

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

As of and for the years ended June 30, 2022 and 2021



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

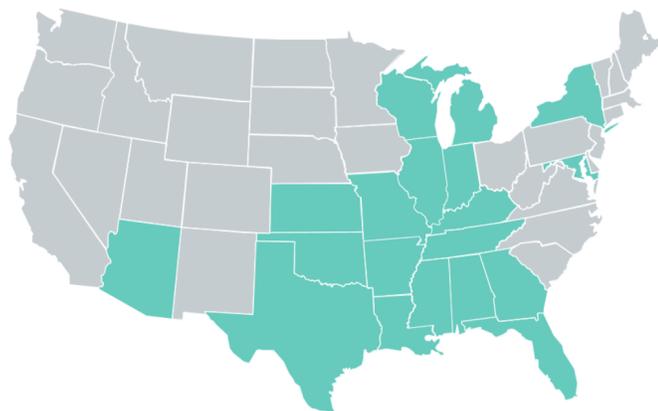
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

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 one of the largest non-profit and Catholic health systems 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 June 30, 2022, the System included approximately 139,000 associates and 36,000 aligned providers, approximately 2,600 sites of care – including 144 hospitals and 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

Similar to other U.S. healthcare providers, Ascension's operations and volumes have been disrupted by several unexpected COVID-19 surges creating continued volatility for the year ended June 30, 2022 (FY22). COVID-19 cases peaked during the three months ended March 31, 2022 (Q3 FY22). This peak coupled with historic levels of staff furloughs, rising labor costs, ongoing workforce shortages and sporadic closures of surgical and procedural areas resulted in very challenging financial performance in the 3rd quarter; however, operating performance for the three months ended June 30, 2022 (Q4 FY22) improved due to less disruption from COVID-19.

Organizational Changes

Ascension continues to make strategic and purposeful decisions to improve the health of individuals and communities served, engage with consumers in where, when and how they need care, and support the shift to expanded ambulatory and telehealth presence. To strengthen hospital operations and gain capabilities for the future, the organization's changes to its portfolio are as follows.

Effective August 1, 2020, Ascension divested certain assets and liabilities and substantially all related operations of Ascension 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.

Effective August 1, 2021, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension, transitioned 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, Inc.

Effective April 1, 2022, Ascension and AdventHealth have disaffiliated from AMITA Health, the joint operating company that had served the healthcare needs of the greater Chicago area from 2015 through March 31, 2022. The Ascension Illinois facilities and providers continue to serve healthcare needs in the greater Chicago area.

Ascension, through certain of its controlled affiliates, entered into agreements in February 2022 with Laboratory Corporation of America Holdings (Labcorp) whereby Ascension expects to transition certain assets of its

outreach laboratory business and management of certain Ascension hospital-based laboratories to Labcorp in fiscal year 2023. Once finalized, this transition will support expansion of laboratory services and implementation of advanced technology, providing for an enhanced consumer experience.

In addition to optimizing our acute care assets focused on patients with more complex needs, we have and will continue to invest in accelerating growth in our ancillary services and ambulatory networks. One example is the formation of Ascension Rx, building upon our existing retail pharmacies through growth of specialty pharmacy and a nationwide mail order distribution center. Additional investments are also being made in our ambulatory surgery center, imaging and outpatient physical therapy sites that enhance Ascension's footprint of service offerings and provide greater convenience to consumers.

Novel Coronavirus (COVID-19)

The global novel coronavirus (COVID-19) pandemic has continued to have unprecedented economic, operational and financial impact for the U.S. healthcare industry. Similarly, Ascension's patients, employees, business operations and communities served continue to be negatively impacted by the challenges of a prolonged and operationally disruptive pandemic.

Recurrent surges of COVID-19 cases across the nation during the year ended June 30, 2022 and most profoundly during Q3 FY22, continued to have an impact on Ascension's volumes and contributed to operational and financial performance as further discussed below. Localized intermittent COVID-related restrictions and surges also resulted in the cancellation or deferral of elective procedures at certain times in almost all markets throughout the period. Consumer hesitation continues to impact Ascension's markets to varying degrees, as the System's volumes remain below levels at the onset of the pandemic (trailing twelve months ended February 29, 2020) in all categories except physician office and clinic visits. In the month of January 2022, similar to many other healthcare providers, Ascension experienced the peak of the latest surge, representing the highest COVID positive inpatient census since the beginning of the pandemic. However, by the end of FY22, Ascension's COVID positive inpatient census was significantly reduced to ~3% of inpatient bed capacity, partially contributing to a slight volume uptick during the three months ended June 30, 2022 (Q4 FY22).

During FY22, federal, state and local governmental relief funds and programs which helped to offset the adverse financial impacts of the pandemic in prior years, were substantially reduced in the current year. Payments

received 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. For FY22, the System recognized revenue associated with COVID-19 Funding of approximately \$366 million, representing a significant decrease from the \$913 million recognized during the prior fiscal year. The recognition of COVID-19 Funding is included within Other operating revenue in the Consolidated Statement of Operations and Changes in Net Assets.

While Ascension experienced expansion and growth in certain other operations and continued to focus on stewardship consistent with our Mission, the System was not able to fully absorb the additional operating expense impacts, most notably present in the last half of FY22, resulting from the confluence of workforce shortages and wage inflation during the height of the latest COVID-19 surge.

Select Financial Information (dollars in millions)

Consolidated Operations

The following table reflects selected financial information on a consolidated basis for the years ended June 30, 2022 and 2021.

	Years ended June 30,	
	2022	2021
Net Patient Service Revenue	\$ 25,199	\$ 24,447
Other Operating Revenue	2,776	2,791
Operating Expenses	28,774	26,685
Income (loss) from Operations	(879)	676
Operating Margin	-3.1%	2.5%
Operating EBIDA Margin	2.4%	8.1%

On a consolidated basis, Ascension's operating margin was -3.1% for the year ended June 30, 2022, as compared to 2.5% in the prior year. Operating EBIDA margin was 2.4% for the year ended June 30, 2022, as compared to 8.1% for the prior year.

Volume Trends

During the year ended June 30, 2022, the System experienced a slight increase in overall volume over the prior year (measured on a same facility basis), representing the impact of caring for patients through the most recent and significant COVID surges while also continuing the recovery of pandemic-impacted volumes. Ascension's volume improvement was most notable in outpatient volume metrics as inpatient volumes generally remained below the prior year.

The following table reflects certain patient volume information, on a consolidated basis, for the years ended June 30, 2022 and 2021.

Years ended June 30,

Volume Metrics	2022	2021
Equivalent Discharges	1,547,959	1,553,109
Total Admissions	726,473	739,978
Surgery Visits (IP & OP)	585,943	601,418
Observation Days	282,595	269,878
Emergency Room Visits	2,992,391	2,685,878
Urgent Care Visits	527,016	404,292
Physician Office and Clinic Visits	16,057,500	15,831,816

The following table reflects select patient volume trend comparisons for the years ended June 30, 2022 and 2021. Due to the organizational changes noted, the most meaningful volume comparisons are on the same facility basis.

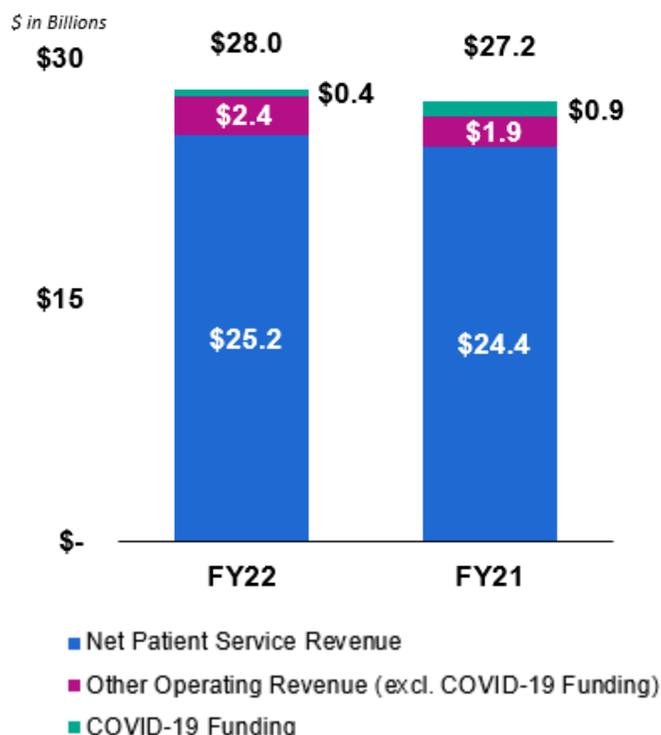
Volume Trends	Same Facility Volume Incr/(Decr)	Total Volume Incr/(Decr)
Equivalent Discharges	1.3%	(0.3%)
Total Admissions	(0.8%)	(1.8%)
Surgery Visits (IP & OP)	(1.0%)	(2.6%)
Observation Days	5.8%	4.9%
Emergency Room Visits	13.4%	11.4%
Urgent Care Visits	37.9%	30.4%
Physician Office and Clinic Visits	3.3%	1.4%

Consistent with industry trends, the System continues to experience a shift from inpatient to outpatient procedures and was also impacted by the management of elective procedures, most notably surgeries, based on workforce shortages and disruptions caused by additional COVID-19 surges. In Q3 FY22, the System reported its lowest rate of total monthly surgeries at the beginning of the quarter while impacted by the latest pandemic surge; however, total monthly surgeries improved in the remainder of the year reaching the highest levels of the year in March and June.

For the year ended June 30, 2022, virtual provider office (VPO) visits of approximately 1.1 million decreased from the prior year. VPO visits represent approximately 7% of visits in the current year as compared to approximately 10% of total physician visits in the prior year. Overall, outpatient visits have been increasing during FY22, improving 1.0% on a same facility basis over the prior year with improvement in physician office and clinic visits, emergency room visits and urgent care visits. Consistent with industry trends, Ascension has also experienced an increase in observation days relative to patients presenting for care within our acute settings as payors continue to require outpatient status for these patients.

Total Operating Revenue

Total operating revenue increased by \$738 million or 2.7% during the year ended June 30, 2022, as compared to the prior year.



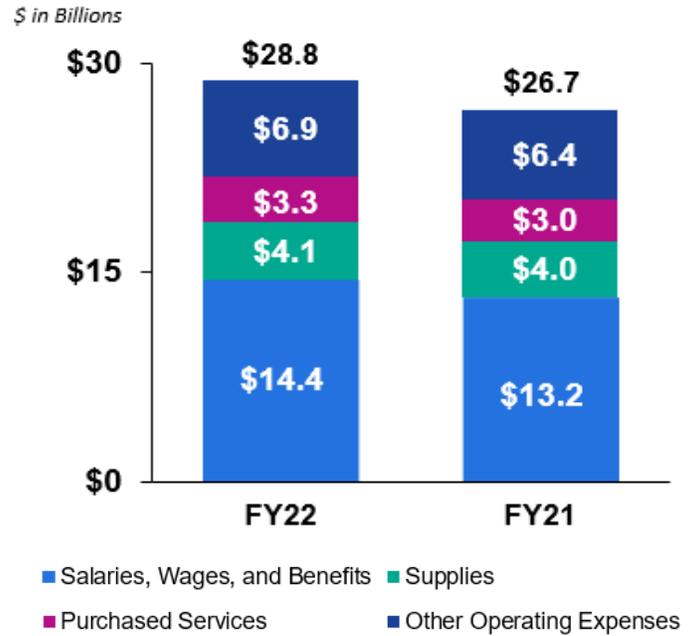
The System experienced an increase over prior year in net patient service revenue (NPSR) of \$753 million or 3.1% for the year ended June 30, 2022 despite the continued impact of the pandemic surges that resulted in less surgical and procedural volumes and more medical cases. The System's same facility operations have shown growth in NPSR of 4.9% for the year ended June 30, 2022, as compared to the prior year.

For the year ended June 30, 2022, NPSR per equivalent discharge increased 3.4%, or 3.5% on a same facility basis compared to the prior year. Aside from the previously mentioned overall volume changes, NPSR growth was impacted by improved rate and yield due to moderate inflationary increases in payor payments and increased provider tax revenue. The System's case mix index of 1.86 remained consistently high due to higher-acuity patients, including COVID-positive patients, seeking care during the recent surges of the pandemic. Ascension has also implemented several economic improvement plans focused on service line growth to continue our volume recovery along with our strategies to strengthen ancillary services and our ambulatory footprint.

For FY22, COVID-19 Funding revenue of \$366 million decreased \$547 million from the prior year. Exclusive of COVID-19 Funding, total other operating revenue increased by \$532 million or 2.8% during the year ended June 30, 2022, as compared to the prior year due to the maturation of our pharmacy services and other ancillary and ambulatory strategic growth initiatives. Additionally, Ascension reported a gain of approximately \$330 million as a portion of its investment in the TriMedx joint venture, which provides clinical engineering services, was recapitalized in Q4 FY22.

Total Operating Expenses

Total operating expenses increased \$2.1 billion, 7.8% or 9.4% on a same facility basis, during the year ended June 30, 2022, as compared to the prior year. Consistent with the overall healthcare provider industry, labor-related challenges continued to drive expense growth amid the recurring COVID-19 surges. In particular, Ascension's labor-related expenses escalated in Q3 FY22 with the peak of the latest COVID-19 surge resulting in widespread workforce shortages. These trends improved in Q4 FY22 as economic recovery plan initiatives were realized.



The System experienced a 8.2% (7.9% same facility) increase in cost per equivalent discharge during the year ended June 30, 2022, primarily due to increases in labor costs impacted by the pandemic as previously discussed. The treatment of COVID positive patients through the recent surges led to an increase in the average length of stay, along with increased caregiver compensation and supply costs.

Total salaries, wages and benefits increased \$1.2 billion, or 9.1%, for the year ended June, 2022, compared to the prior year. The increase is primarily due to staffing challenges including increased utilization of contract and premium labor and market and other wage adjustments, as a result of staffing shortages and challenges related to staff furloughs and departures that accelerated through the recent COVID surges of the pandemic, most notably impacting Q3 FY22. As FY22 progressed, the System's trends in these areas improved with the reduction in the number of COVID-19 patients and with the implementation of certain economic improvement plans focused on stabilization of the workforce including reduction of agency staffing rates and utilization. Ascension's renewed commitment is focused on the following: 1) attracting, rewarding and retaining the best talent, 2) providing career growth and development, 3) ensuring a culture of inclusion, flexibility and transparency and 4) supporting the transformation of care delivery models for the future.

Supply expenses increased \$110 million, or 2.7%, during the year ended June 30, 2022, as compared to the prior year due primarily to an increase in pharmaceutical COVID-19 therapy treatments, oncology treatments and other COVID-19 medical supplies along with volume-driven increases in other supply categories,

including surgical and implant supplies. Ascension's economic recovery plan initiatives and efforts from The Resource Group have enabled the System to mitigate some of the comparable industry inflationary pressures in the current environment.

In addition to labor-related expense challenges discussed above, the System experienced an increase in purchased services, professional fees and other operating expenses. Purchased services increased \$306 million, or 10.3%, for the year ended June 30, 2022, as compared to the prior year as increased volumes and NPSR resulted in higher outsourced revenue cycle fees and purchased dietary and environmental services along with a change to outsource certain IT services. Other operating expenses (includes professional fees, insurance, provider tax, and other operating expenses) increased \$465 million, or 7.2%, for the year ended June 30, 2022 due primarily to an increase in cost of goods sold associated with the increased pharmacy revenue discussed above, along with increases in physician contracted service fees, provider tax expense, software licenses and maintenance costs and travel and education expenses.

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 approximately \$41.7 billion at June 30, 2022.

Ascension's long-term investment funds experienced significant volatility, most notably in April and June of FY22, resulting in a return of -4.4% during the year ended June 30, 2022. Ascension's total net investment losses reported within Non-operating gains (losses) for the year ended June 30, 2022 were (\$1.2 billion); Ascension's comparable prior year investment return was \$5.9 billion.

Additionally, due to the investment market volatility in Q4 FY22, Ascension also recognized (\$106 million) of investment losses associated with the Self-insurance trust fund, reported within Income (loss) from from Operations for FY22 as compared to \$141 million of investment income for the year ended June 30, 2021.

Financial Position

Ascension's balance sheet and liquidity levels remain strong with more than sufficient liquidity to continue to provide care for patients, despite the economic challenges resulting from the prolonged pandemic and recent

investment market volatility. The following table reflects selected financial information on a consolidated basis.

	6/30/2022	6/30/2021
Current Assets	\$ 6,066	\$ 5,981
Long-Term Investments	22,058	26,768
Property and Equipment	11,424	11,067
Other Assets	4,528	4,583
Total Assets	\$ 44,076	\$ 48,399

	6/30/2022	6/30/2021
Current Liabilities	\$ 6,727	\$ 7,244
Long-Term Liabilities	10,223	11,879
Total Liabilities	16,950	19,123
Net Assets	27,126	29,276
Total Liabilities and Net Assets	\$ 44,076	\$ 48,399

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 \$19.5 billion at June 30, 2022, which is approximately 44% of the System's total assets. The System's days cash on hand was 259 days as of June 30, 2022, as further discussed in this section.

Additionally, Ascension maintains one line of credit, totalling \$1 billion. As of June 30, 2022, there were no borrowings under the line of credit. The line is committed through November 18, 2024. The System also has access to a \$1.0 billion taxable commercial paper program. During fiscal year 2020, Ascension applied for and received approximately \$2.0 billion of Medicare Advance Payments. The advanced payments are recorded within long-term investments and current and noncurrent liabilities on the System's Consolidated Balance Sheets. Medicare Advance Payments represent approximately 7 and 26 days cash as of June 30, 2022, and June 30, 2021, respectively. In accordance with the terms and conditions

of the Medicare Advance Payment program, recoupments of approximately \$1.3 billion occurred during the year ended June 30, 2022 with a total of approximately \$1.5 billion recouped to date.

In addition, Ascension has deferred employer payroll tax payments pursuant to the Paycheck Protection Program and Health Care Enhancement Act that represent approximately 2.5 days and 5 days of cash as of June 30, 2022 and 2021, respectively.

Balance Sheet Ratios

	6/30/2022	6/30/2021
Days Cash on Hand	259	336
Net Days in Accounts Receivable	50.3	47.3
Cash-to-Debt	267.4%	310.5%
Total Debt to Capitalization	23.2%	22.6%
Debt Service Coverage	4.15	11.04

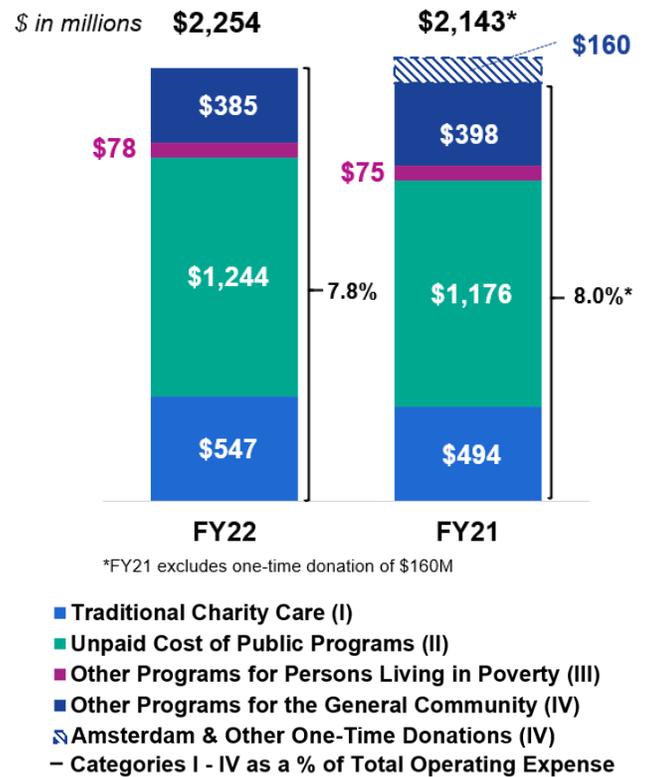
The System's Master Trust Indenture requires Ascension to maintain an annual debt service coverage ratio of 1.10 and Ascension was well above this covenant at June 30, 2022.

Net days in accounts receivable increased 3 days (or 2.2 days on a same facility basis) from 47.3 days at June 30, 2021, to 50.3 days at June 30, 2022 largely attributable to slower payment of claims from commercial payors, particularly large dollar claims and an increase in payment plan balances.

Care of Persons Living in Poverty and Community Benefit

Ascension provided \$2.3 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the year ended June 30, 2022. Through programs, donations, health education, trauma programs, free care and more, the organization's uncompensated care and other community benefits fulfill unmet needs in the communities we serve.

Care of Persons Living in Poverty and Community Benefit



The System experienced an increase in Medicaid gross charges and equivalent discharges throughout the year ended June 30, 2022 compared to the prior year as overall volumes increased and more patients were eligible and shifted to public programs (i.e., Medicaid) in select markets. The System's traditional charity care provided during the year ended June 30, 2022, also increased as compared to the prior year due to a decrease in the COVID-19 relief funding from HRSA for uninsured COVID-19 patients along with a higher cost of caring for patients.

Other programs for the general community decreased from prior year due primarily to the donation of the net assets of St. Mary's Hospital in Amsterdam to the community on September 1, 2020.

When normalizing the results by excluding the prior year one-time impact of the significant donation of assets, Ascension's care of persons living in poverty and community benefit for FY22 increased approximately \$111 million and over 5% over the prior year.

The System continues to deliver compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable, despite the continued pandemic-related challenges experienced during the year ended June 30, 2022.