

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

As of and for the six months ended December 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

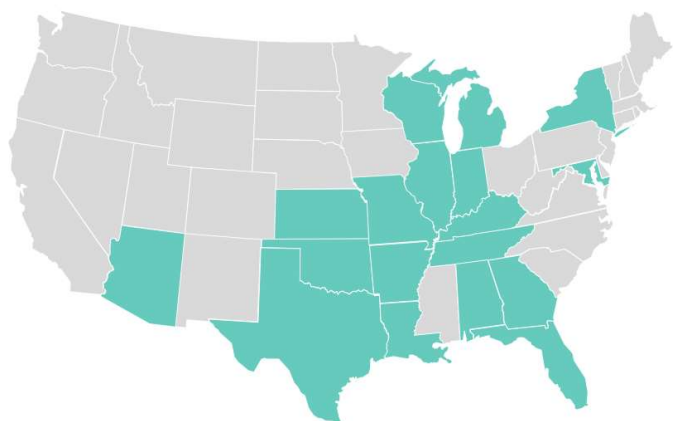
The purpose of Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

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 December 31, 2023, the System included approximately 132,000 associates and 35,000 aligned providers, supporting our sites of care – including 139 hospitals and 40 senior living facilities – in 18 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 have continued 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. Ascension remains dedicated to improving the health and well-being of the communities we serve.

For the six months ended December 31, 2023 (Q2 FY24 YTD), Ascension has begun to realize meaningful operational improvement from economic improvement plans focused on volume growth, rates and pricing and cost levers, contributing to better operating performance compared to the prior year.

Organizational Changes

During the prior 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 December 31, 2023, in February 2024, Ascension Via Christ Hospital Pittsburg, Inc. (Ascension Pittsburg) and Mercy Hospital Pittsburg, Inc. (Mercy) signed an asset purchase agreement where Ascension Pittsburg will transition certain assets and liabilities and primarily all operations to Mercy. The transition is expected to be finalized after all necessary approvals are obtained.

Subsequent to December 31, 2023, on February 1, 2024, Ascension Healthcare, a wholly owned subsidiary of Ascension, transitioned its sole corporate membership interest in Our Lady of Lourdes Memorial Hospital, Inc. in Binghamton, New York as well as related clinical and other business to The Guthrie Clinic.

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.

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.

On October 1, 2023, Gulf Coast Health System (GCHS), a wholly owned subsidiary of Ascension, completed the sale of substantially all assets, operations, and related clinical and other business associated with Providence Hospital

in Mobile, Alabama (Providence) to University of South Alabama Health Care Authority.

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

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

Six months ended December 31,

	2023	2022
Net Patient Service Revenue	\$ 13,535	\$ 12,859
Other Operating Revenue	1,482	1,454
Operating Expenses	15,028	14,718
Self-insurance Trust Fund Investment Return	52	(4)
Income (Loss) from Recurring Operations	40	(409)
Impairment and Nonrecurring Gains (Losses), net	(196)	(1)
Income (Loss) from Operations	\$ (155)	\$ (410)
Net Income (Loss), excl. Noncontrolling interests	\$ (238)	\$ (1,160)
Recurring Operating Margin	0.3%	(2.9%)
Recurring Operating EBIDA Margin	4.9%	2.5%

Ascension reported income from recurring operations of \$40 million or a 0.3% recurring operating income margin for the six months ended December 31, 2023 as compared to a \$409 million loss from recurring operations for the comparable prior year period. Ascension also reported recurring operating EBIDA of \$741 million for Q2 FY24 YTD and a recurring operating EBIDA margin of 4.9% as compared to recurring operating EBIDA of \$358 million for the comparable period in the prior year.

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. Ascension's recurring operating

performance for the three months ended December 31, 2023 (Q2 FY24) has improved \$522 million from the same quarter in the prior year (Q2 FY23). Additionally, Ascension's recurring operating performance for Q2 FY24 has improved more than \$420 million from the immediately preceding quarter, the three months ended September 30, 2023. Ascension's recurring operating EBIDA of \$578 million or a recurring operating EBIDA margin of 7.5% for the three months ended December 31, 2023 also improved compared to the recurring operating EBIDA margin reported for the two preceding quarters (Q1 FY24 and Q4 FY23).

Impairment and Nonrecurring Gains / Losses, Net

In connection with the signed affiliation agreement with HFHS, as noted above within Organizational Changes, and resulting transition of certain assets and liabilities to held for sale within Ascension's consolidated balance sheet, Ascension recognized a non-cash write-down during Q2 FY24. During the six months ended December 31, 2023, Ascension reported \$196 million of impairment and nonrecurring losses, primarily attributable to the Ascension Michigan market.

Volume Trends

For the six months ended December 31, 2023, the System experienced a 0.4% increase in overall volume, measured by equivalent discharges, compared to the same period in the prior year, representing the continuing measured recovery of volumes through the stabilization from the pandemic and other economic disruptions. Ascension's volume improvements were most notable in inpatient admissions which increased 0.5%. On a same facility basis, equivalent discharges and admissions increased 1.1% and 1.2%, respectively.

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

Six months ended December 31,

Volume Metrics	2023	2022
Equivalent Discharges	801,427	797,868
Total Admissions	364,236	362,309
Surgery Visits (IP)	81,098	81,636
Surgery Visits (OP)	216,217	217,075
Observation Days	131,677	139,750
Emergency Room Visits	1,572,525	1,578,254
Urgent Care Visits	169,431	194,418
Physician Office and Clinic Visits	7,751,406	8,080,729

The following table reflects select patient volume trend comparisons for the six months ended December 31, 2023 and 2022. Due to the organizational changes noted, the most meaningful volume comparisons are on the same facility basis.

Six months ended December 31, 2023 and 2022

Volume Trends	Same Facility Volume Incr/(Decr)	Total Volume Incr/(Decr)
Equivalent Discharges	1.1%	0.4%
Total Admissions	1.2%	0.5%
Surgery Visits (IP)	0.4%	(0.7%)
Surgery Visits (OP)	0.2%	(0.4%)
Observation Days	(6.0%)	(5.8%)
Emergency Room Visits	(0.3%)	(0.4%)
Urgent Care Visits	(10.1%)	(12.9%)
Physician Office and Clinic Visits	(3.4%)	(4.1%)

For Q2 FY24 YTD, Ascension experienced moderate increases in equivalent discharges and total admissions over the prior year as noted above and shown in the preceding table. Additionally, inpatient and outpatient surgery visits increased 0.4% and 0.2%, respectively, for Q2 FY24 YTD as compared to the same period in the prior year, 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.

Total Operating Revenue

Total operating revenue increased by \$704 million or 4.9% for the six months ended December 31, 2023 as compared to the same period in the prior year.



For Q2 FY24 YTD, the System’s net patient service revenue (NPSR) increased 5.3% overall from Q2 FY23 YTD, and NPSR per equivalent discharge also increased 4.8%. Aside from the previously mentioned overall volume changes, NPSR was impacted by a shift in payor mix from Medicaid and to commercial and Medicare payors. The System’s acute case mix index for Q2 FY24 YTD has remained constant with the corresponding prior year period at 1.83 as the System expanded capacity and backfilled inpatient service volumes as other procedures continue to shift to outpatient settings. Additionally, the System also recognized its share of a retrospective lump sum payment from HHS for hospitals participating in the 340B Drug Pricing Program from 2018 to 2022. 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 larger increases, improving NPSR rates. NPSR rates for the six months ended December 31, 2023 were also benefited by increased reimbursement through provider tax programs in certain Markets.

Total other operating revenue increased by \$28 million or 1.9% during the six months ended December 31, 2023, as compared to corresponding six months in the prior year. This increase is primarily due to higher pharmacy revenue from our specialty pharmacy services and higher insurance plan and value-based program revenue, partially offset by a \$182 million decline in gains on sale as a significant gain was recognized in the prior year relative to the transaction to transition lab services.

Total Operating Expenses



Total operating expenses increased \$310 million, or 2.1% during the six months ended December 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; however, our economic improvement

plans focused on cost containment have mitigated the inflationary impacts to the net increase of 2.1%.

The System experienced a 1.7% increase in cost per equivalent discharge during the six months ended December 31, 2023 as compared to the corresponding period 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 \$152 million, or 2.1%, for the six months ended December 31, 2023, compared to the same period 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 almost two years 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 Q2 FY24 YTD have also improved 3.0% and 1.1%, respectively, from the comparable period in the prior year. Partially offsetting these contributors, the average hourly wage rate has slightly increased during Q2 FY24 YTD driven by market and other wage adjustments, especially for clinical roles. Additionally, benefits expense decreased \$93 million from Q2 FY23 YTD, reflective of lower health and dental insurance costs for the System's associates and dependents attributable to reduced FTEs, certain one-time reductions and continued initiatives to mitigate expense growth. 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 \$71 million, or 3.5%, during the six months ended December 31, 2023, as compared to the corresponding period in the prior year due primarily to higher surgical, implant, pharmaceutical and medical 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 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 the six months ended December 31, 2023, the System experienced increases in purchased services and other operating expenses. Purchased services increased \$77 million, or 4.2%, as compared to the corresponding period in the prior year driven primarily by the transition to outsourced lab services beginning in Q2 FY23 and higher medical purchased service spend. These increases in purchased services were partially offset by reduced spending on dietary and environmental services and outsourced IT costs. Other operating expenses (including professional fees, insurance, provider tax, other operating expenses, and depreciation, amortization and interest) increased \$315 million, or 8.7%, for Q2 FY24 YTD as compared to prior year due primarily to an increase in contracted service fees for specialty physicians; 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, insurance expense and value-based program 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 gains reported within Non-operating gains / losses for the six months ended December 31, 2023 were \$43 million; Ascension's comparable prior year investment loss was \$799 million.

Additionally, for Q2 FY24 YTD, Ascension also recognized \$52 million of investment gains associated with the Self-insurance trust fund, reported within Income / Loss from Operations as compared to \$4 million of investment losses 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 challenges resulting from the recent economic environment including investment market volatility. The following table reflects selected financial information on a consolidated basis.

	12/31/2023	6/30/2023
Current Assets **	\$7,644	\$ 6,470
Long-Term Investments *	18,756	19,418
Property and Equipment	8,951	9,942
Other Assets	4,566	4,628
Total Assets	\$ 39,916	\$ 40,458

	12/31/2023	6/30/2023
Current Liabilities **	\$ 5,717	\$ 5,534
Long-Term Liabilities	9,530	10,104
Total Liabilities	15,247	15,638
Net Assets	24,669	24,820
Total Liabilities and Net Assets	\$ 39,916	\$ 40,458

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

**Current Assets and Current Liabilities include assets and liabilities held for sale related to certain transactions that have not yet closed noted in the Organizational Changes section. Beginning in Q2 FY24, these assets and liabilities have been separately presented within Ascension's Consolidated Balance Sheet.

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 \$15.5 billion at December 31, 2023, which were approximately 39% of the System's total assets. The System's days cash on hand were 197 days as of December 31, 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 December 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.

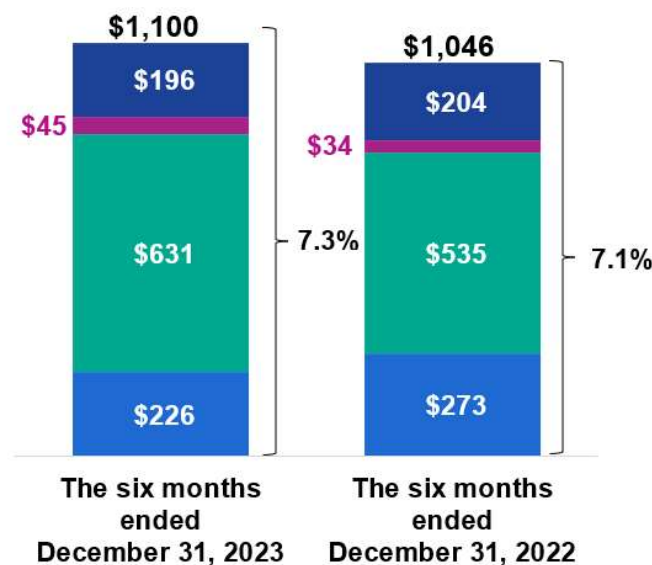
Balance Sheet Ratios

	12/31/2023	6/30/2023
Days Cash on Hand	197	211
Net Days in Accounts Receivable	41.3	46.0
Cash-to-Debt	229.0%	239.8%
Total Debt to Capitalization	24.1%	24.4%

Net days in accounts receivable decreased almost 5 days from 46.0 days at June 30, 2023, to 41.3 days at December 31, 2023 largely attributable to strong cash collections in light of increased net patient service revenue.

Care of Persons Living in Poverty and Community Benefit

\$ in millions



- 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

Ascension provided approximately \$1.1 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the six months ended December 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.

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 changes to state programs in a few Markets.