



Department of Health

Three Capitol Hill
Providence, RI 02908-5097

www.health.ri.gov

Re: *The Hospital Conversion application (“HCA application”) of the following transacting parties: Chamber, Inc.; Ivy Holdings, Inc.; Ivy Intermediate Holdings, Inc.; Prospect Medical Holdings, Inc.; Prospect East Holdings, Inc.; Prospect East Hospital Advisory Services, LLC; Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; and Prospect CharterCARE RWMC, LLC*

Please see attached PYA’s report, titled *Report on Proposed Hospital Conversion Application Regarding Prospect CharterCARE* (“PYA’s Report”). PYA, P.C. (“PYA”) was engaged by the Rhode Island Department of Health (“RIDOH”) as an independent consultant for the purposes of providing financial analysis to assist in RIDOH’s review of Chamber Prospect CharterCARE’s hospital conversion application, pursuant to and in conjunction with the General Laws of Rhode Island, titled *The Hospital Conversions Act* (“HCA”).

PYA presented its observations of its financial analysis to the Health Services Council at its April 6, 2021 meeting and released the accompanying report to RIDOH for review on April 6, 2021. PYA’s report reflects this date, as no additional analyses were performed and no further observations were drawn beyond those presented to the Health Services Council at its April 6, 2021 meeting. In the intervening time, RIDOH has conducted a comprehensive review of the content of PYA’s Report and has met with PYA’s representatives to gain clarifications. Additionally, in the interim, as consultants’ final reports are statutorily required to be released as a public document, RIDOH provided the Office of Attorney General an opportunity to review PYA’s Report to ensure consistency with its confidentiality determinations made of documents related to the HCA application submission. As a result of that review, any and all confidential materials were removed from the report but there were no substantive changes made to the report since the initial creation date of April 6, 2021.



State of Rhode Island



**Report on Proposed Hospital Conversion Application
Regarding Prospect CharterCARE**

April 6, 2021

Prepared for
Rhode Island Department of Health





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April 6, 2021

Fernanda M. A. Lopes, MPH
Chief, Health System Development
Rhode Island Department of Health
Three Capitol Hill
Providence, RI 02908-5097

Re: Hospital Conversion Initial Application of Chamber Inc.; Ivy Holdings Inc.; Ivy Intermediate Holdings, Inc.; Prospect Medical Holdings, Inc.; Prospect East Holdings, Inc.; Prospect East Hospital Advisory Services, LLC; Prospect CharterCARE, LLC; Prospect CharterCARE SJHSRI, LLC; Prospect CharterCARE RWMC, LLC (the “Transacting Parties”) 2020

Dear Ms. Lopes:

As outlined in the Memorandum of Agreement dated December 14, 2020, PYA, P.C. (“PYA”) was engaged by the Rhode Island Department of Health (“RIDOH”) to provide consulting services concerning the proposed hospital conversion application as resubmitted February 19, 2020 (“Application”), and relating to a transaction (“Proposed Transaction”) involving the Transacting Parties. RIDOH is authorized and directed to review the conversion application pursuant to the provision of Chapter 23-17.14 of the Rhode Island General Laws, as amended (the “Act” or “HCA”). We have prepared the following summary report (“Report”) solely to assist RIDOH with its review of the Application. Our engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants (“AICPA”). The terms of this engagement were established in advance and PYA’s services to RIDOH are detailed in *Appendix A*. We make no representation regarding the sufficiency of the procedures performed or analysis detailed herein either for the purpose for which this Report has been requested or for any other purpose. The results of our engagement are summarized in the following report.

The procedures used in preparation of this Report do not constitute an audit, examination, or review of any of the Transacting Parties’ historical financial statements in accordance with auditing standards generally accepted in the United States of America. Furthermore,

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Ms. Fernanda M. A. Lopes, MPH
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the procedures used do not constitute an examination or compilation of prospective financial statements, nor did we apply agreed-upon procedures to such information, in accordance with attestation standards established by the AICPA. Additionally, the procedures used in our analysis do not address the effectiveness of internal controls over financial reporting under Section 404 of the Sarbanes Oxley Act, nor is PYA responsible for testing for, evaluating, or identifying any occurrences of fraud or other illegal acts, if any. In performing our analysis, PYA relied upon information provided by the Transacting Parties' legal counsel and we have not validated the accuracy or completeness of such information. Accordingly, we express no opinion, or any other form of assurance related to this information, including historical financial information and Transacting Parties' management representations. Had we performed additional procedures beyond those established in advance, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of RIDOH and is not intended to be, and should not be used by anyone other than the specified party. Accordingly, PYA assumes no liability for any unauthorized use of this Report.

This Report was prepared under the direction of RIDOH, containing PYA's objective observations regarding the financial information provided by the Transacting Parties for analysis. The content of this Report is meant to assist RIDOH as it assesses the Transacting Parties' Proposed Transaction pursuant to the Act. The decision whether to approve the Application resides solely with RIDOH, and our Report or other work products include observations but do not in any way constitute a recommendation whether to approve the Application. The information also does not constitute a valuation of the Proposed Transaction. Additional details regarding our analysis and observations are contained in our work papers. PYA has no responsibility to update our analysis or this Report for events and circumstances arising after the date of this Report. We appreciate the opportunity to assist RIDOH with this important matter.

Respectfully,

PYA, P.C.

PYA, P.C.



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ABBREVIATIONS

Entities

AMI	Affiliated Monitors, Inc.
CCCB	CharterCARE Community Board
CHS	Community Health Systems
GEI	Green Equity Investors V, LP and Green Equity Investors Side V, LP (private equity funds managed by LGP and investing in IH)
HC	HCA Healthcare
IH	Ivy Holdings, Inc.
LGP	Leonard Green & Partners, LP
MPT	Medical Properties Trust, Inc.
OLF	Prospect CharterCARE SJHSRI, LLC d/b/a Our Lady of Fatima Hospital
PCC	Prospect CharterCARE, LLC
PCCHHH	Prospect CharterCARE Home Health and Hospice, LLC
PEH	Prospect East Holdings, Inc.
PEHAS	Prospect East Hospital Advisory Services, LLC
PMH	Prospect Medical Holdings, Inc.
PRIHHH	Prospect RI Home Health and Hospice, LLC
RIAG	Rhode Island Attorney General
RIDOH	Rhode Island Department of Health
RWMC	Prospect CharterCARE RWMC, LLC d/b/a Roger Williams Medical Center
THC	Tenet Healthcare Corporation

Terms

ABL	Asset Based Loan
ACA	Affordable Care Act
Act or HCA	The Hospital Conversions Act
AFS	Audited Financial Statements
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EMR	Electronic Medical Record
FY	Fiscal Year



FYE	Fiscal Year End
HHS	Department of Health and Human Services
Merger Agreement	Plan of Merger between Chamber Inc., Chamber Merger Sub, Inc., Ivy Holdings Inc., and GEI dated October 2, 2019
MOA	Memorandum of Agreement
MSA	Management Services Agreement
NPSR	Net Patient Services Revenue
NWC	Net Working Capital
PACE	Property Assessed Clean Energy
REIT	Real Estate Investment Trust
SUO	Statements Under Oath
TTM	Trailing Twelve Months

Individuals

Mr. Baumer	Mr. John Baumer, Senior Partner at LGP
Mr. Lee	Mr. Samuel Lee, Chief Executive Office of PMH, Chairman of the Board of IH and PMH, and stockholder in IH
Mr. Topper	Mr. David Topper, President of PMH and stockholder in IH
Ms. Wagner	Ms. Alyse Wagner, Partner at LGP



ENGAGEMENT OVERVIEW

PYA INTRODUCTION

For the past 38 years, PYA has provided clients objective accounting and healthcare consulting services. Ranked as the 16th largest healthcare management consulting firm in the United States by *Modern Healthcare*, a Top 15 largest auditor of the American Hospital Association's top U.S. multi-hospital systems according to Ames Research Group, and a Top 100 accounting firm by *Inside Public Accounting*, PYA has significant experience providing transaction advisory, due diligence, and regulatory support services related to healthcare transactions. As a national professional services firm with 33 Principals, our team of resources is more than 200 strong and continually growing. Our consultants have backgrounds and degrees in nursing, healthcare administration, public health, medicine, economics, finance, management, accounting, tax, and law. Several have extensive prior experience with other healthcare-related organizations, and have specialized training in strategic planning, financial analysis, and quality of earnings.

SCOPE OF WORK, LIMITING FACTORS, AND KEY INFORMATION RECEIVED AND ANALYZED

Per the MOA with RIDOH, PYA was engaged to provide consulting services to RIDOH related to RIDOH's review of the Application. The following listing presents a summary of the services provided by PYA in the course of our engagement:

- Conducted an initial meeting with RIDOH to confirm engagement scope and purpose;
- Analyzed relevant information provided by the Transacting Parties;
- Requested supplemental information from the Transacting Parties;
- Analyzed supplemental information provided by the Transacting Parties and Transacting Parties' representatives;
- Attended SUOs conducted by RIDOH and the Office of the RIAG, as applicable to the financially focused scope of work;
- Facilitated at least weekly meetings with RIDOH representatives to discuss engagement progress; and
- Prepared report documenting results of PYA's engagement.

A summary of our original scope of work is included in **Appendix A**. Additionally, a listing of relevant information received from the Transacting Parties and analyzed by PYA is also included in **Appendix A**.



PROPOSED TRANSACTION OVERVIEW

TRANSACTING PARTIES' REQUEST

The Application seeks approval for a change in ownership of RWMC's and OLF's ultimate parent organization, IH, in order to effectuate a buy-out of the private equity investors and other minority stockholders of IH. Specifically, the proposed change of ownership will be completed through the establishment of a newly formed entity, Chamber Inc. Chamber Inc. will become the parent of IH and be solely owned by Mr. Lee and Mr. Topper (through his Family Trust), both of whom are current stockholders of IH.

TRANSACTING PARTIES' CURRENT LEGAL STRUCTURE

PCC wholly owns RWMC, OLF, and Prospect Blackstone Valley Surgicare, LLC a licensed freestanding ambulatory surgery center. In addition, RWMC wholly owns PRIHHH, a home healthcare provider, which wholly owns PCCHHH a licensed home nursing care provider. All PCC entities are located in Rhode Island and are subject to the provisions of the Act. PCC is currently owned 85% by PEH and 15% by CCCB; however, associated with a settlement in December 2020, PEH is acquiring the remaining 15% interest in PCC from CCCB.

PEH and PEHAS are wholly owned by PMH. PMH is wholly owned by Ivy Intermediate Holding Inc., which is wholly owned by IH. IH is currently primarily owned by a combination of GEI, Mr. Lee, and Mr. Topper (through his Family Trust). Other PMH management own a small minority of shares. A copy of the current and proposed organization structures, as submitted in the Application, can be found in *Appendices B and C*, respectively.

PROPOSED TRANSACTION SUMMARY

Per the Application, "The capital costs of the transaction are eleven million nine hundred forty thousand nine-hundred ninety-two dollars (\$11,940,992.00). After the transaction, GEI and the other minority management shareholders will no longer retain any ownership in IH. The transaction funds will not come from or affect any of the [PCC] entities; instead, the transaction funds consist entirely of available PMH corporate cash."

The Application goes on to state, "Following the Transaction, all existing entities described above will remain as surviving corporations. There will be no change whatsoever to any of the existing entities that will in any way impact the operations or governance of the licensed facilities including RWMC and OLF. Specifically, PMH will continue to own PEH and PEHAS, PEH will continue to own PCC, and PCC will continue to own and operate RWMC and OLF."



PCC HOSPITAL ENTITY SUMMARY

The following is excerpted from the Application and provides an overview of the PCC hospital entities:

“[RWMC] is a licensed acute care hospital (license number HOSP00133) located in Providence, Rhode Island. RWMC provides a wide array of high quality and cost-effective services to its patients, including emergency department services, ambulatory care services, and inpatient and outpatient services including cancer care, elder care, and gastroenterology.... RWMC is an academic medical center affiliated with Boston University School of Medicine and is accredited by the Joint Commission.”

“[OLF] is a licensed acute care hospital (license number HOSP00132) located in North Providence, Rhode Island. OLF provides a wide array of high quality and cost-effective services to its patients, including emergency department services, ambulatory care services, and inpatient and outpatient services including psychiatric, mental health and addiction medicine services.”

Additional detail related to the transaction and Transacting Parties are disclosed in the publicly available Application.¹

OBSERVATIONS SUMMARY

CONSIDERATIONS RELATED TO STATUTORY REVIEW CRITERIA

PYA began our analysis by gaining an understanding of the Act established by the state of Rhode Island. The purpose of the provisions of the Act includes assuring the viability of a safe, accessible, and affordable healthcare system; establishing a process to review whether for-profit hospitals will maintain, enhance or disrupt the delivery of healthcare in the state and to monitor hospital performance; and establish a review process and criteria for review of hospital conversions. RIDOH considers the following nine statutory criteria in their assessment when reviewing applications pursuant to the Act.

- *Whether the character, commitment, competence, and standing in the community, or any other communities served by the proposed transacting parties, are satisfactory;*
- *Whether sufficient safeguards are included to assure the affected community continued access to affordable care;*
- *Whether the transacting parties have provided clear and convincing evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community;*
- *Whether procedures or safeguards are assured to insure that ownership interests will not be used as incentives for hospital employees or physicians to refer patients to the hospital;*

¹ <https://drive.google.com/drive/folders/1JfBOMFAUGGropxncVEZh8GaBWbEFAWO3>

- *Whether the transacting parties have made a commitment to assure the continuation of collective bargaining rights, if applicable, and retention of the workforce;*
- *Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring;*
- *Whether the conversion demonstrates that the public interest will be served considering the essential medical services needed to provide safe and adequate treatment, appropriate access and balanced health care delivery to the residents of the state; and*
- *Whether the acquiror has demonstrated that it has satisfactorily met the terms and conditions of approval for any previous conversion pursuant to an application submitted under § 23-17.14-6.*

Related to the particulars of this specific Application and PYA's engagement scope (which is financially focused) as shown in **Appendix A**, PYA identified the following specific criteria ("Applicable Criteria") as most relevant:

1. *Whether sufficient safeguards are included to assure the affected community continued access to affordable care;*
2. *Whether the transacting parties have provided clear and convincing evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community;*
3. *Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring; and*
4. *Whether the acquiror has demonstrated that it has satisfactorily met the terms and conditions of approval for any previous conversion pursuant to an application submitted under § 23-17.14-6.*

PYA analyzed the financially related documentation in context of these Applicable Criteria. This analysis, along with the interviews from various SUOs, forms the basis for our observations.

In summary, we observed that PCC, since the acquisition by PMH in 2014, has consistently been dependent upon PMH to fund operational shortfalls and capital investments. Additionally, we observed that PMH has reported limited liquidity and a highly leveraged position in recent fiscal years. Therefore, as a result of PCC's economic dependency on PMH, any element of the Proposed Transaction that may result in a deterioration in the ability of PMH to continue supporting PCC would impact the Applicable Criteria. Examples of economic impacts or limitations the Proposed Transaction may have on PMH, which in turn may affect PCC, include the following:

- **PMH's ability to access capital cost effectively;**



• **Direct and Indirect Financial Impact to PMH via:**

- **reduction in PMH’s equity and liquidity;**
- **higher future costs borne by PMH due to replacement of services provided by an exiting owner; and/or**
- **decreased PMH net income and/or cash flow.**

The remainder of this “Observations Summary” report section identifies the key financial characteristics of PCC and PMH, as well as the potential impacts of the Proposed Transaction on the financial condition of these entities. Additional detail to these key observations, and other analysis and work products, are contained in PYA’s work papers.

KEY PCC FINANCIAL OBSERVATIONS

PCC has been dependent upon PMH to fund its operational shortfalls since its acquisition by PMH in 2014. In PCC’s FY2019 AFS, the independent auditor’s report included an Emphasis of Matter paragraph, stating that “[PCC] is financially dependent on its parent company which has agreed to provide the financial support necessary for the operations of [PCC].” This Emphasis of Matter did not appear in the FY2020 PCC AFS. PYA observed through our analysis of information provided by the Transacting Parties that the cash flows generated from PCC’s stand-alone operations do not appear to be sufficient to fund both PCC’s operational obligations and its necessary capital reinvestment.

Certain financial information from PCC’s FY2017 through FY2020 financial statements are presented within the following tables. PCC’s performance is not necessarily atypical to many hospital organizations in the country, particularly those which are members of an integrated system and/or serving populations with high concentrations of individuals covered by Medicare and Medicaid, and/or service areas with higher concentrations of populations without a third-party payer source.

Table 1									
(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020	(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Income Statement					Cash Flow Statement				
Total Net Revenue	\$ 338,792	\$ 350,082	\$ 356,698	\$ 322,211	Cash from Operating Activities	\$ (3,151)	\$ 4,323	\$ (5,167)	\$ 57,574
Total Operating Expenses	351,901	371,298	365,840	372,671	Cash from Investing Activities	3,069	(9,131)	(8,953)	(55,240)
Net Operating Loss before grants and investments	(13,109)	(21,216)	(9,142)	(50,460)	Cash from Financing Activities	(4,009)	4,808	13,861	(167)
Net Loss	(4,126)	(36,193)	(9,696)	(14,641)	Liquidity				
EBITDA	10,848	(5,914)	6,375	(4,881)	Total Cash	-	-	-	1,820
Balance Sheet					Available Line of Credit	N/A	N/A	N/A	N/A
Total Assets	140,340	130,507	134,681	160,081					
Total Liabilities	86,573	103,086	88,959	129,000					
Total Stockholders Equity	53,767	27,421	45,722	31,081					
Net Working Capital Surplus (Deficit)	2,308	(22,301)	(5,246)	25,647					



Furthermore, certain financial metrics calculated from the AFS of PCC over the previous four FYs are as follows:

Table 2					
PCC					
	FY2017	FY2018	FY2019	FY2020	Comments
<i>Liquidity</i>					
Current ratio	1.03	0.74	0.93	1.38	Higher is better
NWC % to Revenue	1.12%	-6.14%	-1.47%	7.96%	Higher is better
<i>Activity</i>					
Days cash on hand	-	-	-	2.03	Higher is better
Days in accounts receivable	45.71	48.04	50.87	41.14	N/A
Days in accounts payable	27.93	35.04	33.36	33.17	N/A
<i>Leverage</i>					
Liabilities to total assets	61.69%	78.99%	66.05%	80.58%	Lower is better
<i>Profitability</i>					
EBITDA Margin	3.20%	-5.75%	1.79%	-1.51%	Higher is better
<i>Capital Spending</i>					
Capital Expenditures/Depreciation and Amortization	50.88%	59.44%	65.96%	59.09%	Higher is better



Based on information provided from FY2015 – FY2020, PCC has accumulated net losses of \$88.1 million in the aggregate during this time. From the acquisition by PMH in 2014 to FY2019, these losses were funded by PMH and recorded as a liability presented on the PCC balance sheet as Due to PMH. As of September 30, 2019, the AFS presented a \$16.7 million amount Due to PMH. That amount, however, is net of prior intercompany liability forgiveness from PMH to PCC, such as the debt to equity conversion of \$24.7 million that occurred during FY2019.² Therefore, the intercompany liability presented as of FY2019 was not representative of the amount necessary to fund the cumulative operational losses of PCC since acquisition.

During FY2020, two separate one-time events, among other operational impacts, affected the intercompany balance between PCC and PMH. First, PCC received approximately \$41 million in PRF distributions as a result of the CARES Act. Additionally, PCC received approximately \$27.5 million in MAAP funding (see additional details regarding PRF and MAAP in the “Key PMH Financial Observations” section of this Report). This total amount of one-time funding (\$68.5 million) was transferred from PCC to PMH. As a result, the FY2019 balance of the Due to PMH liability was satisfied in full, and the remaining amount of one-time funding transferred to PMH was reflected as an asset on the PCC FY2020 balance sheet, presented as Due from PMH (\$32 million). While we were not provided detail regarding the components of this account balance, we observe that, absent these one-time events, the change in the account balance suggests approximately \$19.8 million in additional, unsatisfied liability of PCC to PMH in FY2020.

Table 3	
(Dollars in Thousands)	FY2020
Due to PMH October 1, 2019	\$ (16,700)
Due from PMH September 30, 2020	<u>32,000</u>
Year Over Year Change	48,700
One-time funding for PRF and MAAP	<u>68,500</u>
Additional support from PMH to PCC	\$ (19,800)

Additional relevant PCC financial observations include:

- Neither PCC nor the two individual hospitals hold any cash or cash equivalents, as reported on their balance sheets. The treasury function is centralized within PMH. Prior to FY2020, PCC appears to have benefited from this approach, as operational cash flows produced by other PMH subsidiaries, whose treasury functions were also consolidated within PMH, were used to subsidize PCC’s operations and capital needs.

² During FY2019, a noncash equity contribution of \$24.7 million was recorded related to the forgiveness of accrued and unpaid management fees, which were recorded in the Due to PMH account on PCC’s balance sheet.



This is a standard practice for integrated health systems. However, the cumulative liability incurred by PCC from FY2015 through FY2019 demonstrates its dependency on PMH to fund operations and capital needs.

- PMH charges a management fee to PCC for centralized administrative and support services. In FY2019, these management fees approximated 2.0% of NPSR. Based on PYA experience, this management fee is not materially inconsistent with rates charged to operating entities by integrated health systems for centralized support services.
- Per the PCC FY2020 AFS, its FY2020 and FY2019 direct and indirect expenses for the provision of charity care approximated \$1,094,000 and \$501,000, respectively, or 0.3% and 0.15% of total operating expenses.³ Based on our experience, this level of reported charity care, even for investor owned hospital companies, is low. See **Table 7** for a comparison to other investor owned hospital companies. However, relevant also to this observation is the fact that Rhode Island has expanded its Medicaid program, known as Rhode Island Medical Assistance Program, under the ACA. This expansion, in theory, reduces the number of residents who are deemed eligible for charity care. The auditor notes PCC provides services to other medically indigent patients under various state Medicaid programs; however, the costs for those services which was not fully reimbursed from the Medicaid programs was not defined.

As presented within the statement of cash flows of PCC’s AFS, purchases of property, improvements, and equipment by PCC for FY2017 through FY2020 averaged \$7.8 million, which equated to replacing approximately 66% of the annual depreciated value of PCC assets. This suggests there is a potential level of deferred capital investment in recent fiscal years, as high performing and growing health systems reinvest at levels closer to average annual depreciation so as to support growth. A comparison of this capital spending to depreciation expense for other investor owned hospital companies is included in **Table 7**.

A summary of PCC’s historical capital expenditures as shown in the AFS is included in the below table:

Table 4					
Prospect CharterCARE					
	FY2017	FY2018	FY2019	FY2020	Average
Capital Expenditures	\$ 7,043,000	\$ 8,973,000	\$ 9,926,000	\$ 5,273,000	\$ 7,803,750
Depreciation Expense	\$ 12,200,000	\$ 13,222,000	\$ 13,100,000	\$ 8,815,000	\$ 11,834,250
Capital Expenditures as a % of Depreciation Expense	57.73%	67.86%	75.77%	59.82%	65.94%

³ PCC’s charity costs are estimated by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

However, Mr. Lee asserted in his SUO that PMH has invested over \$100 million in the PCC facilities since the acquisition. PYA was not provided with the information prior to FY2017 necessary to analyze this claim. Mr. Lee referenced significant emergency room, oncology services, and behavioral health facility investments within his SUO.

The independent monitor for the 2014 HCA decision, AMI, indicated in their December 23, 2020 report that the information submitted by PCC to evidence routine capital expenditures was sufficient to support that PCC had complied with the \$10 million per year routine capital expenditure requirement for FY2015 through FY2018 as required in the May 16, 2014 HCA decision. Furthermore, AMI indicated that the documentation submitted by PCC demonstrated that PCC complied with and exceeded the revised long-term capital commitment of \$62.5 million.

Per information provided by PCC, its FY2021 capital budget is \$17.9 million. Approximately \$10 million of the budget is associated with facility capital expenditures funded through PACE financing (see below observation for details). PACE financing is debt assumed by PCC for which proceeds must be used for certain facility related expenditures. Therefore, the FY2021 capital budget for routine capital replacement and other facility investment needs, after adjusting for the PACE financing, is commensurate with prior periods analyzed.

- RWMC entered into the PACE financing agreement in May 2020 to improve energy efficiency, financing up to \$42 million for property renovations. Per the PMH FY2020 AFS, as of September 30, 2020, \$27 million had been expended and recognized as a liability with \$15 million remaining in escrow. In January 2021, PCC entered into another PACE agreement to finance approximately \$18 million of qualified renovations at OLF. The financed amounts are to be repaid through non-ad valorem assessments collected through PCC property tax bills through 2046. Security on the loan includes a levy and lien against certain real property of RWMC and OLF.
- PCC real property assets were excluded from the MPT transaction. (see “Key PMH Financial Observations” for more detail related to the MPT transaction). However, as a part of the MPT transaction, PMH entered into a promissory note (the “TRS Note”), with an original principal amount approximating \$113 million. The promissory note carried an initial interest rate of 7.5%, which increases annually between 2% and 4%. The promissory note also has a 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, or (iii) satisfied through the sale and subsequent leaseback of the RWMC and OLF real property assets which is contractually allowed per the agreement. However, the TRS Note is not secured by any PCC real or personal property.⁴ No evidence was provided to PYA which illustrates how repayment of the TRS Note will be addressed. If the PCC facilities are sold to meet this obligation, PCC’s ability, in and of itself, to access additional sources of capital could be limited as collateralizing assets would be significantly reduced.

⁴ E. Samuels confirmation of facts letter dated July 22, 2020, as provided by Applicants.



- Even though pension obligations were not assumed by PMH in the original 2014 transaction, in December 2020, various IH subsidiaries entered into a settlement agreement to pay \$27.5 million in exchange for release from ongoing litigation regarding pension funding. PCC does not hold the ongoing pension liability and, of the \$27.5 million, approximately \$22.5 million was expensed in the year ended September 30, 2020 and approximately \$5 million was allocated to the purchase price of the 15% residual ownership in PCC held by CCCB. It appears this settlement suggests no further claims will be brought related to the Rhode Island pensions.

KEY PMH FINANCIAL OBSERVATIONS

Observations regarding the Proposed Transaction’s impact on PMH’s financial statements and its ability to access capital are relevant considerations in the context of the Applicable Criteria. The financial results reported by PMH from FY2017 through FY2020 are erratic. Operational performance declined through FY2019, as quantified in net income/(loss) and EBITDA, per the AFS. Several factors contribute to these erratic operational results during the four-year period, including events characterized as non-recurring in nature such as an EMR system conversion in FY2019 and the impacts, including non-recurring governmental assistance associated with the nationwide COVID-19 public health emergency. That stated, PMH’s financial condition, absent governmental assistance associated with the COVID-19 public health emergency, could raise questions regarding the ongoing financial viability of PMH to support its subsidiaries, including PCC. The following information summarizes PMH’s recent financial results over the last four years:

Table 5									
(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020	(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Income Statement					Cash Flow Statement				
Total Net Revenue	\$ 2,914,497	\$ 2,893,888	\$ 2,849,198	\$ 2,733,388	Cash from Operating Activities	\$ 50,239	\$ (5,962)	\$ (71,448)	\$ 412,236
Total Operating Expenses	2,847,665	2,888,619	2,853,052	2,836,702	Cash from Investing Activities	(90,461)	(108,799)	(65,587)	(4,670)
Net Operating Income (Loss)					Cash from Financing Activities	37,744	95,346	181,432	(72,833)
before grants and investments	66,832	5,269	(3,854)	(103,314)					
Net Income (Loss)	34,252	(244,165)	(297,736)	(99,610)					
EBITDA	212,344	36,512	(48,613)	89,762					
Balance Sheet					Liquidity				
Total Assets	1,862,400	1,818,633	1,866,367	2,042,389	Total Cash	27,109	7,694	52,091	386,824
Total Liabilities	1,795,084	2,440,982	2,836,427	3,102,004	Available Line of Credit	29,900	41,000	175,600	210,800
Total Stockholders Equity (Deficit)	67,316	(622,349)	(970,060)	(1,059,615)					
Net Working Capital Surplus (Deficit)	27,932	(136,886)	58,335	130,032					



Furthermore, certain financial metrics calculated from the AFS of PMH over the previous four FYs are as follows:

Table 6					
	PMH				Comments
	FY2017	FY2018	FY2019	FY2020	
<i>Liquidity</i>					
Current ratio	1.04	0.85	1.07	1.14	Higher is better
NWC % to Revenue	1.78%	-3.65%	4.59%	7.42%	Higher is better
<i>Activity</i>					
Days cash on hand	3.61	1.00	6.90	53.53	Higher is better
Days in accounts receivable	44.95	40.04	39.28	38.56	N/A
Days in accounts payable	41.13	37.81	33.88	51.44	N/A
<i>Leverage</i>					
Liabilities to total assets	96.39%	134.22%	151.98%	151.88%	Lower is better
<i>Profitability</i>					
EBITDA Margin	7.29%	0.63%	-2.76%	3.28%	Higher is better
<i>Capital Spending</i>					
Capital Expenditures/Depreciation and Amortization	54.44%	82.94%	56.60%	32.92%	Higher is better



The below table shows a comparison of PMH financial metrics to those calculated from peer group data.

Table 7						
	PMH	Peer Group	HC	THC	CHS	
	FY2020	Average	TTM 09/20	TTM 09/20	TTM 09/20	Comments
<i>Activity</i>						
Days in accounts receivable	38.56	52.10	46.26	50.34	59.72	N/A
Days in accounts payable	51.44	24.34	27.17	22.49	23.34	N/A
<i>Leverage</i>						
Liabilities to total assets	151.88%	99.58%	97.45%	92.36%	108.94%	Lower is better
<i>Profitability</i>						
EBITDA Margin	3.28%	15.38%	18.89%	13.79%	13.45%	Higher is better
<i>Capital Spending</i>						
Capital Expenditures/Depreciation and Amortization	32.9%	87.6%	122.1%	65.6%	75.2%	Higher is better
<i>Charity Care</i>						
Charity care as % of Operating expenses	0.23%	1.92%	3.73%	0.90%	1.14%	Higher is better

FY19						
	PMH	Peer Group	HC	THC	CHS	Comments
		Average				
<i>Activity</i>						
Days cash on hand	6.90	5.98	5.46	5.88	6.60	Higher is better



The following observations report events and circumstance affecting PMH's financial results, liquidity, and capital structure as noted in our analysis of the information provided and within the SUOs:

- In FY2018⁵, the PMH Board of Directors authorized dividends to be paid to stockholders of approximately \$457 million ("2018 Dividend"). PMH recorded operating income (before interest expense and other financing related costs) of approximately \$8 million and a net loss before income taxes of approximately \$127 million during FY2018. The 2018 Dividend was financed via a recapitalization whereby PMH entered into new debt obligations approximating \$1.12 billion. In addition to funding the 2018 Dividend, this new debt was used to refinance prior debt facilities, 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 under the dividend recapitalization, and to finance certain working capital and operational needs of PMH and its subsidiaries. These actions contributed to the resulting FYE2018 stockholders' deficit balance of approximately \$623 million, compared to stockholders' equity at FYE2017 of approximately \$67 million. Also, the FYE2018 financial statements reported a working capital deficit of approximately \$137 million, compared to a working capital surplus of approximately \$28 million for FYE2017. The 2018 Dividend extracted cash from PMH equivalent to 60 days of operating expenses.⁶ At September 30, 2018, PMH cash and cash equivalents of \$7.7 million was sufficient to cover approximately 1 day of PMH's operating expenses. At that date, PMH had an outstanding balance on the amended revolving credit facility of approximately \$208 million, with an available balance on the line of credit of approximately \$41 million (sufficient to cover approximately 5 days of PMH's operating expenses).
- On August 23, 2019, PMH closed a series of transactions with MPT, a publicly traded REIT, whereby PMH sold to MPT hospital real estate assets in California, Connecticut, and Pennsylvania for an aggregate purchase price approximating \$1.386 billion⁷. Proceeds from the sale were utilized, in part, to extinguish the long-term debt assumed in FY2018. Concurrent with the real estate transactions, PMH entered into two master lease agreements whereby the assets sold to MPT were leased back for an initial 15-year term with options to extend. These long-term lease arrangements are recorded on the PMH balance sheet as liabilities. No Rhode Island facilities were included in the MPT sale/leaseback transactions. In addition to this sale/leaseback transaction and other transactions between MPT and PMH involving PMH real property assets, MPT and PMH entered into the aforementioned TRS Note which can be satisfied, among other alternatives, by entering into a sales/leaseback transaction for the PCC facilities.
- During FY2019⁸, an additional \$44.0 million was paid to stockholders, which was mostly offset by capital contributions from stockholders during FY2019 of \$41 million. We understand this \$41 million was to inject capital into PMH to support operations during a transition to a new EMR. Also, during FY2019, PMH also agreed with lenders to expand its maximum revolving credit facility from \$250 million to \$285 million,

⁵ FY2018 PMH AFS.

⁶ Operating expenses in days cash on hand calculations exclude interest, depreciation, and amortization expense.

⁷ FY2019 PMH AFS.

⁸ FY2019 PMH AFS.

with subsequent reductions totaling \$30 million upon closures of two hospital facilities. At September 30, 2019, the outstanding balance and available balance on the revolving credit facility approximated \$70 million and \$176 million, respectively, per the FY2019 AFS.

- In response to the global COVID-19 pandemic, the CARES Act afforded healthcare providers with liquidity in the form of stimulus payments to offset qualifying and substantiated expenses incurred in response to the pandemic, in addition to revenues lost by providers as a result of certain care being eliminated or postponed for public health reasons. The CARES Act also provided the opportunity for healthcare providers to receive advances on Medicare reimbursement via the MAAP. Per the 2020 PMH AFS, PMH received approximately \$183 million in PRF stimulus payments and approximately \$276 million associated with MAAP. Repayments are not required on PRF distributions to the extent the provider recipient can justify, report, and support that the distributions were used to offset qualifying expenses and lost revenue as defined in pronouncements from HHS.

Per the PMH FY2020 AFS, all but \$10.4 million of the PRF stimulus payments were recognized into operating income during FY2020. The MAAP will be recovered via withholdings of future Medicare reimbursement due to providers over a 17-month period beginning at the one-year anniversary of the provider's initial MAAP recipients.

These two one-time funding sources contributed to a dramatic increase in PMH's cash and cash equivalent balance, increasing \$334 million over the reported FY2019 balance to a total balance of \$387 million at September 30, 2020. As a result of this increase, PMH's cash available to cover operating expenses as of September 30, 2020 increased to approximately 52 days. However, as noted, the full \$276 million in cash held by PMH at September 30, 2020 associated with MAAP will be recovered via reduced reimbursement from Medicare starting in April 2021. If the \$276 million is removed from the reported FY2020 cash and cash equivalents, the remaining funds cover approximately 15 days of operating expenses. Per the 2020 PMH AFS, at September 30, 2020, PMH did not have an outstanding balance on its revolving line of credit, and the available balance to borrow was approximately \$211 million (which amounts to approximately 28 days of operating expenses).

These patterns in operational performance and recapitalization are relevant because PMH has somewhat limited ability, in the form of current liquidity especially after recoupment of MAAP funds, to weather additional or continued financial challenges. That, in turn, is a risk to the ongoing financial viability of PCC as a PMH subsidiary. Such challenges can be mitigated by accessing additional sources of capital; however, PMH is already extremely leveraged and has limited unencumbered assets to collateralize additional debt financing. If the effects of the Proposed Transaction have material impacts on PMH's financial position, or creates additional challenges with respect to its ability to access capital, the financial risk associated with the ability to fund ongoing operations and capital needs of the PCC entities is also increased.



KEY PROPOSED TRANSACTION OBSERVATIONS

PYA analyzed how the Proposed Transaction could impact the Applicable Criteria. The most relevant considerations appear to be twofold: 1) what impact does the Proposed Transaction have on the ability of IH and its related subsidiaries, including PMH, to access capital and 2) how does the Proposed Transaction's consummation affect IH's and its related entities' financial condition, including liquidity, cash flow, operating results, and net asset balance. Our observations related to these matters are as follows:

Access to Capital

A key financial consideration is whether the Proposed Transaction will impact PMH's ability to access capital to fund operations and investments. PYA was provided no information suggesting that LGP, and specifically GEI as the owners in IH, has invested additional capital in IH, as PMH's corporate parent entity, since the acquisition of PCC in 2014, with the exception of capital contributions equal to GEI's portion of the \$41 million capital call in FY2019. That contribution appears to be essentially a shareholder loan to provide short term liquidity during the 2019 system conversion and was subsequently returned in the form of dividends. Per the SUOs from Mr. Baumer and Ms. Wagner, no additional investments beyond the initial 2010 capital investment in IH in an amount approximating \$151 million have been made by GEI in IH.⁹ As described previously in this Report, some, perhaps most, of the dividends received by GEI from IH resulted from the \$457 million 2018 Dividend to IH shareholders as a part of a dividend recapitalization. At that time, we understand GEI held a majority of the stock in IH.

Furthermore, while PYA was not provided information pertaining to GEI, Ms. Wagner and Mr. Baumer stated in their respective SUOs that the GEI funds are at the end of their life and are contractually required per the terms of the investor agreements to liquidate held investments. IH has utilized the two automatic extensions allowing IH extended use of the funds per the investor agreement, and IH must now close the funds.

The ability of any entity to access capital is impacted by several considerations, including, but not limited to, operational performance, assets to serve as collateral, personal guarantees, etc. As discussed previously in this Report, PMH is in a highly leveraged position. As a result, it remains unclear whether PMH would be able to obtain incremental capital investments and/or access debt funds. The sale/leaseback transaction(s) described previously remains as an option available to PMH to access funding. The amount of capital available through this mechanism is unknown, however, as the value of the collateral necessary for such a transaction has not been quantified. Whether or not GEI remains an investor in IH going forward is only one variable when evaluating the amount of capital IH and PMH are able to access. Indeed, the ability of the IH, PMH, or their collective subsidiaries to produce positive operating results, and as a result, positive returns on any invested funds would be a key consideration for any lender or investor.

⁹ Ms. Wagner and Mr. Baumer are Partners with Leonard Green & Partners and Board members of IH and PMH.



Financial Impact of Proposed Transaction on Transacting Parties

Per the Merger Agreement, the agreed upon cash consideration at close of the Proposed Transaction is \$11,940,992. PYA was provided no further analysis to substantiate this amount, such as third-party fair market value analyses or fairness opinions. Furthermore, in their respective SUOs, Mr. Baumer, Ms. Wagner and Mr. Lee asserted that the amount was agreed upon between the Transacting Parties.¹⁰ In addition to the cash to be paid upon closing the Proposed Transaction, the Merger Agreement also appears to, in effect, release GEI from any portion of existing liabilities and future obligations related to IH and its subsidiaries. As stated in the FY2020 PMH AFS, total current and long-term liabilities held by PMH approximated \$3.1 billion. As a result of the Proposed Transaction, our understanding is IH will fund the cash payment, via the merger, for the net purchase price of approximately \$11.9 million, and will retain all other assets and liabilities of IH and its subsidiaries. This component of the Proposed Transaction marginally, but directly, impacts PMH's net assets, cash flow, and liquidity.

Existing stockholders, Mr. Lee and Mr. Topper, held approximately 34% of the stock in IH at time of the Application, and will hold 100% if the Proposed Transaction is approved and consummated.¹¹ Furthermore, those proposed sole owners are also operators and leaders in the operating entities. This is a different dynamic than a sale of all or the majority of the stock to an external investor, as this transaction should have more continuity in leadership and less disruption on operations. The transaction will result in a change in the board governance, with LGP vacating 3 of the 5 IH board seats.¹² It is yet to be determined how this change in board composition may positively or negatively impact governance and leadership of PMH.

OTHER CONSIDERATIONS RELEVANT TO PMH AND PCC

There are many risks faced by the healthcare provider industry, including but not limited to, public policy and regulatory changes, macro-economic shifts, payer reimbursement changes, impacts of public health emergencies and natural disasters, skilled labor availability, supply chain continuity, regulatory compliance investigations, etc. The scope of this Report is not to consider all those risks. But, specific to observations relevant to the Proposed Transaction and its impact on the ongoing support and viability of PCC to provide essential healthcare services to the residents of Rhode Island, some risks exist in any change of majority ownership of an entity, not specifically this circumstance. We are not able to make observations regarding whether any of these risks could materialize under this particular Proposed Transaction, as we have no information on management's prior actions, and it was not in our scope to evaluate the efficacy or motives of management. But we recognize, agnostic to particular industries or individual entities, majority owners do have legal rights and ability to affect change in an organization. In this particular case, certain minority owners (who are also executive leaders and operators of the business) will become majority owners, increasing their legal ability to make changes. Therefore, these observations simply recognize the changing dynamics which could occur in any change in majority stockholders. Based on our limited information, the following could influence decisions on how PCC is funded going forward:

¹⁰ Mr. Sam Lee is Chief Executive Officer of PMH and a Board member of IH, PMH, and PCC, among other entities.

¹¹ Derived from the Application, page 1154.

¹² Derived from the Application, page 1154.

- PMH is a conglomerate of various healthcare operations across multiple states. Some operations will generate positive operational results which are used, to some extent, to offset losses in other segments of the business, including PCC. There is risk to continuity to the aforementioned support provided by PMH to PCC if operations of the more successful components of the PMH provider portfolio suffer. PYA was not provided financial information for each of the PMH regions. However, there is risk to continuity of the aforementioned support provided by PMH to PCC if operations of the more successful components of the PMH provider portfolio suffer. Similarly, if PCC operations do not improve to a point where they are contributing to the profitability and/or growth of PMH, it remains unclear whether the new board of IH and PMH would continue funding those portfolio investments.
- At present, any lingering financial impact to the healthcare industry as a result of the COVID-19 pandemic remains unclear. Some of the PMH facilities are located in geographic regions which experienced high rates of infection, hospitalizations, and fatalities from COVID-19, and some locations continue to have state-imposed restrictions which affect the timing of economic recovery. Therefore, if continued delays in economic recovery continues, such delays could have negative impacts on PMH's and PCC's liquidity and ability to meet obligations to third parties. PMH management members' interviews identified the pandemic as their greatest economic concern.

SUMMARY OF PROPOSED TRANSACTION IMPLICATIONS

We have observed through our analyses that both PCC and its parent, PMH, face long-term financial viability challenges. We observed that PCC, since the acquisition by PMH in 2014, has consistently been dependent upon PMH to fund operational shortfalls and capital investments. In addition, based on our observations, PMH has reported limited liquidity and a highly leveraged position in recent fiscal years. Threats to long-term viability might jeopardize the healthcare access for Rhode Island residents who depend on PCC health services, including those populations who are traditionally underserved.

In addition to the \$11.9 million of proceeds GEI would receive as a result of the Proposed Transaction, GEI would also be released from any portion of existing and future obligations related to IH and its subsidiaries. At September 30, 2020, current and long-term liabilities held by PMH approximated \$3.1 billion. Based on our observations, GEI has not made significant investments in IH or PMH since the initial capitalization in 2010 nor do they appear to be instrumental in assisting PMH with obtaining access to capital going forward.

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, whereby GEI would divest of its majority stake in IH, 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.



APPENDIX A: SCOPE OF WORK



Scope of Work	Key Information Utilized
<i>Project Initiation</i>	
Conduct kick-off call with relevant individuals of RIDOH to ensure RIDOH's objectives are clearly understood and to confirm timeline, process for interviews with the Transacting Parties, and form of anticipated deliverables.	
Perform an inventory of relevant information provided to-date by the Transacting Parties to identify additional information needs.	
Discuss with parties already engaged by the state of Rhode Island (e.g., Attorney General's financial expert) to understand analyses already performed.	
Issue information request to obtain data and information not yet provided by the Transacting Parties.	
<i>Understand Key Terms of the Proposed Transaction</i>	
Obtain an overview of the Transacting Parties' organizational structure before and after the Proposed Transaction.	<ul style="list-style-type: none"> - Pre-transaction and proposed Post Transaction Organizational Charts - Listing of Board Members and Officers - Governing Documents - 2014 Asset Purchase Agreement - PMH HCA Application
Read the purchase agreement for Chambers, Inc.'s purchase of the shares in Ivy Holdings, Inc.	<ul style="list-style-type: none"> - Agreement and Plan of Merger Agreement between Chamber Inc., Ivy Holdings, Inc., and Green Equity Investors
Obtain and comment on audited financial statements* from calendar years 2015 through 2019, and requested supporting information, for Chambers, Inc., Ivy Holdings, Inc., Ivy Immediate Holding, Inc., and Prospect Medical Holdings, Inc.	<ul style="list-style-type: none"> - Audited Financial Statements - Unaudited Quarterly Financial results for FY2020 - Unaudited Monthly Financial Statements for October and November 2020



Scope of Work	Key Information Utilized
<p>After understanding the terms of the purchase agreement and existing financial statements of Chambers, Inc., Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc., analyze implications which the transaction by Chamber's Inc. purchase in the shares of Ivy Holdings, Inc. may have on the continued financial viability and access to capital of the Prospect CharterCARE S.11-15111, LLC and Prospect CharterCARE RWMC, LLC entities (collectively, "PCC").</p>	<ul style="list-style-type: none"> - Audited Financial Statements - Listing of auditor's comments for FY2018-FY2020 for PCC - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020
<p>Provide observations at a high level of the \$12 million purchase price for approximately 60% of the interests in Prospect Medical Holdings, Inc, as they may relate to industry standards and norms.¹³</p>	<ul style="list-style-type: none"> - N/A
<p>Provide observations regarding prior relevant transactions with major investors in the equity of Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc. during the period from 2015 through the current period, and specifically how those transactions impacted these entities' ability to invest in healthcare services, including at PCC.</p>	<ul style="list-style-type: none"> - Various Board of Directors' Meeting Minutes that outline distributions and other major relevant transactions
<p>Provide observations regarding relevant, major transactions in healthcare real estate assets by Ivy Holdings, Inc., Ivy Intermediate Holdings, Inc., and Prospect Medical Holdings, Inc. during the period from 2015 through the current period, and specifically how those transactions impacted these entities' ability to invest in healthcare services, including at PCC.</p>	<ul style="list-style-type: none"> - Real Property Asset Purchase Agreement between PMH and MPT dated July 10, 2019 - ChambersProspectCharterCARE-LTR E. Samuels Confirmation of Facts 07.22.2020 - Various details of real estate transactions that occurred within PMH

¹³ No portion within the entirety of PYA's scope should be considered in any way to constitute a fairness opinion, an opinion regarding fair market value exchange of consideration, or a commercial reasonableness opinion related to any transactions analyzed in our processes.



Scope of Work	Key Information Utilized
Analyze Current Financial Performance of PCC	
<p>Obtain and comment on the previous three annual financial statements of PCC and the three most recent internal monthly financial statement packages distributed.</p>	<ul style="list-style-type: none"> - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020 - Adjusted EBITDA (15-month Trend) for October and November 2020 - Listing of Provider Relief Funding Received for PCC
<p>Comment on significant estimates found in PCC's internal financial statements for the prior 3 annual periods and the current year to date (collectively, the "Historical Period").</p>	<ul style="list-style-type: none"> - Audited Financial Statements
<p>Obtain and comment on any PCC budget to actual reports for the Historical Period.</p>	<ul style="list-style-type: none"> - Operating Budget for FY2018-FY2021 for PCC entities
<p>Obtain listing and statements of cash and investment accounts held by PCC for the Historical Period.</p>	<ul style="list-style-type: none"> - Various detail and statements related to Cash accounts - Audited Financial Statements - Treasury, Revenue, and Purchases Cycle descriptions
<p>Inquire and comment on the following items related to PCC's banking relationships during the Historical Period, including:</p> <ul style="list-style-type: none"> - Banking agreements - Borrowing terms and debt covenants - Credit facilities - Debt covenant compliance - Outstanding indebtedness 	<ul style="list-style-type: none"> - Various detail of debt agreements related to the ABL Credit Agreement and Financing Agreement - Various detail of debt agreements related to the PACE financing agreement, including the Certificate of Levy and Lien of PACE Assessment - Audited Financial Statements



Scope of Work	Key Information Utilized
<p>Obtain and comment on materials related to PCC's historical revenues during the Historical Period, including:</p> <ul style="list-style-type: none"> - Cash to net revenue historical trends - Charity care - Revenue trends by payer - Volume metrics 	<ul style="list-style-type: none"> - Revenue cycle description - PCC Table of Revenue by Payer for FY2018-FY2020 and November 2020 - PCC Operating Metrics for FY2018-FY2020 and November 2020 - Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020
<p>Prepare annual trending analysis for select ratios and metrics of PCC compared to appropriate benchmarks during the Historical Period.</p>	<ul style="list-style-type: none"> - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Balance Sheet and Income Statement for OLF and RWMC as of June 30, 2020 - PCC Full Time Equivalent Adjusted Occupied Bed comparison - PCC Full Time Equivalent Calculations
<p>Obtain and comment on materials related to operating and financing lease contracts, purchase commitments, and other agreements that have otherwise restricted the use of PCC's assets.</p>	<ul style="list-style-type: none"> - Summary schedule of operating and finance leases - Various detail of debt agreements related to the ABL Credit Agreement and Financing Agreement - Management service agreement - Audited Financial Statements



Scope of Work	Key Information Utilized
<p>Obtain schedules and details in order to comment on PCC's patient accounts receivable during the Historical Period, including:</p> <ul style="list-style-type: none"> - Aging analysis by payer - Allowance for contractual adjustments - Bad debt reserves and adjustments - Credit balances 	<ul style="list-style-type: none"> - Accounts Receivable Process memo – Current - Accounts Receivable Process memo – Historical - Accounts Receivable Aging by Payer analysis for 2018-2020 and November 2020 - PCC lookback analysis of collections on accounts receivable - Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020
<p>Comment on the aging of PCC's accounts payable and accrued liabilities during the Historical Period by obtaining detail reports.</p>	<ul style="list-style-type: none"> - Accounts Payable Aging report as of December 31, 2020 - Purchasing cycle description - Various schedules related to accounts payable and accrued liability accounts - Various schedules related to prepaid accounts - Employee Handbook and Vacation Policy description - Summary of changes in employee benefits - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020



Scope of Work	Key Information Utilized
<p>Inquire of and comment on PCC's significant commitments or contingent liabilities, including:</p> <ul style="list-style-type: none"> - Pending or threatened litigation - Investigations by regulatory or other authorities - Self-insurance liabilities - Post-retirement benefits 	<ul style="list-style-type: none"> - Summary of post-retirement benefits for PCC employees - Listing of pending and historical litigation claims - Regulatory update summary - PCC incentive plan payout - Worker's compensation claim listing - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020
<p>Obtain and comment on PCC's projected monthly statistical reports related to patient volume and payer mix.</p>	<ul style="list-style-type: none"> - Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020 - PCC Table of Revenue by Payer for FY2018-FY2020 and November 2020
<p>Obtain and comment on intercompany account activity between PCC and parent organizations.</p>	<ul style="list-style-type: none"> - Audited Financial Statements - Unaudited Monthly Financial Statements for October and November 2020 - List of joint ventures
<p>Comment on PCC's ability during the Historical Period to support its capital needs through cash flow generated from hospital operations.</p>	<ul style="list-style-type: none"> - Audited Financial Statements - Listing of auditor's comments for FY2018-FY2020 for PCC - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020



Scope of Work	Key Information Utilized
<i>Potential Need for Capital for Working Capital and Physical Plan Investment Purposes</i>	
Obtain and comment on a schedule of PCC capital spending over the past three years.	<ul style="list-style-type: none"> - Summary of Routine Capital Expenditures for 2017 - 2020
Obtain and comment on PCC provided capital budgets for future periods compared against historical levels of depreciation and relevant benchmarks.	<ul style="list-style-type: none"> - Capital Projection Schedule for 2020-2022 - Capital Budget 2021 - IT Commitment summary for 2018 – 2030 - Audited Financial Statements - Unaudited Quarterly Financial Results for FY2020 for PCC - Unaudited Monthly Financial Statements for October and November 2020
<i>Interviews of Relevant Parties</i>	
Upon request by RIDOH, participate in and/or assist with the facilitation of interviews under oath with selected members relevant to the proposed transaction (estimated total of 20 to 25 hours) for enhanced understanding of purpose and impact of the Proposed Transaction.	
<i>Preparation and Provision of Report</i>	
Document in a written executive summary report, key findings of our analysis for consideration by RIDOH in its assessment of the Transacting Parties Application. This report will contain a list of relevant observations through our analyses and considerations for RIDOH.	
<i>Presentation to Rhode Island Health Services Council</i>	
Prepare and deliver presentation of key observations and considerations to the Health Services Council at the conclusion of the engagement. This presentation will be provided remotely and will not require travel to Rhode Island for an in-person meeting.	



Scope of Work	Key Information Utilized
<p><i>Communication with RIDOH</i></p> <p>Throughout the engagement, provide regular updates to RIDOH leadership on the progress of the analysis, any complicating issues in completing the scope of work, updates to timeline, and sharing of significant observations.</p>	

*Audited Financial Statements analyzed include:

- 2016-2020 Audited Financial Statements of PMH
- 2016-2020 Audited Financial Statements of PCC
- 2016-2019 Audited Financial Statements of OLF
- 2017-2019 Audited Financial Statements of RWMC

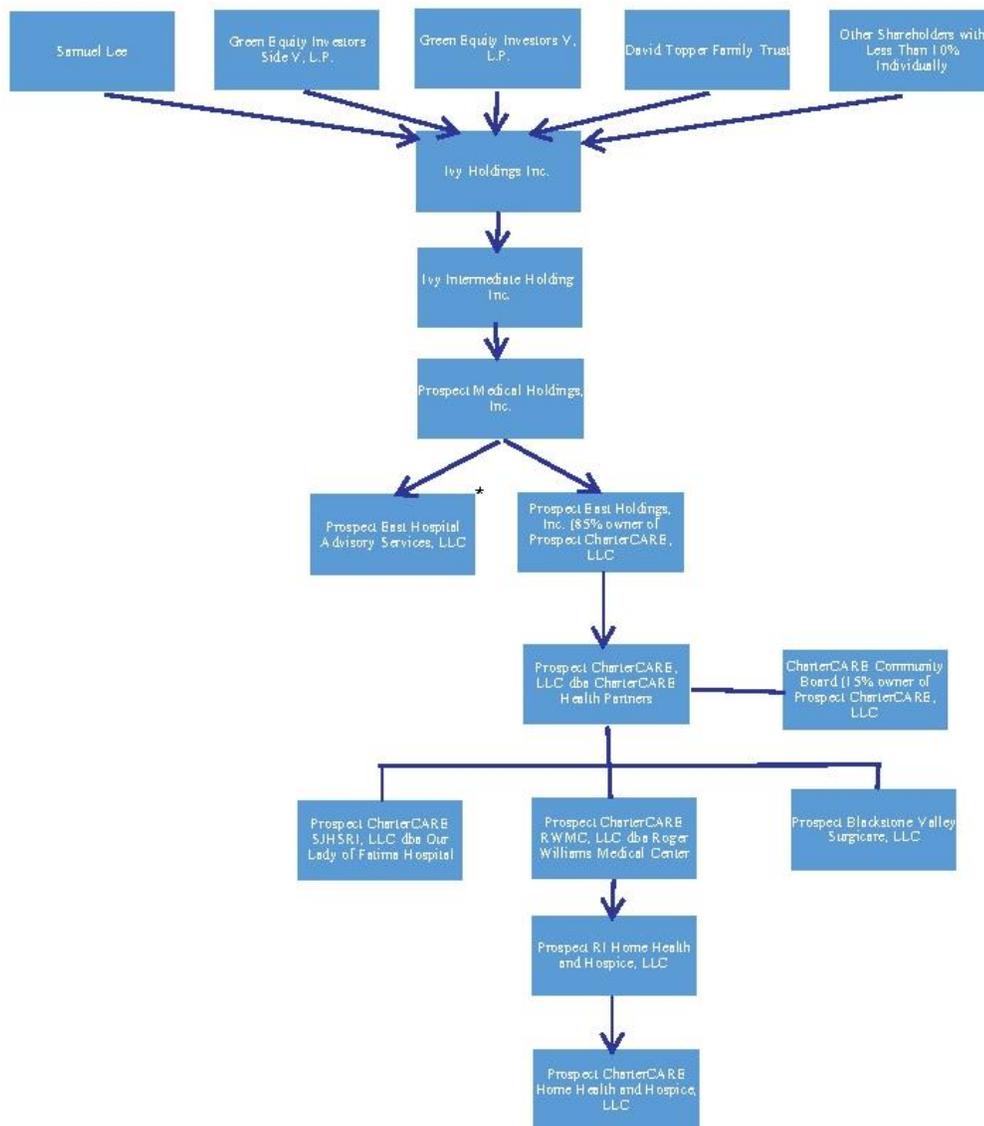


APPENDIX B: ORGANIZATIONAL CHART PRIOR TO CONVERSION

PCC wholly owns RWMC, OLF, and Prospect Blackstone Valley Surgicare, LLC a licensed freestanding ambulatory surgery center. In addition, RWMC wholly owns PRIHHH, a home healthcare provider, which wholly owns PCCHHH a licensed home nursing care provider. All PCC entities are located in Rhode Island and are subject to the provisions of the Act. PCC is currently owned 85% by PEH and 15% by CCCB; however, associated with a settlement in December 2020, PEH is acquiring the remaining 15% interest in PCC from CCCB.

PEH and PEHAS are wholly owned by PMH. PMH is wholly owned by Ivy Intermediate Holding Inc., which is wholly owned by IH. IH is currently primarily owned by a combination of GEI, Mr. Lee, and Mr. Topper (through his Family Trust). Other PMH management own a small minority of shares. The current organization structure, as submitted in the Application, can be found below.

**Organizational Chart
Pre-Transaction Structure**

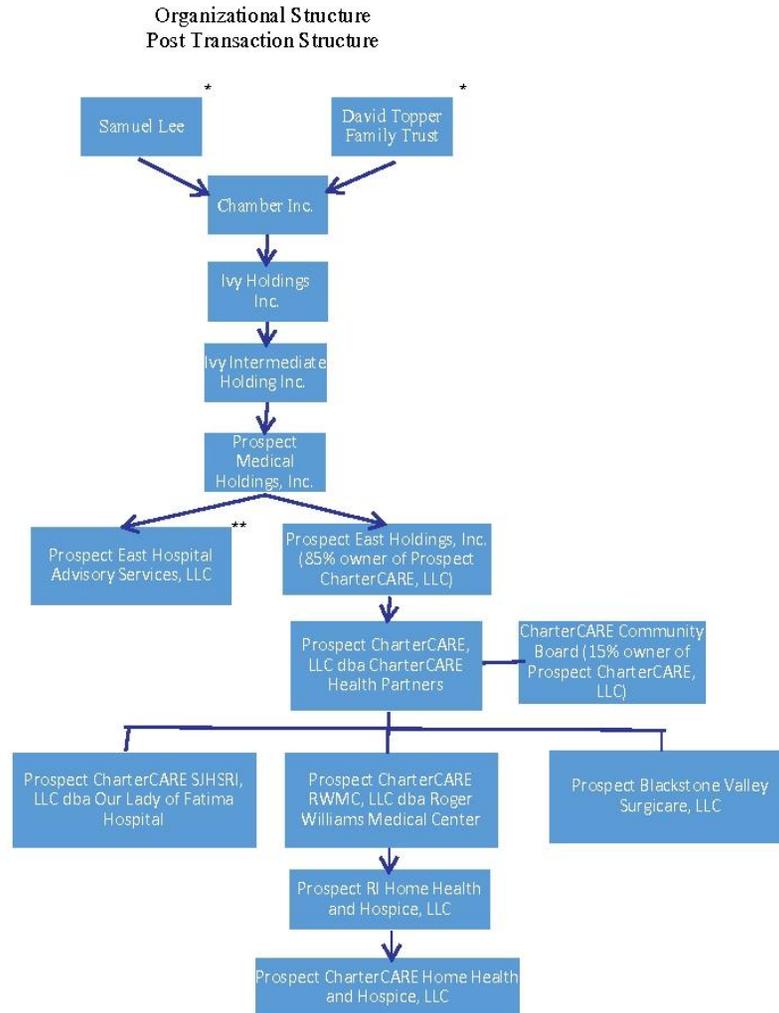


*Prospect East Hospital Advisory Services, LLC serves as manager to Prospect CharterCARE, LLC



APPENDIX C: PROPOSED ORGANIZATIONAL CHART SUBSEQUENT TO CONVERSION

The proposed organization structure, as submitted in the Application, can be found below.



*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.

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