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

As of and for the six months ended December 31, 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).

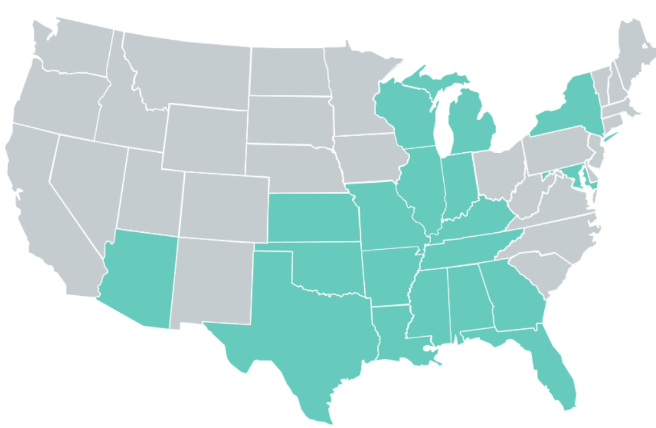
The MD&A includes the following sections:

- 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 December 31, 2022, the System included approximately 134,000 associates and 34,000 aligned providers, approximately 2,600 sites of care – including 138 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 six months ended December 31, 2022.



Executive Overview

Similar to other U.S. healthcare providers, Ascension's operations and volumes are still 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 and volume challenges. For the six months ended December 31, 2022 (Q2 FY23 YTD), operating performance improved despite the continuing challenges, compared to the immediately preceding six months ended June 30, 2022, reflecting successful implementation and progress towards the System's economic improvement plans.

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 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.

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 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 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 and related crisis that ensued have contributed to extensive economic, operational and financial impacts for the U.S. healthcare industry. Similarly, Ascension's business operations and communities served continue to be negatively impacted by the challenges that have arisen since the onset of the disruptive pandemic.

During Q2 FY23 YTD, the COVID-19 inpatient census was over 50% lower than the corresponding six months in the prior year (Q2 FY22 YTD). While the COVID-19 inpatient census continues to normalize to lower levels in the current period, continuing operational and economic challenges have affected Ascension during this post-crisis stabilization period and contributed to financial performance as further discussed below. Similar to other healthcare providers, economic conditions through the stabilization period continue to impact Ascension's markets to varying degrees through an uneven volume recovery, as the System's volumes remain below levels prior to the pandemic (six months ended December 31, 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 Q2 FY23 YTD and Q2 FY22 YTD, Ascension recognized COVID-19 Funding recognized within other operating revenue of $14 million and $234 million, respectively. Governmental support in FY23 has been notably less than other recent periods during the pandemic crisis, contributing to lower year-over-year operating performance.

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, 2022 and 2021.

Six months ended December 31,

	2022	2021
Net Patient Service Revenue	$ 12,859	$ 12,868
Other Operating Revenue	1,454	1,330
Operating Expenses	14,718	14,194
Income (loss) from Operations	(410)	31
Operating Margin	(2.9%)	0.2%
Operating EBIDA Margin	2.5%	5.7%

On a consolidated basis, Ascension's operating margin was -2.9% for the six months ended December 31, 2022, as compared to 0.2% for the comparable period in the prior year. Operating EBIDA margin for Q2 FY23 YTD was 2.5% as compared to 5.7% for the same period in the prior year.

While the System continued to experience an uneven volume recovery and additional operating expense impacts resulting from the inflationary environment, Ascension remains primarily focused on stewardship consistent with our Mission through the implementation of various economic improvement plans. Consequently, Ascension's Q2 FY23 YTD operating performance improved to -2.9% from an operating margin of -6.6% for the immediately preceding six months ended June 30, 2022.

Volume Trends

For the six months ended December 31, 2022, the System experienced a slight 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. While at the same time, admissions decreased 3.4% on a same facility basis partially attributable to reduced COVID-19 inpatient volumes.

The following table reflects certain patient volume information, on a consolidated basis, for the six months ended December 31, 2022 and 2021.

Six months ended December 31,

Volume Metrics	**2022**	**2021**
Equivalent Discharges	797,868	791,241
Total Admissions	362,309	375,558
Surgery Visits (IP)	81,636	80,677
Surgery Visits (OP)	220,136	212,737
Observation Days	139,750	138,823
Emergency Room Visits	1,578,254	1,532,685
Urgent Care Visits	194,418	290,668
Physician Office and Clinic Visits	8,077,668	8,064,617

The following table reflects select patient volume trend comparisons for the six months ended December 31, 2022 and 2021. Due to the organizational changes noted, the most meaningful volume comparisons are on the same facility basis.

Six months ended December 31, 2022 and 2021

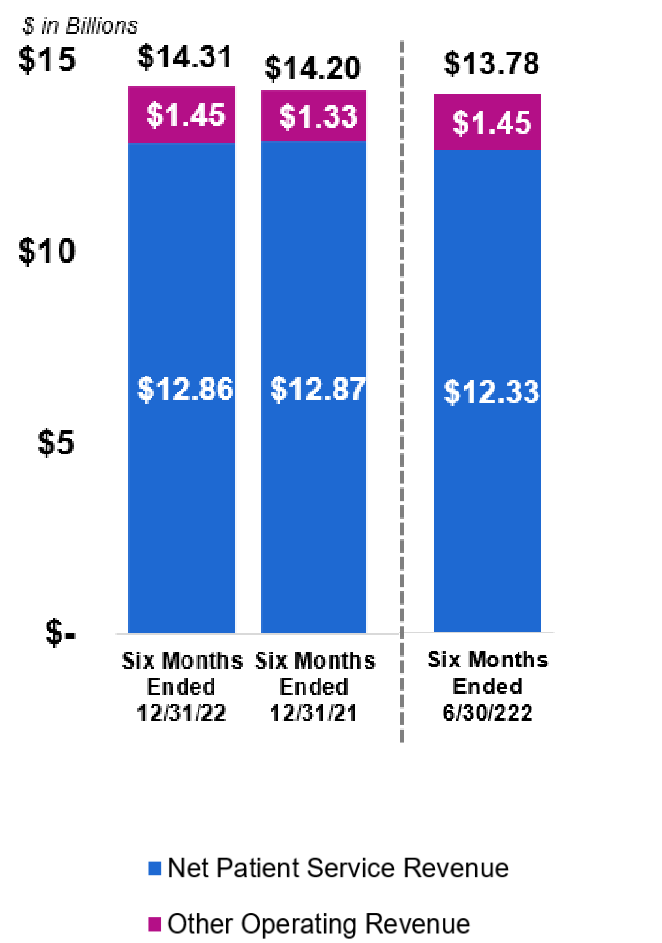
Volume Trends	**Same Facility Volume Incr/(Decr)**	**Total Volume Incr/(Decr)**
Equivalent Discharges	1.3%	0.8%
Total Admissions	(3.4%)	(3.5%)
Surgery Visits (IP)	1.3%	1.2%
Surgery Visits (OP)	3.8%	3.5%
Observation Days	0.8%	0.7%
Emergency Room Visits	3.3%	3.0%
Urgent Care Visits	(32.6%)	(33.1%)
Physician Office and Clinic Visits	0.5%	0.2%

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 Q2 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 Q2 FY23 YTD, virtual provider office (VPO) visits were approximately 458,000, representing approximately 6% of physician and clinic visits in the current year, a slight decline from the comparable period of the prior year.

Urgent care visits decreased 32.6% on a same facility basis influenced by lower and less severe COVID-19 infections along with continued greater availability of at-home tests than in the prior year. Consistent with industry trends, Ascension also experienced a slight increase in observation days relative to patients presenting for care within our acute settings as payors continue to require outpatient status for many of these patients.

Total Operating Revenue

Total operating revenue increased by $115 million or 0.8% for the six months ended December 31, 2022 as compared to the same period in the prior year.



For Q2 FY23 YTD, the System's net patient service revenue (NPSR) remained relatively flat (0.1% decline) to the comparable period in the prior year. On a same facility basis, Ascension's NPSR for Q2 FY23 YTD increased 0.4% from the same period in the prior year. NPSR per equivalent discharge decreased 0.9% primarily due to a shift to outpatient services as outpatient gross revenue increased to 54.4% for Q2 FY23 YTD as compared to 52.3% for the corresponding six months in the prior year.

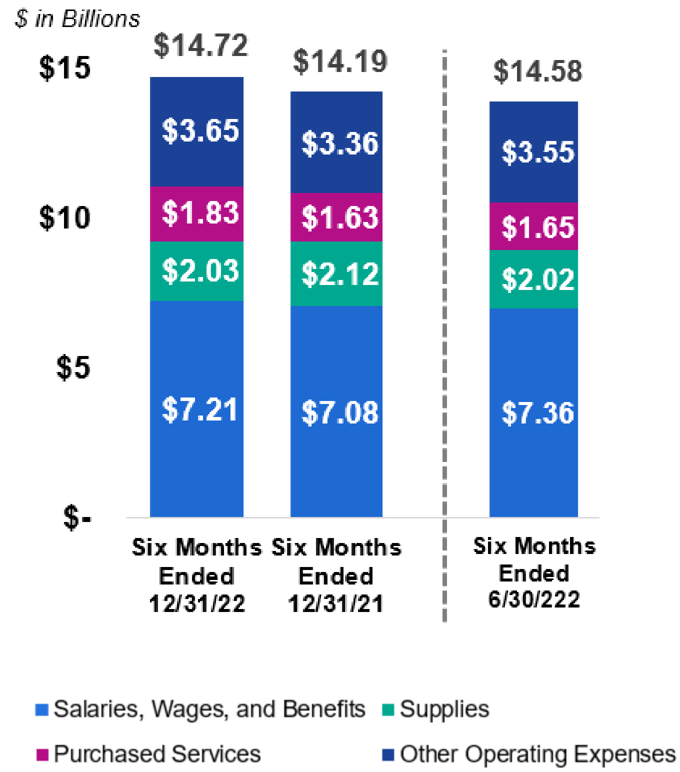
Aside from the previously mentioned overall volume changes and shift to outpatient services, NPSR was impacted by a slight shift in payor mix from commercial and self-pay payors to governmental payors along with reduced inpatient acuity. The System's case mix index of 1.83 for Q2 FY23 YTD has declined approximately 1.2% from 1.85 for the comparable period in the prior year as the COVID-19 inpatient census also decreased. Additionally, commercial rates have 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 volume recovery along with our strategies to strengthen ancillary services and our ambulatory footprint with our Markets. These plans have contributed to the overall 4.3% increase in NPSR for the six months ended December 31, 2022 compared to the immediately preceding six months ended June 30, 2022.

Total other operating revenue increased by $124 million or 9.3% during the six months ended December 31, 2022, as compared to the prior year due primarily to gains on sale, net. Partially offsetting growth in other operating revenue, the aforementioned COVID-19 Funding decreased more than $220 million from the comparable period in the prior year. Other contributors to the increase in other operating revenue were the maturation of our specialty and mail order pharmacy services and insurance plan revenue.

Total Operating Expenses

Total operating expenses increased $524 million, 3.7% during the six months ended December 31, 2022, 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 2.8% increase in cost per equivalent discharge during the six months ended December 31, 2022 as compared to the six months ended December 31, 2021, primarily due to inflationary pressures impacting several expense categories.

Total salaries, wages and benefits increased $127 million, or 1.8%, for the six months ended December 31, 2022, compared to the same period in the prior year. This increase includes higher salary and wages driven by market and other wage adjustments that increased the average hourly wage rate, especially for clinical roles. Partially offsetting the increase from these salary and wage adjustments, beginning in Q2 FY23, the System outsourced its lab services. Additionally, since the height of the staffing and labor challenges experienced in FY22, the System's implementation of certain economic improvement plans focused on stabilization of the workforce and have contributed to a reduction of agency staffing rates and utilization. The System's average length of stay for Q2 FY23 YTD has also improved 2.8% from the same period in the prior year. For Q2 FY23 YTD, benefits expense increased, reflective of higher health insurance costs for the System's associates and dependents.

Compared to the immediately preceding six months ended June 30, 2022, salaries, wages and benefits, including contract labor, for Q2 FY23 YTD have decreased $148 million or 2.0%, demonstrating progress achieved through the economic improvement plans. Ascension 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 $91 million, or 4.3%, during the six months ended December 31, 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. Supplies also decreased due to the transition to outsourced lab services beginning in Q2 FY23. 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 $204 million, or 12.6%, for the six months ended December 31, 2022, 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 $283 million, or 8.4%, for Q2 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, provider tax expense, claims expense, software licenses and maintenance and utility costs.

Ascension's economic improvement plans are focused on additional operating efficiencies and reducing the rate of expense growth to align with total operating revenue. Successful implementation of the economic improvement plans has allowed Ascension to moderate overall expense growth amidst the current inflationary environment to 0.9% for the six months ended December 31, 2022 when compared to the immediately preceding six months ended June 30, 2022.

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.

Throughout the six months ended December 31, 2022, Ascension's long-term investment funds experienced significant volatility, resulting in an overall net return of -0.2%. In addition to the cash and investments managed by AIM, Ascension holds other strategic investments which recognized over $700 million of investment losses for Q2 FY23 YTD. Ascension's total net investment losses reported within Non-operating losses for the six months ended December 31, 2022 were $799 million; Ascension's comparable prior year investment income was $1.0 billion.

Additionally, for Q2 FY23 YTD, Ascension also recognized $4 million of investment losses associated with the Self-insurance trust fund, reported within Income (loss) from Operations as compared to $18 million of investment income for the same period in the prior year.

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

	12/31/2022	6/30/2022
Current Assets	$6,225	$ 6,066
Long-Term Investments*	19,404	22,058
Property and Equipment	11,446	11,424
Other Assets	4,563	4,528
Total Assets	**$ 41,638**	**$ 44,076**

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

	12/31/2022	6/30/2022
Current Liabilities	$ 5,598	$ 6,727
Long-Term Liabilities	10,124	10,223
Total Liabilities	15,722	16,950
Net Assets	25,916	27,126
Total Liabilities and Net Assets	**$ 41,638**	**$ 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 $16.6 billion at December 31, 2022, which is approximately 40% of the System's total assets. The System's days cash on hand was 218 days as of December 31, 2022, as further discussed in this section.

Additionally, Ascension maintains one line of credit, totalling $1 billion. As of December 31, 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. As of December 31, 2022, all Medicare Advance Payments have been recouped. 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 paid as of December 31, 2022.

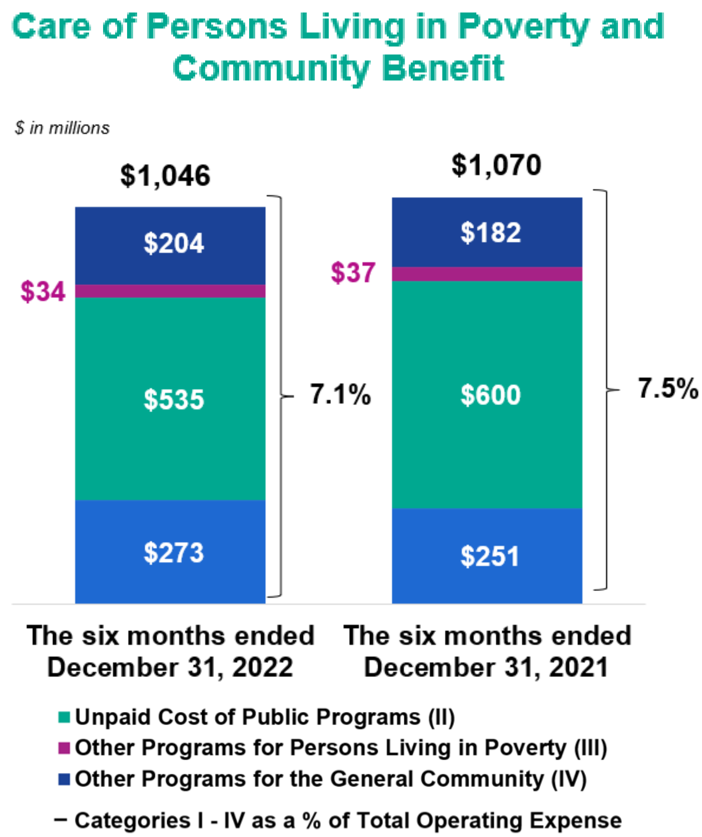
Balance Sheet Ratios

	12/31/2022	6/30/2022
Days Cash on Hand	218	259
Net Days in Accounts Receivable	48.4	50.3
Cash-to-Debt	231.0%	267.4%
Total Debt to Capitalization	23.9%	23.2%

Net days in accounts receivable decreased approximately 2 days from 50.3 days at June 30, 2022, to 48.4 days at December 31, 2022 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 $1.0 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the six months ended December 31, 2022, 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. The System's traditional charity care provided during the six months ended December 31, 2022 increased as compared to the same period in the prior year due to a decrease in uncompensated care funding in certain Markets and a decrease in the COVID-19 Funding from HRSA for uninsured COVID-19 patients.