Principle Valuation, LLC

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Florida House Bill 711 – Fair Market Value of Jackson Hospital

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Engagement

- Primary focus was to conduct an independent valuation of the hospital's fair market value
  - Estimated the fair market value with the elimination of non-market based community benefit expenses
  - Estimated economic value of community benefits foregone

Scope of Work

- In deriving our Fair Market Value we have among other things:
  - Visited Jackson Hospital to describe and assess the overall condition of the physical assets and improvements;
  - Been provided and reviewed certain available business and financial information relating to the Hospital that was provided by Jackson's management team
  - Been provided and relied upon the 2013 budget prepared by management
  - Reviewed the historical market prices, trading activity and valuation multiples of certain publicly traded companies that we deemed to be relevant and used them as benchmarks to estimate relative criteria in our analysis; and
  - Reviewed the current conditions of the general U.S. economy and the healthcare industry, with specific consideration given to the acute-care hospital industry
  - Reviewed an assessment of the total community benefits provided by Jackson Hospital for the most recent fiscal year period
  - Reviewed certain financial studies, analyses, and publications and took account such other matters as we deemed necessary to determine our opinion of the fair market value of Jackson Hospital

Valuation Approach

- In deriving the fair market value of Jackson Hospital, we considered the three primary methods of valuation: The Cost Approach (Adjusted Book Value Approach), The Market Approach, and the Income Approach. Each Approach as applied to Jackson Hospital is briefly explained below:
  - In the Cost Approach, the tangible assets were valued by deriving a depreciated replacement cost for the tangible assets in use. The land was valued at its current value utilizing market data. The net working capital was valued based upon the stated value on the Balance Sheets provided.
  - In the Income Approach to value we considered the value of Jackson Hospital utilizing a discounted cash flow approach based upon market based cost of capital considerations and the anticipated earnings capacity of Jackson Hospital assuming an outside purchaser’s elimination of non-market based community services
  - We estimated the economic benefit of the community based services
  - We considered two Market Based approaches in estimating the value of the subject; Guideline Company Approach and Guideline Transaction Approaches to value.
- After considering the strengths and weakness of each approach, we derived an overall weighted value which is our conclusion for the fair market value of Jackson Hospital

Jackson Hospital Profile

Below are some key statistics and general information regarding Jackson Hospital to be considered throughout our comparative analysis:

- Licensed Beds – 100 (66 Operating)
- Employed Physicians – 15 (87 total physicians with privileges)
- FY 2011 Net Operating Revenues - $43,927,798
- Staff – 410 full-time employees; 35 part-time employees
- Specialties Served: General Medicine, Cardiology, General Surgery, Hematology/Medical Oncology, Obstetrics/Gynecology, Orthopedics, Pediatrics, Urology, Emergency Medicine, Chemical dependency stabilization, Wellness
- Service area is 83% rural, compared to 11% state average
- Population served has median income of $38,000 versus state average of $48,000 (over 20% of population is Medicaid eligible)
- Over 17% of patients treated are Medicaid recipients, approx. one-third higher than state average

Adjusted Book Value Approach

- Below is a summary of our Adjusted Book Value Approach to valuation for Jackson Hospital
  - In deriving our fair market value estimate we considered only the operating assets of the hospital. Non-operating or “excess assets” were excluded from this calculation
  - Working capital excluded the investments account
  - Equipment was taken at net book value from the provided asset listing. We have added $1,000,000 to this figure to account for the purchase of a new MRI that was not included on the asset listing

Adjusted Book Value Approach

Asset Description	Book Value as Reported	Adjustment	Adjusted Book Value
Net Working Capital (Ex: Investments)	$ 5,529,818	$ -	$ 5,529,818
Buildings & Improvements	14,957,897	170,430	15,128,327
Major Movable Equipment	5,184,643	-	5,184,643
Fixed Equipment	273,190	-	273,190
Land	21,110	2,110,890	2,132,000
Total	$ 25,970,000	$ 2,280,000	**$ 28,250,000**

Income Approach

The following schedules show our derivation of fair market value via the Income Approach. This approach considers the cash flows available to equity holders (assuming no debt) and discounts these cash flows into a present value.

The fair market value estimates assumes a transfer of ownership to an outside for-profit operator in which the community benefits would be scaled back by approximately 75%.

Key Assumptions:

- Base Year was the FY 2013 Budget year as provided by management
- Adjusted Patient Days would grow by 5% in FY 2014 and 2.5% thereafter
- Net revenue per adjusted patient day would grow by 1.25% annually
- Effective tax rate was assumed at 35%
- Discount rate utilized was 10.40%
- Assumed 75% of Community Benefits expense would be eliminated
- Perpetuity growth rate was assumed at 3.50%
- Fixed costs were estimated to grow at 2.0% annually
- Variable expenses were held at the same percentage of revenues as in FY 2013

Income Approach

Discounted Cash Flow - Jackson Hospital						
Implied Rate of Return (Discount Rate)	10.40%					
	FY 2013 (Budget)	FY 2014	FY 2015	FY 2016	FY 2017	Reversion
Adjusted Patient Days	44,314	46,530	47,693	48,885	50,107	51,360
Net Revenue Per Adjusted Patient Day	$995.7	$1,008.1	$1,020.7	$1,033.5	$1,046.4	$1,059.5
Revenue						
Total Gross Revenue	$ 125,755,887	$ 133,694,227	$ 138,749,540	$ 143,996,007	$ 149,440,856	$ 155,091,589
Total Revenue Deductions	(81,632,800)	(86,785,871)	(90,067,461)	(93,473,137)	(97,007,590)	(100,675,690)
Total Net Revenues	$ 44,123,087	$ 46,908,357	$ 48,682,079	$ 50,522,870	$ 52,433,266	$ 54,415,899
Operating Expenses						
Total Operating Expenses	$ 43,958,649	$ 46,806,318	$ 48,401,982	$ 49,801,883	$ 51,241,613	$ 52,722,244
Net Operating Income (EBIT)	$ 164,438	$ 102,039	$ 280,097	$ 720,987	$ 1,191,653	$ 1,693,655
Adjustments to EBIT						
Community Benefit Expenses	$ 576,004	$ 587,524	$ 599,274	$ 611,260	$ 623,485	$ 635,955
Adjusted EBIT	$ 740,442	$ 689,562	$ 879,371	$ 1,332,247	$ 1,815,138	$ 2,329,610
Depreciation and Amortization	2,443,581	3,073,154	3,184,750	3,047,860	2,896,148	2,728,689
Adjusted EBITDA (Based on Operating Income)	$ 3,184,023	$ 3,762,717	$ 4,064,122	$ 4,380,107	$ 4,711,286	$ 5,058,299
Adjusted EBITDA Margin	**7.22%**	**8.02%**	**8.35%**	**8.67%**	**8.99%**	**9.30%**

Income Approach (Cont'd)

Discounted Cash Flow Jackson Hospital (Continued)

	FY 2013 (Budget)	FY 2014	FY 2015	FY 2016	FY 2017	Reversion
NET INCOME FOR DISCOUNTING (Adjusted EBIT)	$ 740,442	$ 689,562	$ 879,371	$ 1,332,247	$ 1,815,138	$ 2,329,610
ESTIMATED INCOME TAXES	259,155	241,347	307,780	466,286	635,298	815,363
NET INCOME	**481,287**	**448,216**	**571,591**	**865,960**	**1,179,840**	**1,514,246**
Less Incremental Working Capital	-	(278,527)	(177,372)	(184,079)	(191,040)	(198,263)
Less Capital Expenditures	(1,767,217)	(3,033,765)	(225,000)	(500,000)	(750,000)	(2,448,715)
Plus Depreciation	2,190,000	2,814,501	2,920,925	2,778,758	2,621,663	2,448,715
Cash Flow to Discount	904,070	-49,575	3,090,144	2,960,639	2,860,464	1,315,983
Discount Periods	1.00	2.00	3.00	4.00	5.00	
Present Value Factor	0.905797101	0.820468389	0.743177889	0.673168377	0.609753965	
Present Value of Periodic Cash Flows	$818,904	-$40,675	$2,296,527	$1,993,009	$1,744,179	
Sum of PV Periodic Cash Flows	$6,811,944					
Perpetuity Value	$19,072,217					
PV of Perpetuity Value	$11,629,360					
Total Asset Value as unencumbered and assuming market based working capital	**$18,400,000**					

Market Approach

The following schedules show our derivation of fair market value via the Market Approach. This approach considers the prices market participants are currently paying for similar enterprises to Jackson Hospital based on certain key metrics (Revenue & EBITDA multiples).

We considered two separate methods in this approach; the Guideline Public Company ("GPC") & Guideline Transaction Method ("GTM"). The Guideline Public Company method analyzes publicly traded companies with similar operational characteristics or service lines as Jackson Hospital and the multiples shares in those companies are exchanged at. The Guideline Transaction method looks at sales of similar public/private business enterprises and the consideration exchanged in those purchases.

We have conducted this approach under the same premise utilized in the Income Approach

Market Approach - GPC

Company Name	Share Price	Adjusted Equity Value[1]	Adjusted Enterprise Value	% Debt	Revenues	EBITDA	Debt Free NWC	% Debt Free NWC	Beta	EBITDA Margin	Revenue Multiple	EBITDA Multiple
Community Health Systems, Inc.	$ 30.74	3,298,524,960	13,633,567,960	73.16%	14,477,820,000	1,915,971,000	1,325,382,000	9.15%	1.48	13.23%	0.94	7.12
LifePoint Hospitals, Inc.	$ 37.75	2,235,555,000	4,159,655,000	43.94%	3,279,800,000	589,000,000	518,500,000	15.81%	0.96	17.96%	1.27	7.06
Universal Health Services, Inc.	$ 48.35	5,639,544,000	9,333,388,000	41.03%	7,599,445,000	1,180,316,000	652,575,000	8.59%	1.01	15.53%	1.23	7.91
Tenet Healthcare Corporation Co	$ 32.47	4,148,886,720	8,944,886,720	57.56%	9,160,000,000	1,142,000,000	898,000,000	9.80%	1.35	12.47%	0.98	7.83
Health Management Associates, I	$ 9.32	2,867,242,080	6,694,632,080	57.31%	6,502,847,000	989,903,000	626,752,000	9.64%	1.49	15.22%	1.03	6.76
HCA Holdings, Inc. (HCA)	$ 30.17	15,983,703,960	44,212,703,960	64.82%	32,348,000,000	6,555,000,000	3,162,000,000	9.77%	1.22	20.26%	1.37	6.74
Vanguard Health Systems Inc. (VHS)	$ 12.25	1,139,250,000	3,852,250,000	73.85%	5,983,400,000	598,300,000	593,800,000	9.92%	0.69	10.00%	0.64	6.44
HIGH:			$44,212,703,960	73.85%	$32,348,000,000			15.81%	1.49	20.26%	1.37	7.91
LOW:			$3,852,250,000	41.03%	$3,279,800,000			8.59%	0.69	10.00%	0.64	6.44
AVERAGE:				58.81%				10.38%	1.18	14.95%	1.06	7.12
							Jackson Hospital			7.22%		

Qualitative Comparisons (Subject Compared to Market Comparables as a Group)

Unit of Comparison	**Status**	**Adjustment**
Size of Company	Inferior	Downward
Diversity of Market Served	Inferior	Downward
EBITDA Margin	Inferior	Downward
Overall Adjustment	**Downward**	

Jackson Hospital		
Description	Revenues	EBITDA
Adjustment	**-20%**	**-20%**
Adjusted Multiple*	**0.852**	**5.699**
Subject Comparable Units	**$ 44,123,087**	**$ 3,184,023**
Value Indication	**$ 37,591,524**	**$ 18,145,154**
Weighting	25%	75%
Total Asset Value as Unencumbered and assuming market based working capital (Rounded)	**$23,000,000**	

(1) Adjusted upward 20% to account for a control premium

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Market Approach – GTM

In the guideline transaction method we focused on acute care hospital sales in the state of Florida. Certain of these transactions were privileged and as such we have redacted the details of the sales. We analyzed six historical and pending sales occurring between July 2010 and December 2012. The average (mean) revenue multiple for these six sales was 0.62. The average EBITDA multiple for the six sales was 6.14. Applying these multiples to the 2013 budget year for Jackson Hospital resulted in the following indication of value:

Market Approach – GTM

	Revenue	EBITDA
Multiple	0.62	6.14
Subject Comparable Units	$44,123,087	$3,184,023
Value Indication	$27,199,653	$19,539,587
Weighting	25%	75%
Total Asset Value as unencumbered and before working capital (Rounded)	$21,500,000	
Add Market Based Working Capital	$4,345,221	
Total Asset Value as unencumbered and assuming market based working capital (Rounded)	**$25,850,000**	

Market Approach Summary

We gave consideration to both the GPC and GTM and have weighted our results at 60% and 40% respectively. The higher weighting towards the GPC method was based on the limited transparency into certain GTM sales and the limited data regarding those transaction details.

Based on this 60%/40% weighting our conclusion is as follows:

$24,100,000

Fair Market Value (Business Enterprise) Summary

Cost Approach	Income Approach	Market Approach
$28,250,000	$18,400,000	$24,100,000

Net Proceeds Calculation

	Income Approach	Market Approach	Asset-Based Approach
Business Enterprise Value as Unencumbered	$ 18,400,000	$ 24,100,000	$ 28,250,000
Plus Excess (Deficient) Working Capital:	$ 1,184,597	$ 1,184,597	$ -
Less Long-Term Debt Obligations:	(8,669,787)	(8,669,787)	(8,669,787)
Add Excess Assets:	12,105,452	12,105,452	12,105,452
Equity Value	$ 23,020,262	$ 28,720,262	$ 31,685,665
Weighting:	70%	20%	10%
Weighted Value (Rounded):	$ 25,000,000		
Estimated Net Proceeds from Sale (Range)	**$22,500,000 - $27,500,000**		

Economic Value of Community Benefits

- The second part of our analysis estimated the economic value of the community benefits that could potentially be lost in a transfer to an outside operator (assumed to be a for-profit entity)

- This was done by multiplying the foregone benefits by the implied earnings multiple from our concluded fair market value

Economic Value of Community Benefits

- Our concluded business enterprise value before specific property adjustments was $20,525,000. Based on the FY 2013 Adjusted EBITDA of $3,184,023 this implies an economic multiple of 6.44

- Multiplying the foregone community benefits in FY 2013 of $576,004 by the above multiple of 6.44 implies an economic value (rounded) of $3,700,000 that may be at risk.