

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

As of and for the nine months ended March 31, 2022 and 2021



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

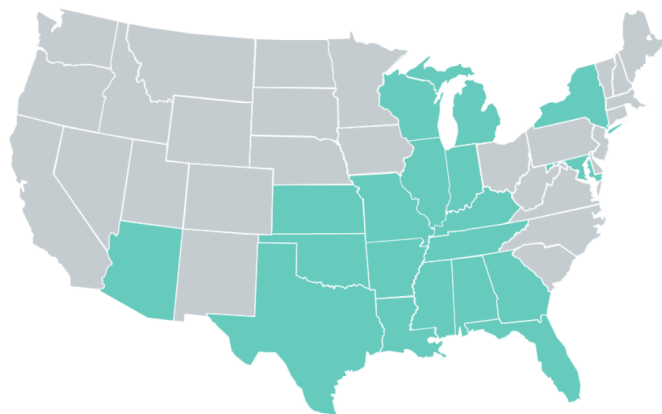
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

The MD&A includes the following sections:

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

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 March 31, 2022, the System included approximately 138,000 associates and 40,000 aligned providers, approximately 2,600 sites of care – including 142 hospitals and 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

Similar to other U.S. Healthcare providers, Ascension's operations and volumes have been disrupted by several unexpected COVID-19 surges creating continued volatility for the nine months ended March 31, 2022 (YTD Q3 FY22). COVID-19 cases peaked during this past quarter and coupled with historic levels of staff furloughs, rising labor costs, ongoing workforce shortages and sporadic closures of surgical and procedural areas combined to result in a very challenging quarter for financial performance. Notwithstanding these challenges, Ascension's operational performance improved with each month as the quarter progressed (January to March 2022). The System remains resilient with various economic improvement plans implemented to further operational performance in the coming months with a continued focus on 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 where, when and how they need care, 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 August 1, 2020, Ascension divested certain assets and liabilities and substantially all related operations of Ascension 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.

Effective August 1, 2021, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension, transitioned 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, Inc.

Subsequent to March 31, 2022, effective on April 1, 2022, Ascension and AdventHealth have disaffiliated from AMITA Health, the joint operating company that had served the healthcare needs of the greater Chicago area from 2015 through March 31, 2022. The rebranded Ascension facilities and providers, Ascension Illinois, are

committed to continuing to serve healthcare needs in the greater Chicago area.

In February 2022, Ascension, through certain of its controlled affiliates, entered into agreements with Laboratory Corporation of America Holdings (Labcorp) whereby Ascension will transition certain assets of its outreach laboratory business and management of certain Ascension hospital-based laboratories to Labcorp after all necessary approvals are obtained. Once finalized, this transition will support expansion of laboratory services and implementation of advanced technology, providing for an enhanced consumer experience.

In addition to optimizing our acute care assets focused on patients with more complex needs, we have and will continue to invest in accelerating growth in our ancillary services and ambulatory networks. One example is the formation of Ascension Rx, building upon our existing retail pharmacies through growth of specialty pharmacy and a nationwide mail order distribution center. Additional investments are also being made in our ambulatory surgery center, imaging and outpatient physical therapy sites that enhance Ascension's footprint of service offerings and provide greater convenience to consumers.

Novel Coronavirus (COVID-19)

The global novel coronavirus (COVID-19) pandemic has continued to have unprecedented economic, operational and financial impact for the U.S. healthcare industry. Similarly, Ascension's patients, employees, business operations and communities served continue to be negatively impacted by the challenges of a prolonged and operationally disruptive pandemic.

Recurrent surges of COVID-19 cases across the nation during the nine months ended March 31, 2022 and most profoundly during the three months ended March 31, 2022 (Q3 FY22), continued to have an impact on Ascension's volumes and contributed to unprecedented operational and financial challenges as further discussed below. Localized intermittent COVID-related restrictions and surges also resulted in the cancellation or deferral of elective procedures at certain times in almost all markets throughout the period. Consumer hesitation continues to impact Ascension's markets to varying degrees, as the System's volumes remain below levels at the onset of the pandemic (comparable nine months ended March 31, 2020) in all categories except physician office and clinic visits. In the month of January 2022, similar to many other healthcare providers, Ascension experienced the peak of the latest surge, representing the highest COVID positive inpatient census since the beginning of the pandemic. However, by the end of Q3 FY22, Ascension's COVID positive inpatient census was among the lowest

levels since March 2020, contributing to a favorable volume trend at the end of the quarter.

During YTD Q3 FY22, federal, state and local governmental relief funds and programs helped to offset the adverse financial impacts of the pandemic although to a much lesser extent than the comparable nine months of the prior year. The System recognized revenue associated with U.S. government legislation that authorized funding for health care providers for COVID-19 relief and other pandemic-related grants (COVID-19 Funding). Payments received 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. For YTD Q3 FY22, the System recognized revenue associated with COVID-19 Funding of approximately \$311 million, representing a significant decrease from the \$889 million recognized during the same nine months of the prior fiscal year. The recognition of COVID-19 Funding is included within Other operating revenue in the Consolidated Statement of Operations and Changes in Net Assets.

While Ascension experienced expansion and growth in certain other operations and continued to focus on stewardship consistent with our Mission, the System was not able to fully absorb the additional operating expense impacts, most notably present in Q3 FY22, resulting from the confluence of workforce shortages and wage inflation during the height of the latest COVID-19 surge.

Select Financial Information (dollars in millions)

Consolidated Operations

The following table reflects selected financial information on a consolidated basis for the nine months ended March 31, 2022 and 2021.

Nine months ended March 31,

	2022	2021
Net Patient Service Revenue	\$ 19,004	\$ 18,199
Other Operating Revenue	1,884	2,311
Operating Expenses	21,536	19,809
Income (loss) from Operations	(640)	779
Operating Margin	-3.1%	3.8%
Operating EBIDA Margin	2.5%	9.4%

On a consolidated basis, Ascension's operating margin was -3.1% for the nine months ended March 31, 2022, as compared to 3.8% for the same period in the prior year. Operating EBIDA margin was 2.5% for the nine months ended March 31, 2022, as compared to 9.4% for the same period of the prior year. Decreases in margins are impacted by the aforementioned decrease in government funding intended to offset losses incurred during the pandemic along with the increasing cost of compensating our caregivers and other associates.

Volume Trends

During the nine months ended March 31, 2022, the System experienced increased volumes over the same period in the prior year, representing the impact of caring for patients through the most recent and significant COVID surges while also continuing the recovery of pandemic-impacted volumes. While overall volumes are improving, almost all volume categories still remain below comparable levels at the onset of the pandemic (for the nine months ended March 31, 2020).

The following table reflects certain patient volume information, on a consolidated basis, for the nine months ended March 31, 2022 and 2021.

Nine months ended March 31,

Volume Metrics

	2022	2021
Equivalent Discharges	1,158,202	1,146,517
Total Admissions	550,327	552,006
Surgery Visits (IP & OP)	434,443	445,321
Emergency Room Visits	2,233,686	1,947,731
Urgent Care Visits	409,617	298,141
Physician Office and Clinic Visits	12,016,949	11,693,219

The following table reflects select patient volume trend comparisons for the nine months ended March 31, 2022 and 2021. Due to the organizational changes noted, the most meaningful volume comparisons are on the same facility basis.

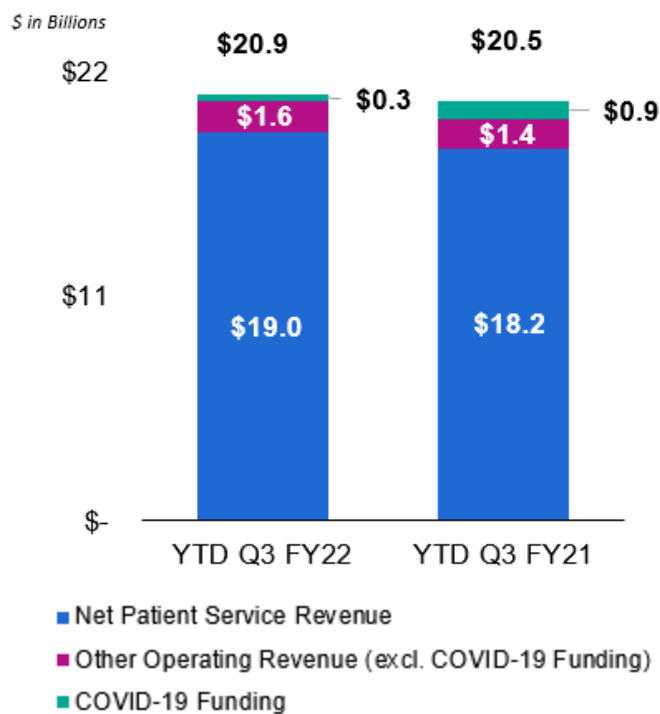
Volume Trends

	Same Facility Volume Incr/(Decr)	Total Volume Incr/(Decr)
Equivalent Discharges	2.7%	1.0%
Total Admissions	0.8%	(0.3%)
Surgery Visits (IP & OP)	(0.8%)	(2.4%)
Emergency Room Visits	16.7%	14.7%
Urgent Care Visits	45.6%	37.4%
Physician Office and Clinic Visits	4.7%	2.8%

Consistent with industry trends, the System continues to experience a shift from inpatient to outpatient surgeries and was also impacted by the management of elective procedures, most notably surgeries, based on workforce shortages and disruptions caused by additional COVID-19 surges. In Q3 FY22, the System experienced its lowest rate of total monthly surgeries in January, yet volumes rebounded from the impact of the latest pandemic surge late in the quarter with total monthly surgeries reaching their highest number in March.

For the nine months ended March 31, 2022, virtual provider office (VPO) visits of ~870,000 decreased from the same period in the prior year. VPO visits represent approximately 7% of visits in the current year as compared to approximately 10% of total physician visits in the prior year. Overall, outpatient visits have been increasing with YTD Q3 FY22 volumes improving 3.3% on a same facility basis over the prior year.

Total Operating Revenue



Total operating revenue increased by \$377 million or 1.8% during the nine months ended March 31, 2022, as compared to the same period in the prior year.

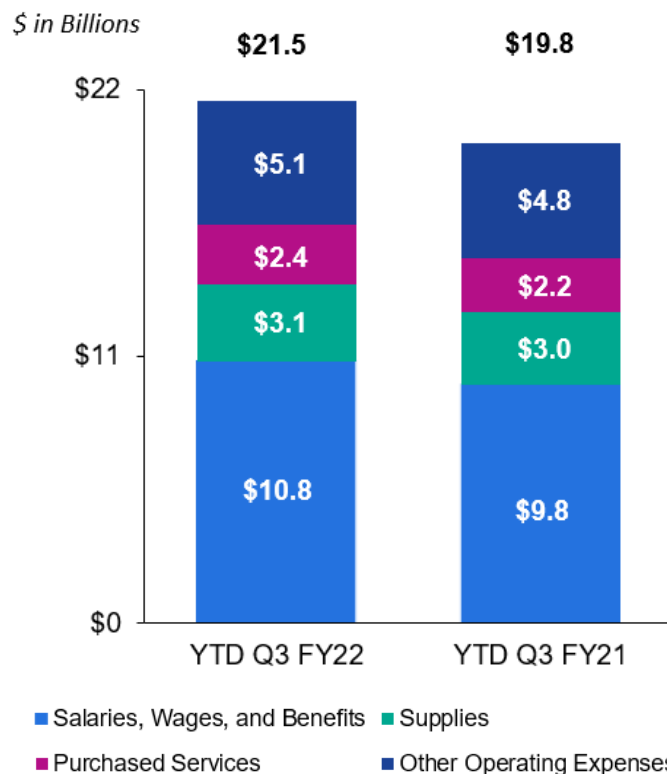
The System experienced an increase over prior year in net patient service revenue (NPSR) of \$805 million or 4.4% for the nine months ended March 31, 2022 despite the continued impact of the pandemic surges that resulted in less surgical and procedural volumes and more medical cases. The System's same facility operations have shown growth in NPSR of 6.3% for the nine months ended March 31, 2022, as compared to the same period in the prior year. NPSR also exceeded levels at the onset of the pandemic (nine months ended March 31, 2020) by 5.6%.

For the nine months ended March 31, 2022, NPSR per equivalent discharge increased 3.4%, or 3.5% on a same facility basis compared to the prior year. Aside from the previously mentioned volume increases, NPSR growth was impacted by improved rate and yield due to moderate inflationary increases in payor payments and increased provider tax revenue. The System's case mix index of 1.86 remained elevated due to higher-acuity patients, including COVID-positive patients, seeking care during the recent surge of the pandemic. Ascension has also implemented several economic improvement plans focused on service line growth to further our volume recovery.

For YTD Q3 FY22, COVID-19 Funding revenue recognized decreased \$578 million. Exclusive of COVID-19 Funding, total other operating revenue increased by \$151 million or

10.6% during the nine months ended March 31, 2022, as compared to the same period in the prior year due to the maturation of our pharmacy services and other ancillary and ambulatory strategic growth initiatives.

Total Operating Expenses



Total operating expenses increased \$1.7 billion or 8.7% or 10.3% on a same facility basis during the nine months ended March 31, 2022, as compared to the same period in the prior year. Consistent with the overall healthcare provider industry, labor-related challenges continue to drive expense growth amid the recurring COVID-19 surges. In particular, Ascension's labor-related expenses escalated in Q3 FY22 with the peak of the latest COVID-19 surge resulting in workforce shortages from levels necessary to maintain the workforce needed to care for our patients.

The System experienced a 7.6% (7.4% same facility) increase in cost per equivalent discharge during the nine months ended March 31, 2022, primarily due to increases in labor costs impacted by the pandemic as previously discussed. The treatment of COVID positive patients through the recent surges led to an increase in the average length of stay, along with increased caregiver compensation and supply costs.

Total salaries, wages and benefits increased \$994 million, or 10.1%, for the nine months ended March 31, 2022, compared to the same period in the prior year. The increase is primarily due to staffing challenges including

increased utilization of contract and premium labor and market wage adjustments, along with critical care bonuses, as a result of staffing shortages and challenges related to staff furloughs and departures that have accelerated through the recent COVID surges of the pandemic, most notably impacting Q3 FY22. Ascension experienced the height of labor spending for FY22 in January driven primarily by utilization of contract labor, premium labor and overtime spend that aligned to the peak of the most recent COVID-19 surge. As Q3 FY22 progressed, the System's trends in these areas improved with the reduction in the number of COVID-19 patients and with the implementation of certain economic improvement plans focused on stabilization of the workforce including reduction of agency staffing rates and utilization. Additionally, Ascension's length of stay was reduced 13.3% during Q3 FY22 as our COVID-19 positive inpatient census declined. To meet the changing needs of the healthcare environment and our associates, Ascension's renewed commitment is focused on the following: 1) attracting, rewarding and retaining the best talent, 2) providing career growth and development, 3) ensuring a culture of inclusion, flexibility and transparency and 4) supporting the transformation of care delivery models for the future.

Supply expenses increased \$140 million, or 4.7%, during the nine months ended March 31, 2022, as compared to the same period in the prior year due primarily to an increase in pharmaceutical COVID-19 therapy treatments and other COVID-19 medical supplies along with volume-driven increases in other supply categories, including surgical and implant supplies.

In addition to labor-related expense challenges discussed above, the System experienced an increase in purchased services and other operating expenses. Purchased services increased \$248 million, or 11.3%, for the nine months ended March 31, 2022, as compared to the prior year as increased volumes and NPSR resulted in higher outsourced revenue cycle fees and purchased medical and lab services along with a change in outsourcing certain IT services. Other operating expenses (includes professional fees, insurance, provider tax, income tax and other operating expenses) increased \$345 million, or 7.2%, for the nine months ended March 31, 2022 due primarily to an increase in cost of goods sold associated with the increased pharmacy revenue discussed above, along with increases in physician fees, provider tax expense, and self-insured medical malpractice insurance cost associated with industry-wide claims severity trends. Other miscellaneous expense categories also experienced increases as volumes continued to recover.

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 approximately \$47.5 billion at March 31, 2022.

Ascension's long-term investment funds, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced volatility and moderation from the prior year with a return of 2.8% during the nine months ended March 31, 2022. The net investment earnings for the nine months ended March 31, 2022 were \$736 million; investment income in the same period of the prior fiscal year was \$4.6 billion.

Financial Position

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

	3/31/2022	6/30/2021
Current Assets	\$ 5,945	\$ 5,981
Long-Term Investments	25,521	26,768
Property and Equipment	11,147	11,067
Other Assets	4,578	4,583
Total Assets	\$ 47,190	\$ 48,399

	3/31/2022	6/30/2021
Current Liabilities	\$ 7,389	\$ 7,244
Long-Term Liabilities	10,558	11,879
Total Liabilities	17,946	19,123
Net Assets	29,244	29,276
Total Liabilities and Net Assets	\$ 47,190	\$ 48,399

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 \$22.1 billion at March 31, 2022, which is approximately 47% of the System's total assets. The System's days cash on hand was 295 days as of March 31, 2022, as further discussed in this section.

Additionally, Ascension maintains one line of credit, totalling \$1 billion. As of March 31, 2022, there were no borrowings under the line of credit. The line is committed through November 18, 2024. The System also has access to a \$1.0 billion taxable commercial paper program.

During fiscal year 2020, Ascension applied for and received approximately \$2.0 billion of Medicare Advance Payments. The advanced payments are recorded within long-term investments and current and noncurrent liabilities on the System's Consolidated Balance Sheets. Medicare Advance Payments represent approximately 13 and 26 days cash as of March 31, 2022, and June 30, 2021, respectively. In accordance with the terms and conditions of the Medicare Advance Payment program, recoupments of approximately \$803 million occurred during the nine months ended March 31, 2022 with a total of approximately \$1.0 billion recouped to date.

In addition, Ascension has deferred employer payroll tax payments pursuant to the Paycheck Protection Program and Health Care Enhancement Act that represent approximately 2.5 days and 5 days of cash as of March 31, 2022 and June 30, 2021, respectively.

Balance Sheet Ratios

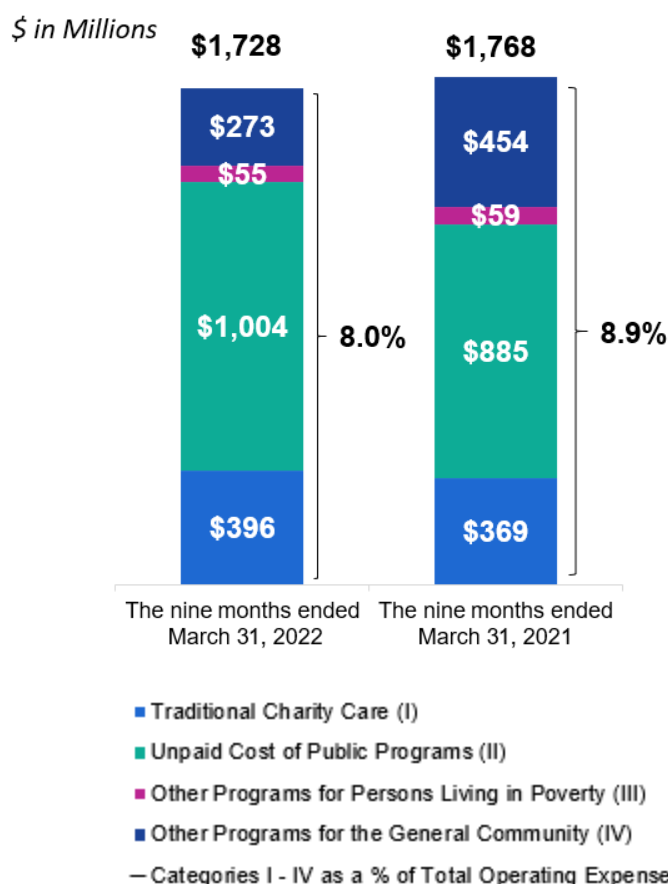
	3/31/2022	6/30/2021
Days Cash on Hand	295	336
Net Days in Accounts Receivable	50.7	47.3
Cash-to-Debt	302.0%	310.5%
Total Debt to Capitalization	22.0%	22.6%
Debt Service Coverage	7.08	11.04

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 March 31, 2022.

Net days in accounts receivable increased from 47.3 days at June 30, 2021, to 50.7 days at March 31, 2022 largely attributable to slower payment of claims from commercial payors, particularly large dollar claims.

Care of Persons Living in Poverty and Community Benefit



Ascension provided \$1.7 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the nine months ended March 31, 2022. Through programs, donations, health education, trauma programs, free care and more, the organization's uncompensated care and other community benefits fulfill unmet needs in the communities we serve.

The System experienced an increase in Medicaid gross charges and equivalent discharges throughout the nine months ended March 31, 2022 compared to the same period in the prior year as overall volumes increased and more patients were eligible and shifted to public programs (i.e., Medicaid) in select markets. The System's traditional charity care provided during the nine months ended March 31, 2022, also increased slightly as compared to the same

period in the prior year due to a decrease in the COVID-19 relief funding from HRSA for uninsured COVID-19 patients along with a higher cost of caring for patients.

Other programs for the general community decreased from prior year due to the donation of the net assets of St. Mary's Hospital in Amsterdam to the community on September 1, 2020.

The System continues to deliver compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable, despite the continued pandemic-related challenges experienced during the nine months ended March 31, 2022.