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

As of and for the year ended June 30, 2020 and 2019

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

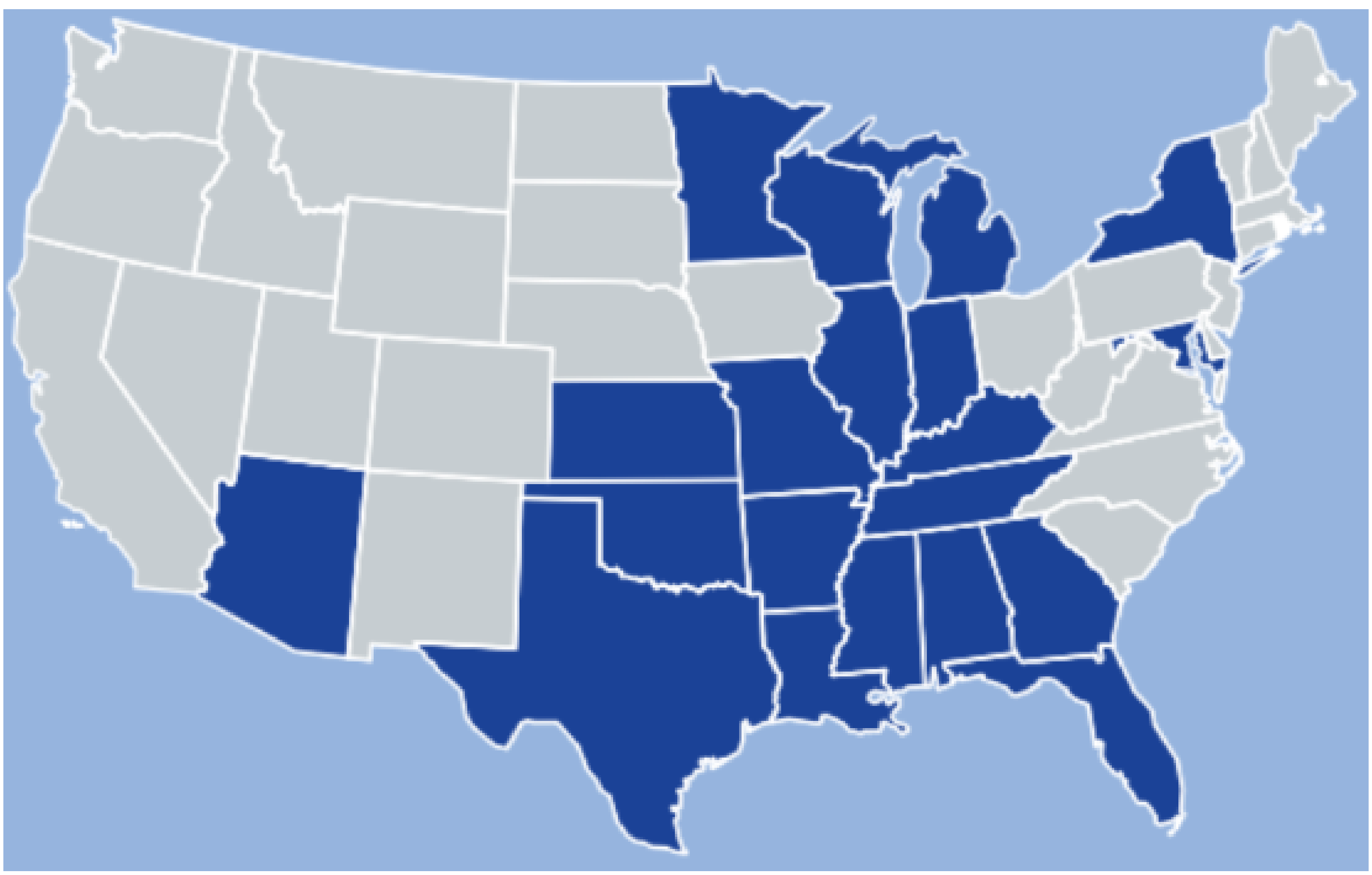
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

Unless otherwise indicated, all financial and statistical information included herein relates to recurring operations. MD&A includes the following sections:

- Organization and Mission
- New Accounting Standards Adopted
- Select Financial Information

Organization and Mission

Ascension is a faith-based healthcare organization dedicated to transformation through innovation across the continuum of care. As one of the leading non-profit and Catholic health systems in the U.S., Ascension is committed to its Mission, Vision, and Values by delivering compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable. At June 30, 2020, the System included more than 150,000 associates and 40,000 aligned providers, operating more than 2,600 sites of care – including 150 hospitals and more than 50 senior living facilities – in 20 states and the District of Columbia, while providing a variety of healthcare-related services including clinical and managed care services,, investment management (including venture capital and direct strategic investing), facilities management, risk management, and contracting through Ascension's own group purchasing organization.



Organizational Changes

Ascension continues to make strategic and purposeful decisions to improve the health of individuals and communities served, engage with consumers in new ways and support the shift to expanded ambulatory and telehealth presence. To best position itself for the future, the organization is making changes to its portfolio as further discussed below.

On February 18, 2020, Ascension St. Clare's Hospital ("St. Clare's") signed a definitive agreement with Marshfield Clinic Health System ("MCHS") for MCHS to acquire substantially all the assets of St. Clare's in Weston, Wisconsin. The transaction closed on August 1, 2020.

On March 6, 2020, Ascension St. Vincent's and The University of Alabama at Birmingham Health System ("UABHS") executed a definitive agreement to form an alliance that will increase access to high-quality, innovative medical care through multiple outlets and health programs. The transaction closed July 1, 2020.

On April 18, 2020, the Board of Directors of St. Mary's Healthcare ("St. Mary's") in Amsterdam, New York, and the Board of Directors of Ascension signed an agreement to separate St. Mary's from the Ascension System. St. Mary's will operate as an independent, Catholic healthcare organization under the governance of the local Board. The transaction closed September 1, 2020.

Novel Coronavirus (COVID-19)

The unprecedented international outbreak of the novel coronavirus (COVID-19) has had numerous economic and operational impacts on the U.S. economy and global financial markets, as well as affecting Ascension employees, patients, communities and business operations. COVID-19 has been encountered across all Ascension markets, to varying degrees, and has had a negative impact on the System's revenues and operating margin.

In mid-March 2020, Ascension, like most other healthcare providers across the United States suspended all elective, nonessential medical and surgical procedures to prepare for the surge of COVID-19 patients. A majority of the United States' population was subject to voluntary or involuntary shelter-in-place mandates, contributing to the System's volume reductions, including emergency room and physician office visits unrelated to COVID-19. The System's operations returned to levels below pre-pandemic volumes during the fourth quarter ending June 30, 2020.

Ascension organized a centralized System-wide response beginning mid-March to consistently address the growing number of confirmed and suspected cases of COVID-19 and its impact on Ascension's communities and sites of care. In mid-April, the organization implemented its Economic and Operational Recovery Strategy with a focus on ensuring that our response supports the care of all individuals – including those who are vulnerable and need special attention now and in the future.

In response to the COVID-19 pandemic, on March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law, providing over $2 trillion in economic stimulus. The CARES Act increased funding for the Public Health and Social Services Emergency Fund (Relief Fund) to reimburse eligible health care providers for lost revenues or healthcare-related expenses attributable to COVID-19, as well as increased Medicare reimbursement rates for inpatients diagnosed with COVID-19.

New Accounting Standards Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, Leases (Topic 842), and a related ASU 2018-11, Leases (Topic 842): Targeted Improvements, in July 2018. The primary effect of prospectively adopting this guidance, effective for the System on July 1, 2019, is the recognition of right-of-use assets and obligations for operating leases in the System's Consolidated Balance Sheet.

The System also adopted FASB ASU 2017-07, Compensation – Retirement Benefits (Topic 715) using the full retrospective method of application. The most significant impact is the presentation of employee benefit costs in the System's Consolidated Statement of Operations and Changes in Net Assets. Only the service cost component of employer sponsored defined benefit pension and post-retirement benefit plans is now included in the employee benefits cost. Other components of such benefit plans are required to be presented separately from the service cost and are included in nonoperating income. The prior period presented has been adjusted for comparability.

Select Financial Information

Financial Position (in millions)

Ascension's balance sheet and liquidity levels remain strong with liquidity to address the current economic challenges resulting from COVID-19. The following table reflects selected financial information on a consolidated basis.

	6/30/2020	6/30/2019
Current Assets	$ 5,017	$ 6,033
Long Term Investments	21,273	19,786
Property and Equipment	11,351	10,851
Other Assets	4,247	3,048
Total Assets	**$ 41,888**	**$ 39,718**

	6/30/2020	6/30/2019
Current Liabilities	$ 7,940	$ 5,824
Long-Term Liabilities	12,361	10,370
Total Liabilities	20,301	16,194
Net Assets	21,587	23,524
Total Liabilities and Net Assets	**$ 41,888**	**$ 39,718**

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 $19.0 billion at June 30, 2020, which is approximately 45.3% of the System's total assets. The System's days cash on hand was 284 days as of June 30, 2020, as further discussed below.

Additionally, Ascension maintains two lines of credit, totalling $1 billion. As of June 30, 2020, there were no outstanding borrowings under either line of credit. Both lines of credit are committed through December 4, 2020.

The System also has access to a $1.0 billion taxable commercial paper program.

During the quarter ended June 30, 2020, Ascension applied for and received approximately $2.0 billion of Medicare Advanced Payments which are recorded as investments and short-term liabilities on the balance sheet.

Balance Sheet Ratios

	6/30/2020	6/30/2019
Days Cash on Hand*	284	271
Net Days in Accounts Receivable**	47.8	47.5
Cash-to-Debt***	246.3%	222.7%
Total Debt to Capitalization	29.0%	27.6%
Debt Service Coverage	3.34	5.51

* June 30, 2020 Days Cash on Hand includes Medicare advanced payments, resulting in a 30 day increase.

** Net days in AR were adjusted to "normalize" the significant disruption to volumes during April 2020.

*** June 30, 2020 Cash-to-Debt ratio improved 10.8% as a result of Medicare advanced payments.

The System's Master Trust Indenture requires Ascension to maintain an annual debt service coverage ratio of 1.10 and Ascension was well above the required covenant as of June 30, 2020.

Net days in accounts receivable increased from 47.5 days at June 30, 2019 to 47.8 days at June 30, 2020. Despite the pandemic, collections of patient receivables remained relatively stable during the year.

Consolidated Operations (in millions)

The following table reflects selected financial information on a consolidated basis for the years ended June 30, 2020 and 2019.

	Years ended June 30,	
	2020	2019
Total Operating Revenue	$ 25,262	$ 25,323
Total Operating Expenses	25,713	25,040
Income (Loss) from Recurring Operations*	(465)	308
Nonoperating Gains (Losses), net	(327)	1,274
Net Income (Loss)**	(1,040)	1,227
Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	2,430	2,008

* June 30, 2019 income from recurring operations has been restated for the retrospective impact of implementing the required pension income accounting change implemented in Fiscal 2020.

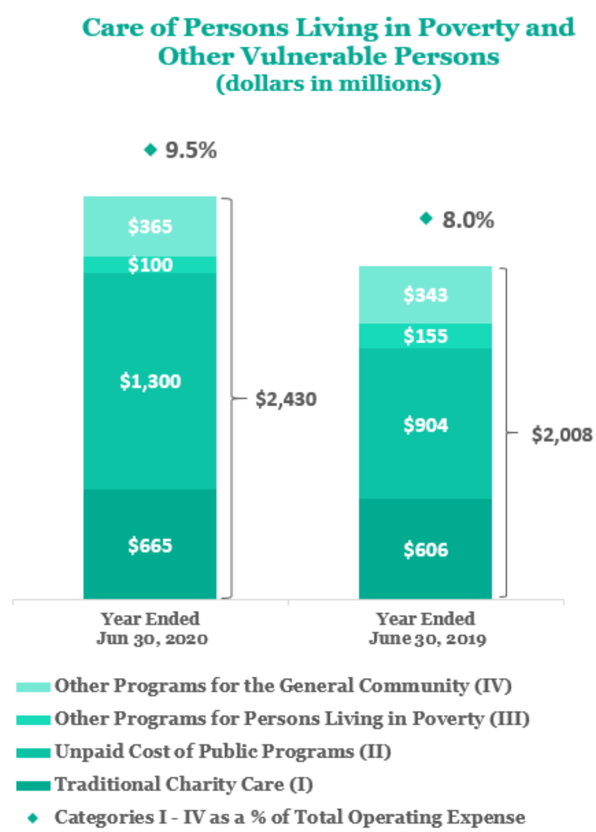
** Excluding noncontrolling interest.

Community Benefit

Ascension provided approximately $2.4 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the year ended June 30, 2020. Through programs, donations, health education, free care, and more, the organization's uncompensated care and other community benefits fulfills unmet needs in communities we serve.

The total cost of providing care to persons living in poverty and other community benefit programs increased $422 million or 21.0% as compared to the prior year.

Traditional charity care costs (Category I) increased $59 million or 9.8%, primarily due to more patients qualifying for charity at certain Ministry Markets. The unpaid costs of public programs for persons living in poverty (Category II) increased $396 million or 43.8%, primarily due to further transition to Medicaid managed care and Medicaid reimbursement program changes, including reduced supplemental payments.



Volume Trends and Key Performance Indicators

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the years ended June 30, 2020 and 2019.

	Years ended June 30,	
	2020	2019
Volume Trends		
Equivalent Discharges	1,587,763	1,717,183
Total Admissions	763,831	813,165
Case Mix Index	1.74	1.70
Emergency Room Visits	3,007,177	3,354,426
Surgery Visits (IP & OP)	582,133	644,876
Physician Office and Clinic Visits	14,788,424	15,091,646
Urgent Care Visits	558,271	655,976
Key Performance Indicators		
Recurring Operating Margin	(1.8%)	1.2%
Recurring Operating EBITDA Margin	4.2%	7.1%
Operating EBITDA Margin	3.5%	6.4%

Overall volume decreases experienced during the year ended June 30, 2020 are due to the previously mentioned cancelled elective surgeries and procedures starting mid-March due to the COVID-19 outbreak. Volumes were trending favorably prior to the outbreak, as equivalent discharges increased 1.4% through the eight months ended February 29, 2020, as compared to the same period in the prior year.

Elective procedures and surgeries resumed in most markets during the fourth quarter of the year ending June 30, 2020. The System experienced increased volumes during the fourth quarter, with discharges during the month of June 2020 at 90% of those compared to June 2019.

Total outpatient visits for the year ended June 30, 2020 decreased 6.8% as compared to the prior year. Outpatient visits were dampened starting in mid-March 2020 as a result of COVID-19, as outpatient visits had increased by 4.2% through February 29, 2020, as compared to the same period in the prior year.

As previously mentioned, the System resumed procedures during the last three months of the year ending June 30, 2020, with the month of June 2020 outpatient visits at 92% of outpatient volumes experienced during June 2019. Outpatient surgical volumes for the month of June 2020 returned to 93% of that experienced in the month of June 2019. Physician office and clinic visits for the month of June 2020 outpaced volumes seen in June 2019 by 1.2% primarily due to service line expansion.

On a consolidated basis, recurring operating margin was (1.8%) for the year ended June 30, 2020 as compared to that for the year ended June 30, 2019 of 1.2%, both including adoption of Topic 715 to reflect changes in accounting for retirement benefits as previously discussed. Operating EBITDA margin was 3.5% for the year ended June 30, 2020.

Total Operating Revenue

Net patient service revenue (NPSR) was significantly impacted by COVID-19, as the System experienced a decrease in NPSR of 3.9% for the year ended June 30, 2020. Prior to the COVID-19 outbreak, NPSR increased 4.2% through February 2020, as compared to the same period in the prior year due to higher acuity of patients served, expansion of service lines and sites of care, and volume increases in physician office visits. On a same facility basis, NPSR increased 4.6% for the eight months ended February 2020.

For the year ended June 30, 2020, NPSR per equivalent discharge increased 3.9% compared to the prior year primarily due to an increase in case mix index and inflationary increases in payor payments. On a same facility basis, the increase in NPSR per equivalent discharge was 4.3%.

The System's case mix index increased 2.4% for the year ended June 30, 2020 as compared to the prior year. During the final quarter of the current fiscal year, the case mix index increased on average by 5% in comparison to the same period in the prior year. This increase is primarily due to higher acuity patients, including COVID positive patients, seeking care during the pandemic.

Other operating revenue increased $867 million during the year ended June 30, 2020, primarily due to $883 million in Provider Relief Funds.

Total Operating Expenses

Total operating expense increased $673 million, or 2.7%, as compared to the prior year primarily due to expanded service lines and sites of care, moderate merit increases, and information technology costs with expansion of digital platforms, addressing additional bandwidth needs.

Total salaries, wages and benefits increased $305.2 million, or 2.5% for the year ended June 30, 2020, compared to the prior year. The increases year over year were expected and primarily due to moderate merit and cost of living adjustments and onboarding of additional physicians and mid-level providers for service line expansion.

Favorable productivity trends were seen through February 2020 with a reduction in compensation and benefits as a percentage of NPSR. The degree of favorability was adversely impacted by the decline in volumes experienced due to COVID-19.

The System experienced increases in supplies expense prior to the pandemic, due to higher volumes in surgeries and higher patient acuity. The suspension of elective procedures, including high dollar joint replacements, contributed to an overall decrease in supplies expense of $59.1 million or 1.6% for the year ended June 30, 2020.

Purchased services and professional fees increased $218.6 million, or 5.4%, as compared to the prior year primarily due to the transition of revenue cycle services to a preferred provider partner organization. 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 $174.1 million for the year ended June 30, 2020 which was slightly less than the prior year. Losses are primarily due to one-time termination and restructuring expenses and impairment of certain long-lived assets.

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. Total net investments under management by AIM, including non-Ascension investors, were $44.2 billion at June 30, 2020.

Ascension's long-term investment pool, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a loss of (2.7%) during the year ended June 30, 2020, improving during the fourth quarter. The loss was primarily due to unrealized losses from the unprecedented economic downturn, resulting from the outbreak of COVID-19.