# Exploring Strategic Alternatives in an Era of Mergers and Acquisitions and Private Equity

Moderator	Panelists		
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### **Today's Discussion Topics**

- · Acute care hospital trends and hospital mergers & acquisitions activity
- Implications of a sale, merger, joint venture, divestiture, clinical affiliation, and private equity investment in the context of broader market forces
- Key internal processes, analyses, and decision points to be undertaken by a Board and senior management when exploring strategic alternatives
- Key valuation methods
  - Public Multiples and Prior Transactions
  - Discounted Cash Flows
- Transaction structuring alternatives with specific case study examples
  - Sale and Recapitalizations
  - Equity and Debt Investments
- Structured process approaches for the evaluation and execution of a successful transaction



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### **Trends in the Acute Care Hospital Sector**

#### Sector Landscape

- Highly fragmented sector with ove 5,000 U.S. community hospitals, of which 58% are non-profit
- Physician shortages are expected to increase driven by the demand of a growing and aging population

#### Impact of Healthcare Reform

- Increased insured patient base
- Lower Medicare and Medicaid reimbursement rates
- As ACOs are established, hospitals will be targeting quality outcomes
   and cost officiencies

#### Reimbursement /Cost Trends

- Medicaid rates remain the primary concern to the market as state budget deficits have led to discussions of steep payment rate cuts in several states.
- Healthcare care expenditures are expected to continue to increase over 6% per year

#### Financial Performance

- According to the AHA, 30.1% of al hospitals have negative operating margins, largely reflected in the non-profits (aggregate operating margin of the hospital industry is 4.4%).
- Hospitals have felt the effects of the weak economy which has driven softer volume trends and rising bad debt

#### Access to Capital

- Access to capital remains
   constrained for smaller hospitals
- Risk of municipal bond defaults loom
- New spending requirements, especially for information technology, will increase the need for capital

#### **Challenges and Alternatives**

- Economic uncertainty remains high unemployment and low GDP growth
- Need for funding and cost efficiencies will drive hospitals to seek alternatives
- Large hospital systems and private equity firms are acquisitive and alternative structures, such as JVs, are becoming prevalent



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Acute Care Hospital Sector Trends

### **Aging Population Will Create Demand for Healthcare**

### **Growth of an Aging Population**

- In 2010, the U.S. Census estimated that approximately 40.2 million individuals were at least 65 years old
- This population is expected to grow to nearly 47 million by 2015 and to almost 55 million by 2020, equating to fiveyear CAGRs of 3.1% and 3.2%, respectively
- The anticipated growth for the population of individuals over the age of 65 is expected to outpace overall
  population growth
  - This demographic also accounted the largest group of hospital utilization, accounting for roughly 37% of total discharges in 2007
- The accelerated growth of the 65+ age bracket will create a larger percentage of the U.S. population over 65 years old, moving from 13% in 2010 to a projected 20% by 2050



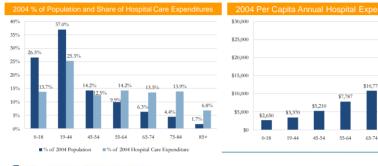
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Source: U.S. Census Bureau

### **Hospital Expenditures Increase Dramatically With Age**

### Aging Population Effects on Hospital Care Expenditures

- Growth in the older population is particularly relevant because of their disproportionate share in hospital expenditures
- In 2004, the 65+ age bracket accounted for only 12.4% of the total population, yet they accounted for 34% of hospital care expenditures
  - This translates to approximately \$5,400 in spend per person over 65 years of age
  - A person younger than 65 spent only \$1,500 on average during this same time period
- Given the projected growth trends of this older demographic, it is evident that an aging population will also lead to increased hospital expenditures that account for the higher average spend



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Source: Centers for Medicare and Medicaid Services (CMS)

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#### Acute Care Hospital Sector Trends

### **Sector Landscape**

#### Hospital Sector Overview

- The hospital industry is a highly fragmented, localized industry where the largest provider accounts for only 6% of total hospital spend, and the current publicly traded hospital providers only account for a combined 4.3% of the market share (as measured by total revenues)
- At year end 2010, there were 4,985 community hospitals, of which 2,904 (58%) were non-profit, 1,013 (20%) were controlled by state and local governments and 1,068 (21%) were investor owned
- The number of hospitals has steadily declined since 1981 to about 5,000 hospitals; total number of beds has followed a similar trend, stabilizing at approximately 805,000 beds in 2010
- Declines in the number of hospitals are likely to resume due to ongoing economic pressures and sector trends that
  are spurring consolidation



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Source: American Hospital Association (AHA,

### **Sector Health Systems**

### Health System Profiles by Number of Staffed Beds

Ons) Company	Ownership	Headquarters	Number of Hospitals <sup>1</sup>	Staffed Beds	Net Revenu
HCA	For-Profit	Nashville, TN	164	41,472	\$30,0
Community Health Systems	For-Profit	Franklin, TN	130	19,372	12,5
Tenet Healthcare Corp.	For-Profit	Dallas, TX	49	13,428	9,
Health Management Associates	For-Profit	Naples, FL	59	8,864	5.
New York-Presbyterian Healthcare System	Non-Profit	New York, NY	22	8,602	3.
LifePoint Hospitals	For-Profit	Brentwood, TN	52	5,915	3
Universal Health Services	For-Profit	King of Prussia, PA	200	5,689	5
North Shore-Long Island Jewish Health System	Non-Profit	New York, NY	15	5,526	5
Sutter Health	Non-Profit	Sacramento, CA	27	4,507	
Vanguard Health Systems	For-Profit	Nashville, TN	10	4,135	3
Banner Health	Non-Profit	Phoenix, AZ	22	4,086	4
BJC HealthCare	Non-Profit	St. Louis, MO	12	3,259	3
UPMC	Non-Profit	Pittsburgh, PA	20	3,172	8
Mayo Clinic	Non-Profit	Rochester, MN	21	3,080	7
Memorial Hermann Healthcare System	Non-Profit	Houston, TX	7	2,970	
IASIS Healthcare	For-Profit	Franklin, TN	14	2,877	2
MedStar Health	Non-Profit	Columbia, MD	8	2,738	3
Intermountain Healthcare	Non-Profit	Salt Lake City, UT	21	2,485	
Ardent Health Services	For-Profit	Nashville, TN	8	1,368	1
Prime Healthcare Services	For-Profit	Ontario, CA	12	2,365	1
Capella Healthcare	For-Profit	Franklin, TN	13	1,507	
Pioneer Behavioral Health	For-Profit	Peabody, MA	5	300	
Kindred Healthcare	For-Profit	Louisville, KY	64	n/a	4
Reliant Healthcare	For-Profit	Birmingham, AL	2	n/a	

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Source: Modern Healthcare, Walf Street research umber (acute-care, long-term acute-care, psychiatric or rehabilitation) that are owned, leased or sponsored at year-end fiscal 201 9

Acute Care Hospital Sector Trends

### **Impact of Healthcare Reform**

#### Impact of Healthcare Reform on the Hospital Industry

By January 1, 2014, an estimated 32 million uninsured Americans will be required to have insurance, which will reduce bad debt and uncompensated care; however, the legislation cuts \$500 billion from Medicare, including more than \$150 billion in payment reductions to hospitals and other facilities

Pending legal action could have a material impact on the forecasts and projections surrounding Healthcare Reform.

All of the data in this section presumes that Patient Protection and Affordable Care Act remains in its current form

Lower Medicare and Medicaid Reimbursement

- Market basket adjustments for annual inflation update (forecasted rate that Congress uses as a benchmark to determine suitable rate increases for Medicare payments to hospitals) will be reduced each year beginning in 2014 (0.3% or \$11.3 billion) until 2019 (0.75% or \$40.5 billion)
- Reduction in disproportionate share hospital (DSH) payments (payments to hospitals that care
  for a disproportionately high number of uninsured and Medicaid patients), beginning in 2014
  - A hospital's Medicare DSH payment will be reduced by 75%; reduction will occur in subsequent fiscal years but could be adjusted up for hospitals who continue to care for large amounts of uninsured patients
  - Largest percentage reductions for Medicaid DSH payments will be applied in states with the lowest number of uninsured (estimated that ~23 million Americans will still be uninsured)
- Beginning in 2015, Medicare will reduce payment by 1% for certain hospitals for select hospital-acquired conditions (e.g. infections)
- Medicare will no longer pay for certain hospital readmissions beginning October 2012

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### Impact of Healthcare Reform (continued)

#### Impact of Healthcare Reform on the Hospital Industry

Due to cost pressures, hospitals that are unable to adapt to a changing market environment in the wake of healthcare reform will be forced to explore strategic alternatives such as a sale or partnership to meet capital requirements and enhance operations

### Value-based Purchasing Program

- Beginning in October 2012, the Medicare value-based purchasing program will begin to measure hospitals based on efficiency, patient satisfaction and the quality of care around certain conditions and procedures
- The program will give hospitals the opportunity to earn back some of their reductions based on their performance

### Formation of

- Formulated to create hospital and physician collaboration to manage care, improve outcomes and control costs within a defined geographical area for a defined group of Medicare patients
- Will allow providers organized as such and that voluntarily meet quality thresholds to share in cost savings

## Tax-exempt Qualification Changes

- New qualifications for hospitals to qualify for tax-exempt status (historically based upon the "community benefit" standards): 1) community health needs assessment, 2) financial assistance policy, 3) limitations on charges and 4) billing and collections
- All of the above will result in increased administrative costs and significant taxation if a
  hospital fails to meet any of these requirements

#### Additional Reform Changes

- Further increased costs for hospitals due to: 1) provider screening and enhanced oversight
  requirements (to reduce waste, fraud and abuse in Medicare and Medicaid) and 2) enhanced
  data collection and reporting requirements (e.g. EMR)
- Other reimbursement changes will come as recommendations from an Independent Advisory Payment Board



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#### Acute Care Hospital Sector Trends

# Positives and Negatives of Healthcare Reform

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Total (\$)	Impact
Coverage improvements											
Additional insured				19	25	30	31	31	32	32	+
Additional Medicaid/CHIP (mil)				10	15	17	16	16	16	16	+
Payment cuts											
Medicare/Medicaid DSH				(1)	(4)	(5)	(7)	(9)	(11)	(37)	(-)
Medicare FFS rate reduction (\$)	(1)	(5)	(9)	(13)	(19)	(25)	(33)	(41)	(51)	(196)	(-)
Market basket rate cuts (%)	(0.25)	(1.40)	(1.40)	1.60	1.50	1.50	2.05	2.05	2.05		
DSH payment cuts				(1)	(4)	(5)	(7)	(9)	(11)	(36)	(-)
Medicare					(4)	(4)	(5)	(4)	(5)	(22)	(-)
Medicaid				(1)	(1)	(1)	(2)	(5)	(6)	(14)	(-)
SGR Medicare physician rate	(23.5%)										TBD
Increased taxes/fees											
Hospital insurance tax (\$)		(1)	(21)	(17)	(29)	(33)	(35)	(37)	(39)	(212)	(-)
Part D Doughnut Hole Rebate											Neutral
Medicare payroll tax (%)			2.35								TBD
Excise tax (%)								40			TBD
0.1											
Other initiatives/penalties											
Linking pay to quality		_	-	-	-	-	-	-	-	-	TBD
Re-admission rate penalties (\$)			(0.1)	(0.3)	(1.1)	(1.3)	(1.3)	(1.4)	(1.5)	(7.0)	TBD
Physician payment program					-	-	-	-	-	-	TBD
Hospital payment bundling	-	-	-	-	-	-	-	-	-	-	TBD
Acquired infection penalty (\$)					(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(1.4)	TBD

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Source: Wall Street research, CBO, CMS

### **Healthcare Reform Implementation Timeline**

Implementation Timeline

#### 2011

- Center for Medicare & Medicaid Innovation established to test innovative payment and service delivery models to reduce health care costs and enhance quality
- 2011 Medicare Advantage payment benchmarks frozen at 2010 levels
- Phase down of Part-D coinsurance to 25%
- Medicare quality measures published (annual thereafter)
- Medicare cuts to ambulance, certain DME, ASCs, clinical laboratories, LTACH, IRF and home health agencies

#### 2012

- ACO demonstrations begin
- Medicare value-based purchasing program begins to measure hospitals on quality of care, efficiency and patient satisfaction; determines its incentive payments
- CMS to track hospital readmission rates for certain conditions and implement payment penalties
- Begin Medicare cuts to inpatient, outpatient, SNF, IRF, psychiatric hospital, dialysis and LTACH payments

#### 2013

- Continued Medicare cuts to inpatient, outpatient, SNF, IRF, psychiatric hospital, dialysis and LTACH payments
- Establishes pay-forreporting program for IRFs, LTACHs, hospices and psychiatric hospitals; noncompliance results in 2% reduction in market basket updates
- Establishes pay-forreporting program for freestanding and unitbased inpatient psychiatric hospitals
- Mandatory quality reporting program begins for prospective payment system-exempt cancer hospitals

#### 2014

- Continued Medicare cuts to inpatient, outpatient, IRF, psychiatric hospital payments
- Medicare DSH payments reduced by 75%; reductions are tied to coverage
- Reduction to states' Medicaid DSH payments; reductions are not directly triggered by coverage targets
- Medicaid adult quality reporting program begins
- State insurance exchanges created and insurance coverage required
- Health plans can no longer exclude coverage for treatments based on preexisting conditions



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### Acute Care Hospital Sector Trends

### **Reimbursement Pressures**

#### Reimbursement Trends

- Rising unemployment has created a shift amongst the unemployed from commercial plans to Medicaid plans (some also becoming uninsured), thus negatively impacting the average reimbursement to hospitals as a result
- Lower Medicare and Medicaid reimbursement rates and rising rates from commercial payors are creating a challenging environment for hospitals
  - Providers will likely shift away from fee-for-service models which encourages volumes over outcomes, towards a quality-linked model as stipulated by the ACO draft regulations and healthcare reform mandates
  - The government is moving from being a passive payer to a more active purchaser, indicating that hospitals will increasingly earn reimbursement based on outcomes, quality and patient satisfaction
- Medicare has announced that it will be experimenting with episodic and global payments, meaning that hospitals
  that can align interests with physicians could be rewarded under these new programs



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Source: MedPac

1) Includes Medicaid DSH payments
Source: Avalere Health analysis of American Hospital Association Annual Survey Data 2009

### **Hospital Care Expenditures Will Continue to Rise**

### **Rising Costs of Hospital Care**

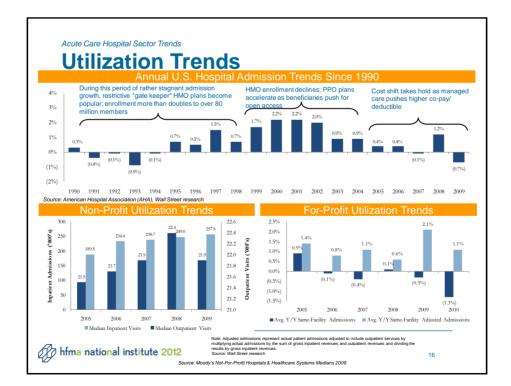
- U.S. hospital care expenditures totaled \$759.1 billion in 2009, up 5.1% from 2008 and account for 31% of total healthcare expenditures, the single largest component of healthcare spending
  - Total healthcare expenditures in the U.S. grew to \$2.5 trillion in 2009, accounting for 17.6 % of GDP
- Hospital expenditures are projected to increase to \$1.4 trillion by 2019, which represents at 6.1% 10-year CAGR, in line with the growth in national healthcare expenditures
- Growth trends in hospital care expenditures are likely to continue increasing beyond inflation rates due to the fact
  that the sheer size and reputations of the nation's largest hospitals gives them strong leverage in negotiating rates
  with insurers





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Source: Centers for Medicare and Medicaid Services (CMS)



### **Hospital Department Outsourcing**

	Outsourced	Outsourcing
Department	Facilities	Firms
Laundry	4,425	5
Emergency departments (hospital-based)	1,255	10
Hospital call centers	681	3
Clinical/diagnostic equipment maintenance	590	4
Information systems	493	5
Pharmacy	467	4
Housekeeping	241	5
Medical Records	232	4
Anesthesia	222	2
Security	207	4
Parking	179	3
Marketing	132	1
Accounts Receivable	122	3
Psychiatric	95	2
Reimbursement	58	1
Facility operations/equipment maintenance	56	3
Nursing staff	41	2
Rehabilitation	41	1
Managed care	37	1
Other <sup>1</sup>	1,734	14

Company	Ownership	Clients
1 Angelica Corp.	Private	4,123
2 Healthcare Services Group	Public	2,945
3 ABM Industries	Public	1,084
4 HSS	Private	889
5 EmCare	Private	727
6 DaVita	Public	701
7 Biotronic NeuroNetwork	Private	567
8 Beryl Cos.	Private	545
9 Crest Services	Private	515
10 TeamHealth	Public	499
11 SpecialtyCare	Private	493
12 Dell Services	Public	394
13 Unitex	Private	352
14 Modern Biomedical & Imaging	Private	317
15 Comprehensive Pharmacy Services	Private	302
16 Precyse Solutions	Private	203
17 Conifer Health Solutions	Private	191
18 Schumacher Group	Private	180
19 MileStone Healthcare	Private	155
20 SironaHealth	Private	150

hfma national institute 2012 Source: Modern Healthcare (1) Other category includes hospitalists, wound care and more

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Acute Care Hospital Sector Trends

### Financial Performance - Non-Profit Hospitals

- Revenue growth of not-for-profit hospitals has slowed substantially due to the economic downturn and decreased patient volumes
  - 2009 represented the first time in since 2006 that revenue growth outpaced expense growth
- Although operating margins have also decreased over the past few years, they rebounded in 2009 due to aggressive cost reduction policies, including layoffs and salary/benefit reductions
  - These methods only represent a temporary solution and will not continue to be viable
- Depressed margins have led to liquidity and cash flow problems for not-for-profit hospitals over the last several
  - Lack of access to affordable capital and the impact of healthcare reform mandates will likely continue this trend in the future, forcing these underperforming non-profits to seek strategic alternatives

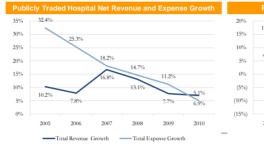


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### Financial Performance - For-Profit Hospitals

### For-Profit are Well Positioned for Growth in a Consolidating Industry

- Both revenue and expense growth have been trending down over the past several years with 2010 being the first time in over five years that revenue growth outpaced expense growth
- Currently, the hospital industry as a whole is growing revenues at approximately 3-5% and costs at approximately 2%; for-profit hospitals are above the industry average
  - Hospitals report a net revenue number, which is after contractual allowances, charity care and uninsured discounts
- Margins have expanded slightly over the past few years, and this trend is likely to continue as the well positioned, well capitalized, more efficient providers (mostly for-profits) will continue to take market share from the weaker non-profit hospitals.
  - The operational mindset and margin profile of the non-profits and for-profit hospitals is markedly different





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Source: Capital IQ, Company disclosure

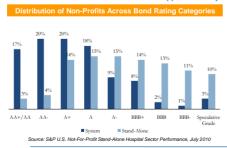
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Acute Care Hospital Sector Trends

### **Lack of Access to Capital**

#### **Heightened Capital Constraints of Non-Profits**

- Many hospitals are struggling to attract capital on a reasonable basis which has them turning to alternate sources
  of funding, including private equity, sales and partnerships
- The municipal bond market has been difficult for hospitals' borrowing needs, heightened after analysts warned last fall that there will be a coming wave of municipal defaults
- Large hospital systems have greater access to capital and better operating margins than stand-alone hospitals
- New technology requirements mandated by healthcare reform legislation to monitor, manage and report patient outcomes creates a need for capital
  - Certain requirements such as electronic medical records will require extensive information systems and the need to build new infrastructure to support these systems





Source: Healthcare Financial Management Association, March 2011



### **Challenges and Alternatives**

- Many hospitals are struggling to attract capital on a reasonable basis due to poor performance and difficulties in the municipal bond market
- Funding requirements mandated by healthcare reform as well as reimbursement pressures will further spur a need
- Challenging economic environment has hindered growth and increased unemployment, leading to a higher uninsured population which contributes to increased bad debt expenses for hospitals

### **Alternatives**

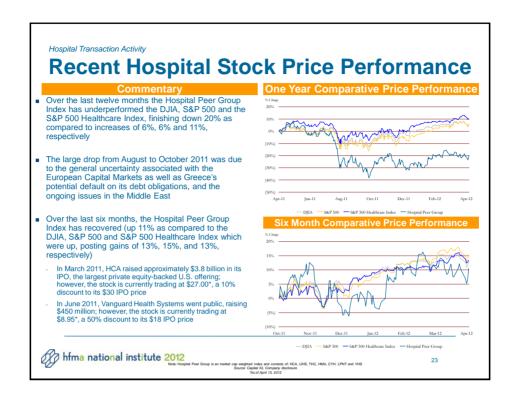
- Private Equity Interest
  - PE firms can provide capital to hospitals to support ongoing funding needs as well as to increase efficiency and margins
  - Well-managed hospitals see an opportunity to buy distressed hospitals but first need the funds to do so (e.g., in March 2011 IASIS Healthcare backed by TPG Capital, JLL Partners and Trimaran Fund Management, agreed to buy a majority stake in St. Joseph Medical Center in Houston, as part of Ch. 7 bankruptcy of the hospital's majority owner)
  - Larger and lower rated hospital systems are in need of capital as well
- Strategic Interest from Payors and Large Hospital Systems
  - Insurance companies have started to make forays into the acquiring hospitals with the goal of bringing efficiencies through integration and significantly reducing the cost structure of hospitals (e.g. Highmark acquiring West Penn Allegheny)
  - Large hospital systems are also accelerating their acquisition pace (e.g. HMA acquiring Mercy Health Partners in TN)
- Formation of Joint Ventures
  - Becoming increasingly common as they provide benefits for both parties and allow both to keep their identity
  - Several have recently been announced including: Duke University Health System / LifePoint Hospitals (January 2011), Ascension Health / Oak Hill Capital Partners (February 2011), and LHP Hospital Group / Saint Mary's (March 2011)

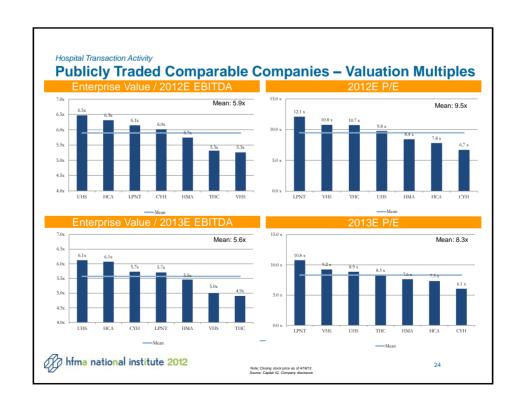


### 2. Hospital Transaction Activity



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# **Publicly Traded Comparable Companies' Operating Metrics**

(\$ in millions, except per share data)		% of									
	Price	52-Wk			Enterprise		2012E			2013E	
Company	4/18/2012	High	Market Cap	Net Debt	Value (EV)	Revenue	EBITDA	E.P.S.	Revenue	EBITDA	E.P.S.
HCA Holdings, Inc.	\$27.60	78.0%	\$12,094	\$26,998	\$40,336	\$35,114	\$6,392	\$3.53	\$36,836	\$6,644	\$3.77
Universal Health Services Inc.	43.07	76.3%	4,166	3,657	8,092	7,655	1,251	4.41	8,020	1,322	4.80
Tenet Healthcare Corp.	5.44	71.4%	2,245	4,247	6,577	9,842	1,237	0.51	10,294	1,341	0.60
Community Health Systems, Inc.	23.83	58.0%	2,106	8,971	11,540	13,992	1,919	3.56	14,742	2,014	3.94
Lifepoint Hospitals Inc.	39.36	90.6%	1,895	1,471	3,407	3,625	555	3.25	3,831	597	3.65
Health Management Associates Inc.	7.44	63.4%	1,893	3,551	5,460	6,402	951	0.88	6,762	1,000	0.98
Vanguard Health Systems Inc.	8.95	48.2%	688	2,166	2,913	6,142	554	0.83	6,269	583	0.97
Median		71.4%	\$2,106	\$3,657	\$6,577	\$7,655	\$1,237		\$8,020	\$1,322	
Mean		69.4%	3,584	7,294	11,189	11,825	1,837		12,393	1,929	
High		90.6%	12,094	26,998	40,336	35,114	6,392		36,836	6,644	
Low		48.2%	688	1,471	2,913	3,625	554		3,831	583	

	varaano	ii ana i	-01010	jo otat	101100		Le	Leverage Statistics		
	EV / EF	BITDA	Price / E	arnings	Growth (2	012 - 2013)	EBITDA /	Debt /	Debt /	
Company	2012E	2013E	2012E	2013E	Revenue	EBITDA	Interest	EBITDA	Mkt Cap	
HCA Holdings, Inc.	6.3 x	6.1 x	7.8 x	7.3 x	4.9%	4.0%	2.9 x	4.7 x	227.0%	
Universal Health Services Inc.	6.5 x	6.1 x	9.8 x	8.9 x	4.8%	5.7%	6.3 x	3.1 x	88.8%	
Tenet Healthcare Corp.	5.3 x	4.9 x	10.7 x	8.3 x	4.6%	8.4%	3.1 x	3.8 x	194.2%	
Community Health Systems, Inc.	6.0 x	5.7 x	6.7 x	6.1 x	5.4%	5.0%	2.8 x	5.1 x	n/m	
Lifepoint Hospitals Inc.	6.1 x	5.7 x	12.1 x	10.8 x	5.7%	7.7%	4.9 x	3.0 x	84.3%	
Health Management Associates Inc.	5.7 x	5.5 x	8.4 x	7.6 x	5.6%	5.2%	3.4 x	4.5 x	197.4%	
Vanguard Health Systems Inc.	5.3 x	5.0 x	10.8 x	9.2 x	2.1%	5.3%	2.6 x	4.7 x	n/m	
Median	6.0 x	5.7 x	9.8 x	8.3 x	4.9%	5.3%	3.1 x	4.5 x	194.2%	
Mean	5.9 x	5.6 x	9.5 x	8.3 x	4.7%	5.9%	3.7 x	4.1 x	158.3%	
High	6.5 x	6.1 x	12.1 x	10.8 x	5.7%	8.4%	6.3 x	5.1 x	227.0%	
Low	5.3 x	4.9 x	6.7 x	6.1 x	2.1%	4.0%	2.6 x	3.0 x	84.3%	

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Note: Stock price as of 4/18/12 Source: Capital IQ, Company disclosure 25

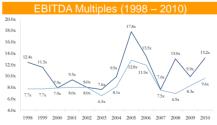
Hospital Transaction Activity

### **Hospital M&A Valuations**

#### Valuation Summary

- Over the past decade, hospital transactions have remained fairly strong; however, there has been a dramatic rebound in M&A activity in the sector over the past 18 months
- Hospital M&A valuations as measured by transaction multiples of revenue and EBITDA (proxy for cash flow) spiked in 2005 and then generally declined though 2009
- In 2010, multiples increased due to renewed interest in M&A activity coupled with low borrowing costs
   Deals have included large hospital systems and small systems as well as single hospitals
- Recent market conditions have put some downward pressure on valuations driven by the reimbursement environment and increased levels of bad debt and charity care





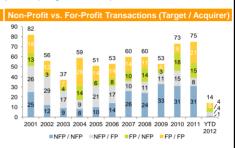
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Source: Wall Street research; Irving Levin Associates, Inc.

### **Hospital M&A Activity**

- The widening gap between well capitalized larger systems and smaller community hospitals will accelerate acquisition activity; leveraging scale and local market position will become increasingly important as ways to drive
- M&A may provide bolt-on earnings contributions as organic growth will likely be more difficult due to challenges from a changing reimbursement paradigm and/or slow pricing power erosion
- Non-profit hospitals continue to have a substantial role in transaction activity, accounting for almost 50% of the acquirors in transactions and 78% as either the acquirer or target since 2001
  - The predominant type of transaction has been a non-profit acquiring another non-profit

# NFP / NFP FP / NFP



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Note: YTD includes data through 4/30/2011 Source: Irving Levin Associates, Inc.

Source: Irving Levin Associates. Inc., Modern Healthcare

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### **Recent Pace of Industry Consolidation Continues**

- Hospital M&A activity remained very strong in 2011 with 75 deals announced for a deal value of \$5.3 billion after a record year of 77 deals in 2010 with \$12.6 billion in deal volume; 2012 has begun with 14 transactions announced
- The M&A landscape remains highly attractive as publicly traded hospital systems' balance sheets have improved dramatically and credit markets remain generally attractive; however, the non-profits continue to struggle with access to capital, creating a bifurcated competitive landscape
- Private equity as well as private-equity-backed hospital systems have shown an increasing interest in hospitals and have become a good alternate source of much needed capital for the sector
  - In 2010, Cerberus acquired Caritas Christi and Vanguard acquired Detroit Medical Center
  - The recent appetite for hospital acquisitions by private equity has been spurred by an increased availability of leverage and the desire for platform growth through add-on acquisitions of hospital systems



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Source: Irving Levin Associates, Inc, Modern Healthcare

## **Transaction Activity for 2011 and Q1 2012**

Date	Buyer	Seller	State	Hospitals/Staffed beds	Value	Type
Mar 2012	Prime Healthcare Services, Inc., CA (FP)	St. Mary's Regional Medical Center, Inc., Enid, OK (FP)	California	232-bed St. Mary's Regional Medical Center, Enid	n.d.	Acquisition
Mar 2012	Hudson Hospital Holdco LLC, PA (FP)	Christ Hospital, Inc., Cincinnati, OH (FP)	Pennsylvania	555-bed Christ Hospital, Cincinnati	\$45.3	Acquisition
Mar 2012	Ascension Health, Inc, Edmundson, MO (NFP)	Daughters of Charity Health System, CA (NFP)	Missouri	1662-bed Daughters of Charity Health System	n.d.	Acquisition
Mar 2012	U.S. Healthworks, Inc., Gilroy, CA (FP)	Florida Hospital, An Occupational Health Center (NFP)	California	An occupational hospital in Flordia	n.d.	Acquisition
Mar 2012	DLP Healthcare, LLC, Brentwood, TN (FP)	Marquette General Hospital, Inc., Marquette, MI (NFP)	Tennessee	315-bed Marquette General Hospital, Marquette	n.d.	Acquisition
Feb 2012	Prime Healthcare Services, Inc., CA (FP)	Roxborough Memorial Hospital, Philadelphia, PA (FP)	California	141-bed Roxborough Memorial Hospital, Philadelphia	n.d.	Acquisition
Feb 2012	Altru Health System, Grand Forks, ND (NFP)	Doctors Hospital-Grand Forks LLC, ND (FP)	North Dakota	262-bed Doctors Hospital Grand Forks, Grand Forks	n.d.	Acquisition
Feb 2012	Wesley Medical Center, Wichita, KS (FP)	Galichia Heart Hospital LLC, Wichita, KS (FP)	Kansas	82-bed Wesley Medical Center, Wichita	n.d.	Acquisition
Feb 2012	Hackensack University Medical Center, Hackensack, NJ (NFP)	Merit Mountainside, LLC, Glen Rich, NJ (FP)	New Jersey	365-bed Merit Mountainside, Glen Rich	n.d.	Acquisition
Jan 2012	Community Health Systems, Inc., TN (P)	Memorial Hospital, Jacksonville, FL (FP)	Tennessee	1558-bed Memorial Hospital, Miami	n.d.	Acquisition

Hospital Transaction Activity

### **Transaction Activity for 2011 and Q1 2012**

(\$ in millions					Transaction	
Date	Buyer	Seller	State	Hospitals/Staffed beds	Value	Type
Jan 2012	Lovelace Health Systems, Inc., NM (FP)	Roswell Regional Family Care, LLC, NM (FP)	New Mexico	26-bed Roswell Regional Family Care, Roswell	n.d.	Acquisition
an 2012	Mercy Defiance Hospital, Defiance, OH (NFP)	Defiance Hospital, Inc., Defiance, OH (FP)	Ohio	23-bed Defiance Hospital, Defiance	n.d.	Joint ventur
Jan 2012	South Jersey Health Systems, NJ (FP)	Underwood Memorial Hospital Inc, Woodbury, NJ (NFP)	New Jersey	65-bed Underwood Memorial Hospital, Woodbury	n.d.	Aαquisition
Jan 2012	Cornerstone Healthcare Group Holding, Inc., Dallas, TX (FP)	Christus Dubuis Hospital, TX (NFP)	Texas	225-bed Christus Dubuis Hospital, TX	n.d.	Acquisition
Dec 2011	Emory Healthcare, Atlanta (NFP)	Catholic Health East, Newtown Square, PA (NFP)	Georgia	294-bed St. Joseph's Hospital, Atlanta, and 50% of 72-bed Emory Johns Creek (GA) Hospital	n.d.	Joint ventur
Dec 2011	Sanford Health, Sioux Falls, SD (NFP)	North Country Health Services, Bemidji (NFP)	Minnesota	118-bed North Country Regional Hospital, Bernidji	\$75.0	Aαquisition
Dec 2011	Huntsville (AL) Hospital (P)	Capella Healthcare, Franklin, TN (FP)	Alabama	120-bed Parkway Medical Center, Decatur	\$17.5	Aαquisition
Dec 2011	Capella Healthcare, Franklin, TN (FP)	Private investors (FP)	Tennessee	44-bed White Country Community Hospital, Sparta, 60 bed Stones River Hospital, Woodbury, and 52-bed DeKalb Community Hospital, Smithville	n.d.	Aαquisition
Dec 2011	Phoebe Putney Memorial Hospital, Albany (NFP)	HCA, Nashville (FP)	Georgia	120-bed Palmyra Medical Center, Albany	\$198.0	Acquisition
Dec 2011	Cone Health, Greensboro (NFP)	Alamanœ Regional Medical Center, Burlington (NFP)	North Carolina	210-bed Alamance Regional Medical Center	n.d.	Acquisition



### **Transaction Activity for 2011 and Q1 2012**

Announced		0.11	Comme	TT 1:1 (0: 00 11 1	Transaction Value	T
Date	Buyer	Seller	State	Hospitals/Staffed beds		Type
Dec 2011	Ardent Health Services, Nashville, TN (FP)	Community Health Systems, Franklin, TN (FP)	Oklahoma	160-bed SouthCrest Hospital, Tulsa, and 89-bed Claremore (OK) Regional Hospital	n.c	. Acquisition
Dec 2011	Community Health Systems, Franklin, TN (FP)	Private investors (FP)	Illinois	281-bed MetroSouth Medical Center, Blue Island	n.c	. Acquisition
Dec 2011	Capella Healthcare, Franklin, TN (FP)	Asænsion Health, St. Louis (NFP)	Tennessee	Eight acute-care hospitals in Centerville, McMinnville, Murfreesboro, Nashville, Smithville, Sparta and Woodbury	n.c	. Joint venture
Dec 2011	Prime Healthcare Services, Ontario, CA (FP)	Medeath Corp., Charlotte, NC (FP)	Texas	88-bed Harlingen (Texas) Medical Center (34.8% stake) induding a 36.1% ownership in a realty business	\$9.0	Aαquisition
Nov 2011	Universal Health Services, King of Prussia, PA (FP)	Knapp Medical Center, Weslam (NFP)	Texas	202-bed Knapp Medical Center, Weslaco	n.c	. Acquisition
Nov 2011	Mercy, Chesterfield (NFP)	City of Carthage (P)	Missouri	35-bed McCune-Brooks Regional Hospital, Carthage (50-year lease.)	n.c	. Acquisition
Nov 2011	New Directions Health Systems, Louisville, KY (FP)	Community Health Systems, Franklin, TN (FP)	Texas	98-bed Cleveland (Texas) Regional Medical Center	\$0.9	Acquisition
Nov 2011	McLeod Health, Florence (NFP)	Loris (SC) Healthcare System (NFP)	South Carolina	105-bed Loris Community Hospital and 50-bed Seawast Medical Center, Little River	n.c	. Acquisition
Nov 2011	Nucterra Healthcare and Progressive Acute Care, Leawood, KS (FP)	Signature Healthcare, Houston (FP)	Texas	83-bed Pampa (Texas) Regional Medical Center	n.c	. Acquisition
Nov 2011	Baptist Healthcare System, Louisville (NFP)	Trover Health System, Madisonville (NFP)	Kentucky	197-bed Regional Medical Center, Madisonville	n.c	. Acquisition

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Source: 2012 data per Capital IO, 2011 data per Modern Healthcare. (FP) For-profit: (NFP) Not-for-profit: (P) Public: Seller category includes merger or swap partne

Hospital Transaction Activity

### **Transaction Activity for 2011 and Q1 2012**

(\$ in millions) Announced					Transaction	
Date	Buyer	Seller	State	Hospitals/Staffed beds	Value	Type
Nov 2011	Johns Hopkins Health System, Baltimore (NFP)	All Children's Hospital, St. Petersburg (NFP)	Florida	216-bed All Children's Hospital	n.:	a. Acquisition
Nov 2011	Baptist Health Systems, Jackson (NFP)	Leake Memorial Hospital, Carthage (P)	Mississippi	25-bed Leake Memorial	n.c	I. Acquisition
Nov 2011	Trinity Health, Novi, MI (NFP)	Mercy Hospital & Medical Center, Chicago (NFP)	Illinois	290-bed Mercy Hospital & Medical Center	n.c	l. Acquisition
Oct 2011	SSM Health Care, St. Louis (NFP)	Felician Services, Chicago (NFP)	Illinois	115-bed St. Mary's Hospital, Centralia	\$35.0	) Acquisition
Oct 2011	Fletcher Allen Health Care, Burlington (NFP)	Central Vermont Medical Center, Berlin (NFP)	Vermont	419-bed Fletcher Allen Health Care and 83-bed Central Vermont Medical	n.a	a. Merger
Oct 2011	Lowell (Mass.) General Hospitals (NFP)	Saints Medical Center, Lowell (NFP)	Massachusetts	187-bed Lowell General and 104-bed Saints Medical Center	n.c	l. Merger
Οα 2011	Providence Health & Services, Renton (NFP)	Swedish Health Services Seattle (NFP)	Washington	Seven hospitals in westem Washington: Centralia, Edmonds, Everett, Issaquah, Olympia and Seattle	n.c	l. Joint ventu
Oct 2011	University Health Care System, Augusta (NFP)	McDuffie Regional Medical Center, Thomson (P)	Georgia	33-bed McDuffie Regional Medical Center	n.a	a. Acquisition
Oct 2011	Cardiovascular Care Group, Nashville (FP)	Medcath Corp., Charlotte, NC (FP)	Louisiana	58-bed Louisiana Medical Center & Heart Hospital, Lacombe	\$33.0	) Aαquisition
Oct 2011	Steward Health Care System, Boston (FP)	Morton Hospital and Medical Center, Taunton (NFP)	Massachusetts	132-bed Morton Hospital and Medical Center	n.c	I. Acquisition

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Source: 2012 data per Capital IO, 2011 data per Modern Healthcare, (FP) For-profit; (NFP) Not-for-profit; (P) Public; Seller category includes merger or swap partners.

## **Transaction Activity for 2011 and Q1 2012**

Announced Date	Buyer	Seller	State	Hospitals/Staffed beds	Transaction Value	Type
Οα 2011	Health Management Associates, Naples, FL (FP)	** *	Mississippi	110-bed Tri-Lakes Medical		n.d. Joint venture
Oct 2011	Health Management Associates, Naples, FL (FP)	Integris Health, Oklahoma City (NFP)	Oklahoma	Five acute-care hospitals in Blackwell, Clinton, Madill, Pryor and Seminole		n.d. Joint venture
Sep 2011	Steward Health Care System, Boston (FP)	Quincy (MA) Medical Center (NFP)	Massachusetts	116-bed Quincy Medical Center		n.d. Acquisition
Sep 2011	Einstein Healthcare Network, Philadelphia (NFP)	Montgomery Hospital Medical Center, Norristown (NFP)	Pennsylvania	166-bed Montgomery Hospital Medical Center		n.d. Merger
Sep 2011	RegionalCare Hospital Partners, Brentwood, TN (FP)	Essent Healthcare, Nashville, TN (FP)	Multistate	226-bed Paris (TX) Regional Medical Center, 78-bed Sharon (CT) Hospital and 77-bed Southwest Regional Medical Center, Waynesburg, PA		n.d. Acquisition
Sep 2011	South Georgia Medical Center, Valdosta (P)	Ameris Health Systems, Nashville (FP)	Georgia	41-bed Smith Northview Hospital, Valdosta		n.d. Acquisition
Aug 2011	Kingman (AZ) Regional Medical Center (NFP)	Medeath Corp., Charlotte, NC (FP)	Arizona	70-bed Hualapai Mountain Medical Center, Kingman	ş.	42.0 Acquisition
ul 2011	Community Health Systems, Franklin, TN (FP)	Tomball (Texas) Regional Medical Center (NFP)	Texas	272-bed Tomball Regional Medical Center	\$20	06.0 Acquisition
ul 2011	Community Health Systems, Franklin, TN (FP)	Moses Taylor Health Care System, Scranton (NFP)	Pennsylvania	213-bed Moses Taylor Hospital, Scranton, and 25-bed Mid-Valley Hospital, Pedville		n.d. Acquisition
ul 2011	Geisinger Health System, Danville (NFP)	Community Medical Center, Scranton (NFP)	Pennsylvania	248-bed Community Medical Center		n.d. Acquisition

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Source: 2012 data per Capital IQ, 2011 data per Modern Healthcare, (FP) For-profit; (NFP) Not-for-profit; (P) Public; Seller category includes merger or swap partner

Hospital Transaction Activity

### **Transaction Activity for 2011 and Q1 2012**

(\$ in millions) Announced					Transactio	on
Date	Buyer	Seller	State	Hospitals/Staffed beds	Value	Type
Jul 2011	Capella Healthcare, Franklin, TN (FP)	Muskogee (OK) Regional Medical Center (FP)	Oklahoma	194-bed Muskogee Regional Medical Center		n.d. Acquisition
Jul 2011	Health Management Associates, Naples, FL (FP)	Catholic Health Partners, Cincinnati (NFP)	Tennessee	Seven hospitals in Jefferson City, Knoxville, LaFollette, Newport, Oneida and Powell, though the Oneida facility will drop from HMA control when its current		\$525.0 Acquisition
Jun 2011	Catholic Health Initiatives, Englewood, CO (NFP)	Nebraska Heart Hospital, Lincoln (FP)	Nebraska	52-bed Nebraska Heart Hospital		n.d. Acquisition
Jun 2011	Highmark, Pittsburgh (NFP)	West Penn Allegheny Health System, Pittsburgh (NFP)	Pennsylvania	Five acute-care hospitals in Canonsburg, Monroeville, Natrona Heights and Pittsburgh	ş	1,475.0 Acquisition
Jun 2011	Spectrum Health System, Grand Rapids (NFP)	Zeeland (MI) Community Hospital (NFP)	Michigan	52-bed Zeeland Community		n.d. Acquisition
Jun 2011	Geisinger Health System, Danville (NFP)	Bloomsburg (PA) Health System (NFP)	Pennsylvania	72-bed Bloomsburg Hospital		n.d. Acquisition
Jun 2011	HCA, Nashville (FP)	Colorado Health Foundation, Denver (NFP)	Colorado	Purchased 40% of six acute-care hospitals and one rehab hospital in Aurora, Denver, Englewood, Lone Tree and Thomton, giving HCA full ownership.	ş	1,450.0 Acquisition
Jun 2011	Bronson Healthcare Group, Kalamazoo (NFP)	Trinity Health, Novi, (NFP) and a local community group (NFP)	Michigan	211-bed Battle Creek (MI) Health System (Trinity sold 50% and community group sold 1%.)		n.d. Acquisition
Jun 2011	CentraCare Health System, St. Cloud (NFP)	St. Michael's Hospital and Nursing Home, Sauk Centre (P)	Minnesota	85-bed St. Michael's Hospital and Nursing Home		n.d. Acquisition
Jun 2011	Duke LifePoint Healthcare (FP)	Person Memorial Hospital, Roxboro (NFP)	North Carolina	50-bed Person Memorial Hospital		n.d. Acquisition

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Source: 2012 data per Capital IQ, 2011 data per Modern Healthcare, (FP) For-profit; (NFP) Not-for-profit; (P) Public; Seller category includes merger or swap partners.

### **Transaction Activity for 2011 and Q1 2012**

(\$ in millions) Announced Date		Seller	State	Hospitals/Staffed beds	Transaction Value	Type
Jun 2011	Mercy, Chesterfield (NFP)	Logan Medical Center, Guthrie (P)		25-bed Logan Medical Center		Acquisition
May 2011	Mayo Clinic Health System, Rochester (NFP)	Sisters of the Order of St. Benedict, St. Joseph (NFP)	Minnesota	25-bed Queen of Peace Hospital, New Prague	n.d.	Acquisition
May 2011	Agnesian Healthcare, Fond du Lac (NFP)	Ripon (WI) Medical Center (NFP)	Wisconsin	25-bed Ripon Medical Center	n.d.	Acquisition
May 2011	University of Maryland Medical Center, Baltimore (NFP)	Civista Health, La Plata (NFP)	Maryland	129-bed Civista Medical Center, La Plata	n.d.	Acquisition
May 2011	Acadia Healthcare Co., Franklin, TN (FP)	Pioneer Behavioral Health, Peabody, MA (FP)	Multistate	Eight hospitals in eight states	n.a.	Merger
May 2011	LifeCare Holdings, Plano, TX (FP)	HealthSouth Corp., Birmingham, AL (FP)	Multistate	Seven long-term acute-care hospitals in Florida, Las Vegas, Louisiana and Pennsylvania	\$117.5	Acquisition
May 2011	Steward Health Care System, Boston (FP)	Essent Healthcare, Nashville, TN (FP)	Massachusetts	90-bed Merrimack Valley Hospital, Haverill, and 42-bed Nashoba Valley Medical Center, Ayer	n.d.	Acquisition
May 2011	One Cura Wellness Trust, Irvine, CA (NFP)	First Physicians Capital Group, Beverly Hills, CA (FP)	Oklahoma	25-bed Physicians' Hospital in Anadarko (OK) and 17- bed Stroud (OK) Regional Medical Center	\$12.0	Acquisition
May 2011	AR-MED, Little Rock (FP)	Medcath Corp., Charlotte, NC (FP)	Arkansas	112-bed Arkansas Heart Hospital, Little Rock	\$73.0	Acquisition
May 2011	Ardent Health Services, Nashville, TN (FP)	Medeath Corp., Charlotte, NC (FP)	New Mexico	55-bed Heart Hospital of New Mexico, Albuquerque	\$119.0	Acquisition

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curce: 2012 data per Capital IQ, 2011 data per Modern Healthcare, (FP) For-profit; (NFP) Not-for-profit; (P) Public; Seller category includes merger or swap partner.

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#### Hospital Transaction Activity

## **Transaction Activity for 2011 and Q1 2012**

Announced					Transaction	
Date	Buyer	Seller	State	Hospitals/Staffed beds	Value	Type
May 2011	HUMC Holdeo, Bayonne, NJ (FP)	Hoboken (NJ) University Medical Center (P)	New Jersey	364-bed Hoboken University Medical Center	\$52.0	Acquisition
May 2011	Iasis Healthcare, Franklin, TN (FP)	Hospital Partners of America, Charlotte, NC (FP)	Texas	402-bed St. Joseph Medical Center, Houston (79% of hospital)	\$165.0	Acquisition
Apr 2011	Ascension Health, St. Louis (NFP)	Alexian Brothers Health System, Arlington Heights (NFP)	Illinois	365-bed Alexian Brothers Medical Center, Elk Grove Village; 255-bed St. Alexius Medical Center and 141-bed Alexian Brothers Behavioral Health Hospital, both in	Up to \$645.0	Acquisition
Apr 2011	Provena Health, Mokena (NFP)	Resurrection Health Care, Chicago (NFP)	Illinois	14 acute-care hospitals in Aurora, Chicago, Danville, Des Plaines, Elgin, Evanston, Kankakee, Joliet Park, Ridge and Urbana	n.d.	Merger
Apr 2011	Piedmont Healthcare, Atlanta (NFP)	Henry Medical Center, Stockbridge (P)	Georgia	215-bed Henry Medical Center	n.d.	Joint venture
Apr 2011	Baylor Health Care System, Dallas (NFP)	Select Medical Corp., Mechanicsburg, PA (FP)	Texas	87-bed Baylor Institute for Rehabilitation, Dallas, a 44- bed rehabilitation hospital that Select is building in Firsto and 30 outpatient rehab facilities	n.a.	Joint venture
Mar 2011	Yale-New Haven (CT) Hospital (NFP)	Hospital of St. Raphael, New Haven (NFP)	Connecticut	406-bed Hospital of St. Raphael	n.d.	Acquisition
Mar 2011	Avanti Hospitals, El Segundo (FP)	Coast Plaza Hospital, Norwalk (FP)	California	123-bed Coast Plaza Hospital	n.d.	Acquisition
Mar 2011	LHP Hospital Group, Plano, TX (FP)	St. Mary's Hospital, Waterbury, CT (NFP)	Connecticut	175-bed St. Mary's Hospital	n.d.	Joint venture
Mar 2011	Pioneer Behavioral Health, Peabody, MA (FP)	Universal Health Services, King of Prussia, PA (FP)	Delaware	53-bed MeadowWood Behavioral Health System, New Castle	n.d.	Acquisition

### **Transaction Activity for 2011 and Q1 2012**

Announceo Date	Buver	Seller	State	Hospitals/Staffed beds	Transaction Value	Type
Mar 2011	Trinity Health, Novi, MI (NFP)		Illinois	535-bed Loyola University Hospital and 234-bed Gottlieb Memorial Hospital, Melrose Park		Acquisition
Feb 2011	Upstate University Hospital, Syracuse (P)	Community-General Hospital of Greater Syracuse (NY) (NFP)	New York	192-bed Community General Hospital	n.a.	Acquisition
Feb 2011	Vanguard Health Systems, Nashville (FP)	Valley Baptist Health System, Harlingen (NFP)	Texas	480-bed Valley Baptist Medical Center in Harlingen, 280- bed Valley Baptist Medical Center in Brownsville and a steak in 88-bed Harlingen (Texas) Medical Center	\$210.0	Joint venture
Feb 2011	Community Health Systems, Franklin, TN (FP)	Catholic Health Partners, Cincinnati (NFP)	Pennsylvania	224-bed Regional Hospital of Scranton (PA); 58-bed Tyler Memorial Hospital, Tunkhannock; and the 68-bed long-term acute-care hospital Special Care Hospital,		Acquisition
Feb 2011	Kindred Healthcare, Louisville, KY (FP)	RehabCare Group, St. Louis, MO (FP)	Multistate	30 long-term acute-care hospitals and five inpatient rehabilitation hospitals	\$1,300.0	Acquisition
Jan 2011	Duke LifePoint Healthcare (FP)	Maria Parham Medical Center, Henderson (NFP)	North Carolina	102-bed Maria Parham Medical Center	n.d.	Acquisition
Jan 2011	Mercy, Chesterfield (NFP) and RSE Enterprises, Ada (FP)	First Physicians Capital Group, Beverly Hills, CA (FP)	Oklahoma	15-bed Johnston Memorial Hospital, Tishomingo (Mercy leases and operates the hospital, RSE owns the building.)	\$1.6	Joint venture
Jan 2011	Acadiana Management Group, Lafayette, LA (FP)	Fundamental Healthcare, Sparks, MD (FP)	Multistate	37-bed Edmond (OK) Specialty Hospital and 26-bed Wichita (KS) Specialty Hospital	n.d.	Acquisition
an 2011	National Surgical Hospitals, Chicago (FP)	Lafayette (LA) Surgical Specialty Hospital (FP)	Louisiana	20-bed Lafayette Surgical Specialty Hospital	n.d.	Acquisition

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Source: 2012 data per Capital IQ, 2011 data per Modern Healthcare, (FP) For-profit; (NFP) Not-for-profit; (P) Public; Seller category includes merger or swap partner.

Hospital Transaction Activity

# Selected Precedent Transactions 2008 – 2010 (Public Acquirers)

Answerence Target Business Description

Target Business Description Description Standard On Description

\*Indicates a joint venture Source: Capital IQ

Hospital Transaction Activity
<b>Selected Precedent Transactions 2008 –</b>
2010 (Public Acquirers)

Anouncemen				Implied Enterprise	Implied EV /
Date	Target	Acquiror	Target Business Description	Value (EV)	LTM EBITDA
4/30/2010	HighPoint Health System (Sumner Regional Health Systems, Inc.)	Lifepoint Hospitals Inc. (NasdaqGS:LPNT)	Sumner Regional Health Systems, Inc. operates hospitals in Tennessee	145.0	-
4/20/2010	63 Long Term Care Facilities	Omega Healthcare Investors Inc (NYSE:OHI)	As of June 9, 2010, 63 Long Term Care Failities were acquired by Omega Healthcare Investors Inc. 63 Long Term Care Failities comprises hospitules consisting of 6,607 available beds located in 19 states. The failities are located in the United States	293.0	
4/1/2010	Bluefield Regional Medical Center, Inc.	Community Health Systems, Inc. (NYSE:CYH)	Bluefield Regional Medical Center, Inc. provides health care services in southern West Virginia and southwestern Virginia	33.6	
3/30/2010	Marion Regional Healthcare Systems	Community Health Systems, Inc. (NYSE:CYH)	Marion Regional Healthcare Systems owns and operates nursing homes in South Carolina	25.7	-
3/20/2010	Athol (Mass.) Memorial Hospital	Vanguard Health Systems Inc. (NYSE:VHS)	Athol Memorial Hospital is a Critical Access, non-profit statte care hospital serving the nine communities of the North Quabbin Region	n/d	
3/17/2010	Ohio Valley Heart	Lifepoint Hospitals Inc (NasdaqGS:LPNT)	Ohio Valley Heart operates as a cardiac care hospital	n/d	-
3/2/2010	St. Joseph Medical Plaza	Nationwide Health Properties Inc. (NYSE:NHP)	St. Joseph Medial Plaza comprises a medical building with 426 beds. It indudes seven-stories and covers an area of 130,000 square feet. The building's amenities indude 1,100 are parking structure and is located in Orange, California	67.7	
12/4/2009	Care Foundation of America, Inc., Six Long Term Health Care Facilities	National Health Investors Inc. (NYSE:NHI)	Six Long Term Health Care Fasilities in Florida of National Health Investors Inc comprises healthcare facilities including 780 beds. The facilities are located in Florida	67.0	
8/14/2009	Sparks Health System	Health Management Associates Inc (NYSE:HMA)	Sparks Health System operates a hospital and dinies in Arkansas	138.2	
9/16/2008	Rodsdale Medical Center, Inc.	Lifepoint Hospitals Inc (NasdaqGS:LPNT)	Rodelale Medical Center, Inc. operates as an acute-care hospital in Rodedale County	80.0	
8/18/2008	Wyoming Valley Health Care System, Inc.	Community Health Systems, Inc. (NYSE:CYH)	Wyoming Valley Health Care System, Inc. owns and operates hospitals to serves individuals in the northeastem Pennsylvania	161.2	
6/30/2008	Trinity Medical Center	Community Health Systems, Inc. (NYSE:CYH)	Trinity Medical Center operates as a regional-referral center and tertiary-care tertiary care hospital	147.1	-

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\*Indicates a joint venture Source: Capital IQ 20

Hospital Transaction Activity

# **Selected Precedent Transactions 2008 – 2010 (Private Acquirers)**

Anounceme				Implied Enterprise	Implied EV /
Date	Target	Acquiror	Target Business Description	Value (EV)	LTM EBITDA
/10/2010	Pikes Peak Regional Hospital and 73% of Wadley Regional Medical	IASIS Healthcare I.I.C	Pikes Peak Regional Hospital and 73% of Wadley Regional Medical Center represents the combined operations of Pikes Peak Regional Hospital and Wadley Regional Medical Center in their sale to IASIS Healthcare Corporation	95.0	-
/19/2010	Clinton Memorial Hospital Foundation	RegionalCare Hospital Partners, Inc.	Clinton Memorial Hospital Foundation operates a medical/surgical acute care hospital	81.7	
/9/2010	Mountain View Hospital, I.I.C	SMBI Idaho, LLC	Mountain View Hospital, LLC operates a hospital in the United States. It owns and operates a 43-bed general acute care hospital located in Idaho Falls, Idaho	58.7	5.6x
1/1/2010	Prospect Medical Holdings, Inc.	Leonard Green & Partners	Prospect Medical Holdings, Inc. provides healthcare and physician services in southern California	333.0	6.0x
3/25/2010	Caritas Christi Health Care	Cerberus Capital Management	Caritas Christi Health Care is a community-based accountable care organization that operates a community hospital network in the New England area	895.0	
2/23/2010	Coffee Health Group	RegionalCare Hospital Partners, Inc.	Coffee Health Group owns and operates hospitals. The company is based in Florence, Alabama. As of July 1, 2010, Coffee Health Group operates as a subsidiary of RegionalCare Hospital Partners, Inc	145.0	-
2/16/2010	Heart Hospital IV, L.P.	St. David's HealthCare Partnership, L.P., LLP	Heart Hospital IV, LP., doing business as Heart Hospital of Austin, specializes in the diagnosis and treatment of cardiovascular diseases	83.6	
1/28/2010	Cabrini Medical Center	Memorial Sloan-Kettering Cancer Center	Cabinii Medical Center operates as a voluntary hospital. The hospital offers surgical, intensive care, inpatient psychiatric, matemity, senior ditzens care, onoxlogy, outpatient testing, hospice, and community health education services	83.1	-
5/8/2009	Long Island College Hospital Inc	SUNY Downstate Medical Center	Long Island College Hospital Inc. operates as community hospital with 520 beds	450.0	
2/13/2009	AHMC Anaheim Regional Medical Center	AHMC Healthcare, Inc.	AHMC Anaheim Regional Medical Center provides health care services for patients in Anaheim. It offers diagnosis, intervention, prevention or erhabilitation, and post-discharge services	60.0	-
4/18/2008	Vibra of Southeastern Michigan, LLC	Vibra Healthcare, LLC	Vibra of Southeastern Midnigan, LLC operates as a 83 bed long term acute care hospital and provides specialized acute and rehabilitative care to medically complex patients	55.0	
1/14/2008	USC University Hospital and USC Nomis Cancer Hospital	University of Southern California	USC University Hospital, Inc. operates as a 411-bed acute care, research, and teaching hospital. USC Norms Cancer Hospital is a 60-bed healthcare facility that offers diagnosis and treatment of bladder, prostate, kidney, brasts, lung, gastrointestinal tract, melanoma, leukemia, and AIDS-related cancer	275.0	-

Hospital Transaction Activity

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# Selected Precedent Transactions 2008 – 2010 (Private Acquirers)

18	in	millions)

Anouncemer	nt			Implied Enterprise	Implied EV /
Date	Target	Acquiror	Target Business Description	Value (EV)	LTM EBITDA
3/13/2008	HCP, Inc., 21 Healthcare Facilities	MPT Operating Partnership L.P.	HCP, Inc., 21 Healthrane Frodities offiers healthrane servines in the United States. 21 Healthrane Frodities comprises 7 aunte care hospitals in five states; 5 impatient ethabilitation hospitals in five states; 3 long-term aunte care hospitals in three states; and 6 wellness centers in three states	357.2	
3/1/2008	United Medical Corp., Five Inpatient Facilities in Florida and Kentucky	* * * * * * * * * * * * * * * * * * * *	The assets operate as five inpatient psychiatric facilities. The facilities are located in Horida and Kentucky Five Inpatient Facilities are based in United States	120.0	-
1/15/2008	VistaCare Inc	Odyssey Healthcare, Inc.	VistaCare Inc. provides hospice services and also offers impatient services at its impatient units and through leased beds at unnehated bospitals and skilled nursing facilities	116.5	-

Mean	5.6x
Median	5.6x

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\* Indicates a joint venture

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Hospital Transaction Activity

# Selected Precedent Transactions 2008 – 2010 (Non-Profit Acquirers)

#### (\$ in millions)

Date	Target	Acquiror	Target Business Description	Value (EV)	LTM EBITDA
9/29/2010	Martha Jefferson Hospital Inc.	Sentara Healthcare, Inc.	Sentara Healthare, Inc., operates acute cure bospitals, outpatient cure campuses, emergency facilities, fitness centers, rehabilitation centers, schools, nursing centers, and assisted living centers	n/d	
6/9/2010	Community Hospital of Long Beach	Long Beath Memorial Medical Center	Community Hospital of Long Beath provides a range of healthcare care services in the Long Beath, California area	n/d	
3/31/2010	University Community Health, Inc.	Adventist Health System, Inc.	University Community Health, Inc. operates hospitals in Tampa, Florida	200.0	
9/16/2009	Valley Health System Service Corporation	Physicians for Healthy Hospitals, Inc.	Valley Health System Service Corporation, a health care district, owns and operates community hospitals	160.2	=
7/6/2009	Jewish Hospital of Gindinnati, Inc.	Mercy Health Partners (Southwest Ohio Region)	Jewish Hospital of Cincinnati, Inc. provides healthcare services to people in the United States	180.0	
10/29/2008	Northwestern Lake Forest Hospital	Northwestern Memorial Healthcare	Northwestern Lake Forest Hospital operates as a community hospital that provides a range of healthcare services to men, women, and children in Lake Forest area	400.0	-
7/1/2008	Tarzana Regional Medical Center	Providence Cardiology Associates	Tarzana Regional Medical Center, an acute care hospital, provides health care services in San Fernando Valley	89.0	
6/20/2008	Moreno Valley Community Hospital	Kaiser Foundation Hospitals, Inc.	Moreno Valley Community Hospital comprises 95 bed hospital. The company offers acute care services	\$53.0	
5/14/2008	Skokie Hospital	NorthShore University HealthSystem	Skokie Hospital, an acute care hospital, provides inpatient and outpatient services, and emergency care services	139.0	
3/31/2008	California Heart and Surgical Hospital	Loma Linda University Medical Center	California Heart and Surgical Hospital operates as a hospital	80.0	
3/31/2008	Health Management Associates Inc., 27% Interest in Seven Hospitals	Novant Health, Inc.	27% Interest in Seven Hospitals in North and South Carolina of Health Management Associates Inc. In total these hospitals consist of 711 Beds and serve as community hospitals in their regions	300.0	
2/4/2008	Condell Health Network, Inc.	Advocate Health Care, Inc.	Condell Health Network, Inc. operates as an acute care hospital	180.0	-



\*Indicates a joint venture 1) Merger of equals Source: Capital IO

## 3. Summary of Structuring Alternatives

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#### Summary of Structuring Alternatives

## **Summary of Transaction Structures**

		Spectrum of Po	ossible Struct	uring Options		
Greater Capital Investment Required and Loss of Control						
+	Advantage	CLINICAL	MINORITY	JOINT		
-	Disadvantage	AFFILIATION	INVESTMENT	VENTURE	MERGER	SALE
Key Considerations						
Retain ownership		+	+	+		
Share medical resources & operational expertise		+	_	+	+	+
Maintain consensus governance		+	+	+		
Increased scale / operational synergies		_	_		+	+
Stronger pro forma financial profile					+	+
Access to capital		-	+	+	+	+
Regulatory approvals needed				-	-	_
Structuring issues (tax-exempt status)				-		
Partner / buyer universe may be limited				-	-	_
Integration risk					_	-
Loss	of control; may forgo upside					_

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### 4. New Financing Paradigm: Private **Equity and Non-Profit Hospitals**



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New Financing Paradigm: Private Equity and Non-Profit Hospitals

### **Selected Case Studies**





#### Announcement Date / Closing Date

- June 11, 2010 / December 31, 2010
- a structure

  Vanguard Health Systems, Inc. ("Vanguard"), a for-profit 15-hospital system backed
  by Blackstone and Morgan Stanley Capital Partners, acquired The Detroit Medical
  Center ("DMC"), a non-profit eight-hospital system in the metro-Detroit region, for
  \$368 million in cash

### Transaction Rationale

- The transaction provided DMC the opportunity to partner with a for-profit acquiror who can supply the capital-strapped DMC with needed improvements, expansion and medical and technological upgrades
- DMC is attractive to Vanguard in part because of its densely populated urban market in Southeast Michigan
- Vanguard will invest an estimated \$350 million for routine capital improvement and an additional \$500 million on specific capital projects during the first five years of
- Under the terms of the agreement, Vanguard will assume all of DMC's liabilities, pay off all DMC outstanding debt and assume the liability for the \$184 million defined-benefit pension plan

#### Financial Overview

- Implied EV: \$1.6 billion; 0.78x EV/ Revenue; 10.2x EV/EBITDA
- Vanguard has annual revenues and EBITDA of \$5.3 billion and \$416 million, respectively; DMC has annual revenues and EBITDA of \$2.1 billion and \$158 million, respectively

#### Additional Information

For at least ten years, Vanguard agreed to keep all eight of DMC's hospitals open, not sell any of the hospitals to an unrelated party and continue with DMC's historical charity care policy





March 25, 2010 / November 7, 2010

### Deal Structure

Cerberus Capital Management ("Cerberus"), a global private equity firm, acquired Caritas Christi Health Care (nka: Steward Health Care System, LLC) ("Caritas"), a non-profit six-hospital system based in Massachusetts, for \$995 million

#### Transaction Rationale

- insaction rautorises. Certeins provided much needed capital support, including the assumption of all pension obligations for Cantas employees, the repayment of the system's debt and a commitment to fund approximately \$400 million of capital projects, including six major construction projects that will provide immediate upgrades to each of the Cantas hospitals.
- Cerberus also agreed to continue servicing Caritas' charity care obligations, estimated at \$37 million per year
- This was the first hospital investment for Cerberus Financial Overview
- Implied EV: \$895 million: 0.69x EV/Revenue
- Caritas has annual revenues of approximately \$1.3 billion

#### Additional Information

- Caritas relinquished its non-profit status, but has maintained its Catholic identity
- Since the deal closed in November 2010, Carlas has completed five acquisitions, totaling \$231 million, with Cerberus' capital backing the deals
  Also made an offer to purchase the struggling Jackson Health System in February
  2011 in a transaction that was rejected and would have been worth upwards of \$1.1



New Financing Paradigm: Private Equity and Non-Profit Hospitals

### Selected Case Studies (continued)





THP LHP





Announcement Date / Closing Date

February 21, 2011 / February 21, 2011

#### Deal Structure

Ascension Health, Inc. ("Ascension"), the largest Catholic and non-profit health system in the U.S. with 69 hospitals in 20 states, and Oak Hill Capital Partners ("Oak Hill"), a private equity firm, formed a joint venture that created Ascension Health Care Network ("AHCN")

#### Transaction Rationale

- Goal is to preserve the identity and mission of Catholic hospitals that need capital by giving them an alternative to selling to private equity firms and for-profit systems AHCN will offer these entities access to financial, operational and clinical resources
- Financial Overview
- Ascension has annual revenues and EBIT of \$14.7 billion and \$569 million, respectively

#### Additional Information

- Ascension remains a non-profit entity
- Ascension is the nation's third largest healthcare system (largest Catholic and non-profit health system), providing care through a network of more than 500 hospital affiliates and health facilities across the country
- Provided more than \$1 billion in care of persons who are poor and community benefit
- AHCN has already identified approximately 300 potential targets







Announcement Date / Closing Date

#### August 23, 2011 / Pending

- as structure.

  LIHP Hospital Group, Inc. ("LHP"), a privately held company established to provide capital and operational expertise to non-profit hospital systems backed by CCMP Capital Advisors and Ganada Fersion Plan Investment Board, has signed a letter of intent to merge its previously announced joint venture with Sairt Mary's Hospital Corporation ("Sairt Mary's), an on-profit 437-beh ospital in Waterbury, CT, with the Greater Waterbury Hospital Network. Inc., ("GWHN), which includes Waterbury Hospital Waterbury), an on-profit 367-beh ospital in Waterbury, and in Waterbury, and
- The combined JV will invest \$400 million to construct a new medical center beginning in 2012 (expected to take between 40 and 45 months to build) that will replace both hospitals
- While governance will be shared equally between all three parties, LHP will own an 80% interest in the JV with GWHN and Saint Mary's each owning a 10% interest
- The combined JV will operate its facilities in accordance with the "community benefit standards" applicable to non-profit hospitals

#### Transaction Rationale

- Construction of a modern, high-tech replacement facility benefits both Saint Mary's and Waterbury, who will now also have access to capital through LHP for day-to-day operations and further growth
- Both hospitals benefit by gaining LHP's operational and clinical expertise
- Financial Overview

#### Additional Information

 LHP has joint ventures with and manages two other hospitals, and also recently formed a joint venture with the Seton Family of Hospitals in Texas (a member of Ascension Health)



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### 5. Speaker Biographies



### **Speaker Biographies**

Marc A. Cabrera is a Managing Director and head of Healthcare Investment Banking at Morgan Joseph TriArtisan. Mr. Cabrera has over 20 years of investment banking experience having closed over 100 transactions totaling more than \$14 billion in aggregate value. Mr. Cabrera joined Morgan Joseph TriArtisan and founded the firm's Healthcare Investment Banking Group in 2004. From 1998 through 2003, Mr. Cabrera was a Managing Director of Pinnacle Partners, Inc., an investment banking advisory firm focused on the healthcare industry. Mr. Cabrera was also a senior member of Bear, Stearns Healthcare Investment Banking Group from 1994 through 1998. He began his career in 1988 as an investment banker in the M&A department of Smith Barnev Inc. Mr. Cabrera received a BS in Finance and Investments from Babson College.

Stephen A. Greene is a Managing Director and the head of healthcare investing at The Silverfern Group, Inc., a privately held merchant bank. Steve joined Silverfern in 2011 from Morgan Joseph TriArtisan where he was a Managing Director in the Merchant Banking Group. Prior to his tenure there, Steve was a founding partner and Senior Managing Director at Eureka Capital Partners, LLC, a privately held investment bank and merchant bank, and a worldwide partner at Arthur Andersen LLP, where he was responsible for various components of its U.S. corporate finance and restructuring businesses, including its healthcare banking team. Steve began his investment banking career at Houlihan, Lokey, Howard & Zukin, Inc. and later became Managing Director in charge of Houlihan's San Francisco office. Mr. Greene received his MBA in Finance from the UCLA-Anderson School of Management. He received a MA, and a BA with Distinction, both from Stanford University, He is a member of the Phi Beta Kappa and Beta Gamma Sigma honor societies and was the recipient of a Fulbright/Havs fellowship to the United Kingdom. Steve is a member of the Board of Directors of National Home HealthCare Corp., a Northeast-based home healthcare business acquired by Angelo Gordon & Co. and Eureka



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### **Speaker Biographies**

Richard J. Henley, FACHE, FHFMA is President and CEO of Healthcare Strategic Solutions, LLC, an advisory firm focused on optimizing enterprise value for health systems, private equity firms, portfolio companies and other business entities through strategy development and business growth. Richard brings twenty five years of experience in C-level positions with significant expertise in strategic planning, mergers & acquisitions, financial turnarounds, executive coaching, leadership development, Board governance, operations improvement, physician alignment and business development. Richard received a MA and a BA, Summa Cum Laude, from The City College of The City University of New York. Richard is a Fellow in the American College of Healthcare Executives (ACHE) and the Healthcare Financial Management Association (HFMA). Richard served as Chairman of the Board of Directors of the Healthcare Financial Management Association and on the Board of Governors of the American College of Healthcare Executives. He is the recipient of several national and local awards from HFMA, including the Founder's Medal of Honor and National Life Membership. He has also earned the Exemplary Service Award from ACHE. Richard has held faculty appointments at several graduate programs in healthcare management including the Mount Sinai School of Medicine. He has also served as Chairman of the Board or as Director on several business, civic and professional association Boards of Directors. He has also presented at numerous national conferences and has published articles in professional journal

Jennifer E. Meyers is a Director at the Marwood Group, a healthcare-focused advisory and financial services firm to institutional investors and corporations. Ms. Meyers provides advisory and consulting services to companies across the healthcare spectrum as they evaluate acquisitions, new markets and other strategic initiatives. Her experience includes working with privately held and publicly traded companies on a broad range of financial advisory transactions, including buy-sides, sell-sides, corporate divestitures, private placements and joint ventures across a variety of healthcare sectors. Ms. Meyers has closed over 30 transactions totaling more than \$32 billion in aggregate value. Prior to joining the Marwood Group, Ms. Meyers was a Principal in Healthcare Investment Banking at Morgan Joseph TriArtisan and a Director at Banc of America Merrill Lynch, where she served as a senior member of the firm's M&A Group and primarily focused on transactions in healthcare services, life sciences/pharmaceuticals and medical technology. Previously, she held positions at JPMorgan Securities in the M&A Group; Prestwick Scientific Capital, a private biopharmaceutical company focused on earlystage treatments and technologies; CrossHill Financial Group, a boutique investment bank; and America's Community Bankers, a national banking trade association. Ms. Mevers received a BS cum laude, in Business Administration from the University of North Carolina at Chapel Hill and an MBA from the Owen Graduate School of Management at Vanderbilt University.

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