

Daughters of Charity Health System

System Board Presentation – Summary of Final Bids Received

September 29, 2014

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HOULIHAN LOKEY

To: DCCHS Board of Directors
From: DCCHS Transaction Team
Date: September 29, 2014
Subject: DCCHS Sale Process

In anticipation of the DCCHS board meeting on October 3, 2014, we have assembled this presentation to provide you the latest status on the sale process. As set forth herein, we requested and received final proposals from six bidders on September 12, 2014. Despite clear directions, not all six bidders submitted complete bids and the transaction team has since worked to encourage the bidders to improve the strength of their proposals. Given this dynamic situation, below is the current summary of the status of each bidder:

Blue Wolf Capital Partners

- Membership termination and board replacement transaction (DCCHS remains a not-for-profit, subject to potential future conversion to for-profit ownership) / management agreement / sale of the MOB portfolio
- Blue Wolf has meaningfully reduced the degree of financial support it is seeking from the Daughters of Charity
- Documentation has material business and legal issues that make proposal non-comparable to requested and submitted offers
- Various transaction infirmities (e.g., ability to retain tax-exempt status, bondholder objection, undercapitalized successor)

Integrity Healthcare

- Asset purchase transaction structure
- Delays in securing transaction financing – likely needs a minimum of four additional weeks
- No longer actively pursuing the transaction

Paladin Healthcare

- Asset purchase transaction structure
- Concluded that they cannot support a transaction valuation that satisfies all of the DCCHS liabilities
- No longer actively pursuing the transaction

Prime Healthcare

- Membership substitution / not-for-profit status of SVMC and LHM Charitable Foundations maintained
- For-profit conversion of all other LHMs
- Documentation effectively complete
- Has cash and available credit lines to fund the transaction
- Challenging relationship continues with the SEIU with corresponding political pressure and regulatory risk

Prospect Medical Holdings

- Asset purchase transaction structure / for-profit conversion
- Recently identified concerns with the assumption of the Church Plan in light of litigation regarding church plan exemptions for other systems
- Attempting to structure an acceptable proposal on the Church Plan – potential to include plan retention by DCHS with Prospect funding the plan at closing (amount TBD)
- Prospect is seeking a financing commitment

Strategic Global Management

- Asset purchase transaction structure / for-profit conversion
- Concerned about funding requirements of the Church Plan upon conversion to an ERISA plan (including PBGC premiums)
- Has financing for a portion of the transaction, but attempting to raise subordinated debt of ~\$100 million and equity of ~\$100 million

The transaction team anticipates that both Blue Wolf and Prime will remain active participants in the process. The continued participation of Prospect and SGM is largely dependent on reaching acceptable solutions to address the Church Plan, as well as each organization's ability to secure necessary funding for the transaction.

Given the uncertainty associated with these otherwise viable proposals, the transaction team is not currently putting forth a transaction recommendation pending further insight into the resolution of the pension and funding sources of Prospect and SGM.

Sale Process Update – Final Bids

Final Bids – Summary of Key Terms

		Blue Wolf Capital Partners	Integrity Healthcare	Paladin Healthcare
STRUCTURE	Transaction Description / Unique Structure Considerations	<ul style="list-style-type: none"> Disaffiliation / Member Substitution For-profit acquires MOBs, enters into management agreement & receives purchase option OpCo remains not-for-profit DOC to fund working capital shortfall 	<ul style="list-style-type: none"> Asset Purchase 	<ul style="list-style-type: none"> Definitive Agreements not Received (letter of intent only) OpCo (ESOP) PropCo (For-profit) Valuation likely less than DCHS liabilities
	Deposit <i>Amount:</i>	None	\$27.2mm	Not Addressed
	<i>Termination Fee:</i>	Not Applicable	None	Not Addressed
	Buyer Indemnification	None	None	\$30mm cap; residual to pay AP / current liabilities
CLAIM TREATMENT AT CLOSE	Bonds <i>2014:</i>	Paid at Closing	Paid at Closing (\$100mm cap)	Paid at Closing
	<i>2005:</i>	Assume*	Paid at Closing	Paid at Closing
	Pension <i>Church:</i>	Merge w/ RPHE or Assume* (TBD)	Assume	Assume
	<i>RPHE:</i>	Assume*	Assume	Assume
	Employee Liabilities	Cash / Assume*	Cash / Assume	TBD
	Contracts / Leases	Assume*	Assume	Assume
	Other Liabilities	Assume*	Assume	Partially – Unsecured Note
	CBA's	MOUs with SEIU & UNAC; Assume* CNA	Assume, but attempt to renegotiate	Assume
	Severance Holdback	None	None; Agrees to observe policies for 18 months	Not Addressed
OTHER	Capital Sources	Financing (committed), Equity, DOC	Financing (uncommitted)	TBD
	Release	Mutual against DOCMSC and DCHS	D&O, DCHS and Affiliates	Not Addressed
	CapEx Commitment	\$300mm over 5 years	\$300mm over 5 years	Not Addressed
	Charity / Pastoral Care	Similar policies / Fund pastoral care for 5 years	Similar policies / Fund pastoral care for 5 years	Not Addressed
	Pre-Close Participation	Consulting	Consulting	Not Addressed

Note: Retained assets generally consist of religious artifacts, DCHS and related names, LHM Foundations (ex. Blue Wolf and Prime) and miscellaneous real and personal property assets.

* "Assume" under Blue Wolf structure means that these obligations remain liabilities of DCHS under new control post-Closing

Final Bids – Summary of Key Terms (cont.)

		Prime Healthcare	Prospect Medical Holdings	Strategic Global Management
STRUCTURE	Transaction Description / Unique Structure Considerations	<ul style="list-style-type: none"> For-profit conversion SVMC, Medical Foundation and LHM Foundations substitution by Prime Healthcare Foundation (NFP) 	<ul style="list-style-type: none"> Asset Purchase 	<ul style="list-style-type: none"> Asset Purchase Transition of DCHS MF to new NFP Plus \$50mm (\$20mm cash; \$30mm into indemnity holdback)
	Deposit <i>Amount:</i>	\$40mm	\$50mm	\$25mm (at signing) \$25mm (60 days post signing)*
	<i>Termination Fee:</i>	\$20mm	2.5%	None
	Buyer Indemnification	None	None	\$30mm cap for SRDP / other damages of >\$5mm / > \$1mm
CLAIM TREATMENT AT CLOSE	Bonds <i>2014:</i>	Paid at Closing	Paid at Closing	Paid at Closing
	<i>2005:</i>	Paid at Closing	Paid at Closing	Paid at Closing
	Pension <i>Church:</i>	Assume	Fund / Unlikely to Assume*	Assume
	<i>RPHE:</i>	Assume	Assume	Assume
	Employee Liabilities	Cash / Assume	Cash / Assume	Cash / Assume
	Contracts / Leases	Assume	Assume	Assume
	Other Liabilities	Assume	Assume	Assume
CBAs	Assume, but attempt to renegotiate	Assume	Assume, but attempt to renegotiate	
Severance Holdback	\$11.5mm funded	None*	\$11.5mm funded	
OTHER	Capital Sources	Cash (balance sheet)	Financing (uncommitted)*	Financing (uncommitted), Equity*
	Release	DCHS and Affiliates; Fraud Carveout	D&O, DCHS and Affiliates	D&O, DCHS and Affiliates; Fraud Carveout
	CapEx Commitment	\$150mm over 3 years	\$300mm over 5 years	\$200mm over 5 years
	Charity / Pastoral Care	Similar policies / Fund pastoral care for 5 years	Similar policies / Fund pastoral care for 5 years	Similar policies / Fund pastoral care for 5 years
	Pre-Close Participation	Consulting	Consulting (Fee)	Consulting

Note: Retained assets generally consist of religious artifacts, DCHS and related names, LHM Foundations (ex. Prime) and miscellaneous real and personal property assets.

* Based on discussions, improvement in terms pending

Final Bids Received – Illustrative Recovery Analysis

Sources of Distributable Value (\$ millions)

	Blue Wolf	Prime	Prospect	SGM	
Cash	Cash Consideration ⁽¹⁾	\$ 86	\$ 382	\$ 382	\$ 443
	Plus: DOC Contribution	TBD	-	-	-
	Less: Severance / Indemnity Holdback	-	-	-	(42)
	Net Cash Consideration	86	382	382	402
Primary Assumed Liabilities	2014 Bonds (Bridge Loan)	-	-	-	-
	Series 2005 Bonds, net ⁽²⁾	267	-	-	-
	Mortgages / Capital Leases	5	5	5	5
	Pension - RPHE ⁽³⁾	49	49	49	49
	Pension - Church ⁽³⁾	220	220	220	220
	Employee Related Liabilities ⁽³⁾⁽⁴⁾	59	59	59	59
	Other Current Liabilities ⁽³⁾⁽⁵⁾	115	115	115	115
	Total Assumed Liabilities	717	449	449	449
Estimated Distributable Value	803	831	831	851	
Less: Assumed Liabilities	(717)	(449)	(449)	(449)	
Est. Distributable Cash Value	\$ 86	\$ 382	\$ 382	\$ 402	

(1) Excludes any amounts necessary to fund the Church Plan, pay transfer taxes, employee liabilities (accrued PTO) or related items that may be paid in cash at closing. Excludes post-closing availability under credit lines.

(2) Current principal balance of \$284.5 million (applicable until July 1, 2015), net of \$26.0 million of debt service reserve funds; includes projected accrued interest of \$8.7 million

(3) Amount per March 31, 2014 on / off-balance sheet analysis

(4) Represents accrued payroll / PTO; for purposes of presentation, presented as 100% assumed (any amounts due at closing will be paid in cash)

(5) Includes current liabilities, less employee-related items

Final Bids Received – Illust. Recovery Analysis (cont.)

Distribution of Value (\$ millions)

			Blue Wolf	Prime	Prospect	SGM				
Est. Distributable Cash Value (prior slide)			\$ 86	\$ 382	\$ 382	\$ 402				
			Recovery		Recovery		Recovery		Recovery	
Est. Claim			\$	%	\$	%	\$	%	\$	%
Secured Claims	2014 Bonds (Bridge Loan)	\$ 86	\$ 86	100%	\$ 86	100%	\$ 86	100%	\$ 86	100%
	2005 Bonds, net ⁽²⁾	267	<i>Assumed</i>	100%	267	100%	267	100%	267	100%
	Mortgages / Capital Leases	5	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%
	Total	359	86		354		354		354	
Priority Claims	Employee Related ⁽³⁾⁽⁴⁾	59	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%
	Illust. Transaction Fees / Other	25	25	100%	25	100%	25	100%	25	100%
	Total	84	25		25		25		25	
Unsecured Claims	Pension - RPHE (Withdrawal)	201	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%
	Pension - 401(a)(17)	3	3	100%	3	100%	3	100%	3	100%
	OPEB ⁽⁴⁾	4	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%
	Other Current Liabilities ⁽³⁾⁽⁵⁾	115	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%	<i>Assumed</i>	100%
	Total (Pre-Church Plan)	324	3		3		3		3	
Pension - Church Plan			<i>Assumed</i>		<i>Assumed</i>		<i>Assumed</i> ⁽⁶⁾		<i>Assumed</i>	
Residual Value			<u>\$ (28)</u> ⁽⁷⁾		<u>\$ -</u>		<u>\$ -</u>		<u>\$ 20</u>	

(1) Excludes any amounts necessary to pay transfer taxes, employee liabilities (accrued PTO) or related items that may be paid in cash at closing

(2) Current principal balance of \$284.5 million (applicable until July 1, 2015), net of \$26.0 million of debt service reserve funds; includes projected accrued interest of \$8.7 million

(3) Amount per March 31, 2014 on / off-balance sheet analysis

(4) Represents accrued payroll / PTO; for purposes of presentation, presented as 100% assumed (any amounts due at closing will be paid in cash)

(5) Includes current liabilities, less employee-related items

(6) Assumes Prospect assumes the Church Plan until economics of funding are determined

(7) Assumes shortfall is funded through the existing cash on DCHS' balance sheet and / or DOC

Final Bids – Qualitative Comparison

■ In evaluating the bids, the chart below contemplates three critical components of the bids:

Creditor Treatment

- Total bid value
- Form of Consideration (cash, assumed liabilities)

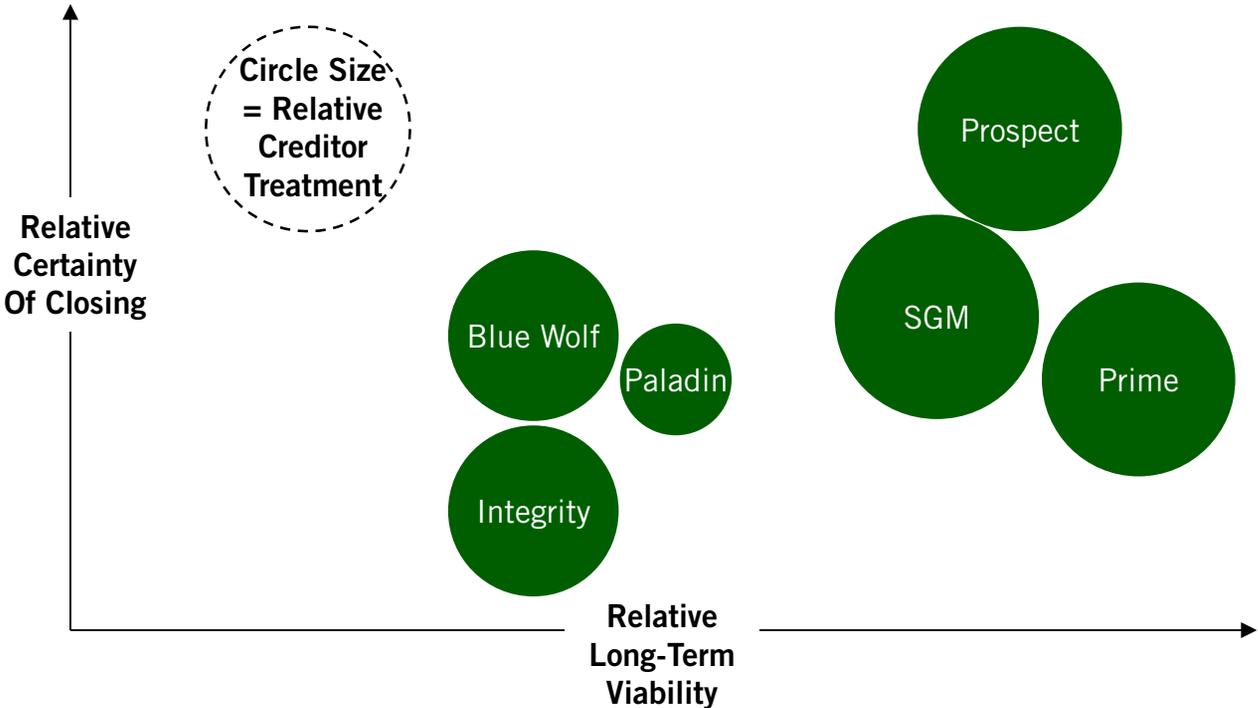
Long-Term Viability

- Strength / Support of on-going relationships
- Long-term financial support / wherewithal

Certainty of Closing

- Committed capital
- Propensity to re-negotiate terms
- Likelihood of regulatory approval

Qualitative Bid Comparison



- The DCCHS Board has identified the following factors for evaluating the DCCHS bids



Current Transaction Strengths / Weaknesses

	Strengths	Weaknesses
Blue Wolf Capital Partners	<ul style="list-style-type: none"> • Support of SEIU and UNAC • Committed financing from GE Capital • Anticipated support from the California AG 	<ul style="list-style-type: none"> • Ability to maintain 501(c)(3) status is unclear (sponsor, purchase option) • Minimal capital invested into operations • Post-Closing DCHS is left thinly capitalized / increased leverage • May still require DOC funding • 2005/2014 Bondholders have indicated they will oppose assumption of the 2005 debt • Absence of a deposit
Prime Healthcare	<ul style="list-style-type: none"> • Experienced California hospital operator • DCHS transaction is strategic for Prime: <ul style="list-style-type: none"> - Opportunity to transact in California - Material step toward an IPO of Prime Healthcare • Proven track record of improving distressed hospitals • Access to cash and credit facilities to fund closing payments and post-closing recapitalization • Significant acquisition experience 	<ul style="list-style-type: none"> • Resistance from SEIU and UNAC • Potential transaction resistance from the California AG and politicians • Litigious history and potential for renegotiations
Prospect Medical Holdings	<ul style="list-style-type: none"> • Experienced California hospital operator • Backed by large investment fund capable of providing necessary resources • Remained out of sight / not attracted resistance as a buyer • Significant transaction sophistication 	<ul style="list-style-type: none"> • Need to find a solution to the Church Plan exposure which could include continuation of DCHS sponsorship (with Prospect funding the plan at Closing) • Must obtain capital commitment
Strategic Global Management	<ul style="list-style-type: none"> • Experienced California hospital operator • Has recently received California AG consent to acquire hospitals • Remained out of sight / not attracted resistance as a buyer • Transaction consideration in excess of liabilities 	<ul style="list-style-type: none"> • Demonstrated limited experience with transactions of this scale • Need to find a solution to the Church Plan funding needs post-ERISA conversion • Must obtain capital commitment

Next Steps

Process Event	Description
Near Term	<ul style="list-style-type: none"> ■ Seek solution for Prospect and SGM concerns with Church Plan (different concerns) ■ Seek financing and equity commitments from Prospect and SGM ■ Determine willingness of Daughters of Charity to financially support a transaction ■ Finalize transaction documentation
Regulatory Approvals	<ul style="list-style-type: none"> ■ Upon execution of definitive documents, the pursuit of all necessary approvals on a concurrent basis: <ul style="list-style-type: none"> ● Vatican Approval of Alienation ● California Attorney General ● Federal Trade Commission (Hart-Scott-Rodino / Antitrust) ● California Department of Public Health
2014 Bond Sale Transaction Milestones (Outside Dates)	<ul style="list-style-type: none"> ■ <u>October 31, 2014</u> – Executed APA sufficient to satisfy requirements of the 2014 Bonds ■ <u>15 days post-execution of the APA</u> – All necessary regulatory filings made by DCHS and buyers ■ <u>March 31, 2015</u> – All necessary regulatory approvals received (other than DPH) ■ <u>45 days post-regulatory approval</u> – Consummation of transaction

Buyer Detail

Blue Wolf Capital Partners

Overview

Business Description

- Blue Wolf Capital Partners (“Blue Wolf”) is a private equity firm specializing in control investments in companies with significant government and organized labor relationships, as well as financial or operational distress
 - The firm’s staff includes investment professionals with extensive experience in private equity investing, senior government service and working with and for organized labor
- Blue Wolf was founded in 2005 and is headquartered in New York



Select Healthcare M&A Transactions

- **Sep. 2011:** Acquired controlling stake in the largest independent pharmacy benefits consulting firm Pharmaceutical Strategies Group
- **Nov. 2008:** Acquired assets of Hospital Laundry Services and Northern Illinois Hospital Services to form Healthcare Laundry Systems, the largest healthcare laundry provider in North America

Current Portfolio

- American Builders Supply Inc.
- Channel Technologies Group, LLC
- Finch Paper Holdings, LLC
- Gloucester Engineering Co. Inc.
- Pharmaceutical Strategies Group, LLC
- Snappy Air Distribution Products
- Suwannee Lumber Co.
- Twin Rivers Paper Company

Select Management

Blue Wolf M&A

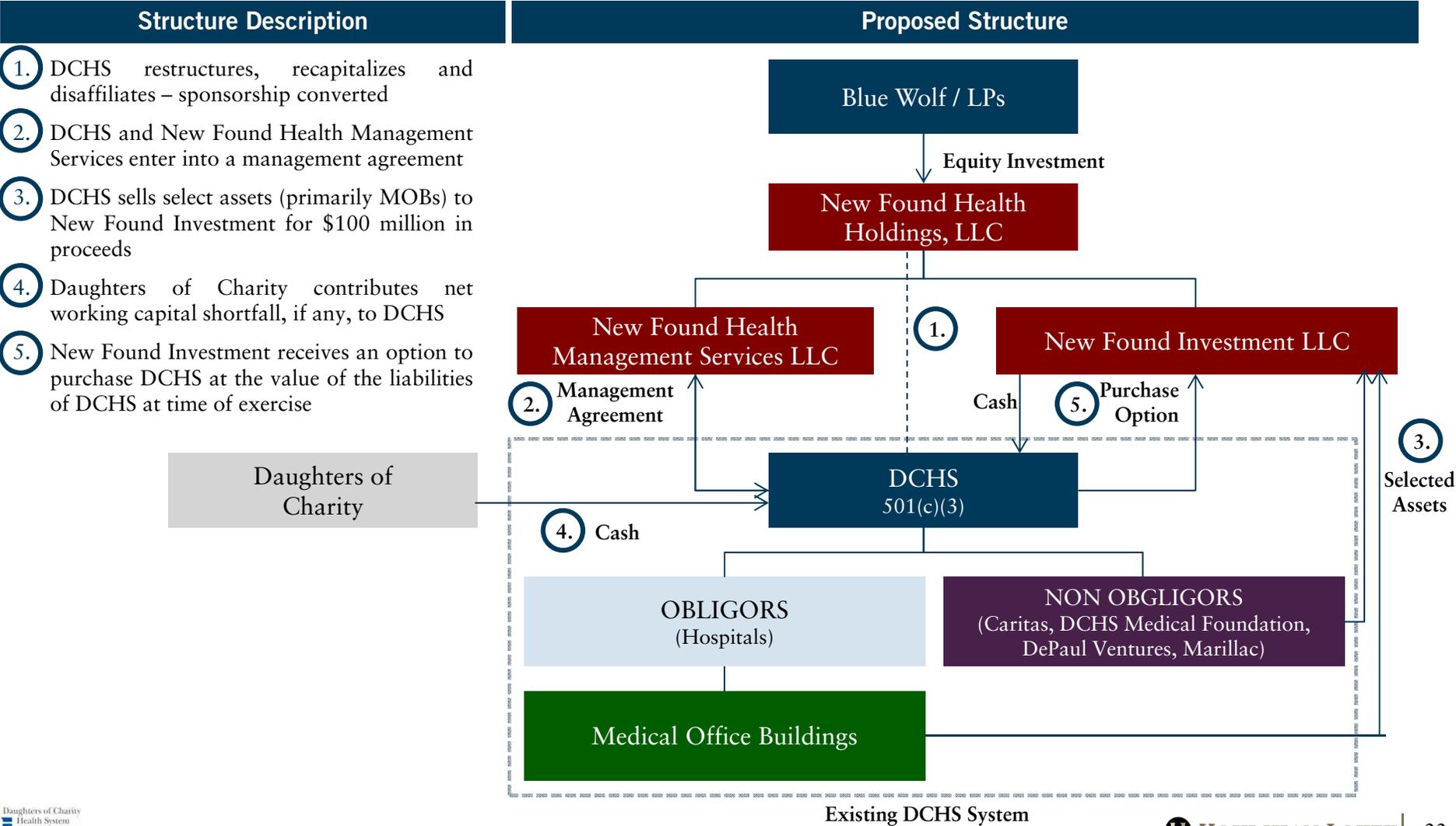
- **Adam Blumenthal** (Co-Founder and Managing Partner)
 - Adam’s experience includes serving as First Deputy Comptroller and CFO for New York City Comptroller William C. Thompson, Jr.
 - He currently serves as Chairman of the investment committee of the UAW VEBA, a \$55 billion fund that pays retiree health benefits for UAW employees of Ford, Chrysler and GM

Proposed DCHS Leadership

- **Dr. Richard Becker**
 - Dr. Becker is a board certified physician in anesthesiology and critical care medicine
 - He led the turnaround effort of The George Washington University Hospital in Washington D.C., and The Brooklyn Hospital Center in Brooklyn, New York
 - He also served on several charitable boards and was recently elected to several healthcare executive committees in New York
- **Richard C. Wright**
 - Richard has more than 40 years of healthcare experience, the majority of which he spent at Universal Health Services
 - His experience in California includes the acquisition of Lancaster Community Hospital and Corona Regional Medical Center, the development of Palmdale Regional Medical Center and creating a strategic plan for the Southwest Healthcare System
 - He also founded Allergy Services of America and Wright Transaction Advisors

Transaction Structure

- Blue Wolf has created the following structure, allowing for the investment of fresh capital into a not-for-profit 501(c)(3) entity, the assumption of existing tax-free bonds and an incentivized management company to drive operations improvements



Key Terms of Final Round Bid

STRUCTURE	Transaction Description / Unique Structure Considerations	<ul style="list-style-type: none"> • Corporate structure of health system remains unchanged; DOC sponsorship ends; DCHS board is replaced; Catholic sponsorship continues temporarily • For-profit Blue Wolf entities (i) purchase MOBs, (ii) enter into management services agreement and (iii) receive option to acquire DCHS assets • DCHS remains as non-profit operating company; converts to non-profit public benefit corporations at Closing • Any net working capital shortfall at Closing to be funded by Daughters of Charity (Blue Wolf has meaningfully reduced its expectation for a DOC capital contribution as recently as 9/28/2014)
	Excluded Assets / Operations	<ul style="list-style-type: none"> • DCHS names / marks, retained records, religious artifacts, Los Altos lease, land at SVMC and SMC, funds to discharge payables in favor of DOCMSC, among other Retained Assets
	Deposit <i>Amount:</i>	<ul style="list-style-type: none"> • None
	<i>Termination Fee:</i>	<ul style="list-style-type: none"> • None
	Buyer Indemnity	<ul style="list-style-type: none"> • None
CLAIM TREATMENT AT CLOSE	Bonds <i>2014:</i> <i>2005:</i>	<ul style="list-style-type: none"> • Paid at Closing • Remains outstanding as ongoing obligation of DCHS
	Pensions / Retirement <i>Church:</i> <i>RPHE:</i> <i>401(a)(17):</i>	<ul style="list-style-type: none"> • Convert into single-employer ERISA plan (possible merger with RPHE) • Fund consistent with collective bargaining agreements • Any amounts due at closing to be included as a liability in calculation of net working capital
	Employee Liabilities	<ul style="list-style-type: none"> • Cash (any amounts due at Closing to be included in calculation of target net working capital) / Assumed
	Contracts / Leases	<ul style="list-style-type: none"> • Remains as ongoing obligation of DCHS
	Other Liabilities	<ul style="list-style-type: none"> • Remains as ongoing obligation of DCHS

Key Terms of Final Round Bid (cont.)

CLAIM TREAT. AT CLOSE	Employees / CBAs	<ul style="list-style-type: none"> • Treatment of non-union employees and Senior Leaders not addressed • Have memorandums of understanding with SEIU and UNAC • Assume CNA (current CBA must not have been extended beyond closing date)
	Severance	<ul style="list-style-type: none"> • No holdback; any amounts due at closing to be included as a liability in calculation of net working capital • Maintain existing severance obligations for 18 months
	Transaction Costs / Taxes	<ul style="list-style-type: none"> • Paid by DCHS at Closing; any amounts outstanding to be included as a liability in calculation of net working capital
OTHER	Source of Financing	<ul style="list-style-type: none"> • DOC contribution, cash investment, potential transaction financing from GE
	Terms of Release	<ul style="list-style-type: none"> • Will not assert any claims against DOCMSC or any former DCHS directors or officers
	CapEx Commitment	<ul style="list-style-type: none"> • \$300 million over 5 years
	Charity / Pastoral	<ul style="list-style-type: none"> • Maintain similar charity care policies, operate as acute care hospitals and maintain chapels / fund pastoral care for 5 years
	Pre-Close Participation	<ul style="list-style-type: none"> • Cooperate and assist Blue Wolf with arrangement of financing for working capital or other financing needs • Provide Blue Wolf access to interact with DCHS senior leadership, medical staff and other employees
	Timing	<p><i>Close:</i></p> <ul style="list-style-type: none"> • Last business day of month after satisfaction of required conditions <p><i>Outside Date:</i></p> <ul style="list-style-type: none"> • Later of 150 days and 30 days post-approvals; capped at 180 days

Sources of Capital / Financial Wherewithal

Existing Liquidity / Capital

- Blue Wolf does not have existing operating company platforms into which DCHS or NewFound Health will be integrated
- Estimated sources and uses of the transaction contemplates that at Closing:
 - DCHS was initially targeted to have ~\$300 million of liquidity (cash + Provider Fee receivable) – (NOTE, liquidity target may have been reduced as a result of Blue Wolf’s reduced net working capital target / anticipated funding from DOC)
 - NewFound Health Management Services will have ~\$11 million of liquidity

Potential Transaction Financing

DCHS (Not For Profit)



- GE Capital provided a commitment letter for a \$100 million revolving credit facility, with \$85 million expected to be drawn to fund the repayment of the 2014 Bonds

NewFound Health (For Profit)



- GE Capital provided commitment letter for \$67.5 million first lien mortgage loan to help fund acquisition of MOBs from DCHS
 - Comprised of \$50 million initial funding, \$7.5 million holdback for TIs and LCs and \$10 million earnout

Financial Sponsorship

- In July 2013, Blue Wolf announced that it closed on \$300 million of limited partner equity commitments for Blue Wolf Capital Fund III (the fund associated with the bid for DCHS)
 - Blue Wolf has indicated DCHS would be the largest investment in this fund
- As of July 2013, Blue Wolf managed approximately \$460 million in capital and equity commitments

Transaction Deposit

- None

Buyer Detail
Prime Healthcare

Overview

Business Description

- Prime Healthcare (“Prime”), headquartered in Ontario, CA, owns and operates 29 acute care hospitals with approximately 4,700 beds in CA, IN, KS, MI, NJ, NV, PA, RI and TX
- Prime is the largest for-profit operator of hospitals in California with an established track record of turning around distressed hospitals
- Offers various medical services including emergency room, heart care, maternity care, behavioral health, surgical, imaging, senior care, intensive care, clinical laboratory, pharmacy facilities and wound treatment among others in addition to a variety of community services
- Over the past two years, Prime purchased four hospitals with Catholic affiliations, has maintained the religious and cultural identity of the institutions
- Prime Healthcare Services Foundation, a not-for-profit, owns and operates five hospitals



National Presence



Note: Includes Prime Healthcare Foundation hospitals

Select Management

- Prem Reddy – Chairman, President & CEO
- Mike Sarian – President of Hospital Operations
- Mike Heather – CFO

Financial Snapshot as of December 2013

- Revenue: \$2.0 billion
- EBITDA: \$280 million
- Debt / EBITDA: 2.2x

Select M&A Transactions

- **Aug. 2014:** Acquired St. Mary’s Hospital (NJ)
- **Jul. 2014:** Pending acquisition of St. Joseph Medical Center and St. Mary’s Medical Center (MO)
- **Jul. 2014:** Acquired Garden City Hospital (MI)
- **May 2014:** Acquired East Valley Hospital Medical Center (CA)
- **Dec. 2013:** Acquired Landmark Medical Center and the Rehabilitation Hospital (RI)
- **Nov. 2013:** Acquired St. Mary Health Corporation (NV)
- **Aug. 2012:** Acquired Lower Bucks Hospital (PA)

Key Terms of Final Round Bid

STRUCTURE	Transaction Description / Unique Structure Considerations	<ul style="list-style-type: none"> • Membership substitution / ownership transfer • SVMC, Medical Foundation and LHM Foundations convert to non-profit public benefit corporations under Prime Healthcare Services Foundation (“PHSF”) • All other hospital / entities convert to for-profit corporations under Prime Healthcare Services (“PHS”)
	Excluded Assets / Operations	<ul style="list-style-type: none"> • DCHS names / marks, retained records, Los Altos lease and FF&E, non-DCHS affiliate receivables, religious artifacts, land at SVMC and SMC
	Deposit <i>Amount:</i>	<ul style="list-style-type: none"> • \$40 million irrevocable letter of credit, payable to DCHS if termination other than from mutual termination, DCHS breach or failure to obtain Church approval; provided, only \$5 million payable to DCHS if terminates due to failure to obtain government approval (AG or otherwise)
	<i>Termination Fee:</i>	<ul style="list-style-type: none"> • \$20 million, payable to Prime if DCHS breaches and terminates
	Buyer Indemnity	<ul style="list-style-type: none"> • None
CLAIM TREATMENT AT CLOSE	Bonds <i>2014:</i>	<ul style="list-style-type: none"> • Paid at Closing
	<i>2005:</i>	<ul style="list-style-type: none"> • Paid at Closing
	Pensions / Retirement <i>Church:</i>	<ul style="list-style-type: none"> • Assumed and funded consistent with ERISA / Internal Revenue Code
	<i>RPHE:</i>	<ul style="list-style-type: none"> • Assumed and funded consistent with collective bargaining agreements
	<i>401(a)(17):</i>	<ul style="list-style-type: none"> • Paid at Closing
	Employee Liabilities	<ul style="list-style-type: none"> • Cash (if required to fund at close) / Assumed
	Contracts / Leases	<ul style="list-style-type: none"> • Assumed
	Other Liabilities	<ul style="list-style-type: none"> • Assumed

Key Terms of Final Round Bid (cont.)

CLAIM TREAT. AT CLOSE	Employees / CBAs	<ul style="list-style-type: none"> • Offer employment to Senior Leaders and retain substantially all others on similar terms • Assume CBAs; begin negotiations following entry into agreement • Prime to reimburse any costs from resulting work stoppages / strikes
	Severance	<ul style="list-style-type: none"> • \$11.5 million holdback; unused amounts revert to Prime • Maintain existing severance obligations for 12 months post-closing
	Transaction Costs / Taxes	<ul style="list-style-type: none"> • Paid at Closing
OTHER	Source of Financing	<ul style="list-style-type: none"> • Cash on Prime / PHSF balance sheets, existing borrowing capacity of Prime, potential transaction financing from Medical Properties Trust and / or Wells Fargo • Prime Healthcare committing to DCHS pension funding
	Terms of Release	<ul style="list-style-type: none"> • Prime and affiliates release and indemnify DCHS affiliates / various other parties, except for actual fraud
	CapEx Commitment	<ul style="list-style-type: none"> • \$150 million over 3 years
	Charity / Pastoral	<ul style="list-style-type: none"> • Maintain similar charity care policies, operate as acute care hospitals and maintain chapels / fund pastoral care for 5 years
	Pre-Close Participation	<ul style="list-style-type: none"> • Engage Prime at no cost for consulting services
	Timing	<p><i>Close:</i> • 7 business days after satisfaction of required conditions</p> <p><i>Outside Date:</i> • Later of 150 days and 30 days post-approvals; capped at 350 days</p>

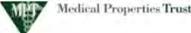
Sources of Capital / Financial Wherewithal

Existing Liquidity / Capital

- As of July 31, 2014: PHS⁽¹⁾ and PHSF⁽¹⁾ have:
 - \$142 million availability under PHS revolver w/ HFG
 - Book value of equity / net assets totaling \$666 million / \$861 million, respectively

(\$ millions)	July 31, 2014		
	PHS	PHSF	Total
Hospital Operating Cash	\$ 45	\$ 47	\$ 92
Escrow Cash	118	-	118
Investments	-	132	132
Total Cash and Equiv.	\$ 164	\$ 179	\$ 342

Potential Transaction Financing

- Medical Properties Trust (“MPT”) 
 - \$500 million lending commitment for financing secured by DCHS real estate, subject to further diligence and review
- Healthcare Finance Group (“HFG”) 
 - \$225 million revolving capital line with \$142 million available (as of 7/31/2014)
- Wells Fargo 
 - Provided letter (dated 9/12/2014) indicating it believes up to \$400 million of funded debt financing is available to Prime through the capital markets to fund the DCHS transaction

Financial Sponsorship

- Not applicable
- The transaction documents commit Prime Healthcare to funding the DCHS pension plans
 - Note, SVMC will be acquired by Prime’s not-for-profit foundation while the other hospitals will be acquired by Prime’s for-profit entity

Transaction Deposit

- \$40 million letters of credit from Wells Fargo and City National Bank 

(1) Prime Healthcare Services (“PHS”) and Prime Healthcare Services Foundation (“PHSF”), respectively

Buyer Detail
Prospect Medical Holdings

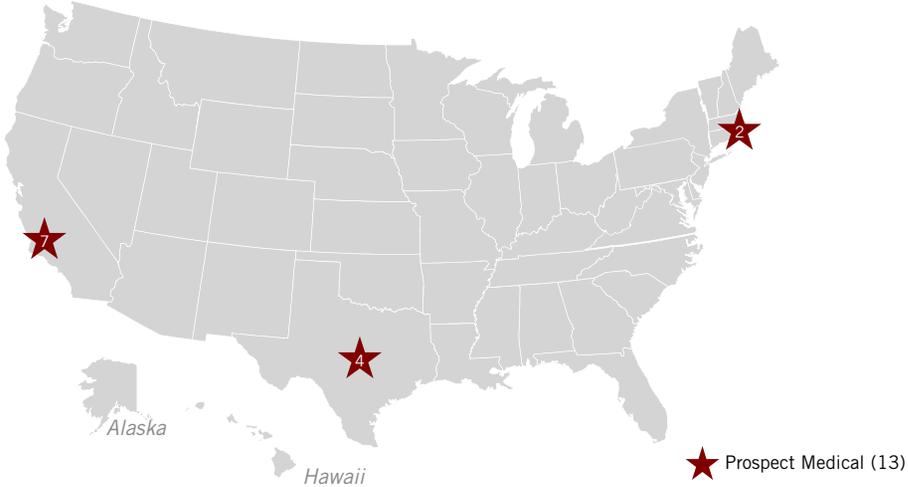
Overview

Business Description

- Prospect Medical Holdings (“Prospect”) provides healthcare and physician services in California, Texas and Rhode Island
- Provides coordinated healthcare through its network of hospitals, clinics, and physicians (both primary care and specialists)
- Owns and operates thirteen acute and behavioral hospitals, with 2,258 licensed beds, and a network of 32 specialty/primary care clinics
- Provides physician services to approximately 233,000 enrollees of HMOs through a network of approximately 9,133 primary care and specialty physicians
- Owned by Leonard Green & Partners, a Los Angeles based private equity firm, with over \$15 billion of private equity capital raised since its inception



National Presence



Source: Company website

California Hospitals

- Southern California Hospital at Van Nuys
- Southern California Hospital at Hollywood
- Southern California Hospital at Culver City (f/k/a Brotman Medical Center)
- Los Angeles Community Hospital at Los Angeles
- Los Angeles Community Hospital at Bellflower
- Los Angeles Community Hospital at Norwalk
- Newport Specialty Hospital

Financial Snapshot (per Moody’s Aug 2014 Report)

- Revenue: \$1 billion (pro-forma adjusted for acquisitions)
- Debt / EBITDA: 4.6x (pro-forma adjusted for acquisitions)
- Hospital segment accounts for 70% of revenue

Select M&A Transactions

- **Jun. 2014:** Partnered with CharterCARE Health Partners’ Roger Williams Medical Center and Our Lady of Fatima Hospital (RI)
- **May 2014:** Acquired two hospitals in Southern California
- **Feb. 2014:** Announced agreement to acquire Newport Specialty Hospital of Tustin (CA) from Pacific Health Corporation
- **Apr. 2013:** Acquired Community General Hospital (TX)
- **Feb. 2012:** Purchased Accord Medical Management, LP, a hospital and healthcare system operator in Texas, for ~\$190 million

Management

- Sam Lee – Chairman, CEO
- Steve Aleman – CFO
- Von Crockett – SVP of Corporate Development
- Frank Saidara – VP of Corporate Development



Sources: CapIQ; Moody’s August 8, 2014 Credit Rating Report; Company website

Key Terms of Final Round Bid

STRUCTURE	Transaction Description / Unique Structure Considerations	<ul style="list-style-type: none"> • Asset Purchase / Liability Assumption
	Excluded Assets / Operations	<ul style="list-style-type: none"> • DCHS names / marks, retained records, Los Altos lease and FF&E, non-DCHS affiliate receivables, religious artifacts, land at SVMC and SMC, philanthropic foundations
	Deposit <i>Amount:</i>	<ul style="list-style-type: none"> • \$50 million, payable to DCHS if terminated due to Prospect breach
	<i>Termination Fee:</i>	<ul style="list-style-type: none"> • 2.5% break-up fee
	Buyer Indemnity	<ul style="list-style-type: none"> • None
CLAIM TREATMENT AT CLOSE	Bonds <i>2014:</i>	<ul style="list-style-type: none"> • Paid at Closing
	<i>2005:</i>	<ul style="list-style-type: none"> • Paid at Closing
	Pensions / Retirement <i>Church:</i>	<ul style="list-style-type: none"> • Previously planned to assume an ERISA compliant plan (post-Closing if necessary), but currently contemplating funding the plan in full at Closing and leaving the plan with the DOC
	<i>RPHE:</i>	<ul style="list-style-type: none"> • Assumed and funded consistent with CBAs
	<i>401(a)(17):</i>	<ul style="list-style-type: none"> • Paid at Closing
	Employee Liabilities	<ul style="list-style-type: none"> • Assumed
	Contracts / Leases	<ul style="list-style-type: none"> • Assumed
	Other Liabilities	<ul style="list-style-type: none"> • Assumed

Prospect Medical Holdings

Key Terms of Final Round Bid (cont.)

CLAIM TREAT. AT CLOSE

Employees / CBAs

- Offer employment to Senior Leaders and retain substantially all others on similar terms
- Assume CBAs

Severance

- No holdback; maintain existing severance obligations for 18 months

Transaction Costs / Taxes

- Paid in cash at Closing

OTHER

Source of Financing

- Transaction financing commitment letter to be provided

Terms of Release

- Release and indemnify directors, officers, employees and other DCHS affiliates / parties, except for any losses arising from termination of 401(a)(17) plans

CapEx Commitment

- \$300 million over 5 years

Charity / Pastoral

- Maintain similar charity care policies, operate as acute care hospitals and maintain chapels / fund pastoral care for no less than 5 years

Pre-Close Participation

- Engage Prospect for a to-be-negotiated fee for consulting services

Timing

Close: • 7 business days after satisfaction of conditions

Outside Date: • Later of 150 days and 30 days post-approvals; capped at 350 days

Sources of Capital / Financial Wherewithal

Existing Liquidity / Capital

- Prospect has access to a \$60 million revolving credit facility expiring in 2017
 - It is expected that the revolver will be used to fund acquisitions (not relied upon for operations)
- Additional background and financial information pending – NDA executed

Financial Sponsorship

- Owned by Leonard Green & Partners
- In May 2012 LGP, announced the closing of its sixth equity fund, Green Equity Investors VI, L.P., with \$6 billion in limited partner commitments along with \$250 million from affiliates of LGP.
- It is anticipated that DCHS will be integrated into and share a common balance sheet with Prospect’s existing network of 13 hospitals (located in California, Texas and Rhode Island)



Potential Transaction Financing

- Morgan Stanley 
 - Commitment letter from Morgan Stanley to be finalized and provided

Transaction Deposit

- \$50 million cash deposit

Buyer Detail
Strategic Global Management

Overview

Business Description (per LOI)

Strategic Global Management (“SGM”) and its affiliates have an ownership interest and operate numerous healthcare and other enterprises in the United States and abroad, including:



STRATEGIC GLOBAL MANAGEMENT, INC.
6800 Indiana Avenue, Suite 130, Riverside, California 92506
Telephone: (951) 782-8812 Facsimile: (951) 782-8850

- 7 hospitals in Riverside, San Bernardino and Orange County



- Other medical groups, independent physician associations and ancillary healthcare businesses

Over the past four years, SGM has closed transactions in excess of \$350 million

Management

- Dr. Kali Chaudhuri – Chairman of SGM
- Bill Thomas – EVP and General Counsel of SGM
- Suzanne Richards – COO of SGM
- Kali Chaudhuri – CFO of SGM

California Hospitals

- Victor Valley Global Medical Center
- Physicians for Health Hospitals:
 - Hemet Valley Medical Center
 - Menifee Valley Medical Center
- Integrated Healthcare Holdings, Inc.:
 - Western Medical Center – Santa Ana
 - Western Medical Center – Anaheim
 - Coastal Community Hospital
 - Chapman Medical Center



Sources: LOI

Southern California Presence



★ SGM Hospitals (7)

Select M&A Transactions

- Jul. 2012:** Victor Valley Global Medical Center, a safety net healthcare provider, was acquired out of bankruptcy
- Oct. 2010:** Physicians for Healthy Hospitals (including Hemet Valley Medical Center and Menifee Valley Medical Center) was acquired out of bankruptcy

Key Terms of Final Round Bid

STRUCTURE	Transaction Description / Unique Structure Considerations	<ul style="list-style-type: none"> • Asset Purchase / Liability Assumption • DCHS to cooperate in transition to develop and submit new tax-exempt application for Medical Foundation at Closing (Purchaser does not expect to require DCHS to continue sponsorship post-Closing) • Additional consideration: \$20mm cash, \$30mm indemnity holdback and potential pre-close reduction-in-force incentive payment (\$20mm cap)
	Excluded Assets / Operations	<ul style="list-style-type: none"> • DCHS names / marks, retained records, Los Altos lease, non-DCHS affiliate receivables, religious artifacts, land at SVMC and SMC, philanthropic foundations
	Deposit <i>Amount:</i>	<ul style="list-style-type: none"> • \$25 million at signing; additional \$25 million after 60 days, payable to DCHS if terminated other than mutually, from a DCHS breach or from failure to obtain church approval; provided only \$5 million payable to DCHS from failure to obtain government approval or reaching the outside date
	<i>Termination Fee:</i>	<ul style="list-style-type: none"> • None
	Buyer Indemnity	<ul style="list-style-type: none"> • \$30 million cap for damages arising from any DCHS breach or Excluded Liabilities • Applies to self-disclosure damages above \$5 million (capped at \$10 million) and all other damages after claims of \$1 million
CLAIM TREATMENT AT CLOSE	Bonds <i>2014:</i>	<ul style="list-style-type: none"> • Paid at Closing
	<i>2005:</i>	<ul style="list-style-type: none"> • Paid at Closing
	Pensions / Retirement <i>Church:</i>	<ul style="list-style-type: none"> • Assumed and funded consistent with ERISA / Internal Revenue Code
	<i>RPHE:</i>	<ul style="list-style-type: none"> • Assumed and funded consistent with collective bargaining agreements
	<i>401(a)(17):</i>	<ul style="list-style-type: none"> • Paid at Closing
	Employee Liabilities	<ul style="list-style-type: none"> • Paid in cash (if required at Close) / Assumed
	Contracts / Leases	<ul style="list-style-type: none"> • Assumed
	Other Liabilities	<ul style="list-style-type: none"> • Assumed

Key Terms of Final Round Bid (cont.)

CLAIM TREAT. AT CLOSE	Employees / CBAs	<ul style="list-style-type: none"> • Offer employment to a substantial portion of all employees • Maintain existing severance obligations for 18 months post-Closing • Assume CBAs, but attempt to renegotiate
	Severance	<ul style="list-style-type: none"> • \$11.5 million funded holdback
	Transaction Costs / Taxes	<ul style="list-style-type: none"> • Paid in cash at Closing
OTHER	Source of Financing	<ul style="list-style-type: none"> • Cash investment, potential transaction financing from MidCap, uncommitted sale of MOBs to Rendina
	Terms of Release	<ul style="list-style-type: none"> • Release directors, officers, employees and other DCHS affiliates / parties, except for terms of indemnification for intentional fraud or violation of legal requirements
	CapEx Commitment	<ul style="list-style-type: none"> • \$200 million over 5 years
	Charity / Pastoral	<ul style="list-style-type: none"> • Maintain charity care policies as required by law; operate as acute care hospitals and maintain chapels / fund pastoral care for 5 years
	Pre-Close Participation	<ul style="list-style-type: none"> • Engage SGM at no cost for consulting services; work toward development of “workforce realignment plan”
	Timing	<ul style="list-style-type: none"> • <i>Close:</i> 7 business days after satisfaction of conditions • <i>Outside Date:</i> Later of 150 days or 30 days post-approvals; capped at 350 days

Sources of Capital / Financial Wherewithal

Overview

- SGM has not provided any internal or external financial statements
- SGM's proposed sources and uses indicate that it will fund a \$100 million equity investment
 - Based on Rendina's proposed MOB purchase, amount could reduce the required equity investment and/or amount of third party subordinated financing

Potential Transaction Financing

- MidCap Financial 
 - Provided commitment letter for \$225 million total financing, subject to final legal diligence
 - Facility has 3-year term; term loan amortizing on 5-year straight line basis
- TBD Subordinated Lender
 - TBD third party lender to provide ~\$120 million in subordinated debt financing to fund transaction
- Rendina Healthcare Real Estate 
 - Proposal letter to purchase MOB for \$91.5 million

Financial Sponsorship

- The KPC Group is a private company founded and controlled by Dr. Kali P. Chaudhuri based in Riverside, CA
- KPC invests in a variety of industries, including healthcare, pharmaceuticals, education, engineering and IT
- In addition to its healthcare investments, KPC owns and operates IT-related services, pharmaceutical research services, engineering services, real estate development and travel services
- It is unclear if DCHS will be integrated into a common balance sheet with any of SGM's hospitals



Transaction Deposit

- \$25 million cash deposit within one business day of executing APA
- Additional \$25 million cash deposit funded within 60 days of executing APA

Glossary of Terms

Glossary of Terms

AG	• (California) Attorney General	LOI	• Letter of intent
AP	• Accounts payable	MF	• Medical Foundation
APA	• Asset purchase agreement	MOB	• Medical office building
CA	• Confidentiality agreement	MOU	• Memorandum of understanding
CapEx	• Capital expenditures	NDA	• Non-disclosure agreement
CBA	• Collective bargaining agreement	NFP	• Not-for-profit
CEO	• Chief Executive Officer	NWC	• Net working capital
CFO	• Chief Financial Officer	OCH	• O'Connor Hospital (San Jose)
Church Plan	• The DCHS Retirement Plan, a single-employer defined benefit pension plan	OpCo	• Operating company (entity that operates the hospitals and provides patient care)
CNA	• California Nurses Association	OPEB	• Other postemployment benefits
COO	• Chief Operating Officer	PropCo	• Property company (entity that owns the underlying property / real estate on which the hospitals operate)
D&O	• Directors and officers	PTO	• Paid time off
DCHS	• Daughters of Charity Health System	REIT	• Real Estate Investment Trust
DOC	• Daughters of Charity	RPHE	• Retirement Plan for Hospital Employees
DOCMSC	• Daughters of Charity Ministry Services Corporation	SEIU	• Service Employees International Union
DPH	• (California) Department of Public Health	SFMC	• St. Francis Medical Center (Lynwood)
EBITDA	• Earnings before interest, taxes, depreciation and amortization	SLRH	• Saint Louise Regional Hospital (Gilroy)
ERISA	• Employee Retirement Income Security Act	SMC	• Seton Medical Center (Daly City)
ESOP	• Employee stock ownership plan	SMCC	• Seton Medical Center Coastsides (Moss Beach)
EVP	• Executive Vice President	SNF	• Skilled nursing facility
FF&E	• Furniture, fixtures and equipment	SRDP	• Self-Referral Disclosure Protocol
FP	• For-profit	SVMC	• St. Vincent Medical Center (Los Angeles)
IPO	• Initial public offering (of equity)	TBD	• To be determined
IT	• Information technology	TI	• Tenant improvements
LC	• Letter of credit	UNAC	• United Nurses Associations of California
LHM	• Local health ministries	VEBA	• Voluntary employees' beneficiary association