



Discussion Materials

December 19, 2013

Agenda

- Physician Advisory Committee feedback
- Evaluation of Bidders and Objectives
 - Review of key objectives
 - Site visit feedback
 - Scoring of matrix
- Summary of Bidder 4 proposal
- Discussion and recommendation
- Next steps

Evaluation of Bidders and Objectives



From day one.

Evaluation of Bidders and Objectives

Objective	Bidder 2	 	Bidder 3
Ability to improve quality			
Ability to reduce costs			
Ability to increase services/access at CMC			
Ability to expand medical staff			
Ability to compete in market			
Degree of integration			
Local input and influence (Governance)			
Commitment to charity care			
Cultural fit			
Population management capability			
Long term stability			
Closing risk at terms proposed			
Funding a Community Foundation			

Evaluation of Bidders and Objectives

Objective	Bidder 2	 Billings Clinic <i>Regional Care</i>	Bidder 3
Ability to improve quality	<p><i>3/Neutral</i></p> <ul style="list-style-type: none"> Average quality ██████████ can impact positively 	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> Billings Clinic ("BC") top ranked Regional Care ("RC") operates with average quality 	<p><i>2/Neutral</i></p> <ul style="list-style-type: none"> Average quality Substantial resources to support quality efforts
Ability to reduce costs	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> At or near Medicare break-even 	<p><i>3/Neutral</i></p> <ul style="list-style-type: none"> BC still seeking Medicare break-even RC proven management team and successful at other hospitals 	<p><i>2/Positive</i></p> <ul style="list-style-type: none"> Proven, cost-efficient for-profit operator
Ability to increase services at CMC (access)	<p><i>2/Positive</i></p> <ul style="list-style-type: none"> Shared specialists Program rationalization 	<p><i>2/Positive</i></p> <ul style="list-style-type: none"> Shared access to specialists 	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> Shared specialists Program rationalization Capital for programs
Ability to expand medical staff	<p><i>3/Neutral</i></p> <ul style="list-style-type: none"> No brand ██ Assertive approach to physician engagement 	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> Solid brand Flexible affiliation options Some concern with staff model at BC 	<p><i>2/Positive</i></p> <ul style="list-style-type: none"> Substantial corporate support Close to ██████████ Capital for docs

Evaluation of Bidders and Objectives

Objective	Bidder 2	 	Bidder 3
Ability to compete in market	<p><i>2/Positive</i></p> <ul style="list-style-type: none"> • Financially strong • Cost effective provider • Has shown success in local market • "Must have" contracting 	<p><i>3/Neutral</i></p> <ul style="list-style-type: none"> • BC in competitive market (increased market share from 41% to 54%) • RC has strong incentive for success at CMC 	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> • Proven track record as strong competitor • Significant financial resources • National contracting
Degree of integration	<p><i>3/Neutral</i></p> <ul style="list-style-type: none"> • Sole provider • [REDACTED] affiliation • Substantial employed physician base • [REDACTED] 	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> • Shared IT system • Physicians and Oncology JV with CMC • Built meaningful network in Montana and Wyoming • Impact of JV on integration uncertain 	<p><i>2/Positive</i></p> <ul style="list-style-type: none"> • [REDACTED] • [REDACTED]
Local input and influence (Governance)	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> • CMC community representation on board • Strong CEO 	<p><i>2/Neutral</i></p> <ul style="list-style-type: none"> • JV controlled by RC • Advisory board • BC interest in JV balances 	<p><i>3/Negative</i></p> <ul style="list-style-type: none"> • Local advisory board
Commitment to charity care	<p><i>1/Neutral</i></p> <ul style="list-style-type: none"> • Contractual commitment • Part of not-for-profit mission 	<p><i>2/Neutral</i></p> <ul style="list-style-type: none"> • Contractual commitment 	<p><i>2/Neutral</i></p> <ul style="list-style-type: none"> • Contractual commitment • Will shift when feasible or where disproportionate

Evaluation of Bidders and Objectives

Objective	Bidder 2	 	Bidder 3
Cultural fit	<p><i>2/Negative</i></p> <ul style="list-style-type: none"> • Strong CEO with aggressive strategy • Not for profit/community mission driven 	<p><i>1/Neutral</i></p> <ul style="list-style-type: none"> • Physician driven staff model culture in BC • RC is financially driven • Uncertainty of BC vs. RC 	<p><i>3/Negative</i></p> <ul style="list-style-type: none"> • Financial performance driven culture
Population management capability	<p><i>2/Neutral</i></p> <ul style="list-style-type: none"> • Medicare break-even • [REDACTED] affiliation should bring strength 	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> • BC was one of first accredited ACOs • Focused on building network in MT and WY 	<p><i>3/Neutral</i></p> <ul style="list-style-type: none"> • Provides cost effective care • Not an innovator in new models
Long term stability	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> • Financial solid, stable organization in single market • Merger with [REDACTED] probable in the future 	<p><i>3/Negative</i></p> <ul style="list-style-type: none"> • Strong partner in BC • Untested JV • RC will have a change in control event in the near future 	<p><i>2/Positive</i></p> <ul style="list-style-type: none"> • [REDACTED] • Strong financials • No history of significant divestitures
Closing risk at terms proposed	<p><i>3/Negative</i></p> <ul style="list-style-type: none"> • Has done no due diligence • Membership substitution is easy transaction for AG to approve 	<p><i>2/Positive</i></p> <ul style="list-style-type: none"> • Strong motivation for RC to do a deal with BC • Financing contingency • Valuation gap 	<p><i>1/Positive</i></p> <ul style="list-style-type: none"> • Sophisticated acquirer of hospitals • Ready capital available

Summary of Bidder 4 Proposal



From day one.

Summary of Bidder 4 Proposal

Proposed Transaction Structure	<ul style="list-style-type: none"> □ Membership substitution □ Create [REDACTED] healthcare system ("WHC")
Amount and Form of Consideration	<ul style="list-style-type: none"> □ Assumption of net debt
Net Proceeds	<ul style="list-style-type: none"> □ None
Community Health & Research Foundation	<ul style="list-style-type: none"> □ Bidder 4 to provide seed money to develop community health & research foundation in Missoula
Ethical and Religious Directives	<ul style="list-style-type: none"> □ [REDACTED] □ CMC remains secular (not subject to ERDs) □ CMC and its employed physicians agree not to provide the following: <ul style="list-style-type: none"> ○ Elective abortion ○ Physician assisted suicide ○ Euthanasia ○ Intentional embryonic destruction ○ Embryo cryopreservation procedures
Governance	<ul style="list-style-type: none"> □ 50% former CMC board members and 50% former Bidder 4 board members to be on WHC board □ WHC board will have credentialing duties as well as strategic planning and oversight duties □ Financial and budget decisions ultimately made by Bidder 4
Maintenance of Services	<ul style="list-style-type: none"> □ Committed to provide tertiary services at CMC for a to be agreed upon time
Integration	<ul style="list-style-type: none"> □ CMC to be part of Bidder 4 Obligated Group □ Integrate with Bidder 4 to improve quality and reduce costs

Appendix A: Summary of Proposals

Summary of Proposals

	Bidder 2		Bidder 3
Governance	<ul style="list-style-type: none"> □ Parent Governance: <ul style="list-style-type: none"> ○ ██████ 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 ██████ will appoint future CMC Community Directors □ Hospital Governance: <ul style="list-style-type: none"> ○ 11 member non-fiduciary Local Board, with CEO of ██████ (or his designee) as the 11th member ○ Initial members as agreed by the parties ○ Self-perpetuating but subject to ██████ approval 	<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 □ \$66 million routine capital over 10 years □ \$40 million strategic capital over 10 years 	<ul style="list-style-type: none"> □ At least 110% of CMC's annual depreciation
Maintenance of Clinical Services	<ul style="list-style-type: none"> □ Maintain essential clinical services/departments for period of 10 years, subject to certain contingencies 	<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
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) □ \$40 million committed to recruit approximately 80 physicians over 10 years □ 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
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]

Appendix B: Recent For-Profit and Not-for-Profit Joint Ventures

Recent For-Profit & Not-for-Profit Joint Ventures

LIFEPOINT
HOSPITALS®

DUKE UNIVERSITY
HEALTH SYSTEM

 Cleveland Clinic

 CHS Community
Health Systems

Duke LifePoint Health Care (“DLP”)

Strategic Alliance

Transaction Summary

- LifePoint is a 97% owner of DLP
- LifePoint provides access to capital and operational resources
- Duke will enhance and develop needed clinical services
- Duke provides access to highly specialized medical services
- The transaction forms a long-term relationship that will evolve over time to include additional collaborative opportunities as well as the possibility for future joint ventures
- Cleveland Clinic and CHS will remain independent organizations

Transaction Rationale

- Provides LifePoint with scale and strong brand recognition
- Makes LifePoint a more palpable partner for not-for-profit hospitals
- Duke will have no significant capital exposure but share in referral base without acquiring hospitals and physician groups
- Duke will earn fees associated with its participation
- Cleveland Clinic will extend its reach and quality initiatives into new regions served by CHS’s extensive network of 135-affiliated community hospitals
- CHS will advance its clinical programs through access to Cleveland Clinic’s expertise in medical specialties, best practices and innovative approaches to patient care

Recent For-Profit & Not-for-Profit Joint Ventures



Montclair Health System

Aurora IASIS Health Partners

Transaction Summary

- Montclair Health System owned 80% by LHP and 20% by HUH
- JV acquired Mountainside Hospital
- 50/50 governance
- 12-member local board with at least 50% physicians

- Aurora brings integrated health system experience
- IASIS brings the ability to raise capital
- First JV project will be construction of Aurora Medical Center-Kenosha (cancer center)

Transaction Rationale

- The joint venture structure allows LHP to provide management proficiency and HUH to provide local market knowledge and clinical expertise
- The joint venture also purchased, renovated and reopened Pascack Valley Hospital, which had closed in 2007

- JV provides new development and affiliation opportunities
- Provides access to financial and human resources to achieve strategic growth initiatives

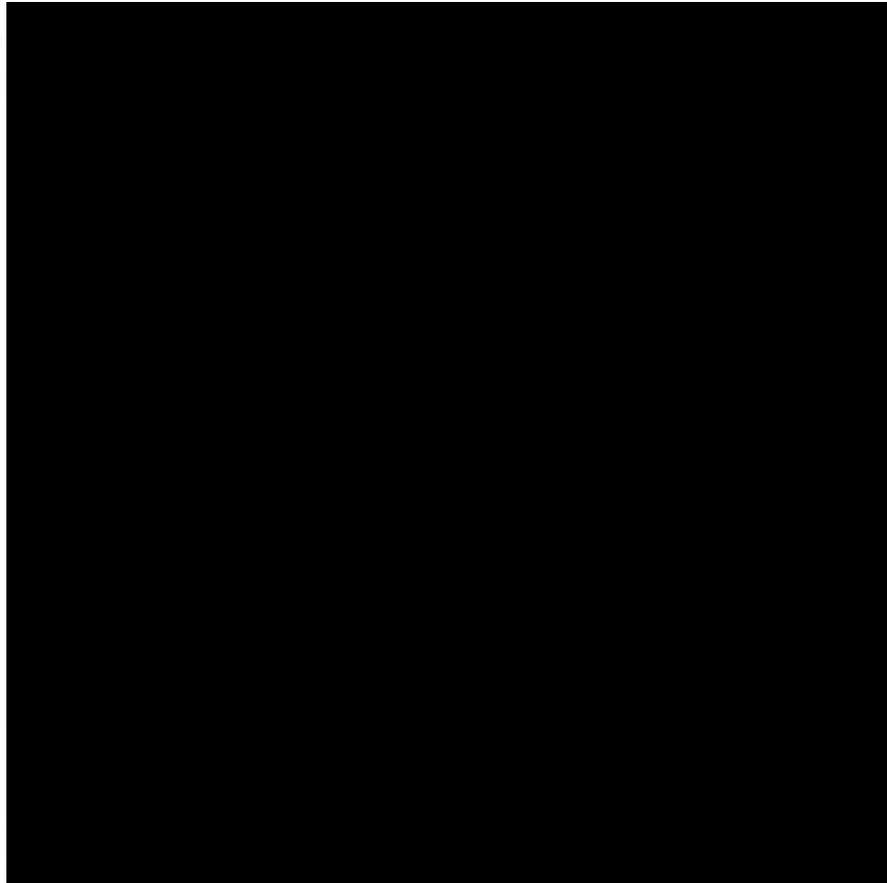
Appendix C: Profiles of Potential Partners



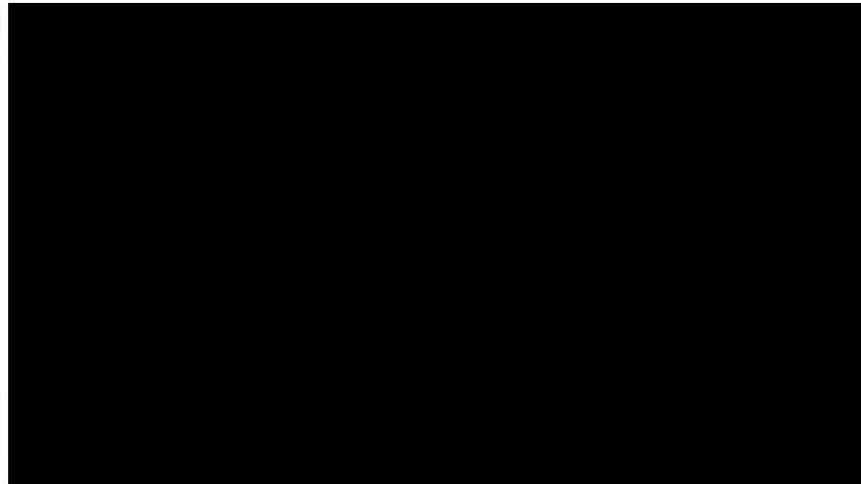
Profiles of Potential Partners

Potential Strategic Partner: Bidder 2

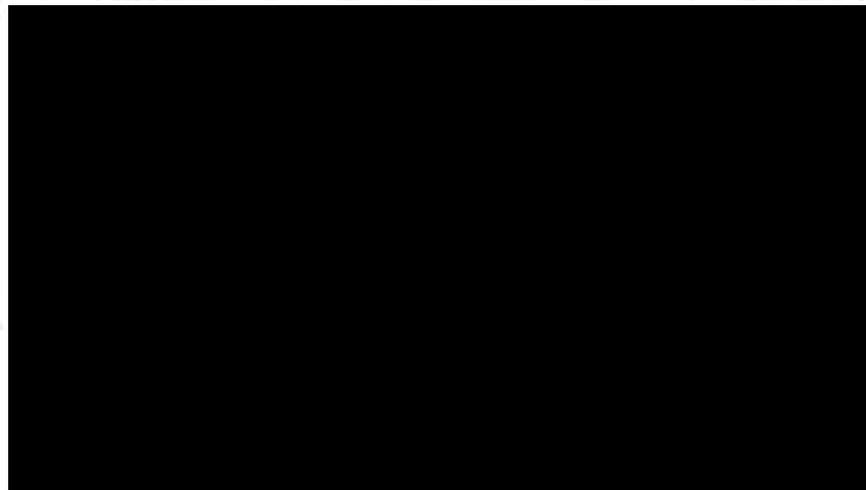
Overview



Summary Information



Geographic Footprint



Profiles of Potential Partners

Potential Strategic Partner: Billings Clinic



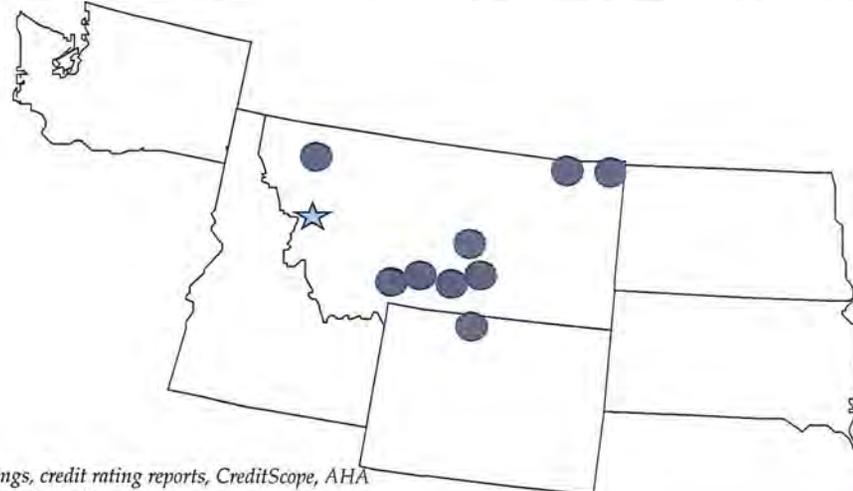
Overview

- 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: NA/NA/NA

Geographic Footprint⁽²⁾



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

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

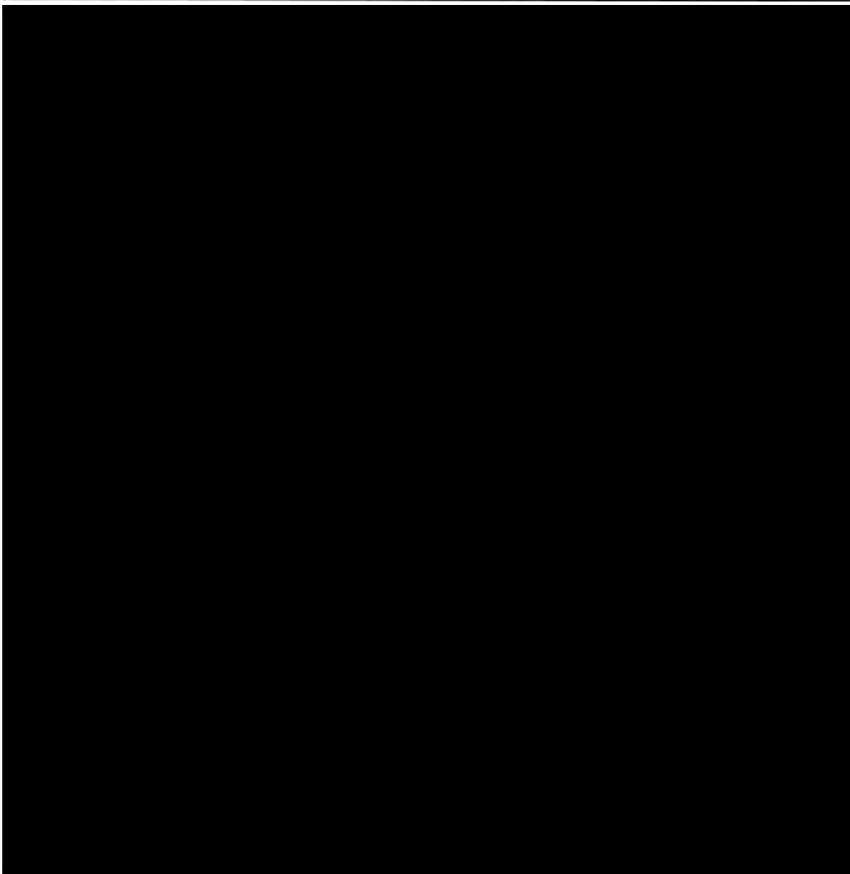
(2) Includes affiliated critical access hospital and Kalispell Regional Medical Center/Billings clinic affiliation locations



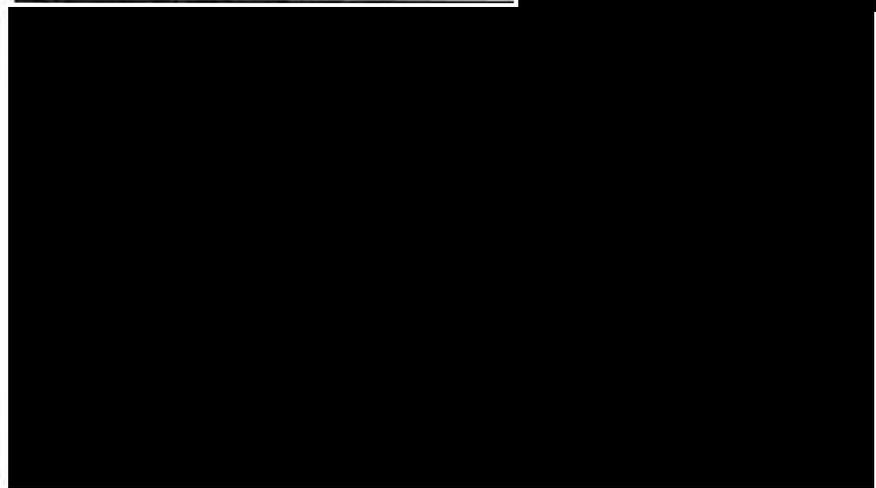
Profiles of Potential Partners

Potential Strategic Partner: Bidder 3

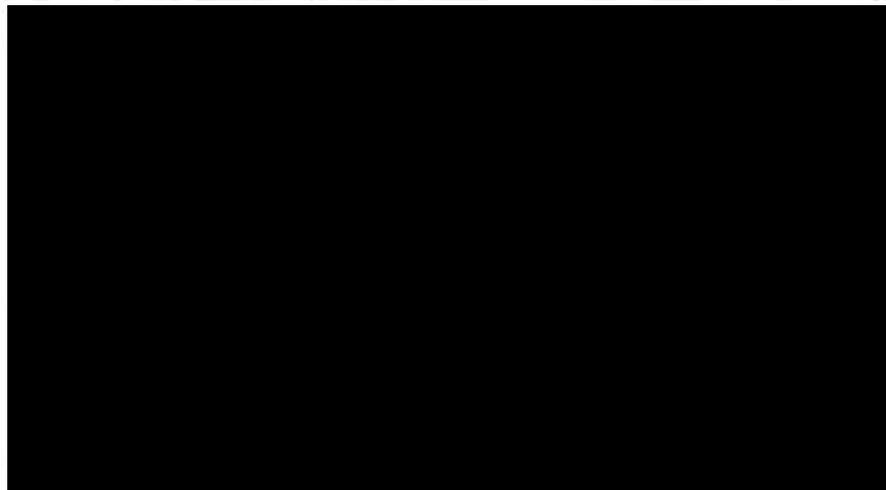
Overview



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⁽¹⁾: \$570.6 million
- FY 2012 EBITDA⁽¹⁾: \$57.4 million
- Ratings: NA/NA/NA

Geographic Footprint

