

Daughters of Charity Health System

Board Presentation

April 25, 2014

MERGERS & ACQUISITIONS
CAPITAL MARKETS
FINANCIAL RESTRUCTURING
FINANCIAL ADVISORY SERVICES

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Summary of Submitted Preliminary Proposals

Summary of Submitted Proposals (\$ millions)

	SYSTEM BUYERS (9)										LHM BUYERS (15)													
Type	Acoro	Bridgewater / Ares / Westridge	CHA Hollywood Presbyterian	Integrity Healthcare	Lightstone / Warwick Investors	Paladin	Pinnacle	Prime	Strategic Global Management	AHMC	Alecto	Dignity	Providence / Molina	Cedars-Sinai	Le Summit / JPH Consulting	Prospect Medical	Good Samaritan (LA)	County of Santa Clara	HCA	Plymouth / PS TWO	Cardiovascular Care	El Camino	Briis	Plum
	FP / PE	FP / PE	FP	FP	FP / PE	FP / PE	FP	FP	FP	FP	FP	Catholic	Catholic	NFP	FP	FP	NFP	NFP	FP	FP	FP	NFP	FP	FP
Acq. Assets																								
LHMs	All	All	All	All	All	All	All	All	All (a)	SFMC, SVMC	SVMC, SMC, SMCC	SFMC	SFMC	SFMC, SVMC	SFMC, SVMC	SVMC (ops)	OCH, SLRH	OCH, SLRH	OCH, SLRH	SLRH	DCHS MF	SMCC	SMCC	
MOBs	All	All	All	All	All	All	No	All	All	Yes	Yes	Yes	TBD	TBD	Yes	Yes	No	Yes	TBD	TBD	TBD	No	No	TBD
DCHS MF	Yes	No	Possibly	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	TBD	TBD	No	SoCal	No	No	TBD	TBD	No	Yes	No	TBD
CBS	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No	No	Yes	No	TBD	No	No	No	No	TBD
A/R	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	TBD	No	Yes	No	No	TBD	No	No	No	No	TBD
Price	\$325-\$400 + A/R	\$150	\$388-\$468	\$350-\$400	\$450-\$500	\$546	\$623	\$500-\$630	\$500	\$220 + A/R	\$100	\$200	\$81	TBD	\$100 + A/R	\$270-\$300	\$0	\$150 + A/R	\$200	\$100	\$27 + A/R	\$25	\$5 + A/R	\$4
CBAs Assumed	Possibly	No	TBD	Yes	Possibly	Yes	Modify	Possibly	Yes	Yes	Modify	Modify	TBD	TBD	TBD	Yes	No	No	No	TBD	No	No	TBD	TBD
Pension	Possibly	No	No	Possibly	Possibly	Yes	No	Possibly	Up to \$250	No	No	No	TBD	TBD	TBD	No	No	No	No	TBD	No	No	TBD	No
Avail. Capital	Low	Med	High	Low	Med	Med	Low	High	Med	Med	Low	High	High	High	Low	High	Low	Med	High	High	Med	Med	High	High
Diligence (days)	60	120	TBD	60	150	TBD	60	30	120	45	45	90	TBD	TBD	60	90	TBD	TBD	TBD	90	90	120	30	60
Other	- Holdback													- Reported with UCLA			- Reported with Cedars/UCLA		- Exclus.		- Financing conting. - Exclusivity			
Revised Proposal										Yes	Yes		Yes		Maybe							Yes		
Continuing in Process	Yes		Yes		Yes	Yes		Yes	Yes	Yes	Yes	Yes	Yes		Yes	Yes		Yes	Yes	Yes		Hold	Hold	Hold

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

- Meridian Property Company submitted a \$51.5 million offer for the NorCal MOB (OCH, SLRH and SMC)
- Two current physician tenants have expressed interest in their respective MOB: Ardmore offered \$825,000 for the Maywood MOB (SFMC), and Dr. Khoury proposed \$4 million for the Serramonte Medical Dental Building (SMC)

- Based on the feedback provided to bidders, the following groups have revised their original proposals

Potential Buyer	Status
Alecto Healthcare	<ul style="list-style-type: none"> ■ Originally bid as a System bidder at \$185 million ■ While still interested in the System assets, Alecto has refocused on SVMC, SMC and SMCC where it believes it will be more competitive
AHMC Healthcare	<ul style="list-style-type: none"> ■ Has expanded its diligence to include SVMC, with the intent of providing a SoCal alternative
Prospect Medical	<ul style="list-style-type: none"> ■ Primary focus is SoCal, although planning to visit NorCal and consider a System proposal
El Camino	<ul style="list-style-type: none"> ■ Increased its proposal for DCHS MF from \$14 million to \$25 million ■ Unlikely to remain interested in the acquisition of OCH and SLRH
Providence / Molina	<ul style="list-style-type: none"> ■ Indicated verbally through Cain Brothers that they will consider a material purchase price increase (in excess of 2x) but will need to closely analyze the Provider Fee program of SFMC ■ Unwilling to add SVMC to the proposal (seismic concerns for Providence and payor mix issues for Providence / Molina)

Status of Bidders (continued)

- Based on the feedback provided to bidders, the following groups are likely to or have withdrawn from the process or are struggling to advance through the next stage of the process

Potential Buyer	Status
Bridgewater / Ares / Westridge	■ Struggling with valuation in excess of its System bid for \$150 million
Pinnacle	■ Despite a strong preliminary proposal, challenged by the next step of the process / trying to convene with financing sources
Cedars-Sinai	■ Indicated an intent to work with UCLA but has been unable to organize a bid
Good Samaritan (LA)	■ Claims to be tied into Cedars-Sinai and UCLA but group is struggling to advance
Cardiovascular Care Group	■ Requested exclusivity and was unwilling to recognize unionized workforce – re-evaluating but likely to withdraw

Illustrative and Hypothetical Recovery Analysis

	Full System	Multiple Transactions	Assumed Balance Sheet
Purchase Price	■ \$500 million cash (a)	■ \$550 million cash (b)	■ \$630 million (c)
CBA Treatment	■ Modified	■ Modified	■ Modified
Pension Treatment <i>RPHE</i> <i>Church Plan</i>	■ Not assumed ■ Not assumed	■ Not assumed ■ Not assumed	■ Assumed ■ Converted and assumed
Transaction Close Date	■ December 2014	■ February 2015	■ September 2014

- (a) Represents approximate illustrative value associated with a number of full System proposals (CHA Hollywood Presbyterian, Prime Healthcare, Lighthouse / Warwick Investors and Strategic Global Management)
- (b) Calculated as the sum of Alecto's \$50 million offer for SMC / SMCC, Prospect's \$300 million offer for SFMC / SVMC and HCA's \$200 million offer for OCH / SLRH
- (c) Represents Prime Healthcare's proposed assumption of the full DCHS balance sheet

Illustrative and Hypothetical Recovery Analysis (continued)

Illustrative and Hypothetical Recovery Analysis (\$ millions)

	Full System		Multiple Transactions		Assumed Balance Sheet		
	Dec-2014		Feb-2015		Sep-2014		
Illustrative Transaction Close Date	Dec-2014		Feb-2015		Sep-2014		
Implied Revenue Multiple	0.37x		0.41x		0.47x		
Distributable Value From Sale of Operating Assets	\$	500	\$	550	\$	630	
Plus: Provider Fee Receivable (a)		55		83		57	
Plus: Distributable Cash and Investments on Hand (b)		113		61		137	
Plus: Distributable Debt Service Reserve Funds (Series 2005 Bonds)		27		27		27	
Net Distributable / Assumed Value	\$	695	\$	721	\$	851	
		Recovery		Recovery		Recovery	
	Claim	\$	%	\$	%	\$	%
Secured Claims							
Senior Bridge Loan Financing (b)	\$ 90	\$ 90	100%	\$ 90	100%	\$ 90	100%
Series 2005 Bonds	284	284	100%	284	100%	284	100%
Health Center One Mortgage and Capital Leases	6	6	100%	6	100%	6	100%
Total	380	380		380		380	
Other Claims							
Assumed Employee Related Liabilities (c)	54	54	100%	54	100%	54	100%
Transaction Fees and Other Costs		25	100%	30	100%	25	100%
Value Available for Distribution to Unsecured Claims		236		257		392	
Unsecured Claims							
Complete Withdrawal Liability - RPHE (d)	214	154	72%	168	78%	N/A	N/A
Unfunded Actuarial Liability (On-Going Funding Basis) - RPHE (d)	49	N/A	N/A	N/A	N/A	49	100%
Postretirement Healthcare and Excess Plans (e)	5	3	72%	4	78%	5	100%
General Unsecured (f)	109	79	72%	86	78%	109	100%
Contract Damage Claims (g)	TBD	TBD	TBD	TBD	TBD	TBD	TBD
Contingent CMS Claim	TBD	TBD	TBD	TBD	TBD	TBD	TBD
Total		236		257		163	
Church Plan Distribution		0		0		229	

(a) Based on DCHS preliminary estimates of projected monthly sources and uses of funds dated March 2014

(b) Assumes \$90 million of bridge loan financing funded in a single draw

(c) Not compromised and assumed by successor in full as part of any transaction; estimated at 47% of Accrued Liabilities based on FY2013 reported amounts

(d) Estimated actuarial and withdrawal liabilities per Towers Watson report dated August 2013

(e) Estimated GAAP unfunded liability per DCHS FY2013 audited report

(f) Includes accrued liabilities (excluding estimated employee related liabilities), accounts payable and due to government agencies balance sheet obligations which may be assumed by the buyer(s) pursuant to the net working capital structure

(g) Includes contract rejection damages, claims associated with modifications of CBAs (if any), etc.

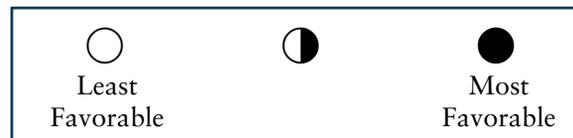
Note: Analysis assumes that (i) the DCHS entities are substantively consolidated to facilitate presentation, and (ii) all LHM and CBS employees are offered employment by the buyer(s) and that no severance payments are incurred

Recovery Analysis Considerations

- Throughout the marketing process DCHS and its advisors will continue to evaluate multiple transaction and full System acquisition structures based on various criteria including:

Criteria	Full System	Multiple Transactions	Assumed Balance Sheet
Enterprise Valuation	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Union Negotiations	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Treatment of RPHE	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Treatment of Church Plan	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Necessity of Bankruptcy	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Regulatory Approval Process	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Timeline to Binding APAs	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

- DCHS should continue to develop all reasonable transaction options until a definitive agreement is executed



Process Event	Description
Management Presentations	<ul style="list-style-type: none"> ■ Commenced on April 15, 2014 and will likely continue into mid-May 2014 (subject to buyer availability)
Due Diligence	<ul style="list-style-type: none"> ■ Buyers received access to online data room with due diligence items (~3,840 documents / 47,400 pages of data)
Purchase Agreement	<ul style="list-style-type: none"> ■ A “form” purchase agreement (“APA”) has been posted to the data room <ul style="list-style-type: none"> ● We will distribute a second round bid process letter to all continuing buyers shortly and request that marked APA(s) be submitted by the week of May 19 ■ 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 ■ It is anticipated that the closing of the sale transaction(s) will occur shortly after necessary approvals are received ■ If a bankruptcy proceeding is necessary, there are a variety of unique procedural aspects that will have to be conducted (including the court’s consent to a transaction)