ZIEGLER INVESTMENT BANKING | HEALTHCARE FINANCE

SOMETIMES IT PAYS TO BE CREATIVE

HENRY MAYO NEWHALL MEMORIAL HOSPITAL

$159,555,000
December 2013 & February 2014
Henry Mayo Newhall Memorial Hospital | Valencia, California

CLIENT PROFILE

Henry Mayo Newhall Memorial Hospital (Henry Mayo) is a 238-bed hospital located in the community of Valencia in the City of Santa Clarita. Henry Mayo had strengthened its credit profile with continued increases in operating cash flow. However, some liquidity measures remained below investment grade medians as Henry Mayo utilized cash from operations for major capital expenditures over the last few years given its high leverage. Henry Mayo historically utilized Cal Mortgage insured bonds to access capital and was considering refunding its insured Series 2001A bonds. While Cal Mortgage had been an effective capital partner historically for Henry Mayo, it held significant reserve powers and provided limited capital structure flexibility as parity indebtedness, while permissible under the bond documents, had never been granted. In addition to potentially refunding a portion of its debt, Henry Mayo had identified over $67 million of capital expenditures to be funded for growth prior to its planned bed tower expansion slated for late 2015 to early 2016.

TRANSACTION/FINANCING HIGHLIGHTS

Ziegler met with senior management to gain a greater insight into the organization's financial position and risks to the income statement under a changing and challenging healthcare environment. During those discussions, capital structure risks of various financing structures were vetted allowing senior management to determine which risks Henry Mayo was comfortable accepting.

Using its proprietary credit model and Henry Mayo's multi-year financial forecast and capital expenditure budget, Ziegler analyzed multiple financing scenarios to determine that in addition to refunding its Series 2001A Bonds for savings, Henry Mayo should finance those identified capital expenditures in lieu of funding capital from operating cash in order to build liquidity and optimize its credit profile before financing its new patient tower expansion. By taking on the additional leverage along with refinancing, Ziegler could demonstrate that Henry Mayo's projected rating was solidly in the investment grade category; a necessary provision for Henry Mayo to lower its capital cost associated with its future bed tower expansion. Further, our models illustrated Henry Mayo exhibited current investment grade characteristics even though the institution had not been previously rated.

Ziegler broadened its plan of finance to identify an opportunity to completely exit the Cal Mortgage program with a cost effective financing to refund the remaining Cal Mortgage bonds issued for Henry Mayo thereby eliminating extraordinary Cal Mortgage creditor rights, including consent over its planned tower expansion.

THE ZIEGLER DIFFERENCE

Ziegler approached the financing structure in phases to optimize the outcome for Henry Mayo and lower the cost of capital. The financing plan developed by Ziegler in consultation with senior management and the Board of Directors was to issue the debt in two phases; a private placement phase and a conventional fixed-rate financing phase.

Private Placement Phase

Ziegler solicited a request for proposal to financial institutions and non-financial institutions to provide $89.6 million of capacity to restructure the existing Series 2001A Bonds, a portion of the outstanding Series 2007A Bonds and provide approximately $18 million of capital for the identified capital projects. After receiving responses from multiple parties, Ziegler worked with Henry Mayo to analyze each of the respondent's proposals and negotiate

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acceptable terms and conditions. Ultimately, two non-financial institutions were selected along with one financial institution to provide the required capital.

The private placement was structured in three separate debt series: a 14-year fully amortizing series, a 15-year fully amortizing series and an 11-year term with a 25-year amortization. Along with establishing a new Master Trust Indenture to provide current and future operating flexibility and the elimination of two corporations not directly controlled by Henry Mayo as obligors, Ziegler negotiated identical covenants with each of the private placement lenders so there would be no additional reporting requirements of management.

In order for the private placement to be issued, Cal Mortgage would need to grant the ability to issue parity indebtedness. Though Cal Mortgage documents allowed for parity indebtedness, it had never been granted. In order for the overall plan of finance to be implemented, Ziegler worked with Cal Mortgage to negotiate mutually agreeable terms with the State of California and Henry Mayo was the first hospital to be granted the permission to issue parity indebtedness.

The private placement debt closed in December 2013 with an overall all-inclusive cost of 4.12% with level debt service.

Conventional Fixed Rate Bonds

The second phase of capital formation included the issuance of $70 million in fixed-rate bonds to provide for the restructuring of the remaining Series 2007A Bonds and the outstanding Series 2007B Bonds along with approximately $29 million to fund the identified capital projects.

While Ziegler was convinced Henry Mayo was currently an investment grade credit, a rating agency was necessary to validate our view and facilitate our plan of finance. Ziegler led the initial dialogue with Standard and Poor's then worked with senior management to prepare for its interface with the rating analysts. Despite balance sheet metrics that lagged investment grade medians, Henry Mayo earned an initial rating of BBB- with a stable outlook by effectively marketing the sustainability of its strong profitability. The BBB- rating was also important for the overall plan of finance as it allowed us to capitalize on using bond insurance from Assured Guaranty to not only lower the cost of financing (Assured Guaranty holds a AA- rating from S&P) but to limit the amount of debt needed to be issued by not funding a debt service reserve fund. In addition, Ziegler negotiated a covenant package with Assured that essentially matched the covenants negotiated with the Series 2013 placement lenders preserving the hospital's strategic and operating flexibility.

The Series 2014 Bonds were structured to create overall level debt service for Henry Mayo and were sold in January 2014 with an overwhelming interest among investors. Thirty-five investors submitted orders aggregating to nearly $347 million in total interest. This allowed Ziegler to significantly reduce the yields on the bonds which ultimately carried an all-inclusive cost of 5.37%.

FINANCING SUMMARY

Through a creative plan of finance and a well-coordinated approach to implementing the finance plan, Henry Mayo was able to refund a portion of its debt for material savings, restructure its other existing debt and exit the Cal Mortgage insurance program, provide for the cost effective funding of the next several years of capital expenditures, secure an investment grade rating, receive a bond insurance commitment, institute a new Master Trust Indenture, eliminate two corporations not directly controlled by Henry Mayo as obligors and negotiate acceptable bond covenants. In addition to satisfying these financing objectives, Henry Mayo achieved two firsts of its kind: approval from Cal Mortgage to issue parity indebtedness with Cal Mortgage bonds still outstanding and a bond insurance commitment for a BBB- credit without the requirement of a debt service reserve fund.

All of this was achieved with an all-in weighted average cost of capital of 4.67%.

For further information on the outstanding bonds for this issuer, please visit the Electronic Municipal Market Access system at http://emma.msrb.org.

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Valencia California

Private Placement Refinancing/ Project Financing

DECEMBER 2013

$89,555,000

HENRY MAYO NEWHALL Memorial Hospital

Henry Mayo Newhall Memorial Hospital
Valencia California

Refinancing/ Project Financing

FEBRUARY 2014

$70,000,000

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