



Confidential Discussion Materials

August 22, 2013

Cain Brothers Overview

Leading Investment Bank Focused Exclusively on Health Care

A privately owned investment banking and financial advisory firm serving companies and organizations in the health care services, senior living and medical technology sectors

- One of the largest teams on Wall Street dedicated to the health care industry
- Fully integrated not-for-profit and corporate finance banking teams covering most key industry sectors
- 100 employees in offices in eight cities across the U.S.





Cain Brothers Team

Unique Industry Experience

Carsten Beith

Co-Head & Managing Director Tax-Exempt M&A



Jim Moloney

Co-Head & Managing Director Tax-Exempt M&A



Daniel Koob

Vice President Tax-Exempt M&A



Jonathan Chang

Analyst Tax-Exempt M&A



Background

- Over 20 years of investment banking experience
- Focus on tax-exempt mergers and acquisitions in acute care hospital space
- \$7 billion in transaction experience
- Member of the Executive Committee

- Over 20 years of investment banking experience
- Focus on tax-exempt hospital mergers and affiliations and medical real estate transactions
- Member of the Executive Committee

- 7 years of M&A experience
- Focus on tax-exempt mergers and acquisitions in acute care hospital space
- Formerly at the law firms Weil, Gotshal & Manges LLP and McDermott Will & Emery, LLP
- BA from University of Washington
- J.D. from University of Washington

- 2 years of investment banking experience
- Previous experience with Bank of America
- BA from University of California, Berkeley

Relevant Experience

- Strategic advisor to University of Michigan Health System
- Joint operating agreement between University of Louisville Hospital and KentuckyOne
- Joint Venture between Valley Baptist Health System and Vanguard Health Systems
- Merger of Northeast Health System with Lahey Clinic

- Merger between John C. Lincoln and Scottsdale Health
- Joint Operating Company between Saint Joseph's Health System and Emory Healthcare
- Affiliation between UCSF and Children's Hospital Research Center, Oakland
- Sale of Auburn Regional Medical Center, WA to MultiCare Health System

- Strategic advisor to University of Michigan Health System
- Merger of University of Medicine and Dentistry New Jersey and Rutgers
- Joint Operating Company between Saint Joseph's Health System and Emory Healthcare
- Merger of Northeast Health System with Lahey Clinic

- Strategic advisor to community hospital in Texas

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Process Overview

Overview of Transaction Process

We expect to complete a definitive agreement by the end of November

July 2013							August 2013							September 2013							October 2013						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
	1	2	3	4	5	6					1	2	3	1	2	3	4	5	6	7			1	2	3	4	5
7	8	9	10	11	12	13	4	5	6	7	8	9	10	8	9	10	11	12	13	14	6	7	8	9	10	11	12
14	15	16	17	18	19	20	11	12	13	14	15	16	17	15	16	17	18	19	20	21	13	14	15	16	17	18	19
21	22	23	24	25	26	27	18	19	20	21	22	23	24	22	23	24	25	26	27	28	20	21	22	23	24	25	26
28	29	30	31				25	26	27	28	29	30	31	29	30						27	28	29	30	31		

November 2013							December 2013							January 2014							February 2014							
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	
					1	2	1	2	3	4	5	6	7					1	2	3	4							1
3	4	5	6	7	8	9	8	9	10	11	12	13	14	5	6	7	8	9	10	11	2	3	4	5	6	7	8	
10	11	12	13	14	15	16	15	16	17	18	19	20	21	12	13	14	15	16	17	18	9	10	11	12	13	14	15	
17	18	19	20	21	22	23	22	23	24	25	26	27	28	19	20	21	22	23	24	25	16	17	18	19	20	21	22	
24	25	26	27	28	29	30	29	30	31					26	27	28	29	30	31	23	24	25	26	27	28			



Weeks: 1- 7 (July/Aug)

- Organizational meeting
- Internal due diligence
- Prepare form term sheets
- Prepare process letter and marketing materials
- Prepare potential partner list

Weeks: 8-15 (Aug/Sept/Oct)

- Contact potential partners
- Disseminate process letter with marketing materials & form term sheets
- Provide parties access to limited data room
- Mark-up of term sheets due
- Evaluate proposed term sheets / select Phase II candidates

Weeks: 16-22 (Oct/Nov)

- Negotiate final term sheets with Phase II candidates
- Phase II candidates detailed due diligence
- Draft and negotiate terms of definitive agreement with Phase II candidates
- Evaluate proposals and select finalist
- Execute definitive agreement / announce transaction

Weeks: 23-33 (Nov/Feb)

- Finalist confirmatory due diligence
- Regulatory and other approvals
- Closing



Process Status

Process to Date

Activity	Date
Cain Brothers on-site interviews	July 16, 2013
Potential interested parties identified <ul style="list-style-type: none">• Bidder 2• Billings Clinic• Bidder 3• Bidder 5• Bidder 6	July 2013
Due diligence received to date uploaded to data room	July 23-25, 2013
NDAs sent out to targeted potential partners	July 26, 2013
Preparation of term sheets	July 2013 – August 2013
Preparation of executive summary and process letter	August 2013



Key Affiliation Objectives

Management has identified several key objectives to be achieved in any strategic transaction

- Ensure delivery of high-quality, cost effective health care services at CMC with measureable improvements in CMC's cost position
- Expand and enhance CMC's medical staff with the goal of adding an additional 60+ providers over the next three years
- Ensure CMC's long-term stability and success in light of health care reform
- Ensure meaningful physician input in the organization's future strategic and operational planning process
- Enhance and expand the services offered at CMC



Key Term Sheet Overview

Key Term	Applicable to Both	Asset Purchase	Membership Substitution
Consideration	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Cash Purchase Price Cash used in part to pay off debt 	<ul style="list-style-type: none"> Assumption of Debt Governance rights
Treatment of CMC Foundation	<ul style="list-style-type: none"> May request to become an independent tax-exempt entity 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA
New Foundation	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Create new foundation as enforcement vehicle \$5mm transferred to new foundation at closing
Capital Commitments	<ul style="list-style-type: none"> At least 110% of annual depreciation for 10 years 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA
Parent Governance	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Proportional board membership or parent board based on total net patient revenue of each party Each party appoints its share of board members from its PSA or medical staff



Key Term Sheet Overview (Cont'd)

Key Term	Applicable to Both	Asset Purchase	Membership Substitution
CMC Governance	<ul style="list-style-type: none"> 10 member non-fiduciary (JCAHO) Board of Trustees (4 phys./5 community leaders/CEO) Initial members appointed in consultation with CMC 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA
Maintenance of Existing Employment	<ul style="list-style-type: none"> No downward pay adjustment for at least 12 months Honor all existing severance agreements Retain current seniority for vesting purposes Honor any existing collective bargaining agreements 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA
Maintenance of Clinical Service Lines	<ul style="list-style-type: none"> Maintain essential clinical services/ departments at not less than current levels for period of 10 years 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA
Charity Care Policies	<ul style="list-style-type: none"> CMC's existing policy or better 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA



Key Term Sheet Overview (Cont'd)

Key Term	Applicable to Both	Asset Purchase	Membership Substitution
Physician Recruitment Plan	<ul style="list-style-type: none"> Commit to recruitment plan to be agreed on by parties CMC currently estimates 60 additional FTEs over a 3 year period 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA
Limitations on Change of Control or Sale	<ul style="list-style-type: none"> Subject to 10-year no-sale provision 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> In the event after year 10, CMC has a right to participate in the net proceeds of such sale Right exists on a declining scale for 10 years
Right of First Refusal	<ul style="list-style-type: none"> In the event of a sale after year 10, CMC or its designee has right of first refusal 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA
Timing	<ul style="list-style-type: none"> 45 days due diligence after execution of term sheet Execute definitive agreement within 30 days thereafter 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA



Overview of Potential Partners

Geographic Presence



Source: AHA, AHD and company websites.
(1) Denotes affiliated critical access hospital locations.
(2) Includes Heart and Children's Hospitals



Key Issues

During the course of the transaction, CMC will be faced with several key issues

- Manage a process to best achieve the key objectives
- Maintain the confidentiality of the process and respond effectively to stakeholders
- Measure and evaluate proposals in relation to the key objectives
- Conduct reverse due diligence to evaluate the potential partners' ability to achieve the key objectives
- Analyze trade-offs between for-profit and not-for-profit partners
- Structure and negotiate a transaction with a selected partner that best achieves objectives
- Satisfy the Board's fiduciary obligations
- Effectively manage the regulatory review process

Discussion

Exhibit: Overview of Potential Partners



From day one.

Overview of Potential Partners

System/Hospital	Leadership	Description	Financial Snapshot
Bidder 2			
 Billings, MT	Nicholas Wolter, MD, <i>CEO</i> Connie Prewitt, <i>CFO</i>	<ul style="list-style-type: none"> ▪ 1 Hospital ▪ 376 Beds 	<ul style="list-style-type: none"> ▪ FY 2012 Revenue: \$559.2 mm⁽¹⁾ ▪ FY Operating Income: \$29.4 mm⁽¹⁾
Bidder 3			
 Brentwood, TN	Martin S. Rash, <i>Chairman</i> Kent Wallace, <i>CEO</i> Mike Browder, <i>CFO</i>	<ul style="list-style-type: none"> ▪ 7 Hospitals ▪ 928 Beds 	<ul style="list-style-type: none"> ▪ Revenue (2012): \$640.2 mm ▪ EBITDA (2012): \$74.9 mm
Bidder 6			

Source: Wall Street Research, AHA Guide 2012 and EMMA.
 Note: LTM as of 6/30/13.
 (1) Per CMC Management.