Review of the Financial Aspects of the Proposed Merger Between Care New England Health System & Lifespan Corporation

Prepared for the Rhode Island Attorney General

February 11, 2022

VERALON

Table of Contents

Executive Summary

Background and Scope

Veralon Partners Inc. ("Veralon") was engaged by the Rhode Island Attorney General ("AG") to provide expert assistance in review and evaluation of the financial aspects of the proposed merger ("Proposed Transaction") between Care New England Health System ("CNE") and Lifespan Corporation ("Lifespan"), collectively referred to as "the Parties," focusing on the following:

- Financial Viability: Including the financial viability of each healthcare system individually and of the proposed combined system; and
- Due Diligence and Transaction Review Efforts: The due diligence and actions of the Parties in determining to pursue the Proposed Transaction, including review of financial documents.

Veralon's findings are specific to review of the above-described financial elements of the Proposed Transaction and are intended to provide the AG with supplementary analysis and information for the purposes of the AG's review of the Healthcare Conversion Application ("Application") submitted by the Parties. Veralon has not provided any opinion to the AG as to the whether to approve or deny the Application under review.

Highlighted Findings

Key findings from Veralon's review, discussed in further detail in the referenced bolded sections of this report, are as follows:

- CNE's current financial position is a concern for the financial picture of the Proposed Transaction and merged entity. [redacted] [1] [redacted]

[1] "Integration Report" developed by Chartis. Issued October 2021.

[redacted]

Please refer to the **"Financial Viability Findings - CNE"** section of this report for further discussion.

- While financially stronger than CNE, Lifespan [redacted]

  Please refer to the **"Financial Viability Findings - Lifespan"** section of this report for further discussion.

- On a combined basis, under status quo operations, [redacted].[2] [redacted]

  Please refer to the **"Financial Viability Findings – Merged Entity"** section of this report for further discussion.

---

[2] "Consol dated Pro Forma" developed by Ernst & Young. Issued January 14, 2022.

[3] Statement Under Oath – Natasha Hunerlach. February 2, 2022.

- The Parties have not provided a prospective view of the financial picture for the merged entity that reflects all elements of the financial considerations and financial impact of the merger – i.e., synergies/benefits, operational cost implications, merger and integration capital requirements, capital to fund the clinical integration activities and initiatives outlined in the Chartis report, and/or the anticipated source of such capital (i.e., anticipated incremental borrowings).

  Please refer to the **"Financial Viability Findings – Merged Entity"** section of this report for further discussion.

- There were material gaps in the financial analysis [redacted] of the Proposed Transaction that would challenge the Parties individual ability and collective abilities to comprehensively vet the financial rationale for the Proposed Transaction, including:

  - Absence of comprehensive financial projections for the combined entity, indicating not only the estimated financial performance for the combined entity, but also the contemplated sources and uses of capital, cash position and debt level; and
  - [redacted]

  Please refer to the **"Findings – Transaction Review and Due Diligence Efforts"** section of this report for further discussion.

- Finally, compared to other healthcare merger and acquisition diligence exercises that Veralon is familiar with in its experience supporting hospitals and health systems in mergers and other forms of affiliation, there are apparent gaps in the overall Proposed Transaction diligence conducted by both Parties, including (but not limited to) information technology, facilities, labor/employee matters and human resources, medical staff and provider matters, and tax matters.

  Please refer to the **"Findings – Transaction Review and Due Diligence Efforts"** section of this report for further discussion.

Process

Veralon's assessment of the financial elements of the Proposed Transaction involved:[4]

- Review of documents and data;
- Historical and current state financial analysis of each entity, including:
  - Identification, quantification, and application of appropriate adjustments to historical, current, and budgeted earnings before interest, depreciation, and amortization ("EBIDA");
  - Identification, quantification, and application of appropriate adjustment to available cash balances;
  - Ratio analyses to assess profitability, liquidity, and capital structure; and
  - High-level "lite" debt capacity analyses.
- Development of supplementary questions for Lifespan, CNE, and their respective advisors;
- Attendance of certain Statements Under Oath ("SUOs") conducted by the Rhode Island Attorney General, and participation in preparation sessions for these SUOs;
- Routine calls and working sessions with the AG's office and its outside legal advisors; and
- Development of findings and conclusions.

LIMITATIONS

As of the date of this report, Veralon has requested but not received the information necessary to assess the projected financial performance, cash position, debt capacity, or other elements of financial viability of the merged entity. Specifically, the Parties have not provided 1) a current, detailed pro forma for the merged entity with related underlying detail and description of, and support for, key assumptions, nor 2) a comprehensive analysis of, and plan for, the projected sources and uses of cash for the merged entity, considering routine capital needs, deferred maintenance, merger and integration costs (e.g., EMR implementation), and funding of the intended activities of the merged entity to develop an integrated academic health system, such as those described in the report prepared by Chartis.

Requests for this information were made to the Parties via Supplemental Questions sent to the Parties by the AG's office. While the Parties' submitted responses to the questions, they did not ultimately provide the full required information.

4 Veralon d d not, nor were we asked to, conduct ts own financial due diligence assessment of e ther Lifespan or CNE. Further, Veralon did not independently assess or otherwise validate the financial information provided by each Party.

Several of the Parties responses to these Supplemental Questions[5] are highlighted below, with Veralon's commentary specific to the relevance of the remaining gaps in information:

- Supplemental Question 1: Please describe all funding sources for the establishment of an academic medical center ("AMC") for the next five years. In your response, please also include and specify: (a) the amount of funding you expect to receive from each source; and (b) if the funds are coming from one or more of the Transacting Parties, please specify the internal funding source.
  - Response: [redacted]
  - <u>Remaining Gap:</u> [redacted][6] [redacted],[7] [redacted]

    [redacted]
- Supplemental Question 2: Please explain and describe whether and how the Transacting Parties determined what the budget will be for the AMC. In your response, please also include: (a) whether the Transacting Parties brought in any experts/consultants to project the costs associated with establishing an integrated AMC across the subject geographic region; and (b) if so, please provide their work product analysis.
  - Parties' Response: [redacted]

---

[5] "Transacting Parties' Responses to First Set of Supplemental Questions." (C-R-CNE-LS-0131562 through C-R-CNE-LS-0131598)

[6] "Consolidated Pro Forma" developed by Ernst & Young. Issued January 14, 2022.

[7] Statement Under Oath – Natasha Hunerlach. February 2, 2022.

[redacted]

- Remaining Gap: [redacted]

  Finally, while there are valid areas of concern with respect to information sharing at this juncture that would make development of certain granular budget assumptions difficult (i.e., rate information, salary data, etc.), this challenge could have potentially been handled by using a third party to review and analyze sensitive data in a compliant manner. Veralon is not aware of whether or not the Parties explored the options as a means of addressing these reported challenges to developing a financial forecast.

- Supplemental Question 5: Please specify what capital commitments are necessary for the integration process including, but not limited to, developing an operational infrastructure, clinical and administrative recruitment, quality improvement, research, and an integrated electronic medical record ("EMR"). Please also provide the source of these estimates.
  - Response: [redacted]
  - Remaining Gap: [redacted]

- Supplemental Question 46: With respect to the Chartis Report, please explain what the assumed costs are (one time and ongoing) and benefits (financial) related to the following elements of the integration plan set forth therein:
    a. 2 – Optimize system inpatient capacity
    b. 3 - Unified technology platform
    c. 5 - Transformation of WIH into a comprehensive women's hospital
    d. 6 - Establish first comprehensive cancer center
    e. 9 - Development of new ambulatory care centers
    f. 12 -Investment in pop health infrastructure
    g. 13 -Transformation into a research and innovation hub/innovation district
    - Parties' Response: [redacted]
    - Remaining Gaps: [redacted]

While the above do not represent an exhaustive list of the Supplemental Questions and responses related to the information needed to assess the financial viability of the Proposed Transaction, they are intended to highlight key information gaps and the Parties' response to such gaps.

Without a comprehensive picture for the Parties' financial plan for achieving their vision and a forecast representative of their financial picture post-transaction, Veralon is not able to assess the financial viability of the merged entity at this time.

KEY FINANCIAL RATIOS – DEFINITION & CONTEXT

As noted in the above outline of Veralon’s process, ratio analyses were developed as one means of assessing the Parties’ respective and collective financial performance and position. Several of these ratios, operating margin, EBIDA margin, days cash on hand, debt to capitalization and debt service coverage ratio, which are of particular importance and referenced throughout this report in the discussion of Veralon’s findings, are discussed below:

- **Earnings Before Interest and Depreciation (“EBIDA”) Margin:** EBIDA margin, a key indicator of profitability, measures the proportionate earnings of an organization or company, before considering depreciation, interest or taxes. As such, it is a measure of profitability that is not impacted by an organization’s capital structure and financing decisions nor its asset efficiency. Because EBIDA controls for these non-operating decisions and factors, it can be a useful ratio to use when comparing a given health system or hospital’s operating profitability against peers.

- **Operating Margin:** Operating margin, also an indicator of profitability, represents the proportion of profit remaining after subtracting total expenses from operating revenues. The definition of operating margin can vary with respect to the specific expenses that are considered/deducted. For the purposes of this report, and consistent with the approach taken by E&Y and others engaged by the Parties, total expenses deducted from operating revenue to arrive at operating margin include interest and depreciation. As such, operating margin in this analysis represents proportional profit after considering all expenses required to sustain operations, including paying interest costs and funding depreciation. Including these expenses means that the capital structure and financing decisions of a hospital impact its profitability (when measured by operating margin). As such, when comparing two hospitals with equivalent EBIDA margins but different degrees of debt and associated interest, the more highly leveraged system would appear less profitable than the less leveraged system when measured by operating margin.

- **Days Cash on Hand (“DCOH”)**: DCOH is a common metric used to assess liquidity, or the ability of a hospital or health system to meet its cash obligations. DCOH is a ratio that measures the number of days’ worth of expenses an organization can cover with its highly liquid assets (i.e., cash and cash equivalents). As one of the most common indicators of the health of a hospital’s balance sheet and solvency, DCOH requirements are often included as a bond covenant for hospitals and health systems when they issue debt.

- **Long Term Debt to Capitalization**: An important capital structure ratio that indicates a hospital or health systems degree of leverage, or the proportion of their total assets that are funded via debt rather than net assets (with “net assets” being the not-for-profit equivalent of equity). Because hospitals and health systems are commonly highly leveraged, and also often able to secure relatively low-cost debt, this ratio can provide a quick indication of where an organization stacks up relative to peers in terms of its degree of leverage and is another metric that provides an indication of an organization’s balance sheet health. Considered along with other factors, long term debt to capitalization also provides an indication of additional debt capacity – however, that is not to say that an organization with low leverage would necessarily be able to secure additional debt, as its liquidity, profitability and other financial indicators will also influence debt capacity.

- **Debt Service Coverage Ratio ("DCSR")**: DCSR measures an organization's ability to pay back a loan. The ratio is calculated by dividing an organization's EBIDA by its total current debt obligations (interest plus principal due). A DCSR below 1.0 would suggest that the organizations operating earnings were insufficient to cover its current debt obligations, as such this is a common metric included as a bond covenant. Further, it is a common metric used in determining an organization's debt capacity and a lenders willingness to issue new debt; bankers and investors typically look for a minimum prospective DSCR ratio of 1.4X – 1.6X for hospitals and health systems, given the uncertainty imposed on their ability to produce income available for debt service by sometimes volatile hospital and health network operations.

Findings – Financial Viability

Veralon assessed the historical and current financial performance and position of CNE and Lifespan, based on the information and process described in the Process section. Findings for each entity are presented in the sections that follow.

Additionally, while Veralon did not receive all of the information required to assess the financial viability of the merged entity, as described in the Limitations section in the description of Process, Veralon reviewed the report developed by E&Y and developed high-level estimates related to the merged entity's combined debt capacity.

Financial Viability Findings – CNE

SUMMARY

Veralon reviewed the following documents related to CNE:

- Audited financial statements for FY 2017, 2018, 2019, and 2020;[8]
- Internally prepared monthly financial statements from March 2020 through August 2021;[9]
- FY 2021 Q3 Report – Pursuant to Continuing Disclosure Agreement and Supporting Information of Certain Recent Developments as of June 2021;[10]
- FY 2021 Annual and Fourth Quarter – Pursuant to Continuing Disclosure Agreement and Supporting Information of Certain Recent Developments as of September 2021;[11]
- Annual Plan for FY 2022 as of September 16, 2021;[12]

---

[8] 2017 and 2016 audited financial statements (R-CNE-LS-0078698 through R-CNE-LS-0078777); 2018 and 2017 audited financial statements (CNE-LS25-003955 through CNE-LS25-004016); 2019 and 2018 audited financial statements (CNE-LS25-004018 through CNE-LS25-004081); 2020 and 2019 audited financial statements (CNE-LS25-004083 through CNE-LS25-004147).

[9] "Monthly Finance Package," issued by CNE March 31, 2020 (C-R-CNE-LS-0078805 through C-R-CNE-LS-0078853); April 30, 2020 (C-R-CNE-LS-0078854 through C-R-CNE-LS-0078903); May 31, 2020 (C-R-CNE-LS-0078904 through C-R-CNE-LS-0078954); June 30, 2020 (C-R-CNE-LS-0078955 through C-R-CNE-LS-00790006); July 31, 2020 (C-R-CNE-LS-0079007 through C-R-CNE-LS-0079053); August 31, 2020 (C-R-CNE-LS-0079054 through C-R-CNE-LS-0079100); September 30, 2020 (C-R-CNE-LS-0079101 through C-R-CNE-LS-0079147); October 31, 2020 (C-R-CNE-LS-0079148 through C-R-CNE-LS-0079181); November 30, 2020 (C-R-CNE-LS25-0048004 through C-R-CNE-LS25-0048047); December 31, 2020 (C-R-CNE-LS25-0048048 through C-R-CNE-LS25-0048094); January 31, 2021 (C-R-CNE-LS25-0048095 through C-R-CNE-LS25-0048141); February 28, 2021 (C-R-CNE-LS25-0048142 through C-R-CNE-LS25-0048188); March 31, 2021 (C-R-CNE-LS25-0048189 through C-R-CNE-LS25-0048235); April 30, 2021 (C-R-CNE-LS25-0048236 through C-R-CNE-LS25-0048282); May 31, 2021 (C-R-CNE-LS25-0048283 through C-R-CNE-LS25-0048329); June 30, 2021 (C-R-CNE-LS25-0048330 through C-R-CNE-LS25-0048376); July 31, 2021 (C-R-CNE-LS25-0048377 through C-R-CNE-LS25-0048423); and August 31, 2021 (C-R-CNE-LS25-0048424 through C-R-CNE-LS25-0048469).

[10] "FY 2021 Q3 Report – Pursuant to Continuing Disclosure Agreement and Supporting Information of Certain Recent Developments," issued by CNE and made publ cly available on August 13, 2021. Retrieved via Electron c Municipal Market Access (EMMA).

[11] "FY 2021 Annual and Fourth Quarter – Pursuant to Continuing Disclosure Agreement and Supporting Information of Certain Recent Developments," issued by CNE and made publicly available on November 30, 2021. Retrieved via Electronic Municipal Market Access (EMMA).

[12] "FY2022 Operating and Capital Annual Plan," issued by CNE (C-R-CNE-LS-0078778 through C-R-CNE-LS-0078797).

- Grant Revenue – Relief Funding Repayment Schedule from January 2021 through December 2023;[13]
- Accounts Payable Aging Report by Invoice Due Date, as of November 27, 2021;[14] and
- KPMG Project Care - Due Diligence Assistance as of February 12, 2021.[15]

Veralon has the following observations:

- [redacted][16][redacted]
    - [redacted]
        - [redacted]
        - [redacted][17][redacted]
    - [redacted][18][redacted]
        - [redacted]
        - [redacted][9][redacted]

---

[13] "Funds Advanced Supplemental Questions S-31(a)," issued by CNE (C-R-CNE-LS-0129455).

[14] "Accounts Payable Aging as of 11/27/21 By Invoice Due Date," issued by CNE (C-R-CNE-LS-0129913 through C-R-CNE-LS-0129944).

[15] "Project Care – Due Diligence Assistance," developed by KPMG. Issued February 12, 2021 (C-R-CNE-LS22-0047482 through C-R-CNE-LS22-0047583).

[16] "Integrat on Report" developed by Chartis. Issued October 2021.

[17] "FY2022 Operating and Capital Annual Plan," issued by CNE (C-R-CNE-LS-0078778 through C-R-CNE-LS-0078797).

[18] Ibid.

[19] When calculated on non-labor related payable balances and expenses.

[redacted]

- [redacted][20] [redacted][21] [redacted][22]

  - [redacted][23] [redacted][24] [redacted]

- [redacted]

- While CNE is currently able to sustain operations, their stagnant revenue production, degrading cash position, and limited debt capacity (see **High-Level Debt Capacity Analysis**) raise concern regarding their financial viability beyond the immediate future.

---

[20] "Accounts Payable Aging as of 11/27/21 By Invo ce Due Date," issued by CNE (C-R-CNE-LS-0129913 through C-R-CNE-LS-0129944).

[21] Ibid.

[22] Ibid.

[23] Defined as the difference between current assets and current liabilities.

[24] Statement Under Oath – James Iannoni. January 31, 2022.

DETAIL - CNE ADJUSTED PROFIT AND LOSS ("P&L")

To establish a "normalized" view of earnings and profitability, Veralon identified quantifiable one-time, atypical items impacting historical and budgeted financial performance and adjusted the historical and budgeted revenue and/or earnings figures, as appropriate.

[redacted]

CNE Reported and Adjusted P&L Statement

Table 1

Care New England Health System and Affiliates
Historical and Adjusted Revenues and EBIDA[1,2]

(in '000s)	FY 2017	FY 2018	FY 2019	FY 2020	Ann. 11 mths 8/31/2021	Budgeted FY 2022
Total Operating Revenues, Reported	[redacted]					
Diligence Adjustments						
A) Medicare Audit						
B) Grant Revenue - Relief Funding						
COVID-19 Pandemic Adjustments						
C) Revenue Loss from COVID-19 Pandemic						
Diligence Adjusted Net Revenues						
Operating EBIDA, Reported						
As a % of Operating Revenues, Due Diligence Adjuste						
Diligence Adjustments						
A) Medicare Audit						
B) Grant Revenue - Relief Funding						
D) Restructuring Costs - Memorial Hospital						
E) Huron Restructuring Costs						
F) Memorial Non-Recurring Gains/Losses						
G) Other Diligence Adjustments						
COVID-19 Pandemic Adjustments						
C) Lost Net Margin from COVID-19 Pandemic						
Diligence Adjusted EBIDA						
Pro Forma Adjustments						
H) Wage Rate Adjustment						
I) Memorial Discontinued Operations						
Pro Forma Adjusted EBIDA						
As a % of Net Revenues, Diligence Adjusted						

[1] Financial statements represent fiscal years ended September 30, 2017 through 2020 based on audits provided by management. Annualized 2021 based on 11 months of data from October 2020 through August 2021. FY 2022 based on Annual Plan as of September 16, 2021.
[2] Adjustments based on review of audited financials, KPMG Project Care - Due Diligence Assistance as of February 12, 2021, and CNE's Grant Revenue – Relief Funding Repayment Schedule from January 2021 through December 2023.

Description of Adjustments[25]

Adjustments to Revenue

- (A) Medicare Audit: CNE estimates reimbursement for payers like Medicare and periodically settles these estimates in subsequent periods based on additional

[25] Adjustments to revenue and earnings based on review of CNE's 2017 and 2016 aud ted financial statements (R-CNE-LS-0078698 through R-CNE-LS-0078777); 2018 and 2017 aud ted financial statements (CNE-LS25-003955 through CNE-LS25-004016); 2019 and 2018 audited financial statements (CNE-LS25-004018 through CNE-LS25-004081); 2020 and 2019 audited financial statements (CNE-LS25-004083 through

information like actual costs. These adjustments are for the year in which they relate.[26]

- (B) Grant Revenue – Relief Funding: These adjustments represent the removal of CARES Act relief funding related to the Pandemic of [redacted]

- (C) Revenue Loss from COVID-19 Pandemic: Lost revenue as a result of the Pandemic in FY 2020 was estimated [redacted][27]

Adjustments to Earnings

- (A & B) Adjustments reflect the corresponding increase or decrease to earnings as a result of revenue adjustments summarized above and as shown in Table 1.

- (C) Lost Net Margin from COVID-19 Pandemic: This adjustment relates to the similarly labelled revenue adjustment, and represents the estimated variable costs associated with the lost revenue from the Pandemic, described above. The effect of this adjustment and the related revenue adjustment are normalization for the lost contribution margin from the Pandemic. NOTE: The direct margin assumption was estimated to be 55 percent based on Veralon's experience. We did not receive actual contribution margin data from CNE to inform this adjustment.

- (D) Restructuring Costs – Memorial Hospital: CNE closed Memorial Hospital in 2018 and these adjustments represent [redacted]

- (E) [redacted]

- (F) Memorial Non-Recurring Gains/Losses: As mentioned previously, CNE closed Memorial Hospital in 2018 and these adjustments represent [redacted]

CNE-LS25-004147); and "Monthly Finance Package," issued by CNE August 31, 2021 (C-R-CNE-LS25-0048424 through C-R-CNE-LS25-0048469).

[26] Adjustments to revenue and earnings based on review of "Project Care – Due Diligence Assistance," developed by KPMG. Issued February 12, 2021 (C-R-CNE-LS22-0047482 through C-R-CNE-LS22-0047583).

[27] Ibid.

[redacted].[28]

- (G) Other Diligence Adjustments identified during KPMG's financial diligence and described in detail in KPMG's report,[29] which include:
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
- (H) Wage Rate Adjustments: [redacted] This potential adjustment represents the need to adjust wages to match market levels. [redacted]
- (I) Memorial Discontinued Operations: As mentioned previously, CNE closed Memorial Hospital in 2018 and these adjustments represent [redacted][30]

[28] Adjustments to revenue and earnings based on review of "Project Care – Due Diligence Assistance," developed by KPMG. Issued February 12, 2021 (C-R-CNE-LS22-0047482 through C-R-CNE-LS22-0047583).

[29] Ibid.

[30] Ibid.

DETAIL - CNE ADJUSTED BALANCE SHEET

Reported & Adjusted Cash Balances

Veralon identified and made a number of adjustments to cash, including those that would stem from the adjustments made to revenue and/or earnings described in the previous section.

As with the effect of the adjustments applied to earnings, the goal of this analysis was to understand how certain factors, such as the receipt of provider relief funding and other items, impacted cash and to understand what cash balances would have looked like in their absence.

Table 2

Care New England Health System and Affiliates
Adjusted Cash

(in '000s)	Fiscal Year End 2017	2018	2019	2020	8/31/2021	Budgeted FY 2022
Cash and Cash Equivalents	[redacted]					
A) Plus/Less: Medicare Audit						
B) Less: Grant Revenue - Relief Funding						
C) Plus: Lost Net Margin from COVID-19 Pandemic						
D) Plus: Restructuring Costs - Memorial Hospital						
E) Plus: Huron Restructuring Costs						
F) Plus/Less: Memorial Non-Recurring Gains/Losses						
G) Plus/Less: Other Diligence Adjustments						
H) Less: Wage Rate Adjustment						
I) Plus: Memorial Discontinued Operations						
J) Less: Increases in Accounts Payable						
K) Less: Medicare and BCBS Advanced Payments[1]						
Total Change in Cash						
Adjusted Cash						
Less: Restricted Cash - Reported[1]						
Unrestricted Cash						
Reported						
Adjusted						
Plus: Unrestricted Board Designated Funds[3]						
Unrestricted Cash & Board Designated Funds						
Reported						
Adjusted						

[1] 8/31/2021 and Budgeted FY 2021 based on Advanced Payment repayment schedule from January 2021 through December 2023.

[2] Unrestricted cash used to calculate days of cash on hand. August 31, 2021 and budgeted 2022 restricted cash based on June 30, 2021 from FY 2021 Q3 Report - Pursuant to Continuing Disclosure Agreement and Supporting Information of Certain Recent Developments, as of June 2021 ("Q3 Report").

[3] Unrestricted board designated funds is used with unrestricted cash to calculated days of cash on hand for the bond covenant. August 31, 2021 and budgeted 2022 restricted board designated funds based on 2019, 2020, and June 30, 2021 from the Q3 Report.

Description of Adjustments

Adjustments to Cash and Cash Equivalents

- (A – H) Adjustments reflect the corresponding increase or decrease to cash as a result of revenue or EBIDA adjustments summarized above and as shown in Table 2.
- (J) Increases in Accounts Payable: [redacted] This potential adjustment represents the estimated cash impact of increased A/P balances due to continued A/P management.

- (K) Medicare and BCBS Advanced Payments: [redacted].[31] [redacted].[32] [redacted].[33] [redacted]

Reported & Adjusted Balance Sheet

In addition to the adjustments made to cash, Veralon made other appropriate adjustments the balance sheet to correspond with previously discussed adjustments to earnings and cash. A description of the adjustments made to the balance sheet follows, with reference to the previously discussed related adjustment to cash.

Table 3

Care New England Health System and Affiliates
Historical and Adjusted Balance Sheets[1,2] as of

		Historical						Adjustments						Adjusted					
	Adjustments	Fiscal Year Ended September 30,				August 30,	Budgeted	Fiscal Year Ended September 30,				August 30,	Budgeted	Fiscal Year Ended September 30,				August 30,	Budgeted
(in '000s)	Reference	2017	2018	2019	2020	2021	September 30, 2022	2017	2018	2019	2020	2021	September 30, 2022	2017	2018	2019	2020	2021	September 30, 2022
Assets																			
Current Assets	[redacted]																		
Cash and Cash Equivalents																			
Investments																			
Patient Accounts Receivable																			
Other Receivables																			
Pledges Receivable Net																			
Other Current Assets																			
Current Port on of Assets L mited as to Use																			
Total Current Assets																			
Assets Limited as to Use																			
Endowment Funds																			
Board-Designated Funds																			
Trustee-Held Funds																			
Deferred Compensation Funds																			
Total Assets Limited as to Use																			
Less: Amounts to Meet Current Obligations																			
Noncurrent Assets Limited as to Use																			
Fixed Assets																			
Goodwill																			
Intangibles																			
Property Plant and Equipment Net																			
Finance Lease Right-of-Use Assets Net																			
Operating Lease Right-of-Use Assets Net																			
Long-Term Pledges Receivab e Net																			
Insurance Receivab e																			
Other Assets																			
Fixed Assets (Net Of Depreciation)																			
Total Assets																			
Liabilities and Net Assets																			
Current Liab lities																			
Notes Payable																			
Accounts Payable and Accrued Expense:																			
Current Port on of Est. Payor Settlement																			
Current Port on of LTD and Capital Leases																			
Current Port on of Finance Lease Liab lity																			
Current Port on of Operating Leases																			
Self-Insurance Reserves																			
Pension Liability																			
Other Current Liabilities																			
Total Current L abilities																			
Long Term Liabilities																			
Self-Insurance Reserves Long-Term																			
LT Portion of Est. Payor Settlements																			
Long-Term Debt and Capital Leases																			
Long-Term Finance Lease Liability																			
Long-Term Operating Lease Liability																			
Pension Liability Long-Term																			
Postretirement Liab lity																			
Other Liabil t es																			
Total Long Term Liabil ties																			
Total Liabi ities																			
Net Assets																			
Without Donor Restrictions																			
With Donor Restrictions																			
Total Net Assets																			
Total Liab lities and Net Assets																			

[1] Historical based on compiled audited financial statements for FY 2017 through 2020. August 31 2021 based on nternal financial statements. September 30 2022 based on Annual Plan as of September 16 2021.
[2] Adjustments based on review of audited financials and management discussion detail as reported in FY 2021 Q3 Report and Annual and Q Report - Pursuant to Cont nuing Disclosure Agreement and Supporting Informat on of Certain Recent Developments.

[31] Adjustments to cash and cash equivalents based on review of "Funds Advanced Supplemental Questions S-31(a)," issued by CNE (C-R-CNE-LS-0129455).

[32] Ibid.

[33] Ibid.

Description of Adjustments

Adjustments to Current Liabilities

- (A, J, H) Adjustments reflect the corresponding increase or decrease to current liabilities as a result of certain of the cash adjustments summarized above and as shown in Table 2.

Adjustments to Net Assets

- (B – I) Adjustments reflect the corresponding increase or decrease to net assets as a result of certain of the cash adjustments summarized above and as shown in Table 2.

DETAIL – CNE RATIO ANALYSIS

Veralon calculated a number of financial ratios, primarily using the adjusted earnings and balance sheet figures presented, but also using reported unadjusted historical figures for certain ratios (as indicated in the ratio table). These ratios provide insight relative to CNE's profitability, liquidity, and capital structure – including trends over time, performance relative to peers and, for certain metrics, the impact of the previously described adjustments to earnings and cash.

All ratios are calculated with the adjusted earnings, cash, and other balance sheet figures, unless otherwise noted.

Table 4

Care New England Health System and Affiliates
Ratio Analysis

Ratios	Veralon Calculated[1] 2017	2018	2019	2020	FY 2021, through 8/31	Budgeted FY 2022	Covenant Compliance	Market Data S&P[2]	Optum[3]
Profitability & Operations	[redacted]								
Operating Margin - Reported								0.8%	12.1%
Operating Margin - Adjusted								0.8%	12.1%
EBIDA Margin - Reported								7.9%	10.3%
EBIDA Margin - Adjusted								7.9%	10.3%
Bad Debt Expense as a % of Net Patient Revenue								n/a	n/a
Salaries and Wages as a % of Total Operating Revenue								n/a	n/a
Liquidity									
Days Cash on Hand - Cash and Cash Equivalents Only									
Reported								89.4	93 3
Days Cash on Hand - Including Board Designated Funds									
Reported								n/a	n/a
Adjusted									
Other Liquidity Ratios									
Current Ratio								n/a	3.4
Days in Patient Accounts Receivable								49.1	48.4
Days in A/P excl. Salaries & Wages, D&A, and Interest								n/a	n/a
Average Payment Period - Reported								n/a	77 0
Capital Structure and Solvency									
Debt Service Coverage - Reported								n/a	n/a
Debt Service Coverage - Adjusted								n/a	n/a
Long-Term Debt to Capitalization								50.8%	50.3%
Debt Service/Operating Revenue								n/a	n/a
Capital Expense as % of Total Operating Expense								n/a	5.5%

[1] Based on audited financial statements for September 30, 2017, 2018, 2019, and 2020, annualized internal financial statements for 11 months of FY 2021 through August 31, 2021, and the Annual Plan for Budgeted FY 2022 as of September 16, 2021.

[2] Obtained from S&P Global, "U S. Not-For-Profit Health Care Stand-Alone Hospital Median Financial Ratios -- 2019 vs. 2018." All market data represent median values for speculative grade hospitals using 2019 financial information.

[3] Obtained from Optum's 2020 Financial and Ratios Report. All market data represent median values excluding outliers below the 5th or above the 95th percentile for systems with 675 - 825 bed hospitals using 2019 financial information. Due to CNE's bed composition, this market data may not a completely applicable benchmark.

Calculated based on CNE's FY 2021 Annual and Q4 Report - Pursuant to Continuing Disclosure Agreement and Supporting Information of Certain Recent Developments, as of September 2021.

Financial Viability Findings – Lifespan

SUMMARY

Veralon reviewed the following documents related to Lifespan:

- Audited financial statements for FY 2017, 2018, 2019, and 2020;[34]
- Internally prepared financial statements from FY 2021;[35]
- Q4 FY 2017 – FY 2021 Continuing Disclosure Documentation – Quarterly Bond Reporting documents as of September 30, 2021;[36]
- Investor Presentation for the Quarter Ended June 30, 2021 as of September 21, 2021;[37]
- Lifespan FY 2022 Recommended Operating, Capital and Cash Flow Budget as of August 26, 2021;[38] and
- Pricewater House Coopers ("PWC") - Due Diligence Assistance ("Due Diligence Report") as of February 15, 2021.[39]

Veralon has made the following observations:

- [redacted]
    - [redacted]

[34] 2017 and 2018 audited financial statements (CNE-LS25-004150 through CNE-LS25-004201); 2019 audited financial statements (CNE-LS25-004203 through CNE-LS25-004256); 2020 aud ted financial statements (CNE-LS25-004258 through CNE-LS25-004313).

[35] "2021 Q4 Lifespan Corporation and Affiliates Quarterly Bond Reporting." issued by Lifespan and made publicly available on December 1, 2021. Continuing disclosure document retrieved via Electronic Mun cipal Market Access (EMMA).

[36] 2017 – 2021 "Q4 Lifespan Corporation and Affiliates Quarterly Bond Reporting." issued by Lifespan and made publ cly available on November 29, 2017, November 29, 2018, December 2, 2019, November 30, 2020, and December 1, 2021 for each corresponding fiscal year. Continuing disclosure document retrieved via Electron c Municipal Market Access (EMMA).

[37] Issued by Lifespan and made publ cly available on September 21, 2021. Continuing disclosure document retrieved via Electron c Municipal Market Access (EMMA).

[38] "Lifespan FY 2022 Recommended Operating, Capital and Cash Flow Budget," issued by Lifespan's Finance Committee on August 26, 2021. (C-R-CNE-LS-0129459 through C-R-CNE-LS-0129508).

[39] Due Diligence Report issued by PWC on February 15, 2021. (C-R-CNE-LS22-0047432 through C-R-CNE-LS22-0047481).

[redacted]

- [redacted]
- [redacted]

* [redacted].[40]
  - [redacted].[41] [redacted]
  - [redacted]
* [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]

---

[40] 2020 – 2021 "Q4 Lifespan Corporation and Affiliates Quarterly Bond Reporting." issued by Lifespan and made publ cly available on November 30, 2020, and December 1, 2021 for each corresponding fiscal year. Continuing disclosure document retrieved via Electron c Municipal Market Access (EMMA).

[41] Adjusted EBIDA includes estimated lost revenue in FY 2020 and FY 2021 due to the Pandemic as reported by Lifespan in their response to the First Set of Supplemental Questions on November 30, 2021. (C-R-CNE-LS-0131562 through C-R-CNE-LS-0131598) and (C-R-CNE-LS-0129911).

DETAIL - LIFESPAN ADJUSTED P&L

Similar to the CNE financial viability analysis, to establish a "normalized" view of earnings and profitability, Veralon identified quantifiable one-time, atypical items impacting historical and budgeted financial performance and adjusted the historical and budgeted revenue and/or earnings figures, as appropriate.

Overall, the impact of the adjustments applied to 2020 and 2021 earnings and revenue is [redacted]

Lifespan Reported and Adjusted P&L Statement

Table 5

Lifespan Corporation and Affiliates Historical and Adjusted Revenues and EBIDA[1,2]						
	Audited Financials - Fiscal Year End September 30,				Internal Financials	Budgeted
(in '000s)	2017	2018	2019	2020	FY 2021	FY 2022
Total Operating Revenues, Reported	[redacted]					
Diligence Adjustments						
A) CARES Act - Provider Relief Funds (PRF)						
B) Rhode Island Hospital Assistance Partnership Program (RI HAPP)						
K) Revenue Loss from COVID-19 Pandemic						
Diligence Adjusted Net Revenues						
Operating EBIDA, Reported						
As a % of Operating Revenues, Due Diligence Adjusted						
Diligence Adjustments						
C) Rhode Island Hospital: Four Day Nursing Strike						
D) Restructuring Costs - Voluntary Early Retirement Program (VERP)						
COVID-19 Pandemic Adjustments						
A) CARES Act - Provider Relief Funds (PRF)						
B) Rhode Island Hospital Assistance Partnership Program (RI HAPP)						
E) Temporary Staff Furlough						
F) 2021 "Thank You" Bonus						
G) Purchased Services						
H) Lost Net Margin from COVID-19 Pandemic						
Diligence Adjusted EBIDA						
As a % of Net Revenues, Due Diligence Adjusted						
Pro-Forma Adjustments						
L) Wage Rate Adjustment						
Pro-Forma Adjusted EBIDA						
As a % of Net Revenues, Due Diligence Adjusted						

[1] Financial statements represent fiscal years ended September 30, 2017 through 2020 based on audits provided by management. FY 2021 financials based on internal financials as reported in 2021 Q4 Lifespan Corporation and Affiliates Quarterly Bond Reporting financial information. FY 2021 and FY 2022 budgets based on Lifespan FY 2022 Recommended Operating, Capital and Cash Flow Budget published by the Finance Committee on August 26, 2021.
[2] Adjustments based on review of audited financials, management discussion details as reported in Q4 (Sept 30) Lifespan Corporation and Affiliates Quarterly Bond Reporting for fiscal years 2017 - 2021 and lost revenue due to COVID-19 Pandemic as reported by Lifespan for FY 2020 and FY 2021.

Description of Adjustments[42]

Adjustments to Revenue

- (A) CARES Act – Provider Relief Funds: [redacted]

[42] 2020 adjustments to revenue and earnings based on review of Notes to Consol dated Financials in Lifespan's audited financial statements and Management's Discussion of Recent Financial Performance as reported in Lifespan's 2020 and 2021 "Q4 Lifespan Corporation and Affiliates Quarterly Bond Reporting." issued by Lifespan and made publ cly available on November 30, 2020, and December 1, 2021 for each fiscal year, respectively. Continuing disclosure document retrieved via Electron c Municipal Market Access (EMMA).

[redacted]

- (B) Rhode Island Hospital Assistance Partnership Program ("RI HAPP"): [redacted]
  - [redacted]
- (K) Revenue Loss from COVID-19 Pandemic: [redacted]

Adjustments to Earnings

- (C) Rhode Island Hospital – Nursing Strike: In July 2018, various members of the United and Allied Professionals staged a four-day strike, which [redacted].[43]
- (D) Restructuring Costs – Voluntary Early Retirement Program ("VERP"): Lifespan announced a voluntary early retirement program intended to provide salary and benefits continuation for approximately 400 eligible employees. [redacted]
- (E) Temporary Staff Furlough: Due to the Pandemic, Lifespan elected to temporarily furlough [redacted]

---

[43] 2018 adjustments based on review of Management's Discuss on of Recent Financial Performance as reported in Lifespan's 2018 "Q4 Lifespan Corporation and Affiliates Quarterly Bond Reporting." issued by Lifespan and made publ cly available on November 29, 2018. Continuing disclosure document retrieved via Electron c Municipal Market Access (EMMA).

- (F) 2021 "Thank You" Bonus: In September 2021, Lifespan paid employees a "Thank You" bonus based on years of service. [redacted]
- (G) Purchased Services: [redacted]
- (H) Lost Net Margin from COVID-19 Pandemic: [redacted][44]
- L) Wage Rate Adjustments: [redacted]

DETAIL - LIFESPAN ADJUSTED BALANCE SHEET[45]

Reported & Adjusted Cash Balances

Similar to the CNE financial viability analysis, Veralon identified and made a number of adjustments to cash, including those that would stem from the adjustments made to revenue and/or earnings described in the previous section.

As with the effect of the adjustments applied to earnings, the goal of this analysis was to understand how certain factors, such as the receipt of provider relief funding and other items, impacted cash and to understand what cash balances would have looked like in their absence.

[44] Response to S22 in "Transacting Parties' Responses to First Set of Supplemental Questions". (C-R-CNE-LS-0131562 through C-R-CNE-LS-0131598). Estimated lost revenue analysis provided by Lifespan. (C-R-CNE-LS-0129911).

[45] Adjustments to cash and cash equivalents, and items on the balance sheet based on review of A) 2018 – 2021 "Q4 Lifespan Corporation and Affiliates Quarterly Bond Reporting." issued by Lifespan and made publ cly available on November 29, 2018, December 2, 2019, November 30, 2020, and December 1, 2021 for each corresponding fiscal year and B) Notes to Consolidated Financials in Lifespan's FY 2020 audited financials. FY 2022 budget adjustments reflect reversal of expected future payments related to the Pandemic as of fiscal year end 2021.

Table 6

Lifespan Corporation and Affiliates Adjusted Cash[1]						
	Audited Financials - Fiscal Year End September 30,				Internal Financials	Budgeted
(in '000s)	2017	2018	2019	2020	2021	FY 2022
Cash and Cash Equivalents	[redacted]					
A) Less: CARES Act - Provider Relief Funds (PRF)						
B) Less: Rhode Island Hospital Assistance Partnership Program (RI HAPP						
C) Plus: Rhode Island Hospital: Four Day Nursing Strike						
D) Plus: Restructuring Costs - Voluntary Early Retirement Program (VER						
E) Plus: Temporary Staff Furlough						
F) Plus: 2021 "Thank You" Bonus						
G) Plus: Purchased Services						
H) Plus: Lost Net Margin from COVID-19 Pandemic						
I) Plus/Less: Medicare Accelerated / Advanced Payments Program						
J) Plus/Less: Deferred 2020 Social Security Taxes (FICA)						
L) Plus: Wage Rate Adjustment						
Current Year Change in Cash						
Accumulated Change in Cash from Previous Years						
Adjusted Cash						
Unrestricted Cash						
Reported						
Adjusted						
Plus: Unrestricted Board Designated Funds[2]						
Unrestricted Cash and Board Designated Funds						
Reported						
Adjusted						

[1]Adjustments based on review of audited financials, management discussion details as reported in Q4 (Sept 30) Lifespan Corporation and Affiliates Quarterly Bond Reporting for fiscal years 2017 - 2021 and lost revenue due to COVID-19 Pandemic as reported by Lifespan for FY 2020 and FY 2021.

[2]Unrestricted board designated funds for budget FY 2021 and FY 2022 based on reported figures in FY 2022 Lifespan FY 2022 Recommended Operating, Capital and Cash Flow Budget published by the Finance Committee on August 26, 2021.

Description of Adjustments

Adjustments to Cash and Cash Equivalents

The adjustments made to the P&L statement were also made to the cash balances.

In additional to the adjustments made to the P&L statement, Veralon identified two additional adjustments on the balance sheet which affect Lifespan's cash balance:

- (I) Medicare Accelerated /Advanced Payment Program ("MAPP"): [redacted]
- (J) Deferred 2020 Social Security Taxes (FICA): The CARES Act provided employers with the opportunity to defer the employer portion of Social Security Taxes (i.e., FICA) applicable to wages paid between Marcy 27, 2020 and December 31, 2020.
    - [redacted]

- [redacted]

Reported & Adjusted Balance Sheet

Similar to the CNE financial viability analysis, in addition to the adjustments made to cash, Veralon made other appropriate adjustments the balance sheet to correspond with previously discussed adjustments to earnings and cash. A description of the adjustments made to the balance sheet follows, with reference to the previously discussed related adjustment to cash.

Table 7

Lifespan Corporation and Affiliates
Historical and Adjusted Balance Sheet[1,2]

		Historical						Adjustments						Adjusted					
	Adjustments	Fiscal Year End September 30,				Internal Financials	Budgeted	Fiscal Year End September 30,				Internal Financials	Budgeted	Fiscal Year End September 30,				Internal Financials	Budgeted
(in '000s)	Reference	2017	2018	2019	2020	2021	FY 2022	2017	2018	2019	2020	2021	FY 2022	2017	2018	2019	2020	2021	FY 2022
Assets	[redacted]																		
Current Assets																			
Cash and Cash Equiva ents																			
Net Patient Accounts Receivab e																			
Other Current Assets																			
Other Receivables																			
Curr. Por. Contributions Receivable Net																			
Assets Limited as to Use																			
Inventories																			
Prepaid Expenses and Other Current Assets																			
Total Current Assets																			
Noncurrent Assets Limited as to Use																			
Assets Limited as to Use																			
Less: Amount to Meet Current Obligations																			
Total Noncurrent Assets Limited as to Use																			
Fixed Assets																			
Property and Equ pment Net																			
Right of Use Assets Net-Operating Leases																			
Fixed Assets (Net of Depreciation)																			
Other Assets																			
Contributions Receivable Net																			
Deferred Charges and Other Noncurrent Assets																			
Total Other Assets																			
Total Assets																			
Liabilities and Net Assets																			
Liabilities																			
Current Liabil ties																			
Accounts Payable																			
Acc. Employee Benefits & Compensation																			
Other Accrued Expenses																			
Revolving Credit Loan Payable																			
Current Portion of Long-Term Debt																			
Current Portion of Est. Payor Settlements																			
Curr. Por. Est. Malpractice Self-Insurance																			
Trade A/P and Accrued Expenses																			
Current Portion of Operating Lease Liabi ities																			
Total Current Liabilities																			
Long-Term Liabil ties																			
Long-Term Debt Net of Current Portion																			
Est. Payor Settlements Net of Curr. Por.																			
Est. Malpractice Self-Insurance Net of Curr. Por.																			
Accrued Pension Liabil ty																			
Other Liabi ities																			
Noncurrent Operating Lease Liab lit es																			
Total Long-Term Liabilities																			
Total Liabilities																			
Net Assets[2]																			
Unrestricted																			
Temporarily Restricted																			
Permanently Restricted																			
Net Assets Without Donor Restrictions																			
Net Assets With Donor Restrictions																			
Total Net Assets																			
Total Liabilities and Net Assets																			

[1]Adjustments based on rev ew of audited financials and management discussion detail as reported in Q (Sept 30) Lifespan Corporation and Affiliates Quarterly Bond Reporting documents for fiscal years 2017 - 2021.
[2]Veralon maintained term nology consistent with language as found in the audited financials.

Description of Adjustments

Other Adjustments to the Balance Sheet

- Asset adjustments reflect the corresponding increase/decrease to cash as a result of the adjustments made to earnings (revenue or expense adjustments) summarized above and as shown in Table 6.

- (A) CARES Act – [redacted]
- (I) Medicare Accelerated /Advanced Payment Program (i.e., MAPP): [redacted]
  - [redacted]
- (J) Deferred 2020 Social Security Taxes (FICA): [redacted]
  - [redacted]
  - [redacted]

DETAIL – LIFESPAN RATIO ANALYSIS

Veralon calculated a number of financial ratios, primarily using the adjusted earnings and balance sheet figures presented, but also using reported unadjusted historical figures for certain ratios (as indicated in the ratio table). These ratios provide insight relative to Lifespan's profitability, liquidity, and capital structure – including trends over time, performance relative to peers, and, for certain metrics, the impact of the previously described adjustments to earnings and cash.

All ratios are calculated with the adjusted earnings, cash, and other balance sheet figures, unless otherwise noted.

Table 8

Lifespan Corporation and Affiliates Ratio Analysis[1]									
	Fiscal Year End September 30,				Internal Financials	Budgeted		Market Data	
	2017	2018	2019	2020	2021	FY 2022	Covenant Compliance	S&P[2]	Optum[3]
Profitability & Operations	[redacted]								
Operating Margin - Reported								-1.1%	1.3%
Operating Margin - Adjusted								-1.1%	1.3%
EBIDA Margin - Reported								5.7%	11.2%
EBIDA Margin - Adjusted								5.7%	5.7%
Bad Debt Expense as a % of Net Patient Revenue[5]								n/a	n/a
Salaries and Wages as a % of Total Operating Revenue								n/a	n/a
Liquidity									
Days Cash on Hand - Cash and Cash Equivalents Only									
Due Diligence Report								n/a	45 6
Days Cash on Hand - Includes Unrestricted Board-Designated Funds									
Lifespan - FY 2022 Budget - Reported[6]								142.9	107.0
Adjusted								n/a	n/a
Other Liquidity Ratios									
Current Ratio								n/a	2.5
Days in Patient Accounts Receivable								n/a	82
Days in A/P excl. Salaries & Wages, D&A, and Interest[7]								n/a	n/a
Average Payment Period								n/a	40
Capital Structure and Solvency									
Debt Service Coverage - Reported								n/a	n/a
Debt Service Coverage - Adjusted								n/a	n/a
Long-Term Debt to Capitalization								35%	27%
Debt Service/Operating Revenue								n/a	n/a
Capital Expense as % of Total Operating Expense								n/a	4.6%

[1] Financial statements represent fiscal years ended September 30, 2017 through 2020 based on audited financials provided by management. FY 2021 financials based on 2021 Q4 Lifespan Corporation and Affiliates Quarterly Bond Reporting financial information. FY 2022 budget based on Lifespan FY 2022 Recommended Operating, Capital and Cash Flow Budget published by the Finance Committee on August 26, 2021.

[2] Obtained from S&P Global Ratings, Ratings Direct: "Lifespan Obligated Group, Rhode Island; System". November 12, 2021. Market data based on median ratios for 'BBB+' rated health care systems.

[3] Obtained from Optum's 2020 Financial and Ratios Report. All market data represent median values excluding outliers below the 5th or above the 95th percentile for systems with 1,050 - 1,300 bed hospitals using 2019 financial information. Due to Lifespan's bed composition, this market data may not a completely applicable benchmark.

Reported EBITDA figures exclude restructuring costs. Reported figures calculated based on FY 2017 - FY 2020 audited financials and FY 2021 bond reports prepared by Lifespan. See Appendix for margin and ratio definitions.

[5] Bad debt expense was not reported in audited, internal and budgeted financials from FY 2019 through FY 2022.

[6] FY 2021 days cash on hand ratio based on "Key Credit Ratios" figures reported in FY 2021 budget by Lifespan.

[7] FY 2022 budget did not provide sufficient detail to properly break out relevant current liabilities to calculate days in account payable.

Financial Viability Findings – Merged Entity

Prospective financial statements for the merged entity had been a high priority request of the Parties, as previously discussed. The Parties engaged E&Y to support their response to this request. E&Y's report, "Consolidated Pro-Forma – Lifespan + Care New England" (the "E&Y Report") was issued on January 14, 2022.

E&Y REPORT OVERVIEW

Prospective Statement of Operations

[redacted]

[redacted]

[redacted]

1. [redacted]
2. [redacted]
3. [redacted][6] [redacted][47] [redacted]

---

[46] "CNE-Lifespan: AHS Five Year Income Statement Pro Forma" developed by Alvarez and Marsal. Issued September 2020

[47] "Care New England and Lifespan Eff ciency Report" developed by Delo tte. Issued October 2021.

4. [redacted]

[redacted]

Table 9

[redacted]

There are several observations to be made from this analysis:

- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]

[redacted][48] [redacted], [49] [redacted][50] [redacted]

While these gaps challenge the ability to draw reliable conclusions from this analysis, if taken at face value, takeaways from the forecast after incorporation of the unvetted estimated impact of the Merger Opportunities are as follows;

- [redacted]
- [redacted]
- [redacted]
- [redacted]

Projected Balance Sheet & Cash Flow Statement

While the process followed for the development of the prospective statement of operations for the combined entity was relatively straightforward to follow, it is less clear how the prospective balance sheet and cash flow statement were developed. However, based on the limited information provided, Veralon's understanding of the process is as follows:

- [redacted]
- [redacted]
- [redacted]

[redacted]

[48] "Care New England and Lifespan Eff ciency Report" developed by Deloitte. Issued October 2021.

[49] "CNE-Lifespan: AHS Five Year Income Statement Pro Forma" developed by Alvarez and Marsal. Issued September 2020.

[50] "Consolidated Pro Forma" developed by Ernst & Young. Issued January 14, 2022.

- [redacted]
- [redacted];[51] [redacted]
- [redacted]

Given these foregoing gaps in assumptions and approach, the conclusions that can be drawn from the prospective cash flow and balance sheet statements in the E&Y Report, with respect to the financial position of the combined entity, are, at best, limited. Observations that Veralon is able to make are as follows:

- [redacted]
- [redacted]

[redacted].[52]

[redacted]

[51] Chartis Report: "Integrat on Report," issued October 2021.

[52] "Monthly Finance Package," issued by CNE August 31, 2021 (C-R-CNE-LS25-0048432).

LIMITATIONS OF PROSPECTIVE FINANCIAL ESTIMATES

There are a number of material gaps in the E&Y Report that limit its usefulness towards assessment of the financial viability of the combined entity subsequent to the Proposed Transaction. The limitations are as follows:

- Absence of "true" post-merger cash flow analysis and balance sheet: [redacted]
    - [redacted]
    - [redacted]
    - [redacted]
    - [redacted]
    - [redacted]

  Understanding the cash position of the combined entities subsequent to the Proposed Transaction has been a key focus point for the AG, Veralon, and others involved in review of the Proposed Transaction. Numerous requests have been made, both in supplemental document requests and in questions during the SUOs of the Parties leadership and advisors. [redacted].[53] Without an understanding of the anticipated cash position of the combined entity, developing sound conclusions regarding the viability of the combined entity is not possible.

  [redacted]

- Limitations in Prospective Margin Analysis: [redacted]
    - [redacted]

[53] Statement Under Oath – Natasha Hunerlach. February 2, 2022.

- [redacted]
- [redacted]
  - [redacted]
  - [redacted]
- [redacted]

Conclusion

Prior to its distribution, it was anticipated (or at least hoped) that the E&Y Report would provide insight that could inform an assessment of the financial viability of the combined entity subsequent to the Proposed Transaction, including addressing many of the critical open questions:

1. Will the combination of Lifespan and CNE result in a combined entity that reflects a 1+1=>2 situation? Or is there a possibility that the Proposed Transaction may entail risks that the proposed combination may have equal propensity to create a 1+1=<2 result?
2. Considering integration costs, activities laid out in the Chartis report, [redacted] etc., what will the Proposed Transaction cost: How will the parties fund

these costs? To date, no comprehensive estimate of these costs or their funding has been provided.

3. What level of comfort can be provided that the anticipated Merger Opportunities and related estimated contribution margin enhancement as quantified in the existing analyses provided by A&M and Deloitte are achievable? What are the operating and capital implications of the activities laid out in the Chartis report?
4. How will the Proposed Transaction impact the combined entities' access to capital? Without an understanding of their likely profitability, merger related capital requirements and cash position post-Transaction, assessing this is not possible.
5. Will the inclusion of Brown and the concurrent establishment of a new academic medical system enhance the combined entity's ability to serve the Rhode Island community? If so, how?
6. How will the inclusion of Brown and the concurrent establishment of a new academic medical system enhance the ability of the Parties to become more financially stable and sustainable? If so, how?

While answering these questions is a tall order for one analysis, report, document, or participant in the overall process, it was reasonably anticipated that the E&Y Report would provide meaningful insight into many of these questions. Further, given the criticality of these questions to the assessment of the feasibility of the Proposed Transaction and its long-term impact on the Parties' futures, the answers to these questions would be important for each Parties' leadership and governing boards to understand prior to moving forward with such a strategically important decision.

High-Level "Lite" Debt Capacity Analysis

NEED FOR CAPITAL FUNDING

Analysis of capital spending levels suggests that [redacted] there will be significant capital required to fund the Proposed Transaction and the intended actions of the Parties to develop an integrated academic health system.

Capital requirements to complete the Proposed Transaction have not been comprehensively detailed to-date, however outside advisors engaged by the Parties have estimated the costs of certain elements of the Proposed Transaction. [redacted] [54] [redacted]

The merged entity's ability to take advantage of potential benefits of the Proposed Transaction, such as program expansion to meet market opportunities, and to generate related financial upsides will be dependent upon their collective ability to access the capital required to meet facility enhancement and expansion, and program development requirements. While the exact amount of capital funding requirements in excess of normal capital expenditures is unclear, what is known is that it will be considerable and potentially well beyond the capacity of the merged entities' ability to generate cash from operations.

LIFESPAN AND CNE DEBT CAPACITY

[redacted] For this reason, Veralon has developed a high-level estimate of Lifespan's and CNE's respective debt capacities.

In the absence of any financial projections reflecting the merged entity's income and/or cash generating capacity, these debt capacity analyses are reliant on current financial performance for both Lifespan and CNE. Given the disruptions to revenue production and overall operations caused by the Pandemic, it is believed that current

---

[54] "CNE-Lifespan: AHS Five Year Income Statement Pro Forma" developed by Alvarez and Marsal. Issued September 2020.

financial performance is best represented by the respective 2022 budgets for each entity.

The following is a limited analysis of Lifespan and CNE respective debt capacities. It is noteworthy that these results are not reflective of any incremental income streams associated with successful implementation of any growth strategies and is limited to income generating capacity for each entity as represented by their 2022 budgets.

Table 10

High-Level Estimated Debt Capacity Analysis	Lifespan Budgeted 2022	CNE Budgeted 2022
Adjusted EBITDA	[redacted]	[redacted]
Add: Non-operating income	[redacted]	[redacted]
Less: Provision for Capital Expenditures (@ 100% OF 2022 Depreciation Expense)	[redacted]	[redacted]
Income Available for Debt Service	[redacted]	[redacted]
Minimum Debt Service Coverage Ratio	[redacted]	[redacted]
Adjusted Income Available for Debt Service	[redacted]	[redacted]
Debt Capacity for 30 year debt at Average Annual Interest Rate of:		
3.00%	[redacted]	[redacted]
4.00%	[redacted]	[redacted]
5.00%	[redacted]	[redacted]
Less: Outstanding Debt (including L-T Debt and capital lease balances)		
Current Portion	[redacted]	[redacted]
L-T Portion	[redacted]	[redacted]
Other L-T Debt	[redacted]	[redacted]
Total	[redacted]	[redacted]
Less: Likely Bond issuance and reserve requirements		
DSRF (@ 1 yrs max annual DS)	[redacted]	[redacted]
Issuance costs (@ 1 25% of Bond proceeds)	[redacted]	[redacted]
Total reductions to Bond Proceeds	[redacted]	[redacted]
Net Proceeds New Money - Excess Debt Capacity (at average annual interest rates)		
3.00%	[redacted]	[redacted]
4.00%	[redacted]	[redacted]
5.00%	[redacted]	[redacted]

As indicated in the analysis displayed above, and based on the Parties 2022 budgets, Veralon estimates [redacted]

Debt capacity is reflected in 30-year obligations bearing interest rates between 3.00 percent and 5.00 percent. Current yields on 30-year tax-exempt bonds for BBB- (Fitch) rated per Cain Brothers Healthcare Public Finance Market Update for the week ended September 6, 2021 fall in the range of 3.25 percent to 4.00 percent.

Debt capacity, as determined by this analysis, is largely a function of the assumption regarding minimum debt service coverage ("DSC"). This analysis employs a ratio of 1.4x. Clearly, should a higher ratio be deemed more appropriate, debt capacity conclusions would decline accordingly. The assumption of a minimum 1.4x DSC is reflective of Veralon's experience with similar provider entities and what is believed to be the minimum DSC ratios necessary to support a successful bond offering.

[redacted]

[redacted]

[redacted]

Finally, while debt capacity is a function of the assumptions reviewed previously, the most crucial element is the ability of Parties to generate income. A universal challenge endemic to the healthcare industry is the growing labor crisis. Born out of the pandemic, the crisis is driving up the cost of labor, with no end currently in sight. While the labor crisis is one that is impacting the healthcare industry as a whole, providers who began the pandemic with limited income generating capacity are likely to be hit the hardest.

Similarly, interest rate trends are not in the Parties' favor at this time. It is anticipated that the government will continue to impose measures to respond to recent inflationary trends, which will likely result in increasing interest rates. As interest rates increase, debt capacity shrinks. To the degree interest rates climb above those employed in the debt capacity calculations, the Parties' anticipated debt capacity will likely recede.

Findings – Due Diligence & Transaction Review Efforts

Prior to each critical partnership milestone (e.g., letter of intent, definitive agreement, etc.), merging or otherwise affiliating parties evaluate and diligence both the transaction and the potential partner to ensure that, if they ultimately continue to move forward and consummate a transaction, there is both strong rationale for doing so and a comfort that they are not walking into undo risk.

Veralon reviewed the due diligence and transaction review efforts of the parties, including those undertaken jointly and those undertaken separately. The primary sources of information Veralon relied upon in its review included:

- CNE and Lifespan's board minutes;[55]
- Materials developed by A&M in their capacity as partnership/merger advisor to the Parties;[56]
- Due diligence reports prepared by KPMG and PWC on behalf of each party (Lifespan and CNE, respectively);[57]
- The E&Y Report;[58]
- The Chartis report;[59]
- The Chartis, Deloitte, E&Y, KPMG and PWC SUOs;[60]
- The SUOs of the Parties' respective CEOs and CFOs; and
- The Parties' responses to supplemental questions related to their due diligence and transaction review efforts.

---

[55] "Conf dential Exhibits – Exhibit 6: Agendas and Meeting Minutes of board of directors/trustees, comm ttees, subcomm ttees, and task forces for each of the Transacting parties and their Affiliate". (C-CNE-LS6-005384 through C-CNE-LS6-010812).

[56] "Exhibit 23: Sub-Exhibits 3-6: Reports Regarding Proposed Transaction". Reports include Exhibit 3. "A&M Preliminary Integrat on Planning process – June 10, 2020", Exhib t 4. "A&M Care New England/Lifespan Preliminary Integration Planning Process – August 26, 2020", Exhib t 5. "A&M CNE-Lifespan: AHS Five Year Income Statement Pro Forma – September 2020", and Exhib t 6. "A&M Preliminary Integration Planning Process: Potential Integrat on of Lifespan & Care New England to Create a New Rhode Island Health Academ c System – September 8, 2020". (C-CNE-LS23-011963 through C-CNE-LS23-012148).

[57] Due Diligence Report on Lifespan issued by PWC on February 15, 2021. (C-R-CNE-LS22-0047432 through C-R-CNE-LS22-0047481). Due Diligence Report on CNE issued by KPMG on February 12, 2021. (C-R-CNE-LS22-0047483 through C-R-CNE-LS22-0047583).

[58] "Consolidated pro-forma: Prepared for Lifespan and Care New England Management". Issued by E&Y on January 14, 2022. (C-R-CNE-LS01-0250773 through C-R-CNE-LS01-0250790).

[59] "Integrat on Report" developed by Chartis. Issued October 2021. (C-R-CNE-LS01-0013124 through C-R-CNE-LS01-0013152).

[60]Chartis: Statement Under Oath – Melissa Anderson. November 16, 2021.
Delo tte: Statement Under Oath – Lisa Ahern. November 17, 2021.
PWC: Statement Under Oath – John Frazier. November 23, 2021.
KPMG: Statement Under Oath – Brett Bell. December 2, 2021.
E&Y: Statement Under Oath – Natasha Hunerlach. February 2, 2022.

Summary of Findings

Highlighted findings from Veralon's review are as follows:

- **Process Was Not Competitive/Focused on a Single Partner**: While CNE pursued previous attempts to partner, most recently with Partners Health Care, neither party underwent a process to identify other potential partners prior to deciding to move forward with the Proposed Transaction. As such, evaluation of the Proposed Transaction was not conducted, that Veralon is aware of, in the context of comparison to other potential partnership scenarios. The Parties provided their rationale for this, focusing on the impossibility of accomplishing their stated objectives without each of their involvement in the partnership.[61] Veralon has not evaluated the accuracy of this statement, however at face value, the absence of a competitive process precludes assessment of whether each party is moving forward with the best partner/partnership scenario, at least from a financial/economic perspective.

- **Absence of Complete Prospective Financial Analysis**: While A&M developed a high-level, preliminary *pro forma* and E&Y developed prospective financial estimates for the combined entity under status quo operations (i.e., not reflecting the financial impact of the merger), these reports have significant gaps, and neither on their own or in combination provide the full prospective financial picture needed to assess the financial viability of the merged entity. The most notable limitations/gaps are as follows:
  - Comprehensive prospective financial estimates for the merged entity, including cash flow statement and balance sheet, that are reflective of the full financial impact of the Proposed Transaction;
  - Means of closing the identified gap in operations [redacted] and
  - Comprehensive projected sources and uses of cash for the merged entity, for routine capital, merger integration costs (e.g., Epic implementation), investments required for transformation into an integrated academic health system, and additional borrowings beyond each of the Parties' current debt obligations.

  The Parties engaged Chartis to develop an integration plan for the contemplated integrated academic health system. The integrated academic health system is intended to be created via partnership between the merged Lifespan/CNE entity and Brown. This plan laid out a number of initiatives and plans, associated high level timing, and brief discussion of the need for capital. However, there is not a comprehensive "price tag" that has been developed/shared that ties to the initiatives and plans laid out in the Chartis report, nor is there a clear plan for securing the capital that will be required.

  In addition, the Parties engaged Deloitte to develop an estimate of the cost synergies that could be realized by the merged entity. Importantly, Deloitte's analysis and report did not:

[61] "Hospital Convers on Application Revised February 2021." (R-CNE-LS-0000046).

- Consider any potential impact of the initiatives and plans laid out in the Chartis report; or
- Provide the full picture for the projected financial performance of the merged entity.

A comprehensive picture of the anticipated financial performance and position of any proposed merger or transaction is one of the core pieces of information that should inform assessment of the financial rationale for the partnership. Without this, it is unclear how the Parties were able to fully weigh the financial rationale for the transaction prior to moving forward.

- **Gaps in CNE's Financial Diligence of Lifespan**: [redacted].[62] [redacted][63]
  - [redacted]
  - [redacted]
  - [redacted]

  Based on Veralon's experience, the scope of this diligence review was limited and omitted key analyses that often underly comprehensive diligence reviews, most notably a Quality of Earnings ("QoE") analysis, typically one of the corner stones of a financial diligence review. QoE analyses involve analyzing and normalizing historical earnings, typically measured by EBIDA, to adjust for a-typical, one-time, non-operating, and accounting-related items, as well as to consider the impact of recent or impending material changes to the business that would be expected to impact financial performance. The output is an adjusted view of historical EBIDA and EBIDA margin for the subject business. This analysis is crucial to conducting a comprehensive due diligence assessment of a prospective partner, buyer or target's profitability and identifying related risk areas. [redacted]:
  - [redacted]

[62] PWC: Statement Under Oath – John Frazier. November 23, 2021.

[63] Ibid.

- ○ CNE's comfort with the integrity of Lifespan's historical and ongoing earnings and profitability, [redacted] 4 [redacted]

- [redacted]

- **Gaps in Both Parties Overall Diligence Review**: Based on responses from the Parties, due diligence efforts and related reports were limited to the following:
  - For Lifespan's diligence on CNE:[65]
    - [redacted]
    - [redacted]
    - [redacted]
    - [redacted]
  - For CNE's diligence on Lifespan:[66]
    - [redacted]
    - [redacted]

---

[64] PWC: Statement Under Oath – John Frazier. November 23, 2021.

[65] "Transacting Parties' Responses to First Set of Supplemental Questions." (C-R-CNE-LS-0131562 through C-R-CNE-LS-0131598).

[66] Ibid.

[redacted]

While Veralon was only able to review the detail of the substance of the financial due diligence and has not had the benefit of reviewing the extent of the legal diligence, [redacted]

Typically, and especially when undertaking a partnership of this magnitude, due diligence would be conducted to understand potential risks and integration barriers across an array of operational areas, in addition to the financial and legal diligence. Information technology, facilities, labor/employee matters and human resources, medical staff and provider matters, and tax matters, to name a few, are all important areas to diligence in conjunction with the decision to move forward with a merger or other partnership. Veralon has not seen anything in any of the application materials, other document submissions, or responses to the AG's supplemental questions to indicate that diligence was conducted across these areas, or any others not bulleted above. However, Veralon acknowledges that it is possible that some of these matters may be covered in part in the privileged legal due diligence memos.

- **No Diligence Conducted on Brown:** The Parties have not, together or individually, produced anything to suggest that any diligence, financial or otherwise, has been conducted on Brown. While Brown is not one of the parties to the Proposed Transaction, they are an essential partner in the to-be-developed fully integrated academic health system. Beyond the strategic, operational, research, and teaching role that Brown would play, it is expected that Brown will also be contributing significant capital towards the integrated academic system. While we have yet to see a final financial projection and summary of the expected sources and uses of cash, Brown's intended initial capital contribution has been described as $125 million. While Brown may have these funds available, we are not aware that the Parties have confirmed this. Further, we are not aware of any efforts that have been undertaken by Brown to evaluate and quantify whether and to what degree this partnership will require additional infrastructure or other investments on their part. Given the importance of Brown's role in the Parties' abilities to realize their stated objectives and purposes for the Proposed Transaction, it is critical to ensure that Brown will be able to support the financial and other commitments and investments that it will need to make towards this venture.

Conclusion

Veralon separately evaluated the financial condition of both Lifespan and CNE as well as the report produced by E&Y, the intention of which was to provide a depiction of the financial outlook for the combined entity. In addition, Veralon has evaluated the potential debt capacity of the combined entities, under status quo operations, in anticipation of the potential need for additional funding needed to support the combined entities' future capital needs.

Our findings indicate that [redacted]

[redacted]

The work completed by A&M and by Deloitte has indicated that there are financial benefits to be derived from the Merger Opportunities. However, the achievability and financial impact of those initiatives has not been demonstrated. Additionally, there is no indication that the Parties will be able to fund the costs associated with completing the merger or funding future capital needs to sustain or enhance service levels, either through cash flow from combined operations or additional indebtedness. A full, definitive picture of the anticipated sources and uses of capital – considering routine capital, deferred maintenance, merger and integration costs, the clinical integration activities outlined in the Chartis report, etc. - has not been provided.

A great deal of uncertainty remains about the Proposed Transaction, including the gaps in financial analyses described throughout this report, as well as other key information. Of note, the role of Brown University, financially and otherwise, in achieving the stated goal of the development of a new, fully integrated academic health system cannot be determined from the information provided by the parties to the merger; they are not reflected in any assumptions in any prospective financial information developed/provided.

Ultimately, the information provided to date falls short of supporting the Parties' stated goals and vision and provides no indication that the Parties understand the total expense of, and have a plan to support funding for, merger and integration costs, the clinical integration activities outlined in the Chartis report, and/ or the other initiatives that would need to be undertaken in support of realizing their expressed vision to become an integrated academic health system.

Exhibits

Exhibit 1 – Ratio Definitions

Ratio Definitions	
Profitability & Operations	
Operating Margin	Income from Operations / Total Operating Revenue
EBIDA Margin	(Income from Operations + Depreciation and Amortization + Interest) / Total Operating Revenue
Bad Debt Expense as a % of Net Patient Revenue	Provision for Bad Debts / Net Patient Service Revenue
Salaries and Wages as a % of Total Operating Revenue	Salaries and Benefits / Total Operating Revenue
Liquidity	
Days Cash on Hand - Cash and Cash Equivalents Only	(Unrestricted Cash and Cash Equivalents) / ((Total Operating Expense - Depreciation and Amortization) / Days in Period)
Days Cash on Hand - Including Board Designated Funds	(Unrestricted Cash and Cash Equivalents + Unrestricted Board Designated Funds) / ((Total Operating Expense - Depreciation and Amortization) / Days in Period)
Current Ratio	Current Assets / Current Liabilities
Days in Patient Accounts Receivable	Patient Accounts Receivable / (Net Patient Service Revenue / Days in Period)
Days in A/P excl. Salaries & Wages, D&A, and Interest	Accounts Payable and Accrued Expenses / ((Supplies and Other Expenses + Research Expenses + Insurance + Licensure Fee) / Days in Period)
Average Payment Period	Current Liabilities / (Total Operating Expenses / Days in Period)
Capital Structure and Solvency	
Debt Service Coverage	See Appendix
Long-Term Debt to Capitalization	Long-Term Debt / (Long-Term Debt + Net Assets)
Debt Service/Operating Revenue	(Principal + Interest) / Total Operating Revenue
Capital Expense as % of Total Operating Expense	(Interest + Depreciation and Amortization) / Total Operating Expenses

Exhibit 2 – CNE’s Debt Service Coverage

Care New England Health System and Affiliates
Debt Service Coverage[1]

(in '000s)	2017	2018	2019	2020	2021	Budgeted FY 20222
Reported	[redacted]					
(Def ciency) Excess Revenues over Expenses						
Less: Change in Unrealized Gains						
Plus: Pension Settlement						
Plus: Depreciation and Amortizat on						
Plus: Interest						
Plus: Asset Impairment Loss - Memorial Hospital						
Plus: Restructuring Costs (Max $4M/Year)						
Income Available for Debt Serv ce						
Interest Expense						
Payment on LTD and Cap tal[2]						
Debt Serv ce						
Debt Serv ce Coverage - Reported						
Adjusted						
Adjusted (Deficiency) Excess Revenues over Expenses						
Less: Change in Unrealized Gains						
Plus: Pension Settlement						
Plus: Depreciation and Amortizat on						
Plus: Interest						
Plus: Asset Impairment Loss - Memorial Hospital						
Plus: Restructuring Costs (Max $4M/Year)						
Income Available for Debt Serv ce						
Debt Serv ce Coverage - Adjusted						

[1] Source: 2015 through 2020 aud ts. 2019 - YTD 6/30/2021 based on CNE’s Q3 report internal financials as of June 2021. 2021 based on CNE’s Q4 report internal financials as of September 2021. Annualized nine months and TTM ended June 30, 2021. Based on the Annual Plan for FY 2022 as of September 16, 2021.
[2] Source: 2017 through 2020 aud ted financial statements.