

Daughters of Charity Health System

LHM Board Presentation – Summary of Final Bids Received

MERGERS & ACQUISITIONS
CAPITAL MARKETS
FINANCIAL RESTRUCTURING
FINANCIAL ADVISORY SERVICES

HL.com

October 9, 2014

WORKING DRAFT
Confidential

Sale Process Background

Transaction Objectives – December 2013

Primary Objectives

Maximize creditor /
pension recoveries

Avoid creating
exposure for DOC and
its affiliates (litigation,
financial and publicity)



Ensure financial
viability of SFMC as a
Catholic healthcare
provider

Preserve hospitals,
access to healthcare
and jobs in the
communities served

Additional Objectives

- Seek a consensual solution
- Pursue a path with a high likelihood of closure on the available timeframe

Interested Parties

- The sale process commenced in early February 2014

Summary of Parties Executing Confidentiality Agreements

	Parties Contacted	CAs Executed			
Catholic	8	2	Dignity Health Providence / Molina		
Not-For-Profit / Government	19	11	Cedars-Sinai CHOMP El Camino Good Samaritan Hospital	Kaiser Permanente RCB Equities #1 San Mateo County Santa Clara County	Scripps Health Stanford Medicine UCLA Health
For Profit Strategic	34	18	AHMC Healthcare Alecto Healthcare Services Cardiovascular Care Group Central Valley Specialty Hospital CHA Hollywood Presbyterian HCA Healthcare	Iasis Healthcare JPH Consulting LHP Hospital Group LifePoint Hospitals MEDPrime LLC Paladin / Avanti Hospitals	Prime Healthcare Services Prospect Medical Holdings RollinsNelson Select HealthCare Solutions Strategic Global Management Universal Health Services
Private Equity / Management Team	21	12	Aeoro Blue Wolf Capital Partners Bridgewater/Ares/Westridge Cerberus Capital Management	Integrity Healthcare KKR LEPL Projects, Ltd. Lightstone Group	Madison Dearborn Pinnacle Healthcare Platinum Equity PS Two / Pejman Salimpour
SNF / REIT / MOB / Other	51	29	American Healthcare Investors American Realty Capital Arba Group Ardmore Medical Group AVIV REIT Beverly Cardiology Group Brius Healthcare Covenant Care CrossHarbor Capital Partners Dr. Khoury	Eduro Healthcare EmpRes Ensign G&L Realty G.H. Palmer Associates Health Care REIT Kindred Life Generations / Generations Marquis Senior Care Meridian	Meridian / JCH Consulting NorthStar Realty Finance Physicians Realty Trust Plum Healthcare Prestige Care, Inc. Rockpoint Group / Watt Companies Seavest Healthcare Properties SnF Management Ventas
	133	72			



Note: SNF – Skilled Nursing; REIT – Real Estate Investment Trust; MOB – Medical Office Building

Bids Received

- Bids were solicited on individual hospitals, the portfolio of medical office buildings (“MOBs”) and the system as a whole

		Full System	LHMs / Regions	MOBs
First Round <i>March 2014</i> <i>29 Bids</i>	Catholic	-	2	-
	Not-For-Profit / Government	1	4	-
	For Profit Strategic	5	5	-
	Private Equity / Mgmt. Team	5	1	-
	SNF / REIT / MOB / Other	-	2	4
	TOTAL	11	14	4
Second Round <i>May 2014</i> <i>15 Bids</i>	Catholic	-	2	-
	Not-For-Profit / Government	-	2	-
	For Profit Strategic	4	2	-
	Private Equity / Mgmt. Team	4	1	-
	SNF / REIT / MOB / Other	-	-	-
	TOTAL	8	7	-
Final Round <i>September 2014</i> <i>6 Bids</i>	Catholic	-	-	-
	Not-For-Profit / Government	-	-	-
	For Profit Strategic	4	-	-
	Private Equity / Mgmt. Team	2	-	-
	SNF / REIT / MOB / Other	-	-	-
	TOTAL	6	-	-

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 / Convert	Assume / Convert
	<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 Church Plan to remain w/ DCHS and funded by a TBD payment from Prospect at transaction Close 	<ul style="list-style-type: none"> Asset Purchase Transition of DCHS MF to new NFP Church Plan to remain w/ DCHS and funded by future SGM contributions Plus \$50mm (\$20mm cash; \$30mm into indemnity holdback) Potential RIF payment (\$20mm)
	Deposit <i>Amount:</i>	\$40mm	\$50mm	\$40mm
	<i>Termination Fee:</i>	\$20mm	Not less than \$15mm	None
	Buyer Indemnification	None	Any losses / liability resulting from past DCHS obligations to fund Church Plan (with guarantee from TBD DOC entity)	\$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 / Convert	Retained by DCHS / funded with TBD payment at Closing from Prospect	Retained by DCHS / funded by SGM (cash + guarantee by IHHI)
	<i>RPHE:</i>	Assume	Assume	Assume
	Employee Liabilities	Cash / Assume	Cash / Assume	Cash / Assume
	Contracts / Leases	Assume	Assume	Assume
	Other Liabilities	Assume	Assume	Assume
	CBA's	Assume, but attempt to renegotiate	Assume	Assume, but attempt to renegotiate
	Severance Holdback	\$11.5mm funded	\$11.5mm funded	\$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	\$ 394	\$ 461	\$ 510
	Plus: DOC Contribution	TBD	-	-	-
	Less: Severance / Indemnity Holdback	-	(12)	(12)	(42)
	Net Cash Consideration	86	382	449	469
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	-	-
	Employee Related Liabilities ⁽³⁾⁽⁴⁾	59	59	59	59
	Other Current Liabilities ⁽³⁾⁽⁵⁾	115	115	115	115
	Total Assumed Liabilities	717	449	229	229
	Estimated Distributable Value	803	831	678	698
	Less: Assumed Liabilities	(717)	(449)	(229)	(229)
	Est. Distributable Cash Value	\$ 86	\$ 382	\$ 449	\$ 469

(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	\$	449	\$	469
			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>		67 ⁽⁶⁾		67 ⁽⁷⁾	
Residual Value			\$ (28) ⁽⁸⁾		\$ -		\$ -		\$ 20	

- (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) Church Plan retained by DCHS; Prospect to provide a TBD amount of associated funding at transaction Closing (verbally indicated \$67 million)
- (7) Church Plan retained by DCHS; future funding requirements to be satisfied by SGM (with IHHI guarantee)
- (8) 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

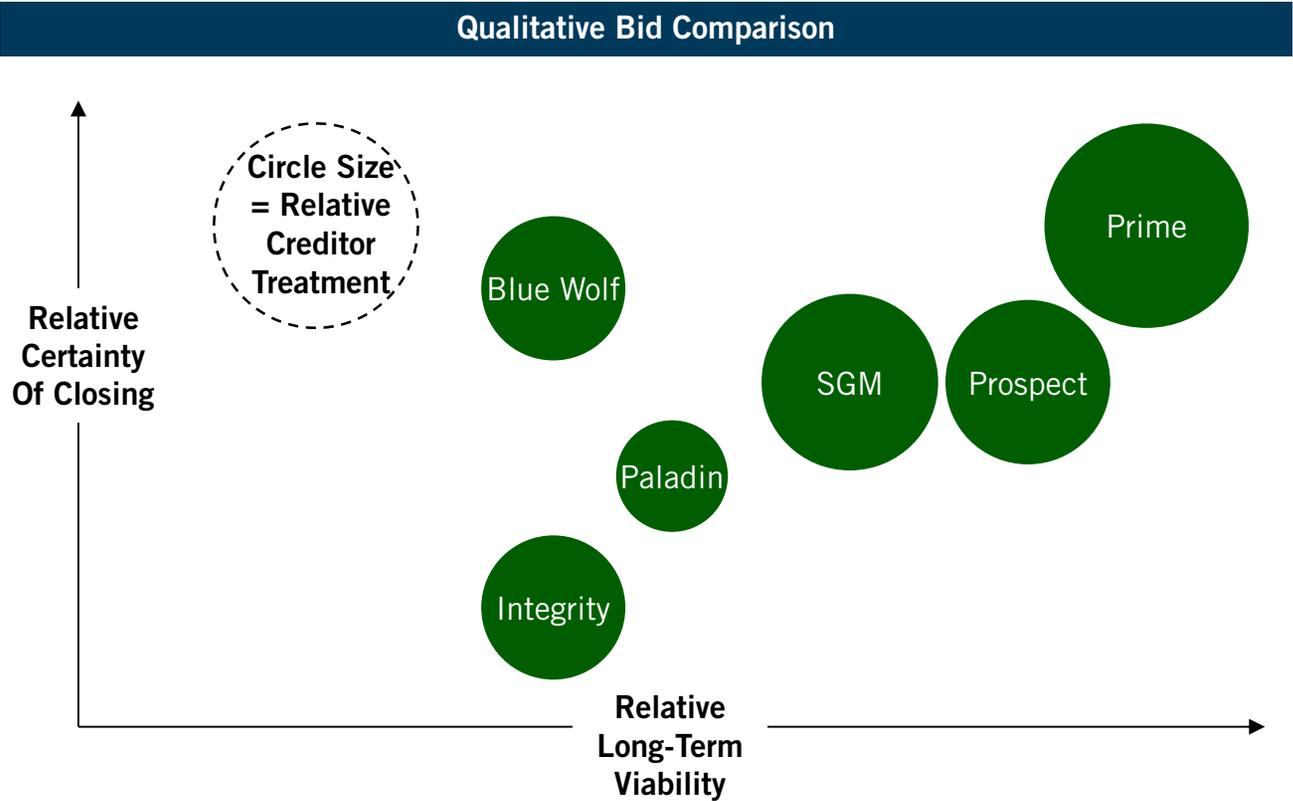
- Total bid value
- Form of consideration (cash, assumed liabilities)

Long-Term Viability

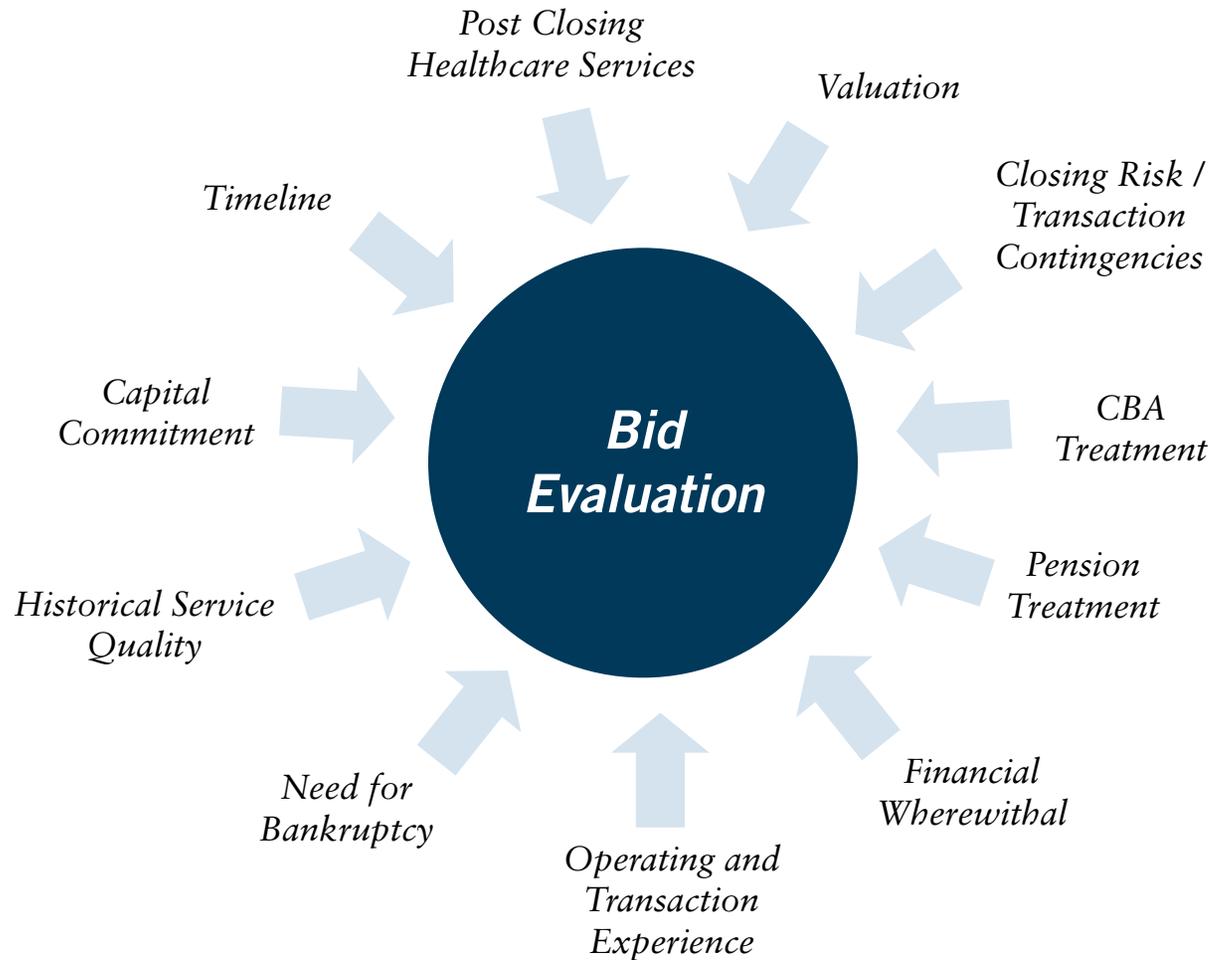
- Strength / support of on-going relationships
- Long-term financial support / wherewithal

Certainty of Closing

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



- The following have been identified as factors for evaluating the DCHS 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 (working capital shortfall) • 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"> • Requires Church Plan to remain with DCHS • 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 • Requires Church Plan to remain with DCHS • Must obtain capital commitment

Next Steps

Process Event	Description
Near Term	<ul style="list-style-type: none"> ■ Complete 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

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

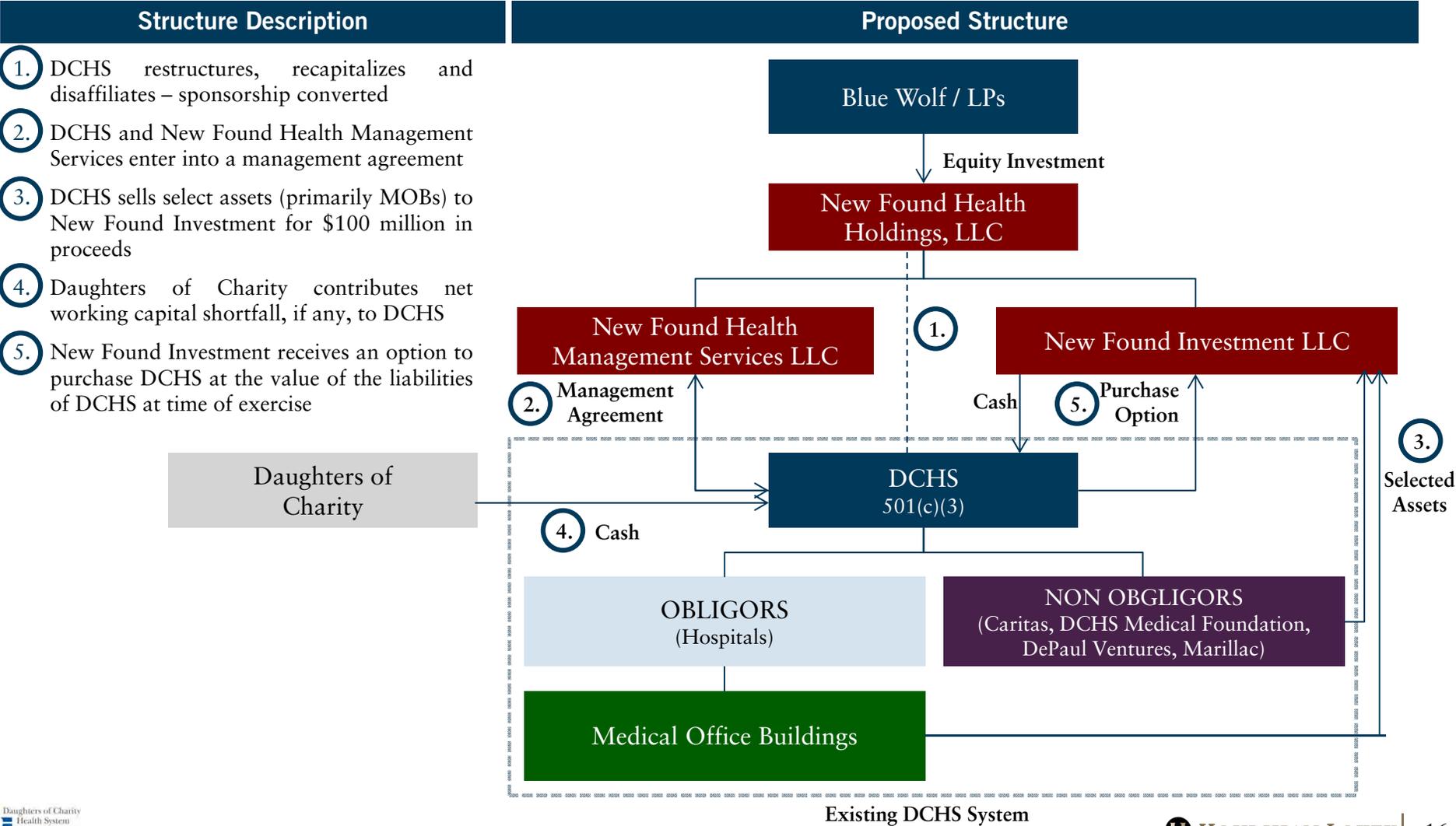
- **Adam Blumenthal** (Co-Founder and Managing Partner)
 - Adam’s experience includes serving as First Deputy Comptroller and CFO for New York City Comptroller William C. Thompson, Jr.
 - He currently serves as Chairman of the investment committee of the UAW VEBA, a \$55 billion fund that pays retiree 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 a management company to drive operational 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 a non-profit operating company; commences process to convert 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 • Remain 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"> • Likely to 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

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

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

Transaction Deposit

- None

Buyer Detail
Prime Healthcare

Overview

Business Description

- Prime Healthcare (“Prime”) and PHSF, headquartered in Ontario, CA, own and operate 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 (“PHSF”), a not-for-profit, owns and operates six 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 August 2014

- Annual Revenue: \$2.2 billion*
- Annual EBITDA: \$335 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)



Sources: Company website, CapIQ and letter of liquidity
 * Excludes PHSF (approx. revenue of \$365 million and EBIDA of \$28 million)

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> <i>Termination Fee:</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) • \$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> <i>2005:</i>	<ul style="list-style-type: none"> • Paid at Closing • Paid at Closing
	Pensions / Retirement <i>Church:</i> <i>RPHE:</i> <i>401(a)(17):</i>	<ul style="list-style-type: none"> • Assumed and converted consistent with ERISA / Internal Revenue Code • Assumed and funded consistent with collective bargaining agreements • 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>

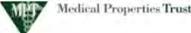
Sources of Capital / Financial Wherewithal

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 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

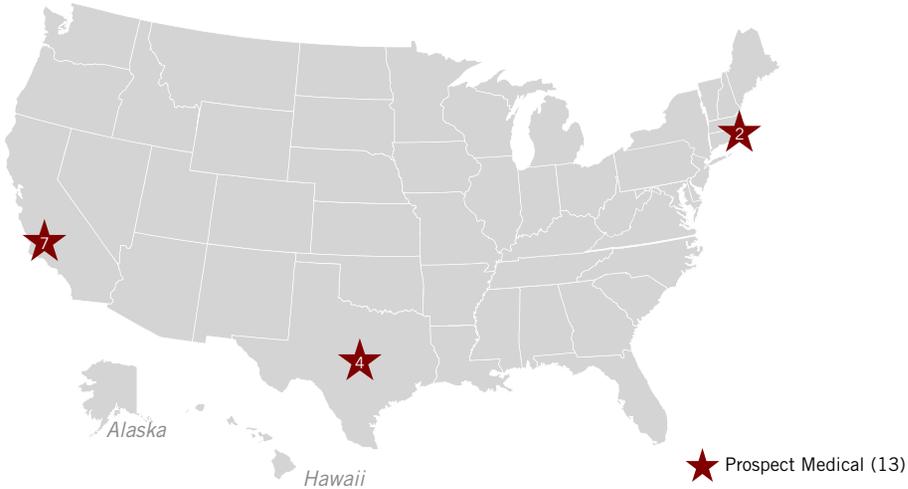
Overview

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 Analyst Reports)

- Revenue: \$1 billion (pro-forma adjusted for acquisitions)
- Net Debt / EBITDA: 3.6x (as of Q2 2014)
- 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; Cantor Fitzgerald’s September 5, 2014 Global Credit 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"> • Any losses / liability resulting from past DCHS obligations to fund Church Plan (with guarantee from TBD DCHS entity)
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"> • TBD cash payment at Closing (verbally indicated \$67 million) • Plan remains as liability with DCHS; require guarantee from solvent DOC entity
	<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**
 - \$11.5 million funded holdback
- 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

- Additional background and financial information pending – NDA executed
- Prospect has approximately \$47 million of cash on hand and access to a \$60 million revolving credit facility expiring in 2017 (\$40 million drawn)
 - It is expected that the revolver will be used to fund acquisitions (not relied upon for operations)

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 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

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



Sources: LOI

Key Terms of Final Round Bid

STRUCTURE	Transaction Description / Unique Structure Considerations	<ul style="list-style-type: none"> • Asset Purchase / Liability Assumption (excl. Church Plan) • DCHS to cooperate in transition to develop / submit new tax-exempt application for Medical Foundation at Closing (Purchaser does not 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"> • \$40 million at signing, 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"> • Retained by DCHS and administered / managed by mutually agreed-upon party <ul style="list-style-type: none"> ➢ SGM to meet plan funding obligations, which obligation will be secured by junior lien on purchased DCHS assets and \$60 million limited guaranty from Integrated Healthcare Holdings (“IHHI”) ➢ Funding drawn first from SGM contributions, followed by IHHI guaranty (as required) • Assumed and funded consistent with collective bargaining agreements
	<i>RPHE:</i>	<ul style="list-style-type: none"> • Paid at Closing
	<i>401(a)(17):</i>	
	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 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 partially financed by 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
- DCHS will not be integrated into a common balance sheet with any of SGM's hospitals



Transaction Deposit

- \$40 million cash deposit within one business day of executing APA