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

As of and for the three months ended September 30, 2018 and 2017

The following information should be read in conjunction with Ascension's consolidated financial statements and related notes to the consolidated financial statements.

Ascension

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)

Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. MD&A, which should be read in conjunction with the accompanying Consolidated Financial Statements and Supplementary Information, includes the following sections:

- Strategic Direction
- Results of Operations — Consolidated
- Liquidity and Capital Resources

Strategic Direction

Ascension is driven by the changing consumer landscape to put our patients and their needs first. Providing care for all persons where, how and when they need it – that is the organization's Mission.

The organization is working to optimize and transform core healthcare operations while also creating new, transformational models that help the ministry and its impact grow. Ascension continues to make strategic and purposeful investments to improve the health of individuals and communities served, engage with consumers and increase geographic presence to enhance the patient experience. The service line structure is evolving to promote integration and consistency in service line business plans across Ascension.

With the March 1, 2018 addition of Presence Health Network (Presence) to Ascension Healthcare, AMITA Health in Chicago is now well-positioned in the Chicago market. With its medical centers, outpatient facilities, and most other sites of care joining the integrated health system of AMITA Health, they are now the largest health system in Illinois with new service areas that includes over 6 million residents. The addition of Presence facilities will improve access to care in the greater Chicago area, expand the physician network and deepen sub-specialization capabilities, producing better value for patients.

On September 1, 2018, Ascension divested its ownership of Lourdes Health Network, located in Pasco, Washington, from Ascension to RCCH HealthCare Partners.

Results of Operations – Consolidated

The following table reflects summary financial information, on a consolidated basis.

Select Financial Data (in millions)

	9/30/2018	6/30/2018		9/30/2018	6/30/2018
Current Assets	$ 5,526	$ 5,514	Current Liabilities	$ 5,494	$ 5,389
Long-Term Investments	19,845	19,405	Long-Term Liabilities	9,847	10,021
Property and Equipment	10,573	10,598	Total Liabilities	15,341	15,410
Other Assets	3,020	3,011	Net Assets	23,623	23,118
Total Assets	$ 38,964	$ 38,528	Total Liabilities and Net Assets	$ 38,964	$ 38,528

Select Financial Data (in millions)

Three months ended September 30,	2018	2017
Net Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	$ 531	$ 524
Total Operating Revenue	6,158	5,549
Income from Recurring Operations	53	62
Nonoperating Gains, net	422	402
Net Income	459	413

Changes in the healthcare landscape and planned changes in the way that we provide services to our communities have resulted in expected shifts in volumes within our System during the current period. Over the past several years, Ascension has systematically been building capacity to manage the care of those we serve in a different manner, as we migrate from fee for service to fee for value and from inpatient to outpatient care. Ascension care delivery is evolving from treating people when they are sick to being a partner in the well-being of individuals – measuring the care we provide by the quality outcomes and experience to patients.

Therefore, while the operating results reflect the System's continued operational improvement initiatives and focus on standardization, expected declines in volumes, increases in governmental payor mix, and increased uncompensated care continue to adversely impact performance. As this transition, and Ascension's investment in population health management and addressing the social determinants of health continues, changes to operating performance are expected.

On a consolidated basis, recurring operating margin was 0.9% for the three months ended September 30, 2018. The margin for the three months ended September 30, 2017 was 1.1%, inclusive of a $25M gain on a sales transaction that will not reoccur. The drivers impacting net patient service revenue are further discussed below. Net income margin was 7.0% for the three months ended September 30, 2018 primarily due to favorable investment returns.

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the three months ended September 30, 2018 and 2017.

Volume Trends and Key Performance Indicators

Three months ended September 30,	2018	2017
Volume Trends		
Equivalent Discharges	434,330	396,670
Total Admissions	203,741	189,579
Case Mix Index	1.65	1.64
Acute Average Length of Stay (days)	4.41	4.44
Observation Days	89,111	69,938
Emergency Room Visits	837,602	789,472
Surgery Visits (IP & OP)	158,349	148,205
Physician Office and Clinic Visits	3,593,343	3,294,218
Revenue (in millions)		
Total Operating Revenue	$ 6,158	$ 5,549
Net Patient Service Revenue	5,729	5,205
Key Performance Indicators		
Recurring Operating Margin	0.9%	1.1%
Recurring Operating EBITDA Margin	6.9%	7.0%
Operating EBITDA Margin	6.7%	6.1%
Net Income Margin	7.0%	6.9%

Total Operating Revenue

Total operating revenue increased $609.4 million, or 11.0%, for the three months ended September 30, 2018, as compared to the same period in prior year primarily due to revenue recorded by Presence facilities acquired March 1, 2018. On a same facility basis, total operating revenue increased $57.2 million, or 1.0%.

Net Patient Service Revenue and Volume Trends

For the three months ended September 30, 2018, net patient service revenue, increased $523.9 million or 10.1%. On a same facility basis, net patient service revenue remained relatively flat compared to the same period in the prior year. Net patient service revenue per equivalent discharge increased 0.5% compared to the same period in the prior year, dampened by increases in governmental payor mix and transition of services to outpatient settings.

For the three months ended September 30, 2018, equivalent discharges, inpatient admissions, observation days, emergency room visits, and inpatient surgeries increased 9.5%, 7.5%, 27.4%, 6.1%, and 2.5%, respectively, as compared to the same period in the prior year primarily due to the previously mentioned acquisition of Presence. While observation days increased on a same facility basis, equivalent discharges, inpatient admissions, emergency room visits, and inpatient surgeries decreased 0.3%, 3.8%, 4.0%, and 4.1%, respectively.

For the three months ended September 30, 2018, gross patient service revenue from outpatient services was 52.9% of total gross patient service revenue, compared to 52.0% for the same period in the prior year. Outpatient volumes increased 10.7% compared to the same period in the prior year primarily driven by an increase in physician office and clinic visits of 9.1%. On a same facility basis, outpatient visits increased 0.5%. Outpatient surgeries increased 9.0% compared to the same period in the prior year and increased 1.4% on a same facility basis.

Uncompensated Care

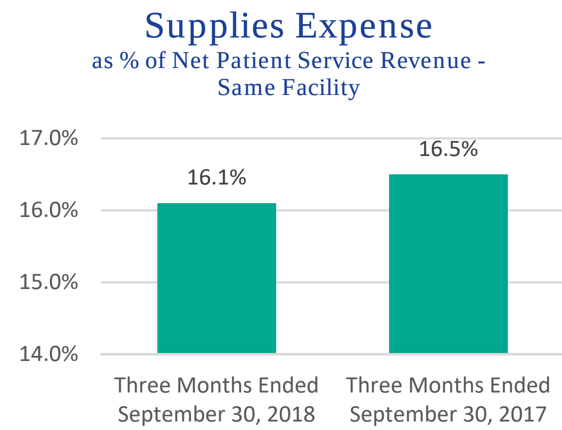
Ascension provided $531 million in Care of Persons Living in Poverty and other Community Benefit Programs for the three months ended September 30, 2018 which represents an increase of $7 million or 1.3% as compared to the same period in the prior year. Through programs, donations, health education, free care, and more, the organization's uncompensated care and other community benefit fulfills unmet needs in communities across 21 states and the District of Columbia.

Total Operating Expenses

Total operating expenses increased $613.3 million, or 11.1%, as compared to the same period in the prior year primarily due to the previously mentioned acquisition of Presence.

As volumes continue to shift to outpatient services, Ascension is managing its cost structure to align with revenues. On a same facility basis, total operating expenses increased $33.4 million, or 0.6%, primarily due to the following:

- Purchased services increased $46.1 million, or 8.5%, as compared to the same period in the prior year primarily due to the transition of revenue services to a preferred provider partner organization and an increase in repair and maintenance expenses. There were offsetting decreases in salaries and wages, benefits, collection agency fees and other related operating costs for the transition of these services.
- Total salaries, wages and benefits remained relatively flat compared to the same period in the prior year. Salaries, wages and benefits have been reduced by the transition of certain services being provided by external organizations, as noted above. Focused initiatives addressing productivity and pay practices also resulted in greater efficiencies as well as less overtime and agency costs during the current year. Employed and contract labor per adjusted occupied bed has improved to 3.9 compared to 4.0 for the same period in the prior year. These decreases have been partially offset by moderate merit and cost of living adjustments and successful provider recruitment efforts.
- Supplies expense decreased $20.6 million, or 2.5%, as compared to the same period in the prior year due to ongoing focused supply contract management efforts despite rapidly increasing specialty and generic drug pricing and a higher intensity service mix. Supplies expense, as a percentage of net patient service revenue has improved from 16.5% for the three months ended September 30, 2017 to 16.1% for the three months ended September 30, 2018.



Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were $17.1 million for the three months ended September 30, 2018, as compared to losses of $50.7 million during the three months ended September 30, 2017. Losses for the three months ended September 30, 2018 were primarily due to expenses associated with one-time termination and other restructuring expenses.

Investment Return

Ascension's long-term investments, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a return on investment of 2.4%, or $382.1 million, for the three months ended September 30, 2018. 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.

Total net investments under management by AIM are $39.5 billion at September 30, 2018 and June 30, 2018.

Liquidity and Capital Resources

Net unrestricted cash and investments for the System increased from $17.1 billion at June 30, 2018 to $17.4 billion at September 30, 2018 primarily due to favorable investment returns. Days cash on hand of 275 days increased 7 days from June 30, 2018 to September 30, 2018 primarily due to the previously mentioned increase in net unrestricted cash and investments. Net days in accounts receivable improved 1 day from 51 days at June 30, 2018 to 50 days at September 30, 2018.

Cash-to-senior debt and cash-to-total debt remain strong at 220.7% and 218.1%, respectively, at September 30, 2018, representing increases from June 30, 2018. Both senior debt and total debt to capitalization have also improved, decreasing from 27.8% and 28.0%, respectively, at June 30, 2018 to 27.3% and 27.6%, respectively, at September 30, 2018.

Balance Sheet Ratios

	9/30/2018	6/30/2018
Days Cash on Hand	275	268
Net Days in Accounts Receivable	50	51
Cash-to-Senior Debt	220.7%	217.2%
Cash-to-Total Debt (Senior and Subordinated)	218.1%	214.7%
Senior Debt to Capitalization	27.3%	27.8%
Total Debt to Capitalization	27.6%	28.0%