IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

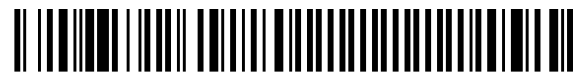
In re	:	**Chapter 11**
CANO HEALTH, INC., ***et al.*****,**	:	**Case No. 24-10164 (KBO)**
Debtors.[1]	:	**(Jointly Administered)**
	:	**Re: Docket No. 864**

DECLARATION OF DREW TALARICO IN SUPPORT OF CONFIRMATION OF FOURTH AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION OF CANO HEALTH, INC. AND ITS AFFILIATED DEBTORS

I, Drew Talarico, pursuant to 28 U.S.C. § 1746, hereby declare under penalty of perjury that the following is true and correct:

1. I am a Managing Director in the Financial Restructuring Group at Houlihan Lokey Capital, Inc. ("**Houlihan**"), an investment banking and financial advisory firm. I am based out of Houlihan's New York office, located at 245 Park Avenue, 20th Floor, New York, New York 10167. Houlihan has been retained as the investment banker of Cano Health, Inc. and certain of its subsidiaries, as debtors and debtors in possession in the above-captioned chapter 11 cases (collectively, the "**Debtors**"). Houlihan and its senior professionals have extensive experience with reorganizing and restructuring distressed companies, both out-of-court and in chapter 11 proceedings. I submit this declaration (this "**Declaration**") in support of the *Fourth Amended Joint Chapter 11 Plan of Reorganization of Cano Health, Inc. and Its Affiliated Debtors* [Docket No. 864], filed May 21, 2024 (including any exhibits, schedules, and supplements thereto

[1] The last four digits of Cano Health, Inc.'s tax identification number are 4224. A complete list of the Debtors in the chapter 11 cases may be obtained on the website of the Debtors' claims and noticing agent at https://www.veritaglobal.net/CanoHealth. The Debtors' mailing address is 9725 NW 117th Avenue, Miami, Florida 33178.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and as may be amended, restated, supplemented, or otherwise modified from time to time, the "**Plan**").[2]

2. I make this Declaration, with the Debtors' authorization, to offer testimony I would provide relating to the valuation analysis Houlihan performed to estimate the total enterprise value (the "**Total Enterprise Value**") and implied equity value (the "**Equity Value**") of the Reorganized Debtors on a going-concern basis and pro forma for the transactions contemplated by the Plan (the "**Valuation Analysis**"). The Valuation Analysis is attached as Exhibit C to the *Disclosure Statement for Fourth Amended Joint Chapter 11 Plan of Reorganization of Cano Health, Inc. and Its Affiliated Debtors* [Docket No. 866], filed on May 21, 2024 (the "**Disclosure Statement**"), and is incorporated by reference as though set forth fully herein. My views concerning the Valuation Analysis, and the bases for those views are described below. I prepared the Valuation Analysis with the assistance of others on my team at Houlihan, including those working under my direction and supervision. This Declaration also sets forth my views regarding the exit financing proposed under the Plan.

3. My opinions are based upon: (i) my personal knowledge of the Debtors' operations and finances; (ii) my review of relevant documents, including data and information that I considered in forming my conclusions about valuation; (iii) information provided to me by Houlihan employees working under my supervision; (iv) information provided to me by, and discussions with, the members of the Debtors' management team or their other advisors; and (v) my views or opinions based upon my experience as a professional who has performed numerous corporate valuation analyses and who has worked on dozens of corporate finance

[2] Capitalized terms used but not otherwise defined herein have the meanings ascribed to such terms in the Plan.

transactions. If called to testify, I could and would testify to each of the facts and opinions set forth herein.

4. I am not being compensated specifically for this testimony other than through payments received by Houlihan as a professional retained by the Debtors as the Debtors' investment banker in these chapter 11 cases, which retention has previously been approved and disclosed in the *Order (I) Authorizing Retention and Employment of Houlihan Lokey Capital, Inc. as Financial Advisor and Investment Banker to the Debtors Effective as of February 4, 2024, (II) Waiving Certain Reporting Requirements Pursuant to Local Bankruptcy Rule 2016-2, and (III) Granting Related Relief*, entered on March 22, 2024 [Docket No. 496]. My compensation, and that of Houlihan, is not contingent upon the result of my work on the Valuation Analysis or my testimony in connection with confirmation.

<u>Qualifications</u>

5. I have approximately sixteen (16) years of investment banking experience, entirely in Houlihan's financial restructuring group. Since joining Houlihan in 2007, I have provided investment banking expertise and financing advice, including with respect to valuation and exit financing, to companies, lenders, and other parties-in-interest, related to companies both in and outside of chapter 11. Over the most recent several years, a selection of my company- or creditor-side engagements involving a company in chapter 11 includes, among others, Seadrill Limited, Venator, Valaris, Noble Corporation and Roust Corp. I also have extensive experience working on and evaluating liability management and financing transactions. I received a Bachelor of Science degree, with concentrations in Systems Engineering and Economics, from the University of Virginia.

6. Houlihan is an internationally recognized investment banking and financial advisory firm, with offices worldwide and more than 2,500 professionals. Houlihan is a leader in providing investment banking and financial advisory services to debtors, unsecured and secured creditors, acquirers, and other parties in interest involved with financially troubled companies. Houlihan has been retained to provide investment banking and financial advisory services in some of the largest restructurings in the United States, including, *In re MVK Farmco LLC*, Case No. 23-11721 (Bankr. D. Del. Oct. 13, 2023); *In re David's Bridal, LLC*, Case No. 23-13131 (Bankr. D.N.J. Apr. 16, 2023); *In re Sungard AS New Holdings, LLC*, Case No. 22-90018 (Bankr. S.D. Tex. Apr. 11, 2022); *In re Bristow Group Inc.*, Case No. 19-32713 (Bankr. S.D. Tex. May 11, 2019); *In re PHI, Inc.*, Case No. 19-30923 (Bankr. N.D. Tex. Mar 14, 2019); *In re Walter Investment Management Corporation*, Case No. 17-13446 (Bankr. S.D.N.Y. Nov. 30, 2017); *In re Seadrill Limited*, Case No. 17-60079 (Bankr. S.D. Tex. Sep. 12, 2017); *In re Westinghouse Electric Company LLC*, Case No. 17-10751 (Bankr. S.D.N.Y. Mar. 29, 2017); *In re Roust Corporation*, Case No. 16-23786 (Bankr. S.D.N.Y. Dec. 30, 2016); *In re Sports Authority Holdings, Inc.*, Case No. 16-10527 (Bankr. D. Del. Mar. 2, 2016); *In re Relativity Fashion, LLC* (a.k.a. Relativity Media), Case No. 15-11989 (Bankr. S.D.N.Y. Jul. 30, 2015); *In re RadioShack Corporation*, Case No. 15-10197 (Bankr. D. Del. Feb. 5, 2015); *In re Caesars Entertainment Operating Company, Inc.*, Case No. 15-01145 (Bankr. N.D. Ill. Jan. 15, 2015); *In re Entegra Power Group LLC*, Case No. 14-11859 (Bankr. D. Del. Aug. 4, 2014); *In re Premier International Holdings Inc.* (a.k.a. Six Flags Theme Parks), Case No. 09-12019 (Bankr. D. Del. June 13, 2009); *In re Lehman Brothers Holdings Inc.*, Case No. 08-13555 (Bankr. S.D.N.Y. Sept. 15, 2008); *In re Buffets Holdings, Inc.*, Case No. 08-10141 (Bankr. D. Del. Jan. 22, 2008); *In re Conseco Inc*, Case No. 02-49672 (Bankr.

N.D. Ill. Dec. 17, 2002); *In re WorldCom, Inc.*, Case No. 02-13533 (Bankr. S.D.N.Y. July 21, 2002); and *In re Enron Corp.*, Case No. 01-16034 (Bankr. S.D.N.Y. Dec. 2, 2001).

7. Since Houlihan first started working closely with the Debtors around August 2023, I have been primarily responsible for the work product of the various Houlihan professionals who are all working on the Debtors' restructuring. I have also personally been involved, and supervised those Houlihan professionals, in: (i) performing various financial analyses of the Debtors, including the Valuation Analysis; (ii) meeting with the Debtors' existing creditor groups and their respective advisors in order to negotiate potential restructuring solutions; (iii) preparing for the commencement of these Chapter 11 Cases; and (iv) assisting the Debtors with soliciting, negotiating, and documenting the postpetition debtor-in-possession financing and exit financing. As a result of our extensive experience with the Debtors, the Houlihan team and I have acquired significant knowledge of the Debtors and their businesses, and have become intimately familiar with the Debtors' business operations, capital structure, liquidity needs, financial projections, and related matters.

Valuation Analysis

I. Summary of Valuation Analysis

8. As set forth in the Disclosure Statement, assuming the Effective Date occurs on or about July 31, 2024, I estimate that as of May 21, 2024 (the "**Valuation Analysis Date**"), the Total Enterprise Value of the Reorganized Debtors to be between approximately $580 million and $720 million, with a midpoint of approximately $650 million.

9. In preparing the Valuation Analysis, I, among other things: (i) reviewed certain historical financial and operating information of the Debtors for recent years and interim periods; (ii) met with certain members of the Debtors' senior management to discuss the Debtors' finances, operations, and future prospects; (iii) reviewed publicly available financial data and

considered certain economic and industry information relevant to the Debtors' operating businesses; (iv) reviewed the Debtors' financial projections for the Reorganized Debtors provided in Exhibit C of the Disclosure Statement (the "**Financial Projections**"); (v) prepared discounted cash flow analyses based on the Financial Projections, utilizing various discount rates and assumptions in the calculation of terminal values; (vi) considered the value assigned to certain precedent transactions for businesses similar to those of the Debtors; (vii) considered the market values of public companies deemed generally comparable to the operating businesses of the Debtors; (viii) conducted other studies, analyses, and inquiries that I deemed appropriate; and (ix) considered a range of potential risk factors.

II. Valuation Assumptions

10. For purposes of the Valuation Analysis, I assumed the Reorganized Debtors would continue operating the businesses and maintain the assets of the Debtors, after giving effect to the Plan, based on the application of standard valuation techniques and methodologies. The estimated values set forth in this Declaration and the Valuation Analysis: (i) do not purport to constitute an appraisal of the assets of the Reorganized Debtors; (ii) do not constitute an opinion on the terms and provisions or fairness from a financial point of view to any holder of the consideration to be received by such holder under the Plan; (iii) do not constitute a recommendation to any holder of Claims or Interests as to how such holder should vote or otherwise act with respect to the Plan; and (iv) do not necessarily reflect the actual market value that might be realized through a sale or liquidation of the Reorganized Debtors.

11. The estimated values set forth herein and in the Valuation Analysis assume that the Reorganized Debtors will achieve their Financial Projections in all material respects. I have relied on the Debtors' representation and warranty that the Financial Projections: (i) were prepared in good faith; (ii) were based on fully disclosed assumptions that are reasonable in light

of the circumstances under which they were made; (iii) reflect the Debtors' best currently available estimates; and (iv) reflect the good faith judgments of the Debtors. I do not offer an opinion as to the attainability of the Financial Projections. As disclosed in the Valuation Analysis, the future results of the Reorganized Debtors are dependent upon various factors, many of which are beyond the control or knowledge of the Debtors and Houlihan, and consequently are inherently difficult to project. Other than the adjustments I note in paragraph 20 below, I am not aware of any events since the filing of the Disclosure Statement that cause me to modify or alter the Valuation Analysis.

12. The Valuation Analysis and my conclusions related thereto contemplate facts and conditions known and existing as of the date of the Disclosure Statement. Events and conditions subsequent to that date, including updated projections, as well as other factors, could have a substantial effect upon the Total Enterprise Value. Among other things, failure to consummate the Plan in a timely manner may have a materially negative effect on the Total Enterprise Value. For purposes of the Valuation Analysis and my conclusions, I assumed that no changes that would affect value materially would occur between the effective date of the Plan and the Valuation Analysis Date.

13. I did not consider any one analysis or factor to the exclusion of any other analyses or factors. Accordingly, in my opinion, the Valuation Analysis must be considered as a whole and that selecting portions of the analysis and factors could create a misleading or incomplete view of the processes underlying the preparation of the Valuation Analysis. Reliance on only one of the methodologies used or portions of the analysis performed could create a misleading or incomplete conclusion.

III. Valuation Methodology

14. The Valuation Analysis was prepared based upon the following methodologies: (i) comparable companies analysis; (ii) discounted cash flow analysis; and

(iii) analysis of precedent transactions. These methodologies are typically utilized by professionals to calculate valuation estimates in and out of bankruptcy proceedings and are generally accepted as reliable methods for these purposes.

A. *Comparable Companies Analysis*

15. The comparable companies analysis estimates the value of a company based on a relative comparison with publicly traded companies with similar operating and financial characteristics. A group of publicly traded companies was selected based on similar business and financial characteristics to the Reorganized Debtors. Criteria for the selected reference group included, but were not limited to, similarity in business and business risks, market presence, size, and scale of operations. The selection of appropriate comparable companies is often difficult and relies on certain qualitative judgements.

16. Using the comparable companies methodology, the enterprise value for each selected public company is generally determined by examining the trading prices for the equity securities of such company in the public markets and adding the outstanding net debt for such company. Such enterprise values are typically expressed as multiples of various measures of financial and operating statistics and projected financial metrics. The Total Enterprise Value of the Reorganized Debtors is calculated by applying these relevant selected multiples to the Reorganized Debtors' historical financials and Financial Projections.

B. *Discounted Cash Flow Analysis*

17. The discounted cash flow ("**DCF**") analysis is a forward-looking enterprise valuation methodology that estimates the value of an asset or business by calculating the present value of expected future cash flows to be generated by that asset or business. Houlihan's DCF analysis used the Reorganized Debtors' financial projections and its after-tax cash flows through December 31, 2028. These cash flows were then discounted at a range of estimated weighted

average costs of capital, which was determined by reference to, among other things, the cost of capital of selected publicly traded companies that are similar to the Reorganized Debtors in certain respects. Houlihan's DCF analysis also included an estimate of the value of the Reorganized Debtors for the period beyond December 31, 2028, known as the terminal value. The terminal value was derived by applying a multiple range to the EBITDA level in the final year of the projection period and discounted back to the assumed Effective Date. The discounted cash flow analysis involves complex considerations and judgments concerning appropriate terminal values and discount rates.

C. *Precedent Transactions Analysis*

18. Application of the precedent transactions methodology involved the implied enterprise values of companies and assets involved in publicly disclosed merger and acquisition transactions for which the targets had operating and financial characteristics comparable in certain respects to the Reorganized Debtors, although no selected company is either identical or perfectly comparable to the business of the Reorganized Debtors' operations. Under this methodology, a multiple is derived using the enterprise value of each such target, calculated as the consideration paid and the net debt assumed in the selected precedent transaction relative to a financial metric.

19. I reviewed and analyzed various merger and acquisition transactions that have occurred in the value-based care and primary care sector since 2020. This method also requires qualitative judgment, as each such transaction occurs under unique circumstances.

IV. Valuation Conclusion

20. As indicated above, I conclude the Total Enterprise Value of the Reorganized Debtors as of the assumed Effective Date of July 31, 2024, to be between $580 million and $720 million, with a midpoint of approximately $650 million. On the Valuation Analysis Date, the estimated net debt was approximately $199 million as of the assumed Effective

Date, based in part on an assumed 1L Exit Facility Loans (i.e., "takeback debt") of "up to" $50 million.[3] Based on such estimated net debt, the implied equity value range of the Reorganized Debtors is between $381 million and $521 million, with a midpoint of $451 million. Since the filing of (and as contemplated by) the Disclosure Statement, the Debtors and the Ad Hoc First Lien Group agreed that the amount of 1L Exit Facility Loans shall be zero, instead of $50 million. As a result of this change, I conclude that the implied equity value range of the Reorganized Debtors is between $431 million and $571 million, with a midpoint of approximately $501 million. This change in assumptions from the Disclosure Statement merely shifts a portion of the recovery for the First Lien Claims from 1L Exit Facility Loans to equity of the Reorganized Debtors; in my view, it does not have a material impact to the recoveries of the Debtors' creditor classes.

The New Money Exit Facility Is Reasonable Under the Circumstances

A. The DIP Financing

21. Beginning around August 2023, the Debtors faced a liquidity crisis and an impending financial covenant default under that certain Credit Agreement, dated as of February 24, 2023 (as amended by that certain First Amendment to Credit Agreement, dated as of August 10, 2023, the "**Side-Car Credit Agreement**").[4] After resolving the impending financial covenant default, the Debtors and their restructuring advisors, including Houlihan, commenced a parallel-track process to explore a potential restructuring of the Debtors' secured and unsecured funded indebtedness and an M&A transaction with a strategic or other partner. To generate additional liquidity, the Debtors also pursued several non-core asset sales. In September 2023, the

[3] The Debtors' Disclosure Statement contemplated flexibility in the amount of 1L Exit Facility Loans to be distributed to the First Lien Claims, the amount of which was to be determined by the Debtors and the Ad Hoc First Lien Group in accordance with the RSA.

[4] The Debtors' prepetition capital structure is described in detail in the *Declaration of Mark Kent in Support of Debtors' Chapter 11 Petitions* [Docket No. 14].

Debtors sold their senior-focused primary care centers in Texas and Nevada, which generated approximately $35.4 million in cash, paid at closing. By November 2023, it became clear that additional non-core asset sales were unlikely to materialize before the Debtors were to face a liquidity shortfall, and the Debtors determined they would likely require additional financing and a comprehensive restructuring in the near-term. During this period, the Debtors determined that they previously utilized substantially all of their available covenant flexibility under their debt documents in connection with raising a term loan in an aggregate principal amount equal to $150 million (the "**Side-Car Term Loan**"), which severely restricted the Debtors' ability to obtain out-of-court financing without the consent of the two lenders under the Side-Car Term Loan. Furthermore, upcoming covenant defaults under the Credit Suisse Agreement made it likely that consents for an out-of-court financing would also be required from a majority of those lenders.

22. As set forth in further detail in the Disclosure Statement, prior to the Petition Date, the Debtors engaged in discussions and negotiations with the Consenting Creditors on the terms of a prearrange restructuring and financing options for the Debtors. These negotiations ultimately led to the execution of a restructuring support agreement (the "**RSA**") on February 4, 2024, with creditors holding, at the time, approximately 86% of the Debtors' secured revolving and term loan debt and approximately 92% of the Debtors' senior unsecured notes (collectively, the "**Consenting Creditors**").

23. The RSA and DIP Credit Agreement (as defined below) provided for, among other things, (i) $150 million in new senior, super priority debtor-in-possession term loans (the "**DIP Facility**"), to be converted into, or be replaced by, an exit facility (the "**Exit Facility**") at emergence pursuant to the Plan, and (ii) the raising of a new money superpriority credit facility for up to $75 million on terms acceptable to the Requisite Consenting Creditors to further

supplement the Debtors' liquidity post-emergence in the event of a Reorganization Transaction (the "**New Money Exit Facility**").

24. Importantly, the RSA and the Plan terms set forth therein also embodied the settlement and compromise of certain disputes among the Debtors, the Consenting Creditors, and the Side-Car Lenders regarding the amount or allowance of make-whole premiums arising under the Side-Car Credit Agreement (the "**Side-Car Resolution**"). Pursuant to the Side-Car Resolution, and as incorporated into the Plan, the Side-Car Lenders' claims on account of such premiums are capped at the Side-Car Applicable Premium Settlement Amount.

25. Further, pursuant to the RSA, in addition to funding the Chapter 11 Cases, the Consenting Creditors agreed to support a dual-path process that allowed the Debtors flexibility to pursue a value-maximizing transaction. Specifically, the restructuring process set forth in the Plan and the RSA allowed the Debtors to conduct a marketing process, while providing certainty they would be able to deleverage their balance sheet through a Reorganization Transaction in a timely manner. The Debtors conducted a thorough marketing process, but no bids for a whole-company sale transaction were received. Accordingly, the Debtors and Consenting Creditors agreed to move forward with the stand-alone Reorganization Transaction. A summary of the key terms of the restructuring transactions as contemplated by the Plan and RSA is set forth in the Disclosure Statement.

B. The Exit Financing

26. On or around February 22, 2024, the Debtors, through Houlihan, commenced their first outreach to potential providers of the New Money Exit Facility. This outreach included certain parties solicited as a part of the Prepetition Marketing Process, as well other lenders. The Debtors, through Houlihan, reached out to the Ad Hoc First Lien Group and

38 additional parties, including banks and non-banking institutions. Solicitation included sharing publicly-available information about the Company, along with a projected pro forma exit capital structure. Among the parties solicited, the Ad Hoc First Lien Group and nine additional parties executed confidentiality agreements. From this outreach, the Debtors, through Houlihan, received three proposals, including an initial proposal from certain members of the Ad Hoc First Lien Group on May 21, 2024 (the "**Initial Proposal**").

27. Upon reviewing the three proposals, it was evident the Initial Proposal was superior to the other two proposals received, due to a variety of reasons, including a lower interest rate, more flexibility on payment of fees in equity vs. cash, fewer restrictions on the Company, lower execution risk given the Ad Hoc First Lien Group's existing familiarity with the Debtors' business, documentation simplicity, no cash reserves required, a longer term, and the highest resulting projected liquidity.

28. After receipt of the Initial Proposal, the Debtors engaged in rigorous negotiations with the Ad Hoc First Lien Group resulting in additional non-economic concessions such as no financial covenants. Following multiple rounds of discussions and careful consideration, the Debtors ultimately determined that the offer from the Ad Hoc First Lien Group of a $50 million new money delayed draw term loan facility was the best financing option available to the Debtors. The terms of the Exit Facility and the New Money Exit Facility (as defined below) are memorialized in the Exit Facility Credit Agreement (as defined below), filed with the Plan Supplement (as defined below).

29. The negotiations with the Ad Hoc First Lien Group were rigorous, marked by hard bargaining, and resulted in concessions by the Ad Hoc First Lien Group and additional benefits to the Debtors. Accordingly, the Debtors intend to enter into that certain *Exit Facility*

Credit Agreement (the "**Exit Facility Credit Agreement**"), which provides for, among other things, a delayed draw term loan facility in an aggregate principal amount of $50 million subject to the terms and conditions thereof (the "**New Money Exit Facility**"). The Exit Facility Credit Agreement is attached as Exhibit J-1 to the *Notice of Filing of Plan Supplement in Connection with Fourth Amended Joint Chapter 11 Plan of Reorganization of Cano Health, Inc. and Its Affiliated Debtors* [Docket No. 1023], filed on June 14, 2024 (the "**Plan Supplement**").

30. Based on my experience as a restructuring professional and my understanding of the Debtors' capital structure and need for exit financing, I conclude that it is unlikely that the Debtors would be able to obtain this level of exit financing on more attractive terms within the timeframe required. Accordingly, I believe that the New Money Exit Facility is reasonable and necessary under the facts and circumstances and is in the best interest of the Debtors, their estates, their creditors, and all other parties in interest.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: June 25, 2024
New York, NY

/s/ Drew Talarico
Drew Talarico
Managing Director
Houlihan Lokey Capital, Inc.