



Cerberus Capital Management, L.P.
875 Third Avenue
New York, NY 10022
Office +1-212-891-2100
cerberus.com

February 26, 2024

Senator Elizabeth Warren
Senator Edward Markey
Rep. Ayanna Pressley
Rep. Jake Auchincloss
Rep. Katherine Clark
Rep. Seth Moulton
Rep. William Keating
Rep. Stephen Lynch
Rep. James McGovern
Rep. Lori Trahan
Rep. Richard Neal

Re: Steward Healthcare

Dear Members of Congress:

We acknowledge receipt of your letter to Cerberus Capital Management, L.P. (“CCM”) dated February 14, 2024 (the “Letter”) expressing “concerns” about the future of Steward Healthcare (“Steward”) and its affiliates in Massachusetts. We appreciate the opportunity to provide you with relevant facts and information.

At the outset, it is important to note that the funds and accounts managed directly or indirectly by CCM relinquished its equity interests and control of Steward in June 2020, nearly **four years ago**, to Steward’s management led by Dr. Ralph de la Torre (Steward’s CEO and founder). This transaction was publicly announced and widely reported. At that time, Steward’s management assumed total control of Steward. Concomitantly, since June 2020 CCM has had no influence or control over Steward. In short, CCM has had nothing to do with Steward’s operations and has little to no information about the business and operations of Steward for nearly four years.

The Letter states that you are “particularly concerned about the extent to which Cerberus and its affiliates literally stripped out and sold the property from underneath these hospitals, creating hundreds of millions of dollars in profits for private equity executives, while leaving the facilities with long-term liabilities that are magnifying-if not creating the current crisis.” We address this “concern” regarding the sale-leaseback transaction below. As you undoubtedly know, alternative investment platforms such as CCM invest and manage funds on behalf of investors which are the primary beneficiaries of any profits, and bear the burden of any losses, incurred by investments made on their behalf. Our investors, whose money we invested in Steward and many other investments over many years, include, among others, millions of teachers, firefighters, police, municipal workers, universities, and endowments. This is an important fact because the Letter incorrectly insinuates that the profits earned in our investment in Steward inured only or primarily to employees and partners of CCM. The capital that we prudently invested in Steward between 2010 and 2021, and the proceeds of such invested capital, belonged overwhelmingly to, and inured to the benefit of, our investors. As a registered investment advisor, it is our job and fiduciary duty to responsibly invest the hard-earned funds of our clients. That is what we did in the case of Steward over more than a decade. Like you, we care deeply about the future retirement security, and the financial interests, of the investors that trust us with their money, and we take our fiduciary responsibility with the utmost seriousness and sincerity.

CCM's Partnership with Steward

The Letter states that CCM played a “nefarious” role and that its ownership of Steward “increase[d] healthcare costs and reduce[d] the quality of care.” That assertion is demonstrably untrue. Our story with Steward is one of a long-term partnership with its management, employees and the communities served by Steward’s hospitals. Under our ownership Steward rescued failing hospitals in Massachusetts. These hospitals were in far better shape financially and operationally when we sold our interests four years ago.

Specifically, in 2010 CCM funds and accounts acquired six operationally and financially troubled acute care hospitals that were on the verge of total failure from the Catholic Archdiocese of Boston. The initial investment, and massive investments made after the acquisition, facilitated the vast improvement of Steward’s operations, facilities and created a platform for growth to better serve the communities in which its facilities operated. The strategy, led by Steward’s management, focused on maximizing operational efficiencies to deliver **high-quality** healthcare at **lower** costs of care for patients. As a result of significant operational improvements, **capital investments of more than \$1billion**, and strategic acquisitions, Steward became one of the largest private, for-profit hospital operators in the United States with 35 hospitals and over 7,200 beds across 9 states.

Under CCM ownership, Steward more than tripled its physician network, increased its managed lives by over 900%, and advanced risk-based, capitation payments across its populations—all key steps to driving value-based high-quality healthcare. Steward also established an international operating platform, which contracted with the Government of Malta to operate 3 hospitals. Revenues grew by nearly 300%, and EBITDAR grew by over 550%. The investments made into Steward enabled it to transform its infrastructure and technology, hire and retain top healthcare personnel and converted a failing hospital system into a world class accountable care organization.

In 2016 Steward entered a sale leaseback transaction with Medical Properties Trust, Inc. (“MPT”), a publicly traded REIT. That transaction returned the CCM investors’ original investment. Steward’s partnership with MPT facilitated the acquisitions of the IASIS healthcare platform and a portfolio of hospitals from Community Health Systems. These transactions expanded Steward’s footprint and led to additional investments in its healthcare delivery platform. These facts are in stark contrast to the allegation in the Letter that CCM “literally stripped out and sold the property from underneath these hospitals, creating hundreds of millions of dollars in profits for private equity executives....” At the time that we sold our controlling interest in Steward in 2020 to Dr. de la Torre and his management team, Steward was a success story not just for our investors (teachers, firefighters, policemen, municipal workers, pensions and endowments, among others), but also for all of its stakeholders, including the numerous communities that it served and its more than 1,700 physicians and 42,000 employees supporting over six million patient encounters every year. Not represented in the growth numbers are Steward’s improved quality and efficiency of care, increased productivity, and reduced costs in its hospitals.

The COVID 19 pandemic began to materially impact the United States, and its health care system, in the first quarter of 2020. COVID 19 put severe stress on many healthcare systems in the United States. Steward was no exception and had to manage COVID’s impact on its operations, staffing, revenue, and capital expenditures. Because the CCM Funds invested in Cerberus were, for the most part, out of their investment periods, they were not able to invest additional capital in Steward. Consequently, Steward management and CCM considered alternatives to ensure that, if required, Steward would have access to additional capital to continue to fully serve its patients and communities.

Accordingly, in May 2020 Steward and the CCM Funds entered a recapitalization transaction with MPT and its affiliates, Steward's major landlord and holder of a 9.9% equity interest, whereby CCM agreed to exchange its controlling interest in Steward for a \$350 million convertible note. In connection with the transaction, MPT agreed to acquire certain of Steward's assets for approximately \$400 million in cash. Half of this cash was funded at closing, and the other half was to be funded into Steward post-closing. Consequently, the transaction facilitated the infusion of \$400 million of fresh capital into Steward and helped ensure that Steward continued to meet the needs of its patients, the communities that it served, and all other stakeholders. At the same time, as noted, CCM's investment moved from controlling shareholder equity to convertible debt. Less than a year later MPT acquired the Convertible Note, ending the CCM Funds' investment in Steward.

Throughout the entire time of the CCM Funds' ownership of Steward, its hospitals and facilities were, to our best knowledge, managed with the capital and liquidity to provide the highest quality care possible. At the time control was passed to Steward's management, Steward was financially healthy with substantial liquidity and in compliance with all its financial covenants. We are proud of our long-term investment in Steward. We made it possible for Steward to continue serving its communities, thereby positively impacting patients' lives and supporting the retirement savings of individuals, universities, non-profits, foundations, pension plans and others who entrusted us to invest their funds and support their future pension, retirement, educational and other needs.

Answers to Specific Questions in the Letter

The Letter concludes with a request that CCM answer 14 specific questions relating to Steward. We respectfully note that a number of these questions are more appropriately directed to Steward, but where these questions are applicable to CCM we provide answers:

1. How much did Cerberus and Cerberus-affiliated entities invest in the purchase of Caritas Christie in 2010?

- a. What were the terms of the purchase and what liabilities were assumed?

Answer: Funds managed directly and indirectly by CCM acquired Caritas Christie in 2010 for a cash purchase price of \$246 million. In addition, over \$220 million of pension liabilities were assumed as part of the transaction. Furthermore, the purchase agreements required that at least \$400 million of capital be invested in infrastructure, facilities, technology, and operations over a period of four years. In fact, these obligations were fully satisfied-indeed exceeded-within two years.

2. Between 2010 and the time of the MPT deal in 2016, how much did Cerberus and Cerberus-affiliated entities invest in Steward-affiliated entities in Massachusetts? Please list the total amount, and provide a description of all major facilities, personnel, or service-based investments.

Answer: As noted in the answer to Question 1 above, the initial investment was \$246 million and over \$400 million of additional capital was reinvested by Steward out of its cash flow as required by the purchase agreements. In the aggregate, approximately \$880 million was reinvested by Steward in various facilities across the Steward platform between 2010 and 2016. These funds were used to modernize the system's footprint and install best-in-class technology. These investments also supported Steward's growth from 6 acute care hospitals to 9 and one long-term acute care hospital, 1 surgery center to 6 surgery centers, 2 outpatient imaging sites to 6 sites and 1,230 licensed beds to approximately 2,000 licensed beds. Information regarding specific amounts and specific usage of funds is likely available from Steward.

3. How much did Cerberus retain in profits or dividends from Steward between 2010 and the time of the MPT deal in 2016?

Answer: None. All cash flows were reinvested into the Steward healthcare system.

4. How much did Cerberus and Cerberus-affiliated entities retain from the \$1.25 billion investment by MPT in 2016?

- a. Did the company pay investors a dividend after this deal? If so, what was the total dividend payment and to whom and how was it distributed?

Answer: As a matter of contract and policy, CCM does not disclose the names of its investors, or the specific returns earned on CCM Funds by such investors. The sale leaseback transaction did return the CCM Funds' initial capital and generate a significant dividend. This was the first return of capital on this investment for the CCM Funds since the initial investment in 2010. Some of these proceeds were retained by the CCM Funds for future investment and some were distributed to our investors in the CCM Funds.

5. What were the specific terms and conditions of the leases or other liabilities imposed on the Steward hospitals as a result of the MPT deal?

Answer: This question is more appropriately addressed to Steward and MPT who would have such information and be able to determine what information might be subject to confidentiality obligations or contain confidential and proprietary information regarding the ongoing relationship between Steward and MPT.

6. Were any other liabilities imposed on Steward between the closure of the MPT deal and the Cerberus May 2020 transfer of ownership?

Answer: This is an extremely broad question. Steward is a large business organization that had over \$7 billion in annual revenue at the time CCM transferred ownership to Steward Management. Naturally, Steward incurred other liabilities and obligations during that period and requests for more specific information are more appropriately addressed to Steward.

7. Between the closure of the 2016 MPT deal and its May 2020 transfer of ownership, how much did Cerberus and Cerberus-affiliated entities invest in Steward-affiliated entities in Massachusetts? Please list the total amount, and provide a description of all major facility, personnel, or service-based investments.

Answer: The CCM Funds did not invest additional capital during this time. Instead, as noted above, CCM refrained from taking any distributions or dividends and Steward reinvested all internally generated cash flows into its healthcare system. This allowed Steward to continue to expand, invest and improve its physician networks, access points and accountable care organization (ACO) model. Outside of Massachusetts Steward during this period acquired eight hospitals from Community Health Systems in three states and merged with IASIS Healthcare to add eighteen hospitals across six states. Additional investments were made by Steward into those assets as well. The funds were provided from Steward's operations and managed by Steward. Requests for specific amounts and specific uses of funds are more appropriately addressed to Steward.

8. How much did Cerberus and Cerberus-affiliated entities retain in profits, dividends or other payouts from Steward or any affiliated entity between the closure of the 2016 MPT deal and its May 2020 ownership transfer?

Answer: None. All cash flows were reinvested by Steward in its business.

9. What were the specific terms and conditions of the Cerberus May 2020 exit from Steward?
Answer: The essential effect of the May 2020 transaction was that the CCM Funds sold their controlling equity interests in the Steward entities to Dr. de la Torre and other members of Steward management for the purchase price of \$350 million, paid in the form of a Convertible Promissory Note in the principal amount of \$350 million.

10. What were the specific terms of the note that provided regular interest payments from Cerberus to Steward?

a. How was this note valued?

Answer: As described above, the \$350 million Convertible Promissory Note was payable by Steward affiliates to CCM affiliates, and not “from Cerberus to Steward”. The Convertible Promissory Note bore interest initially at 3% per annum and, to the extent remaining outstanding, such rate would have stepped up on certain anniversaries. The Note was convertible by CCM affiliates into a percentage of the equity of Steward following the third anniversary of the note based on a valuation of Steward at the time of conversion. The Note was redeemed at a discount before the three-year period had elapsed, and no conversion occurred.

11. What were the specific terms and conditions of the purchase of the note by Steward in January 2021?

Answer: The Convertible Promissory Note was purchased by MPT, for a purchase price of approximately \$334 million.

12. Does Cerberus or any Cerberus affiliated entity currently retain any ownership or any other stake in Steward or any Steward-affiliated entity? If so, please list all such ownership stakes.

Answer: None.

13. Please provide information on all sales, swaps, or other changes in Steward Health assets owned by Cerberus ownership from 2010 to present, including sale to Macquarie Asset Management.

Answer: The relevant transactions relating to the CCM Funds’ ownership of Steward are described above.

14. Please provide a list of total annual compensation, including salary, dividends, bonuses, and any other compensation, for each of the five highest paid Steward executives from 2010 to 2021.

Answer: We assume that the CEO was the highest paid executive at Steward, but we do not have the requested information.

We appreciate the opportunity to provide our responses to your inquiries.

Respectfully submitted,

Cerberus Capital Management, L.P.
 Cerberus Capital Management, L.P.