MISSION HEALTH

January10, 2019

Attorney General Josh Stein
North Carolina Department of Justice
9001 Mail Service Center
Raleigh, NC 27699-9001

Re: *Review of Transaction Between HCA and Mission*

Dear Attorney General Stein:

The Board of Directors of Mission Health System, Inc. (the "Mission Board" or "Board") has long been committed to making affordable, high quality health care services available for the people of western North Carolina. For many years, however, the Mission Board has recognized the systemic challenges facing health care providers throughout the United States, particularly in rural areas and those with challenging demographics, as explained in greater detail in the information Mission has already provided to the Office of the Attorney General of the State of North Carolina ("OAG"). As you know, the Mission Board, after a period of careful discernment, ultimately determined that it could not best meet those challenges alone. More specifically, the Mission Board recognized that it could not maintain over the long run the quality, access, and affordability of Mission's services without taking significant action. Rather than waiting until difficulties worsened, or taking the drastic and detrimental steps of closing services and hospitals and diminishing clinical programs, which would negatively impact tens of thousands of western North Carolina residents, Mission instead began evaluating whether a partner might exist that would appropriately complement its strengths and weaknesses and align with its views.

As Mission described in its detailed September 1, 2018, Notice of Merger or Transfer of Assets ("Notice"), the Mission Board considered a number of potential partners before unanimously determining that HCA Healthcare ("HCA") would be the best partner for Mission to continue improving the health of the people of western North Carolina through the provision of accessible, affordable, and quality care. Further, the Mission Board determined that doing nothing and simply continuing with the status quo would ultimately result in negative outcomes for individuals in need of affordable health care.

The Mission Board's decision to enter into the proposed partnership with HCA is the result of informed, lengthy, and independent deliberations, which resulted in a unanimous decision in favor of the transaction described in the Notice. Since voting to approve the transaction, and authorizing Mission to enter into the Asset Purchase Agreement, the Mission Board has remained informed of the thorough review of the proposed transaction by your office in discharge of its statutory obligations. Mission has voluntarily provided hundreds, if not thousands, of pages of documents requested by the OAG and responded to numerous information requests. The Vice Chair of the Mission Board and I met with representatives of the OAG at its request. Mission and HCA participated in other meetings with your office in an effort to satisfy it concerning the significant public benefits associated with this transaction, and the parties together agreed upon a

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set of contractual undertakings and monitoring and enforcement mechanisms that both enlarge and further assure those benefits.

In meetings on December 13, 2018, December 20, 2018, and January 8, 2019, the Mission Board – in both open and executive sessions (excluding management and non-legal advisors) – reviewed, evaluated, and discussed further information and material pertaining to the proposed transaction with HCA, including information provided to the OAG or associated with the OAG's review of the transaction. The Board was provided written materials prepared by outside legal counsel and discussed extensively information pertaining to a wide variety of topics in this regard, including, without limitation, (i) details concerning historical communications between Mission representatives and HCA prior to the Board's approval of the letter of intent with HCA; (ii) communications between Mission representatives and other potential partners during the bid proposal process; and (iii) various issues involving or related to officers of and/or advisors to Mission and the negotiation of the transaction. The Board believes it has been and remains fully informed with respect to all of these issues.

The Board has concluded, based upon its extensive review of information and deliberations, that: (i) Mission's management and its outside advisors fully protected Mission's interests throughout the negotiations associated with this transaction; (ii) Mission's management and its outside advisors brought to the Board all relevant, material information needed to decide whether to enter into any transaction and ultimately the transaction with HCA specifically; and (iii) no member of Mission's management or its outside advisors took any action, or failed to take any action, that was detrimental to Mission's interests. The Mission Board has concluded that Mission's management team and its outside advisors were committed at all times to securing for Mission the best possible transaction with potential merger partners, ultimately leading to the transaction with HCA. Ultimately, Mission's partnership with HCA has one primary objective: to improve health outcomes for tens of thousands of North Carolinians. That objective remains steadfast and this transaction with HCA remains the best opportunity for Mission to achieve that objective.

The Partnership Between Mission and HCA Healthcare Will Benefit Western North Carolinians

There is no dispute that the people Mission serves require quality, affordable health care. The challenges in providing low-cost services in difficult demographics have already resulted in the closure of numerous smaller hospitals in North Carolina and many more throughout the country, and the elimination of services at Mission's own smaller rural hospitals in western North Carolina. In addition, larger hospitals such as Mission Hospital in Asheville are threatened with the untenable prospect of supporting smaller hospitals at great financial cost and thereby risking harm to themselves and their communities. In light of these realities, it became clear that Mission needed a partner with sufficient efficiencies of scale in order to resolve the urgent and pervasive issues confronting it, given the region it serves.

HCA is the largest health care system in the United States, and is thus an obvious candidate to meet these needs. For example, HCA has significant efficiencies in non-clinical areas, such as technology and back-office functions, that are critically important to a modern health care provider.

Mission is lacking scale in those areas so the partnership with HCA is a natural fit. HCA also has a well-established clinical trial program that is currently unavailable to western North Carolinians which would benefit them once HCA acquires Mission. The Notice describes in detail the numerous other unique benefits HCA brings to Mission, all of which are critical to Mission's ability to continue providing care to patients. The Mission Board firmly believed – and still believes – that the partnership between Mission and HCA is essential to Mission's continuing ability to operate at least at its current level.

The Mission Board's Selection of HCA Healthcare Was Informed and Independent

The Mission Board selected HCA as its strategic partner on the merits, based on an independent, careful consideration of all reasonable alternatives.

In summary:

- Early in 2017, the Mission Board engaged a global management consulting firm with significant experience in the health care industry to obtain a better understanding of legislative and regulatory changes that might result from the outcome of the 2016 elections. The management consulting firm also provided the Mission Board with an analysis of how these various reforms might affect Mission and how Mission would need to respond to remain a viable independent health care system. The key takeaway from the review was that Mission could proceed as an independent health care system only if it substantially reduced annual expenses and if other significant assumptions held true, which ultimately did not.
- Beginning in mid-2017, as a result of the management consulting firm's report, a detailed study of legislative activity that limited reimbursement, and the status of then-pending managed care contracting, I used a small working group to consider and evaluate Mission's strategic position. The working group later advised the full Board.
- On October 26, 2017, after receiving a recommendation from the working group, the Mission Board created a Strategic Planning Committee of the Board ("Committee") to provide ongoing guidance to, and oversight of, Mission's management in the further exploration of potential partners.
- On December 14, 2017, the Committee provided the full Board with updates of its work. The Committee also embarked on work to make recommendations to the full Board in January 2018 at a Strategic Planning Retreat.
- On January 8, 2018, Cain Brothers met with the Committee to discuss potential alternatives for Mission, and to preview its capacity to act as Mission's investment banker, including but not limited to facilitating the due diligence process and providing a fairness opinion if appropriate.
- On January 17, 2018, the Mission Board held a Strategic Planning Retreat to assess a path of either independence or strategic partnership. The management consulting

firm provided an update on its report and the partners Mission was considering. The Board also heard from Mission management regarding Mission's operational choices for maintaining its quality, access and affordability should it remain independent.

- At the January 17th retreat, after detailed discussions and presentations, the Mission Board decided that remaining independent was no longer in the best interests of western North Carolina, and that it would continue discussions with only two of the remaining prospective partners – HCA and a non-profit health care system – both of which were invited to present to the Mission Board at a second Strategic Planning Retreat held on February 12, 2018.
- On January 25, 2018, Mission's Board authorized the engagement of Cain Brothers as its investment banker.
- On February 12, 2018, the Board held a second Strategic Planning Retreat. At that retreat, the Mission Board and its strategic advisors heard from and asked questions of both HCA and the other potential candidate. Thereafter, the Mission Board discussed the presentations and merits of each potential partner. Eventually, after conducting its own due diligence, reviewing the advice and recommendations of its experts, and inquiring into numerous prospective partners, the Mission Board voted unanimously that Mission should explore further discussions exclusively with HCA.
- On March 8, 2018, the Mission Board unanimously approved the execution of a Letter of Intent to pursue the transaction. Among the factors upon which the Board relied in making its determination were the following:
    - HCA operates health care systems that provide high quality care at a significantly lower cost than Mission could ever do on its own,
    - HCA offered extraordinary scale and expertise,
    - HCA made contractual commitments to maintain services and facilities throughout western North Carolina that were far beyond what the Mission Board believed that Mission could make to its patients and staff were it to remain independent, and
    - HCA had access to capital far beyond that of Mission. A significant benefit of this factor is HCA's commitment to construct a new, expanded, inpatient behavioral health facility in Asheville, North Carolina, and a replacement hospital for Angel Medical Center in Franklin, North Carolina, in addition to other capital projects.
- On March 14, 2018, after additional negotiations suggested by the Mission Board on March 8, Mission executed the Letter of Intent.
- Mission management and outside counsel, together with Cain Brothers, participated in negotiating the terms and conditions of the Asset Purchase Agreement. On August 29, 2018, the Board authorized Mission to enter into the Asset Purchase Agreement

with HCA. In numerous respects, the commitments made in the Letter of Intent were strengthened or improved upon in the Asset Purchase Agreement.

The Terms of the Transaction Are Fair

HCA has agreed to pay approximately $1.5 billion for Mission's assets. This purchase price is well within the valuation range determined by an independent third party investment banking firm (Cain Brothers) and is supported by a Fairness Opinion, which has been provided to the OAG. Moreover, the OAG's own independent valuation firm also concluded, after a thorough review of Mission and the transaction, that the transaction is financially fair.

The financial aspects of the transaction will also result in substantial benefits to North Carolinians. In addition to the purchase price, HCA has committed to maintaining key clinical services provided at certain existing facilities for years to come. HCA has also pledged over $430 million in capital expenditures in the near term that will support at least two new medical centers. The transaction will create a private foundation with approximately $1.5 billion in assets, to be deployed towards improving the health of citizens in this region. This is a unique advantage of this transaction because the key drivers of health and well-being are not related to medical care delivery and are not reimbursed by traditional means. Also, HCA will pay significant property and income taxes from which Mission has been exempt due to its non-profit status. Not only is the transaction fair to all parties involved, but also the benefits of this transaction to residents of western North Carolina are clear.

The Board also has considered the substantial additional contractual obligations that HCA has agreed to undertake at your request. These enhancements make an already excellent deal even more extraordinary for the people of western North Carolina.

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Following extensive and careful consideration of a multitude of issues and information, as described above, focused exclusively on the resulting benefit to the communities and their citizens served by Mission, the Board remains convinced that the best option for Mission is a full acquisition by HCA. This conclusion is reflected in a resolution, which is also being provided to the OAG. We hope to close this transaction on January 31, 2019, and would appreciate your prompt consideration in that regard.

Sincerely yours,

John R. Ball, MD, JD
Chair, Board of Directors
Mission Health System