

# April 2019 Board Meeting

April 15, 2019



# Agenda – Board Meeting

## TOPIC

## PRESENTER

Call to order

Jack Krouskup

## Board Business

- Consent Agenda
  - February 7, 2019 | SMMI, VMF, VBS Resolutions
- Quality and Clinical Risk Management Committee Update
- Operations Update
- Financial Update

Elsbeth Paul

Chris Selecky

Anthony Armada / Dr. del Junco

Anita Chou / BRG

## Chapter 11 Updates

- Marketing Overview
- Bid Analysis
- Upcoming Legal Events
- Review of KPC Resolution

Cain Brothers

BRG

Dentons

Elsbeth Paul

## Executive Session

# Operations Update

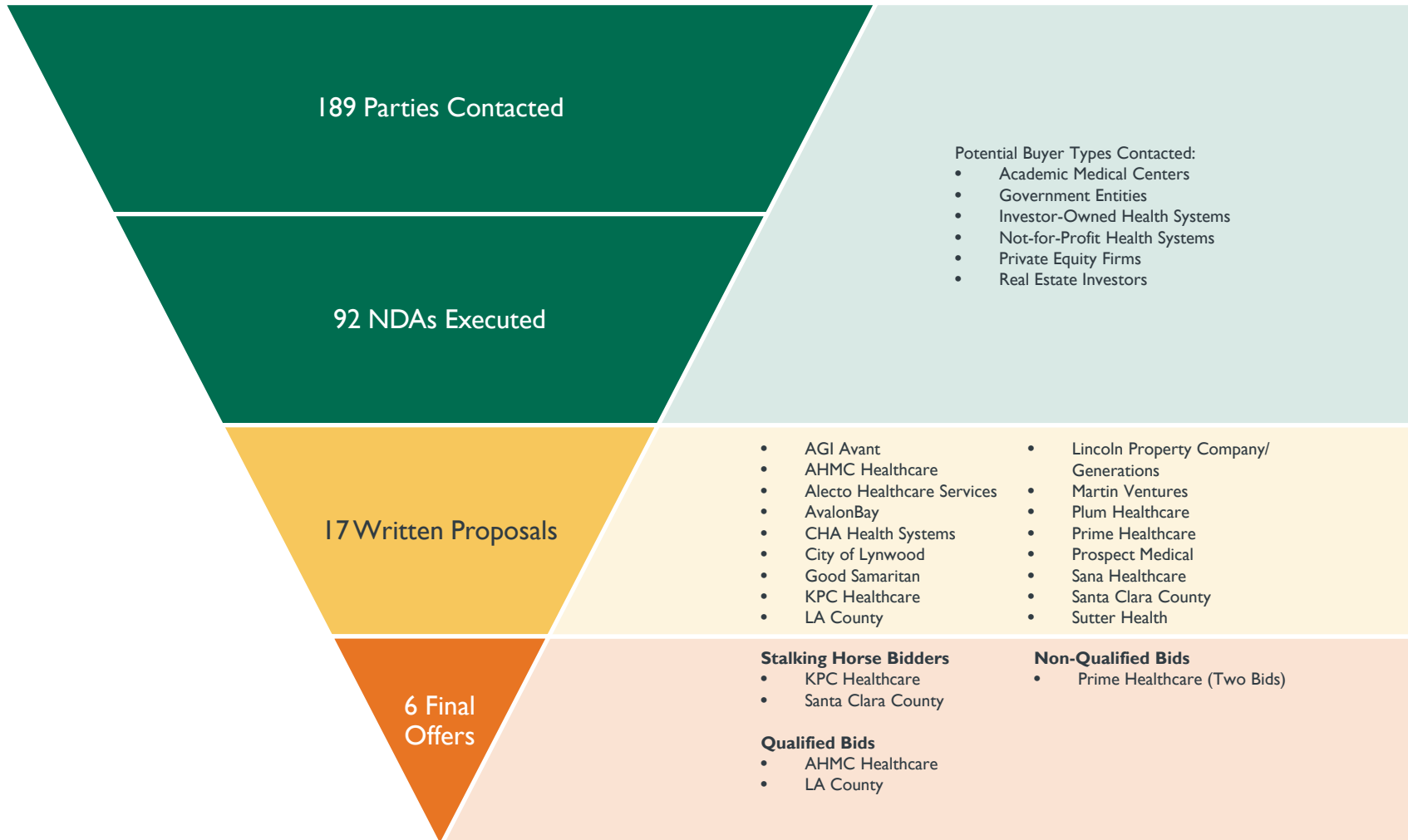
PAGES 4-12 OF THIS PRESENTATION HAVE BEEN REDACTED AS UNRESPONSIVE TO ITEM 4 OF THE FILING REQUIRED BY THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976, AS AMENDED.

# Marketing Overview



# Process Summary

Cain Brothers conducted a broad and thorough sales process that included outreach to 189 parties and multiple bidding opportunities



## Process After Filing of KPC Healthcare Bidding Procedures

Cain Brothers continued discussions with potential interested parties after the approval of the bidding procedures for the SFMC, SVMC, SMC, and SMCC assets

	All Four Assets	SFMC	SVMC	SMC / SMCC
<b>Parties Conducting Diligence in Final Round</b>	<ul style="list-style-type: none"> <li>KPC Healthcare</li> <li>Prime Healthcare</li> <li>Prospect Medical</li> </ul>	<ul style="list-style-type: none"> <li>Adventist Health / AltaMed / Cope</li> <li>AHMC Healthcare</li> <li>CHA Health Systems</li> <li>Tenet Health</li> </ul>	<ul style="list-style-type: none"> <li>CHA Health Systems</li> <li>Ensemble</li> <li>Good Samaritan Hospital</li> <li>Hospital C-Suite Consultants</li> <li>LA County</li> </ul>	<ul style="list-style-type: none"> <li>AGI Avant</li> <li>AGRA Capital</li> <li>AvalonBay</li> <li>Carmel Partners</li> <li>International Equity Partners</li> <li>Lincoln Property Company (Generations Healthcare)</li> <li>San Mateo County</li> </ul>

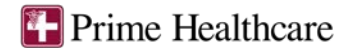
### Summary of Events

- Cain Brothers contacted all 90 parties that had signed an NDA (ex. Santa Clara County and a party that previously asked to be removed from the process) to provide a copy of the bidding procedures order and to inform them of specific next steps, including confirming their continued interest
- Cain Brothers continued to follow up with key parties who did not affirmatively respond indicating ongoing interest to ensure that all potential bidders remained engaged
- Data room access was thereafter limited to the 19 entities listed above that conducted further due diligence leading up to the proposed auction date
- The diligence materials in the data room were continuously updated, including a roll-forward of the quality of earnings analysis by PwC and posting of the monthly financial and operating reports

# Summary of Full System Proposals

## Qualified Full System Bids




## Non-Qualified Full System Bids



Party	KPC	Prime Healthcare
<b>Acquired Assets</b>	<ul style="list-style-type: none"> <li>• SFMC</li> <li>• SVMC</li> <li>• SMC</li> <li>• SMCC</li> </ul>	<ul style="list-style-type: none"> <li>• SFMC</li> <li>• SVMC</li> <li>• SMC</li> <li>• SMCC</li> </ul>
<b>Offer Type</b>	<ul style="list-style-type: none"> <li>• Stalking Horse</li> <li>• Operating</li> </ul>	<ul style="list-style-type: none"> <li>• Operating</li> </ul>
<b>Cash Purchase Price</b>	<ul style="list-style-type: none"> <li>• \$610 million</li> </ul>	<ul style="list-style-type: none"> <li>• \$400 million</li> </ul>
<b>Treatment of QAF and Receivables</b>	<ul style="list-style-type: none"> <li>• Net QAF acquired by KPC</li> <li>• Purchase price adjustment for any QAF payments received or paid before close</li> <li>• AR acquired by KPC</li> </ul>	<ul style="list-style-type: none"> <li>• AR acquired by Prime</li> <li>• Verity to retain QAF</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>• Deposit: \$30 million</li> <li>• Breakup Fee: 3.25% of PP (\$19.825 million) + Expense Reimb.</li> </ul>	<ul style="list-style-type: none"> <li>• Deposit: none</li> <li>• \$150 million CAPEX commitment</li> </ul>
<b>Net Benefit to Debtors<sup>(1)</sup></b>	<ul style="list-style-type: none"> <li>• \$543.6 million</li> </ul>	<ul style="list-style-type: none"> <li>• \$477.3 million</li> </ul>



# Summary of Partial Bid Proposals

	Qualified Partial Bids		Non-Qualified Partial Bids
	 AHMC Healthcare	 LA County	 Prime Healthcare
Party	AHMC Healthcare	LA County	Prime Healthcare
Acquired Assets	<ul style="list-style-type: none"> <li>SFMC</li> </ul>	<ul style="list-style-type: none"> <li>SVMC</li> </ul>	<ul style="list-style-type: none"> <li>SFMC</li> </ul>
Offer Type	<ul style="list-style-type: none"> <li>Operating</li> </ul>	<ul style="list-style-type: none"> <li>Real Estate</li> </ul>	<ul style="list-style-type: none"> <li>Operating</li> </ul>
Cash Purchase Price	<ul style="list-style-type: none"> <li>\$250 million</li> </ul>	<ul style="list-style-type: none"> <li>\$75 million</li> </ul>	<ul style="list-style-type: none"> <li>\$325 million</li> </ul>
Treatment of QAF and Receivables	<ul style="list-style-type: none"> <li>AR retained by Verity</li> <li>Buyer is retaining QAF received after Close</li> </ul>	<ul style="list-style-type: none"> <li>AR retained by Verity</li> <li>QAF retained by Verity</li> </ul>	<ul style="list-style-type: none"> <li>AR acquired by Prime</li> <li>QAF retained by Verity</li> </ul>
Other	<ul style="list-style-type: none"> <li>Deposit: \$12.5 million</li> </ul>	<ul style="list-style-type: none"> <li>Deposit: \$7.5 million</li> </ul>	<ul style="list-style-type: none"> <li>Deposit: none</li> <li>\$75 million CAPEX commitment</li> </ul>
Net Benefit to Debtors <sup>(1)</sup>	<ul style="list-style-type: none"> <li>\$282.4 million</li> </ul>	<ul style="list-style-type: none"> <li>\$87.4 million</li> </ul>	<ul style="list-style-type: none"> <li>\$398.1 million</li> </ul>

# Bid Analysis

# Bid Analysis – Remaining Hospitals

- KPC vs. Combined Partial Bids

	Stalking Horse					Qualified	Qualified	
	KPC	Combined Partial Bids	KPC	KPC	KPC	AHMC	LA County	Seton Shutdown
	SFMC / SVMC / SMC	SFMC / SVMC / SMC	SFMC	SVMC	SMC	SFMC	SVMC	SMC
	a + b + c	d + e + f	a	b	c	d	e	f
Cash Payment	\$ 610.0	\$ 325.0	\$ 420.0	\$ 120.0	\$ 70.0	\$ 250.0	\$ 75.0	\$ -
QAF / Other Adjustments	(62.1)	2.7	(82.8)	9.5	11.3	2.7	-	-
<b>Cash Consideration</b>	<b>\$ 547.9</b>	<b>\$ 327.7</b>	<b>\$ 337.2</b>	<b>\$ 129.5</b>	<b>\$ 81.3</b>	<b>\$ 252.7</b>	<b>\$ 75.0</b>	<b>\$ -</b>
Employee PTO & Severance	(4.3)	(17.5)	(2.0)	(1.0)	(1.4)	(2.0)	(6.4)	(9.1)
Wind-Down Costs	-	(95.5)	-	-	-	-	(10.0)	(85.5)
<b>Closing Costs</b>	<b>(4.3)</b>	<b>(113.0)</b>	<b>(2.0)</b>	<b>(1.0)</b>	<b>(1.4)</b>	<b>(2.0)</b>	<b>(16.3)</b>	<b>(94.6)</b>
<b>Net Cash Consideration</b>	<b>\$ 543.6</b>	<b>\$ 214.7</b>	<b>\$ 335.1</b>	<b>\$ 128.5</b>	<b>\$ 79.9</b>	<b>\$ 250.7</b>	<b>\$ 58.7</b>	<b>\$ (94.6)</b>
<b>Excluded Assets</b>								
Excluded / Reimbursed QAF	-	13.3	-	-	-	-	4.7	8.6
Excluded A/R (75% Collectibility)	-	104.9	-	-	-	46.7	25.1	33.1
Excluded Other Assets	-	5.5	-	-	-	-	3.2	2.3
<b>Total Excluded Assets</b>	<b>-</b>	<b>123.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46.7</b>	<b>33.0</b>	<b>44.0</b>
Break-Up Fee & Exp paid to KPC	-	(21.8)	-	-	-	(15.0)	(4.3)	(2.5)
<b>Total Distributable Proceeds</b>	<b>\$ 543.6</b>	<b>\$ 316.6</b>	<b>\$ 335.1</b>	<b>\$ 128.5</b>	<b>\$ 79.9</b>	<b>\$ 282.4</b>	<b>\$ 87.4</b>	<b>\$ (53.1)</b>
<b>Proceeds 60 days after SFMC Closing</b>	<b>\$ 543.6</b>	<b>\$ 322.8</b>	<b>\$ 335.1</b>	<b>\$ 128.5</b>	<b>\$ 79.9</b>	<b>\$ 259.0</b>	<b>\$ 84.6</b>	<b>\$ (20.8)</b>
<b>Bid Excess / (Shortfall) to KPC</b>		<b>\$ (227.0)</b>				<b>\$ (52.8)</b>	<b>\$ (41.1)</b>	<b>\$ (133.1)</b>
<b>Bid Excess / (Shortfall) to KPC at Closing + 60 days</b>		<b>\$ (220.8)</b>				<b>\$ (76.2)</b>	<b>\$ (44.0)</b>	<b>\$ (100.7)</b>

# Bid Analysis – Remaining Hospitals

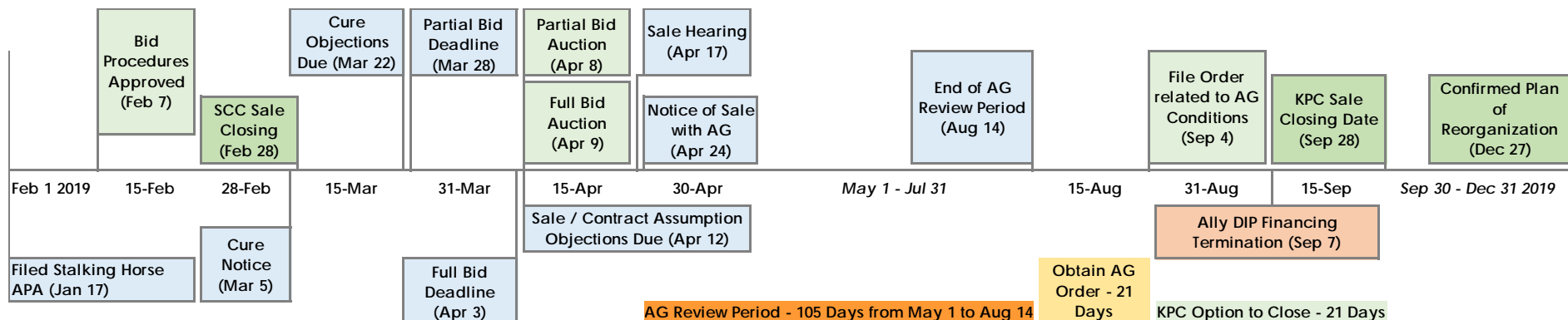
- KPC vs. Non-Qualified Prime Letter

## Stalking Horse Non-Qualified

	KPC	Prime	KPC	KPC	KPC	Prime	Prime	Prime
	SFMC / SVMC / SMC	SFMC / SVMC / SMC	SFMC	SVMC	SMC	SFMC	SVMC	SMC
	a + b + c	g + h + i	a	b	c	g	h	i
Cash Payment	\$ 610.0	\$ 400.0	\$ 420.0	\$ 120.0	\$ 70.0	\$ 325.0	\$ 55.0	\$ 20.0
QAF / Other Adjustments	(62.1)	-	(82.8)	9.5	11.3	-	-	-
<b>Cash Consideration</b>	<b>\$ 547.9</b>	<b>\$ 400.0</b>	<b>\$ 337.2</b>	<b>\$ 129.5</b>	<b>\$ 81.3</b>	<b>\$ 325.0</b>	<b>\$ 55.0</b>	<b>\$ 20.0</b>
Employee PTO & Severance	(4.3)	(4.3)	(2.0)	(1.0)	(1.4)	(2.0)	(1.0)	(1.4)
Wind-Down Costs	-	-	-	-	-	-	-	-
<b>Closing Costs</b>	<b>(4.3)</b>	<b>(4.3)</b>	<b>(2.0)</b>	<b>(1.0)</b>	<b>(1.4)</b>	<b>(2.0)</b>	<b>(1.0)</b>	<b>(1.4)</b>
<b>Net Cash Consideration</b>	<b>\$ 543.6</b>	<b>\$ 395.7</b>	<b>\$ 335.1</b>	<b>\$ 128.5</b>	<b>\$ 79.9</b>	<b>\$ 323.0</b>	<b>\$ 54.0</b>	<b>\$ 18.6</b>
<b>Excluded Assets</b>								
Excluded / Reimbursed QAF	-	103.5	-	-	-	90.2	4.7	8.6
Excluded A/R (75% Collectability)	-	-	-	-	-	-	-	-
Excluded Other Assets	-	-	-	-	-	-	-	-
<b>Total Excluded Assets</b>	<b>-</b>	<b>103.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90.2</b>	<b>4.7</b>	<b>8.6</b>
Break-Up Fee & Exp paid to KPC	-	(21.8)	-	-	-	(15.0)	(4.3)	(2.5)
<b>Total Distributable Proceeds</b>	<b>\$ 543.6</b>	<b>\$ 477.3</b>	<b>\$ 335.1</b>	<b>\$ 128.5</b>	<b>\$ 79.9</b>	<b>\$ 398.1</b>	<b>\$ 54.5</b>	<b>\$ 24.7</b>
<b>Proceeds 60 days after SFMC Closing</b>	<b>\$ 543.6</b>	<b>\$ 392.1</b>	<b>\$ 335.1</b>	<b>\$ 128.5</b>	<b>\$ 79.9</b>	<b>\$ 322.6</b>	<b>\$ 51.6</b>	<b>\$ 17.8</b>
<b>Bid Excess / (Shortfall) to KPC</b>		<b>\$ (66.3)</b>				<b>\$ 63.0</b>	<b>\$ (74.1)</b>	<b>\$ (55.2)</b>
<b>Bid Excess / (Shortfall) to KPC at Closing + 60 days</b>		<b>\$ (151.6)</b>				<b>\$ (12.5)</b>	<b>\$ (76.9)</b>	<b>\$ (62.2)</b>

# Upcoming Legal Events

# Case Timeline



Key Dates	
• February 7 2019	Bid Procedures Hearing
• April 9 / 10	Partial and Full Bid Auctions
• May 1 to August 14	AG Review Period
• September 4 2019	If necessary, Hearing regarding AG Conditions
• September 4 to September 25	KPC 21-Day Review
• September 7 2019	Ally DIP Financing Termination
• September 25 2019	Best Case Sale Closing Date
• December 27 2019	Confirmed Plan of Reorganization

**NOTE:** Current regulation allows the AG a review period from 90 days to 135 days if an extension is granted. The timeline above reflects a 105-day review period but the post-review period timeline could shift by 30 additional days if an extension is granted and the AG uses the full time allowed.