

Frequently Asked Questions and Answers

Q. Why does the County need to sell the hospital?

A. In today's climate, it is becoming increasingly more difficult for independent hospitals, like Floyd Memorial, to stay afloat. It is difficult to maintain positive operating margins in an ever-changing environment with new payment structures including how fees are paid to hospitals and physicians, pay-for-performance, bundled payments and population health management. More government and third party mandates, as well as information technology requirements, make it increasingly difficult to provide quality care and top notch facilities without operating at a loss. With the pending transaction, we have the opportunity to expand patient care services, maintain financial viability, recruit needed physicians and remain the premier regional healthcare provider in Southern Indiana. Currently Floyd Memorial is financially healthy, but it will be difficult for it to stay this way on its own for long. Floyd Memorial, its patients, and the County will be best served by joining forces with a larger health care system, like Baptist Health. Proceeding with the transaction at this time allows Floyd County to receive the highest financial benefit than if it waited until the Hospital was not as financially attractive.

Q. Why does Floyd County own the hospital?

A. In the late 1940s, residents of Floyd County determined it was in the best interests of the community to establish a hospital in Floyd County. Indiana law allows counties to own and operate their own hospitals, and using the statutes available at the time, Floyd County opened Floyd Memorial Hospital. It was not uncommon for a county to establish its own hospital around that time period and numerous counties took advantage of the same statutes that Floyd County used and opened their own hospitals.

Many of the county owned hospitals in Indiana have either been sold or have closed. There are only a handful of independent county owned hospitals still operating in Indiana today.

Q. When was the hospital started?

A. Floyd Memorial began operations in 1953.

Q. What steps did we take to identify a strategic partner?

A. In early August 2015, Floyd Memorial met with a variety of consultants before ultimately partnering with H2C, an independent investment banking and strategic advisory firm that exclusively focuses on healthcare services, companies and related organizations. H2C approached 18 different health care organizations and sent confidentiality agreements to 17 of them, of which 14 health care organizations signed the agreements. From the original 14, eight health care organizations presented to Floyd Memorial first round proposals – either independently or jointly with another hospital organization.

The Hospital Board established a Task Force to review the proposals. The Task Force includes all members of the Hospital's Executive Council and Board of Trustees, representatives from the Floyd County Council, a representative from the Floyd County Commissioners and a community member, for a total of 20 members. One of the Task Force's initial goals was to include representatives from the Hospital and County government in an effort to promote transparency among the parties and ensure that issues were addressed as the Task Force met with the interested parties and reviewed their proposals. Members of the Task Force also traveled to three states and visited hospitals associated with each of the applicable organizations, which enabled the Task Force to narrow the list to three entities – two for-profit and one not-for-profit organization.

The Hospital Board had hoped to name a strategic partner with which to pursue negotiations for a transaction by the end of December 2015 or the beginning of January, however, additional time was needed to provide a thorough review of due diligence paperwork required to both make a decision and to receive final proposals. In late February the Task Force made a recommendation to the Hospital Board which named the entity with which the Hospital should exclusively negotiate. After meeting with County representatives, Floyd Memorial announced Baptist Health as the entity with which it was moving forward to execute a letter of intent to pursue a transaction.

Q. Was there a fair market analysis/appraisal done?

A. Instead of using a basic appraisal, Floyd Memorial took a much more comprehensive approach that is common in determining the value of hospitals. Floyd Memorial hired H2C, an independent investment banking and strategic advisory firm that exclusively focuses on healthcare services, companies and related organizations to assist in determining the Hospital's value.

According to H2C's lead principal, Michael Hammond, there are a number of ways to determine a hospital's worth including a fiscal forecast and the business value of the hospital in the marketplace. There is no single approach that is considered conclusive and each approach offers certain advantages and disadvantages. Three methodologies are used collectively to determine a hospital's value.

- **Comparable Companies Analysis.** Value is determined by reference to the corresponding valuation multiples of comparable publicly-traded hospital management companies.
- **Precedent Transactions Analysis.** Value is determined based on recent acquisitions of private hospitals and health systems.
- **Discounted Cash Flow Analysis.** Value is determined based on projections of future cash flows that are discounted to a net present value.

Valuation guidelines state that fair market value must be determined within the framework of the business' value to a hypothetical purchaser. Financial projections/valuation

assumptions should not reflect the characteristics of any particular buyer nor the current capital structure of the seller; instead, industry norms should be reflected in the analysis.

There is also a fundamental difference between an appraisal of an asset or business and an offer to buy an asset or business after a controlled auction marketing process. An appraisal is only a theoretical estimate of the value of an asset or business. It is useful to someone who wants to get an idea about the value of the asset, but it is not determinative of what the asset will realize in a sale. Given the controlled auction that Floyd Memorial followed, the Hospital and the County now have real offers of value that buyers were willing to pay for the Hospital assets, and not just an estimate of that value.

Q. Why was the process of the deal private?

A. The Hospital is following a formal State statutory process for the transfer of the Hospital assets to a non-profit entity; part of that process requires that certain steps be taken publicly. However, the controlled auction process Floyd Memorial initially used to determine who it should partner with was confidential. That portion of the process is confidential in an effort to make sure the health care organizations that were submitting proposals could keep proprietary information private. Also, keeping this portion of the transaction confidential helps shield those who submit proposals so competing companies do not gain access to their proposal. This process ensures that the Hospital receives the best proposal from each interested party. While the controlled auction process was confidential, the Task Force members evaluated all of the proposals. The Task Force includes all members of the Hospital Executive Council and Board of Trustees, representatives from the Floyd County Council, a representative from the Floyd County Commissioners and a community member, for a total of 20 members. Additionally the transaction will not be complete until after the purchase agreement is posted in the Auditor's Office, and the Hospital Board, the County Council, and the County Commissioners hold a public hearing and publicly vote on the deal.

Q. How much is the hospital worth?

A. The financial valuation process used to determine the value of a company does not identify a single amount that the company is worth. Rather, it identifies liabilities, assets, future earnings, future losses, etc. This makes it difficult to state that Floyd Memorial is worth a specific dollar amount. Know that Floyd Memorial used this comprehensive evaluation process and the controlled auction to ensure that it is receiving the best value for the Hospital and the County. Please also see the response to the question "Was this the best offer."

Q. Was the controlled auction process legal?

A. Yes, the controlled auction process was legal.

Q. Was this the best offer?

A. Based on its consideration of the final proposals submitted by the three finalists, the Task Force determined Baptist Health's proposal was the best proposal for the Hospital, the County and the patients served by the Hospital. There were many factors that went into this evaluation which will be discussed at the informational meeting on May 31.

Q. Will a new partnership result in a change of leadership?

A. Based on discussions with Baptist Health, Floyd Memorial does not currently foresee any leadership changes.

Q. What can Floyd County do with the proceeds it receives?

A. Floyd County can spend, save, or invest the proceeds and is currently working to determine how to best handle the proceeds so that Floyd County will be in the best financial position after it receives the proceeds. The County Council and Commissioners are holding a public meeting on June 14, at 6 p.m. to discuss how it should handle the proceeds. All members of the public are welcome to attend this meeting. Also, on June 28, at 6 p.m., the Floyd County Council and Commissioners and the Hospital Board will hold a public hearing to hear public comment.

Q. Does Floyd County receive any dividends from Floyd Memorial Hospital?

A. No, the County does not receive any funds from the Hospital, nor does the Hospital receive any funds from the County.

Q. If Baptist Health ever decides to sell the hospital, can the County have the first right of bid?

A. Upon the transfer of the assets of the Hospital to Baptist Health, Floyd County would not have a right of first refusal in the case of a subsequent sale.

Q. Are there any conflicts of interest regarding the parties' involved in the process of the transaction?

A. While Baptist Health and Floyd Memorial have some limited existing contractual relationships related to certain clinical services, Floyd Memorial is not aware of any conflicts of interest involving the entities or the personnel for each entity.

Q. Will Floyd Memorial close any services?

A. Floyd Memorial does not anticipate that any services or locations will be closed as a result of the acquisition. If anything, we anticipate growth and expansion of our service offerings.

Q. What services does Baptist Health plan to start or expand?

A. Floyd Memorial and Baptist Health realize, and are understanding of the desire to have answers as soon as possible. We will provide answers as soon as we can, but we want to make sure we provide an accurate response, therefore, it is too soon to speculate on this answer at this time. Specifically, the answer to some questions will need to wait until a strategic plan is formulated, including the opportunity to fully understand the underlying facts and the potential ramifications of any decision.

Q. How will the community be impacted?

A. The acquisition secures the continuation of high-quality healthcare for Southern Indiana residents. We anticipate nothing but a positive outcome for all we serve. Not only will this acquisition provide greater economies of scale from a business perspective, patients will have an easier entry into the expansive list of healthcare services that Baptist Health has to offer. Additionally, Floyd County will be able to use its proceeds for the benefit of the County.

Q. Will Floyd Memorial continue to offer free community events/screenings?

A. Yes, community benefit is an important initiative of both entities, and activities benefitting the community such as the heart and stroke screenings, will continue. Baptist Health is committed to not only making the sick well, but equally as important, to enhance the health status of those we serve by providing care to patients regardless of race, sex, national origin, disability, or age.

Further, Baptist Health believes it is the organization's responsibility to contribute to the improvement of the general health and wellness of our community and environment through effective community education and involvement in community health improvement activities and promotions. These activities include such things as: health fairs and screenings, speaking engagements and sponsorship opportunities.

Finally, Baptist Health believes it is the organization's responsibility to contribute to the health of our community, including Floyd County, through a continuum of care. Baptist will commit to providing top quality healthcare right here in Floyd County.

Q. Will Baptist Health take my insurance?

A. Baptist Health is in most of the provider networks in which Floyd Memorial participates. Discussions with the third party payors will take place after the signing of the definitive documents and prior to the closing of the transaction.

Q. Will I still be able to see my same doctor?

Not only will you still be able to see your same doctor, you will have access to all of the other doctors already employed by Baptist Health.

