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

PAM Cubed, LLC
For the Years Ending December 31, 2021
Through December 31, 2026

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December 14, 2021

Karick E. Stober
Chief Financial Officer
PAM Health, LLC
1828 Good Hope Road
Enola, PA 17025

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

Dear Mr. Stober:

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

Sincerely,

BDO USA, LLP

TABLE OF CONTENTS

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

Dear Mr. Stober:

We have performed an analysis related to the reasonableness and feasibility of the financial projections (the "Projections") of PAM Cubed, LLC ("PAM" or "the Applicant") related to its Determination of Need ("DON") filing for the transfer of ownership of a long-term acute care hospital (the "Proposed Project"), described further below. This report details our analysis and findings with regards to the reasonableness of assumptions used in the preparation of the Projections and feasibility of the projected financial results prepared by the management of PAM ("Management"). This report is to be used by PAM in connection with its DON Application – Factor 4 and should not be distributed or relied upon for any other purpose.

I. EXECUTIVE SUMMARY

The scope of our review was limited to an analysis of the six-year financial projections for the Applicant for the fiscal years ending 2021 through 2026 prepared by Management and the supporting documentation in order to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections.

The Projections exhibit a cumulative EBITDA surplus of approximately 15.3 percent of cumulative projected revenue for PAM for the six years from fiscal year ("FY") 2021 through FY 2026. 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 PAM's assets. A detailed explanation of the basis for our determination of reasonableness and feasibility is contained within this report.

II. RELEVANT BACKGROUND INFORMATION

PAM is a variable interest entity ("VIE") of Post Acute Medical, LLC ("Post Acute"). Post Acute was formed on October 24, 2006 and operates inpatient rehabilitation hospitals ("IRFs") and long-term acute care hospitals ("LTACHs"). Patients at Post Acute's IRFs typically suffer from debilitating injuries, including traumatic brain and spinal cord injuries and require care in the form of physical, psychological, social, speech, and occupational rehabilitation services. Patients in Post Acute's LTACHs typically suffer from serious and often complex medical conditions that require a high degree of care. Post Acute had a total of eight wholly owned, majority-owned or controlled subsidiaries as well as 30 VIEs in which Post Acute is the primary beneficiary as of December 31, 2020.

PAM was formed in 2019 and is the sole member of PAM Cubed Management, PAM Cubed Specialty Hospitals, LLC ("Specialty Hospitals") and PAM Cubed at Chesterfield, LLC ("Chesterfield"). Specialty Hospitals is the sole member of PAM Specialty Hospital of Dayton, LLC, PAM Specialty Hospital of Denver, LLC, PAM Specialty Hospital of Las Vegas, LLC, PAM Specialty Hospital of Reno, LLC, PAM Specialty Hospital of Rocky Mount, LLC, Pam Specialty Hospital of San Antonio, LLC, PAM Specialty Hospital of Sarasota, LLC, PAM Specialty Hospital of Shreveport, LLC, Post Acute Medical at Luling, LLC, Post Acute Medical at Victoria, LLC, Post Acute Medical of New Braunfels, LLC, PAM Specialty Hospital of Tulsa, LLC, PAM Specialty Hospital of Victoria, LLC, and PAM Cubed Rehabilitation Hospital of Fargo, LLC. Chesterfield purchased a 60.0 percent membership interest in St. Luke's Rehabilitation Hospital ("St. Luke's") in 2019. These entities are participants in the VIEs debt arrangement and as a result are included in the consolidated financial statements of Post Acute.

PAM, the Applicant, proposes a transfer of ownership to become the equity owner of Curahealth Stoughton, LLC, a LTACH located in Stoughton, Massachusetts (the "Hospital"). On July 20, 2021, PAM and its subsidiaries entered into an Agreement and Plan of Merger and Equity Purchase Agreement (the "Purchase Agreement") with Nautic Partners VII-A, L.P. and its subsidiaries, including the Hospital (the "Transaction"). The Purchase Agreement includes the purchase of eight LTACHs and seven IRFs ("Curahealth Hospitals"), with the Hospital as the sole location in the Commonwealth of Massachusetts, for a total of $196.0 million prior to adjustments. We understand per Management that $7.5 million has been allocated as the unadjusted purchase price of the Hospital.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the six-year financial projections for PAM, the Applicant, for the fiscal years ending 2021 through 2026, prepared by Management, and the supporting documentation in order 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 October 2021 and represented the most current version of detailed multi-year prospective financial information available at the time BDO performed its procedures, 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 PAM.

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 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 are dependent on the actions, plans, and assumptions of Management. We reserve the right to update our analysis in the event that we are provided with additional information.

IV. SOURCES OF INFORMATION UTILIZED

In formulating our opinions and 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 the Applicant for the periods ending December 31, 2021 through December 31, 2026;
2. Letter of Intent Between Flagler Investment Holdings LLC and Post Acute Medical Portfolio, dated September 14, 2021;
3. Agreement and Plan of Merger and Equity Purchase Agreement dated July 20, 2021;
4. Amendment No. 1 to Agreement and Plan of Merger and Equity Purchase Agreement dated October 22, 2021;
5. Amendment No. 2 to Agreement and Plan of Merger and Equity Purchase Agreement dated October 30, 2021;
6. Summary of Terms and Conditions related to $255,600,000 Senior Secured Credit Facility between Post Acute and Sector Financial Inc. dated May 18, 2021;
7. Hospital Directory for Post Acute;
8. Sources and Uses Related to the Transaction;
9. Fiscal Year 2021 Financial Budget for PAM;
10. Internal Financial Statements for PAM for the year ended December 31, 2020;
11. Internal Financial Statements for PAM for the year ended December 31, 2019;
12. Internal Financial Statements for PAM for the period ended July 31, 2021;

13. Audited Consolidated Financial Statements and Supplementary Information for Post Acute for years ended December 31, 2020 and 2019;
14. Audited Consolidated Financial Statements and Supplementary Information for Post Acute and Subsidiaries for years ended December 31, 2019 and 2018;
15. Consolidated Pro Forma Projections for Curahealth Hospitals for August 2021 through July 2022;
16. Internal Financial Statements for Curahealth Hospitals and Cobalt Rehabilitation for the trailing twelve-month period ended July 31, 2021;
17. Internal Financial Statements for Curahealth Hospitals and Cobalt Rehabilitation for the trailing twelve-month period ended August 31, 2021;
18. Internal Financial Statements for Curahealth Hospitals and Cobalt Rehabilitation for the year ended December 31, 2020;
19. Internal Financial Statements for Curahealth Hospitals and Cobalt Rehabilitation for the year ended December 31, 2019;
20. Internal Financial Statements for Curahealth Hospitals for the year ended December 31, 2018;
21. Property Condition Assessment for the Hospital dated July 8, 2021;
22. Estimated Projected Maintenance Capital Expenditures Related to Curahealth Hospitals;
23. Historical and Projected Net Revenue by Payor for PAM;
24. Determination of Need application form and attachments for the Applicant dated November 12, 2021;
25. RMA Annual Statement Studies, published by The Risk Management Association;
26. Definitive Healthcare data;
27. IBISWorld Industry Report, Specialty Hospitals in the US, dated July 2021;

28. CPA Report Guidelines from Lara Szent-Gyorgyi, Director, Determination of Need Program, dated March 2021; and
29. 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 tables present the Key Metrics, as defined below, which compare the operating results of the Projections to market information from RMA Annual Studies ("RMA"), IBISWorld, and Definitive Healthcare as well as the Applicant's historical performance, to assess the reasonableness of the projections.

Key Financial Metrics and Ratios	**Projected**					
PAM Cubed, LLC	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Profitability						
Operating Margin (%)	13.5%	12.7%	13.3%	14.2%	14.7%	15.1%
Net Income Margin (%)	15.5%	12.9%	13.5%	14.4%	14.8%	15.3%
Debt Service Coverage Ratio (x)	30.2x	38.5x	3.7x	4.8x	8.8x	141.0x
Liquidity						
Days Available Cash and Investments on Hand (#)	4.0	7.9	8.1	19.2	42.6	71.7
Operating Cash Flow (%)	4.5%	6.3%	9.8%	12.1%	13.9%	14.3%
Solvency						
Current Ratio (x)	0.7x	1.1x	2.0x	4.2x	8.0x	10.1x
Ratio of Total Debt to Total Capitalization (%)	61.4%	48.0%	24.8%	7.2%	0.0%	0.0%
Ratio of Cash Flow to Total Debt (%)	25.6%	46.2%	162.1%	691.4%	NM	NM
Unrestricted Net Assets ($ in millions)	$ 51	$ 98	$ 175	$ 282	$ 407	$ 551
Total Net Assets ($ in millions)	$ 51	$ 98	$ 175	$ 282	$ 407	$ 551

Key Financial Metrics and Ratios	Actual		Industry Data (1)		
PAM Cubed, LLC	2019	2020	RMA - Medical and Surgical Hospitals	IBIS - Specialty Hospitals in the US	Definitive Healthcare
Profitability					
Operating Margin (%)	1.7%	14.5%	2.2%	17.1%	-17.2%
Net Income Margin (%)	7.2%	19.1%	1.1%	13.9%	-3.7% (2)
Debt Service Coverage Ratio (x)	NA	NA	NA	1.1x	NA
Liquidity					
Days Available Cash and Investments on Hand (#)	36.9	7.5	NA	NA	2.4
Operating Cash Flow (%)	NA	NA	NA	51.6%	NA
Solvency					
Current Ratio (x)	0.6x	0.9x	1.9x	1.1x	1.2x
Ratio of Total Debt to Total Capitalization (%)	0.0%	0.0%	42.3%	NA	NA
Ratio of Cash Flow to Total Debt (%)	NA	NA	NA	NA	NA
Unrestricted Net Assets ($ in millions)	$ 12	$ 59	NA	NA	NA
Total Net Assets ($ in millions)	$ 12	$ 59	$60	NA	NA

Footnotes:

(1) Industry data ratios based on each data source's respective definitions and may differ from the ratio definitions listed below.

(2) Profit before taxes margin from RMA data treated as an equivalent to net income margin.

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics are used to assist 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 are calculated.

Key Financial Metrics and Ratios

Ratio Definitions	**Calculation (1)**
Profitability	
Operating Margin (%)	Gain from Operations Divided by Total Net Revenues
Net Income Margin (%)	Net Income Divided by (Total Net Revenues and Non-Operating Revenue)
Debt Service Coverage Ratio (x)	Gains from Operations Divided by (Principal Payments and Interest)
Liquidity	
Days Available Cash and Investments on Hand (#)	Cash and Time Deposits Divided by [(Total Expenses Less Depreciation and Amortization) Divided by 365]
Operating Cash Flow (%)	Net Cash Provided by Operating Activities Divided by Total Net Revenues
Solvency	
Current Ratio (x)	Current Assets Divided by Current Liabilities
Ratio of Long Term Debt to Total Capitalization (%)	Total Debt Divided by Total Capitalization (Total Debt and Unrestricted Net Assets)
Ratio of Cash Flow to Long Term Debt (%)	Net Cash Provided by Operating Activities Divided by Total Debt
Unrestricted Net Assets ($ in thousands)	Total Unrestricted Net Assets
Total Net Assets ($ in thousands)	Total Net Assets

Footnotes:

(1) Gain from Operations has been defined as Total Net Revenues less Total Operating Expenses less Rents less Depreciation

1. Revenue

We analyzed the revenue forecast within the Projections which includes net inpatient revenue and net outpatient revenue. Approximately 99 percent of revenue relates to net inpatient revenue. Based upon our discussions with Management and the documents provided, the projected revenue for the Applicant was estimated based on the following:

A. Inpatient

Projected net inpatient revenue for FY 2021 is based upon actuals for January through July and the Applicant’s 2021 budget for August through December, updated to include the acquisition of Curahealth Hospitals for October through December. The projections for Curahealth Hospitals for October through December 2021 is based on a historical per patient day cost and average daily census by location.

Projected net inpatient revenue for FY 2022 through FY 2026 considers changes in volume (or inpatient days) and rate.

i. **Volume** – In the first quarter of FY 2022, a one-time volume increase of 1.0 percent is assumed. In addition to this one-time adjustment, inpatient days are grown quarterly in FY 2022 and FY 2023 based upon identified future IRF locations. Eight new locations are projected to open in FY 2022 and 12 new locations are projected to open in FY 2023. These new IRFs are in varying states of development as of the date of drafting of this report; however, most locations have leases in place. Incremental volume for these startups is based on an average daily census. Additional volume for these locations is expected and included within the Projections following the achievement of the Centers for Medicare and Medicaid Services ("CMS") certification. Beyond FY 2023, one new location/startup is assumed to open per quarter through FY 2026, beginning with 1,200 patient days per quarter and volume per location increasing through the fiscal year. New locations in FY 2024 and beyond have not yet been identified as of the date of drafting of this report.

ii. **Rate** – The Projections include a rate adjustment of 2.0 percent in FY 2022 and 3.0 percent in fiscal years 2023 through 2026.

B. Outpatient

Net outpatient revenue for FY 2021 is based upon actuals for January through July and the Applicant's 2021 budget for August through December. Net outpatient revenue is grown by 2.0 percent per quarter from the first quarter of 2022 through the fourth quarter of 2026.

In order to determine the reasonableness of the projected revenue, we reviewed the underlying assumptions upon which Management relied. Based upon our review, Management relied upon the historical operations of PAM and Curahealth Hospitals and anticipated market movements. The six-year CAGR for total operating revenue in the Projections of 29.8 percent falls below PAM's historical revenue growth rate in FY 2020 of 554.4 percent. Based upon the foregoing, it is our opinion that the revenue growth projected by Management is based on reasonable assumptions and is feasible for PAM.

2. Operating Expenses

We analyzed each of the categorized expenses for reasonableness and feasibility as it related to the Projections. The operating expenses in the analysis include salaries, wages, and benefits, supplies, contract services, professional fees, repairs/maintenance, utilities expense, bad debt expense, corporate services fee, and other operating expenses. Salaries, wages, and benefits account for approximately 57.0 percent of total operating expenses and other operating expenses account for approximately 27.0 percent of total operating expenses throughout the projection period. Other expenses not included within operating expenses include rents, interest, and depreciation, with rents being the largest expense classified as non-operating.

All expenses for FY 2021 are based upon actuals for January through July and the Applicant's 2021 budget for August through December, updated to include the acquisition of Curahealth Hospitals for October through December.

Salaries, wages, and benefits for fiscal years 2022 through 2026 are based on salaries per inpatient day grown by a rate adjustment of 3.0 percent annually. Salaries grow slightly less than total net revenue in FY 2021 (35.6 percent versus 37.0 percent); however, grow slightly more than total net revenue in FY 2022 (54.2 percent versus 45.9 percent). Thereafter, total net revenue and salaries, wages, and benefits grow at the same rate for FY 2023 through FY 2026.

Other operating expenses for fiscal years 2022 through 2026 are based on salaries per inpatient day grown by a rate adjustment of 2.0 percent annually.

Rents for fiscal years 2022 through 2026 is grown by 3.0 percent annually plus an estimated monthly rent of $175,000 per new IRF location based on estimated opening date.

Based upon the foregoing, it is our opinion that the operating expenses projected by Management are based on reasonable assumptions and are feasible for the Applicant.

3. Capital Expenditures and Proposed Project Financing

We reviewed the Purchase Agreement for the Transaction which indicated an unadjusted purchase price of $196.0 million for the transfer of ownership of Curahealth Hospitals to PAM.

We understand per Management that $7.5 million of the unadjusted purchase price has been allocated to the Hospital.

In addition to the total purchase price, we also reviewed the proposed financing of the Proposed Project. We understand PAM is financing the Transaction with approximately $21.0 million in cash from Post Acute and $175.0 million in debt. We reviewed Post Acute’s summary terms and conditions dated May 18, 2021 related to the debt financing for the Proposed Project. We understand the Applicant’s cash and debt is held at the Post Acute level versus at the PAM level and as a result, the cash to be utilized is not reflected on PAM’s balance sheet and the terms and conditions of the debt to be utilized for financing the Transaction are under the Post Acute name, rather than PAM.

Additionally, we understand simultaneously or shortly after the close of the Transaction, the Company will enter a sale leaseback agreement related to certain assets of Curahealth Hospitals. BDO reviewed the letter of intent dated September 14, 2021 related to the arrangement. We understand the Applicant will paydown a significant portion of the new debt utilized to finance the Proposed Project upon the closing of the sale leaseback. As a result, the Projections include a nominal increase in property, plant, and equipmen t and total outstanding debt.

Based on the noted factors, the financing for the Proposed Project would not have a negative impact on the patient panel or result in a liquidation of the Applicant’s assets.

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 EBITDA surplus of approximately 15.3 percent of cumulative projected revenue for the six years from 2021 through 2026. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated operating 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 PAM.

Respectively submitted,

Erik Lynch
Partner, BDO USA LLP