

§ 999.5(d)(2)(C)

A description of the methods used by the applicant to determine the market value of any assets involved in the proposed agreement or transaction. This description shall include a description of the efforts made by the applicant to sell or transfer each health facility that is the subject of the proposed agreement or transaction.

In January 2014, in response to the Daughters of Charity Health System (“**DCHS**” or the “**System**”) diminishing liquidity, deteriorating financial performance and mounting long-term obligations, DCHS’s Board of Directors authorized a marketing process to evaluate the System’s sale alternatives. The decision was not burdened by DCHS limitations. Instead DCHS commenced the process with the intent to preserve hospital operations, access to health care and jobs in the communities served and payment of the pension and creditor obligations.

The marketing process to identify and select potential bidders commenced in February 2014. The process was led by Houlihan Lokey. Houlihan Lokey was selected in large part due to its industry leading health care M&A and restructuring practices and significant experience in transactions of a similar nature, involving financially distressed hospital systems. In addition, Houlihan Lokey’s reputation for independent and objective advice, coupled with its experience, provided DCHS’s board comfort that a comprehensive, competitive and fair process would be undertaken to secure a solution.

After consultation with DCHS throughout the process, 133 parties were identified as potential buyers and contacted by Houlihan Lokey. The universe of parties contacted was broad and designed to maximize potential interest in the System, considering all sorts of transaction alternatives. The group of potential buyers included:

- Catholic health care organizations;
- Not-for-profit strategic buyers;
- Government-related health care institutions;
- For-profit hospital operators (both publicly traded and privately owned companies);
- Private equity funds;
- Management teams with relevant operating experience; and
- Investors specializing in health care real estate assets.

After introductory conversations about the System and the investment opportunity, 72 parties signed a Confidentiality Agreement and commenced diligence on DCHS.

Number of Potential Buyers		
	Contacted	Confidentiality Agreements Executed
Catholic	8	2
Not-for-Profit / Government	19	11
For Profit Strategic	34	18
Private Equity / Management Team	21	12
SNF / REIT / MOB / Other	51	29
Total	133	72

Notes:

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

Upon execution of the Confidentiality Agreement, potential buyers were provided with a copy of the Confidential Information Memorandum and Medical Office Building Supplemental Materials (collectively, the “CIM”), detailed documents covering the core elements of the System and DCHS’s Medical Office Building (“MOB”) portfolio. The CIM served as the initial basis from which potential buyers commenced their diligence and formulated preliminary offers. Potential buyers were instructed to provide first round bids (in the form of a non-binding indication of interest) by March 21, 2014 that specified, among other issues:

- Description of the potential acquirer;
- Assets / businesses to be acquired;
- Liabilities to be assumed (including treatment of CBAs and pension obligations);
- Amount and form of consideration; and
- Required diligence / contingencies to close the contemplated transaction.

A total of 29 parties submitted first round offers. Interest varied from full system transactions (11 bids) to individual hospital / regional transactions (14 bids). Further, four health care real estate-related investors expressed an interest in various components of the MOB portfolio.

First Round Bid Summary				
	Full System Bids	Individual LHM / Regional Bids	Medical Office Building Bids	Total
Catholic	0	2	0	2
Not-For-Profit / Government	1	4	0	5
For Profit Strategic	5	5	0	10
Private Equity / Mgmt. Team	5	1	0	6
SNF / REIT / MOB / Other	0	2	4	6
TOTAL	11	14	4	29

After evaluation of the first round bids, buyers were given guidance about how to improve the terms of their bids in order to be competitive in the next round of the process. At this stage, a few buyers were unwilling to consider changes in their bids and, as a result, removed themselves from continuing in the sale process.

Buyers continuing in the second round of the sale process were provided with additional due diligence information to supplement the CIM previously received. Parties were:

- (i) Provided access to a secure on-line data room containing detailed operational, financial and legal related diligence materials related to all of the DCHS operations in which the bidder was interested;
- (ii) Invited to participate in on-site management presentations and campus tours conducted by the local hospital leadership; and
- (iii) Provided meetings and / or calls with System management.

Second round bids were due on May 21, 2014. In addition to bid letters, buyers were requested to submit a marked purchase agreement (to the standard “form” that was provided to each of the buyers through the on-line data room). Fifteen parties submitted second round bids, although some buyers failed to mark the form of purchase agreement and only submitted the equivalent of an indication of interest (similar to responses received in the first round). All responses received, regardless of form, were evaluated by DCHS.

Second Round Bid Summary			
	Full System Bids	Individual LHM / Regional Bids	Total
Catholic	0	2	2
Not-For-Profit / Government	0	2	2
For Profit Strategic	4	2	6
Private Equity / Mgmt. Team	4	1	5
TOTAL	8	7	15

Upon receipt of the second round bids, DCHS and its advisors performed a full analysis and comparison of the bids received. Follow-up discussions occurred with each of the bidders to better understand the economic and structural terms of the bids submitted and ask clarifying questions. At this point in time, it became apparent that the pursuit of a “Full System” transaction (as compared to aggregating a number of individual hospital / regional bids to form a comprehensive solution) was most likely to provide a superior outcome for a number of reasons, including:

- None of the bidders interested in individual hospitals / regions, were prepared to assume DCHS’s pension obligations;
- Attempting to execute upon multiple transactions concurrently exposed DCHS to transaction risk (for example, one of the bidders could withdraw its interest, causing DCHS to no longer have a comprehensive solution); and

- A number of “Full System” bidders indicated willingness to satisfy all of DCHS’s obligations (through a combination of cash payments and assumption of liabilities), whereas the aggregate value provided by the “best” individual hospital bids would not satisfy all of the System’s obligations (in particular pensions under the Church Plan would most likely be compromised in that scenario).

As a result of this rationale, DCHS instructed its advisors to focus efforts on the transaction alternatives involving buyers interested in a “Full System” transaction. Immediately thereafter, DCHS’s advisors commenced negotiations with each of the Full System buyers and exchanged “issues lists” associated with the second round bids in an attempt to improve the economic and structural terms of the bids received.

In conjunction with the evaluation of the sale alternatives, DCHS’s deteriorating liquidity position and anticipated cash losses caused the System to need to explore raising short-term “bridge financing” to ensure that it would have ample liquidity to get through the sale process. On July 30, 2014, DCHS secured \$110 million of 2014 Bonds (Series A & B), which provided the System with access to a working capital fund that it could draw upon over the next year. On August 27, 2014, an additional \$15 million was provided under the 2014 Bonds (Series C).

Over the next several months, DCHS and its advisors continued to work closely with the Full System bidders to accommodate diligence requests (in person, over the telephone and through the exchange of information) and negotiate the definitive purchase agreement. By mid-August 2014, given the progress on the negotiation of the purchase agreement with each of the bidders and the timetable for closing based on DCHS’s cash projections, DCHS set a Final Bid deadline of September 12, 2014.

As of the Final Bid deadline, six parties submitted bids. One party’s submission was in the form of an indication of interest (i.e., not a definitive agreement) and another withdrew from the process after submitting its final bid but noting an inability to raise financing on a timely basis. Discussions and negotiations continued with the remaining four parties to confirm DCHS’s understanding of their proposals and to further use the competitive dynamic of the process to improve terms to get to a “best and final.”

On October 3, 2014, the DCHS Board, after extensive discussions with its advisors and evaluation of the bids (see **Exhibit A**), selected the transaction proposed by Prime Healthcare Services, Inc. and Prime Healthcare Foundation, Inc. (collectively “PHS”) as the best solution. Thereafter each of DCHS’s local health ministry (“LHM”) Boards evaluated finalist bids (see **Exhibit B**) and each LHM Board separately selected the PHS bid as the best solution.