Beth Israel Lahey Health Surgery Center Plymouth, LLC

Analysis of the Reasonableness of Assumptions Used For and
Feasibility of Projected Financial Information associated with the creation of a freestanding ambulatory surgery center to be operated by Beth Israel Lahey Health Surgery Center Plymouth, LLC

For Years Ending September 30, 2025 through September 30, 2029

BETH ISRAEL LAHEY HEALTH SURGERY CENTER PLYMOUTH, LLC

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January 26, 2023

Mr. Alan Doucet
Executive Director
Plymouth Bay Orthopedic Associates, Inc.
41 Resnik Road
Plymouth, MA 02360

Dear Mr. Doucet:

We have performed an analysis of the financial projections prepared by Beth Israel Deaconess Hospital – Plymouth ("BID Plymouth" or "Hospital") detailing the projected operations of Beth Israel Lahey Health Surgery Center Plymouth, LLC ("Applicant"). The Applicant is a newly formed joint venture between BILH Surgery Center Plymouth Hospital Holdco, LLC (51%), a subsidiary of BID Plymouth, and Pilgrim ASC LLC, a subsidiary of Plymouth Bay Orthopedic Associates, P.C. ("PBOA") (49%), founded for the purpose of creating, managing, and operating a freestanding ambulatory surgery center ("ASC") (the "Project"). The Applicant is filing a Determination of Need ("DON") for this purpose. This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the projected financial information of the proposed project as prepared by the management of Avanza Healthcare Strategies ("Avanza") and BID Plymouth ("Management"). Avanza is a third-party consultant offering feasibility and financial projections for the healthcare industry. This report is to be included by the Applicant in its DON application, (see Factor 4(a) of the DON) and should not be distributed or relied upon for any other purpose.

I. Executive Summary

The scope of our analysis was limited to the five-year financial projections for the fiscal years ending September 30, 2025 through September 30, 2029 (the "Projections") prepared by Management, and the related supporting documentation provided by Management. The purpose is to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the impact of creating the ASC.

The creation of the ASC is projected to have positive overall cash flows. We determined that the projections were not likely to result in a scenario where there are insufficient funds available for the ongoing operating costs required to support the ambulatory surgery center. Except for the financing discussed in Section V, it is not anticipated that the Applicant will not require any additional financing associated with this service. It is our conclusion that the projections are financially feasible and within the financial capability of the Applicant as detailed below.

II. Relevant Background Information

Refer to Factor 1 of the DON application for a description of the scope of the Applicant, as well as the overall description and rationale of the creation of an ambulatory surgery center.

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III. Scope of Report

The scope of this report is limited to an analysis of the five-year financial projections prepared by Management and the supporting documentation in order to assess the reasonableness of assumptions used in the preparation and feasibility of the projections with regards to the proposed project. Our analysis of the projections and conclusions contained within this report are based upon our detailed review of all relevant information (see section IV of this report). We have gained an understanding through our review of the information provided by Management, as well as a review of the DON application.

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 plan is not likely to result in insufficient funds available for capital and ongoing operating costs necessary to support the proposed project without negative impacts or consequences to the Applicant's existing patient panel.

This report is based upon historical and prospective financial information provided to us by Management. If Meyers Brothers Kalicka, P.C. 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 presented or relied upon in this report. We do not provide assurance on the achievability of the results forecasted by Management 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, if we are provided with additional information.

IV. Primary Sources of Information Utilized

In formulating our opinions and conclusions contained in this report, we obtained and reviewed various documents obtained from Management. The documents and information we used and relied on are noted below and/or referenced in this report:

- Historical PBOA outpatient orthopedic volume performed at BID Plymouth for the fiscal years ended September 30, 2020, and 2021.

- Historical revenue related to the PBOA outpatient volume performed at BID Plymouth for the fiscal years ended September 30, 2020, and 2021.

- Projected PBOA outpatient orthopedic volume performed at BID Plymouth to be shifted to the ASC for the fiscal years ending September 30, 2025, 2026, 2027, 2028 and 2029.

- Projected revenue and expenses for the Project for the fiscal years ending September 30, 2025, 2026, 2027, 2028 and 2029.

- Projected statements of cash flows for the Project for the fiscal years ending September 30, 2025, 2026, 2027, 2028 and 2029.

- Projected balance sheets for the Project for the fiscal years ending September 30, 2025, 2026, 2027, 2028 and 2029.

- Proposed lease agreement for the ASC between Mayflower Landing, LLC and Beth Israel Lahey Surgery Center Plymouth, LLC.

- Determination of Need Application Instructions dated March 2017.

IV. Primary Sources of Information Utilized (continued)

- DON Narrative draft provided November 14, 2022.
- Total project costs of the Applicant and Mayflower Landing, LLC are made up of the following:

	Applicant	Mayflower Landing, LLC	Total
Land	$ -	$ 1,077,365	$ 1,077,365
Leasehold improvements	7,157,291	6,963,355	14,120,646
Fixed medical equipment	1,151,000	-	1,151,000
Movable medical equipment	5,250,375	-	5,250,375
Office equipment	247,035	-	247,035
Total capital expenditures	13,805,701	8,040,720	21,846,421
Initial inventory	62,441	-	62,441
Start-up costs	3,750,860	-	3,750,860
Total project costs	$ 17,619,002	$ 8,040,720	$ 25,659,722

Based on discussions with Management and review of the information provided, $17,619,002 of the total project costs are absorbed by the Applicant and $8,040,720 of the total project costs are absorbed by the owner of the building, Mayflower Landing, LLC. Movable medical equipment and office equipment totaling $5,497,410 are excluded from total capital expenditures of $16,349,011 in section V of the report as they are not defined as DON-required equipment and are therefore excluded from the DON application.

V. Review of the Projections

This section of the report summarizes our review of the reasonableness of the assumptions used and feasibility of the projections. The tables that follow summarize the projected results of Beth Israel Lahey Health Surgery Center Plymouth, LLC, following the creation of the ASC by the Applicant.

Revenues

We have reviewed and analyzed the net operating revenues in the historical and projected financial information. For the purposes of this pro forma, volume is broken out between total joint replacement ("TJR") cases and all other musculoskeletal ("MSK") cases. Based on discussions with Management and review of the information provided, the volume disclosed in the table below is based on a percentage of historical PBOA outpatient orthopedic cases performed at BID Plymouth that would shift to the ASC based on the American Society of Anesthesiologist ("ASA") physical status classification assigned to each individual historical case. Management anticipates approximately 76% of approximately 2,230 cases currently performed at BID Plymouth could be shifted to the ASC for the year ending September 30, 2025. In addition to the percentage of cases that are estimated to shift to the new ASC, Management estimated additional volume based on the age of the population, convenience of the location, and Medicare now accepting TJR cases in an ASC setting.

Based on discussions with Management and review of the information provided, gross revenue of $12,389,381 in the fiscal year ending September 30, 2025 is based on the average of Commercial (40%), Medicare (50%), and Medicaid (10%) reimbursement rates. Based on Beth Israel Lahey Surgery Center Plymouth, LLC's location, size, and specialty focus, Management estimates Commercial rates will range between 150% - 180% of freestanding ASC Medicare rates and Medicaid rates will range between 40% - 60% of freestanding ASC Medicare rates. The freestanding ASC Medicare rate is approximately $9,700 for TJR case and approximately $2,400 for all other MSK cases.

V. Review of the Projections (continued)

The table below provides a summary of some of the key information for the projected volume and revenues by year (fiscal year September):

Category	Projected/ pro-forma with creation of the ASC 2025	Projected/ pro-forma with creation of the ASC 2026	Projected/ pro-forma with creation of the ASC 2027	Projected/ pro-forma with creation of the ASC 2028	Projected/ pro-forma with creation of the ASC 2029
Volume - # of cases – TJR	549	658	766	875	983
Volume - # of cases – all other MSK	2,029	2,213	2,298	2,322	2,347
Volume - Total cases	2,578	2,871	3,064	3,197	3,330
Revenue - Gross revenue	$ 2,389,381	$ 4,159,265	$ 15,593,938	$ 16,828,555	$ 18,073,484
Revenue - Gross charges per case	4,805	4,931	5,089	5,263	5,427

Management estimated volume growth from the fiscal years ending September 30, 2025 through 2029 ranging from 4% to 11%. Gross charge per case is expected to increase approximately 3% each year.

Expenses
We analyzed each of the categorized expenses for reasonableness and feasibility as it relates to the projected revenue. The table below provides a summary of some of the key information for the projected expenses by year (fiscal year September):

Expenses	Projected/ pro-forma with creation of the ASC 2025	Projected/ pro-forma with creation of the ASC 2026	Projected/ pro-forma with creation of the ASC 2027	Projected/ pro-forma with creation of the ASC 2028	Projected/ pro-forma with creation of the ASC 2029
Salaries and wages (1)	$ 1,978,347	$ 2,218,494	$ 2,689,073	$ 2,947,189	$ 3,035,604
Payroll taxes and benefits (2)	478,830	537,508	652,659	715,730	737,201
Drugs and medical supplies (3)	4,585,585	5,493,514	6,376,751	7,265,704	8,215,571
Insurance	20,800	21,632	22,497	23,397	24,333
Equipment expense, repairs, and maintenance (4)	200,200	208,208	216,536	225,198	234,206
Lease expense (5)	907,772	930,467	953,728	977,571	1,002,011
Marketing	41,600	43,264	44,995	46,794	48,666
Professional fees (6)	104,000	108,160	112,486	116,986	121,665
IT expense (7)	104,000	108,160	112,486	116,986	121,665
Administrative services	78,000	81,120	84,365	87,739	91,249
Other operating expenses (8)	179,412	196,727	211,545	224,986	239,165
Outsourced billing fee (9)	495,575	566,371	623,758	673,142	722,939
CHI payment (10)	204,363	204,363	204,363	-	-
Depreciation (11)	2,031,295	2,031,295	2,031,295	2,031,295	2,031,295
Interest expense (12)	708,591	654,443	596,380	534,120	467,359
Total Expenses	$ 12,118,370	$ 13,403,726	$ 14,932,917	$ 15,986,837	$ 17,092,929

(1) Salaries and wages in in the fiscal year ending September 30, 2025 include 22 full-time equivalents ("FTE") to operate the ASC with an average hourly rate of $41.48. Salaries and wages in 2025 also include a medical director estimated with an average stipend of approximately $25,000. Payroll administrative fees are also included above, which represent 2% of total salaries and wages. Management assumes a 3% cost of living adjustment every year.

The ASC will have four operating rooms available. Management estimates the ASC will have 64% utilization in 2025, increasing to 86% utilization in 2029. Staffing volume is dependent on Accreditation Association for Ambulatory Health Care ("AAAHC") requirements and estimated cases to be performed annually.

V. Review of the Projections (continued)

(2) Management has estimated the projected fringe benefits at approximately 25% of salaries and wages, excluding the medical director and payroll admin fee.

(3) Drugs and medical supplies are calculated on a per case basis. Drugs and medical supplies for TJR cases are projected at $4,993 per case and drugs and medical supplies for all other MSK cases are projected at $832 per case. There is an additional $1,040 of supplies for spine cases. Management has estimated a 4% increase every year for inflation.

(4) Equipment expense, repairs, and maintenance is made up of a service agreement estimated at $112,000 (which is based on the average of two existing contracts at BID Plymouth) and minor equipment repairs and purchases of approximately $88,000 in the fiscal year ending September 30, 2025. Management has estimated a 4% increase every year for inflation.

(5) Beth Israel Lahey Health Surgery Center Plymouth, LLC is to lease a newly constructed building, which includes 19,091 square feet, to operate the ASC. Base rent for the fiscal year ending September 30, 2025 is $31.31 per square foot and common area maintenance charges are $16.24 per square foot. The lease will include a 2.5% increase every year for base rent and common area maintenance charges. The lease is for a term of 10 years and includes two, five-year renewal options.

(6) Professional fees consist of approximately $62,000 for consulting fees and approximately $42,000 for accounting and legal fees in the fiscal year ending September 30, 2025. Management has estimated a 4% increase every year for inflation.

(7) IT expense includes a subscription for the ASC-specific electronic medical record software of approximately $104,000 in the fiscal year ending September 30, 2025. Management has estimated a 4% increase every year for inflation.

(8) Other operating expenses consist of office supplies, transcription costs, cleaning/housekeeping, laundry expenses, and miscellaneous other expenses. Management has estimated a 4% increase every year for inflation.

(9) The outsourced billing fee is projected at 4% of total revenue. Management estimated the outsourced billing fee based on the average billing fee charged to ASCs by medical billing companies nationwide.

(10) The Applicant is required to pay a 5% fee to the Commonwealth of Massachusetts based on the total projected capital costs of $16,349,011, which results in a fee of approximately $817,000, of which 25% is payable during the start-up period and the remaining 75% is payable over three years beginning in the fiscal year ending September 30, 2025 (see capital expenditures).

(11) Costs of approximately $6,401,000 for movable and fixed medical equipment and $247,000 for office equipment are being depreciated over 5 and 7 years, respectively, beginning in the fiscal year ending September 30, 2025. Costs of approximately $7,157,000 for leasehold improvements are being depreciated over the life of the lease (10 years), beginning in the fiscal year ending September 30, 2025.

(12) The Applicant will finance $10,461,711 of project costs through debt over 120 months with a fixed interest rate of 7%, beginning in the fiscal year ending September 30, 2025.

We analyzed the projected/pro-forma expenses for the fiscal years ending September 30, 2025 through September 30, 2029 to assess the reasonableness of the pro-forma statements. Based on our analysis, the pro-forma total expenses are reasonable.

V. Review of the Projections (continued)

Net Income

The table below provides a summary of the net income by year (fiscal year September):

Category	Projected/ pro-forma with creation of the ASC 2025	Projected/ pro-forma with creation of the ASC 2026	Projected/ pro-forma with creation of the ASC 2027	Projected/ pro-forma with creation of the ASC 2028	Projected/ pro-forma with creation of the ASC 2029
Gross revenue	$ 12,389,381	$ 14,159,265	$ 15,593,938	$ 16,828,555	$ 18,073,484
Total expenses	12,118,370	13,403,726	14,932,917	15,986,837	17,092,929
Net income	$ 271,011	$ 755,539	$ 661,021	$ 841,718	$ 980,555

Cash Flows

The table below provides a summary of cash flow by year (fiscal year September):

Category	Projected/ pro-forma with creation of the ASC 2025	Projected/ pro-forma with creation of the ASC 2026	Projected/ pro-forma with creation of the ASC 2027	Projected/ pro-forma with creation of the ASC 2028	Projected/ pro-forma with creation of the ASC 2029
Net income	$ 271,011	$ 755,539	$ 661,021	$ 841,718	$ 980,555
Depreciation	2,031,295	2,031,295	2,031,295	2,031,295	2,031,295
Change in inventory (1)	(319,691)	(75,661)	(73,603)	(74,079)	(79,156)
Principal payments (2)	(749,041)	(803,189)	(861,252)	(923,512)	(990,273)
Distributions to shareholders (3)	(588,303)	(1,577,695)	(1,366,083)	(1,600,198)	(1,653,225)
Cash, beginning of year (4)	2,168,098	2,813,369	3,143,658	3,535,036	3,810,260
Cash, end of year	$ 2,813,369	$ 3,143,658	$ 3,535,036	$ 3,810,260	$ 4,099,456

(1) Management has estimated a one-month supply of drugs and medical supply inventory on hand at the end of each year. Management has estimated approximately $320,000 of additional costs in the fiscal year ending September 30, 2025 for drugs and medical supply inventory, with the fiscal years ending September 30, 2026 through September 30, 2029 having additional costs ranging from approximately $74,000 to $79,000.

(2) Of the $17,619,002 of total project costs, $10,461,711 will be financed through debt during the start-up period. Long term debt is payable in 120 equal monthly installments with a fixed interest rate of 7%, beginning in the year ending September 30, 2025.

(3) Distributions to shareholders are calculated annually based on the estimated excess cash at the end of the year above three months of estimated operating expenses for the following fiscal year.

(4) Cash, beginning of year for the fiscal year ending September 30, 2025 of $2,168,098 includes proceeds from the issuance of shares of $7,157,291 (BILH will contribute $3,650,218 and become 51% owner of the ASC and PBOA will contribute $3,507,073 and become 49% owner of the ASC) and loan proceeds of $10,461,711, net of capital expenditures of $13,805,701, initial inventory of $62,441, and a net loss of $1,582,762 during the start-up period.

Base upon our discussion with Management and our review of the information provided, the capital needs and ongoing operating costs required to create, manage, and operate a freestanding ambulatory surgery center are not likely to result in a scenario where there is negative cash flow.

V. Review of the Projections (continued)

Capital Expenditures

Based upon our discussions with management and our review of the information provided, the projected capital expenditures are approximately $16,349,000. The projected capital costs consist of approximately $1,077,000 for land acquisition costs, approximately $14,121,000 for construction of the ASC, and approximately $1,151,000 for fixed medical equipment.

- Of the $14,121,000 of construction costs, $7,157,291 will be financed by the Project and the remainder will be financed by the owner of the building. Land acquisitions costs of approximately $1,077,000 will also be financed by the owner of the building.

- The Applicant is required to pay a 5% fee to the Commonwealth of Massachusetts based on the total projected capital costs of $16,349,011, which results in a fee of approximately $817,000, of which 25% is payable during the start-up period and the remaining 75% is payable over three years beginning in the fiscal year ending September 30, 2025. The fee is included in CHI payments (see expenses Note 10).

VI. Feasibility

We analyzed the projected operations, including volume of cases, revenue and expenses for Beth Israel Lahey Health Surgery Center Plymouth, LLC. In performing our analysis, we considered multiple sources of information including historical and projected financial information. It is important to note that the projections do not account for any anticipated changes in accounting and regulatory 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.

We determined that the projections were not likely to result in insufficient funds available for ongoing operating costs necessary to support a freestanding ambulatory surgical center. Based upon our review of the projections and relevant supporting documentation, we determined the creation of a freestanding ambulatory surgery center by the Applicant is reasonable and based upon feasible financial assumptions.

Meyers Brothers Kalicka, P.C.
Holyoke, Massachusetts
January 26, 2023