DISCUSSION MATERIALS

Daughters of Charity Health System

LAZARD

Core Objectives

- The Daughters of Charity Health System ("DCHS"), a vital provider of healthcare to underserved communities in Los Angeles, Santa Clara and San Mateo counties, is facing enormous financial and operational challenges

- Despite these challenges, Blue Wolf Capital Fund III, L.P. (Blue Wolf) is prepared to enter into a definitive agreement that:

  - **Maintains and continues to operate all of DCHS's acute care facilities**

  - **Preserves the important role as a provider of high-quality healthcare to underserved families that DCHS serves in the communities in which it operates**

  - **Maintains the retirement benefits earned to date for current and former DCHS employees**

  - **Offers employment to DCHS's existing workforce consistent with the need to create a sustainable enterprise**

  - **Injects substantial new capital into the system to facilitate a much needed operational revitalization**

Key Elements

- **Blue Wolf will invest and raise sufficient capital to:**
  - Fully fund turnaround
  - Invest in needed capital upgrades
  - Provide liquidity cushion for unanticipated contingencies
- **In order to ensure the success of the plan and the ability to meet the system's obligations, Blue Wolf has sought and secured the cooperation of key constituents**
  - Exclusive MOUs have been reached with a number of key stakeholders to facilitate substantial improvements to system performance
- **In addition to the financial impact of these agreements, Blue Wolf has developed a strategic action plan that will make DCHS sustainable for the long-term**
- **To date, Blue Wolf has invested substantial resources and has incorporated the expertise of numerous industry leaders to ensure the reasonableness of its assumptions and its plan**

Key Elements (cont'd)

- **Blue Wolf has attracted a world-class management team with extensive acute care and turnaround experience to lead the restructuring of DCHS**
  - Proven commitment to safety-net hospitals
  - Substantial operating and turnaround experience
- **NewFound Health Holdings will enter into a ten-year $50 million corporate sponsorship with the Daughters of Charity Foundation**
  - Payable ratably over the period of the sponsorship
  - Demonstrates long-term commitment to Daughters' core objectives

Key Elements (cont'd)

- **LABOR COST REDUCTIONS:**
  - New labor agreements to reduce fringe benefit costs and eliminate restrictive work rules to ensure maximum operational flexibility
  - Restructure non-union consistent with union elements

→ **$90MM**

- **OPERATIONAL IMPROVEMENTS:**
  - Revenue cycle management
  - Restructured payer contracts

→ **$60MM**

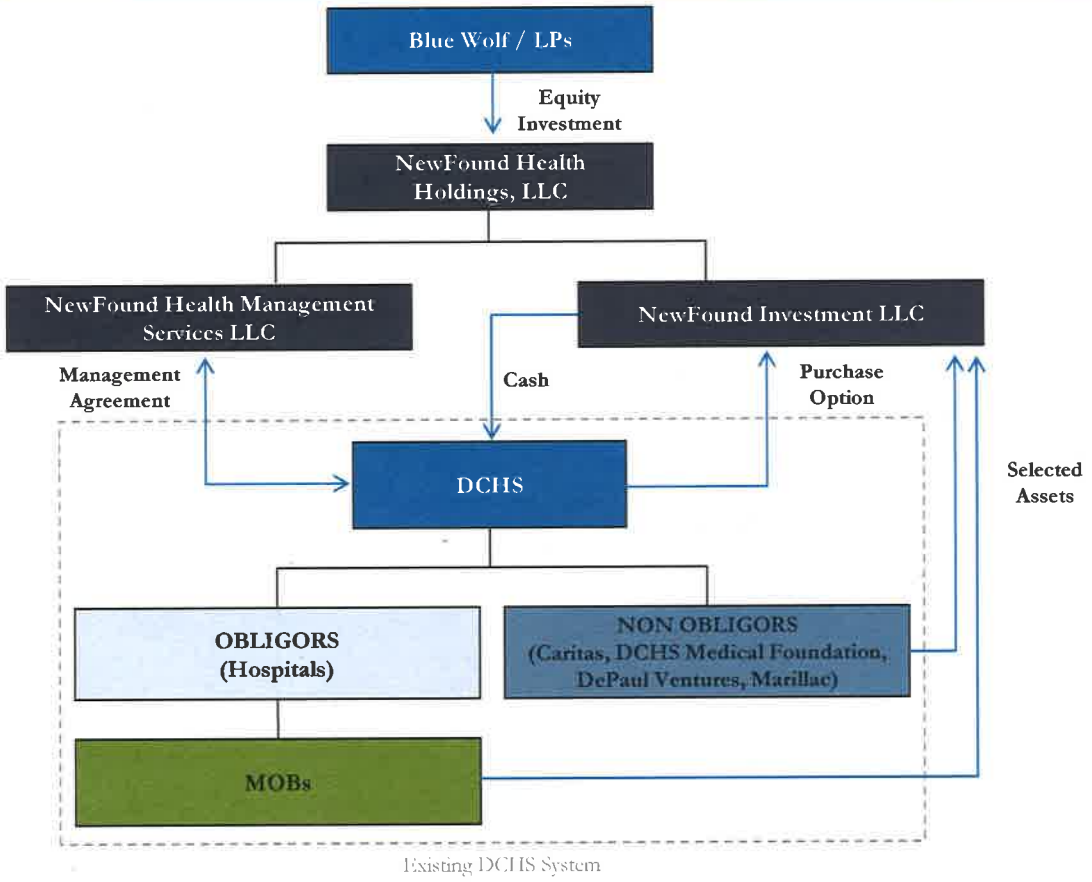
- **GROWTH INITIATIVES:**
  - Implement care coordination to reduce length of stay and readmission
  - Economic alignment with counties and medical foundation

→ **$30MM**

Transaction Structure

Blue Wolf has created the following structure, allowing for the investment of fresh capital into a not-for-profit 501(c)(3) entity, the assumption of existing tax-free bonds and the existence of a highly incentivized management company to drive operations improvements

Proposed Structure



Structure Detail

- DCHS restructures, recapitalizes, and disaffiliates
- DCHS and NF Management enter into a management agreement
- DCHS sells select assets at fair market value (primarily MOBs) to NF Investment for $100 million in proceeds
- NF Investment will receive an option to purchase DCHS at the current value of the liabilities
- NF Investment enters into a loan or sale-leaseback agreement with a real estate investor around the MOBs to fund a portion of the $100 million asset purchase from DCHS

Anticipated Sources & Uses

($ in millions)

Blue Wolf anticipates the following sources and uses to fund the transaction

Sources & Uses

DCHS / NewFound Health Transaction

Sources		Uses		
NewFound Health A/R Facility	[redacted]	Payoff Existing Bridge Facility	$84	
ManCo Real Estate Purchase		Cash to Balance Sheet	210	
Excess Balance Sheet Cash		QAF Receivable	90	
QAF Receivable		**Total Liquidity**		300
DCHS Support		**Fees and Expenses**	**9**	
Total Sources		**Total Uses**	**$393**	

Management Services Co Transaction

Sources		Uses	
Blue Wolf Equity	**$70**	Purchase of Real Estate Assets	$100
Senior Debt	**50**	Cash to Balance Sheet	11
		Fees and Expenses	**9**
Total Sources	**$120**	**Total Uses**	**$120**

Pro Forma Balance Sheet Impact of Anticipated Transactions

($ in millions)

	NewFound Co Beginning Balance (12/31/2014)	2014 Bridge Facility	DCHS Support	Management Co Real Estate Purchase	Transaction Fees	NewFound Co Ending Balance (12/31/2014 PF)
Cash	$53	$1	$65	$100	($9)	$210
QAF Receivable	90					90
Total Cash & QAF Receivable	**$143**	**$1**	**$65**	**$100**	**($9)**	**$300**
Existing Series 2005 Bonds	$289					$289
Amount Drawn on Existing 2014 Bridge Facility	84	(84)				0
New A/R Facility	0	85				85
Total Debt	**$372**	**$1**	**$0**	**$0**	**$0**	**$373**

	Management Co Beginning Balance (12/31/2014)	Blue Wolf Equity Investment	Senior Debt	Purchase of NewFound Co Real Estate	Transaction Fees	Management Co Ending Balance (12/31/2014 PF)
Total Cash	**$0**	**$70**	**$50**	**($100)**	**($9)**	**$11**
Senior Debt	$0		50			$50
Total Debt	**$0**	**$0**	**$50**	**$0**	**$0**	**$50**

	PF NF Co + Man Co Ending Balance (12/31/2014 PF)
Cash	$221
QAF Receivable	90
Total Cash & QAF Receivable	**$311**
Existing Series 2005 Bonds	$289
Amount Drawn on Existing 2014 Bridge Facility	0
New A/R Facility	85
Management Co Senior Debt	50
Total Debt	**$423**

Liquidity Roll Forward

($ in thousands)

NewFound Health & Management Company	6 Months Ending 6/30/2015	FY2016 6/30/2016	FY2017 6/30/2017
Beginning Unrestricted Cash	**$221,000**	**$222,786**	**$81,186**
Steady State EBIDA	**83,273** [(a)]	**(55,058)**	**(55,058)**
Labor Adjustments	7,000	30,000	90,000
Revenue Enhancements	3,000	20,000	60,000
Other	3,000	10,000	30,000
Pro Forma EBIDA	**$96,273**	**$4,942**	**124,942**
Restructuring Charges	(25,000)	(25,000)	-
Interest Expense	(8,689)	(27,817)	(27,810)
Maintenance CapEx	(27,500)	(55,000)	(55,000)
Catch-Up CapEx	(25,000)	(40,000)	(15,000)
Debt Repayment	(1,005)	(2,198)	(2,221)
Working Capital Changes	(7,293)	3,472	-
Ending Unrestricted Cash	**$222,786**	**$81,186**	**$106,097**

(a) Includes $100 million of CY 2014 net QAF payments and $50 million of CY 2015 net QAF payments that are expected to be recognized during the period.

Daughters of Charity Transaction Support:

- **Purpose:**
  - Support restructuring costs
  - Allow for preservation of pension plans
  - Support continuation of indigent care
- **Amount: $65 million one-time contribution to DCHS**

Closing Contingencies

- **1) Governmental Approvals**
- **2) Holy See Approval**
- **3) Customary Conditions**
  - Material adverse change
  - Documentation