

REFINITIV

DELTA REPORT

10-Q

SGRY - SURGERY PARTNERS, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 892

■ CHANGES 193

■ DELETIONS 402

■ ADDITIONS 297

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

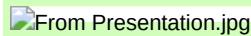
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2023** **March 31, 2024**
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-37576



Surgery Partners, Inc.

(Exact name of registrant as specified in its charter)

Delaware

47-3620923

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

340 Seven Springs Way, Suite 600

37027

Brentwood, Tennessee

(Zip Code)

(Address of Principal Executive Offices)

(615) 234-5900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	SGRY	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of **October 31, 2023** **April 30, 2024**, there were **126,493,279** **127,094,449** shares of the registrant's common stock outstanding.

SURGERY PARTNERS, INC.
FORM 10-Q
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(*Dollars in millions, except per share amounts*)

		(Unaudited)	
		December	
		September 30, 2023	31, 2022
(Unaudited)		March 31, 2024	
		December 31, 2023	
ASSETS	ASSETS		
Current assets:	Current assets:		
Current assets:			
Current assets:			
Cash and cash equivalents			
Cash and cash equivalents			
Cash and cash equivalents	Cash and cash equivalents	\$ 236.0	\$ 282.9
Accounts receivable	Accounts receivable	462.8	456.3
Inventories	Inventories	69.4	71.4
Prepaid expenses	Prepaid expenses	34.7	31.4
Other current assets	Other current assets	73.3	79.0
Total current assets	Total current assets	876.2	921.0
Property and equipment, net of accumulated depreciation of \$425.5 and \$374.3, respectively		939.7	876.6
Property and equipment, net of accumulated depreciation of \$485.4 and \$454.4, respectively			
Goodwill and other intangible assets, net			
Goodwill and other intangible assets, net			
Goodwill and other intangible assets, net	Goodwill and other intangible assets, net	4,301.0	4,179.4
Investments in and advances to affiliates	Investments in and advances to affiliates	196.3	190.3
Right-of-use operating lease assets	Right-of-use operating lease assets	244.5	279.1
Long-term deferred tax assets	Long-term deferred tax assets	105.0	91.5
Other long-term assets	Other long-term assets	117.4	144.2
Total assets	Total assets	\$ 6,780.1	\$ 6,682.1

LIABILITIES AND STOCKHOLDERS' EQUITY	LIABILITIES AND STOCKHOLDERS' EQUITY
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	Current liabilities:
Current liabilities:	
Accounts payable	
Accounts payable	
Accounts payable	Accounts payable \$ 148.8 \$ 151.6
Accrued payroll and benefits	Accrued payroll and benefits 82.3 68.9
Other current liabilities	Other current liabilities 208.2 210.1
Current maturities of long-term debt	Current maturities of long-term debt 62.1 62.8
Total current liabilities	Total current liabilities 501.4 493.4
Long-term debt, less current maturities	Long-term debt, less current maturities 2,640.2 2,559.0
Right-of-use operating lease liabilities	Right-of-use operating lease liabilities 240.9 271.4
Other long-term liabilities	Other long-term liabilities 78.9 75.4
Non-controlling interests—redeemable	Non-controlling interests—redeemable 332.2 342.0
Non-controlling interests—redeemable	
Stockholders' equity:	Stockholders' equity:
Stockholders' equity:	
Preferred stock, \$0.01 par value; shares authorized - 20,310,000; shares issued or outstanding - none	Preferred stock, \$0.01 par value; shares authorized - 20,310,000; shares issued or outstanding - none — —
Common stock, \$0.01 par value; shares authorized - 300,000,000; shares issued and outstanding - 126,488,626 and 125,960,834, respectively	Common stock, \$0.01 par value; shares authorized - 300,000,000; shares issued and outstanding - 126,488,626 and 125,960,834, respectively 1.3 1.3

Preferred stock, \$0.01 par value; shares authorized - 20,310,000; shares issued or outstanding - none			
Preferred stock, \$0.01 par value; shares authorized - 20,310,000; shares issued or outstanding - none			
Common stock, \$0.01 par value; shares authorized - 300,000,000; shares issued and outstanding - 127,101,670 and 126,593,727, respectively			
Additional paid-in capital	Additional paid-in capital	2,494.5	2,478.0
Accumulated other comprehensive income	Accumulated other comprehensive income	77.0	76.2
Retained deficit	Retained deficit	(568.2)	(557.3)
Total	Total		
Surgery	Surgery		
Partners, Inc.	Partners, Inc.		
stockholders' equity	stockholders' equity	2,004.6	1,998.2
Non-controlling interests—non-redeemable	Non-controlling interests—non-redeemable	981.9	942.7
Total stockholders' equity	Total stockholders' equity	2,986.5	2,940.9
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	\$ 6,780.1	\$ 6,682.1

See notes to unaudited condensed consolidated financial statements.

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SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, dollars in millions, except per share amounts, amounts; shares in thousands)

Three Months Ended March 31,

Three Months Ended March 31,

Three Months Ended March 31,

2024

		2024		Three Months Ended September 30,		Nine Months Ended September 30,	
		2024					
Revenues							
		2023		2022		2023	
Revenues		\$ 674.1	\$ 620.6	\$ 2,007.9	\$ 1,832.2		
Operating expenses:		Operating expenses:					
Operating expenses:							
Operating expenses:							
Salaries and benefits							
Salaries and benefits							
Salaries and benefits	Salaries and benefits	195.0	185.5	592.4	546.3		
Supplies	Supplies	179.2	173.2	549.8	518.3		
Supplies							
Supplies							
Professional and medical fees							
Professional and medical fees							
Professional and medical fees	Professional and medical fees	72.4	68.1	219.9	198.4		
Lease expense	Lease expense	21.1	21.6	64.3	61.8		
Lease expense							
Lease expense							
Other operating expenses							
Other operating expenses							
Other operating expenses	Other operating expenses	40.6	41.0	127.6	116.8		
Cost of revenues	Cost of revenues	508.3	489.4	1,554.0	1,441.6		
Cost of revenues							
Cost of revenues							
General and administrative expenses							
General and administrative expenses							
General and administrative expenses	General and administrative expenses	36.8	17.9	100.0	73.5		
Depreciation and amortization	Depreciation and amortization	28.9	29.8	87.0	85.2		
Depreciation and amortization							
Depreciation and amortization							
Transaction and integration costs	Transaction and integration costs	12.8	12.5	37.3	27.8		
Grant funds		—	(0.5)	(1.1)	(1.8)		
Transaction and integration costs							
Transaction and integration costs							
Net loss on disposals, consolidations and deconsolidations							

Net loss on disposals, consolidations and deconsolidations					
Net loss on disposals, consolidations and deconsolidations	Net loss on disposals, consolidations and deconsolidations	5.8	2.2	7.5	3.2
Equity in earnings of unconsolidated affiliates	Equity in earnings of unconsolidated affiliates	(3.5)	(2.4)	(9.4)	(8.1)
Equity in earnings of unconsolidated affiliates					
Litigation settlements	Litigation settlements	3.6	—	8.1	(32.8)
Litigation settlements					
Other income, net	Other income, net	(1.2)	(2.4)	(2.1)	(7.4)
		591.5	546.5	1,781.3	1,581.2
Other income, net					
Other income, net		641.4	641.4	641.4	641.4
Operating income					
Operating income					
Operating income	Operating income	82.6	74.1	226.6	251.0
Interest expense, net	Interest expense, net	(49.8)	(60.7)	(144.3)	(173.9)
Income before income taxes		32.8	13.4	82.3	77.1
Interest expense, net					
Interest expense, net					
Income (loss) before income taxes					
Income (loss) before income taxes					
Income (loss) before income taxes					
Income tax (expense) benefit					
Income tax (expense) benefit					
Income tax (expense) benefit	Income tax (expense) benefit	(3.1)	(7.8)	6.3	(13.4)
Net income	Net income	29.7	5.6	88.6	63.7
Net income					
Net income					
Less: Net income attributable to non-controlling interests					
Less: Net income attributable to non-controlling interests					
Less: Net income attributable to non-controlling interests	Less: Net income attributable to non-controlling interests	(34.6)	(30.6)	(99.5)	(94.9)

Net loss attributable to Surgery Partners, Inc.	Net loss attributable to Surgery Partners, Inc.	\$ (4.9)	\$ (25.0)	\$ (10.9)	\$ (31.2)
Net loss attributable to Surgery Partners, Inc.					
Net loss attributable to Surgery Partners, Inc.					
Net loss per share attributable to common stockholders					
Net loss per share attributable to common stockholders:					
Net loss per share attributable to common stockholders:					
Net loss per share attributable to common stockholders:					
Basic	Basic	\$ (0.04)	\$ (0.28)	\$ (0.09)	\$ (0.35)
Diluted ⁽¹⁾	Diluted ⁽¹⁾	\$ (0.04)	\$ (0.28)	\$ (0.09)	\$ (0.35)
Weighted average common shares outstanding					
Diluted ⁽¹⁾	Diluted ⁽¹⁾				
Weighted average common shares outstanding:					
Weighted average common shares outstanding:					
Basic	Basic	125,747	88,907	125,559	88,604
Diluted ⁽¹⁾	Diluted ⁽¹⁾	125,747	88,907	125,559	88,604
Diluted ⁽¹⁾	Diluted ⁽¹⁾				
Diluted ⁽¹⁾	Diluted ⁽¹⁾				

(1) The impact of potentially dilutive securities for all periods ~~was were~~ not considered because the effect would be anti-dilutive.

See notes to unaudited condensed consolidated financial statements.

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SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 29.7	\$ 5.6	\$ 88.6	\$ 63.7

Other comprehensive income, net of tax:				
Derivative activity, net of tax of \$0		(1.8)	38.5	0.8
Comprehensive income		27.9	44.1	89.4
Less: Comprehensive income attributable to non-controlling interests		(34.6)	(30.6)	(99.5)
Comprehensive (loss) income attributable to Surgery Partners, Inc.	\$	(6.7)	\$ 13.5	\$ (10.1)
				\$ 83.1

	Three Months Ended March 31,	
	2024	2023
Net income	\$ 24.3	\$ 1.2
Other comprehensive income (loss), net of tax:		
Derivative activity, net of tax of \$0		(5.5)
Comprehensive income (loss)	18.8	(10.1)
Less: Comprehensive loss attributable to non-controlling interests	(36.7)	(26.1)
Comprehensive loss attributable to Surgery Partners, Inc.	\$ (17.9)	\$ (36.2)

See notes to unaudited condensed consolidated financial statements.

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SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, dollars in millions, shares in thousands)

	Non-						
	Common Stock		Accumulated		Controlling		
			Additional	Other	Interests—		
	Shares	Amount	Paid-in Capital	Comprehensive Income (Loss)	Retained Deficit	Redeemable	Total
Balance at December 31, 2022	125,961	\$ 1.3	\$ 2,478.0	\$ 76.2	\$ (557.3)	\$ 942.7	\$ 2,940.9
Common Stock							
Shares							
Balance as of December 31, 2022							
Balance as of December 31, 2022							
Balance as of December 31, 2022							
Net (loss) income	Net (loss) income	—	—	—	(25.0)	18.3	(6.7)
Equity-based compensation	Equity-based compensation	519	—	3.7	—	—	3.7
Other comprehensive loss	Other comprehensive loss	—	—	—	(11.3)	—	(11.3)

	Common							Non-Controlling			
	Stock		Additional		Accumulated		Other	Retained	Interests—	Total	
	Common Stock	Additional Capital	Paid-in Capital	Comprehensive Income (Loss)	Retained Deficit	Non-Redeemable	Total				
Balance as of December 31, 2022											
Balance as of December 31, 2022											
Balance as of December 31, 2022											
Net (loss) income	Net (loss) income	—	—	—	(25.0)	18.3	(6.7)				
Equity-based compensation	Equity-based compensation	519	—	3.7	—	—	3.7				
Other comprehensive loss	Other comprehensive loss	—	—	—	(11.3)	—	(11.3)				

Acquisition and disposal of shares of non-controlling interests, net	Acquisition and disposal of shares of non-controlling interests, net	—	—	(3.6)	—	—	49.7	46.1
Distributions to non-controlling interests—non-redeemable holders	Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(30.2)	(30.2)
Balance at March 31, 2023	126,480	\$ 1.3	\$ 2,478.1	\$ 64.9	\$ (582.3)	\$ 980.5	\$ 2,942.5	
Net income	—	—	—	—	19.0	27.6	46.6	
Equity-based compensation	13	—	4.5	—	—	—	—	4.5
Other comprehensive income	—	—	—	13.9	—	—	—	13.9
Acquisition and disposal of shares of non-controlling interests, net	—	—	18.8	—	—	(19.7)	(0.9)	
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(23.8)	(23.8)	
Balance at June 30, 2023	126,493	\$ 1.3	\$ 2,501.4	\$ 78.8	\$ (563.3)	\$ 964.6	\$ 2,982.8	
Net (loss) income	—	—	—	—	(4.9)	28.0	23.1	
Equity-based compensation	(4)	—	4.5	—	—	—	—	4.5
Other comprehensive loss	—	—	—	(1.8)	—	—	—	(1.8)
Acquisition and disposal of shares of non-controlling interests, net	—	—	(11.4)	—	—	13.1	1.7	
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(23.8)	(23.8)	
Balance at September 30, 2023	126,489	\$ 1.3	\$ 2,494.5	\$ 77.0	\$ (568.2)	\$ 981.9	\$ 2,986.5	
Balance as of March 31, 2023								

Balance as of December 31, 2023	126,594	\$ 1.3	\$ 2,497.6	\$ 57.5	\$ (569.2)	\$ 1,047.3	\$ 3,034.5
Net (loss) income	—	—	—	—	(12.4)	29.3	16.9
Equity-based compensation	508	—	4.9	—	—	—	4.9
Other comprehensive loss	—	—	—	(5.5)	—	—	(5.5)
Acquisition and disposal of shares of non-controlling interests, net	—	—	(6.9)	—	—	23.7	16.8
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	(29.7)	(29.7)
Balance as of March 31, 2024	127,102	\$ 1.3	\$ 2,495.6	\$ 52.0	\$ (581.6)	\$ 1,070.6	\$ 3,037.9

See notes to unaudited condensed consolidated financial statements.

SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, dollars in millions, shares in thousands)

	Common Stock		Additional Capital	Accumulated Other Comprehensive (Loss) Income		Retained Deficit	Non-Controlling Interests— Non-Redeemable		Total
	Shares	Amount		(Loss) Income	Retained Deficit		Non-Redeemable		
	89,333	\$ 0.9	\$ 1,622.3	\$ (31.5)	\$ (502.7)	\$ 880.6	\$ 1,969.6		
Balance at December 31, 2021									
Net income	—	—	—	—	12.2	—	20.0	32.2	
Equity-based compensation	572	—	7.7	—	—	—	—	7.7	
Other comprehensive income	—	—	—	56.8	—	—	—	56.8	
Acquisition and disposal of shares of non-controlling interests, net	—	—	(4.8)	—	—	—	(24.3)	(29.1)	
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	—	(24.6)	(24.6)	
Balance at March 31, 2022	89,905	\$ 0.9	\$ 1,625.2	\$ 25.3	\$ (490.5)	\$ 851.7	\$ 2,012.6		
Net (loss) income	—	—	—	—	(18.4)	—	22.7	4.3	
Equity-based compensation	30	—	4.4	—	—	—	—	4.4	
Other comprehensive income	—	—	—	19.0	—	—	—	19.0	
Acquisition and disposal of shares of non-controlling interests, net	—	—	(10.8)	—	—	—	38.7	27.9	
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	—	(27.7)	(27.7)	
Balance at June 30, 2022	89,935	\$ 0.9	\$ 1,618.8	\$ 44.3	\$ (508.9)	\$ 885.4	\$ 2,040.5		
Net (loss) income	—	—	—	—	(25.0)	—	22.3	(2.7)	
Equity-based compensation	21	—	5.0	—	—	—	—	5.0	
Other comprehensive income	—	—	—	38.5	—	—	—	38.5	
Acquisition and disposal of shares of non-controlling interests, net	—	—	(0.7)	—	—	—	49.8	49.1	
Distributions to non-controlling interests—non-redeemable holders	—	—	—	—	—	—	(25.0)	(25.0)	
Balance at September 30, 2022	89,956	\$ 0.9	\$ 1,623.1	\$ 82.8	\$ (533.9)	\$ 932.5	\$ 2,105.4		

See notes to unaudited condensed consolidated financial statements.

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SURGERY PARTNERS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, dollars in millions)

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 24.3	\$ 1.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33.7	33.7
Non-cash lease expense	9.0	9.0
Non-cash interest expense, net	1.5	6.5

Equity-based compensation expense	4.9	4.2
Net loss on disposals, consolidations and deconsolidations	1.5	10.5
Deferred income taxes	2.5	(1.8)
Equity in earnings of unconsolidated affiliates, net of distributions received	1.0	(0.2)
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	5.4	8.8
Other operating assets and liabilities	(43.1)	2.6
Net cash provided by operating activities	40.7	74.5
Cash flows from investing activities:		
Purchases of property and equipment	(21.0)	(24.3)
Payments for acquisitions, net of cash acquired	(54.6)	(40.7)
Proceeds from disposals of facilities and other assets	1.5	8.0
Purchases of equity investments	(2.0)	(9.6)
Other investing activities	(7.0)	(4.1)
Net cash used in investing activities	(83.1)	(70.7)
Cash flows from financing activities:		
Principal payments on long-term debt	(120.2)	(15.9)
Borrowings of long-term debt	192.5	15.9
Payments of debt issuance costs	—	(1.3)
Distributions to non-controlling interest holders	(40.5)	(41.9)
Proceeds related to ownership transactions with non-controlling interest holders	1.4	5.1
Other financing activities	(1.5)	(3.1)
Net cash provided by (used in) financing activities	31.7	(41.2)
Net decrease in cash and cash equivalents	(10.7)	(37.4)
Cash and cash equivalents at beginning of period	195.9	282.9
Cash and cash equivalents at end of period	\$ 185.2	\$ 245.5

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 88.6	\$ 63.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	87.0	85.2
Non-cash lease expense	26.4	26.8
Non-cash interest expense, net	19.8	19.0
Equity-based compensation expense	13.2	13.0
Net loss on disposals, consolidations and deconsolidations	7.5	3.2
Deferred income taxes	(10.8)	12.4
Equity in earnings of unconsolidated affiliates, net of distributions received	(2.7)	(0.5)
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	(18.2)	3.4
Medicare accelerated payments and deferred governmental grants	(1.2)	(53.7)
Other operating assets and liabilities	21.6	(20.9)
Net cash provided by operating activities	231.2	151.6
Cash flows from investing activities:		

Purchases of property and equipment	(69.0)	(57.9)
Payments for acquisitions, net of cash acquired	(48.8)	(82.6)
Proceeds from disposals of facilities and other assets	25.8	—
Purchases of equity investments	(50.2)	(95.1)
Proceeds from sales of equity investments	1.0	11.5
Other investing activities	(26.3)	(11.6)
Net cash used in investing activities	(167.5)	(235.7)
Cash flows from financing activities:		
Principal payments on long-term debt	(107.1)	(81.5)
Borrowings of long-term debt	119.4	51.2
Payments of debt issuance costs	(1.5)	—
Distributions to non-controlling interest holders	(111.0)	(110.5)
Receipts (payments) related to ownership transactions with non-controlling interest holders	0.7	(3.9)
Other financing activities	(11.1)	(6.3)
Net cash used in financing activities	(110.6)	(151.0)
Net decrease in cash and cash equivalents	(46.9)	(235.1)
Cash and cash equivalents at beginning of period	282.9	389.9
Cash and cash equivalents at end of period	\$ 236.0	\$ 154.8

See notes to unaudited condensed consolidated financial statements.

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SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Summary of Accounting Policies

Organization

Surgery Partners, Inc., a Delaware corporation, acting through its subsidiaries, owns and operates a national network of surgical facilities and ancillary services. The surgical facilities, which include ambulatory surgery centers ("ASCs") and surgical hospitals, primarily provide non-emergency surgical procedures across many specialties, including **among others**, orthopedics and pain management, gastroenterology, ophthalmology, and general surgery. The Company's surgical hospitals also provide services such as diagnostic imaging, laboratory, **obstetrics**, oncology, pharmacy, physical therapy and wound care. Ancillary services are comprised of multi-specialty physician practices, urgent care facilities and anesthesia services. Unless the context otherwise indicates, Surgery Partners, Inc. and its subsidiaries are referred to herein as "Surgery Partners," "we," "us," "our" or the "Company."

As of **September 30, 2023** **March 31, 2024**, the Company owned or operated a portfolio of **154** **165** surgical facilities, comprised of **136** **147** ASCs and 18 surgical hospitals in **31** **33** states. The Company owns these facilities in partnership with physicians and, in some cases, health care systems in the markets and communities it serves. The Company owned a majority interest in **90** **92** of these surgical facilities and consolidated **117** of these **124** surgical facilities for financial reporting purposes.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation of the Company's financial position and results of operations have been included. The Company's fiscal year ends on December 31 and interim results are not necessarily indicative of results for a full year or any other interim period. The information contained in these condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023** (the **"2022** **"2023** Annual Report on Form 10-K"). Certain prior year amounts have been reclassified to conform with the current year presentation.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, as well as interests in partnerships and limited liability companies controlled by the Company through its ownership of a majority voting interest or other rights granted to the Company by contract to manage and control the affiliate's business. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and footnotes. Examples include, but are not limited to, estimates of accounts receivable allowances, professional and general liabilities and the estimate of deferred tax assets or liabilities. Actual results could differ from those estimates.

Revenues

The Company's revenues generally relate to contracts with patients in which the performance obligations are to provide health care services. The Company recognizes revenues in the period in which its obligations to provide health care services are satisfied and reports the amount that reflects the consideration the Company expects to be entitled to receive. The contractual relationships with patients, in most cases, also involve a third-party payor (e.g., Medicare, Medicaid and private insurance organizations, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payors. The payment arrangements with third-party payors for the services provided to the related patients typically specify payments at amounts less than the Company's standard charges. The Company continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

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SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A The following table presents a summary of revenues by service type as a percentage of total revenues follows:

		Three Months Ended September 30,				Nine Months Ended September 30,			
		2023	2022			2023	2022		
Three Months Ended March 31,									
Three Months Ended March 31,									
Three Months Ended March 31,									
2024									
Patient service revenues:	Patient service revenues:								
Surgical facilities revenues		95.8	%	95.6	%	95.9	%		
Ancillary services revenues		2.4	%	2.7	%	2.5	%		
Patient service revenues:									
Patient service revenues:									
Surgical Facility Services									
Surgical Facility Services									
Surgical Facility Services									
Ancillary Services									
Ancillary Services									
Ancillary Services									
Total patient service revenues									
Total patient service revenues									
Total patient service revenues	Total patient service revenues	98.2	%	98.3	%	98.4	%		
Other service revenues	Other service revenues	1.8	%	1.7	%	1.6	%		
Other service revenues									
Other service revenues									
Total revenues	Total revenues	100.0	%	100.0	%	100.0	%		
Total revenues									
Total revenues									

Patient service revenues. This revenue is related to charging facility fees in exchange for providing patient care. The fee charged for health care procedures performed in surgical facilities varies depending on the type of service provided, but usually includes all charges for usage of an operating room, a recovery room, special equipment, medical supplies,

nursing staff and medications. The fee does not normally include professional fees charged by the patient's surgeon, anesthesiologist or other attending physician, which are billed directly by such physicians to the patient or third-party payor. However, in several surgical facilities, the Company charges for anesthesia services. Ancillary service revenues include fees for patient visits to the Company's physician practices, pharmacy services and diagnostic tests ordered by physicians.

Patient service revenues are recognized as performance obligations are satisfied. Performance obligations are based on the nature of services provided. Typically, the Company recognizes revenue at a point in time in which services are rendered and the Company has no obligation to provide further patient services. As Because the Company primarily performs outpatient procedures, performance obligations are generally satisfied same day and revenue is recognized on the date of service.

The Company determines the transaction price based on gross charges for services provided, net of estimated contractual adjustments and discounts from third-party payors. The Company estimates its contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. Changes in estimated contractual adjustments and discounts are recorded in the period of change.

Several states utilize supplemental Medicaid reimbursement programs for the purpose of providing reimbursement to providers to increase base rates to the levels that Medicare would have paid for the same service or for payments that offset a portion of the cost of providing care to Medicaid and indigent patients. These programs are designed with input from the Centers for Medicare & Medicaid Services ("CMS") and are funded with a combination of state and federal resources, including, in certain instances, fees or taxes levied on the providers. We account for payments under these supplemental programs as variable consideration and estimate the amount using the most likely amount method. Reimbursement under these programs, including the recognition of variable consideration, is reflected in patient service revenues. Taxes or other program-related costs are reflected in other operating expenses.

Other service revenues. Other service revenues include management and administrative service fees derived from the non-consolidated facilities that the Company accounts for under the equity method, management of surgical facilities in which it does not own an interest, and management services provided to physician practices for which the Company is not required to provide capital or additional assets and other non-patient services. The management agreements typically require the Company to provide recurring management services over a multi-year period, which are billed and collected on a monthly basis. The fees derived from these management arrangements are based on a predetermined percentage of the revenues of each facility or practice and are recognized in the period in which management services are rendered and billed.

SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table sets forth patient service revenues by type of payor and as a percentage of total patient service revenues for the Company's consolidated surgical facilities (dollars in millions):

	Three Months Ended September 30,			
	2023		2022	
	Amount	%	Amount	%
Patient service revenues:				
Private insurance	\$ 347.1	52.4 %	\$ 301.9	49.5 %
Government	271.6	41.0 %	269.5	44.2 %
Self-pay	16.9	2.6 %	16.0	2.6 %
Other ⁽¹⁾	26.7	4.0 %	22.7	3.7 %
Total patient service revenues	662.3	100.0 %	610.1	100.0 %
Other service revenues	11.8		10.5	
Total revenues	\$ 674.1		\$ 620.6	

SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Nine Months Ended September 30,			
2023		2022	
Amount	%	Amount	%
Three Months Ended March 31,			

Three Months Ended March 31, 2024						
Three Months Ended March 31, 2023						
Patient service revenues:						
Patient service revenues:						
Patient service revenues:						
Private insurance	Private insurance	\$1,024.3	51.8 %	\$ 910.5	50.4 %	
Private insurance						
Private insurance						
Government						
Government						
Government	Government	837.6	42.4 %	776.5	43.0 %	
Self-pay	Self-pay	49.6	2.5 %	49.2	2.7 %	
Self-pay						
Self-pay						
Other (1)						
Other (1)						
Other (1)	Other (1)	65.2	3.3 %	68.9	3.9 %	
Total patient service revenues	Total patient service revenues	1,976.7	100.0 %	1,805.1	100.0 %	
Total patient service revenues						
Total patient service revenues						
Other service revenues						
Other service revenues						
Other service revenues	Other service revenues	31.2		27.1		
Total revenues	Total revenues	\$2,007.9		\$1,832.2		
Total revenues						
Total revenues						

(1) Other is comprised of anesthesia service agreements, automobile liability, letters of protection and other payor types.

Accounts Receivable

Accounts receivable from third-party payors are recorded net of estimated implicit price concessions, which are estimated based on the historical trend of the Company's surgical hospitals' cash collections and contractual write-offs, and for the Company's surgical facilities in general, established fee schedules, relationships with payors and procedure statistics. While changes in estimated reimbursement from third-party payors remain a possibility, the Company expects that any such changes would be minimal and, therefore, would not have a material effect on its financial condition or results of operations.

Accounts receivable consists of receivables from federal and state agencies (under the Medicare and Medicaid programs), private insurance organizations, employers and patients. Management recognizes that revenues and receivables from government agencies are significant to the Company's operations, but it does not believe that there is significant credit risk associated with these government agencies. Concentration of credit risk with respect to other payors is limited because of the large number of such payors.

The Company recognizes that final reimbursement of accounts receivable is subject to final approval by each third-party payor. However, because the Company has contracts with its third-party payors and also verifies insurance coverage of the patient before medical services are rendered, the amounts that are pending approval from third-party payors are not considered significant. Amounts are classified outside of self-pay if the Company has an agreement with the third-party payor or has verified a patient's coverage prior to services rendered. The Company's policy is to collect co-payments and deductibles prior to providing medical services. Patient services of the Company are primarily non-emergency, which allows the surgical facilities to control the procedures for which third-party reimbursement is sought and obtained. The Company does not require collateral from self-pay patients.

The Company's collection policies and procedures are based on the type of payor, size of claim and estimated collection percentage for each patient account. The Company analyzes accounts receivable at each of its surgical facilities to ensure the proper collection and aged category. Collection efforts include direct contact with third-party payors or patients, written correspondence and the use of legal or collection agency assistance, as required.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If a carryforward exists, the Company makes a determination as to whether the carryforward will be utilized in the future. A valuation allowance is established for certain carryforwards when their recoverability is deemed to be uncertain. The carrying value of the net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. If our expectations for future operating results on a consolidated basis or at the state jurisdiction level vary from actual results due to changes in health care regulations, general economic conditions, or other factors, we may need to adjust the valuation allowance, for all or a portion of our deferred tax assets. Our income tax expense in future periods will be reduced or increased to the extent of offsetting decreases or increases, respectively, in our valuation allowance in the period when the change in circumstances occurs. These changes could have a significant impact on our future earnings.

The Company and certain of its subsidiaries file a consolidated federal income tax return. The partnerships, limited liability companies, and certain non-consolidated physician practice corporations also file separate income tax returns. The Company's allocable portion of each partnership's and limited liability company's income or loss is included in taxable income of the Company. The remaining income or loss of each partnership and limited liability company is allocated to the other owners.

SURGERY PARTNERS, INC.
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The Company's effective tax rate was (7.7)% 15.3% for the nine three months ended September 30, 2023 March 31, 2024 compared to 17.4% 400.0% for the nine three months ended September 30, 2022 March 31, 2023. For the nine three months ended September 30, 2023 March 31, 2024, the effective tax rate differed from the U.S. federal corporate statutory rate of 21% primarily due to earnings attributable to non-controlling interests, an increase in the Company's valuation allowance attributable to interest expense limitations, state tax expense, and a discrete tax expense of \$0.7 million related to the vesting of restricted stock awards. For the three months ended March 31, 2023, the effective tax rate differed from the U.S. federal statutory rate of 21% primarily due to earnings attributable to non-controlling interests, an increase in the Company's valuation allowance attributable to interest expense limitations, and a discrete tax benefit of (i) \$1.6 \$1.8 million related to the vesting of restricted stock awards, and (ii) \$15.8 million related to entity divestitures. For the nine months ended September 30, 2022, the effective tax rate differed from 21% primarily due to earnings attributable to non-controlling interests, an increase in the Company's valuation allowance attributable to interest expense limitations, and discrete tax benefits of (i) \$4.6 million related to the vesting of restricted stock awards, (ii) \$1.8 million attributable to non-recurring earnings' impact on the Company's valuation allowance, and (iii) \$1.0 million related to entity divestitures. Based upon the application of interim accounting guidance, the tax rate as a percentage of net income after income attributable to non-controlling interests will vary based upon the relative net income from period to period.

Goodwill

Goodwill represents the excess of the fair value of the consideration provided in an acquisition plus the fair value of any non-controlling interests over the fair value of net assets acquired and is not amortized. Additions to goodwill include amounts resulting from new business combinations and incremental ownership purchases in the Company's subsidiaries. A summary of the Company's acquisitions and disposals for the nine three months ended September 30, 2023 March 31, 2024 is included in Note 2. "Acquisitions and Disposals."

A summary of activity related to goodwill for the nine three months ended September 30, 2023 March 31, 2024 is as follows (in millions):

Balance at December 31, 2022	\$ 4,137.1	4,326.0
Acquisitions, including post acquisition adjustments		145.0 77.5
Disposals		(37.0) (6.0)
Balance at September 30, 2023	\$ 4,245.1	4,397.5

A detailed evaluation of potential impairment indicators was performed as of September 30, 2023 March 31, 2024, which specifically considered recent increases in interest rates, inflation risk and market volatility. On the basis of available evidence as of September 30, 2023 March 31, 2024, no indicators of impairment were identified. Future estimates of fair value could be adversely affected if the actual outcome of one or more of the Company's assumptions changes materially in the future, including a material decline in the Company's stock price and the fair value of its long-term debt, lower than expected surgical case volumes, higher market interest rates or increased operating costs. Such changes impacting the calculation of fair value could result in a material impairment charge in the future.

Derivative Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value and any financing elements treated as debt instruments are recorded at amortized cost. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply

hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Non-Controlling Interests—Redeemable

Each partnership and limited liability company through which the Company owns and operates its surgical facilities is governed by a partnership or operating agreement, respectively. In certain circumstances, the applicable partnership or operating agreements for the Company's surgical facilities provide that the facilities will purchase all of the physician limited partners' or physician minority members', as applicable, ownership if certain adverse regulatory events occur, such as it becoming illegal for the physician(s) to own an interest in a surgical facility, refer patients to a surgical facility or receive cash distributions from a surgical facility. **Management believes the likelihood of an event occurring that would trigger such purchases was remote as of March 31, 2024.** The non-controlling interests—redeemable are reported outside of stockholders' equity in the condensed consolidated balance sheets.

SURGERY PARTNERS, INC.
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(Unaudited)

A summary of activity related to **redeemable** non-controlling **interests—redeemable** **interests** is as follows (in millions):

	Nine Months Ended September 30,	
	2023	2022
Balance at beginning of period	\$ 342.0	\$ 330.2
Net income attributable to non-controlling interests—redeemable	25.6	29.9
(Disposal) acquisition of shares of non-controlling interests, net—redeemable	(2.2)	11.9
Distributions to non-controlling interest—redeemable holders	(33.2)	(33.2)
Balance at end of period	\$ 332.2	\$ 338.8

Medicare Accelerated Payments and Deferred Governmental Grants

The Company received grant funds distributed under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") and other governmental assistance programs. The recognition of amounts received is conditioned upon attestation with terms and conditions that funds were used for COVID-19 related healthcare expenses or lost revenues. During the three months ended September 30, 2023, the Company did not recognize any grant funds as a reduction in operating expenses. During the nine months ended September 30, 2023, the Company recognized grant funds as a reduction in operating expenses in the amount of \$1.1 million. During the three and nine months ended September 30, 2022, the Company recognized grant funds received as a reduction in operating expenses in the amount of \$0.5 million and \$1.8 million, respectively. There were no remaining unrecognized grant funds as of September 30, 2023. As of December 31, 2022 approximately \$3 million of unrecognized grant funds received was reflected as a component of other current liabilities within the condensed consolidated balance sheets.

The Company received accelerated payments under the Medicare Accelerated and Advance Payment Program. The payments received were deferred and included in the condensed consolidated balance sheets. There were no remaining deferred accelerated payments as of September 30, 2023, and remaining deferred accelerated payments were minimal as of December 31, 2022. During the three and nine months ended September 30, 2022, approximately \$13 million and \$56 million, respectively, was repaid in accordance with the terms of the program. These repayments are included as a component of the change in Medicare accelerated payments and deferred government grants in the condensed consolidated statements of cash flows.

	Three Months Ended March 31,	
	2024	2023
Balance at beginning of period	\$ 327.4	\$ 342.0
Net income attributable to non-controlling interests—redeemable	7.4	7.8
Acquisition and disposal of shares of non-controlling interests, net—redeemable	(0.3)	7.7
Distributions to non-controlling interest—redeemable holders	(10.8)	(11.7)
Balance at end of period	\$ 323.7	\$ 345.8

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability. The Company uses fair value measurements based on inputs classified into the following hierarchy:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These may include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, depending on the nature of the item being valued.

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable **restricted invested assets** and accounts payable approximate their fair values under Level 3 calculations.

A summary of the carrying amounts and estimated fair values of the Company's long-term debt follows (in millions):

Carrying Amount		Carrying Amount				Fair Value	
		March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023		
		Carrying Amount	Fair Value				
		December 31	September 30	December 31	September 30	December 31	December 31
		September 30, 2023	31, 2022	30, 2023	31, 2022		
Senior secured term loan	Senior secured term loan	\$ 1,370.4	\$ 1,370.0	\$ 1,370.4	\$ 1,359.7		
6.750% senior unsecured notes due 2025	6.750% senior unsecured notes due 2025	\$ 185.0	\$ 185.0	\$ 183.2	\$ 183.4		
10.000% senior unsecured notes due 2027	10.000% senior unsecured notes due 2027	\$ 320.0	\$ 320.0	\$ 323.6	\$ 326.8		

The fair values in the table above were based on Level 2 inputs using quoted prices for identical liabilities in inactive markets. The carrying amounts related to the Company's other long-term debt obligations, including finance lease obligations, approximate their fair values based on Level 3 inputs.

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SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Variable Interest Entities

The condensed consolidated financial statements include the accounts of variable interest entities ("VIE") in which the Company is the primary beneficiary under the provisions of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification 810, "**Consolidation** **Consolidation**". The Company has the power to direct the activities that most significantly impact a VIE's economic performance. Additionally, the Company would absorb the majority of the expected losses from any of these entities should such expected losses occur. As of **September 30, 2023** **March 31, 2024**, the Company's consolidated VIEs consisted of seven surgical facilities and **five** **fourteen** physician practices.

The total assets (excluding goodwill and intangible assets, net) of the consolidated VIEs included in the accompanying condensed consolidated balance sheets as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, were **\$64.7 million** **\$67.0 million** and **\$64.9 million** **\$65.3 million**, respectively, and the total liabilities of the consolidated VIEs were **\$38.2 million** **\$39.1 million** and **\$40.9 million** **\$41.2 million**, respectively.

Recent Accounting Pronouncements

In November 2023, the FASB issued Accounting Standards Update ("ASU") 2023-07, *Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures*, which requires enhanced disclosures of significant segment expenses. The ASU is effective for annual periods beginning after December 15, 2023 and interim periods beginning after December 15, 2024. The amendments in this ASU must be applied retrospectively to all periods presented and early adoption is permitted. The Company is evaluating the impact of this ASU on its condensed consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740), Improvements to Income Tax Disclosures*, which establishes new requirements for the categorization and disaggregation of information in the rate reconciliation as well as for

SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

disaggregation of income taxes paid. The ASU is effective for annual periods beginning after December 15, 2024 and interim periods beginning after December 15, 2025. The amendments in this ASU may be applied prospectively or retrospectively to all periods presented and early adoption is permitted. The Company is evaluating the impact of this ASU on its condensed consolidated financial statements.

2. Acquisitions, Disposals and Disposals Deconsolidations

Acquisitions

During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**:

- The Company acquired a controlling interest in two surgical facilities and several physician practices for aggregate cash consideration of \$66.0 million, net of cash acquired, and non-cash consideration of \$1.1 million, which consisted of a non-controlling interest in one of the Company's existing surgical facilities. As of March 31, 2024, \$11.4 million of the cash consideration was deferred and included as a component of current liabilities in the condensed consolidated balance sheets. In connection with these acquisitions, the Company preliminarily recognized non-controlling interests of \$21.2 million and goodwill of \$77.2 million.

During the three months ended March 31, 2023:

- The Company acquired a controlling interest in one surgical facility and one physician practice for aggregate cash consideration of \$23.1 \$16.2 million, net of cash acquired and non-cash consideration of \$1.3 million, which consisted of a non-controlling interest in one of the Company's existing surgical facilities. In connection with these acquisitions, the Company preliminarily recognized non-controlling interests of \$20.4 \$12.0 million and goodwill of \$39.7 \$25.7 million.
- The Company acquired a controlling interest in two surgical facilities, and an in-development de novo surgical facility, which were previously accounted for as equity method investments, for aggregate cash consideration of \$26.9 \$24.5 million, net of cash acquired. The Company also amended the operating agreement of a previously non-controlled surgical facility resulting in the Company obtaining a controlling interest in the facility. These transactions resulted in the consolidation of the previously non-consolidated entities. The previously held non-controlling interests were remeasured and recorded at fair value as of the dates of the transactions. The fair value measurement utilizes Level 3 inputs, which includes unobservable data. The acquisition date fair value of the previously held non-controlling interests was \$27.3 \$8.3 million. As a result of increasing its ownership interest, the Company recognized a net loss of \$7.1 \$2.9 million included in net loss on disposals, consolidations and deconsolidations in the condensed consolidated statements of operations for the **nine** **three** months ended **September 30, 2023** **March 31, 2023**. The net loss was determined based on the difference between the fair value of the Company's previously held non-controlling interests in the entities and the carrying values immediately prior to the transactions. In connection with the consolidation of these facilities, the Company preliminarily recognized non-controlling interests of \$55.1 \$34.2 million and goodwill of \$106.3 \$65.6 million.
- The Company acquired a non-controlling interest in five one existing surgical facilities facility and two one in-development de novo surgical facilities facility for aggregate cash consideration of \$50.2 \$12.4 million. The non-controlling interests were accounted for as equity method investments and recorded as a component of investments in and advances to affiliates in the accompanying condensed consolidated balance sheets. The

Disposals

During the three months ended March 31, 2024, the Company also paid sold a portion of its interests in a surgical facility for net cash consideration proceeds of \$21.0 million to acquire management rights from the prior management service provider related to four \$1.5 million. As a result of the aforementioned transaction, the Company lost control of the previously controlled surgical facilities. Management rights agreements are accounted for facility but retains a non-controlling interest, resulting in the deconsolidation of the previously consolidated entity. This transaction resulted in a pretax net gain on deconsolidation of \$2.7 million, which is included in net loss on disposals, consolidations and recorded as a component of intangible assets, net deconsolidations in the accompanying condensed consolidated balance sheets statements of operations for the three months ended March 31, 2024. The cash paid to acquire the management rights is presented as a component of other investing activities net loss was determined based on the condensed consolidated statements difference between the net cash proceeds plus the fair value of cash flows. The Company's retained interests in the entity and the carrying values of both the tangible and intangible assets of the entity immediately prior to the transaction.

During the **nine** **three** months ended **September 30, 2022**:

- The Company acquired a controlling interest in a surgical hospital for cash consideration of \$64.3 million, net of cash acquired, and assumed debt of \$39.4 million. As of September 30, 2022 March 31, 2023, \$61.0 million of the cash consideration was deferred and included as a component of other current liabilities in the accompanying condensed consolidated balance sheets. In connection with the acquisition, the Company preliminarily recognized non-controlling interests of \$45.3 million and goodwill of

\$146.3 million. In October 2022, pursuant to the purchase agreement, the Company paid the deferred consideration and the debt previously assumed with available cash resources.

- The Company acquired a controlling interest in four other surgical facilities, two of which were merged into existing surgical facilities, and a physician practice for aggregate cash consideration of \$79.3 million, net of cash acquired, and non-cash consideration of \$5.3 million, which consisted of a non-controlling interest in two of the Company's existing surgical facilities. In connection with the acquisitions the Company preliminarily recognized non-controlling interests of \$41.5 million and goodwill of \$121.1 million.
- The Company acquired non-controlling interests in seven surgical facilities and seven in-development de novo surgical facilities for aggregate cash consideration of \$95.1 million. The non-controlling interests were accounted for as equity method investments and recorded as a component of investments in and advances to affiliates in the accompanying condensed consolidated balance sheets.

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SURGERY PARTNERS, INC.
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(Unaudited)

Disposals

During the nine months ended September 30, 2023:

- The Company sold its interests in six surgical facilities for aggregate net cash proceeds of \$30.4 million, a portion of which was held in escrow pursuant to the purchase agreements for such transactions. In connection with these transactions, the Company recognized a pre-tax gain of \$26.9 million included in net loss on disposals, consolidations and deconsolidations in the condensed consolidated statements of operations for the nine months ended September 30, 2023.
- The Company disposed of its non-controlling interests in a surgical facility and an in-development de novo surgical facility, which were previously accounted for as equity method investments, for cash proceeds of \$1.5 million. In connection with these transactions, the Company recognized a pre-tax loss of \$13.7 million included in net loss on disposals, consolidations and deconsolidations in the condensed consolidated statements of operations for the nine months ended September 30, 2023.

During the nine months ended September 30, 2022:

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- The Company sold its interests in a surgical facility, which was previously accounted for as an equity method investment, for net cash proceeds of \$11.5 million, and recognized a pre-tax loss of \$0.4 million included in net loss on disposals and consolidations in the condensed consolidated statements of operations for the nine months ended September 30, 2022.

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- The Company contributed its interests in two surgical facilities as non-cash consideration for non-controlling interests in two new separate entities. As a result of these transactions, the Company lost control of the previously controlled surgical facilities but retains a non-controlling interest in each, resulting in the deconsolidation of the previously consolidated entities. The remaining non-controlling interests were accounted for as equity method investments, and initially measured and recorded at fair value as of the dates of the transactions. The fair value measurement utilizes Level 3 inputs, which includes unobservable data, to measure the fair value of the retained non-controlling interests. The fair value determination was based on a combination of multiple valuation methods, which included discounted cash flow and market value approach, which incorporates estimates of future earnings and market valuation multiples for certain guideline companies. The fair value of the investments of \$9.8 million was recorded as a component of investments in and advances to affiliates in the accompanying condensed consolidated balance sheets. Further, based on the valuation, the transactions resulted in a pretax net loss on deconsolidations of \$5.6 million, which is included in net loss on disposals, consolidations and deconsolidations in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2022. The net loss was determined based on the difference between the fair value of the Company's retained interests in the entities and the carrying values of both the tangible and intangible assets of the entities immediately prior to the transactions. (Unaudited)

3. Long-Term Debt

A summary of long-term debt follows (in millions):

		December			
		September 30,	31,		
		2023	2022		
		March		March 31,	
		31,		2024	
		2024		December 31,	
		2023		2023	
Senior	Senior				
secured	secured				
term loan ⁽¹⁾	term loan ⁽¹⁾	\$ 1,370.4	\$ 1,370.0		
Senior secured term loan					
(1)					

Senior secured term loan			
(1)			
Senior secured revolving credit facility			
6.750% senior unsecured notes due 2025	6.750% senior unsecured notes due 2025	185.0	185.0
10.000% senior unsecured notes due 2027	10.000% senior unsecured notes due 2027	320.0	320.0
Notes payable and other secured loans	Notes payable and other secured loans	194.2	171.3
Finance lease obligations	Finance lease obligations	641.2	585.7
Less: unamortized debt issuance costs and discounts	Less: unamortized debt issuance costs and discounts	(8.5)	(10.2)
Total debt	Total debt	2,702.3	2,621.8
Less: Current maturities		62.1	62.8
Less: current maturities			
Total long-term debt	Total long-term debt	\$ 2,640.2	\$ 2,559.0

(1) Includes unamortized fair value discount of \$1.8 million and \$2.1 million \$1.6 million as of September 30, 2023 March 31, 2024 and December 31, 2022, December 31, 2023, respectively.

On January 13, 2023, the Company entered into an amendment to its credit agreement, dated as of August 31, 2017 (the "Credit Agreement"), to provide a \$203.8 million increase in the outstanding commitments under its revolving credit facility (the "Revolver").

As of September 30, 2023 March 31, 2024, the Company's availability on its Revolver was \$544.9 million \$607.3 million (including outstanding letters of credit of \$8.9 million \$9.5 million). There were no The increase in outstanding borrowings under on the Revolver, as of both September 30, 2023 and December 31, 2022.

On June 8, 2023, the Company entered into an amendment was primarily due to the Credit Agreement to transition timing of acquisitions completed during the interest benchmark from the London Interbank Offered Rate ("LIBOR") first quarter of 2024.

See Note 10. "Subsequent Events" for additional information related to the Secured Overnight Financing Rate ("SOFR") effective July 1, 2023. Company's debt obligations.

The Company's operating leases are primarily for real estate, including medical office buildings, and corporate and other administrative offices. The Company's finance leases are primarily for medical equipment and information technology and telecommunications assets.

The following table presents the components of the Company's right-of-use assets and liabilities related to leases and their classification in the condensed consolidated balance sheets (in millions):

		Classification in			
		Consolidated	September	December	
		Balance Sheets	30, 2023	31, 2022	
Classification					
in					
Condensed					
Consolidated					
Balance					
Sheets					
					Classification in Condensed Consolidated Balance Sheets
					March 31, 2024
					December 31, 2023
Assets:	Assets:				
Assets:					
Assets:					
Operating lease assets					
Operating lease assets					
Operating lease assets	Operating lease assets	Right-of-use operating lease assets	\$ 244.5	\$ 279.1	
Finance lease assets	Finance lease assets	Property and equipment, net of accumulated depreciation	571.8	529.6	
Total leased assets	Total leased assets		\$ 816.3	\$ 808.7	
Liabilities:	Liabilities:				
Liabilities:					
Liabilities:					
Operating lease liabilities	Operating lease liabilities				
Operating lease liabilities	Operating lease liabilities				
Current	Current				
Current	Current	Other current liabilities	\$ 35.7	\$ 36.5	
Long-term	Long-term	Right-of-use operating lease liabilities	240.9	271.4	
Total operating lease liabilities	Total operating lease liabilities		276.6	307.9	
Finance lease liabilities	Finance lease liabilities				
Finance lease liabilities	Finance lease liabilities				

		Current maturities		
Current	Current	of long-term debt	24.7	20.9
Current				
Current				
		Long-term debt, less current		
Long-term	Long-term	maturities	616.5	564.8
Total	Total			
finance	finance			
lease	lease			
liabilities	liabilities		641.2	585.7
Total	Total			
lease	lease			
liabilities	liabilities		\$ 917.8	\$ 893.6
			<u> </u>	<u> </u>

During the nine months ended September 30, 2023, the Company extended certain existing facility real estate leases, resulting in the reclassification of the leases from operating to finance. The modifications resulted in an increase to finance lease liabilities and assets of \$97.1 million and \$95.7 million, respectively, including the reclassification of existing operating lease liabilities and assets of \$38.4 million and \$36.9 million, respectively.

The following table presents the components of the Company's lease expense included in the condensed consolidated statement of operations (in millions):

	Nine Months Ended September 30,	
	2023	2022
Operating lease costs	\$ 48.7	\$ 49.5
Finance lease costs:		
Amortization of leased assets	29.0	28.2
Interest on lease liabilities	35.9	30.6
Total finance lease costs	64.9	58.8
Variable and short-term lease costs	16.3	13.7
Total lease costs	\$ 129.9	\$ 122.0

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The following table presents the components of the Company's lease expense and their classification in the condensed consolidated statements of operations (in millions):

	Three Months Ended March 31,	
	2024	2023
Operating lease costs	\$ 15.9	\$ 16.4
Finance lease costs:		
Amortization of leased assets	11.8	9.4
Interest on lease liabilities	13.0	12.3
Total finance lease costs	24.8	21.7
Variable and short-term lease costs	5.8	5.2
Total lease costs	\$ 46.5	\$ 43.3

The following table presents supplemental cash flow information (dollars in millions):

		Nine Months Ended September 30,		Three Months Ended March 31,		Three Months Ended March 31,	
				2024		2023	
		2023	2022				
Cash paid for amounts included in the measurement of lease liabilities:	Cash paid for amounts included in the measurement of lease liabilities:						
Cash paid for amounts included in the measurement of lease liabilities:	Cash paid for amounts included in the measurement of lease liabilities:						
Operating cash outflows from operating leases	Operating cash outflows from operating leases						
Operating cash outflows from operating leases	Operating cash outflows from operating leases						
Operating cash outflows from operating leases	Operating cash outflows from operating leases	\$ 47.2	\$ 47.9				
Operating cash outflows from finance leases	Operating cash outflows from finance leases						
Operating cash outflows from finance leases	Operating cash outflows from finance leases						
Operating cash outflows from finance leases	Operating cash outflows from finance leases	\$ 34.1	\$ 30.2				
Financing cash outflows from finance leases	Financing cash outflows from finance leases						
Financing cash outflows from finance leases	Financing cash outflows from finance leases						
Financing cash outflows from finance leases	Financing cash outflows from finance leases	\$ 19.3	\$ 18.1				
Right-of-use assets obtained in exchange for lease obligations:	Right-of-use assets obtained in exchange for lease obligations:						
Right-of-use assets obtained in exchange for lease obligations:	Right-of-use assets obtained in exchange for lease obligations:						
Right-of-use assets obtained in exchange for lease obligations:	Right-of-use assets obtained in exchange for lease obligations:						

Right-of-use assets obtained in exchange for lease obligations:	
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	
Operating leases	
Operating leases	\$ 39.9 \$ 45.3
Finance leases	Finance leases
Finance leases	\$108.7 \$172.5

5. Derivatives and Hedging Activities

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its interest rate risk management strategy. During 2023 2024 and 2022, 2023, such derivatives have been used to hedge the variable cash flows associated with existing variable-rate debt.

The key terms of interest rate swaps and interest rate caps outstanding are presented below:

		September 30, December 31,											
		2023 2022											
		March 31,											
Description													
Description													
		Notional Amount		Notional Amount									
Description		Effective Date		(in millions)		Status		Maturity Date		Effective Date		(in millions)	
Description		Notional Amount								Notional Amount			
		(in millions)								(in millions)			
Pay-fixed swap	Pay-fixed swap	May 7, 2021	\$ 435.0	Active	\$ 435.0	Active	2025	March 31, 2025	Pay-fixed swap	May 7, 2021	\$ 435.0	Active	Active
Pay-fixed swap	Pay-fixed swap	May 7, 2021	330.0	Active	330.0	Active	2025	March 31, 2025	Pay-fixed swap	May 7, 2021	330.0	Active	Active
Pay-fixed swap	Pay-fixed swap	May 7, 2021	435.0	Active	435.0	Active	2025	March 31, 2025	Pay-fixed swap	May 7, 2021	435.0	Active	Active
Interest rate cap	Interest rate cap	September 30, 2021	153.3	Active	159.1	Active	2025	March 31, 2025	Interest rate cap	September 30, 2021	149.4	Active	Active
Interest rate cap	Interest rate cap	September 30, 2021	8.8	Active	159.1	Active	2025	March 31, 2025	Interest rate cap	September 30, 2021	8.5	Active	Active
Pay-fixed swap		November 30, 2018	165.0	Active	165.0	Active	30, 2023	November 30, 2023					
Pay-fixed swap		November 30, 2018	120.0	Active	120.0	Active	30, 2023	November 30, 2023					
Pay-fixed swap		June 28, 2019	150.0	Active	150.0	Active	30, 2023	November 30, 2023					
Receive-fixed swap		April 30, 2021	(165.0)	Active	(165.0)	Active	30, 2023	November 30, 2023					

	April 30, 2021	Active	April 30, 2021	Active	November 30, 2023
Receive-fixed swap	(120.0)		(120.0)	Active	30, 2023
					November
Receive-fixed swap	(150.0)	Active	(150.0)	Active	30, 2023
	<u>\$1,362.1</u>		<u>\$1,518.2</u>		
	\$		\$		
	≡		≡		
	\$		\$		
	≡		≡		
	\$		\$		
	≡		≡		

As of **September 30, 2023** **March 31, 2024**, the Company had **nine** **three** interest rate swaps with a total net notional amount of \$1.2 billion. Of the **nine** **three** **the** interest rate swaps **three** are pay-fixed, receive 1-Month SOFR Secured Overnight Financing Rate ("SOFR") (subject to a minimum of 0.75%) **interest rate swaps** designated in cash flow hedging relationships with a total notional amount of \$1.2 billion and have a termination date of March 31, 2025. **The remaining six interest rate swaps are undesignated and consist of three pay-fixed, receive 1-Month SOFR (subject to a minimum of 1.00%) interest rate swaps and three pay 1-Month SOFR (subject to a minimum of 1.00%), receive-fixed interest rate swaps with a termination date of November 30, 2023.** The pay-floating, receive-fixed swaps are designed to economically offset the undesignated pay-fixed, receive-floating swaps. **The Company's interest rate derivative agreements were indexed to LIBOR prior to permanent cessation on June 30, 2023 and automatically transitioned to SOFR in accordance with their respective fallback provisions.**

As of **September 30, 2023** **March 31, 2024**, the Company had two interest rate caps designated in cash flow hedging relationships with a total notional amount of **\$162.1 million** **\$157.9 million**. The interest rate caps each have a termination date of March 31, 2025. During the **nine** **three** months ended **September 30, 2023** **March 31, 2023**, the Company partially terminated a previously undesignated portion of one of its interest rate caps. In connection with the termination, the Company received \$8.6 million, which is included as a component of operating activities in the condensed consolidated statements of cash flows for the **nine** **three** months ended **September 30, 2023** **March 31, 2023**.

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The pay-fixed, receive floating interest rate swaps did not meet the requirements to be considered derivatives in their entirety as a result of the financing component. Accordingly, the swaps are considered hybrid instruments, consisting of a financing element treated as a debt instrument and an embedded at-market derivative that was designated as a cash flow hedge.

Within the Company's condensed consolidated balance sheets, the financing elements treated as debt instruments described above are carried at amortized cost and the embedded at-market derivatives **and the undesignated swaps** are recorded at fair value. The cash flows

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related to the portion treated as debt are classified as financing activities in the condensed consolidated statements of cash flows while the portion treated as an at-market derivative are classified as operating activities. **Cash settlements related to the undesignated swaps will offset and are classified as operating activities in the condensed consolidated cash flows.** Within the Company's condensed consolidated balance sheets, the interest rate caps **including the undesignated portion**, are recorded at fair value. The cash flows related to the interest rate caps **including the undesignated portion**, are classified as operating activities in the condensed consolidated statements of cash flows.

The Company's interest rate swap agreements, excluding the portion treated as debt, are recognized at fair value in the condensed consolidated balance sheets and are valued using pricing models that rely on market observable inputs such as yield curve data, which are classified as Level 2 inputs within the fair value hierarchy. The fair value of the interest rate caps **is** **are** determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the caps are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The interest rate caps are classified using Level 2 inputs within the fair value hierarchy.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income ("OCI") and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings, as documented at hedge inception in accordance with the Company's accounting policy election. Amounts reported in accumulated OCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Over the next 12 months, the Company estimates that an additional **\$53.8 million** **\$52.2 million** will be reclassified as a decrease to interest expense.

The following table presents the fair values of our derivatives and their location on the condensed consolidated balance sheets (in millions):

	March 31, 2024				March 31, 2024		December 31, 2023	
	Location		Location	Assets	Liabilities	Location		Assets
	September 30, 2023	December 31, 2022				Assets	Liabilities	
	Location	Assets	Liabilities	Assets	Liabilities	Location	Assets	Liabilities
Derivatives not designated as hedging instruments								
Interest rate caps	Other long-term assets	\$ —	\$ —	\$ 9.0	\$ —			
Interest rate swaps	Other long-term assets	2.0	—	8.5	—			
Interest rate swaps	Other long-term liabilities	—	2.0	—	8.5			
Derivatives in cash flow hedging relationships								
Derivatives in cash flow hedging relationships								
Derivatives in cash flow hedging relationships								
Interest rate caps	Interest rate caps	Other long-term assets	8.5	—	10.4	—		
Interest rate swaps	Interest rate swaps	Other long-term assets	71.8	—	85.5	—		
Interest rate swaps	Interest rate swaps	Other long-term liabilities	(1)	—	21.3	—	31.9	
Total	Total	\$ 82.3	\$ 23.3	\$113.4	\$ 40.4			

(1) The balance is related to the financing component of the pay-fixed receive floating interest rate swaps.

The following table presents the pre-tax effect of the interest rate swaps and caps on the Company's accumulated OCI and condensed consolidated statement of operations (in millions):

	Three Months Ended March 31,		
	Three Months Ended March 31,		
	Three Months Ended March 31,		
	Location		
Derivatives not designated as hedging instruments			
Derivatives not designated as hedging instruments			
Derivatives not designated as hedging instruments			
Derivatives not designated as hedging instruments			
Loss recognized in income			
Loss recognized in income			
Loss recognized in income			

		Three Months Ended September 30,			Nine Months Ended September 30,		
Derivatives in cash flow hedging relationships		Location	2023	2022	2023	2022	
Derivatives not designated as hedging instruments							
Loss recognized in income	Other income, net	\$	—	\$ 0.1	\$ 0.6	\$ 0.2	
Derivatives in cash flow hedging relationships	Derivatives in cash flow hedging relationships						
Gain recognized in OCI (effective portion)		\$	7.4	\$ 37.0	\$ 24.1	\$ 100.1	
(Gain) loss reclassified from accumulated OCI into income (effective portion) ⁽¹⁾	Interest expense, net	\$	(9.2)	\$ 1.5	\$ (23.3)	\$ 14.2	
Derivatives in cash flow hedging relationships							
Gain (loss) recognized in OCI (effective portion)							
Gain (loss) recognized in OCI (effective portion)							
Gain (loss) recognized in OCI (effective portion)							
Gain reclassified from accumulated OCI into income (effective portion) ⁽¹⁾							
Gain reclassified from accumulated OCI into income (effective portion) ⁽¹⁾							
Gain reclassified from accumulated OCI into income (effective portion) ⁽¹⁾							

(1) Includes amortization of accumulated OCI related to de-designated and terminated interest rate swaps of \$5.3 million and \$5.4 million for the three months ended September 30, 2023 and 2022, respectively. Includes amortization of accumulated OCI March 31, 2023. There was no corresponding amount for the three months ended March 31, 2024.

See Note 10, "Subsequent Events" for additional information related to de-designated and terminated interest rate swaps of \$16.0 million for each of the nine months ended September 30, 2023 and 2022. Company's cash flow hedging relationships.

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6. Earnings Per Share

Basic and diluted earnings per share are calculated based on the weighted-average number of shares outstanding in each period and dilutive stock options, unvested shares and warrants, to the extent such securities exist and have a dilutive effect on earnings per share. A reconciliation of the numerator and denominator of basic and diluted earnings per share follows (dollars in millions, except per share amounts; shares in thousands):

	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,
	2024		
Numerator:			
Numerator:			

Numerator:

Net loss attributable to Surgery Partners,
Inc.

Net loss attributable to Surgery Partners,
Inc.

Net loss attributable to Surgery Partners,
Inc.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	2022	2023	2022				
Numerator:								
Net loss attributable to Surgery Partners, Inc.	\$ (4.9)	\$ (25.0)	\$ (10.9)	\$ (31.2)				
Denominator:								
Denominator:	Denominator:							
Weighted average shares outstanding- basic	125,747	88,907	125,559	88,604				
Weighted average shares outstanding- diluted ⁽¹⁾	125,747	88,907	125,559	88,604				
Loss per share:								
Denominator:								
Weighted average common shares outstanding:								
Weighted average common shares outstanding:								
Weighted average common shares outstanding:								
Basic								
Basic								
Basic	\$ (0.04)	\$ (0.28)	\$ (0.09)	\$ (0.35)				
Diluted ⁽¹⁾	\$ (0.04)	\$ (0.28)	\$ (0.09)	\$ (0.35)				
Diluted ⁽¹⁾								
Diluted ⁽¹⁾								
Dilutive securities outstanding not included in the computation of income (loss) per share as their effect is antidilutive:								
Net loss per share attributable to common stockholders:								
Net loss per share attributable to common stockholders:								
Net loss per share attributable to common stockholders:								
Basic								
Basic								
Basic								
Diluted ⁽¹⁾								
Diluted ⁽¹⁾								
Diluted ⁽¹⁾								

Dilutive securities outstanding not included in the computation of diluted loss per share as their effect is antidilutive:

Dilutive securities outstanding not included in the computation of diluted loss per share as their effect is antidilutive:

Dilutive securities outstanding not included in the computation of diluted loss per share as their effect is antidilutive:

Stock options

Stock options

Stock options	Stock options	1,421	1,323	1,412	1,527
Restricted shares	Restricted shares	208	604	202	669

Restricted shares

Restricted shares

(1) The impact of potentially dilutive securities for all periods ~~was~~ were not considered because the effect would be anti-dilutive.

7. Other Current Liabilities

A summary of other current liabilities ~~is~~ was as follows (in millions):

		December			
		September 30,	31,		
		2023	2022		
Right-of-use	Right-of-use				
operating	operating				
lease	lease				
liabilities	liabilities	\$ 35.7	\$ 36.5		
Right-of-use					
operating lease					
liabilities					
Right-of-use					
operating lease					
liabilities					
Cost					
report					
liabilities					
Amounts	Amounts				
due to	due to				
patients	patients				
and	and				
payors	payors	27.1	31.9		
Cost report					
liabilities		23.4	23.5		
Interest	Interest				
payable	payable	22.7	19.4		
Acquisition escrow		17.4	28.8		

Accrued expenses and other	81.9	70.0
Total	\$ 208.2	\$ 210.1

8. Commitments and Contingencies

Professional, General and Workers' Compensation, and Cyber Liability Risks

The Company is subject to claims and legal actions in the ordinary course of business, including claims relating to patient treatment, employment practices and personal injuries. The Company maintains professional, general and workers' compensation and cyber liability insurance in excess of self-insured retentions, through third party commercial insurance carriers. Although management believes the coverage is sufficient for the Company's operations, some claims may potentially exceed the scope of coverage in effect. Plaintiffs in these matters may request punitive or other damages that may not be covered by insurance. The Company is not aware of any such proceedings that are reasonably possible to have a material adverse effect on the Company's business, financial position, results of operations or liquidity. Total professional, general and workers' compensation claim liabilities as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** were **\$23.6 million** **\$19.1 million** and **\$20.8 million** **\$18.2 million**, respectively. Expected insurance recoveries of **\$12.7 million** **\$10.2 million** as of both **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively, are included as a component of other current assets and other long-term assets in the condensed consolidated balance sheets.

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In May 2023, we experienced a cybersecurity incident that temporarily disrupted certain facilities in our Idaho market. We estimate that this incident had an adverse pre-tax impact of approximately \$7 million during the nine months ended September 30, 2023. This estimate includes lost revenue from the associated business interruption and other related expenses. We have filed a claim with the insurance carrier related to this incident. No insurance recoveries were recognized during the nine months ended September 30, 2023.

Stockholder Litigation

On December 4, 2017, a purported Company stockholder filed an action in the Delaware Court of Chancery (the "Delaware Action"). That action is captioned *Witmer v. H.I.G. Capital, L.L.C., et al.*, C.A. No. 2017-0862. The plaintiff in the Delaware Action asserted claims against (i) certain current and former members of the Company's Board of Directors (together, the "Directors"); (ii) H.I.G. Capital, LLC and certain of its affiliates (collectively, "H.I.G."); and (iii) Bain Capital Private Equity, L.P. and certain of its affiliates (collectively, "Bain Capital" and, together with the Directors and H.I.G., the "Defendants"). The parties to the Delaware Action negotiated a final stipulation of settlement (the "Settlement Stipulation"), which governs the terms of the settlement of the Delaware Action, and which they filed with the Court of Chancery on November 22, 2021. On February 11, 2022, the Court of Chancery approved the settlement of the Delaware Action as memorialized in the Settlement Stipulation. That decision became final and non-appealable on March 14, 2022. The case is now closed. Pursuant to the settlement, the Company received \$32.8 million in March 2022, which was included in litigation settlement in the condensed consolidated statements of operations for the nine months ended September 30, 2022.

9. Segment Reporting

The Company currently operates in two major lines of business that are also the Company's reportable operating segments - the operation of surgical facilities and the operation of ancillary services. The Surgical Facility Services segment includes the operation of ASCs, surgical hospitals and anesthesia services. The Ancillary Services segment consists of multi-specialty physician practices. The "All other" line item primarily consists of amounts attributable to the Company's corporate general and administrative functions.

The following tables present financial information for each reportable segment (in millions):

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Three Months Ended March 31,					
Three Months Ended March 31,					
Three Months Ended March 31,					
2024					
Revenues:					
Revenues:					
Revenues:	Revenues:				
Surgical Facility Services	Surgical Facility Services	\$ 657.3	\$ 603.9	\$ 1,956.5	\$ 1,780.6
Ancillary Services	Ancillary Services	16.8	16.7	51.4	51.6

Ancillary Services									
Ancillary Services									
Total									
Total									
Total	Total	\$	674.1	\$	620.6	\$	2,007.9	\$	1,832.2
Adjusted EBITDA:	Adjusted EBITDA:								
Adjusted EBITDA:									
Adjusted EBITDA:									
Surgical Facility Services									
Surgical Facility Services									
Surgical Facility Services	Surgical Facility Services	\$	138.6	\$	110.2	\$	384.1	\$	319.9
Ancillary Services	Ancillary Services		(1.2)		(1.5)		(2.7)		(2.2)
Ancillary Services									
Ancillary Services									
All other	All other		(31.9)		(12.5)		(85.6)		(58.3)
All other									
All other									
Total									
Total									
Total	Total	\$	105.5	\$	96.2	\$	295.8	\$	259.4
Reconciliation of Adjusted EBITDA:	Reconciliation of Adjusted EBITDA:								
Income before income taxes		\$	32.8	\$	13.4	\$	82.3	\$	77.1
Reconciliation of Adjusted EBITDA:									
Reconciliation of Adjusted EBITDA:									
Income (loss) before income taxes									
Income (loss) before income taxes									
Income (loss) before income taxes									
Net income attributable to non-controlling interests									
Net income attributable to non-controlling interests									
Net income attributable to non-controlling interests	Net income attributable to non-controlling interests		(34.6)		(30.6)		(99.5)		(94.9)
Interest expense, net	Interest expense, net		49.8		60.7		144.3		173.9
Interest expense, net									
Interest expense, net									
Depreciation and amortization									
Depreciation and amortization									
Depreciation and amortization	Depreciation and amortization		28.9		29.8		87.0		85.2
Equity-based compensation expense	Equity-based compensation expense		4.4		5.0		13.2		13.0
Equity-based compensation expense									

Equity-based compensation expense					
Transaction, integration and acquisition costs					
(1)					
Transaction, integration and acquisition costs					
(1)					
Transaction, integration and acquisition costs (1)	Transaction, integration and acquisition costs (1)	13.0	13.1	38.8	28.4
Net loss on disposals, consolidations and deconsolidations	Net loss on disposals, consolidations and deconsolidations	5.8	2.2	7.5	3.2
Net loss on disposals, consolidations and deconsolidations					
Net loss on disposals, consolidations and deconsolidations					
Litigation settlements and regulatory change impact (2)	Litigation settlements and regulatory change impact (2)	4.2	1.5	13.9	(27.6)
Litigation settlements and regulatory change impact (2)					
Litigation settlements and regulatory change impact (2)					
Undesignated derivative activity	Undesignated derivative activity	—	—	0.6	—
Other (3)		1.2	1.1	7.7	1.1
Undesignated derivative activity					
Undesignated derivative activity					
Other					
Other					
Other					
Adjusted EBITDA	Adjusted EBITDA	\$ 105.5	\$ 96.2	\$ 295.8	\$ 259.4
Adjusted EBITDA					
Adjusted EBITDA					

(1) This amount includes transaction and integration costs of \$12.8 million \$17.4 million and \$12.5 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. This amount further includes start-up costs related to de novo surgical facilities of \$0.2 million and \$0.6 million for the three months ended September 30, 2023 and 2022, respectively.

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SURGERY PARTNERS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

This amount includes transaction and integration costs of \$37.3 million and \$27.8 million for the nine months ended September 30, 2023 and 2022, 2023, respectively. This amount further includes start-up costs related to de novo surgical facilities of \$1.5 million and \$0.6 million \$0.3 million for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

(2) This amount includes a litigation settlement gain of \$1.8 million and a loss of \$3.6 million \$3.0 million for the three months ended September 30, 2023 March 31, 2024 and 2023, respectively. This amount also includes other litigation costs of \$0.6 million and \$1.5 million \$0.6 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively.

This amount includes a litigation settlement loss of \$8.1 million and a gain of \$32.8 million for the nine months ended September 30, 2023 and 2022, respectively. This amount also includes other litigation costs of \$1.4 million and \$5.2 million for the nine months ended September 30, 2023 and 2022, 2023, respectively. Additionally, the nine three months ended September 30, 2023 March 31, 2023, includes \$4.4 million related to the impact of recent changes in Florida law regarding the use of letters of protection.

(3) This

SURGERY PARTNERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	March 31, 2024	December 31, 2023
Assets:		
Surgical Facility Services	\$ 6,420.9	\$ 6,347.4
Ancillary Services	60.6	36.3
All other	494.1	493.0
Total assets	\$ 6,975.6	\$ 6,876.7
Three Months Ended March 31,		
	2024	2023
Cash purchases of property and equipment:		
Surgical Facility Services	\$ 16.3	\$ 23.8
Ancillary Services	—	0.5
All other	4.7	—
Total cash purchases of property and equipment	\$ 21.0	\$ 24.3

10. Subsequent Events

On April 9, 2024, the Company entered into five deferred premium interest rate cap agreements, each with an effective date of March 31, 2025. The interest rate caps are designated in cash flow hedging relationships with a total notional amount **includes estimates** of \$1.4 billion. The interest rate caps each have a termination date of December 31, 2028. These financial instruments are designed to limit the Company's interest rate exposure on its term loan concurrent with the expected maturity of positions held as of March 31, 2024. See Note 5. "Derivatives and Hedging Activities" for additional information.

On April 10, 2024, the **net impact** Company completed the issuance and sale of \$800.0 million in aggregate principal amount of senior unsecured notes due 2032 (the "2032 Notes"). The 2032 Notes were issued pursuant to an Indenture dated April 10, 2024 among Surgery Center Holdings, Inc., certain subsidiaries of Surgery Center Holdings, Inc., as guarantors, and Wilmington Trust, National Association, as trustee. The 2032 Notes bear interest at an annual rate of 7.250% per year, payable semi-annually on April 15 and October 15 of each year, beginning on October 15, 2024. Proceeds from the sale of the **May 2023 cyber event** 2032 Notes were used (i) to redeem all of the outstanding 6.750% senior unsecured notes due 2025 (the "2025 Notes") and the 10.000% senior unsecured notes due 2027 (the "2027 Notes," together with the 2025 Notes, the "Existing Notes"), (ii) to pay accrued interest on the Existing Notes through, but not including, April 25, 2024, (iii) to pay related fees and expenses in connection with the offering of the 2032 Notes and redemption of the Existing Notes and (iv) for general corporate purposes, including to fund future acquisitions.

On April 30, 2024, the **three months ended September 30, 2023**. This amount **includes estimates** Company purchased a controlling interest in a surgical hospital and two physician practices and a non-controlling interest in an ASC for \$188.2 million. The Company funded the **net impact** cash purchase price with available resources. As of a **cyber event** the date of this filing, the Company has not completed its preliminary estimation of the fair values assigned to the assets acquired and **losses** from a divested business for the nine months ended September 30, 2023, **liabilities assumed**.

Amounts presented for the three and nine months ended September 30, 2022 reflect losses incurred, net of insurance proceeds received, related to certain surgical facilities that were closed following Hurricane Ian.

	September 30, 2023	December 31, 2022
Assets:		
Surgical Facility Services	\$ 6,183.9	\$ 6,001.1
Ancillary Services	38.1	41.7
All other	558.1	639.3
Total assets	\$ 6,780.1	\$ 6,682.1
Nine Months Ended September 30,		
	2023	2022
Cash purchases of property and equipment:		
Surgical Facility Services	\$ 68.4	\$ 52.8
Ancillary Services	0.6	0.4
All other	—	4.7
Total cash purchases of property and equipment	\$ 69.0	\$ 57.9

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report and our **2022** **2023** Annual Report on Form 10-K. Unless the context otherwise indicates, the terms "Surgery Partners," "we," "us," "our" or the "Company," as used herein, refer to Surgery Partners, Inc. and its **subsidiaries**. Unless the context implies otherwise, **subsidiaries**, and the term "affiliates" means direct and indirect subsidiaries of Surgery Partners, Inc. and partnerships and joint ventures in which such subsidiaries are partners. The terms "facilities" "facilities" or "hospitals" "hospitals" refer to entities owned and operated by affiliates of Surgery Partners, Inc. and the term "employees" "employees" refers to employees of affiliates of Surgery Partners, Inc.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements, which are based on our current expectations, estimates and assumptions about future events. All statements other than statements of current or historical fact contained in this report are forward-looking statements. These statements include, but are not limited to, statements regarding our future financial position, business strategy, budgets, effective tax rate, projected costs and plans and objectives of management for future operations. The words "projections," "believe," "continue," "drive," "estimate," "expect," "intend," "may," "plan," "will," "could," "would" and similar expressions are generally intended to identify forward-looking statements. **These**

By their nature, forward-looking statements involve risks, uncertainties and other factors that may cause actual results to differ from the expectations expressed in the statements. Many of these factors are beyond our ability to control or predict. These factors include, without limitation, reductions in payments from government health care programs and private insurance payors, such as health maintenance organizations, preferred provider organizations, and other managed care organizations and employers; our ability to contract with private insurance payors; changes in our payor mix or surgical case mix; failure to maintain or develop relationships with physicians on beneficial or favorable terms, or at all; the impact of payor controls designed to reduce the number of surgical procedures; our efforts to integrate operations of acquired businesses and surgical facilities, attract new physician partners, or acquire additional surgical facilities; supply chain issues, including shortages or quality control issues with surgery-related products, equipment and medical supplies; competition for physicians, nurses, strategic relationships, acquisitions and managed care contracts; our ability to attract and retain qualified health care professionals; our ability to enforce non-compete restrictions against our physicians; our ability to manage material liabilities whether known or unknown incurred as a result of acquiring surgical facilities; the impact of future legislation and other health care regulatory reform actions, and the effect of that legislation and other regulatory actions on our business; our ability to comply with current health care laws and regulations; the outcome of legal and regulatory proceedings that have been or may be brought against us; the impact of cybersecurity attacks or intrusions; changes in the regulatory, economic and other conditions of the states where our surgical facilities are located; our indebtedness; the social and economic impact of a pandemic, epidemic or outbreak of a contagious disease, such as COVID-19, on our **business**; **business**; and the risks and uncertainties set forth under the heading "Risk Factors" in our **2022** **2023** Annual Report on Form 10-K and discussed from time to time in our reports filed with the SEC.

Considering these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur, and actual results could differ materially from those anticipated or implied in the forward-looking statements. When you consider these forward-looking statements, you should keep in mind these risk factors and other cautionary statements in this report.

These forward-looking statements speak only as of the date made. Other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events or otherwise.

Executive Overview

As of **September 30, 2023** **March 31, 2024**, we owned or operated, primarily in partnership with physicians, a portfolio of **154** **165** surgical facilities comprised of **136** **147** ASCs and 18 surgical hospitals across **31** **33** states. We owned a majority interest in **90** **92** of **these** **the** surgical facilities and consolidated **117** **124** of **these** facilities for financial reporting purposes.

Total revenues for the **third** **first** quarter of **2023** **2024** increased **8.6%** **7.7%** to **\$674.1** million **\$717.4** million from **\$620.6** million **\$666.2** million for the **third** **first** quarter of **2022**. **2023**. The increase in revenues was attributable to same-facility revenue growth and the net impact from acquisitions and divestitures completed during the last twelve months ended March 31, 2024. Days adjusted same-facility revenues for the **third** **first** quarter of 2024 increased 10.2% from the first quarter of 2023, increased 14.2% from the same period last year, with a 11.0% an 8.8% increase in revenue per case and a 2.9% 1.3% increase in same-facility cases. Additionally, for the **third** **first** quarter of **2023**, **2024**, Adjusted EBITDA increased **9.7%** **8.2%** to **\$105.5** million **\$97.5** million compared to **\$96.2** million **\$90.1** million for the same period last year. in 2023. The increase in Adjusted EBITDA was primarily attributable to revenue growth, continued cost management initiatives and acquisitions completed since the prior year period. For the **third** **first** quarter of **2023**, the Company's 2024, net loss attributable to **Surgery Partners, Inc.** common stockholders was **\$4.9** million **\$12.4** million compared to net loss of **\$25.0** million **\$24.9** million for the **third** **quarter** of **2022**, same period in 2023. A reconciliation of non-GAAP financial measures appears below under the heading "Certain Non-GAAP Measures."

We continue to focus on improving our same-facility performance, selectively acquiring established facilities, developing new facilities and other portfolio management initiatives. During the **nine** months ended **September 30, 2023**, **first** quarter of 2024 we completed the following:

- We acquired a controlling interest in **five** **two** surgical facilities an in-development de novo surgical facility, and a **several** physician practice practices for aggregate cash consideration of **\$50.0** million, **\$66.0** million, net of cash acquired, and non-cash consideration of **\$1.3** million. Three **\$1.1** million. As of March 31, 2024, **\$11.4** million of the acquired surgical facilities were previously accounted for cash consideration was deferred and included as equity method investments. The Company also amended the operating agreement a component of a previously non-controlled surgical facility resulting current liabilities in the Company obtaining a controlling interest in the facility. condensed consolidated balance sheets.

- We acquired non-controlling interests in five surgical facilities and two in-development de novo surgical facility for aggregate cash consideration of \$50.2 million. In connection with the acquisition of four of the aforementioned surgical facilities, we paid cash consideration of \$21.0 million to acquire management rights.

- We sold a portion of our interests in six surgical facilities for aggregate net cash proceeds of \$30.4 million, \$1.5 million. As a portion of which will be held the transaction, we no longer control the previously controlled surgical facility but retain a non-controlling interest, resulting in escrow pursuant to the purchase agreements for such transactions. deconsolidation of the previously consolidated entity.

We had cash and cash equivalents of \$236.0 million \$185.2 million and \$544.9 million \$607.3 million of borrowing capacity under our revolving credit facility at September 30, 2023. Operating cash inflows were \$104.6 million in the third quarter Revolver as of 2023, compared to \$29.7 million in the prior year period. Net operating cash inflows, including operating cash flows less distributions to non-controlling interests, were \$70.5 million for the third quarter of 2023, compared to an outflow \$5.6 million for the third quarter of 2022. March 31, 2024.

Revenues

Our revenues consist of patient service revenues and other service revenues. Patient service revenues consist of revenue from our surgical facility services Surgical Facility Services and ancillary services Ancillary Services segments. Specifically, patient service revenues include fees for surgical or diagnostic procedures performed at surgical facilities that we consolidate for financial reporting purposes, as well as for patient visits to our physician practices, anesthesia services, pharmacy services and diagnostic screens ordered by our physicians. Other service revenues include management and administrative service fees derived from our non-consolidated facilities that we account for under the equity method, management of surgical facilities and physician practices in which we do not own an interest, and management services we provide to physician practices for which we are not required to provide capital or additional assets. assets and other non-patient services.

The following table summarizes our revenues by service type as a percentage of total revenues for the periods indicated: revenues:

		Three Months Ended September 30,				Nine Months Ended September 30,							
		2023		2022		2023		2022					
		Three Months Ended March 31,				Three Months Ended March 31,							
		Three Months Ended March 31,				Three Months Ended March 31,							
		2024											
Patient service revenues:	Patient service revenues:												
Surgical facilities revenues		95.8	%		95.6	%	95.9	%	95.7	%			
Ancillary services revenues		2.4	%		2.7	%	2.5	%	2.8	%			
Patient service revenues:													
Patient service revenues:													
Surgical Facility Services													
Surgical Facility Services													
Surgical Facility Services													
Ancillary Services													
Ancillary Services													
Ancillary Services													
Total patient service revenues													
Total patient service revenues													
Total patient service revenues	Total patient service revenues	98.2	%		98.3	%	98.4	%	98.5	%			
Other service revenues	Other service revenues	1.8	%		1.7	%	1.6	%	1.5	%			
Other service revenues													

Other service revenues									
Total revenues		Total revenues		100.0 %		100.0 %		100.0 %	
Total revenues									
Total revenues									

Payor Mix

The following table sets forth by type of payor the percentage of our patient service revenues generated at the surgical facilities **which that** we consolidate for financial reporting purposes in the periods indicated: purposes:

		Three Months		Nine Months					
		Ended September		Ended September					
		30,	30,	2023	2022	2023	2022	2024	2023
Private insurance payors									
Private insurance payors									
Private insurance payors	Private insurance payors	52.4 %	49.5 %	51.8 %	50.4 %	51.2 %	51.1 %	51.2 %	51.1 %
Government payors	Government payors	41.0 %	44.2 %	42.4 %	43.0 %	43.0 %	43.8 %	43.0 %	43.8 %
Self-pay payors	Self-pay payors	2.6 %	2.6 %	2.5 %	2.7 %	2.8 %	2.4 %	2.8 %	2.4 %
Other payors ⁽¹⁾	Other payors ⁽¹⁾	4.0 %	3.7 %	3.3 %	3.9 %	3.0 %	2.7 %	3.0 %	2.7 %
Total	Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

(1) Other is comprised of **anesthesia service agreements**, automobile liability, letters of protection and other payor types.

Surgical Case Mix

We primarily operate multi-specialty surgical facilities where physicians perform a variety of procedures in various specialties. We believe this diversification helps to protect us from adverse pricing and utilization trends in any individual procedure type and results in greater consistency in our case volume.

The following table sets forth the percentage of cases in each specialty performed at the surgical facilities **which** **that** we consolidate for financial reporting purposes for the periods indicated:

		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,					
		2024		2023		2022					
		Three Months Ended September 30,				Nine Months Ended September 30,					
Orthopedics and pain management											
		2023		2022		2023		2022			
Orthopedics and pain management											
Orthopedic and pain management		35.7	%	35.7	%	35.4	%	36.0	%		
Orthopedics and pain management											
Ophthalmology											
Ophthalmology		Ophthalmology	24.8	%	24.4	%	24.5	%	24.5	%	
Gastrointestinal		Gastrointestinal	23.6	%	23.4	%	24.0	%	23.1	%	
Gastrointestinal											
Gastrointestinal											
General surgery											
General surgery		General surgery	2.5	%	3.0	%	2.7	%	3.0	%	
Other		Other	13.4	%	13.5	%	13.4	%	13.4	%	
Other											
Total	Total	100.0	%	100.0	%	100.0	%	100.0	%		
Total											
Total											

Critical Accounting Policies

A summary of significant accounting policies is disclosed in our **2022** **2023** Annual Report on Form 10-K under the caption "Critical Accounting Policies" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section. There have been no material changes in the nature of our critical accounting policies or the application of those policies since **December 31, 2022** **December 31, 2023**.

Results of Operations

Comparison of Operating Results for the Three Months Ended September 30, 2023 Compared March 31, 2024 to the Three Months Ended September 30, 2022 March 31, 2023

The following table summarizes certain results from the statements of operations for the three months ended September 30, 2023 and 2022 (dollars in millions):

		Three Months Ended		
		March 31,		
		Three Months Ended		
		March 31,		
		March 31,		
		March 31,		
		2024		
		Three Months Ended		
		September 30,		

Revenues			
		2023	2022
Revenues			
Revenues	Revenues	\$ 674.1	\$ 620.6
Operating expenses:			
Operating expenses:			
Cost of revenues			
Cost of revenues			
Cost of revenues	Cost of revenues	508.3	489.4
General and administrative expenses	General and administrative expenses	36.8	17.9
General and administrative expenses			
General and administrative expenses			
Depreciation and amortization			
Depreciation and amortization			
Depreciation and amortization	Depreciation and amortization	28.9	29.8
Transaction and integration costs	Transaction and integration costs	12.8	12.5
Grant funds		—	(0.5)
Transaction and integration costs			
Transaction and integration costs			
Net loss on disposals, consolidations and deconsolidations			
Net loss on disposals, consolidations and deconsolidations			
Net loss on disposals, consolidations and deconsolidations	Net loss on disposals, consolidations and deconsolidations	5.8	2.2
Equity in earnings of unconsolidated affiliates	Equity in earnings of unconsolidated affiliates	(3.5)	(2.4)
Equity in earnings of unconsolidated affiliates			

Equity in earnings of unconsolidated affiliates			
Litigation settlements	Litigation settlements	3.6	—
Other income, net		(1.2)	(2.4)
Litigation settlements			
Litigation settlements			
		591.5	546.5
Other income			
Other income			
Other income			
		641.4	
		641.4	
		641.4	
Operating income			
Operating income			
Operating income	Operating income	82.6	74.1
Interest expense, net	Interest expense, net	(49.8)	(60.7)
Income before income taxes		32.8	13.4
Income tax expense		(3.1)	(7.8)
Interest expense, net			
Interest expense, net			
Income (loss) before income taxes			
Income (loss) before income taxes			
Income (loss) before income taxes			
Income tax (expense) benefit			
Income tax (expense) benefit			
Income tax (expense) benefit			
Net income			
Net income			
Net income	Net income	29.7	5.6
Less: Net income attributable to non- controlling interests	Less: Net income attributable to non- controlling interests	(34.6)	(30.6)
Less: Net income attributable to non-controlling interests			
Less: Net income attributable to non-controlling interests			

Net loss attributable to Surgery Partners, Inc.	Net loss attributable to Surgery Partners, Inc.	\$ (4.9)	\$ (25.0)
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Net loss attributable to Surgery

Partners, Inc.

Net loss attributable to Surgery

Partners, Inc.

Revenues. Revenues The following table sets forth patient service revenues (in millions):

	Three Months Ended March 31,	
	2024	2023
Patient service revenues	\$ 705.3	\$ 656.4
Other service revenues	12.1	9.8
Total revenues	\$ 717.4	\$ 666.2

Patient service revenues increased 7.4% to \$705.3 million for the three months ended September 30, 2023 March 31, 2024 compared to \$656.4 million for the three months ended September 30, 2022 were as follows (dollars in millions):

	Three Months Ended September 30,	
	2023	2022
Patient service revenues	\$ 662.3	\$ 610.1
Other service revenues	11.8	10.5
Total revenues	\$ 674.1	\$ 620.6

Patient service revenues increased 8.6% to \$662.3 million for the third quarter of 2023 compared to \$610.1 million for the third quarter of 2022. March 31, 2023. The increase was primarily driven by a 14.2% 10.2% increase in days adjusted same-facility revenues and the net impact from acquisitions completed in 2023 and 2022, partially offset by divestitures completed in 2023, during the last twelve months ended March 31, 2024. The increase in days adjusted same-facility revenues was attributable to an 11.0% a 1.3% increase in same-facility case volumes and a 8.8% increase in same-facility revenue per case and a 2.9% increase in days adjusted same-facility case volumes. case.

Cost of Revenues. Cost of revenues was \$508.3 million \$562.1 million for the third quarter of 2023 three months ended March 31, 2024 compared to \$489.4 million \$532.2 million for the third quarter of 2022, three months ended March 31, 2023. The increase was primarily driven by increased performance of high acuity procedures and acquisitions completed since during the prior year period, last twelve months ended March 31, 2024. As a percentage of revenues, cost of revenues were 5.5% was 78.4% and 79.9% for the three months ended March 31, 2024 and 2023, period compared to 78.9% for the 2022 period, respectively.

General and Administrative Expenses. General and administrative expenses were \$36.8 million \$33.2 million and \$32.0 million for the third quarter of three months ended March 31, 2024 and 2023, compared to \$17.9 million for the third quarter of 2022, respectively. As a percentage of revenues, general and administrative expenses were 5.5% for 4.6% in the 2023 period and 2.9% for first quarter of 2024 compared to 4.8% in the 2022 period, first quarter of 2023.

Depreciation and Amortization. Depreciation and amortization expenses were \$28.9 million \$33.7 million for each of the third quarter of 2023 compared to \$29.8 million for the third quarter of 2022, three months ended March 31, 2024 and 2023. As a percentage of revenues, depreciation and amortization expenses were 4.3% 4.7% and 5.1% for the three months ended March 31, 2024 and 2023, period compared to 4.8% for the 2022 period, respectively.

Transaction and Integration Costs. We incurred \$12.8 million \$17.4 million of transaction and integration costs for the third quarter of 2023 three months ended March 31, 2024 compared to \$12.5 million for the third quarter of 2022, three months ended March 31, 2023. The costs for both periods primarily relate related to ongoing development initiatives and the integration of acquisitions.

Net Loss on Disposals, Consolidations and Deconsolidations. The net loss on disposals, consolidations and deconsolidations for the three months ended March 31, 2024 and 2023 includes activity discussed in Note 2. "Acquisitions, Disposals and Deconsolidations" of the third quarter of 2023 accompanying notes to the condensed consolidated financial statements. The remaining net loss in both periods was primarily attributable to activity discussed in Note. 2. "Acquisitions sales and Disposals" to our condensed consolidated financial statements included elsewhere in this report. The remaining net loss was attributable to disposals of other asset disposals. assets.

Interest Expense, Net. Interest expense, net was \$47.3 million for the three months ended March 31, 2024 compared to \$46.8 million for the three months ended March 31, 2023. As a percentage of revenues, interest expense, net decreased to 7.4% for the 2023 period compared to 9.8% for the 2022 period. The decrease is primarily attributable to the pay down of certain long-term debt in the fourth quarter of 2022.

Income Tax Expense. The income tax expense was \$3.1 million 6.6% and \$7.8 million 7.0% for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Income Tax (Expense) Benefit. Income tax expense was \$4.4 million for the three months ended March 31, 2024 as compared to income tax benefit of \$1.6 million for the three months ended March 31, 2023. The effective tax rate was 9.5% 15.3% and 400.0% for the three months ended September 30, 2023 compared March 31, 2024 and 2023, respectively. See Note 1. "Organization and Summary of Accounting Policies" under the heading *Income Taxes* for additional information related to 58.2% the Company's effective tax rates for the three months ended September 30, 2022. For the three months ended September 30, 2023 March 31, 2024 and March 31, 2023, the effective tax rate including why these rates differed from 21% primarily due to earnings attributable to non-controlling interests, an increase in the Company's valuation allowance attributable to interest expense limitations. For the three months ended September 30, 2022, the effective tax U.S. federal statutory rate differed from 21% primarily due to an increase in the Company's valuation allowance attributable to interest expense limitations.

Net Income Attributable to Non-Controlling Interests. As a percentage of revenues, net income attributable to non-controlling interests was 5.1% and 3.9% for the 2023 period and 4.9% for the 2022 period.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

The following table summarizes certain results from the statements of operations for the nine three months ended September 30, 2023 March 31, 2024 and 2022 (dollars in millions):

	Nine Months Ended September 30,	
	2023	2022
Revenues	\$ 2,007.9	\$ 1,832.2
Operating expenses:		
Cost of revenues	1,554.0	1,441.6
General and administrative expenses	100.0	73.5
Depreciation and amortization	87.0	85.2
Transaction and integration costs	37.3	27.8
Grant funds	(1.1)	(1.8)
Net loss on disposals, consolidations and deconsolidations	7.5	3.2
Equity in earnings of unconsolidated affiliates	(9.4)	(8.1)
Litigation settlements	8.1	(32.8)
Other income, net	(2.1)	(7.4)
	1,781.3	1,581.2
Operating income	226.6	251.0
Interest expense, net	(144.3)	(173.9)
Income before income taxes	82.3	77.1
Income tax benefit (expense)	6.3	(13.4)

Net income	88.6	63.7
Less: Net income attributable to non-controlling interests	(99.5)	(94.9)
Net loss attributable to Surgery Partners, Inc.	\$ (10.9)	\$ (31.2)

Revenues. Revenues for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 were as follows (dollars in millions):

	Nine Months Ended September 30,	
	2023	2022
Patient service revenues	\$ 1,976.7	\$ 1,805.1
Other service revenues	31.2	27.1
Total revenues	\$ 2,007.9	\$ 1,832.2

Patient service revenues increased 9.5% to \$1,976.7 million for the 2023 period compared to \$1,805.1 million for the 2022 period. The increase was driven by a 10.6% increase in days adjusted same-facility revenues and acquisitions completed in 2023 and 2022. The increase in days adjusted same-facility revenues was attributable to a 6.9% increase in same-facility revenue per case and a 3.5% increase in days adjusted same-facility case volumes.

Cost of Revenues. Cost of revenues was \$1,554.0 million for the 2023 period compared to \$1,441.6 million for the 2022 period. The increase was primarily driven by acquisitions completed since the prior year period. As a percentage of revenues, cost of revenues were 77.4% for the 2023 period and 78.7% for the 2022 period.

General and Administrative Expenses. General and administrative expenses were \$100.0 million for the 2023 period compared to \$73.5 million for the 2022 period. As a percentage of revenues, general and administrative expenses were 5.0% for the 2023 period and 4.0% for the 2022 period.

Depreciation and Amortization. Depreciation and amortization expenses were \$87.0 million for the 2023 period compared to \$85.2 million for the 2022 period. As a percentage of revenues, depreciation and amortization expenses were 4.3% for the 2023 period compared to 4.7% for the 2022 period.

Transaction and Integration Costs. We incurred \$37.3 million of transaction and integration costs for the 2023 period compared to \$27.8 million for the 2022 period. The costs for both periods primarily relate to ongoing development initiatives and the integration of acquisitions.

Net Loss on Disposals, Consolidations and Deconsolidations. The net loss on disposals, consolidations and deconsolidations in the 2023 period was primarily attributable to activity discussed in Note 2. "Acquisitions and Disposals" to our condensed consolidated financial statements included elsewhere in this report. The remaining net loss was primarily attributable to other asset disposals.

Litigation Settlements. The amount of the litigation settlement in the 2022 period was primarily attributable to the resolution of the stockholder litigation matter, as discussed in Note 8. "Commitments and Contingencies" to our condensed consolidated financial statements included elsewhere in this report.

Interest Expense, Net. As a percentage of revenues, interest expense, net decreased to 7.2% for the 2023 period compared to 9.5% for the 2022 period. The decrease is primarily attributable to the pay down of certain long-term debt in the fourth quarter of 2022.

Income Tax Benefit (Expense). The income tax benefit was \$6.3 million for the nine months ended September 30, 2023 compared to income tax expense of \$13.4 million for the nine months ended September 30, 2022. The effective tax rate was (7.7)% for the nine months ended September 30, 2023 compared to 17.4% for the nine months ended September 30, 2022. For the nine months ended September 30, 2023, the effective tax rate differed from 21% primarily due to earnings attributable to non-controlling interests, an increase in the Company's valuation allowance attributable to interest expense limitations, and discrete tax benefits of (i) \$1.6 million related to the vesting of restricted stock awards, and (ii) \$15.8 million related to entity divestitures. For the nine months ended September 30, 2022, the effective tax rate differed from 21% primarily due to earnings attributable to non-controlling interests, an increase in the Company's valuation allowance attributable to interest expense limitations, and discrete tax benefits of (i) \$4.6 million related to the vesting of restricted stock awards, (ii) \$1.8 million attributable to non-recurring earnings' impact on the Company's valuation allowance, and (iii) \$1.0 million related to entity divestitures. Based upon the application of interim accounting guidance, the tax rate as a percentage of net income after income attributable to non-controlling interests will vary based upon the relative net income from period to period.

Net Income Attributable to Non-Controlling Interests. As a percentage of revenues, net income attributable to non-controlling interests was 5.0% for the 2023 period and 5.2% for the 2022 period, respectively.

Liquidity and Capital Resources

Cash and cash equivalents were \$236.0 million \$185.2 million at September 30, 2023 March 31, 2024 compared to \$282.9 million \$195.9 million at December 31, 2022 December 31, 2023.

The primary source of our operating cash flows is the collection of accounts receivable from private insurance companies, federal and state agencies (under the Medicare and Medicaid programs), private insurance companies and individuals. Our cash flows provided by operating activities were \$231.2 million was \$40.7 million for the nine three months ended September 30, 2023 March 31, 2024 compared to \$151.6 million \$74.5 million for the nine three months ended September 30, 2022 March 31, 2023. The \$79.6 million increase \$33.8 million decrease was primarily driven by operating cash flows in 2022 that did not repeat in the current year, including repayments of approximately \$56 million of Medicare advanced payments provided through the CARES Act, partially offset by the receipt of stockholder litigation proceeds of \$32.8 million, a \$25.2 million reduction of interest paid, net of interest income received, and the timing of routine transactions involving working capital and accrued payroll and benefits.

Net cash used in investing activities during for the nine three months ended September 30, 2023 March 31, 2024 was \$167.5 million \$83.1 million compared to \$235.7 million \$70.7 million for the nine three months ended September 30, 2022 March 31, 2023. Key factors contributing to the change include:

- An \$12.4 million increase was primarily driven by an aggregate decrease net increase of \$6.3 million in payments for acquisitions (net of cash acquired) and purchases of equity method investments of \$78.7 million;
- An aggregate increase of \$15.3 million and a \$6.5 million decrease in proceeds from sales of facilities and equity method investments, facilities;
- An increase in purchases of property and equipment of \$11.1 million;
- An increase in

Net cash provided by financing activities for the three months ended March 31, 2024 was \$31.7 million compared to net cash used of \$14.7 million related \$41.2 million for the three months ended March 31, 2023. The increase of \$72.3 million was primarily driven by net borrowings on the Revolver due to other investing activities, including \$21.0 million to acquire management rights related to certain the timing of acquisitions in the 2023 period.

Net cash used in financing activities completed during the nine months ended September 30, 2023 was \$110.6 million compared first quarter of 2024.

Debt

On April 10, 2024, we completed the issuance and sale of \$800.0 million in aggregate principal amount of 2032 Notes. The 2032 Notes bear interest at an annual rate of 7.250% per year, payable semi-annually on April 15 and October 15 of each year, beginning on October 15, 2024. Proceeds from sale of the 2032 Notes were used (i) to \$151.0 million during redeem all of the nine months ended September 30, 2022. Key factors contributing outstanding 2025 Notes and 2027 Notes, (ii) to pay accrued interest on the change include:

- An increase Existing Notes through, but not including, April 25, 2024, (iii) to pay related fees and expenses in connection with the offering of \$42.6 million in borrowings the 2032 Notes and redemption of long-term debt, net of payments;
- A decrease in payments related the Existing Notes and (iv) for general corporate purposes, including to ownership transactions with non-controlling interest holders of \$4.6 million, partially offset by an increase in distributions to non-controlling interest holders of \$0.5 million;
- An increase in the payment of debt issuance costs of \$1.5 million;
- An increase in cash used of \$4.8 million related to other financing activities, fund future acquisitions.

Capital Resources

Net working capital was approximately \$374.8 million \$372.5 million at September 30, 2023 March 31, 2024 compared to \$427.6 million \$372.0 million at December 31, 2022 December 31, 2023. The decrease is primarily due to a decrease in cash, as discussed above.

In addition to cash flows from operations and available cash, other sources of capital include amounts available on our Revolver as well as anticipated continued access to the capital markets.

Material Cash Requirements

There have been no material changes outside of the ordinary course of business to our upcoming cash obligations during the nine three months ended September 30, 2023 March 31, 2024 from those disclosed under "Material Cash Requirements" in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2022 2023 Annual Report on Form 10-K.

Summary

Broad economic factors, including recent increases in interest rates, inflation and supply chain risks and market volatility, could negatively affect our payor mix, increase the relative proportion of lower margin services we provide and reduce patient volumes, as well as diminish our ability to collect outstanding receivables. Any increase in the amount or deterioration in the collectability of patient accounts receivable will adversely affect our cash flows and results of operations, requiring an increased level of working capital.

If general economic conditions, including recent increases in interest rates, inflation risk and market volatility, continue to deteriorate or remain uncertain for an extended period of time, our ability to access capital could be harmed, which could negatively affect our liquidity and ability to repay our outstanding debt.

Based on our current level of operations, we believe cash flows from operations, available cash, available capacity on our Revolver and continued anticipated access to capital markets, will be adequate to meet our short-term (i.e., 12 months) and long-term (beyond 12 months) liquidity needs.

Certain Non-GAAP Measures

Adjusted EBITDA and Adjusted EBITDA excluding grant funds are not measurements of financial performance under GAAP and should not be considered in isolation or as a substitute for net income, operating income or any other measure calculated in accordance with GAAP. The items excluded from these non-GAAP metrics are significant components in understanding and evaluating our financial performance. We believe such adjustments are appropriate, as the magnitude and frequency of such items can vary significantly and are not related to the assessment of normal operating performance. Our calculation of Adjusted EBITDA and Adjusted EBITDA excluding grant funds may not be comparable to similarly titled measures reported by other companies. We use Adjusted EBITDA and Adjusted EBITDA excluding grant funds as measures of financial performance. Adjusted EBITDA and Adjusted EBITDA excluding grant funds are a key measure used by our management to assess operating performance, make business decisions and allocate resources.

The following table reconciles Adjusted EBITDA and Adjusted EBITDA excluding grant funds to income (loss) before income taxes, the most directly comparable GAAP financial measure (in millions and unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,
	2024			
Condensed Consolidated Statements of Operations Data:	Condensed Consolidated Statements of Operations Data:			
Income before income taxes	\$ 32.8	\$ 13.4	\$ 82.3	\$ 77.1
Condensed Consolidated Statements of Operations Data:				
Condensed Consolidated Statements of Operations Data:				
Income (loss) before income taxes				
Income (loss) before income taxes				
Income (loss) before income taxes				
<i>Plus (minus):</i>				
<i>Plus (minus):</i>				
Plus (minus):	Plus (minus):			
Net income attributable to non-controlling interests	Net income attributable to non-controlling interests	(34.6)	(30.6)	(99.5)
Net income attributable to non-controlling interests	Net income attributable to non-controlling interests			(94.9)
Net income attributable to non-controlling interests	Net income attributable to non-controlling interests			
Depreciation and amortization	Depreciation and amortization			
Depreciation and amortization	Depreciation and amortization			
Depreciation and amortization	Depreciation and amortization			
Interest expense, net	Interest expense, net	49.8	60.7	144.3
Depreciation and amortization	Depreciation and amortization	28.9	29.8	87.0
				85.2

Interest expense, net					
Interest expense, net					
Equity-based compensation expense					
Equity-based compensation expense					
Equity-based compensation expense	Equity-based compensation expense	4.4	5.0	13.2	13.0
Transaction, integration and acquisition costs ⁽¹⁾	Transaction, integration and acquisition costs ⁽¹⁾	13.0	13.1	38.8	28.4
Transaction, integration and acquisition costs ⁽¹⁾					
Transaction, integration and acquisition costs ⁽¹⁾					
Net loss on disposals, consolidations and deconsolidations					
Net loss on disposals, consolidations and deconsolidations					
Net loss on disposals, consolidations and deconsolidations	Net loss on disposals, consolidations and deconsolidations	5.8	2.2	7.5	3.2
Litigation settlements and regulatory change impact ⁽²⁾	Litigation settlements and regulatory change impact ⁽²⁾	4.2	1.5	13.9	(27.6)
Litigation settlements and regulatory change impact ⁽²⁾					
Litigation settlements and regulatory change impact ⁽²⁾					
Undesignated derivative activity	Undesignated derivative activity	—	—	0.6	—
Other ⁽³⁾		1.2	1.1	7.7	1.1
Undesignated derivative activity					
Undesignated derivative activity					
Other					
Other					
Adjusted EBITDA	Adjusted EBITDA	105.5	96.2	295.8	259.4
Less: Impact of grant funds ⁽⁴⁾		—	(0.3)	(1.1)	(1.4)
Adjusted EBITDA excluding grant funds		\$ 105.5	\$ 95.9	\$ 294.7	\$ 258.0
Adjusted EBITDA					
Adjusted EBITDA					

(1) This amount includes transaction and integration costs of \$12.8 million \$17.4 million and \$12.5 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. This amount further includes start-up costs related to de novo surgical facilities of \$0.2 million and \$0.6 million for the three months ended September 30, 2023 and 2022, respectively.

This amount includes transaction and integration costs of \$37.3 million and \$27.8 million for the nine months ended September 30, 2023 and 2022, 2023, respectively. This amount further includes start-up costs related to de novo surgical facilities of \$1.5 million and \$0.6 million \$0.3 million for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

(2) This amount includes a litigation settlement settlements gain of \$1.8 million and a loss of \$3.6 million \$3.0 million for the three months ended September 30, 2023, March 31, 2024 and 2023, respectively. This amount also includes other litigation costs of \$0.6 million and \$1.5 million \$0.6 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively.

This amount includes a litigation settlement loss of \$8.1 million and a gain of \$32.8 million for the nine months ended September 30, 2023 and 2022, respectively. This amount also includes other litigation costs of \$1.4 million and \$5.2 million for the nine months ended September 30, 2023 and 2022, 2023, respectively. Additionally, the **nine** **three** months ended **September 30, 2023** **March 31, 2023**, includes \$4.4 million related to the impact of recent changes in Florida law regarding the use of letters of protection.

(3) This amount includes estimates for the net impact of the May 2023 cyber event for the three months ended September 30, 2023. This amount includes estimates for the net impact of a May 2023 cyber event as well as losses from a divested business for the three and nine months ended September 30, 2023.

Amounts presented for the three and nine months ended September 30, 2022 reflect losses incurred, net of insurance proceeds received, related to certain surgical facilities that were closed following Hurricane Ian.

(4) Represents the impact of grant funds recognized, net of amounts attributable to non-controlling interests.

We use Credit Agreement EBITDA as a measure of liquidity and to determine our compliance under certain covenants pursuant to our **credit facilities** **New Credit Facilities**. Credit Agreement EBITDA is determined on a trailing twelve-month basis. We have included it because we believe that it provides investors with additional information about our ability to incur and service debt and make capital expenditures. Credit Agreement EBITDA is not a measurement of liquidity under GAAP and should not be considered in isolation or as a substitute for any other measure calculated in accordance with GAAP. The items excluded from Credit Agreement EBITDA are significant components in understanding and evaluating our liquidity. Our calculation of Credit Agreement EBITDA may not be comparable to similarly titled measures reported by other companies.

When we use the term **"Credit"** **"Credit"** **Agreement EBITDA,"** we are referring to Adjusted EBITDA, as defined above, further adjusted for acquisitions and synergies. These adjustments do not relate to our historical financial performance and instead relate to estimates compiled by **our** management and calculated in conformance with the definition of **"Consolidated EBITDA"** **"Consolidated EBITDA"** used in the credit agreements governing our credit facilities.

The following table reconciles Credit Agreement EBITDA to cash flows from operating activities, the most directly comparable GAAP financial measure (in millions and unaudited):

	Twelve Months Ended September 30, 2023 March 31, 2024
Cash flows from operating activities	\$ 238.4 260.0
Plus (minus):	
Non-cash interest expense, net	(26.7) (20.0)
Non-cash lease expense	(34.4) (35.2)
Deferred income taxes	1.3 (2.6)
Equity in earnings of unconsolidated affiliates, net of distributions received	4.0 1.0
Changes in operating assets and liabilities, net of acquisitions and divestitures	87.3 112.6
Income tax expense	3.6 5.7
Net income attributable to non-controlling interests	(146.2) (157.8)
Interest expense, net	205.3 193.5
Transaction, integration and acquisition costs	59.0 71.0
Litigation settlements and regulatory change impact other litigation costs	16.8 8.3
Undesignated derivative activity	(7.4)
Other ⁽¹⁾	8.1 9.0
Acquisitions and synergies ⁽²⁾	106.7 68.1
Credit Agreement EBITDA	\$ 523.3 513.6

(1) This amount includes estimates for the impact of a cyber event and losses from divested business and **hurricane-related impacts**, that occurred in 2023.

(2) Represents impact of acquisitions as if each acquisition had occurred on **October 1, 2022** **April 1, 2023**. Further this includes revenue and cost synergies from other business initiatives and de novo facilities and an adjustment for the effects of adopting the new lease accounting standard, as defined in the credit agreement governing the **Senior Secured** **New Credit Facilities**.

Item 3. Quantitative and Qualitative Disclosures **About** **about** Market Risk

We are subject to market risk primarily from exposure to changes in interest rates based on our financing, investing and cash management activities. We utilize a balanced mix of maturities along with both fixed rate and variable rate debt to manage our exposures to changes in interest rates. Additionally, we periodically enter into interest rate swap and cap agreements to manage our exposure to interest rate fluctuations. Our interest rate swap and cap agreements involve the exchange of fixed and variable rate interest payments

between two parties, based on common notional principal amounts and maturity dates. The notional amounts of the interest rate swap and cap agreements represent balances used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to

these agreements is considered low because the interest rate swap and cap agreements are with creditworthy financial institutions. The interest payments under these agreements are settled on a net basis. These derivatives have been recognized in the financial statements at their respective fair values. Changes in the fair value of these derivatives, which are designated as cash flow hedges, are included in other comprehensive income.

Our variable rate debt instruments are primarily indexed to the prime rate or SOFR. Without derivatives, interest rate changes would result in gains or losses in the market value of our fixed rate debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Based on our indebtedness and the effectiveness of our interest rate swap and cap agreements at **September 30, 2023** **March 31, 2024**, we do not expect changes in interest rates to have a material effect on our net earnings or cash flows in **2023** **2024**.

For more information regarding our interest rate swap and cap agreements, please refer to Note 5. "Derivatives and Hedging Activities" of the accompanying notes to the condensed consolidated financial statements for additional information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the chief executive officer and the chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) as of **September 30, 2023** **March 31, 2024**. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended **September 30, 2023** **March 31, 2024** that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, subject to claims and suits, or threats of claims or suits, relating to our business, including claims for damages for personal injuries, breach of management contracts and employment related claims. In certain of these actions, plaintiffs request payment for damages, including punitive damages, which may not be covered by insurance or may otherwise have a material adverse effect on our business or results of operations. In the opinion of management, we are not currently a party to any proceedings that would have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes with respect to the risk factors discussed in our **2022** **2023** Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Purchases of Equity Securities

The Company did not repurchase any shares of common stock during the nine months ended September 30, 2023. At September 30, 2023, the Company continued to have authority to repurchase up to \$46.0 million of shares of common stock under its board-authorized share repurchase program. **None**.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

From time to time, certain of our executive officers and directors have, and we expect they will in the future, enter into, amend and terminate written trading arrangements pursuant to Rule 10b5-1 of the Securities and Exchange Act of 1934 or otherwise. During the three months ended **September 30, 2023** **March 31, 2024**, none of the Company's directors or officers adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

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Item 6. Exhibits

No.	Description
4.1	Indenture, dated April 10, 2024, among Surgery Center Holdings, Inc., the Guarantors from time to time party thereto and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed April 10, 2024).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Taxonomy Extension Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 , formatted in Inline XBRL (included in Exhibit 101).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SURGERY PARTNERS, INC.

Date: November 7, 2023

By: /s/ David T. Doherty

David T. Doherty

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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Exhibit 31.1

CERTIFICATIONS

I, J. Eric Evans, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Surgery Partners, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023 By: /s/ J. Eric Evans

J. Eric Evans

Chief Executive Officer

CERTIFICATIONS

I, David T. Doherty, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Surgery Partners, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

By: /s/ David T. Doherty

David T. Doherty
*Executive Vice President and Chief
Financial Officer*

Date: May 7, 2024

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Surgery Partners, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: November 7, 2023 **By:** /s/ J. Eric Evans

J. Eric Evans
Chief Executive Officer

Date: May 7, 2024

Date: November 7, 2023 **By:** /s/ David T. Doherty

David T. Doherty
*Executive Vice President and Chief
Financial Officer*

Date: May 7, 2024

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