OFFICE OF THE ATTORNEY GENERAL
STATE OF GEORGIA

IN THE MATTER OF THE SALE OF RIDGEVIEW INSTITUTE, INC., AS SELLER, TO US HEALTHVEST, LLC, AS PURCHASER.	* * * * *	NO. AG 2016-04

REPORT OF FINDINGS

I.

BACKGROUND

RIDGEVIEW INSTITUTE, INC.

Ridgeview Institute, Inc. ("Ridgeview"), is a private Georgia nonprofit corporation which owns and operates Ridgeview Institute (the "Hospital"), which is set on a campus of thirty-seven (37 acres) and includes ten (10) buildings. The Hospital, which provides behavioral health services, has a license to operate a 148-bed hospital and a Certificate of Need ("CON") for a psychiatric hospital with a total of 216 CON-authorized beds located at 3995 South Cobb Drive, Smyrna, Georgia. Ridgeview, founded in 1976, specializes in treatment of mental illness and addiction. Ridgeview provides inpatient, partial hospitalization, intensive outpatient, and free community support groups for adolescents, adults, and recovering professionals. Ridgeview's primary service area includes the following Georgia counties: Cobb, Fulton, DeKalb, Paulding, Douglas, and Cherokee.

THE DISPOSITION PROCESS

Beginning in 2013, amid growing concerns regarding the healthcare industry and Ridgeview's viability as a stand-alone provider of behavioral health services, Ridgeview's Board of Directors (the "Board") began exploring a joint venture opportunity with a specific acute care system. Over the next eighteen (18) months, the Board engaged in joint venture negotiations, which were ultimately terminated by the acute care system. In late 2014, the Board decided to shift their focus and began exploring opportunities for an affiliation or sale of Ridgeview to other healthcare providers that shared common interests and values. In June of 2015, Ridgeview engaged Schumacher Clinical Partners, Inc. ("Schumacher") to assist in the strategic discussion, coordination, and management of a potential affiliation or sale process of Ridgeview. Schumacher initially submitted requests for indications of interest to ten (10) potential transaction partners, which included: (i) Emory Healthcare, (ii) Piedmont Healthcare, (iii) WellStar Health System, (iv) Acadia Healthcare, (v) Universal Health Services, (vi) US HealthVest, (vii) Summit BHC, (viii) United Medical, (ix) Strategic Behavioral Health, and (x) Northside Healthcare.

Six (6) of the potential transaction partners responded and were invited to in-person meetings. The potential transaction partners included: (i) Acadia Healthcare, (ii) Emory Healthcare, (iii) Summit BHC, (iv) Universal Health Services, (v) US HealthVest, and (vi) WellStar Health Systems. Subsequently, interested purchasers were asked to submit offers and respond to a questionnaire posed by the Board. All six (6) potential transaction partners submitted offers that were reviewed by the Board from December 17, 2015 to April 18, 2016. During this process, the Board, in addition to advisors from Schumacher, evaluated the proposed offers using fifteen (15) factors. These fifteen (15) factors consisted of (i) history of the organization, (ii) experience in the behavioral healthcare industry, (iii) management team and strength thereof, (iv) organization's infrastructure, systems and processes, (v) cultural alignment, (vi) commitment to preserving Ridgeview's commitment to quality and service, (vii) the organization's financial strength, (viii) commitment of financial sponsors, (ix) unique programs and services, (x) the organization's relationship with local health systems, (xi) the organization's total consideration offered, (xii) integration philosophy, (xiii) compensation and benefit plans, (xiv) the plan for integration of Ridgeview employees, and (xv) extent and nature of managed care relationships.

Ultimately, the Board selected the offer submitted by US HealthVest, LLC ("US HealthVest"), which comprised of $50 million cash consideration for the hospital assets and a lease of the real estate for thirty (30) years at $3 million per year, with an option to purchase the real estate after the fifth year for $31.5 million. The other cash offers received from interested parties ranged from $36 million to approximately $46.5 million, inclusive of the hospital operations and the real estate. Subsequently, Ridgeview and US HealthVest negotiated an Asset Purchase Agreement ("APA") and a Lease Agreement ("Lease"), which was approved by the Board of Ridgeview on September 8, 2016, subject to the approval of this Office.

THE PROPOSED TRANSACTION

The APA provides that Ridgeview will sell substantially all of its assets to US HealthVest.[1] The aggregate cash consideration of the proposed transaction is $50 million. Additionally, at the transaction closing date, US HealthVest will enter into a thirty (30) year Lease for the use of Ridgeview's real estate for an amount equal to $3 million per year, including an option to purchase the real estate after the fifth year for $31.5 million.[2] Pursuant to the Lease, US HealthVest will also have a right to extend the term of the Lease for two additional ten (10) year periods.

Under the APA, Ridgeviews' assets include its inpatient and outpatient services, hospital-based pharmacy, and all personal property used in the operation of the Hospital, including furniture, equipment, supplies and inventory. The assets under the APA also include intangible personal property, such as, certain contracts, leases or rental agreements, telephone numbers, software licenses, intellectual property rights, third party warranties, licenses, permits, certificates of need, real property leases, and other assets outlined in the APA. Pursuant to the APA, certain assets are also excluded from the proposed transaction, such as, Ridgeviews' real estate. In exchange for these assets, US HealthVest agrees to pay Ridgeview $50 million. Under the Lease, US HealthVest will lease the real estate from Ridgeview for thirty (30) years at $3 million per year, with an option to purchase the real estate after the fifth year for $31.5 million. US HealthVest chose to structure its offer as two components, cash at closing and a long-term lease, in order to: (i) focus on the operation of the Hospital without concerns regarding the real estate, and (ii) to provide an income stream for funding ongoing charitable activities, as desired by Ridgeview.

Unless specifically provided in the APA, US HealthVest will not be responsible or liable for any liability or obligations of Ridgeview. Ridgeview, in addition to trade payables and accrued employee PTO, has three (3) long-term series of bonds financed through Wells Fargo. The outstanding balances of the bond financing consist of approximately: (i) $60,000 in Series 2002 bonds, (ii) $4.79 million in Series 2013 bonds, and (iii) $6.56 million in Series 2016 bonds.

[1] Pursuant to the APA, US HealthVest intends to assign the APA to RV Behavioral, LLC, a newly formed, wholly owned subsidiary of US HealthVest. For purposes of this report, the Purchaser will be referred to as US HealthVest.

[2] This transaction is scheduled to close on December 30, 2016.

Ridgeview will satisfy all liabilities and obligations from the proceeds of the proposed transaction.

Pursuant to the APA, US HealthVest has also committed to make a number of commitments related to the transaction including: (a) a commitment to offer three-year employment agreements to several managerial employees of Ridgeview, and offer employment to all other employees of Ridgeview; (b) a commitment to maintain and continue the same high quality psychiatric and treatment services that Ridgeview has historically offered; (c) a commitment to provide care to all patients, regardless of ability to pay, consistent with its charity care policy; and (d) using the Hospital facility and premises to house a central business office for US Healthvest's current and future hospitals for at least five (5) years under the Lease

VALUATION ANALYSIS

As part of its engagement, Ridgeview retained Schumacher to prepare a valuation of the Hospital and an analysis of the purchase consideration with respect to the proposed transaction between Ridgeview and US HealthVest. Schumacher submitted it findings and conclusions in a report to Ridgeview. Brad Guest of Schumacher testified at the public hearing held on November 29, 2016.

In its calculation of value for the Hospital, Schumacher calculated the value of the Hospital's assets. There are typically three traditional approaches considered to determine value. The three approaches are (1) the Income Approach, (2) the Market Approach, and (3) the Cost (net asset value) Approach. The Income Approach is based on the concept that the value of a business is the present worth of the expected future economic benefits to be derived by the owners of the business. Under the Market Approach, value is derived through a comparison of the transaction prices of similar assets trading in the marketplace. In the Cost (net asset value) Approach, value is estimated based on the value of all of the subject business's underlying assets, both tangible and intangible.

Schumacher considered all three approaches, but relied on the Income Approach in determining the value of the Hospital. Under the Income Approach, Schumacher applied a Discounted Cash Flow ("DCF") method, which provides an indication of value based on the entity's ability to generate net cash flow. This projected net cash flow is then discounted to present value using an appropriate risk-adjusted discount rate. Based on a particular set of assumptions, Schumacher discounted the resulting cash flows at a discount rate of 8.5%. Using this methodology, Schumacher arrived at a value for the Hospital of $33.2 million.

In addition to performing a valuation, Schumacher evaluated the adequacy of the proposed consideration with and without the lease. Schumacher estimated the total purchase consideration under the APA and the Lease to be $140 million, which is the sum of two (2) components: (i) the cash consideration of $50 million to be paid by US HealthVest at closing, and (ii) the cumulative amount of the annual lease payments over the thirty-year term of the Lease at $90 million. Having estimated the value of the total proposed consideration of $140 million, Schumacher calculated implied multiples of revenue and EBITDA using three scenarios: (i) the $50 million cash at closing *excluding* the annual lease payments for the real estate; (ii) the $50 million cash at closing of the transaction *including* the annual payments for the real estate resulting in $140 million *discounted*; and (iii) the $50 million cash at closing of the proposed transaction including the annual payment for the real estate resulting in $140 million *undiscounted*. The resulting revenue multiples under the three (3) scenarios were 1.4x, 2.3x, and 3.8x, respectively. The resulting EBITDA multiples were 12.9x, 21.5x, and 36x, respectively.

Subsequently, Schumacher reviewed recent transactions involving other behavioral healthcare service providers and used average and median multiples from those transactions and compared them to the multiples generated by the proposed transaction consideration. Schumacher observed that the multiples from the proposed transaction consideration between Ridgeview and US HealthVest far exceeded the average and median multiples of the comparable transactions. Furthermore, Schumacher reviewed and compared multiples of six (6) public companies in the behavioral healthcare industry and observed that the multiples from the proposed transaction consideration fell within the median and the high end of the multiple range. Ultimately, Schumacher concluded that the proposed terms provide Ridgeview with adequate consideration for the value of the business being sold.

In addition to Schumacher, Ridgeview retained Penn Hastings & Associates ("Penn Hastings") to prepare a real estate appraisal and a rent analysis with respect to the proposed transaction. In preparing a real estate appraisal, Penn Hastings considered the three (3) approaches to value, but relied upon the Market Approach in reaching its conclusion on the fair market value of the real estate at Ridgeview. Specifically, Penn Hastings utilized the Sales Comparison method under the Market Approach, which is the process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sales prices of the comparable properties based on relevant, market-derived elements of comparison. Ultimately, Penn Hastings estimated the market value of Ridgeview's real property to be $14.7 million, based on the highest and best use of the property. In its market rent analysis, Penn Hastings, applying the same Market Approach, concluded that the overall annual market rent for Ridgeview to be $2.46 million.

In accordance with O.C.G.A. § 31-7-405(b), the Attorney General retained Ernst & Young, LLP ("EY") as an independent financial advisory consultant to assist in the review of the proposed transaction between Ridgeview and US HealthVest. The Attorney General engaged EY to provide valuation advisory services, but not to provide a separate valuation or a fairness opinion. As part of its engagement, EY held discussions with representatives of all the parties involved in the proposed transaction and performed independent research and analysis to review the conclusions made by Ridgeview's consultants to the proposed transaction. EY also provided testimony at the public hearing through its representative, Bridget Bourgeois, a partner at EY, specializing in health care valuations.

In the course of its engagement, EY reviewed documents contained in the filing, including but not limited to, the APA and the Lease, the consultant report and analysis prepared by Schumacher, and the real estate appraisal and analysis prepared by Penn Hastings. EY primarily focused on three components of Schumacher's Report. Those being (i) the value of the consideration being paid at the closing of $50 million for the hospital operations, (ii) the valuation of Hospital operations, and (iii) the value of the lease, specifically the thirty-year lease of the real property at $3 million a year for thirty years and the value of the buyers option to purchase the real estate at the end of five (5) years for $31.5 million. EY also focused on two (2) components of Penn Hasting's valuations. Those being: (i) the valuation of the real estate and (ii) the market rent analysis. EY also conducted independent research and performed sensitivity calculations related to Schumacher's analysis and to Penn Hastings' analysis.

In its review, EY confirmed that the Income, Market, and Cost Approach considered by Schumacher and Penn Hastings are consistent with generally accepted industry standards for valuation analysis. With respect to the valuation of the Hospital, EY analyzed Schumacher's underlying valuation methodologies and assumptions, and performed a number of sensitivity analyses of Schumacher's DCF. Based on its analysis, EY observed that Schumacher's concluded value of $33.2 million for the Hospital was within the range of its calculations and sensitivity analysis. EY also conducted market research and analyzed valuation multiples observed for hospital transactions and publicly-traded hospitals in the behavioral health sector and compared them to the valuation multiples implied by Schumacher's valuation analysis of the Hospital and the proposed consideration. Based on their independent research, EY observed that the revenue and EBITDA multiples implied by the valuation of the Hospital are well within the range of the observed market multiples. Additionally, EY found that the revenue and EBITDA multiples implied by the proposed consideration were between the median and the third quartile, or above the third quartile of the observed market multiples.

In its review of Penn Hastings real estate appraisal and market rent analysis and comparison to the proposed consideration for the annual lease and real estate purchase price option, EY observed that the buyers option to purchase the real estate in year six (6) of the Lease for $31.5 million comprises of a negotiated price of $30 million plus and increase of 1% per year for the first five (5) years under the Lease. EY noted that the negotiated price of $30 million is significantly greater than the concluded real estate value of $14.7 million. Furthermore, EY observed that the $3 million proposed consideration for the annual rent for Ridgeview's real estate is also greater than the annual market rent of $2.46 million concluded by Penn Hastings.

In sum, EY concluded that based on its independent market research of hospital transactions and sensitivity analysis, Schumacher and Penn Hastings used reasonable and appropriate valuation methods to value the Hospital operations and real estate, and the proposed consideration Ridgeview expects to receive in the proposed transaction.

PUBLIC COMMENT

The public hearing was held on November 29, 2016, at 5:00 p.m. in the Professional Building at Ridgeview, located at 3995 South Cobb Drive, Smyrna, Georgia. Pursuant to O.C.G.A. § 31-7-404, notice of the public hearing was published in the *Marietta Daily Journal* on November 4, 2016 and November 11, 2016. There was one (1) comment made during the public comment portion of the hearing addressing the importance of the services and care offered at Ridgeview and the work of the Ridgeview Alumni Association. There were no comments in opposition to the proposed transaction.

Following the public hearing, the record was held open until the close of business on Friday, December 2, 2016, at 5:00 p.m., for any further public comment. This Office received no written public comments after the public hearing. Counsel for the Seller and Purchaser were requested to inform this Office in writing before the record closed, as to whether their respective clients intended to proceed with the proposed transaction as structured or modify the proposed transaction in some respect. Counsel for both parties have written a joint letter stating that their clients wish to proceed with the transaction as proposed.

II.

FINDINGS

The Hospital Acquisition Act (the "Act") involves a public interest determination in the Attorney General's review of a proposed disposition and acquisition of hospital assets. *See* O.C.G.A. § 31-7-400 *et seq.*; *Sparks v. Hospital Authority of City of Bremen and County of Haralson*, 241 Ga. App. 485 (1999) (physical precedent only). The Act requires a written notice filing and a public hearing "regarding the proposed transaction in the county in which the main campus of the hospital is located." O.C.G.A. §§ 31-7-401, 31-7-405(a). The purpose of the public hearing is "to ensure that the public's interest is protected when the assets of a nonprofit hospital are acquired by an acquiring entity by requiring full disclosure of the purpose and terms of the transaction and providing an opportunity for local public input." O.C.G.A. § 31-7-406.

Under the Act, disclosure is linked to whether "appropriate steps have been taken to ensure that the transaction is authorized, to safeguard the value of charitable assets, and to ensure that any proceeds of the transaction are used for appropriate charitable health care purposes." O.C.G.A. § 31-7-406. The Act identifies thirteen (13) factors that are key considerations in determining whether the appropriate steps have been taken by the parties. *Id.* The thirteen (13) factors are listed in Appendix A to this report.

The thirteen (13) factors set forth in O.C.G.A. § 31-7-406 can be grouped into four (4) categories relating to (a) the exercise of due diligence by the seller (factors number 1, 2, 3, 4 and 8), (b) conflicts of interest (factors number 5 and 13), (c) valuation of the hospital assets (factors number 6, 7 and 10), and (d) the charitable purpose of the proposed transaction (factors number 9, 11 and 12).

The Exercise of Due Diligence by the Seller

Consistent with factor number 1, the disposition is authorized by applicable law since Ridgeview may sell any part of its property pursuant to the Nonprofit Corporations Code and the Board has taken the appropriate corporate actions to authorize the sale of its assets to US HealthVest. *See* O.C.G.A. §§ 14-3-302, 14-3-1202. With respect to factor number 2, there are no major donors who have contributed over $100,000 to Ridgeview.

The due diligence factors number 3 and 4 necessitate review of the process and procedures employed by the Seller "in deciding to dispose of hospital assets, selecting the acquiring entity, and negotiating the terms and conditions of the disposition." O.C.G.A. § 31-7-406(3). In this instance, Ridgeview exercised appropriate due diligence in its selection process. As discussed in detail above, Ridgeview conducted an extensive review process by reaching out to numerous health systems and engaged Schumacher to assist in the strategic discussion, coordination, and management of a potential affiliation or sale process. Mr. Robert M. Fink, Chairman of the Board, provided detailed testimony regarding the decision to sell and the process utilized. The deliberative process employed by the Board and Schumacher in selecting US HealthVest demonstrates the exercise of due diligence, consistent with factors number 3 and 4.

Since there is no separate management or services contract negotiated in conjunction with the proposed transaction, factor number 8 is not applicable to the determination of Seller's exercise of due diligence.

Conflicts of Interest

The disclosure of any conflict of interest involving Ridgeview, its Chief Executive Officer and its expert consultant is required to be considered under factor number 5. Conflict of interest certifications as required by the Act and the notice filing requirements of the Attorney General have been filed by members of the Board, by the Chief Executive Officer of Ridgeview by Ridgeview's expert consultant. Such certifications do not disclose any impermissible conflicting financial interest in the proposed transaction. With regard to factor number 13, there are no health care providers who will be offered an opportunity to invest or own an interest in US HealthVest or a related party. Thus, factor 13 does not apply.

Valuation of the Hospital Assets

The value of the hospital and the amount of consideration to be paid in the proposed transaction must be weighed under factor numbers 6, 7 and 10. In a sale of hospital assets from a nonprofit corporation to a for-profit corporation, the nonprofit seller should receive "fair value" for its assets. *See* O.C.G.A. § 31-7-406(6).

While the term "fair value" is not defined in the Act, it is reasonable to conclude that fair value means "fair *market* value," since the Act is concerned with the sale or lease of real, personal and intangible property. Likewise, under factor number 13, board members and the chief executive officer of the nonprofit seller corporation must provide a certification "stating that the nonprofit corporation has received fair *market* value for its assets or, in the case of a proposed disposition to a not-for-profit entity or hospital authority, stating that the nonprofit corporation has received an enforceable commitment of fair and reasonable community benefits for its assets." O.C.G.A. § 31-7-403(b)(3). (emphasis added.) The reference to "fair market value" in this separate, but related, provision of the Act suggests that the term "fair value" in factor number 6 should be read as "fair market value," in order to apply the Act's provisions consistently, especially since "fair market value" is the more descriptive and specific term. Thus, when the provisions of the Act are read in *pari materia* and in context, the term "fair value" should be construed to mean "fair market value."

The terms of the proposed transaction appear to support a finding that Ridgeview will receive fair market value for the sale and lease of its assets. Collectively, the valuation analysis and conclusions developed by Schumacher and Penn Hastings, as reviewed by EY, indicates that the valuation multiples implied by the proposed transaction consideration are between the median or above the third quartile of the observed market multiples. Additionally, the valuation multiplies implied by the valuation of the Hospital operations were also within the range of the observed market multiples. Lastly, EY observed that Schumacher and Penn Hastings used appropriate valuation methods and techniques in its analysis of the proposed transaction to support its conclusion. Based on the record, it appears Ridgeview will receive fair market value for its assets as required by the Act.

Since the Seller is not financing any portion of the proposed transaction, factor number 7 is not applicable. As to factor number 10, Article 9 of the Lease Agreement ("Lease") provides that for the first five (5) years, unless specifically provided in the Lease, US HealthVest may not assign or sublet the real estate without Ridgeview's consent. This non-assignment provision of the Lease appears to have the effect of a right of first refusal. After the fifth year, if US HealthVest assigns the Lease to another entity, Ridgeview may require the entity to purchase the property. Furthermore, pursuant to the Lease, in the Event of Default, Ridgeview may take possession of the Lease Premises or utilize any other available remedy provided for in the Lease. Thus, factor 10 is satisfied.

Charitable Purpose of the Proposed Transaction

With respect to the charitable purpose of the proposed transaction, factor number 9 requires that the disposition of proceeds be used for charitable health care purposes consistent with the nonprofit's original purpose. Mr. Fink testified at the hearing that proceeds from the sale of Ridgeview, after paying any remaining debt obligations, will be placed into the Ridgeview Charitable Foundation ("Foundation"). Mr. Fink, in his testimony, stated that some of the purposes of the Foundation includes, but is not limited to, (i) working with non-profit healthcare systems to initiate or increase behavioral health services, (ii) promote and sponsor, along with a non-profit organization, a three-quarter-way house for individuals with addictions, and (iii) provide financial scholarships.

The other two charitable purpose factors, factor numbers 11 and 12, concern the purchaser's commitment to provide (a) continued access to affordable care, (b) the range of services historically provided by the seller, (c) health care to the disadvantaged, the uninsured and the underinsured and (d) benefits to the community to promote improved health care. Dr. Richard Kresch, President and Chief Executive Officer of US HealthVest, testified that Ridgeview will continue to provide the same care that it currently provides to all patients, regardless of ability to pay, and consistent with its charity care policy. The Hospital will also continue to accept Medicare and Medicaid. Furthermore, Mr. Kresch testified that the scope of services that Ridgeview is able to offer to the community may expand. The evidence, taken as a whole, demonstrates an enforceable commitment to improve health care in the community and to assure continued access to affordable care.

III.

CONCLUSION

Upon review of the public record and in accordance with the Hospital Acquisition Act, the Hearing Officer finds that the public record in this matter discloses that the parties have taken appropriate steps to ensure (a) that the transaction is authorized, (b) that the value of the charitable assets is safeguarded and (c) that any proceeds of the transaction are used for appropriate charitable health purposes.

This 29th day of December, 2016.

ALKESH B. PATEL
Assistant Attorney General
Hearing Officer

APPENDIX A

(1) Whether the disposition is permitted under Chapter 3 of Title 14, the 'Georgia Nonprofit Corporation Code,' and other laws of Georgia governing nonprofit entities, trusts, or charities;

(2) Whether the disposition is consistent with the directives of major donors who have contributed over $100,000.00;

(3) Whether the governing body of the nonprofit corporation exercised due diligence in deciding to dispose of hospital assets, selecting the acquiring entity, and negotiating the terms and conditions of the disposition;

(4) The procedures used by the nonprofit corporation in making its decision to dispose of its assets, including whether appropriate expert assistance was used;

(5) Whether any conflict of interest was disclosed, including, but not limited to, conflicts of interest related to directors or officers of the nonprofit corporation and experts retained by the parties to the transaction;

(6) Whether the seller or lessor will receive fair value for its assets, including an appropriate control premium for any relinquishment of control or, in the case of a proposed disposition to a not-for-profit entity, will receive an enforceable commitment for fair and reasonable community benefits for its assets;

(7) Whether charitable assets are placed at unreasonable risk if the transaction is financed in part by the seller or lessor;

(8) Whether the terms of any management or services contract negotiated in conjunction with the transaction are reasonable;

(9) Whether any disposition proceeds will be used for appropriate charitable health care purposes consistent with the nonprofit corporation's original purpose or for the support and promotion of health care in the affected community;

(10) Whether a meaningful right of first refusal to repurchase the assets by a successor nonprofit corporation or foundation has been retained if the acquiring entity subsequently proposes to sell, lease, or transfer the hospital to yet another entity;

(11) Whether sufficient safeguards are included to assure the affected community continued access to affordable care and to the range of services historically provided by the nonprofit corporation;

(12) Whether the acquiring entity has made an enforceable commitment to provide health care to the disadvantaged, the uninsured, and the underinsured and to provide benefits to the affected community to promote improved health care; and

(13) Whether health care providers will be offered the opportunity to invest or own an interest in the acquiring entity or a related party, and whether procedures or safeguards are in place to avoid conflicts of interest in patient referrals.