



## ***AHMC Healthcare Inc.***

Anaheim Regional Medical Center  
Monterey Park Hospital

Garfield Medical Center  
San Gabriel Valley Medical Center

Greater El Monte Community Hospital  
Whittier Hospital Medical Center

August 20, 2018

Carsten Beith, Managing Director  
Jim Maloney, Managing Director  
Cain Brothers

Gentlemen:

I am pleased to submit on behalf of AHMC Healthcare Inc. our preliminary nonbinding proposal to Verity Health System in response to its Offering Memorandum seeking buyers for St Francis Medical Center and St Vincent Medical Center.

### **Overview of AHMC Healthcare Inc.**

As one of the leading and most respected locally operated health care organizations in Southern California, with a demonstrated track record of successfully acquiring, integrating and operating essential acute care community hospitals, AHMC Healthcare Inc. is uniquely qualified and positioned to offer Verity Health System a relationship that creates long-term value for the hospitals, local physicians, employees and area residents.

AHMC Healthcare Inc. has an established track record of successfully completing transactions of this type in California. Testament to this fact is the successful transaction completed with CHW (now known as Dignity Health) in 2008 relative to San Gabriel Valley Medical Center. Similarly, in 2009, we successfully completed the acquisition of Anaheim Memorial Medical Center, another major non-profit community-based hospital in Orange County California. In each of these instances we have been warmly welcomed by all constituent groups, secured all regulatory approvals and have expanded programs and services to the communities we serve.

As you know the Founder of AHMC Healthcare Inc., Dr. Jonathan Wu, has assembled and retained an experienced and well qualified team, led by Eric Tuckman, who enjoys a long standing trusted relationship with the regulatory and governmental agencies (including the California Attorney General's Office) assigned responsibility for transactions of this type.

We believe we are uniquely qualified and have more than sufficient resources available to complete this transaction in an expedited fashion. Subject to the performance of confirmatory due diligence and depending upon the review period utilized by the California Attorney General we are prepared to Close this transaction upon receipt of required regulatory and governmental approvals. We would require no longer than a 60-day due diligence period.



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Our proposal outlines a structure that involves the acquisition of substantially all of the assets associated with St Francis Medical Center and St Vincent Medical Center. We believe our proposal as presently structured provides the Verity Health System with maximal economic value, preserves essential access to high quality services residents of the community have enjoyed for many years and delivers long-term value by creating an expanded comprehensive well-coordinated community-based regional health care delivery network.

We look forward to speaking with you in the near future and initiating the next steps outlined for this process.

Sincerely,

/s/

Jonathan Wu M.D, PH. D  
Chairman

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## **Preliminary Non-Binding Expression of Interest St Francis Medical Center and St Vincent Medical Center**

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### **Description of Proposed Transaction**

AHMC Healthcare Inc. ("AHMC Healthcare Inc.") or its designated affiliate will acquire from Verity Health System certain assets and assume identified liabilities of St Francis Medical Center and St Vincent Medical Center relating to the operation of these acute care facilities including certain businesses ancillary thereto (the "LA County Facilities").

AHMC Healthcare Inc., in conjunction with its existing and affiliated health care facilities, affiliated physicians and medical groups and licensed health care plan, envisions the development of an expanded regional and community-based health care delivery system that stretches throughout Southern California.

With significant experience operating large urban hospitals, well-developed physician integration capabilities and extensive experience in managing defined populations utilizing risk-based reimbursement, AHMC Healthcare Inc. is uniquely positioned to succeed in the post reform healthcare environment.

In each of the communities we serve we enjoy broad community support and appreciation due to AHMC Healthcare Inc.'s high ethical standards, commitment to quality patient care and active and direct involvement in numerous community services and activities. These organizational characteristics, along with our demonstrated track record of successful operating performance, has made AHMC Healthcare Inc. an integral and valued partner in communities throughout Southern California.

Building upon the existing base of services and organizational capabilities of AHMC Healthcare Inc. and its affiliated facilities and entities we believe this opportunity offers innovative ways to secure and stabilize the LA County Facilities and ensure for years to come the following benefits and advantages:

- deliver quality patient care
- improve existing facilities
- maintain current programs in the community
- implement the expanded delivery of coordinated population health services
- maximize the efficient use of resources to permit the expansion of programs and services as part of an overall expanded regional health care delivery network.

***55 S. Raymond Ave. Suite 105, Alhambra, Ca 91801  
Tel: 626.289.9004 Fax: 626.289.8952***



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### **Structure**

The transaction structure AHMC Healthcare Inc., will utilize to consummate this transaction is an asset purchase agreement, in the context of an anticipated bankruptcy proceeding, with customary warranties, representations, covenants and conditions and contractual terms consistent with transactions of this type and scope.

### **Total Acquisition Consideration**

The total consideration for the proposed transaction will be financed internally by AHMC Healthcare and will be structured as follows:

### **Cash Payments**

- a. The sum of **240 Million Dollars**, plus or minus the book value of the Net Working Capital (defined below) of the LA County Facilities (inclusive of all outpatient/ancillary sites and professional building described in the Offering Memorandum), as of the Closing Date. For the purposes of this Preliminary Expression of Interest, AHMC Healthcare Inc. does not have sufficient information to attribute a value to the professional buildings, however we expect this valuation to be relatively minimal.
- b. Amounts as set forth below each year for a period of two (2) years, calculated on an annual basis, equal to all net amounts allocated to the LA County Facilities under the California Provider Fee Program and MediCal DSH & Trauma Programs (both SB 855 and SB 1255) during the respective State fiscal years. For the purposes of this Section "net amounts" shall mean those amounts retained after payment of applicable Provider Tax and contributions of required amounts to the CHA Foundation. An agreed upon schedule of such amounts shall be included as an exhibit to the Asset Purchase Agreement. We estimate this component to be approximately **\$65.5M**.

**SFY 18/19- 25% of Net Amounts**

**SFY 19/20\*- 25% of Net Amounts**

*\*QAF & DSH/TRAUMA net amounts must be at least 80% of 2019 net amounts to trigger any payments during this year.*

- c. Total consideration under the structure we have proposed would constitute **305.5M** for the La County Facilities. Our allocation of purchase price would attribute **\$270.5M** to St Francis Medical Center and **\$35M** to St Vincent Medical Center



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The term “Net Working Capital” is defined as an amount equal to the difference between (i) the current assets of the LA County Facilities, which shall include only useable inventories and prepaid expenses which provide benefits to AHMC Healthcare Inc. after Closing as set forth on the unaudited balance sheet dated immediately prior to the Closing and (ii) the current liabilities of La County Facilities, which shall consist only of accrued payroll and related expenses recorded consistent with historical accounting policies and practices.

### **Acquired Assets**

Assets to be acquired or assigned include, but are not limited to (collectively, the “Assets”):

- The property, plant and equipment used in the operation of the LA County Facilities;
- The Medical Office Buildings associated with the LA County Facilities described in the Confidential Offering Memorandum
- LA County Facilities interest in any subsidiary entities, exclusive of any funding raising foundation entities.
- The LA County Facilities’ prepaid expenses, useable inventory and supplies as of the Closing Date;
- LA County Facilities patient records, commercially reasonable contracts and leases (except the Integrity management agreement), and, to the extent transferable, all licenses, accreditations and permits, including the assignment of existing provider agreements and numbers;
- Other assets (including intangibles) used in various operations supportive of and ancillary to the LA County Facilities’ operations as mutually agreeable; including all names (exclusive of Verity Health Services), including derivatives thereof, associated with the LA County Facilities.

All of the assets to be acquired or assigned shall be transferred free and clear of all liens, obligations or encumbrances of any kind.



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### **Retained Assets**

The Assets shall not include the following (the “Retained Assets”).

- Cash and other investments, including assets whose use is limited;
- The LA County Facilities’ accounts receivable, including estimated payments due under private third-party payment programs. AHMC is willing to discuss acquisition/collection of the LA County Facilities Accounts Receivable if that is desired.
- Rights in bequests, donor-restricted gifts and the like.

### **Assumed Liabilities**

Subject to due diligence, AHMC Healthcare Inc. will assume the following liabilities with respect to the LA County Facilities:

- Accrued payroll and related expenses;
- All commercially reasonable contracts and leases material to the LA County Facilities’ current operations and other operating obligations of the LA County Facilities, as mutually agreeable.

### **Excluded Liabilities**

Liabilities to be excluded from the transaction include:

- Long-term debt and other long-term obligations (e.g. capital leases) including the current portion thereof. Verity Health System and/or its respective affiliate or subsidiary entities shall be solely responsible for defeasing or otherwise extinguishing outstanding obligations such that the acquired assets are delivered at the Closing free and clear, except for expressly assumed liabilities.
- Medical malpractices liabilities to the extent arising before Closing and all liabilities related to LA County Facilities’ employment and benefit programs;
- Verity Health System system-wide tangibles and intangible assets
- St Francis Medical Center Foundation and St Vincent Medical Center Foundation and their assets



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- All employee benefit, retirement and pension plans, including but not limited to any defined benefit pension and post retirement plans.
- All other liabilities arising prior to Closing including, without limitation, liability for all acts, omissions and occurrences prior to Closing.
- Liabilities associated with Retained Assets and other liabilities not specifically assumed.

### **Governance**

As is its custom, AHMC Healthcare Inc. will establish a local governing body (“Governing Body”) at the LA County Facilities comprised of local community leader and Medical Staff members. The local Governing Body will act in a non-fiduciary capacity and will have primary responsibility for the maintenance of JCAHO requirements and ensuring quality of care.

### **Medical Staff**

The existing Medical staff organization will continue to function in its historical role. We do not contemplate any significant changes in the activities or operations of the existing medical staff governance structure.

### **Pastoral Care Program**

AHMC Healthcare Inc. will continue to conduct the activities of the LA County Facilities as facilities that maintains “interfaith” missions. The historical policies and procedures, which have been utilized, to select chaplains and provide pastoral care services will be continued.

### **Charity Care and Community Benefit Programs**

AHMC Healthcare Inc. recognizes and is willing to commit to the historical tradition of providing care to the underserved. In furtherance of this commitment, AHMC Healthcare Inc. will adopt the LA County Facilities existing charity care practices and will contractually commit to providing historical levels of charity care and community benefit programs provided at the hospital in conformity with the methodology adopted by the California Attorney General.





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### **Acute Care and Emergency Services**

AHMC Healthcare Inc. is willing to contractually commit to the maintenance of LA County Facilities as acute care facilities in accordance with the provisions of the approvals granted by the California Attorney General on December 3, 2015. Similarly, AHMC Healthcare Inc. recognizes, acknowledges and will maintain the essential role the hospitals serve in the delivery of emergency services to the community and as part of the County's emergency services network.

### **Employee Matters**

Each active LA County Facilities employee in good standing will be offered employment by AHMC Healthcare Inc. in accordance with AHMC Healthcare Inc.'s usual and customary policies. Employees will be given credit for length of service for purposes of determining eligibility for participation in various benefits plans and seniority consistent with AHMC Healthcare Inc.'s policies. AHMC HealthCare Inc. will retain and honor the existing collective bargaining agreements with all labor unions representing employee bargaining units at the hospital.

### **Conditions to Close:**

Conditions to Close will include:

- No material adverse change in operations or business prospects of the LA County Facilities;
- Completion of satisfactory operational, legal, fraud and abuse, and financial due diligence (diligence list to be provided separately);
- Receipt of an acceptable Phase I environmental survey to be delivered to AHMC Healthcare Inc. by St Francis Medical Center;
- Receipt of necessary State licensure and California Attorney General approval;
- Receipt of an acceptable ALTA title insurance policy;
- The assignment of material contracts related to the operation of the LA County Facilities; and
- The approval of the Board of Directors of AHMC Healthcare Inc.





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**Closing Date**

AHMC Healthcare Inc. is prepared to close this transaction in an expedited fashion. Consequently, subject to receipt of all regulatory and governmental approvals we are willing to negotiate a definitive purchase agreement that stipulates a Closing immediately upon receipt of such approvals and satisfaction of other mutually stipulated conditions.

**THIS PROPOSAL IS A NON-BINDING EXPRESSION OF CERTAIN MATTERS ONLY FOR DISCUSSION PURPOSES AND SHALL NOT GIVE RISE TO ANY OBLIGATIONS OR LIABILITY BETWEEN THE PARTIES. UNTIL THE EXECUTION OF A MUTUALLY AGREEABLE DEFINITIVE AGREEMENT, NO BINDING AGREEMENT WILL EXIST BETWEEN THE PARTIES.**

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