

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

For the three months ended September 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

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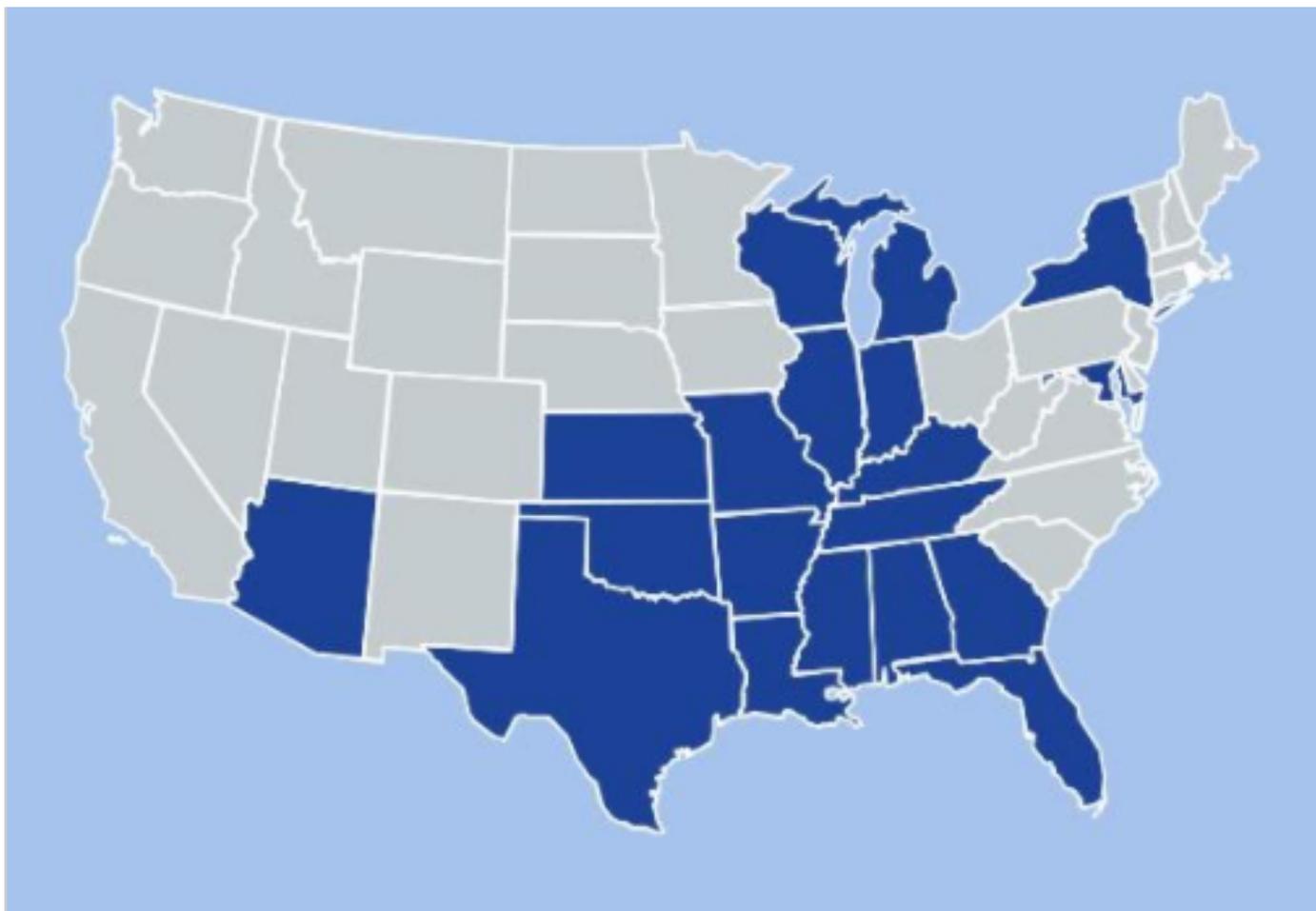
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

The MD&A includes the following sections:

- Organization and Mission
- Organizational Changes
- Novel Coronavirus (COVID-19)
- 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 September 30, 2020, the System included more than 160,000 associates and 40,000 aligned providers, operating more than 2,600 sites of care – including 145 hospitals and more than 50 senior living facilities – in 19 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.

Effective July 1, 2020, Ascension St. Vincent's and The University of Alabama at Birmingham Health System ("UABHS") formed an alliance that will increase access to high-quality, innovative medical care through multiple outlets and health programs.

Effective August 1, 2020, Ascension divested substantially all the assets of St. Clare's Hospital in Weston, Wisconsin to Marshfield Clinic Health System.

Effective September 1, 2020, in accordance with an agreement between the Board of Directors of St. Mary's Healthcare ("St. Mary's") in Amsterdam, New York, and the Board of Directors of Ascension, St. Mary's separated from the Ascension System. St. Mary's will operate as an independent, Catholic healthcare organization under the governance of the local Board.

Effective September 1, 2020, Ascension Wisconsin's Ministry Health Care, Inc. ("MHC") contributed MHC's membership interest in Saint Elizabeth's Hospital of Wabasha, Inc. to Gundersen Lutheran Health System, Inc.

## Novel Coronavirus (COVID-19)

The global novel coronavirus (COVID-19) pandemic has had significant economic and operational impact on the U.S. healthcare industry, as well as specific impact on Ascension business operations, employees and patients at sites of care, and communities served by the System. Consumer confidence and healthcare hesitation as a result of COVID-19 continue to affect Ascension markets, to varying degrees. The System's operations and volumes remain at levels below pre-pandemic levels for the three months ended September 30, 2020.

The System continues to move forward with 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.

## Select Financial Information

### Financial Position (in millions)

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

|   | 9/30/2020        | 6/30/2020        |
|---|------------------|------------------|
| Current Assets                          | \$ 5,319         | \$ 5,017         |
| Long Term Investments                   | 22,552           | 21,273           |
| Property and Equipment                  | 11,200           | 11,351           |
| Other Assets                            | 4,324            | 4,247            |
| <b>Total Assets</b>                     | <b>\$ 43,395</b> | <b>\$ 41,888</b> |
|   |                  |                  |
|   | 9/30/2020        | 6/30/2020        |
| Current Liabilities                     | \$ 6,424         | \$ 7,940         |
| Long-Term Liabilities                   | 13,928           | 12,361           |
| <b>Total Liabilities</b>                | <b>20,352</b>    | <b>20,301</b>    |
| <b>Net Assets</b>                       | <b>23,043</b>    | <b>21,587</b>    |
| <b>Total Liabilities and Net Assets</b> | <b>\$ 43,395</b> | <b>\$ 41,888</b> |

### 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 \$19.9 billion at September 30, 2020, which is approximately 45.9% of the System's total assets. The System's days cash on hand was 296 days as of September 30, 2020, as further discussed below.

Additionally, Ascension maintains two lines of credit, totalling \$1 billion. As of September 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, with repayment to occur based on the terms and conditions of the program. The advanced payments are recorded within long-term investments and current and long-term liabilities on the System's Consolidated Balance Sheets.

### Balance Sheet Ratios

|                                   | 9/30/2020 | 6/30/2020 |
|-----------------------------------|-----------|-----------|
| Days Cash on Hand*                | 296       | 284       |
| Net Days in Accounts Receivable** | 45.9      | 47.8      |
| Cash-to-Debt                      | 260.1%    | 246.3%    |
| Total Debt to Capitalization      | 27.6%     | 29.0%     |
| Debt Service Coverage             | 2.90      | 3.34      |

\* September 30, 2020 Days Cash on Hand increased as a result of favorable investment return during the first quarter.

\*\* Net days in AR as of June 30, 2020 were adjusted to "normalize" the significant disruption to volumes during April 2020.

As discussed in the investment return section of this document, days cash on hand increased as a result of favorable investment returns during the three months ended September 30, 2020.

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

Net days in accounts receivable decreased from 47.8 days at June 30, 2020 to 45.9 days at September 30, 2020.

### Consolidated Operations (in millions)

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

#### Three months ended September 30,

|  | 2020     | 2019     |
|--|----------|----------|
| Net Patient Service Revenue  | \$ 5,973 | \$ 6,059 |
| Total Operating Revenue  | 6,627    | 6,463    |
| Total Operating Expenses   | 6,505    | 6,455    |
| Income from Recurring Operations   | 153      | 12       |
| Nonoperating Gains (Losses), net   | 1,167    | (186)    |
| Net Income (Loss)**  | 1,179    | (235)    |
| Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs | 541      | 588      |

\*\* Excluding noncontrolling interest.

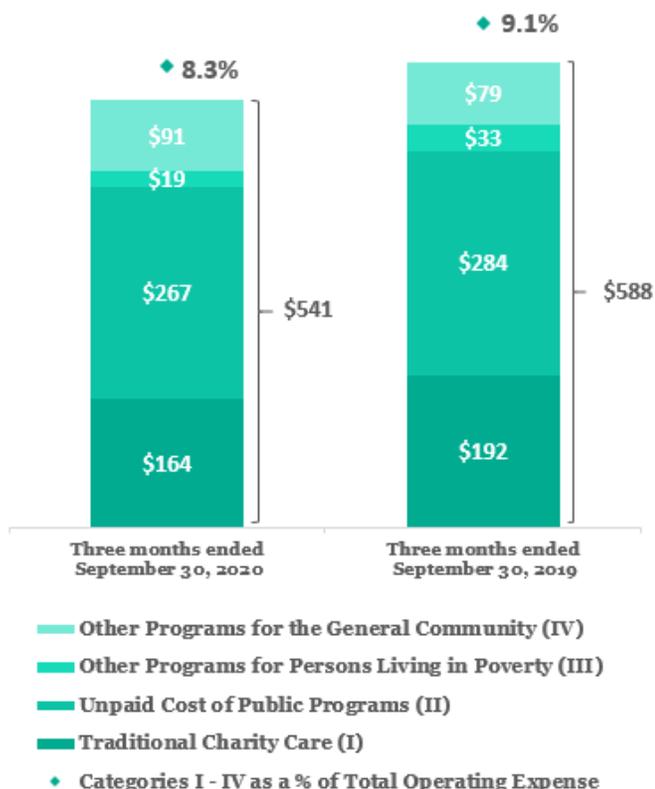
## Community Benefit

Ascension provided \$541 million in Care of Persons Living in Poverty and Other Community Benefit Programs for the three months ended September 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 decreased 8.0% as compared to the same period in the prior year, primarily due to volume decreases related to the pandemic.

With decreases in patient volumes due to the pandemic, both traditional charity care costs (Category I) and the unpaid costs of public programs for persons living in poverty (Category II) decreased 14.7% and 5.9%, respectively.

### Care of Persons Living in Poverty and Other Vulnerable Persons (dollars in millions)



## Volume Trends and Key Performance Indicators

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

### Three months ended September 30,

|  | 2020 | 2019 |
|--|------|------|
|--|------|------|

#### Volume Trends

|                                    |           |           |
|------------------------------------|-----------|-----------|
| Equivalent Discharges              | 391,997   | 439,013   |
| Total Admissions                   | 186,759   | 205,838   |
| Case Mix Index                     | 1.81      | 1.70      |
| Emergency Room Visits              | 669,155   | 839,183   |
| Surgery Visits (IP & OP)           | 151,478   | 161,530   |
| Physician Office and Clinic Visits | 3,840,640 | 3,954,845 |
| Urgent Care Visits                 | 111,616   | 162,427   |

#### Key Performance Indicators

|                                   |      |      |
|-----------------------------------|------|------|
| Recurring Operating Margin        | 2.3% | 0.2% |
| Recurring Operating EBITDA Margin | 8.1% | 6.2% |
| Operating EBITDA Margin           | 8.0% | 5.7% |

For the three months ended September 30, 2020, the System's volumes have been impacted by the pandemic and continue to recover. Equivalent discharges, admissions, ER visits, and surgery visits during the month of September 2020 were 90%, 91%, 78%, and 99%, respectively, of those compared to September 2019.

Total outpatient visits for the three months ended September 30, 2020 decreased 7.6% as compared to the prior year. On a same facility basis, total outpatient visits decreased 5.5% for the three months ended September 30, 2020 as compared to the same period in the prior year.

Physician office and clinic visits for the three months ended September 30, 2020 decreased 2.9% as compared to the same period in the prior year. On a same facility basis, physician office and clinic visits decreased less than 1% for the three months ended September 30, 2020 as compared to the same period in the prior year.

On a consolidated basis, recurring operating margin was 2.3% for the three months ended September 30, 2020 as compared to 0.2% for the same period in the prior year. Operating EBITDA margin was 8.0% for the three months ended September 30, 2020 as compared to 5.7% in the same period of the prior year.

### Total Operating Revenue

Net patient service revenue (NPSR) remains impacted by COVID-19, as the System experienced a decrease in NPSR of 1.3% for the three months ended September 30, 2020. On a same facility basis, NPSR increased 1.0% for the three months ended September 30, 2020.

For the three months ended September 30, 2020, NPSR per equivalent discharge increased 10.5% compared to the prior year primarily due to increased case mix index and decreased uncompensated care.

The System's case mix index increased 6.0% for the three months ended September 30, 2020 as compared to 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 60.7% during the three months ended September 30, 2020, primarily due to favorable joint venture performance, CARES Act Relief Funding, increases in retail pharmacy sales and a gain on the sale of a joint venture.

### Total Operating Expenses

Total operating expenses increased by less than 1%, as compared to the prior year primarily due to increases in salaries, wages and employee benefits partially offset by System efforts to manage expenses to volumes. Total salaries, wages and benefits increased \$80 million, or 2.5% for the three months ended September 30, 2020, compared to the same period in the prior year. The increases were expected and primarily due to cost of living adjustments and onboarding of additional physicians.

The System experienced a modest increase in supplies expense of \$13.3 million, or 1.4%, during the first quarter of the fiscal year, as compared to the same period in the prior year, primarily due to the higher patient acuity, personal protective equipment and testing related supplies.

Purchased services and professional fees decreased \$35.3 million, or 3.3%, as compared to the same period in the prior year primarily due to the previously mentioned focused effort on expense management as a result of the pandemic.

### Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were \$9.2 million for the three months ended September 30, 2020. Losses are primarily due to one-time termination and restructuring expenses.

### 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 \$45.9 billion at September 30, 2020.

Ascension's long-term investment pool, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a return of 5.0% during the three months ended September 30, 2020. Although the investment market remains volatile, a continued rebound during the first quarter of the fiscal year contributed to the favorable return.