Daniel J. Eichenberger M.D., MBA
Chief Executive Officer
Overview of Floyd Memorial

• Who is Floyd Memorial?
  • A high-quality provider of healthcare services
    • 236 bed, acute care hospital
    • Offering many of the same services that can be found in larger hospitals
  • A regional healthcare provider
    • Serving the residents of six counties
  • A provider dedicated to providing the latest technology and innovative approaches to the practice of medicine
History of Floyd Memorial

1953: Floyd Memorial Hospital first opens as a 70-bed facility

1959: Announces a major expansion project after the closing of St. Edward’s Hospital

1963: Completes expansion project, resulting in a hospital bed count of 140 and construction of several new units:
- Pediatric Nursing Unit
- Physical Therapy Unit
- EKG Department
- Intensive Care Unit
- Autopsy Room

1970: Two nursing units are added to the facility

1976: Initiates four-year renovation and modernization program, resulting in:
- New Dining Room
- Kitchen and Central Supply additions
- 40-bed nursing unit construction
- Addition of several semi-private rooms

1980s: Initiates three-phase project. Phase I consisted of:
- Addition of a 21-bed skilled nursing unit
- Renovation of the Lab, lobby and waiting areas

1994: Completes Phases II and III of the project:
- Phase II: addition of a 110,000 sq. ft. Outpatient Services Center
- Phase III: New Emergency Center, additional beds and exam rooms

1996: Opens the 15,000 sq. ft. Health Education Center

1997: Opens a comprehensive diabetes program affiliated with Joslin Diabetes Center in Boston

1998: Commences a $2 million renovation of its Women’s Center

1999: Radiation therapy aligns with the Cancer Center of Indiana

2002: Floyd Memorial Medical Group forms, including two family practices

2003: Expansion begins, including a new Heart and Vascular Center and Emergency Department

2006: Heart and Vascular Center officially opens

2007: Affiliates with Kleinert Kutz Surgery Center

2008: Opens a 32-bed Surgical Inpatient Center and a Wound Healing Center

2009: Completes an expansion project, including a 10-room Pediatric Unit and the renovation of the Women’s Center

2010: Purchases the Cancer Center of Indiana and opened the Spine Center

2011: Floyd Memorial Medical Group expands to Clark and Harrison Counties and adds additional specialty providers

2012: Floyd Memorial Medical Group adds a primary care site in Scottsburg, and Cardiology sites in New Albany, Jeffersonville and Scottsburg

2013: Opens Lab and Quest Diagnostic services in the Professional Arts Building

2014: Opens new 15-bed Observation Unit; buys new PT locations

2015: Opens a 3rd cath lab for interventional/EP procedures; adds an additional OR suite; adds 3D Tomography
Floyd as a county hospital

- Floyd organized by local residents many years ago
- Operates as a county hospital under the Indiana County Hospital statute
- County Commissioners appoint the trustees to the Hospital Board, but the Hospital is an independent entity that operates without any involvement of the County on a day to day basis
- No County tax back up supports the hospital
- Early bonds secured by County were paid off many years ago
- Three (3) entities must approve a transaction:
  - County Commissioners
  - County Council
  - Hospital Board of Trustees
Service Line Offerings

- Cancer care
  - Only Southern Indiana Breast Cancer program to be accredited by the National Accreditation Program for Breast Centers (NAPBC)
- Cardiac surgery
- Diagnostic imaging
- Floyd Memorial Medical Group
- General medicine
- General surgery
- Only regional Joslin Diabetes Center Affiliate
- Orthopedics and sports medicine
- Pain management
- Rehabilitation services
- Sleep disorders center
- Spine center
- Thoracic and vascular services
- Weight management services
- Women’s services including obstetrics
- Wound care with hyperbaric chambers
Who is Floyd Memorial Medical Group?
- FMMG is an important department of Floyd Memorial Hospital and Health Services made up of physicians, advanced practice clinicians and associates

Locations in seven counties
- Floyd, Clark, Harrison, Orange, Scott, Crawford and Washington counties

Two urgent care centers in Floyd County
Where We’ve Been

- FMMG began in 2002 with two physician practices and two urgent care facilities

Where We Are Today

- FMMG has grown to 27 physician practices, two urgent care facilities with
  - 72+ physicians
  - ~17 advanced practice clinicians
  - and ~256 associates
Trends in Healthcare

• Healthcare remains a political hot potato
  • Full scope of reform is not understood
• Imperatives for higher quality and lower cost
• Movement toward global budget payments
• Meanwhile, regulation is increasing
County Hospital Changes

• In the past few years, the following facilities have closed or been acquired:
  • Clark Memorial
  • Scott County
  • Henry County
  • Howard County
  • Jasper County
  • Wabash County
  • Woodlawn

• Currently in Indiana
  • Only 5 county hospitals with 150+ beds
  • Remaining are critical access or small hospitals
Issues for Hospitals

• County hospitals are facing a turbulent operating environment

• Healthcare Challenges
  • Access to capital
  • Mandated information technology
  • Clinical technologies
  • Management systems to coordinate care across the continuum
  • Progress on quality and efficiency (cost)
  • Expertise and systems for managing population health vs. cases or episodes of care
  • Provider recruitment and retention
Mounting Pressures for Hospitals

- Thousands of pages of new regulations
- New payment delivery models like pay-for-performance and value based purchasing
- New penalty programs for hospital acquired conditions
- Requirements to help patients navigate insurance and enroll
- Implementation of electronic health records
- New requirements for population health
- Bundled payments
Transition from volume based to value based

• Fee For Service going away
• Value Based Payment / ACO
  • “The end of getting paid more to do more”
• Quality as payment and market differentiator
• Limitations on ability to access capital, yet
  • Information technology needs are accelerating
  • Must be able to recruit providers from across the nation to find expert healthcare providers
• Hospitals as cost centers not revenue centers
  • The premium dollar and primary care as key drivers of strategic strength
Audits and Red Tape

- **RACs - Traditional Medicare**
  - The National Recovery Audit Contractor (RAC) program began in 2010
  - The government hired contractors to ensure accurate Medicare payments to hospitals
  - RAC Incentive structured for denied claims
  - RACs receive an average commission of 9.0-12.5%
  - Creates huge administrative burden and cost to hospitals
  - 57% of claims audited found to be without error
  - 72% of appeals eventually fully overturned
    
    Source: American Hospital Association Feb 2015

- **Effective November 2015 - All Recovery Auditors are continuing active recovery auditing activities**
  
  Source: Centers for Medicare and Medicaid Services, Nov 2015

- **RACs – Managed Care Medicare**
  - 31% of the overall Medicare population is enrolled in a managed care plan
    
    Source: The Henry J. Kaiser Family Foundation May 2016

- **Commercial Payer Audits and Denials**
  - Audit and denial trend has increased 56-67% in the past 18 months
    
    Source: SAI Global, Day Egusquiza 1/14/16
Questions Considered for Transaction

• What is the best strategy to achieve our County’s healthcare mission and vision?
• Is it feasible to remain independent or should we seek a partner?
• Independent strategy carries “execution risk.”
• Affiliation strategy carries “partner risk.”
• What are the options to consider?
Objectives for Transaction

• Improve access to local care
• Improve measureable levels of clinical care and patient satisfaction
• Access to more dollars to address increasing need for high cost items
• Enhance recruitment of physicians
• Upgrade hospital medical facility and equipment
• Commitment to employees
• Local governance
• Commitment to the community
Defining Partnership Criteria

• Clearly defined Partnership Criteria are the first and most important step in a good decision process
  • Objectives should be developed collaboratively with hospital stakeholders, including medical staff and community leaders
  • Be the focus of the entire decision process
  • Serve as the screening and selection criteria for candidates
  • Guide evaluations of and negotiations with partners
Benefits from a Partnership

• Name recognition
• Focus on Community
• Economies of scale
• Access to capital
• Improved benefit structures for associates
• Shared services and/or equipment
• Access to systems and services like ITS, care management and health analytics
• Reduced IT costs and improved infrastructure
• Access to specialty physicians

• The ability to weather the transformation of payment models in healthcare
• The ability to streamline service offerings, improve quality improvement processes, increase value to the community
• Add more specialty clinicians
• Increase our growth potential
• Improve our infrastructure
• Improve contracting procedures and process
Floyd’s Priorities in Partnership

• Long term commitment and success
• Employee protection and market competiveness
• Capital investments
• Local governance
• Economies of scale
• Floyd as the premier partner and the only southern Indiana facility
• Stay competitive in the marketplace
Future Benefits

• Understand the changes taking place
• Accept the facts of the things we cannot change
• Utilize the opportunity to set the County and hospital up for long-term success
• Be bold and don’t let emotions cloud judgment
Process Overview and Valuation Methodologies
### Extensive Auction Process

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Overview of Round One

• September-October
  • H2C contacted 18 potential partners
  • 14 signed NDA and received CIM
  • 3 for-profit entities submitted proposals with 3 NFP
  • 8 initial offers received
  • 2 elected not to move forward
  • Proposals included a range of structures
    • Asset Purchase
    • Joint venture
    • Long-term Lease
    • Preferred Equity Interest
  • Task force chose to move forward with 4 potential partners
Overview of Round Two

• H2C scheduled management presentations & tours
  • Presentations included
    • Key attributes
    • Strategic investment opportunities
    • Financial performance
    • Utilization performance
  • Potential Partner presentations included
    • Intended plans for Floyd
    • Highlighted their value propositions
Round Two cont.

• After presentations
  • Potential Partners submitted revised offers
    • Purchase price
    • Committed capital
    • Schedule of assets and liabilities to assume
    • Governance structure

• Task force reviewed second round offers
  • Chose to invite three of the four to final round
Overview of Final Round

• Site visits to facilities in Texas, Utah and Kentucky
• In-depth due diligence
  • Thousands of pages of documents were made available to each of the final participants
• Reverse due diligence
  • Facility tours
  • Meetings with management and Board members
• Final offers received
• Baptist Health selected as the recommended entity
Hospital
Valuation
Methodologies
General Approaches to Hospital Valuation

• All approaches reflect market value of assets and operations
• All assume arms length transaction with willing buyer and seller
• Each approach has advantages and disadvantages
• Collectively used to determine hospital’s value
Three conventional Approaches

• Comparable Companies Analysis (Book Value)
  • Uses valuation multiples of comparable publicly traded hospital management companies

• Precedent Transaction Analysis (Market Value)
  • Value determined based on recent acquisition of private hospital systems

• Discounted Cash Flow Analysis (Cash Flow)
  • Value based on projections of future cash flows discounted to net present value
Additional comments

• Valuation approaches provide theoretical value
• Ultimate validation of hospital’s value
  • Requires broad marketing process
  • Actual offers from willing buyers in the open market
• Floyd Memorial and H2C used all of the above approaches in this process
Why Baptist Health?

• Culturally very similar
• Ability to gain economies of scale (cost savings)
• Existing market presence
  • Trusted, well-known healthcare provider in the area
• Already share common services
  • Open Heart Program
  • Bariatric program
• Best overall package
  • Assets and liabilities
  • Capital commitment, including investment in IT
• Other two finalists had no local presence; concern over reselling in next few years
Questions??