



Hardin Memorial Health

Baptist Health purchase of HMH Asset Purchase Agreement (APA) Frequently Asked Questions (FAQs)

1. What is the transaction the parties have entered into?

Hardin Memorial Health (HMH) and Baptist Health announced they are entering into an asset purchase agreement through which Baptist Health would acquire HMH, subject to a vote of the HMH Board of Trustees on May 22, 2018 and appropriate regulatory approvals.

2. Why is HMH doing this?

For the past two years, HMH board and management have considered the best course to ensure that Hardin Memorial Hospital remains strong and continues to achieve its mission to constantly improve clinical quality, enhance access, manage population health, and help ensure its long-term viability. In today's uncertain national and regional healthcare environment - characterized by steadily-increasing costs, declining reimbursements and the increased healthcare demands of an aging population – the nation's best hospitals have to assess their options to ensure a positive healthcare future for their communities. Accordingly, our board, as stewards of this valuable community asset, has made the decision to enter into this agreement with Baptist Health, which will ensure the future of quality healthcare in central Kentucky. Stated simply, this is the best option to ensure the continuing delivery of quality healthcare to the residents of the HMH service area.

3. Where did Judge Berry and the Steering Committee get advice on navigating the healthcare industry, guidance through the process and about the quality of this transaction?

Early on, to ensure they made the best plan for HMH's future, Judge Berry and the Steering Committee made a commitment to attend a number of industry conferences, to hire the very best consultants and experts, to evaluate all the possible options and to make the best plan for HMH's future. Those key partners, all top in their respective fields, are listed below in alphabetical order:



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John Dempsey

Mr. Dempsey is a long-tenured healthcare executive who worked as Chief Financial Officer in a number of health systems including Catholic Health Partners (now Mercy) and Quorum before retirement. Mr. Dempsey served as Interim CFO at HMH during 2014 and 2015.

Hall Render Killian Heath & Lyman

Hall Render is the nation's largest law firm focusing exclusively on matters specific to the healthcare industry. <http://www.hallrender.com>

Huron Consulting Group

Huron is a global management consulting company with a division specializing in healthcare transactions. <https://www.huronconsultinggroup.com>

McCready and Keene, Inc.

McCready and Keene, Inc., a OneAmerica company, is an actuarial and retirement benefits consulting firm. <https://www.mcak.com>

Mercer

Mercer is the world's largest human resources consulting firm. <http://www.mercer.com>

Stoll Keenon Ogden PLLC

Stoll Keenon Ogden PLLC provides strategic legal and employee benefit counsel to clients in the Midwestern United States, across the country and around the world. <https://www.skofirm.com>

4. What is HMH getting out of this deal?

Under the terms of the asset purchase agreement, which follows a two-year long HMH process of exploring potential affiliations, Baptist Health would acquire all assets of HMH and, in return, would commit a minimum \$235 million over a 10-year period to HMH in operating and capital investments and \$126.4 million to Hardin County over a 25-year period.

As part of the agreement, Baptist Health will cover up to \$150,000 per year of healthcare service to inmates of the Hardin County jail at no cost to Hardin County for 25 years. Baptist Health will also assume approximately \$37 million in debt obligations and \$8 million in retiree medical plan benefits.



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5. Did we have to sell HMH? Is this a better outcome than HMH remaining independent?

While we could have remained independent for a time, it would have become increasingly more difficult to continue to serve the community with high quality care, in light of the significant capital investment required to upgrade facilities and information technology, recruit physicians and enhance clinical services. In time, an independent HMH, financed by operations and taxpayers, would find it difficult to keep pace with the increasing healthcare needs of an aging community.

The healthcare market has steadily become more uncertain and difficult, particularly for small, community systems like ours. Reimbursements from the government are declining while costs and the demands of healthcare consumers for higher quality care and advanced technology are increasing. Hospitals like ours need increased expertise and capital to keep pace with community needs. Partnering with Baptist Health, with whom we have a close relationship over many years, ensures that HMH will continue to meet the anticipated demands of the community. With Baptist Health's promised infusion of \$235 million over 10 years, the future of HMH as a regional healthcare leader is assured. Becoming part of the Baptist Health family of hospitals is clearly the best decision for HMH.

6. But won't affiliating mean losing the independence and personal care of our hospital?

Not at all. In fact, Baptist Health is committed to local governance and enhancing local delivery of care. HMH will serve as Baptist Health's Central Kentucky "hub". [Click here](#) to see the importance of HMH in Baptist Health's Kentucky footprint.

7. Do we "have to" do this deal with Baptist Health?

No. Should we for the sake of ensuring future healthcare to the community? Absolutely.

8. How will this transaction affect Hardin County?

Baptist Health has agreed to contribute \$126.4 million of non-taxpayer funds for county purposes over 25 years. Also, Baptist Health will cover up to \$150,000 per year of healthcare service to inmates of the Hardin County jail at no cost to Hardin County. Baptist Health will also assume all of HMH's current debt obligations of approximately \$37 million.



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9. How is the county going to spend their money?

We have not even begun to think about this. The focus of our deliberations was on what was best for HMH, not on any funds committed to the Hardin County Government. The funds accruing to Hardin County from the deal are a welcome addition to our treasury. But there is no hurry to decide on how the proceeds to the county will be utilized. For the foreseeable future, these funds will be placed in county reserves.

10. How will the hospital be governed?

The hospital will be governed by a Hospital Administrative Board, appointed by Baptist Health and consisting of 11 members, with a majority of Hardin County residents.

11. Will the hospital's name be changed?

The name of the hospital will be "*Baptist Health Hardin.*"

12. What is the timing of this proposed deal?

The HMH Board will vote on the asset purchase agreement at its May 22 meeting.

Prior to completion, the transaction would require the review and approval of federal and state regulators. It is anticipated that a definitive partnership agreement would be finalized by December 1, 2018.

13. Who were the other bidders for HMH and what did they offer?

Confidentiality agreements prohibit us from identifying the other bidders, but we considered and reviewed some 30+ organizations and from these had a number of attractive offers to partner with HMH. We anticipated that interest in partnering with us among quality healthcare organizations would be high, in light of our reputation for delivering a high level of healthcare and our strong financial condition. And we were right.



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14. How do we know all options were considered?

Approximately 30+ organizations were considered and reviewed. We engaged with 11 organizations about a potential partnership and 4 organizations submitted formal proposals (not-for-profit, for-profit and public-private entities). This process, supervised by our consultants, was extensive. Each response was thoroughly vetted. We have taken our time to ensure the thoroughness of our process so that we could make the right decision for the community.

15. Why did this process take so long?

The process was purposely deliberative so that we could make the right decision for the community. We extensively interviewed and vetted interested partners. We were assisted by nationally-experienced consultants to help ensure we were acting thoroughly and properly. And after we selected Baptist Health, we engaged in extensive negotiations to deal with every conceivable operational and financial issue. In the end, we made the right choice for HMH, its employees and our community. [Click here](#) for a summary timeline.

16. Why was Baptist Health selected?

Many reasons.

- First, Baptist Health's offer to provide \$235 million in operating and capital investment will help ensure that we will continue to serve the expanding healthcare needs of the residents of Central Kentucky far into the future.
- Second, Baptist Health will provide \$126.4 million to the county government over a 25-year period to improve our community's well-being.
- Third, our two organizations have a 20-year history of working together; we know and respect each other and enjoy similar cultures.
- Fourth, Baptist Health is committed to significantly strengthening HMH clinical capabilities, information technology and financial health, while retaining the continuity of senior management and personal care that has been our hallmark for more than 60 years.
- Fourth, Baptist Health has expressed its intention to expand HMH services, growing its market share and developing HMH to become the system's anchor facility in and regional referral center for Central Kentucky.

[Click here](#) for a summary of how Baptist Health provides HMH with continuity and capital, takes care of the county, but most importantly, fits HMH culturally.



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17. How can affiliating with Baptist Health benefit the community?

Affiliating with Baptist Health will benefit the community by providing the financial capital and clinical expertise to assist us in upgrading outdated facilities; enhancing information technology and population health management; recruiting experienced physicians and caregivers and augmenting the development of medical specialties, so that Central Kentucky residents may confidently receive advanced care right here at home for many years to come. Stated another way, affiliating with Baptist Health will help ensure the long-term viability of our community hospital.

18. Does Baptist Health have the money to finish the deal?

Yes. Baptist Health considers this to be among the most significant of its acquisitions. It has announced its intention to make HMH the hub of its Central Kentucky operations. Over the past year, Baptist Health has bolstered its financial condition and its management and is confident the HMH acquisition will be an enduring one that results in continuing benefits for the community.

19. What happens to HMH employees? Will there be layoffs?

Baptist Health has agreed to offer employment to all HMH non-contracted employees at their existing rates of pay.

20. What about benefits such as health and pensions?

Baptist Health will provide HMH employees with continuing health benefit coverage and employee benefits consistent with those offered similarly-situated Baptist Health employees.

All pension obligations of HMH, associated with the defined benefit pension plan, will be fully funded. Baptist Health will also maintain retiree medical benefits under the HMH plan that covers employees who began employment at HMH prior to July 1, 2005.

21. What about medical staff privileges?

All physicians on the Medical Staff will continue to be credentialed and privileged to provide services at the hospital after the acquisition.



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22. What will happen to existing HMH management?

President Dennis Johnson and the Senior Leadership Team will be retained.

23. How will the culture of HMH change?

It should be enhanced. One of the primary benefits in merging with Baptist Health is closeness of our relationship and the similarities of our cultures. Baptist Health, like HMH, is committed to patient-centered care. Our two organizations value teamwork, respect, integrity, excellence and caring, which will remain cornerstones of our culture.

24. Will HMH community initiatives be continued?

Yes. Baptist Health is committed to continuing HMH community initiatives, including expanding such critical areas as population health capabilities.

25. What changes will patients see?

We anticipate a seamless transition, with trusted HMH health care providers continuing to deliver high quality care locally. Over time, Baptist Health will enhance the delivery of care locally and help manage the population health initiatives required under health reform for our market.

26. Can I see a copy of the agreement?

A copy of the asset purchase agreement is available at www.hmh.net/APA.

27. Why haven't details of the deal been made public?

The details of the deal are public, available at www.hmh.net/APA. We waited until the terms of the deal were finalized before we made them public. Now that all these terms are in place, we encourage the public to review them.



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28. Why won't HMH commit to a public forum?

HMH executives have spoken at over 20 public meetings with community groups to explain why this deal is the best option for the future of healthcare in our community. The Asset Purchase Agreement is available to be reviewed at www.hmh.net/APA. Additionally, we have set up an e-mail form on that site for any community questions. We will do our best to answer questions especially those that are asked multiple times.

29. Explain some financial specifics: Was there an appraisal completed on HMH? Who appraised it? How was the purchase price determined? Where are HMH's latest financials? HMH Balance Sheet? (added May 4, 2018)

Huron Transaction Advisory, the investment banking affiliate of Huron Consulting, provided an estimate of value for the overall enterprise.

The basis of the \$361.4 million purchase price was the proposal submitted by Baptist Health in response to HMH's request for proposal issued in November 2016. The terms of the financial consideration were revised upward through negotiations between the parties. The financial consideration in the Baptist Health proposal exceeds that of the other proposals.

The amount of consideration to the County was also determined through negotiations between the parties. The payment to the County is only a portion of the financial consideration proposed by Baptist Health, which also includes capital commitments, services to inmates at the County jail, assumption of debt and retiree medical liabilities. Again, the financial consideration for the County in the Baptist Health proposal exceeds that of the other proposals.

The valuation of all underlying properties is typically updated near the closing date as part of the purchase price allocation required for financial reporting purposes.

Click to view HMH financials documents:

- [HMH Financial Report March 2018](#)
- [HMH Financial Report June 2017](#)
- [HMH Historic Financial Indicators \(2008 - 2018\)](#)

30. How do we know we received a good deal? (added May 4, 2018)

In business transactions, earnings before interest, taxes, depreciation and amortization (EBITDA) is a good metric with which to compare transactions. Our experts from the healthcare division of Huron Consulting, tell us of the many hospital mergers going on today, getting a price that is 7-9X the organizations EBITDA is a good deal.



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According to Huron, the very best hospital deals produce 10X EBITDA for the selling hospital.

HMH will receive 14.3X EBIDA (we don't pay taxes) from Baptist Health. There were many reasons we received such a premium deal for HMH: we put bids out at the peak of HMH's financial strength; HMH owns a strong outpatient/ambulatory footprint (50+ locations) across Central Kentucky and commands market share; Judge Berry and the Steering Committee spent the time to negotiate the strongest deal possible.

31. Why don't the citizens get to vote on the sale of HMH or at least react to a referendum question on the ballot? (added May 7, 2018)

Kentucky is not a referendum state. The Kentucky Constitution does not provide a mechanism for putting this issue to a vote of the electorate.

As to the idea of "polling" the citizens, Kentucky state law prohibits such a poll being conducted in conjunction with a primary or general election vote. That would mean a separate "poll" utilizing our voting machines would need to be conducted at a cost of approximately \$90,000.

A poll would have no legal authority to bind Fiscal Court, the body elected to make public decisions related to county government.

Further, a voluntary poll would not be a statistically reliable measure of the majority of Hardin County citizens and so would not be a valuable assessment. What would be the criteria in determining a polling issue? Would there need to be a poll to determine what issues were significant enough to require further polling?

Most significantly, we live in a representative democracy in which citizens elect representatives, in the case, the nine members of the Hardin Fiscal Court, who compose the Hardin Memorial Health Board of Trustees, to act in the best interests of the community. The decision to place an elected body as the Board of Trustees of the hospital was not made by current Fiscal Court, but rather by the Fiscal Court led by Judge R. R. Thomas when they voted to appoint themselves as the Board of the Hospital in 1980.

There is no doubt this is one of the most important decisions to be made by your elected Fiscal Court, acting as the Board of Trustees of Hardin Memorial Hospital.



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As responsible stewards of this most important community asset, the members of the HMH Board of Trustees and HMH management who worked for two years to secure this deal are in full agreement that this sale to Baptist Health will ensure the future of quality healthcare in Central Kentucky and is, therefore, in the very best interests of all citizens.

32. Since Baptist Health will own HMH, aren't they just putting their \$235 million investment back into their own pockets? (added May 7, 2018)

Baptist Health's clear intent – reiterated by its board chairman and CEO – is to develop HMH into Central Kentucky's premier regional healthcare center.

To accomplish that goal, Baptist Health intends to invest \$235 million in HMH over 10 years, to strengthen HMH's clinical capabilities, upgrade its information technology, bolster its financial health, expand HMH services and grow its market share.

Stated another way, the only reason Baptist Health was willing to invest so significantly in HMH and Hardin County was to build and develop the Baptist Health Hardin franchise today and for many years to come. The beneficiaries of this development will be the citizens of Central Kentucky.

33. How does the sale of HMH affect taxpayers, who paid for the health system until now? (added May 7, 2018)

The fact is that even though HMH has been "county owned," Hardin County taxpayers have not provided any of their tax dollars to the health system. Rather, HMH has been self-sustaining, underwritten by revenue bonds secured by the institution itself.

Of course, as healthcare becomes more costly and competitive, especially to smaller, independent hospitals, there would be no guarantee that HMH would be able to maintain its self-sustaining nature. It is highly probable, without this transfer of ownership, Hardin County would need a Hospital Taxing District formed with substantial tax rates. Even with the highest tax rates allowed by state law, we would only be able to generate approximately half the revenue for capital investment that will be provided in the proposed sale to Baptist Health. This was another reason why the Board and management were convinced this was the right time – with HMH in a strong position – to assess future options.



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34. The document does not list the "Real Estate Properties" or PVA descriptions of the properties involved; would you please give searchable record references for those so values may be matched to value of the "deal"? (added May 8, 2018)

This transaction involves more than the purchase of hospital real estate. However if you would like to search real estate currently owned by Hardin County, dba as Hardin Memorial Hospital, you may do so on the Hardin County PVA website <http://www.qpublic.net/ky/hardin>.

35. Do you realize that Attorney Charles P. Sukurs is not listed as licensed in Kentucky? (added May 8, 2018)

Yes. A transaction of this nature is highly complex and specialized and has required a team of attorneys to assist the County and HMH. It is common practice and would be expected for general counsel, County Attorney Jenny Oldham, to utilize specialized transactional attorneys to advise and assist in the negotiation and sale of a going concern like HMH. Mr. Sukurs is one of the attorneys with the firm of Hall, Render, Killian, Heath & Lyman, P.C. who has assisted with this transaction. The firm of Hall Render is the nation's largest law firm focused exclusively on matters specific to healthcare organizations. He has been supervised by his partner, William D. Roberts, who is licensed in Kentucky.

36. The Escrow Agreement for funds cites BB&T in North Carolina. Who decided that? Why not a bank domiciled in Kentucky? (added May 8, 2018)

Branch Banking and Trust (BB&T) is a large organization with at least 28 offices within 50 miles of Hardin County, Kentucky. The location of the corporate domicile was not a relevant consideration to the transaction.

37. Further at Exhibit G the Escrow Agreement recites that the limit of liability for funds is the standard \$250,000. In a multi-million dollar transaction did you contract for full accountability for our Citizens' money? (added May 8, 2018)

The liability limit for an escrow agent for a transaction of this nature is highly standardized across the banking industry. Given the limited nature and duration of this particular escrow arrangement, HMH and the County, along with their counsel, are comfortable with this amount being sufficient to protect the interests of the county and the hospital.

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