



March 20, 2014

Mr. Andrew R. Turnbull  
Managing Director  
Houlihan Lokey  
123 North Wacker Drive, 4<sup>th</sup> Fl.  
Chicago, Illinois 60606

Dear Mr. Turnbull,

Providence Health & Services ("Providence") wishes to inform you of its interest in acquiring St. Francis Medical Center ("SFMC") from the Daughters of Charity Health System ("DCHS") in furtherance of Providence's commitment to providing for the needs of the communities it serves, especially the poor and vulnerable. We believe that our proposal presents a compelling opportunity to develop a coordinated, high quality, and cost-effective health care delivery system for South Central Los Angeles that both honors and preserves the Catholic heritage of SFMC.

As one of the largest faith-based health care ministries in the United States, Providence can offer economies of scale, operating expertise, and capital support to enable SFMC to thrive as central piece of an integrated network oriented to serve the unique health care needs of the residents in the South Central Los Angeles area. The Providence system includes 33 hospitals, 400 physician clinics, senior services, a health maintenance organization, supportive housing and many other health and educational services. We employ more than 73,000 people across five states - Alaska, California, Montana, Oregon and Washington. In 2012, Providence and its affiliate Swedish Health Services provided more than \$807 million in community benefit, including nearly \$270 million in free and discounted care for those who could not afford to pay for care. Providence continues a tradition of caring, which the Sisters of Providence began more than 155 years ago. As a system, Providence is working to improve quality, increase access and reduce the cost of care in all of the communities we serve.

Providence has a substantial presence in Los Angeles and surrounding communities through Providence Health System - Southern California. This California nonprofit religious corporation provides a full spectrum of care that includes not only leading-edge diagnostics and treatment, but outpatient health centers, the well-regarded Providence Medical Institute physician group, numerous outreach programs and clinics serving those in need, hospice and home care and even our own Providence High School, a Blue Ribbon college-preparatory campus. Most recently, Providence Health & Services, Southern California became the sponsor of Saint John's Health Center, a 266-bed acute care facility in Santa Monica, California, effective March 1, 2014.

Providence intends to partner with Molina Healthcare ("Molina") to develop a population health model that is responsive to needs of South Central Los Angeles. Similar to Providence, Molina is committed to providing quality and cost-effective health care solutions to meet the demands of indigent populations. With roots in Southern California, Molina's health plans today serve 1.9 million members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals across 11 states. Either through a contractual shared savings relationship or through joint ownership in SFMC, Providence and Molina plan on



leveraging each other's respective capabilities to create a durable solution for South Central Los Angeles that benefits patients, Medi-Cal beneficiaries, local residents, employees, and clinicians.

Providence and Molina preliminarily propose a transaction whereby Providence assumes sponsorship of SFMC either through an asset purchase agreement or membership substitution involving a new or existing affiliate of Providence. The key components of the proposal are summarized as follows:

- Transaction would be an asset purchase or member recognition transaction whereby SFMC would recognize a Providence affiliate as its sole corporate member;
- St. Francis Medical Center would continue to be a sponsored hospital which will be operated as a Catholic hospital;
- In exchange for becoming the sponsor of the hospital, Providence would assume a portion of the existing long-term indebtedness of SFMC, of which currently is \$81 million, or make a contribution to DCHS in a like amount;
- Providence would assume ownership of substantially all of the operating assets of SFMC and normalized net working capital;
- Excluded assets and liabilities would include cash and investments as well as all long-term liabilities not expressly agreed to by Providence, including pension obligations and any potential malpractice claims incurred prior to the closing of the transaction

All of these key components of the proposal would be subject to Providence and Molina completing due diligence and developing a viable, long term business plan to grow and serve the population in this community through Providence's expertise in delivery system management and Molina's expertise in managing the total cost of care of the Medi-Cal and dual eligible populations. The business plan would have to include both Providence and Molina sharing in the economic risk and reward of serving this vulnerable population and strong advocacy support from the archdiocese.

Thank you again for the opportunity to present our thoughts to you. We believe that we would be a great partner for SFMC and look forward to discussing next steps with you.

Sincerely,

A handwritten signature in black ink that reads "Mike Butler". The signature is written in a cursive, flowing style.

Mike Butler

President, Operations and Services