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

As of and for the year ended June 30, 2021 and 2020

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

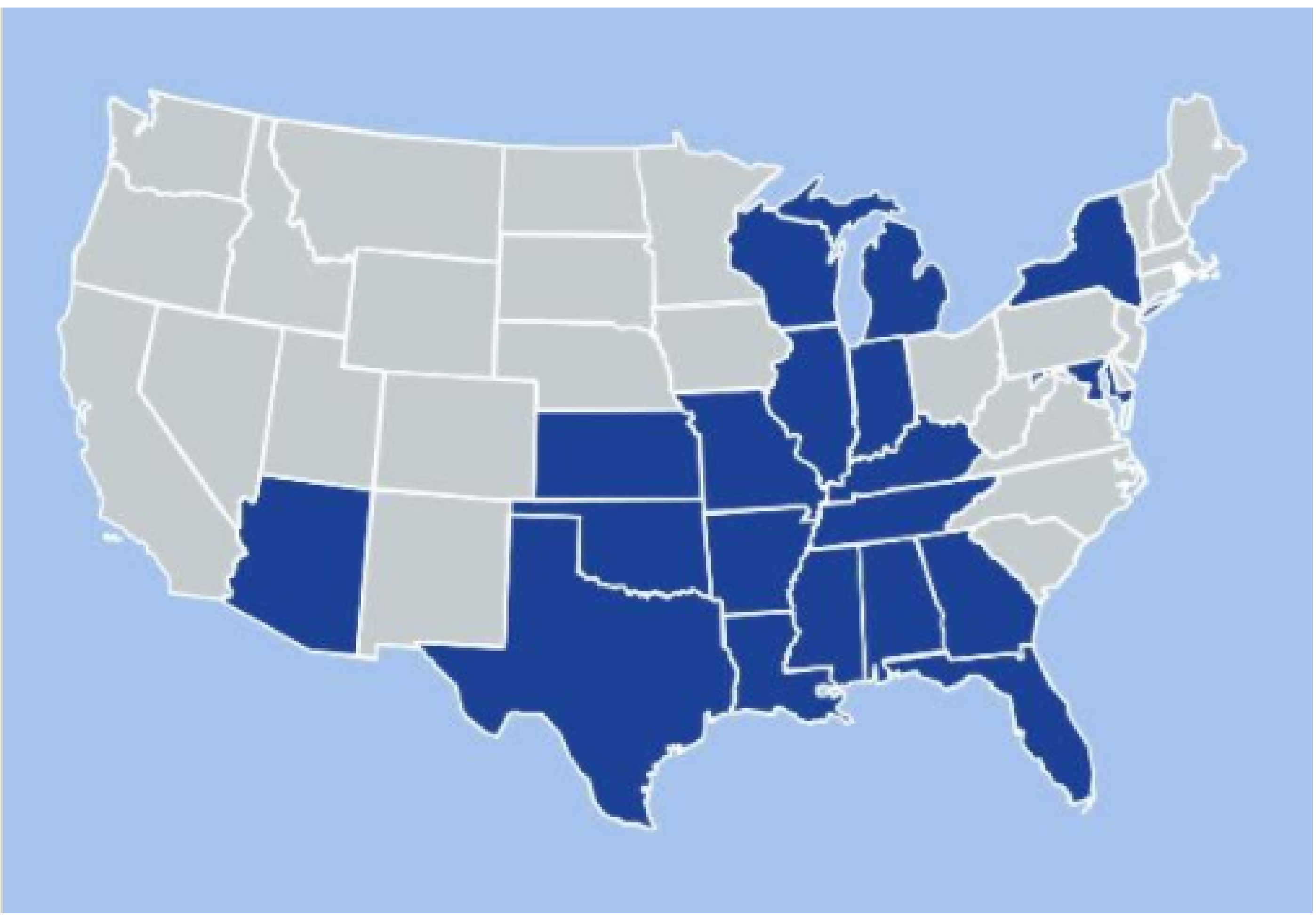
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

The MD&A includes the following sections:

- Organization and Mission
- Executive Overview
- Organizational Changes
- Novel Coronavirus (COVID-19)
- Select Financial Information
- Supplemental Information - Provider Relief Fund

Organization and Mission

Ascension is a faith-based healthcare organization dedicated to transformation through innovation across the continuum of care. As one of the largest 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, 2021, the System included approximately 150,000 associates and 40,000 aligned providers, operating more than 2,600 sites of care – including 146 hospitals and more than 40 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.



Executive Overview

For the year ended June 30, 2021, Ascension's operations and volumes experienced significant volatility as a result of the COVID-19 pandemic. Localized intermittent COVID-related restrictions resulted in the cancellation or deferral of elective procedures at certain times in certain markets throughout the year. Such restrictions, along with varying levels of consumer hesitation continue to have an adverse impact on the System's overall volumes in fiscal year 2021. Government funding and favorable investment performance have contributed to the System's ability to sustain operations during this unprecedented time, continuing our Mission to provide care for those we serve, particularly those most vulnerable. Ascension is committed to managing discretionary expenses to focus on top priorities of caring for our patients and caregivers.

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 strengthen hospital operations and gain capabilities for the future, the organization's changes to its portfolio are as follows.

Effective July 1, 2020, Ascension St. Vincent's in Birmingham 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, St. Mary's Healthcare in Amsterdam, New York, separated from the Ascension System and began to operate as an independent, Catholic healthcare organization under the governance of a local Board.

In January 2021, Ministry Health Care, Inc. (Ministry), a wholly owned subsidiary of Ascension, and Aspirus, Inc. (Aspirus) entered into an agreement for Ministry to transition its sole membership interest in seven hospitals and related clinical and other business, representing substantially all operations in the Northern and Central Wisconsin markets, to Aspirus. This transition closed August 1, 2021.

Novel Coronavirus (COVID-19)

The global novel coronavirus (COVID-19) pandemic has had significant economic and operational impact on the U.S. healthcare industry. Ascension's patients, employees, business operations and communities served by the System continued to be impacted by the uncertainty of the pandemic for the year ended June 30, 2021.

Recurrent surges of COVID-19 cases across the nation during fiscal year 2021 have had a significant impact on Ascension's volumes and created unprecedented financial challenges as further discussed below. Governmental relief funds and programs helped to offset the adverse financial impacts of the pandemic. However, healthcare hesitation, along with vaccination hesitation continues to impact Ascension's markets to varying degrees, as the System's operations and volumes remain below pre-pandemic levels for the year ended June 30, 2021.

The System received distributions from the CARES Act both during and since the System's fiscal year ended June 30, 2020. The CARES Act increased funding for the Public Health and Social Services Emergency Fund (Provider Relief Fund) to reimburse eligible healthcare 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.

While recognition of government funds favorably contributed to the System's financial performance during both fiscal years ending June 30, 2021 and 2020, the impact from significant and ongoing patient volume reductions and increased supply and staffing costs have not been fully offset. The System was able to absorb the additional operating expense impact through expansion and growth in certain other operations and strong stewardship consistent with our Mission to serve our patients, with special attention to persons living in poverty and those most vulnerable, along with our caregivers. Refer to the Supplemental Information for detailed discussion of the impact of governmental relief on the System.

Select Financial Information (dollars in millions)

Consolidated Operations

The following table reflects selected financial information on a consolidated basis for the years ended June 30, 2021 and 2020.

	Years ended June 30,	
	2021	2020
Net Patient Service Revenue	$ 24,447	$ 22,779
Other Operating Revenue	2,791	2,483
Operating Expenses	26,685	25,713
Income (loss) from Operations	676	(639)
Operating Margin	2.5%	(2.5%)
Operating EBIDA Margin	8.1%	3.5%
Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	2,303	2,430

On a consolidated basis, operating margin was 2.5% for the year ended June 30, 2021, as compared to (2.5%) for the same period in the prior year. Operating EBIDA margin was 8.1% for the year ended June 30, 2021, as compared to 3.5% in the same period of the prior year. Increases in margins are significantly impacted by the recognition of government funding intended to offset losses incurred during the pandemic.

Volume Trends

The following table reflects certain patient volume information, on a consolidated basis, for the years ended June 30, 2021 and 2020.

	Years ended June 30,	
Volume Trends	2021	2020
Equivalent Discharges	1,553,109	1,587,763
Total Admissions	739,978	763,831
Case Mix Index	1.85	1.74
Emergency Room Visits	2,685,878	3,007,177
Surgery Visits (IP & OP)	601,418	582,133
Physician Office and Clinic Visits	15,831,816	14,788,424
Virtual Provider Office (VPO) Visits	1,498,946	936,857
Urgent Care Visits	404,292	558,271

For the year ended June 30, 2021, the System's volumes remain impacted by the pandemic. Due to ongoing surges of COVID-19 patients and consumer hesitation, equivalent discharges, admissions, emergency room visits, and urgent care visits during the year ended June 30, 2021, were less than the prior year by 2.2%, 3.1%, 10.7%, and 27.6%, respectively. However, total outpatient visits and total surgery visits for the year ended June 30, 2021 exceeded prior year volumes by 3.0% and 3.3%, respectively.

Physician office and clinic visits for the year ended June 30, 2021, increased 7.1% as compared to the same period in the prior year. On a same facility basis, physician office and clinic visits increased 8.2% for the year ended June 30, 2021, as compared to the same period in the prior year.

The pandemic resulted in shifts to care delivery, specifically in virtual provider office (VPO) visits. The System provided nearly 1.5 million VPO visits during the year ended June 30, 2021.

Total Operating Revenue

Total operating revenue increased by $2.0 billion or 7.8% during the year ended June 30, 2021, as compared to the same period in the prior year.

While net patient service revenue (NPSR) remains impacted by the pandemic, the System experienced an increase in NPSR of 7.3% for the year ended June 30, 2021. Despite recent divestitures, the System's ongoing operations have shown growth in NPSR of 8.9% for the year ended June 30, 2021, as compared to the same period in the prior year.

For the year ended June 30, 2021, NPSR per equivalent discharge increased 9.7% compared to the prior year primarily due to increased case mix index.

The System's case mix index and average length of stay increased 5.9% and 7.0%, respectively, for the year ended June 30, 2021, as compared to the same period in the prior year. These increases are primarily due to higher-acuity patients, including COVID-positive patients, seeking care during the pandemic.

Other operating revenue increased by $307.8 million or 12.4% during the year ended June 30, 2021, as compared to the same period in the prior year. Increases are primarily due to favorable joint venture performance, along with gains from sales of certain joint ventures, growth in service lines, such as pharmacy and lab services, participation in value-based care programs and recognition of monies received from the Provider Relief Fund, discussed within the Supplemental Information.

Pharmacy and lab service revenue experienced increases of 13.1% and 17.8%, respectively, for the year ended June 30, 2021, as compared to the same period in the prior year. Favorable joint venture performance contributed to an increase in other operating revenue of $50.8 million during the year ended June, 2021, as compared to the same period in the prior year.

One-time gains of $87.7 million on the sale of four joint ventures and other assets were recorded in other operating revenue during the year ended June 30, 2021. Additionally, supplemental care program revenue and payments received from value-based care contracts increased by 41.7% during the year ended June 30, 2021, as compared to the same period in the prior year.

Total Operating Expenses

Total operating expenses increased approximately $972.4 million or 3.8% during the year ended June 30, 2021, as compared to the same period in the prior year. Incremental pandemic-related salaries, wages, employee benefits and supply expenses contributed to the System's overall expense increase, along with other expected increases from normal operations as further discussed below. The System's focused efforts to manage non-patient-facing expenses such as travel and other variable expenses, while supporting the workforce to care for patients, continues to be a top priority.

The System experienced a 6.1% increase in cost per equivalent discharge during the year ended June 30, 2021, primarily due to the increases in direct costs from the pandemic as previously discussed. Higher patient acuity has led to an increase in the average length of stay, along with increased caregiver compensation and supply costs.

Pandemic-related increases in salaries, wages and employee benefits partially offset the System's efforts to manage expenses to volumes. Total salaries, wages and benefits increased $547.4 million, or 4.3%, for the year ended June 30, 2021, compared to the same period in the prior year. The increase is primarily due to expected wage adjustments, onboarding additional physicians, along with special pay programs for the efforts of Ascension's workforce.

Additional unexpected costs for contract labor were incurred at premium rates during the year ended June 30, 2021, as compared to the same period in the prior year due to staffing shortages amid the pandemic. Contract labor increased $164.4 million during the year ended June 30, 2021, as compared to the same period in the prior year.

The System experienced increases in supply expenses of $369.1 million, or 10.1%, during the year ended June 30, 2021, as compared to the same period in the prior year. Additional supply costs for treatment of COVID patients of approximately $160 million were incurred during the year ended June 30, 2021 as compared to the same period in the prior year, partially offset by cost reductions as previously discussed. Higher patient acuity seen during the pandemic resulted in the use of more costly pharmaceuticals, COVID-related lab and testing supplies, as well as increased use of personal protective equipment.

Purchased services and professional fees remained stable, with an increase of $10.2 million, or 0.2%, as compared to the same period in the prior year primarily due to the previously mentioned focused efforts on expense management.

Non-Operating Income - 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 $54.1 billion at June 30, 2021.

Ascension's long-term investment pool, excluding noncontrolling interests and long-term investments held by self-insurance programs of $17.7 billion, experienced significant returns during the year ended June 30, 2021 primarily due to the recent unexpected rebound in the investment market. While the return for the year ended June 30, 2021 was 28.6% or $5.9 billion, the losses in the same period of the prior fiscal year were $410 million.

In addition to the cash and investments managed by AIM, Ascension holds other strategic investments which have contributed approximately $1 billion of investment income during the year ended June 30, 2021.

Financial Position

Ascension's balance sheet and liquidity levels remain strong with sufficient liquidity to continue to provide care for patients, despite the economic challenges resulting from the pandemic. The following table reflects selected financial information on a consolidated basis.

	6/30/2021	6/30/2020
Current Assets	$ 5,981	$ 5,017
Long-Term Investments	26,768	21,273
Property and Equipment	11,067	11,351
Other Assets	4,583	4,247
Total Assets	**$ 48,399**	**$ 41,888**

	6/30/2021	6/30/2020
Current Liabilities	$ 7,244	$ 7,940
Long-Term Liabilities	11,879	12,361
Total Liabilities	19,123	20,301
Net Assets	29,276	21,587
Total Liabilities and Net Assets	**$ 48,399**	**$ 41,888**

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 $23.7 billion at June 30, 2021, which is approximately 49.0% of the System's total assets. The System's days cash on hand was 341 days as of June 30, 2021, as further discussed below.

Additionally, Ascension maintains two lines of credit, totalling $600 million. As of June 30, 2021, there were no outstanding borrowings under either line of credit. Both lines of credit are committed through December 1, 2021. The System also has access to a $1.0 billion taxable commercial paper program.

During the prior fiscal year, Ascension applied for and received approximately $2.0 billion of Medicare Advanced Payments. The advanced payments are recorded within long-term investments and current and long-term liabilities on the System's Consolidated Balance Sheets. Medicare Advanced Payments represent approximately 26 days cash as of June 30, 2021, and 30 as of June 30, 2020.

In accordance with the terms and conditions of the Medicare Advanced Payment program, recoupments of approximately $200 million occurred during the year ending June 30, 2021.

Balance Sheet Ratios

	6/30/2021	6/30/2020
Days Cash on Hand*	341	284
Net Days in Accounts Receivable**	47.3	47.8
Cash-to-Debt	315.2%	246.3%
Total Debt to Capitalization	22.6%	29.0%
Debt Service Coverage	11.04	3.34

* June 30, 2021, Days Cash on Hand increased as a result of favorable investment return during the fiscal year.

** Net days in AR as of June 30, 2020, were adjusted to "normalize" the significant disruption to volumes during April 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 June 30, 2021.

Net days in accounts receivable decreased from 47.8 days at June 30, 2020, to 47.3 days at June 30, 2021.

Care of Persons Living in Poverty and Community Benefit

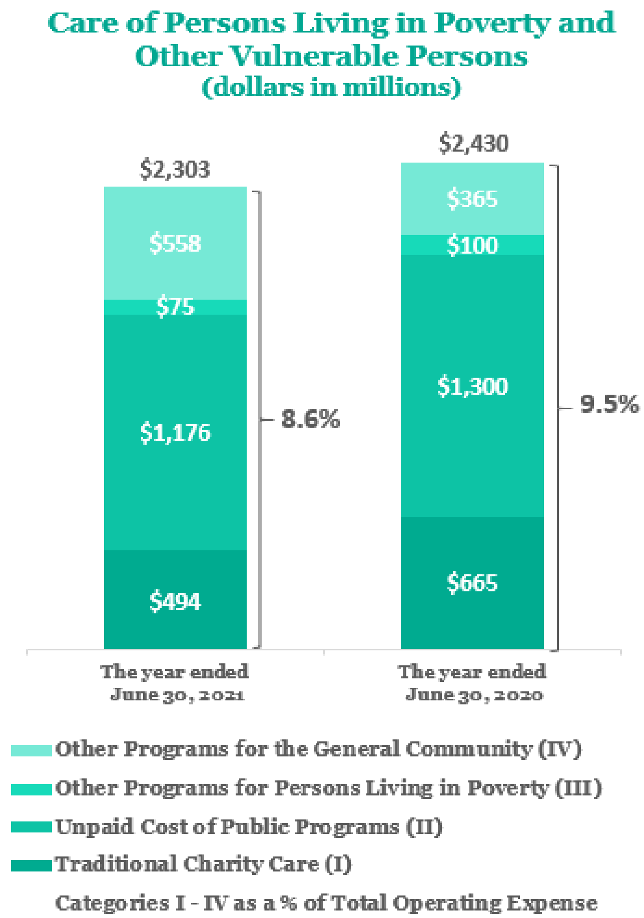
Ascension provided $2.3 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the year ended June 30, 2021. Through programs, donations, health education, trauma programs, free care and more, the organization's uncompensated care and other community benefits fulfills unmet needs in communities we serve.

The total cost of providing care to persons living in poverty and other community benefit programs decreased as compared to the same period in the prior year, primarily due to a decrease in patient volumes. As previously discussed, the pandemic continued to adversely impact emergency room volumes during the fiscal year ended June 30, 2021. The emergency room has historically served as the primary entry point to health care for uninsured populations, patients qualifying for charity care and patients insured through public programs.

In addition, the System was reimbursed at Medicare rates for services provided to uninsured COVID patients throughout the fiscal year ending June 30, 2021, with comparable reimbursement in the final quarter of the prior year. Such reimbursement further contributed to a decrease in the System's charity care provided during the fiscal year ending June 30, 2021, as compared to the same period in the prior year.

Other Programs for the General Community (Category IV) increased approximately $193 million or 52.7% during the fiscal year, primarily due to the donation of St. Mary's Healthcare in Amsterdam, NY.

The System continues to deliver compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable, despite pandemic-related challenges experienced during the fiscal year ended June 30, 2021.



Supplemental Information - Provider Relief Fund (dollars in millions)

Provider Relief Fund

As previously discussed, the System received $1.8 billion of distributions from the Provider Relief Fund during both the fiscal years ended June 30, 2021 and 2020.

Due to uncertainty in the terms and conditions associated with the governmental funding, Ascension was unable to recognize all funds received during the fiscal year ended June 30, 2020. During the second quarter of fiscal 2021, the federal government clarified the terms and conditions of the funding from the CARES Act. This clarification resulted in the System's recognition of primarily all Provider Relief Fund amounts received through the fiscal year ended June 30, 2021.

Unaudited Pro-Forma Financial Information

The following table is an unaudited pro-forma presentation of the System's financial results for the twelve months ended December 31, 2020 and the six months ended June 30, 2021 to illustrate the impact of the pandemic and the government's relief efforts on operational performance.

Unaudited Pro-Forma Financial Information for the

	Six months ending 6/30/21	Twelve months ending 12/31/20	Pandemic Period Total
Net Patient Service Revenue	$ 12,264	$ 22,687	$ 34,951
Other Operating Revenue*	890	1,754	2,644
Total Operating Revenue*	13,154	24,441	37,595
Total Operating Expense	13,465	25,959	39,424
Income (loss) from Recurring Operations before Provider Relief Funds	(311)	(1,518)	(1,829)
Provider Relief Funds	134	1,662	1,796
Income (loss) from Recurring Operations	(177)	144	(33)
Self-Insurance Trust Fund Investment Return	59	44	103
Impairment, Restructuring and Nonrecurring losses, net	(2)	(117)	(119)
Income (loss) from Operations	**(120)**	**71**	**(49)**
Operating Margin	-0.9%	0.3%	-0.1%

** Excluding Provider Relief Funds*

The Provider Relief Funds provided an appropriate level of financial assistance, to partially offset the pandemic's significant adverse financial impact on operations during the pandemic period, which began in Q3 of FY20. Ascension has estimated a System-wide impact greater than $1.9 billion which consists of lost revenues and pandemic-related expenses.