided over 810,000 VPO visits during the six months ended December 31, 2020.

Total Operating Revenue

Net patient service revenue (NPSR) remains impacted by the pandemic, as the System experienced a decrease in NPSR of 0.7% for the six months ended December 31, 2020.

For the six months ended December 31, 2020, NPSR per equivalent discharge increased 11.2% compared to the prior year primarily due to increased case mix index and decreased uncompensated care in Categories I and II.

The System's case mix index and average length of stay increased 6.6% and 8.2%, respectively, for the six months ended December 31, 2020, as compared to the same period in the prior year. These increases are primarily due to higher-acuity patients, including COVID-positive patients, seeking care during the pandemic.

Other operating revenue increased by $934 million during the six months ended December 31, 2020, as compared to the same period in the prior year. Increases are primarily due to recognition of monies received from the Provider Relief Fund and growth within certain service lines, such as pharmacy and lab services. Pharmacy and lab services experienced increases of 19.0% and 15.4%, respectively, for the six months ended December 31, 2020, as compared to the prior year. Favorable joint venture performance contributed to an increase in other operating revenue of $39.3 million during the six months ended December 31, 2020, as compared to the same period in the prior year.

Additionally, supplemental care program revenue increased by 68% during the same period. One-time gains on sales of two joint ventures and other assets of $75.3 million were recorded in other operating revenue during the six months ended December 31, 2020.

Total Operating Expenses

Total operating expenses increased approximately $246.0 million or 1.9% during the six months ended December 31, 2020, as compared to the same period in the prior year. Incremental pandemic-related salaries, wages and employee benefits and supplies expense contributed to the System's overall increase, along with other expected increases from normal operations as further discussed below. The System's focused efforts to manage non-patient-facing expenses such as travel and other variable expenses, while supporting the workforce to care for patients, continues to be a top priority.

The System experienced a 14.2% increase in cost per equivalent discharge during the six months ended December 31, 2020, primarily due to the increases in direct costs from the pandemic as previously discussed. Higher patient acuity has led to an increase in the average length of stay, along with increased caregiver compensation and supply costs.

Pandemic-related increases in salaries, wages and employee benefits partially offset the System's efforts to manage expenses to volumes. Total salaries, wages and benefits increased $170.6 million, or 2.7%, for the six months ended December 31, 2020, compared to the same period in the prior year. The increase is primarily due to expected cost-of-living adjustments, onboarding additional physicians, as well as the previously mentioned increases in salaries and wages, including special pay programs for the extraordinary efforts of Ascension's workforce.

Additional unexpected costs for contract labor were incurred at premium rates during the first half of the fiscal year as compared to the same period in the prior year due to staffing shortages amid the pandemic. Contract labor increased 47.5% during the six months ended December 31, 2020, as compared to the same period in the prior year.

The System experienced an increase in supplies expense of $106.5 million, or 5.5%, during the first half of the fiscal year, as compared to the same period in the prior year. Additional supply costs for treatment of COVID patients of approximately $110.0 million were incurred during the first half of the fiscal year, partially offset by cost reductions as previously discussed. Higher patient acuity seen during the pandemic resulted in the use of more costly pharmaceuticals, COVID-related lab and testing supplies, as well as increased use of personal protective equipment with no comparable expense in the same period of the prior year.

Purchased services and professional fees decreased $32.8 million, or 1.5%, as compared to the same period in the prior year primarily due to the previously mentioned focused efforts on expense management.

Non-Operating Income - Investment Return

Substantially all the System's cash and investments are invested in a broadly diversified portfolio that is managed by Ascension Investment Management (AIM), a wholly owned subsidiary of Ascension. Total net investments under management by AIM, including non-Ascension investors, were $49.8 billion at December 31, 2020.

Ascension's long-term investment pool, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a return of 14.2% during the six months ended December 31, 2020. As the investment market continues to stabilize, a significant rebound in investment market performance during the first half of the fiscal year contributed to the favorable return.

In addition to the cash and investments managed by AIM, Ascension holds other strategic investments which have contributed $1.1 billion of investment income during the six months ended December 31, 2020.

Financial Position

Ascension's balance sheet and liquidity levels remain strong with sufficient liquidity to continue to provide care for patients, despite the economic challenges resulting from the pandemic. The following table reflects selected financial information on a consolidated basis.

	12/31/2020	6/30/2020
Current Assets	$ 5,536	$ 5,017
Long-Term Investments	24,740	21,273
Property and Equipment	11,182	11,351
Other Assets	4,397	4,247
Total Assets	**$ 45,855**	**$ 41,888**

	12/31/2020	6/30/2020
Current Liabilities	$ 6,451	$ 7,940
Long-Term Liabilities	13,421	12,361
Total Liabilities	19,872	20,301
Net Assets	25,983	21,587
Total Liabilities and Net Assets	**$ 45,855**	**$ 41,888**

Financial Assets and Liquidity Resources

The System's cash and investment position remains strong and includes highly liquid investments. Net unrestricted cash and investments were $21.8 billion at December 31, 2020, which is approximately 47.6% of the System's total assets. The System's days cash on hand was 320 days as of December 31, 2020, as further discussed below.

Additionally, Ascension maintains two lines of credit, totalling $600 million. As of December 31, 2020, there were no outstanding borrowings under either line of credit. Both lines of credit are committed through December 1, 2021. The System also has access to a $1.0 billion taxable commercial paper program.

During the prior fiscal year, Ascension applied for and received approximately $2.0 billion of Medicare Advanced Payments, with repayment to occur based on the terms and conditions of the program. The advanced payments are recorded within long-term investments and current and long-term liabilities on the System's Consolidated Balance Sheets. Medicare Advanced Payments represent approximately 30 days cash as of both December 31, 2020, and June 30, 2020.

Balance Sheet Ratios

	12/31/2020	6/30/2020
Days Cash on Hand*	320	284
Net Days in Accounts Receivable**	45.5	47.8
Cash-to-Debt	293.6%	246.3%
Total Debt to Capitalization	24.6%	29.0%
Debt Service Coverage	4.81	3.34

* December 31, 2020, Days Cash on Hand increased as a result of favorable investment return during the first half of the fiscal year.

** Net days in AR as of June 30, 2020, were adjusted to "normalize" the significant disruption to volumes during April 2020.

The System's Master Trust Indenture requires Ascension to maintain an annual debt service coverage ratio of 1.10 and Ascension was well above this covenant at December 31, 2020.

Net days in accounts receivable decreased from 47.8 days at June 30, 2020, to 45.5 days at December 31, 2020.

Care of Persons Living in Poverty and Community Benefit

Ascension provided $1.2 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the six months ended December 31, 2020, an increase of 3.4% from the prior year. Through programs, donations, health education, free care and more, the organization's uncompensated care and other community benefits fulfills unmet needs in communities we serve.

The total cost of providing care to persons living in poverty and other community benefit programs increased 3.4% as compared to the same period in the prior year primarily due to the donation of St. Mary's in Amsterdam, NY, partially offset by volume decreases related to the pandemic.