

**Analysis of the Reasonableness of Assumptions Used For and
Feasibility of Projected Financials of:
DON Project Filed
New England Surgery Center, LLC
For the Twelve-Months Ending September 30, 2020
Through September 30, 2024
(5 Periods Subsequent to the Expansion)**

Issued on May 8, 2020 and Revised on September 11, 2020

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September 11, 2020

Ms. Norma Bacon, Administrator
New England Surgery Center
900 Cummings Center, Suite 122U
Beverly, MA 01915

Subject: Analysis of the Reasonableness of Assumptions Used for and Feasibility of Projected Financial Information of New England Surgery Center, LLC

Dear Ms. Bacon,

We have assessed the reasonableness of assumptions used for and feasibility of projected financial information of New England Surgery Center, LLC (“NESC” or the “Applicant”) related to the significant capital expenditure associated with the expansion of its facilities in Beverly, MA for purposes of the Massachusetts Determination of Need Factor 4. This report details our analysis and findings with regards to the reasonableness of assumptions used by Health Capital Consultants (“HCC”) in the preparation of the five-year pro forma related to the expansion (“HCC Report”). This report is to be used by NESC in its Determination of Need (“DON”) Application – Factor 4(a) and should not be distributed or relied upon for any other purpose. This report was originally issued on May 8, 2020 and had been revised to reflect an updated conclusion regarding the impact of the expansion to the patient panel. No other changes were made to this report compared to the originally issued report. See the CONCLUSION section of this report for the revision.

The scope of this report is limited to an analysis of the five-year financial projections for NESC (the “Projections”) prepared by HCC, 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. We conducted our analysis through May 8, 2020 and have not reviewed any information related to the Projections, the Applicant’s operating results, nor any financial information related NESC since that date.

I. EXECUTIVE SUMMARY

The scope of our review was limited to an analysis of the HCC Report in order to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections. The Projections exhibit cash flows related to operations in the event of expansion of approximately \$218,000 over the projection period. HCC concludes that the expansion “*is likely to generate sufficient net economic benefit to offset the required initial investment by NESC.*” Based upon our review of the HCC Report, we determined that 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 result in a liquidation of NESC’s assets. A detailed explanation of the basis for our determination of reasonableness and feasibility is contained within this report.

II. RELEVANT BACKGROUND INFORMATION

New England Surgery Center is an ambulatory surgery center in Beverly, Massachusetts. The center is a Medicare-certified outpatient surgery center and is accredited by the Accreditation Association for Ambulatory Health Care. As of the date of HCC’s report, NESC employed 16 physicians and a number of clinical and support staff. The current facility is comprised of one operating room and one procedure room. The proposed expansion would add an additional operating room, new enlarged central sterile capacity, two additional pop-up beds, an enclosed recovery bay, additional administrative offices and enlarged storage spaces. NESC was organized on May 10, 2007.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the 5-year financial projections for NESC for the twelve months ending September 30, 2020 through 2024 (5 periods subsequent to the expansion), prepared by HCC, 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 plan 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 prepared by HCC. Cohen & Company (“Cohen”) has not audited or performed any other form of attestation services on the projected financial information for NESC.

If Cohen 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 NESC and HCC 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.

We do not express any opinion related to the weighted average cost of capital developed in the HCC report, nor its conclusions regarding the incremental increase in value to NESC related to the expansion.

Our review and analysis is limited solely to the reasonableness and feasibility of the projections for the five (5) year period subsequent to the expansion.

IV. SOURCES OF INFORMATION UTILIZED

In formulating our opinions and conclusions contained in this report, we reviewed and analyzed the “Financial Feasibility Report”, prepared by Health Capital Consultants in relation to the New England Surgery Center, LLC, dated February 11, 2020 (the “HCC Report”). The Report relied upon various industry data and statistics, as well as financial data and support provided by NESC Management. Cohen has not reviewed these underlying source documents other than in the context of our review and analysis of the Report.

V. REVIEW OF THE PROJECTIONS

This section of our report summarizes our review of the reasonableness of the methodologies and assumptions used in preparation of the Report and, ultimately, the feasibility of the Projections.

The Projections were prepared by HCC using a combination of historical and projected performance of NESC, industry data and trends, and NESC management interviews. HCC first evaluates the potential demand in the marketplace, concluding that the aging demographic would support the need for expanded medical coverage of key services provided by NESC.

Revenue – Key revenue variable considerations were (1) changes in utilization demand and market share and (2) changes in reimbursement yield.

With regards to the changes in utilization demand, HCC considered projected population growth of the market service area and NESC's historical patient age demographics. By considering, but ultimately excluding, additional potential factors such as the change in NESC procedure mix, growth in the incidence and prevalence of diseases that could be treated through the proposed expansionary project, and changes to the competitive marketplace within which the expansion would be operating, HCC is taking a conservative approach to estimating demand based growth, as the other considerations would be expected to be additional drivers of growth.

With regards to the changes in reimbursement yield, this was estimated based on historical per patient revenues, with the change in reimbursement yield for Years 1 to 5 of the Projections based on proposed Medicare reimbursement fees and the projected long-term growth rate of NESC.

Expenses – HCC calculated operating expenses using the historical costs per procedure plus an inflationary factor, with the cost components extrapolated over the projected procedure volume estimated as discussed in the above Revenue section. As the expenses were projected based on the incremental business from the expansion, the following cost elements were justifiably excluded, as they would not be expected to add additional cost burden based solely on the planned expansion: Amortization expense, Office Supply Expense, Interest Expense, Real Estate Taxes, and Rent expense.

Profitability and Cash Flow – Based on the Projections, HCC calculated an accounting profit, with increasing profit margins in each of the years of its analysis. The Projections also reflect positive cash flow in years 2 through 5. The negative cash flow in year 1 is de minimus and a result of anticipated increases in working capital, which appears to be reasonable.

The Projections do reflect adequate levels of capital expenditure necessary for maintenance associated with the expansion. The Projections also reflect additions to Net Working Capital associated with the increased revenue, which is also reasonable. These amounts reduce the cash flow derived from the expansion, which remain positive with their inclusion.

VI. FEASIBILITY

In order to address the feasibility of the Projections and the expansion, HCC projected the debt service coverage of NESC as well as exploring the necessity of the expansion, meaning, that the expansion is necessary in order to achieve the operating results forecasted in the Projections. Forecasted income statements and statements of cash flow for NESC were developed utilizing information gained by HCC from interviews with management, review of industry trends, and consideration of historical performance, with adjustments made by HCC.

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 net operating surplus of approximately 19.2 percent of cumulative projected revenue for the project for the years from 2020 through 2024 (5 periods subsequent to the expansion). 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.

VII. CREDENTIALS OF REPORT AUTHORS

We reviewed the credentials of the lead professionals of HCC involved in preparation of the Report:

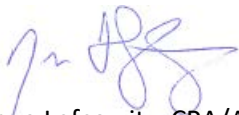
- Todd Zigrang, MBA, MHA, FACHE, CVA, ASA – President of Health Capital Consultants
- John Chwarzinski, MSF, MAE – Senior Vice President at Health Capital Consultants
- Jessica Bailey-Wheaton, Esq. – Vice President & General Counsel at Health Capital Consultants
- Daniel Chen, MSF, CVA – Senior Financial Analyst at Health Capital Consultants

The professionals referenced in the report possess the qualifications necessary to prepare the Projections.

VIII. CONCLUSION

We analyzed the Projections, as well as the methodologies and variable inputs used by HCC in developing said Projections. Based upon our analysis of the Projections and review of the lead HCC Report authors, 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 result in a liquidation of assets of NESC. Further, we agree with HCC's determination that the expansion is not likely to have a negative impact on the patient panel.

Respectfully submitted,



Joshua Lefcowitz, CPA/ABV/CFF, CVA, CFE, ASA
Partner