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

As of and for the nine months ended March 31, 2023 and 2022

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).

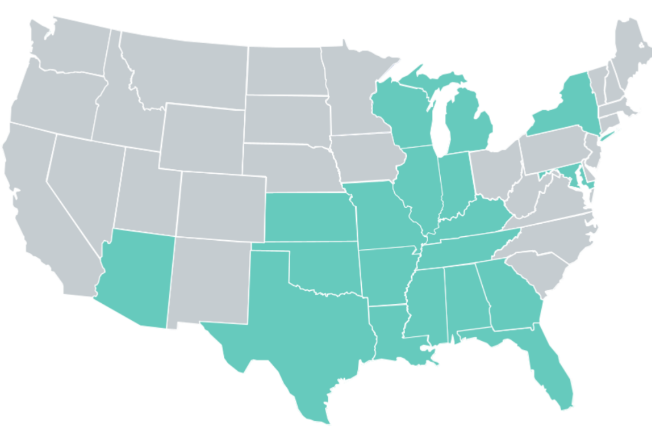
The MD&A includes the following sections:

- Organization and Mission
- Executive Overview
- Organizational Changes
- Select Financial Information

Organization and Mission

Ascension is one of the nation's leading non-profit and Catholic health systems, with a Mission of delivering compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable. As of March 31, 2023, the System included approximately 134,000 associates and 34,000 aligned providers, approximately 2,600 sites of care – including 140 hospitals and 39 senior living facilities – in 19 states and the District of Columbia, while providing a variety of healthcare-related services.

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 economic challenges experienced during the nine months ended March 31, 2023.



Executive Overview

Similar to other U.S. healthcare providers, Ascension's operations and volumes are stabilizing from the volatility and operational disruptions of the prolonged novel coronavirus (COVID-19) pandemic amidst broader inflationary and recessionary pressures within the U.S. economy. These disruptions have contributed to higher operating costs coupled with sustained revenue challenges. For the nine months ended March 31, 2023 (Q3 FY23 YTD), recurring operating EBIDA was positive despite the continuing challenges. During the three months ended March 31, 2023 (Q3 FY23), Ascension recognized significant one-time non-cash impairment losses that further impacted overall operating performance.

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. During the quarter, Ascension created the new role of President and strengthened its operational leadership at both the national and market levels to strengthen hospital operations and ensure sustainability for the future. Additionally, the organization's changes to its portfolio are as follows:

In April 2023, subsequent to March 31, 2023, Gulf Coast Health System (GCHS), a wholly owned subsidiary of Ascension, entered into an agreement to sell substantially all assets and operations, including related clinical and other business associated with Providence Hospital in Mobile, Alabama to the University of South Alabama Health Care Authority. The transition is expected to be finalized once all necessary approvals are obtained.

Effective September 30, 2022, Ascension completed the sale of certain assets of its outreach laboratory business and transitioned management of hospital-based laboratories in certain markets to Laboratory Corporation of America Holdings. This transition supports expansion of laboratory services and implementation of advanced technology, providing for an enhanced consumer experience.

Effective April 1, 2022, Ascension and AdventHealth 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.

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.

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 through 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 centers, imaging and outpatient physical therapy sites that enhance Ascension's footprint of service offerings and provide greater convenience to consumers.

Select Financial Information (dollars in millions)

Consolidated Operations

The following table reflects selected financial information on a consolidated basis for the nine months ended March 31, 2023 and 2022.

Nine months ended March 31,

	2023	2022
Net Patient Service Revenue	$ 19,193	$ 19,004
Other Operating Revenue	2,062	1,884
Operating Expenses	22,340	21,536
Income (loss) from Recurring Operations	(1,085)	(648)
Impairment and Nonrecurring Gains (Losses), net	(716)	25
Income (loss) from Operations	$ (1,772)	$ (640)
Operating Margin	(8.3%)	(3.1%)

Ascension recognized a loss from operations of $1.77 billion for the nine months ended March 31, 2023, compared to a loss from operations of $640 million in the comparable period of the prior year.

Consolidated Operations (Pro Forma Presentation)

The following table represents a pro forma view of Ascension's comparative operating performance for Q3 FY23 YTD and Q3 FY22 YTD, normalized to provide a more appropriate comparison of ongoing operating performance for the respective periods. The financial information presented below has been normalized with adjustments to exclude both COVID-19 Funding recognized in both fiscal years from other operating revenue and a one-time negotiated settlement reported in Q3 FY23 from operating expenses.

Nine months ended March 31,

	2023	2022
Net Patient Service Revenue	$ 19,193	$ 19,004
Other Operating Revenue	2,039	1,573
Operating Expenses	22,115	21,536
Income (loss) from Recurring Operations	$ (883)	$ (959)
Recurring Operating Margin	(4.2%)	(4.7%)
Recurring Operating EBIDA Margin	1.3%	1.0%

Non-GAAP Financial Measures - Ascension has presented its consolidated interim financial statements and supplementary information for quarters ended March 31, 2023 and 2022 in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain financial measures presented herein as part of the operating results have been presented on a non-GAAP basis (e.g., normalized operating performance metrics). Any non-GAAP financial measures are in addition to, not a substitute for, measures of financial performance prepared in accordance with GAAP. Ascension believes the presentation of non-GAAP financial measures provides useful supplementary information to enhance the overall understanding of financial performance.

While the System continues to see measured improvement in volumes across both inpatient and outpatient settings, the reduction in COVID-19 Funding negatively impacted revenue in the current year. Additionally, challenges to expenses continue to persist resulting from the inflationary environment. Ascension remains extremely focused on stewardship consistent with our Mission through the implementation of various economic improvement plans. Despite these industry-wide headwinds, Ascension remains dedicated to improving the health and well-being of the communities we serve.

Impairment and Nonrecurring Gains / (Losses), Net

Due to the ongoing industry-wide challenges impacting healthcare providers, business conditions have indicated the carrying value of certain assets within Ascension's Markets may not be fully recoverable. During the nine months ended March 31, 2023, Ascension recognized impairment losses of $716 million. The FY23 YTD non-cash write-downs are attributable to impairment of long-lived assets within a few of Ascension's Markets.

Volume Trends

For the nine months ended March 31, 2023, the System experienced an increase in overall volume over the prior year, representing the continuing measured recovery of volumes through the stabilization from the pandemic. Ascension's volume improvement was most notable in both total surgical visits, primarily outpatient surgeries, and emergency room visits. Inpatient admissions decreased 2.3% partially attributable to reduced COVID-19 inpatient volumes.

The following table reflects certain key patient volume information, on a consolidated basis, for the nine months ended March 31, 2023 and 2022.

Nine months ended March 31,

Volume Metrics	2023	2022	Inc/(Dec)
Equivalent Discharges	1,184,479	1,158,202	2.3%
Total Admissions	537,593	550,327	(2.3%)
Surgery Visits (IP)	121,128	119,661	1.2%
Surgery Visits (OP)	325,738	309,737	5.2%
Observation Days	207,077	206,235	0.4%
Emergency Room Visits	2,308,616	2,233,686	3.4%
Urgent Care Visits	274,998	409,617	(32.9%)
Physician Office and Clinic Visits	12,145,736	12,021,994	1.0%

Consistent with industry trends, the System is experiencing a shift from inpatient to outpatient procedures that was accelerated in part during the pandemic. However, for Q3 FY23 YTD, Ascension experienced moderate increases in several volume metrics over the same period in the prior year as shown in the preceding table. For Q3 FY23 YTD, virtual provider office (VPO) visits were approximately 677,000, representing approximately 6% of physician and clinic visits in the current year, as compared to 7.3% for the comparable period of the prior year.

Urgent care visits decreased 32.9% influenced by lower and less severe COVID-19 infections along with continued greater availability of at-home tests than in the prior year.

Ascension experienced more significant volume growth when comparing Q3 FY23 to the same three month period in the prior year, most notably in outpatient volume categories including outpatient surgeries, physician and clinic visits and emergency room visits. The following table presents key volume statistics, on a consolidated basis, for the three months ended March 31, 2023 and 2022.

Three months ended March 31,

Volume Metrics	2023	2022	Inc/(Dec)
Equivalent Discharges	386,597	367,002	5.3%
Total Admissions	175,284	174,769	0.3%
Surgery Visits (IP)	39,492	38,984	1.3%
Surgery Visits (OP)	108,663	100,439	8.2%
Observation Days	67,327	67,411	(0.1%)
Emergency Room Visits	730,362	701,001	4.2%
Urgent Care Visits	80,580	118,949	(32.3%)
Physician Office and Clinic Visits	4,065,007	3,953,938	2.8%

Total Operating Revenue

Total operating revenue increased by $367 million or 1.8% for the nine months ended March 31, 2023 as compared to the same period in the prior year.

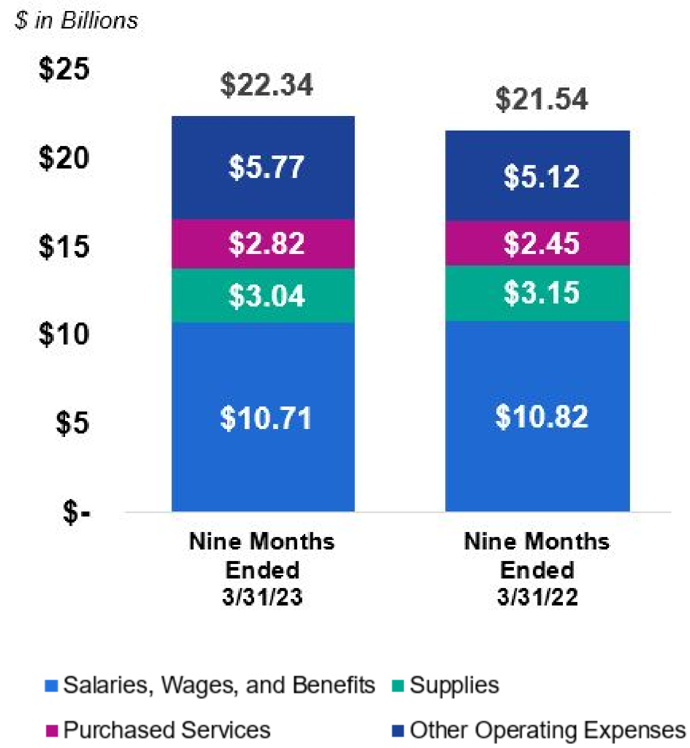
For Q3 FY23 YTD, the System's net patient service revenue (NPSR) increased moderately (1.0% overall increase or 1.4% increase on a same facility basis) from Q3 FY22 YTD. NPSR per equivalent discharge decreased 1.2% primarily due to a continued shift to outpatient services as outpatient gross revenue increased to 54.4% for Q3 FY23 YTD as compared to 52.3% for the corresponding nine months in the prior year.

Aside from the previously mentioned overall volume changes and shift to outpatient services, NPSR was impacted by a slight shift in payor mix from commercial and self-pay payors to governmental payors along with reduced inpatient acuity. The System's acute case mix index of 1.83 for Q3 FY23 YTD has declined approximately 1.4% from 1.86 for the comparable period in the prior year as the COVID-19 inpatient census also decreased. Additionally, commercial rates have not kept pace with inflation and have only provided limited relief in mitigating escalating cost pressures.

As part of Ascension's economic improvement plans focused on service line growth, we continue to focus on building service line volumes along with our strategies to strengthen ancillary services and our ambulatory footprint with our Markets. These plans have contributed to the overall 3.2% increase in NPSR for the quarter ended March 31, 2023 compared to the same quarter in the prior year.

Total other operating revenue increased by $178 million or 9.4% during the nine months ended March 31, 2023, as compared to the prior year due primarily to gains on sale, net. Other contributors to the increase in other operating revenue were the maturation of our specialty and mail order pharmacy services and insurance plan revenue. Partially offsetting growth in other operating revenue, COVID-19 Funding reported for the nine months ended March 31, 2023 decreased $288 million from the comparable period in the prior year.

Total Operating Expenses



Total operating expenses increased $804 million, or 3.7% during the nine months ended March 31, 2023, as compared to the same period in the prior year. Consistent with the overall healthcare provider industry, sustained inflationary pressures have contributed to expense growth in recent periods.

The System experienced a 1.4% increase in cost per equivalent discharge during the nine months ended March 31, 2023 as compared to the nine months ended March 31, 2022, primarily due to inflationary pressures impacting several expense categories.

To counter these pressures, Ascension's economic improvement plans are focused on additional operating efficiencies and reducing the rate of expense growth to further align with total operating revenue.

Total salaries, wages and benefits decreased $103 million, or 1.0%, for the nine months ended March 31, 2023, compared to the same period in the prior year. Factors contributing to the decrease included the outsourcing of lab services which began in Q2 FY23. Additionally, since the height of the staffing and labor challenges experienced in FY22, the System's implementation of certain economic improvement plans have focused on stabilization of the workforce and have also contributed to a reduction of agency staffing rates and utilization. The System's average length of stay for Q3 FY23 YTD has also improved 4.0% from the same period in the prior year. Partially offsetting these items, the average hourly wage rate has increased during the nine months ended March 31, 2023 driven by market and other wage adjustments, especially for clinical roles. Additionally, benefits expense increased, reflective of higher health insurance costs for the System's associates and dependents. Ascension remains committed to: 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 decreased $104 million, or 3.3%, during the nine months ended March 31, 2023, as compared to the prior year due primarily to lower pharmaceutical supplies with a lower COVID-19 inpatient census and a decrease in lab supplies with the transition to outsourced lab services beginning in Q2 FY23. Partially offsetting these decreases, the System experienced an increase in surgical and implant supplies associated with increased overall surgeries along with inflationary pricing pressures from vendors due to rising labor, raw material and shipping costs. The overall decrease in supplies is also influenced by Ascension's economic improvement plan initiatives and efforts from The Resource Group to mitigate supply chain disruptions and backorders along with inflationary pressures in the current environment.

Additionally for Q3 FY23 YTD, the System experienced increases in purchased services and other operating expenses. Purchased services increased $369 million, or 15.1%, for the nine months ended March 31, 2023, as compared to the same period in the prior year driven primarily by the transition to outsourced lab services beginning in Q2 FY23 along with the outsourcing of certain IT services that began in the prior year. Other operating expenses (including professional fees, insurance, provider tax, other operating expenses, and depreciation, amortization and interest) increased $642 million, or 12.5%, for Q3 FY23 YTD as compared to prior year 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, insurance expense, provider tax expense, claims expense associated with the increased insurance revenue discussed above, software licenses and maintenance and utility costs.

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.

Ascension's total net investment losses reported within Non-operating losses for the nine months ended March 31, 2023 were $98 million; Ascension's comparable prior year investment income was $736 million.

Additionally, for Q3 FY23 YTD, Ascension also recognized $28 million of investment gains associated with the Self-insurance trust fund, reported within Income (loss) from Operations as compared to $17 million of investment losses for Q3 FY22 YTD.

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 recent economic conditions including investment market volatility. The following table reflects selected financial information on a consolidated basis.

	3/31/2023	6/30/2022
Current Assets	$6,221	$ 6,066
Long-Term Investments*	20,192	22,058
Property and Equipment	10,786	11,424
Other Assets	4,621	4,528
Total Assets	**$ 41,819**	**$ 44,076**

*Includes assets limited as to use and the noncontrolling interests of Investment Funds.

	3/31/2023	6/30/2022
Current Liabilities	$ 6,143	$ 6,727
Long-Term Liabilities	10,035	10,223
Total Liabilities	16,178	16,950
Net Assets	25,641	27,126
Total Liabilities and Net Assets	**$ 41,819**	**$ 44,076**

Financial Assets and Liquidity Resources

The System's cash and investment position remains appropriate and includes highly liquid investments. Net unrestricted cash and investments were $17.0 billion at March 31, 2023, which is approximately 41% of the System's total assets. The System's days cash on hand were 219 days as of March 31, 2023, as further discussed in this section.

Additionally, Ascension maintains one line of credit, totalling $1 billion. As of March 31, 2023, 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. As of December 31, 2022, all Medicare Advance Payments have been repaid. These payments were recorded within long-term investments and current liabilities on the System's Consolidated Balance Sheets as of June 30, 2022. Medicare Advance Payments represented approximately 7 days cash as of June 30, 2022.

In addition, as of June 30, 2022, Ascension had deferred employer payroll tax payments pursuant to the Paycheck Protection Program and Health Care Enhancement Act that represented approximately 2.5 days of cash. These deferred payments have been fully repaid.

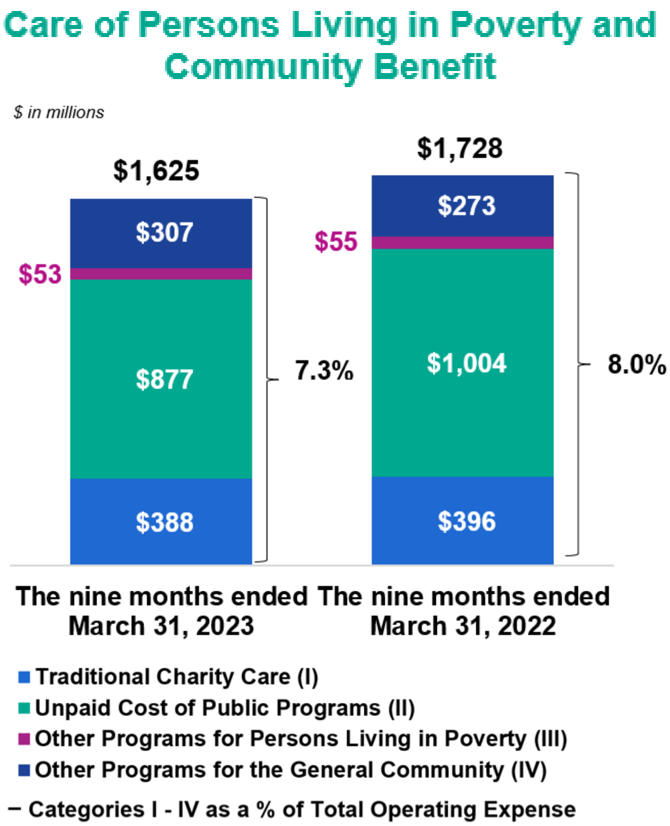
Balance Sheet Ratios

	3/31/2023	6/30/2022
Days Cash on Hand	219	259
Net Days in Accounts Receivable	48.4	50.3
Cash-to-Debt	237.8%	267.4%
Total Debt to Capitalization	24.4%	23.2%

Net days in accounts receivable decreased approximately 2 days from 50.3 days at June 30, 2022, to 48.4 days at March 31, 2023 largely attributable to a decrease in certain aged acute and physician accounts receivable balances with increased balances collected along with greater growth in net patient service revenue than accounts receivable.

Care of Persons Living in Poverty and Community Benefit

Despite our operational challenges, Ascension provided over $1.6 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the nine months ended March 31, 2023, supported by our financial position. 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.



The System experienced a decrease in the unpaid cost of public programs (Category II) as a result of additional reimbursement from changes to state programs in a few Markets, partially offset by higher Medicaid gross charges in certain Markets.