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

Steward Health Care System, LLC.
For the Years Ending December 31, 2023
Through December 31, 2030

July 26, 2023

Matthew Cotti
Chief Financial Officer
Good Samaritan Medical Center, A Steward Family Hospital
235 Pearl Street
Brockton, MA 02301

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

Dear Mr. Cotti:

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

Sincerely,

BDO USA

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July 26, 2023

Matthew Cotti
Chief Financial Officer
Good Samaritan Medical Center, A Steward Family Hospital
235 Pearl Street
Brockton, MA 02301

RE: Project Financial Feasibility Services Associated with DPH DoN Factor 4

Dear Mr. Cotti:

We have performed an analysis related to the reasonableness and feasibility of the financial projections (the "Projections") of Steward Health Care System, LLC ("Steward Health Care", "Steward" or the "Applicant"), related to the substantial capital expenditure for the construction of a new behavioral health facility on the campus of Good Samaritan Medical Center ("GSMC") located at 235 Pearl Street, Brockton, MA 02301 (the "Proposed Project"). 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 Steward ("Management"). This report is to be used by Steward 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 consolidated Steward eight-year financial projections for the fiscal years ending December 30, 2023, through 2030 prepared by Management and the supporting documentation to render an opinion as to the reasonableness of assumptions used in the preparation and feasibility of the Projections. The Applicant and GSMC's fiscal year are defined as January 1 – December 30 throughout the entirety of this memo. The Projections exhibit a cumulative operating EBITDA[1] surplus of approximately 5.6 percent of cumulative projected total net revenue of Steward for the eight years from fiscal year ("FY") 2023 through 2030. Based upon our review of the relevant documents and 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 not likely to have a negative impact on the Applicant's patient panel or result in a liquidation of Steward's assets. A detailed explanation regarding the basis for our determination of reasonableness and feasibility is contained within this report.

II. RELEVANT BACKGROUND INFORMATION

The Applicant, Steward Health Care Systems, LLC with a principal place of business at 1900 Pearl Street, Suite 2400, Dallas, TX 75201, is one of the largest private, for-profit physicians owned healthcare network in the United States. Steward is a fully integrated health care system that focuses on maximizing efficiency as a way to deliver the lowest cost and highest quality care for patients. The Applicant operates nine hospitals in Massachusetts: Carney Hospital, Good Samaritan Medical Center, Holy Family Hospital, Morton Hospital, Nashoba Valley Medical Center, New England Sinai Hospital, Norwood Hospital, St. Anne's Hospital,

[1] EBITDA ("Earnings before Interest, Taxes, Depreciation, and Amortization)

and St. Elizabeth's Medical Center (collectively "Steward Northeast"). The Applicant recently completed the sale of its Utah facilities and the acquisition of several care facilities based in Miami, Florida.

Good Samaritan Medical Center is an acute-care hospital with 224 beds, providing comprehensive inpatient and outpatient psychiatric services. GSMC is the Level III Trauma Center serving Brockton and 22 additional neighboring communities. GSMC also provides services that include orthopedics, oncology, cardiology, specialized care in surgery, family-centered obstetrics with Level II special care nursery, and advanced diagnostic imaging. GSMC is the only Level III trauma center in Region V. GSMC's primary service area includes Brockton, Taunton, Stoughton, Norwood, Raynham, Randolph, Mansfield, Norton, Bridgewater, Canton, East Bridgewater, West Bridgewater, Whitman, Abington, Avon, Middleborough, Attleboro and New Bedford.

The Applicant proposes to construct a new facility on the campus of GSMC that will provide both inpatient and outpatient behavioral health services, which will address the increased prevalence of behavioral health conditions and fulfill the Applicant's obligation to replace previously-closed inpatient psychiatric beds at Norwood Hospital. The new facility gives Steward the ability to expands access to inpatient psychiatric services at GSMC through the construction of a seventy-seven (77) bed facility that will accommodate sixteen (16) beds relocated from the existing GSMC campus and sixty-one (61) new inpatient psychiatric beds (formerly operated by Norwood Hospital) as well as one floor of shell space for future buildouts. The facility will have two adult inpatient units (39 beds) and two geriatric inpatient units (38 beds). Services will include extensive inpatient and outpatient care, electroconvulsive shock therapy (“ECT”), partial hospitalization programs, trans-magnetic stimulation (“TMS”), and activity therapy.

In addition to fulfilling the need to replace Norwood Hospital’s closed beds, the Proposed Project will meet the increasing needs of the Applicant’s patient panel for access to inpatient psychiatric beds. The research performed by the Applicant demonstrates that since 2020, the incidence of mental health conditions has increased substantially nationwide and in Massachusetts, and the number of individuals seeking treatment for mental health conditions has also increased. Many individuals with mental illness do not receive treatment and report unmet mental health needs. Many individuals who do seek treatment face barriers to accessible care due to lack of inpatient psychiatric bed capacity and long wait times for appointments. Unmet needs for mental health services are expected to continue due to the impact of the COVID-19 pandemic on access to care and the resulting exacerbation of mental health conditions. The Proposed Project will improve health outcomes and quality of life for GSMC’s Patient Panel by providing timely access to inpatient psychiatric beds and reducing emergency departments (“ED”) boarding. Timely access to inpatient psychiatric beds and decreased ED boarding will ultimately improve patient health outcomes and patient quality of life. The replacement of psychiatric beds will not have an adverse impact on competition in the Massachusetts health care market based on price, total medical expenses (“TME”), provider costs or other recognized measures of health care spending. Accordingly, the Proposed Project will meet the needs of the patient panel while reducing costs associated with delays in treatment and the provision of care in sub-optimal settings.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the eight-year Projections for the fiscal years ending December 30, 2023 through 2030, prepared by Management, and the supporting documentation 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 Projects are 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 June 2, 2023 and is 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 Steward.

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

IV. SOURCES OF INFORMATION UTILIZED

In formulating our 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. Projected Financial Model for Steward for the periods ending December 30, 2023, through December 30, 2030;
2. Draft Steward Application Form for DON Application;
3. Audited Financial Statements for Steward Health Care Systems, LLC for Fiscal Years Ended December 30, 2019 through 2021;
4. Unaudited Financial Statements for Steward Health Care Systems LLC for Fiscal Year Ended December 30, 2022;
5. Free Standing Psychiatric Hospital Model;
6. Schematic Design Submission by Consigli Construction Co., Inc., dated November 18, 2022;
7. Risk Management Association ("RMA") data (2020 – 2021);
8. Data obtained from Integra Information, A Division of Microbilt Corporation as of June 27, 2023; and,
9. IBISWorld Industry Report 62211: Hospitals in the US, dated January 2023.

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 table presents the Key Metrics, as defined below, which compare the forecasted operating results of the performance of Steward after the affiliation to market information from RMA, Integra, and IBIS World to assess the reasonableness of the Projections.

Steward Projected Key Financial Metrics and Ratios

Steward Health Care System, LLC	2023	2024	2025	2026	2027	2028	2029	2030
Profitability: Operating Margin (%)	-1.5%	0.7%	2.6%	3.3%	3.6%	4.0%	4.3%	4.7%
Profitability: Net Income Margin (%)	8.8%	1.5%	3.6%	4.3%	4.5%	4.9%	5.2%	5.0%
Profitability: Debt Service Coverage Ratio (x)	1.5x	1.9x	2.2x	2.2x	2.3x	2.4x	2.4x	2.4x
Liquidity: Days Available Cash and Investments On Hand (#)	10.2	17.5	24.9	40.9	59.4	79.6	100.9	123.1
Liquidity: Operating Cash Flow (%)	9.6%	11.6%	13.1%	13.9%	14.1%	14.5%	14.8	15.1
Solvency: Current Ratio (x)	1.0x	1.2x	1.3x	1.6x	1.8x	2.1x	2.5x	2.8x
Solvency: Total Debt to Total Assets Ratio (%)	68.0%	63.6%	69.1%	66.0%	62.8%	59.4%	56.0%	52.5%
Solvency: Ratio of Operating Cash Flow to Total Debt (%)	13.9%	17.7%	21.7%	24.5%	26.0%	28.0%	29.9%	32.0%

Industry Data Key Financial Metrics and Ratios

Selected Industry Data Sources	RMA – Medical Hospitals	Integra	IBIS World
Profitability: Operating Margin (%)	2.2%	1.5%	NA
Profitability: Net Income Margin (%)	NA	0.3%	NA
Profitability: Debt Service Coverage Ratio (x)	NA	1.3x	1.5x
Liquidity: Days Available Cash and Investments On Hand (#)	NA	NA	NA
Liquidity: Operating Cash Flow (%)	NA	3.9%	NA
Solvency: Current Ratio (x)	1.9x	2.1x	1.3x
Solvency: Total Debt to Total Assets Ratio (%)	NA	56.1%	NA
Solvency: Ratio of Operating Cash Flow to Total Debt (%)	NA	NA	NA

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

The Key Metrics fall into three primary categories: profitability, liquidity, and solvency. Profitability metrics are used in the evaluation of management performance regarding 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 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.

Ratio Definitions for Key Financial Metrics and Ratios -

Ratio	Definitions
Profitability: Operating Margin (%)	(Gain from Operations - Gain from Sale of Assets and Businesses) Divided by Total Revenue
Profitability: Net Income Margin (%)	Net Income Divided by Total Revenue
Profitability: Debt Service Coverage Ratio (x)	(Gains from Operations - Gain on Sale of Assets and Businesses + Depreciation and Amortization + Interest) Divided by Interest
Liquidity: Days Available Cash and Investments On Hand (#)	(Total Cash) Multiplied by 365 Divided by (Total Operating Expenses - Depreciation and Amortization)
Liquidity: Operating Cash Flow (%)	(Gains from Operations - Gain on Sale of Assets and Businesses + Depreciation and Amortization + Interest) Divided by Total Revenue
Solvency: Current Ratio (x)	Current Assets Divided by Current Liabilities
Solvency: Total Debt to Total Assets Ratio (%)	Total Debt Divided by Total Assets
Solvency: Ratio of Operating Cash Flow to Total Debt (%)	(Gains from Operations - Gain on Sale of Assets and Businesses + Depreciation and Amortization + Interest) Divided by Total Debt

1. Revenue

We analyzed the projected revenue within the Projections. Revenue for the Applicant includes net patient service revenue ("NPSR") and other operating revenues, including premium revenue from health plan, provider relief funds, state supplemental and directed payment plan revenue, various grants, Steward Health Care Network ("SHCN") contract revenue and other relevant revenues; the revenue-burdened balance related to bad debt, payer denials, charity contribution and other adjustments is also considered. We note that the cumulative NPSR comprises 97.1 percent of the cumulative total net revenue from FY 2023 through FY 2030.

Total NPSR for the Projections are expected to grow by 6.6 percent in FY 2023 when compared to FY 2022, which has a NPSR growth of 15.9 percent from FY 2021. For the remainder of the Projection Period (FY 2024 through FY 2030), Management projected the NPSR growth to trend down to 3.1 percent. Per conversations with Management, NPSR growth in FY 2023 is driven by higher expectation for patient volume and service pricing increase, particularly in some of the newly acquired facilities in which Steward was able to implement several initiatives that improved the efficiency of their operations. For example, in Florida, Steward was able to improve the Miami hospital's electronic medical record system that allows for a better charge capture and collection process, which ultimately increases revenue. Steward also implemented a charge description master ("CDM") price increase of approximately 9.0 percent starting in FY 2023.

In order to determine the reasonableness of the projected total revenue, we reviewed the underlying assumptions upon which Management relied. Based on our review of the information provided and the discussions noted above, we understand Management relied upon historical operating results and anticipated market movements. The eight-year compound annual growth rate ("CAGR") for total revenue in the Projections of 3.8 percent falls below Steward's historical annual revenue growth rates for the Applicant between FY 2020 and FY 2022 as indicated in the table below.

Financial Metric	Projected CAGR (2023 – 2030)	Annual Growth Range (2020 – 2022)
Total Revenue	3.8%	8.2% - 14.4%

Based upon the foregoing, it is our opinion that the revenue growth projected by Management reflects a reasonable estimation of future revenue for Steward.

2. Operating Expenses

We analyzed each of the categorized operating expenses for reasonableness and feasibility as related to the Projections. The operating expenses in the analysis include salaries, benefits, and contract labor, supplies and drugs, rent, medical claims, depreciation and amortization, interest, and other expenses. Total expenses within the Projections are estimated to decline by approximately 8.1 percent in FY 2023 but are expected to increase by 13.5 percent in FY 2024, before trending down to approximately 2.4 percent growth by FY 2030. The FY2023 decline in total expenses can be contributed to various cost-saving measures implemented across the Steward network. By the end of FY 2023, Steward has a goal to reduce its salary expenses by $145 million and non-salary expenses by $265 million. The total expense reduction of $410 million is approximately 6.8 percent of the total operating expenses of $5.7 billion in FY 2023. Based on conversations with Management, Steward has exceeded the salary reduction target and is on track to meet its non-salary expenses reduction goals.

The following table indicates that the eight-year compound annual growth rate ("CAGR") of 4.5 percent for total expenses in the Projections falls between Steward's total expenses growth rates in the prior three fiscal years. We note that the total expenses annual growth for FY 2020, FY 2021 and FY 2022 were -12.6 percent, 10.3 percent, and 2.6 percent, respectively.

Financial Metric	Projected CAGR (2023 – 2030)	Annual Growth Range (2020 – 2022)
Total Expense	4.5%	-12.6% - 10.3%

We note that the projected total expenses as a percentage of total revenue range from 91 to 100 percent from FY 2023 to FY 2030. We further note that this level of total expenses is slightly lower than the historical total expenses as a percentage of total revenue which ranged from 99 to 112 percent from FY 2019 to FY 2022. This trend is explainable considering the unusual impact caused by the COVID-19 pandemic.

Based upon the foregoing, it is our opinion that the total expenses within the Projections reflect reasonable estimation of future expenses for the Applicant.

3. Capital Expenditures and Proposed Project Financing

We reviewed the project costs within the Draft Steward Application Form for DON Application related to the Proposed Projects of which $76.9 million is classified as maximum capital expenditures per the DON regulations. The details of the construction costs for each area of the new facility are described in the table below.

Functional Areas	Net Square Footage in Project	Construction Costs
First Floor - Administrative Areas	7,500	$8,546,158.14
First Floor - General Support Facilities	5,121	$5,606,293.68
First Floor - Patient Care Areas	7,116	$7,843,412.11
First Floor - Outpatient Psychiatric Area	7,876	$8,435,564.90
Second Floor - Inpatient Psychiatric Unit	15,936	$20,044,372.14
Third Floor - Inpatient Psychiatric Unit	15,027	$19,219,712.29
Fourth Floor - Shell Space	19,212	$7,169,997.81
Total	**77,788**	**$76,865,511.07**

In addition to capital expenditures, we also reviewed the proposed financing of the projects. It is our understanding that the entirety of the capital expenditures related to the Proposed Projects are expected to be funded by Medical Properties Trust, Inc. ("MPT") which has provided fundings to Steward for the buildouts of various construction projects and permitting Steward to access and utilizes the properties via a sale and leaseback structure, in which, MPT owns the properties and leases them to Steward in exchange for rent payments. Per our conversations with Management, the expected annual rent for the new facility associated with the Proposed Project is approximately $8 million per year. This represents approximately 0.1 percent of Steward's total expenses. In addition to the rent expenses, the incremental operating expenses of the Proposed Project range from $15.0 million to $28.5 million throughout the Projection Period. These expenses represent between 0.2 and 0.4 percent of total expenses from FY 2024 to FY 2030. Based on the noted factors, there appears to be sufficient room to accommodate the financing for the Proposed Project within the Applicant's available capital without the need for debt financing.

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 certain 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 5.6 percent of cumulative projected total revenue for the eight years from FY 2023 through FY 2030. Based upon our review of the relevant documents and analysis of the Projections, we determined the anticipated 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 patient panel or result in a liquidation of assets of Steward.

Respectively submitted,

BDO USA

Erik Lynch
Partner, BDO USA