

Second Quarter Fiscal 2017 Investor Update Presentation

Dated February 17, 2017

Live Q&A Teleconference will be held on Wednesday, February 22, 2017

9:00 AM MT /11:00 AM ET

Call Name: CHI 2nd Quarter Fiscal 2017 Investor Update Presentation

Dial in # 877-415-3186

Access: 437-618-99

(This is a moderated call. Please dial in at least 15 minutes in advance)

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CHI Webcast Details

PRE-RECORDED PRESENTATION RELEASE FOLLOWED BY LIVE Q&A CONFERENCE CALL

Catholic Health Initiatives invites you to view their pre-recorded investor presentation providing an overview of interim FY 2017 financial performance and to join their live teleconference with Q&A:

CHI 2nd Quarter Fiscal 2017 Investor Update

The pre-recorded presentation will be available beginning on
February 17, 2017

The webcast will be available at
www.NetRoadShow.com
Entry Code: CHI2017

The live teleconference for Q&A will take place as follows:

Wednesday, February 22nd at 9:00 a.m. MT
(8:00 a.m. PT, 10 a.m. CT, 11:00 a.m. ET)

Dial-in Number: (877) 415-3186
Access Code: 437-618-99

PLEASE DIAL IN 15 MINUTES
PRIOR TO THE START OF THE LIVE CALL TO REGISTER

REPLAY

Replay of the Q&A will be added to the pre-recorded presentation and will be available at www.NetRoadShow.com through
March 2, 2017

Entry Code (same as above): CHI2017

Presenters

- **J. Dean Swindle**

President, Enterprise Business Lines and Chief Financial Officer

- **Anthony K. Jones, FACHE**

Interim Executive Vice President of Operations

- **Nicholas M. Barto**

Senior Vice President, Corporate Finance & Investments



17
State Network

4,300
Employed
Physicians

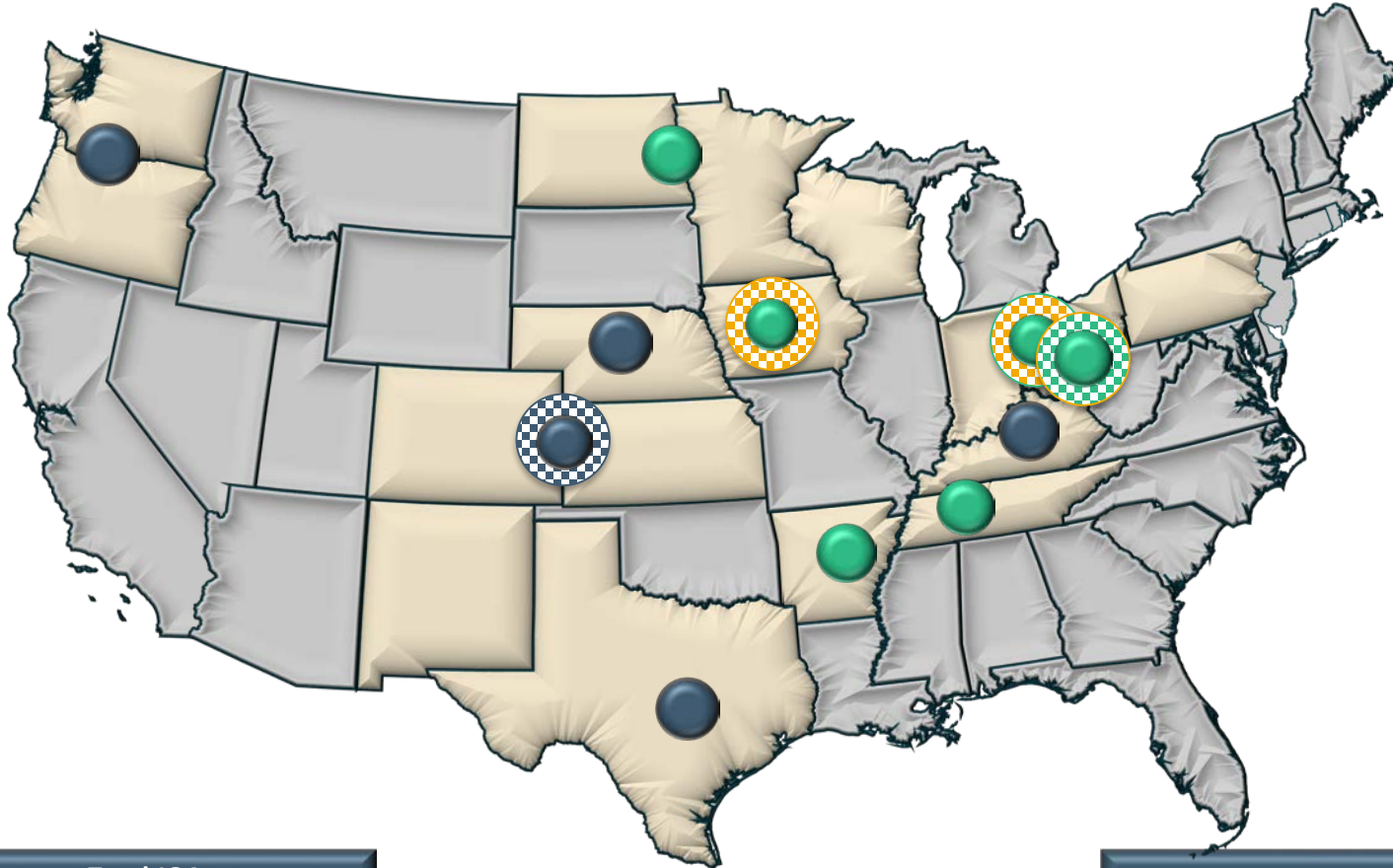
90,000 +
Employees

104
Acute Care
Hospitals

625,000
Attributable
Members

\$1.1 billion
Community
Benefit

CHI Regional Map



**Total JOA
Operating Revenue**



Greater than \$4 billion



\$2 billion to \$3 billion



\$1 billion to \$2 billion

Total Operating Revenue



Greater than \$2 billion



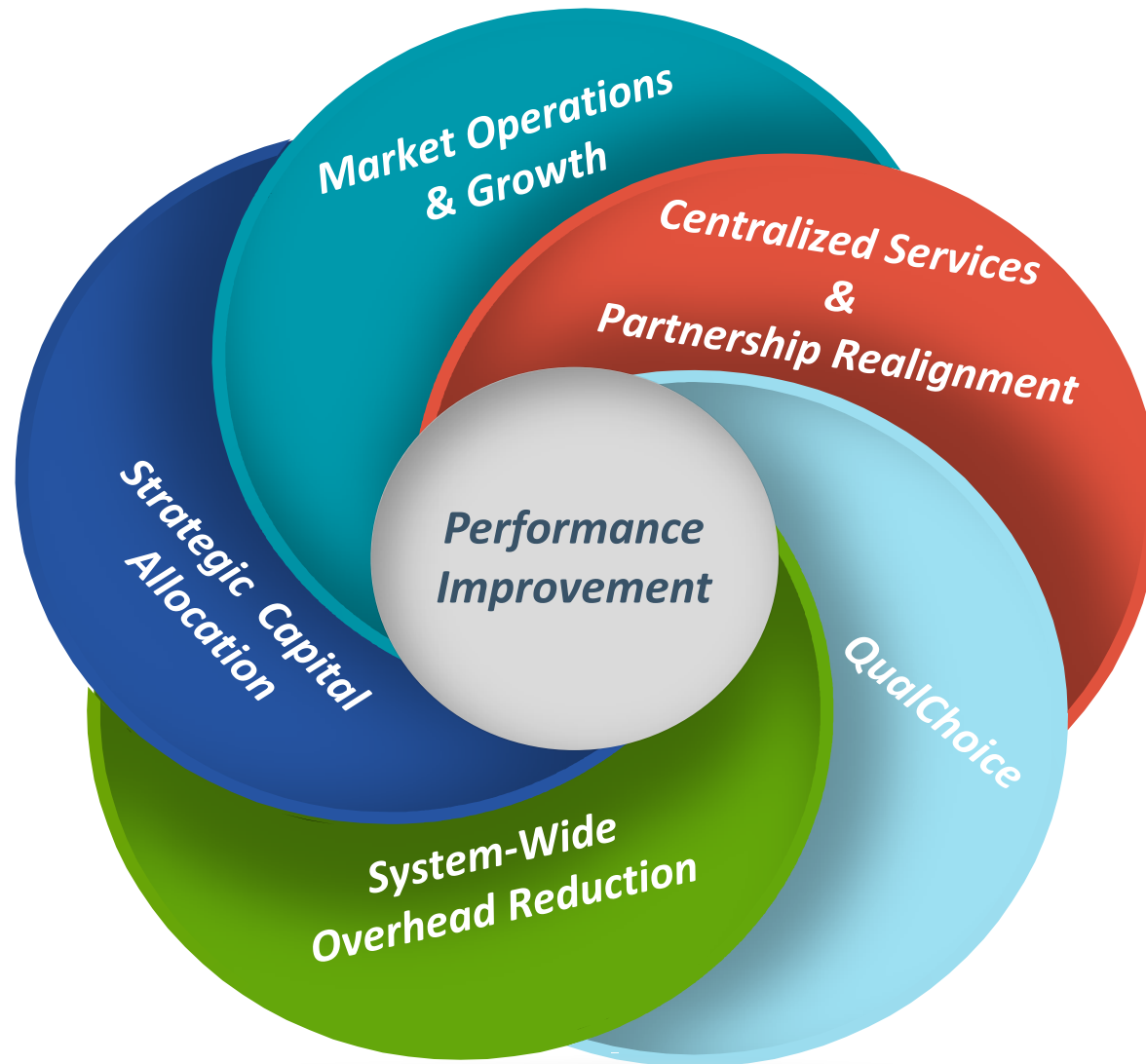
Less than \$1 billion

Strategic Transformation

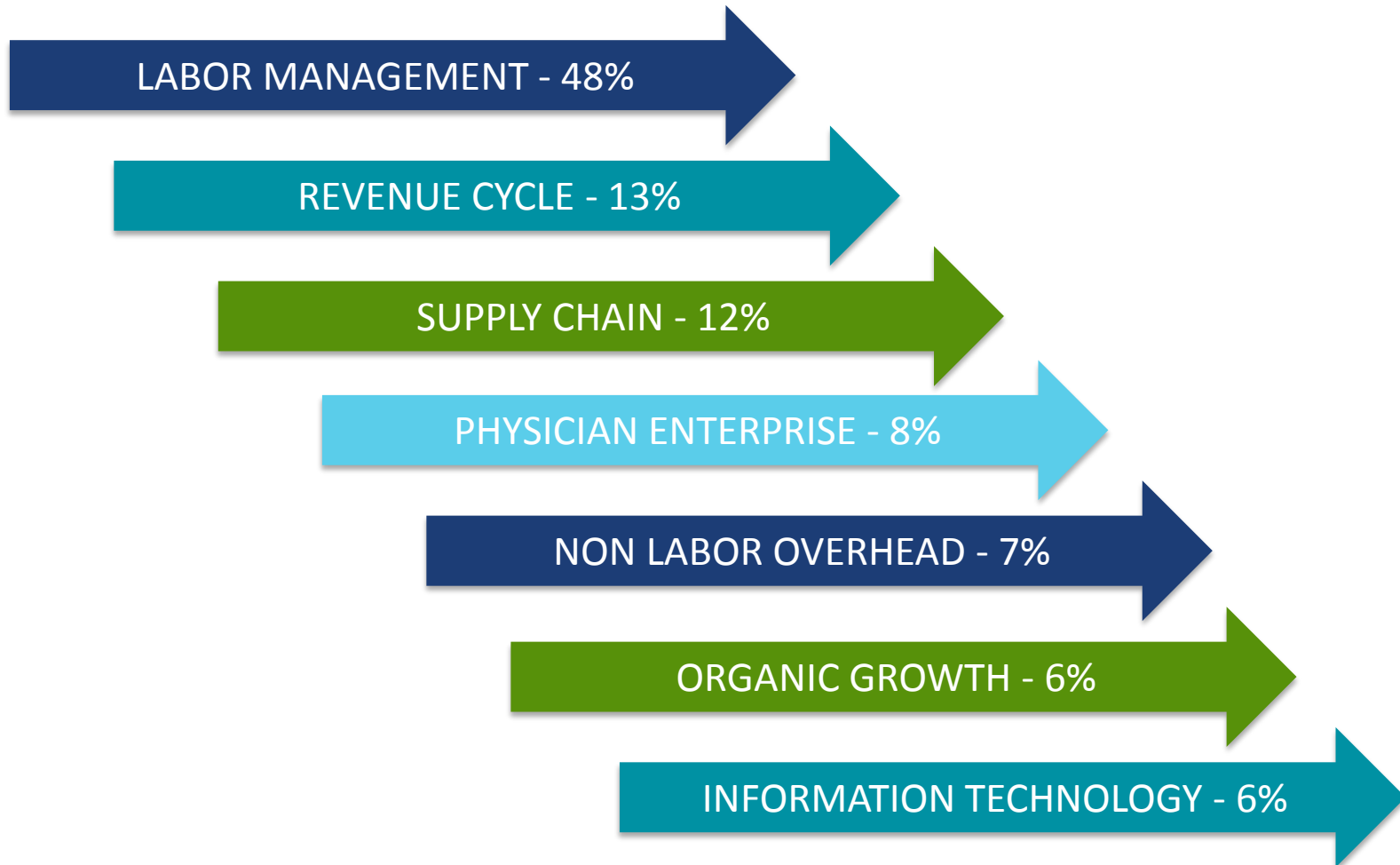


- **Near-term focused on change in processes**
 - Financial and operational performance improvement
 - Ensuring operational accountability
 - Align governance and operating models to ensure high performance

Operational Priorities



Financial Performance Plan Components





Catholic Health Initiatives

Imagine better health.™

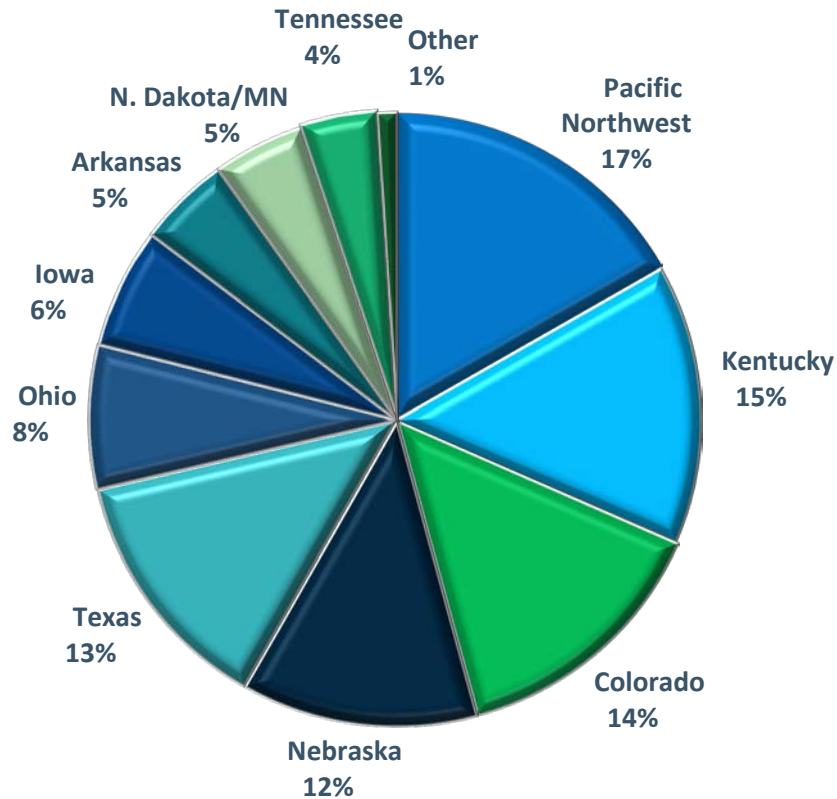
Overview
FY2017-Six Months Ended
December 31, 2016

CHI Reporting Group – Fiscal 2017 YTD Notable Items

- Operating EBITDA before restructuring totaled \$358.8 million for the first half of fiscal 2017
 - Q2 accounted for \$226.7 million of year to date results
 - Strong revenues in November and December
 - Continuing to work diligently on operating expenses
 - Strong Q2 performance in Colorado and Pacific Northwest
 - Enhanced performance improvement initiatives in Kentucky and Texas

CHI Consolidated – Dec FYTD 2017

Diverse Revenue Sources

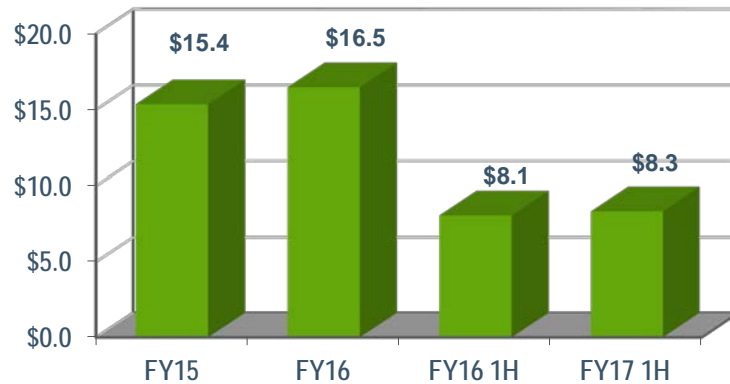


Operating EBIDA Margin before restructuring

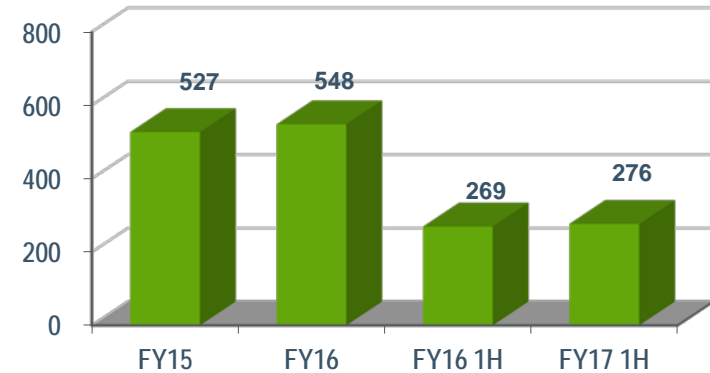
Colorado	9.4%
Pacific Northwest	10.4%
Nebraska	3.9%
Kentucky	1.0%
Texas	2.1%
Iowa	7.3%
Ohio	7.5%
Arkansas	3.2%
Tennessee	8.9%
North Dakota/MN	6.8%

Operating Indicators

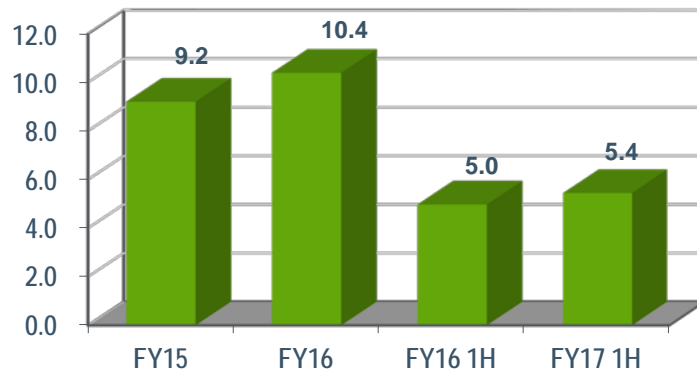
**CHI Reporting Group
Operating Revenues**
(\$ in billions)



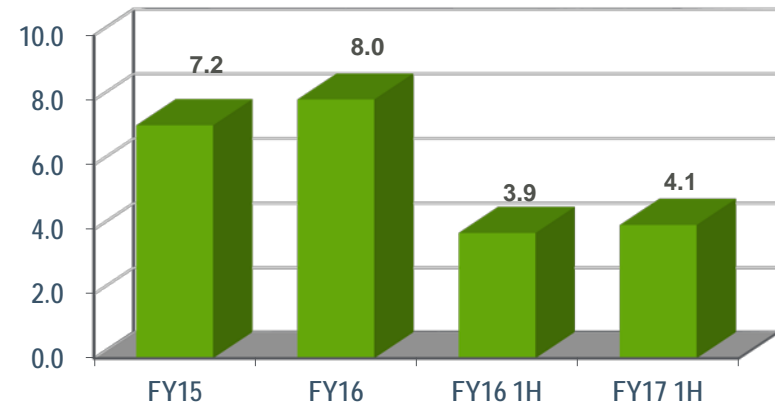
**CHI Reporting Group
Admissions**
(thousands)



CHI Physician Visits
(millions)

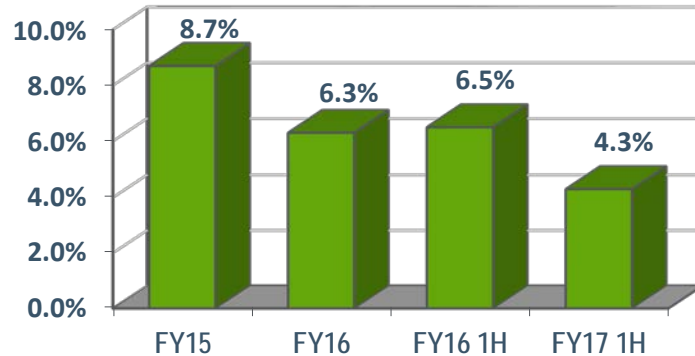


CHI Total Outpatient Visits
(millions)

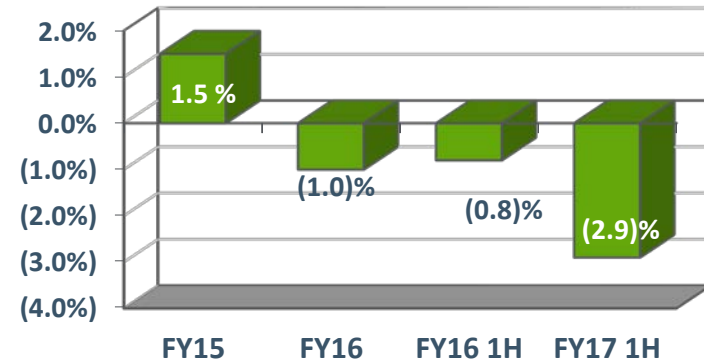


CHI Reporting Group - Financial Results

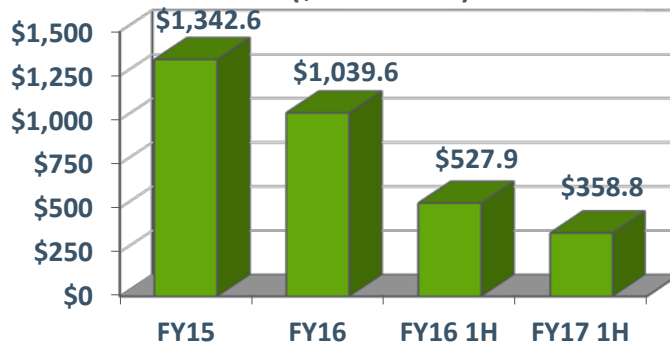
Operating EBIDA Margin before restructuring



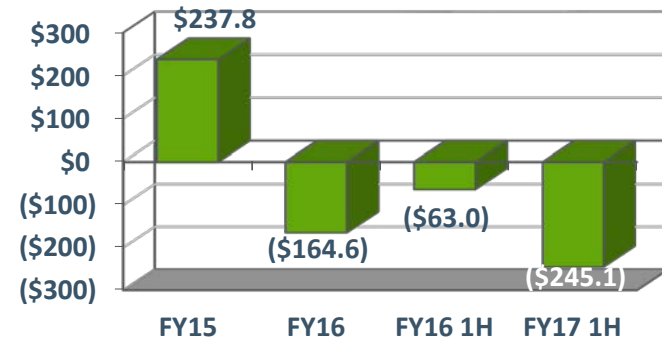
Operating Margin before restructuring



Operating EBIDA before restructuring
(\$ in millions)



Operating income before restructuring
(\$ in millions)

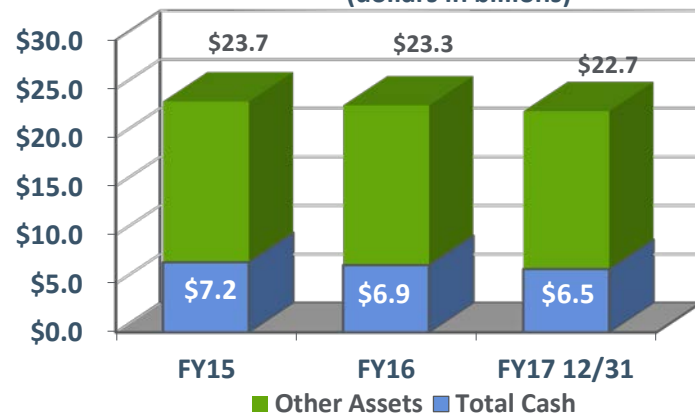


1H = Six month ended December 31

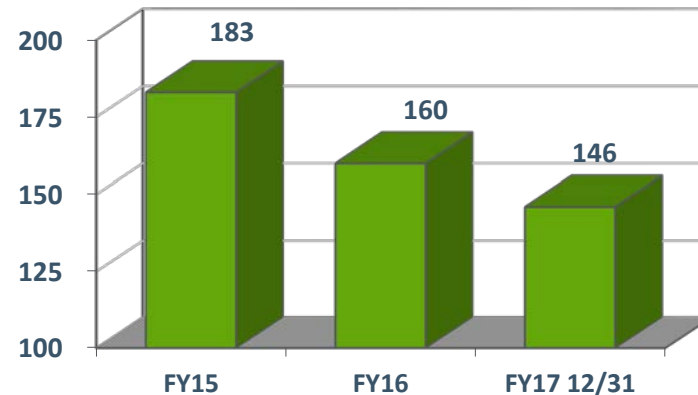
CHI Reporting Group -Balance Sheet Measures

Total Assets & Total Cash

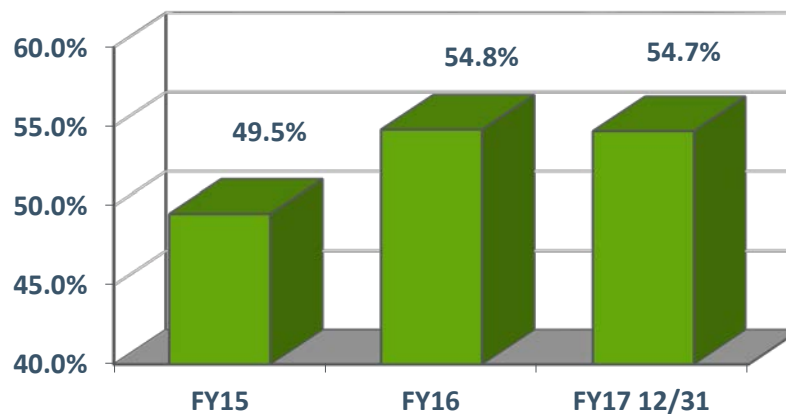
(dollars in billions)



Days Cash on Hand



Debt to Capitalization Ratio



CHI Reporting Group Financial Performance

FYTD Through December 31, 2016

\$ in thousands	Dec FYTD <u>FY16</u>	Dec FYTD <u>FY17</u>
Total operating revenues	\$ 8,066,180	\$ 8,340,190
Total operating expenses	<u>8,129,143</u>	<u>8,585,259</u>
Income (loss) from operations before restructuring, impairment and other losses	\$ (62,963)	\$ (245,069)
Restructuring, impairment and other losses	<u>41,293</u>	<u>126,616</u>
Income (loss) from operations	<u>\$ (104,256)</u>	<u>\$ (371,685)</u>
Operating EBIDA before restructuring	<u>\$ 527,896</u>	<u>\$ 358,786</u>
Operating EBIDA margin before restructuring	<u>6.5%</u>	<u>4.3%</u>

CHI Reporting Group Financial Performance

By Quarter FY17

\$ in thousands

Total operating revenues

Income (loss) from operations
before restructuring

Operating EBIDA before restructuring

Operating EBIDA margin before
restructuring

Q1 FY16 <u>Actual</u>	Q2 FY16 <u>Actual</u>	FY16 <u>Dec FYTD</u>	Q1 FY17 <u>Actual</u>	Q2 FY17 <u>Actual</u>	FY17 <u>Dec FYTD</u>
\$ 4,034,213	\$ 4,031,967	\$ 8,066,180	\$ 4,108,579	\$ 4,231,611	\$ 8,340,190
30,768	(93,731)	(62,963)	(169,477)	(75,592)	(245,069)
324,549	203,347	527,896	132,090	226,696	358,786
8.0%	5.0%	6.5%	3.2%	5.4%	4.3%

CHI Consolidated Trailing Four Quarters

CHI Operating EBIDA by Division

\$ in thousands	FY2016 Q3	FY2016 Q4	FY2017 Q1	FY2017 Q2	FY2016 Q3	FY2016 Q4	FY2017 Q1	FY2017 Q2
Colorado	64,049	42,481	46,949	60,144	11.3%	7.8%	8.4%	10.4%
Pacific Northwest	\$ 58,696	\$ 36,498	\$ 62,562	\$ 74,884	9.3%	5.8%	9.8%	11.0%
Nebraska	38,551	58,558	19,100	20,596	7.8%	10.8%	3.8%	4.1%
Kentucky	22,314	35,201	(5,435)	17,072	3.8%	6.0%	(0.9%)	2.8%
Texas	46,019	5,294	6,752	16,077	8.7%	1.0%	1.3%	3.0%
Iowa	23,236	24,376	16,707	20,663	9.2%	9.5%	6.7%	8.0%
Ohio	14,407	42,432	21,901	23,773	5.0%	13.5%	7.2%	7.7%
Arkansas	9,092	(652)	5,117	7,157	4.7%	(0.4%)	2.7%	3.7%
Tennessee	10,376	(5,570)	13,089	15,800	6.6%	(3.7%)	8.1%	9.7%
North Dakota/MN	13,855	23,277	7,658	18,258	7.2%	12.0%	4.2%	9.3%
All Other	(124,785)	(131,650)	(72,382)	(64,370)				
Gains on business combinations	94,174	(12,806)	-	-				
Other gains (Wheaton)	-	89,100	-	-				
CHI Consolidated	\$ 269,982	\$ 206,541	\$ 122,018	\$ 210,053	6.7%	5.1%	3.1%	5.1%

Labor Reduction

- Each region and corporate area has a plan to achieve labor reduction
- 58% of labor reduction plans were/are to be derived from reductions-in-force, management elimination, and attrition of recently vacated positions. 62% of these reductions occurred by January 31
- 100% of labor expense reductions will be in run rate by March 31, 2017
- In November, CHI implemented a freeze on non-clinical hiring
- Huron Consulting assisted Texas, Kentucky, Pacific Northwest, Fargo and Nebraska regions with labor reduction plans and is supporting most with implementations
- Project management office tracks individual labor reduction initiatives (along with all other performance improvement work streams)

Kentucky Update

- Financial results FYTD 2017 behind expectations
 - Volume growth short of projections
 - Experienced growth, but change in patient mix and service mix adversely affecting growth metrics
 - Labor costs have increased, driven by higher wage rates and dependency on agency staffing
 - Challenging payer environment
- Market opportunities
 - Complete the reconfiguration of KYONE presence in Louisville with the exit of the University of Louisville Hospital
 - Focus on capabilities and growth potential of KYOne Partners (CIN) across KYOne markets
 - Expansion of ambulatory access in suburban Lexington, including strategic growth initiatives with independent multi-specialty provider groups
- Mitigation strategies
 - Corporate leadership team deploys focused support to drive day-to-day performance improvement efforts in Kentucky
 - Address nursing and other staff shortfalls
 - Surgical throughput improvements

Texas Update

- Financial results FYTD 2017 behind expectations
 - Volumes and service line mix have deteriorated
 - Labor costs have increased
 - FYTD FY17 results include \$17.3 million of real estate asset sale gains
- Market opportunities
 - Optimizing partnership with the Baylor College of Medicine
 - Focused acquisitions and partnerships with entities across the continuum of care – primary care, specialists, freestanding EDs and other ambulatory sites to drive market share and revenue
 - Opening of CHI St. Luke's Health-Springwoods Village Hospital campus, a comprehensive primary care clinic and inpatient hospital, in key submarket/economic corridor
 - Maximize opportunity within the Texas Division by completing integration of the four systems and other ancillary entities
- Mitigation strategies
 - Corporate leadership team deploys focused support to drive day-to-day performance improvement efforts in Texas
 - Improve labor productivity and supply chain savings
 - Expand referral base for additional growth
 - Improve physician alignment and further develop primary care
 - Acquisition of multi-specialty group in November 2016 comprising of more than 80 health care providers

Closing Remarks

- **Rigorous operational improvement plan**
 - Tony Jones, interim COO and performance improvement expert
 - Structure, accountability and transparency
- **Continued focus on integration and synergies of recent acquisitions**
- **On-going comprehensive expense reduction strategy**
 - Focused clinical and operational initiatives across system
 - System-wide hiring freeze
 - Labor mandate to all regions outlining spend reductions
 - Last phase to be completed by March 31, 2017
 - Building momentum towards FY2018
- **Release of Financial Statements**
 - 45 days post first three quarters
 - 90 days post fiscal year end
- **2017 Potential Plan of Finance**

