

# Proposal-DCHS (Seton Medical Center Coastside)

April 2014

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plum

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## Description of Potential Acquirer

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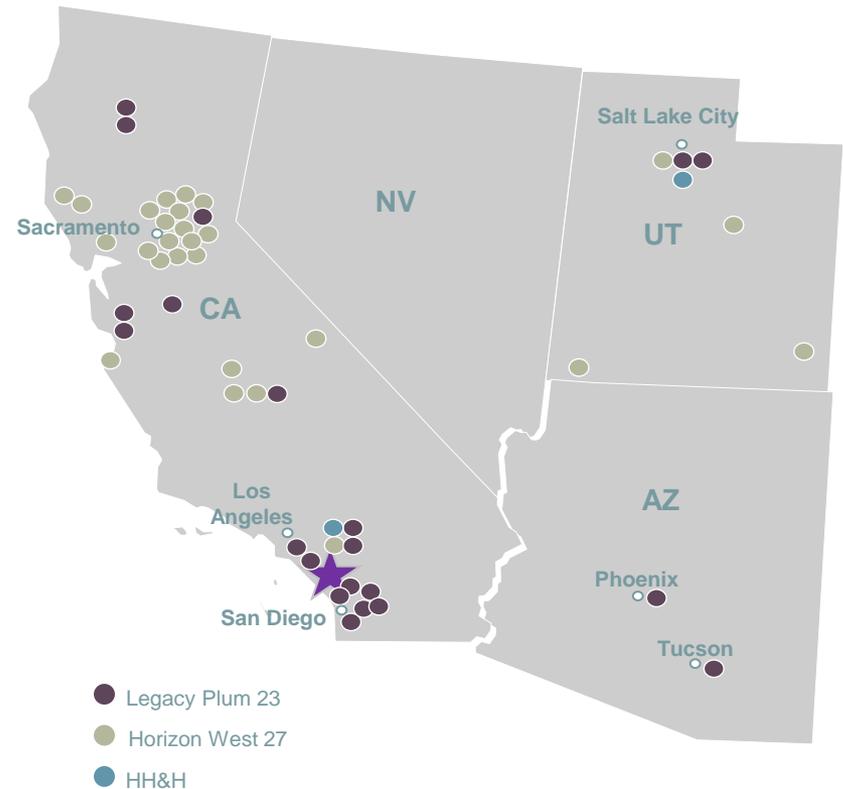
# The Plum Team – Key Principals

Officer	Title	Experience
<b>Mark Ballif</b>	<i>Co-Founder and Co-Chief Executive Officer</i>	<ul style="list-style-type: none"> <li>■ 19 years of combined executive, operations, management consulting, and leadership development experience</li> <li>■ Previously worked for Covenant Care as a licensed nursing home administrator and operations manager for new construction</li> <li>■ Prior to Covenant Care, served as vice president of operations for The Arbinger Company</li> </ul>
<b>Paul Hubbard</b>	<i>Co-Founder and Co-Chief Executive Officer</i>	<ul style="list-style-type: none"> <li>■ More than 20 years of finance, management consulting, and operations experience, including restructuring business processes and facilitating organizational change</li> <li>■ Previously served as an administrator and director of prospective payment integration for Covenant Care</li> <li>■ Prior to Covenant Care, was a founding member and chief financial officer for Callaway Sharp Institute and was a consultant for KPMG</li> </ul>
<b>Toby Tilford</b>	<i>President and Chief Operating Officer</i>	<ul style="list-style-type: none"> <li>■ Joined Plum in 2002; served as an administrator at Plum’s largest facility before being promoted</li> <li>■ 14 years of accounting, systems consulting, executive leadership development, and financial / clinical business restructuring experience</li> <li>■ Prior to Plum, was a senior auditor for Ernst &amp; Young</li> </ul>
<b>Joseph Alegre</b>	<i>Executive Vice President and Chief Financial Officer</i>	<ul style="list-style-type: none"> <li>■ 20 years of experience in operations finance, retail finance, and financial planning and analysis</li> <li>■ Previously held senior finance positions at Gap, Gateway, Boston Chicken, PepsiCo, and American Airlines</li> </ul>
<b>Will Huish</b>	<i>Executive Vice President and Head of Mergers &amp; Acquisitions</i>	<ul style="list-style-type: none"> <li>■ 15 years of experience in the Skilled Nursing industry</li> <li>■ Lead Plum in to increase portfolio from 16 facilities to 54 facilities</li> <li>■ Specializes in working with facilities under SFF, OIG, and in Receiverships</li> </ul>

# Overview of Plum

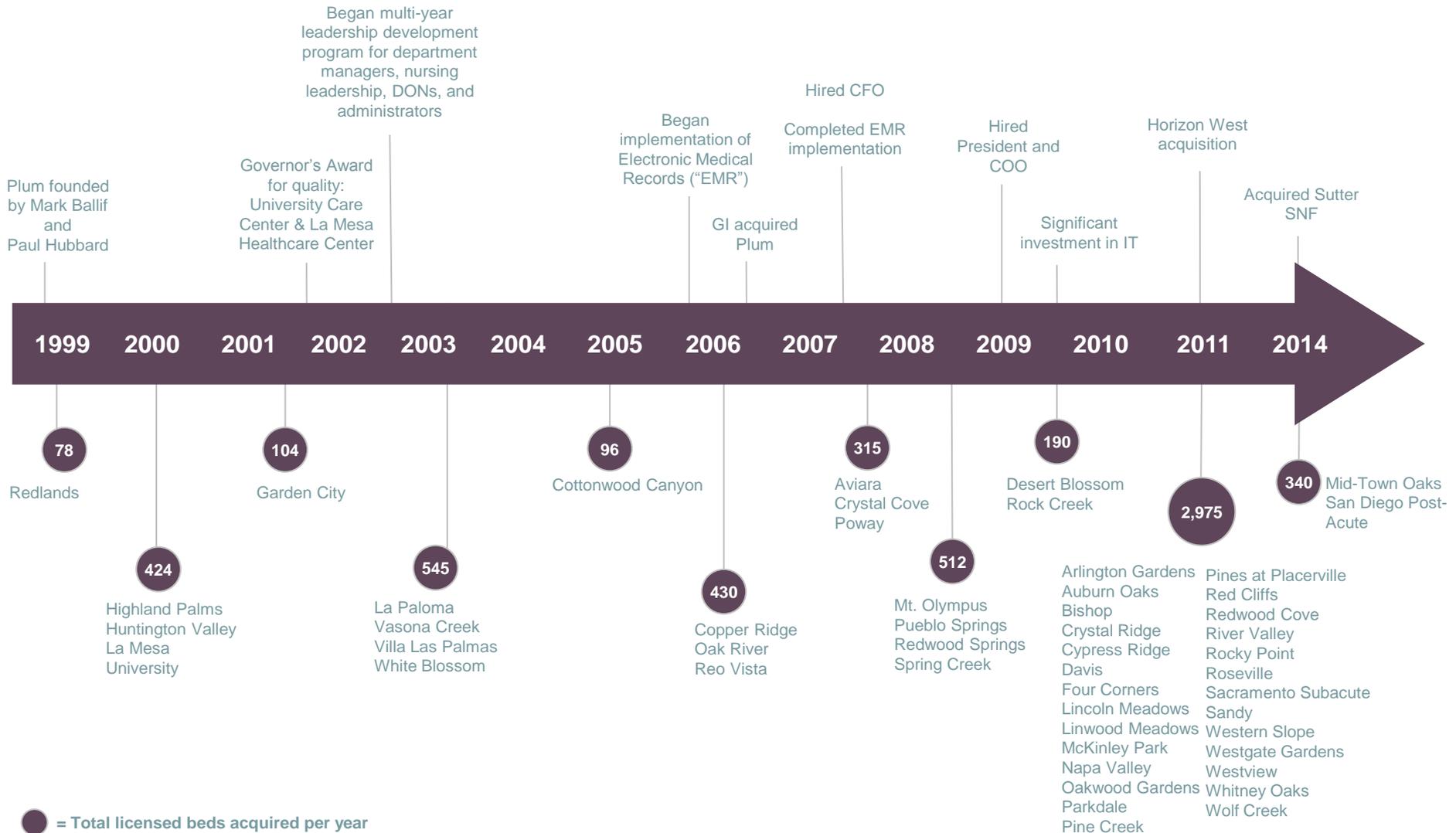
A leading provider of medically-complex, post-acute care services

- Founded in 1999, Plum provides post-acute care services through skilled nursing facilities (“SNFs”) in the western U.S.
  - 50-facility platform across California, Arizona, and Utah
  - 14 owned and 36 leased facilities
  - 5,669 licensed beds
- Acquired Horizon West in June 2011 for \$32 million
  - 27-facility portfolio with 2,975 licensed beds
- Expanded into home health and hospice (“HH&H”) in 2011
- Approximately 7,300 full-time total employees, including 4,370 nurses
- Expects to generate 2012 revenue and adjusted EBITDA of \$508.1 million and \$52.5 million, respectively



# Plum's Acquisition History & Milestones

Plum has a proven track record of acquiring & licensing skilled nursing facilities

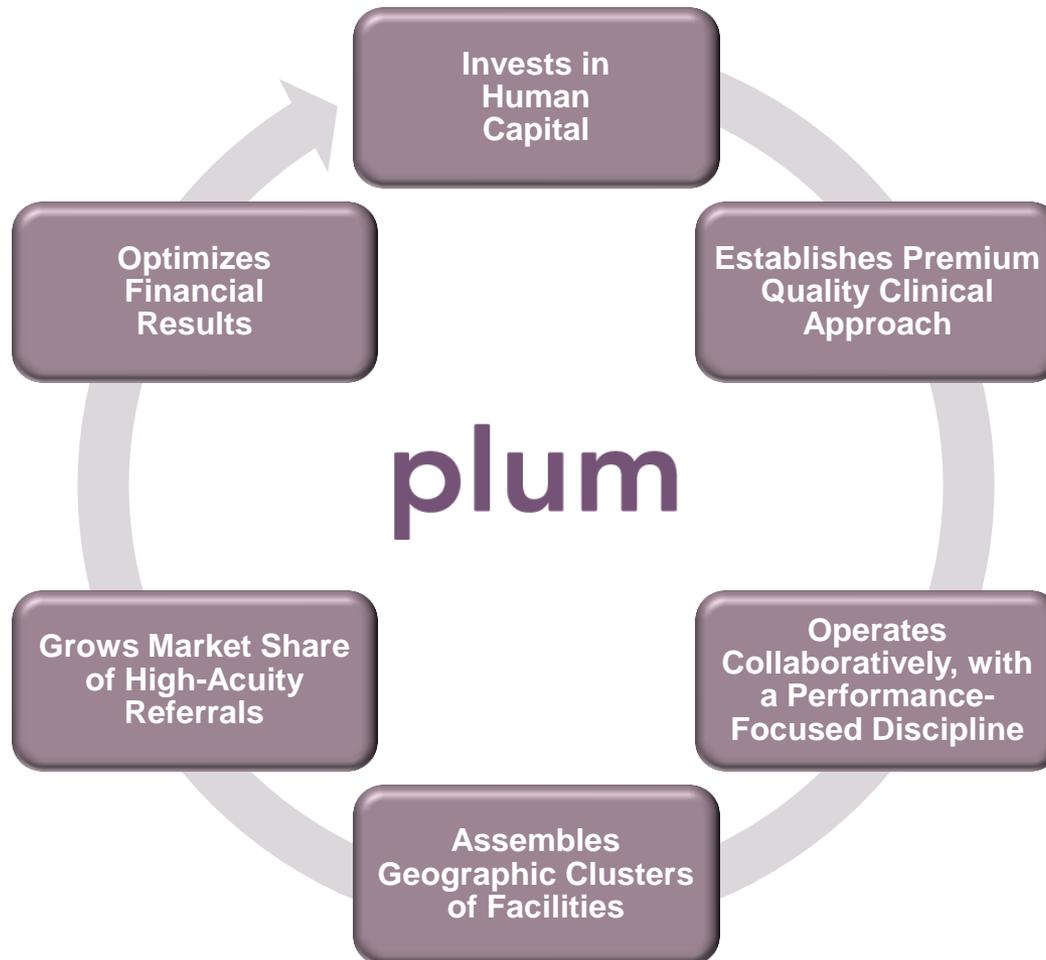


## Distinctive Operating Model

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## Leverage Distinctive Operating Model

Plum delivers industry-leading results by leveraging a proven model of developing leaders, implementing best-in-class clinical protocols, and executing on a turnaround formula that extracts significant embedded value



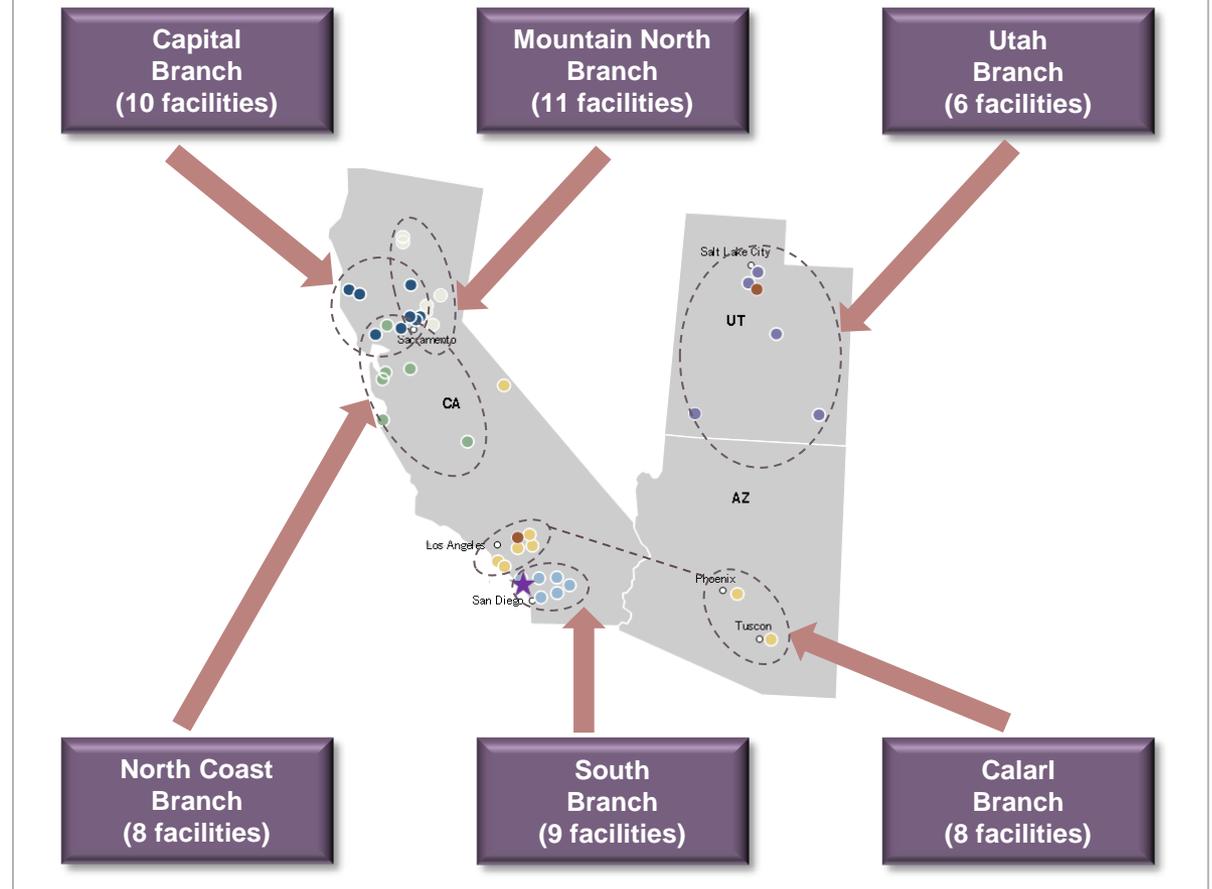
## Branches: Clustered Operating Structure

Plum has established leadership positions in its targeted markets to be the post-acute provider of choice

### Overview

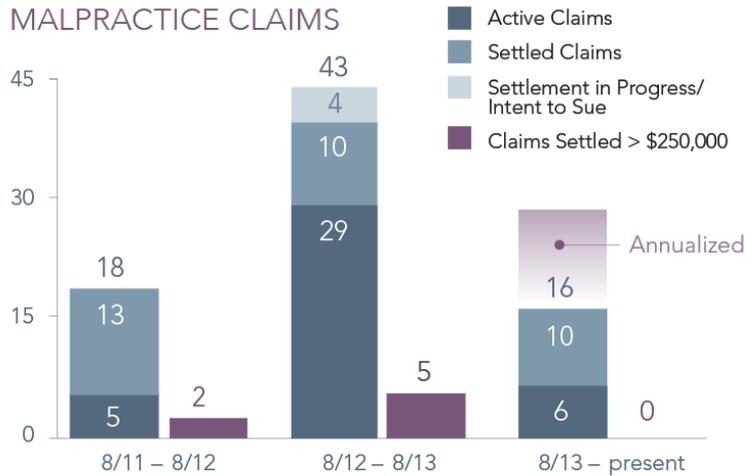
- Structured around clusters of facilities (*i.e.*, branches), which are both strategically- and organizationally-leverageable units
- Plum currently has 6 branches with 6-11 facilities per branch
- Benefits of branch operating:
  - Optimal and intimate size
  - High tenure accountability in small clustered peer groups
  - Scale in negotiating contracts with managed care organizations (“MCOs”)
  - Capacity to handle a disproportionately larger volume of discharges from various health systems partnering with ACOs

### Facility Footprint



# Clinical / Legal Scorecard

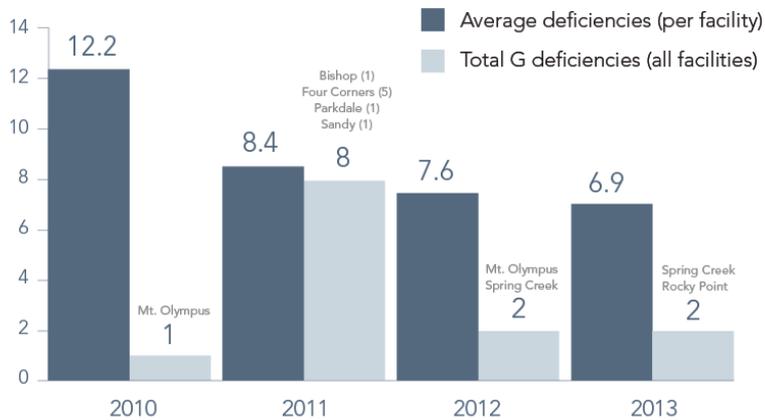
## MALPRACTICE CLAIMS



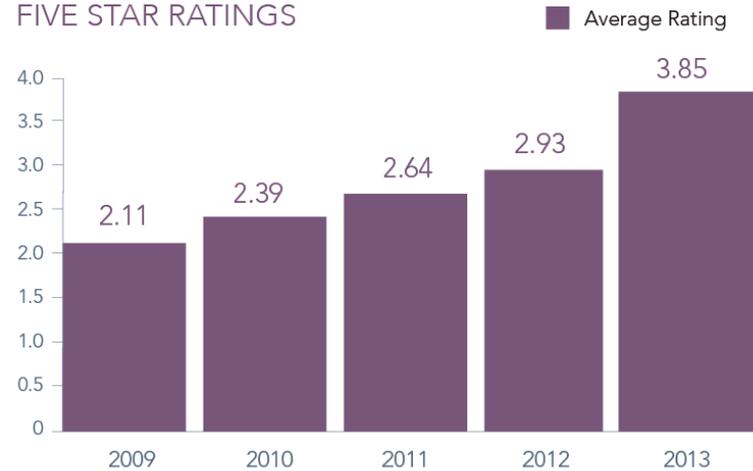
## CLINICAL QUALITY

	2011	2012	2013	National Average
Pressure Ulcers	6.4	8.3	6.3	6.4
Falls with Acute Injury	1.6	2.0	1.7	3.3
Weight Loss	7.2	8.8	7.5	7.5
ADL Decline	16.4	13.8	14.8	15.9
Pain	15.5	15.1	11.4	9.3

## REGULATORY OUTCOMES



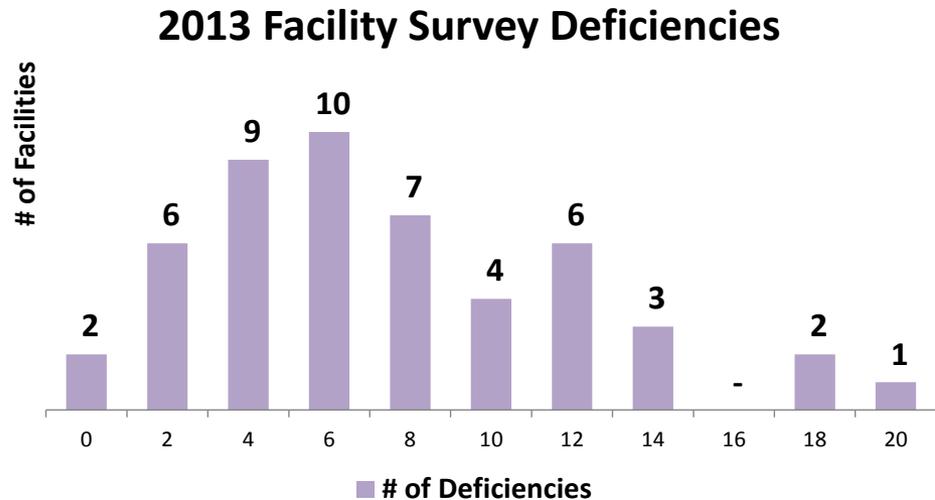
## FIVE STAR RATINGS



# 2013 Annual Survey

- **Survey Highlights:**
  - 50 Facilities Completed (100%)
  - 349 Deficiencies, 6.98 per Survey
    - Plum 23: 162 Deficiencies; 7.04 per Survey

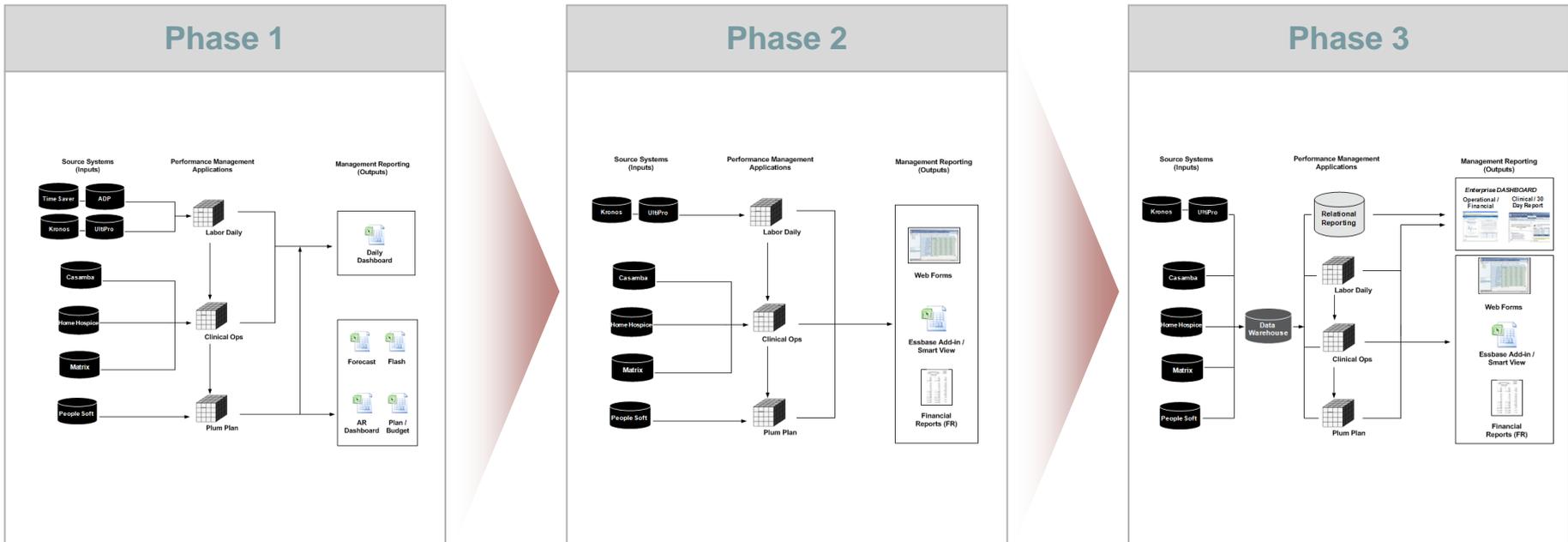
Severity Grade		# of Deficiencies
Level 1	Isolated - A	2
	Pattern - B	11
	Widespread - C	9
Level 2	Isolated - D	205
	Pattern - E	104
	Widespread - F	16
Level 3	Isolated - G	-
	Pattern - H	-
	Widespread - I	-
Level 4	Isolated - J	-
	Pattern - K	1
	Widespread - L	1
Total		349



# Fully-Integrated Information Technology Systems

## Matrix EMR system ensures a common clinical and billing platform

- Designed to provide a highly-scalable solution across a common platform, enabling optimal patient outcomes, providing effective risk management, and creating opportunities for rapid expansion
- Plum's EMR system, MDI Achieve's Matrix®, is integrated into all aspects of Plum's operations, from clinical to financial
- Plum is currently integrating all of its information systems which will enable greater efficiencies, provide a more robust management reporting capability, and provide Plum with a fully-integrated IT platform



## Marketing Approach

Plum's ability to penetrate local markets is fueled by its decentralized marketing approach and its strategic focus on referral relationships

### Individual Facility-Oriented Approach

- Each facility has its own distinctive brand
- Marketing team at each facility is principally responsible for the development and implementation of its market plan
- Each facility's marketing strategy is based on the facility's core competencies, service capabilities, and local market situation

### Key Marketing Strategy Components

- Build a "magnetic" environment in the facility
- Establish strong referral relationships with referral sources (hospitals, doctors, discharge planners, and HMO case managers)
- Promote the facility's service capabilities and demonstrated resident outcomes

## Compliance and Risk Management

Plum's approach to care drives superior clinical outcomes and establishes creditability in the marketplace

- Plum's compliance program is in accordance with generally accepted industry guidelines
  - Overseen by a corporate compliance officer, a privacy administrator, and a security officer (collectively, the "compliance council")
  - Compliance council meets quarterly and performs an annual review of risks and compiles survey results for corporate review
- Plum initiatives to ensure that regulatory guidelines and compliance policies are properly adhered to include:
  - Examinations and on-training sessions provided by a team of internal corporate consultants (*i.e.*, highly-experienced nurses)
  - Patient and employee compliance hotline
  - Web-based compliance and training platform, known as Plum University
  - Quarterly chart audits

### Quality and Clinical Outcomes Awards Received by Plum



## Asset to be Acquired

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# Seton Medical Center Coastside (SMCC)

## Seton Medical Center Coastside (SMCC)

- 600 Marine Blvd, Moss Beach, CA 94038
- Est. in 1980

## Licensed Beds

- Operates as a 116-bed Skilled Nursing Facility, with a five(5)-bed acute care (24-hour standby Emergency Department)

## Plum Healthcare Group, LLC acquires SMCC

- As operator and possibly owner (provider number agreement will need TBD)

## Treatment of Medical Foundation

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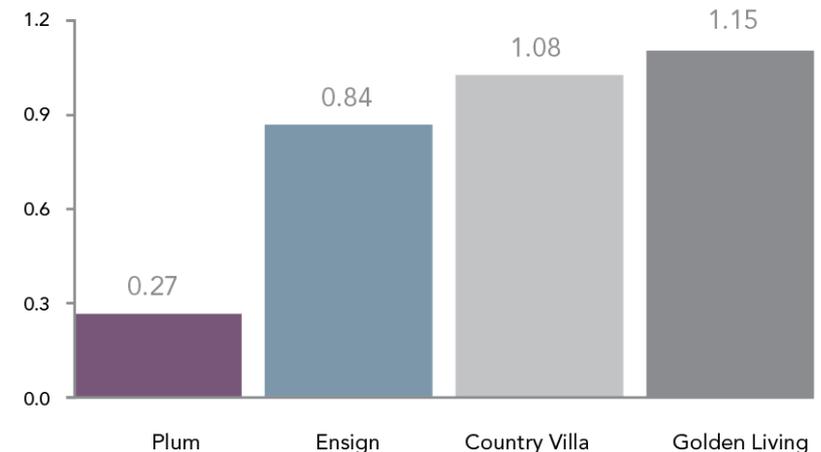
## Clinical Approach

- Plum selects the industry’s top administrators and has a 5% annual administrator turnover in its legacy facilities (compared to an industry average of 40%).
- Plum has launched the “New Care Model” in over 50% of its portfolio. The New Care Model requires physicians and/or physician extenders to be actively involved in each facility 5 days per week compared to an industry average of once per 30 days.
- Plum has deployed a web-enabled electronic medical record (EMR) system used throughout all clinical processes and protocols at the facility level. The EMR system feeds real-time data to a proprietary, automated, quality assurance tool enabling clinicians to respond quickly and effectively to patient needs.
- Plum has developed proprietary clinical preventative protocols that enable nurses and interdisciplinary teams to achieve industry leading clinical outcomes.

## Clinical Quality<sup>1</sup>

	Plum	Ensign	Manor Care	Golden Living
Loss of Bowel/Bladder Control (long-stay)	<b>47.3%</b>	57.6%	55.6%	51.0%
Falls with Major Injury (long-stay)	<b>1.7%</b>	2.9%	2.9%	3.3%
Depressive Symptoms (long-stay)	<b>2.0%</b>	5.0%	3.0%	3.0%
Decline in ADL (long-stay)	<b>12.6%</b>	13.9%	16.0%	16.0%
New Antipsychotic Medication (short-stay)	<b>1.8%</b>	3.1%	2.7%	3.3%
New/Worsened Pressure Ulcers (short-stay)	0.8%	0.8%	<b>0.7%</b>	1.1%

## Quality Index<sup>2</sup>



Sources: CDPH and CANHR

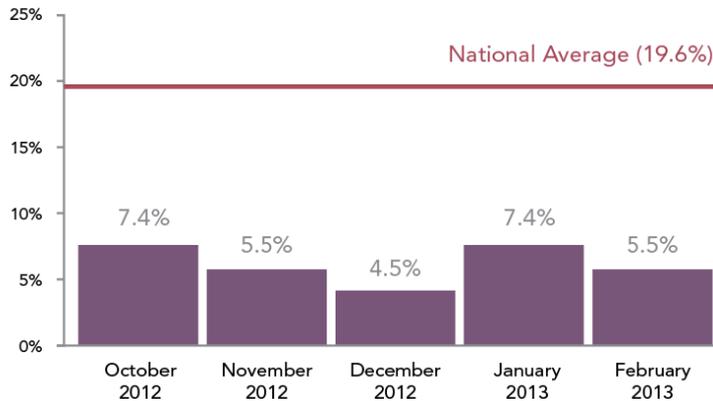
1) Center for Medicare & Medicaid Services (CMS)

2) Represents the number of G (or greater) deficiencies for the period of 2008-2010 per 100 beds. The lower the metric, the better the quality

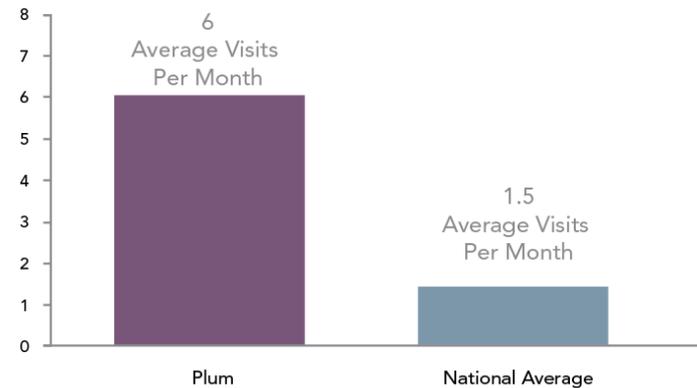
# Plum's Track Record

Plum is a leader in quality, regulatory compliance, patient experience, and physician involvement.

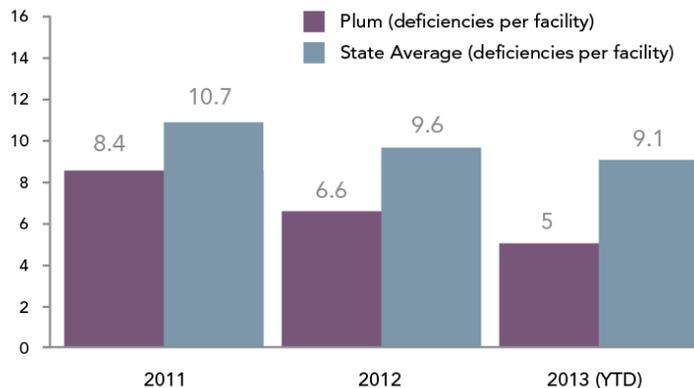
## Plum/Sutter Patient Readmission Rates



## Patient Physician/Physician Extender Visits



## Regulatory Outcomes



## Kaiser Permanente Satisfaction Surveys



## Amount and Form of Consideration – Plum and SMCC

As Plum Healthcare engages to acquire Seton Medical Center Coastside (SMCC), there are several factors that will need to be determined to inform a reasoned approach, for valuation of the business and real property. The following areas need further clarification in order to provide an accurate bid:

1. SMCC valued as a Distinct Part vs. a Free Standing SNF
2. Capex requirements for relicensing and building code requirements
3. Financing considerations
4. Detailed Financials
5. Appraisal

**At this point, given these factors, we value this opportunity to purchase the Free Standing SNF of SMCC at \$4.3M**

**Capex Requirements:** We anticipate investing a minimum of 1.5-2M in physical plant improvements necessary for the building to be brought up to industry standards.

**Financing Considerations:** Plum will fund the acquisition 100% with no financial contingences.

**As we consider the mutual benefits of having SMCC remain a skilled nursing facility, our desire first and foremost is to facilitate the process or worked strategy with the Seton Medical Center Coastside. We believe that working together Seton and Plum will achieve excellent results based on shared goals and common interests.**

## Working Capital Assumption/Sources of Capital

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# Plum Healthcare Group – 2013 Summary

- 2013 delivered \$66.2 Million of EBITDA, with an adjusted Net Income of \$17.3 Million, on \$550.5 Million in overall revenue. Revenue was over plan by 3.4%, while EBITDA was just below plan.

## Plum Healthcare Group

(\$'s in Millions)

	Q1	Q2	Q3	Q4	FY 2013	vs. Plan	
<b>Revenue</b>	<b>136.1</b>	<b>135.2</b>	<b>138.4</b>	<b>140.7</b>	<b>550.5</b>	<b>18.3</b>	3.4%
Net Income	5.7	6.5	1.7	0.4	14.3	(15.7)	
GLPL Adjustments <sup>^</sup>	-	-	4.3	(1.3)	3.0	3.0	
<b>Adj. Net Income</b>	<b>5.7</b>	<b>6.5</b>	<b>6.0</b>	<b>(0.9)</b>	<b>17.3</b>	<b>(12.7)</b>	
<b>EBITDA*</b>	<b>16.4</b>	<b>17.1</b>	<b>16.6</b>	<b>16.1</b>	<b>66.2</b>	<b>(0.6)</b>	-0.9%
% of Revenue	12.0%	12.6%	12.0%	11.5%	12.0%	-0.5%	

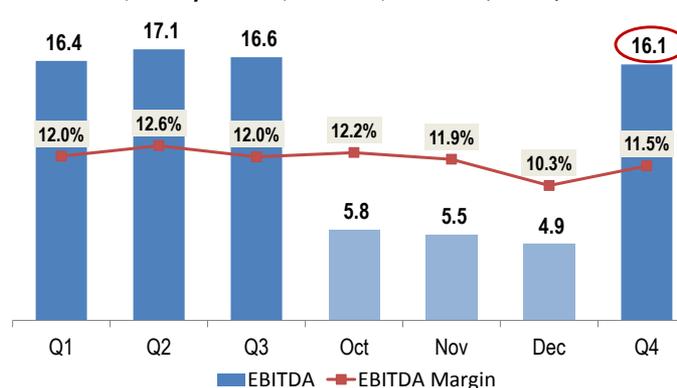
<sup>^</sup>GLPL Adjustments: \$5.25M in a 12-Month deductible policy booked in Aug. '13, adjusted to straight-line Aug '13 to Jul '14.

\*Excludes Non-Recurring Expenses & Adjusted for one time GLPL Insurance Expense

'13 Quarterly Revenue (\$'s in Millions): YTD \$550.5M



'13 Quarterly EBITDA (\$'s in Millions): Full-Year \$66.2M, 12.0%



# 2013 Cash Flow Summary

(\$ in Millions)	Q1 '13A	Q2 '13A	Q3 '13A	Q4 '13A	2013A
<b>Beginning Cash</b>	<b>4.1</b>	<b>6.0</b>	<b>2.4</b>	<b>9.2</b>	<b>4.1</b>
EBITDA	16.4	17.1	16.6	16.1	66.2
Nonrecurring	(0.3)	(0.6)	(0.3)	(1.8)	(3.0)
Accrual to Cash Timing *	6.4	(14.9)	13.4	0.9	5.8
<b>Net Cash from EBITDA</b>	<b>22.4</b>	<b>1.7</b>	<b>29.7</b>	<b>15.2</b>	<b>69.0</b>
<b>Debt</b>					
Debt - Principal	(1.2)	(1.2)	(1.2)	3.7	0.0
Debt - Interest, Fees, Reserves	(6.7)	(6.4)	(6.6)	(12.2)	(32.0)
Revolver (Paydown) / Draws	(8.6)	7.6	(6.7)	3.1	(4.5)
<b>Total Debt</b>	<b>(16.5)</b>	<b>(0.0)</b>	<b>(14.5)</b>	<b>(5.4)</b>	<b>(36.5)</b>
<b>Distributions</b>					
Tax Distributions	-	(1.3)	(1.1)	-	(2.4)
Shareholder Distributions	(1.8)	(2.4)	(2.2)	(2.3)	(8.6)
Other Distributions	(0.7)	(1.5)	(2.9)	-	(5.1)
<b>Total Distributions</b>	<b>(2.5)</b>	<b>(5.2)</b>	<b>(6.2)</b>	<b>(2.3)</b>	<b>(16.2)</b>
<b>Capital &amp; Investments</b>					
Capital Equipment and Furniture	(1.7)	(1.8)	(2.0)	(3.1)	(8.6)
Acquisitions, Investments	-	(0.5)	-	(0.2)	(0.7)
<b>Total Capital &amp; Investments</b>	<b>(1.7)</b>	<b>(2.4)</b>	<b>(2.0)</b>	<b>(3.2)</b>	<b>(9.3)</b>
Taxes / Other	0.3	2.3	(0.1)	(0.1)	2.3
<b>Subtotal - Net Cash Inflows / (Outflows)</b>	<b>(20.5)</b>	<b>(5.3)</b>	<b>(22.9)</b>	<b>(11.0)</b>	<b>(59.7)</b>
<b>Subtotal - Net Change in Cash</b>	<b>1.9</b>	<b>(3.7)</b>	<b>6.8</b>	<b>4.2</b>	<b>9.3</b>
<b>Ending Cash</b>	<b>6.0</b>	<b>2.4</b>	<b>9.2</b>	<b>13.4</b>	<b>13.4</b>
Available Revolver	18.9	10.2	16.9	13.8	13.8
<b>Total Cash Availability</b>	<b>24.9</b>	<b>12.6</b>	<b>26.1</b>	<b>27.1</b>	<b>27.1</b>

*\* Accrual to Cash Timing Details*

(Increase) / Decrease in A/R	1.8	(8.1)	7.2	(4.4)	(3.5)
(Increase) / Decrease in Prepaid, Other Assets	0.2	(1.8)	3.8	3.6	5.9
Increase / (Decrease) in A/P	4.3	(5.0)	2.4	1.7	3.4
	6.4	(14.9)	13.4	0.9	5.8

2013 Cash Received from EBITDA of \$69.0M

Uses of Cash:

- Interest, Debt Reduction: \$36.5M
- Distributions: \$16.2M
- Capital & Investments: \$9.3M

Year-end cash availability: \$27.1M

# Financial References

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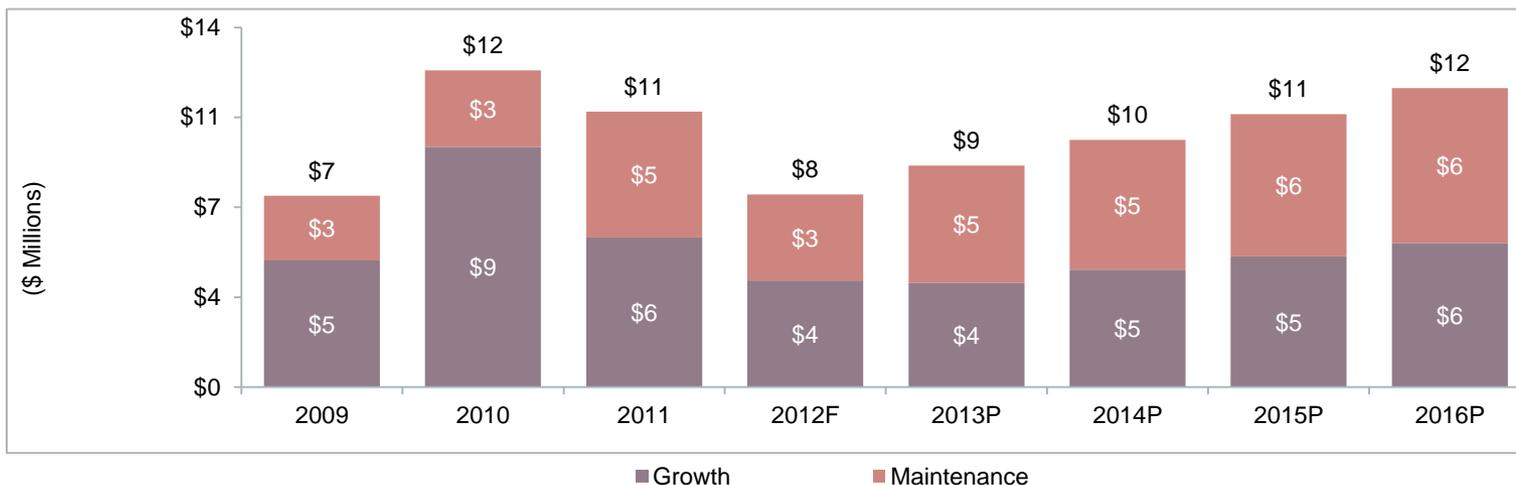
**801.947.7500**

**[www.eidebailly.com](http://www.eidebailly.com)**

# Anticipated Operating Plan and Capital Commitments

- Over the past 5 years, Plum has invested more than \$40 million in growth and maintenance capital expenditures
  - IT improvements and maintenance upgrades
- Over the next 5 years, Plum expects to spend ~\$48 million in total capital expenditures
  - In growth capex, Plum projects that each building will require ~\$600k in improvements every 8 years and \$750k in annual maintenance capex

## Base Capital Expenditures



# SMCC's Current Agreements and Obligations

## **CBA Agreement and Non-Union Employee Retention:**

- Plum has a history of working well with Unions
- Goal is to retain a maximum number of employee, as well as add staff for optimal care

## **Post-Retirement Obligations:**

- Plum does not offer post-retirement benefits and will not be in a position to assume these obligations

## **Treatment of Other Agreements:**

- Plum will determine this during the due diligence and review period

# Process/Timing and Specific Contingencies to Closure

## Pre-Acquisition Underwriting

T-Minus 60 Days

- Pre-select and prepare Facility Administrator (*i.e.*, facility CEO)
- Assess incumbent Director of Nursing (“DON”) and pre-select replacement where indicated
- Determine high-risk areas by assessing core, high-risk clinical systems
- Conduct third party comprehensive regulatory and clinical compliance due diligence
- Determine in-house rehab feasibility and recruit core rehab team
- Contact regulators to communicate transition and integration plan to establish rapport with local enforcement staff
- Conduct local market study
- Prioritize cost synergies based on purchasing best-practice standards and existing Plum purchasing power
- Develop pro-forma operating budget to guide operating priorities in the first six-to-eight months and provide clear initial performance targets

## Acquisition to Stabilization

1-12 Months

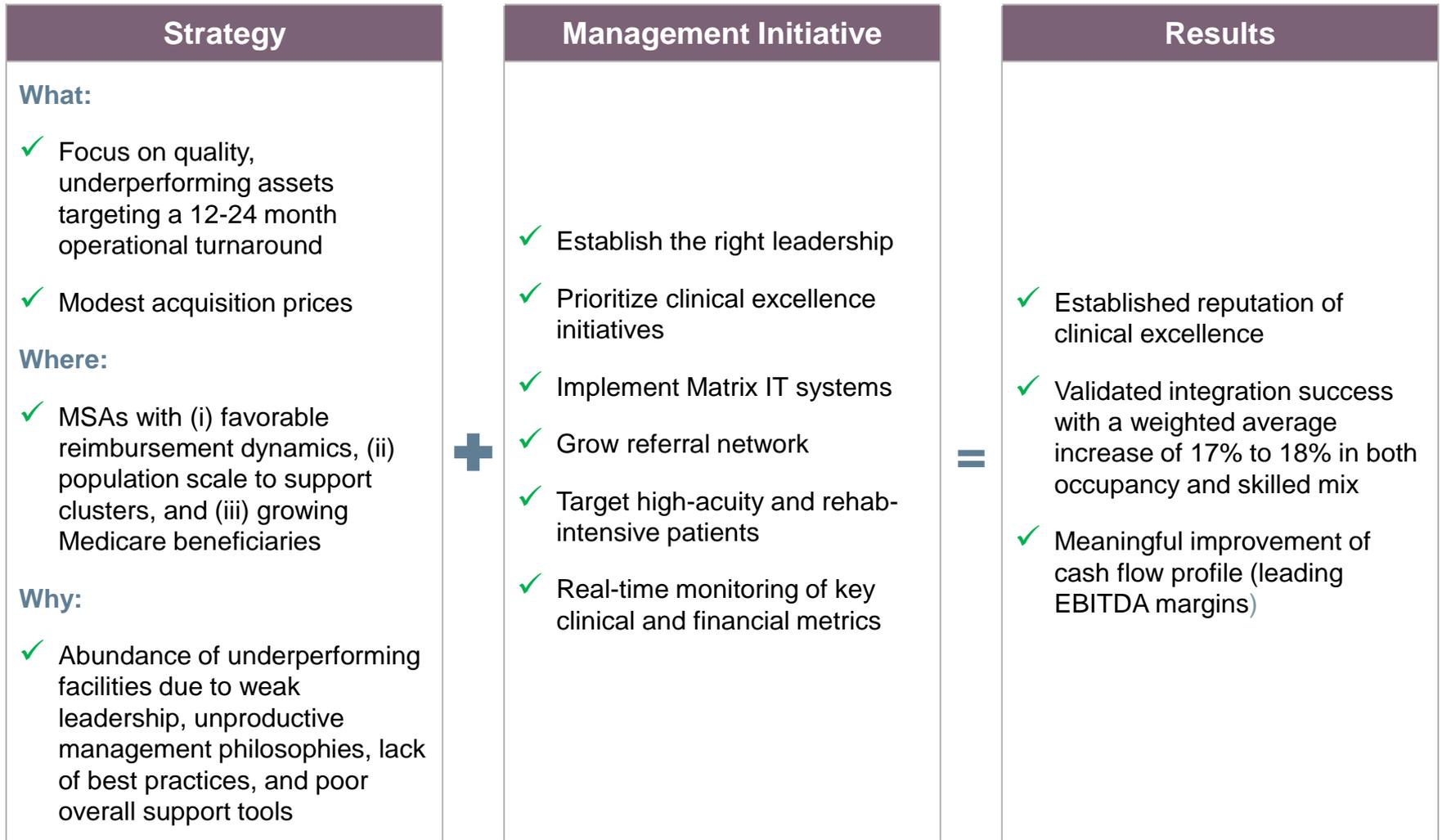
- Implement core Plum clinical systems and practices (prevention protocols, EMR platform, IDT model, etc.)
- Transition to in-house rehab model
- Develop distinctive relationships with referral sources (*e.g.*, MDs, case managers, and HMOs)
- Build census on improved clinical outcomes by first, growing census, then second, growing skilled mix
- Train facility management to the “Plum Way” by growing and developing people, growing the market, and achieving financial excellence
- Connect facilities to operating accountability metrics dashboard (*e.g.*, occupancy, mix, staffing, and clinical metrics) to facilitate self-monitoring and self-correction
- Establish facility-generated operating budgets (financial and clinical) to equip facility teams to self-manage their performance and to be fully accountable for their results
- Renegotiate managed care contracts and optimize existing global Plum contracts
- Train facilities to use strength of the Branch Model: share best practices; reach out to peers for assistance; share staff; invite heightened accountability; and account to seasoned Branch President

## Stabilization to Optimization

12-24 Months

- Perform third party internal clinical and regulatory compliance audits, including Medicare billing and clinical compliance
- Improve reimbursement rates and skilled mix by systematically communicating improved clinical outcomes to the market
- Continue to refine CSSR process to assure compliance and accurate reimbursement
- Continue to develop team’s ability to manage their own performance in real-time through Plum dashboard
- Institutionalize the “Plum Way” so facilities are less dependent on individual team members to achieve excellent results

# Results-Driven, Collaborative Turnaround Formula



# Plum Healthcare Financial Due Diligence List

## Financial

- Provide the last 3 filed MediCal and Medicare cost reports, including PS&R's (Provider Settlement and Reimbursement) and NPR's (Notice of Program Reimbursement) for the Medicare cost reports related reports.
- Provide the monthly trial balance report and summary with detailed financial statements.
- What software does the facility utilize for A/R, G/L and A/P?
- Provide a detail A/R aging report by payor for the facility for the most recent close. Include a separate list of A/R credit balances.
- Provide all remittance advices for Medicare, MediCal, hospice, managed care or any other commercial payors for the past 3 months.
- Provide a roll forward schedule of A/R by payor for the facility for the past 12 months.
  - Beginning A/R
  - Plus: Net Charges
  - Less: Cash Collection
  - Less: Write offs
  - Ending A/R
- Provide evidence that all AB1629 Quality Assurance Fees have been paid.

# Plum Healthcare Operations Due Diligence List

## Operations

- Provide copies of all surveys and or complaint visits (state, federal, Medicare, or otherwise) performed in the facilities over the last 24 months (including any responses, amendments, or correspondence related to said surveys).
- Does the facility have any open governmental audits underway or pending (including IRS, EEOC, Medicare, etc.)? If so, please provide detail.
- Provide copies of all governmental permits, licenses, etc., of the facility and/or copies of all operating licenses in effect at the property.
- Provide any notices for federal or state regulators for the past 2 years noting any Civil Monetary Penalties placed against the facility.
- Provide quality indicators reports for the past 12 months.
- Provide a list and copy of any vendor agreements or other contracts for services.
- Provide a list and copy of all managed care contracts.
- Provide a list and copy of all medical director contracts over the last 2 years.
- Provide monthly census report – current.

# Plum Healthcare Risk Mgmt./Insurance/HR/Property Due Diligence List

## Risk Mgmt./Insurance/HR/Property

- Provide a five (5) year history of loss runs and claims history for general liability, D&O, and workers compensation.
- Provide a summary of insurance including general, professional, property and casualty, health and dental, 401(k), pension plan or other.
- Provide a schedule of any suits, actions, or other pending or threatened litigation for the facility. Provide a list of legal claims.
- Provide facility payroll reports for the past 3 months including most recent pay period. Include job title, hours worked, hourly rates, start date, overtime paid etc. How does payroll get processed?
- What pay periods and pay dates does the facility have (include pay period cutoff dates)?
- Provide a copy of the employee handbook and other personnel policies.
- Provide a detailed list of all assets, equipment, and FF&E.
- How does the Facility handle hazardous waste and its storage and disposal?
- Provide copies of all documents relating to the presence of asbestos at the facility, if any.
- Provide a detailed floor plan, ALTA/Land Survey, environment studies of the facility. Copy of recent appraisal.

# Key Contacts

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