

Tenet Healthcare Corporation

**Analysis of the Reasonableness of
Assumptions Used For and
Feasibility of Projected Financials of
Saint Vincent Hospital Behavioral Health Unit
For the Years Ending December 31, 2019
Through December 31, 2023**

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October 19, 2018

Mr. Peter D'Elia
Chief Financial Officer
Saint Vincent Hospital
123 Summer Street
Worcester, MA 01608

RE: **Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed Behavioral Medicine and ED Project at Saint Vincent Hospital in Worcester, MA**

Dear Mr. D'Elia:

I have performed an analysis of the financial projections prepared by Saint Vincent Hospital ("Saint Vincent" or "SVH") detailing the projected operations of the Behavioral Health Unit ("SVH BH Unit"). This report details my analysis and findings with regards to the reasonableness of assumptions used in the preparation and feasibility of the financial forecast prepared by the management of SVH ("Management") for the operation of the SVH BH Unit. This report is to be used by Tenet Healthcare Corporation ("Tenet" or "THC"), the owner of Saint Vincent Hospital, in its Determination of Need ("DoN") Application – Factor 4(a) and should not be distributed for any other purpose.

I. EXECUTIVE SUMMARY

The scope of my analysis was limited to an analysis of the five year financial projections (the "Projections") prepared by SVH for the operation of the SVH BH Unit as well as the actual operating results for Tenet for the fiscal years ended December 31, 2016 and 2017 and the six months ended June 30, 2018, 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 impact of the proposed capital project at SVH BH Unit, which is the subject of this DoN application, represent a relatively insignificant component of the actual operating results and financial position of Tenet. As such, I determined that the Projections for SVH BH Unit are not likely to result in a scenario where there are insufficient funds available for capital and ongoing operating costs necessary to support the ongoing operations of Tenet. Therefore, it is my opinion that the Projections for SVH BH Unit are financially feasible for Tenet as detailed below.

II. RELEVANT BACKGROUND INFORMATION

Saint Vincent Hospital is a 283 bed acute care teaching hospital located in Worcester, which offers comprehensive services to Central Massachusetts. SVH has over 2,500 employees, 600 physicians on medical staff and exhibits solid financial performance, including a 19% EBITDA margin. SVH was repurchased by Tenet Corporation in 2013. Tenet Healthcare Corporation is a publicly traded company based in Dallas, Texas. It is a diversified healthcare services company operating primarily in large urban and suburban markets in the United States. Its lines of business include hospitals, ambulatory surgery centers and the provision of healthcare business process services. Tenet originally bought Saint Vincent from the Diocese of Worcester, but then sold it to Vanguard Health System in 2004. Tenet then repurchased the hospital, along with MetroWest Medical Center in Framingham in 2013.

Please refer to the DoN application for a further description of the proposed project and the rationale for the expenditures.

III. SCOPE OF REPORT

The scope of this report is limited to an analysis of the five year financial projections prepared by SVH (the "Projections"), actual operating results for Tenet for the fiscal years ended December 31, 2016 and 2017 and the six months ended June 30, 2018, 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. My analysis of the Projections and conclusions contained within this report are based upon my detailed review of all relevant information (see Section IV which references the sources of information). I have gained an understanding of Saint Vincent Hospital and the Behavioral Health Unit through my review of the information provided as well as a review of the SVH website 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 impacts or consequences to the Applicant's existing Patient Panel" (per Determination of Need, Factor 4(a)).

This report is based upon prospective financial information provided to us by Management. If I had audited the underlying data, matters may have come to my attention that would have resulted in my using amounts that differ from those provided. Accordingly, I do not express an opinion or any other assurances on the underlying data presented or relied upon in this report. I do not provide assurance on the achievability of the results forecasted by SVH 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. I reserve the right to update my analysis in the event that I am provided with additional information.

Tenet Healthcare Corporation capital stock is traded on the New York Stock Exchange under the stock symbol THC. As a company whose stock is publicly traded, Tenet is restricted by securities laws from providing forward-looking guidance or projections. Providing projections for use in this DoN application would constitute material nonpublic information under the Securities Act of 1933 and the Securities Exchange Act of 1934. If Tenet does provide forward-looking guidance or projections, the security laws, specifically Regulation FD ("fair disclosure") would require the company to provide the projected information to all investors simultaneously by means of a public SEC filing. Therefore, financial

projections for Tenet as a whole were not provided to us and are not included as part of our analysis in this Factor 4 report.

Since we do not have projected financials for Tenet, we have analyzed the historical financials of Tenet and the projections for the SVH Behavioral Health Unit. We have drawn conclusions concerning the potential impact of the SVH Behavioral Health Unit on Tenet as a whole assuming that Tenet continues to operate as it has for the past 2 ½ years for which we have received financial statements.

IV. PRIMARY SOURCES OF INFORMATION UTILIZED

In formulating my opinions and conclusions contained in this report, I reviewed documents produced by Management. The documents and information upon which I relied are identified below or are otherwise referenced in this report:

1. SVH Behavioral Health and ED Project 10-Year Projected Financial Statements and Assumptions received from Management on September 25, 2018.
2. Saint Vincent Hospital Behavioral Medicine & ED Project Summary as of April 2017 received from Management on September 25, 2018.
3. Form 10-K Annual Report December 31, 2017 filed with the Securities and Exchange Commission on February 26, 2018.
4. Form 10-Q Quarterly Report June 30, 2018 filed with the Securities and Exchange Commission on August 6, 2018.
5. Income statements for Saint Vincent Hospital for the years ended December 31, 2017 and 2016 and the six months ended June 30, 2018 received from Management on October 19, 2018.
6. Tenet Healthcare Corporation DoN Application for Substantial Capital Expenditure at Saint Vincent Hospital
7. Determination of Need Application Instructions dated March 2017;
8. Saint Vincent Hospital website <https://www.stvincenthospital.com>
9. Tenet Healthcare Corporation website <https://www.tenethealth.com>
10. Various news publications and other public information about Tenet and Saint Vincent Hospital

V. REVIEW OF THE PROJECTIONS

This section of my report summarizes my review of the reasonableness of the assumptions used and feasibility of the Projections. The following table presents the key metrics, as defined below, which compares the results of actual operations for 2016 and 2017 and the first six months of 2018 and the Projections for the years 2019 through 2023. It should be noted that the key metrics for the SVH BH Unit are calculated at the department level. Certain hospital overhead expenses are not allocated to the department level.

Tenet

	<i>in millions</i>		
	12/31/2016	12/31/2017	6/30/2018
Adjusted EBITDA (\$)	\$ 2,478	\$ 2,444	\$ 1,299
Adjusted EBITDA Margin (%)	12.9%	12.8%	14.1%
Operating Margin (%)	6.4%	5.8%	10.0%
Net Profit Margin (%)	0.9%	-1.7%	3.2%
Days in Accounts Receivable	56.5	55.2	55.1
Total Assets (\$)	\$ 24,701	\$ 23,385	\$ 22,343
Total Equity (\$)	\$ 1,082	\$ 539	\$ 576
Debt Service Coverage (ratio)	1.96	1.56	2.14
Debt to Capitalization (%)	93.4%	96.5%	96.3%

Saint Vincent Hospital BH Unit

	<i>in thousands</i>				
	2019	2020	2021	2022	2023
Adjusted EBITDA (\$)	\$ 884	\$ 1,148	\$ 1,406	\$ 1,602	\$ 1,613
Adjusted EBITDA Margin (%)	29.4%	34.6%	38.7%	41.2%	40.9%
Operating Margin (%)	24.0%	29.7%	34.2%	37.1%	36.8%
Net Profit Margin (%)	8.0%	12.1%	15.9%	18.7%	19.4%
Days in Accounts Receivable	52.8	52.8	52.8	52.8	52.8
Total Assets (\$)	\$ 4,919	\$ 4,804	\$ 4,689	\$ 4,565	\$ 4,412
Total Equity (\$)	\$ 240	\$ 641	\$ 1,219	\$ 1,944	\$ 2,711
Debt Service Coverage (ratio)	2.20	1.37	1.44	1.47	1.47
Debt to Capitalization (%)	95.0%	86.3%	73.2%	56.1%	36.6%

The Key Metrics fall into three primary categories: liquidity, operating and solvency. Liquidity metrics, such as Days in Accounts Receivable measure the quality and adequacy of assets to meet current obligations as they come due. Operating metrics, such as earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”), Adjusted EBITDA Margin, Operating Margin, Net Profit Margin and Debt Service Coverage are used to assist in the evaluation of management performance in how efficiently resources are utilized. Solvency metrics, such as Debt to Capitalization and Total Equity, measure the company’s ability to 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	Calculation
<u>Liquidity Ratios</u>	
Days in Accounts Receivables	Accounts receivables / (net patient service revenue / 365 days)
<u>Operating Ratios</u>	
Adjusted EBITDA	Earnings before interest, taxes, depreciation, amortization and certain non-recurring charges and gains
Adjusted EBITDA Margin	Adjusted EBITDA / net patient service revenue
Operating Margin	Earnings before interest and income tax expense / net patient service revenue
Net Profit Margin	Net income / net patient service revenue
Debt Service Coverage (ratio)	Debt service coverage (ratio) = (Net income (loss) + depreciation expense + amortization expense + interest expense + income tax expense) / (Principal payments + interest expense)
<u>Solvency Ratios</u>	
Total Assets	Total assets of the company
Debt to Capitalization (%)	Debt to Capitalization (%) = (Current portion of long-term obligation + long-term obligations) / (Current portion of long-term obligations + long-term obligations + stockholders' equity)
Total Equity	Net equity of the Company

1. Revenues

The only revenue category on which the proposed capital projects would have an impact is net patient service revenue. Therefore, I have analyzed net patient service revenue identified by Tenet in their historical financial information and net patient service revenue identified for the SVH BH Unit projections. I compared the projected revenue for the SVH BH Unit to actual net patient service revenue for Tenet for the year ended December 31, 2017. Based upon my analysis of the projected results from Fiscal Year 2019 through Fiscal Year 2023, the proposed capital project at Saint Vincent would represent approximately 0.016% (about 2 one-hundredths of 1%) of Tenet actual 2017 net operating revenues beginning in 2019 to 0.021% (about 2 one-hundredths of 1%) in 2023.

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

2. Expenses

I analyzed each of the categorized operating expenses for reasonableness and feasibility as it relates to the projected revenue items. I reviewed the actual operating results for Tenet for the years ended December 31, 2016 and 2017 and the six months ended June 30, 2018 in order to determine the impact of the proposed capital project at Saint Vincent Hospital on the consolidated entity and in order to determine the

reasonableness of the Projections for the years 2019 through 2023. I compared the projected expenses for the SVH BH Unit to actual operating expenses for Tenet for the year ended December 31, 2017. Based upon my analysis of the projected results from 2019 through 2023, the proposed capital projects would represent approximately 0.013% (about 1 one-hundredth of 1%) of Tenet operating expenses beginning in 2019 to 0.014% (about 1 one-hundredth of 1%) in 2023.

It is my opinion that the growth in operating expenses projected by Management reflects a reasonable estimation based primarily upon the Tenet's historical operations.

3. Capital Expenditures and Cash Flows

I reviewed Tenet historical capital expenditures and cash flows in order to determine whether sufficient funds had been invested to sustain the operations of Tenet.

Based upon my discussions with Management and my review of the information provided, I considered the current and projected capital projects and loan financing obligations included within the Projections for the SVH BH Unit and the impact of those projected expenditures on Tenet cash flow. Based upon my analysis, it is my opinion that the pro-forma capital expenditures and resulting impact on Tenet cash flows are reasonable.

VI. FEASIBILITY

I analyzed the historical operations for Tenet for the years 2016 and 2017 and the six months ended June 30, 2018 and the changes in Key Metrics prepared by Management as well as the impact of the proposed capital project at Saint Vincent Hospital upon the Projections and Key Metrics. In performing my analysis, I considered multiple sources of information including historical financial information for Tenet and projected financial information for the SVH BH Unit. 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.

Because the impact of the proposed capital project at Saint Vincent Hospital represents a relatively insignificant portion of the operations and financial position of Tenet, I determined that the Projections for the SVH BH Unit are not likely to result in insufficient funds available for capital and ongoing operating costs necessary to support the proposed projects. Based upon my review of the Projections and relevant supporting documentation, I determined the project and continued operating surplus are reasonable and based upon feasible financial assumptions. Therefore, the proposed capital project at Saint Vincent Hospital is financially feasible and within the financial capability of Tenet.

Respectively submitted,



Bernard L. Donohue, III, CPA