



BLUEWOLF

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September 12, 2014

Mr. Andrew Turnbull
Managing Director
Houlihan Lokey
123 North Wacker Drive
Chicago, IL 60606

Re: Daughters of Charity Health System

Dear Andrew:

Blue Wolf Capital Fund III, L.P. ("Blue Wolf") hereby submits this offer to restructure, recapitalize and revitalize the Daughters of Charity Health System ("DCHS").

Over the last four months, Blue Wolf has undertaken a massive effort to understand and assess the situation facing DCHS and to determine whether or not we could offer a constructive solution.

The conclusions we have reached are, to put it mildly, quite sobering.

On the one hand, we have come to understand and deeply appreciate the critical role played by the DCHS hospitals in their communities. The Daughters' commitment to providing health care for disadvantaged members of the community who are less able to access the type of high-quality care others may take for granted is inspiring and one we fully share. This deep moral and ethical commitment is evident throughout the DCHS system and has been well represented during our many discussions and interactions with the DCHS executive team as well as the staff at each hospital. The high quality of healthcare services that have been consistently maintained, even under the most challenging financial circumstances, is, quite frankly, extraordinary.

On the other hand, we have become acutely aware, as we know are you, of the severe operational and financial crisis that imminently threatens DCHS's mission and the jobs and retirement benefits that DCHS promised to its current and former employees.

All of our work has gone into constructing an offer that honors DCHS's mission while confronting with clear eyes the challenges that the system faces.



As you will see, our offer embraces all of the evaluation criteria that you have articulated.

- ✓ We are prepared to maintain and continue to operate all of DCHS's acute care facilities.
- ✓ We will continue DCHS's critical role as a provider of high-quality healthcare to the underserved families in the communities in which it operates.
- ✓ We will maintain the retirement benefits earned to date for current and former DCHS employees.
- ✓ We will inject substantial new capital into the system to facilitate an operational revitalization.
- ✓ We are prepared to move expeditiously to a closing, conditioned only on necessary approvals by government and the Holy See and customary conditions regarding documentation and the lack of material adverse changes in the condition of the system.
- ✓ Our business plan provides for and contemplates the substantial capital spending required to upgrade DCHS's facilities, equipment and information systems.
- ✓ Our management team has substantial relevant experience in revitalizing safety net hospitals and a successful track record in transforming deeply distressed organizations with complex multi-constituency issues.
- ✓ We explicitly disavow and foreswear the use of bankruptcy or any similar process to eliminate or modify any existing contracts or understandings.
- ✓ Finally, to demonstrate our admiration of and commitment to the Daughters of Charity and your work, New Found Health Holdings, an entity that Blue Wolf will create as part of the transaction, is prepared to enter into a ten-year \$45 million sponsorship with the Daughters of Charity Foundation. The funds would be payable ratably over the period of the sponsorship.

As detailed in the attached documents, Blue Wolf's proposal is based on both a realistic assessment of DCHS's strengths and weaknesses and a unique collaboration with the system's key stakeholders.

We have developed a highly-detailed and comprehensive plan that we are confident will deliver over \$180 million in increased annual operating cash flow by the end of 2016. Our plan includes reducing labor costs, as well as numerous operational improvements and growth initiatives and



will be sufficient to stem current losses, honor all pension and other financial obligations and invest in vitally needed capital improvements.

We have already made substantial progress in both quantifying these opportunities and reaching memoranda of understanding with key stakeholders necessary to their implementation.

We think it is clear that Blue Wolf is the preferred choice of many of DCHS's key stakeholders. And while we fully recognize and respect that the decision at this stage is yours alone to make, we do think that this stakeholder support both makes regulatory approval far more likely and substantially enhances the likelihood that we receive the necessary support of these stakeholders as we execute on our restructuring plan.

In order for us to fully fund the turn-around, invest in capital upgrades and deferred capital maintenance and provide a liquidity cushion for the unanticipated contingencies that will inevitably arise, we must have a well-stocked pantry as we begin our effort. Therefore a critical component of our restructuring plan is our comprehensive approach to re-capitalizing the system's balance sheet. By maintaining DCHS's non-profit status, the 2005 bond debt will remain outstanding, thus allowing the new capital we raise to be injected into the system to ensure maximum financial flexibility. Together with our significant improvements to operating cash flow, this stronger balance sheet will allow the system to make up for the recent forced reduction to spending on vitally needed capital improvements and maintenance capital expenditures.

Without the \$300 million of cash and available borrowing capacity our plan makes available to the system, it would simply not be prudent for us to undertake this effort.

Blue Wolf is prepared to make DCHS the largest commitment in its investment fund, and we have been able to raise significant third party financing. However, given DCHS's current circumstances, third-party lenders are understandably cautious about the level of commitment they are prepared to make.

Therefore, in order for us to continue DCHS's mission, in particular its commitment to indigent care and to preserving and honoring its pension plans and promises, DCHS will require a limited one-time contribution from the Daughters of Charity. Based on the financial forecast with which we have been provided, we estimate that this contribution will be \$60 million.

This contributed amount would be adjusted based on actual operational performance of the system. We are targeting a prudent level of liquidity and asking for your limited assistance as part of that effort. We seek this contribution for no other reason and if operational results are better than forecast, our need and therefore the request will be adjusted accordingly.

And while we understand that you would strongly prefer to not offer this assistance, we hope that you will evaluate this element of our offer in the overall context of all of the commitments that we are making as part of this transaction.



The Blue Wolf team comes with a track record that shares precisely DCHS's vision of preserving and expanding high-quality, mission-driven healthcare services to underserved communities. Our team members' work in similar environments around the country is characterized by successfully restructuring distressed safety net hospitals serving diverse, low-income populations while preserving both their mission and important economic role.

Our team will be led by individuals of extraordinary accomplishment and integrity.

Our Chief Executive Officer will be Dr. Richard Becker. Dr. Becker is a physician executive, board certified in both anesthesiology and critical care medicine, with a distinguished career leading the turnaround of both The George Washington University Hospital in Washington, DC, and more recently The Brooklyn Hospital Center in Brooklyn, New York.

Dr. Becker's clinical and academic career included positions as Director of obstetric anesthesiology and the medical/surgical intensive care unit as well as Program Director of the Fellowship in Critical Care Medicine. As a physician, Dr. Becker distinguished himself as a leader and sought after speaker in his field, as well as a physician interested in providing care to patients in need all over the world as demonstrated by his participation in medical missions throughout Africa.

In assuming executive leadership roles at The George Washington University Hospital, first as Medical Director in 1997 and then as CEO in 2004, Dr. Becker was instrumental in reversing the decline of the hospital. By rebuilding the medical staff, establishing destination clinical programs, dramatically improving operations and developing deep relationships with the community, his leadership resulted in both a stronger medical delivery system and substantially improved operating results. The hospital went from negative earnings to an operating margin of greater than 12%.

Arriving at The Brooklyn Hospital Center (TBHC) in 2008, Dr. Becker proceeded to rebuild this safety net hospital in a similar manner by strengthening the existing medical staff, improving operational efficiency, significantly raising employee engagement, developing strong relationships with organized labor, partnering with community providers and dramatically improving the reputation of the hospital to one of a destination provider of high-quality healthcare services. The financial performance of TBHC has significantly improved since Dr. Becker's arrival.

Throughout his career as a hospital executive, Dr. Becker has served on numerous charitable boards and participates philanthropically in various healthcare and educational organizations. Most recently, Dr. Becker was elected to the executive committees of the Greater New York Hospital Association (GNYHA), the Hospital Association of New York State (HANYS) and Healthfirst, a hospital-owned health insurance company and one of the largest managed Medicaid providers in New York City. On the personal side, Dr. Becker and his wife, Dr. Rachel Becker, a practicing psychiatrist, devote seemingly endless time and energy to raising their three children.



The DCHS Board of Directors will be chaired by Richard C. Wright. Richard has more than 40 years of healthcare experience. Throughout his career, Richard has brought the vision and toolkit to drive needed change and engage all stakeholders in the mission and culture of an organization.

Richard invested the majority of his career with Universal Health Services, Inc. (UHS). He was the second employee of the company and helped develop UHS into one of the largest and most respected hospital management companies in the United States. At the time of his departure from the company, UHS owned and operated 226 acute care hospitals, behavioral health facilities and ambulatory centers.

Some of his more significant accomplishments include the acquisition of the George Washington University Hospital, commonly referred to as the President's Hospital, and the acquisition of a nine county health system in Texas which was subject to a public referendum.

In addition, Richard has extensive experience in California. He led the acquisition of Lancaster Community Hospital and developed the 157 bed replacement hospital, Palmdale Regional Medical Center; led the acquisition of Corona Regional Medical Center, a 240 bed hospital located in Riverside County; and developed the strategic plan for the Southwest Healthcare System in Wildomar.

Following his career with UHS, Richard founded Allergy Services of America, LLC and Wright Transaction Advisors.

In addition to Dr. Becker's and Mr. Wright's vision and experience in developing integrated care delivery networks in the communities such as those where the Daughters' hospitals are located, we will be drawing on the deep experience of a senior California healthcare executive who will serve as a core member of our leadership group, bringing to bear decades of in-market experience in creating aligned service provision throughout complex medical systems in California. This physician executive is currently on the medical faculty at UCLA as well as corporate medical director of a major California health plan, positions that, in addition to previous positions held in and around California hospitals and healthcare, have made him deeply familiar with the challenges and opportunities facing the Daughters' hospitals. This nationally recognized expert will bring detailed local knowledge that will greatly accelerate our ability to bring our alignment and care coordination strategies to rapid fruition.

As we transform a distressed hospital system into a sustainable organization, it is important that our many partners—internal and external—understand our core values. The need to be efficient in the delivery of care will never compromise our commitment to high quality and patient dignity; nor do we bring temporary solutions to deeply complex multi-constituency situations. Always mindful of the patient's best interests, we are also sensitive to the important economic and social responsibility each hospital holds in its community. We want our hospitals to provide long-term job opportunities that support a good quality of life for staff and their families.



Our principled approach to healthcare is focused on preserving long into the future institutions that have dedicated decades to delivering local residents the care that they need. While the doctor-patient relationship is at the core of healthcare delivery, a highly-committed team of caring and compassionate staff from the communities we serve is what enables the success of each healthcare interaction and encounter. These relationships and the partnerships they engender are ultimately the foundation that supports the structural transformation needed to sustain mission-based healthcare.

We are pleased to present what we hope you agree is a thoughtful, responsible solution to the highly-complex challenge of transforming the DCHS safety net healthcare system into a sustainable organization that can continue to deliver excellent healthcare for years to come.

We understand how difficult and challenging this process must be for DCHS's Board of Directors. We have nothing but the utmost respect for the selfless service that they have given to this institution and the mixed emotions they must feel as they face the decision that is now upon them.

Dr. Becker, Mr. Wright and myself would very much like an opportunity to meet with DCHS's Board. We would have no intention of negotiating directly with them. Rather, we would like to give them the choice to learn for themselves who we are as people. We simply wish to introduce ourselves, for them to hear directly from us about our commitment to continue their work and to answer any questions that they may have about our offer.

Please feel free to reach out either directly to me or to Ron Bloom, our Investment Banker, to discuss this further.

We look forward to working closely with you as we bring this matter to a satisfactory resolution.

Sincerely,

BLUE WOLF CAPITAL FUND III, L.P.

By: Blue Wolf Capital Advisors III, L.P.
Its: General Partner

By: Blue Wolf Capital Advisors III, LLC
Its: General Partner

By: 
Adam Blumenthal, Managing Partner