# EXHIBIT 1.2:

# FACTOR 4 – INDEPENDENT CPA ANALYSIS

# Analysis of the Reasonableness of Assumptions Used For and Feasibility of Projected Financials of:

Atrius Health, Inc.
For the Years Ending December 31, 2022
Through December 31, 2028

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One International Place
Boston, MA 02110-1745

October 28, 2022

Patrick Holland
Chief Financial Officer
Atrius Health, Inc.
275 Grove Street
Suite 2-300
Newton, MA 02466

**RE: Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility of the Proposed Project**

Dear Mr. Holland:

Enclosed is a copy of our report on the reasonableness of assumptions used for and feasibility of the financial projections for Atrius Health, Inc. Please contact me to discuss this report once you have had an opportunity to review.

Sincerely,

BDO USA, LLP

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**RE: Project Financial Feasibility Services Associated with DPH DON Factor 4**

Dear Mr. Holland:

We have performed an analysis related to the reasonableness and feasibility of the financial projections (the "Projections") of Atrius Health, Inc. and its affiliate, Atrius MSO, LLC ("Atrius Health," or "the Applicant"), related to the proposed project as detailed further below (the "Proposed Project"). This report details our analysis and findings with regard to the reasonableness of assumptions used in the preparation of the Projections and feasibility of the projected financial results prepared by the management of Atrius Health ("Management"). This report is to be used by Atrius Health in connection with its Determination of Need ("DON") Application – Factor 4(a) and should not be distributed or relied upon for any other purpose.

## I. <u>EXECUTIVE SUMMARY</u>

The scope of our review was limited to an analysis of the consolidated seven-year financial projections for the Applicant for the fiscal years ending December 31, 2022, through 2028 prepared by Management and the supporting documentation to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections.

The Projections exhibit a cumulative operating EBITDA[1] surplus of approximately 1.9 percent of cumulative projected revenue of Atrius Health for the seven years from fiscal year ("FY") 2022 through 2028. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated operating EBITDA surplus is a reasonable expectation and based upon feasible financial assumptions. Accordingly, we determined that the Projections are reasonable and feasible, and not likely to have a negative impact on the Applicant's patient panel or result in a liquidation of Atrius Health's assets. A detailed explanation of the basis for our determination of reasonableness and feasibility is contained within this report.

## II. RELEVANT BACKGROUND INFORMATION[2]

The Applicant, Atrius Health is a Massachusetts Health Policy Commission ("HPC") certified Accountable Care Organization ("ACO") driven to improve the health and wellness its patient population by providing high-quality, coordinated care for patients across eastern Massachusetts. The Applicant is committed to serving a diverse patient population, and strives to address the needs of individuals who may be at particular risk for poor health as a result of social and other conditions at more than 30 medical practice locations in eastern

*[1] EBITDA ("Earnings before Depreciation, Interest and Tax")*
*[2] Portions of this section of the report were adapted directly from the Project Description section of the Draft Atrius Health Application Form for DON Application as directed by the Applicant, from the Applicant's website, and from the Applicant's audited financial statements.*

Massachusetts. Atrius Health's physicians and primary care providers, along with additional clinicians, work in close collaboration with hospital partners, community specialists and skilled nursing facilities to provide a system of connected care for adult and pediatric patients. Atrius Health offers primary care, internal medicine, pediatrics, obstetrics, gynecology, over 50 specialties, imaging, lab, and pharmacy services.

The purpose of the Proposed Project is to provide advanced imaging modalities of magnetic resonance imaging ("MRI") and computerized tomography ("CT") at the Applicant's new planned practice location at 36 Shops at 5 Way Plymouth, MA, (the "Plymouth Practice"), which is currently under DPH review. Specifically, the Applicant is seeking approval for one fixed/installed scanner to provide CT services and two days of service of a mobile MRI at the Plymouth Practice. Atrius Health intends to purchase the CT scanner and the MRI service will be provided pursuant to an existing lease that the Applicant currently holds for provision of mobile MRI services.

The Proposed Project will complement the general diagnostic imaging modalities (X-Ray and ultrasound) which will be available at the Plymouth Practice. The Proposed Project is part of the Applicant's ongoing efforts to improve access to necessary care, promote care coordination, and help control total medical expense for the community. The Proposed Project is driven by a need to expand access to cost effective advanced imaging for Atrius Health patients in the greater Plymouth area currently served by the PMG practices and which will be served in the future by the Plymouth Practice. We understand that currently the only available CT and MRI services in the Plymouth area are higher cost, hospital-based services, subject to hospital facility fees. By having access to these advanced imaging modalities in an outpatient physician practice setting, patients in the Plymouth Practice service area will be more likely to receive the right care, in the right place, at the right time.

## III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the seven-year Projections for the fiscal years ending December 31, 2022, through 2028, prepared by Management, and the supporting documentation to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections. Reasonableness is defined within the context of this report as supportable and proper, given the underlying information. Feasibility is defined as based on the assumptions used, the Proposed Project is not likely to result in a liquidation of the underlying assets or the need for reorganization.

This report is based on prospective financial information provided to us by Management. BDO understands the prospective financial information was developed as of August 17, 2022 and is still representative of Management's expectations as of the drafting of this report. BDO has not audited or performed any other form of attestation services on the projected financial information related to the operations of Atrius Health.

If BDO had audited the underlying data, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we do not express an opinion or any other assurances on the underlying data or projections presented or relied upon in this report. We do not provide assurance on the achievability of the results forecasted by the Applicant because events and circumstances frequently do not occur as expected, and the achievement of the forecasted results is dependent on the actions, plans, and assumptions of Management. We reserve the right to update our analysis in the event we are provided with additional information.

## IV. SOURCES OF INFORMATION UTILIZED

In formulating our conclusions contained in this report, we reviewed documents produced by Management as well as third party industry data sources. The documents and information upon which we relied are identified below or are otherwise referenced in this report:

1. Financial Model for Atrius Health for the periods ending December 31, 2018 through December 31, 2028;
2. Atrius Health – 2022 Gap Closure Plan updated March 14, 2022;
3. Signed Atrius-GE CT Quote dated April 29, 2022;
4. Atrius DON Sketch dated June 21, 2022;
5. MRI and CT Construction Cost Budget dated June 22, 2022;
6. Draft DON Narrative Report and Supporting Factor 4 Charts;
7. Audited Financial Statements for Atrius Health, Inc. and Affiliates for Fiscal Years Ended December 31, 2021, 2020, 2019, and 2018;
8. Unaudited Cash Flow Statements for Atrius Health, Inc. for Fiscal Years Ended December 31, 2021, 2020, 2019, and 2018;

9. 2021 Annual Health Care Cost Trends Report Chartpack, Massachusetts Health Policy Commission, dated September 2021;
10. Integra Reports, published by MicroBilt Corporation;
11. IBISWorld Industry Report, Primary Care Doctors in the US, dated August 2022; and
12. Determination of Need Application Instructions dated March 2017.

## V. REVIEW OF THE PROJECTIONS

This section of our report summarizes our review of the reasonableness of the assumptions used and feasibility of the Projections.

The following table presents the Key Metrics, as defined below, which compare the forecasted operating results of the performance of Atrius Health to market information from IBISWorld and Integra to assess the reasonableness of the Projections.

| Key Financial Metrics and Ratios | Projected | | | | | | |
|---|---|---|---|---|---|---|---|
| **Atrius Health, Inc.** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** |
| **Profitability** | | | | | | | |
| Operating Margin (%) | -2.4% | -0.7% | 0.4% | 1.1% | 1.8% | 2.5% | 3.1% |
| Debt Service Coverage Ratio (x) | -0.2x | 3290.6x | 28439.7x | 45794.8x | 64671.3x | 85173.3x | 107411.9x |
| **Liquidity** | | | | | | | |
| Days Available Cash on Hand (#) | 133.3 | 127.3 | 129.4 | 139.1 | 154.3 | 174.6 | 199.5 |
| Cash Flow Margin (%) | -1.6% | 0.4% | 1.7% | 2.2% | 2.9% | 3.6% | 4.2% |
| **Solvency** | | | | | | | |
| Current Ratio (x) | 1.1x | 1.0x | 1.1x | 1.2x | 1.4x | 1.6x | 1.8x |
| Ratio of Long Term Debt to Total Capitalization (%) | 29.3% | 30.3% | 29.7% | 28.0% | 25.6% | 22.8% | 19.9% |
| Ratio of Cash Flow to Long Term Debt (%) | -23.0% | 6.3% | 28.4% | 39.6% | 54.0% | 69.7% | 86.8% |
| Total Net Assets ($ in thousands) | $ 369,419 | $ 352,335 | $ 363,366 | $ 393,540 | $ 444,608 | $ 518,441 | $ 617,039 |

| Key Financial Metrics and Ratios | Actual | | | | Industry Data (1) | |
|---|---|---|---|---|---|---|
| Atrius Health, Inc. | 2018 | 2019 | 2020 | 2021 | Integra Data - Offices of Physicians | IBIS - Primary Care Doctors in the US (2) |
| **Profitability** | | | | | | |
| Operating Margin (%) | 2.1% | 0.0% | -0.1% | -1.5% | 0.9% | NA |
| Debt Service Coverage Ratio (x) | 5.7x | 2.1x | 2.5x | -0.5x | 1.2x | 1.0x |
| **Liquidity** | | | | | | |
| Days Available Cash on Hand (#) | 124.3 | 135.0 | 181.2 | 155.6 | NA | NA |
| Cash Flow Margin (%) | 4.4% | 0.6% | 4.8% | -0.8% | 2.5% | 28.6% |
| **Solvency** | | | | | | |
| Current Ratio (x) | 1.2x | 1.3x | 1.3x | 1.2x | 1.6x | 1.4x |
| Ratio of Long Term Debt to Total Capitalization (%) | 35.0% | 53.4% | 54.3% | 55.9% | 25.5% | NA |
| Ratio of Cash Flow to Long Term Debt (%) | 56.8% | 4.3% | 29.8% | -5.6% | 45.6% | NA |
| Total Net Assets ($ in thousands) | $ 269,581 | $ 273,963 | $ 284,967 | $ 253,324 | $ 487,164 | NA |

Footnotes:

(1) Industry data metrics based on each data source's respective definitions and may differ from the definitions listed below. Further, we note industry metrics only include offices of physicians and do not reflect health systems, including physician organizations.

(2) Data from IBISWorld Industry Report 62111 - Primary Care Doctors in the US published August 2022. The ratios used are for 2020, the most recent available data.

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics are used in the evaluation of management performance in how efficiently resources are utilized. Liquidity metrics, including common ratios such as "days of available cash and investments on hand", measure the quality and adequacy of assets to meet current obligations as they come due. Solvency metrics measure the company's ability to take on and service debt obligations. Additionally, certain metrics can be applicable to multiple categories. The table below shows how each of the Key Metrics is calculated.

| Key Financial Metrics and Ratios<br>Ratio Definitions | Calculation |
|---|---|
| **Profitability** | |
| Operating Margin (%) | Income (Loss) from Operations Divided by Total Revenue |
| Debt Service Coverage Ratio (x) | (Income (Loss) from Operations + Depreciation and Amortization + Interest) Divided by (Principal Payments and Interest) |
| **Liquidity** | |
| Days Available Cash and Investments on Hand (#) | Unrestricted Cash and Investments Divided by [(Total Operating Expenses Less Depreciation and Amortization) Divided by 365 Days] |
| Operating Cash Flow (%) | Net Cash Provided by Operations Divided by Total Revenue |
| **Solvency** | |
| Current Ratio (x) | Current Assets Divided by Current Liabilities |
| Ratio of Long Term Debt to Total Capitalization (%) | (Non-Current Portion of Long-Term Debt + Long-Term Lease Obligations) Divided by Total Capitalization (Long-Term Debt + Long-Term Lease Obligations + Net Assets ) |
| Ratio of Cash Flow to Long Term Debt (%) | Net Cash Provided by Operations Divided by (Non-Current Portion of Long-Term Debt + Long-Term Lease Obligations) |
| Total Net Assets ($ in thousands) | Total Net Assets |

## 1. Revenue

We analyzed the projected revenue within the Projections. Total revenue for the Applicant includes capitation revenue, fee for service ("FFS") revenue, pharmacy revenue, and other revenue. We note that capitation revenue comprises approximately 75.0 percent of the cumulative total revenue from FY 2022 through FY 2028.

1. **Capitation Revenue** – Capitation revenue is estimated based on membership and capitation revenue per member per month ("PMPM"). Membership is based on capitated member months. We understand FY 2022 and 2023 figures in the Projections are based on a rolling budget forecast with actual results through July 2022. Capitated member months are projected to grow 0.1 percent in FY 2022 and 2.7 percent in FY 2023. After FY 2023, capitated member months are grown 2.0 percent annually. This forecasted growth is within the historical change in capitated member months, which from FY 2019 to FY 2021 ranged from -4.6 percent to 27.7 percent. Management

estimated the annual rate of change in the capitation rate for commercial, Medicaid, and Medicare separately. The capitation rate on a per member, per month basis was projected to grow 3.7 percent in FY 2022 and 3.2 percent in FY 2023. After FY 2023, the weighted average change in capitation rate is equal to 2.8 percent annually. This falls within the historical rate of change in the blended capitation rate of -1.9 percent to 8.9 percent from FY 2019 to FY 2021.

2. **FFS Revenue** – FFS Revenue is projected based on FFS encounters and FFS rate per encounter. FFS encounters are projected to grow 10.0 percent in FY 2022 and 16.8 percent in FY 2023. After FY 2023, FFS encounters are projected to grow at a decreasing rate from 11.6 percent in FY 2024 to 3.9 percent in FY 2025 to 3.8 percent thereafter through FY 2028. The FFS rate per encounter is projected to decrease in FY 2022 by -3.2 percent. The FFS rate per encounter is grown by 0.9 percent in FY 2023 and 3.0 percent annually after FY 2023. FFS revenue growth ranges in the Projections from 6.5 percent to 17.8 percent, which falls within the historical range of FFS growth from FY 2019 to FY 2021 of -23.6 percent to 18.3 percent.
3. **Pharmacy Revenue** – Pharmacy revenue was projected by Management as total capitation and FFS encounters and pharmacy revenue per encounter. Pharmacy revenue per encounter is projected to increase 5.8 percent in FY 2022 before declining 1.7 percent in FY 2023. Pharmacy revenue per encounter was grown at 3.0 percent per year after FY 2023. Overall increase in pharmacy revenue ranges from 6.1 percent to 14.8 percent, which falls within the historical range observed from 1.6 percent to 21.6 percent. We understand from discussions with Management pharmacy revenue per encounter increased significantly in FY 2020 as a result of the pandemic.

4. **Other Revenue** – Other revenue is expected to decline 43.3 percent in FY 2022 and 56.1 percent in FY 2023. Other revenue is projected to grow by 3.0 percent after FY 2023, which is within the historical range of growth ranging from -13.3 percent to 66.2 percent from FY 2019 to FY 2021. Other revenue includes optical, hearing, rental fees, parking fees, and management fees.

The Projections include revenue related to the Proposed Projected. The Proposed Project is projected to begin generating revenue in FY 2024 increasing from $1.6 million to $2.8 million by FY 2028. The revenue projected for the Proposed Project is equal to approximately 0.1 percent of the Applicant's total revenue and is based upon number of scans and estimated net revenue per scan per year.

In order to determine the reasonableness of the projected revenue, we reviewed the underlying assumptions upon which Management relied. Based upon our review of the information provided and the discussions noted above, we understand Management relied upon historical operating results and anticipated demographic trends in the Atrius Health service area. The revenue growth anticipated for the Applicant is within the range of annual revenue growth rates for the Applicant between FY 2019 and FY 2021 as indicated in the table below.

| | Projected CAGR (2022 – 2028) | Projected Range of Growth (2022 – 2028) | Historical CAGR (2019 – 2021) | Historical Range of Growth (2019 – 2021) |
|---|---|---|---|---|
| Total Revenue Projection | 5.3% | 2.9% - 6.8% | 5.2% | -3.6% - 14.6% |

Based upon the foregoing, it is our opinion that the revenue growth projected by Management reflects a reasonable estimation of future revenue of Atrius Health.

**2. Operating Expenses**

We analyzed each of the categorized operating expenses for reasonableness and feasibility related to the Projections. Leakage and salary and benefits account for approximately 57.0 percent and 27.0 percent of total operating expenses, respectively.

Similar to capitation revenue, leakage was projected by Management based on membership and a leakage rate per member per month. Management estimated the annual rate of change for commercial, Medicaid, and Medicare separately. Leakage rates for FY 2022 and FY 2023 were based the rolling forecast and estimated at 4.0 percent for FY 2022 and 2.29 percent for FY 2023. After FY 2023, the weighted average change in the leakage rate is equal to 1.9 percent annually. This falls within the historical rate of change in the blended leakage rate of -0.8 percent to 12.5 percent from FY 2019 to FY 2021.

Salary was projected based on estimated full time equivalent ("FTE") per department and salary per FTE. FTEs are projected to increase 1.6 percent in FY 2022, 3.6 percent in FY 2023, and 4.6 percent in FY 2024. Thereafter, FTEs are projected to grow 2.5 percent annually. Salary per FTE is expected to decline by 1.1 percent in FY 2022, increase 1.8 percent in FY 2023, and increase 3.2 percent in FY 2024. Thereafter, salary per FTE is projected to grow 2.9 percent per year. Benefit expense is projected to be equal to 27.8 percent of salary in FY 2022 and 27.5 percent of salary for FY 2023 through FY 2028. Projected benefit expense falls within historical benefits as a percentage of salary ranging from 26.4 percent to 30.2 percent. Overall salary and benefits expense are projected to increase annually between 2.2 percent and 8.0 percent in the Projections, which falls within or exceeds the historical rate of increases in salary and benefits ranging from -7.7 percent to 3.3 percent.

Incremental expenses related to the Proposed Project include salary, supplies, transportation, equipment maintenance, depreciation, and site and overhead. Incremental expenses are included within the Projections for FY 2024 through FY 2028.

The following table indicates the projected increases in total operating expenses are within range of annual expense growth rates between FY 2019 and FY 2021.

| | Projected CAGR (2022 – 2028) | Projected Range of Growth (2022 – 2028) | Historical CAGR (2019 – 2021) | Historical Range of Growth (2019 – 2021) |
|---|---|---|---|---|
| Expense Projection | 4.6% | 3.8% - 5.6% | 6.4% | -3.5% - 17.0% |

Based upon the foregoing, it is our opinion that the operating expenses within the Projections reflect reasonable estimation of future expenses of the Applicant. We note that the projected total expenses as a percentage of total revenue range from 96.9 percent to 102.4 percent from FY 2022 to FY 2028. We note that this level of total expenses is largely consistent with the historical total expenses as a percentage of total revenue, except for FY 2027 and 2028, which ranged from 98.0 to 101.5 percent from FY 2018 to FY 2021.

### 3. Capital Expenditures and Proposed Project Financing

We reviewed the capital expenditures projected related to the Proposed Project. The project costs related to the Proposed Project are expected to be approximately $978.0 thousand and include the build out cost for the MRI, the CT equipment, and the build out cost for the CT. The Applicant will utilize existing mobile MRI equipment and existing radiology workstations. The expenditures for the Proposed Project are included within the Projections in FY 2023. The project cost for the Proposed Project was developed based upon the prior experience of internal resources and developed sketches as well as a quote from GE Healthcare related to the CT equipment.

In addition to capital expenditures, we also reviewed the proposed financing of the project. The Applicant indicated routine capital / cash on hand would be utilized to fund the Proposed Project. As discussed above, maximum capital expenditures are expected to be approximately $978.0 thousand. The Applicant has an unrestricted cash and investments balance exceeding $340 million throughout the projection period. As such, it appears the Applicant has sufficient capital to fund the Proposed Project without requiring Atrius Health to obtain debt financing.

## VI. FEASIBILITY

We analyzed the Projections and Key Metrics for the Proposed Project. In preparing our analysis we considered multiple sources of information including industry metrics, historical results, and Management expectations. It is important to note that the Projections do not account for any anticipated changes in accounting standards. These standards, which may have a material impact on individual future years, are not anticipated to have a material impact on the aggregate Projections.

Within the projected financial information, the Projections exhibit a cumulative operating EBITDA surplus of approximately 1.9 percent of cumulative projected operating revenue for the seven years from FY 2022 through FY 2028. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated EBITDA surplus is a reasonable expectation and based upon feasible financial assumptions. Accordingly, we determined that the Projections are reasonable and feasible, and not likely to have a negative impact on the patient panel or result in a liquidation of assets of Atrius Health.

Respectively submitted,

Erik Lynch
Partner, BDO USA LLP