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

As of and for the three months ended September 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

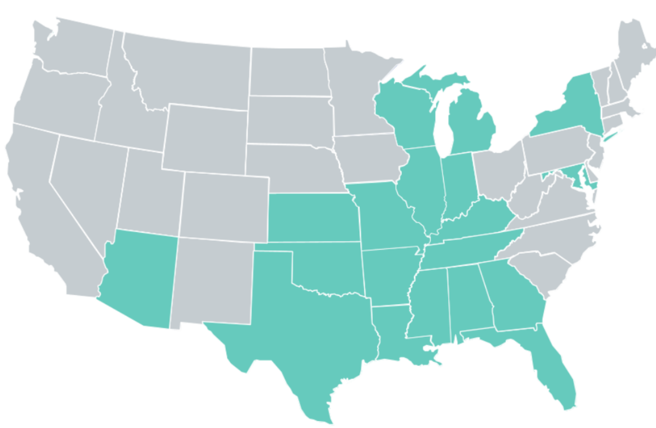
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

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 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 September 30, 2022, the System included approximately 140,000 associates and 37,000 aligned providers, approximately 2,600 sites of care – including 139 hospitals and 40 senior living facilities – in 19 states and the District of Columbia, while providing a variety of healthcare-related services.



Executive Overview

Similar to other U.S. healthcare providers, Ascension's operations and volumes are still recovering from the volatility and operational disruptions of the prolonged novel coronavirus (COVID-19) pandemic. These disruptions included historic staffing challenges due to ongoing workforce shortages and elevated labor costs along with sporadic closures of surgical and procedural areas. Operating performance improved from the preceding quarter (Q4 FY22), despite continued challenges for the three months ended September 30, 2022 (Q1 FY23).

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, 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.

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 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 an economic, operational and financial impact for the U.S. healthcare industry. Similarly, Ascension's patients, employees, business operations and communities served continue to be affected by the challenges that have arisen from the disruptive pandemic.

During Q1 FY23, COVID-19 inpatient cases were less than 4% of the total census, as compared to the corresponding three months in the prior year (Q1 FY22) when the COVID-19 inpatient census averaged 8%. While the COVID-19 inpatient census was lower in the current period, the continuing operational and economic challenges affected Ascension's volumes and contributed to financial performance as further discussed below. Consumer hesitation along with economic conditions continue to impact Ascension's markets to varying degrees, as the System's volumes remain below levels prior to the pandemic (three months ended September 30, 2019) in most categories except physician office and clinic visits.

From the beginning of the COVID-19 pandemic, federal, state and local governmental relief funds and programs were provided for lost revenues or healthcare-related expenses attributable to COVID-19 to help offset the adverse financial impacts experienced. For Q1 FY23 and Q1 FY22, COVID-19 Funding recognized within Other Operating Revenue of $1 million and $4 million, respectively, was notably less than other recent periods with no significant funds expected for FY23.

Select Financial Information (dollars in millions)

Consolidated Operations

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

Three months ended September30,

	2022	2021
Net Patient Service Revenue	$ 6,308	$ 6,384
Other Operating Revenue	927	553
Operating Expenses	7,319	6,924
Income (loss) from Operations	(119)	25
Operating Margin	(1.6%)	0.4%
Operating EBIDA Margin	3.7%	5.9%

On a consolidated basis, Ascension's operating margin was -1.6% for the three months ended September 30, 2022, as compared to 0.4% for the comparable period in the prior year. Operating EBIDA margin for Q1 FY23 was 3.7% as compared to 5.9% for the same period in the prior year.

Although the System was not able to fully absorb additional operating expense impacts resulting from the combination of workforce shortages and wage inflation, Ascension remains extremely focused on stewardship consistent with our Mission through the implementation of various economic improvement plans. Consequently, Ascension's Q1 FY23 operating performance improved to -1.6% from operating margins of -3.4% and -10.0% for the two preceding quarters (Q4 FY22 and Q3 FY22, respectively).

Volume Trends

During Q1 FY23, the System experienced a slight increase in overall volume over the prior year (measured on a same facility basis), representing the continuing recovery of pandemic-impacted volumes. Ascension's volume improvement was most notable in both inpatient and outpatient surgeries. While at the same time, admissions decreased 5% (or 4.7% on a same facility basis) partially attributable to a reduced COVID-19 inpatient census in Q1 FY23.

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

Volume Metrics	Three months ended September 30, 2022	2021
Equivalent Discharges	401,551	399,315
Total Admissions	181,611	191,115
Surgery Visits (IP & OP)	150,094	145,774
Observation Days	72,405	69,146
Emergency Room Visits	777,724	790,686
Urgent Care Visits	96,530	147,586
Physician Office and Clinic Visits	4,040,337	4,068,251

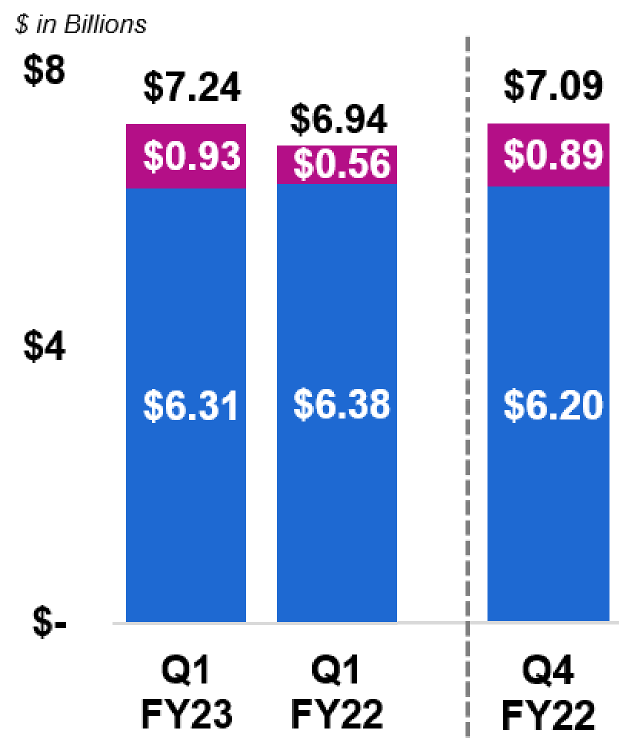
The following table reflects select patient volume trend comparisons for the three months ended September 30, 2022 and 2021. Due to the organizational changes noted, the most meaningful volume comparisons are on the same facility basis.

Volume Trends	Same Facility Volume Incr/(Decr)	Total Volume Incr/(Decr)
Equivalent Discharges	1.1%	0.6%
Total Admissions	(4.7%)	(5.0%)
Surgery Visits (IP & OP)	3.4%	3.0%
Observation Days	5.0%	4.7%
Emergency Room Visits	(1.0%)	(1.6%)
Urgent Care Visits	(33.6%)	(34.6%)
Physician Office and Clinic Visits	(0.1%)	(0.7%)

Consistent with industry trends, the System is experiencing a shift from inpatient to outpatient procedures and was also impacted by staffing shortages that, at times, led to continued occasional closures of some procedural areas in certain Markets. However, in Q1 FY23, Ascension experienced moderate increases in several volume metrics over the preceding quarter (Q4 FY22) with increases of 3.0%, 3.1%, 2.0% and 2.5% in equivalent discharges, admissions, inpatient surgeries, and ER visits.

Overall, outpatient visits decreased slightly on a same facility basis over the comparable three months of the prior year although same facility outpatient surgeries increased 4.1%. For the three months ended September 30, 2022, virtual provider office (VPO) visits of approximately 230,000 decreased slightly from the prior year, representing approximately 6% of visits in the current year as compared to approximately 7% of total physician visits in the comparable period of the prior year. Urgent care visits decreased 33.6% on a same facility basis influenced by lower and less severe COVID-19 infections along with greater availability of at-home tests than in the prior year. Consistent with industry trends, Ascension 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 $298 million or 4.3% for Q1 FY23, as compared to the same period in the prior year.

For Q1 FY23, the System experienced a slight decrease in net patient service revenue (NPSR) of $76 million or 1.2% over the comparable period in the prior year. NPSR per equivalent discharge decreased 1.7% primarily due to a shift to outpatient services as outpatient gross revenue increased to 54.6% for Q1 FY23 as compared to 52% for the corresponding three months in the prior year.

Ascension's Q1 FY23 same facility NPSR decrease from the same period in the prior year was 0.6%.

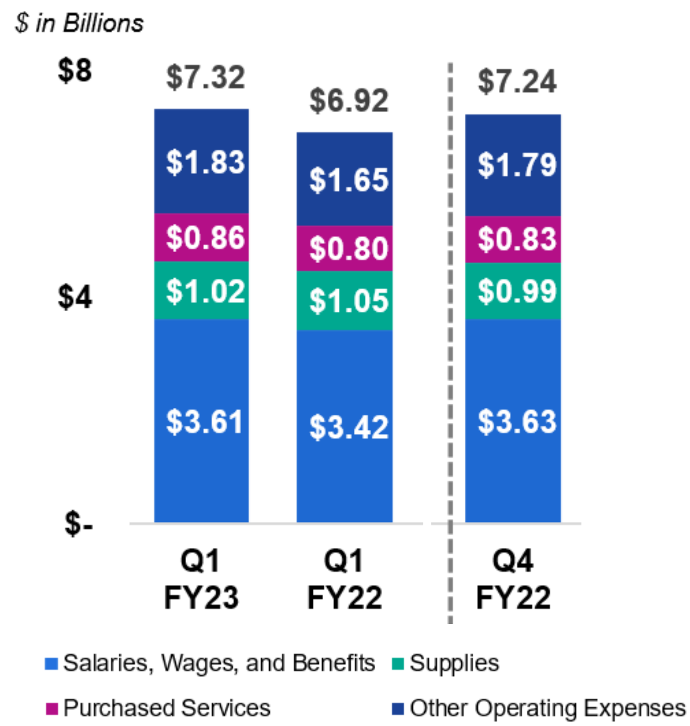
Aside from the previously mentioned overall volume changes and shift to outpatient services, NPSR was impacted by a slight shift in payor mix from commercial and self-pay payors to governmental payors along with reduced inpatient acuity. The System's case mix index of 1.81 for Q1 FY23 has declined approximately 1.0% from 1.83 as the COVID-19 inpatient census also decreased from Q1 FY22.

As part of Ascension's economic improvement plans focused on service line growth, we continue to focus on volume recovery along with our strategies to strengthen ancillary services and our ambulatory footprint. These plans have contributed to almost a 2% increase in NPSR for Q1 FY23 from the preceding quarter (Q4 FY22).

Total other operating revenue increased by $374 million or 67.7% during the three months ended September 30, 2022, as compared to the prior year due primarily to gains on sale, which were partially offset by transaction related costs recognized within operating expenses. Other contributors to the increase in other operating revenue were the maturation of our specialty and mail order pharmacy services and other ancillary and ambulatory strategic growth initiatives along with increased supplemental care program revenue, including shared savings.

Total Operating Expenses

Total operating expenses increased $395 million, 5.7% or 5.9% on a same facility basis, during the three months ended September 30, 2022, as compared to the prior year. Consistent with the overall healthcare provider industry, sustained labor-related challenges contributed to expense growth. In particular, Ascension's labor-related expenses escalated in FY22, peaking in the second half of the fiscal year, associated with providing care for patients during the COVID-19 surges while experiencing widespread workforce shortages. These trends have continued to slowly improve into Q1 FY23 as economic improvement plan initiatives continue to be realized.



The System experienced a 5.1% (4.7% same facility) increase in cost per equivalent discharge during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, primarily due to increases in labor costs impacted by the workforce challenges previously discussed along with inflationary growth on other expense categories.

Total salaries, wages and benefits increased $194 million, or 5.7%, for the three months ended September 30, 2022, compared to the prior year. The increase is primarily due to persisting staffing challenges from the pandemic that contributed to higher market and other wage adjustments increasing the average hourly wage rate, especially for clinical roles. Since the height of these challenges in FY22, the System's implementation of certain economic improvement plans focused on stabilization of the workforce have contributed to a reduction of agency staffing rates and utilization. Additionally, the System's average length of stay for Q1 FY23 has improved 3.5% from the same period in the prior year.

Compared to Q4 FY22, salaries and wages have decreased $49 million, or 1.6%, demonstrating progress achieved through the economic improvement plans. Ascension's remains committed to 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 decreased $30 million, or 2.8%, during the three months ended September 30, 2022, as compared to the prior year due primarily to lower pharmaceutical supplies with a lower COVID-19 inpatient census partially offset by increases in surgical and implant supplies associated with increased surgeries. Ascension's economic improvement plan initiatives and efforts from The Resource Group have also enabled the System to mitigate some of the comparable industry inflationary pressures in the current environment.

In addition to labor-related expense increases discussed above, the System experienced increases in purchased services and other operating expenses. Purchased services increased $62 million, or 7.8%, for the quarter ended September 30, 2022, as compared to the same quarter in the prior year driven primarily by a change to outsource certain IT services along with slightly higher purchased dietary and environmental services. Other operating expenses (including professional fees, insurance, provider tax, other operating expenses, and depreciation, amortization and interest) increased $169 million, or 10.2%, in Q1 FY23 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, provider tax expense, software licenses and maintenance costs and transaction related costs. Ascension's economic improvement plans are focused on additional operating efficiencies and reducing the rate of expense growth for purchased services and other operating expenses has begun to moderate slightly with increases of 3.3% and 2.0%, respectively, for Q1 FY23 as compared to the preceding quarter (Q4 FY22).

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.

During Q1 FY23, Ascension's long-term investment funds experienced significant volatility, resulting in a return of -3.7% during the quarter ended September 30, 2022. Ascension's total net investment losses reported within Non-operating gains (losses) for the quarter ended September 30, 2022 were ($792 million); Ascension's comparable prior year investment income was $33 million.

Additionally, due to the investment market volatility in Q1 FY23, Ascension also recognized ($35 million) of investment losses associated with the Self-insurance trust fund, reported within Income (loss) from from Operations for Q1 FY23 as compared to $3 million of investment income for the quarter ended September 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 economic conditions including investment market volatility. The following table reflects selected financial information on a consolidated basis.

	9/30/2022	6/30/2022
Current Assets	$ 5,907	$ 6,066
Long-Term Investments	20,506	22,058
Property and Equipment	11,398	11,424
Other Assets	4,513	4,528
Total Assets	**$ 42,325**	**$ 44,076**

	9/30/2022	6/30/2022
Current Liabilities	$ 5,948	$ 6,727
Long-Term Liabilities	10,181	10,223
Total Liabilities	16,129	16,950
Net Assets	26,196	27,126
Total Liabilities and Net Assets	**$ 42,325**	**$ 44,076**

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 $17.8 billion at September 30, 2022, which is approximately 42% of the System's total assets. The System's days cash on hand was 235 days as of September 30, 2022, as further discussed in this section.

Additionally, Ascension maintains one line of credit, totalling $1 billion. As of September 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 2 and 7 days cash as of September 30, 2022, and June 30, 2022, respectively. In accordance with the terms and conditions of the Medicare Advance Payment program, recoupments of approximately $392 million occurred during the three months ended September 30, 2022 with a total of approximately $1.9 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 of cash as of both September 30, 2022 and June 30, 2022.

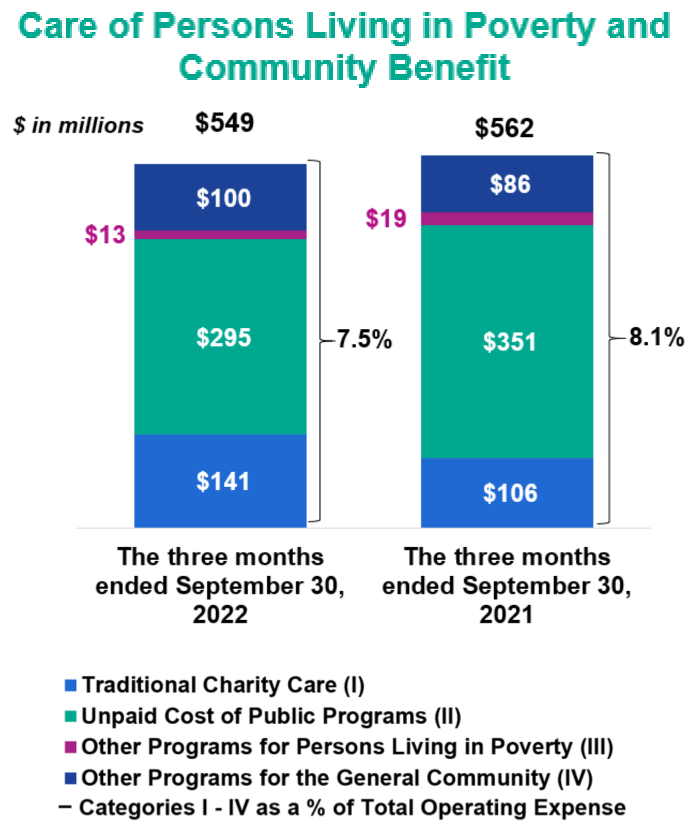
Balance Sheet Ratios

	9/30/2022	6/30/2022
Days Cash on Hand	235	259
Net Days in Accounts Receivable	49.4	50.3
Cash-to-Debt	245.5%	267.4%
Total Debt to Capitalization	23.8%	23.2%

Net days in accounts receivable decreased approximately 1 day from 50.3 days at June 30, 2022, to 49.4 days at September 30, 2022 largely attributable to a decrease in certain aged acute and physician accounts receivable balances with increased balances collected.

Care of Persons Living in Poverty and Community Benefit

Ascension provided $549 million in Care of Persons Living in Poverty and Other Community Benefit Programs for the three months ended September 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.



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. The System's traditional charity care provided during the three months ended September 30, 2022, increased as compared to the same period in the prior year due to a decrease in uncompensated care funding in certain Markets, a decrease in the COVID-19 Funding from HRSA for uninsured COVID-19 patients, and a higher cost of caring for patients.

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 three months ended September 30, 2022.