ZIEGLER CAPITAL MARKETS

CASE STUDY

DATED SEPTEMBER 16, 2010

BRONSON METHODIST HOSPITAL

Bronson Methodist Hospital - Kalamazoo, MI | $189,260,000

Tax-exempt Revenue/Revenue Refunding Bonds

CLIENT PROFILE

Bronson Healthcare Group, Inc. (Bronson) is a Michigan non-profit corporation, which operates three hospitals in southwest Michigan along with other ancillary healthcare services including physician practice organizations, emergency medical services, an athletic club, a skilled nursing facility, joint ventures, and other support companies. Bronson serves a nine county market in southwest Michigan with a population of approximately one million.

The flagship hospital, Bronson Methodist Hospital, is a 405-licensed bed general acute care hospital located in Kalamazoo, Michigan. The hospital provides care in virtually every specialty with advanced capabilities in critical care as a Level I Trauma Center; in neurological care as a Joint Commission certified Primary Stroke Center; in cardiac care as the region's first accredited Chest Pain Center; and in obstetrics as the leading birthplace and only high-risk pregnancy center in southwest Michigan. Additionally, Bronson is a leader in tertiary pediatrics as one of only four children's hospitals in the state.

THE ZIEGLER DIFFERENCE

Ziegler has served as Bronson's long time investment banker. During the financial crisis of 2008, Ziegler worked diligently with Bronson to restructure its Series 2003 auction rate securities to fixed rate bonds. In addition to converting the Series 2003 bonds, Ziegler assisted the organization in restructuring Bronson's put and insured floating rate debt to letter of credit backed variable rate demand obligations. Throughout this process, Ziegler understood that Bronson's ultimate goal was to reduce the risk profile of its capital structure by removing counterparty risk to financial institutions and reducing the risks associated with variable rate indebtedness. In early 2010, Ziegler presented the opportunity for Bronson to further reduce its balance sheet risk. The Series 2010 transaction included the conversion of the outstanding insured variable rate demand obligations to fixed rate bonds totaling $75 million that carried Assured Guaranty insurance. By converting this series to fixed rate bonds, Bronson was able to preserve the value of its bond insurance policy and minimize its capital costs. The second series, which totaled $114.26 million, was structured as unenhanced securities and carried an "A2" rating from Moody's. In conjunction with the fixed rate conversion, which reduced counterparty, basis, remarketing, and acceleration risks, Bronson terminated corresponding fixed payer swaps to further reduce its balance sheet risk profile.

To accomplish its objectives, Ziegler worked with Bronson on the optimal structure of the refunding and new money components. Ziegler was also able to attain Assured Guaranty's consent to convert the insured Series 2010 bonds to fixed rate securities without any changes to its existing covenant package while modifying Bronson's Master Trust Indenture. Bronson also challenged Ziegler to market the Series 2010 fixed rate bonds without a cash funded debt service reserve fund (DSRF) to reduce the negative carry associated with this security provision. A DSRF is often customary for fixed rate transactions in Bronson's rating category as investors seek the extra layer of security, which it provides. While a few recent and similarly rated transactions have been priced without a DSRF, general investor sentiment regarding the fiscal challenges of the state of Michigan made Ziegler's task all the more difficult.

Ziegler had the participation of 23 institutional investors on an investor call the week before pricing and employed its unique expertise in credit positioning to effectively convey Bronson's unique credit story in a state that has faced significant challenges in the current economic environment.

Ziegler successfully priced simultaneously both series of bonds on September 16, 2010. The pricing was accomplished in a market that had paused after a significant decline in yields over the prior weeks, while overcoming substantial investor objections from the lack of a DSRF and fulfilling inventors' demand for discounted bonds and premium bonds in the same maturities. In conjunction with the pricing, Ziegler also negotiated competitive termination fees with two separate swap counterparties while successfully executing the full termination of two-fixed payer swaps and a partial termination of a third fixed payer swap.

Ziegler utilized its sales force to uncover a variety of investors that included retail, Tier I, Tier II, and Tier III institutional investors for each series of bonds to successfully complete the financing at competitive interest rates. Bronson was able to realize its objectives of reducing its balance sheet risk, maintaining aggregate level debt service, minimizing its capital cost by only increasing its maximum annual debt service by approximately $35,000 annually, as well as financing important new money projects and swap termination payments.

Ziegler

ZIEGLER INVESTMENT BANKING

Healthcare
200 South Wacker Drive | Suite 2000
Chicago, IL 60606

CONTACT US

800 366 8899
www.Ziegler.com