

Daughters of Charity Health System

Board Presentation

May 30, 2014

MERGERS & ACQUISITIONS
CAPITAL MARKETS
FINANCIAL RESTRUCTURING
FINANCIAL ADVISORY SERVICES

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- Since commencing the sale process in early February, Houlihan Lokey has contacted 132 parties, 71 of whom have executed a confidentiality agreement
- Parties who submitted competitive preliminary bids in March were invited into the online data room and to participate in Management Presentations and LHM campus tours
- Since April, forty-eight management presentations / campus tours have taken place with fourteen potential buyers
 - Three system buyers have not participated in management presentations / campus tours to date

LHM	# of Completed Presentations / Campus Tours	Pending Tours
SFMC	9	[Prime; Integrity; RCB]
SVMC	11	[Prime; Integrity; RCB]
OCH	8	[Prime; Integrity; RCB]
SLRH (Tour Only)	7	[Prime; Integrity; RCB]
SMC	7	[Prime; Integrity; RCB]
SMCC (Tour Only)	6	[Prime; Integrity; RCB]
Total	48	

- Since early April, bidders continuing in the process have had access to a confidential on-line data room (containing ~4,350 documents / 57,800 pages of information) to assist with due diligence / underwriting in anticipation of the second round bid deadline
- As of May 29th, 15 parties submitted second round bids to acquire some or all of DCHS' operations
 - Seven bids were received for the entire system and eight bids for individual LHMs
 - Two parties have indicated that they are working towards submitting a second round bid

Summary of Submitted 2nd Round Proposals

	SYSTEM BUYERS (7)							LHM BUYERS (8)							
	Aecoro	CHA Hollywood	Integrity Healthcare	Paladin	Prime	RCB	Strategic Global Mgmt.	AHMC	Dignity	Providence	Alecto	JPH Consulting	Kaiser	County of Santa Clara	Plymouth
Type	FP / PE	FP	FP / PE	FP / PE	FP	NFP	FP	FP	Catholic	Catholic	FP	FP	NFP	Gov't	FP
Acq. Assets															
LHMs	All	All	All	All	All	All	All	SFMC	SFMC	SFMC	SVMC, SMC, SMCC	SVMC	SVMC	OCH, SLRH	OCH, SLRH
MOBs	All	[All]	All	[All]	All	All	[All]	Yes	[Yes]	Yes	Yes	[Yes]	[Yes]	Yes	[Yes]
MF	Yes	[Yes]	Yes	Possibly	Yes	Yes	Yes	[No]	No	[No]	No	[No]	No	No	[No]
CBS	Yes	[Yes]	Yes	Yes	Yes	Yes	Yes	[No]	No	[No]	No	[No]	No	Yes	[No]
A/R	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No	No	No
Cash	No	Yes	No	No	Yes	Yes	Yes	No	No	No	No	No	No	No	No
Est. Distr. Value ⁽¹⁾	\$766	\$571	\$803	\$764	\$754	\$818	\$788	\$284	\$219	\$195	\$195	\$56	\$95	\$207	\$147
Remit Prov. Fee	No	Yes	Yes	No	No	No	[Yes]	28% for 3 yrs	[Yes]	Yes	No	Yes	[Yes]	Yes	No
CBAs Assum.	Modify	Modify	Yes	Yes	Modify/Yes	Yes	Yes	Yes	Modify	No	Modify	Yes	TBD	No	Modify
Pension Assum.	Up to \$275	Yes	No*	Yes	Yes	Yes	Up to \$283	No	No	No	No	No	No	No	No
Diligence (days)	TBD	30	TBD	TBD	TBD	TBD	45-60	30	90	60	TBD	TBD	TBD	60-90	TBD
Closing	120 days post-APA	TBD	Dec-14	TBD	30 days post-approvals	TBD	30 days post-AG approval	Post-regul. approval	135 days post-APA	TBD	90 days post-APA	Oct-14	TBD	TBD	60 days post-APA
Bankruptcy	Possib. (CBA)	-	-	-	-	Possib. (post-acquisition)	-	-	Yes	Yes	-	-	-	Yes	-
Other Comments	- Potential price increase of \$50 in return indemnity	-	- *Pension fundings to DCHS -\$18 holdback	-	-	- Will undertake subseq. restructuring	- \$100 holdback	- TBD holdback	- \$15 holdback -\$5 break-up fee	- Price may increase through further diligence	- Req. \$15 / yr Meas. A pmts.	-	-	-	-
Avail. Capital	Med	High	Med	Med	High	Low	High	High	High	High	High	Low	High	High	High

■ Several real estate investors remain interested in the MOB portfolio:

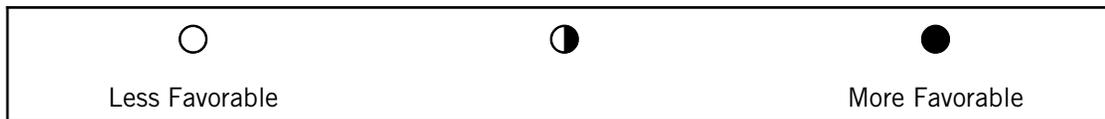
- Meridian Property Company submitted a \$51.5 million offer for the NorCal MOBs (OCH, SLRH and SMC)
- Seavest Healthcare Properties submitted a \$20.9 million offer for the SMC MOBs (Serramonte, SMOC #1 and SMOC #2)
- Two current physician tenants have expressed interest in their respective MOBs: Ardmore offered \$825,000 for the Maywood MOB (SFMC) and Dr. Khoury proposed \$4 million for the Serramonte Medical Dental Building (SMC)
- Beverly Cardiology submitted a proposal to purchase SVMC in a real estate structure for \$85 million. Based on our latest communications, the group is working to revise the bid to include hospital operations



Note: Reflects most recent discussions with potential buyers, and may not match terms in offer package; items in brackets are implied from offer package, but are not specifically / definitively addressed in either cover letter or APA
(1) Cash consideration, value of assumed liabilities and value of retained assets

Qualitative Comparison of Bids

	Tier / System / LHM	Bid Valuation	CBA Treatment	Treatment of Pensions	Necessity of Bankruptcy	Available Capital
Prime Healthcare	A / System	●	●	●	●	●
Strategic Global Mgmt.	A / System	●	●	●	●	●
Paladin Healthcare	A- / System	●	◐	●	●	◐
Aero	B / System	●	○	◐	○	◐
Integrity Healthcare	B / System	●	●	◐	●	◐
RCB Equities	B / System	●	●	◐	◐	○
AHMC	B / LHM	◐	●	○	◐	●
Alecto Healthcare	B / LHM	◐	◐	○	◐	●
County of Santa Clara	B / LHM	◐	○	○	○	●
Dignity Health	B / LHM	◐	◐	○	○	●
Kaiser Permanente	B / LHM	◐	●	○	◐	●
CHA Hollywood Pres.	C / System	○	●	●	○	●
JPH Consulting	C / LHM	○	●	○	◐	○
Providence / Molina	C / LHM	○	○	○	○	●
Plymouth Holdings	C / LHM	○	◐	○	◐	●



■ Below is an overview of the current status of the leading full system bidders:

Buyer	LHMs	Commentary
Prime Healthcare	Full System	<ul style="list-style-type: none"> ■ Intent is to assume DCHS’ full balance sheet (acquire all assets and assume all liabilities) ■ Has met with system leadership and is in process of scheduling local management presentations / campus tours. SoCal scheduled for May 30 and NorCal Jun 10-12 ■ Owns and operates 25 acute care hospitals (14 in California) through a for profit entity and a foundation
Strategic Global Management	Full System	<ul style="list-style-type: none"> ■ Current intent of bid contemplates \$125 million cash consideration (above and beyond assumption of all bond and pension obligations), although includes a \$100 million indemnity holdback ■ Intent is to remit accrued provider fees; however, APA markup is inconsistent ■ Partnering with MidCap / Apollo to provide financing and is in discussions with a real estate partner for a potential sale-leaseback transaction ■ Owns, operates and / or affiliated with seven hospitals in SoCal (Victor Valley, Hemet Valley, Meniffee Valley and Integrated Healthcare Holdings (four))
Paladin Healthcare	Full System	<ul style="list-style-type: none"> ■ No marked purchase agreement provided with bid (in process) ■ Intends to provide sufficient cash to satisfy bonds and will assume pension obligations ■ Contemplates creation of an employee stock ownership plan (“ESOP”) to own the hospital operations (“OpCo”) along with creation of “PropCo” (owns all real estate) and “ManagementCo” (provides back office and other shared service functions) ■ Partnering with MidCap / Apollo to finance the transaction (has other financing parties interested as well) ■ Owns and operates four hospital in Los Angeles (Avanti Hospitals)

Status of Bidders – Tier B (Full System)

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Buyer	LHMs	Commentary
Aeoro	Full System	<ul style="list-style-type: none"> ■ Intends to provide adequate cash to satisfy bond obligations and assume up to \$275 million in underfunded pension obligations ■ Cash consideration lowered from \$325 million to \$275 million on account of no survival of reps & warranties, holdback or post-closing indemnification ■ Contemplates material modifications to the CBAs as a condition to close and a “pre-arranged” Chapter 11 filing if unable to renegotiate satisfactory CBAs ■ Partnering with Hamilton Financial Group and Cerberus Capital Management to fund the transaction ■ Requested 120 days of exclusivity, but are likely to remove request ■ Does not own or operate any hospitals (former Prime, Stanford, Tenant & WPAHS executives with “turnaround” experience) although pursuing a number of other hospital acquisition opportunities
Integrity Healthcare	Full System	<ul style="list-style-type: none"> ■ Intends to assume collective bargaining agreements “as is” ■ Does not intend to assume pension liabilities, but bid contemplates making annual payments to DCHS to satisfy funding obligations [exact treatment TBD] ■ Bid contains \$18 million indemnity holdback ■ In process of scheduling management presentations / campus tours in June ■ Partnering with Indian private equity fund (LEPL Projects Ltd) to fund transaction ■ Does not own or operate any hospitals (former Dignity & Kindred executives)
RCB Equities	Full System	<ul style="list-style-type: none"> ■ Proposed a “member substitution” transaction – a non-profit affiliate of RCB would become DCHS’ sole corporate member ■ Willing to lend \$100 million in bridge financing (secured by Provider Fee receipts) ■ Contemplates that a significant financial restructuring involving all of DCHS’ balance sheet post-closing will be required (unclear if a bankruptcy is contemplated) ■ Has completed limited diligence and has not completed any management presentations or campus tours ■ Does not currently own or operate any hospitals (prior owner of Downey Regional)

Note: Reflects most recent discussions with potential buyers, and may not match terms in offer package

- Given increased execution risk of closing multiple transactions to create a System solution and inferior economics of combining bids, the individual LHM bidders are at a disadvantage relative to full system buyers
- The following parties have submitted the most compelling bids on individual LHMs that would need to be combined with other offers to create a comprehensive solution, albeit still at an aggregate valuation less than the top full system bids
 - In addition, absent a buyer acquiring all of the NorCal LHMs, counsel believes it would be extremely difficult to avoid a withdrawal liability from the RPHE

Buyer	LHMs	Commentary
Dignity Health	SFMC	<ul style="list-style-type: none"> ■ Assumes transaction will be consummated through a bankruptcy proceeding and includes process milestones as condition to close ■ Includes \$15 million holdback ■ Transaction funded from internal sources ■ Owns and operates 31 hospitals and care centers in California
AHMC	SFMC	<ul style="list-style-type: none"> ■ Consideration also includes funding 27.5% of net receipts under the Provider Fee and MediCal DSH collected over the next three years ■ Owns and operates six acute care hospitals in the Greater San Gabriel Valley
Alecto Healthcare	SVMC; SMC; SMCC	<ul style="list-style-type: none"> ■ Open to considering a full system; however, the preliminary pricing guidance provided for SFMC, OCH and SLRH was not competitive ■ Partnering with Medical Properties Trust to finance the transaction ■ Owns and/or operates two hospitals in California (St. Rose & Olympia)
County of Santa Clara	OCH; SLRH	<ul style="list-style-type: none"> ■ Bid also contemplates the acquisition of CBS ■ Acquisition will not require Attorney General approval ■ Owns and operates Santa Clara Valley Health & Hospital System
Kaiser Permanente	SVMC	<ul style="list-style-type: none"> ■ Have identified capacity issues in the Southern California market in the coming years and plan to convert most of the campus to post-acute for the next 5-7 years ■ Understand the timeline and working to "catch up" with the process ■ Participated in management presentation / tour on May 15 ■ Provided initial indication with guidance of \$54 - \$86 million on May 28

Note: Reflects most recent discussions with potential buyers, and may not match terms in offer package



- The following parties have submitted bids that, based on the current structure / economics, are not expected to continue in the process absent a material improvement in the terms of their respective bids

Buyer	LHMs	Commentary
CHA Hollywood Presbyterian	Full System	<ul style="list-style-type: none"> ■ Provided a full system bid (lowered from \$400-\$475 million in LOI to \$350 million) ■ Has inquired about SoCal only bid ■ Provided guidance that they should stick with the entire system but at a materially higher purchase price ■ Owns one hospital in California (Hollywood Presbyterian) and is affiliated with CHA Health Systems in South Korea ■ At the current economics, not expected to continue in process ■ Based on recent communications, re-evaluating proposal to consider an assumption of all liabilities
Providence / Molina	SFMC	<ul style="list-style-type: none"> ■ Bid not competitive as compared to other SFMC bids ■ Owns and operates six hospitals in SoCal ■ At the current economics, not expected to continue in process
JPH Consulting	SVMC	<ul style="list-style-type: none"> ■ Bid not competitive as compared to other SVMC bids ■ Does not own or operate any acute care hospitals (owns 10 SNFs in CA and NV) ■ At the current economics, not expected to continue in process
Plymouth Holdings	OCH; SLRH	<ul style="list-style-type: none"> ■ Bid not competitive as compared to other OCH / SLRH bids ■ Does not currently own or operate any acute care hospitals (used to own Alvarado Hospital) ■ At the current economics, not expected to continue in process

- Bids have not yet been received, but may be received from the following parties:

Buyer	LHMs	Commentary
Blue Wolf	Full System	<ul style="list-style-type: none"> ■ Participated in full system management presentation / tours May 20-22, including a number of additional diligence calls / meetings with system leadership ■ Has engaged full compliment of financial, legal and operational advisors to evaluate opportunity ■ Based on recent communications, expecting to provide a letter and term sheet early in the week of June 2
Prospect Medical	SFMC; SVMC; Potentially Full System	<ul style="list-style-type: none"> ■ Participated in SoCal management presentations / tours Apr 24 ■ Participated in NorCal management presentations / tours May 6 ■ [Awaiting revised proposal]

Illustrative Recovery Analysis – Full System

Bid Valuation & Sources / Uses (\$ millions)

		Aeoro	CHA Hollywood Pres	Integrity	Paladin	Prime	RCB	SGM	
Cash	Base Cash Consideration ⁽¹⁾	\$ 275	\$ 77 ⁽⁶⁾	\$ 272	\$ 270	\$ 310	\$ -	\$ 125	
	Less: Holdback / Indemnity Escrow	-	-	(18)	TBD	-	-	(100)	
	Total Cash Consideration	275	77	254	270	310	-	25	
Assumed Liabilities	Senior Bridge Loan ⁽²⁾	-	-	-	-	-	110	-	
	Series 2005 Bonds, net ⁽³⁾	-	-	-	-	-	264	264	
	Mortgages / Capital Leases	5	-	5	5	5	5	5	
	Pension - RPHE	49	49	49 ⁽⁷⁾	49	49	49	49	
	Pension - Church	226 ⁽⁵⁾	229	229 ⁽⁷⁾	229	229	229	229	
	Other Current Liabilities ⁽⁴⁾	161	161	161	161	161	161	161 ⁽⁸⁾	
	Total Assumed Liabilities	441	439	444	444	444	818	708	
Estimated Bid Value		716	516	698	714	754	818	733	
Retained Assets	Cash & Equivalents ⁽²⁾	50	-	50	50	-	-	-	
	Accounts Receivable	-	-	-	-	-	-	-	
	Provider Fee Receivable, net	-	55	55	-	-	-	55	
	Total Retained Asset Value	50	55	105	50	-	-	55	
Estimated Distributable Value		766	571	803	764	754	818	788	
Less: Assumed Liabilities		(441)	(439)	(444)	(444)	(444)	(818)	(708)	
Estimated Distributable Cash Value		\$ 325	\$ 132	\$ 359	\$ 320	\$ 310	\$ -	\$ 80	
		Recovery		Recovery		Recovery		Recovery	
	Claim	\$	%	\$	%	\$	%	\$	%
Secured Claims	Senior Bridge Loan ⁽²⁾	\$ 21	100%	\$ 21	100%	\$ 21	100%	\$ 21	100%
	Series 2005 Bonds, net ⁽³⁾	264	100%	106	40%	264	100%	264	100%
	Mortgages / Capital Leases	5	Assumed	5	100%	Assumed	100%	Assumed	100%
Total		290	285	132	285	285	285	-	21
Priority Claims	Employee Related ⁽⁴⁾	59	Assumed	Assumed	100%	Assumed	100%	Assumed	100%
	Illustrative Transaction Fees / Other	25	25	-	0%	25	100%	25	100%
	Total	84	25	-	25	25	25	-	25
Unsecured Claims	Pension - RPHE (Withdrawal)	214	Assumed	Assumed	100%	Funded	TBD	Assumed	100%
	OPEB	5	Assumed	Assumed	100%	Assumed	100%	Assumed	100%
	General Unsecured ⁽⁴⁾	102	Assumed	Assumed	100%	Assumed	100%	Assumed	100%
	Contract Damage Claims	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
	Contingent CMS Claims	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
	Total (Pre-Church Plan)	320	-	-	-	-	-	-	-
Pension - Church Plan		\$ 3 ⁽⁵⁾	Assumed	Assumed	Funded	Assumed	Assumed	Assumed	Assumed
Residual Value		\$ 12	\$ -	\$ 49	\$ 10	\$ -	\$ -	\$ 34	

Note: Assumed December 31, 2014 transaction closing; reflects most recent discussions with potential buyers, and may not match terms in offer package

(1) Excludes the impact of any change in NWC or related cash adjustments; includes cash reduction for select assumed liabilities if applicable (e.g., employee-related)

(2) Projected cash balance and bridge facility draw as of 12/31/2014 necessary to maintain a \$50 million minimum cash balance

(3) Projected principal balance of \$290.3 million as of 12/31/2014 per amortization schedule, net of \$26 million in debt service reserve funds

(4) Assumed to include employee-related accruals (\$59 million), accounts payable (\$53 million) and other accrued liabilities (\$49 million), as applicable, all as of 3/31/14

(5) Pension liabilities assumed in aggregate amount of up to \$275 million

(6) Implied: aggregate consideration price (cash net of assumed pension liabilities) to equal \$350 million, plus \$5 million for satisfaction of Mortgages / Capital Leases

(7) Purchaser commits to pay appropriate annual funding payments to DCHS to fulfill the pension obligations [mechanics and feasibility being evaluated]

(8) SGM excludes assumption of employee-related liabilities; stated valuation of Assumed Liabilities totals \$136 million - a consistent figure shown for purposes of comparison

Illustrative Recovery Analysis – Individual LHMs

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Bid Valuation & Sources / Uses (\$ millions)

	Illustrative Aggregate LHM Bids				Illustrative Total	Other Individual LHM Bids				
	Retained	Alecto SVMC, SMC SMCC	AHMC SFMC	SC County OCH, SLRH		Dignity SFMC	Providence SFMC	JPH SVMC	Kaiser SVMC	Plymouth OCH, SLRH
Cash	Base Cash Consideration ⁽¹⁾	\$ 130	\$ 135	\$ 150	\$ 415	\$ 165	\$ 100	\$ 40	\$ 70	\$ 100
	Less: Employee Liability Deduction	(21)	(17)	-	(38)	(17)	-	-	-	(17)
	Less: Holdback / Indemnity Escrow	-	-	TBD	TBD	(15)	-	-	-	-
	Total Cash Consideration	109	118	150	377	133	100	40	70	83
Assumed Liabilities	Senior Bridge Loan ⁽²⁾	-	-	-	-	-	-	-	-	-
	Series 2005 Bonds, net ⁽³⁾	-	-	-	-	-	-	-	-	-
	Mortgages / Capital Leases	-	-	-	-	-	-	-	-	-
	Pension - RPHE	-	-	-	-	-	-	-	-	-
	Pension - Church	-	-	-	-	-	-	-	-	-
	Other Current Liabilities ⁽⁴⁾	21	17	-	38	45	-	17	-	17
	Total Assumed Liabilities	21	17	-	38	45	-	17	-	17
Estimated Bid Value		130	135	150	415	178	100	57	70	100
Retained Assets	Cash & Equivalents ⁽²⁾	50	-	-	50	-	-	-	-	-
	Accounts Receivable	7	65	55	173	-	55	-	26	47
	Provider Fee Receivable, net	-	-	95 ⁽⁶⁾	104	40	40	(1)	(1)	-
	Total Retained Asset Value	57	65	149	327	40	95	(1)	25	47
Estimated Distributable Value	\$ 57	\$ 195	\$ 284	\$ 207	742	\$ 219	\$ 195	\$ 56	\$ 95	\$ 147
Less: Assumed Liabilities					(38)					
Estimated Distributable Cash Value					\$ 704					
		Claim			Illustrative Recovery					
					\$	%				
Secured Claims	Senior Bridge Loan ⁽²⁾	\$ 21			\$ 21	100%				
	Series 2005 Bonds, net ⁽³⁾	264			264	100%				
	Mortgages / Capital Leases	5			5	100%				
	Total	290			290					
Priority Claims	Employee Related - Not Assumed ⁽⁴⁾⁽⁵⁾	21			21	100%				
	Illustrative Transaction Fees / Other	30			30	100%				
	Total	51			51					
Unsecured Claims	Pension - RPHE (Withdrawal)	214			214	100%				
	OPEB	5			5	100%				
	General Unsecured - Not Assumed ⁽⁴⁾⁽⁵⁾	102			102	100%				
	Contract Damage Claims	TBD			TBD	TBD				
	Contingent CMS Claims	TBD			TBD	TBD				
	Total (Pre-Church Plan)	320			320					
	Pension - Church Plan				43					
	Residual Value				\$ -					

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(4) Assumed to include employee-related accruals (\$59 million), accounts payable (\$53 million) and other accrued liabilities (\$49 million), as applicable, all as of 3/31/14

(5) Claim shown represents liabilities not assumed by purchaser

(6) Includes 27.5% of all net amounts received under Provider Fee and MediCal DSH Program (SB 855 and SB 1255) for a period of three years post transaction closing

Process Event	Description
Purchase Agreement Negotiations	<ul style="list-style-type: none"> ■ In process of conducting follow-up calls with buyers to clarify provisions contained in second round bids ■ Determine the appropriate parties (i.e., Tier A buyers) to move forward with negotiations based upon the economic and structural terms of the marked purchase agreements submitted by each of the buyers <ul style="list-style-type: none"> ● Guidance to be provided to buyers to give them a chance to improve the terms of their bid as appropriate ● Concurrent with the negotiation of the purchase agreements, buyers will complete outstanding diligence items ● APAs cannot be executed until diligence is complete and all contingencies are removed (including CBA negotiations)
Regulatory Approvals	<ul style="list-style-type: none"> ■ Upon execution of APAs, DCHS and the buyer(s) will pursue all necessary approvals on a concurrent basis, including: <ul style="list-style-type: none"> ● Alienation / Vatican Approval ● California Attorney General ● California Department of Health ● Hart-Scott-Rodino