

MISSION HEALTH – CREDIT UPDATE

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Founded in 1997, Caprin is an asset management firm that applies the substantial experience and expertise of its professionals to the creation and management of forward-looking investment solutions for those seeking wealth preservation and income generation

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Background

On March 21, 2018 the board of Asheville, NC-based Mission Health signed a letter of intent to be acquired by Nashville, TN-based HCA Healthcare. HCA, one of the nation's largest for-profit hospital systems, currently does not have operations in North Carolina and is using this acquisition to establish its presence within the state.

At this point there are not enough salient details regarding how the acquisition will be structured to determine the impact to bond holders. A similar recent HCA transaction discussed below may provide some clues. However, other options exist for HCA and have prompted discussions in the municipal market on outcomes where outstanding bonds lose their tax-exempt status and trigger the extraordinary call provision with bonds redeemed at par.

Caprin has reviewed examples of recent, similar transactions that we believe establish a reasonable outline for this type of acquisition. In particular, earlier this year HCA closed on the purchase of the Chatham County (GA) Hospital Authority (Memorial Health Obligated Group) which had outstanding tax-exempt bonds at the time of acquisition. As part of the sale to HCA, the Chatham County (GA) Hospital Authority used proceeds from the sale to pre-refund or escrow-to-maturity its outstanding bonds. Those proceeds were invested in US Treasuries and placed in escrow to serve as new collateral for the bonds. In this case the bonds' tax-exempt status was preserved and the extraordinary call provision was not triggered.

There are limited if any examples in the state of North Carolina of a for-profit hospital system acquiring a non-profit system so it is difficult to confidently predict an outcome at this early stage. Fortunately, there is strong fiscal oversight of municipal issuers in North Carolina and this should serve as support for bondholders' interests. While the use of an extraordinary call provision may be viable, we would view this action as inconsistent with recent precedence, and not without significant reputational risk to Mission Health and HCA. It is our understanding at this time that the two state agencies, the North Carolina Medical Care Commission (NCMCC) and the Local Government Commission (LGC) which have these oversight responsibilities would both need to approve the proposed acquisition.

Caprin is actively monitoring this developing situation and will provide an update as more information about the acquisition becomes available.

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