SunBridge Healthcare, LLC d/b/a Merrimack Valley Center

Analysis of the Reasonableness of Assumptions Used For and Feasibility of Projected Financials of SunBridge Healthcare, LLC d/b/a Merrimack Valley Center For the Years Ending December 31, 2019 Through December 31, 2023

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January 26, 2018

Mr. Kenneth J. Cullerot
VP-Controller, Division II
Genesis HealthCare
200 Brickstone Square, Suite 301
Andover, MA 01810

RE: **Analysis of the Reasonableness of Assumptions and Projections Used to Support the Financial Feasibility and Sustainability of the Proposed 120-bed Hybrid Skilled Nursing Facility in Dracut, MA by SunBridge Healthcare, LLC d/b/a Merrimack Valley Center**

Dear Mr. Cullerot:

I have performed an analysis of the financial projections prepared by Genesis Healthcare, Inc. ("Genesis") the parent company of SunBridge Healthcare, LLC detailing the projected operations of SunBridge Healthcare, LLC d/b/a Merrimack Valley Center ("Merrimack Valley Center"). 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 Genesis ("Management") for the operation of Merrimack Valley Center. This report is to be used by Merrimack Valley Center 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 Genesis for the operation of the Merrimack Valley Center, 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.

Within the projected financial information, the Projections exhibit a net pre-tax profit margin of over 7% for years 2 through 5 of the project. Based upon my review of the relevant documents and analysis of the projected financial statements, I determined the project and continued operating surplus are reasonable expectations and are based upon feasible financial assumptions. Accordingly, I determined that the Projections are feasible and sustainable and not likely to have a negative impact on the patient panel or result in a liquidation of assets of Merrimack Valley Center.

II. RELEVANT BACKGROUND INFORMATION

Genesis Healthcare, Inc. is a holding company with subsidiaries that, on a combined basis, comprise one of the nation's largest post-acute care providers with approximately 450 skilled nursing centers and senior living communities in 30 states nationwide. Genesis subsidiaries also supply rehabilitation therapy to approximately 1,700 locations in 45 states and the District of Columbia. Genesis has a significant presence in Massachusetts, operating 33 healthcare centers in the Commonwealth.

On December 1, 2012 Genesis Healthcare acquired the Sun Healthcare Group, the parent of SunBridge Healthcare, LLC. Two of the SunBridge facilities were closed after the 2012 merger: Glenwood Care and Rehabilitation Center (101 beds) in Lowell, MA, and Colonial Heights Care and Rehabilitation Center (90 beds) in Lawrence, MA. The licensed beds are currently approved as "beds out of service". SunBridge Healthcare, LLC proposes to request a license to activate 120 of the beds, construct a new hybrid skilled nursing facility and operate it as Merrimack Valley Center. The remaining 71 beds will be permanently removed from the Commonwealth's licensed bed supply.

Refer to the DoN application for 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 Genesis (the "Projections") 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 Genesis and Merrimack Valley Center through my review of the information provided as well as a review of Genesis 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 Genesis 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.

IV. 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. Merrimack Valley Center DoN Five Year Projection received from Management on January 16, 2018;

2. SunBridge Healthcare, LLC DoN Application submitted November 24, 2017;

3. Determination of Need Application Instructions dated March 2017;

4. Medicare.gov Nursing Home Compare website;

5. Massachusetts Senior Care Association 2017 annual employment survey;

6. MA.gov Center for Healthcare Information and Analysis website;

7. Facility Lease Agreement with WS Property Group and 101 Development Group, LLC Joint Venture;

8. Genesis company website www.genesishcc.com.

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 operating results of the Projections for the fiscal years 2019 through 2023.

SunBridge Healthcare, LLC d/b/a Merrimack Valley Center
Summary of Ratios - As Provided
Projected for the Years Ended December 31, 2019 through 2023

Ratio	2019	2020	2021	2022	2023
Liquidity Ratios					
Current Ratio	1.76	1.88	1.88	1.88	1.88
Days in Accounts Receivables	40.00	40.00	40.00	40.00	40.00
Operating Ratios					
EBITDAR	$ 2,219,431	$ 3,551,595	$ 3,652,652	$ 3,756,235	$ 3,862,408
Lease Ratio	1.02	1.60	1.62	1.64	1.66
Net Profit Margin	0.18%	7.40%	7.56%	7.72%	7.87%

The Key Metrics fall into two primary categories: liquidity and operating. Liquidity metrics, such as the Current Ratio and 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, amortization and rent ("EBITDAR"), Lease Ratio, and Net Profit Margin are used to assist in the evaluation of management performance in how efficiently resources are utilized. Additionally, certain metrics can be applicable to multiple categories. The table below shows how each of the Key Metrics are calculated.

Ratio	Calculation
Liquidity Ratios	
Current Ratio	Current assets divided by current liabilities
Days in Accounts Receivables	Accounts receivables divided by (net patient service revenue divided by 365 days)
Operating Ratios	
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rent
Lease Ratio	EBITDAR divided by lease payments
Net Profit Margin	Net profit divided by net patient service revenue

1. Revenues

I analyzed the revenues identified by Merrimack Valley Center in the Projections. Based upon my discussions with Management, the projected volume was based on a ramp-up schedule for the first year of operations, with a sustained 93.3% occupancy level for years 2 through 5 of the projection. The payer mix was based on the unique character of the facility as a combination telemetry, short-term rehabilitation and long-term care facility. Reimbursement rates were based upon existing private pay rates at existing Genesis facilities in the area, current Medicaid and Medicare rates and expected Managed Care rates based on discussions with Managed Care providers. In order to determine the reasonableness of the projected revenues, I reviewed the underlying assumptions upon which Management relied.

I first reviewed the Projections to determine the reasonableness of the patient utilization, or payer mix. As mentioned above, the Merrimack Valley Center is conceptually very different from a traditional skilled nursing center in that a cardiac care unit, or telemetry unit, will occupy 12 of the 120 beds of the center. An additional 68 beds will be designated as short-term rehabilitation beds. Patients in both the telemetry unit and the short-term rehabilitation units are estimated to have an average length of stay of 12 days. The remaining 40 beds will be considered long-term stay beds with an average length of stay of one year. Working closely with area hospitals and Medicare managed care contractors (Medicare Advantage Plans), the concept of the telemetry unit is to provide cardiac care monitoring in a setting that is less costly than a hospital. Combined with the short-term stay units, the anticipated amount of traditional Medicare patients, Medicare Advantage Plan patients and other Managed Care patients is much greater than what one would expect under traditional circumstances. I noted the various managed care provider contracts that Genesis, as a national provider, has secured on a national basis. And I also noted the Medicare predictions of an 18.6% increase in the Medicare eligible population in the Facility's catchment area over the next 5 years.

Next, I reviewed the Projections to determine the reasonableness of the reimbursement rates selected for the years 2019 through 2023. The private pay rates are consistent with other skilled nursing facilities rates included in a data base of similar sized facilities in the area. Medicaid rates used are generally standard across the industry and the rates used for Year 1 of the Projections were compared to rates in effect as of October 1, 2017. Medicare rates are also standard rates, adjusted by a wage index for the specific geographic location of the facility. I compared the rates used for Year 1 of the Projections to the Medicare rates effective October 1, 2017 as adjusted by the wage index. The Managed Care rates are consistent with other skilled nursing facilities rates included in a data base of similar sized facilities in the area. All of the rates were increased by 2.5% for each of the succeeding years.

Based upon the foregoing, it is my opinion that the revenue projected by Management reflects a reasonable estimation of future revenues of the Merrimack Valley Center.

2. Expenses

I analyzed the Salary and Benefits, as well as the Other Operating Expenses for reasonableness and feasibility as related to the Projection of Merrimack Valley Center.

Salaries and Benefits were analyzed both for wage rates used and, as related to nursing care, for the amount of nursing staff hours provided. The staffing hours were compared to the Massachusetts average and National average for staffing hours, as provided on the Medicare.gov Nursing Home Compare website, and were found to be consistent with both. The wage rates for all nursing and non-nursing categories were compared to the Massachusetts Senior Care Association's 2017 Annual Wage and Benefits Survey. This survey was compiled from data provided by 194 facilities, and organized by county. I found that the wage rates and benefits used in the Projections were comparable to those in the survey results for Middlesex County, the location of the proposed facility.

The Other Operating Expenses were compared to those of the traditional nursing homes located within a 5 mile radius and other facilities of similar size in our data base. In general, the expenses in the Projection were in line with those selected for comparison. The notable exception was the Ancillary Expense. These are expenses for therapy (physical, occupational, speech, and respiratory), pharmacy, radiology, laboratory and telemetry services. Due to the proposed cardiac care unit and other short-term sub-acute care that is anticipated to be provided at Merrimack Valley Center, I found that the higher expenses for these services were in line with the scope of the project.

Expenses are generally projected to increase by 2.5% per year.

It is my opinion that the operating expenses projected by Management are reasonable in nature.

3. Lease Agreement and Cash Flows

I reviewed the lease agreement and future cash flows of the Merrimack Valley Center in order to determine whether sufficient funds would be available to support the lease of Merrimack Valley Center and whether the cash flow would be able to support the continued operations.

Based upon my review of the Projections and my discussions with Management, it is my understanding that the constructed facility will be leased to the Merrimack Valley Center by a joint venture consisting of 101 Development Group (a subsidiary of Genesis) and the WS Property Group (an unrelated entity). 101 Development Group and WS Property Group will develop and construct the proposed facility.

I reviewed the lease term letter, the underlying debt term letter and the lease coverage ratio provided by Management. The lease coverage ratio is calculated by dividing EBITDAR (earnings before interest, taxes, depreciation, amortization and rent) by the lease payment.

Accordingly, I determined that the pro-forma capital expenditures and resulting impact on the cash flows of Merrimack Valley Center are reasonable.

VI. FEASIBILITY

I analyzed the Projections and Key Metrics for Merrimack Valley Center. In preparing my analysis I considered multiple sources of information. 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.

Based upon my review of the relevant documents and analysis of the projected financial statements, I determined the project and continued operating surplus are reasonable expectations and are based upon feasible financial assumptions. Accordingly, I determined that the Projections are feasible and sustainable and not likely to have a negative impact on the patient panel or result in a liquidation of assets of Merrimack Valley Center.

Respectively submitted,

Bernard L. Donohue, III, CPA

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