



Summary of Observations

Proposed Hospital Conversion Application Regarding Prospect CharterCARE

Prepared for: Rhode Island Department of Health

April 6, 2021

About PYA



“One of the Most Successful Firms in the Country”
-Accounting Today

YEAR FOUNDED
1983

INSIDE
PUBLIC ACCOUNTING
TOP 100
FIRMS
2020

OFFICE LOCATIONS
Atlanta
Kansas City
Knoxville
Nashville
Tampa

CLIENT LOCATIONS

50
STATES

47% FEMALE
OWNERSHIP

Nearly 3x the average of similarly sized firms

- Inside Public Accounting

TOP 15 LARGEST
AUDITOR
of AHA's Top U.S. Multi-Hospital Systems
- Ames Research Group

Consistently ranked
TOP 20
HEALTHCARE CONSULTING
firm in the U.S.
by Modern Healthcare

SIZE OF FIRM

220+
WE ARE A TOP 20
HEALTHCARE
CONSULTING FIRM

Approach



- Confirm engagement scope and purpose with Rhode Island Department of Health (RIDOH)
- Analyze relevant information provided by the Transacting Parties
- Request and analyze supplemental information
- Attend Statements Under Oath, as applicable to PYA's scope of work
- Meet weekly with RIDOH
- Present to Health Services Council

Rhode Island Hospital Conversion Review Criteria



RIDOH reviews completed applications in consideration of nine statutory criteria:

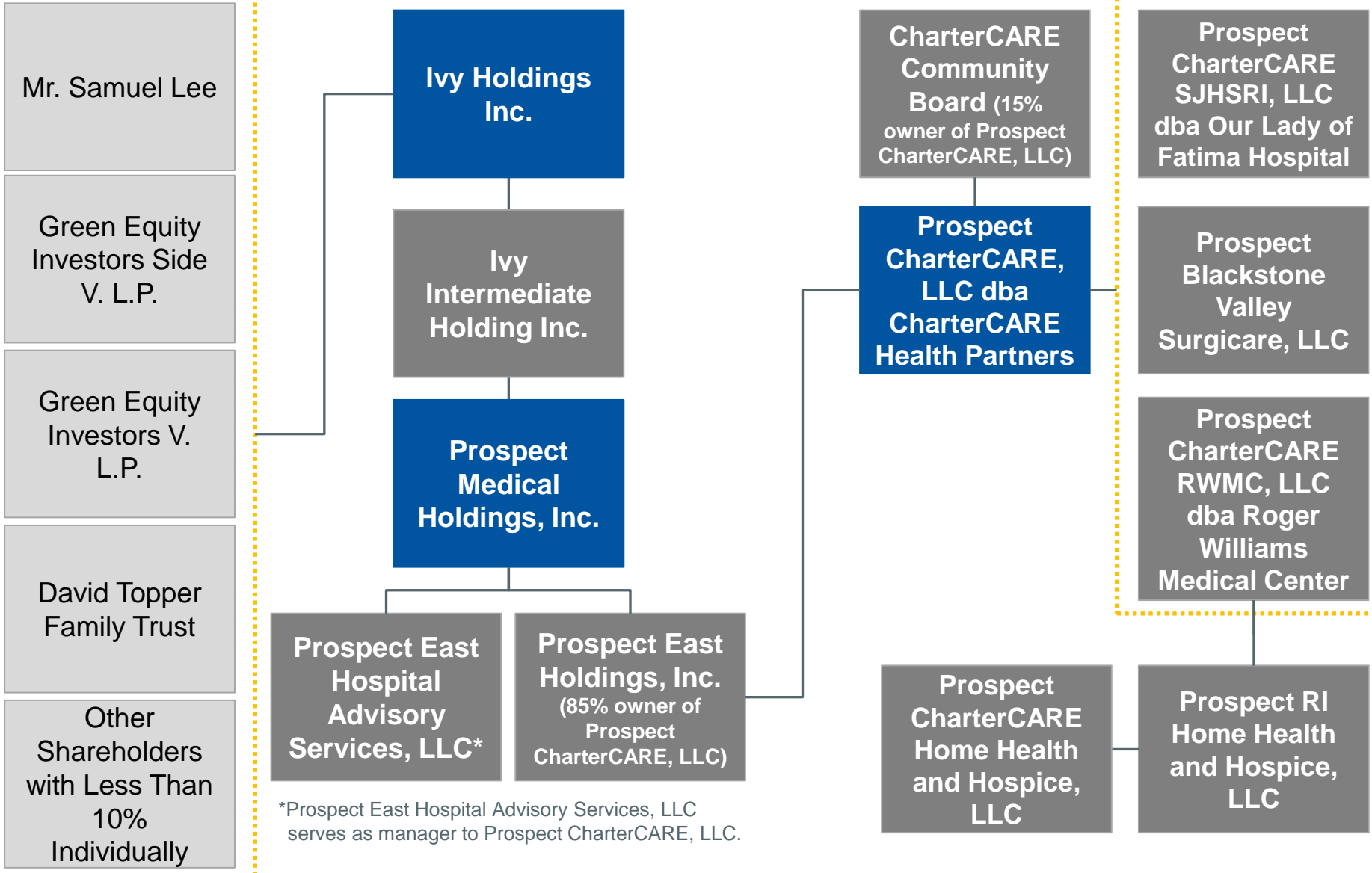
- Satisfactory character, commitment, competence, and standing in the community.
- **Sufficient safeguards to assure the affected community continued access to affordable care.***
- **Clear and convincing evidence to provide health care and access for traditionally underserved populations in the affected community.***
- Procedures or safeguards to ensure that ownership interests will not be used as incentives for hospital employees or physicians to refer patients to the hospitals.
- Commitment to assure the continuation of collective bargaining rights and workplace retention.
- Estimated future employment needs under the conversion and retraining of employees who may be impacted by the proposed restructuring.
- **Demonstration that public interest will be served, including access to essential medical services needed to provide safe and adequate treatment, and assurance of a balanced health care delivery system.***
- Issues of market share, especially as they affect quality, access, and affordability of services.
- **Applicants must meet the Conditions of Approval for any previous Conversion under the Act (For-Profit conversions only).***

** Most Relevant to PYA's scope*



Proposed Transaction

Ownership Pre-Transaction

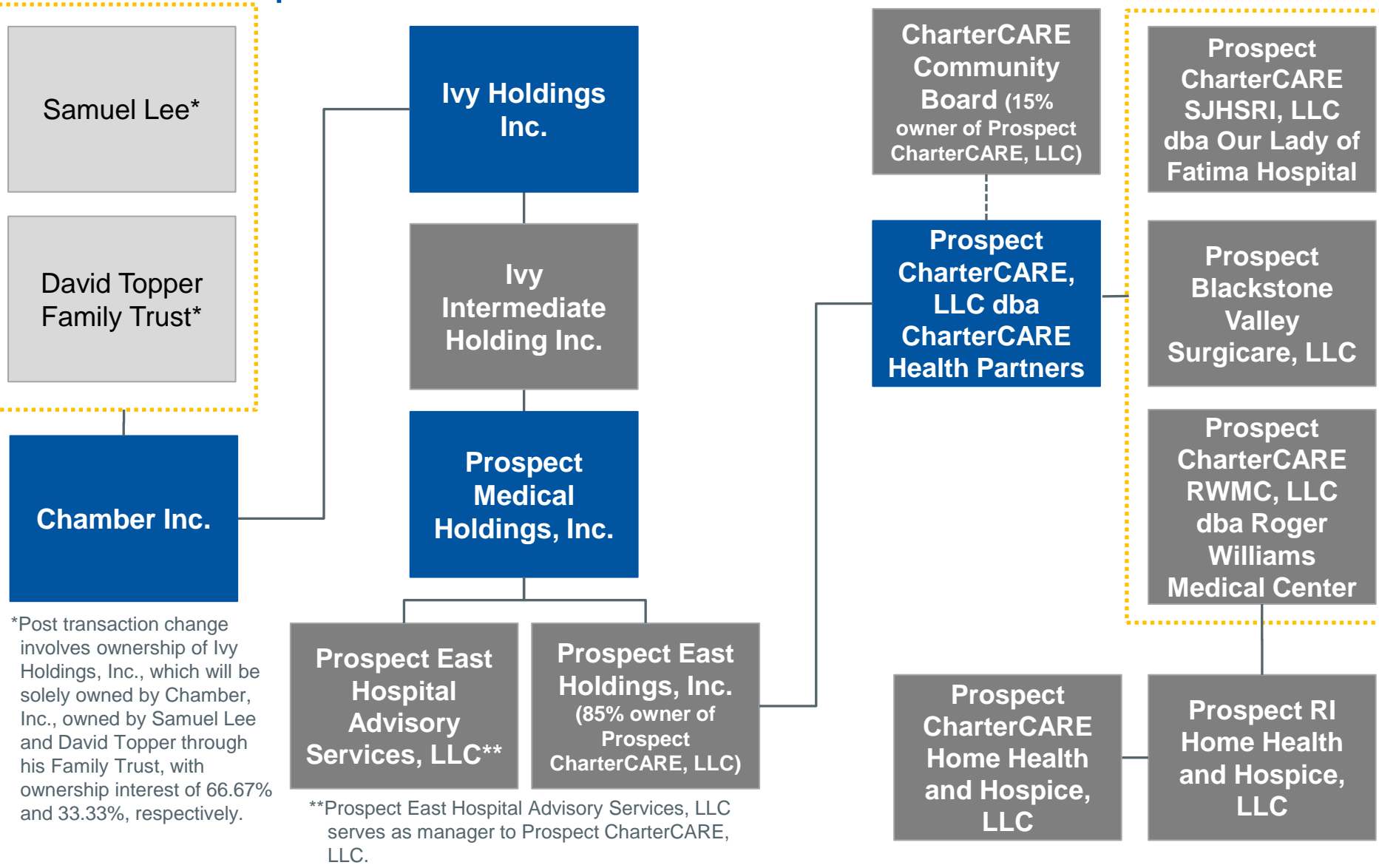


*Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC.

- Mr. Samuel Lee
- Green Equity Investors Side V. L.P.
- Green Equity Investors V. L.P.
- David Topper Family Trust
- Other Shareholders with Less Than 10% Individually

- Prospect CharterCARE SJHSRI, LLC dba Our Lady of Fatima Hospital
- Prospect Blackstone Valley Surgicare, LLC
- Prospect CharterCARE RWMC, LLC dba Roger Williams Medical Center
- Prospect CharterCARE Home Health and Hospice, LLC
- Prospect RI Home Health and Hospice, LLC

Ownership Post Transaction



*Post transaction change involves ownership of Ivy Holdings, Inc., which will be solely owned by Chamber, Inc., owned by Samuel Lee and David Topper through his Family Trust, with ownership interest of 66.67% and 33.33%, respectively.

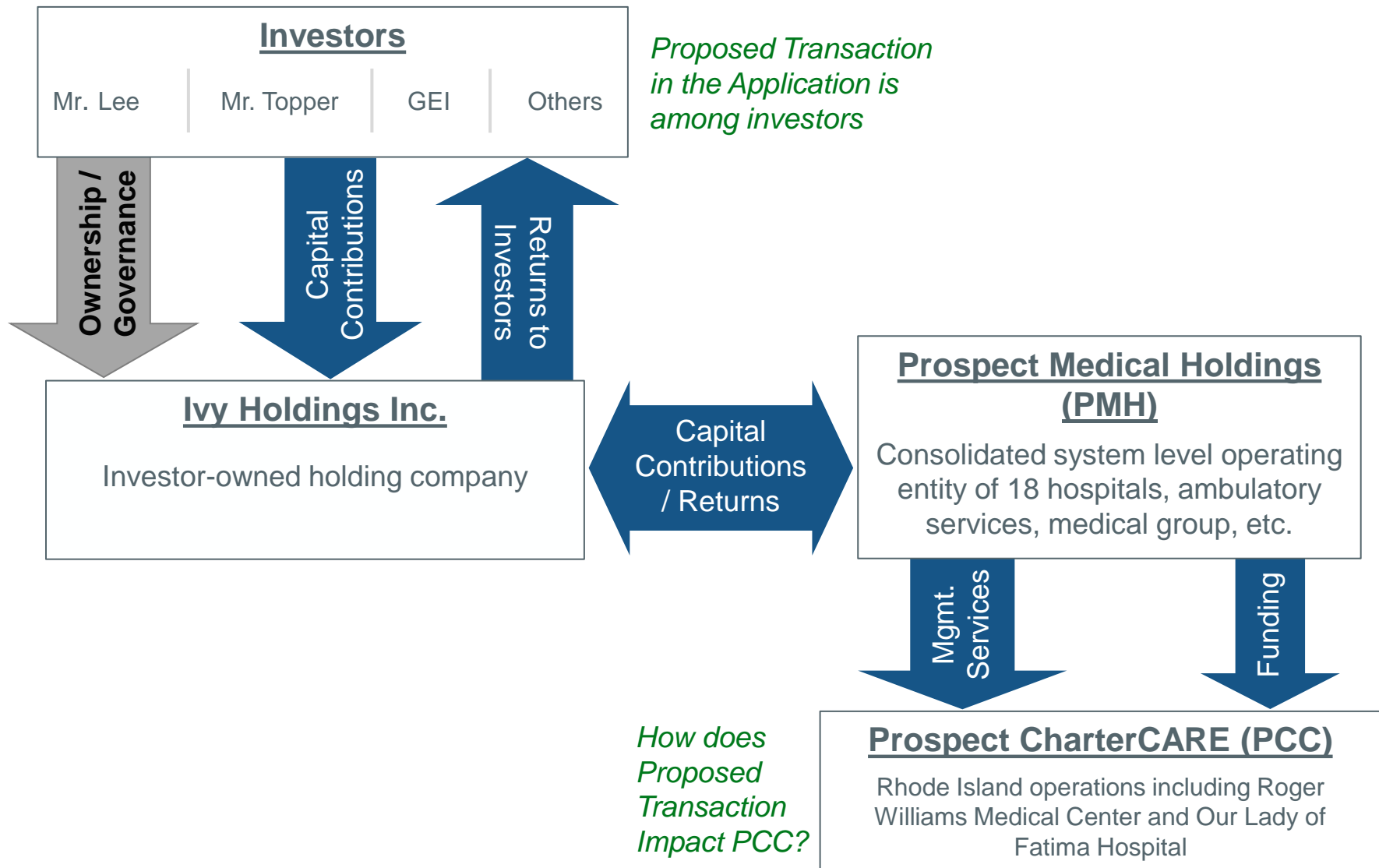
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Proposed Transaction



- Parties - current investors in Ivy Holdings Inc. (IH):
 - Sellers: Green Equity Investments V, LP, Green Equity Investments Side V, LP (GEI) and other minority stockholders
 - Buyers: Mr. Samuel Lee and Mr. David Topper (through Family Trust)
- Consideration to Sellers:
 - \$11.9 million payment for approximately 66% of stock
 - Release from any portion of approximately \$3.1 billion in liabilities

Considerations



Question: How does the proposed transaction impact the access to, and delivery of, affordable and quality healthcare to the communities currently served?

- Ability to access capital
- Direct impact on financial condition of PCC?
- Indirect impact on PCC through direct affects on any of PCC's parent entities

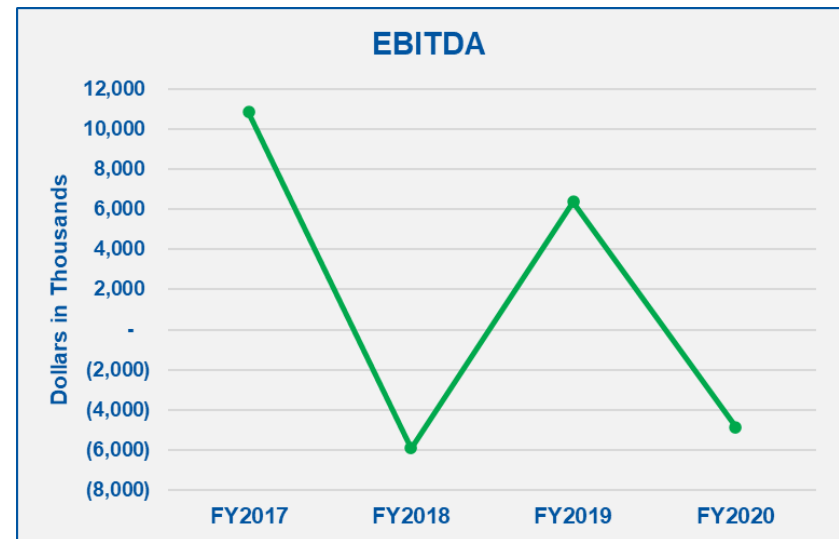
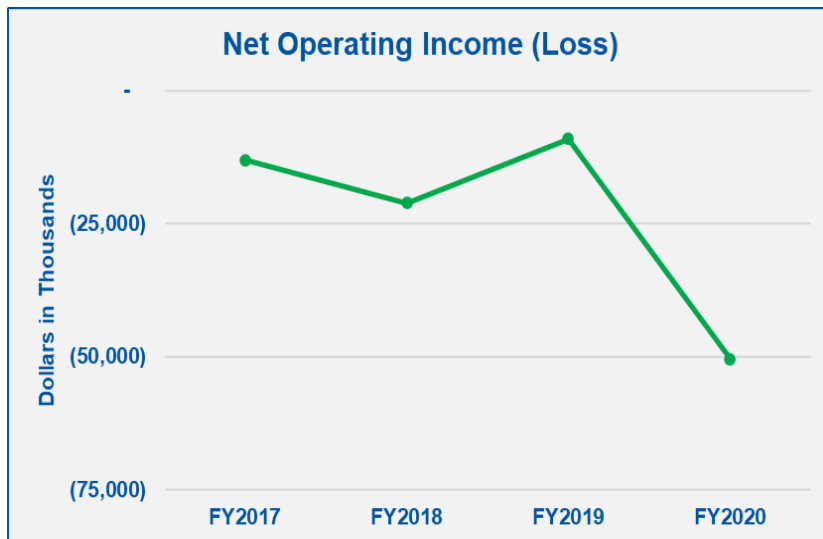


Key Observations

Key PCC Observations



- PCC has historically been dependent upon PMH to fund operations so as to meet its obligations and invest in capital improvements for the hospitals
- Not generating cash sufficient to fund operations:
 - Accumulated net operating losses FY2015 – FY2020: \$88.1 million



Source: PCC Audited Financial Statements

Key PCC Observations



TRS Note:

- PMH's original principal amount approximated \$113 million
- Not secured by any real or personal property located in Rhode Island
- Balloon payment due on August 31, 2022 and must be either:
 - (i) paid in full at that date;
 - (ii) amended to extend the maturity date;
 - (iii) satisfied through the sale and subsequent leaseback of the RWMC and OLF real property assets which is contractually allowed per the agreement;
or
 - (iv) other.
- No evidence provided which illustrates how repayment will be addressed
- Implication: A future sale and leaseback of the PCC Rhode Island real estate assets could impact PCC's stand-alone ability to access additional sources of capital, as collateralizing assets would be significantly reduced

Key PCC Observations



PACE Financing:

- RWMC - \$42M for property renovations
 - As of September 30, 2020, \$27 million has been expended with \$15 million remaining in escrow
- OLF: \$18M for property renovations entered into in January 2021
- Repaid through ad valorem taxes through 2046
- Security on the loan includes a levy and lien against certain real property of RWMC and OLF

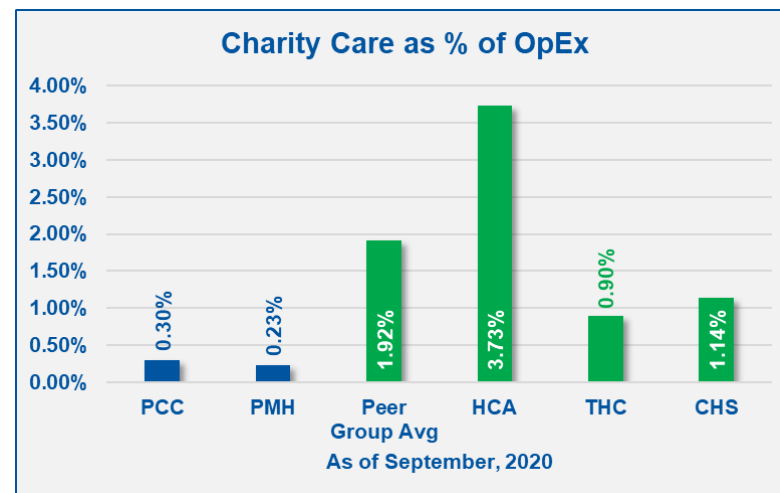
Capital Spending:

- Capital spending by PCC for FY2017 – FY2020 averaged \$7.8 million
 - Equated to replacing approximately 66% of the annual depreciated value of PCC assets
 - Suggests a potential level of deferred capital investment in recent fiscal years
- Independent monitor's December 2020 report states PCC met capital spending commitments required under the 2014 transaction application approval

Other Key PCC Observations



- Reported levels of charity care (does not include unreimbursed costs under Rhode Island Medical Assistance Program)
 - FY2019: \$0.5 million (0.15% of total operating expense)
 - FY2020: \$1.1 million (0.30% of total operating expense)



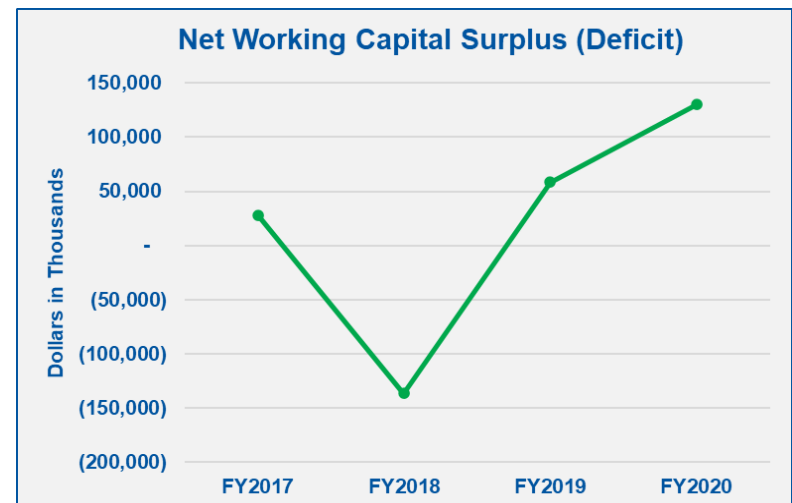
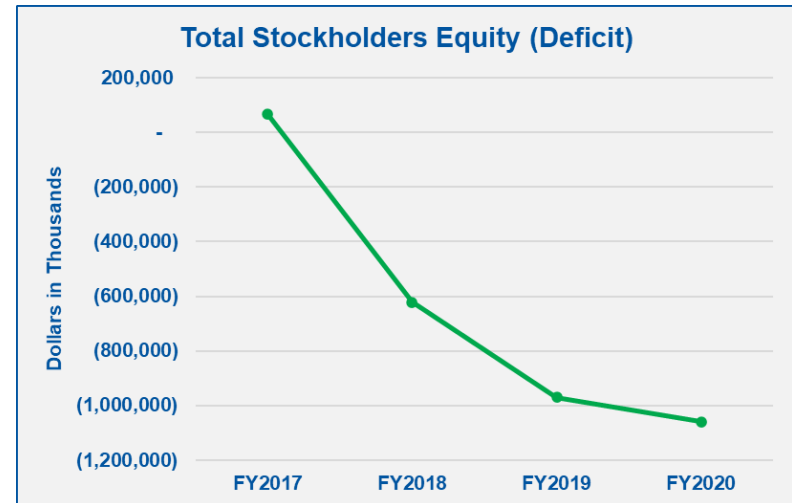
- PMH charges a management fee to PCC for centralized administrative and support services:
 - Fees approximate 2.0% of Net Patient Services Revenue
- IH subsidiaries entered into a settlement agreement in December 2020 to pay \$27.5 million in exchange for the remaining 15% interest held by the CharterCARE Community Board and release from ongoing litigation regarding pension funding

Key PMH Financial Observations



Key Historical Capital Events:

- In FY2018, PMH consummated a recapitalization event whereby PMH entered into new debt obligations approximating \$1.12 billion used to:
 - Refinance prior debt
 - Pay certain expenses associated with the refinance
 - Prefund approximately \$40 million of pension liabilities to PMH’s subsidiaries (none of which related to PCC)
 - Make payments to certain option holders
 - Pay approximately \$457 million in PMH Board of Directors’ authorized dividends to stockholders
- Dividend paid equivalent to cash covering approximately 60 days of PMH FY2018 operating expenses
 - Days cash on hand at 12/31/18: 1 day

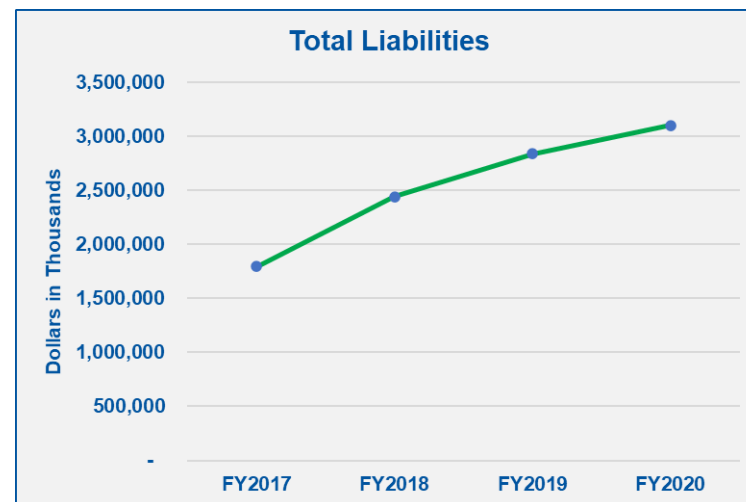


Key PMH Financial Observations



Key Historical Capital Events:

- August 2019, entered into sales/leaseback transaction with Medical Properties Trust (MPT)
- \$1.386 billion received in exchange for hospital real estate assets in California, Connecticut, and Pennsylvania
 - No Rhode Island facilities were included in the MPT sale/leaseback transaction
- Entered into minimum 15-year lease agreements for assets sold to MPT
- Proceeds from the sale were utilized, in part, to extinguish the long-term debt assumed in FY2018
- The TRS Note is a component of MPT transaction



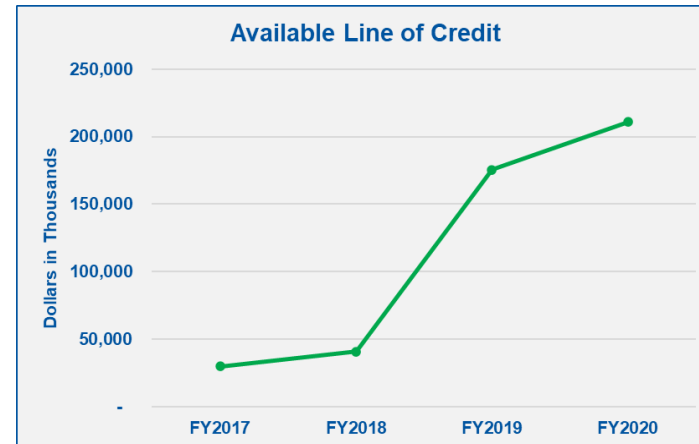
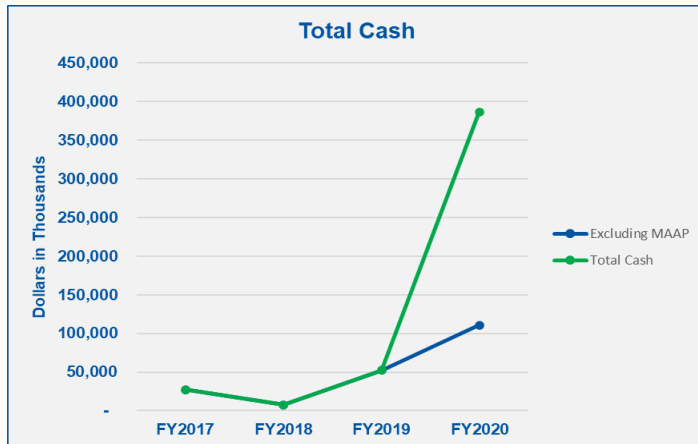
PMH's leveraged position has increased to a point where, at September 30, 2020, PMH's total liabilities exceeded total assets by approximately \$1.06 billion

Key PMH Financial Observations



Liquidity Observations:

- PMH's liquidity was limited from FY2017 through FY2019



- \$387 million in PMH cash at September 30, 2020 includes approximately \$276 million associated with Medicare Advanced and Accelerated Payments (MAAP), which repayment is required over a period of up to 17 months
 - Days of cash to cover operating expenses:
 - With MAAP: 52 days; Without MAAP: 15 days
 - 9/30/2020 available revolving line of credit: \$211 million (28 days of operating expenses)

Impact of Proposed Transaction on PCC and PMH



Question: How does the proposed transaction impact the access to, and delivery of, affordable and quality healthcare to the communities currently served?

- Ability to access capital
 - From GEI
 - No evidence provided of additional capital contributed by GEI since original investments (except capital contributions returned via dividends in 2019)
 - Our understanding is that GEI funds are at end of life
 - Other Sources
 - Ability of PMH and subsidiaries to produce positive operating results, and as a result, positive returns on any invested funds will be a key consideration for any lender or investor

Impact of Proposed Transaction on PCC and PMH



Question: How does the proposed transaction impact the access to, and delivery of, affordable and quality healthcare to the communities currently served?

- Direct impact of Proposed Transaction on financial condition of PCC?
 - No observed financial **direct** impacts to **PCC** based on information provided for analysis
- Indirect impact of Proposed Transaction on PCC through direct affects on any of PCC's parent entities, including PMH
 - \$11.9 million purchase price to be funded from cash of PMH, per the 2019 Merger Agreement
 - Unknown how new board governance structure may affect decisions regarding PMH

Summary



Question: How does the proposed transaction impact the access to, and delivery of, affordable and quality healthcare to the communities currently served?

- Both PCC and PMH face long-term financial viability risks.
- Since PMH's acquisition in 2014, PCC has consistently been dependent upon PMH to fund operational shortfalls and capital investments.
- PMH has reported limited liquidity and a highly leveraged position in recent fiscal years.
- However, despite these general observations, utilizing the information made available to us by the Transacting Parties, we did not observe impacts from the Proposed Transaction which directly affect the financial condition of PCC. We do note that PCC may be impacted indirectly as a result of any potential material effects to PMH caused by the Proposed Transaction.