



## Discussion Materials

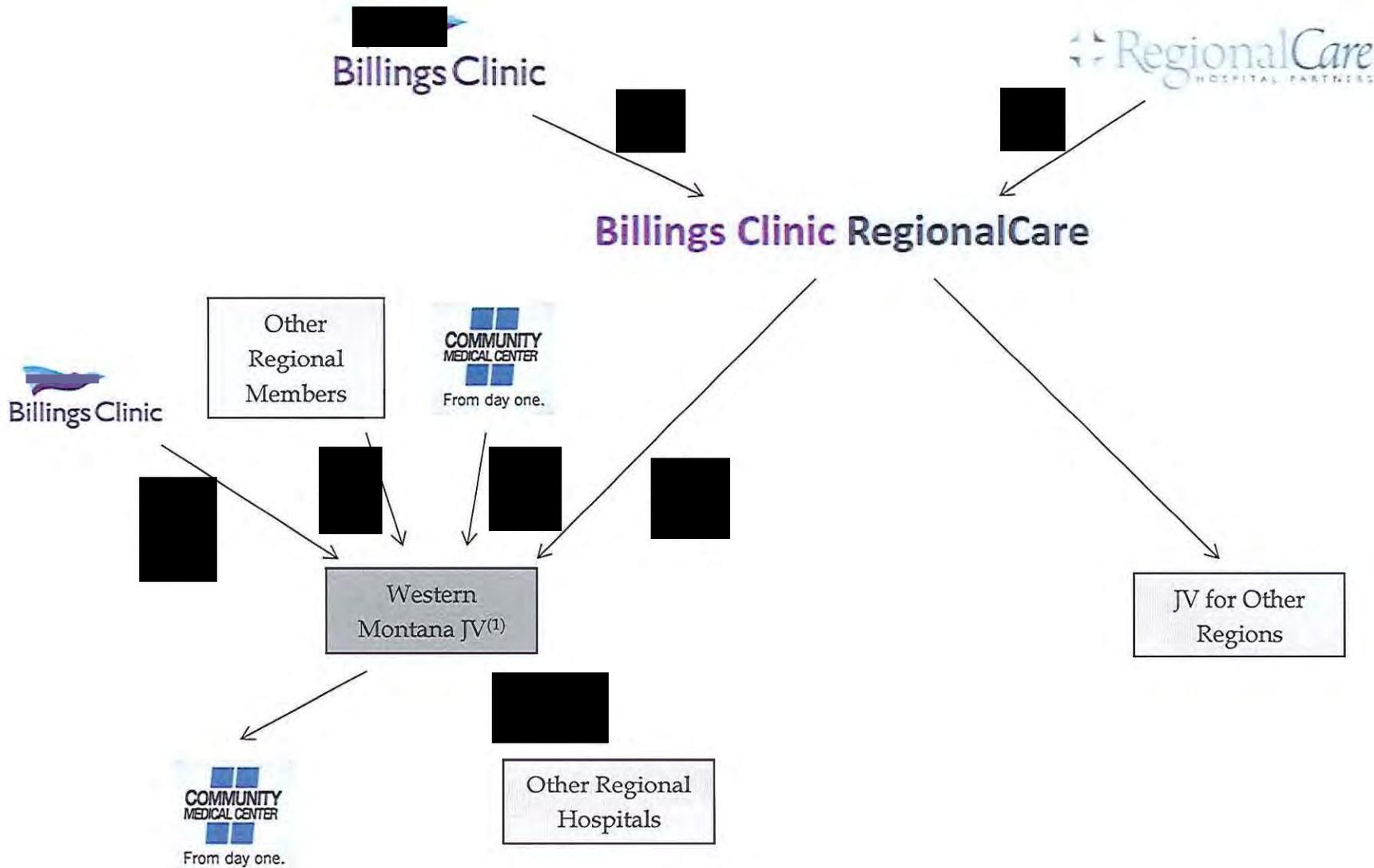
March 6, 2014

## Summary of Proposals



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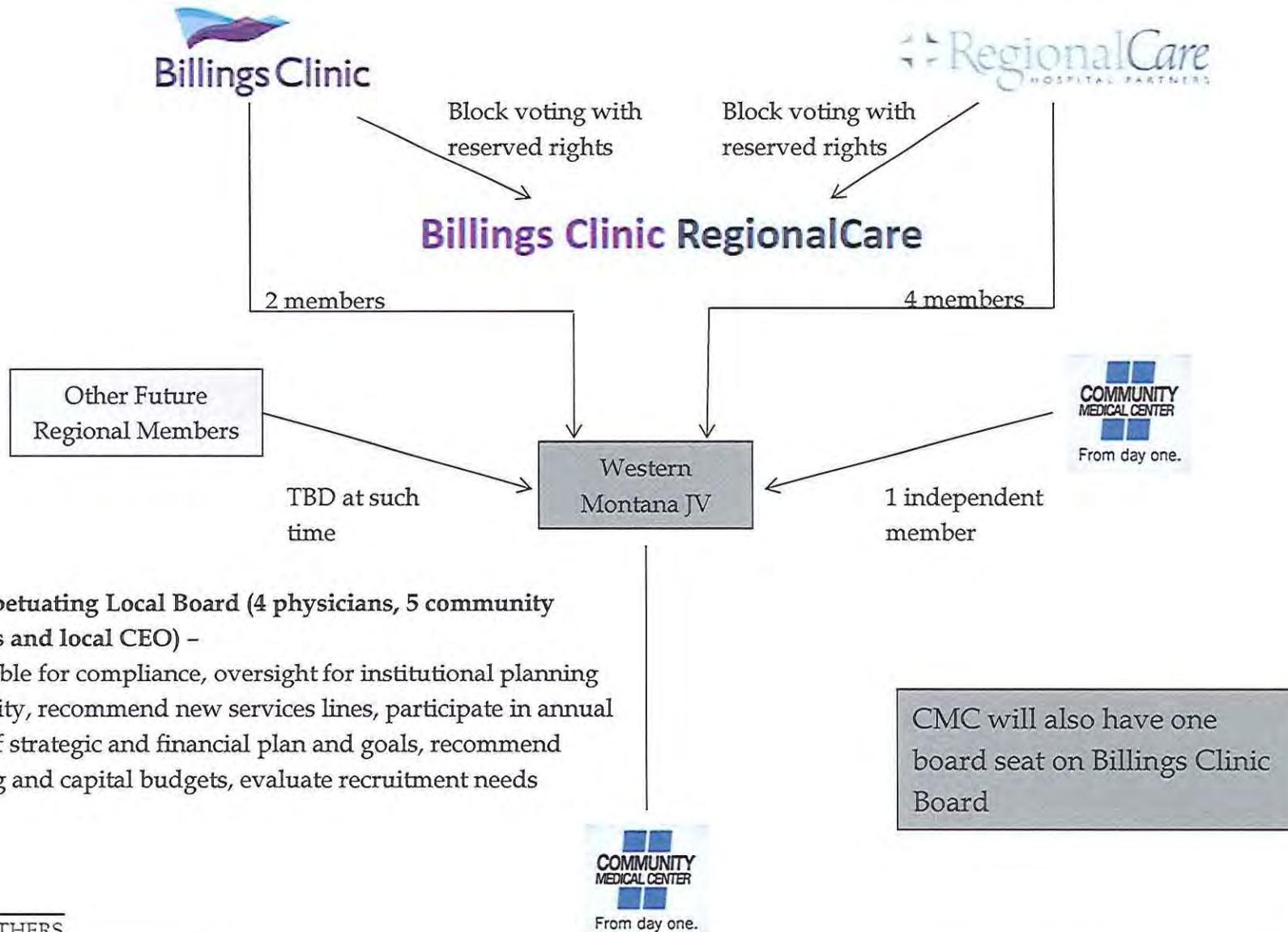
### Proposed Structure of Billings Clinic RegionalCare Greater Montana Network



1) Vehicle through which Billings Clinic RegionalCare intends to acquire other hospital partners in western Montana including the regions west of, and including, Livingston and west of, but excluding, Great Falls.

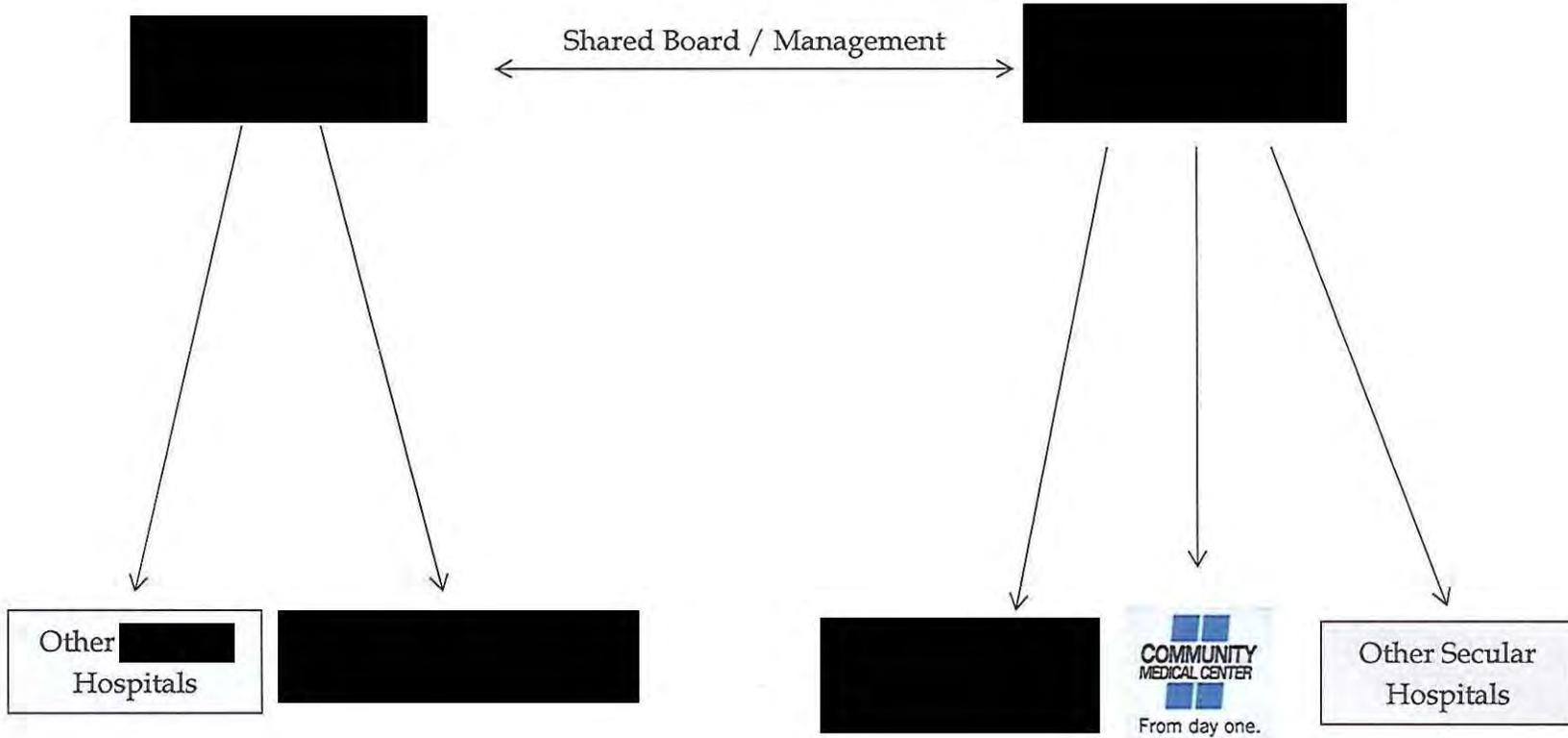
# Summary of Proposals

## Proposed Governance Structure of Billings Clinic RegionalCare



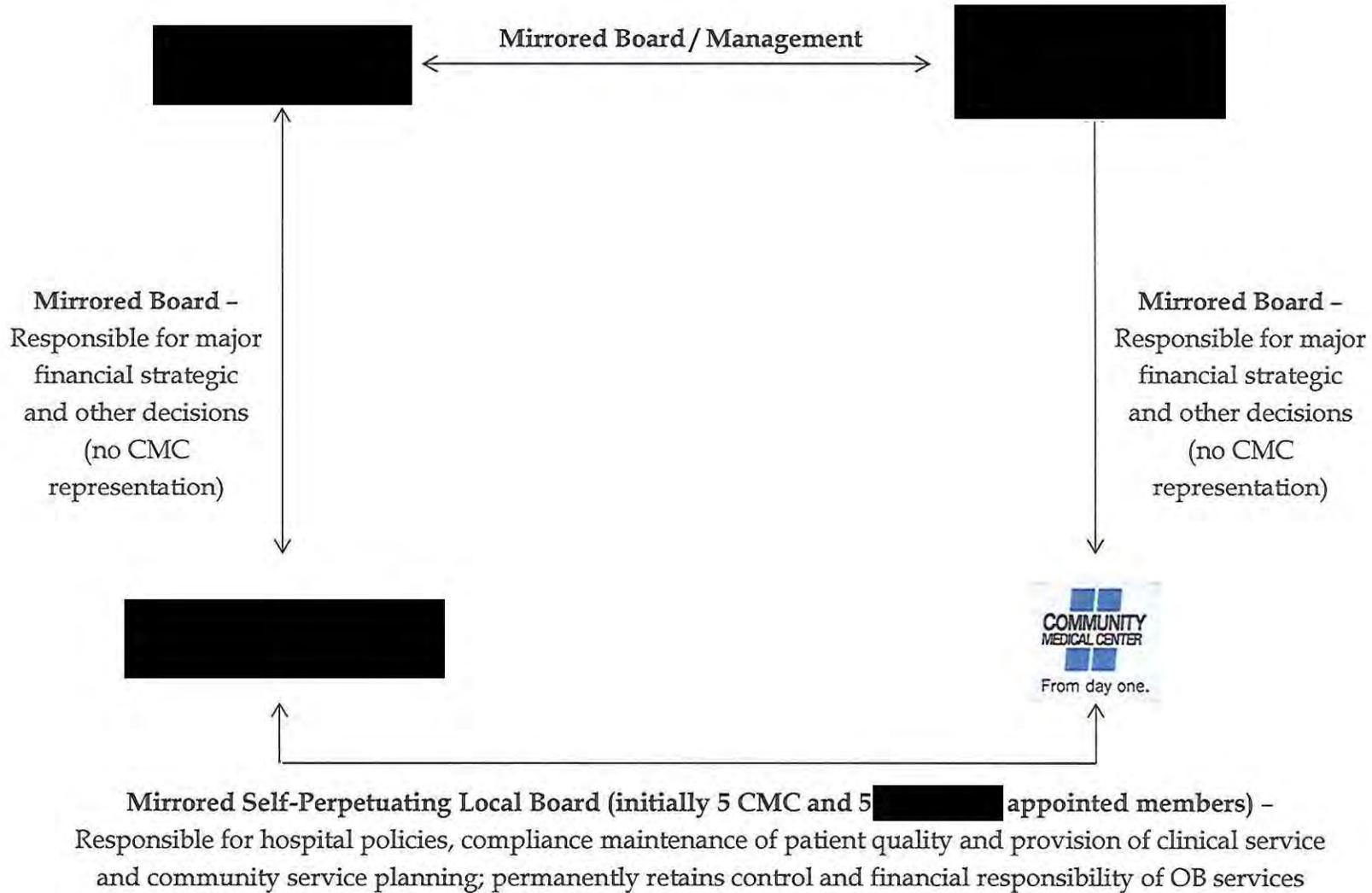
# Summary of Proposals

## Proposed Structure of Bidder 4



# Summary of Proposals

## Proposed Governance Structure of Bidder 4



1) Does not include contingencies, medical malpractice and transaction costs.

2) \$10 million paid annually between 2016 and 2020 has not been discounted to represent present value

## Summary of Proposals

Objective	 	Bidder 4
<p><b>Foundation</b></p>	<ul style="list-style-type: none"> <li>Independent and controlled by CMC</li> </ul>	<ul style="list-style-type: none"> <li>Joint foundation initially with 75% CMC appointed directors and 25% [REDACTED] appointed directors</li> <li>Board self-perpetuating</li> <li>Foundation intended to be independent provided [REDACTED] has reserved rights for approval of initial governing documents</li> <li>Funds under sole control of foundation</li> <li>Cannot support certain activities inconsistent with ERDs</li> </ul>

## Summary of Proposals

Objective	 	Bidder 4
<b>Capital Commitments</b>	<ul style="list-style-type: none"> <li>• Total 10-year commitment of about \$8.9 million per year consisting of:               <ul style="list-style-type: none"> <li>◦ 10-year commitment to fund routine capital at no less than 2% of CMC's net annual patient revenue (about \$30 million or \$2.9 million annually)</li> <li>◦ 10-year commitment to fund \$60 million in strategic initiatives</li> </ul> </li> <li>• Physician recruitment commitment is additional</li> </ul>	<ul style="list-style-type: none"> <li>• In the process of implementing new policy to spend at least 100% of depreciation at [REDACTED] hospitals (\$8.7 million in 2013 at CMC)</li> <li>• Strategic capital available as determined by [REDACTED]</li> </ul>
<b>Maintenance of Clinical Services and Expansion of Service Lines</b>	<ul style="list-style-type: none"> <li>• Subject to commercial reasonableness, commitment to maintain services identified by CMC for 10 years</li> </ul>	<ul style="list-style-type: none"> <li>• Commits to maintain essential services in western Montana for 5 years</li> <li>• No commitment to maintain services at CMC but elimination must be approved locally and have financial rationale</li> <li>• No commitment to expand services</li> </ul>

## Summary of Proposals

Objective	 	Bidder 4
Medical Staff	<ul style="list-style-type: none"> <li>• \$40 million for recruitment of providers</li> <li>• Commitment to recruit 60 providers over 3 to 5 years</li> <li>• Physicians included in strategic and capital planning process</li> </ul>	<ul style="list-style-type: none"> <li>• General commitment to recruiting physicians</li> <li>• Committed to include physicians in strategic and capital planning process</li> </ul>
Brand	<ul style="list-style-type: none"> <li>• CMC intended to carry brand of Billings Clinic</li> </ul>	<ul style="list-style-type: none"> <li>• CMC name retained as part of branding of CMC hospital</li> </ul>
Limitation on Sale	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Limits [REDACTED] from exiting western Montana completely</li> <li>• No restrictions on sale of CMC</li> </ul>
Right of First Refusal	<ul style="list-style-type: none"> <li>• Perpetual right of first refusal if CMC is sold</li> <li>• Not applicable if part of multi-facility sale or sale of JV</li> </ul>	<ul style="list-style-type: none"> <li>• Perpetual right of first refusal only applies if [REDACTED] exits western Montana completely</li> </ul>
Break-up Fee	<ul style="list-style-type: none"> <li>• Definitive agreement to have unspecified terms and conditions regarding inability to close</li> </ul>	<ul style="list-style-type: none"> <li>• Mutual break-up fee if either party is unable to close</li> </ul>



## Summary of Proposals

### Billings Clinic RegionalCare's Vision for Western Montana

- Committed to immediately commence work on creating a fully clinically integrated Montana system
  - **Third Party** expressed strong interest to join Joint Venture
  - Develop a patient-centered coordinated care model that will have the infrastructure and expertise to expand to a broad range of Montana residents
  - Integrated model would include CMC, Billings Clinic **3rd party**, the eleven other critical access hospitals affiliated with Billings Clinic and other providers and patients across the state
  - Allow the system to offer innovative, competitive options for health care consumers and payors
  - IT integration between Billings Clinic and CMC
- Billings Clinic with RegionalCare will bring the culture, systems, organizational structure and employment potential to begin a closer alignment that leads to a Montana-based physician-led model needed for:
  - Payor relationships
  - Clinical integration
  - Development of major a regional sub-specialty network
  - Market leadership for CMC
- CMC intended to carry Billings Clinic brand
- Work to expand the Mayo Clinic Care Network to include CMC

## Summary of Proposals

Bidder 4

Vision for Western Montana

- Lead Montana in providing patient-centered, affordable, clinically-integrated healthcare across the care continuum to achieve population health in the community by offering the right care at the right time
- Work to maintain and enhance Missoula's position as the premier tertiary care destination for Western Montana
- Partner with payors to align the economic model with population health
- Deploy care models that work to keep patients in the most-appropriate and cost effective care setting
- Collaborate across large geographic areas to meet the challenges of population health in a rural marketplace
- Create compelling physician alignment models to ensure health care is physician led and professionally managed
- Leverage the scale [REDACTED] brings to more effectively and efficiently achieve the Triple Aim

## Financial Overview of Regional Care



# Financial Profile of RegionalCare

## Overview of RegionalCare



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

### Regional Geographic Footprint



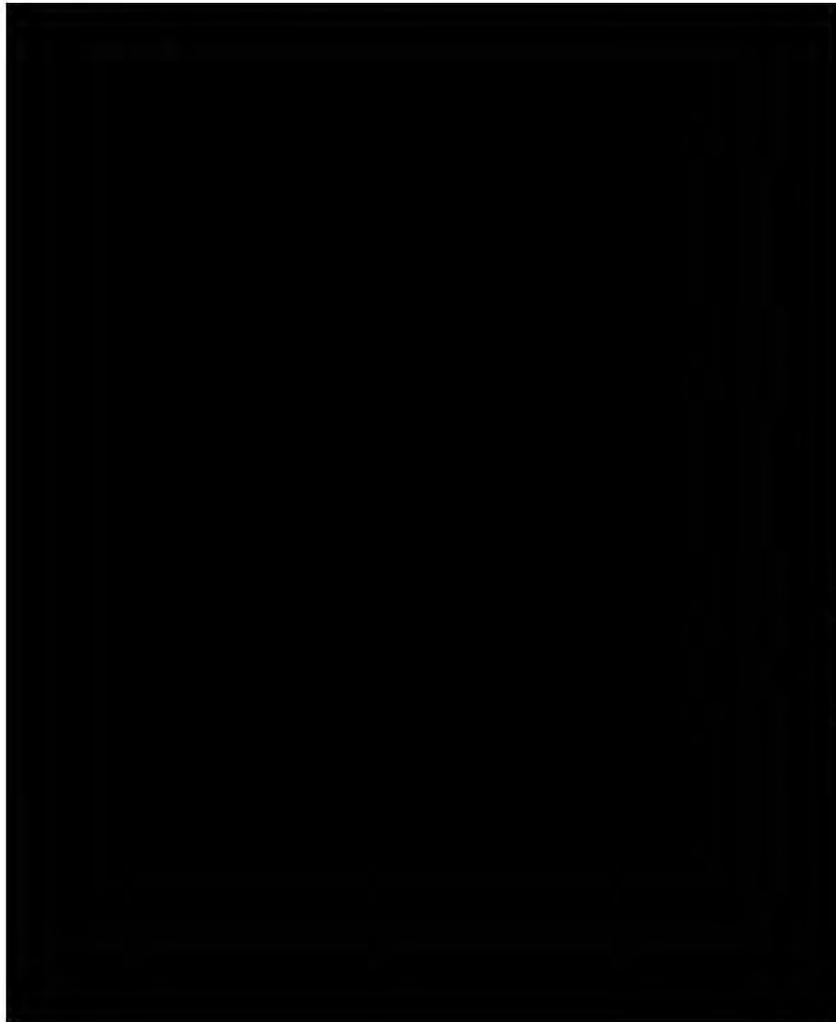
Financial Overview of Bidder 4



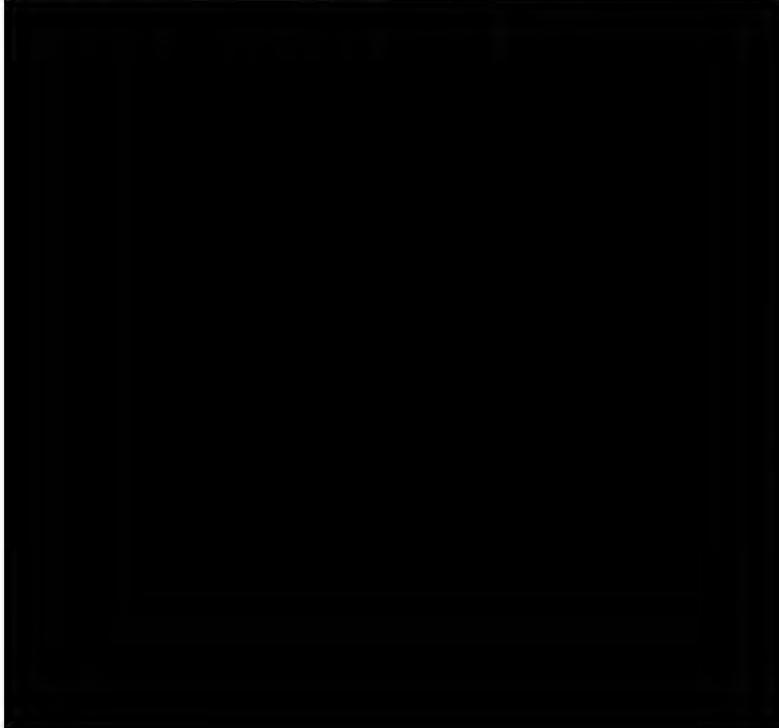
# Financial Overview of Bidder 4

## Overview of Bidder 4

### Overview



### Summary Information



## Overview of Historic Ownership Stability



# Overview of Historic Ownership Stability

## Investor-Owned Change-in-Control Transaction History

Company	Status	Founded	Current/Final		Change-in-Control Transaction 1	Change-in-Control Transaction 2	Change-in-Control Transaction 3
			Hospital Count				
<b>Operational</b>							
Ardent Health Services	Private	1993	13		2001 - Recapitalized by WCAS		
Capella Healthcare	Private	2005	14				
Community Health Systems	Public (CYH)	1985	206		1996 - Taken Private by Forstmann Little	2000 - Initial Public Offering	
HCA Healthcare	Public (HCA)	1968	165		2006 - Taken Private by Bain, KKR & Merrill	2010 - Initial Public Offering	
IASIS Healthcare	Private	1998	16		2004 - Recapitalized by TPG		
LHP Hospital Group	Private	2007	6				
LifePoint Hospitals	Public (LPNT)	1999	60		1999 - Spunout of HCA		
Prime Healthcare Services	Private	2001	25				
Prospect Medical Holdings	Private	1996	7		2005 - Initial Public Offering		2010 - Taken Private by LGP
RegionalCare Hospital Partners	Private	2009	8				
Steward Health Care	Private	2010	11				
Tenet Healthcare	Public (THC)	1968	77				
Universal Health Services	Public (UHS)	1978	24				
<b>Acquired/Closed</b>							
American Medical Holdings (THC)	Public	1957	33		1994 - Acquired by THC		
Champion Healthcare (Paracelsus)	Public	1990	9		1996 - Acquired by Paracelsus		
Essent Healthcare (RegionalCare)	Private	1999	3		2004 - Recapitalized by Thoma Cressey	2011 - Merged with RegionalCare	
HealthTrust (HCA)	Public	1985	116		1995 - Acquired by HCA		
Health Management Associates (CYH)	Public	1977	71		2013 - Acquired by CYH		
Hospital Partners of America (Bankrupt)	Private	2002	4		2008 - Filed Bankruptcy		
MedCath Corporation (Various)	Public	1988	10		1998 - Taken Private by KKR & WCAS	2001 - Initial Public Offering	2011 - Wound Down
Merit Health Systems (Various)	Private	2002	2		2012 - Wound Down		
New American Healthcare (Bankrupt)	Public	1995	8		1998 - Initial Public Offering	2000 - Filed Bankruptcy	
OrNda Healthcorp (THC)	Public	1981	50		1996 - Acquired by THC		
Paracelsus Healthcare (Bankrupt)	Public	1980	31		1996 - Initial Public Offering	2000 - Filed Bankruptcy	
<b>Bidder 4</b>							
Quorum Health Resources (CYH)	Public	1989	22		2000 - Acquired by Triad		
Signature Hospital (Various)	Private	2005	3		2012 - Closed		
Triad Hospitals (CYH)	Public	1999	54		1999 - Spunout of HCA	2007 - Acquired by CYH	
Vanguard Health Systems (THC)	Public	1997	28		2004 - Recapitalized by Blackstone	2011 - Initial Public Offering	2013 - Acquired by THC

☐ = Companies with stable ownership over past 20 years

☐ = Company run by RegionalCare's founders



# Overview of Historic Ownership Stability

## Bidder 4 Change-in-Control Transaction History

Hospital Acquisitions	Licensed Beds	Date Acquired	Hospital Divestitures	Licensed Beds	Date Acquired	Date Sold
[REDACTED]			[REDACTED]			

[REDACTED]

Source: EMMA, company filings, and Cain Brothers.

[REDACTED]

(1) Per 2004 AHA Guide.  
(2) Per 2001 AHA Guide.

## Comparison of For-Profit and Not-for-Profit Systems



## Comparison of For-Profit and Not-for-Profit Systems

### Summary Comparison

	Not-for-Profit	For-Profit
<b>Mission</b>	<ul style="list-style-type: none"> <li>Charitable purpose</li> </ul>	<ul style="list-style-type: none"> <li>Create shareholder value</li> </ul>
<b>Fiduciary Board</b>	<ul style="list-style-type: none"> <li>Larger in size</li> <li>Volunteer governance</li> </ul>	<ul style="list-style-type: none"> <li>Smaller in size</li> <li>Paid governance</li> </ul>
<b>Advisory Board</b>	<ul style="list-style-type: none"> <li>Local advisory board responsible for Title XXII requirements if part of system</li> </ul>	<ul style="list-style-type: none"> <li>Local advisory board responsible for Title XXII requirements</li> </ul>
<b>Management</b>	<ul style="list-style-type: none"> <li>Broad responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>More focused responsibilities</li> </ul>
<b>Sources of Capital</b>	<ul style="list-style-type: none"> <li>Tax-exempt debt</li> <li>Taxable debt</li> <li>Retained earnings</li> <li>Contributions</li> </ul>	<ul style="list-style-type: none"> <li>Taxable debt</li> <li>Retained earnings</li> <li>Equity</li> </ul>
<b>Primary Investors</b>	<ul style="list-style-type: none"> <li>Institutional investors</li> <li>Commercial banks</li> </ul>	<ul style="list-style-type: none"> <li>Institutional investors</li> <li>Commercial banks</li> </ul>
<b>Credit Profile</b>	<ul style="list-style-type: none"> <li>High liquidity</li> <li>Low leverage</li> <li>Lower margin</li> <li>Investment grade</li> </ul>	<ul style="list-style-type: none"> <li>Low liquidity</li> <li>High leverage</li> <li>Higher margin</li> <li>Non-investment grade</li> </ul>
<b>Taxes</b>	<ul style="list-style-type: none"> <li>Exemption on earnings and interest</li> <li>Donor exemption on contributions</li> </ul>	<ul style="list-style-type: none"> <li>Tax-paying entity</li> </ul>
<b>Transaction Structure</b>	<ul style="list-style-type: none"> <li>Merger/membership transfer</li> </ul>	<ul style="list-style-type: none"> <li>Asset or stock purchase</li> </ul>



# Comparison of For-Profit and Not-for-Profit Systems

## Profile of For-Profit Hospitals and Systems

Approximately 21% of community hospitals in the United States are owned by for-profit companies. These facilities are on average smaller than those owned by not-for-profit organizations

U.S Community Hospitals by Ownership Status<sup>(1)</sup>



N=4,999

U.S Community Hospitals by Bed Size<sup>(2)</sup>

Bed Size Category	Not-for-Profit	Gov.	For-Profit	Total
6-24	49%	39%	12%	100%
25-49	47%	33%	20%	100%
50-99	50%	20%	30%	100%
100-199	62%	14%	24%	100%
200-299	72%	11%	17%	100%
300-399	74%	12%	14%	100%
400-499	75%	15%	10%	100%
500+	77%	17%	6%	100%
<b>By Hospitals</b>	<b>58%</b>	<b>21%</b>	<b>21%</b>	<b>100%</b>
<b>By Beds</b>	<b>70%</b>	<b>15%</b>	<b>15%</b>	<b>100%</b>

(1) Source: Health Forum LLC, an affiliate of the American Hospital Association, January 2, 2014.

(2) Source: Alliance for Advancing Nonprofit Health Care. Data are as of 2010.

## Comparison of For-Profit and Not-for-Profit Systems

### Percent of Community Hospitals Owned by For-Profit Companies by State

For-profit hospitals are more common in the Southern and Mountain states. Nevada and Florida have the highest concentration of for-profit community hospitals





## Comparison of For-Profit and Not-for-Profit Systems

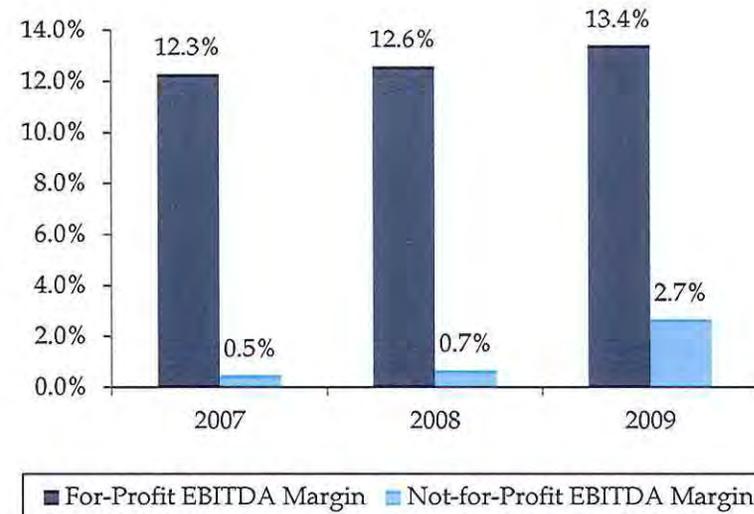
### Financial Overview

For-profit systems tend to be larger, have higher financial leverage, and generate higher EBITDA margins than their not-for-profit peers

#### Comparison of Credit Metrics<sup>(1)</sup>

Category	Not-for-Profit	For-Profit
# of Rated Organizations	498	17
Median Rating	A3	B2
Median Revs (\$MM)	\$437	\$2,200
Median Debt (\$MM)	\$165	\$1,300
Median Debt/Revs	36.6%	55.9%
Median Debt/ Cash Flow	3.8	4.7

#### EBITDA Margin by Ownership Status<sup>(2)</sup>





## Comparison of For-Profit and Not-for-Profit Systems Larger Systems

The for-profit landscape consists of very few large systems; many are sponsored by well-regarded private equity firms

### Publicly Traded Hospital Management Companies

Company	Number of Hospitals	Equity Value (\$MM)	Revenue (\$MM)
 Hospital Corporation of America™	165	\$22,493	\$34,182
 Community Health Systems	135	\$4,752	\$12,998
	77	\$4,263	\$11,102
	24	\$8,037	\$7,284
	60	\$2,602	\$3,678

### Private Hospital Management Companies

Company	Number of Hospitals	Lead Investor	Revenue (\$MM)
 HEALTH SERVICES	13	Welsh, Carson, Anderson & Stowe	N/A
 HEALTHCARE™	11	GTCR Golder Rauner	\$750
 HEALTHCARE	17	TPG Capital	\$2,400
 LHP Hospital Group, Inc.™	6	CCMP Capital Advisors	N/A
	25	Prem Reddy	N/A
	7	Leonard Green & Partners	N/A
 HOSPITAL PARTNERS	9	Warburg Pincus	\$571
	11	Cerberus Capital Management	N/A

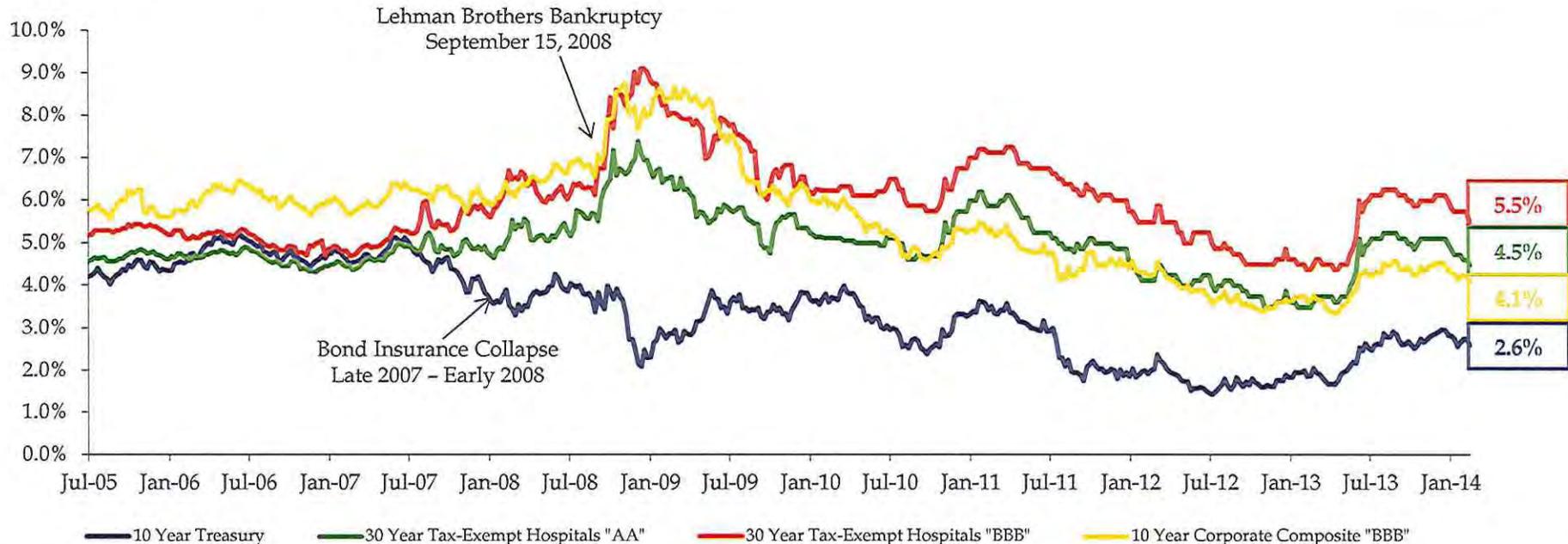
Source: Public filings, CapitalIQ, and Cain Brothers. Financial statistics as of March 5, 2014. Hospitals refers to acute care facilities only.

Note: Revenue is LTM as of 12/31/13. Capella Healthcare is LTM as of 9/30/13. RegionalCare is LTM as of 12/31/12.

## Comparison of For-Profit and Not-for-Profit Systems

### Access to Capital

#### Historical Interest Rates



- AHERF (1998) bankruptcy resulted in increased credit scrutiny by providers of capital and credit enhancers
- Bond insurer failures (2007-08) made relative credit risk a key regulator of capital access
- Capital market access for NFPs has been increasingly volatile, especially for lower-rated credits
- Capital market access for FPs has been robust despite their lower credit risk profile
- The ability to balance access to equity and debt is a major advantage of FP entities
- These capital market dynamics have contributed to a rise in joint ventures between FP and NFP organizations

## Valuation Analysis



# Valuation Analysis

## Comparable Transactions

Announced	Target	Acquiror	Enterprise	LTM	LTM	Beds	Enterprise Value/		Average
			Value	Revenue	EBITDA		Revenue	EBITDA	
4/19/2013	Munroe Regional Health System	Health Mangement Associates	\$212.0	\$305.5	\$20.4	421	0.69x	10.4x	13.5
3/8/2013	Cleveland County HealthCare System	Carolinas HealthCare System	\$100.0	\$243.7	\$23.7	514	0.41x	4.2x	13.1
1/2/2013	Knapp Medical Center	Prime Healthcare Services	\$100.0	\$99.0	(\$0.1)	226	1.01x	NM	N/A
7/3/2012	Marquette General Hospital	Duke Lifepoint	\$132.7	\$322.6	\$15.5	315	0.41x	8.6x	19.9
6/12/2012	Jefferson Regional Medical Center	Highmark	\$275.0	\$285.3	\$23.3	370	0.96x	11.8x	12.1
1/24/2012	Auburn Regional Medical Center	Multicare	Confidential						
12/12/2011	MetroSouth Medical Center	Community Health Systems	\$44.2	\$155.4	(\$6.4)	330	0.28x	NM	N/A
11/20/2011	Parkway Medical Center Acquisition	Huntsville	\$21.0	\$45.4	(\$0.2)	120	0.46x	NM	N/A
10/27/2011	Twin County Regional	Duke LifePoint	\$20.5	\$44.5	(\$0.8)	141	0.46x	NM	21.3
9/29/2011	Bay Medical	Sacred Heart/LHP	\$154.0	\$291.2	\$21.9	323	0.53x	7.0x	9.8
7/28/2011	Tomball Regional Medical Center	Community Health Systems	\$225.3	\$147.8	\$13.0	358	1.52x	17.3x	11.0
7/25/2011	Maria Parham Medical Center	Duke LifePoint	\$57.9	\$99.9	\$8.6	102	0.58x	6.7x	10.7
7/5/2011	Moses Taylor Health Care System	Community Health Systems	Confidential						
3/29/2011	Morton Hospital and Medical Center	Steward Health Care	\$179.5	\$131.5	\$9.7	154	1.37x	18.4x	17.3
3/18/2011	St. Joseph Medical Center	Iasis Healthcare	\$156.8	\$245.0	N/A	792	0.64x	N/A	N/A
2/22/2011	Health Central	Orlando Health	\$181.3	\$135.9	\$15.5	171	1.33x	11.7x	N/A
11/1/2010	Victor Valley Community Hospital	KPC Group	\$28.0	\$60.7	\$3.4	101	0.46x	8.3x	18.8
10/1/2010	Bluefield Regional Medical Center	Community Health Systems	\$48.0	\$96.0	N/A	240	0.50x	N/A	N/A
9/10/2010	Brim Holdings	Iasis Healthcare	\$95.0	\$120.0	N/A	385	0.79x	N/A	N/A
9/5/2010	Forum Health	Community Health Systems	\$120.0	\$396.8	\$20.4	735	0.30x	5.9x	13.4
8/16/2010	Caritas Christi Health Care	Cerberus Capital Management	\$495.0	\$1,500.0	NM	650	0.33x	N/A	15.3
8/16/2010	Prospect Medical Holdings	Leonard Green & Parnters	\$336.8	\$468.2	\$56.0	N/A	0.72x	6.0x	N/A
7/29/2010	Rockingham Memorial Hospital	Sentara Healthcare	\$275.0	\$308.0	\$12.7	238	0.89x	21.7x	3.8
7/27/2010	Wuesthoff Health System	Health Management Associates	\$152.0	\$290.0	N/A	406	0.52x	N/A	13.1
6/4/2010	Bert Fish Medical Center	Adventist Health System	\$80.0	\$82.7	\$5.9	112	0.97x	13.6x	N/A
5/27/2010	Shands HealthCare Hospitals	Health Management Associates	\$21.5	\$43.0	N/A	139	0.50x	N/A	N/A
5/24/2010	Coffee Health Group	RegionalCare Hospital Partners	\$142.6	\$192.6	(\$1.1)	536	0.74x	NM	16.4
5/20/2010	Clinton Memorial Hospital	RegionalCare Hospital Partners	\$82.0	\$106.0	\$7.0	95	0.77x	11.8x	N.A
5/3/2010	Sumner Regional Health Systems	LifePoint	\$145.0	\$158.7	(\$6.9)	268	0.91x	NM	5.6
7/6/2009	Jewish Hospital	Catholic Health Partners	\$193.0	\$228.4	\$48.5	209	0.84x	4.0x	11.5

Mean	0.72x	10.6x
Median	0.71x	10.7x
High	1.52x	21.7x
Low	0.28x	4.0x

## **Appendix A: Additional Profiles**

## Additional Profiles

### Billings Clinic



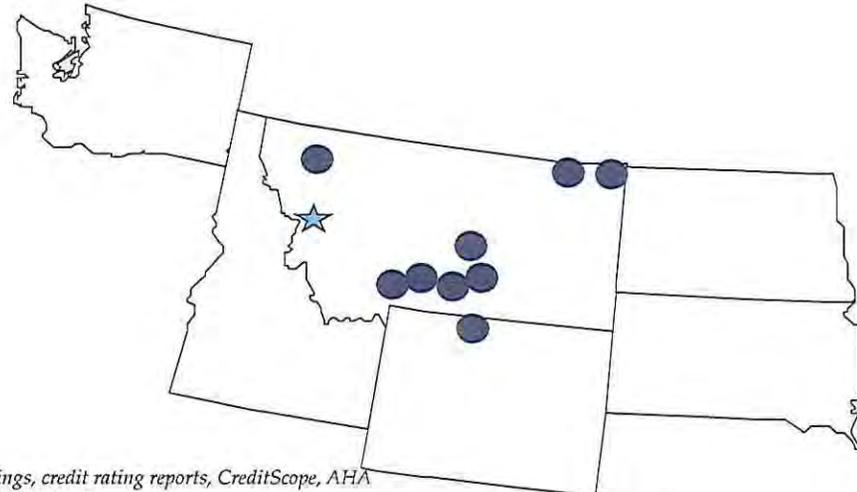
#### Overview

- 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<sup>(1)</sup>: \$506.2 million
- FY 2012 EBITDA<sup>(1)</sup>: \$55.0 million
- Ratings: NA/NA/NA

#### Regional Geographic Footprint<sup>(2)</sup>



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