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

As of and for the year ended June 30, 2019 and 2018

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).

Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. MD&A 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 strategic purpose.

With a commitment to the Mission, Vision and Values of Ascension, the organization is working to optimize and transform core healthcare operations while also creating new models of care that help meet the needs of the communities we serve.

Ascension continues to make strategic and purposeful investments to improve the health of individuals and communities served, engage with consumers in new ways and evaluate geographic presence. To best position itself for the future, the organization is connecting with consumers when and where they need care.

Having completed its transition from a holding company to an operating company, Ascension is embarking on a new Mission-inspired Transformation initiative to accelerate new and innovative approaches to various operational areas. In alignment with the Advanced Strategic Direction, the Mission-inspired Transformation creates a roadmap for how Ascension will work to implement new strategies while reimagining health and wellness for the sustainability of our organization and to have an even greater impact on all those we serve.

Results of Operations – Consolidated

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

Select Financial Data (in millions)

	6/30/2019	6/30/2018
Current Assets	$ 6,033	$ 5,514
Long-Term Investments	19,786	19,405
Property and Equipment	10,851	10,598
Other Assets	3,048	3,011
Total Assets	$ 39,718	$ 38,528

	6/30/2019	6/30/2018
Current Liabilities	$ 5,824	$ 5,389
Long-Term Liabilities	10,370	10,021
Total Liabilities	16,194	15,410
Net Assets	23,524	23,118
Total Liabilities and Net Assets	$ 39,718	$ 38,528

Select Financial Data (in millions)

Year ended June 30,	2019	2018
Net Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	$ 2,009	$ 2,130
Total Operating Revenue	25,323	23,159
Income from Recurring Operations	560	298

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. 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.

Income from recurring operations has increased $262 million year over year, with $123 million in other operating revenue primarily due to increased income from joint ventures, retail pharmacy revenue, contracted services revenue driven by Ascension's investment in population health management as well as operational improvement initiatives and standardization.

On a consolidated basis, recurring operating margin was 2.2% for the year ended June 30, 2019 compared to 1.3% for the prior year. The drivers impacting net patient service revenue are further discussed below. The net income as of June 30, 2019 also reflects favorable investment market performance.

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the years ended June 30, 2019 and 2018.

Volume Trends and Key Performance Indicators

Years ended June 30,	2019	2018
Volume Trends		
Equivalent Discharges	1,717,183	1,633,680
Total Admissions	813,165	777,961
Case Mix Index	1.70	1.67
Acute Average Length of Stay (days)	4.51	4.49
Emergency Room Visits	3,354,426	3,216,581
Surgery Visits (IP & OP)	644,876	619,882
Physician Office and Clinic Visits	15,091,646	14,044,081
Revenue (in millions)		
Total Operating Revenue	$ 25,323	$ 23,159
Net Patient Service Revenue	23,707	21,666
Key Performance Indicators		
Recurring Operating Margin	2.2%	1.3%
Recurring Operating EBITDA Margin	8.1%	7.3%
Operating EBITDA Margin	7.4%	6.4%

Total Operating Revenue

Total operating revenue increased $2.2 billion, or 9.3%, for the year ended June 30, 2019, as compared to the prior year primarily due to revenue recorded by Presence Health Network (Presence) facilities acquired March 1, 2018 based in Chicago, Illinois. On a same facility basis, total operating revenue increased $598.0 million, or 2.6%.

Net Patient Service Revenue and Volume Trends

For the year ended June 30, 2019, net patient service revenue increased $2.0 billion or 9.4%. On a same facility basis, net patient service revenue increased $569.2 million, or 2.6%, compared to prior year. Also on a same facility basis, net patient service revenue per equivalent discharge increased 4.2% compared to prior year due to the 1.8% increase in case mix index and moderate rate increases.

For the year ended June 30, 2019, equivalent discharges, inpatient admissions, emergency room visits, and inpatient surgeries increased 5.1%, 4.5%, 4.3%, and 1.6%, respectively, as compared to prior year primarily due to the previously mentioned acquisition of Presence. On a same facility basis, equivalent discharges, inpatient admissions, emergency room visits, and inpatient surgeries decreased 1.5%, 3.1%, 2.6%, and 3.2%, respectively.

For the year ended June 30, 2019, outpatient services as a percentage of total services provided increased 1.4% on a same facility basis compared to prior year. Outpatient volumes increased 8.4% compared to prior year primarily driven by an increase in physician office and clinic visits of 7.5%. On a same facility basis, outpatient visits increased 1.7%. Outpatient surgeries increased 5.2% compared to prior year and increased 0.2% on a same facility basis.

Community Benefit and Uncompensated Care

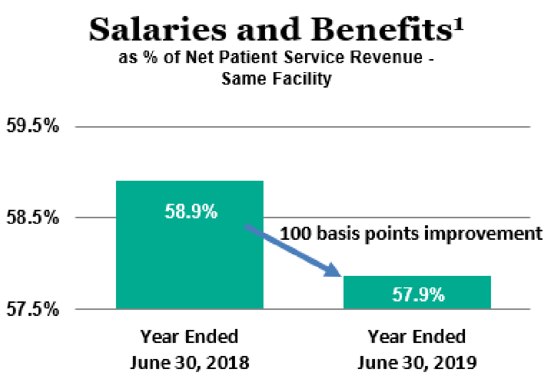
Ascension provided over $2.0 billion in Care of Persons Living in Poverty and other Community Benefit Programs for the year ended June 30, 2019. Through programs, donations, health education, free care, and more, the organization's uncompensated care and other community benefit fulfills unmet needs in communities across 22 states and the District of Columbia.

Total Operating Expenses

Total operating expenses increased $1.9 billion, or 8.3%, as compared to 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 $321.3 million, or 1.4%, as compared to the previously mentioned 2.6% increase in net patient service revenue.

- Total salaries, wages and benefits increased $65.9 million, or 0.6%, compared to the same period in the prior year. Salaries, wages, and benefits have increased due to moderate merit and cost of living adjustments and the employment of additional physicians. This increase was partially offset by focused initiatives addressing productivity and pay practices resulting in greater efficiencies as well as less overtime and agency costs during the current year. Salaries, wages, and benefits, including the purchased services labor component, as a percentage of net patient service revenue, has improved from 58.9% as of June 30, 2018 to 57.9% as of June 30, 2019.



[1] Includes the purchased services labor component and physician fees

- Despite rapidly increasing specialty and generic drug pricing and a higher intensity service mix supplies expense increased by a modest 2.3%, as compared to the same period in the prior year due to ongoing focused supply contract management efforts.

- Supplies expense as a percentage of net patient service improved slightly from 16.3% as of June 30, 2018 to 16.2% as of June 30, 2019.

- Purchased services and professional fees increased $269.8 million, or 7.5%, 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.

Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were $177 million for the year ended June 30, 2019, as compared to losses of $193 million during the prior year.

Investment Return

Ascension's long-term investments, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a gain of 5.0%, or $995.6 million, for the year ended June 30, 2019. 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. The System has maintained a consistent investment strategy during the current fiscal year.

Total net investments under management by AIM are $40.9 billion at June 30, 2019.

Liquidity and Capital Resources

Net unrestricted cash and investments for the System were $17.7 billion at June 30, 2019 compared to $17.1 billion at June 30, 2018. The increase is primarily due to cash generated by operations and investment income for the year ended June 30, 2019, offset by capital purchases. Days cash on hand of 273 days increased 5 days from June 30, 2018 to June 30, 2019. Net days in accounts receivable improved 4 days from 51 days at June 30, 2018 to 47 days at June 30, 2019.

Balance Sheet Ratios

	6/30/2019	6/30/2018
Days Cash on Hand	273	268
Net Days in Accounts Receivable	47	51
Cash-to-Senior Debt	227.7%	217.2%
Senior Debt to Capitalization	27.2%	27.8%
Total Debt to Capitalization	27.6%	28.0%