ACCESS TO CAPITAL

2013 in Review and a Look into 2014

Thursday, December 12, 2013

FOLEY
FOLEY & LARDNER LLP

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Today's Agenda

- 2013: Major Transactions
- Regulatory Matters in 2013 and a look at their impacts in 2014
- 2013 Deal Trends in Financing and M&A Deals and What to Expect in 2014

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2013: Major Transactions

- System Affiliations
- Nonprofit and for Profit Affiliations
- Physician Group Activity

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Notable M&A transactions

Acquirer	Target	Value	Structure	Market Multiple: Net Patient Revenue	Market Multiple: EBITDA	Timing
Community Health Systems	Health Management Associates, Inc.	$7,600,000,000	Acquisition	1.3x	8.6x	Q3 2013
Tenet Healthcare Corporation	Vanguard Health Systems	$4,300,000,000	Acquisition	0.7x	8.2x	Q2 2013
Catholic Health Initiatives	St. Luke's Episcopal Health System	$2,000,000,000	Acquisition	n/a	n/a	Q2 2013
Highmark, Inc.	Jefferson Regional Medical Center	$275,000,000	Acquisition	n/a	n/a	Q2 2012
Shands HealthCare, Inc.	Bayfront Medical Center	$202,500,000	80% Acquisition	n/a	n/a	Q4 2012

Merger/Affiliation		Timing
Trinity Health Corporation	Catholic Health East	Q4 2012
Baylor Healthcare (TX)	Scott & White Healthcare (TX)	Q2 2013
Mount Sinai Medical Center (NY)	Continuum Health Partners (NY)	Q2 2013
Advocate Health Care (IL)	Sherman Hospital (IL)	Q2 2013
Edward Hospital (IL)	Elmhurst Memorial Hospital (IL)	Q1 2013

Source: Irving Levin Associates, Deal Search Online, www.emma.msrb.org, Bloomberg

Federal Securities Laws – Disclosure Issues

- 6 Actions Brought by SEC Relating to Municipal Securities
- Common Settlement Requirements:
  - Adopt written policies and procedures regarding disclosure
  - Designate an official responsible for disclosure
  - Provide regular training for staff involved with disclosure
  - Engage outside professionals
- Look for Continued SEC Scrutiny of the Municipal Market

SEC Actions – Lessons Learned

- Written Policies and Procedures Matter to the SEC
- Pension Disclosure Remains a Focus of SEC Scrutiny (IL)
- Compliance with Continuing Disclosure Requirements is Crucial (Harrisburg; West Clark, IN)
- “Speaking to the Market” Can Take Many Forms, Including Website Postings (Harrisburg)
- Failure to Comply With Tax Requirements Can Be Material Information (South Miami)
- Perform Due Diligence Regarding Compliance with Continuing Disclosure Obligations (West Clark)
- Failure to Comply With Accounting Standards and Practices Can Lead to Misleading Disclosure (Miami)
- Don’t Rush to Close – There are No Shortcuts (Wenatchee)
- Independent Reports Are Likely to be Material (Wenatchee)

Municipal Advisor Rule

- Final Rule Issued November 12, 2013; Effective January 13, 2014
- Municipal Advisors have a fiduciary duty to their clients and must register with the SEC
- “Municipal Advisor” (1) provides advice (2) to a municipal entity or obligated person (3) with respect to municipal financial products or (4) the issuance of municipal securities or (5) undertakes a solicitation, unless exempted under the rule
- Exemptions are critical to many participants in the municipal securities market place, but are narrowly drawn
- Result could be that parties other than registered municipal advisors refrain from providing “advice” to issuers and obligors, such as healthcare borrowers

Municipal Advisor Rule

- Exceptions:
  - Serving as an underwriter – within scope of underwriting
  - Registered investment advisors – investment advice
  - Registered commodity trading advisors – swaps
  - Attorneys – offering legal advice or providing services of a "traditional legal nature"
  - Engineers
- Exempt Activities:
  - Accountants – traditional accounting/auditing services
  - Public officials and employees – within the scope of official capacity
  - Banks – listed activities
  - Responding to RFQs or RFPs
  - Swap dealers – if <u>not</u> acting as an advisor
  - Where issuer/obligor represented by a registered municipal advisor
  - Certain investment strategies
  - Certain solicitations

Implementation of IRC 501(r) Requirements

- Charitable (501(c)(3)) Hospitals Must Establish Procedures to Comply With Requirements of Section 501(r)
  - Establish written financial assistance and emergency medical care policies
  - Limit amounts charged to individuals eligible for financial assistance
  - Make reasonable efforts to determine if an individual is eligible for assistance
  - Conduct a Community Health Needs Assessment (CHNA) and adopt an implementation strategy every 3 years
- Proposed CHNA Regulations Issued 4/3/13
- Form 990 Revised to Include 501(r) Requirements
- Additional Due Diligence Issues for Bond Issuance

IRS Initiatives

- Issue Price Rule
  - Proposed Rule could significantly affect current practices concerning determination of "issue price".
  - Issue price important in determining several key factors:
    - Sizing debt service reserve and costs of issuance
    - Determining whether credit enhancement is cost effective and capitalizable

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Anti-trust Review of Healthcare Affiliations

- Hospital Mergers are a priority for FTC and DOJ
- Some states have independent anti-competitive review
- Hospital/healthcare combinations subject to scrutiny and enforcement actions under Clayton Act
  - Transactions where "the effect of such acquisition may be substantially to lessen competition or to tend to create a monopoly" are prohibited
  - Merger of two GA municipal hospitals not protected by state action doctrine (*FTC v. Phoebe Putney, Palmyra Park*)
- Applies to transactions in addition to mergers
- Important to address anti-trust and Hart-Scott-Rodino issues from start of transaction structuring

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FOLEY & LARDNER WEBINAR: ACCESS TO CAPITAL, 2013 REVIEW AND 2014 OUTLOOK

December 12, 2013

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SECTION 1

2013 Review

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MARKET OVERVIEW AND ECONOMIC FORECAST

- Tax-exempt and taxable rates have been trending higher
  - 10-year Treasury ended the third quarter of 2013 at 2.61% and currently is 2.86%
  - 10-year MMD ended the third quarter of 2013 at 2.54% and currently is 2.74%

- Consensus estimates from economists forecast modest GDP growth, employment recovery, and rising interest rates over the next 12 months

Economic Activity	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Real GDP (QOQ%)	0.10%	1.10%	2.50%	2.80%	1.80%	2.60%	2.85%	2.90%	2.95%
CPI (YOY%)	1.90%	1.70%	1.43%	1.57%	1.40%	1.55%	1.95%	1.90%	2.00%
Core PCE (YOY%)	1.68%	1.47%	1.18%	1.18%	1.30%	1.40%	1.60%	1.70%	1.70%
Unemployment	7.83%	7.73%	7.57%	7.30%	7.20%	7.10%	6.90%	6.80%	6.60%
Interest Rates									
Central Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
3-Month LIBOR	0.31%	0.28%	0.27%	0.25%	0.26%	0.29%	0.32%	0.38%	0.44%
2-Year Treasury	0.25%	0.24%	0.36%	0.32%	0.37%	0.45%	0.61%	0.77%	0.93%
10-Year Treasury	1.76%	1.85%	2.49%	2.61%	2.74%	2.90%	3.07%	3.23%	3.40%

Actual   Forecast

Source: Bloomberg: December 6, 2013; Interest rates reflect actual and forecasted rates for end of listed quarter

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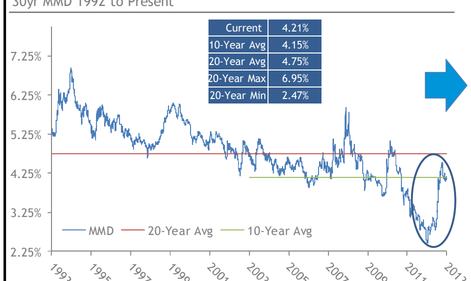
TAX-EXEMPT FIXED RATE MARKET DYNAMICS

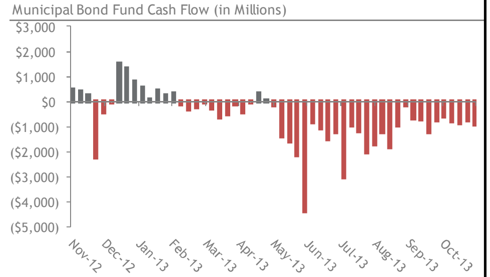
30yr MMD 1992 to Present



30yr MMD Last 12 Months

- MMD currently at 4.21%; all-time low of 2.47% occurred on 11/29/2012
  - Volatility in U.S. treasury and municipal rates due to market uncertainty:
    - Potential tapering of Federal Reserve Quantitative Easing Program
    - Supply/demand imbalances: 28 straight weeks of fund outflows, outflows YTD total more than $54B

Municipal Bond Fund Cash Flow (in Millions)



Source: Bloomberg, December 6, 2013

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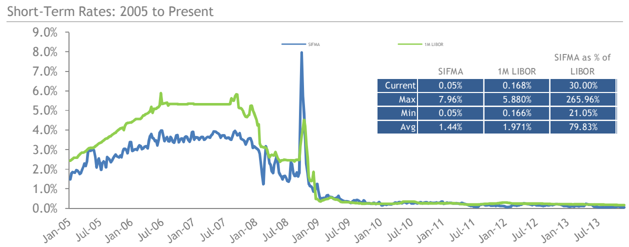
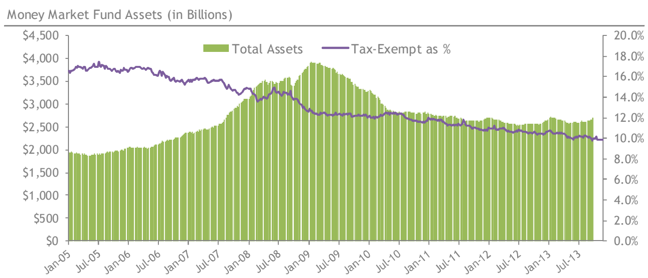
SHORT-TERM RATES REMAIN AT HISTORIC LOWS

- Short-term rates persistently low since early 2009 causing spread compression
  - Accommodative monetary policy and reduction in short-term supply are primary drivers
- SIFMA averaging 49.6% of LIBOR in 2013
  - SIFMA averaged 70.4% of LIBOR in 2012
- Total money market fund assets down over $1.2 trillion since high of $3.9 trillion in January 2009





Source: Bloomberg, December 6, 2013

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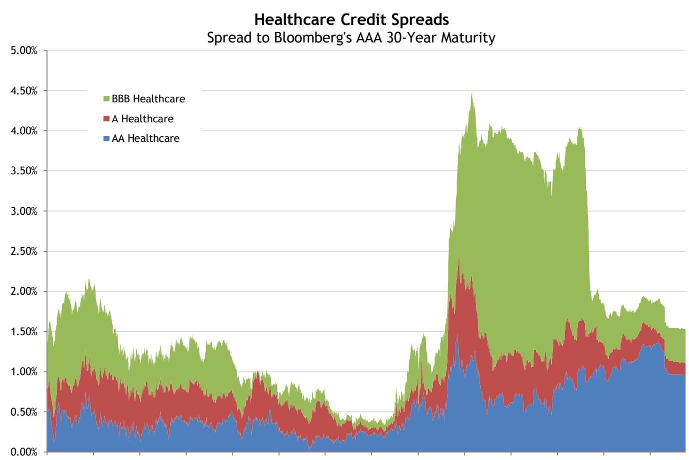
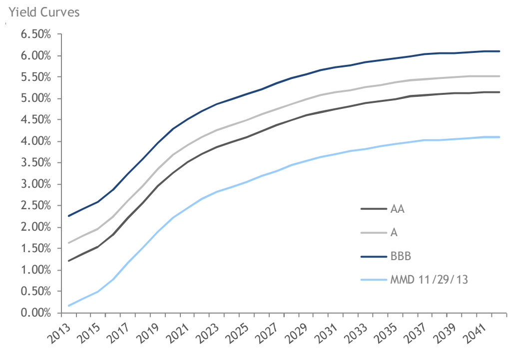
HEALTHCARE CREDIT SPREADS: TIGHTENED POST CRISIS



Source: Bloomberg, December 6, 2013

CURRENT YIELD RANGES FOR INVESTMENT GRADE RATING CATEGORIES



30-Year Maturity

Rating	Spread MMD	Effective Yield
AA	0.85% - 1.10%	4.95% - 5.20%
AA-	1.10% - 1.25%	5.20% - 5.35%
A+	1.25% - 1.40%	5.35% - 5.50%
A	1.40% - 1.50%	5.50% - 5.60%
A-	1.50% - 1.60%	5.60% - 5.70%
BBB+	1.60% - 1.85%	5.70% - 5.95%
BBB	1.85% - 2.10%	5.95% - 6.20%
BBB-	2.10% - 2.40%	6.20% - 6.50%

Source: Bloomberg, December 6, 2013

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HEALTHCARE BOND ISSUANCE DOWN IN 2013

	Tax-Exempt Public Transaction Volume ($ Millions)			Total Percent
	New Money	Refunding	Total	Change 2012 to 2013
2012	$14,668.90	$18,095.60	$32,764.50	
YTD 2013	$10,638.70	$11,300.90	$21,939.60	-33.04%

- Drivers for issuance decline:
  - Rising interest rates
  - Continuation of declining inpatient utilization trend resulting in less bricks & mortar spend
  - Significant concern around near term earnings outlook

- Debt service reserve fund trends in “BBB” category transactions:
  - 2011: 27 out of 34 transactions or 79.4% executed with a DSRF
  - 2012: 24 out of 35 transactions or 68.6% executed with a DSRF
  - YTD 2013: 15 out of 28 transactions or 53.6% executed with a DSRF

Source: Thomson Financial

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HEALTHCARE BOND MARKET: CREDIT ENHANCEMENT HAS DISAPPEARED

	Enhanced vs Unenhanced ($ Millions)			Unenhanced Percent Change 2006 to 2013
	LOC-Backed	Insured	Unenhanced	
2006	$4,161.50	$14,279.20	$15,196.60	
YTD 2013	$905.30	$284.70	$21,939.60	44.37%

- In a market characterized by a dearth of viable credit enhancement, relatively wide credit spreads (down from 2008 to 2011 but likely to widen), and significant variation among how similarly rated bonds trade (see next slide), *the single most important factor in determining successful capital markets execution is developing and disseminating a compelling and unique credit story*

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SIGNIFICANT VARIATION AMONG HOW SIMILARLY RATED BONDS TRADE

Senior Manager: Ziegler
Sale Date: 12/5/2013
Close Date: 12/27/2013
First Call Date: 11/15/2023
Rating (M/S&P/F): NR / NR / BB+
DSRF: Yes

$43,975,000 Greencroft Obligated Group (IN) - Series 2013

	MMD 12/05/2013	Coupon	Yield	Spread to MMD
11/15/2014				
11/15/2015				
11/15/2016	0.50%	2.750%	2.750%	2.250%
11/15/2017	0.81%	3.250%	3.250%	2.440%
11/15/2018	1.20%	3.500%	3.500%	2.300%
11/15/2019				
11/15/2020				
11/15/2021				
11/15/2022				
11/15/2023	2.73%	5.250%	5.250%	2.520%
11/15/2023	2.73%	5.000%	5.250%	2.520%
11/15/2024				
11/15/2025				
11/15/2026				
11/15/2027				
11/15/2028	3.38%	6.000%	6.000%	2.620%
11/15/2028	3.38%	5.750%	6.000%	2.620%
11/15/2029				
11/15/2030				
11/15/2031				
11/15/2032				
11/15/2033	3.84%	6.500%	6.625%	2.785%
11/15/2034				
11/15/2035				
11/15/2036				
11/15/2037				
11/15/2038				
11/15/2039				
11/15/2040				
11/15/2041				
11/15/2042				
11/15/2043	4.19%	7.000%	7.000%	2.810%

Senior Manager: Piper Jaffray & Barclays
Sale Date: 11/20/2013
Close Date: 12/6/2013
First Call Date: 11/1/2023
Rating (M/S&P/F): NR / BB+ / NR
DSRF: Yes

$163,850,000 Memorial Group Inc. (IL) - Series 2013

	MMD 11/20/2013	Coupon	Yield	Spread to MMD
11/1/2014				
11/1/2015				
11/1/2016				
11/1/2017	0.78%	5.250%	5.250%	4.470%
11/1/2018				
11/1/2019	1.52%	5.750%	5.750%	4.230%
11/1/2020				
11/1/2021				
11/1/2022				
11/1/2023	2.61%	6.375%	6.375%	3.765%
11/1/2024				
11/1/2025				
11/1/2026				
11/1/2027				
11/1/2028				
11/1/2029				
11/1/2030	3.54%	7.125%	7.330%	3.790%
11/1/2031				
11/1/2032				
11/1/2033	3.77%	7.250%	7.450%	3.680%
11/1/2034				
11/1/2035				
11/1/2036	3.93%	7.250%	7.650%	3.720%
11/1/2037				
11/1/2038				
11/1/2039				
11/1/2040				
11/1/2041				
11/1/2042				
11/1/2043	4.09%	7.125%	7.800%	3.710%
11/1/2044				
11/1/2045				
11/1/2046				
11/1/2047				
11/1/2048	4.09%	7.625%	7.950%	3.860%

MORE TAXABLE BOND EXECUTION IN 2013

Borrower	State	Par Amount	Final Maturity	Moody's	S&P	Fitch	Coupon Type	Final Maturity Coupon	Final Maturity Yield	Spread to Treasury
Elmhurst Memorial Healthcare	IL	76.025	10/01/18	Baa2	NR	BBB	F	4.545	4.545	3.260
Tufts Medical Center	MA	100.000	01/01/38	NR	BBB	BBB	F	7.000	7.125	3.590
Baptist Healthcare Authority	AL	118.000	11/15/43	A3	BBB+	NR	F	5.500	5.500	2.679
Johns Hopkins Health System	MD	100.000	05/15/23	Aa3	AA-	NR	F	2.767	2.767	1.094
Johns Hopkins Health System	MD	48.165	05/15/18	Aa3	AA-	NR	F	1.424	1.424	0.747
Mayo Clinic	MN	300.000	11/15/47	Aa2	AA	NR	F	4.000	4.000	0.921
Yale-New Haven Hospital Inc	CT	132.000	07/01/43	Aa3	A+	NR	F	4.366	4.366	1.193

- Very strong market acceptance and tight spreads to treasuries for providers rated A+ and above
- Drivers for issuance trend include:
  - Taxable rates not much higher than tax-exempt rates for highly rated providers
  - No conduit issuer necessary
  - Lack of constraints for use of proceeds, average life, investment yield on bond proceeds
- Many providers utilized for future acquisitions and strategic flexibility

Source: Thomson Financial

PRIVATE PLACEMENTS ATTRACTIVE CAPITAL SOURCE FOR HOSPITALS

Public Offering	Private Placement
• Sale of securities to institutional (mutual funds) and retail (individual) investors	• Directly placed and negotiated with commercial bank or other lender / finance company
Benefits and Considerations	Benefits and Considerations
• *Costs of Issuance:* Higher than private placement	• *Costs of Issuance:* Lower than public offering
• *Debt Service Reserve Fund:* Required/fully-funded	• *Debt Service Reserve Fund:* Not required
• *Execution time:* Approximately 3 to 4 months	• *Execution time:* Approximately 1.5 to 2 months
• *Market Risk:* None after rates are set	• *Market Risk:* None if matched term and amortization
• *Remarketing Risk:* None if fixed rate	• *Remarketing Risk:* None
• *Call Protection:* Typically 10 years	• *Call Protection:* Typically 2 years
• *Facility Renewal Risk:* None if fixed rate	• *Facility Renewal Risk:* Typically
• *Documentation:* Official Statement and Appendix A required	• *Documentation:* Official Statement and Appendix A not required
• Rating: May enhance marketability	• Rating: Unnecessary
• **Increased cost provisions: no**	• **Increased cost provisions: banks-yes, non-banks: no**
• Cure period: 60 days	• Cure period: 30 days

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PRIVATE PLACEMENT PRICING CURRENTLY ATTRACTIVE

- Tax exempt rates have increase sharply over last seven months
- Treasury and LIBOR swap rates have increased as well, but not to the same extent as lower investment grade tax-exempt rates
  - The Detroit bankruptcy (largest Chapter 9 filing in history), and other negative credit events such as Puerto Rico, Harrisburg, PA, Stockton, CA, and Illinois have had a large impact on the tax-exempt market
  - Net outflows from tax-exempt bond funds have been substantial, and credit spreads have started to widen
- Banks and lending institutions generally price "tax-exempt" placement rates off Treasury and LIBOR swap rates as opposed to MMD (Index that is used to price tax-exempt fixed rate bonds)

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27 STRAIGHT WEEKS OF OUTFLOWS FROM TAX-EXEMPT BOND FUNDS

Week Ending	Fund Flows ($ millions)
5/15	306
5/22	53
5/29	-141
6/5	-1,400
6/12	-1,600
6/19	-2,170
6/26	-4,375
7/3	-837
7/10	-1,100
7/17	-1,500
7/24	-1,220
7/31	-3,050
8/7	-960
8/14	-1,210
8/21	-2,030
8/28	-1,715
9/4	-1,246
9/11	-1,830
9/18	-968
9/25	-154
10/2	-675
10/9	-713
10/16	-1,240
10/23	-742
10/30	-581
11/6	-778
11/13	-877
11/20	-770
11/27	-870
	-34,393

- In June alone, tax-exempt bond funds experienced nearly $10 billion in withdrawals
- The withdrawals have been particularly significant in high yield tax-exempt bond funds with lower rated credits
  - This largely explains why credit spreads for lower investment grade credits have widened

PRIVATE PLACEMENT: STRONG COST OF CAPITAL VS BONDS

Henry Mayo Newhall Memorial Hospital, CA ("Henry Mayo"), the only hospital in the Santa Clarita Valley, operates 238 beds and generates nearly $250 million in annual revenue

Situation:
- Henry Mayo historically utilized Cal Mortgage insured bonds to access capital and was considering refunding its insured Series 2001 A bonds
- Henry Mayo had strengthened its credit profile with continued increases in operating cash flow, however, some liquidity measures remained below investment grade as Henry Mayo utilized cash for major capital expenditures over the last few years given historically high leverage
- California had not previously permitted the issuance of parity indebtedness while Cal Mortgage bonds remained outstanding for any borrower since the program's inception in 1968
- Henry Mayo plans to issue debt to fund its new patient tower in 2015

Ziegler Difference:
- Using its proprietary credit model and Henry Mayo's multi-year financial forecast and cap-ex budget, Ziegler ran multiple scenarios to determine that in addition to refunding its Series 2001 A bonds for savings, the organization should finance new money in lieu of funding capital from operating cash in order to build liquidity and optimize its credit profile before financing its new patient tower in 2015
- Assisted Henry Mayo with becoming the first Cal Mortgage borrower to be permitted to issue parity indebtedness negotiating mutually agreeable terms with the state
- Sourced $90 million in commitments from two non-banks and a bank lender at materially lower rates than available in the bond market without a reserve fund which would have been required for bonds
- Negotiated a new Master Trust Indenture with the three lenders and Cal Mortgage to support better future financing flexibility

Series 2013 Financing Outcomes:
- Private placement had 14 and 15 year fully amortizing term structure with two non banks and a 11 year term commitment with a 25 year amortization schedule with a bank partner
- Proceeds were utilized to current refund the Series 2001 A bonds for material savings, advance refund a portion of the Series 2007 A bonds to reduce Cal Mortgage exposure and finance new money projects
- ***Produced all-in cost of 4.12% and level debt service. Despite a significant ratings disadvantage, comparable cost of capital with A+ rated health system bond issue that carried a lower average life priced two weeks prior***
- New MTI eliminates two related corporations that are not directly controlled by hospital as obligors

KEY HEALTHCARE SECTOR TRENDS

Macroeconomic
- Systemic reform impact on reimbursement
- Recovery from national, regional and local financial crises

Demographics
- Aging population
- Consumer-driven healthcare

Technology
- Advancement in medical technologies
- Leveraging of information technologies

Business Models
- Care migration to the outpatient setting
- Emergence of ACOs
- Transition to value-based reimbursement

Capital Markets
- Higher cost of capital

Growing pressure on bottom lines and care integration

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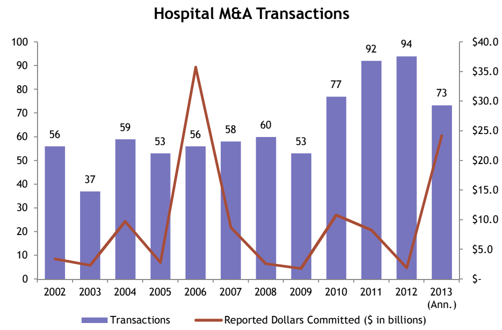
HOSPITAL M&A DEALS OVER THE PAST DECADE

- 94 announced hospital M&A transactions in 2012, most during ten-year period
  - Nearly 80% increase in transaction volume from 2009
  - Majority of these transactions were single hospital deals
- $18.1 billion reported committed to hospital M&A activity through first 9 months of 2013, most since 2006 and second most during ten-year period
- 2013 continues consolidation trend with 55 hospital M&A transactions announced through September 2013, headlined by two "mega deals"
  - 06/24/2013 - Tenet announced the acquisition of Vanguard valued at $4.3 billion
  - 7/30/2013 - CHS announced the acquisition of HMA valued at $7.6 billion



Note: 2013 (ann.) transactions and reported dollars committed determined by annualizing YTD as of Sept 30, 2013
Source: Irving Levin Associates, 2013 information is preliminary figures based on Irving Levin Associates' monthly "The Health Care M&A Report"

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MORE PHYSICIANS EMPLOYED BY HOSPITALS

- A significant increase in the pace of hospital-owned physician practices has occurred in the past decade
- Physicians are searching for stability more now than ever in light of regulatory changes
- Hospitals, on the other hand, can solve recruitment challenges with large group practices
- In addition, market share is protected and volumes are more stable when physicians are under an employment arrangement
- More physicians are employed by hospitals in 2013 than 2012, between 2012 and 2013[1]:
  - Solo practitioners decreased to 15% from 21%
  - Hospital-employed physicians increased to 26% from 20%
  - Physicians working as non-ownership employees increased to 15% from 12%

Source:
1) Jackson Healthcare: Filling The Void – 2013 Physician Outlook & Practice Trends

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HEALTHCARE REIMBURSEMENT REFORM, A KEY M&A DRIVER

- The Patient Protection and Affordable Care Act ("PPACA" or "ACA") was passed into law in early 2010
  - Transition to a value-based reimbursement system will be highly disruptive for most hospitals and impact performance in FY 2013 and in the coming years(1)
  - Health insurance exchanges present revenue uncertainties in FY 2014 as reimbursement rates and enrollment levels are significant unknowns at this time(1)
  - Hospitals located in states that are not expanding Medicaid will not see the benefit of enhanced federal funding
- Enhanced coverage for the uninsured
- PPACA "paid for" by hospitals through reimbursement reductions
  - Market Basket Update offsets, Productivity Adjustments, DSH reimbursement cuts, Penalties for excessive readmissions and hospital acquired infections
- Reimbursement "pay-fors" offset by lower uncompensated care and higher volumes from expanded insurance rolls…maybe

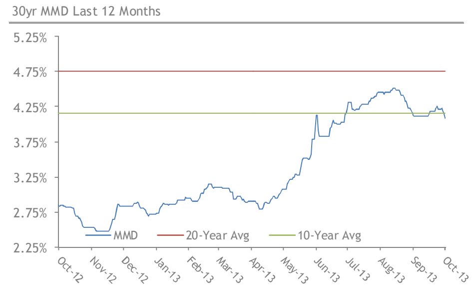
Source: 1) Moody's Investors Service median report titled "US Not-for-Profit Hospital 2012 Medians Show Balance Sheet Stability Despite Weaker Performance"

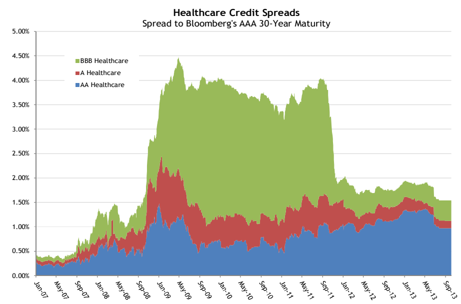
CHANGING REIMBURSEMENT & BUSINESS MODELS, A KEY M&A DRIVER

- Sufficient scale and the possession of the necessary business components to form Accountable Care Organizations will compel some providers to seek out partners
  - Scale is an increasingly important financial consideration as care integration and coordination becomes more essential
  - Managing capitated payments effectively requires owning or having reasonable access to multiple provider settings across the care continuum and a sufficiently large population to spread insurance risk over
- Bundled payment reimbursement may force providers lacking physician affiliates to seriously consider aligning interest
  - Will accelerate growing physician preference for employment
  - Physicians will seek out providers best equipped to negotiate attractive bundled payments
  - Some community providers lack financial wherewithal to employ which becomes problematic for continued provider independence

CAPITAL COSTS, A KEY DRIVER…MAYBE

- State of tax-exempt capital markets
  - Extreme rate volatility
    - Overall market uncertainty and tapering concerns
    - Supply/demand imbalances
    - Significant outflows from tax-exempt bond funds
  - Persistent weakness in taxable/tax-exempt rate relationship
  - Decrease in tax-exempt bond issuance
- Hospital Specific
  - Higher credit spreads for lower rated borrowers driven by credit related concerns; in general credit spreads have been trending lower since 2008 spike
  - For 2012, ratio of downgrades to upgrades across healthcare was 0.96, through September 2013 that ratio is 0.73
- Capital access remains good despite perception
  - Other financing structures outside of bond market available typically at a lower cost of capital





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CONSOLIDATION OF COMPETITION, A KEY DRIVER

- Competitor financial distress creating acquisition targets often before a provider is willing or ready to consider an acquisition
  - Declining utilization trend particularly for providers with low quality metrics and weak patient satisfaction scores
  - Failure to successfully integrate medical staff and coordinate care
  - Weak leverage with commercial and managed care payors contributing to weak reimbursement rates that cannot offset losses for governmental reimbursed utilization
  - Inefficient through-put and efficiency, particularly for providers with heavy governmental reimbursement

- Providers considering M&A of struggling competitors as a defensive mechanism
  - Consolidation to stabilize fragile health care markets
    - National systems are proactively seeking opportunities to monetize underperforming assets and consolidate small and mid-sized independent hospitals
  - Years of weakened financial performance have left small and mid-sized independent hospitals with a lack of ability to fund capital requirements, forcing them to seek partners
  - Aggressive For-Profits
    - Concern is magnified by large for profits entering what were once NFP markets
    - Acquisition of non-profits beyond the traditional rural and suburban markets into urban non-profit hospitals
  - While a distressed acquisition may be dilutive to an entity's financial position in the near term, the impact of an acquisition by an outsider is potentially more harmful in the long term

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SECTION 2

2014 Outlook

ZIEGLER SECTOR OUTLOOK

- Significant headwinds for hospitals in 2014
  - Governmental reimbursement pressure
    - Weaker market basket updates
    - Sequestration impact
    - Reduced DSH payments starting October 2013
    - Penalized for hospital acquired infections and excessive readmissions
  - Continued decline in hospital discharges driven by re-class of short stays to observations stays (RAC audits/2 Midnight rule)
  - ACA implementation uncertainty
  - Growth in physician employment pressuring system profitability
  - Payor mix shift to governmental reimbursement due to aging of boomers and Medicaid expansion in some states at expense of commercial insurers. Reduction in self pay from coverage and access expansion likely over-estimated
  - Changing reimbursement models causes disruption…in short run. Hospitals have shown ability to adapt historically
  - Increased for profit competition in many markets dominated by NFPs
- Ziegler believes that as result, average hospital profitability will be challenged in 2014 with sector performance declining like it did immediately following full implementation of the of BBA of 1997
- Dominant share providers with good payor mixes including independent hospitals, small systems and large systems outperform
- Even providers with good leverage with insurers need to get more efficient in light of governmental reimbursement pressure – lower ALOS, increase employees per adjusted occupied bed, improve revenue collection. IT critical to efficiency: need to identify unacceptable variation in practice patterns in real time to effect change. Ziegler strongly believe most providers will rise to the challenge

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2014 INTEREST RATE AND CAPITAL MARKETS OUTLOOK

- Ziegler sees interest rate increases across all classes of fixed income in the intermediate to long part of the yield curve driven by QE3 tapering and the continuation of a slowly improving economy with unemployment gradually declining
  - 10 year treasury rate rising above the 3.40% consensus estimate by year end
- Envision persistently low short term interest rates driven by accommodative monetary policy with Fed Fund rates close to 0% all year as unemployment does not sink below 6.5% nor does annual inflation rise above 2%
- Tax-exempt bond market underperforms other classes of fixed income with rates rising faster
  - Driven by technical factors as fund outflows persist driven by negative muni head lines including Detroit and Puerto Rico; hospitals are collateral damage
    - Unfortunate as hospitals approach to pensions superior to municipals and healthy sector M&A activity keeps bond investors whole for most distressed hospital credits
  - Lingering concerns about the devaluation of the tax exemption
  - 30 year 'Aaa' MMD increases to 4.75% to 5.00% range by year end
- As a result of weakened profitability and technical factors, hospital bond credit spreads widen
  - 30 year 'A' rated hospital bond credit spread widens from 140 to 150bps over MMD to 170 to 185 bps over MMD by year end

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IMPLICATIONS OF CAPITAL MARKETS & SECTOR OUTLOOK FOR 2014

- Rating downgrades outpace upgrades by a wide margin
  - Moody's issued a negative outlook on sector in November
  - S&P looking for comment to new methodology to rating single state providers that is likely to have negative rating implications for these types of providers
- New hospital bond issuance volume declines YOY by 20 to 25% in 2014
- Bank and non-bank private placements become comparatively attractive vs. bonds and a strong capital source, particularly for providers rated A or below
  - In 2011, Ziegler's healthcare finance practice sourced more than 65% of hospital capital outside of bond market (Meredith Whitney overhang drove negative fund flows and high tax-exempt rates)
  - In 2012, supported by strong technical factors, our practice sourced more than 70% of capital for hospitals in the tax-exempt bond market
- Driven by persistently low short rates and rising intermediate and long rates, a return to variable rate execution for providers with good balance sheets
  - Floating Rate Notes
  - LOC backed VRDBs
  - Synthetic variable: Total return swap and floating-to-fixed swap.
- With widening credit spreads, better economic value potential for credit enhancement. Assured Guaranty, the only bond insurer writing healthcare policies, could increase sector participation if S&P's re-evaluates healthcare capital charges

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2014 SECTOR M&A ACTIVITY

- Consolidation continues in 2014 due to:
  - Weaker profitability
  - Rising rates and renewed capital access concerns
  - Greater scale requirement: need to be able to spread more revenue over fixed costs associated with IT investment and physician integration
  - Providers lacking strong market share will be under considerable pressure
- However, we believe the need to consolidate is over-estimated by many as healthcare delivery remains largely a local proposition:
  - Envision strong regional providers in 2014 and beyond
  - Revenue diversity and risk dispersion are over-valued credit attributes
  - Payor mix and market position considerably more important factors for driving hospital profitability
    - Whether fee for service or population based reimbursement, insurance contract discussions shaped by one fundamental question: is this provider a must have in the market?
- We envision some affiliations will be discontinued as synergies aren't realized. True integration is hard to accomplish and culture trumps strategy each and every time
- Joint ventures, joint operating agreements, clinical affiliations and other integration models may give a provider the same benefit of a merger or acquisition while maintaining desired control

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ZIEGLER CREDIT WEIGHTING FACTORS

- NFP standalone hospitals and regional health systems are viable and can flourish in 2014 and beyond
- Short of a one-payor system, regional providers with strong management, dominant market share, and reasonable demographics will likely continue to outperform
  - These credits are currently undervalued by agencies and many investors placing heavy emphasis on scale/size, revenue diversity, risk dispersion

Credit Factor	Level of Consideration
Financials	
Cash Flow and Debt Service Coverage	**Overweight**
Historical Operating Performance	**Overweight**
Liquidity	Underweight
Leverage	Underweight
Market	
Market Position	**Overweight**
Demographics	**Overweight**
Payor Mix	**Overweight**
Scale	Neutral
Geographic and Revenue Dispersion (System)	Underweight
Medical Staff Characteristics	**Overweight**
Governance and Management	Neutral

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LOWELL GENERAL HOSPITAL: FORMATION OF STRONG REGIONAL

Lowell General Hospital ("Lowell"), rated "BBB+" by S&P and "Baa1" by Moody's, is a 217-bed health care provider with leading market share located in Lowell, MA, 30 miles northwest of Boston

LGH
LOWELL GENERAL HOSPITAL
In the acquisition of
Saints Medical Center
BUY-SIDE ADVISOR

Situation:
- Lowell had a strong 40% share of the greater Lowell market, consistently strong financial performance and in 2010 embarked on a substantial hospital expansion project
- Saints Medical Center ("SMC"), rated "Caa1" by Moody's and "B-" by Fitch, had 20% share of the Lowell market and a combined LGH/SMC entity would have significant scale and market position
- Multiple times over the past 20 years, Lowell and SMC held discussions regarding a merger of the hospitals; however, SMC's Catholic identity and other issues precluded successful outcomes
- Over the last 24 months, as its financial performance deteriorated, SMC had three failed attempts at merging with for-profit and non-profit health care systems

Ziegler Difference:
- In February 2011, Lowell engaged Ziegler to develop strategic options for their acquisition of SMC, and evaluate the various challenges posed by the merger, including: 1) financial impact on Lowell; 2) organizational cultural differences; 3) SMC's desire to maintain a Catholic identity; and 4) numerous regulatory issues
- Assessed the financial, credit and business implications of various integration / combination alternatives
- Advised Lowell management on transaction negotiations, conducted comprehensive due diligence, assisted in the development of the credit rationale that was disseminated to key credit counterparties and the broader market
- Identified and developed analyses supporting opportunities to reduce interest cost post-acquisition by restructuring portions of the combined entity's fixed rate debt

Acquisition Outcomes:
- In March 2012, Lowell and SMC entered into a definitive merger agreement and closed on July 1, 2012
- Acquisition: 1) creates a regionally dominant health system; 2) eliminates costly duplicative capital spending; 3) preserves community healthcare; 4) promotes cost control and quality; and 5) supports new service lines

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LOWELL GENERAL: REFUNDING AND NEW MONEY BONDS

Lowell General Hospital ("Lowell") , rated BBB+ by S&P and Fitch Ratings, is a two hospital system and a leading market share provider located in Lowell, MA, 30 miles northwest of Boston

Lowell General Hospital
Lowell
General Hospital
Lowell, Massachusetts
Refinancing/
Project Financing
MAY 2013
$61,005,000

Situation:
- After advising Lowell on its acquisition of Saints Medical Center ("SMC") and restructuring SMC's outstanding debt for material savings, Ziegler, assisted By Foley & Lardner as underwriter's counsel, presented Lowell with an opportunity to refinance its variable rate direct bank placement, finance the termination of the corresponding swap and capitalize new money projects to eliminate capital structure risk and lock in low fixed rates

Ziegler Difference:
- Assisted Lowell with the dissemination of a compelling credit story that led to the affirmation of Lowell's S&P rating despite the dilutive nature of the Saints acquisition to Lowell's financial position and $14 million of additional leverage
- Assisted with a new rating of BBB+ from Fitch Ratings to replace the Baa2 rating from Moody's
- Negotiated an amendment with Lowell's existing lenders to reduce its liquidity covenant
- Executed the transaction without a debt service reserve fund to minimize additional leverage
- Priced final maturity 27 bps more aggressively than a similarly rated transaction (see next page)

Series 2013 Bonds:
- Transaction facilitated a 100% fixed rate capital structure and eliminated the following risks:
  - Bank
  - Interest rate
  - Refinancing/renewal
  - Derivative counterparty
- Wrapped the new debt around existing indebtedness to minimize maximum annual debt service
- All-in TIC of 4.606%: extremely attractive for back-loaded principal amortization occurring 2029 through 2044

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TRANSACTION PRICING COMPARISON FROM APRIL 25, 2013

Senior Manager:	Ziegler
Sale Date:	4/25/2013
Close Date:	5/1/2013
First Call Date:	7/1/2023
Rating (M/S&P/F):	NR /BBB+ /BBB+
DSRF:	No

$61,005,000 Lowell General Hospital (MA) - Series G (2013)

	MMD 4/25/2013	Coupon	Yield	Spread to MMD
7/1/2013				
7/1/2014				
7/1/2015				
7/1/2016				
7/1/2017				
7/1/2018				
7/1/2019				
7/1/2020				
7/1/2021				
7/1/2022				
7/1/2023				
7/1/2024				
7/1/2025				
7/1/2026				
7/1/2027				
7/1/2028				
7/1/2029				
7/1/2030				
7/1/2031				
7/1/2032				
7/1/2033				
7/1/2034				
7/1/2035				
7/1/2036				
7/1/2037	2.80%	5.00%	3.97%	1.17%
7/1/2038				
7/1/2039				
71/2040				
7/1/2041				
7/1/2042				
7/1/2043				
7/1/2044	2.90%	5.00%	4.10%	1.20%

Senior Manager:	RBC Capital Markets
Sale Date:	4/24/2013
Close Date:	5/7/2013
First Call Date:	11/1/2022
Rating (M/S&P/F):	Baa2/NR/BBB+
DSRF:	Yes

$50,680,000 Jupiter Medical Center Inc. (FL) - Series 2013

	MMD 4/24/2013	Coupon	Yield	Spread to MMD
11/1/2013	0.20%	2.00%	0.74%	0.54%
11/1/2014	0.20%	4.00%	1.06%	0.86%
11/1/2015	0.29%	4.00%	1.39%	1.10%
11/1/2016	0.42%	4.00%	1.64%	1.22%
11/1/2017	0.56%	4.00%	1.90%	1.34%
11/1/2018	0.74%	4.00%	2.18%	1.44%
11/1/2019	0.92%	5.00%	2.49%	1.57%
11/1/2020	1.13%	5.00%	2.73%	1.60%
11/1/2021	1.34%	5.00%	2.96%	1.62%
11/1/2022	1.52%	5.00%	3.21%	1.69%
11/1/2023	1.70%	5.00%	3.40%	1.70%
11/1/2024				
11/1/2025				
11/1/2026				
11/1/2027				
11/1/2028	2.32%	4.13%	4.25%	1.93%
11/1/2029				
11/1/2030				
11/1/2031				
11/1/2032				
11/1/2033	2.61%	5.00%	4.15%	1.54%
11/1/2034				
11/1/2035				
111/2036				
11/1/2037				
11/1/2038				
11/1/2039				
11/1/2040				
11/1/2041				
11/1/2042				
11/1/2043	2.90%	5.00%	4.37%	1.47%
11/1/2044				

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Moderated Discussion

If you have a question, please type it into the Q&A box on your screen.

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Thank You for Joining Us Today!

In the coming weeks look for an invitation for our February 2014 session, where we will discuss the SEC's new ***"Municipal Advisor Rule".***

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