

# ***Third Quarter Fiscal 2016 Investor Update***

**Webcast and Teleconference with Q&A to Follow**

**11:30 PM MT/1:30 PM ET**

**Call Name: CHI 3<sup>rd</sup> QTR FY 2016 Investor Update Presentation**

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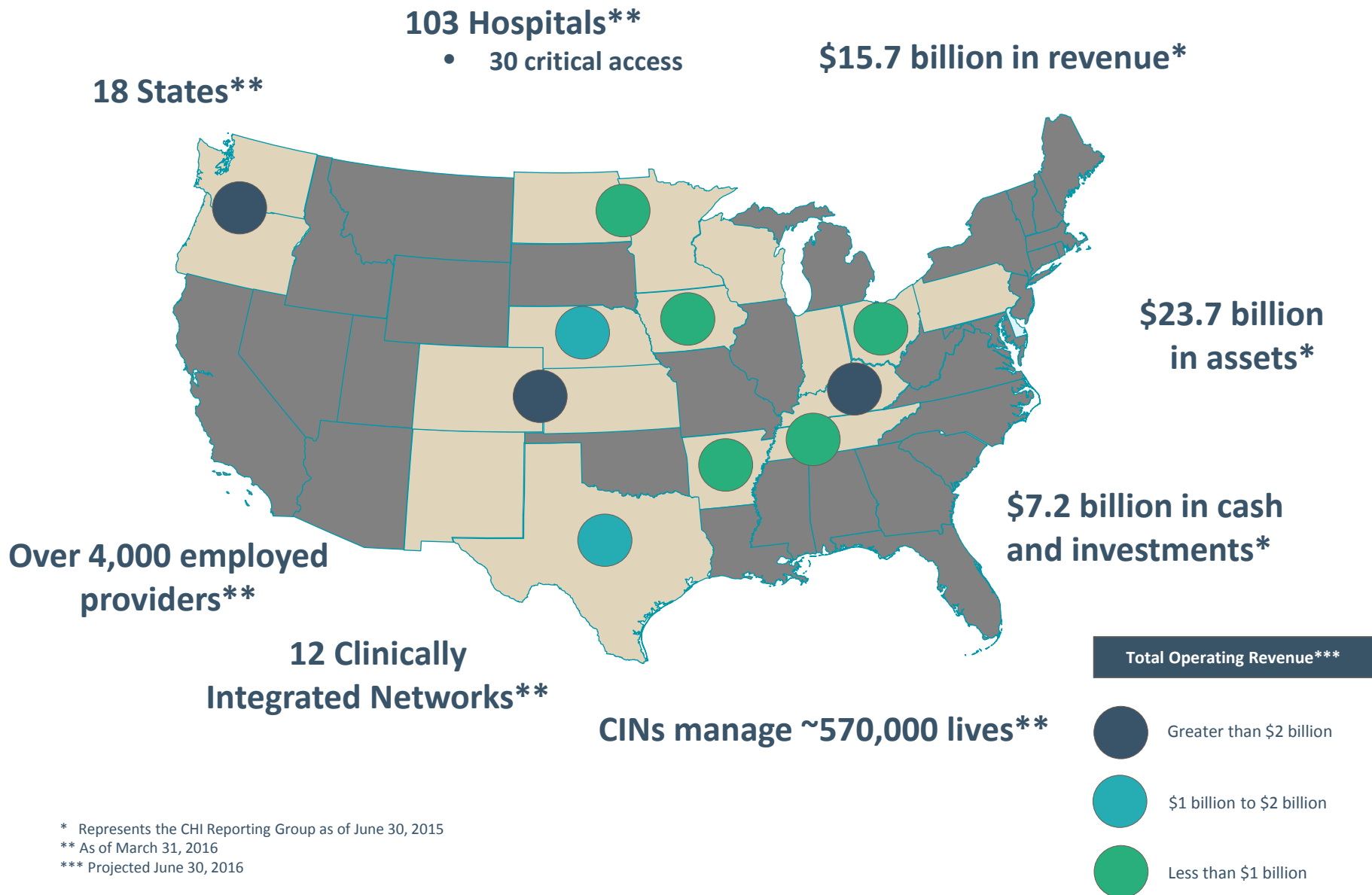
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# *Presenter*

- **J. Dean Swindle**

President, Enterprise Business Lines and Chief Financial Officer

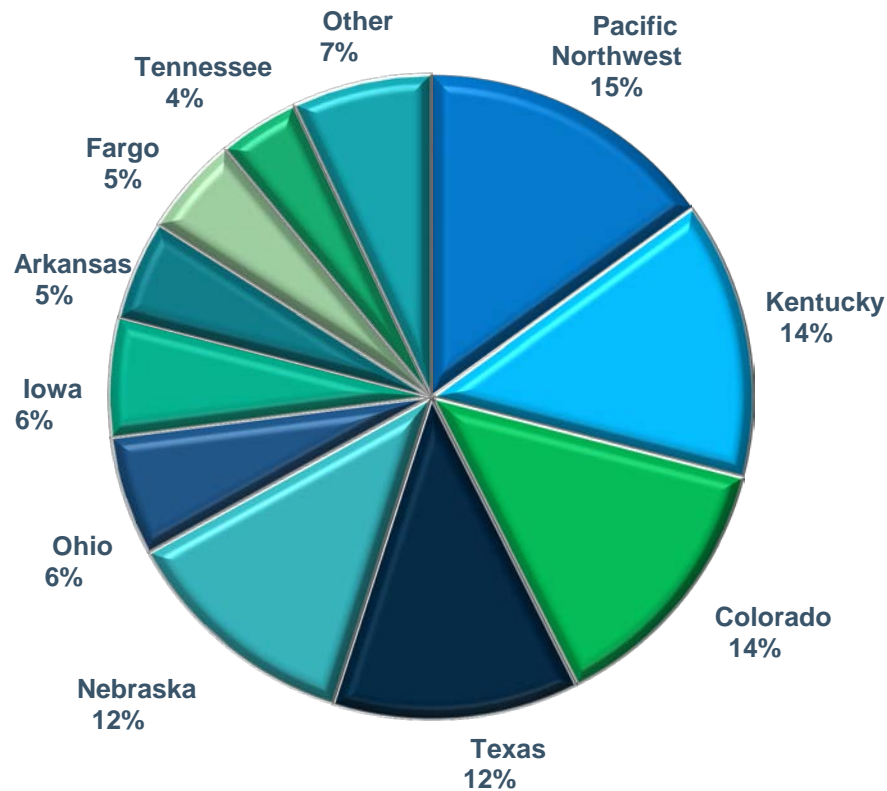
# CHI Snapshot





# Diverse Revenue Sources

## FYTD March 2016 Revenue



## Operating EBIDA Margin\*

Colorado	11.4%
Pacific Northwest	9.2%
Nebraska	8.5%
Kentucky	4.9%
Texas	7.5%
Iowa	8.4%
Ohio	5.5%
Arkansas	5.4%
Tennessee	7.6%
Fargo	8.4%

# *Focus Areas*

- Enterprise-wide performance improvement plan
  - Improve profitability
  - Rebuild balance sheet strength
- Focused operational improvement in key markets
  - Texas
  - Kentucky
- Nebraska back in network
- Physician Enterprise effectiveness
  - Practice management competencies and metrics
- QualChoice Health, Inc., (formerly Prominence Health) strategy
- Strategic plan refresh underway
  - Deliver on value proposition
  - Nationally driven; market focused



Catholic Health Initiatives

*Imagine better health.™*

***Overview***  
***FY2016-Nine Months Ended***  
***March 31, 2016***



# ***Nine Months Ended March 2016***

- **Revenue**
  - Volumes and payer mix
  - Surgeries – Inpatient/Outpatient Mix
  - ACA
- **Supplies & Pharmacy**
  - Pharmacy costs – utilization, price shocks, specialty, 340(b)
  - Surgical implants costs - utilization, non-standardization, not maximizing national contracts
- **Labor costs**
  - IP/OP mix shifts created difficulty in short term flexing
- **QualChoice growth costs & revenue**
- **ITS costs**

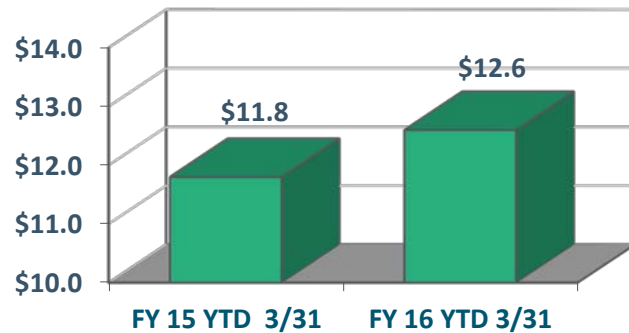


# Continuing Operations

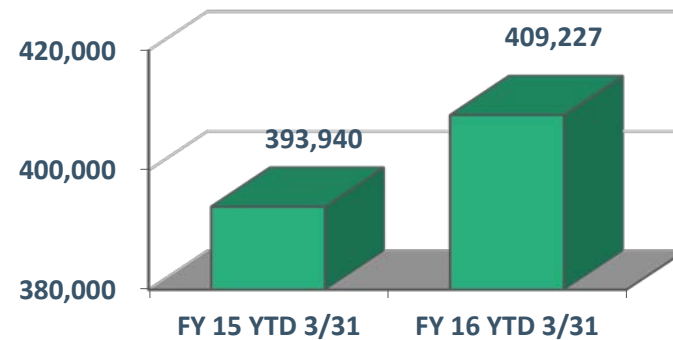
CHI Reporting Group (\$ in millions)	Nine months ended March 31, 2016		
	FY 2015	FY 2016	YoY % Change
<b>Total Revenues</b>	<b>\$11,794</b>	<b>\$12,625</b>	7.0%
<b>Operating EBIDA before restructuring</b>	<b>\$1,033</b>	<b>\$757</b>	(26.8)%
Margin %	8.8%	6.0%	
(Loss) income from operations before restructuring	<b>\$219</b>	<b>(\$137)</b>	(162.5)%
Margin %	1.9%	(1.1)%	
<b>(Loss) income from operations</b>	<b>\$157</b>	<b>(\$259)</b>	(265.0)%
Nonoperating (losses) income	\$38	(\$297)	
<b>Deficit of revenue over expenses</b>	<b>\$195</b>	<b>(\$556)</b>	(385.1)%
Margin %	1.6%	(4.4)%	

# Operating Indicators

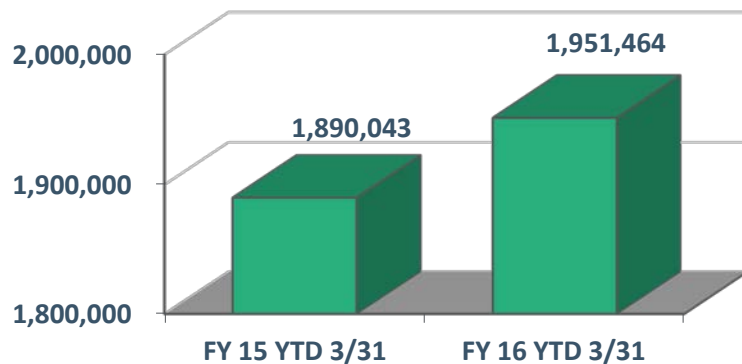
**Operating Revenues  
(dollars in billions)\***



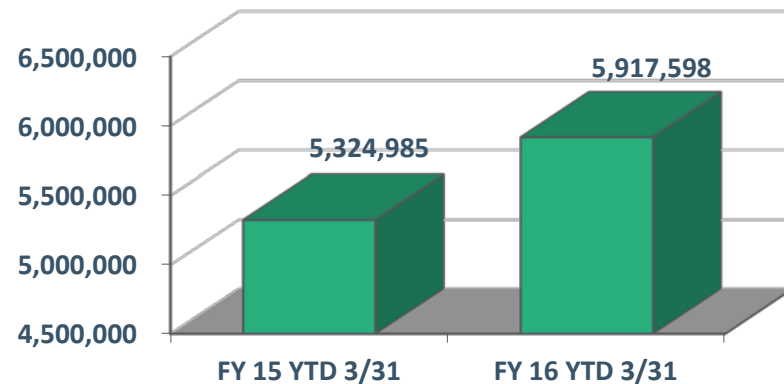
**Admissions\***



**Acute Inpatient Days\***

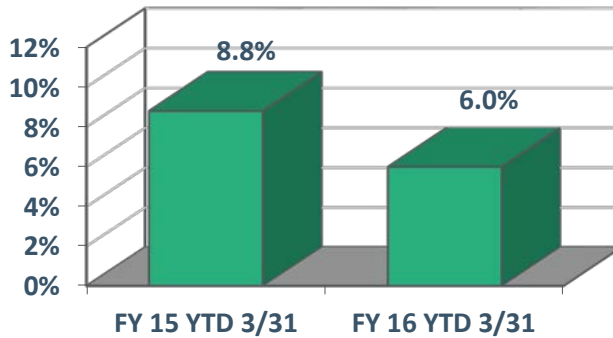


**CHI Total Outpatient Visits**

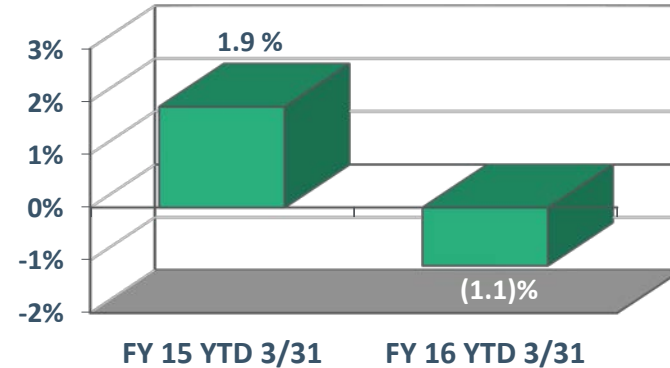


# Financial Results\*

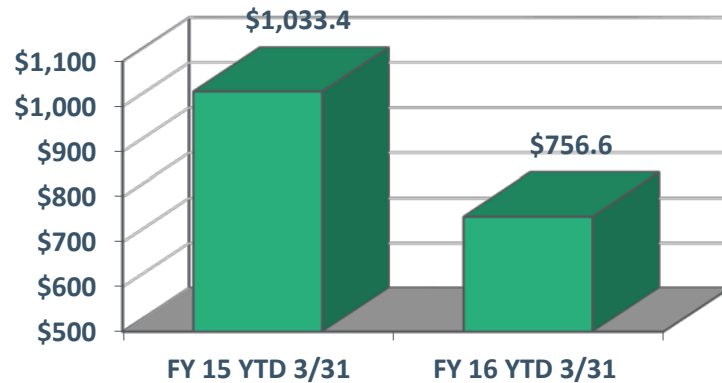
Operating EBIDA Margin  
before restructuring



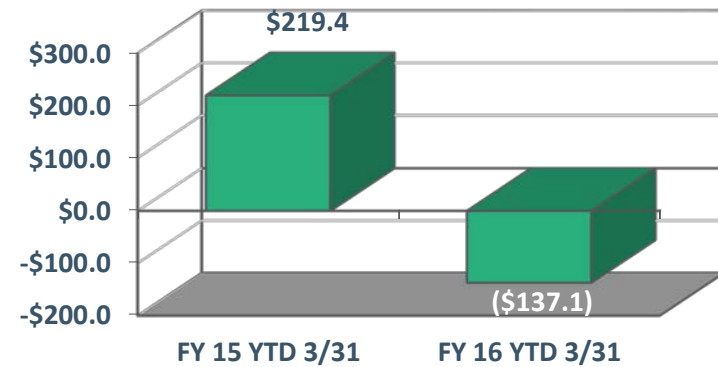
Operating Margin before restructuring



Operating EBIDA before restructuring  
(dollars in millions)



Operating (loss) income before  
restructuring (dollars in millions)





# CHI Operations Summary

## Nine Months Ended March 31, 2016 and 2015

Region	YTD 3/31/16 Operating EBIDA before restructuring, impairment and other losses (in Thousands)	YTD 3/31/15 Operating EBIDA before restructuring, impairment and other losses (in Thousands)	YTD 3/31/16 Operating EBIDA margin before restructuring, impairment and other losses	YTD 3/31/15 Operating EBIDA margin before restructuring, impairment and other losses	YTD 3/31/16 Operating revenues percentage of CHI consolidated	YTD 3/31/15 Operating revenues percentage of CHI consolidated
Colorado	\$ 188,540	\$ 152,619	11.4%	11.3%	13.5%	11.8%
Pacific Northwest	171,242	184,630	9.2%	10.6%	15.2%	15.2%
Nebraska	125,478	62,737	8.5%	4.3%	12.1%	12.7%
Kentucky	87,264	37,187	4.9%	2.2%	14.4%	14.7%
Texas	113,769	128,995	7.5%	9.6%	12.4%	11.8%
Iowa	63,346	53,601	8.4%	7.5%	6.1%	6.3%
Ohio	42,621	58,409	5.5%	8.1%	6.4%	6.3%
Arkansas	30,848	16,980	5.4%	3.2%	4.7%	4.7%
Tennessee	36,161	42,075	7.6%	9.2%	3.9%	4.0%
Fargo <sup>1</sup>	48,558	37,969	8.4%	7.8%	4.7%	4.3%
National business lines <sup>2</sup>	10,428	3,972	5.4%	2.5%	1.6%	1.4%
Other <sup>3</sup>	(37,268)	(61,444)	N/A	N/A	0.0%	0.0%
Total Regional	880,987	717,730	7.6%	6.7%	95.0%	93.2%
Corporate services and other business lines <sup>4</sup>	(383,615)	(213,987)	N/A	N/A	3.1%	2.4%
Total CHI Consolidated before gains	497,372	503,743	4.1%	4.6%	98.1%	95.6%
Business combination gains and MSI gain <sup>5</sup>	235,842	500,548	N/A	N/A	1.9%	4.4%
Total CHI Consolidated	\$ 733,214	\$ 1,004,291	6.0%	8.8%	100.0%	100.0%

<sup>1</sup> Includes North Dakota and Minnesota

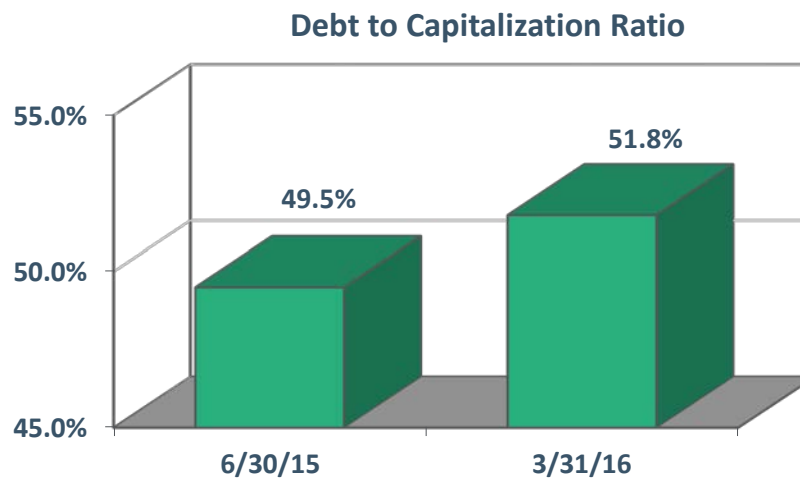
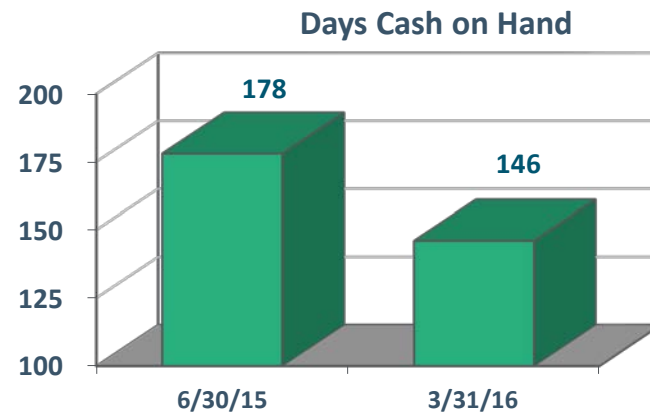
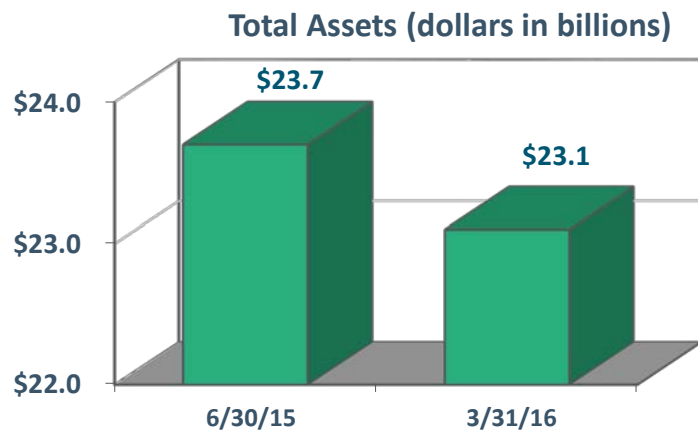
<sup>2</sup> Includes Home Care and Senior Living business lines.

<sup>3</sup> Includes unallocated regional revenues and expenses as well as the operations of Albuquerque Health Ministries and Lancaster Health Ministries MBOs.

<sup>4</sup> Includes CHI Corporate, FIIL and QualChoice.

<sup>5</sup> Includes Business combination gains of \$235.8 and \$431.5 million for the nine months ended March 31, 2016 and 2015, respectively, and a \$69.0 million gain from the sale of the Corporation's ownership interest in MSI for the nine months ended March 31, 2015.

# Balance Sheet Measures\*



# ***FYTD 2016 Financial Performance Highlights***

- **Key Markets improved \$120.1M (operating EBIDA\* YoY):**
  - Colorado \$35.9M
  - Pacific Northwest \$(13.4)M
  - Nebraska \$62.7M
  - Kentucky \$50.1M
  - Texas \$(15.2)M
- **Next Era Investments:**
  - QualChoice
  - ITS
  - MSI
  - CIN/Population Health
- **Nebraska payer situation**
- **Clinical and Operational Excellence and short term operating plans**
- **Business combination gains of \$235.8M YTD16 vs. \$500.5M YTD15**



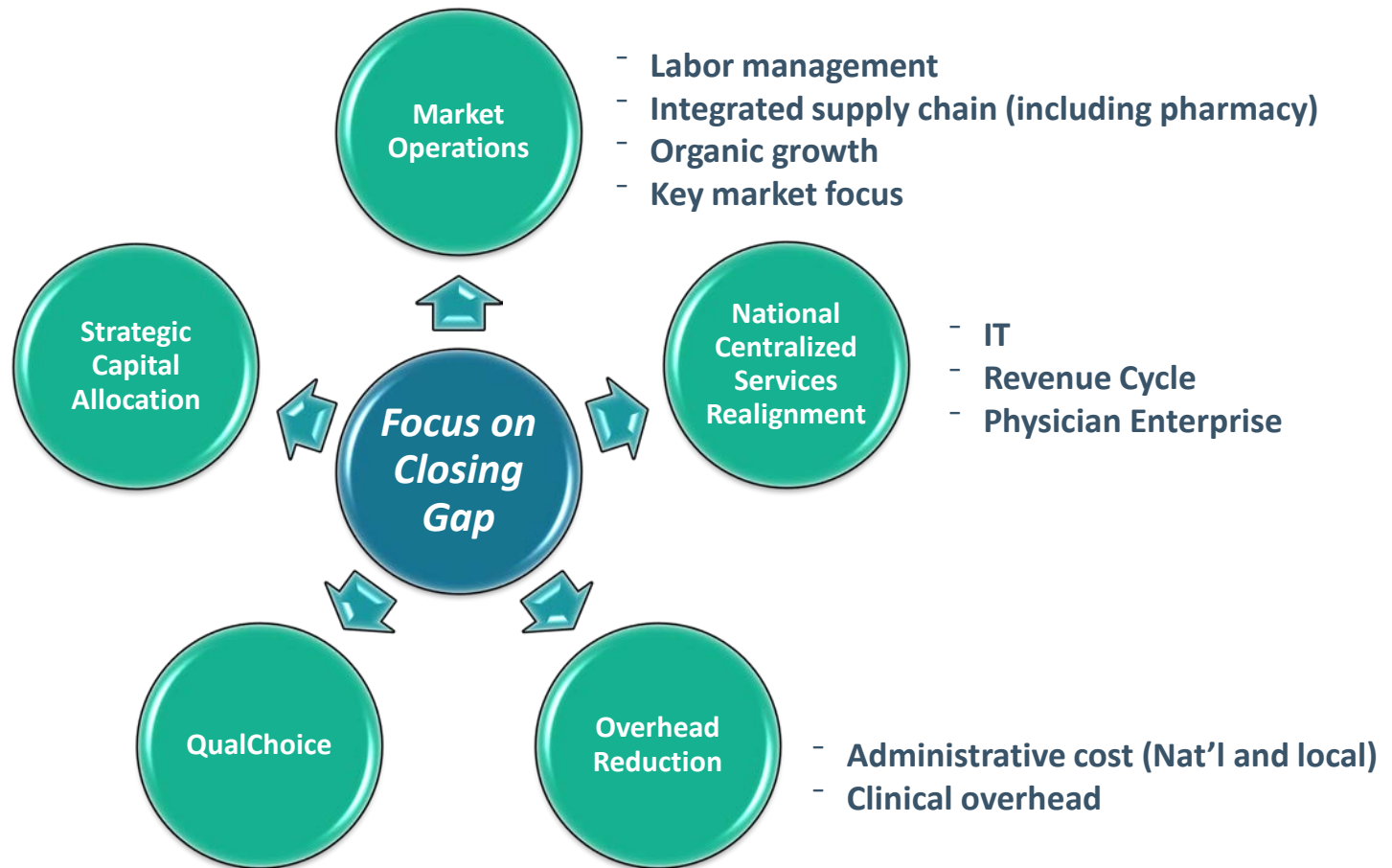
# Real Estate Repositioning Update

- Multi-year real estate strategic plan
- Rebalance the owned vs. lease property metrics
- **Phase I: Approximately 50 owned properties will be sold by end of July 2016**
  - Physician Realty Trust to purchase portfolio for approximately \$706M
  - Sale of 45 properties closed to date total of \$630M
  - Structured as a sale leaseback, pursuing operating lease treatment
- **Financial statement impact estimate**



- **Phase II: Repositioning transaction expected to include fewer properties in FY17**

# Operational Priorities



- \$1.5B expense reduction to date
- Additional \$800M opportunity over next 15 months

# *QualChoice Health*

- Performance improvement plans continue to take hold
  - Administrative costs decreasing (major aspect of initial wave)
  - Medical Loss Ratio (MLR) continues to be a challenge
  - Next wave focused on revenue and expense related to MLR
- May 2016, CHI approved shift in strategy
  - Exploring strategic options for all health plan assets
  - Markets engaging payer partnerships
    - Advance value-based contracts
    - Fully utilize CINs



# *Upcoming 2016 Plan of Finance*

- The current market offers CHI the opportunity to cost effectively reposition its capital structure
- CHI is currently considering a plan of finance to refund or restructure approximately \$2.4 billion of outstanding short-term and long-term debt to take advantage of today's attractive market conditions
  - CHI intends to refinance and/or retire certain debt, using a combination of the 2016 proceeds and its own cash
  - CHI intends to seek reimbursement for CHI prior capital expenditures
  - Following the 2016 plan of finance, CHI desires to maintain total debt at a level comparable to current levels
- The proposed transaction will generate cash flow and present value savings on the long-term refunding candidates and reposition interim funding structures into low-cost, committed capital
- The plan of finance is anticipated to include a significant tranche of tax-exempt fixed rate debt, as well as taxable bonds, put bonds, and potentially some privately placed financing structures
- The offering documents for the financing are scheduled to be mailed the week of July 18th
- Investor events for the transaction will be held as follows:
  - National investor recorded call: Monday, July 25
  - New York investor luncheon: Monday, July 25
  - Boston investor breakfast: Tuesday, July 26
- In addition, time will be made available for investors to speak individually with CHI management
- Next week, Morgan Stanley, as book running senior manager, will be providing investors with more complete event details and will coordinate one-on-one meetings with management

# *Closing Remarks*

- **Operational improvement plan**
- **Continued focus on integration and synergies of recent acquisitions**
- **Organic growth initiatives for all markets**
- **Continued investment in Next Era capability development**
- **Expected 2016 plan of finance**



# Catholic Health Initiatives

*Imagine better health.<sup>SM</sup>*

*Operational  
Focus*

*High Value  
Growth*

*Next Era  
Preparation*