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

As of and for the years ended June 30, 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).

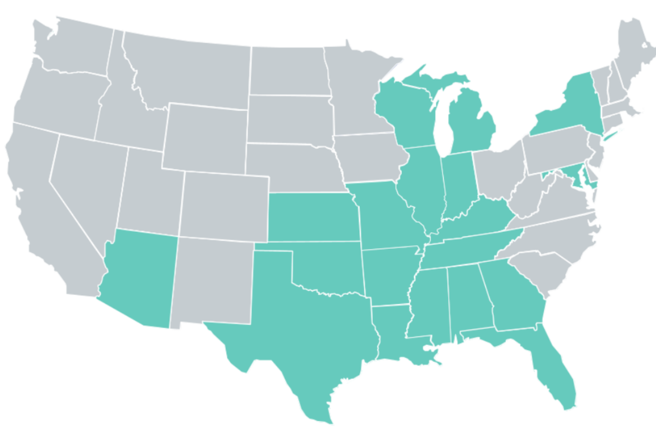
The MD&A includes the following sections:

- 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 June 30, 2023, the System included approximately 134,000 associates and 35,000 aligned providers, supporting our sites of care – including 140 hospitals and 40 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 year ended June 30, 2023.



Executive Overview

Similar to other U.S. healthcare providers, Ascension's operations and volumes are stabilizing from the volatility and operational disruptions attributable to 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 year ended June 30, 2023 (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 Q3 FY23, 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 June 2023, Ascension Health (Ascension) and The Guthrie Clinic (Guthrie) entered into an agreement whereby Ascension will transition its sole corporate membership interest in Our Lady of Lourdes Memorial Hospital, Inc. (Lourdes) in Binghamton, New York as well as related clinical and other business associated with Lourdes to Guthrie. This transition is expected to be finalized once all necessary approvals are obtained.

In April 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 years ended June 30, 2023 and 2022.

Years ended June 30,

	2023	2022
Net Patient Service Revenue	$ 25,648	$ 25,199
Other Operating Revenue	2,700	2,776
Operating Expenses	29,946	28,774
Income (Loss) from Recurring Operations before SITF investment return[1]	(1,599)	(799)
Recurring Operating Margin	(5.6%)	(2.9%)
Impairment and Nonrecurring Gains (Losses), net	(1,495)	26
Income (Loss) from Operations	$ (3,044)	$ (879)
Net Income (Loss), excl. Noncontrolling interests	$ (2,660)	$ (1,844)

Ascension reported a loss from recurring operations of $1.6 billion or a -5.6% recurring operating margin for the year ended June 30, 2023 as compared to a $0.8 billion loss from recurring operations for the prior year. Ascension recognized a net loss of $2.7 billion for the year ended June 30, 2023, compared to a net loss of $1.8 billion in the prior year.

[1] Self insurance trust fund (SITF) investment return is included in Income (loss) from Operations in the Consolidated Statement of Operations and Changes in Net Assets

Consolidated Operations (Pro Forma Presentation)

The following table represents a pro forma view of Ascension's comparative operating performance for FY23 and FY22, 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 COVID-19 Funding recognized in both fiscal years from other operating revenue and a one-time negotiated settlement reported in FY23 from operating expenses.

Years ended June 30,

	2023	2022
Net Patient Service Revenue	$ 25,648	$ 25,199
Other Operating Revenue	2,671	2,410
Operating Expenses	29,706	28,774
Income (Loss) from Recurring Operations before SITF investment return[2]	$ (1,387)	$ (1,165)

Recurring Operating Margin	(4.9%)	(4.2%)
Recurring Operating EBIDA Margin	0.5%	1.4%

Non-GAAP Financial Measures - Ascension has presented its consolidated financial statements and supplementary information for years ended June 30, 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 year ended June 30, 2023, Ascension recognized impairment losses of $1.5 billion. The FY23 non-cash write-downs are attributable to impairment of long-lived assets within a few of Ascension's markets.

Volume Trends

For the year ended June 30, 2023, the System experienced an increase in overall volume, measured by equivalent discharges, over the prior year, representing the continuing measured recovery of volumes through the stabilization from the pandemic. Ascension's volume improvements were most notable in both total surgical visits, primarily outpatient surgeries, and emergency room visits. Inpatient admissions decreased 1.4% partially attributable to reduced COVID-19 inpatient volumes.

The following table reflects certain key patient volume information, on a consolidated basis, for the years ended June 30, 2023 and 2022.

Years ended June 30,

Volume Metrics	2023	2022	Inc/(Dec)
Equivalent Discharges	1,583,743	1,547,959	2.3%
Total Admissions	716,273	726,473	(1.4%)
Surgery Visits (IP)	162,512	160,069	1.5%
Surgery Visits (OP)	436,946	419,062	4.3%
Observation Days	275,960	282,595	(2.3%)
Emergency Room Visits	3,074,545	2,992,391	2.7%
Urgent Care Visits	348,817	527,016	(33.8%)
Physician Office and Clinic Visits	16,377,602	16,064,312	2.0%

[2] Self insurance trust fund (SITF) investment return is included in Income (loss) from Operations in the Consolidated Statement of Operations and Changes in Net Assets

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 FY23, Ascension experienced moderate increases in several volume metrics over the prior year as shown in the preceding table. For FY23, virtual provider office (VPO) visits were approximately 863,000, representing approximately 5% of physician and clinic visits in the current year, as compared to 7% for the prior year.

Urgent care visits decreased 33.8% influenced largely by a reduction of urgent care locations in select markets along with lower COVID-19 testing than the prior year.

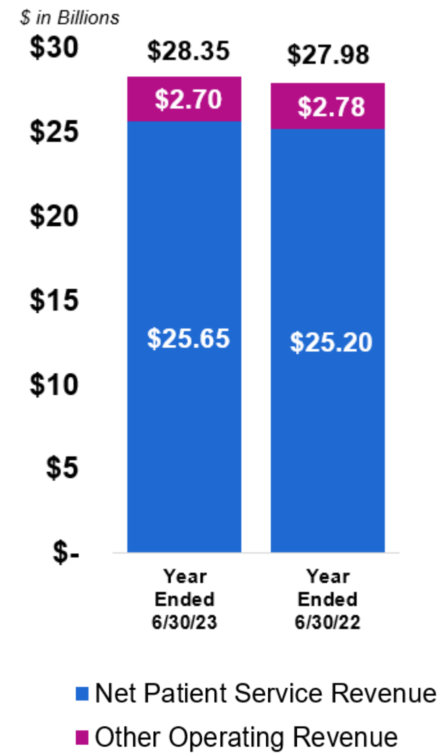
Ascension experienced volume growth when comparing Q4 FY23 to the prior quarter (Q3 FY23) and the same three month period in the prior year (Q4 FY22), most notably in physician and clinic visits, surgeries and emergency room visits. The following table presents key volume statistics, on a consolidated basis, for the three months ended June 30, 2023 and 2022.

Three months ended June 30,

Volume Metrics	**2023**	**2022**	**Inc/(Dec)**
Equivalent Discharges	399,221	389,971	2.4%
Total Admissions	178,680	176,146	1.4%
Surgery Visits (IP)	41,384	40,408	2.4%
Surgery Visits (OP)	111,208	109,325	1.7%
Observation Days	68,883	76,360	(9.8%)
Emergency Room Visits	765,929	758,705	1.0%
Urgent Care Visits	73,819	117,399	(37.1%)
Physician Office and Clinic Visits	4,231,866	4,042,318	4.7%

Total Operating Revenue

Total operating revenue increased by $372 million or 1.3% for the year ended June 30, 2023 as compared to the prior year.



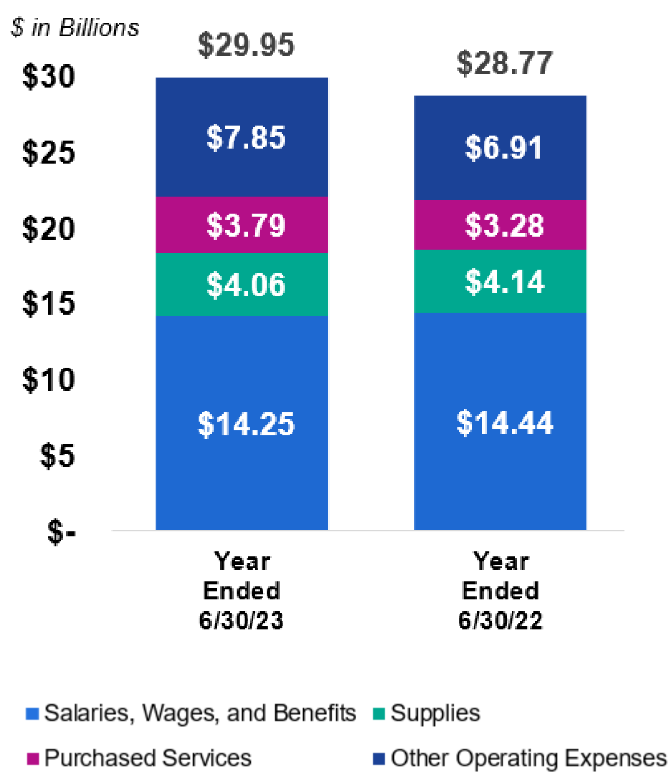
For FY23, the System's net patient service revenue (NPSR) increased moderately (1.8% overall increase or 2.1% increase on a same facility basis) from FY22. NPSR per equivalent discharge decreased 0.5% primarily due to a continued shift to outpatient services as outpatient gross revenue increased to 54.6% for FY23 as compared to 52.9% for 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 1.84 for FY23 has declined approximately 1.4% from 1.86 for the prior year as the COVID-19 inpatient census also decreased along with the shift of certain procedures to outpatient services. Additionally, commercial rates have not kept pace with inflation and Medicare sequestration also reduced rates, providing limited relief to mitigate 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 4.2% increase in NPSR and 1.8% in NPSR per equivalent discharge for the quarter ended June 30, 2023 compared to the same quarter in the prior year.

Total other operating revenue decreased by $76 million or 2.7% during the year ended June 30, 2023, as compared to the prior year. This decrease is due primarily to a $337 million decrease in COVID-19 Funding partially offset by increases resulting from the maturation of our specialty and mail order pharmacy services and insurance plan revenue.

Total Operating Expenses



Total operating expenses increased $1.2 billion, or 4.1% during the year ended June 30, 2023, as compared to the prior year. Consistent with the overall healthcare provider industry, sustained inflationary pressures have contributed to expense growth in FY23; however, our economic improvement plans focused on cost containment have mitigated the inflationary impacts to a net increase of 4.1%.

The System experienced a 1.7% increase in cost per equivalent discharge during the year ended June 30, 2023 as compared to the prior year, primarily due to inflationary pressures impacting several expense categories.

To continue countering 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 $193 million, or 1.3%, for the year ended June 30, 2023, compared to the prior year. The primary factors contributing to the decrease were the outsourcing of lab services which began in Q2 FY23 and a decrease in contract labor costs. 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 contributed to a reduction of agency staffing rates and utilization. The System's average length of stay for FY23 has also improved 3.8% from the prior year. Partially offsetting these items, the average hourly wage rate has increased during the year ended June 30, 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 $82 million, or 2.0%, during the year ended June 30, 2023, as compared to the prior year due primarily to a decrease in lab supplies with the transition to outsourced lab services beginning in Q2 FY23 along with lower pharmaceutical supplies driven by a lower COVID-19 inpatient census. 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 FY23, the System experienced increases in purchased services and other operating expenses. Purchased services increased $516 million, or 15.7%, for the year ended June 30, 2023, as compared to 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 $931 million, or 13.5%, for 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, 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 gains reported within Non-operating gains (losses) for the year ended June 30, 2023 were $423 million; Ascension's comparable prior year investment loss was $1.2 billion.

Additionally, for FY23, Ascension also recognized $50 million of investment gains associated with the Self-insurance trust fund, reported within Income (loss) from Operations as compared to $106 million of investment losses for FY22.

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.

	6/30/2023	6/30/2022
Current Assets	$6,470	$ 6,066
Long-Term Investments*	19,418	22,058
Property and Equipment	9,942	11,424
Other Assets	4,628	4,528
Total Assets	**$ 40,458**	**$ 44,076**

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

	6/30/2023	6/30/2022
Current Liabilities	$ 5,534	$ 6,727
Long-Term Liabilities	10,104	10,223
Total Liabilities	15,638	16,950
Net Assets	24,820	27,126
Total Liabilities and Net Assets	**$ 40,458**	**$ 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 $16.6 billion at June 30, 2023, which were over 40% of the System's total assets. The System's days cash on hand were 211 days as of June 30, 2023, as further discussed in this section.

Additionally, Ascension maintains one line of credit for general working capital purposes, totalling $1.0 billion. As of June 30, 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 (MAPs). The MAPs were recorded within long-term investments and current liabilities on the System's Consolidated Balance Sheets. As of June 30, 2022, the remaining unrecouped MAPs represented approximately 7 days cash as of June 30, 2022 and all remaining MAPs were repaid during Q2 FY23.

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 were fully repaid during FY23.

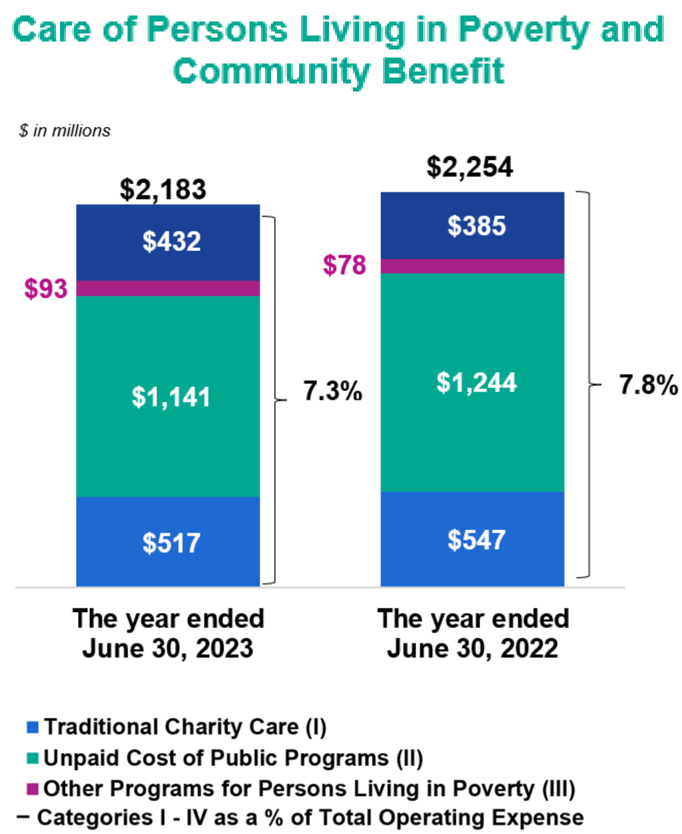
Balance Sheet Ratios

	6/30/2023	6/30/2022
Days Cash on Hand	211	259
Net Days in Accounts Receivable	46.0	50.3
Cash-to-Debt	239.8%	267.4%
Total Debt to Capitalization	24.4%	23.2%

Net days in accounts receivable decreased approximately 4 days from 50.3 days at June 30, 2022, to 46.0 days at June 30, 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 $2.2 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the year ended June 30, 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.