

KaufmanHall



Lee Health Conversion Evaluation Final Report

Board Follow Up Questions

Fort Myers, Florida

Introduction

- The Lee Health Board of Directors submitted more than 20 follow up questions related to the final report that was discussed at the February 15, 2024 board workshop
- Kaufman Hall will address each question in a separate document that will be made available to the Lee Health Board of Directors
- For the purposes of today's discussion, the submitted questions were aggregated into key themes by diligence workstream for discussion today



Diligence Workstreams

- ① Business & Community Strategy
- ② Operations
- ③ Human Resources
- ④ Governance & Structure
- ⑤ Legal
- ⑥ Finance
- ⑦ Communications

Business and Community Strategy

KEY TOPIC	RESPONSE
<p>Report Approach Reminder</p>	<ul style="list-style-type: none"> As a reminder, the near-term financial considerations of a potential conversion were readily identified and estimated. The strategic and operational benefits were challenging to quantify during the defined timeframe as they are contingent on further analysis, hinge on dependencies that are currently unclear, or are factors more intangible in nature, without a tangible economic measure Over the next 120 days, Lee Health management intends to evaluate these opportunities and to the extent possible, quantify the strategic and operational factors, evaluate the likelihood of certain outcomes, and further assess the qualitative considerations of a potential conversion
<p>Community Benefits</p>	<ul style="list-style-type: none"> Regardless of corporate structure, Lee Health would: <ul style="list-style-type: none"> Remain an economic driver for the community and the system intends to continue investing locally Continue providing community benefits across all LH hospitals at substantially the same level, if not greater While there may be near-term impacts of a conversion, a potential conversion would afford the organization greater flexibility in pursuing initiatives and enhance the operating model – amidst an increasingly competitive and challenging industry environment This flexibility would strengthen the long-term viability of Lee Health and allow it to deliver on its mission
<p>Expansion of Services</p>	<ul style="list-style-type: none"> Many patients leaving Lee County are seeking highly specialized care; if LH expands the population it serves, it may be able to stem outmigration by developing these highly specialized service lines locally Approximately 20% of patients served by LH do not reside in Lee County; by expanding geographically, LH would have an opportunity to enhance local access to LH services

Business and Community Strategy (continued)

KEY TOPIC	RESPONSE
<p>Strategic Partnerships</p>	<ul style="list-style-type: none"> Enhance opportunity to evaluate, develop, and potentially execute strategic partnerships, in a manner similar to those of other community-focused nonprofit organizations Lee Health has developed select partnerships such as the Encompass Health partnership for management of two inpatient rehab units and alignment with physicians for an orthopedic ambulatory surgery center Examples of partnerships that regional community-focused nonprofit corporations have executed include, but are not limited to: <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div data-bbox="540 692 889 1189">  <p>acquired three hospitals from Community Health Systems, expanding market presence north of Tampa</p> </div> <div data-bbox="912 692 1258 1189">  <p>acquired and rebranded Northside Behavioral Health Center in Tampa, after seven years of managing it</p> </div> <div data-bbox="1281 692 1628 1189">  <p>HealthFirst received a minority investment from AdventHealth, with the intent to create a super-regional integrated delivery network</p> </div> <div data-bbox="1651 692 1997 1189">  <p>entered into a partnership with FIU to grow GME programs and pursue statutory teaching hospital status</p> </div> <div data-bbox="2020 692 2369 1189">  <p>implemented several physician partnerships to develop specialty institute and expand primary care access</p> </div> </div>

Operations and Human Resources

KEY TOPIC	RESPONSE
<p>Physician Impacts</p>	<ul style="list-style-type: none"> • The day-to-day operations for physicians would largely remain unchanged, as a result of a potential conversion • New compensation methodologies may be offered to recruit and retain physicians (e.g., group practice model) • Pursue new alignment models that have been challenging to execute to date, like clinically integrated networks • Opportunity to invest in specialty provider joint ventures with employed and independent physicians (e.g., cardiology), enhancing recruitment potential • Greater opportunity for physicians to participate in system-level governance (on the fiduciary board), following initial transition to a private nonprofit corporation
<p>Employee Impacts</p>	<ul style="list-style-type: none"> • The day-to-day operations for employees would largely remain unchanged, as a result of a potential conversion • No anticipated impact to Lee Health leadership roles and their involvement as community and business leaders • The conversion would serve as a qualifying event to transition existing 457(b) plan funds to an alternative investment vehicle, of which there are many options available (e.g., 401k, non-governmental 457(b)) that support similar objectives of tax advantaged savings; LH will evaluate these alternatives in the next phase of the process
<p>Medical Education Partnerships</p>	<ul style="list-style-type: none"> • Potential to expand graduate medical education programs through new university partnerships, as many health systems have done throughout the state (e.g., Tampa General Hospital-USF, Baptist Health South Florida-FIU) • Provides natural recruiting (and retention) pipeline for residents and fellows while building graduate medical education programs that may support enhanced reimbursement

Governance, Structure, and Legal Matters

KEY TOPIC	RESPONSE
<p>Governance Structure</p>	<ul style="list-style-type: none"> • The governance structure of a community-focused nonprofit corporation has not yet been finalized by the Lee Health Board of Directors • It is anticipated the ongoing governance model would include a committee structure similar to Lee Health’s current governance structure and to other community-focused nonprofit health systems • The potential for carry over of a majority or all existing fiduciaries for a period of time is supported by market observations
<p>Taxing Authority</p>	<ul style="list-style-type: none"> • Lee Health is not afforded taxing authority in its current structure and would not have taxing authority as a community-focused nonprofit corporation; a potential conversion would not change tax consequences
<p>Valuation</p>	<ul style="list-style-type: none"> • A fair market valuation of LH is outside the scope of this phase of the conversion evaluation process • A description and estimated total value of the assets and liabilities being transferred to Lee County and the successor entity is required to be listed in the Mission Agreement; however, the current financial profile of LH (including its “net assets”) is provided in the Lee Health Conversion Evaluation Final Report

Finance: Identified Impacts

KEY TOPIC	RESPONSE
<p>Financial Projections</p>	<ul style="list-style-type: none"> • Kaufman Hall relied on management’s forecasts and did not prepare separate long-range financial plans for LH; the financial projections shared in the report are equivalent to those previously distributed to the LH Board • Additional data resources were utilized to illustrate broader industry trends, as noted in the report
<p>Credit Impact</p>	<ul style="list-style-type: none"> • From an operating perspective, LH performs stronger than its peer groups: <ul style="list-style-type: none"> ○ LH's FY2023 operating margin was 1.5%, compared to Moody's A2 medians of 0.2% and S&P A+ medians of 0.4% ○ LH's FY2023 excess margin was 7.3%, compared to Moody's A2 medians of 2.9% and S&P A+ medians of 1.8% • From a credit strength perspective, LH is in line with Moody's A2 and S&P A+ medians, respectively. Total debt to capitalization, total debt to cash flow, cash to total debt and days cash on hand are all similar to median measures • Based on the identified pro forma financial impacts, LH would continue to have stronger operating performance than its relative peer groups

Finance: Future Strategies

KEY TOPIC	RESPONSE
Expansion of Services	<ul style="list-style-type: none">Quantifying the impact of expanding specialty service lines, outpatient services, primary care access and other similar initiatives outside of Lee County may be completed in the next phase of the evaluation process
Strategic Initiatives	<ul style="list-style-type: none">Certain strategic initiatives were identified during the first phase of the evaluation process; quantifying these components may be completed in the next phase of the evaluation process
Cost Containment Strategies	<ul style="list-style-type: none">Lee Health management believes cost containment strategies will be required to sustain the target operating margin of 5.0% in the futureCost containment strategies may be implemented irrespective of Lee Health's future corporate structure

Communications

KEY TOPIC	RESPONSE
Community Input	<ul style="list-style-type: none">• Community members participated in numerous town halls, which were held in each of the five board districts• Lee Health also held a public hearing at Gulf Coast Medical Center, which was recorded and is viewable upon request• Since commencing the evaluation process, an FAQ site has been available as an additional forum for community members to submit questions. Lee Health has responded to submitted questions and continues to encourage the public to utilize that as a resource
Report Summary	<ul style="list-style-type: none">• A high-level summary document will be prepared by the communications workstream

Other Similar Health Systems

KEY TOPIC	RESPONSE
Florida Health System Growth	<ul style="list-style-type: none">• Lee Health competitors have taken a measured approach to growth in the region, primarily focused on outpatient care settings to date• Other health systems in the state have entered into partnerships with physicians, acquired other acute care facilities, developed service line partnerships, and other similar strategies to support growth and geographic expansion
Florida Safety Net Hospitals/ District Hospitals Similar to Lee Health	<ul style="list-style-type: none">• The following slides provide a side-by-side comparison on the safety net hospitals located in Florida as well as the hospital districts across the U.S. that have 400+ licensed bed hospitals

Overview of Hospital Districts with 400+ Licensed Bed Hospitals

Health System ⁽¹⁾	State	Revenue Growth (CAGR)	Annual Revenue (\$ in millions)	Licensed Beds	Taxing Authority
Lee Health	FL	8.7%	\$2,895	1,865	No
Memorial Healthcare System	FL	7.4%	\$2,931	2,044	No
University Health	TX	10.8%	\$2,330	1,034	Yes
Parkland Health	TX	4.3%	\$2,241	882	Yes
Sarasota Memorial Health System	FL	12.5%	\$1,664	839	Yes
Harris Health System	TX	7.1%	\$1,426	617	Yes
Broward Health	FL	7.6%	\$1,319	1,586	Yes
West Tennessee Healthcare	TN	7.8%	\$1,013	1,283	Yes
JPS Health Network	TX	(0.2%)	\$976	542	Yes
Baptist Health (AL)	AL	7.1%	\$972	659	Yes
Kaweah Health	CA	10.9%	\$871	543	Yes
UMC Health System	TX	11.7%	\$824	495	Yes
Halifax Health	FL	5.4%	\$786	716	Yes
Valleywise Health	AZ	(0.2%)	\$616	758	Yes
Washington Hospital Healthcare System	CA	3.2%	\$589	415	Yes
Medical Center Health System	TX	4.9%	\$308	402	No

Note(s): (1) All metrics are representative of the health system.
 Source(s): Company audits, Company websites, Definitive

Overview of Florida Safety Net Hospitals

Health System ⁽¹⁾	Revenue Growth (CAGR)	Annual Revenue (\$ in millions)	Taxing Authority
Lee Health	8.7%	\$2,895	No
Ascension	5.2%	\$28,348	No
Johns Hopkins Medicine	5.9%	\$8,573	No
Orlando Health	11.7%	\$5,253	No
Memorial Healthcare System	7.1%	\$2,931	Yes
University of Florida Health	9.8%	\$2,787	No
Tampa General Hospital ⁽²⁾	10.6%	\$2,619	No
Jackson Health System	5.1%	\$1,986	Yes
Sarasota Memorial Health Care System	12.5%	\$1,664	Yes
Broward Health	4.3%	\$1,319	Yes
Nicklaus Children's Hospital	6.3%	\$933	No
Mount Sinai Medical Center	5.4%	\$835	No
Halifax Health	7.1%	\$786	Yes

Note(s): (1) All metrics are representative of the health system. (2) Excludes full year impact of recent Bravera Health acquisition.
Source(s): Company audits, Company websites, Definitive

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