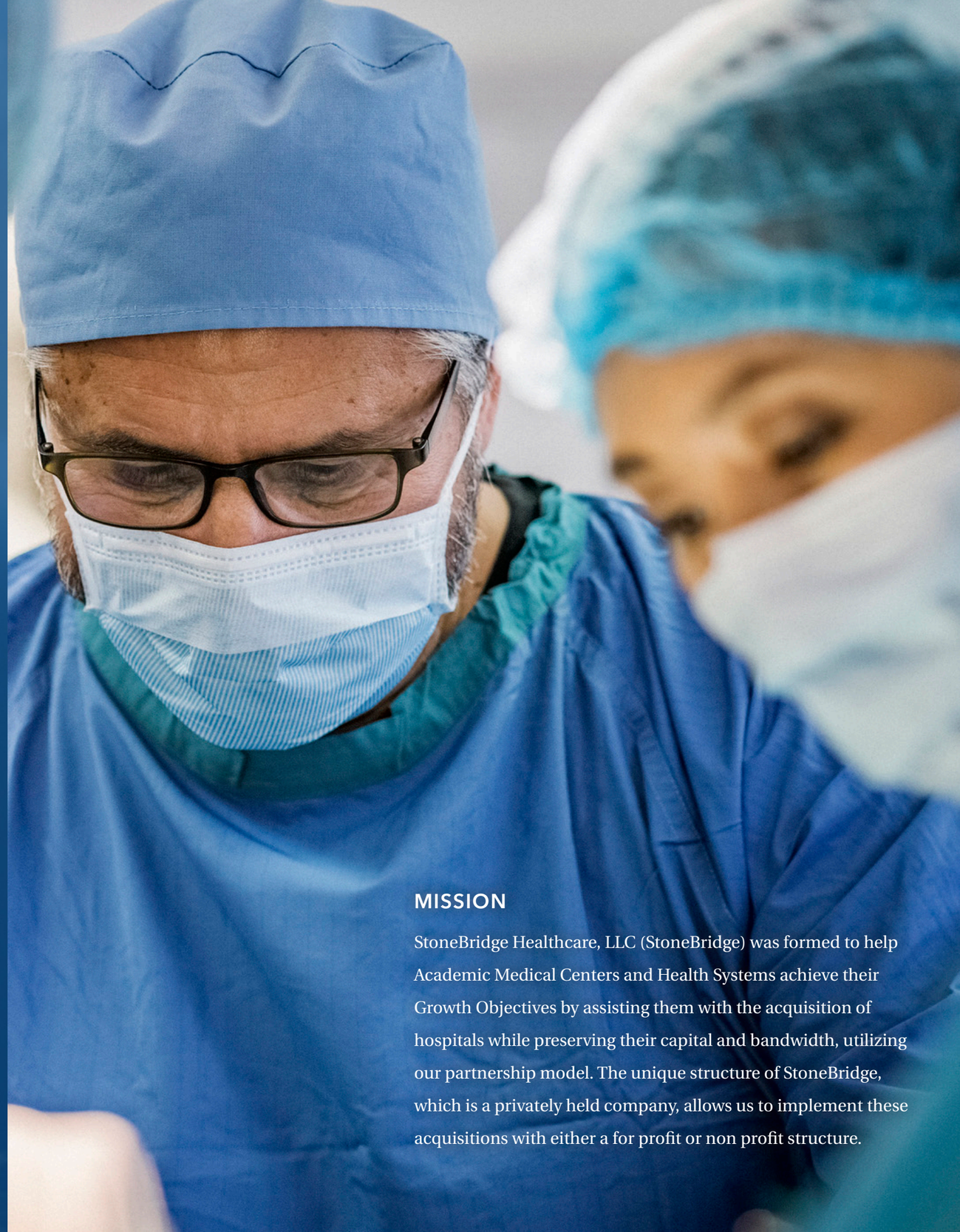


STONEBRIDGE
HEALTHCARE

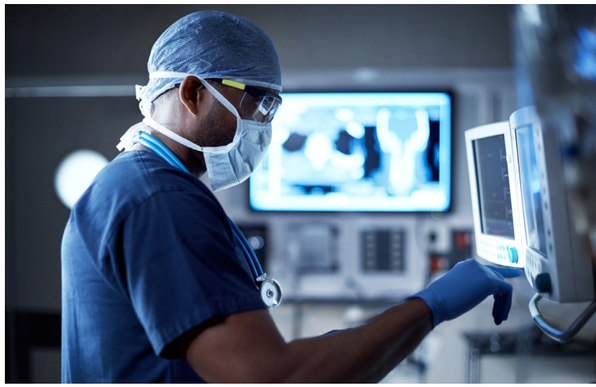
Saving Distressed Hospitals, with Industry-Leading Management and Care

MISSION

StoneBridge Healthcare, LLC (StoneBridge) was formed to help Academic Medical Centers and Health Systems achieve their Growth Objectives by assisting them with the acquisition of hospitals while preserving their capital and bandwidth, utilizing our partnership model. The unique structure of StoneBridge, which is a privately held company, allows us to implement these acquisitions with either a for profit or non profit structure.

STONEBRIDGE
HEALTHCARE

WHO ARE WE?



StoneBridge Healthcare is a new company formed solely to ensure that financially struggling hospitals can survive and thrive across the cities and suburbs of America. We form partnerships with leading Academic Medical Centers and other Health Systems to purchase and turn around hospitals that are in significant economic distress and could otherwise be forced to close, which would be devastating to the communities they serve. Our decades of experience, our financial investment and our commitment to expand primary care into the urban areas we serve make our company the only one of its kind.

WHAT DO WE DO?

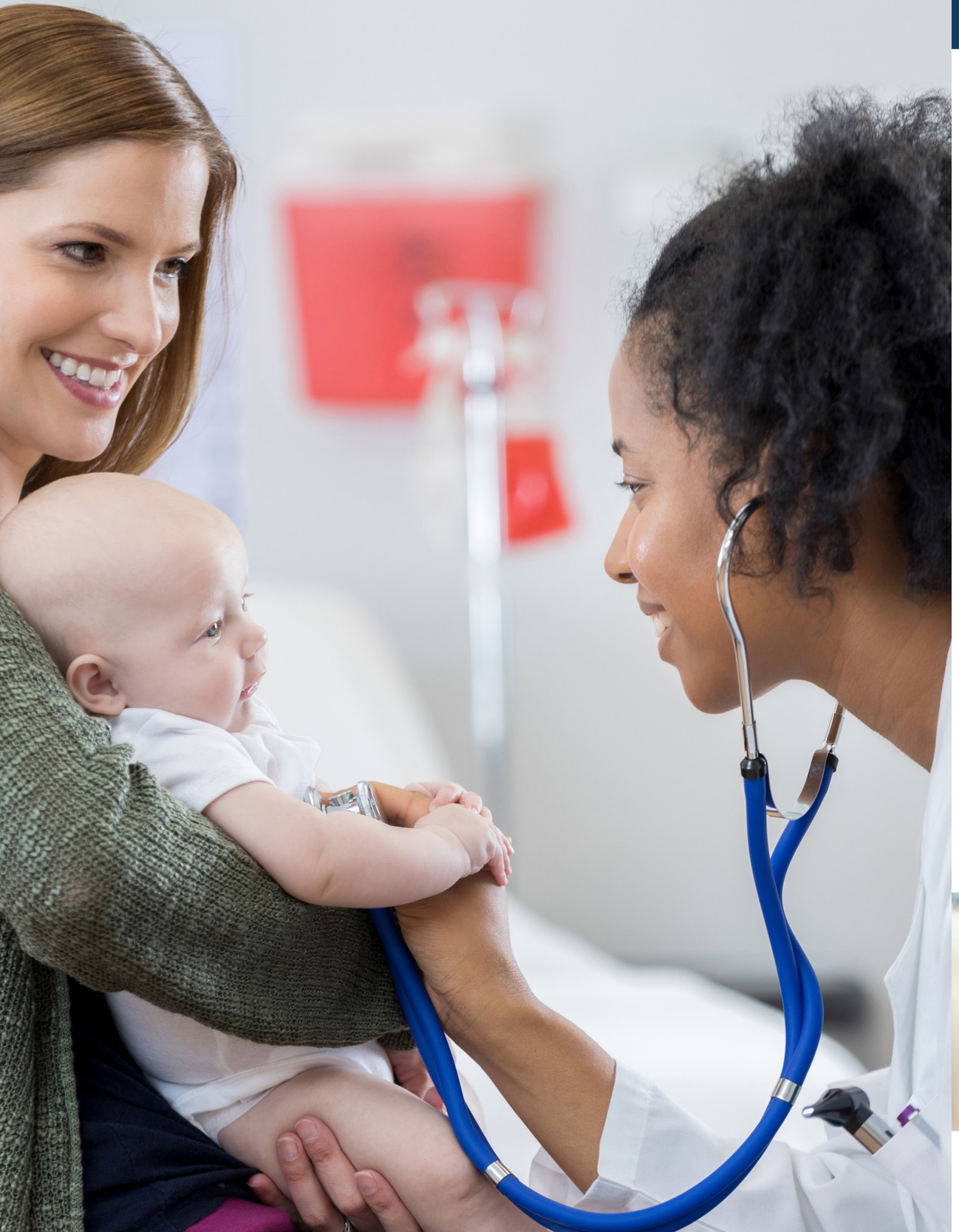
We identify and buy hospitals that can be saved, and then we work urgently to make sure they survive and excel so they can keep offering the care their patients need. Distilled to its core, turning around hospitals often demands attention and action in four areas: Ensuring hospitals have excellent management and the right staffing mix at all levels; supporting and enhancing the medical staff; strengthening the flow and collection of revenue; and improving the effectiveness of the entire chain of supplies and services. Ultimately, we do what matters most: help hospitals continue to help patients.

WHY DOES THIS MATTER?

Nothing is more important than patient care and knowing help is there if you need it. That is especially true in an emergency, when any moment can be life and death. Hospitals provide that assurance, and so much more, as cornerstones of care in their communities. They are particularly vital in locations where the availability and affordability of health care is already an enormous challenge; the closing of a hospital in an underserved community would be a brutal loss. Hospitals must survive. The health of millions of people is at stake. And, naturally, saving hospitals is also a matter of protecting jobs and preventing economic despair. With no federal bailouts coming, hospitals need a way to survive. That's what we provide.

WHY DOES IT PARTICULARLY MATTER RIGHT NOW?

Hospitals in America are in the worst crisis they have ever seen. The coronavirus pandemic has attacked the financial health of hospitals because so many of their patients have been forced to stay home, leading to the cancelation of visits and elective surgeries. That, in turn, has dramatically cut the revenue hospitals need to stay alive. The result is that many hospitals – perhaps 50 percent of them, if not more – are in distress. That means they are about to run out of cash and the ability to operate, and even before they reach that point, they face devastating cuts to staff and services. Our new company has been in the works long before COVID-19, but the disease has only accelerated the need for more distressed hospitals to be saved.



HOW ARE WE DIFFERENT?

Our distinctiveness starts with what we do. StoneBridge Healthcare can immediately step in and provide three things to distressed hospitals: We can acquire them; we can provide cash before closing through a rescue financing program; and we can restructure them so they can stop burning through money and succeed long term. We also pledge to respond to community healthcare needs of the urban markets we serve – outside of the hospitals – through our commitment known as The Mission Project. And we are also different in who we are. We are the leaders in understanding distressed hospitals, acquiring them and restoring them. We have expertise in all facets of the American healthcare system; many of our executives have themselves led hospital systems. Our CEO, Joshua Nemzoff, is one of the nation's most trusted voices on hospital acquisitions. And we are capitalized through a multi-layered composite finance group that includes nationally known debt and equity sources. That is a sign of the seriousness of our purpose, the ability to deliver on our promises, and the smart business of investing in hospitals.

WHAT'S THE MISSION PROJECT?

The Mission Project is a vital, community-based element of what we will provide when StoneBridge Healthcare acquires an urban hospital. Proper health care goes way beyond what happens in a hospital. It involves lifestyle habits of healthy diet, exercise and preventative care. That requires easy, affordable access to healthy food, safe places for recreation and doctor visits. This kind of primary care is simply not available to many vulnerable people. The Mission Project will be our way of providing it. We will listen to and work with local groups to understand the gaps in community care – and then put money and time into offering clinics or other life-changing help. The solutions may look different in each market, but the commitment will be consistent. We will use our hospitals as bases of operations, capitalizing on their doctors, nurses, pharmacies, kitchens and vehicles to bring care and support to people where they live.

WHAT AND WHERE ARE YOU LOOKING TO BUY?

We want to buy acute-care hospitals in urban and suburban locations across the United States. We will acquire the right hospitals under the right conditions that would be a natural fit for our business. We are looking to buy hospitals with annual revenue of $250 million up to $1.5 billion. Acquiring hospitals can take six months to a year, but we are positioned to go faster for hospitals that need immediate assistance.

WHO WILL OWN THE HOSPITALS?

StoneBridge Healthcare is the parent company of this endeavor. StoneBridge forms a Partnership with an AMC or large system and that Partnership owns and operates the hospital. Each hospital we acquire with our partner will be a discrete entity operated by the Partnership.

The Partnership Model

An Innovative Way to Buy and Save Struggling Hospitals

StoneBridge Healthcare has created a new way for communities to save their financially distressed hospitals through the power of partnership. Its model is tailored for teaming up with academic medical centers or other large hospitals and enables them to benefit from joint hospital purchases without significant operational or capital investment burdens. StoneBridge will provide most of the money needed to acquire the hospitals and will assume the responsibility of turning them around. Our partner maintains full control over all research and teaching activities while at the same time benefiting from an expanded brand platform. StoneBridge has the flexibility to complete these transactions as either a for profit or non profit entity.

HOW IT WORKS

- **Opportunities:** StoneBridge and its partner pursue the purchase of a financially distressed hospital in the partner's existing service area and/or new market areas.
- **Ownership:** This newly formed partnership owns the purchased hospital. StoneBridge pays for most of the purchase price and retains a partnership majority (Typically 80%).
- **Operations:** StoneBridge runs the day-to-day-operations of the acquired hospital and is responsible for turning around its performance. The academic medical center partner is in charge of all research and teaching activities.
- **Call Option:** StoneBridge may provide our Partner with a call option that will allow them to buy us out and assume full control of the hospital in a few years at their option.

BENEFITS TO THE PARTNER

- **Affordability:** StoneBridge, backed by multiple financing sources, assumes the risk of providing the capital infusion needed to purchase and operate the distressed hospital.
- **No Burdens:** StoneBridge owns the complex task and risk of turning the distressed hospital into a financially viable center of ongoing excellence.
- **Efficiency:** The partner hospital could spread its platform costs over a larger base of operations, providing savings that benefit itself and the target hospital being acquired.
- **Community Support:** StoneBridge will extend community care into the urban markets it serves, using the hospital as a base from which to offer primary care where people live. This part of our commitment is called The Mission Project.
- **Reputation:** The partner hospital could benefit reputationally by stepping in to protect patient care and essential community institutions that are running out of cash and time.

THE RESPONSIBILITIES

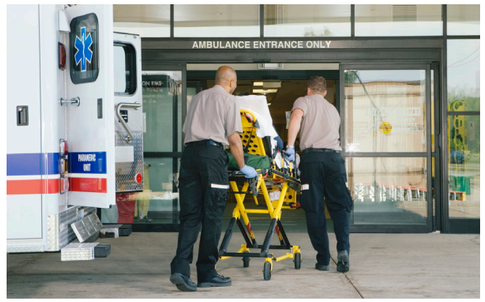
- **StoneBridge:** Provides the capital infusion to make the purchase possible, manages the target hospital and its turn-around and oversees administrative cost reductions.
- **Partner:** Provides critical insights on improving quality care and clinical outcomes at the newly acquired hospital; assists with any coordination of medical staffs; and helps with branding, marketing and public relations. Responsible for pro-rata share of Partnership obligations.

The Mission Project

StoneBridge Healthcare has identified a substantial need for Community Health Services in urban markets across the country. More than 80 percent of the health care delivered in the United States does not take place in a hospital. It occurs in the community. It is a well-known fact in the Public Health Community that there are tens of millions of U.S. citizens that have virtually no access to health care. These communities have the same health profile, mortality rates and morbidity profile of many underserved nations. While some of these communities are in very rural areas, many of them are in the heart of America's cities – literally within a single mile or two of existing acute care hospitals.

The conditions in which we are born, grow, live, work, and play have a bigger influence on how healthy we are than the medical care we receive. Proper health care goes way beyond what happens in a hospital. It involves lifestyle habits of healthy diet, exercise and preventative care. That requires easy, affordable access to healthy food, safe places for recreation and doctor visits. This kind of primary care is simply not available to many vulnerable people. To make sure every person has the same opportunities to be healthy and have a good quality of life, there is an urgent need to work on addressing unmet social needs at the individual, provider, community, and policy levels.

Accordingly, StoneBridge Healthcare has formed "The Mission Project", a state-of-the-art health care delivery system in urban markets where the company operates. StoneBridge



believes it has the potential to make a significant impact on community health through the hospitals it acquires. The lack of primary care in many urban markets is pervasive and presents an opportunity for StoneBridge to make a life-changing difference for our country's most vulnerable populations. The Mission Project will be designed by Tulane University Professor Mark Diana, a member of the StoneBridge Healthcare management team. Professor Diana will focus on how to address the most critical problems facing these communities.

Through the Mission Project, StoneBridge Healthcare will rebuild hospitals, so they are better equipped to support the health of the community. The Mission Project will listen to and work with local groups to understand the gaps in community care – and then put money and time into offering clinics or other life-changing help. The solutions may look different in each market, but the commitment will be consistent. StoneBridge will use our hospitals as bases of operations, capitalizing on their doctors, nurses, pharmacies, kitchens and vehicles to bring care and support to people where they live. Many of the social and environmental factors that impact health and wellness cannot be solved by any single entity, but with respect to some of the health challenges these communities face, these hospitals will be able to meet some of these unmet needs.

The StoneBridge Healthcare Team

The hospital business is highly complex. The process of identifying and acquiring target hospitals, restoring them to fiscal health to successfully deliver high-quality care is quite challenging. However, the unique qualifications of the StoneBridge Healthcare team make these objectives eminently achievable.

StoneBridge Healthcare's world class team is comprised of the country's leading healthcare professionals. They are nationally recognized experts in healthcare operations, financing, turnarounds, and acquisitions and sales, with an average of 35 years of experience. Many of these executives held senior positions at leading for-profit and non-profit health systems with tens of thousands of employees and annual revenues in excess of $10 billion. As such, StoneBridge Healthcare's management team is steeped in operations leadership experience, understanding what it takes to successfully manage a high-quality, fiscally sound hospital. The members of the StoneBridge team have worked together for many years and present a unified and exceptionally experienced team. In addition to these executives, Korn Ferry, one of the top executive search firms in the world has been retained to assist in the process of hiring the best professionals as the company grows.

MANAGEMENT

The management team of StoneBridge Healthcare, LLC consists of a highly experienced team that has many years of experience operating the types of hospitals that the company will be acquiring. The team has worked closely together for many years and has a depth of experience that is on par with any of the largest national for-profit and non-profit hospital systems. They know what it takes to turn around struggling facilities, focusing on improving management, enhancing quality of care, and implementing best practices to ensure these hospitals are able to run more efficiently and effectively for the communities they serve.

Joshua Nemzoff
Chief Executive Officer

The CEO of StoneBridge Healthcare, LLC is Joshua Nemzoff, one of the country's leading consultants on hospital mergers and acquisitions. Mr. Nemzoff has more than 40 years' experience in the industry and has been involved with hundreds of hospital mergers, sales, acquisitions and joint ventures with a combined transaction value in excess of $15 billion. His role in most of those transactions was project director and lead negotiator on the deal, usually reporting directly to the board of trustees. This has placed Mr. Nemzoff in the unique position of supervising hundreds of teams conducting due diligence for his clients and observing others conducting it on his clients. This has afforded him invaluable insights as to what was wrong with these hospitals and how to fix them. His primary area of expertise is negotiating large complex transactions for clients and identifying how to return distressed hospitals to operational and financial health.

Steven T. Braun

Steven Braun is a partner at Bradley and advises hospitals, surgery centers and other healthcare providers in transactional, regulatory and operations matters. His transactional experience includes numerous acquisitions, dispositions and joint ventures of hospitals, ambulatory surgery centers and insurance companies.

Mr. Braun also has extensive mergers and acquisitions experience in a variety of industries; public and private offerings of equity and debt securities; and stock options and other equity compensation plans. He has been responsible for negotiating definitive agreements and securities work on five hospital transactions valued at more than $1 billion each, as well as numerous other hospital and health system

acquisitions. He has represented issuers or underwriters in a variety of industries, including healthcare, banking, oil and gas, biotechnology, retail and manufacturing. Mr. Braun's work also has included the review of periodic reports of publicly traded companies. He was formerly the Senior Vice President and General Counsel of HCA, Inc. from 1991 to 1997.

Stuart Brown

Stuart Brown is a Partner at DLA Piper, a global law firm with lawyers located in more than 40 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific. An accomplished bankruptcy lawyer, Mr. Brown's practice encompasses the representation of companies in distress and as debtors in possession, institutional lenders, investors and business enterprises in diverse matters, including general business, transactions with bankruptcy estates, anti-bankruptcy transactional consultation, bankruptcy litigation, substantive non-consolidation, securitization and servicing and bankruptcy fraud. A significant part of Mr. Brown's practice is M&A, including the sale and acquisition of businesses and assets out of court and through in-court processes and Article 9 sales. Mr. Brown also represents non-traditional funding sources with respect to workouts, claim realization and asset recovery. The American Board of Certification recognizes Mr. Brown as a specialist in the area of Business Bankruptcy.

Moody Chisholm

Moody Chisholm, MBA, is a leading healthcare executive with more than three decades of experience in the industry. His experience as CEO includes partnerships, for-profit, faith-based, non-profit, and academic health systems. He is a proven change agent, successfully turning around four major health systems from eight-digit losses and failing quality metrics to strong, financially sound organizations with exceptional public quality metrics.

Most recently, Mr. Chisholm served as the division president and chief executive officer of UT Health East Texas, based in Tyler, Texas, where he led a new partnership between the University of Texas and Ardent Health Services. UT Health is a $1.2 billion net revenue integrated system of 10-hospitals, Level I Trauma, nearly 400 faculty and employed physicians, a growing residency program, and a comprehensive array of ambulatory services. Under Mr. Chisholm's leadership he revitalized the health system which was within days of default – moving it from a $57 million operating loss to an $87 million positive operating margin in just three years. Mr. Chisholm built a patient-focused culture that yielded significant improvements in quality and satisfaction. When he arrived, the system had failing Leapfrog scores, significant CMS penalties, and average public quality metrics. Within three years, the system boasted Leapfrog grades of all A's and one B, two double Five-Star CMS hospitals, had eliminated millions its CMS penalties, and was awarded the Texas Hospital Association's 2020 Quality Award.

From 2015 to 2018, Mr. Chisholm served as Regional Vice President of the Central Region for Intermountain Healthcare. In this role, he functioned as the chief executive officer of the health system's largest division where he led seven hospitals in the Salt Lake Valley and Park City that generated $1.7 billion in net revenue. Included in this region was Intermountain Medical Center, the 500-bed flagship facility, transplant center, and Level 1 Trauma center. During his tenure, margins improved by nearly 30 percent and the flagship raised its CMS star rating from 3-stars to 5-stars while earning "high-performing" status in seven specialties and procedures in U.S. New and World Reports.

From 2010 to 2015, Mr. Chisholm served as president and chief executive officer of St. Vincent's Healthcare in Jacksonville, Florida. St. Vincent's, a ministry of Ascension Health, is a $850 net revenue health system with 943 acute care beds and 202 subacute care beds. In less than five years, Mr. Chisholm led the organization from a $60 million annual operating loss to a $25.4 million positive operating margin. St. Vincent's became an innovator in new payment models, with a nationally recognized BPCI program in joints, and a Consumer Reports top Five Orthopedic program nationally. He successfully rebranded the organization, renaming all the facilities under St. Vincent's name to create a one-system culture that capitalized on its brand recognition in the highly competitive Jacksonville market.

In his early years, Mr. Chisholm spent twenty-four years with Universal Health Services, a publicly traded, for-profit healthcare management company that owns and operates acute care hospitals, behavioral health facilities, and ambulatory centers. He joined the organization in 1986 and rapidly advanced through the company's revenue cycle, finance division, and operations. In 1999 he was appointed CEO of Northwest Texas Healthcare System, a 495-bed academic hospital located in Amarillo, Texas, and then in 2002 he was promoted to CEO and Group Director, taking on three additional hospitals which comprised 1,008 beds and approximately $550 million in combined net revenues. In 2006, Mr. Chisholm took on Manatee Healthcare System in Bradenton, Florida. The two-hospital, $550 million net revenue system faced medical staff relations challenges and was struggling financially. Mr. Chisholm raised physician satisfaction to the 75th percentile and brought the system to strong financial margins and was promoted to Vice President of the Acute Care Division of Universal Health Services.

Mark Diana

Mark Diana is a professor in the Department of Health Policy and Management at Tulane University's School of Public Health and Tropical Medicine. He is a nationally known public health and health care delivery expert with substantial experience in the field of Community Health Needs. His research focuses on the organizational impact of health information systems, primarily in hospitals in the U.S., and the performance of new care delivery models, such as patient-centered medical homes and accountable care organizations, among others. He also has experience in funded evaluation work as the principal investigator (PI) on the external evaluation of the Louisiana Long-term Care Real Choice Systems Transformation Grant, through the Louisiana Department of Health, as the PI for an evaluation of an electronic health record implementation in Mexico, funded by the MEASURE Evaluation project of USAID, as the PI for the evaluation of the Louisiana Health Information Exchange, and as the PI for the evaluation of Louisiana's Medicaid Expansion, among other projects.

Michele Deverich

Michele Deverich is a leading expert in healthcare management with decades of experience developing, leading and implementing wide-ranging healthcare solutions in the payer/managed care, specialty management (MH/SA, Imaging, Pharmacy, etc.) as well as the for-profit and nonprofit health system arenas. Ms. Deverich serves as CEO of Strategic Healthcare Associates (SHA), where she provides executive consultation also in program improvement and M & A initiatives.

Prior to launching SHA, Ms. Deverich served in multiple senior executive positions at Magellan Health Services, a publicly traded, national specialty healthcare management organization focused on optimizing the appropriate delivery of Behavioral Health, Imaging, and PBM services for clientele operating in the payer/managed care industry. With more than 5,500 employees, Magellan positioned Ms. Deverich in critical areas of performance improvement to provide leadership in corporate strategic planning, network optimization, execution of new business initiatives, program/product development and mergers and acquisitions.

Prior to Magellan, Ms. Deverich served as Regional Vice President of Private HealthCare Systems, Inc. (PHCS) Southeast and Mid-Atlantic regions where she directed the planning, implementation and management of provider network strategies and tactics across the 17-state region and, when MultiPlan acquired PHCS, she was chosen to lead the two-company integration within her region.

Ms. Deverich spent nearly a decade at PricewaterhouseCoopers (PwC) where she led one of the healthcare consulting practices serving managed care organizations and provider health systems throughout the United States and in some international territories. Prior to PwC, Ms. Deverich served as the Johns Hopkins University's (JHU) first Assistant Dean for Strategic Clinical Initiatives spearheading strategic managed care and operational initiatives throughout Johns Hopkins's medical facilities and clinical faculty. Prior to JHU, she served as the Chief Marketing Officer for both the George Washington University (GWU) Medical Center/Medical Faculty Associates and the George Washington University Health Plan where she led both organizations' strategic planning, advertising, public relations, network development, client service, group sales, and physician referral program teams.

Ms. Deverich is a member of the Jupiter Medical Center JMC Board of Trustees and serves on and chairs numerous JMC Board Committees. JMC is a CMS 4-Star-rated, Leapfrog A-rated regional health system in Palm Beach and Martin Counties in South Florida.

Robert Dondero

Mr. Dondero is a retired partner at PricewaterhouseCoopers (PwC), a global network of firms delivering world-class assurance, tax, and consulting services for businesses worldwide. He has significant experience in the area of financial and strategic planning as well as mergers and acquisitions. He has advised dozens of hospital boards on the financial and strategic implications of proposed transactions and complex healthcare compliance matters usually involving the Department of Justice and other regulatory bodies. During the last decade of his career, his responsibilities included Operations Partner and Partner in Charge of the U.S. Health Industries Consulting Unit. Health Industries encompassed all key sectors of the U.S. healthcare economy including pharma, life sciences, provider (including hospitals) and payer sectors. He was also actively involved in several of the firm's acquisitions of consulting practices around the country. Mr. Dondero served on the firm's U.S. Advisory Leadership Team and on the Chairman's Extended Leadership Team encompassing the firm's leadership in markets, sectors and business lines of service.

Fran Pennell

Fran Pennell is a leading health care consultant with over 35 years of working experience in the industry. Ms. Pennell has worked as a Health Care Consultant for most of her career, including 21 years as Partner with PricewaterhouseCoopers (PwC) in their Health Care Performance Improvement consulting practice. Her focus has been on operational improvement, financial turnarounds, strategic planning, and organizational restructuring for clients such as hospitals, academic medical centers, physician practices, and Schools of Medicine. Ms. Pennell has directed many professional teams to resolve difficult and complex operational, financial, and strategic issues with successful outcomes. For several turnaround projects, Ms. Pennell has provided senior leadership with day-to-day management support. Ms. Pennell has worked extensively with boards of directors, senior leaders, and medical personnel to guide decisions for achieving efficient and effective health care operations and financial stability.

Throughout Ms. Pennell's career, she has achieved numerous accomplishments. She implemented small and large scale operational and financial improvement projects for hospital systems, academic medical centers, and Schools of Medicine resulting in net operating margin improvements. She led and supported financial turnaround projects for hospital and health systems (with operating deficit ranges of $10 million to $200 million) who were seeking to achieve financial solvency and stability. She's successfully worked with hospital boards, where she led numerous strategic planning activities with boards of directors and senior leadership with a focus on clinical program development, operational and organizational reconfiguration, and change management. Ms. Pennell understands how to deliver returns on investments, providing expertise to large financial investment groups in acquisitions and equity/debt investments.

Scott Rayson

Scott Rayson is a partner at Waller Lansden Dortch & Davis, LLP, where he began his legal career in 1981. He started working on his first healthcare M&A transaction the day after he arrived at the firm and his practice has focused on healthcare matters ever since. Within that space, Scott has represented healthcare providers, including individual hospitals, local and regional healthcare systems and some of the country's largest owners and operators of hospitals and other healthcare facilities; underwriters and other financial institutions; pharmacy benefit management companies; and other companies in the healthcare industry. His work includes the acquisition, divestiture and joint venturing of hospitals, surgery centers, imaging centers and other provider facilities, as well as PBMs; the merger of publicly and privately owned healthcare companies; leveraged buy outs; and an array of public and private financings. In addition to his healthcare transactional experience, Mr. Rayson frequently works with high-profile corporations to secure tax and other incentives in connection with the relocation of their headquarters or their development and expansion of major manufacturing facilities. He also represents the Tennessee Titans and had a major role in relocating the franchise from Houston to Nashville and the development of Nissan Stadium. Mr. Rayson earned his J.D. in 1981 from Washington and Lee University Law School. He earned his A.B. in 1978 from Duke University.

Warren E. Ross, MD

Warren E. Ross, M.D. is a Senior Client Partner in the Philadelphia office of Korn Ferry International, representing the firm's Global Healthcare Services Market. Dr. Ross is a nationally recognized physician executive who lends deep industry knowledge to his senior search assignments. He led the successful financial and academic turnaround of the Drexel School of Medicine (formerly MCP Hahnemann). Previously, Dr. Ross served as executive associate dean at the University of Florida's College of Medicine, and then as chief executive officer of the University of Florida Health System. In this role, he led the strategic direction of the academic medical center's clinical enterprise, including mergers and acquisitions, network development, and managed care strategy. In his role at the University of Florida, he oversaw the acquisition of the Av Med Health System, a five-hospital group that dramatically expanded the strategic footprint of the University's teaching and research programs.

Mr. Nemzoff was hired at the time by Dr. Ross and served as the Project Director and Lead Negotiator on the transaction. Dr. Ross is board certified in internal medicine and medical oncology and is a member of the American Society of Clinical Oncology.

Russ Rudish

Mr. Rudish is President and CEO of Rudish Health, which provides executive search; interim management; and strategic, financial and IT advisory services. Rudish Health also assists small and mid-cap companies with strategy, financing, sales and marketing. Mr. Rudish has more than 30 years of experience serving the healthcare industry and has enduring relationships with major healthcare organizations both in the United States and abroad. Through May of 2014, Mr. Rudish was Vice Chairman and U.S. Global Health Care Leader for Deloitte Touche Tohmatsu Limited, the world's largest professional services firm. Before joining Deloitte in 2006, he was Executive Vice President of Eclipsys Corporation, a healthcare clinical and financial software vendor. Prior to that, Mr. Rudish was at Cap Gemini Ernst & Young and its predecessor firm, Ernst & Young, LLC. for 20 years, where he was the National and Global Director of the Health Care Practice. EY has the largest hospital audit practice in the United States.

Michael J. Sarrao

Michael J. Sarrao has represented one of the nation's largest health systems, as general counsel; serving as chief legal officer in the acquisition and financing of multiple hospitals with total consideration in excess of $750 million. His representation extended to handling disputes involving health plans, independent practice groups, insurance companies, regulatory agencies and billing reimbursement.

Mr. Sarrao focuses on the representation of healthcare systems, hospitals and medical groups in myriad healthcare matters including anti-fraud and compliance matters, heath information privacy matters, managed care disputes, Medicare and Medicaid reimbursement matters, mergers and acquisitions licensure and accreditation matters, physician relations/ medical staff issues, contracting, labor and employment matters, and risk management services for medical malpractice matters.

Kristy Waters

Kristy L. Waters is a seasoned healthcare operations and finance executive known for developing solutions to problems and leading teams that quickly and efficiently identify, evaluate and execute on value added change from small to large enterprises. Her career has spanned stand-alone hospitals to senior level corporate leadership roles under for-profit and not-for-profit faith-based capital structures. She is well recognized for understanding the needs of individual entities as well as system requirements to improve operating margins, efficiency, and outcomes.

Ms. Waters worked for nearly 20 years at Tenet Healthcare Corporation, where she served in a variety of executive leadership positions including senior vice president of performance management and innovation, as well as Regional CFO for Tenet's Southern and Texas Regions, where she managed the overall fiscal performance of the region, made of up 14 to 16 acute care hospitals and various non-hospital entities. Prior to joining Tenet, she was a facility then regional CFO within Bon-Secours Health System serving South Carolina and Florida Markets for fourteen years. She currently provides assistance as a subject matter expert in a myriad of hospital operations finance and throughput opportunity identification and implementation of improvement plans.

Richard C. Wright

Mr. Wright has been an executive in the healthcare industry for over 40 years. He served as a senior executive for Universal Health Services, Inc. (UHS) from 1978 – 2013 and spent eight years with its predecessor company, American Medicorp. During his tenure at UHS, Mr. Wright held positions as CEO of two acute care hospitals in Florida and Texas, Senior Vice President of the Acute Care Division, Vice President of Development and President of UHS Building Solutions. In this capacity as Vice President of Development, he led the acquisition/ divestiture process for more than 35 transactions valued over $2 billion and developed strategic initiatives for acute care hospitals. His transaction experience includes: the acquisition of George Washington University Hospital in partnership with the University, acquisition of a nine county health system subject to public referendum, took a three hospital system in California through Chapter 363 bankruptcy and developed a six hospital healthcare system in South Texas. Mr. Wright also has vast experience in the design/ build of acute care hospitals. Following UHS, Mr. Wright formed Allergy Services of America LLC, Wright Transactions Advisors LLC, Fusion Health Partners, and served as an Advisor to Brookfield Asset Management Inc. and Senior Advisor to Blue Wolf Capital Partners. Mr. Wright has served on many hospital boards throughout his career and is a former board member for Modern MD Urgent Care in New York.

Industry Overview

With more than $1 trillion in revenue, the U.S. hospital industry is enormous. There are approximately 5,200 acute care hospitals in the U.S. of which about 3,000 are community-based non-profits. Approximately 1,000 are public/government-owned non-profits and the remainder are for-profit facilities. The community-based non-profits and the public/ government-owned non-profits are StoneBridge Healthcare's primary target category.

Hospitals also operate in a unique, highly political environment that includes extensive regulation, heavy sensitivity to government reimbursement rates, a front-and-center position in their communities and intimate involvement in life-and-death issues for their customers. Hospitals play a vital role in the overall health of the community. Hospital costs are inextricably linked to the environmental conditions of the communities in which they operate. This necessitates a specialized category of expertise from hospital operators, in order to improve healthcare delivery and service outcomes.

Hospitals have extremely high fixed costs, usually in the 50 percent to 60 percent range. They are also very labor intensive with labor costs ranging from 38 percent of expenses in some for-profit hospitals to 65 percent in some non-profits. Hospitals are capital intensive with significant needs for new technology and equipment.

Combining all these elements means two things.

- First, small hospitals are generally not very creditworthy because it is difficult to spread their fixed costs over a small base.
- Second, due to their high fixed costs, the bottom lines of all hospitals are sensitive to changes in volume.

Three key ratios provide insight into the credit strength of a hospital:

1. Profitability
2. Leverage
3. Liquidity

These ratios are interdependent. A hospital with a great deal of cash and very little debt can keep going for many years even if its profitability is low. Conversely, a hospital with reasonable profitability and a very high debt load can be in great danger if it does not have much cash. And a hospital with low liquidity and low profitability can be in danger even if it does not have much debt, simply because its poor credit allows it very little access to capital – if anything goes wrong, it can deplete cash very rapidly.

Transaction Process

LETTER OF INTENT

Once initial negotiations are completed, a letter of intent (LOI) is drafted. An LOI is essentially a term sheet that is not binding on either party, except that it usually requires the seller not to negotiate with anyone else and requires both parties to keep all discussions confidential. Nonetheless, the fact that the LOI has been signed frequently leaks to the news media.

The signing of the LOI means that the buyer and seller have agreed on a price and deal terms, all subject to due diligence. Due diligence starts when the parties begin negotiating a definitive agreement, which is essentially the contract of sale. Unlike a letter of intent, a definitive agreement is very binding. It is extremely unusual for a deal to fall apart after a definitive agreement has been signed. Due diligence and negotiations for the definitive agreement typically take about 90 days.

DUE DILIGENCE

Due diligence related to the purchase of a hospital is an extensive undertaking involving financial, legal, market and facility considerations. There are three goals:

1. **Identify expense reduction opportunities.** Is the hospital supply chain under control? How is staffing managed? Are IT costs reasonable? Is new equipment needed? How about a parking garage?

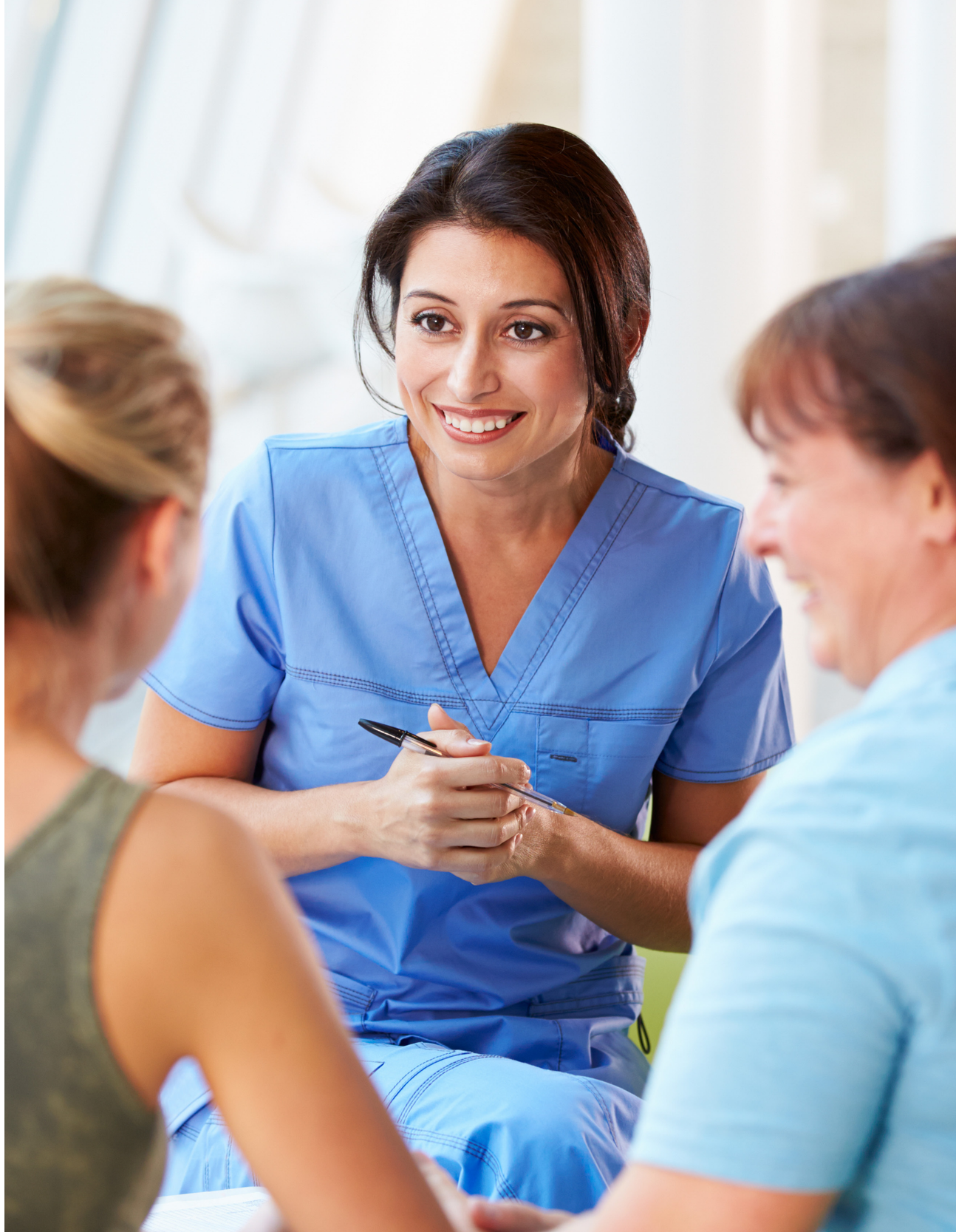
2. **Identify revenue enhancement opportunities.** Can volume be improved? Are reimbursement rates reasonable? Is the revenue cycle working well? Are there other service lines to enter? Are surgeons with an interest in an ambulatory surgery center treating insured patients there and sending their uninsured patients to the hospital, where they also practice? What is the status of physician relations and recruitment?

3. **Identify red flags.** These are deal killers; problems that simply cannot be fixed or are too risky. These might include environmental contamination, a heavy dependence on a large group of physicians whose departure would decimate the hospital, regulatory problems related to physician contracting or violation of patient rights.

The specific areas of due diligence that are typically examined include, but are not limited to, the following:

- Environmental
- Equipment/Assets
- Expansion/Consolidation
- Financial
- Governance
- Human Resources/Benefits
- Information Services
- Insurance/Risk Management
- Labor Cost/Staffing
- Legal/Contracts
- Marketing
- Public Relations
- Purchasing
- Real Estate
- Regulatory/Managed Care
- Revenue

The purpose of StoneBridge Healthcare's due diligence is to determine if the hospital can be turned around. There are certainly hospitals that cannot be saved no matter who is running them and no matter what the purchase price. However, the StoneBridge Healthcare team has seen hundreds of examples over past decades where distressed hospitals that were sold or merged, looked like an A-credit or better a year later.



Target hospitals for StoneBridge Healthcare are distressed facilities that can be fixed. Given the collective experience and industry expertise of the team, the company is confident it will be able to determine if a hospital can be saved. If it can't, it will move on to the next opportunity.

At the end of due diligence, StoneBridge Healthcare will be able to determine if the hospital can be turned around, acquired and be part of our strategy to manage or sell acquired facilities.

DEFINITIVE AGREEMENT

The definitive agreement contains all the terms of the deal and is a binding contract. It defines what assets will be bought and what liabilities will be assumed. Unless StoneBridge Healthcare buys a for-profit hospital, all the deals it completes will be "asset deals", which means the company will be buying the assets of an organization and assuming most of its liabilities, except for debt, but will not be buying the corporation itself. Non-profit hospitals, as mentioned previously, are membership organizations and do not have stockholders. The membership of a non-profit cannot be purchased because they are not transferable securities. In a typical deal where a for-profit entity buys a non-profit hospital, the hospital entity that is selling keeps its legal status, usually its board members, and depending on the deal terms, keeps its cash and its debt. It pays off the debt and if there are any funds left over, it simply becomes a foundation. It does not own the hospital anymore. The buyer does. The definitive agreement defines all of these terms and contains various representations, warranties and indemnifications to the buyer. It is very important from a risk profile point of view to understand that many distressed hospitals are not in a position to make payments after closing because they have no money left over. So, for example, having a very strong representation from the seller that it will pay for any required refunds if money is owed to Medicare for prior years' cost reports is worthless if the seller has no money. It is therefore important to conduct appropriate due diligence to determine if there is a problem before the definitive agreement is signed. StoneBridge Healthcare's principals have been involved in conducting due diligence on hundreds of hospitals.

CLOSING

Once the agreements are signed, there are state regulatory requirements to meet before closing. Some require certificates of need; some require review by the state Attorney General and the transfer of dozens of licenses. This all can take from three to six months. StoneBridge Healthcare plans to sign consulting/management agreements with each hospital as soon as the definitive agreement is signed, and in some cases, when the LOI is signed. The purpose of these agreements is to get a head start on fixing the hospital's problems. Since the due diligence process will identify the problem areas, there is usually no need to wait to start the process, which means that by the time StoneBridge Healthcare assumes ownership, it expects the run rate of the hospital to be substantially improved.

Turnaround Strategy

StoneBridge Healthcare's turnaround approach does not rest on proprietary strategies. Rather it is built on superior execution of well-known strategies and leadership's accountability for results. Further, we will ensure the hospitals continue to deliver high-quality, patient-centered care to the communities they serve. StoneBridge Healthcare is confident in its ability to deliver this high-quality management, and first-class health care because of the outstanding track record of its team.

The starting point for the team is putting proven metrics into place to measure its progress. The three main areas of focus are assuring proper staffing, effective revenue cycle management and effective supply chain monitoring. Additional steps members of the StoneBridge Healthcare team have typically taken in those areas, as well as other issues they have frequently addressed, include:

Patient-Focused Staffing

- Focus staffing on patient care and allowing clinicians to work at the top of their license to improve employee satisfaction
- Improve employee retention
- Implement effective system for staffing based on patient volumes
- Assess the quality, knowledge and performance of the current C-suite, and make changes if needed
- Negotiate physician contracts based on realistic Fair Market Business Standards
- Rally employees around the importance of successfully turning around the hospital for the good of the whole

Effective Revenue Cycle

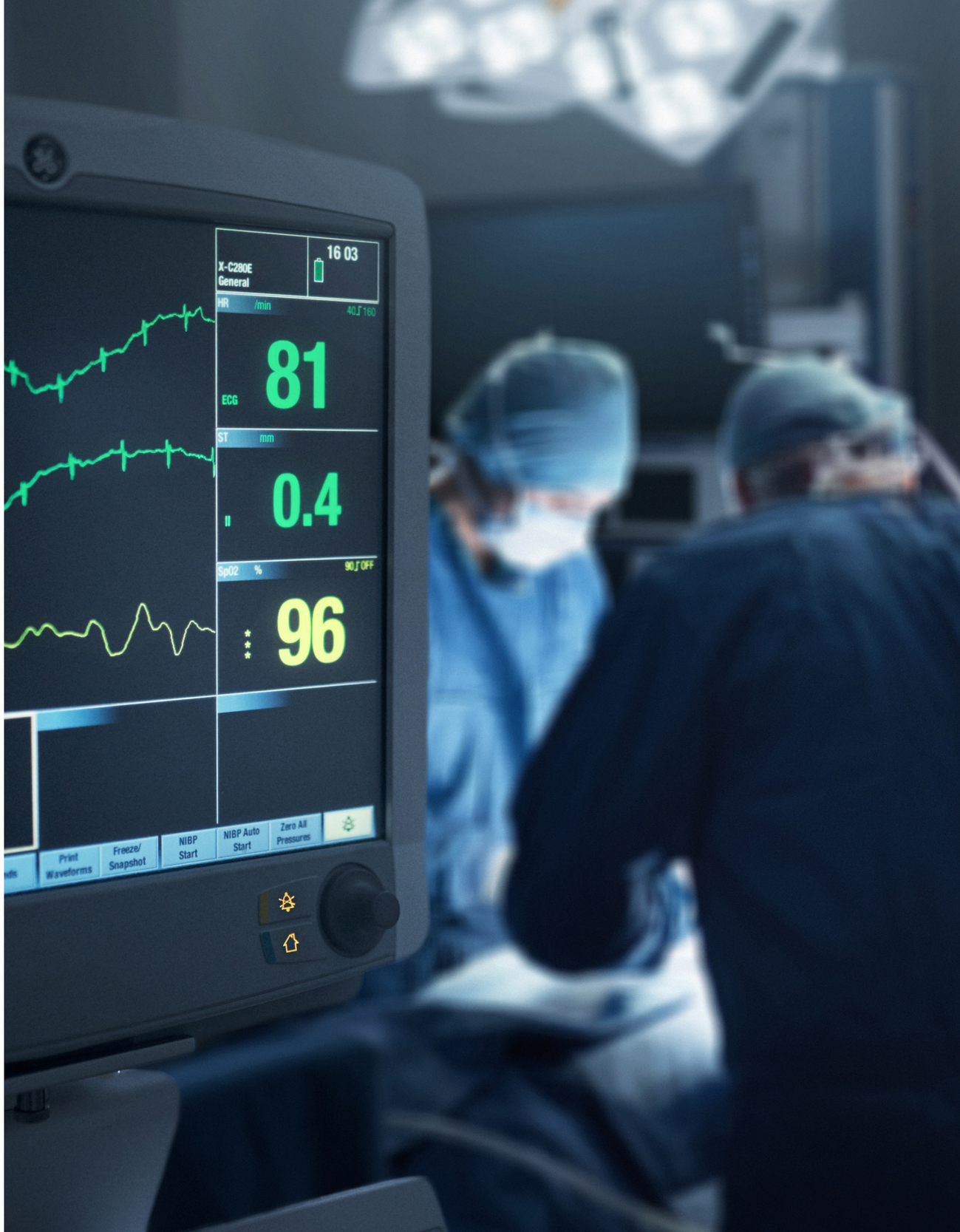
- Employ a strong medical director to improve claims documentation and communication with health plans
- Deploy a continuous improvement model for revenue cycle processes
- Place significant focus on proper and sustainable coding systems
- Implement initial entry documentation of all available insurance coverage
- Enhance collection of required patient co-pays

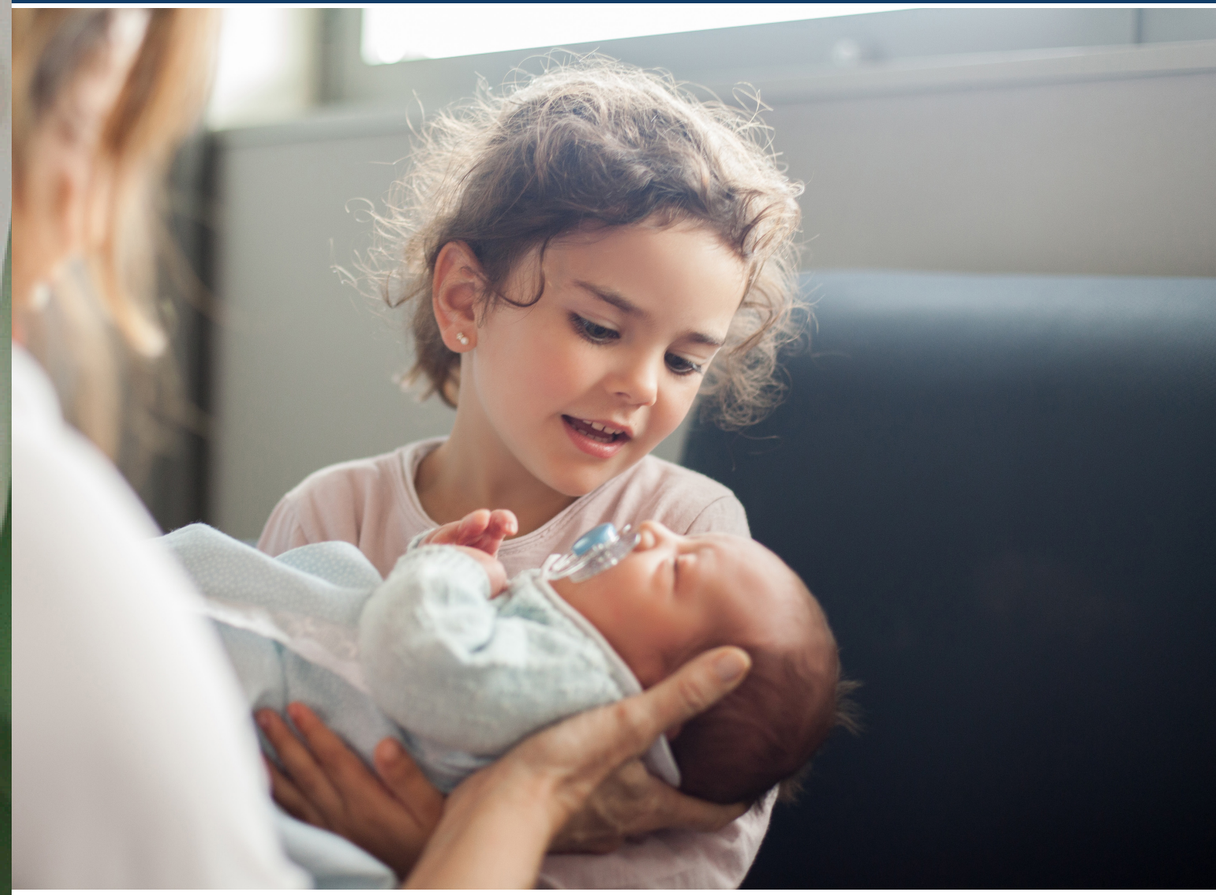
Effective Supply Chain

- Eliminate many unneeded purchased service contracts
- Use technology to better track supplies
- Maximize market-moving GPO strategies

Additional Areas

- Reduce or eliminate overhead
- Consider outsourcing non-core services
- Increase quality scores through improved patient satisfaction and higher quality of care
- Strengthen relationships with emergency services in the community
- Identify underperforming programs, determine root causes and repair
- Consider adding high-margin service line capabilities
- Standardization to eliminate waste and reduce errors
- Care models that address appropriate levels of care throughout patient continuum
- Improve patient satisfaction and physician satisfaction while improving quality





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FOR FURTHER INFORMATION PLEASE CONTACT:

www.StoneBridgeHealthcare.com
melissa@StoneBridgeHealthcare.com