



PETALUMA VALLEY HOSPITAL

EXECUTIVE SUMMARY



VMG Holdings LLC d/b/a VMG Health (“VMG” or “we”) has been engaged by Petaluma Health Care District (“Client” or the “District”) to estimate the Fair Market Value of the Business Enterprise of Petaluma Valley Hospital (“PVH” or the “Hospital”) as of a current date (the “Valuation Date”). The District is considering the potential sale of the Hospital. The purpose of this analysis is to provide an FMV opinion of the Hospital for management planning and regulatory compliance to support a potential transaction.

Specifically, the California Health and Safety Code specifies certain powers afforded to Hospital Districts (and thus these powers are applicable to the District). Specifically, Power 32121 establishes that “Each local district shall have and may exercise the following powers”:

Section (p) (1):

- *To transfer, at fair market value, any part of its assets to one or more corporations to operate and maintain the assets. A transfer pursuant to this paragraph shall be deemed to be at fair market value if an independent consultant, with expertise in methods of appraisal and valuation and in accordance with applicable governmental and industry standards for appraisal and valuation, determines that fair and reasonable consideration is to be received by the district for the transferred district assets. Before the district transfers, pursuant to this paragraph, 50 percent or more of the district’s assets to one or more corporations, in sum or by increment, the elected board shall, by resolution, submit to the voters of the district a measure proposing the transfer. The measure shall be placed on the ballot of a special election held upon the request of the district or the ballot of the next regularly scheduled election occurring at least 88 days after the resolution of the board. If a majority of the voters voting on the measure vote in its favor, the transfer shall be approved. The campaign disclosure requirements applicable to local measures provided under Chapter 4 (commencing with Section 84100) of Title 9 of the Government Code shall apply to this election.*

In accordance with the requirements stated in Section (p) (1) above, VMG has been asked to provide the following to the District:

- I. Determination of the Fair Market Value of the Business Enterprise of PVH at the control level;**
- II. Determination of the Fair Market Value of the Real Property owned by PVH; and**
- III. Determination of the Fair Market Value of the Personal Property owned by PVH.**



Petaluma Valley Hospital is an 80-bed acute care hospital located at 400 North McDowell Blvd., Petaluma, California. The Hospital is currently operated by St. Joseph Health, which leases the Hospital's real estate and equipment from Petaluma Health Care District. As of the Valuation Date, the Hospital provides the following services:

- 24-hour Emergency Department
- Medical and surgical services
- Critical Care
- Day Surgery Center
- Family Birth Center
- Full-service laboratory
- CT and MRI
- Respiratory Therapy
- Pulmonary rehabilitation
- Telemetry

The Hospital serves the Petaluma area, which resides in Sonoma County. Recent population estimates indicate that the population of Sonoma County increased 0.2% compounded annually, from approximately 484,755 residents in 2010 to approximately 494,336 residents in 2019. Per Management, the Hospital's main competitors primarily include, but are not limited to: Kaiser Permanente, Sutter Health, and UCSF Health.

The Hospital's revenue has decreased 2.9% compounded annually from the calendar year ended ("CYE") 2018 to the trailing twelve months ended February 29, 2020 ("TTM 2020"). Over the same time period, expenses decreased 2.5% compounded annually. As a percentage of revenue, the Hospital reduced employee salaries and wages and employee benefits, while general & administrative expenses increased. Based on these dynamics, earnings before interest, taxes, depreciation and amortization ("EBITDA") decreased 3.1% compounded annually over the same time period. Furthermore, as of the 2 months ended February 29, 2020 ("YTD 2020"), the Hospital's top payors in terms of collections were Medicare and Commercial.

An analysis of the Hospital's historical operations is presented in detail in a following section. In addition, a detailed discussion of the healthcare and hospital industries in general and pertinent regulatory issues and an analysis of national/local demographics are at the end of this report in the Market Overview section.

Executive Summary

Valuation Conclusion



Based on the facts, limiting conditions, and assumptions in this report and the attached exhibits, the FMV of the Hospital, at the control level, is represented as follows:

Conclusion of Value	Low	Mid-Point	High
Fair Market Value of the Business Enterprise, Rounded	\$52,900,000	\$55,700,000	\$58,500,000
Less: Normalized Cash-Free Net Working Capital Retained by Seller	(5,300,000)	(5,300,000)	(5,300,000)
Adjusted Fair Market Value of 100.0% of the Hospital's Membership, Rounded	\$47,600,000	\$50,400,000	\$53,200,000
Plus: Excess Land	2,700,000	2,700,000	2,700,000
Adjusted Fair Market Value, Including Excess Land	\$50,300,000	\$53,100,000	\$55,900,000

Implied Market Multiples	Financial Metric	Low	Mid-Point	High
BEV / TTM 2020 Total Net Operating Revenue	\$95,202,784	0.56x	0.59x	0.61x
BEV / Normalized Base Year Total Net Operating Revenue	\$88,200,000	0.60x	0.63x	0.66x
BEV / Normalized Base Year EBITDA	\$9,200,000	5.8x	6.1x	6.4x

Business Enterprise Value (“BEV”) includes all operating assets, comprising fixed assets, identified intangible assets, and normalized cash-free net working capital. Net working capital is defined as current assets (supplies, inventory, accounts receivable, etc.) minus current liabilities (trade payables, accrued short-term liabilities, etc.). Per Client, the proposed transaction does not include net working capital. As of the Valuation Date, the Hospital had no interest-bearing debt.

The values represented above do not incorporate deferred maintenance issues. Additionally, the values above are adjusted for the Hospital's non-operating excess land parcel. See Exhibit B for additional details.

Only Client is the Intended User of, and may rely on, VMG’s report. No third party shall have the right of reliance on this report, and neither receipt nor possession of this report by any third party shall create any express or implied third-party beneficiary rights. This report may not be distributed, in whole or in part, to any third party without written consent from VMG.



Hypothetical Conditions and Extraordinary Assumptions

- ❖ VMG has valued the Hospital at the control level assuming a fully freestanding, stand-alone operation. In order to reflect a stand-alone operation, we have made certain financial adjustments to remove the impact of its current affiliation with Providence St. Joseph ("Management" or the "System") based on discussions with Client and the typical financial performance of comparable freestanding hospital entities.
- ❖ We have performed our financial analysis under the assumption the Hospital is a going-concern and have not evaluated whether economic or functional obsolescence exists.
- ❖ We relied upon data provided by Management or obtained from third parties, including counsel, published sources and commercial databases without audit or verification regarding the accuracy of such information. We are relying on this information as materially true and correct. Additionally, we have held detailed discussions with the System and have relied on their verbal representations where applicable. To the extent VMG has been provided inaccurate information, our analysis may be amended accordingly.
- ❖ For any real property values presented, please refer to VMG's separate real estate appraisal report (Exhibit B).
- ❖ This report expresses VMG's valuation opinion as of April 30, 2020 ("Valuation Date"). As of the Valuation Date, the United States and world economies are being impacted by the coronavirus ("COVID-19") pandemic. Beginning in February 2020 through the Valuation Date, meaningful economic factors are unknown, including: (i) The evolution of the disease, (ii) the extent of its economic impact, (iii) the results of steps taken and yet to be taken by the federal government, financial institutions, and market participants. Because of this, healthcare entities may face issues such as, but not limited to, volume softness caused by the delay of elective procedures, supply chain disruptions, labor shortages, and bad debt. Any of these may impact the business. Therefore, the significance and the duration of the COVID-19 pandemic's financial impact is uncertain.
- ❖ As part of the transaction, VMG understands certain physicians that support the Hospital are financially accounted under a separate entity, St. Joseph's Heritage Group. The financial performance of the Hospital would be significantly impacted without these physicians. Based on System representations, we have included physician losses in our forecast to reflect a complete stand-alone operation.
- ❖ VMG's work-product was developed solely for District use under attorney-client privilege, and VMG owes no duty to any other potential receiving party, nor will it be liable to any potential receiving party under any claim in connection with receipt or use of our analysis. No third party shall have the right of reliance on VMG's analysis and neither receipt nor possession of our work by any such third party shall create any express or implied third-party beneficiary rights.