

Attachment 7(b)



Fairness Opinion

August 29, 2018

CAIN BROTHERS
A division of
KeyBanc Capital Markets 

Table of Contents

	<u>Section</u>
Purpose and Statement of Limiting Conditions	I
Scope of the Engagement and Conclusion	2
Summary of Proposed Transaction	3
Significant Valuation Factors	4
Valuation Analysis	5
<u>Appendix:</u>	
Precedent Transactions – Full List	A
Precedent Transactions – Large Systems	B
MHS Historical Financials and Projections	C
DCF Assumptions	D

Purpose and Statement of Limiting Conditions

Purpose and Statement of Limiting Conditions

- Mission Health System (“MHS,” the “Company” or “Seller”) is a not-for-profit community health system in Western North Carolina and the adjoining region. It operates a 763-bed regional tertiary and quaternary care medical center (Mission Hospital); five community-based general acute care or critical access hospitals (Angel Medical Center, Blue Ridge Regional Hospital, Highlands-Cashiers Hospital, McDowell Hospital, and Transylvania Regional Hospital); a long-term acute care hospital (MSJHS and CCP Joint Development); an inpatient facility for acute rehabilitation; hospice care; home health and adult day care; outpatient diagnostic imaging, surgery and children’s centers (Children’s Hospital); and physical, occupational, and speech therapy programs (collectively, the “Business”).
- HCA Healthcare, Inc. (“HCA” or “Buyer”) is a for-profit operator of healthcare facilities. Headquartered in Nashville, TN, HCA manages 179 hospitals and 120 free-standing surgery centers in the US and the UK. Through its subsidiaries, HCA operates general, acute care hospitals that offer medical and surgical services, including inpatient care, intensive care, cardiac care, diagnostic, and emergency services; as well as outpatient services, such as outpatient surgery, laboratory, radiology, respiratory therapy, and physical therapy services. It also operates psychiatric hospitals and outpatient health care facilities.
- The board of directors of MHS (the “Board”) has requested that Cain Brothers, a division of Keybank Capital Markets (“Cain Brothers”) provide an opinion as to the fairness, from a financial point of view, of the consideration to be received by MHS in the transaction between MHS and its affiliates and HCA (the “Transaction”). The Transaction is structured as a sale by Seller to Buyer of good and marketable title to substantially of the assets that are associated or used in the operation of the Seller entities and the Seller’s hospitals and health care facilities, as detailed in the latest draft of the Asset Purchase Agreement (“APA”) dated August 23, 2018.
- Total consideration (“Consideration”), subject to certain post-closing adjustments, to be paid by Buyer to the Seller amounts to \$1,468,000,000 in cash plus or minus a) an amount calculated as the value of adjusted working capital delivered by Seller at closing compared to a defined target of [REDACTED]; plus b) an adjustment for any Seller expenditures for the construction of a new patient tower incurred before closing in excess of scheduled amounts; minus c) specified adjustments in respect of any entities, ownership interests and services that could be excluded at closing if certain approvals and consents cannot be obtained before the closing date; minus d) severance obligations owed to employees whose employment does not transfer to HCA, estimated to be \$1,230,000.

Purpose and Statement of Limiting Conditions

- In preparing our opinion, we have assumed and relied upon, with the consent of MHS, the accuracy and completeness of all information reviewed by us, and we have relied upon the assurances of MHS's management that it is not aware of any facts that would make such information inaccurate or misleading. We have not assumed any responsibility for verifying and have not independently verified such information or undertaken an independent valuation or appraisal of the assets or liabilities (contingent or otherwise) of MHS, nor have we been furnished with any such valuation or appraisal, and we have not evaluated the solvency of MHS or its affiliates under any state or federal laws relating to bankruptcy, insolvency or similar matters. We express no opinion as to the liquidation value of any entity or as to the tax or other consequences of the Transaction. We are not legal, tax or accounting advisors and have relied upon MHS and their respective legal, tax and accounting advisors to make their own assessment of all legal, tax and accounting matters relating to MHS and the Transaction.
- With respect to the financial projections supplied to us, we have relied upon the representations of MHS management that the projections have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of senior management of MHS with respect to its future competitive, operating and regulatory environments and related financial performance of MHS, and we have further assumed that such projections will be realized in the amounts and in the time periods currently estimated and that any additional capital requirements contemplated by the projections will be available. We assume no responsibility for and express no view as to the accuracy of such projections or estimates or the assumptions on which they were based. In addition, we have assumed that the historical financial statements of MHS reviewed by us have been prepared and fairly presented in accordance with U.S. generally accepted accounting principles consistently applied.
- In arriving at our opinion, we did not attribute any particular weight to any analysis or factor considered by us, but instead made qualitative judgments as to the significance and relevance of each analysis and factor. Each method of analysis has inherent strengths and weaknesses, and the nature of the available information further affects the analytic value of particular methods. Accordingly, we believe that our analyses must be considered as a whole and that selecting portions of our analyses, without considering all analyses, would create an incomplete view of the process underlying this opinion.

Purpose and Statement of Limiting Conditions

- We have not reviewed the books and records of MHS or conducted a physical inspection of all the properties or facilities of MHS, nor have we assumed any responsibility for any such review or inspection. To the extent the terms of the APA form the basis of our opinion, we have assumed, with MHS's consent, that the executed version of the APA will not differ in any material respect from the last draft we reviewed, and that the Transaction will be consummated on the terms set forth therein, without waiver or modification of any material terms. We have assumed, in all respects material to our analysis, that the representations and warranties of each party contained in the APA are true and correct, and that each party will perform all of the covenants and agreements required to be performed by it under the APA.
- Our opinion is necessarily based on economic, market and other conditions and circumstances as they exist and can be evaluated on, and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this opinion and the assumptions used in preparing it, and we do not assume any obligation to update, revise, reaffirm or withdraw this opinion or to otherwise comment upon events occurring after the date hereof.
- "Fair Market Value," as used in our opinion, reflects the price at which a business or business interest would change hands between a willing buyer and a willing seller, neither being under compulsion to buy or sell and both having reasonable knowledge of the relevant facts as of the valuation date. Furthermore, Fair Market Value implies a value not affected by undue stimulus and derived after a reasonable time in the open market. Our opinion as to the fairness, from a financial point of view, of the Transaction was developed based on comparing the Fair Market Value of the Business with the Consideration as defined herein.

Purpose and Statement of Limiting Conditions

- This opinion does not constitute a recommendation to MHS or any director, trustee or member of MHS as to how MHS or any such director, trustee or member of MHS should vote on or otherwise act with respect to the Transaction. This opinion does not address (i) the terms of the APA except as to the fairness of the value of the Consideration as expressly set forth in our opinion, (ii) the relative merits of the Transaction and any other transactions or business strategies discussed by MHS as alternatives to the Transaction or (iii) the decision of MHS to proceed with the Transaction, the timing thereof or the process by which it was reached. Nor does this opinion address the fairness of the allocation of any consideration paid to MHS and their respective constituencies. Furthermore, we express no opinion with respect to the amount or nature of any compensation received by any officers, directors or employees of any party to the Transaction, or any class of such persons, or with respect to the fairness of any such compensation relative to the Consideration or otherwise. We have assumed at MHS's direction that in conducting the process leading up to the Transaction, MHS as complied with their respective fiduciary duties and that the decision of MHS to enter negotiations and execute the APA with HCA was based on the exercise of appropriate business judgment.
- In rendering our opinion, we have not been engaged to act as an agent of or fiduciary to MHS or any other third party. We have acted as financial advisor to MHS in connection with the Transaction and preparing this opinion related to the Transaction. Cain Brothers received an upfront retainer upon execution of the engagement letter, and we will receive fees for services provided to MHS, which will be paid upon execution of the APA and upon closing of the Transaction. In addition, MHS has agreed, to the extent permitted by North Carolina law, to indemnify us for certain liabilities that may arise out of this engagement.
- Our opinion addresses only the fairness, from a financial point of view, of the Consideration, as defined herein, to be received by MHS in the Transaction, and we do not express any views on any other terms of the Transaction.

Scope of Engagement and Conclusion

Scope of the Engagement and Conclusion

Procedures Performed

- In reaching our opinion, we have:
 - > Reviewed the form and content of the Asset Purchase Agreement and related Transaction documents;
 - > Discussed with the senior management and the Board of Seller the financial consequences of the Transaction;
 - > Held meetings with senior management of MHS and legal counsel to discuss the business, prospects and operations of MHS, including the following topics, among others:
 - Business prospects
 - Historical operating and financial performance
 - Corporate strategy
 - The local and regional hospital, physician and managed care market
 - Market share trends
 - Demographic statistics and trends
 - Competition
 - Patient base
 - Provider relationships
 - Payor market
 - Operations
 - Capital expenditure requirements
 - Financial projections

Scope of the Engagement and Conclusion

Procedures Performed

- > Reviewed and analyzed financial statements and other financial and operating information of MHS for the fiscal years ended September 30, 2016 and 2017, and unaudited financial statements for the period ending July 31, 2018;
- > Reviewed and analyzed projected 5-year financial statements prepared by MHS management
- > Considered financial, valuation and other publicly-available information concerning publicly traded companies engaged in providing acute care hospital services;
- > Reviewed and analyzed certain publicly available and proprietary information concerning the financial and operating characteristics and valuations of those transactions involving the sale of, and investments in, acute care hospital companies;
- > Considered the implications to the value of MHS of national, regional and local trends in the health care industry;
- > Conducted site tours of key Business facilities;
- > Developed certain analytical models to estimate the value of the Company;
- > Considered and applied three conventional valuation methodologies:
 - Comparable Public Company Valuation Methodology
 - Comparable Precedent Transactions Methodology
 - Discounted Cash Flow Methodology
- > Performed certain other work we deemed appropriate and necessary to develop our valuation conclusions.

Scope of the Engagement and Conclusion

Conclusion

- Based on the work performed, we have estimated the Fair Market Value of the Business between \$1,300.0 million and \$1,700.0 million, as determined in the table below.
- Consideration as defined herein is estimated to have a Fair Market Value of \$1,466.8 million.

Valuation Methodology	Implied Valuation Range	Cain Brothers Reference Range
Precedent M&A Transactions	\$1,024.7 million - \$2,329.1 million	\$1,400.0 million - \$1,800.0 million
Comparable Public Company Analysis	\$911.4 million - \$2,411.1 million	\$1,000.0 million - \$1,400.0 million
Discounted Cash Flow Analysis	\$1,316.0 million - \$1,667.8 million	\$1,350.0 million - \$1,550.0 million
Estimated Range of Fair Market Value		\$1,300.0 million - \$1,700.0 million

Based on a comparison of the Consideration to be received by MHS in the Transaction to the Range of Fair Market Value of the Business, it is our opinion that as of the date hereof, on the basis of all information herein, and subject to all stated limitations, the Consideration to be received by MHS in the Transaction is fair from a financial point of view.

Summary of Proposed Transaction

Summary of Proposed Transaction

Summary of Transaction Terms

Term	Description
Structure:	<ul style="list-style-type: none"> Asset purchase
Consideration for Acquired Assets:	<ul style="list-style-type: none"> \$1.467 billion total Consideration, in exchange for all subsidiaries and affiliates, reserves and other balance sheet items necessary to operate the Business, other than specified excluded services and entities as described herein Cash consideration of \$1.467 billion is subject to modification in respect of i) adjusted net working capital delivered at closing relative to target of [REDACTED]; ii) Seller expenditures for the construction of a new patient tower incurred before closing in excess of scheduled amounts; iii) specified adjustments in respect of any entities, ownership interests and services that could be excluded at closing if certain approvals and consents cannot be obtained before the closing date; and iv) severance obligations owed to employees whose employment does not transfer to HCA, estimated to be \$1,230,000
Regulatory Approvals:	<ul style="list-style-type: none"> Subject to non-objection from the Attorney General of the state of North Carolina and Hart-Scott-Rodino notification process Requires permission from the North Carolina Department of Health and Human Services to transfer CONs to HCA
Commitments:	<ul style="list-style-type: none"> Buyer will commit to make capital expenditures of at least \$232 million during the first five years after Closing, in addition to expenditures related to the New Tower Project, Angel Medical Center Project and Behavioral Health Hospital Project Buyer will not close MHS hospital facilities or CommunityCare Partners for a minimum of 10 years, and following such period, not until the occurrence of a Contingency Buyer will not discontinue essential services at Mission Hospital Campus or CommunityCare Partners for at least 10 years, or at other MHS hospitals for at least 5 years, and following expiration of the applicable period, not until the occurrence of a Contingency Buyer will not sell MHS hospital facilities or CommunityCare Partners for a minimum of 10 years; Seller will have right to bid on any post-closing sale by Buyer Parties will maintain an Advisory Board and Local Advisory Boards at each Local Hospital, in each case comprised of 4 Seller appointees and 4 Buyer appointees until such time as no services or facilities commitments exist Buyer will have an indigent care policy which is subject to the approval of the Advisory Board for a period of 10 years Buyer will commit to creating a joint venture innovation/investment fund with Seller to invest in businesses located in the Asheville, NC area, that provide innovations in the delivery of healthcare Buyer will hire all employees in good standing as of Closing, except as provided otherwise in the Transition Plan For a 5 year period following closing, Seller will not compete with Buyer in the service area
Indemnification:	<ul style="list-style-type: none"> Indemnification obligation survival of 2 years, subject to a [REDACTED] threshold and a maximum cap equal to \$150 million Fundamental Representations not subject to survival term or maximum cap
Certain Closing Conditions:	<ul style="list-style-type: none"> MHS has furnished title policies, deeds, certificates, and all necessary consents and waivers to HCA A Transition Plan identifying Excluded Employees and Transferred Employees who will be terminated within first 12 months Ancillary Agreements, including Assignment and Assumption Agreement, Foundation Agreement, Trademark Assignment Agreement, Domain Name Assignment Agreement and Fund Operating Agreement are executed No Material Adverse Effect has occurred

Summary of Proposed Transaction

Excluded Services

- The services listed below will be excluded from the Transaction
- Excluding these services from operations decreases MHS LTM revenue by \$2.8M and increases LTM EBITDA by \$190K

Excluded Services	Financial Impact
CarePartners Adult Day Care	<ul style="list-style-type: none"> • LTM Revenue: \$2.378M • LTM EBITDA: \$83K
CarePartners Bereavement	<ul style="list-style-type: none"> • LTM Revenue: \$55K • LTM EBITDA: \$(320)K
SafeKids	<ul style="list-style-type: none"> • LTM Revenue: \$109K • LTM EBITDA: \$0
Asthma Disease Management	<ul style="list-style-type: none"> • LTM Revenue: 266K • LTM EBITDA of \$47K
Pediatric Weight Management	<ul style="list-style-type: none"> • LTM Revenue: \$2K • LTM EBITDA: \$0

Summary of Proposed Transaction

Excluded Entities

- MHS-owned equity interests in the entities listed below will be excluded from the Transaction and retained by MHS
- Earnings from these entities are recognized as Other Income on MHS's income statements
- Excluding these entities from operations decreases MHS LTM EBITDA by \$356K

Excluded Entities	Description
Advanced Home Care, Inc.	• LTM EBITDA: \$0
ABCCM Doctors' Medical Clinic, Inc.	• LTM EBITDA: \$0
Blue Ridge DME, LLC	• LTM EBITDA: \$342K
Blue Ridge Home Care	• Owned 50% by Blue Ridge DME • LTM EBITDA impact included in Blue Ridge DME's EBITDA
BMH Solutions, Inc.	• LTM EBITDA: \$0
Healthcare III Limited Partnership	• LTM EBITDA: \$1K
Healthcare Limited Liability Company VII	• LTM EBITDA: \$13K
ProCare, Inc.	• LTM EBITDA: \$0

Summary of Proposed Transaction

Potentially Excluded Hospitals and Services

- The ability of MHS to transfer McDowell Hospital to HCA is subject to certain conditions and may be excluded from the Transaction at closing
- If excluded at closing, an amount associated with the value of the operations of McDowell Hospital would be withheld by HCA at closing
- If conditions are met following the closing, McDowell Hospital would transfer to HCA in exchange for the related amount withheld

Hospital Entities	Description
McDowell Hospital	<ul style="list-style-type: none"> • If a waiver of land reversion rights is not obtained from McDowell County, the assets associated with the operations of McDowell Hospital would be excluded from the transaction • In such case, Consideration would be reduced by [REDACTED] (the McDowell Reversion Amount), which would be released to Seller if such waiver has been obtained within 1 year of closing • LTM Revenue: \$70.2M • LTM EBITDA: \$12.1M

- The ability of MHS to transfer the services listed below to HCA is subject to certain conditions and may be excluded from the Transaction at closing
- If excluded at closing, an amount associated with the value of the service would be withheld by HCA at closing
- If conditions are met following the closing, the service would transfer to HCA in exchange for the related amount withheld

Services	Description
PACE Program	<ul style="list-style-type: none"> • If PACE approvals for transfer of licensure have not been obtained as of the closing date, the PACE program will be excluded from the Transaction • In such case, Consideration will be reduced by [REDACTED] (the PACE Holdback Amount), which will be released to Seller once such approvals have been obtained • LTM Revenue⁽¹⁾: \$10.2M • LTM EBITDA⁽¹⁾: \$770K
Ashville Specialty Hospital	<ul style="list-style-type: none"> • If approvals for Buyer to operate as long-term care hospital exempt from Medicare inpatient Prospective Payment System have not been obtained as of the closing date, Asheville Specialty Hospital will be excluded from the Transaction • In such case, Consideration will be reduced by [REDACTED] (the LTAC Holdback Amount), which will be released to Seller once such approvals have been obtained • LTM Revenue⁽¹⁾: \$15.1M • LTM EBITDA⁽¹⁾: \$1.7M

Summary of Proposed Transaction

Potentially Excluded Joint Ventures

- The ability of MHS to transfer its equity interests in the Joint Ventures listed below to HCA is subject to certain consents and may be excluded from the Transaction at closing
- If excluded at closing, an amount associated with the value of the Joint Venture would be withheld by HCA at closing (the Restricted JV Amount)
- If consent is obtained following the closing, the related Joint Venture interests would transfer to HCA in exchange for the related amount withheld

Excluded JVs	Description
AAQHNC, LLC Ownership: 10.0%	<ul style="list-style-type: none"> • Restricted JV Amount: [REDACTED] • LTM EBITDA⁽¹⁾: [REDACTED]
PLPCC, LLC Ownership: 9.091%	<ul style="list-style-type: none"> • Restricted JV Amount: [REDACTED] • LTM EBITDA⁽¹⁾: [REDACTED]
Blue Ridge TKC Ownership: 70.0%	<ul style="list-style-type: none"> • Restricted JV Amount: [REDACTED] • LTM EBITDA⁽¹⁾: [REDACTED]
Spruce Pines Ownership: 70.0%	<ul style="list-style-type: none"> • Restricted JV Amount: [REDACTED] • LTM EBITDA⁽¹⁾: [REDACTED]
WNCHCI, LLC Ownership: 80.0%	<ul style="list-style-type: none"> • Restricted JV Amount: [REDACTED] • LTM EBITDA⁽¹⁾: [REDACTED]
WNC Stone Center Ownership: 33.3%	<ul style="list-style-type: none"> • Restricted JV Amount: [REDACTED] • LTM EBITDA⁽¹⁾: [REDACTED]
Imaging Realty, LLC Ownership: 69.0%	<ul style="list-style-type: none"> • Restricted JV Amount: [REDACTED] • LTM EBITDA⁽¹⁾: [REDACTED]

Summary of Proposed Transaction

Summary of Process

- MHS began considering strategic alternatives in 2017, with the goal of preserving and expanding the quality of care provided to its communities in the context of a rapidly consolidating and changing health care industry environment

- Held preliminary, high-level discussions with executives at various regional and national health systems regarding potential partnerships
 - > Ideal partner was one that that could provide economies of scale to bring down back-office costs, while continuing to cultivate MHS's best-in-class quality
 - > After discussions with multiple parties, concluded that realistic partners was limited to a very short list

- After the Board of MHS decided to pursue a potential strategic partnership, MHS hired PDG Consulting to engage in focused dialogue with identified potential strategic partners
 - > PDG Consulting lead a targeted process involving highly-interested buyers
 - > All parties responded to the request for proposal with preliminary non-binding indications of interest
 - Proposed transaction structures included asset purchase, membership substitution and joint venture partnership
 - Each proposal was considered by the Board of MHS and evaluated against a set of financial and non-financial criteria

- The Board selected HCA to move forward with exclusive negotiations for a full asset purchase and executed a Letter of Intent with HCA on March 14, 2018
 - > MHS then engaged Cain Brothers to coordinate due diligence, provide a fairness opinion and manage the deal process through closing

Summary of Proposed Transaction

Overview of HCA

- HCA, through its subsidiaries, provides inpatient hospital and other inpatient and outpatient healthcare services in the United States and the United Kingdom
- As of Dec. 31 2017, HCA operates 179 hospitals and 120 freestanding surgery centers
 - > 175 general, acute care hospitals (46,226 licensed beds)
 - > 3 psychiatric hospital (412 beds)
 - > 1 rehabilitation hospital
- Also operates 120 freestanding surgery centers
 - > Freestanding ambulatory surgery centers, freestanding emergency care facilities, urgent care facilities, walk-in clinics, diagnostic and imaging centers, comprehensive rehabilitation and physical therapy centers, radiation and oncology therapy centers, physician practices and various other facilities
- Financial Statistics⁽¹⁾
 - > LTM Revenue (6/30/18): \$45.2 billion
 - > LTM EBITDA (6/30/18): \$8.4 million (18.7%)
 - > Stock Price: \$131.1
 - > Market Cap: \$45.2 billion
 - > Debt-to-EBITDA: 3.9x

Number of Hospitals directly or indirectly owned by HCA (Dec 31, 2017)

State	Hospitals	Beds
Alaska	1	250
California	5	1,838
Colorado	7	2,411
Florida	45	11,980
Georgia	8	1,847
Idaho	2	468
Indiana	1	278
Kansas	4	1,374
Kentucky	2	384
Louisiana	4	1,066
Mississippi	1	130
Missouri	5	1,014
Nevada	3	1,217
New Hampshire	2	295
Oklahoma	2	756
South Carolina	3	867
Tennessee	13	2,450
Texas	46	12,980
Utah	8	1,011
Virginia	11	3,271
International		
England	6	851
Total	179	46,738

Significant Valuation Factors

Significant Valuation Factors

Factors and Implications: The following summarizes our assessment of certain key valuation factors that we considered significant and relevant in arriving at our conclusions

Attribute	Description	Valuation Implication
Market Position	MHS is North Carolina's sixth-largest health system, operating six hospitals, including the region's only dedicated Level II trauma center and other inpatient and outpatient services. Mission Hospital, a 763-bed tertiary medical center in Asheville, NC, is MHS's flagship hospital and an essential healthcare provider in the western NC market. It is the major tertiary and quaternary referral center in 18 counties in western NC and the adjoining region. In addition, MHS is the largest employer in Buncombe County.	Positive. MHS is a highly respected provider locally, state-wide and nationally. MHS is both an essential provider of healthcare services to its service area and a crucial part of the local economy.
Competition	MHS holds a 49.5% market share across the 11 counties it operates in, according to an analysis by consulting firm Healthcare Management Partners using the Modern Healthcare Metrics database. In addition, Mission Hospital consistently holds 90%+ market share in its primary service area, consisting of Buncombe County. In its secondary service area, consisting of Haywood, Henderson, Madison and McDowell counties, Mission holds ~50% market share. Finally, in its tertiary service areas, consisting of Avery, Burke, Cherokee, Clay, Graham, Jackson, Macon, Mitchell, Polk, Rutherford, Swain, Transylvania and Yancey counties, Mission holds ~25% market share. For tertiary care, such as cardiac and neonatal services, MHS competes with facilities located in Charlotte, NC and in a broad, multi-state market, including portions of Georgia, South Carolina and Tennessee. Many of MHS's critical access hospitals, including Blue Ridge Regional Hospital, Angel Medical Center and Transylvania Regional Hospital, are the only hospitals in their respective markets.	Positive. Market share is strong in its primary service area but drops dramatically in its secondary and tertiary service areas. However, competition in its primary and secondary service area is fragmented implying a stronger market hold than the numbers may suggest. Competition should remain moderate as CON regulation in North Carolina helps create barriers to increased competition.

Significant Valuation Factors

Factors and Implications: The following summarizes our assessment of certain key valuation factors that we considered significant and relevant in arriving at our conclusions

Attribute	Description	Valuation Implication
Market Demographics	<p>Primary Service Area: MHS's primary service area (Buncombe County, which accounts for 53.7% of Mission Hospital's total unique patients) has a population of 253,040 (2017), an average median income of \$49,000 (2017) and unemployment rate of 3.3% (2018). The average median income and unemployment rate are relatively in line with state and national averages. Projected population growth of 5.5% to 267,579 in 2022 is driven by the desirability of living and working in the Asheville area.</p> <p>Secondary Service Area: MHS's secondary service area (Haywood, Henderson, Madison and McDowell Counties, which accounts for 24.8% of Mission Hospital's unique patients) has a combined population of 243,066 (2016) and average median incomes (2015) of \$41,600, \$44,800, \$38,600 and \$37,590 for Haywood, Henderson, Madison and McDowell Counties, respectively. Each median income is below North Carolina's median of \$50,584.</p> <p>Tertiary Service Area: MHS's tertiary service area includes 13 North Carolina counties with the following median incomes: Avery (\$35,891), Burke (\$39,759), Cherokee (\$35,284), Clay (\$36,296), Graham (\$34,778), Jackson (\$40,278), Macon (\$39,593), Mitchell (\$39,658), Polk (\$47,396), Rutherford (\$36,144), Swain (\$33,598), Transylvania (\$43,918) and Yancey (\$36,993). All of the above median incomes are from 2016. Mission's tertiary service area accounts for 21.9% of Mission Hospital's unique patients and has a combined population of 389,959 (2015).</p>	Neutral. MHS's service area is characterized by a strong primary service area and a more demographically challenging in terms of age and income in the broader market.
Payor Mix	~75% of MHS's payor mix is attributable to Medicare, Medicaid and uninsured patients. Furthermore, North Carolina is not a Medicaid-expansion state and has taken significant tax reform and budget balancing initiatives that have reduced tax revenue and put pressure on Medicaid payments.	Strong Negative. Limits ability for financial improvement through revenue growth. Continued suppression of reimbursement rates from government payors creates substantial risk to operating margins.

Significant Valuation Factors

Factors and Implications: The following summarizes our assessment of certain key valuation factors that we considered significant and relevant in arriving at our conclusions

Attribute	Description	Valuation Implication
Facilities	<p>An estimated \$419 million construction project at Mission Hospital, which includes the consolidation of its two campuses (Memorial Campus and St. Joseph Campus), a new patient tower and the expansion of the central energy plant is currently underway. The plan is being financed with operating cash flow, philanthropy and debt proceeds. McDowell Regional Hospital recently opened a replacement facility.</p> <p>MHS's older hospital and CommunityCare Partners facilities appear to be well maintained. MHS has completed several recent capital projects intended to improve provision of care and patient satisfaction. The one exception is Angel Medical Center, expected to be replaced by HCA.</p>	Neutral. With the exception of Angel, there are no major capital needs at any of the MHS facilities that have not been addressed or underway. The consolidation project at Mission Hospital represents some near-term execution risk given the scale of the project, but streamlining inefficiencies at the main campus will benefit the system in the long-term.
Physician Alignment and Market	<p>Mission Hospital's medical staff numbers over 1,000, covering all major specialties and subspecialties. In addition to continued expansion of the physician employment model, several specialty groups (including Oncology and Urology) have aligned with MHS through professional service arrangements. MHS has also established a Physician Executive Counsel to ensure physician input into major strategic decisions and a Primary Care Counsel to ensure input and alignment with non-affiliated primary care practices.</p> <p>Physician recruitment for Mission Hospital has not been a significant issue due to the reputation of Mission Hospital for providing quality services, the financial performance of MHS and the desirability of living and working in the Asheville area.</p>	Positive. Strong platform to continue growing essential services and recruiting quality physicians.
Employees	Of MHS's roughly 7,500 full-time employees, none are members of a labor union and management is not aware of an union organizing efforts. Compensation and benefits are comparable to and competitive with other employers and health care providers in the region.	Neutral. Union-related issues are highly unlikely to nonexistent and we expect customary employee-related risks for a health system of MHS's size and scale.

Significant Valuation Factors

Factors and Implications: The following summarizes our assessment of certain key valuation factors that we considered significant and relevant in arriving at our conclusions

Attribute	Description	Valuation Implication
Quality	MHS has earned national recognition as one of the top 15 healthcare systems in the country in five years since 2012 by Truven Health Analytics, in addition to various other awards and honors from <i>US News & World Report</i> , <i>Becker's Hospital Review</i> , American College of Surgeons National Surgical Quality Improvement Program, Healthgrades, and many others. Mission Health Partners, MHS's Accountable Care Organization, was eligible for shared savings in 2016, despite having a cost per patient which is among the lowest in the industry.	Strong Positive. Management is very focused on maintaining and improving clinical quality and outcomes. Quality will become increasingly important as the trend toward value-based healthcare continues.
Management Team	MHS's management team has positioned MHS to be financially and strategically successful. Key executives have both managed care and provider leadership experience. Limited turnover for key management and Board positions, other than the recent retirement of the CFO (filled from within).	Positive. We consider management to be seasoned and forward-looking. Management is actively focused on financial performance, clinical quality, and navigating the future of value-based healthcare.
Financial Performance	MHS has consistently generated positive net income and high-single-digit to low-double-digit operating EBITDA margins. Strong utilization (1% growth in inpatient admissions, 6% growth in ER visits and 7% growth in outpatient visits) in 2017 led to 7.4% growth in total revenue. Management expects low single-digit revenue growth over the next 5 years and stable operating EBITDA margins of around 9.5%.	Positive. Utilization remains robust despite softness in volume across the acute care hospital industry. Strong cash flow will allow for continued investment in strategic initiatives and PP&E without overly relying on alternative funding sources such as state funding, philanthropy or debt financings.
Capital Structure and Liquidity	Debt-to-capitalization ratio remains modest at 26%, which is in line with other AA- health systems. MHS has a conservative debt profile with less than 10% in variable rate debt. MHS also maintains one floating-to-fixed interest rate swap with a notional amount of \$4.7 million. MHS has considerable distance from its debt service coverage (1.2x annual debt service coverage) and liquidity covenants (100 Days Cash on Hand). According to Moody's, estimated Maximum Annual Debt Service coverage was 5.4x and Days Cash on Hand was 235 days for FY 2017.	Positive. MHS has modest leverage metrics and any short-term adverse impact on profitability can be managed with MHS' strong balance sheet.

Significant Valuation Factors

Factors and Implications: The following summarizes our assessment of certain key valuation factors that we considered significant and relevant in arriving at our conclusions

Attribute	Description	Valuation Implication
Regulatory Environment	North Carolina has CON regulations for the development of healthcare facilities.	Positive. Competition should remain moderate as CON regulation helps create barriers to increased competition.
Service Commitments	MHS has negotiated significant commitments from HCA for continued provision of key services at MHS facilities and non-closure of hospitals.	Negative. Limiting a buyer's inability to close a service line that is not profitable restricts the buyer's ability to maximize income.
Growth Prospects	MHS's combination of significant market share, weak payor mix and operating efficiency along with significant capital expenditure requirements impose natural barriers on HCA's ability to grow revenue and margins through improved management and rigorous focus on efficiency.	Strong Negative. The ability to reduce costs and grow commercial payor market share is limited and thus reduces potential upside opportunities that can drive value enhancement.

The majority of the valuation considerations have a positive implication on MHS's estimated value. However, the opportunity for revenue growth and EBITDA improvement is significantly constrained due to a weak payor mix, high market share and relatively low cost structure. Thus, on balance, the valuation factors have a negative implication on value relative to median values.

Valuation Analysis

Valuation Analysis

Overview of Valuation Methodologies

- **Cain Brothers has prepared and reviewed various valuation analyses typical to transactions of this nature**
- Below is a brief summary of the financial analyses performed by Cain Brothers used to evaluate the financial consideration to be paid for MHS
- Among other factors, Cain Brothers has considered differences in size, market position, local market characteristics, payor mix, historical and forecasted growth expectations, and profitability when analyzing the precedent M&A transactions and valuations of publicly traded hospital companies

Analyses	Comments
I. Comparable Precedent Transaction Analysis	<ul style="list-style-type: none"> ▪ Applied EBITDA and revenue multiples from a group of relevant precedent M&A transactions to MHS's latest 12 month EBITDA and revenue, net of excluded services and entities
II. Comparable Public Company Analysis	<ul style="list-style-type: none"> ▪ Applied EBITDA and revenue multiples of selected comparable public hospital operator companies to MHS's latest 12 month EBITDA and revenue, net of excluded services and entities ▪ Less relevant analysis as there are no directly comparable public companies to MHS due to size, geographic diversity and scope of operations
III. Discounted Cash Flow Analysis	<ul style="list-style-type: none"> ▪ Prepared financial analysis to assess the net present value (NPV) of projected future cash flows based on projections provided by MHS management ▪ Results largely dependent on achievability of projections provided by MHS

Valuation Analysis

Comparable Precedent Transaction Analysis

Selection of Comparable Precedent Transactions

- The Comparable Precedent Transactions Methodology attempts to determine a valuation range for the enterprise based upon the range of values paid by buyers in completed M&A transactions and investments involving comparable companies. While this valuation methodology is similar to the Comparable Public Company Methodology in its attempt to draw upon a universe of comparable precedent transactions to quantify certain valuation statistics to be applied in determining value, this methodology addresses valuation by detailing those valuation multiples paid to acquire similar businesses at some point in time.
- While Cain Brothers considers the selected transactions to be relevant, in each case significant variations exist as compared to any potential transaction involving the Company, including, but not limited to:
 - > Size of the target company;
 - > Historic and projected financial performance of the target company;
 - > Market strength and competitive profile of target company;
 - > Geographic location of the target company;
 - > Payer mix;
 - > Reimbursement environment;
 - > Competitive environment in the service area(s) of the target company;
 - > Programs and services provided;
 - > Requirements for capital expenditures;
 - > Market conditions on the date on which the transaction was priced and closed;
 - > Control vs. Non-control stake;
 - > Number of potential bidders; and
 - > Existence of synergies.

Valuation Analysis

Comparable Precedent Transaction Analysis

- Cain Brothers has analyzed 179 selected M&A transactions involving not-for-profit and for-profit hospitals announced since 2008
 - > See Appendix A for a transaction list
- Cain Brothers identified a subset of 14 transactions involving large, multi-facility health systems ranging from ~\$400M to ~\$7.6B in total enterprise value that we judge to be relevant indicators of value
 - > See Appendix B for a transaction list

(\$ in millions)

Precedent Transaction Comps - All Transactions				Precedent Transaction Comps - Large Systems			
	Target Statistic	Applied Multiple	Implied EV		Target Statistic	Applied Multiple	Implied EV
EV / LTM Revenue				EV / LTM Revenue			
High	\$1,786	1.99x	\$3,545	High	\$1,786	1.30x	\$2,329
Mean	\$1,786	0.61x	\$1,086	Mean	\$1,786	0.94x	\$1,684
Median	\$1,786	0.55x	\$984	Median	\$1,786	0.89x	\$1,583
Low	\$1,786	0.04x	\$72	Low	\$1,786	0.57x	\$1,025
EV / LTM EBITDA				EV / LTM EBITDA			
High	\$178	15.0x	\$2,659	High	\$178	10.3x	\$1,824
Mean	\$178	8.0x	\$1,417	Mean	\$178	8.8x	\$1,556
Median	\$178	7.8x	\$1,390	Median	\$178	8.6x	\$1,528
Low	\$178	0.7x	\$123	Low	\$178	6.3x	\$1,128
Revenue Multiple Range						0.80x - 1.10x	\$1.43B - 1.96B
EBITDA Multiple Range						8.0x - 10.0x	\$1.42B - 1.78B
Cain Brothers Comparable Company Reference Range							\$1.40B - 1.80B

Valuation Analysis

Comparable Public Company Valuation Analysis

Selection of Comparable Public Companies

- The Comparable Public Company Valuation Methodology entails an analysis of publicly traded companies, to the extent possible, of comparable size and similar geographic, operating, and financial characteristics to that of the Company. This methodology, therefore, operates under the assumption that comparable companies should be valued similarly in the public market. We analyzed publicly available information furnished to shareholders or filed with the SEC or other regulatory bodies during some prescribed period of time (e.g., Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, prospectuses). We accessed these data through several database sources including SEC filings, Bloomberg and Capital IQ in order to generate a set of defined operating and market statistics.
- We have used publicly-traded hospital companies as the closest comparables to MHS. Note that in each case, significant variations exist between the peer group and MHS.
- The multiples derived from comparable companies were based on the financials for the last twelve months ended July 31, 2018 and identified the following six publicly traded companies:

Publicly Traded Hospital Companies
<ul style="list-style-type: none"> • HCA Healthcare, Inc. • Tenet Healthcare Corporation • Community Health Systems, Inc. • Universal Health Services, Inc. • LifePoint Health, Inc. • Quorum Health Corporation

Valuation Analysis

Comparable Public Company Valuation Analysis

Comparable Public Company Valuation Considerations

- **Market Multiples.** Valuation multiples, such as revenue, earnings or cash flow multiples are important valuation metrics as they represent tools that relate the value of a business to the source of that value. Valuation multiples are also important because they have become a convention within the industry and are commonly used by active buyers and sellers to arrive at transaction and purchase prices for health care enterprises.
 - > For this analysis, we applied revenue and EBITDA multiples to the Company reflecting our judgment that these multiples are the more relevant valuation proxies.
- **Illiquidity Discount.** A major difference between the Company and the comparable publicly traded companies, is the fact that as a not-for-profit entity, the Company does not have marketable equity interests. According to various studies, the discounts for lack of marketability (e.g., illiquidity) associated with private companies indicate a wide range of discounts. This is commonly referred to as an illiquidity discount. For purposes of determining the value of privately held or not-for-profit entities, Cain Brothers uses a 25% illiquidity discount to adjust the valuation metrics of publicly traded companies.

Valuation Analysis

Comparable Public Company Valuation Analysis

Comparable Public Companies Market Trading Statistics

(\$ in millions)

Companies	Ticker	Closing Price		Market Value	Enterprise Value	Enterprise Value /					
		as of	as % of 52-			Revenues			EBITDA		
		8/22/18	Week High			LTM	CY 18E	CY 19E	LTM	CY 18E	CY 19E
Acute Care - Hospitals											
HCA Healthcare, Inc.	HCA	\$130.61	98.6%	\$47,251.7	\$81,394.7	1.8x	1.8x	1.7x	9.6x	9.3x	8.8x
Tenet Healthcare Corporation	THC	\$33.20	83.5%	3,487.4	20,110.4	1.1	1.1	1.1	8.0	7.7	7.6
Universal Health Services, Inc.	UHS	\$128.40	100.0%	12,065.6	16,058.1	1.5	1.5	1.4	9.4	9.1	8.6
Community Health Systems, Inc.	CYH	\$3.47	43.8%	400.8	14,497.8	0.9	1.0	1.1	8.5	9.0	9.3
LifePoint Health, Inc.	LPNT	\$64.45	98.6%	2,547.8	5,467.8	0.9	0.9	0.9	8.3	7.4	7.2
Quorum Health Corporation	QHC	\$3.94	39.4%	129.6	1,343.2	0.7	0.7	0.7	8.3	8.8	7.9
		Mean	77.3%	-	-	1.1x	1.2x	1.1x	8.7x	8.6x	8.2x
		Median	91.1%	-	-	1.0	1.1	1.1	8.4	8.9	8.3

Source: Company filings, Wall Street research and Cain Brothers estimates.
LTM = Latest Twelve Months; NA = Not Available; NM = Not Meaningful
Enterprise value is equal to equity value plus debt, less cash and investments.
Revenue and EBITDA projections are calendarized and are Wall Street consensus estimates.

Valuation Analysis

Comparable Public Company Valuation Analysis

- Cain Brothers has analyzed six publicly traded hospital companies
- There are no directly comparable public companies to MHS due to size, geographic diversity and scope of operations
 - > All of the companies included have at least 25 hospitals and total enterprise value of greater than \$1 billion

(\$ in millions)

Public Hospital Trading Comps						
	Target Statistic	Applied Multiple	Implied EV	Adjustment	Implied Adj. Multiple	Implied Adj. EV
EV / LTM Revenue						
High	\$1,786	1.80x	\$3,215	(25.00%)	1.35x	\$2,411
Mean	\$1,786	1.14x	\$2,041	(25.00%)	0.86x	\$1,531
Median	\$1,786	0.99x	\$1,768	(25.00%)	0.74x	\$1,326
Low	\$1,786	0.68x	\$1,215	(25.00%)	0.51x	\$911
EV / LTM EBITDA						
High	\$178	9.6x	\$1,714	(25.00%)	7.2x	\$1,286
Mean	\$178	8.6x	\$1,522	(25.00%)	6.4x	\$1,142
Median	\$178	8.9x	\$1,589	(25.00%)	6.7x	\$1,192
Low	\$178	8.0x	\$1,424	(25.00%)	6.0x	\$1,068
Revenue Multiple Range					0.70x - 0.90x	\$1.25B - 1.61B
EBITDA Multiple Range					5.5x - 6.5x	\$0.98B - 1.16B
Cain Brothers Comparable Company Reference Range						\$1.00B - 1.40B

Valuation Analysis

Discounted Cash Flow Analysis

Methodology

- The Discounted Cash Flow Methodology (“DCF”), determines a range of values for an enterprise by estimating the present value of projected future free cash flows available to both debt and equity holders of the enterprise. Free cash flows represent the amount of cash projected to be generated by an enterprise equal to EBITDA plus or minus changes in working capital (including excess cash) and other asset/liability changes resulting in changes to available cash, less capital expenditures to be made and less income taxes to be paid on taxable operating income, if any.
- For the valuation of MHS as a stand-alone entity, we used MHS’s financial projections to derive the free cash flow MHS is expected to generate. Free cash flow is calculated as:

Pro Forma EBITDA

Plus Depreciation and Amortization

Plus/Minus Change in Working Capital and Other Cash Flow Items

Minus Capital Expenditures from Uncommitted Capital⁽¹⁾

***Equals* Free Cash Flow**

- The discount rate applied to the free cash flow was determined by applying an additional company-specific premium adjustment to MHS’s weighted average cost of capital (“WACC”) (See Appendix D: DCF Assumptions for calculation of WACC). **In our analysis, we relied exclusively upon financial projections provided by MHS.**
- The second step in our DCF analysis required the determination of a terminal value designed to quantify the present value of those cash flows for the indefinite period beyond the projected time horizon. The terminal value reflects the estimated value of MHS that is attributable to that period beyond the forecasted time horizon, and often constitutes the largest portion of the total valuation of MHS on a present value basis. While there are a number of ways by which one can quantify a subject company’s terminal value, in practice, it is typically a computed basis on a multiple of EBITDA or a perpetuity growth rate. Our analysis bases the terminal value calculations on the comparable EBITDA multiple method and models terminal values between 8.0x – 10.0x terminal year projected EBITDA reflecting the EBITDA multiples reference range computed in the Precedent Transactions analysis.

Valuation Analysis

Discounted Cash Flow Analysis

DCF analysis suggests MHS' enterprise value is in excess of \$1.32B

(\$ in millions)

	Fiscal Year Ending September 30,					
	2018	2019	2020	2021	2022	2023
Revenue	\$1,785	\$1,803	\$1,835	\$1,864	\$1,900	\$1,942
EBITDA	171	172	175	178	182	189
Less: D&A	(94)	(106)	(117)	(118)	(121)	(130)
EBIT	77	66	59	61	60	59
Less: Tax Expense (@ 23.4% Effective Tax Rate)	(18)	(16)	(14)	(14)	(14)	(14)
EBIT (I-T)	\$59	\$51	\$45	\$46	\$46	\$45
FCF Adjustments						
Plus: D&A		106	117	118	121	130
Less: Uncommitted Capex (Routine, IT, Strategic)		(80)	(100)	(88)	(104)	(104)
Less: Change in NWC		(2)	(4)	(3)	(4)	(5)
Total FCF Adjustments		\$24	\$13	\$27	\$14	\$21
Unlevered Free Cash Flow		\$75	\$58	\$73	\$60	\$66
Terminal Value @ 9.0x 2023P EBITDA						\$1,700
Present Value of Unlevered Free Cash Flow @ 9.0%		\$75	\$58	\$73	\$60	\$66
Present Value of Terminal Value @ 9.0%						\$1,153

Cain Brothers' DCF Reference Range: \$1.35B - 1.55B

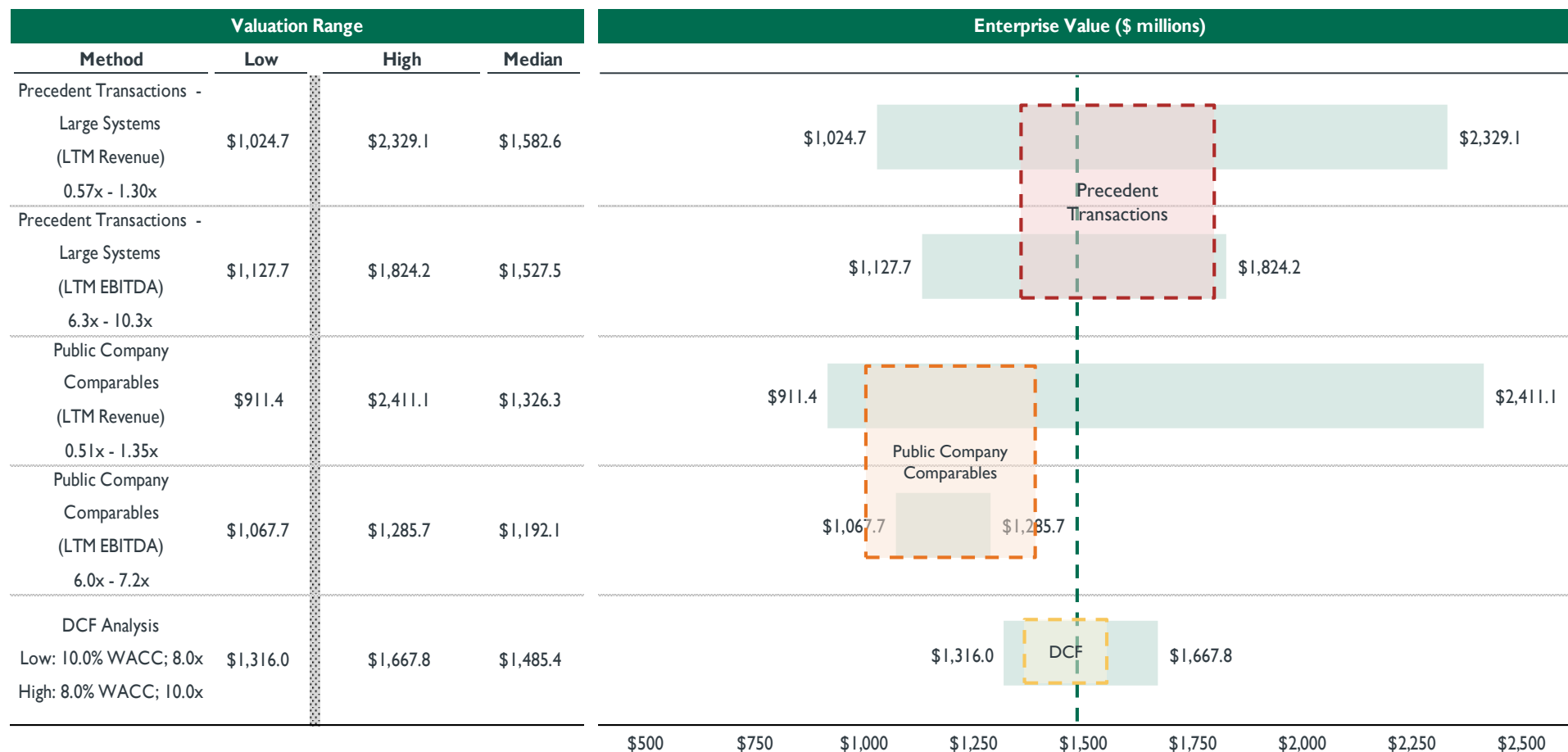
		Enterprise Value Risk Matrix				
		Terminal Value Multiple				
		8.0x	8.5x	9.0x	9.5x	10.0x
Discount Rate	8.0%	\$1,401	\$1,467	\$1,534	\$1,601	\$1,668
	8.5%	\$1,379	\$1,444	\$1,510	\$1,575	\$1,640
	9.0%	\$1,357	\$1,421	\$1,485	\$1,549	\$1,614
	9.5%	\$1,336	\$1,399	\$1,462	\$1,525	\$1,587
	10.0%	\$1,316	\$1,377	\$1,439	\$1,500	\$1,562

Valuation Analysis

Summary Total Enterprise Value

(\$ in millions)

- Assumes all potentially excluded hospitals, services and joint ventures transfer to HCA at closing
- Assumes no closing adjustment to proceeds related to working capital delivery or excess new tower expenditures



Valuation Analysis

Impact of Potentially Excluded Hospitals, Services and Joint Venture

- Applying the selected 8.0 – 10.0x EBITDA multiple across all potentially excluded hospitals, services and joint ventures, the Fair Market Value of assets sold to HCA could be reduced by up to a range of \$138.0M – \$172.5M if all components were excluded from the transaction
- Consideration would fall commensurately by up to \$81.8M
- The net effect of excluding all potentially excluded hospitals, services and joint ventures results in Adjusted Consideration of \$1,385.0M (\$1,466.8M of Total Consideration, less \$81.8M purchase price reduction)
- The Adjusted Consideration would fall within the Adjusted Fair Market Value range of \$1,162.0M to \$1,527.5M (\$1,300.0M - \$1,700.0M estimated Fair Market Value Range, less estimated Enterprise Value range of potentially excluded services and entities)
- As a result, the effect of these potential exclusions would not change Cain Brothers' opinion as stated on page 8 herein

Entity / Service	LTM EBITDA	EBITDA Multiple			Enterprise Value		% Ownership	Reduction in Consideration	Reduction in Fair Value of Assets Purchased			
<u>Hospital Entities</u>												
The McDowell Hospital	\$12.1	8.0	-	10.0x	\$96.6	-	\$120.8	100.0%				
<u>Services</u>												
PACE Program	0.8	8.0	-	10.0x	6.2	-	7.7	100.0%				
Ashville Specialty Hospital	1.7	8.0	-	10.0x	13.7	-	17.2	100.0%				
Services Total	2.5				19.9	-	24.9					
<u>JV Entities</u>												
AAQHNC, LLC						-		10.0%				
PLPCC, LLC						-		9.1%				
Blue Ridge TKC						-		70.0%				
Spruce Pines						-		70.0%				
WNCHCI, LLC						-		80.0%				
WNC Stone Center						-		33.3%				
Imaging Realty, LLC						-		69.0%				
JV Entities Total	3.5				27.9	-	34.8		9.6	21.5	-	26.9
Grand Total	\$18.0				\$144.4	-	\$180.4		\$81.8	\$138.0	-	\$172.5

Appendix A: Precedent Transactions – Full List

Valuation Analysis

Precedent Transactions – Full List

Confidential

(\$ in millions)

Announced	Target	Acquiror	EV	Beds	Enterprise Value/	
					Revenue	EBITDA
08/06/18	Trios Health	RCCH Healthcare Partners		111		
07/23/18	LifePoint Health	Apollo Global Management		7,457		
05/01/18	Hardin Memorial Health	Baptist Health		270		
03/27/18	3 Tenova Hospitals (CYH)	West Tennessee Healthcare		477		
03/19/18	3 Louisiana Hospitals (LPNT)	Allegiance Health Management		228		
02/28/18	Abrazo Maryvale Campus	Maricopa Integrated Health System		114		
02/01/18	Oklahoma University Medical Center	University Hospitals Authority and Trust		777		
01/23/18	Green Valley Hospital	Lateral GV, LLC		49		
11/13/17	Morehead Memorial Hospital	UNC Health Care		108		
10/11/17	MacNeal Hospital	Loyola Medicine		368		
09/01/17	Two Philadelphia Area Hospitals (THC)	Paladin Healthcare		685		
08/31/17	Rockdale Medical Center	Piedmont Healthcare		138		
07/21/17	Highlands Regional Medical Center (CYH)	HCA		126		
07/11/17	Weatherford Regional Medical Center (CYH)	HCA		103		
06/30/17	Oconee Regional Medical Center	Navicent Health		140		
06/07/17	Lock Haven & Sunbury Community (Quorum)	UPMC Susquehanna		117		
05/30/17	5 Philadelphia Hospitals (CYH)	Reading Health System (Tower Health)		622		
05/19/17	IASIS Healthcare	Steward Health Care System		3,656		
05/01/17	Tomball Reg Med Ctr & S Texas Reg Med Ctr	Methodist Healthcare System of San Antonio		417		
05/01/17	Lake Area Medical Center (CYH)	Christus Health		88		
05/01/17	Three Houston Hospitals (THC)	HCA		1,048		
04/19/17	Memorial University Medical Center	HCA		604		
04/09/17	De Queen Medical Center	Regional Owner / Operator		25		
03/30/17	Trinity Hospital of Augusta	The Richmond County Hospital Authority		231		
03/14/17	4 Community Health Systems Hospitals	PinnacleHealth		627		
03/10/17	Cherokee Medical Center	NNZ Holdings		60		

Valuation Analysis

Precedent Transactions – Full List (cont'd)

Confidential

(\$ in millions)

Announced	Target	Acquiror	EV	Beds	Enterprise Value/	
					Revenue	EBITDA
03/03/17	Stringfellow Memorial Hospital (Community)	The Health Care Authority of the City of Anniston		125		
02/28/17	Sistersville General Hospital	Wheeling Hospital		25		
02/16/17	8 Community Health System Hospitals	Steward Health Care LLC		1,760		
02/13/17	St. Joseph's Hospital	MMP Hospital Partners		N/A		
01/27/17	Ohio Valley Med Ctr and E Ohio Reg Hospital	Alecto Healthcare Services		340		
12/30/16	Great Bend Regional Hospital	Global Medical REIT, Inc.		33		
12/13/16	Yakima Reg Med & Cardiac Ctr and Toppenish Comm Hosp	Sunnyside Community Hospital & Clinics		160		
11/18/16	Rockwood Health System	MultiCare Health System		424		
11/08/16	South Haven Health System	Bronson Healthcare Group		0		
10/19/16	Sandhills Regional Medical Center (Quorum)	FirstHealth of the Carolinas		64		
10/18/16	Susquehanna Health System	UPMC		704		
10/03/16	Barrow Regional Medical Center	Northeast Georgia Health System		56		
09/29/16	3 Mississippi Hospitals	Curae Health		388		
09/26/16	9 Steward Health Care Hospitals	Medical Properties Trust		1,516		
08/18/16	Chestatee Regional Hospital	Durall Capital Holdings LLC		38		
08/05/16	Charlotte Hungerford Hospital	Hartford HealthCare		91		
07/25/16	West Shore Medical Center	Munson Healthcare		45		
06/28/16	Floyd Memorial Hospital and Health Services	Baptist Health		211		
03/22/16	Capella Healthcare, Inc.	RegionalCare Hospital Partners Inc.		1,153		
01/08/16	Crozer-Keystone Health System	Prospect Medical Holdings		786		
12/31/15	University General Hospital	Foundation Healthcare		69		
12/29/15	2 Indiana University Facilities	Community Health Systems, Inc. (NYSE:CYH)		277		
12/09/15	Athens Regional Medical Center	Piedmont Healthcare		331		
12/01/15	5 Atlanta Hospitals (THC)	WellStar Health System		1,303		
11/10/15	Saint Michael's Medical Center	Prime Healthcare Services		147		
11/03/15	2 NC Hospitals	Duke LifePoint		492		

Valuation Analysis

Precedent Transactions – Full List (cont'd)

Confidential

(\$ in millions)

Announced	Target	Acquiror	EV	Beds	Enterprise Value/	
					Revenue	EBITDA
10/16/15	Bartow Regional Medical Center	BayCare Health System		72		
10/02/15	Saint Francis Hospital	LifePoint Health		376		
09/21/15	Lehigh Regional Medical Center	Prime Healthcare Services		78		
09/07/15	Newton Medical Center	Piedmont Healthcare		87		
09/01/15	West Jefferson Medical Center	LCMC Health		435		
07/28/15	Providence Hospital	LfePoint Health		314		
07/27/15	Capella Healthcare, Inc.	Medical Properties Trust		1,169		
07/20/15	Southern Regional Medical Center	Prime Healthcare Services		264		
06/01/15	Skiff Medical Center	Mercy Medical Center - Des Moines		48		
05/19/15	Ty Cobb Regional Medical Center	St. Mary's Health Care		56		
05/05/15	Waterbury Hospital	Prospect Medical Holdings		254		
04/06/15	AHS Medical Holdings LLC (Ardent)	Ventas, Inc.		2,045		
03/27/15	Carroll Hospital Center	LifeBridge Health		158		
03/02/15	Mercy Suburban Hospital	Prime Healthcare Services		126		
01/29/15	Community Medical Center	Billings Clinic RegionalCare		151		
01/08/15	Nason Hospital	Conemaugh Health System		44		
12/22/14	Bert Fish Medical Center	Florida Hospital		112		
11/06/14	SwedishAmerican Health System	University of Wisconsin Health		333		
10/06/14	Culpeper Regional Hospital	UVA Medical Center		70		
10/02/14	Watertown Regional Medical Center	LifePoint Health		95		
09/16/14	Clark Memorial Hospital	Regional Health Network		189		
08/28/14	Lodi Memorial Hospital	Adventist Health		172		
07/11/14	MedWest Haywood	Duke LifePoint		178		
05/28/14	East Orange General Hospital	Prospect Medical Holdings		159		
04/29/14	Natchez Regional Medical Center	Community Health Systems		179		
03/31/14	Fairmont General Hospital	Alecto Healthcare		140		

Valuation Analysis

Precedent Transactions – Full List (cont'd)

Confidential

(\$ in millions)

Announced	Target	Acquiror	EV	Beds	Enterprise Value/	
					Revenue	EBITDA
03/14/14	Conemaugh Health System	Duke LifePoint Healthcare		474		
02/12/14	East Orange General Hospital	Prospect Medical Holdings		212		
02/06/14	Garden City Hospital	Prime Healthcare Services		170		
01/29/14	Hackettstown Regional Medical Center	Atlantic Health System		111		
12/30/13	Casa Grande Regional Medical	Banner Health		177		
10/03/13	Citrus Memorial	HCA		198		
10/03/13	CharterCARE Health Partners	Prospect Medical Holdings		579		
09/10/13	Rutherford Regional Medical Center	Duke LifePoint Healthcare		143		
08/27/13	Sharon Regional Health System	Community Health Systems		251		
08/06/13	Portage Health	LifePoint Hospitals		96		
07/29/13	Health Management Associates	Community Health Systems		11,065		
07/24/13	Wilson Medical Center	Duke LifePoint		294		
06/24/13	Vanguard Health Systems	Tenet Healthcare Corporation		7,081		
06/21/13	Bell Hospital	LifePoint Hospitals		25		
05/30/13	Sound Shore Health System	Montefiore Medical Center		448		
04/19/13	St. Luke's Episcopal Health System	Catholic Health Initiatives		1,301		
04/18/13	Munroe Regional Health System	Health Management Associates		421		
03/08/13	Cleveland County HealthCare System	Carolinas HealthCare System		514		
03/05/13	Fauquier Health System	LifePoint Hospitals		210		
02/21/13	Emanuel Medical Center	Tenet Healthcare Corporation		209		
01/31/13	Providence Medical Center / St. John Hospital	Prime Healthcare Services		252		
01/24/13	New York Westchester Square Hospital	Montefiore Medical Center		140		
01/24/13	San Ramon Regional Medical Center	John Muir Health		112		
01/02/13	Knapp Medical Center	Prime Healthcare Services Foundation		226		
11/14/12	South Hampton Community Hospital	University General Health System		111		
11/14/12	University of Louisville	KentuckyOne Health		404		

Valuation Analysis

Precedent Transactions – Full List (cont'd)

Confidential

(\$ in millions)

Announced	Target	Acquiror	EV	Beds	Enterprise Value/	
					Revenue	EBITDA
11/13/12	Arkansas Surgical Hospital	Medical Facilities Corp.		51		
10/27/12	Baptist St. Anthony Health System	Arden Health		451		
10/24/12	Bayfront Medical Center	Health Management Associates		351		
10/16/12	St. Vincent Health System	Highmark		428		
10/03/12	Lower Bucks Hospital	Prime Healthcare Services		156		
09/28/12	Landmark Health System	Prime Healthcare Services		133		
09/26/12	Dallas Medical Center	Prime Healthcare Services		155		
08/31/12	The Westerly Hospital	Lawrence+Memorial Corporation		70		
07/23/12	Southern Maryland Hospital Center	MedStar Health		263		
06/30/12	Bakersfield Heart Hospital	Cardiovascular Care Group		47		
06/12/12	Jefferson Regional Medical Center	Highmark		370		
06/04/12	Woods Memorial Hospital	LifePoint Hospitals		160		
05/31/15	Saint Louis University Hospital	SSM Health		356		
05/01/12	Auburn Regional Medical Center	MultiCare Health System		162		
04/24/12	Creighton University Medical Center-St. Joseph Hospital	Alegent Health		220		
03/30/12	Saint Mary's Regional Medical Center	Prime Healthcare Services Foundation		380		
03/23/12	St. Joseph Medical Center	University of Maryland Medical System		247		
03/22/12	Christ Hospital	Hudson Hospital Holdco (Now CarePoint Health)		376		
03/06/12	Marquette General Hospital	Duke LifePoint		315		
02/28/12	Decatur General Hospital	Huntsville Hospital		120		
01/24/12	Memorial Health Systems	Community Health Systems		100		
12/12/11	MetroSouth Medical Center	Community Health Systems		244		
12/01/11	Harlingen Medical Center	Prime Healthcare		112		
11/20/11	Parkway Medical Center	Huntsville Hospital		120		
11/07/11	Hoboken University Medical Center	HUMC Holdco		350		
10/27/11	Twin County Regional Hospital	Duke LifePoint		141		

Valuation Analysis

Precedent Transactions – Full List (cont'd)

Confidential

(\$ in millions)

Announced	Target	Acquiror	EV	Beds	Enterprise Value/	
					Revenue	EBITDA
10/03/11	Louisiana Medical Center	Cardiovascular Care Group		137		
10/03/11	Hualapai Mountain Medical Center	Kingman Regional Medical Center		70		
09/06/11	Essent Healthcare	RegionalCare Hospital Partners		491		
08/31/11	Bay Medical Center	Sacred Heart Health System / LHP Hospital Group		286		
07/28/11	Tomball Regional Hospital	Community Health Systems		358		
07/25/11	Maria Parham Medical Center	Duke LifePoint		102		
07/05/11	Moses Taylor Health Care System	Community Health Systems		217		
07/01/11	Mercy Health Partners	Health Management Associates		1,323		
06/28/11	Quincy Medical Center	Steward Health Care System		116		
06/15/11	HealthOne (remaining 40% interest)	HCA Healthcare		2,259		
05/09/11	Heart Hospital of New Mexico	Lovelace Health System		55		
05/09/11	Arkansas Heart Hospital	AR-MED, LLC		112		
04/20/11	Tri-Lakes Medical Center	Health Management Associates		132		
03/29/11	Morton Hospital and Medical Center	Steward Health Care System		133		
03/25/11	Hospital of Saint Raphael	Yale-New Haven Hospital		633		
03/18/11	St. Joseph Medical Center	lasis Healthcare		792		
03/04/11	Loyola University Health System	Trinity Health		769		
02/22/11	Health Central	Orlando Health		171		
02/16/11	Valley Baptist Health System	Vanguard Health Systems		866		
02/10/11	Mercy Health Partners	Community Health Systems		313		
02/03/11	Hamot Medical Center	University of Pittsburgh Medical Center		351		
12/21/10	Palmyra Medical Center	Phoebe Putney Health System		124		
12/09/10	Tenet Healthcare	Community Health Systems		N/A		
11/17/10	Alvarado Hospital	Prime Healthcare Services		306		
11/01/10	Victor Valley Community Hospital	KPC Group		101		
09/16/10	St. Joseph Hospital	West Virginia United Health Systems		168		

Valuation Analysis

Precedent Transactions – Full List (cont'd)

Confidential

(\$ in millions)

Announced	Target	Acquiror	EV	Beds	Enterprise Value/	
					Revenue	EBITDA
09/10/10	Brim Holdings	Iasis Healthcare		385		
08/16/10	Prospect Medical Holdings	Leonard Green & Partners		602		
08/05/10	Forum Health	Community Health Systems		735		
08/02/10	West Suburban Medical Center/Westlake Hospital	Vanguard Health Systems		448		
07/27/10	Wuesthoff Health System	Health Management Associates		413		
07/07/10	Marion Regional Healthcare System	Community Health Systems		124		
06/24/10	Mercy Hospital	HCA Healthcare		473		
06/04/10	Bert Fish Medical Center	Adventist Health System		112		
05/27/10	Shands Lake Shore/Shands Starke/Shands Live Oak	Health Management Associates		139		
05/20/10	Ottumwa Regional Health Center	RegionalCare Hospital Partners		217		
05/20/10	Clinton Memorial Hospital	RegionalCare Hospital Partners		95		
04/30/10	Sumner Regional Health Systems	LifePoint Hospitals		268		
04/09/10	Mountain View Hospital	Symbion		43		
04/09/10	Morristown-Hamblen Healthcare	Covenant Health		167		
04/05/10	Lenox Hill	North Shore-Long Island Jewish Health System		652		
04/01/10	Clark Regional Medical Center	LifePoint Hospitals		100		
04/01/10	Bluefield Regional Medical Center	Community Health Systems		240		
03/31/10	University Community Health	Adventist Health System		645		
03/25/10	Caritas Christi Health Care System	Cerberus Capital Management		1,552		
03/19/10	Detroit Medical Center	Vanguard Health Systems		1,734		
02/24/10	Coffee Health Group	RegionalCare Hospital Partners		536		
02/17/10	Heart Hospital of Austin	St. David's Healthcare Partnership		58		
04/15/08	USC University Hospital and USC Norris Cancer Hospital	University of Southern California		471		

	Enterprise Value	Revenue Multiple	EBITDA Multiple
High	\$7,572.8	1.99x	15.0x
Mean	\$331.3	0.61x	8.0x
Median	\$72.7	0.55x	7.8x
Low	\$3.0	0.04x	0.7x

Appendix B: Precedent Transactions – Large Systems

Valuation Analysis

Precedent Transactions – Large Systems

(\$ in millions)

Announced	Target	Acquiror	EV	LTM Revenue	LTM EBITDA	Beds	Enterprise Value/	
							Revenue	EBITDA
07/23/18	LifePoint Health	Apollo Global Management		\$6,239.0	\$733.4	7,457		
02/01/18	OU Medicine, Inc.	University Hospitals Authority and Trust		\$934.4	\$144.7	777		
05/30/17	5 Philadelphia Hospitals (CYH)	Reading Health System (Tower Health)		\$652.7	\$44.2	622		
05/19/17	IASIS Healthcare	Steward Health Care System		\$3,311.0	\$217.1	3,656		
05/01/17	Three Houston Hospitals (THC)	HCA		\$575.0	\$80.0	1,048		
04/19/17	Memorial University Medical Center	HCA		\$581.4	-\$8.7	604		
11/18/16	Rockwood Health System	MultiCare Health System		\$545.4	\$45.2	424		
12/01/15	5 Atlanta Hospitals (THC)	WellStar Health System		\$661.8	\$71.3	1,303		
07/27/15	Capella Healthcare, Inc.	Medical Properties Trust		\$751.1	\$114.5	1,169		
04/06/15	AHS Medical Holdings LLC (Ardent)	Ventas, Inc.		\$2,000.0	\$200.0	2,045		
07/29/13	Health Management Associates	Community Health Systems		\$5,868.3	\$882.1	11,065		
06/24/13	Vanguard Health Systems	Tenet Healthcare Corporation		\$5,936.7	\$546.6	7,081		
04/19/13	St. Luke's Episcopal Health System	Catholic Health Initiatives		\$1,232.3	\$157.5	1,301		
10/27/12	Baptist St. Anthony Health System	Ardent Health		\$409.7	\$46.9	451		

	Enterprise Value	Revenue Multiple	EBITDA Multiple
High	\$7,572.8	1.3x	10.3x
Mean	\$1,950.6	0.9x	8.8x
Median	\$949.3	0.9x	8.6x
Low	\$424.0	0.6x	6.3x

Appendix C: MHS Historical Financials and Projections

MHS Historical Financials and Projections

Adjusted LTM Income Statement

(\$ in 000s)	Adj. 1:		Adj. 2:	
	LTM 7/31/18	Excluded Services	Excluded Entities	Adj. LTM 7/31/18
Unrestricted revenue, gains and other support:				
Net provision service revenue	\$ 1,852,697	\$ 1,772		\$ 1,850,925
Provision for bad debts	(202,361)	30		(202,391)
Net patient service revenue less provision for bad debts	1,650,336	1,803	-	1,648,533
Other revenue	138,501	1,008	356	137,136
Total unrestricted revenue, gains, and other support	1,788,837	2,811	356	1,785,670
Expenses:				
Salaries and wages	865,689	1,907		863,782
Employee benefits	161,529	548		160,981
Supplies and other expenses	583,630	547		583,084
Depreciation and amortization	96,558	72		96,486
Interest	14,398			14,398
Total Expenses	1,721,804	3,074	-	1,718,731
Operating Income (Loss)	67,033	(263)	356	66,939
Nonoperating gains (losses):				
Investment Income, net	62,274			62,274
Other nonoperating gains (losses), net	(13,155)			(13,155)
Nonoperating gains (losses), net	49,119	-	-	49,119
Revenue, gains, and other support in excess of (les than) expenses and losses before noncontrolling interests	116,152	(263)	356	116,058
Noncontrolling Interests	(140)			(140)
Revenue, gains, and other support in excess of (less than) expenses and losses attributable to MHS	\$ 116,012	\$ (263)	\$ 356	\$ 115,918
Operating EBITDA	\$ 177,989	\$ (190)	\$ 356	\$ 177,823

MHS Historical Financials and Projections

Summary Historical and Projected Income Statement Data⁽¹⁾⁽²⁾

(\$ in millions)

For the Fiscal Years Ended September 30,

	2016A	2017A	LTM 7/31/2018	2018P	2019P	2020P	2021P	2022P	2023P
Unrestricted revenue, gains and other support:									
Net provision service revenue	\$ 1,682	\$ 1,778	\$ 1,851						
Provision for bad debts	(142)	(142)	(202)						
Net patient service revenue less provision for bad debts	1,541	1,636	1,649						
Other revenue	92	117	137						
Total unrestricted revenue, gains, and other support	\$1,633	\$1,753	\$1,786						
		7.38%							
Expenses:									
Salaries and wages	784	865	864						
Employee benefits	149	151	161						
Supplies and other expenses	535	561	583						
Depreciation and amortization	89	91	96						
Interest	21	18	14						
Total Expenses	1,579	1,686	1,719						
Operating Income (Loss)	54	68	67						
Nonoperating gains (losses):									
Investment Income, net	45	92	62						
Other nonoperating gains (losses), net	(9)	0	(13)						
Nonoperating gains (losses), net	37	93	49						
Revenue, gains, and other support in excess of (les than) expenses and losses before noncontrolling interests	90	160	116						
Noncontrolling Interests	(0)	(0)	(0)						
Revenue, gains, and other support in excess of (less than) expenses and losses attributable to MHS	\$ 90	\$ 160	\$ 116						
Operating EBITDA	\$164	\$176	\$178						
Operating EBITDA Margin %	10.1%	10.1%	10.0%						

(1) Based on MHS management projections.

(2) 2016A and 2017A reflect audited financials; LTM 7/31/2018 and projected years adjusted for excluded services and entities

MHS Historical Financials and Projections

Unaudited Balance Sheet⁽¹⁾

(\$ in millions)

	<u>As of 7/31/2018</u>		<u>As of 7/31/2018</u>
Assets		Liabilities	
Current Assets		Current Liabilities	
Cash and cash equivalents	\$ 88	Current portion of long-term debt	\$ 14
Investments	45	Line of credit draws outstanding	-
Current portion of limited use assets	-	Accounts payable	29
Account receivables	281	Accrued payroll and other expenses	132
Other receivables	65	Due to third-party payors	68
Inventories	25	Total current liabilities	244
Prepaid expenses and other	42	Long-term debt	569
Total current assets	545	Other long-term liabilities	53
Assets limited as to use	930	Total liabilities	866
Property and equipment, net	1,110	Net Assets:	
Other assets	57	Unrestricted	1,747
Total Assets	\$ 2,643	Temporarily restricted	22
		Permanently restricted	6
		Total Net Assets Attributable to MHS	1,776
		Noncontrolling interests	1
		Total net assets	1,776
		Total Liabilities and Net Assets	\$ 2,643

Appendix D: DCF Assumptions

DCF Assumptions

Beta Estimation

Beta Coefficients for Selected Comparable Publicly Traded Hospital Companies

(\$ in millions, data as of 8/22/2018)

Beta Estimation								Unlevered
Company ⁽¹⁾	Ticker	Market Beta ⁽²⁾	Estimated Tax Rate	(1-Tax Rate)	Total Debt	Equity Value	Debt/Equity	Beta
HCA Healthcare, Inc.	HCA	0.54	23.4%	76.6%	\$31,500.0	\$47,251.7	0.67	0.36
Tenet Healthcare Corporation	THC	1.06	23.4%	76.6%	\$14,204.0	\$3,487.4	4.07	0.26
Universal Health Services, Inc.	UHS	0.85	23.4%	76.6%	\$3,864.2	\$12,065.6	0.32	0.69
LifePoint Health, Inc.	LPNT	0.72	23.4%	76.6%	\$2,905.8	\$2,547.8	1.14	0.38
Mean		0.79	23.4%				1.55	0.42
Median		0.78	23.4%				0.90	0.37

Unlevered Beta	0.37
Target Debt/Equity ⁽³⁾	0.90
Relevered MHS Beta	0.63

(1) Analysis excludes CYH and QHC

(2) Five-year adjusted betas from Bloomberg as of 8/22/18.

(3) Median of industry Debt/Equity

DCF Assumptions

Weighted Average Cost of Capital (“WACC”)

WACC Calculation

(Data as of 8/22/2018)

$$\text{WACC} = (K(d) \cdot (1-t) \cdot D/TC) + (K(e) \cdot E/TC)$$

Where: **K(d) = 5.0%** = the cost of debt

t = 23.4% = the estimated marginal tax rate

3.8% = the after-tax debt rate

D/TC = 47.5% = Target Debt / Total Capitalization ratio based on industry comparables

K(e) = 11.8% - 15.8% = the Cost of Equity = $R(f) + (B \cdot R(m)) + R(s) + R(a)$

Where: **R(f)⁽¹⁾ = 2.8%** = the Risk Free Rate, determined to be the yield on a 10-year Treasury Coupon Bond

B⁽²⁾ = 0.63 = the leveraged Beta Coefficient, a measure of volatility of selected companies relative to the broader stock market in general

R(m)⁽³⁾ = 6.9% = the Equity Risk Premium which is the amount required by investors above the Risk Free Rate to compensate for additional risk being taken by investing in equity securities in general

R(s)⁽³⁾ = 1.6% = size premium

R(a) = 3.0% - 7.0% = additional specific company risk premium associated with business risk

E/TC = 52.53% = the Equity/Total Capitalization ratio

WACC: 8.0% - 10.0%

(1) Yield on US10Y as of August 22, 2018

(2) The beta source is Bloomberg

(3) The Equity Risk Premium of 6.90% and the Size Premium of 1.62% were derived from the Duff & Phelps 2016 Valuation Handbook