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

For the six months ended December 31, 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
- Recent Portfolio Changes
- New Accounting Standards Adopted
- 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 people in the communities we serve, with special attention to vulnerable persons.

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

Over the past several years, Ascension has systematically built 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.

Ascension is continuing its Mission-inspired Transformation to accelerate new and innovative healthcare solutions. 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, from virtual urgent care to operating room efficiencies.

Recent Portfolio Changes

On September 28, 2018, Ascension entered into an agreement to sell certain assets and liabilities and substantially all related operations of St. Vincent's Medical Center, an Ascension subsidiary located in Bridgeport, Connecticut, to Hartford HealthCare Corporation. The sale was completed on October 1, 2019.

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.

Results of Operations – Consolidated

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

Select Financial Data (in millions)

	12/31/2019	6/30/2019
Current Assets	$ 5,750	$ 6,033
Long Term Investments	20,274	19,786
Property and Equipment	10,667	10,851
Other Assets	4,260	3,048
Total Assets	**$ 40,951**	**$ 39,718**

	12/31/2019	6/30/2019
Current Liabilities	$ 5,549	$ 5,824
Long-Term Liabilities	11,013	10,370
Total Liabilities	16,562	16,194
Net Assets	24,389	23,524
Total Liabilities and Net Assets	**$ 40,951**	**$ 39,718**

Six months ended December 31,

	2019	2018
Total Operating Revenue	$ 13,107	$ 12,606
Income from Recurring Operations*	$ 159	$ 136
Nonoperating Gains (Losses), net	$ 823	$ (708)
Net Income**	$ 796	$ (568)
Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	$ 1,188	$ 993

* December 31, 2018 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.

On a consolidated basis, recurring operating margin was 1.2% for the six months ended December 31, 2019 as compared to that for the six months ended December 31, 2018 of 1.1%, both including adoption of Topic 715 to reflect changes in accounting for retirement benefits as previously discussed. On a same facility basis, recurring operating margin increased from 0.8% for the six months ended December 31, 2018 to 1.1% for the same period ended December 31, 2019.

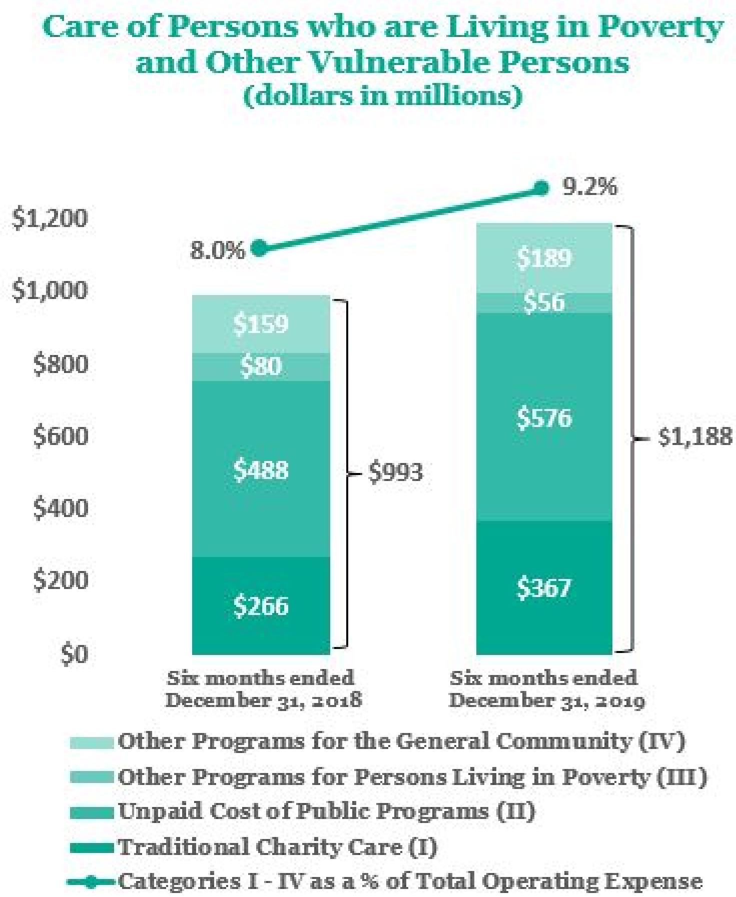
Improvement has also been seen in the recurring operating EBITDA ratio, going from 7.0% for the six months ended December 31, 2018 to 7.1% for the same period ended December 31, 2019. On a same facility basis, recurring operating EBITDA ratio increased from 6.8% for the six months ended December 31, 2018 to 7.0% for the same period ended December 31, 2019.

Community Benefit and Uncompensated Care

Ascension provided approximately $1.2 billion in Care of Persons Living in Poverty and other Community Benefit Programs for the period ended December 31, 2019. Through programs, donations, health education, free care, and more, the organization's uncompensated care and other community benefits fulfills unmet needs in communities across 20 states and the District of Columbia.

The total cost of providing care to persons living in poverty and other community benefit programs increased $195.2 million or 19.7% as compared to the same period in the prior year.

Traditional charity care costs (Category I) increased $100.6 million or 37.8%, primarily due to a new process that better identifies patients qualifying for charity at certain Ministry Markets. The unpaid costs of public programs for persons living in poverty (Category II) increased $87.1 million or 17.8%, primarily due to further transition to Medicaid managed care and Medicaid reimbursement program changes. In addition, greater supplemental payments were received during the first six months of the prior year, which offset costs in both Categories I and II.



Volume Trends and Key Performance Indicators

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the six months ended December 31, 2019 and 2018.

	Six months ended December 31,	
	2019	**2018**
Volume Trends		
Equivalent Discharges	871,829	865,274
Total Admissions	408,676	408,142
Case Mix Index	1.72	1.67
Emergency Room Visits	1,671,391	1,663,325
Surgery Visits (IP & OP)	329,571	325,435
Physician Office and Clinic Visits	7,960,367	7,351,403
Urgent Care Visits	333,022	320,462
Revenue (in millions)		
Total Operating Revenue	$ 13,107	$ 12,606
Net Patient Service Revenue	12,274	11,759
Key Performance Indicators		
Recurring Operating Margin	1.2%	1.1%
Recurring Operating EBITDA Margin	7.1%	7.0%
Operating EBITDA Margin	6.5%	6.7%

Operating Revenue

Total operating revenue increased $501 million, or 4.0%, for the six months ended December 31, 2019, as compared to the same period in the prior year primarily due to volume increases, higher acuity of patients served, and expansion of service lines and sites of care.

Net Patient Service Revenue and Volume Trends

For the period ended December 31, 2019, net patient service revenue increased $515 million, or 4.4%, compared to the same period in the prior year. Net patient service revenue per equivalent discharge increased 3.6% compared to the same period in the prior year primarily due to the 3.1% increase in case mix index and inflationary increases in payor payments. On a same facility basis, the increase in net patient service revenue per equivalent discharge was 3.9%.

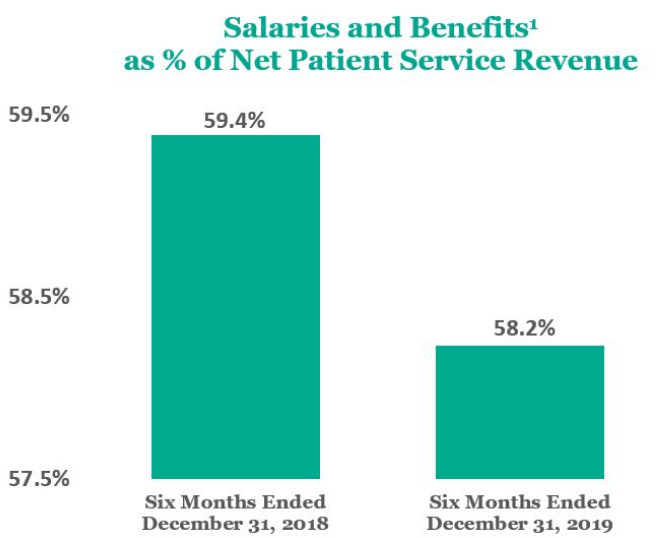
For the period ended December 31, 2019, equivalent discharges, inpatient admissions, emergency room visits, and surgery visits increased 0.8%, 0.1%, 0.5%, and 1.3%, respectively, as compared to the same period in the prior year primarily due to the expansion of employed physicians throughout the System and other growth initiatives.

Outpatient volumes increased 4.6% compared to the same period in the prior year primarily due to an increase in physician office and clinic visits of 8.3% driven by service line expansion. Outpatient surgeries increased 1.7% compared to the same period in the prior year. Additionally, urgent care visits increased 3.9% during the period ended December 31, 2019.

Total Operating Expenses

Total operating expenses increased $528 million, or 4.2%, as compared to the same period in the prior year primarily due to increased volumes, expanding service line and sites of care, and continued transition toward standardized revenue cycle services.

- Total salaries, wages and benefits increased $120 million, or 1.9%, compared to the same period in the prior year. Salaries, wages, and benefits have increased due to moderate merit and cost of living adjustments. This increase was partially offset by focused initiatives reducing utilization of contract labor, along with standardization and productivity efforts, resulting in greater efficiencies. Salaries, wages, and benefits, including the purchased services labor component, as a percentage of net patient service revenue, has improved from 59.4% as of the period ended December 31, 2018 to 58.2% as of the same period ended December 31, 2019.



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

- Supplies expense increased $96.4 million, or 5.2%, as compared to the same period in the prior year due to an increase in the acuity of patient care as evidenced by the previously mentioned 3.1% increase in case mix index and increased surgical and medical supplies costs driven by an increase in volumes and surgeries. Supplies expense as a percentage of net patient service revenue was consistent with the same period in the prior year at 16.4%.

- Purchased services and professional fees increased $212.5 million, or 11.1%, as compared to the same period in the prior year primarily due to the transition of revenue 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 $74.6 million for the six months ended December 31, 2019, as compared to losses of $42.4 million during the same period in the prior year, primarily due to one-time termination and restructuring expenses, expenses associated with ERP implementation, 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.

The long-term investment pool, excluding noncontrolling interests and long-term investments held by self-insurance programs experienced a strong 4.7% return during the six months ended December 31, 2019. Total net investments under management by AIM are $42.1 billion at December 31, 2019.

The System has maintained a consistent investment strategy during the current fiscal year, and experienced a favorable investment return for the six months ended December 31, 2019 of $755.7 million.

Liquidity and Capital Resources

Net unrestricted cash and investments for the System were $18.1 billion at December 31, 2019 compared to $17.7 billion at June 30, 2019. Days cash on hand was 270 days as of December 31, 2019. Net days in accounts receivable increased 1 day from 47.5 days at June 30, 2019 to 48.5 days at December 31, 2019. Total debt to capitalization is 26.0% at December 31, 2019 improving from 27.6% at June 30, 2019 due to principal payments on debt, income from operations, and the previously mentioned favorable investment return.

Balance Sheet Ratios

	12/31/2019	6/30/2019
Days Cash on Hand	270	271
Net Days in Accounts Receivable	48.5	47.5
Cash-to-Senior Debt	239.7%	227.7%
Senior Debt to Capitalization	25.9%	27.2%
Total Debt to Capitalization	26.0%	27.6%