



From day one.

Board Retreat Materials

October 25, 2013



From day one.

Agenda

<u>Agenda Items</u>	<u>Section</u>
Process Overview	1
Profiles of Potential Partners	2
Summary of Proposals	3
Potential Partner Comparison	4
Not-For-Profit vs. For-Profit Hospital Operators	5
Foundation Discussion	6
Next Steps	7



Process Overview

Process to Date

Event	Date
Cain Brothers on-site interviews	July 16, 2013
Potential interested partners identified	July - August 2013
Due diligence received to date uploaded to data room	July 23-25, 2013
Calls initiated and NDAs sent out to targeted potential partners	July - August 2013
Preparation of term sheets to submit to bidders	July - August 2013
Preparation of executive summary and process letter	August 2013
Executive summaries, process letters and term sheets distributed to interested parties	August 2013 - September 2013
Limited data room access to potential interested parties	September 11 - 26, 2013
Initial proposals submitted	September 26, 2013
Proposals reviewed and follow-up questions submitted	October 2013
Presentations by potential partners that submitted proposals including: <ul style="list-style-type: none"> ➤ RegionalCare / Billing Clinic ➤ Bidder 2 (with Bidder 6 in attendance) ➤ Bidder 3 	October 17 - 24, 2013

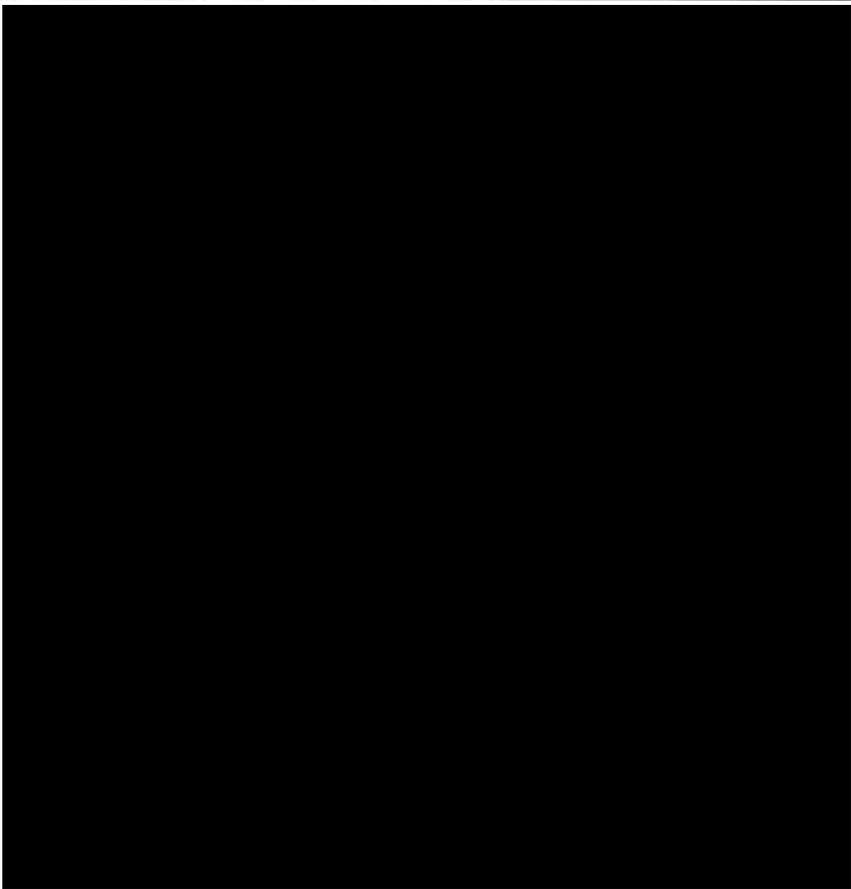
Profiles of Potential Partners



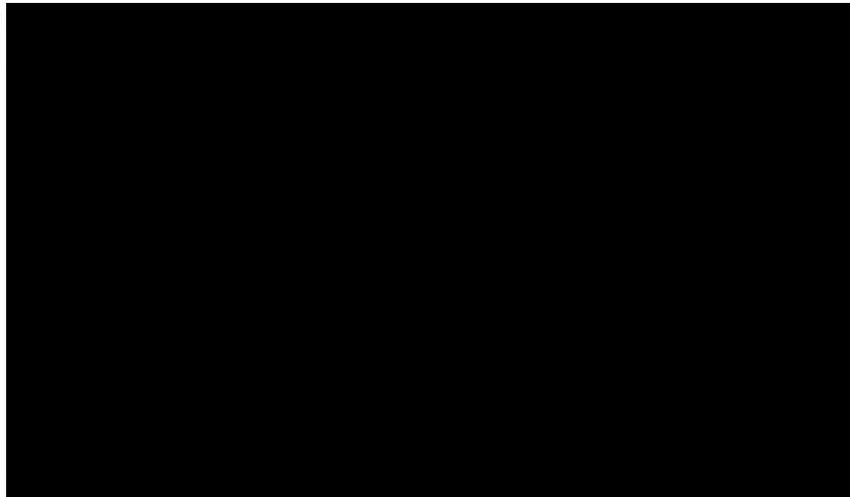
Profiles of Potential Partners

Potential Strategic Partner: Bidder 2

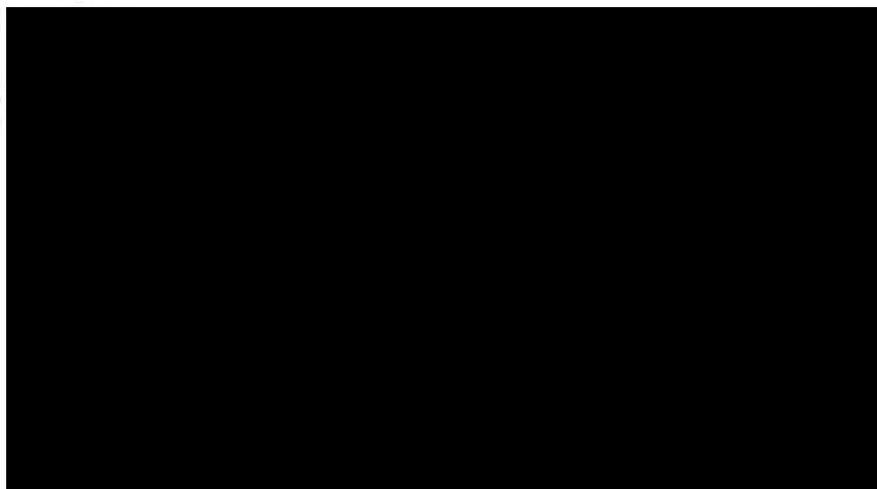
Overview



Summary Information



Geographic Footprint



Profiles of Potential Partners

Potential Strategic Partner: Billings Clinic



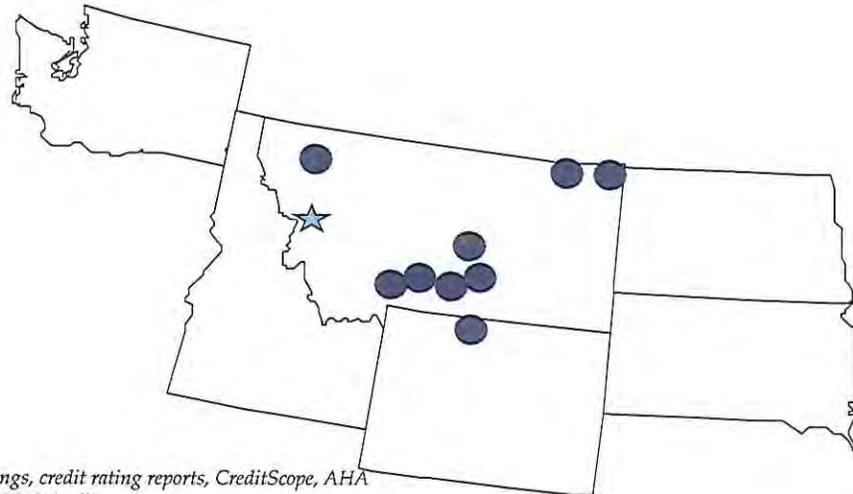
Overview

- Billings Clinic (“Billings”) is a community-owned health care organization consisting of a multi-specialty physician group, a hospital and a skilled-nursing and assisted living facility
- Billings is the only Montana MAGNET-designated health care organization and a member of the Mayo Clinic Care Network
- Billings and RegionalCare Hospital Partners recently announced the formation of a joint venture
 - The new arrangement offers potential partners expanded clinical services, access to physician support and recruitment, quality improvement systems, operational expertise and access to capital
- Owns Billings Clinic Hospital (376 beds)
- Billings also has a network of affiliated hospitals
- Billings Clinic is one of the first four to receive NCQA designation

Summary Information

- Headquarters: Billings, MT
- Founded: NA
- Hospitals: 1
- Beds: 376
- Employees: 3,600
- FY 2012 Revenue⁽¹⁾: \$506.2 million
- FY 2012 EBITDA⁽¹⁾: \$55.0 million
- Ratings: Not rated

Geographic Footprint⁽²⁾



Source: Company website, financial filings, credit rating reports, CreditScope, AHA

(1) Financials are based upon the FY 2012 Audit.

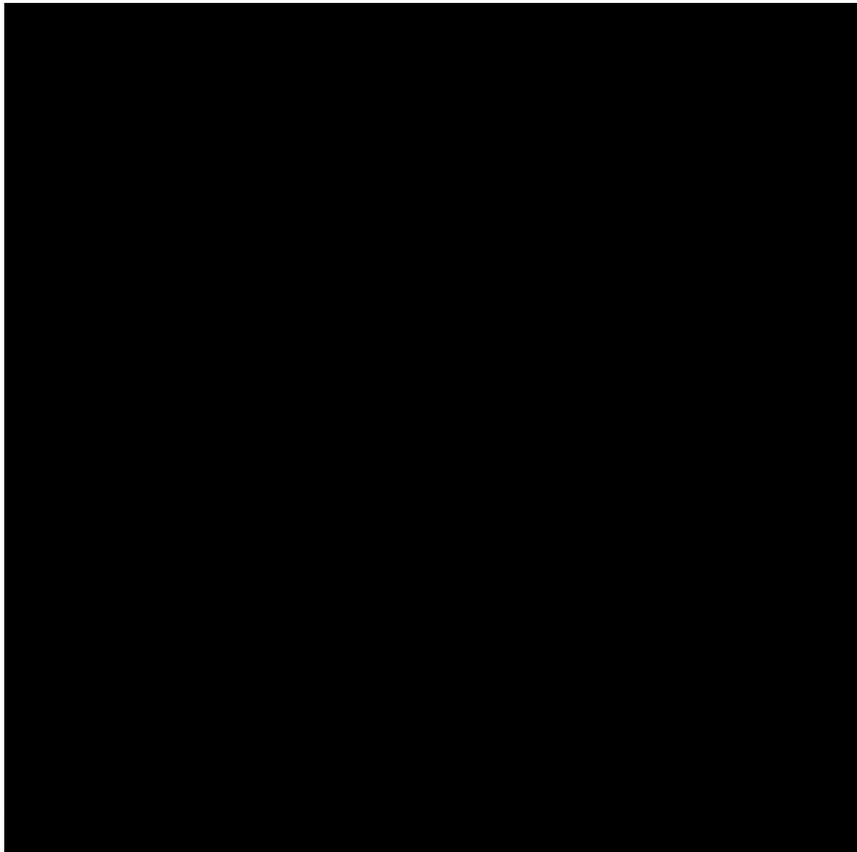
(2) Includes affiliated critical access hospital and Kalispell Regional Medical Center/Billings clinic affiliation locations



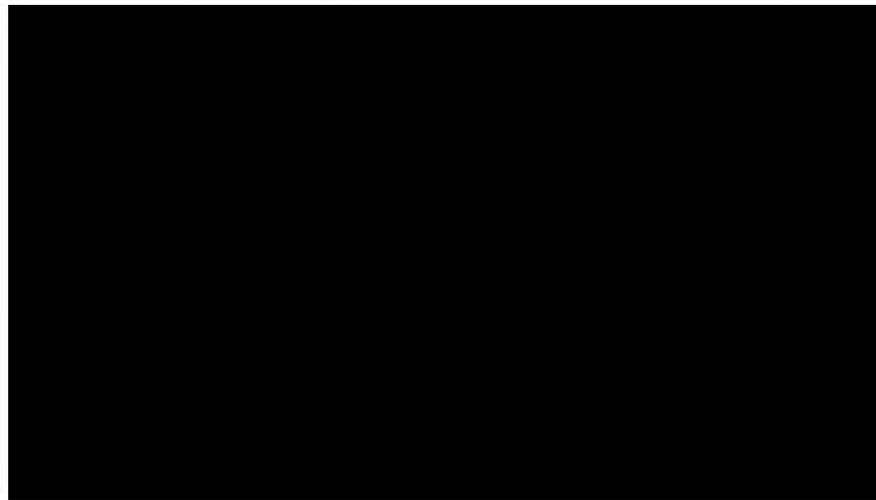
Profiles of Potential Partners

Potential Strategic Partner: Bidder 3

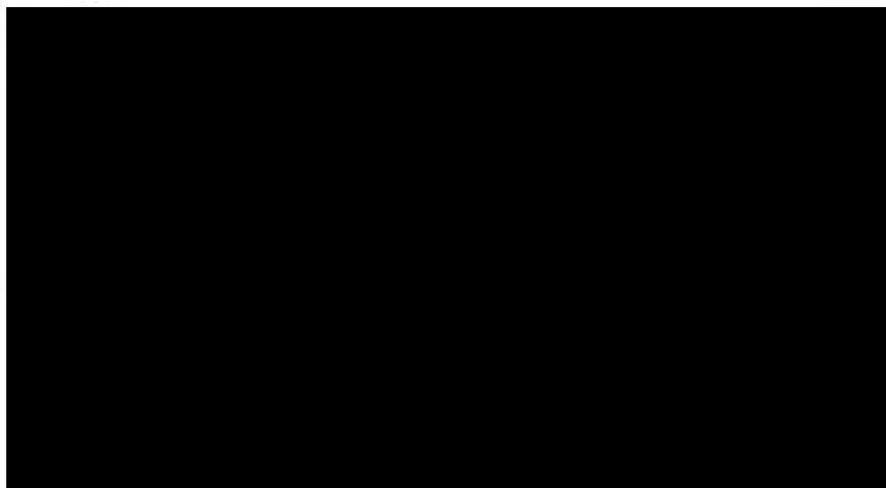
Overview



Summary Information



Geographic Footprint





Profiles of Potential Partners

Potential Strategic Partner: RegionalCare Hospital Partners



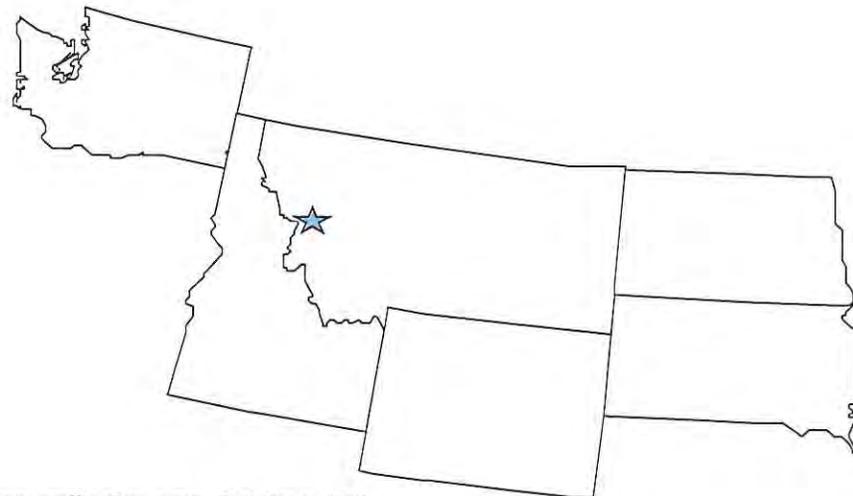
Overview

- RegionalCare Hospital Partners (“RegionalCare”) is a privately owned corporation, which focuses on providing hospital organizations access to capital for growth and expansion
 - Currently operates eight hospitals with a total of 928 beds
- Warburg Pincus, a New York-based private equity firm, is the majority shareholder of RegionalCare and has made a \$300 million equity commitment to the hospital company
- RegionalCare focuses on partnering with non-urban community hospitals in medium-sized markets with growth potential
- Management approach emphasizes and supports the leadership of the local management team and board as well as working with the medical staff
- Recently formed joint venture with Billings Clinic

Summary Information

- Headquarters: Brentwood, TN
- Founded: 2009
- Hospitals: 8
- Beds: 928
- Employees: 4,600
- FY 2012 Revenue: \$570.6 million
- FY 2012 EBITDA: \$57.4 million
- Ratings: Not rated

Geographic Footprint



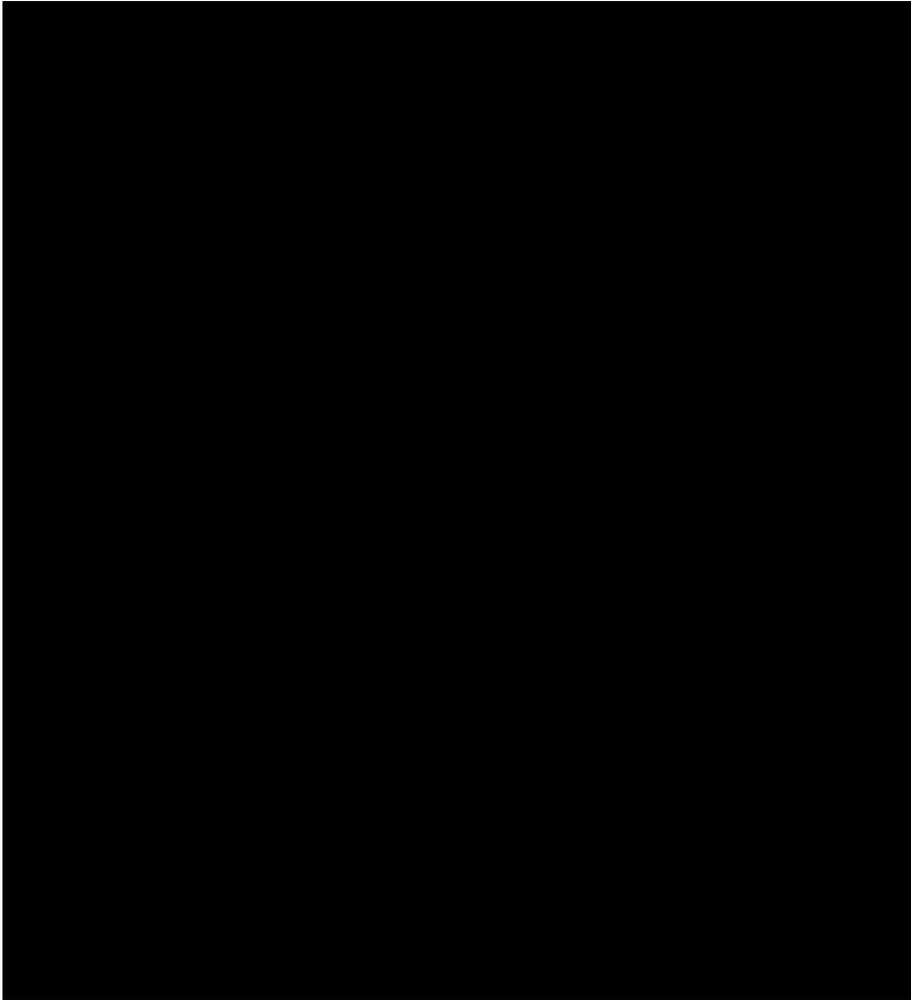


Profiles of Potential Partners

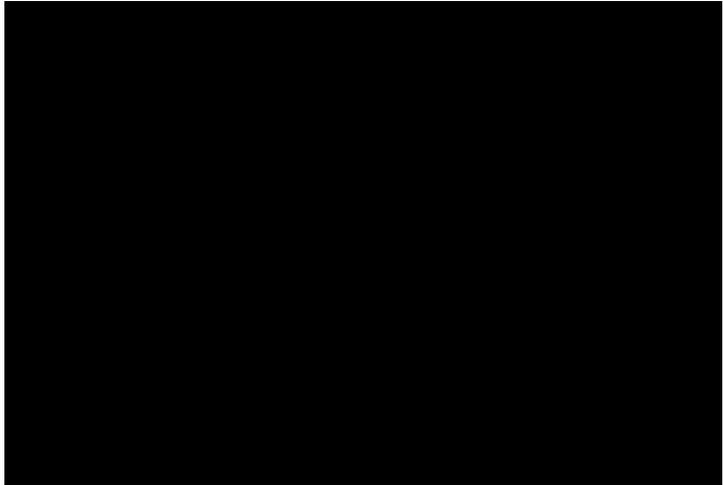
Bidder 6



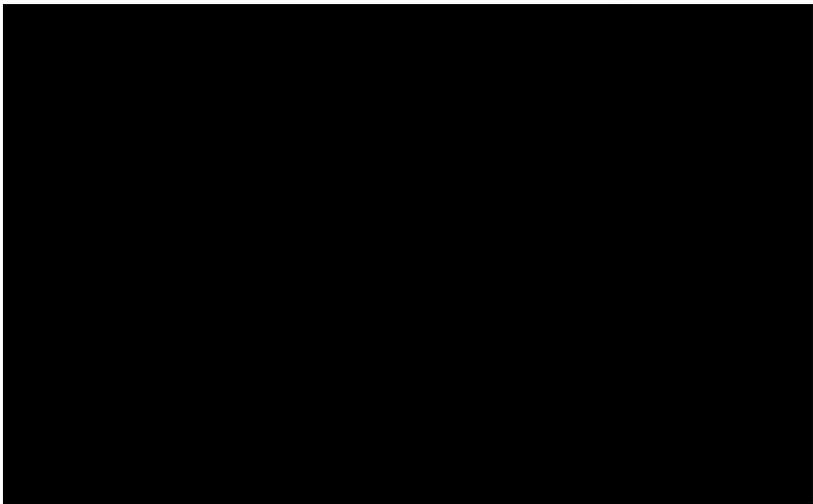
Company Overview



Summary Information



Geographic Footprint



Summary of Proposals

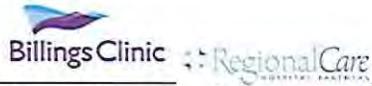


Key Objectives

Scoring of Proposals Against Objectives

Objective	Bidder 2	 	Bidder 3
Enhance ability to deliver high quality healthcare with measureable improvements			
Reduce cost structure significantly			
Enhance and expand CMC's medical staff			
Physician alignment and engagement			
Ability to expand services			
Commit to charitable care delivery			
Maintain existing employment practices			
Secure CMC's long term stability/willingness and ability to compete effectively			
Acquisition experience			
Financial Capacity and Capital Commitments			
Limited hurdles to close a transaction			
Funding of foundation			

Summary of Proposals

	Bidder 2		Bidder 3
Governance	<ul style="list-style-type: none"> □ Parent Governance: <ul style="list-style-type: none"> ○ [REDACTED] Board of Directors will have 17 members including 4 from CMC Community ○ Initial CMC Community Directors as agreed by the parties ○ 3rd anniversary after closing, [REDACTED] will appoint future CMC Community Directors □ Hospital Governance: <ul style="list-style-type: none"> ○ 11 member non-fiduciary Local Board, with CEO of [REDACTED] or his designee) as the 11th member ○ Initial members as agreed by the parties ○ Self-perpetuating but subject to [REDACTED] approval □ [Ask: Seats on parent board based on proportion of net patient revenue (6 out of 19). Local board appointed by CMC and self-perpetuating.] 	<ul style="list-style-type: none"> □ 10 member non-fiduciary Local Board including 4 physicians, 5 community leaders and local CEO, ex officio □ Initial members of Local Board shall be appointed in consultation with Hospital □ Self-perpetuating consistent with Local Board 	<ul style="list-style-type: none"> □ 10 - 12 member non-fiduciary Local Board including 4 physicians, 5 community leaders and local CEO, ex officio □ Retains functionality similar to the existing Board of Directors without the fiscal responsibilities for CMC

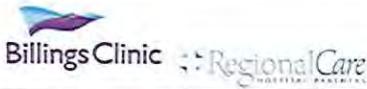
Summary of Proposals

	Bidder 2		Bidder 3
Capital Commitments	<ul style="list-style-type: none"> At least 110% of annual depreciation for 10 years 	<ul style="list-style-type: none"> For 10 years, an annual amount equal to 4% of net patient revenue less bad debt \$18 million over three years [Ask: 110% of annual depreciation which would result in \$3.1 million more based on FY 2013] 	<ul style="list-style-type: none"> At least 110% of CMC's annual depreciation
Limitations on Change of Control or Sale	<ul style="list-style-type: none"> Subject to 10 year (the "Initial 10 Year Period") no sale provision If sale occurs during the 10 years following the Initial 10 Year Period, [REDACTED] will pay to the new CMC foundation an amount determined by a formula to be agreed upon 	<ul style="list-style-type: none"> No limitations/restrictions on change of control or sale [Ask: 10 year no sale commitment] 	<ul style="list-style-type: none"> Subject to 5 year no sale provision [Ask: 10 year no sale commitment]
Right of First Refusal	<ul style="list-style-type: none"> CMC foundation maintains a right of first refusal in perpetuity in the event of a planned sale of CMC 	<ul style="list-style-type: none"> CMC foundation maintains a right of first refusal in perpetuity in the event of a planned sale of CMC 	<ul style="list-style-type: none"> CMC foundation maintains a right of first refusal for 10 years in the event of a planned sale of CMC [Ask: Right of first refusal in perpetuity]

Summary of Proposals

	Bidder 2	 	Bidder 3
Maintenance of Clinical Services	<ul style="list-style-type: none"> □ Maintain essential clinical services/ departments for period of 10 years, subject to certain contingencies □ [Ask: Less contingencies provided] 	<ul style="list-style-type: none"> □ Maintain essential clinical services/ departments at not less than current levels for period of 10 years, subject to certain contingencies □ Commitment for service line expansion as well as support of current programs 	<ul style="list-style-type: none"> □ Maintain of essential services for a period of 5 years after the Closing □ [Ask: 10 year commitment]
Commitment to Teaching Programs	<ul style="list-style-type: none"> □ Committed to maintain current residency program 	<ul style="list-style-type: none"> □ Committed to maintain current residency program 	<ul style="list-style-type: none"> □ Committed to maintain current residency program for at least 5 years subject to no significant adverse changes in reimbursement □ [Ask: Maintain residency in perpetuity]
Medical Staff	<ul style="list-style-type: none"> □ Committed to recruit and retain medical staff consistent with recruitment plan to be mutually agreed to (expected to include 60 FTEs over 3 years) □ 5 new advanced practice clinicians joined [REDACTED] Medical Group in 2012 □ 12 full-time MDs/DOs joined [REDACTED] Medical Group in 2012 	<ul style="list-style-type: none"> □ Committed to recruit and retain medical staff consistent with recruitment plan to be mutually agreed to (expected to include 60 FTEs over 3 years) □ \$20 million committed to recruit approximately 40 physicians □ Billings / RegionalCare has recruited 227 physicians over past three years 	<ul style="list-style-type: none"> □ Committed to recruit and retain medical staff consistent with recruitment plan to be mutually agreed to (expected to include 60 FTEs over 3 years) □ In 2012, recruited over [REDACTED] physicians to [REDACTED] hospitals

Summary of Proposals

	Bidder 2		Bidder 3
Employee Matters	<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, provided that ██████ shall not agree to any neutrality covenant with respect to ██████ 	<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"> □ Extend offers to all actively employees in good standing at comparable wages/benefits □ Provide benefits and establish terms and conditions of employment generally consistent with those offered at other hospitals affiliated with ██████ □ Retain current seniority for benefit vesting purposes □ No commitment to honor existing collective bargaining agreements □ [Ask: Commit to honor existing collective bargaining agreements]
Continuity of Existing Charity Policies	<ul style="list-style-type: none"> □ Committed to CMC's existing policy or better 	<ul style="list-style-type: none"> □ Committed to CMC's existing policy or better 	<ul style="list-style-type: none"> □ Committed to CMC's existing policy or better from a financial point of view subject to changes in governmental policies and legal requirements □ [Ask: Not contingent on changes in governmental policy]
Tail Insurance	<ul style="list-style-type: none"> □ NA □ [Ask: Bidder to cover tail insurance] 	<ul style="list-style-type: none"> □ CMC to obtain sufficient tail insurance for professional and general liabilities □ [Ask: Bidder to cover tail insurance] 	<ul style="list-style-type: none"> □ CMC to obtain sufficient tail insurance for directors liabilities, professional liabilities and general liabilities □ [Ask: Bidder to cover tail insurance]

Summary of Proposals

	Bidder 2		Bidder 3
Indemnification	<ul style="list-style-type: none"> □ Not addressed. Diligence dependent 	<ul style="list-style-type: none"> □ Usual and customary 	<ul style="list-style-type: none"> □ Usual and customary
Transaction Costs	<ul style="list-style-type: none"> □ Each party shall bear its own expenses □ Split costs real property surveys, etc. □ Buyer to cover HSR expenses □ [Ask: Bidder to cover transaction costs if transaction is consummated] 	<ul style="list-style-type: none"> □ Each party shall bear its own expenses □ Split costs real property surveys, etc. □ RegionalCare/Billings to cover HSR expenses □ [Ask: Bidder to cover transaction costs if transaction is consummated] 	<ul style="list-style-type: none"> □ Each party shall bear its own expenses □ Split costs real property surveys, etc. □ [REDACTED] to cover HSR expenses □ [Ask: Bidder to cover transaction costs if transaction is consummated]
Exclusivity	<ul style="list-style-type: none"> □ Will not conduct due diligence or enter into a term sheet with another party 	<ul style="list-style-type: none"> □ Exclusivity for RegionalCare/Billings □ 45 days for due diligence once information request has been satisfied and 30 days thereafter to execute definitive agreement □ [Ask: Slightly weaker exclusivity language] 	<ul style="list-style-type: none"> □ Exclusivity for [REDACTED] until 60 days from notice of termination of negotiations (unless terminated due to material change in terms requested by [REDACTED]) □ [Ask: Slightly weaker exclusivity language]
Material Adverse Change Clause	<ul style="list-style-type: none"> □ As proposed by CMC except changes in reimbursement rates may be cause for a MAC □ [Ask: Reimbursement changes are not a cause for a MAC] 	<ul style="list-style-type: none"> □ As proposed by CMC 	<ul style="list-style-type: none"> □ As proposed by CMC

Summary of Proposals

	Bidder 2		Bidder 3
Presence of Any Financial and Non-Financial Hurdles to Closing	<ul style="list-style-type: none"> □ NA 	<ul style="list-style-type: none"> □ Does not believe there would be an anti-trust issue □ Transaction would have to be approved by both organizations Boards □ RegionalCare will seek bank approvals for any debt financing 	<ul style="list-style-type: none"> □ No financing contingencies □ Does not believe there would be an anti-trust issue □ Transaction would have to be approved by the [REDACTED] Board of Directors but does not anticipate any issue obtaining board approval
Cost Cutting Initiatives	<ul style="list-style-type: none"> □ Increase physician medical production levels □ Cost-containment for office practices 	<ul style="list-style-type: none"> □ Utilize economies of scale through JV partnership □ Utilize GPO/EHR systems □ Improve patient satisfaction through Lean/Six Sigma process initiatives □ Total savings of \$21.8 million from FY 2009-2012 	<ul style="list-style-type: none"> □ Utilize [REDACTED] to consolidate back-office functions, add additional clinical services □ Utilize clinical consultants □ Utilize Physician Advisory Boards
Financial Strength of Purchaser and Access to Capital	[REDACTED]	<ul style="list-style-type: none"> □ RegionalCare is backed by Warburg Pincus, which initially invested \$300 million in RegionalCare 	[REDACTED]

- Bidder 4 has requested to participate in the process

- Is aware of the process

- [REDACTED]

- [REDACTED]

- Positives

- Adds alternative for consideration

- [REDACTED]

- Competitive process should leverage a better proposal

- [REDACTED]

- Adds leverage with other bidders

- Negatives

- Some disclosure of sensitive information will be necessary

- Management and board resources

- [REDACTED]

Potential Partner Comparison



Potential Partner Comparison

Summary Overview

The following summarizes key operating, financial and credit statistics for the potential partners involved in the process

	Non-Profit					For-Profit	
	CMC (Baa2/NA/AA)	Bidder 2	Billings Clinic ⁽¹⁾ (NA/NA/NA)	Bidder 4	Bidder 6	Bidder 3	RegionalCare ⁽¹⁾ (NA/NA/NA)
Operating Statistics							
Hospitals	1	2	1	32	39		8
Discharges	5,175	13,607	14,000	325,155	79,444		38,782
Employees	>900	2,600	3,600	64,000	26,000		4,600
Financial Statistics							
Revenue (\$ in millions)	\$156.7	\$361.5	\$506.2	\$11,000.0	\$3,105.9		\$570.6
EBITDA (\$ in millions)	\$14.9	\$65.3	\$55.0	\$913.2	\$217.0		\$57.4
EBITDA Margin	9.5%	18.1%	10.9%	8.3%	7.0%		10.1%
Operating Margin	3.7%	7.9%	5.7%	1.6%	1.0%		3.9%
Excess / Net Income Margin	3.5%	8.6%	7.4%	3.2%	4.3%		-3.1%
Days Cash on Hand	100.0	142.4	143.0	171.8	109.5		NMF
Debt-to-Capitalization	28.4%	40.5%	36.8%	35.1%	31.7%		62.6%
Cash-to-Debt	111.5%	62.5%	112.9%	136.9%	112.6%		NMF
Debt-to-EBITDA	2.3x	2.9x	3.1x	3.8x	3.6x		6.5x
Debt Service Coverage Ratio	4.5x	3.4x	6.0x	4.7x	3.5x		NA
Debt-to-Cash Flow	2.5x	3.3x	4.6x	3.8x	2.7x		21.0x

Note: Moody's medians applicable to Not-for-Profits only.

Note: Based upon the twelve month period ended June 30, 2013.

Note: NA=Not Available; NMF=Not Meaningful.

Note: Operating cash flow used as a proxy for Moody's EBITDA medians.

(1) Data based upon FY 2012. Discharge and employee data based upon information contained in LOI.



Potential Partner Comparison

Summary Overview

The following summarizes CMC as a percentage of the combined entity for each potential partner

(\$ in millions)	CMC (Baa2/NA/AA)	Non-Profit				For-Profit			
		Bidder 2	CMC as % of Combined Entity	Billings Clinic ⁽¹⁾ (NA/NA/NA)	CMC as % of Combined Entity	Bidder 3	CMC as % of Combined Entity	RegionalCare ⁽¹⁾ (NA/NA/NA)	CMC as % of Combined Entity
Operating Statistics									
Hospitals	1	2	33.3%	1	50.0%			8	11.1%
Discharges	5,175	13,607	27.6%	14,000	27.0%			38,782	11.8%
Employees	>900	2,600	25.7%	3,600	20.0%			4,600	16.4%
Financial Statistics									
Revenue	\$156.7	\$361.5	30.2%	\$506.2	23.6%			\$570.6	21.5%
Net Patient Revenue	\$153.6	\$329.3	31.8%	\$489.2	23.9%			\$557.9	21.6%
EBITDA	\$14.9	\$65.3	18.6%	\$55.0	21.4%			\$57.4	20.7%
Operating Income	\$5.7	\$28.5	16.6%	\$29.0	16.4%			\$22.1	20.5%
Unrestricted Cash & Investments	\$38.8	\$119.4	24.5%	\$195.2	16.6%			\$18.6	67.7%
Total Debt	\$34.8	\$191.1	15.4%	\$172.9	16.8%			\$374.0	8.5%



Potential Partner Comparison

Overview of Clinical Quality Data

The following summarizes select clinical quality data for the potential partners involved in the process

<i>Hospital Compare Results</i>	CMC	MT Avg.	National Avg.	Bidder 2	Billings	Bidder 3	RegionalCare ⁽¹⁾
Patient Survey Results							
Nurses "Always" communicated well	76%	76%	78%	73%	76%	76%	74%
Doctors "Always" communicated well	79%	81%	81%	72%	79%	79%	78%
"Always" received help as soon as they wanted	63%	69%	67%	65%	70%	64%	61%
Pain was "Always" well controlled	70%	69%	71%	65%	69%	71%	67%
Staff "Always" explained medicines before giving it to them	63%	64%	63%	58%	61%	63%	62%
Room and bathroom were "Always" clean	77%	74%	73%	72%	71%	72%	70%
Area around their room was "Always" quiet at night	56%	58%	60%	54%	55%	58%	60%
YES, they were given info about what to do during recovery at home	85%	82%	84%	80%	85%	88%	80%
Gave their hospital a rating of 9 or 10 on scale from (0 to 10)	70%	68%	70%	65%	75%	69%	59%
YES, they would definitely recommend the hospital	78%	66%	71%	67%	80%	69%	60%



Potential Partner Comparison

Overview of Clinical Quality Data

The following summarizes select clinical quality data for the potential partners involved in the process

<i>Hospital Compare Results</i>	CMC	MT Avg.	National Avg.	Bidder 2	Billings	Bidder 3	RegionalCare ⁽¹⁾
Select Quality Metrics							
Serious Surgical Complications	No different than US National Rate	NA	NA	No different than US National Rate	Better than U.S. National Rate	No different than US National Rate	No different than US National Rate
Death rate for heart attack patients	Number of Cases Too Small	NA	15.2%	No different than US National Rate			
Death rate for pneumonia patients	No different than US National Rate	NA	11.9%	Better than U.S. National Rate	No different than US National Rate	No different than US National Rate	Worse than U.S. National Rate
Death rate for heart failure patients	No different than US National Rate	NA	11.7%	No different than US National Rate	No different than US National Rate	NA	No different than US National Rate
Blood infection from a catheter in a large vein	2.201 / 1,000 patient discharges	NA	.372 / 1,000 patient discharges	.689 / 1,000 patient discharges	.090 / 1,000 patient discharges	.356 / 1,000 patient discharges	.205 / 1,000 patient discharges
Infection from a urinary catheter	2.935 / 1,000 patient discharges	NA	.358 / 1,000 patient discharges	.689 / 1,000 patient discharges	.181 / 1,000 patient discharges	.261 / 1,000 patient discharges	.251 / 1,000 patient discharges

Not-For-Profit vs. For-Profit Hospital Operators



Health Care M&A

Not-For-Profit vs. For-Profit Hospital Operators

Characteristic	Nonprofits	For Profits
Purpose	<ul style="list-style-type: none"> • Provide community benefits in accord with charitable regulations 	<ul style="list-style-type: none"> • Shareholder returns consistent with business plan
Quality	<ul style="list-style-type: none"> • Primary objective but significant variation • Best of breeds approach among systems • Some are leading edge efforts 	<ul style="list-style-type: none"> • Primary objective driven by financial benefits • Significant variation • Reputation often based on legacy hospitals acquired • Best of breeds approach
Services	<ul style="list-style-type: none"> • Expansion of profitable services • Elimination of unprofitable services but mission considered in service retention 	<ul style="list-style-type: none"> • Expansion of profitable services • Elimination of unprofitable services unless contractually bound
Population Management	<ul style="list-style-type: none"> • Some are leaders 	<ul style="list-style-type: none"> • Generally followers waiting for economics to prove out
Governance	<ul style="list-style-type: none"> • Community fiduciary board • Trend is away from multiple fiduciary boards to single corporate board 	<ul style="list-style-type: none"> • Corporate board • Advisory board locally
Operating Model	<ul style="list-style-type: none"> • Varies from centralized to decentralized • Trend is toward operating company Consensus driven • "Not for profit time" 	<ul style="list-style-type: none"> • Varies from centralized to decentralized • Parent company with operating subs • Scale driven • Hierarchical command structure • Highly responsive and flexible
Earnings	<ul style="list-style-type: none"> • 100% of earnings reinvested into "mission" 	<ul style="list-style-type: none"> • Portion of earnings paid to shareholders in the form of dividends or share buy-backs

Health Care M&A

Not-For-Profit vs. For-Profit Hospital Operators

Characteristic	Nonprofits	For Profits
Innovators vs. Best Business Practices	<ul style="list-style-type: none"> Innovative clinical leaders are usually large nonprofits Longer investment horizon and higher tolerance for lower investment returns 	<ul style="list-style-type: none"> Leaders in achieving excellence in business practice Generally, better systems, more consistency, more robust compliance program, better management tools, etc.
Charity Care	<ul style="list-style-type: none"> Embedded in mission 	<ul style="list-style-type: none"> Largely a function of location Will seek to reduce by qualifying patients and pushing admissions to nonprofits
Community Citizenship	<ul style="list-style-type: none"> Implicit in mission Driven by reputational benefits 	<ul style="list-style-type: none"> Driven by reputational benefits
Taxes	<ul style="list-style-type: none"> Normally exempt from property, sales and income taxes 	<ul style="list-style-type: none"> Property, sales and income tax payer
Primary Financial Objective	<ul style="list-style-type: none"> Reinvestment in mission: "No margin, no mission" Investment grade credit rating Balance sheet strength in the form of days cash on hand and low leverage 	<ul style="list-style-type: none"> Cash flow generation (EBITDA) Leverage to boost returns
Access to Capital	<ul style="list-style-type: none"> Limited. Primarily cash flow from operations and tax exempt debt. Philanthropy, governmental subsidies for some 	<ul style="list-style-type: none"> Easy and flexible. Generally easy through public and private debt, public and private equity, and lease
Organizational Stability	<ul style="list-style-type: none"> Large systems are highly stable but increasingly culling non-core assets Small systems increasingly dynamic 	<ul style="list-style-type: none"> Dependent on capital market conditions Portfolio approach to assets Large publics (HCA, Tenet, CHS) very stable

Research: For-Profit vs. Nonprofit: No Consensus

- The Congressional Budget Office (CBO) found that:
 - On average, nonprofit hospitals provided higher levels of uncompensated care than similar for-profit hospitals.
 - However, uncompensated care varied widely and the distributions for nonprofit and for-profit hospitals largely overlapped
 - Nonprofit hospitals were more likely than similar for-profit hospitals to provide certain specialized, unprofitable services
 - Nonprofits were found to provide care to fewer Medicaid-covered patients as a share of their total patient population
 - On average, nonprofit hospitals were found to operate in areas with higher average incomes, lower poverty rates, and lower rates of un-insurance than for-profit hospitals.
- Harvard School of Public Health
 - For-profit hospitals (excluding HCA) are a mixed bag compared to nonprofits
 - Worse on patient experience
 - Better on processes measures
 - Somewhat worse on mortality and readmission rates.
 - About average on the safety scores
 - Public (governmental) hospitals are struggling on nearly every metric

Research: For-Profit vs. Nonprofit

		Non-profit N=2,340	Public N=642	For-profit (no HCA) N=534	HCA N=135
Patient Experience*		68.0%	66.6%	65.1%	67.5%
Process Quality	Heart Attack	98.2%	97.4%	98.1%	99.8%
	Heart Failure	94.4%	92.6%	95.6%	98.5%
	Pneumonia	94.4%	92.0%	95.3%	98.0%
Mortality Rates	Heart Attack	14.5%	16.0%	15.3%	14.8%
	Heart Failure	10.7%	11.4%	10.6%	10.7%
	Pneumonia	11.8%	12.4%	12.5%	12.4%
Readmission Rates	Heart Attack	18.6%	19.0%	18.9%	18.5%
	Heart Failure	23.5%	24.3%	25.5%	23.2%
	Pneumonia	17.8%	18.1%	18.7%	17.5%
"A" on Leapfrog Safety Score†		29.3%	18.5%	30.7%	44.3%

* Proportion of patients who gave the hospital a 9 or 10 rating. † The proportion of hospitals that got an "A" on the Leapfrog Safety Score.

Source: Harvard School of Public Health

Foundation Discussion

Foundation Discussion

Foundation Considerations

Foundations created from transactions can have a direct and immediate positive impact on a community

- Structures vary in not-for-profit to not-for-profit merger (membership substitution) transactions like Bidder 2 CMC
 - Membership substitution leaves role of existing foundation largely unchanged
 - Existing foundation can be left outside the transaction
 - Enforcement entity
 - Can be a perpetual organization or one with a defined life
 - Can be absorbed by merger partner later
- A sale transaction, usually to a for-profit, funds existing or creates a new foundation
 - Driven by need for board transition
 - Can directly support the hospital only if the new owner is a not-for-profit organization
- Key role of surviving/new foundation
 - Enforcement of transaction terms
 - Retention of existing and new not-for-profit activities
 - Oversight of wind-down of retained activities/assets/liabilities
- The new foundation will require a defined mission to direct its philanthropic and fundraising activities
 - AGs tend to be very focused on what happens post transaction
 - Structure of “new” foundation board
 - Oversight of use of proceeds



Foundation Discussion

Foundation Considerations

When a nonprofit hospital system sells and funds a meaningful foundation, the primary mission of the organization changes to an emphasis on philanthropic purposes.

- Establishing new purpose and mission
 - Existing activities
 - Continuation of support for hospitals
 - Only allowable if buyer is not-for-profit
 - Health care orientation vs. general community charity
- On-going relationship with buyer can take many facets
- Public vs. private charity
 - Private charities must distribute 5% of endowment annually
 - Investment policy significant in order to grow foundation
 - Limitations on fund raising from general public
 - Competition for donors an issue for public charity

Foundation Discussion

Foundation Activities

The foundation established from a sale can support a wide variety of mission-driven projects:

- **Community Health**
 - Community clinics
 - Indigent care programs/financing
 - Health screening and disease prevention
 - Health promotion
 - Senior care/elder health
 - Physician recruitment
 - Medical transportation
 - Family planning
 - AIDS services
 - Mental health programs
 - Oral health programs
 - Primary care access
- **Health Education**
 - Nursing schools and programs
 - GME support
 - Medical scholarships
 - Educational material/media
- **Health Research**
 - Community health
 - Clinical research
 - Disease specific research
 - Technology advancement
 - Communicable diseases
 - Business practices in health care
- **General**
 - Community infrastructure financing
 - Educational institutions
 - Environmental health
 - Violence prevention and victim services
 - Substance abuse prevention
 - Cultural assimilation
 - Child abuse prevention
 - Economic development
 - Community recreation
 - Programs for at-risk youth
 - Arts
 - Community Flying Lessons

Next Steps



Key Objectives

Scoring of Proposals Against Objectives

Objective	Bidder 2	 Billings Clinic  RegionalCare	Bidder 3
Enhance ability to deliver high quality healthcare with measureable improvements			
Reduce cost structure significantly			
Enhance and expand CMC's medical staff			
Physician alignment and engagement			
Ability to expand services			
Commit to charitable care delivery			
Maintain existing employment practices			
Secure CMC's long term stability/willingness and ability to compete effectively			
Acquisition experience			
Financial Capacity and Capital Commitments			
Limited hurdles to close a transaction			
Funding of foundation			

Recommendation for Next Steps

- Do not eliminate any bidder from consideration
 - Address Bidder 4
- Select 3 (or 4) finalists to participate in next phase 2
 - Bidders complete preliminary due diligence
 - Reverse due diligence by CMC's Board, Management and Physicians
 - Site visits to facilities
 - Bidder presentations to full Board
 - Negotiate Letters of Intent
- Phase 2
 - Select finalist
 - Complete final due diligence
 - Negotiate definitive agreements
 - Structure foundation (if applicable)
 - Final Board approval
 - Regulatory Approval
- Phase 3
 - Wind down remaining activities (if applicable)
 - Enforcement of affiliation terms
 - Foundation operations (if applicable)



Next Steps

Transaction Calendar

Term Sheets	Start Date	End Date	Sept		Oct				Nov				Dec				Jan				
			23	30	7	14	21	28	4	11	18	25	2	9	16	23	30	6	13	20	
Review and follow-up on proposals	30-Sep	17-Oct	█																		
Continued Due Diligence by Potential Partners	2-Oct	24-Oct	█																		
Bidder Presentations	17-Oct	24-Oct					█														
Negotiate Term Sheets/Site Visits/Bidder Presentations to Board/Reverse Due Diligence	28-Oct	15-Nov					█														
Evaluate Term Sheets and Select Finalist	18-Nov	22-Nov									█										

Definitive Agreement / Close Transaction / Post-Closing	Start Date	End Date	Sept		Oct				Nov				Dec				Jan		
			23	30	7	14	21	28	4	11	18	25	2	9	16	23	30	6	13
Draft and Negotiate Definitive Agreement	25-Nov	5-Jan									█								
Second Round Due Diligence	25-Nov	5-Jan									█								
Execute Definitive Agreement	6-Jan	6-Jan													█				
Confirmatory Due Diligence by Selected Partner	6-Jan	28-Feb													█				
Structure Foundation (if applicable)	6-Jan	28-Feb													█				
Regulatory and Third Party Approval	6-Jan	3-Apr													█ →				
Close Transaction	4-Apr	4-Apr													█ →				
Wind down remaining activities and start Foundation operations (if applicable)	4-Apr	31-Dec													█ →				
Enforcement of affiliation terms	4-Apr	-													█ →				