

*Confidential*



## HOULIHAN LOKEY

### RE: DAUGHTERS OF CHARITY HEALTH SYSTEM ACQUISITION OPPORTUNITY

Thank you for your interest in Daughters of Charity Health System (“DCHS” or the “System”) acquisition opportunity. Houlihan Lokey Capital, Inc. (“Houlihan Lokey”), on behalf of the System, is requesting preliminary, non-binding indications of interest (“Preliminary Proposals”) for the System’s businesses prior to proceeding with more detailed due diligence. DCHS is willing to evaluate offers for the System in its entirety, multiple components or individual components of the System.

**We ask that you submit a Preliminary Proposal no later than 3:00 PM PT on Friday March 21, 2014. Preliminary Proposals should be sent electronically to: Houlihan Lokey, c/o Geoffrey Ligibel (GLigibel@HL.com) and Scott Jackson (SJackson@HL.com).**

Based on the Preliminary Proposals received, Houlihan Lokey anticipates selecting qualified parties to undertake a complete evaluation of the applicable operations, which may include facility visits, management presentation, legal, financial and other in-depth due diligence, as required to enter into a definitive purchase agreement.

### **DUE DILIGENCE MATERIAL**

Houlihan Lokey believes that the Confidential Information Memorandum (the “Memorandum”) that you have received is sufficient to formulate a Preliminary Proposal, with additional diligence information provided in the next phase of the process. Should you require some specific information prior to formulating a Preliminary Proposal, please call any member of the Houlihan Lokey transaction team listed below.

### **PRELIMINARY PROPOSAL REQUIREMENTS**

*To receive full consideration, we request that your Preliminary Proposal address each of the following elements:*

- 1. *Description of Potential Acquiror.*** A detailed description of your organization, including a summary of your financial wherewithal and your experience in operating similar operations.
- 2. *Assets to be Acquired.*** Please indicate the assets you are interested in purchasing, including the particular hospitals, central business office, medical office buildings, DCHS Medical Foundation and any ancillary properties. Please also indicate your expected treatment of the provider numbers related to the operations acquired. The System is willing to consider a wide range of proposals, including bids for individual or a group of DCHS businesses; however, preference will be given to Preliminary Proposals or combinations thereof that minimize the number of transactions balanced with the best terms for disposition of all of the System’s operations.
- 3. *Treatment of the Medical Foundation.*** An overview of the anticipated treatment of the System’s Medical Foundation and related physicians.
- 4. *Amount and Form of Consideration.*** The total purchase price and form of consideration to be paid (e.g., cash, securities, assumption of obligations). If your proposed acquired operations include medical office buildings and/or other non-hospital ancillary properties as outlined in Section 2H of the Memorandum, please indicate the portion of the purchase price attributable to this pool of assets and your willingness to exclude such assets from your proposal.

5. **Working Capital Assumption.** Please indicate your expectations surrounding the acquisition of the System's working capital assets (excluding cash) and assumption of working capital liabilities.
6. **CBA Agreements and Non-Union Employee Retention.** Please provide an overview of your intentions to assume the System's collective bargaining agreements (understanding that your diligence so far has not made such agreements available to you), as well as the retention / treatment of employees of the operations to be acquired. Preference will be given to Preliminary Proposals that maximize the retention of employees and assume the existing collective bargaining agreements.
7. **Post-Retirement Obligations.** Please indicate your treatment of the System's post-retirement obligations including the: (i) Retirement Plan for Hospital Employees (a multiemployer defined benefit pension plan), (ii) DCHS Retirement Plan (a non-ERISA guaranteed single-employer defined benefit pension plan) and (iii) retiree health insurance program. Preference will be given to Preliminary Proposals that contemplate the assumption of post-retirement obligations.
8. **Treatment of Other Agreements.** An overview of the anticipated treatment of any executory contracts, leases, etc. relating to the assets to be acquired. Please specify any intended contract modifications, assumptions and assignments of agreements.
9. **Sources of Capital.** A description of the anticipated sources of capital (cash, debt and/or equity) that you intend to use to fund the Transaction.
10. **Anticipated Operating Plan and Capital Commitments.** A description of your anticipated business plan and any contemplated future capital commitments to re-invest in the acquired operations.
11. **Community Service and Charity Care.** A description of planned community service and charity care.
12. **Process and Timing.** A proposed timetable and implementation strategy for consummation of the Transaction. Preference will be given to proposals that contemplate a prompt diligence review period and expected timeline to closing.
13. **Due Diligence.** A detailed description of additional information and due diligence required to submit a binding offer and execution of a final definitive agreement related to a Transaction. Such description should include a specific outline of topics, documents or facilities to be reviewed.
14. **Specific Contingencies to Closure.** A description of any material conditions or contingencies to the consummation of a Transaction (e.g., regulatory approval, board approval, financing, etc.) and your experience and expectations regarding the estimated timing required to obtain such approvals.
15. **Other Parties.** The identification and detailed description of any other parties, other than your organization, that will participate in the consummation of the Transaction, subject to the terms of the Confidentiality Agreement, and/or future operation of the System's operations (e.g., joint venture partners, co-investors, financing sources, third-party managers, etc.).
16. **Contact Information.** The name and contact information for the individual(s) to whom all inquiries relating to the Preliminary Proposal should be made and the identity of any third party advisors you intend to utilize in the process.

**SELECTION OF QUALIFIED PURCHASERS**

Based on the Preliminary Proposals received, Houlihan Lokey anticipates that DCHS will work with the qualified parties to undertake a complete evaluation of the System’s operations. Neither DCHS nor Houlihan Lokey shall have an obligation to continue negotiations or discussions with any interested party as we evaluate the contemplated transactions in light of the Preliminary Proposals received

**DCHS expressly reserves the right, in its sole discretion, to consider any and all factors in choosing to proceed with any party in this process, to reject any and all Preliminary Proposals, to modify the process or terminate discussions with any or all parties at any time. The existence and content of this letter and any communications related to a potential Transaction are subject to the Confidentiality Agreement that you have executed in connection with this process and a potential Transaction. All interested parties remain bound by the terms of such Confidentiality Agreement regardless of whether they submit a Preliminary Proposal.**

The sole purpose of providing this information is to assist you in your investigation of the Transaction, and the information is being provided on the express understanding that it will be used only for this purpose. This letter does not constitute an offer of any nature and does not obligate DCHS in any manner whatsoever.

All communications or inquiries must be directed to the representatives of Houlihan Lokey listed below. No personnel of the System should be contacted directly under any circumstances unless expressly permitted by Houlihan Lokey. DCHS encourages you to consult with Houlihan Lokey in order to obtain guidance as to the formulation of your Preliminary Proposal.



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