

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

As of and for the three months ended September 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).

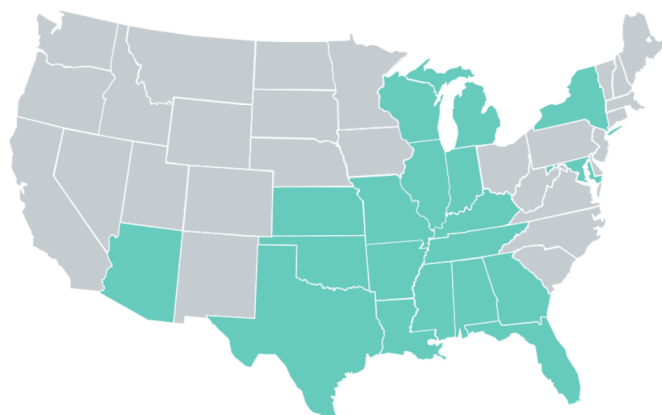
The MD&A includes the following sections:

- 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 September 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 three months ended September 30, 2023 (Q1 FY24).



## Executive Overview

Similar to other U.S. healthcare providers, Ascension's operations and volumes continue to stabilize from the volatility and operational disruptions following the prolonged novel coronavirus (COVID-19) pandemic amidst broader inflationary and recessionary pressures within the U.S. economy. Despite these headwinds, Ascension remains dedicated to improving the health and well-being of the communities we serve. With Q1 FY24, Ascension has begun to realize meaningful operational improvement from economic improvement plans focused on volume growth, rates and pricing and cost levers, contributing to improved performance over the preceding quarter and same quarter in the prior year.

## Organizational Changes

During the prior fiscal year, Ascension implemented changes to strengthen its operational leadership at both the national and market levels to improve hospital operations and ensure sustainability for the future. Ascension also 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. The organization's key changes to its portfolio are as follows:

Subsequent to September 30, 2023, on November 1, 2023, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension, finalized the sale of its membership interest in Network Health Inc., a holding company that operates insurance companies and other non insurance operations in the state of Wisconsin, to Froedtert Health, Inc.

Subsequent to September 30, 2023, in October 2023, Ascension Healthcare and Ascension Michigan signed an integration and affiliation agreement with Henry Ford Health System (HFHS) whereby Ascension Healthcare will contribute the membership interest in its southeast and mid Michigan hospitals and related ancillary entities into HFHS in exchange for acquiring an interest in HFHS. This transaction is expected to be finalized after all necessary approvals are obtained.

Subsequent to September 30, 2023, in October 2023, Gulf Coast Health System (GCHS), a wholly owned subsidiary of Ascension, completed the sale of substantially all assets and operations, as well as related clinical and other business associated with Providence Hospital in Mobile, Alabama (Providence) to University of South Alabama Health Care Authority.

In June 2023, Ascension Healthcare, a wholly owned subsidiary of Ascension, and The Guthrie Clinic (Guthrie) entered into an agreement whereby Ascension Healthcare 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.

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.

In addition to optimizing our acute care assets focused on patients with more complex needs, we 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 (Pro Forma Presentation)

The following table represents a pro forma view of Ascension's comparative operating performance for Q1 FY24 and the comparable three months in FY23 (Q1 FY23), adjusted to provide a more appropriate comparison of ongoing operating performance for the respective periods.

#### Three months ended September 30,

	2023	2022
Net Patient Service Revenue	\$ 6,542	\$ 6,308
Other Operating Revenue	734	562*
Operating Expenses	7,446	7,281*
Income (Loss) from Recurring Operations before SITF investment return <sup>1</sup>	\$ (171)	\$ (411)
Recurring Operating Margin	(2.3%)	(6.0%)
Recurring Operating EBIDA Margin	2.5%	(0.4%)

\* Other operating revenue and operating expenses have been adjusted to remove the impact of the one-time gain on sale and associated expenses with the Lab transaction for the three months ended September 30, 2022.

**Non-GAAP Financial Measures** - Ascension has presented its consolidated financial statements and supplementary information for three months ended September 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.

<sup>1</sup> 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

Ascension reported a loss from recurring operations of \$171 million or a -2.3% recurring operating margin for the three months ended September 30, 2023 which has improved \$240 million from the prior year, adjusted to remove the one-time gain on sale activity for the Lab transaction.

## Consolidated Operations

The following table reflects selected financial information on a consolidated basis for the three months ended September 30, 2023 and 2022.

### Three months ended September 30,

	2023	2022
Net Patient Service Revenue	\$ 6,542	\$ 6,308
Other Operating Revenue	734	927
Operating Expenses	7,446	7,319
Income (Loss) from Recurring Operations before SITF investment return <sup>2</sup>	\$ (171)	\$ (84)
Recurring Operating Margin	(2.3%)	(1.2%)
Income (Loss) from Operations	\$ (194)	\$ (119)

Ascension reported a loss from recurring operations of \$171 million or a -2.3% recurring operating margin for the three months ended September 30, 2023 as compared to an \$84 million loss from recurring operations for the comparable prior year period.

While the System continues to experience certain revenue and cost challenges, Ascension remains extremely focused on stewardship consistent with our Mission through the implementation of various economic improvement plans to enhance operational performance across the System. As noted in the pro forma table above, Ascension's recurring operating performance for Q1 FY24 has improved \$240 million from the same quarter in the prior year (Q1 FY23). Additionally, Ascension's recurring operating performance has improved more than \$340 million from the immediately preceding quarter, the three months ended June 30, 2023. Ascension's Q1 FY24 recurring operating EBIDA of \$183 million or a margin of 2.5% was also positive as compared to recurring operating EBIDA margin losses reported for both Q1 FY23 and Q4

FY23 (prior year adjusted to remove significant gain activity).

## Volume Trends

For the three months ended September 30, 2023, the System experienced a 0.6% increase in overall volume, measured by equivalent discharges, over the same quarter in the prior year, representing the continuing measured recovery of volumes through the stabilization from the pandemic. Ascension's volume improvements were most notable in inpatient admissions which increased 0.7%.

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

### Three months ended September 30,

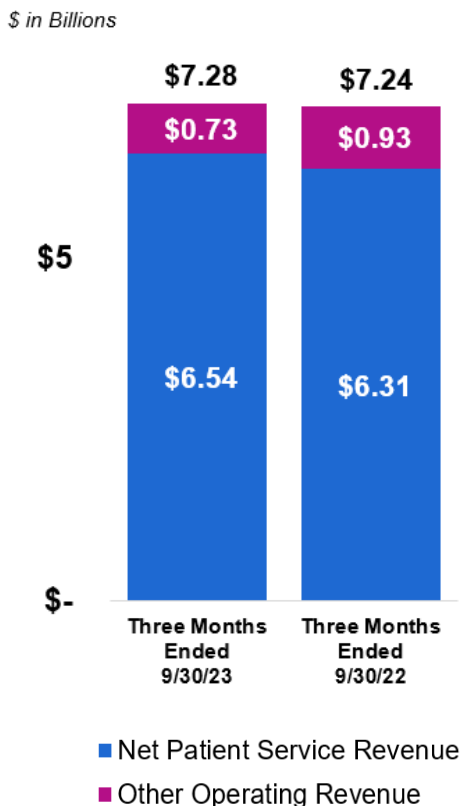
Volume Metrics	2023	2022	Inc/(Dec)
Equivalent Discharges	404,160	401,551	0.6%
Total Admissions	182,810	181,611	0.7%
Surgery Visits (IP)	40,962	41,229	(0.6%)
Surgery Visits (OP)	105,274	107,251	(1.8%)
Observation Days	66,480	72,405	(8.2%)
Emergency Room Visits	777,453	777,724	(0.0%)
Urgent Care Visits	75,159	96,530	(22.1%)
Physician Office and Clinic Visits	3,884,085	4,041,951	(3.9%)

For Q1 FY24, Ascension experienced moderate increases in equivalent discharges and total admissions over the prior year as noted above and shown in the preceding table. Additionally, equivalent discharges and total admissions increased 1.2% and 2.3%, respectively, for Q1 FY24 as compared to the immediately preceding quarter, Q4 FY23, demonstrating continued progress towards Ascension's economic improvement plans dedicated to service line growth. As part of these plans, Ascension is focused on building service line volumes along with our strategies to strengthen ancillary services and our ambulatory footprint within our Markets.

<sup>2</sup> 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

## Total Operating Revenue

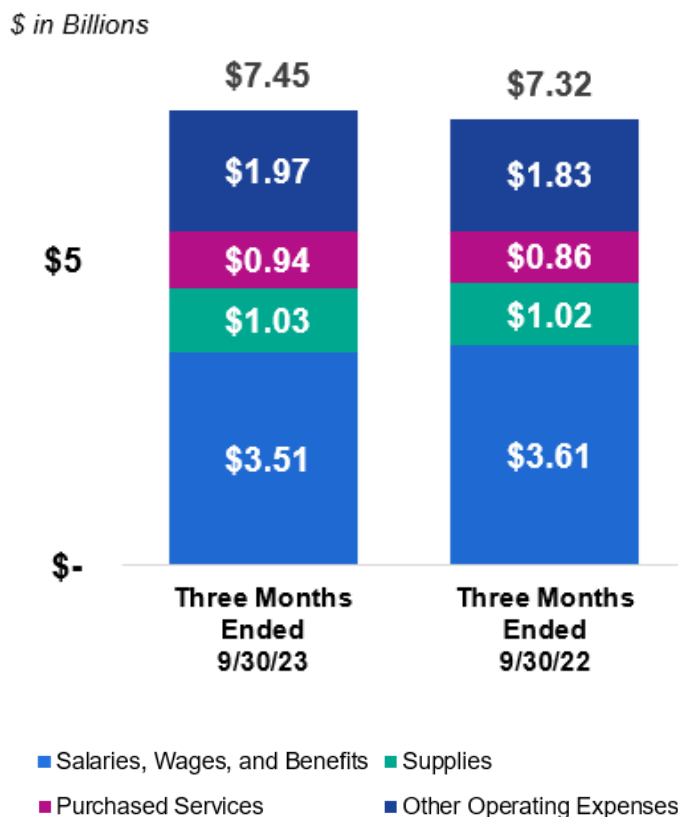
Total operating revenue increased by \$405 million or 5.9% for the three months ended September 30, 2023 as compared to the same period in the prior year, excluding the prior year gain on sale activity. Including the prior year gain on sale activity, total operating revenue increased by \$40 million or 0.5% for the three months ended September 30, 2023 as compared to the same period in the prior year.



For Q1 FY24, the System's net patient service revenue (NPSR) increased 3.7% overall from Q1 FY23, and NPSR per equivalent discharge also increased 3.0%. Aside from the previously mentioned overall volume changes, NPSR was impacted by a shift in payor mix from Medicaid and self pay payors to commercial and Medicare payors. The System's acute case mix index for Q1 FY24 has remained constant with the corresponding prior year period at 1.81 as the System expanded capacity and backfilled inpatient service volumes as other procedures continue to shift to outpatient settings. While reimbursement rates have provided limited mitigation to escalating costs over the last two fiscal years, recent managed care negotiations with commercial payors have yielded more moderate increases, improving NPSR rates. NPSR rates for Q1 FY24 were also benefited by increased reimbursement through provider tax programs in certain Markets.

Total other operating revenue decreased by \$194 million or 20.9% during the three months ended September 30, 2023, as compared to corresponding three months in the prior year. This decrease is primarily due to a \$358 million decline in gains on sale as a significant gain was recognized in Q1 FY23 relative to the transaction to transition lab services (partially offset by other transaction related costs recognized within other operating expenses). This decrease was partially offset by increases resulting from the maturation of our specialty and mail order pharmacy services and higher insurance plan revenue.

## Total Operating Expenses



Total operating expenses increased \$127 million, or 1.7% during the three months ended September 30, 2023, as compared to the corresponding quarter in the prior year. Consistent with the overall healthcare provider industry, sustained inflationary pressures have contributed to expense growth in Q1 FY24; however, our economic improvement plans focused on cost containment have mitigated the inflationary impacts to a net increase of 1.7%.

The System experienced a 1.1% increase in cost per equivalent discharge during the three months ended September 30, 2023 as compared to the corresponding

quarter in 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 \$102 million, or 2.8%, for the three months ended September 30, 2023, compared to the corresponding three months in the prior year. The primary factors contributing to the decrease were the outsourcing of lab services, which began in Q2 FY23, along with the continuation of labor stabilization initiatives. Since the height of the staffing and labor challenges approximately eighteen months ago, the System's implementation of certain economic improvement plans has focused on stabilization of the workforce, resulting in reduced turnover and vacancy rates across the System. These plans have also contributed to a reduction of agency staffing rates while better managing agency utilization to volume demands within our Markets. Both the System's average length of stay and FTEs per adjusted occupied bed for Q1 FY24 have also improved 2.9% and 2.1%, respectively, from the comparable quarter in the prior year. Partially offsetting these contributors, the average hourly wage rate has slightly increased during Q1 FY24 driven by market and other wage adjustments, especially for clinical roles. Additionally, benefits expense decreased \$38 million from Q1 FY23, reflective of lower 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 increased \$10 million, or 1.0%, during the three months ended September 30, 2023, as compared to the corresponding quarter the prior year due primarily to higher surgical and implant supplies. The increases were driven by increased surgical and procedural volumes in select Markets along with inflationary pricing pressures from vendors due to rising labor, raw material and shipping costs. These price pressures were moderated due to Ascension's economic improvement plan initiatives driving national contract supply savings and efforts from The Resource Group to mitigate supply chain disruptions and backorders in the current environment. Partially offsetting the increase in costs is the decrease in lab supplies with the transition to outsourced lab services beginning in Q2 FY23.

Additionally for Q1 FY24, the System experienced increases in purchased services and other operating expenses. Purchased services increased \$80 million, or 9.3%, for the quarter ended September 30, 2023, as

compared to the corresponding quarter in the prior year driven primarily by the transition to outsourced lab services beginning in Q2 FY23 along with reduced spending on dietary and environmental services. Other operating expenses (including professional fees, insurance, provider tax, other operating expenses, and depreciation, amortization and interest) increased \$139 million, or 7.6%, for Q1 FY24 as compared to Q1 FY23 due primarily to an increase in contracted physician service fees; increased expense for provider tax programs, more than offset by increased revenue; and claims expense associated with the increased insurance revenue discussed above. Other increases were attributable to cost of goods sold associated with the increased pharmacy revenue discussed above and insurance expense. Partially offsetting these increases, depreciation and amortization expenses were reduced by the impact of asset impairments reported for certain Markets within FY23.

## 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 gains (losses) for the three months ended September 30, 2023 were \$434 million; Ascension's comparable prior year investment loss was \$792 million.

Additionally, for Q1 FY24, Ascension also recognized \$20 million of investment losses associated with the Self-insurance trust fund, reported within Income (loss) from Operations as compared to \$35 million of investment losses for Q1 FY23.



## 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.

	9/30/2023	6/30/2023
Current Assets	\$6,552	\$ 6,470
Long-Term Investments*	18,806	19,418
Property and Equipment	9,904	9,942
Other Assets	4,751	4,628
<b>Total Assets</b>	<b>\$ 40,012</b>	<b>\$ 40,458</b>

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

	9/30/2023	6/30/2023
Current Liabilities	\$ 6,038	\$ 5,534
Long-Term Liabilities	9,736	10,104
<b>Total Liabilities</b>	<b>15,774</b>	<b>15,638</b>
Net Assets	24,238	24,820
<b>Total Liabilities and Net Assets</b>	<b>\$ 40,012</b>	<b>\$ 40,458</b>

## 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 \$15.4 billion at September 30, 2023, which were over 38% of the System's total assets. The System's days cash on hand were 198 days as of September 30, 2023, as further discussed in this section.

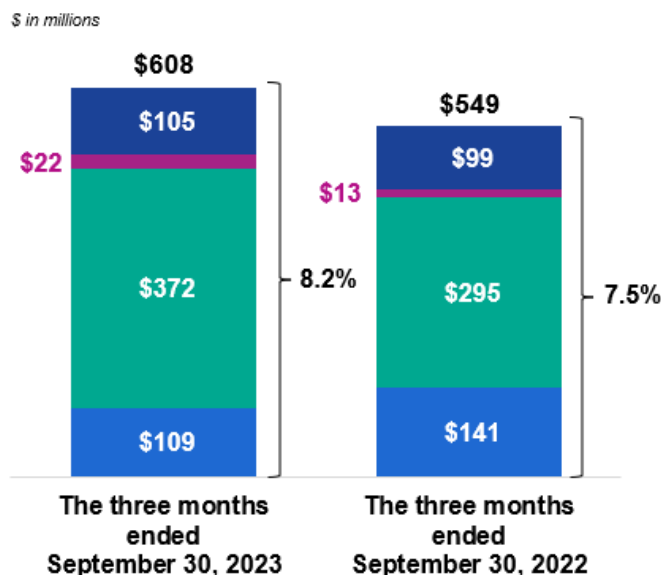
Additionally, Ascension maintains one line of credit for general working capital purposes, totalling \$1.0 billion. As of September 30, 2023, there were no borrowings under the line of credit. The line is committed through November 18, 2024. The System also has access to a \$1.0 billion taxable commercial paper program.

## Balance Sheet Ratios

	9/30/2023	6/30/2023
Days Cash on Hand	198	211
Net Days in Accounts Receivable	47.6	46.0
Cash-to-Debt	222.9%	239.8%
Total Debt to Capitalization	24.9%	24.4%

Net days in accounts receivable increased less than 2 days from 46.0 days at June 30, 2023, to 47.6 days at September 30, 2023 largely attributable to an increase in less aged accounts receivable, attributable to temporary billing delays across several payors as pricing and contract increases effective with the current fiscal year were loaded within the payors' systems.

## Care of Persons Living in Poverty and Community Benefit



- Traditional Charity Care (I)
  - Unpaid Cost of Public Programs (II)
  - Other Programs for Persons Living in Poverty (III)
  - Other Programs for the General Community (IV)
- Categories I - IV as a % of Total Operating Expense

Despite our operational challenges, Ascension provided over \$608 million in Care of Persons Living in Poverty and Other Community Benefit Programs for the three months ended September 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.

Ascension experienced a decrease in traditional charity care due to higher current year supplemental funding in select Markets and a lower cost ratio as inflationary cost increases have begun to moderate.

The System experienced an increase in the unpaid cost of public programs (Category II) as a result of higher Medicaid gross charges in certain Markets partially offset by a reduction from the level of prior year supplemental funding related to reimbursement from changes to state programs in a few Markets.