cerberus

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September 4, 2024

Senator Bernie Sanders
Chairman of the Senate Committee on Health, Education, Labor and Pensions
332 Senate Dirksen Office Building
Washington, D.C. 20510

Senator Bill Cassidy, M.D.
Ranking Member of the Senate Committee on Health, Education, Labor and Pensions
428 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Senators Sanders and Cassidy:

For your reference in connection with the HELP Committee hearing on September 12, 2024, Cerberus Capital Management, L.P. submits the following summary of Cerberus Capital affiliates' ("Cerberus") investment in Steward Health Care ("Steward"). It focuses on the steps taken to save numerous failing hospitals in Massachusetts, the massive investments made by Cerberus and Steward into the Steward healthcare system, and Cerberus' decade-plus commitment to grow Steward into a nationally recognized Accountable Care Organization ("ACO"). Cerberus' investment was essential in providing continued healthcare services in the Massachusetts communities served by the hospitals acquired. By the conclusion of Cerberus ownership in 2020, initial and subsequent investments made by Steward had benefited millions of patients and thousands of employees. These facts are provided to enable you to understand the role Cerberus played in preserving, protecting and growing Steward during the period of its investment.

Executive Summary

In 2010, affiliates of Cerberus acquired from the Catholic Archdiocese of Boston six operationally and financially troubled acute care hospitals in Massachusetts that were on the verge of total failure. Cerberus' initial investment, and massive investments made by Steward after the initial acquisition, in these six hospitals and in five more similarly troubled hospitals in Massachusetts, facilitated the survival and vast improvement of these hospitals.

During Cerberus' ownership, the operations and facilities of hospitals were dramatically improved, the number and quality of providers were increased and a platform for growth, including the addition of numerous hospitals outside of Massachusetts, was created to better serve the patients and communities in which Steward operated. All commitments to invest capital made by Cerberus and Steward were met and exceeded. During Cerberus' ownership, nearly $900 million was invested in facilities, technology, personnel and other projects from invested capital and cash flow generated by Steward.

The strategy, led by Dr. Ralph de la Torre and his management team, focused on maximizing operational efficiencies and huge investments in facilities, technology and strategic acquisitions, to deliver high-quality healthcare at lower costs of care for patients. As a result of these measurable and documented improvements, capital investments of more than $1 billion by Cerberus and Steward alone, and strategic acquisitions, Steward became one of the largest private, for-profit hospitals in the United States. During Cerberus' ownership, Steward more than tripled its physician network, increased its managed lives by over 900% and advanced risk-based, capitation payments across its populations in the service of delivering value-based, high-quality healthcare.

Cerberus was a long-term investor in Steward. In 2016, more than six years after its initial investment, a transaction with Medical Properties Trust ("MPT") facilitated the return of initial invested capital and a dividend for investors. Cerberus received no other dividends from Steward during its more than ten years of ownership. The 2016 MPT transactions, as described below, added liquidity to Steward's balance sheet, allowed it to retire approximately $385 million of secured debt obligations and provided Steward with commitments from MPT of $1 billion (which commitments were met and exceeded) to help Steward expand its footprint and make additional investments in its healthcare delivery platform.

In 2020, the COVID-19 pandemic began to materially impact the United States and put severe stress on many healthcare systems. Steward was no exception. It faced challenges as it managed the pandemic's impact on its operations, staffing, revenue and capital investments. Because the Cerberus funds were at that time near or beyond their contractual investment periods, Cerberus' ability to invest additional capital was limited. Consequently, Steward and Cerberus considered alternatives to ensure that Steward would have access to additional capital, if required, to continue to fully serve its patients and communities. Accordingly, in May 2020 Steward and Cerberus entered into a recapitalization transaction with affiliates of MPT (Steward's major funding source and owner of a 9.9% equity interest in Steward). As part of this transaction Cerberus agreed to exchange its controlling equity interest in Steward for a note issued by affiliates of Steward's management and MPT. This sale was conditioned upon, among other things, the infusion of $400 million of fresh capital to Steward's balance sheet to ensure that Steward continued to meet the needs of its patients, the communities that it served and all other stakeholders. At this point, Cerberus relinquished its equity ownership of Steward.

Throughout the entire time of Cerberus' investment, Steward's hospitals and facilities were, to the best of its knowledge, managed with the capital and liquidity necessary to provide high-quality healthcare. At the time that ownership and control was passed to Steward's management and MPT affiliates, Steward was financially healthy with substantial liquidity and in compliance with all of its financial covenants.

The investments by Cerberus and from the cash flows generated by Steward made it possible for Steward to continue serving its communities, thereby positively impacting patients' lives and supporting the continued employment and retirement savings of its past and current employees. In short, Cerberus left Steward in a far better operational and financial position than when it first invested.

I: Pre-2010 Investment: Context and Rescue

Caritas Christi Healthcare System ("Caritas") was established in 1985 as a non-profit healthcare system with six acute care hospitals and ancillary businesses located in Massachusetts. Caritas was owned and operated by the Catholic Archdiocese. In 2010, Caritas was the 10th largest employer in Massachusetts with over 12,000 employees. The system was over-levered and in dire need of working capital, capital expenditures and operational improvements to survive.

Caritas faced an estimated $360 – $550 million shortfall in maintenance and other capital expenditures. It also faced a significant shortfall in funding for its employees' retirement programs, estimated by Caritas to be up to $495 million.[1] As a not-for-profit health care system, Caritas was severely capital constrained and unable to address these severe financial issues. The problems were compounded by poor operating performance, a tight municipal bond market and limited resources available from the Catholic Church. Caritas faced insolvency and closure of some or all of its facilities.

From 2007 to 2009, in-patient volumes had consistently declined, and the non-profit system suffered from poor operating controls and a lack of proper financial planning.[2] Compensation for employees and physicians was below market, leading to increasing physician turnover while the lack of capital and concerns over its financial viability led to resignations and threats of departure from key personnel and leaders. By 2010, the Massachusetts Attorney General concluded:

> *"It is impracticable, if not impossible, for Caritas to continue to operate as a public charity. To do so would likely require (i) leaving the pensions of some 13,000 current and former employees substantially underfunded, uninsured, and at risk and (ii) closing at least one of the Caritas Hospitals. Charities law does not mandate such measures if there are other, viable options available."* [3]

In light of these circumstances, the Massachusetts Attorney General and Caritas began an extensive process to find a suitable investor capable of addressing the significant complexities of investing in a failing, not-for-profit hospital system and restoring financial and operational viability. The process of finding the right long-term investor for Caritas was difficult and included at least four third-party assessments. These assessments also concluded that Caritas could not continue to operate and could not meet its obligations to its current and former employees.[4]

Multiple potential investors considered a transaction, including not-for-profit hospital systems and a national for-profit system. None of these potential investors were willing to meet the conditions required by the State and Caritas.[5] Thereafter, a nationally recognized healthcare investment banking firm was retained to solicit interest from the private equity community. Of the five firms that participated in the process, Cerberus was the only investor willing to meet the stringent requirements of the transaction set forth by the State and Caritas.[6]

After this multi-year review and evaluation process, the Massachusetts Attorney General, Massachusetts Department of Health and the Archdiocese of Boston and the Vatican determined that Cerberus and the management team led by Dr. de la Torre presented the best solution to the existential issues facing the Caritas system.

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[1] Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Page 3, October 6, 2010
[2] Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Page 11, October 6, 2010
[3] Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Page 7, October 6, 2010
[4] Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Page 1, October 6, 2010
[5] Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Page 17, October 6, 2010
[6] Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Pages 17-18, October 6, 2010

The Cerberus transaction called for the formation of Steward funded by affiliates of Cerberus and led by Dr. de La Torre and his handpicked team to invest in Caritas and convert it to a for-profit healthcare system. Benefits of conversion to a for-profit system included:

- Greater access to capital to turn it around and fund existing and future projects

- Assumption of the pension liabilities for the system's approximately 13,000 current and former Caritas employees, relieving the Catholic Archdiocese of a significant financial burden while also maintaining the Catholic identity of existing hospitals

- Steward becoming a taxpayer benefitting the state and local governments

- Creating local jobs and improving local access to high-quality care in the community

The transaction was the conclusion of a process that begun in 2006 to address Caritas' financial difficulties, including its significantly underfunded pension plans, outstanding debt, outdated facilities and need for capital. During this multi-year process, Caritas engaged outside consultants and advisors to review and explore all options.[7] Hence, approval of the final transaction required significant transparency, planning and collaboration. The Massachusetts Attorney General's Office, Massachusetts Department of Public Health, the Centers for Medicare and Medicaid Services and Archdiocese of Boston and the Vatican were all involved in the exhaustive process prior to the approval of the sale to the Cerberus and Dr. de la Torre's management team.

II: The November 2010 Investment

On November 5, 2010, the transaction with Cerberus and Dr. de La Torre's management team closed, bringing approximately $895 million of fresh capital and financial commitments to the failing Caritas healthcare system.[8]

Cerberus' affiliates invested an aggregate of $253 million of equity, retired approximately $250 million of Caritas' net debt obligations in connection with the closing of the transaction, and agreed to assume current and future pension obligations up to $495 million. Steward further committed to invest $400 million of **additional** capital to restore and improve the six initially acquired Caritas hospitals during the first four years of ownership. Ultimately, and as described later in Section IV below, these agreed upon capital commitments were met, and in fact, exceeded, and the pension obligations were fully funded.

The parties also agreed that Steward would (i) manage the Caritas hospitals under Catholic care protocols and maintain certain community benefits (including indigent and charity care); (ii) not close any of the original six hospitals acquired during the three years following the acquisition; and (iii) not incur indebtedness for the purposes of declaring, paying or agreeing to pay any dividends or distributions to

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[7] Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Pages 7-8, October 6, 2010
[8] "Acquisition of Caritas Christi Now Complete", *Fierce Healthcare*, November 9, 2010

Cerberus' affiliates or the Steward management team equity owners. These provisions were set forth in the Asset Purchase Agreement and were specifically enforceable by the Massachusetts Attorney General.[9]

The Massachusetts Attorney General and other officials approved the transaction only after extensive hearings, legal, financial, operating due diligence, detailed review of the sale process, terms of the investment, management team capabilities, business plan and ability to fund the capital requirements, including the underfunded pension plan.[10]

The Massachusetts Department of Public Health also approved the transaction and the conversion of the not-for-profit Caritas to a for-profit hospital system after an extensive review of the business plan, the management team, ability to maintain quality of care, maintain care access and future financial viability.

After leading the investment to save the struggling Caritas hospital system, Cerberus' role became that of a shareholder of Steward. Day-to-day management and operations were, as is customary, delegated to Steward CEO Dr. de La Torre and his management team.

Steward's well-qualified Board of Directors was led by Dr. de La Torre as Chairman and consisted of two independent directors from the original Caritas Board and five directors appointed by Cerberus. In subsequent years, additional experienced board members were added, including former Speaker of the U. S. House of Representatives John Boehner and former U.S. National Security Advisor General H.R. McMaster.

With financial stability provided by the 2010 transaction, Dr. de la Torre and his management team turned their focus to fulfilling Steward's promise of investing heavily in the hospital system to repair, renovate and expand facilities.

III: Acquisition of Five Additional Troubled Hospitals in Massachusetts in 2011 and 2012

After acquiring the original six hospitals in Massachusetts, Steward worked closely with the communities and the State of Massachusetts to acquire five additional hospitals that were undercapitalized and underperforming. Steward's strategy for these additional five hospitals was similar to that used for the turnaround of the initial six Caritas: (i) invest heavily in facilities, IT and personnel to establish an alternative to high-cost, research-based hospitals and (ii) establish scale with insurance carriers to gain leverage with them to provide lower-cost, higher-quality healthcare.

The additional hospitals were acquired to address the State's concerns about their viability. The hospitals were Nashoba Hospital (April 30, 2011), Morton Hospital (September 30, 2011), Quincy Medical Center (September 30, 2011), Merrimack Hospital (April 30, 2012) and NESH Hospital (August 31, 2012).

Steward committed to invest $142 million of fresh capital into these five hospitals, and that commitment was ultimately exceeded by more than $55 million. Thus, Steward invested a total of $197 million in these five hospitals. Steward also agreed to restrictions on dividends and closings relating to these five

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[9] "Terms of Amended Asset Purchase Agreement", Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Pages 2-5, October 6, 2010

[10] Statement of the Attorney General of Massachusetts as to the Caritas Christi Transaction, Pages 6-7, October 6, 2010

additional hospitals that were similar to the restrictions and conditions required in the initial acquisition of the six Caritas hospitals in 2010.

In all, a total of 11 financially and operationally distressed hospitals were acquired (the initial six Caritas hospitals and the subsequent five independent hospitals), and the only hospital that was ultimately closed was Quincy Medical Center ("Quincy"). Quincy was acquired out of a pending bankruptcy case. Steward invested tens of millions of dollars in excess of its initial commitments when it agreed to purchase the Quincy facility; however, this effort was not successful. Despite material investments to turn it around, Quincy continued to be underutilized given its location in a saturated healthcare market and the preference of patients for larger teaching hospitals. The hospital was eventually closed with the approval of the Massachusetts Attorney General and Steward redirected its focus and resources to investing in and improving the other 10 hospitals in its system. A November 6, 2014 article in *The Boston Globe* cited[11]:

> *"The problem, Steward executives and health care specialists said, is that there are too many hospital beds in the area. More than a dozen hospitals sit within a 10-mile radius of Quincy Medical Center. Many patients also prefer the big teaching hospitals in Boston. 'This is not a pleasant process,' said David Cutler, a health care economist at Harvard University. 'It is an economic reality about health care. There's no fighting economic realities.'"*

It is beyond dispute that Cerberus and Steward met and exceeded the commitments to make material investments in all 11 community hospitals that were acquired. These hospitals had been unable to operate profitably prior to Steward's acquisition and, other than the Quincy facility, each became profitable post-acquisition. In addition, during the initial phase of Steward's ownership, additional cash flow was invested in the system's pension plan, taking it from underfunded by hundreds of millions of dollars to a **fully funded, stand-alone plan covering thousands of employees.**

IV: Capital Investments

In the first two years of Cerberus' investment (2011, 2012), Steward invested most of the $542 million, four-year capital requirement to the original six Caritas hospitals and the five additional hospitals. Steward met the obligation of $400 million in four years for the original six hospitals and met the obligation of $142 million in the first four years for the additional five. Steward continued to invest after these commitments were completed. **By 2015, approximately $692 million of capital was invested in the eleven hospitals, exceeding the total capital commitment by $150 million.**

During this period, major capital projects exceeded $100 million across the six initially acquired hospitals. Investments were made in new or significantly renovated and expanded emergency rooms, operating rooms, clinical spaces, as well as new radiation therapy, cardiac catheterization lab and medical offices. Additional space was also added for trauma and fast track patients; larger ambulance bays and patient areas; the creation of post-operative care units; and converting quad-room beds to semi-private rooms.

Hospital-specific investments included:

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[11] "Quincy Medical Center to Close", *The Boston Globe*, November 6, 2014

- New Emergency Departments in Saint Elizabeth Medical Center, Norwood Hospital, Good Samaritan Medical Center, Holy Family Hospital, Saint Anne's Hospital, Morton Hospital, Merrimack Valley Hospital, Nashoba Valley Medical Center, Quincy Medical Center and New England Sinai Hospital

- New ICUs in Saint Elizabeth Hospital, Saint Anne's Hospital and Carney Hospital (telemetry unit)

- New operating rooms and/or catheter laboratories were upgraded or expanded in Carney Hospital, Saint Elizabeth Medical Center, Saint Anne's Hospital, Good Samaritan Medical Center and Norwood Hospital

- New Cancer Centers in Saint Elizabeth Medical Center, Good Samaritan Medical Center, Carney Hospital, Saint Anne's Hospital and Holy Family Hospital

- New and renovated patient spaces in Saint Elizabeth Medical Center, Holy Family Hospital, Norwood Hospital (single rooms), Saint Anne's (new patient tower), Good Samaritan Medical Center and Carney Hospital

- New psychiatric units in Good Samaritan Medical Center, Norwood Hospital, Saint Anne's, Carney Hospital, Nashoba Valley Medical Center and Saint Elizabeth Medical Center

Overall, in its first five years of existence – a period when shareholders received no distributions whatsoever – Steward invested approximately $692 million in facility improvements (as detailed above) and approximately $200 million in technology and other improvements for a total investment of nearly $900 million across the system.

V: Quality of Care Improvements

These strategic investments and operational initiatives resulted in more doctors and specialists joining the system.

By 2015, in-network physicians had grown by more than 60%, including more than a 70% increase in specialists versus 2011. Total physicians also saw a large increase. PCP employment grew by more than 45%, including a more than 70% increase in primary care doctors from 2011 to 2015.

During the two-year post-acquisition period the system grew the number of employed and affiliated healthcare professionals thus increasing the provider base and enabling far broader support of the serviced communities with the increases in primary care physicians and specialist providers.

Steward continuously invested in its people, recruiting top physicians to improve quality and scope of overall care, fill voids and create centers of excellence in cardiology, urology, podiatry and ENT. It nearly doubled its hospital footprint and increased its access points while enhancing its position as a low-cost, high-quality healthcare provider.

Steward also established a Quality Committee at the Board of Directors to which the Steward Head of Quality & Compliance reported. It initiated a full-time, third-party, independent quality review process (Leap Frog Group) with annual published hospital quality ratings.

As a result, quantifiable improvements to patient care were evident in just two short years (2011, 2012), including improvements in patient mortality, evidence-based care delivery for cardiac and re-admissions of admitted patients.

To ensure continuous improvement, Steward launched inpatient improvement initiatives that focused on five important aspects of care.

- **Quality** - hospital acquired infections eliminations, mortality rate reductions and bedside medication verification

- **Safety** - electronic incident reporting and medication reconciliation

- **Patient experience** - patient portal, discharge readiness and patient/family advisory councils

- **Continuity** - Allscripts case management program and readmissions reduction

- **Equitable** - standardized 500 regulatory policies and enhanced interpreter services

By 2015, quality measures such as harm free care, behavioral health care, alcohol screening, tobacco screening and VTE prophylaxis all exceeded 90% across the Steward system while patient denials reached a new low. In addition, the observed vs. expected mortality index declined and hospital-acquired C-Diff infections days declined while metrics in preventative care improved.

VI: Business Efficiency Improvements

As Steward continued to grow, operational efficiency improvements focused on supply chain management, revenue cycle initiatives, clinical productivity and back-office productivity.

Steward consolidated its revenue cycle, accounting, purchasing, payroll and accounts payable activities into a central business office to improve controls, obtain critical scale for expense savings and enhance receipts and disbursements.

These programs created structural efficiencies to support sustainability and long-term growth by leading to higher earnings through increased yields and improved liquidity and working capital by reducing days outstanding for accounts receivable. The professionalized operations also supported Steward's growing physician practice by offering competitive management and back-office costs and the ability to consolidate practices.

During this foundational period, Dr. de la Torre not only retained the core of his original management team from the initial investment, but also supplemented his team with new leaders, placing an emphasis on training, hiring and developing senior leadership teams at the hospitals.

As a result of the above investments and quality of care improvements, Steward became a nationally recognized Accountable Care Organization that was selected as one of 30 exclusive provider organizations to participate in the Medicare Pioneer ACO program.

By 2016, just five years after inception, Steward had transformed the struggling Caritas hospital system, along with the subsequent addition of other independent hospitals in severe distress, into a well-capitalized and efficiently operating system positioned for continued growth and improvement of its integrated health delivery model.

VII: The 2016 MPT Transactions and Equity Investment

On September 26, 2016, Steward announced a $1.25 billion transaction with Medical Properties Trust comprised of:

- $600 million proceeds from sale-leaseback of five of the original six Caritas acute care facilities (at 7.5% cap rate)

- $600 million of proceeds from refinancing mortgages on four other Steward-owned acute care facilities (at 7.5% cap rate)

- $50 million in the form of a preferred equity investment by MPT (4.9% stake in Steward)

<u>Importantly, the transaction also included a $1 billion commitment from MPT to fund future capital and strategic investments</u>. This commitment was exceeded, as capital provided by MPT was used for, among other things, financing for the acquisitions of the IASIS and Community Health hospitals in 2017. The obligations undertaken by Steward in the form of lease obligations relating to the sale lease-back of five hospitals and the debt obligations from the refinancing of four hospitals were on arm's length, market terms.

Both external third party and internal Steward management projections reflected that Steward had more than ample cash flow, liquidity and reserves to fulfill these and all other projected obligations. Indeed, these obligations were met by Steward, which remained in compliance with all material obligations through the time Cerberus sold its equity interests in 2020.

The use of funds from the 2016 MPT transaction included:

- The return of the Cerberus initial equity investment of $246 million and a dividend of $473 million. This was the first return of capital or dividend to Cerberus' affiliates since the original investment in 2010

- A dividend to Dr. de la Torre and his management team of $71 million on account of their equity ownership of Steward

- $460 million of pretax liquidity retained by Steward and used to retire approximately $385 million of secured debt with the remaining balance retained as cash on the company's balance sheet for working capital and future investments

After the distribution in 2016 and until Cerberus sold its remaining equity interest in 2020 in return for a promissory note issued by affiliates of the Steward management team and MPT, Cerberus took no distributions from Steward. The promissory note was later sold to affiliates of the Steward management and MPT in 2021, thus concluding Cerberus' more than decade-long investment.

VIII: The IASIS and Community Health Acquisitions in 2017

On May 1, 2017, Steward acquired eight hospitals (seven acute care hospitals and one rehabilitation center) from Community Health Systems (NYSE: CYH) in three markets (Ohio, Pennsylvania and Florida).

On September 29, 2017, Steward acquired 17 acute care hospitals, one behavioral health center and a managed care business from IASIS Healthcare Corporation ("IASIS"). The IASIS acquisition consisted of operations in Texas, Utah, Arizona, Colorado and Louisiana.

Consequently, by the end of 2017, Steward operated 39 hospitals in 10 states and managed more than six million patient encounters. Operating highlights and achievements included:

- Establishing a successful, integrated Accountable Care Organization that offered quality healthcare to local communities with the cost-effectiveness and operation efficiencies that accrued to its national scale and commercial value-based contracts

- Steward was one of 21 companies nationally invited to become "Next Generation" ACO

- Steward was ranked #1 or #2 performer in U.S. every year under the Pioneer ACO program[12]

- Significant investments improved and modernized Steward's footprint with best-in-class technology across all of its hospitals

By 2019, Steward had become the largest for-profit private healthcare system in the United States. From its inception in 2010 through 2019, Steward grew from:

- 12,000 employees to 42,000 employees

- 1,500 physicians to 6,300 physicians

- 2,300 beds to 8,300 beds

- Six hospitals to 41 hospitals

- 2.2 million patients cared for annually and 12 million patient encounters each year

IX. The 2020 Recapitalization Transaction

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[12] "Pioneer ACO", Steward Website (data through 2014)

In 2020, the Steward Board, led by Dr.de la Torre, with the support of Cerberus, determined that it would be prudent for Steward to raise additional capital to support the system in view of the ongoing and potentially adverse impacts that COVID-19 was having, and was projected to have, on the operations of Steward and other hospitals around the country.

Specifically, the impacts facing Steward, which were common to many hospitals during the COVID-19 pandemic, included the material decrease in elective surgical procedures (a material source of income), an increase in the treatment of uninsured patients for COVID-19 related illness and the decrease and delay in payor reimbursement. Like many hospitals at the time, these impacts had an accelerated and material impact on Steward.

During this public health crisis unprecedented in modern times, the potential impact of the COVID-19 pandemic on Steward was difficult to estimate. At the time, there was limited visibility into government programs or when the government or private payers would return to normal course in terms of processing Steward's receivables. Such understandable delays added to the concerns about Steward's liquidity.

The alternatives available included: potential asset sales; amendments to Steward's asset-based loan borrowing base; amendments to its agreements with MPT; and adjustments to working capital management. Cerberus made it clear that because the life of its initial investment in Steward had exceeded 10 years, it was unlikely to be able to provide material additional funding as its funds were out of, or ending, their respective investment and follow-on periods.

As a solution, on May 12, 2020, Steward and Cerberus entered a recapitalization transaction with MPT and its affiliates, Steward's major landlord and financing party and holder of a 9.9% equity interest at the time, whereby Cerberus exchanged its controlling interest in Steward for a $350 million convertible note (convertible into 37.5% of the fully diluted common equity of Steward, subject to certain terms and conditions).

It is important to note that the obligors of this convertible note were affiliates of Steward management and MPT and the note was NOT an obligation of the operating company. Moreover, the note had a five-year term and did not require ANY amortization or current interest payments until its maturity.

The sale was also conditioned upon Steward obtaining commitments for at least $400 million of working capital to ensure that Steward had sufficient resources to continue to support the communities and patients that it served.

In connection with the transaction, and to satisfy Cerberus' condition that additional working capital be raised to ensure that Steward had adequate capital and liquidity to weather the unprecedented impacts of the COVID-19 pandemic, MPT and Steward's management agreed to acquire certain assets for approximately $400 million in cash. Half of this cash was funded at closing and the other half was funded post-closing. Consequently, the transaction facilitated the infusion of $400 million of fresh capital without adding any additional leverage or financial obligations to Steward's balance sheet.

This transaction helped ensure that Steward was well-funded to meet the needs of its patients, the communities that it served and all other stakeholders.

Of note, the 2020 sale of Cerberus' equity was not in any way motivated by any threat to place Steward into bankruptcy. To suggest otherwise is patently wrong and inconsistent with the facts and the reality of the transaction. Cerberus' convertible debt did not affect or add to debt at the operating company, which was another significant benefit to Steward. Although its access to working capital was impacted by the pandemic, the fact remains that Steward always had adequate working capital.

Steward's May 2020 recapitalization transaction was a significant, positive event Steward. It provided $400 million of cash to help weather the unprecedented challenges, both financially and operationally, resulting from the COVID-19 pandemic – challenges that all hospital systems across the United States faced.

In June 2020, Steward stated the following in a press release related to the transaction[13]:

> *"As part of the recapitalization transaction, no additional leverage was added to the Company's balance sheet and Cerberus' controlling interest was exchanged for a convertible note. The management group of Steward Health Care physicians will control 90 percent of the Company and Medical Properties Trust will maintain its previous 10 percent stake. The recapitalization transaction improves the Company's balance sheet and gives Steward Health Care financial strength to successfully navigate the COVID-19 pandemic."*

X: The Steward Management/MPT Purchase of the Cerberus Convertible Note

In 2021, affiliates of MPT and Steward management offered to redeem the Cerberus convertible note years prior to its due date. Cerberus assumed that this decision was made in part to minimize interest on the note which matured in 2025 and accreted pay-in- kind interest at 3% escalating to 8% in the last year. Cerberus agreed to sell the note for $325 million, a discount to face/accreted value of the note, to facilitate the earlier completion of its exit from the transaction. **Again, the funds used to retire the Cerberus note did NOT come from the Steward balance sheet.**

XI: Conclusion

During the period of Cerberus' ownership, Steward performed well and grew. It was financially healthy and generated cash, much of which was invested back into the company or used for strategic acquisitions.

As Steward noted in its first-day bankruptcy filings, results were negatively affected by the COVID-19 pandemic, which resulted in patient and insurance revenue declining by $1.58 billion, or 25%, from $6.3 billion in 2019 to $4.73 billion in 2020. Likewise, EBITDA declined in 2020 to $247.6 million from $320.9 million in 2019. However, despite the revenue and EBITDA declines in 2020, cash generation increased in 2020 due in part to U.S. government funding of the Medicare Receivable Advance Program. Year-end 2020 cash was $406.6 million, an increase of over $177 million from 2019.

Again, it is important to note that of the approximately $790 million gain that Cerberus' investors received from its investments in Steward during its entire investment period from 2010 to 2021,

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[13] "Team of Steward Doctors Acquire Controlling Stake of Steward Health Care", Steward Press Release, June 3, 2020

approximately $473 million were proceeds received from Steward as a dividend in the 2016 MPT transaction and the balance of $325 million came from of the sale of the convertible note which, as noted in this letter, was funded by affiliates of Steward management and MPT.

During the term of Cerberus' decade-plus ownership, Steward was transformed from a group of failing not-for-profit hospitals on the verge of bankruptcy into a nationally recognized Accountable Care Organization. The Cerberus investment resulted in the turnaround of 10 hospitals in Massachusetts that continued service to their communities and were at grave risk prior to the acquisition. Hundreds of millions of dollars were invested into the system and Steward expanded and improved operations, increased liquidity, upgraded the quality and depth of its medical teams and, most importantly, improved the quality of patient care in the communities the hospitals served.

Throughout the entire period that Cerberus was invested in Steward, the company was at all times solvent and had more than sufficient cash and liquidity at the time of, and after, the 2016 MPT sale-leaseback transaction, the 2017 IASIS acquisition and the 2020 transaction relating to the sale of Cerberus' equity stake.

Respectfully submitted,

Cerberus Capital Management, L.P.