FOPIANO & SULLIVAN, LLC
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

June 21, 2024

Dr. Bradford Sampson
Managing Member
Weymouth Endoscopy, LLC
1085 Main Street
South Weymouth, MA 02190

Dear Dr. Sampson,

We have performed an analysis of the financial projections prepared by Weymouth Endoscopy, LLC ("WELLC" or "the Company") detailing the projected operations of WELLC Expansion Project, consisting of moving the Endoscopy Center to 97 Libbey Parkway, Weymouth, MA 02189 and expanding it from three to six procedure rooms to aide in handling the increased patient volume in the service area. 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 WELLC as prepared by the management of WELLC ("Management"). This report is to be included by WELLC in its Determination of Need ("DoN") Application – Factor 4(a) 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 (the "Projections") prepared by Management, as well as the analysis of existing results of WELLC for the 12 months ended December 31, 2023, and the twelve months ended March 31, 2024, and the related support documentation provided by WELLC. The purpose is to assess the reasonableness of assumptions used in the preparation and feasibility of the Projections with regards to the impact of the change in location and expansion of WELLC.

The new location and the increase in procedure rooms is projected to improve overall access to care for all of the patient population. WELLC can now recruit new doctors as they will have access to more procedure rooms. 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 new endoscopy center. WELLC will require approximately a $3.21 million loan for leasehold improvements and additional endoscopy equipment. It is our conclusion that the Projections are financially feasible within the financial capability of the Company as detailed below.

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II. RELEVENT BACKGROUND INFORMATION

Refer to Factor 1 of the DoN application for a description of the scope of the application, as well as the overall description and rationale of the need to change the location.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the Projections prepared by Management and supporting documents in order to assess the reasonableness of the assumptions used in the preparation and feasibility of the Projections with regard 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 a review of the information provided by Management, including results of the existing WELLC practice, as well as the review of the internal financial statements of WELLC for the year ended December 31, 2023, the twelve months ended March 31, 2024 and 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 impact or consequences to the Company, its parties, or the patient panel.

This report is based upon historical and prospective financial information provided to us by Management. If Fopiano and Sullivan, LLC had audited the underlying data, matters may have come to our attention that would have resulted in 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 assurances 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

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 referred to in this report:

- Operating revenue and expenses for existing results of WELLC for the 12 months ended December 31, 2023.

- WELLC internal financial statements as of and for the years ended December 31, 2020, 2021, 2022, and 2023.

IV. PRIMARY SOURCES OF INFORMATION UTILIZED (continued)

- Projected pro-forma revenue and expenses for the five years ended December 31, 2024, 2025, 2026, 2027, 2028 and 2029.
- WELLC internal financial and statistical reporting procedures performed for the 12 months ended March 31, 2024.
- Historical volume of WELLC procedures performed by physicians for the years ended December 31, 2021, 2022, 2023.
- WELLC's projected financial position when tenant improvements are complete.
- Determination of need application instructions dated March 2017
- Draft DoN provided June 5, 2024.

V. REVIEW OF THE PROJECTIONS

This section of the report summarizes our review of reasonableness of the assumptions used in feasibility of the Projections. The Projections are delineated between five categories of revenue and six categories of operating expenses of WELLC as well as other nonoperative gains and losses for the Company. The following table presents the Key Metrics, as defined below, of WELLC which compares the results of the Projections for fiscal years ending 2025 through 2029 to WELLC historical results for the fiscal year ended December 31, 2023.

	WELLC, AS REPORTED	Change in Key Metric of pro-forma results compared to prior year				
	2023	2025	2026	2027	2028	2029
EBITDA ($)	2,498,184	2,241,604	2,697,768	3,202,508	3,747,184	4,369,121
EBITDA Margin (%)	46.66%	38.06%	41.64%	44.94%	47.80%	45.64%
Operating Margin (%)	46.65%	28.37%	30.66%	37.22%	42.16%	45.64%
Total Margin (%)	43.47%	26.20%	27.98%	34.34%	39.19%	42.63%
Total Assets ($)	352,801	4,440,910	4,384,930	4,082,549	3,872,327	3,662,106
Total Net Assets ($)	352,801	542,042	593,652	406,067	326,532	255,750
Cash Days on Hand (days)	40	59	81	79	77	75
Cash to Debt (%)	0.00%	19.24%	30.33%	31.28%	32.43%	33.76%
Debt Service Coverage (ratio)	6.50	5.89	7.04	8.36	9.81	11.47
Debt to Capitalization (%)	0.00%	46.75%	46.37%	47.38%	47.80%	48.19%

V. REVIEW OF THE PROJECTIONS (continued)

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics such as EBITDA, EBITDA Margin, Operating Margin, Total Margin, and Debt Service Coverage Ratio are used to assist in the evaluation of management performance and how efficiently resources are utilized. Liquidity metrics, such as Cash Days on Hand and Cash to Debt, measure the quality and adequacy of assets to meet current obligations as they come due. Solvency metrics, such as Debt to Capitalization and Total Net Assets, measure the Company's ability to service debt obligations. Additionally, certain metrics can be applicable in multiple categories.

The following table shows how each of the Key Metrics is calculated.

Key Metric	Definition
EBITDA ($)	(Earnings before interest, depreciation and amortization expense) – Income (loss) from operations + interest expense + depreciation expense + amortization expense
EBITDA Margin (%)	EBITDA expressed as a % of the total operating revenues. EBITDA / total operating revenues.
Operating Margin (%)	Income (loss) operations / total operating revenues
Total Margin (%)	Excess (deficit) of revenues over expenses / total operating revenues
Total Assets ($)	Total assets of the organization
Total Net Assets ($)	Total net assets of the organization
Cash Days on Hand (days)	(Cash and equivalents) / ((Total operating expenses - depreciation & amortization) / YTD days)
Cash to Debt (%)	(Cash equivalents) / (Current portion of long-term obligations + long-term obligations)
Debt Service Coverage (ratio)	(Excess (deficit) of revenue over expenses + depreciation expense + amortization expense + interest expense) / (Principal payments + interest expense)
Debt to Capitalization (%)	(Current portion of long-term debt obligations + long-term debt obligations) / (Current portion of long-term debt obligations + long-term obligations)

V. <u>REVIEW OF THE PROJECTIONS</u> (continued)

A. <u>Revenues</u>

We reviewed and analyzed the net operating revenues in the historical and projected financial information. We reviewed the actual historical results of WELLC. The overall results were reviewed in relation to the profit and loss reporting based on the number of procedures currently being performed. Based on discussions with Management and a review of the information, there is an overall improvement in the net earnings of WELLC following the change in location.

The table below summarizes some of the key information for the historical and projected volume and revenue by year:

	As reported by WELLC for the year ended December 31, 2023	As reported by WELLC for the 12 months ended March, 31, 2024	Projected pro-forma new building 2025	Projected pro-forma new building 2026	Projected pro-forma new building 2027	Projected pro-forma new building 2028	Projected pro-forma new building 2029
Volume							
Total procedures performed	8,083	8,257	10,805	11,886	13,074	14,381	15,820
Total cases	7,364	7,520	8,272	9,099	10,009	11,010	12,111
Revenues		% change in revenue results compared to prior period					
Total revenues	$5,353,900	-0.83%	9.09%	10.00%	10.00%	10.00%	10.00%

We analyzed the projected/pro-forma revenue for fiscal years 2025 through 2029 in relation to the historical results for the 12 months ended March 31, 2024, in order to assess the reasonableness of the pro-forma statements of the proposed project. Based on our analysis, the pro-forma operating revenues are reasonable. Per discussions with Management, the estimated maximum capacity of procedures to be performed at the facility is approximately 15,820 per year. The volume increase of approximately 7,563 procedures from the 12-month rolling figure of 8,257 as of March 31, 2024, to the year 2024 volume was specifically discussed with Management and we reviewed the procedures currently being provided by WELLC. We noted the historical volume of approximate capacity. Management has estimated that 1.30 procedures will be performed for every individual case in the first full year of implementation. WELLC noted that pro-forma projected revenue is based on an average revenue per procedure performed for the 12 months ended March 31, 2024

The only revenue category on which the proposed capital projects would have an impact is net patient service revenue. Therefore, we have analyzed net patient revenue identified by WELLC in both their historical and projected financial information. Based on our analysis of the actual results from the year ended December 31, 2023, through projected fiscal years 2025 through 2029, the proposed capital project is going to cost WELLC approximately $1.96 million for leasehold improvements and $1.25 million for additional equipment that needs to be purchased for the larger facility. The amount will be financed and the principal and interest payments on the loan will be approximately 7% of the annual revenues.

It is our opinion that the revenue growth projected by Management reflects a reasonable estimation based upon the company's historical operations.

V. REVIEW OF THE PROJECTIONS (continued)

B. Operating Expenses

We analyzed each of the categorized expenses for reasonableness and feasibility as it relates to the projected revenue. We reviewed the historical actual results for the 12 months ended March 31, 2024.

The table below provides a summary of some key information for the historical and projected expenses by year:

	WELLC ACTUAL 12/31/23	WELLC ACTUAL 12 MONTHS ENDED 3/31/2024	Projected/ Pro-forma new location 2025	Projected/ Pro-forma new location 2026	Projected/ Pro-forma new location 2027	Projected/ Pro-forma new location 2028	Projected/ Pro-forma new location 2029
Expenses							
Salaries, Wages and benefits (1)	33.65%	33.36%	39.19%	38.18%	36.48%	35.03%	33.45%
Supplies and drugs (1)	10.41%	10.36%	9.93%	9.04%	8.29%	7.59%	6.96%
Other expenses (2)	5.86%	8.83%	10.76%	8.39%	7.52%	6.69%	6.06%
Facility expenses (3)	3.43%	3.33%	6.50%	6.69%	6.25%	5.84%	5.46%
Depreciation and amortization (4)	0.00%	0.00%	3.85%	3.53%	3.21%	2.92%	2.65%
Total Expenses	53.35%	55.88%	70.24%	65.83%	61.75%	58.07%	54.58%
			% change in expense results compared to prior period				
Total Expenses	$ 2,497,451		51.24%	3.10%	3.19%	3.46%	3.37%

(1) Expenses are based on average cost per procedure for the 12 months ended March 31, 2024. Management anticipates these expenditures to increase in congruence with anticipated procedures performed. Salaries, wages and benefits are projected at a rate of approximately $222, supplies and drugs at a rate of approximately $69, and other expenses at a rate of approximately $62 per procedure performed.

(2) We noted that all but one line item included in other expenses are based on average cost per procedure for the 12 months ended March 31, 2024. Billing service is based on 2.23% of total revenue for the 12 months ended March 31, 2024. Billing expenses for 2025 through 2029 are equal to 2.25% of facility revenues.

(3) Approximately 95% of the facility expenses represent rent, common area maintenance, utilities and property taxes being paid to the lessor. We noted that the total square footage of the building is approximately 9,064 Rentable Square Feet. Management anticipates there will be no changes in the total square footage. We reviewed the lease agreement and corresponding amendments and noted that the lease term is through February 28, 2035.

V. REVIEW OF THE PROJECTIONS (continued)

(4) Depreciation consists of capital expenditures needed for leasehold improvements and new equipment being used by WELLC. Per discussion with Management there are no anticipated needs for additional capital expenditures, therefore the depreciation costs are anticipated to remain constant over the five-year pro-forma period ending December 31, 2029.

We analyzed the projected/pro-forma expenses for fiscal years 2025 through 2029 in relation to historical volume for the years ended December 31, 2023, 2022 and 2021, as well as the rolling 12 months ended March 31, 2024, to assess the reasonableness of the pro-forma statements.

C. Net Income

The table below provides a summary of net income by year as a percentage of net revenue:

	AS reported by WELLC for the 12 months ended March 31, 2024	Projected/ Pro-forma new location 2025	Projected/ Pro-forma new location 2026	Projected/ Pro-forma new location 2027	Projected/ Pro-forma new location 2028	Projected/ Pro-forma new location 2029
Procedural revenue, net	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total expenses	55.88%	70.24%	65.83%	61.75%	58.07%	54.58%
Net Earnings	44.12%	29.76%	34.17%	38.25%	41.93%	45.42%

D. Cash Flows

This table provides a summary of cash flow by year as a percentage of net revenue:

	AS reported by WELLC for the 12 months ended March 31, 2023	Projected/ Pro-forma new location 2025	Projected/ Pro-forma new location 2026	Projected/ Pro-forma new location 2027	Projected/ Pro-forma new location 2028	Projected/ Pro-forma new location 2029
NET EARNINGS	0.00%	28.37%	30.66%	37.22%	42.16%	45.64%
Depreciation and amortization	0.00%	5.25%	7.04%	4.24%	2.68%	2.44%
Debt service		5.77%	4.86%	4.21%	3.98%	3.56%
	0.00%	11.02%	11.90%	8.45%	6.66%	6.00%
Net cash increase before distributions	0.00%	39.39%	42.56%	45.67%	48.82%	51.64%

Based on our discussions with Management and the information above, the Company will not require any capital contributions throughout the years of 2025 to 2029.

V. REVIEW OF THE PROJECTIONS (concluded)

E. Capital Expenditures

Per our discussion with Management, it is anticipated there will be a build out loan of approximately $1,960,000 and an equipment loan for the additional equipment of about $1,250,000. This debt will be financed so there will be no capital contributions required by the members of WELLC.

VI. FEASIBILITY

We analyzed the projected operations, including volume of procedures, revenue and expenses for WELLC. 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 the 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 WELLC. Based upon our review of the projections and the relevant supporting documentation, we determined WELLC's continued operating income is reasonable and based upon feasible financial assumptions.

Sincerely,

Fopiano & Sullivan, LLC

Fopiano & Sullivan, LLC