

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

As of and for the nine months ended March 31, 2024 and 2023



**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

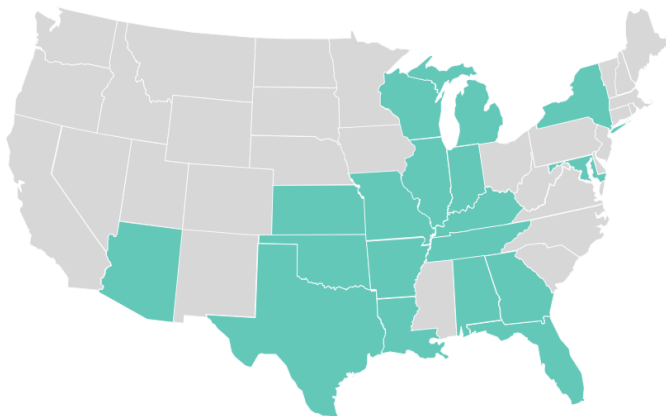
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

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 March 31, 2024, the System included approximately 130,000 associates and 37,000 aligned providers, supporting our sites of care – including 141 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 subsequent to the 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 nine months ended March 31, 2024 (Q3 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:

In March 2024, Ascension Healthcare, a wholly owned subsidiary of Ascension, and MyMichigan Health (MyMichigan) signed a definitive membership substitution agreement where Ascension will transition the membership interest in its northern Michigan hospitals and related ancillary entities to MyMichigan. The transition is expected to be finalized after all necessary approvals are obtained.

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.

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.

In December 2023, Ascension St. Thomas, a wholly owned subsidiary of Ascension, and Lifepoint Health formed a joint venture to own Highpoint Health System, consisting of three hospitals and multiple affiliated clinics and sites of care, to expand access to high quality care and services in Northern Middle Tennessee.

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 growth 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 nine months ended March 31, 2024 and 2023.

#### Nine months ended March 31,

|  | 2024        | 2023           |
|--|-------------|----------------|
| Net Patient Service Revenue                          | \$ 20,256   | \$ 19,193      |
| Other Operating Revenue                              | 2,132       | 2,062          |
| Operating Expenses                                   | 22,467      | 22,340         |
| Self-insurance Trust Fund<br>Investment Return       | 93          | 28             |
| <b>Income (Loss) from Recurring<br/>Operations</b>   | <b>15</b>   | <b>(1,057)</b> |
| Impairment and Nonrecurring<br>Gains (Losses), net   | \$ (253)    | \$ (716)       |
| Income (Loss) from Operations                        | \$ (238)    | \$ (1,772)     |
| Net Income (Loss), excl.<br>Noncontrolling interests | \$ 343      | \$ (1,873)     |
| <b>Recurring Operating Margin</b>                    | <b>0.1%</b> | <b>(5.0%)</b>  |
| <b>Recurring Operating EBIDA<br/>Margin</b>          | <b>4.7%</b> | <b>0.4%</b>    |

Ascension reported income from recurring operations of \$15 million or a 0.1% recurring operating income margin for the nine months ended March 31, 2024 as compared to a \$1,057 million loss from recurring operations for the comparable prior year period. Ascension also reported recurring operating EBIDA of \$1,041 million for Q3 FY24 YTD and a recurring operating EBIDA margin of 4.7% as compared to recurring operating EBIDA of \$95 million for the comparable period in the prior year.

While the System continues to face 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. These plans have positioned Ascension to drive revenue growth that exceeds the pace of our cost growth

compared to the prior year. Ascension's recurring operating performance for the three months ended March 31, 2024 (Q3 FY24) has also improved \$622 million from the same quarter in the prior year (Q3 FY23).

### Impairment and Nonrecurring Gains / Losses, Net

In connection with related affiliation and membership substitution agreements, 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 non-cash write-downs during Q2 and Q3 FY24. During the nine months ended March 31, 2024, Ascension reported \$253 million of impairment and nonrecurring losses, primarily attributable to the Ascension Michigan market.

### Cyber Security Incidents

On February 21, 2024, Ascension became aware of a cyber security incident involving a third party clearinghouse impacting revenue cycle and payment management systems, insurance eligibility verifications and pharmacy billing for health systems, providers and payers across the country, including Ascension. Immediately following the incident, Ascension took immediate action to disconnect respective systems to safeguard patient data and prevent further impact. At this time, Ascension is not aware of any impact to patient care or breach of patient health information through our systems due to the third party attack.

During Q3 FY24, the incident resulted in significant disruptions including a backlog of claims awaiting eligibility verification and submission to insurers along with resulting delays in payment processing, receipt and posting of claims payments. In coordination with our revenue cycle partner, Ascension secured and commenced use of alternative clearinghouses to submit claims while at the same time also later restoring connection with the original clearinghouse once its platform was available for claims processing of a more limited scope of claims. To partially mitigate the disruption to cash flow, Ascension also collaborated closely to secure advance payments from CMS and other commercial payers for services provided (further information included within the Fixed Assets and Liquidity Resources section).

On May 8, 2024, subsequent to the quarter ending March 31, 2024, Ascension became aware of a cyber security incident impacting and interrupting access to some of its technology network systems. While we are aware of disruptions to certain clinical operations, our care teams are trained for these types of disruptions and initiated established downtime procedures and protocols to

minimize the impact to patient care delivery and continue to provide safe care to our patients.

Ascension responded immediately to the event, notified business partners to safeguard their electronic systems, initiated an investigation and remediation process with the assistance of third party experts and notified the appropriate authorities.

These events are not expected to impact the March 31, 2024 financial statements.

## Volume Trends

For the nine months ended March 31, 2024, the System experienced a 1.6% same facility 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 total admissions and emergency room visits which increased 2.6% and 1.8%, respectively, on a same facility basis.

The following table reflects certain key patient volume information, on a consolidated basis, for the nine months ended March 31, 2024 and 2023.

### Nine months ended March 31,

| Volume Metrics                     | 2024       | 2023       |
|------------------------------------|------------|------------|
| Equivalent Discharges              | 1,186,455  | 1,184,479  |
| Total Admissions                   | 544,826    | 537,593    |
| Surgery Visits (IP)                | 120,770    | 121,128    |
| Surgery Visits (OP)                | 320,299    | 325,738    |
| Observation Days                   | 194,764    | 207,077    |
| Emergency Room Visits              | 2,336,097  | 2,308,616  |
| Urgent Care Visits                 | 254,515    | 274,998    |
| Physician Office and Clinic Visits | 11,489,655 | 12,145,736 |

The following table reflects select patient volume trend comparisons for the nine months ended March 31, 2024 and 2023. Due to the organizational changes noted, the most meaningful volume comparisons are on the same facility basis.

### Nine months ended March 31, 2024 and 2023

#### Volume Trends

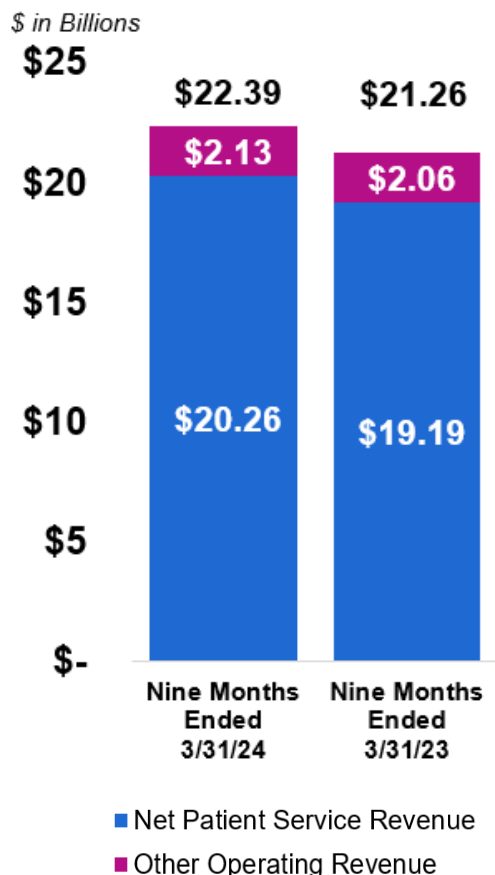
|                                    |        |        |
|------------------------------------|--------|--------|
| Equivalent Discharges              | 1.6%   | 0.2%   |
| Total Admissions                   | 2.6%   | 1.3%   |
| Surgery Visits (IP)                | 1.5%   | (0.3%) |
| Surgery Visits (OP)                | (0.2%) | (1.7%) |
| Observation Days                   | (5.7%) | (5.9%) |
| Emergency Room Visits              | 1.8%   | 1.2%   |
| Urgent Care Visits                 | (4.2%) | (7.4%) |
| Physician Office and Clinic Visits | (4.1%) | (5.4%) |

| Same Facility Volume Incr/(Decr) | Total Volume Incr/(Decr) |
|----------------------------------|--------------------------|
| 1.6%                             | 0.2%                     |
| 2.6%                             | 1.3%                     |
| 1.5%                             | (0.3%)                   |
| (0.2%)                           | (1.7%)                   |
| (5.7%)                           | (5.9%)                   |
| 1.8%                             | 1.2%                     |
| (4.2%)                           | (7.4%)                   |
| (4.1%)                           | (5.4%)                   |

For Q3 FY24 YTD, Ascension experienced moderate increases in same facility admissions, equivalent discharges, and emergency room visits over the prior year as noted above. Additionally, inpatient and total surgery visits increased 1.5% and 0.2% on a same facility basis, respectively, for Q3 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 and growing service line volumes along with our strategies to strengthen ancillary services and our ambulatory footprint within our Markets.

## Total Operating Revenue

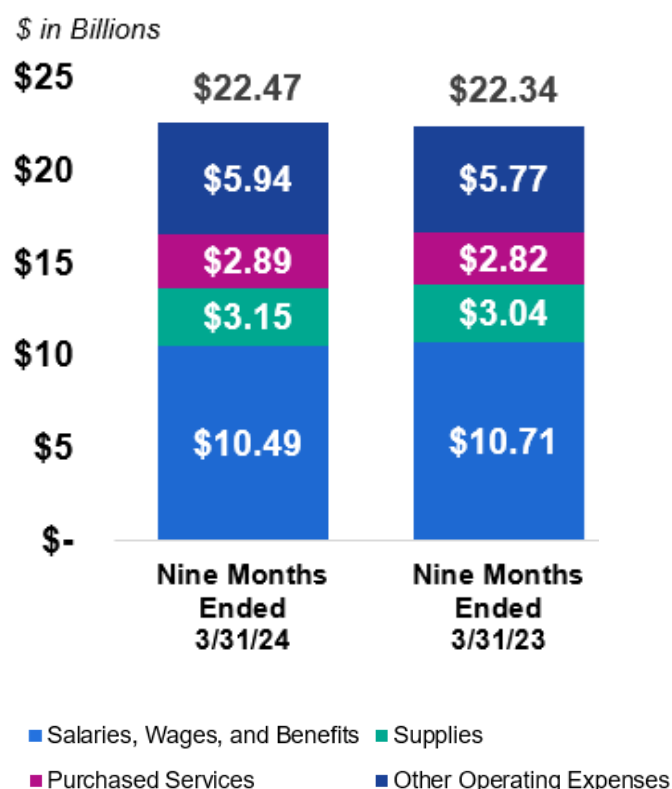
Total operating revenue increased by \$1.1 billion or 5.3% for the nine months ended March 31, 2024 as compared to the same period in the prior year.



For Q3 FY24 YTD, the System's net patient service revenue (NPSR) increased 5.5% overall from Q3 FY23 YTD, and NPSR per equivalent discharge increased 5.4%. Aside from the previously mentioned overall volume changes, NPSR was impacted by a reduction in Medicaid payor mix and an increase in commercial and Medicare payor mix. The System's acute case mix index for Q3 FY24 YTD increased 0.4% to 1.84 as compared to the corresponding prior year period as the System expanded capacity and backfilled inpatient service volumes as other procedures continue to shift to outpatient settings. Additionally, in Q2 FY24, 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 nine months ended March 31, 2024 were also benefited by increased reimbursement through provider tax programs in certain Markets.

Total other operating revenue increased by \$70 million or 3.4% during the nine months ended March 31, 2024, as compared to corresponding period 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. Gains on sale declined by \$182 million as a significant gain was recognized in the prior year relative to the transaction to transition lab services along with lower lab service revenue as a result of the transition. Ascension has also reported an increase of approximately \$51 million in COVID-19 recovery funding primarily attributable to receipt of FEMA funding relative to prior contract labor spending for certain Markets, most notably in the third quarter.

## Total Operating Expenses



Total operating expenses increased \$127 million, or 0.6% during the nine months ended March 31, 2024, 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 0.6%, well below the comparable growth in operating revenue.

The System experienced a 0.4% increase in cost per equivalent discharge during the nine months ended March 31, 2024 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 \$225 million, or 2.1%, for the nine months ended March 31, 2024, 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 managing agency utilization to volume demands within our Markets. Further demonstrating improved efficiency, both the System's average length of stay and FTEs per adjusted occupied bed for Q3 FY24 YTD have also improved 2.1% and 0.9%, respectively, from the comparable period in the prior year. Partially offsetting these contributors, the average hourly wage rate has increased approximately 1.3% during Q3 FY24 YTD driven by market and other wage adjustments, especially for clinical roles. Additionally, benefits expense decreased \$201 million from Q3 FY23 YTD, reflective of lower defined contribution retirement plan costs and 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 \$103 million, or 3.4%, during the nine months ended March 31, 2024, as compared to the corresponding period in the prior year due primarily to higher surgical, implant, pharmaceutical, medical and blood product supplies. The increases were driven by increased high cost implant, surgical, procedural, oncology and hemophilia 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 nine months ended March 31, 2024, the System experienced increases in purchased services and other operating expenses. Purchased services increased \$71 million, or 2.5%, 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 \$178 million, or 3.1%, for Q3 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 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. Additionally, insurance expense was also lower due to a prior year one-time negotiated settlement.

## 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 nine months ended March 31, 2024 were \$797 million; Ascension's comparable prior year investment loss was \$98 million.

Additionally, for Q3 FY24 YTD, Ascension also recognized \$93 million of investment gains associated with the Self-insurance trust fund, reported within Income / Loss from Operations as compared to \$28 million of investment gains 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.

|                         | 3/31/2024        | 6/30/2023        |
|-------------------------|------------------|------------------|
| Current Assets **       | \$8,413          | \$ 6,470         |
| Long-Term Investments * | 19,364           | 19,418           |
| Property and Equipment  | 8,832            | 9,942            |
| Other Assets            | 4,608            | 4,628            |
| <b>Total Assets</b>     | <b>\$ 41,216</b> | <b>\$ 40,458</b> |

|   | 3/31/2024        | 6/30/2023        |
|---|------------------|------------------|
| Current Liabilities **                  | \$ 6,461         | \$ 5,534         |
| Long-Term Liabilities                   | 9,476            | 10,104           |
| <b>Total Liabilities</b>                | <b>15,937</b>    | <b>15,638</b>    |
| <b>Net Assets</b>                       | <b>25,279</b>    | <b>24,820</b>    |
| <b>Total Liabilities and Net Assets</b> | <b>\$ 41,216</b> | <b>\$ 40,458</b> |

\*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 \$16.1 billion at March 31, 2024, which were approximately 39% of the System's total assets. The System's days cash on hand were 205 days as of March 31, 2024, as further discussed in this section.

Additionally, Ascension maintains one line of credit for general working capital purposes, totalling \$1.0 billion. As of March 31, 2024, 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 Q3 FY24, Ascension received a total of approximately \$350 million of advance payments from 1) Medicare and 2) other advance payment programs provided by certain commercial payers related to the disruptions from the third party Cyber Security Incident. At March 31, 2024, approximately \$346 million of the advance payments remained outstanding and were recorded within long-term investments and current liabilities on the System's Consolidated Balance Sheet. The advance payments, which represent approximately 4 days cash on hand as of March 31, 2024, helped to mitigate the unfavorable cash flow impacts associated with the aforementioned disruption. In accordance with the terms and conditions of the programs, recoupments will continue throughout FY24 and are expected to be primarily recouped by June 30, 2024.

## Balance Sheet Ratios

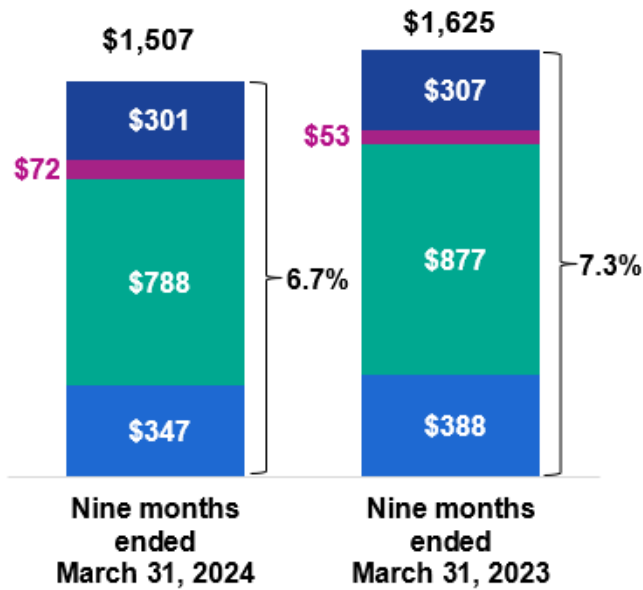
|                                 | 3/31/2024 | 6/30/2023 |
|---------------------------------|-----------|-----------|
| Days Cash on Hand               | 205       | 211       |
| Net Days in Accounts Receivable | 52.9      | 46.0      |
| Cash-to-Debt                    | 240.5%    | 239.8%    |
| Total Debt to Capitalization    | 23.5%     | 24.4%     |

Net days in accounts receivable increased almost 7 days from 46.0 days at June 30, 2023, to 52.9 days at March 31, 2024 primarily attributable to the recent third party cyber attack noted above as Ascension experienced delays in billing for services provided along with receipt and posting of payments.



## 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 \$1.5 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the nine months ended March 31, 2024, 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 also experienced a decrease in the unpaid cost of public programs (Category II) as a result of increased supplemental funding tied to changes to state programs in a few Markets, lower Medicaid gross charges in certain Markets and a lower cost ratio as noted above.