

June 17, 2020

Partnership Advisory Group
c/o Guidehouse
150 North Riverside Plaza, Suite 2100
Chicago, Illinois 60606

Members of the Partnership Advisory Group:

We want to again thank you for your dedication to a detailed and thoughtful process to identify the optimal path forward for New Hanover Regional Medical Center (“NHRMC”) and healthcare in southeastern North Carolina. We have very much enjoyed and appreciated engaging with you over the past three weeks through our virtual site visits, in-person headquarter site visit, and public presentation.

We hope that our vision for a true partnership between NHRMC and Duke has been made clear during our discussions to-date. In the spirit of true partnership, and NHRMC being core to the broader NHRMC and Duke organization’s future path and success, we would be pleased to consider **specific recommendations from the Partnership Advisory Group (“PAG”), NHRMC, and New Hanover County** on how to enhance these aspects of the strategic partnership. As one example, Duke would be open to evaluating **an increase in the number of local NHRMC representatives serving on the Duke University Health System Board of Directors.**

In addition, we’d like to re-emphasize our economic commitment and anticipated investment in NHRMC. **Duke’s capital commitment of \$1.9 billion represents the minimum level of investment** required to achieve our shared vision of a destination clinical, academic, and research center. We stand ready to jointly plan and increase capital investment dollars for NHRMC to become a world-class healthcare system with a patient-centric experience delivering high quality, affordable care.

Beyond these aspects of governance and partnership economics, we wish to highlight the following, which we believe differentiate Duke from the other two partners being considered.

- 1) **Significant and Enduring Regional Economic Impact.** A NHRMC and Duke strategic partnership creates an immense and unmatched economic opportunity for southeastern North Carolina. This opportunity will far exceed any economic commitments conveyed by a NHRMC partner in the form of purchase price, capital commitment, foundation funding, or otherwise, and will extend far into the future beyond having a near- to intermediate-term impact.

A 2015 study completed by a third-party found that Duke added \$5.8 billion to annual gross regional product in its service area during 2013. In addition to elements that may be similar across NHRMC’s partnership options—such as operations, clinical spending, and construction—**Duke’s \$5.8 billion impact included approximately \$1.25 billion in annual impact from research, business start-ups, and alumni.** These amounts have only increased since 2013, and by creating a NHRMC-Duke southeastern North Carolina clinical, academic, and research destination center, we can **achieve these types of economic impacts in New Hanover County together.**

- 2) **A Permanent, Fully Integrated Platform.** NHRMC and its community’s desire for world-class healthcare cannot be emulated by third-party academic partnerships that may or may not endure. The outcomes and success of a globally recognized healthcare enterprise are the result of a methodical, strategic, and focused platform well executed over decades. A strategic partnership with Duke uniquely provides NHRMC and the residents of southeastern North Carolina with full access to a permanent, fully integrated platform that brings together broad capabilities, tools, and resources spanning patient care, education, research, and community health/health equity.
- 3) **Significantly Lower Partnership Execution Risk.** As a result of this permanent, fully integrated platform, a strategic partnership with Duke also provides the PAG, NHRMC, and New Hanover County an accelerated timeline to effectuate the partnership with significantly lower execution risk. **We eliminate any potential uncertainty resulting from reliance on third parties and involvement of state-controlled organizations.** Our necessary corporate

approvals are all within the Duke enterprise. We would also anticipate minimal to no regulatory concerns created by a NHRMC and Duke strategic partnership.

- 4) **A True Partner, Not One of Many.** Duke has been very selective in our evaluation of growth through partnerships, not due to a lack of desire, but rather because of fit with a partner's strategic aims, its capabilities, and a common vision. For us, **partnerships are strategic, not a repeated commodity simply to get bigger. Our approach to partnership is a transformative model that brings together two strong organizations that learn from and complement each other, and as a result are truly stronger together than separate.**

This also means that NHRMC would be partnering with an organization and a culture that truly values this relationship and within which NHRMC has a meaningful seat at the table. Duke and NHRMC will have the **opportunity to learn from each other, combining the best practices of both entities** to create something truly special and unique. **As one of two hubs, each headquartered in North Carolina, NHRMC will not be just another acquisition target strung together with dozens of other assets, but will instead be core to the broader NHRMC and Duke organization's future path and success.**

- 5) **An Unmatched Ability to Support NHRMC's Vision.** NHRMC and Duke share a common vision of a NHRMC with extensive specialty and sub-specialty clinical services that draw patients from up and down the seaboard. The combination of NHRMC's and Duke's brands, together with Duke's experience and expertise in building local, high-performing tertiary and quaternary programs, uniquely positions NHRMC to achieve this vision. This opportunity is highlighted both by patient preference surveys that demonstrate Duke's quality of care, culture, technology, and other aspects relative to other respondents, as well as, more importantly, patient outmigration patterns from southeastern North Carolina to Duke today for specialized care. Each of these patients represents an opportunity to keep care close to home instead of going to Durham.

Duke stands by and remains fully committed to the economics of our proposal dated March 16, 2020. In preparing our RFP response, we devoted extensive attention to determining the levels and forms of economic consideration we proposed. As requested by the PAG, over the past week we have spent additional time evaluating NHRMC's summary strategic plan, historical financial performance, summary projected financial performance as presented to the PAG on February 20, 2020, and market-based observations for similar strategic partnerships. Based on these ongoing evaluations, at this time and based on available information, we are not proposing a change (increase or decrease) from the economics we originally proposed.

While Duke understands we are not currently the highest "bidder," we do not believe it is in NHRMC's or Duke's collective interest, or in the interest of the health of the New Hanover community, to take an undisciplined approach to the strategic partnership's economics. As proposed, we can ensure we are not simply putting a number on the page to "get to the next round" nor putting the combined organization under undue financial pressure in the event of additional unexpected events such as we are experiencing today with the COVID-19 pandemic. The PAG, NHRMC, and New Hanover County can have a high degree of confidence that we will close the strategic partnership at these economic levels, and that our proposed capital commitment will be executed and fulfilled, and in all likelihood, exceeded as indicated above.

We thank the PAG, NHRMC, and New Hanover County for considering Duke as NHRMC's strategic partner. We look forward to continuing our discussion as we develop a mutually agreeable and highly compelling letter of intent for all parties involved.

Sincerely,



A. Eugene Washington, MD
Chancellor for Health Affairs at Duke University
President and CEO, Duke University Health System