

Daughters of Charity Health System

LHM Board Presentation – M&A Transaction Process

MERGERS & ACQUISITIONS
CAPITAL MARKETS
FINANCIAL RESTRUCTURING
FINANCIAL ADVISORY SERVICES

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August 2014

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■ Situation Overview

■ Sale Process

- Initial Marketing
- Round 1 Bids
- Due Diligence
- Round 2 Bids
- Current Bidder Status

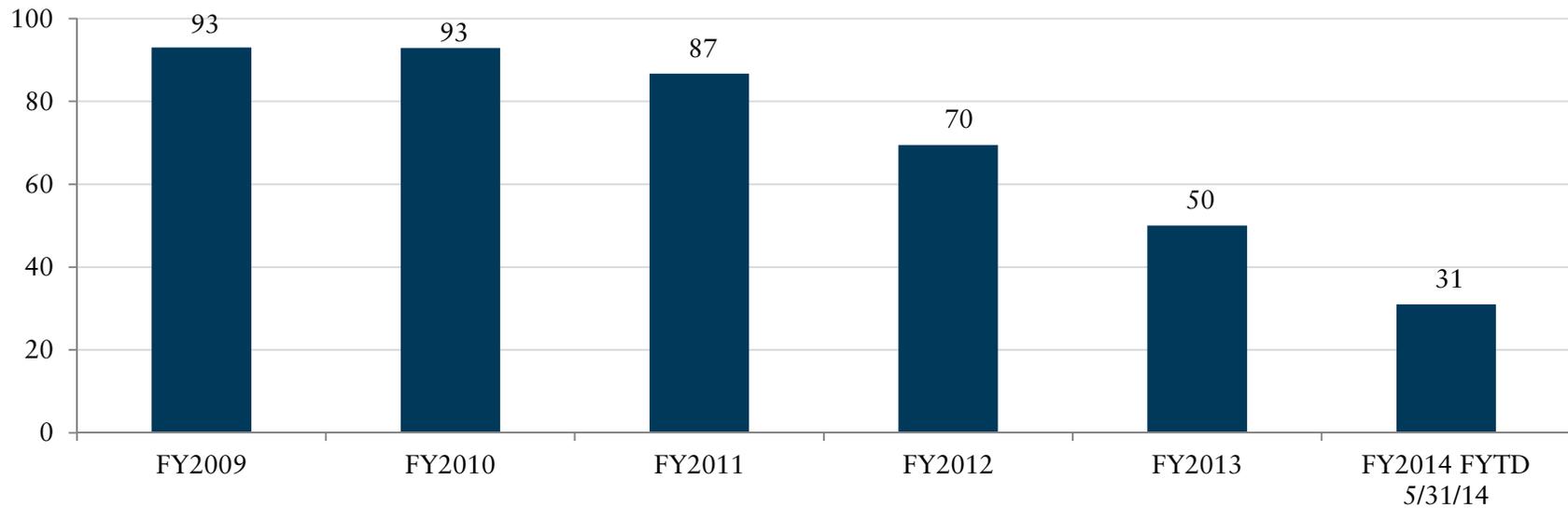
■ Sale Transaction

- Bid Evaluation
- Next Steps

Situation Overview

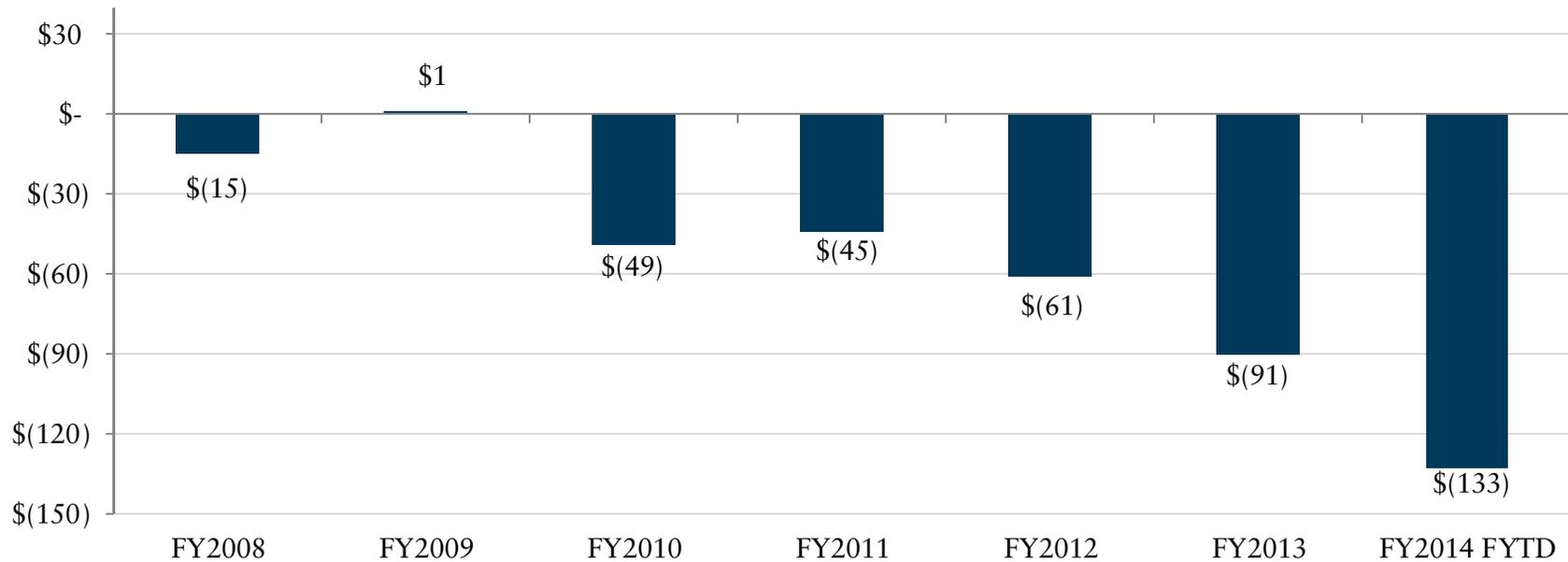
■ Days cash on hand (a simple measure of liquidity) continues to decline

Days Cash on Hand



■ Operating losses are increasing year-over-year

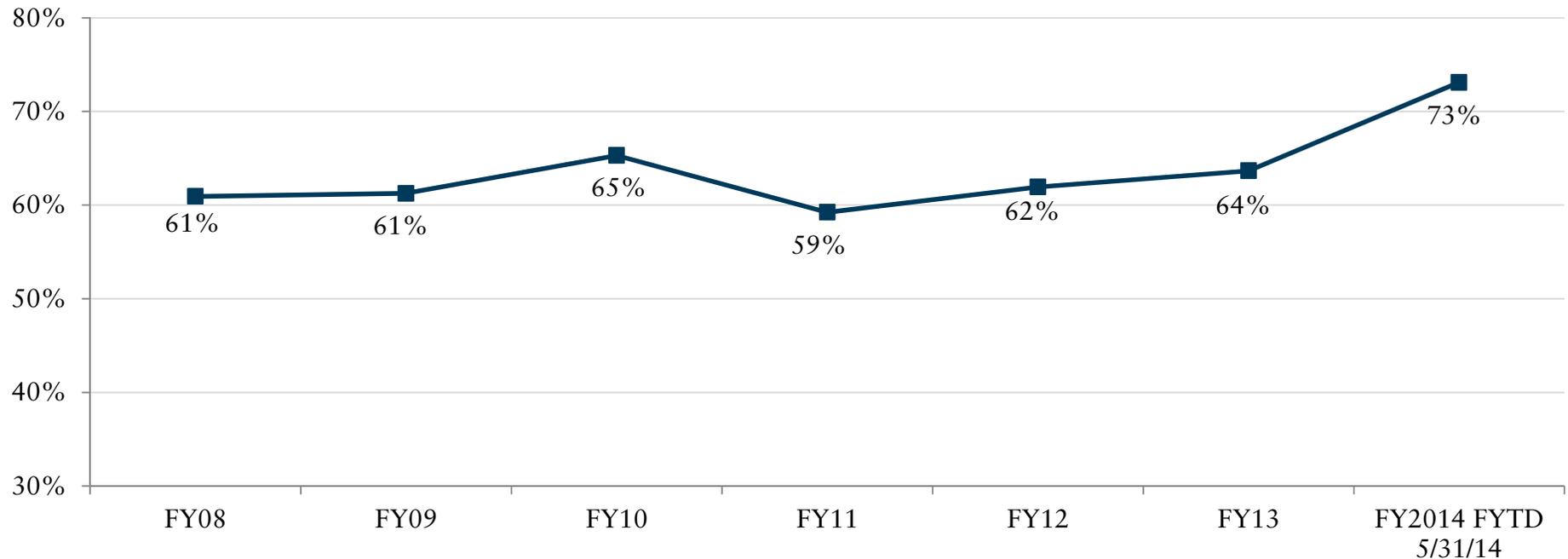
Operating Income (\$ millions)



FY2014 FYTD excludes the favorable accounting treatment of the 2008 bond redemption

- Salaries, wages and benefits expenses (as a percentage of net patient service revenue) continue to increase

Salaries, Wages & Benefits (% of Net Patient Service Revenue)



Summary of Outstanding Obligations (\$ millions)

Obligation	As of May 31, 2014
Total Trade, Employee and Other Obligations	\$ 164
Total Series 2005 Bonds (net of DSRF)	263
Other Long-Term Debt	6
Total Short and Long-Term Debt	433
RPHE Withdrawal Liability (multi-employer plan) (a)	201
Other Unfunded Retirement Plan Liabilities	234
Total Short and Long-Term Obligations	\$ 868

Notes:

The 2014 Bond issuance was closed 7/30 and represents availability of \$100 million.

(a) The RPHE withdrawal liability can be materially reduced if we sell Northern California together and the buyer assumes the pension plan

Preserve hospitals
and access to
healthcare in the
communities served

Maximize value /
Honor the System's
obligations



Conduct an open
process considerate
of all alternatives

Sale Process

- The sale process started with a broad outreach to potential buyers

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

Summary of Contacted Parties

CONFIDENTIALITY AGREEMENT EXECUTED

NO CONFIDENTIALITY AGREEMENT

Catholic

Dignity Health
Providence / Molina

Catholic Health Initiatives
CHE Trinity
Christus Health

St. Joseph Health System
Sisters of Charity of Leavenworth
Sisters of Mercy Health Sys.

Not-For-Profit / Government

Cedars-Sinai
CHOMP
El Camino Hospital
Good Samaritan (LA)
Kaiser Permanente
RCB Equities #1

San Mateo Co. Health Sys.
Santa Clara Hospital Sys.
Scripps Health
Stanford Medicine
UCLA Health

Adventist Health
Banner Health System
Keck Medicine of USC
Mayo Clinic
MemorialCare
Presby. Intercommunity Hosp.

Sutter Health Pacific
UCSF Medical Center

For Profit Strategic

AHMC Healthcare
Alecto Healthcare Svcs.
Cardiovascular Care
Central Valley Spec. Hosp.
CHA Hollywood Presby.
HCA Healthcare
Iasis Healthcare
JPH Consulting
LHP Hospital Group

LifePoint Hospitals
MEDPrime LLC
Paladin / Avanti
Prime Healthcare Svcs.
Prospect Medical Hldgs.
RollinsNelson
Select HealthCare Soln.
Strategic Global Mgmt.
Universal Health Services

Acadia Healthcare
Apollo Medical Holdings
Ardent Health Services
California Physicians' Svc.
Centene Corporation
Cigna Corporation
Community Health Sys.
HealthCare Ptnrs./DaVita
HealthNet

McKesson Corporation
Regal Medical Group
RegionalCare Hospital Ptns.
Tenet Healthcare
United Healthcare / Optum
WellCare Health Plans
Wellpoint

Summary of Contacted Parties

	CONFIDENTIALITY AGREEMENT EXECUTED		NO CONFIDENTIALITY AGREEMENT	
Private Equity / Mgmt. Team	Aeoro	LEPL Projects, Ltd.	General Atlantic	Patrick Soon-Shiong
	Blue Wolf Capital Partners	Lightstone Group	GI Partners	Vestar Capital Partners
	Bridgewater / Ares / Westridge	Madison Dearborn	Guggenheim Partners	Yucaipa
	Cerberus Capital Management	Pinnacle Healthcare Dev.	KRG Capital	
	Integrity Healthcare, Inc.	Platinum Equity	Morgan Stanley PE	
	KKR	PS Two / Pejman Salimpour	Oaktree Capital Mgmt	
SNF / REIT / MOB / Other	American Healthcare Investors	Health Care REIT	Angelo, Gordon & Co.	Omega Healthcare
	American Realty Cap. HC. Tr.	Kindred	Avalon Health Care	Pacifica Companies
	Arba Group	Life Generations/Generations HC	Avamere	Sabra
	Ardmore Medical Group	Marquis Senior Care	Country Villa Health Svcs.	Sava Senior Care
	AVIV REIT	Meridian	Formation Capital / Genesis	Sentio Healthcare
	Beverly Cardiology Group	Meridian Mgmt./JCH Csltg. Gp.	Golden Living	Skilled Healthcare
	Brius / Shlomo Rechnitz	NorthStar Realty Finance Corp.	Granite Investment Group	Starwood
	Covenant Care	Physicians Realty Trust	Harrison St. Real Estate Cap.	
	CrossHarbor Capital Partners	Plum Healthcare	HCR ManorCare	
	Dr. Khoury	Prestige Care, Inc.	Life Care Centers of America	
	Eduro Healthcare	Rockpoint Group / Watt Co.	LifeHouse	
	EmpRes	Seavest / Pacific Medical Bldgs.	LTC Properties	
	Ensign	SnF Management	Medical Properties Trust	
	G&L Realty	Ventas	National Health Investors	
	G.H. Palmer Associates		North American Health Care	

- First round bids were due on March 18, 2014

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

Note: Real estate only bids are not included in the summary above

Summary of First Round Bids – System

(\$ millions)

SYSTEM BUYERS (11)

	<i>Buyer A</i>	<i>Buyer B</i>	<i>Buyer C</i>	<i>Buyer D</i>	<i>Buyer E</i>	<i>Buyer F</i>	<i>Buyer G</i>	<i>Buyer H</i>	<i>Buyer I</i>	<i>Buyer J</i>	<i>Buyer K</i>
Type	PE	FP	PE	FP	PE	PE	FP	PE	FP	NFP	FP
Acq. Assets											
LHMs	All	All	All	All	All	All	All	All	All	All	All
MOBs	All	All	All	All	All	All	All	No	All	All	All
DCHS MF	Yes	Yes	No	Possibly	Yes						
CBS	No	Yes									
A/R	No	Yes									
Price	\$325-\$400 + A/R	\$185	\$150	\$388-\$468	\$350-\$400	\$450-\$500	\$546	\$623	\$500-\$630	\$818	\$500
CBAs Assumed	Possibly	Modify	No	TBD	Yes	Possibly	Yes	Modify	Possibly	Yes	Yes
Pension	Possibly	No	No	No	Possibly	Possibly	Yes	No	Possibly	Yes	Up to \$250
Avail. Capital	Low	Low	Med	High	Low	Med	Med	Low	High	Low	Med
Continuing to 2nd Round	Yes	Yes		Yes	Yes		Yes		Yes		Yes

Summary of First Round Bids – Individual LHMs

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(\$ millions)

LHM BUYERS (14)

	Buyer L	Buyer M	Buyer N	Buyer O	Buyer P	Buyer Q	Buyer R	Buyer S	Buyer T	Buyer U	Buyer V	Buyer W	Buyer X	Buyer Y
Type	FP	Catholic	Catholic	NFP	FP	FP	NFP	NFP	FP	PE	FP	NFP	FP	FP
Acq. Assets														
LHMs	SFMC, SVMC	SFMC	SFMC	SFMC, SVMC	SFMC, SVMC	SFMC, SVMC	SVMC (ops)	OCH, SLRH	OCH, SLRH	OCH, SLRH	SLRH	DCHS MF	SMCC	SMCC
MOBs	Yes	Yes	TBD	TBD	Yes	Yes	No	Yes	TBD	TBD	TBD	No	No	TBD
DCHS MF	No	No	No	TBD	No	SoCal	No	No	TBD	TBD	No	Yes	No	TBD
CBS	No	No	No	No	No	No	No	Yes	No	TBD	No	No	No	TBD
A/R	No	Yes	Yes	TBD	No	Yes	No	No	TBD	No	No	No	No	TBD
Price	\$220 + A/R	\$200	\$81	TBD	\$100 + A/R	\$270-\$300	\$0	\$150 + A/R	\$200	\$100 + A/R	\$27 + A/R	\$25 + A/R	\$5 + A/R	\$4
CBAs Assumed	Yes	Modify	TBD	TBD	TBD	Yes	No	No	No	TBD	No	No	TBD	TBD
Pension	No	No	TBD	TBD	TBD	No	No	No	No	TBD	No	No	TBD	No
Avail. Capital	Med	High	High	High	Low	High	Low	Med	High	High	Med	Med	High	High
Continuing to 2 nd Round	Yes	Yes	Yes		Yes	Yes		Yes		Yes				

Summary of MOB / Real Estate Bids

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	Buyer Z	Buyer AA	Buyer AB	Buyer AC	Buyer AD
Price (\$ millions)	\$51.5	\$20.9	\$0.8	\$4.0	\$85.0
SMC – Serramonte	✓	✓		✓	
SMC - SMOC #1	✓	✓			
SMC - SMOC #2	✓	✓			
OCH	✓				
OCH – Clarmar	✓				
OCH – Barclay	✓				
OCH - HC One JV	✓				
SLRH - Morgan Hill	✓				
SFMC – Maywood			✓		
SVMC - Real Estate					✓

- Second round bids were due on May 21, 2014

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

Note: Second round bids were not solicited from parties interested only in Medical Office Buildings, Seton Medical Center Coastside or real estate transactions

Summary of Second Round Bids – System

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SYSTEM BUYERS

(\$ millions)

	Buyer AE	Buyer AF	Buyer AG	Buyer AH	Buyer AI	Buyer AJ	Buyer AK	Buyer AL
Type	PE	PE	FP	PE	FP	PE	FP	FP
Acq. Assets								
LHMs	All							
MOBs	All	[All]	[All]	All	All	All	All	All
Med Foundation	[Yes]	[Yes]	[Yes]	Yes	Yes	[Yes]	Yes	Yes
CBS	Yes	[Yes]	[Yes]	Yes	Yes	[Yes]	Yes	Yes
A/R	Yes	[Yes]	Yes	Yes	Yes	No	Yes	Yes
Cash	No	[Yes]	Yes	No	No	No	Yes	Yes
Est. Distr. Value	\$774	\$702	\$802	\$834	\$710	\$795	\$802	\$827
Remit Prov. Fee	No	No	Yes	Yes	No	[Yes]	No	No
CBAs	Assume	Modify	Assume	Assume	Assume	TBD	Modify	Assume
Pension	Assume	Assume	Assume	Assume	Assume	No	Assume	Assume
Bankruptcy	-	-	-	-	-	-	-	-

Summary of Second Round Bids – LHM

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LHM BUYERS

(\$ millions)

	<i>Buyer AM</i>	<i>Buyer AN</i>	<i>Buyer AO</i>	<i>Buyer AP</i>	<i>Buyer AQ</i>	<i>Buyer AR</i>	<i>Buyer AS</i>
Type	FP	Catholic	Catholic	FP	FP	NFP	NFP
Acq. Assets							
LHMs	SFMC	SFMC	SFMC	SVMC, SMC, SMCC	SVMC	SVMC	OCH, SLRH
MOBs	Yes	[Yes]	Yes	Yes	[Yes]	[Yes]	Yes
Med Foundation	[No]	No	[No]	No	[No]	No	No
CBS	[No]	No	[No]	No	[No]	No	Yes
A/R	No	Yes	No	No	Yes	No	No
Cash	No	No	No	No	No	No	No
Est. Distr. Value	\$286	\$238	\$215	\$178	\$55	\$87	\$205
Remit Prov. Fee	28% for 3 yrs	[Yes]	Yes	No	Yes	[Yes]	Yes
CBAs	Yes	Modify	No	Modify	Yes	TBD	No
Pension	No	No	No	No	No	No	No
Bankruptcy	-	Yes	Yes	-	-	-	Yes

Illustrative Recovery Analysis – System

Sources		
<i>(\$ millions)</i>		Buyer 1
		<i>All LHM's</i>
Cash	Base Cash Consideration	\$ 542
	Less: Employee Liability Deduction	-
	Less: Holdback / Indemnity Escrow	(100)
	Total Cash Consideration	442
Assumed Liabilities	Mortgages / Capital Leases	5
	Pension - RPHE	49
	Pension - Church	229
	Other Current Liabilities	102
	Total Assumed Liabilities	385
Estimated Bid Value		827
Retained Assets	Cash & Equivalents	-
	Accounts Receivable	-
	Provider Fee Receivable, net	-
	All Other	-
	Total Retained Asset Value	-
Estimated Distributable Value		827
Less: Assumed Liabilities		(385)
Est. Distributable Cash Value		\$ 442

Uses				
(\$ millions)				
Est. Distributable Cash Value		\$	442	
		Recovery		
		\$	%	
Secured Claims	Senior Bridge Loan	\$ 75	100%	
	Series 2005 Bonds, net	258	100%	
	Mortgages / Capital Leases	<i>Assumed</i>	100%	
	Total	333		
Priority Claims	Employee Related	59	100%	
	Illust. Transaction Fees / Other	25	100%	
	Total	84		
Unsecured Claims	Pension - RPHE (Withdrawal)	<i>Assumed</i>	100%	
	OPEB	<i>Assumed</i>	100%	
	General Unsecured	<i>Assumed</i>	100%	
	Reserve for Possible Reimbursement and Other Liabilities	<i>TBD</i>		
	Total (Pre-Church Plan)	-		
	Pension - Church Plan	<i>Assumed</i>	100%	
	Residual Value	\$	25	

Note: Assumes Dec. 31 closing; reflects most recent discussions with potential buyers, and may not match terms in latest offer package / APAs

Sources		Illustrative Aggregate LHM Bid				
(\$ millions)		Retained	Buyer 2	Buyer 3	Buyer 4	Total
			<i>SVMC, SMC/C</i>	<i>SFMC</i>	<i>OCH, SLRH</i>	
Cash	Base Cash Consideration		\$ 130	\$ 135	\$ 150	\$ 415
	Less: Employee Liability Deduction		(21)	(17)	-	(38)
	Less: Holdback / Indemnity Escrow		-	-	<i>TBD</i>	<i>TBD</i>
	Total Cash Consideration		109	118	150	377
Assumed Liabilities	Mortgages / Capital Leases		-	-	-	-
	Pension - RPHE		-	-	-	-
	Pension - Church		-	-	-	-
	Other Current Liabilities		21	17	-	38
	Total Assumed Liabilities		21	17	-	38
Estimated Bid Value			130	135	150	415
Retained Assets	Cash & Equivalents	55	-	-	-	55
	Accounts Receivable	9	48	56	40	154
	Provider Fee Receivable, net	-	-	95	14	109
	All Other					
	Total Retained Asset Value	64	48	151	55	318
Estimated Distributable Value		\$ 64	\$ 178	\$ 286	\$ 205	\$ 733
Less: Assumed Liabilities						(38)
Est. Distributable Cash Value						\$ 695

Illustrative Recovery Analysis – Aggregate LHM (cont.)

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Uses		Illustrative LHM Bid	
(\$ millions)			
Est. Distributable Cash Value		\$	695
		Recovery	
		\$	%
Secured Claims	Senior Bridge Loan	\$ 75	100%
	Series 2005 Bonds, net	258	100%
	Mortgages / Capital Leases	5	100%
	Total	<u>338</u>	
Priority Claims	Employee Related	21	100%
	Illust. Transaction Fees / Other	30	100%
	Total	<u>51</u>	
Unsecured Claims	Pension - RPHE (Withdrawal)	200	99%
	OPEB	5	99%
	General Unsecured	101	99%
	Reserve for Possible Reimbursement and Other Liabilities	<i>TBD</i>	
	Total (Pre-Church Plan)	<u>305</u>	
	Pension - Church Plan	-	0%
	Residual Value	<u>\$ -</u>	

Note: Assumes Dec. 31 closing; reflects most recent discussions with potential buyers, and may not match terms in latest offer package / APAs

Sale Transaction

- The following factors are being considered in DCCHS' evaluation of bids:



Projected Cash Flows

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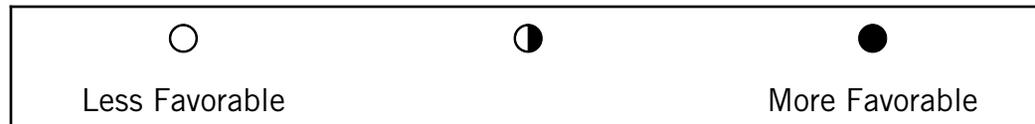
Projected Cash Flows & Series 2014 Bond Draws (\$ millions)

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Total
Beginning Cash	\$ 100	\$ 44	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 41	\$ 29	\$ 64	\$ 54	\$ 100
Cash Inflows:													
Patient Revenue	83	83	83	86	84	86	86	78	86	84	86	84	1,012
Provider Fee, Suppl. Pmts., Meas. A	9	1	1	4	9	11	18	(3)	12	60	12	20	156
Other Operating and Non-Op. Items	10	11	19	15	9	13	15	11	9	9	9	9	140
Total Inflows	102	96	103	105	102	110	119	86	108	153	108	113	1,307
Cash Outflows:													
Salaries, Wages and Benefits	(71)	(74)	(68)	(69)	(69)	(69)	(70)	(68)	(70)	(68)	(70)	(72)	(836)
Other Payables	(62)	(41)	(40)	(46)	(43)	(44)	(46)	(41)	(45)	(45)	(44)	(43)	(539)
Mellon Bank Reserve	(20)	-	-	-	-	-	-	-	-	-	-	-	(20)
All Other	(5)	(6)	(6)	(5)	(5)	(5)	(5)	(6)	(5)	(5)	(5)	(5)	(65)
Total Outflows	(158)	(121)	(113)	(120)	(117)	(118)	(121)	(115)	(120)	(118)	(119)	(120)	(1,460)
Op. Cash Flow (Pre-2014 Bonds)	(56)	(26)	(10)	(14)	(15)	(8)	(2)	(28)	(12)	35	(11)	(7)	(153)
2014 Bond Draws	-	37	10	14	15	8	2	14	-	-	-	-	100
Ending Cash	\$ 44	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 41	\$ 29	\$ 64	\$ 54	\$ 47	\$ 47
Cumulative Operating CF	\$ (56)	\$ (82)	\$ (92)	\$ (106)	\$ (121)	\$ (129)	\$ (131)	\$ (159)	\$ (171)	\$ (136)	\$ (146)	\$ (153)	
Outstanding 2014 Bonds	\$ -	\$ 37	\$ 47	\$ 61	\$ 76	\$ 84	\$ 86	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	

Qualitative Comparison of System Bids

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	Tier	Bid Valuation	CBA Treatment	Treatment of Pensions	Available Capital	Timing of APA Execution	Closing Risk
Buyer AT	A	●	●	●	●	●	○
Buyer AU	A	●	●	●	◐	●	●
Buyer AV	A	◐	●	◐	◐	●	◐
Buyer AW	B	●	●	◐	●	◐	●
Buyer AX	B	●	●	◐	◐	◐	●
Buyer AY	B	○	◐	●	◐	○	◐



Process Event	Description
Definitive Documentation	<ul style="list-style-type: none">■ Continue negotiations with leading system buyers<ul style="list-style-type: none">- Guidance to be provided to buyers to improve their bids- Resolution of material transaction elements:<ul style="list-style-type: none">○ Treatment of charitable foundations○ Treatment of the medical foundation○ Post-execution union communications○ Post-execution consulting / management○ Pension plan conversions○ Asset sale vs. member substitutions / conversion- Completion of disclosure schedules- APAs cannot be executed until diligence is complete

Process Event	Description
Required Diligence	<ul style="list-style-type: none">■ Select buyer due diligence remains, including<ul style="list-style-type: none">- On and off-balance sheet assets / liabilities- FY2015 monthly liquidity budget analysis- Union discussions- Discussion with San Mateo County Board of Supervisors relating to Measure A- Title

Process Event	Description
Approvals	<ul style="list-style-type: none">■ Upon execution of definitive documents, 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- Federal Trade Commission (Hart-Scott-Rodino / Anti-Trust)

Process Event	Description
<p>2014 Bond Sale Transaction Milestones (Outside Dates)</p>	<ul style="list-style-type: none"> ■ <u>October 31, 2014</u> <ul style="list-style-type: none"> - Executed APA sufficient to satisfy specific requirements ■ <u>15 days post-execution of the APA</u> <ul style="list-style-type: none"> - All necessary regulatory filings made by DCHS and buyer ■ <u>March 31, 2015</u> <ul style="list-style-type: none"> - All necessary regulatory approvals received (other than DPH) ■ <u>45 days post-regulatory approval</u> <ul style="list-style-type: none"> - Consummation of transaction