

DISCUSSION MATERIALS

Daughters of Charity Health System

Core Objectives

- The Daughters of Charity Health System (“DCHS”), a vital provider of healthcare to underserved communities in Los Angeles, Santa Clara and San Mateo counties, is facing enormous financial and operational challenges

- Despite these challenges, Blue Wolf Capital Fund III, L.P. (Blue Wolf) is prepared to enter into a definitive agreement that:
 - **Maintains and continues to operate all of DCHS’s acute care facilities**

 - **Preserves the important role as a provider of high-quality healthcare to underserved families that DCHS serves in the communities in which it operates**

 - **Maintains the retirement benefits earned to date for current and former DCHS employees**

 - **Offers employment to DCHS’s existing workforce consistent with the need to create a sustainable enterprise**

 - **Injects substantial new capital into the system to facilitate a much needed operational revitalization**

Key Elements

- **Blue Wolf will invest and raise sufficient capital to:**
 - Fully fund turnaround
 - Invest in needed capital upgrades
 - Provide liquidity cushion for unanticipated contingencies
- **In order to ensure the success of the plan and the ability to meet the system's obligations, Blue Wolf has sought and secured the cooperation of key constituents**
 - Exclusive MOUs have been reached with a number of key stakeholders to facilitate substantial improvements to system performance
- **In addition to the financial impact of these agreements, Blue Wolf has developed a strategic action plan that will make DCHS sustainable for the long-term**
- **To date, Blue Wolf has invested substantial resources and has incorporated the expertise of numerous industry leaders to ensure the reasonableness of its assumptions and its plan**

Key Elements (cont'd)

- **Blue Wolf has attracted a world-class management team with extensive acute care and turnaround experience to lead the restructuring of DCHS**
 - Proven commitment to safety-net hospitals
 - Substantial operating and turnaround experience

- **NewFound Health Holdings will enter into a ten-year \$50 million corporate sponsorship with the Daughters of Charity Foundation**
 - Payable ratably over the period of the sponsorship
 - Demonstrates long-term commitment to Daughters' core objectives

Key Elements (cont'd)

■ LABOR COST REDUCTIONS:

- New labor agreements to reduce fringe benefit costs and eliminate restrictive work rules to ensure maximum operational flexibility
- Restructure non-union consistent with union elements



\$90MM

■ OPERATIONAL IMPROVEMENTS:

- Revenue cycle management
- Restructured payer contracts



\$60MM

■ GROWTH INITIATIVES:

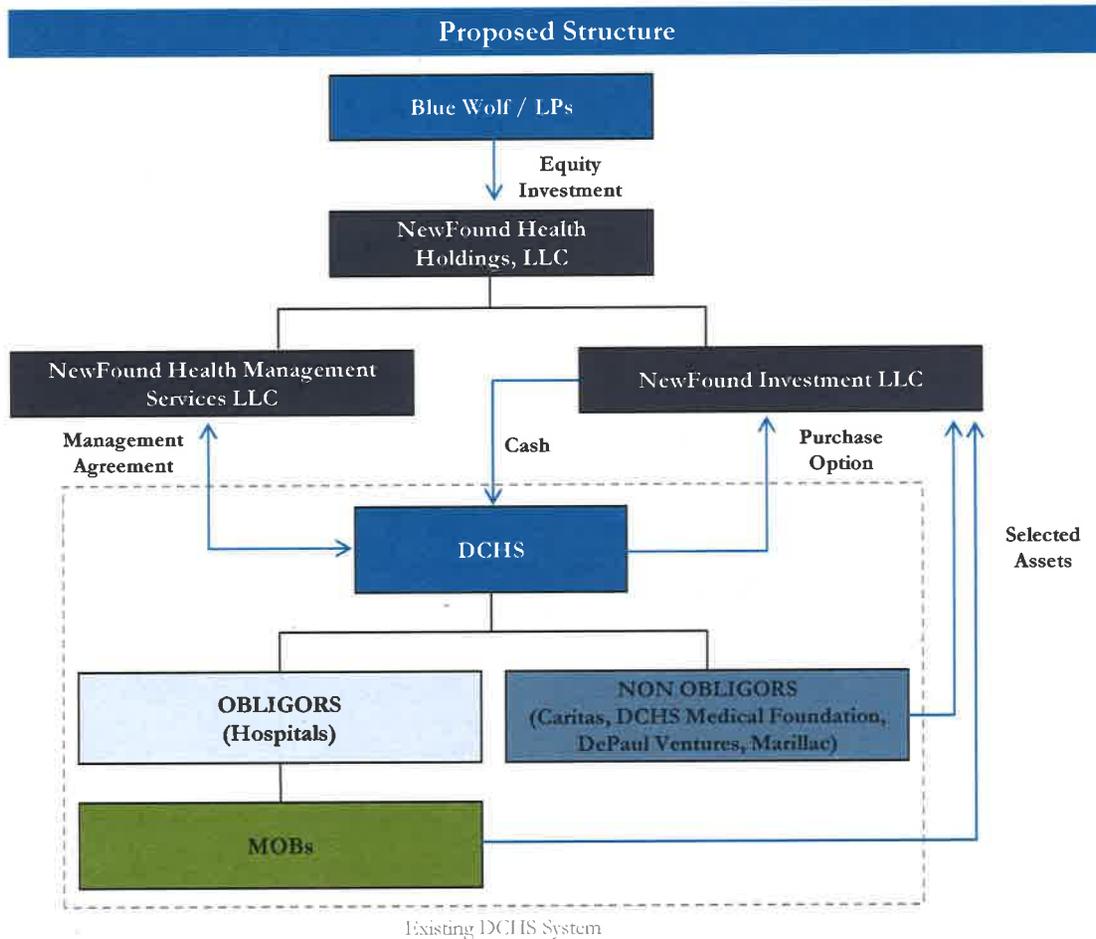
- Implement care coordination to reduce length of stay and readmission
- Economic alignment with counties and medical foundation



\$30MM

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 the existence of a highly incentivized management company to drive operations improvements



Structure Detail

- DCHS restructures, recapitalizes, and disaffiliates
- DCHS and NF Management enter into a management agreement
- DCHS sells select assets at fair market value (primarily MOBs) to NF Investment for \$100 million in proceeds
- NF Investment will receive an option to purchase DCHS at the current value of the liabilities
- NF Investment enters into a loan or sale-leaseback agreement with a real estate investor around the MOBs to fund a portion of the \$100 million asset purchase from DCHS

Anticipated Sources & Uses

(\$ in millions)

Blue Wolf anticipates the following sources and uses to fund the transaction

Sources & Uses			
DCHS / NewFound Health Transaction			
Sources		Uses	
NewFound Health A/R Facility	\$85	Payoff Existing Bridge Facility	\$84
ManCo Real Estate Purchase	100	Cash to Balance Sheet	210
Excess Balance Sheet Cash	53	QAF Receivable	90
QAF Receivable	90	Total Liquidity	300
DCHS Support	65	Fees and Expenses	9
Total Sources	\$393	Total Uses	\$393
Management Services Co Transaction			
Sources		Uses	
Blue Wolf Equity	\$70	Purchase of Real Estate Assets	\$100
Senior Debt	50	Cash to Balance Sheet	11
		Fees and Expenses	9
Total Sources	\$120	Total Uses	\$120

Pro Forma Balance Sheet Impact of Anticipated Transactions

(\$ in millions)

	NewFound Co Beginning Balance (12/31/2014)	2014 Bridge Facility	DCHS Support	Management Co Real Estate Purchase	Transaction Fees	NewFound Co Ending Balance (12/31/2014 PF)
Cash	\$53	\$1	\$65	\$100	(\$9)	\$210
QAF Receivable	90					90
Total Cash & QAF Receivable	\$143	\$1	\$65	\$100	(\$9)	\$300
Existing Series 2005 Bonds	\$289					\$289
Amount Drawn on Existing 2014 Bridge Facility	84	(84)				0
New A/R Facility	0	85				85
Total Debt	\$372	\$1	\$0	\$0	\$0	\$373
	Management Co Beginning Balance (12/31/2014)	Blue Wolf Equity Investment	Senior Debt	Purchase of NewFound Co Real Estate	Transaction Fees	Management Co Ending Balance (12/31/2014 PF)
Total Cash	\$0	\$70	\$50	(\$100)	(\$9)	\$11
Senior Debt	\$0		50			\$50
Total Debt	\$0	\$0	\$50	\$0	\$0	\$50
						PF NF Co + Man Co Ending Balance (12/31/2014 PF)
Cash						\$221
QAF Receivable						90
Total Cash & QAF Receivable						\$311
Existing Series 2005 Bonds						\$289
Amount Drawn on Existing 2014 Bridge Facility						0
New A/R Facility						85
Management Co Senior Debt						50
Total Debt						\$423

Liquidity Roll Forward

(\$ in thousands)

NewFound Health & Management Company			
	6 Months Ending	FY2016	FY2017
	6/30/2015	6/30/2016	6/30/2017
Beginning Unrestricted Cash	\$221,000	\$222,786	\$81,186
Steady State EBIDA	83,273^(a)	(55,058)	(55,058)
Labor Adjustments	7,000	30,000	90,000
Revenue Enhancements	3,000	20,000	60,000
Other	3,000	10,000	30,000
Pro Forma EBIDA	\$96,273	\$4,942	124,942
Restructuring Charges	(25,000)	(25,000)	-
Interest Expense	(8,689)	(27,817)	(27,810)
Maintenance CapEx	(27,500)	(55,000)	(55,000)
Catch-Up CapEx	(25,000)	(40,000)	(15,000)
Debt Repayment	(1,005)	(2,198)	(2,221)
Working Capital Changes	(7,293)	3,472	-
Ending Unrestricted Cash	\$222,786	\$81,186	\$106,097

(a) Includes \$100 million of CY 2014 net QAF payments and \$50 million of CY 2015 net QAF payments that are expected to be recognized during the period.

Daughters of Charity Transaction Support:

- **Purpose:**

- Support restructuring costs
- Allow for preservation of pension plans
- Support continuation of indigent care

- **Amount: \$65 million one-time contribution to DCHS**

Closing Contingencies

- **1) Governmental Approvals**
- **2) Holy See Approval**
- **3) Customary Conditions**
 - Material adverse change
 - Documentation