

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

**Signature Healthcare Corporation**

**For the Years Ending September 30, 2019  
Through September 30, 2023**

The report accompanying these financial statements was issued by  
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of  
BDO International Limited, a UK company limited by guarantee.





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January 2, 2019

Mr. James Papadakos  
Chief Financial Officer  
Signature Healthcare Corporation  
680 Centre Street  
Brockton, MA 02302

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

Dear Mr. Papadakos:

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

Sincerely,

BDO USA, LLP

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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. Papadakos:

We have performed an analysis related to the reasonableness and feasibility of the financial projections (the "Projections") of Signature Healthcare Corporation ("SHC" or "the Applicant") related to a proposed project in connection with the renovation of the area vacated by radiation oncology (the "Proposed Project") within Brockton Hospital, Inc. ("BH"). 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 SHC ("Management"). This report is to be used by SHC 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. EXECUTIVE SUMMARY**

The scope of our review was limited to an analysis of the five year financial projections for the Applicant for the fiscal years ("FY") ending September 30, 2019 through 2023 (the "Projection Period") prepared by Management and the review of supporting documentation to render an

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opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections.

The Projections exhibit a cumulative operating EBITDA surplus of approximately 5.2 percent of cumulative projected revenue for SHC for the five years from 2019 through 2023. Based upon our review of the relevant documents and our analysis of the Projections, we determined that the anticipated operating EBITDA surplus is a reasonable expectation and is based upon feasible financial assumptions. Accordingly, we determined that the Projections are reasonable and feasible, and therefore, the Proposed Project is not likely to have a negative impact on the Applicant's patient panel or result in a liquidation of SHC's assets. A detailed explanation of the basis for our determination of reasonableness and feasibility is contained within this report.

## II. RELEVANT BACKGROUND INFORMATION

SHC is comprised of Signature Healthcare Corporation, BH, and Signature Healthcare Medical Group, Inc. ("SMG"). Signature Healthcare Corporation is a not-for-profit parent corporation organized to support the advancement of medicine and other related health care activities for the benefit of BH and other affiliates. BH is a community based not-for-profit 216 licensed bed teaching hospital, providing a full range of clinical services. SMG is a not-for-profit physician group with more than 150 physicians practicing at 18 ambulatory locations, Signature Healthcare Foundation, and the Brockton Hospital School of Nursing. SHC is also an affiliate of Beth Israel Deaconess Medical Center ("BIDMC"), Harvard Medical Faculty Physicians at BIDMC, and the Floating Hospital for Children at Tufts Medical Center.



BH currently has six operating rooms and 19 pre and post-op care rooms. In October 2017, SHC opened a comprehensive cancer center which includes medical oncology and infusion as well as radiation oncology. Prior to the center's opening, cancer services were located within different areas of the hospital. The Applicant intends to renovate one of the areas that was vacated by radiation oncology and create two new operating rooms as well as six pre and post-op care rooms (previously defined as the Proposed Project). The Proposed Project includes plans to provide all services that are required to equip the two rooms and for operational efficiencies to meet patients' needs. The Proposed Project will allow SHC to meet the growth needs of orthopedics as well as several other surgical service lines, prepare for the health system's greater emphasis on outpatient care in comparison to inpatient care, renovate an area on the main campus in a low-cost manner as an alternative to constructing a free-standing ambulatory surgery center, and allow SHC to offer services in a low-cost/high quality setting in order to meet the needs of patients.

### III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the five-year financial projections for SHC, the Applicant, for the fiscal years ending September 30, 2019 through 2023, 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 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 has not audited nor performed any other form of attestation services on the projected financial information related to the operations of SHC.

If BDO had audited the underlying data, matters may have come to our attention that would have resulted in a conclusion different from that provided in Section VI. Accordingly, we do not express an opinion or any other assurances on the Projections or underlying data presented or relied upon in this report. We do not provide assurance on the achievability of the results projected by the Applicant because events and circumstances frequently do not occur as expected, and the achievement of the projected results are dependent on the actions, plans, and assumptions of Management. Additionally, this report does not address the overall solvency of the Applicant. 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. Five Year Forecast for Years Ending September 30, 2019 through September 30, 2023  
(Request 2 & 3w OR Expansion FINAL.xls);
2. Draft DON Project Description (DoN Project Description.doc);



3. Draft of Factor 1 for DON Application (Factor 1 - DoN doc10112918.docx);
4. FY 2019 Operating and Capital Budget (FY19 Budget Narrative Final.docx);
5. Audited consolidated financial statements for Signature Healthcare Corporation for September 30, 2016 and 2015 (Request #1 Signature Healthcare Corporation 2016 Financial Statements.pdf);
6. Audited consolidated financial statements for Signature Healthcare Corporation for September 30, 2017 and 2016 (Request # 1 FY17 SHC Final Signed Consolidated Financial Statements.pdf);
7. Unaudited consolidated financial statements for Signature Healthcare Corporation for September 30, 2018 (Request # 4 Financial Statements for External Publication (Unaudited) 2018 0930.pdf, Unaudited Financial Statements FY18.pdf);
8. Surgical Statistics and Metrics (Surgical Presentation.pptx);
9. Build Up of Operating Room Expansion Revenue and Expenses (OR Expansion71018.xls);
10. Supporting Assumptions for BH and SMG (% Year assumptions2.xlsx);
11. Analysis of Revenue by Payor over the Projections (Request #7 Revenue by payor.xls);
12. Detailed Support for Select Financial Ratios (CONSOLIDATION SEPTEMBER 18 w OR Expansion calc.xlsx);
13. Debt Schedule (Master Debt Schedule as of 2018 0531.xlsx);
14. Supporting Assumptions for Operating Room Forecast Build Up (OR Expansion71018 with Addtl Tabs.xls);
15. Proposed Project Budgets from Monitor Builders Incorporated (11-20-18 \$3.675 m OR ASC Signature Healthcare-Brockton Hospital Progress Project Budget.pdf, 11-20-18 One OR ASC Signature Healthcare-Brockton Hospital Progress Project Budget.pdf, 11-20-18 Two OR ASC Signature Healthcare-Brockton Hospital Progress Project Budget.pdf);





16. Detailed Breakout of Forecasted Salaries (Salary breakout.xls);
17. Statistical Tables Supporting Forecast (Request # 5 Statistical Report w OR Expansion.xls);
18. Build Up of Net Patient Service Revenues (Net Revenue.xls);
19. Draft Capital Costs Chart (3268\_001.pdf, SHC-Brockton Hospital-12-19-18 Factor-4 Scope.pdf);
20. IBISWorld Industry Report, Hospitals in the US, dated May 2018;
21. IBISWorld Industry Report, Primary Care Doctors in the US, dated July 2018;
22. Definitive Healthcare data;
23. RMA Annual Statement Studies, published by Risk Management Associates; and
24. 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 of the Applicant 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 Signature Healthcare Corporation	Actual		Projected				
	2017	2018	2019	2020	2021	2022	2023
<b>Profitability</b>							
Operating Margin (%)	0.7%	0.9%	1.5%	1.6%	1.4%	1.5%	1.6%
Excess Margin (%)	1.2%	3.2%	1.9%	2.0%	1.8%	1.9%	2.0%
Debt Service Coverage Ratio (x)	1.8x	1.2x	2.7x	2.6x	3.2x	3.2x	3.1x
<b>Liquidity</b>							
Days of Available Cash and Investments on Hand (#)	42.8	70.2	65.7	65.5	65.7	65.9	66.0
Operating Cash Flow Margin (%)	4.0%	5.9%	5.1%	5.1%	4.6%	4.4%	4.2%
<b>Solvency</b>							
Current Ratio (x)	1.1x	1.1x	1.3x	1.4x	1.4x	1.4x	1.4x
Ratio of LT Debt to Total Capitalization (%)	48.0%	41.6%	43.1%	40.3%	37.7%	35.2%	32.6%
Ratio of Cash Flow to LT Debt (%)	18.8%	30.7%	24.8%	26.3%	25.2%	25.7%	26.3%
Unrestricted Net Assets (\$ in thousands)	\$ 79,088	\$ 95,384	\$ 97,694	\$ 105,024	\$ 111,678	\$ 118,687	\$ 126,202
Total Net Assets (\$ in thousands)	\$ 85,598	\$ 102,712	\$ 105,186	\$ 112,516	\$ 119,170	\$ 126,179	\$ 133,694

Key Financial Metrics and Ratios Signature Healthcare Corporation	Industry Data				
	RMA - General Medical and Surgical Hospitals	RMA - Offices of Physicians	Definitive Healthcare - Hospitals	IBIS - Hospitals in the US	IBIS - Primary Care Doctors
<b>Profitability</b>					
Operating Margin (%)	5.8%	5.5%	-6.1%	8.7%	15.6%
Excess Margin (%)	4.8%	5.0%	3.0%	NA	NA (1)
Debt Service Coverage Ratio (x)	NA	NA	NA	2.8x	3.3x
<b>Liquidity</b>					
Days of Available Cash and Investments on Hand (#)	NA	NA	22.2	NA	NA
Operating Cash Flow Margin (%)	NA	NA	NA	7.5%	6.4%
<b>Solvency</b>					
Current Ratio (x)	1.8x	1.1x	1.7x	1.8x	1.0x
Ratio of LT Debt to Total Capitalization (%)	38.7%	47.5%	NA	NA	NA (2)
Ratio of Cash Flow to LT Debt (%)	NA	NA	NA	NA	NA
Unrestricted Net Assets (\$ in thousands)	NA	NA	NA	NA	NA
Total Net Assets (\$ in thousands)	\$ 37,782	\$ 6,719	NA	NA	NA

**Footnotes:**

(1) Profit before taxes margin from RMA data and net income margin from Definitive Healthcare data treated as an equivalent to excess margin.

(2) Total capitalization based on total net assets, instead of unrestricted net assets, as unrestricted net assets for the industry data was unavailable.

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 a company’s ability to take on debt 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	
Ratio Definitions	Calculation
<b>Profitability</b>	
Operating Margin (%)	Income / (Loss) from Operations Divided by Total Operating Revenue
Excess Margin (%)	Excess of Revenues over Expenses Divided by Total Operating Revenue
Debt Service Coverage Ratio (x)	(Excess of Revenues over Expenses Plus Depreciation and Interest) Divided by Principal and Interest Payments
<b>Liquidity</b>	
Days of Available Cash and Investments on Hand (#)	Cash + Board Designated Investments Divided by Daily Operating Expenses (Excl. Depreciation)
Operating Cash Flow Margin (%)	Cash Flow from Operations Divided by Total Operating Revenue
<b>Solvency</b>	
Current Ratio (x)	Current Assets Divided by Current Liabilities
Ratio of LT Debt to Total Capitalization (%)	Long-Term Debt Divided by Total Capitalization (Long-Term Debt and Unrestricted Net Assets)
Ratio of Cash Flow to LT Debt (%)	Cash Flow from Operations Divided by Long-Term Debt
Unrestricted Net Assets (\$ in thousands)	Unrestricted Net Assets
Total Net Assets (\$ in thousands)	Total Net Assets

## 1. Revenue

We analyzed the projected revenue included within the Projections. Revenue for the Applicant includes net patient service revenue, premium revenue, and other operating revenue. Approximately 93.0 percent of revenue is derived from net patient service revenue. Based upon our discussions with Management and the documents provided, the projected net patient service revenue was estimated based upon Management's anticipated changes in the following segments:

### **Brockton Hospital, Inc.**

Management projected gross patient service revenue for BH for inpatient and outpatient services separately.

Inpatient revenue was estimated based on projected discharges and revenue per discharge. Discharges were projected to increase 3.7 percent in FY 2019, before declining 1.6 percent and 0.9 percent in FY 2020 and FY 2021, respectively. Discharges

were projected to remain flat for the remainder of the projection period. The gross revenue per discharge was projected to increase 3.0 percent from FY 2020 through FY 2023.

Outpatient revenue was estimated based on projected visits and revenue per visit. Visits were projected to increase 1.5 percent in FY 2019. Thereafter, visits were projected to increase 0.8 percent in each year. We noted this was below the historical increase in visits in FY 2018 of 1.1 percent. Management also included incremental visits related to the Proposed Project within outpatient revenue. Management projected 250 incremental visits per year, beginning with 250 visits in FY 2020 and ending with 1,000 visits in FY 2023. Incremental visits were based on the increase in ophthalmologic, orthopedic, and other surgical visits and new volume that will be provided through a relationship with specialists from BIDMC who will be rotating in at BH. Initial gross revenue per visit related to the Proposed Project was based on a blend of the historical revenue related to ophthalmologic and orthopedic visits. The gross revenue per visit for all outpatient visits was projected to increase 3.0 percent from FY 2020 through FY 2023.

**Signature Healthcare Medical Group, Inc.**

Gross patient service revenue for SMG was estimated based on projected visits and revenue per visit. Visits were projected to decline -0.6 percent in FY 2019. Thereafter, visits were projected to increase 0.8 percent per year for FY 2020 through FY 2023. We noted this was slightly above historical growth in visits of 0.5 percent in FY 2018. No growth in revenue per visit was assumed.



Management also projected contractual discounts and bad debt to arrive at net patient service revenue for BH and SMG. Contractual discounts were projected to grow between 3.7 percent and 4.2 percent annually through the projection period. This growth rate exceeded the growth in gross patient service revenue in each year. Net patient service revenue was projected to increase 0.5 percent in FY 2019, 1.2 percent in FY 2020 and FY 2021, and 1.5 percent in FY 2022 and FY 2023. We noted this forecasted growth fell within historical net patient service revenue growth. Net patient service revenue increased between 1.4 percent and 2.2 percent between FY 2016 and FY 2018.

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, the Applicant's future looking strategic plans, and knowledge of industry trends. Based upon the foregoing, it is our opinion that the revenue growth projected by Management reflects a reasonable estimation of future revenue of SHC.

## **2. Operating Expenses**

We analyzed each of the categorized operating expenses for reasonableness and feasibility as it related to the Projections.

The operating expenses considered in the Projections include salaries and wages, employee benefits, professional fees, supplies, purchased services, depreciation and amortization, interest, and other expense. We understand, based on discussions with Management, that professional fees in part includes fees related to physician compensation. Together, salaries



and wages, employee benefits, and physician compensation account for approximately 67.0 percent of total operating expenses.

Salaries and wages, employee benefits, and physician compensation (collectively referred herein as "compensation expense") were projected to grow 0.6 percent in FY 2019, 1.1 percent in FY 2020, and 1.3 percent in FY 2021 through FY 2023. Historical growth for compensation expense ranged from 1.3 percent to 2.8 percent from FY 2016 to FY 2018. Full time equivalents ("FTEs") are expected to increase by nine FTEs in FY 2019 and four FTEs in FY 2020. No additional FTEs are projected beyond FY 2020. The four FTEs in FY 2020 relate to additional hiring related to the Proposed Project. Management indicated a pension settlement cost in the amount of \$1 million which occurred in FY 2018 is non-recurring and is not expected to continue through the Projections. Additionally, although FTEs are up, physician compensation is expected to be down due to lower arrivals. As discussed above, physician visits are projected to decline 0.6 percent in FY 2019.

The next largest expenses were supplies and purchased services. Including the other expense line item, these expenses were projected to increase between 2.9 percent and 4.8 percent annually. We compared these expenses to the supplies expense historically and noted the projected growth was in line with historical growth. Supplies grew between 0.3 percent and 7.1 percent between FY 2016 and FY 2018.

Based upon the foregoing, it is our opinion that the operating expenses projected by Management reflect a reasonable estimation of future expenses of the Applicant.



### **3. Capital Expenditures and Proposed Project Financing**

We reviewed the projected capital expenditures related to the Proposed Project. The total capital expenditure within the Projections related to the Proposed Project is \$4.2 million. The renovation is expected to be complete halfway through FY 2020. As of the date of preparation of our report, Management provided several estimated budgets prepared on their behalf by Monitor Builders Incorporated. The estimated budgets ranged in total project costs from \$3.7 million to \$4.1 million, depending on scope of the operating room fit-out. As such, the \$4.2 million figure included within the Projections was deemed to be conservative by Management and to reflect an upper boundary of expenditures related to the Proposed Project. The budgets include construction costs, contingency, construction management fees, architectural and engineering fees, equipment, furniture, technology, and legal and administrative fees.

In addition to capital expenditures, we also reviewed the proposed financing of the project. The Applicant plans to finance the Proposed Project from new debt to be obtained through Siemens Financial Service. The Applicant intends to issue a \$10 million taxable bond, with a 10-year commitment, to be amortized over 20 years. The proceeds of the issue will be used to fund the Proposed Project, as well as a new ambulatory electronic health record and a School of Nursing relocation project. The Company partnered with Siemens Financial Service in FY 2018 related to a \$50 million bond. The additional \$10 million bond related to financing of the Proposed Project was included in the Applicant's FY 2019 operating and capital budget.



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 5.2 percent of cumulative projected revenue for the five years from 2019 through 2023. We note a small net increase in cash throughout the Projections, including positive cash flow from operations for each year. 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 therefore, the Proposed Project is not likely to have a negative impact on the patient panel or result in a liquidation of assets of SHC.

Respectively submitted,

A handwritten signature in black ink, appearing to read "Stephen Doneski".

Steve Doneski, CPA  
Partner, BDO USA, LLP



**ATTACHMENT F**  
**Articles of Organization**