



FAIRWAY
HEALTHCARE PARTNERS

Valuation & Practice Summary

Dr. Wallace Johnson, D.M.D., P.C.

DBA: Mayville Dental Arts

(New York Professional Corporation)

Conclusion of Value for a Practice Sale

Prepared by: Fairway Healthcare Partners
Valuation Analyst: Brian Pender, CVA
Report Dated: 1/19/2018

All information furnished regarding this Practice is from sources deemed reliable. However, no warranty or representation is made by Fairway Healthcare Partners as to the accuracy thereof and the same is submitted subject to corrections, verification, change of price or terms, prior sale, and withdrawal from the market.

January 19, 2018

Wallace Johnson, DDS
2 Memorial Dr.
Mayville, New York 14757

Re: Conclusion of Value for Dr. Wallace Johnson, DDS, P.C. for the purposes of the sale of substantially all assets of the business.

Dear Dr. Johnson,

Thank you for the opportunity of providing transition consulting services for your dental practice. The following report includes a calculation of value for based upon the three (3) most recent full year's financial information provided to us. Before selling your practice, it is important that a buyer verifies that these numbers are representative of the practice and that the representations of the practice are accurate and complete. This verification process is called due diligence.

This valuation was performed solely for the purposes of a potential sale to an individual dentist who would take over operation of the Practice. The Practice sale valuation includes the fair market value for the assets owned by the business that will be included in the sale (such as patient charts, goodwill, equipment, supplies, etc.). It does not include real estate or the practice account receivables. This method also assumes the buyer will not assume any liabilities or debt.

Based on our analysis, as described in this valuation report, the conclusion of value for the fair market value of 100.0% ownership interest in the Practice as of December 31, 2016, was:

Four-Hundred Thousand Dollars

\$400,000

This conclusion is subject to the Statement of Assumptions and Limiting Conditions found in Appendix B and to the Valuation Analyst's Representations/Certifications found in Appendix C.

We look forward to working with you through this endeavor.

Very truly yours,

Brian Pender

Brian Pender
FAIRWAY HEALTHCARE PARTNERS, LLC



Executive Summary & Practice Profile:

This is an abbreviated version of the valuation report compiled for marketing purposes. Interested buyers will have access to the completed report to assist with their review of the Practice. Email [Brian Pender](mailto:brian.pender@mayvilleartsdental.com) or call 585-260-7566 to receive the full report and for more details.

Opportunity Overview:

- o Highly profitable small-town general dental practice for sale in Mayville, New York. Selling doctor is in good health, nearing retirement and eager to find the right person to take over this long-standing successful practice.
- o 100% fee for service practice, which has collected \$525k+ each of the last 10 years and averaged net profits of greater than \$250k (~50% average overhead).
- o Selling dentist open potential buyers plans as it relates to staying on for short-term transition or immediate exit at close. Eager to help buyer ensure future success.
- o Excellent demographics and dentist to population ratio, the nearest dental practice is 15-minute drive and there are only 2 others within 25-minute drive. The Practice currently does no marketing or advertising.
- o It is a practice of approximately 1,500 active patients. The Practice maintains a Monday - Thursday work week, with 10-12 weeks of scheduled doctor vacation each year. The practice regularly provides all preventive services and restorative work including crown & bridge. The Practice's hygiene department has slowed, and the hygienist is working part-time and booking 7-months out.

Facility & Equipment:

- o The Practice is in a ~2,500 sq. ft. free-standing building in which is owned by the Seller. The Practice benefits from excellent visibility and location facing one of the busiest roads in Chautauqua county. In addition, the proximity to the Lake Chautauqua and Chautauqua Institution bring a recurring increase to patient flow during the summer months. The Seller would consider either leasing the real estate in conjunction with the Practice sale or selling the real estate as part of a separate transaction.
- o Stand-alone building owned by the seller, excellent location & visibility. Seller open to leasing building or selling real estate as part of a separate transaction.
- o Currently 3 operatory rooms with space for expansion. At one point, there was 5 plumbed operatories.
- o The building is well maintained with ample free parking and easy access.
- o Eaglesoft Practice Management software.
- o Overall, the technology & equipment in need of updates. Purchase price discounted for technology & equipment.

Highlights & Concerns:

Highlights	Concerns
<ul style="list-style-type: none">o Stable financial history and low overhead. Doctor consistently earned unadjusted income of \$280k+	<ul style="list-style-type: none">o Decline in 2017 Production & Collections. Complete 2017 financials not yet available but collections dropped to ~\$435k.
<ul style="list-style-type: none">o 100% fee for service, great patients, rural lake community with limited competition	<ul style="list-style-type: none">o Dated equipment and limited technology
<ul style="list-style-type: none">o Easily identifiable growth areas for the buyer	<ul style="list-style-type: none">o Recall system and practice policies in need of improvement
<ul style="list-style-type: none">o Opportunity for facility expansion & potential for growth	<ul style="list-style-type: none">o Low Hygiene Production



Practice Profile:

Overview:	
Seller's Name:	Wallace B. Johnson, DDS
Office Address:	2 Memorial Drive, Mayville, NY 14757
Reason for Sale:	Retiring
Type of Practice:	General Dentistry
Practice Asking Price:	\$400,000
Seller Information:	
Dental School & grad year:	Loyola, 1977
License number:	NY - 032980
Other states licensed:	N/A
Do you practice anywhere besides this Practice?	No
Have you ever been disciplined by the State Dental Board?	No
Have you ever been a defendant in a law suit?	No
How was practice acquired:	Purchased in 1977
If practice was purchased, previous owner's name?	Dr. Charles Johnson (no relation)
Years at Present Location:	50+
Type of Practice (solo, partnership, group or other):	Solo
How many doctors work in the practice?	1
Do you have an associate?	No
Have you had other associates in the past?	No

Staff Overview:					
Employee Name	Position	Annual or Hourly Wage	Average # Hours/Week	Employee Benefits	Years with Practice
Tracy	Admin / F.D.	\$18/hr	32	Profit Sharing	5+
Kelly	R.D.H.	\$32/hr	-8-16	N/A	5+
Val	R.D.A.	\$25/hr	-20	Profit Sharing	14
Are any family members employed or paid by the practice?				No	
If yes, what is their position and annual wage?				N/A	



Estimated Production by Category: (as a percentage of total annual production for FYE 2016)	
Diagnostic & Preventative:	24.0%
Restorative:	40.0%
Endodontics:	6.9%
Periodontics:	1.4%
Prosthodontics:	13.4%
Oral Surgery:	8.4%
Orthodontics:	5.3%
Other:	0.6%

Description of Facility:

Office Square Footage:	-2,500 sq/ft
Room for Expansion:	Yes
# of Equiped Ops:	3
# of Plumbed Ops:	3

Equipment:

Right Handed?	Yes
Practice Management Software:	Eaglesoft
Is the office computerized?	Only Front Desk
Computers in Operatories:	No
Digital X-Ray Units:	No
Panoramic X-Ray Unit:	No
Is the Panoramic Digital?	No
CAD/CAM:	No
Intra Oral Camera(s):	No
Paperless Charts:	No
Is any equipment being leased?	No

Building/Office Space:

Does seller own the building?	Yes
Consultation Room:	No, but space available
Private Office:	Yes
Is Lease assignable?	N/A
Option to renew?	N/A
First right of refusal	N/A
Gross or Triple Net Lease?	N/A
Lease Expiration Date:	N/A



Practice Background

General Information

The Practice is a general dentist practice in Mayville, NY. The Client, originally from Jamestown, NY bought the Practice after dental school from Dr. Charles Johnson (no relation) who had operated a dental practice in this location for many decades. Over the last 35+ years, the Client has added on to the facility and increased the number of patients served as the number of dentists in surrounding areas steadily decreased. The Practice is legally organized as a Professional Service Corporation, incorporated in New York, 100% of which is owned by the Client.

The Practice's moto is "Center of the Universe", and the Client treats all his patients accordingly while providing excellent dentistry in a fun and comfortable environment. It is common in the summer months for patients and friends to gather on the large deck at the Practice and enjoy some live music while sharing stories. The Practice does no marketing or advertising, does not have a website or any social media accounts.

In 2016, the estimated breakdown of revenue by procedure type is 40% Restorative, 24%, Diagnostic & Preventative, 13% Prosthodontics, 8% Oral Surgery, 7% Endodontics, 5% Orthodontics, and 2% Periodontics & Other.

The Practice is in a stand-alone building nearly the Village of Mayville, NY. The building is owned by the Client has sufficient parking. The Client is open to selling the Real Estate in a separate transaction in conjunction with the Practice sale or leasing the facility to the buyer. There are no known environmental issues. The building is ~2,500 square feet includes 3 operator rooms, a dental lab, bedroom/office, full bathroom, patient bathroom, a pottery studio and a reception & patient waiting area. The office is well maintained and has sufficient capacity to support the Practice into the future. Pictures and layout of the office are included in *Exhibit 5*. The Practice employees 1 dental assistant, 1 hygienist, and 1 front-office admin.

Office Schedule:

The typical office schedule is detailed below and includes a 4-day, Monday - Thursday work week. Emergency visits are scheduled as needed.

Mon	Tues	Wed	Thurs	Fri	Sat	Sun
8:30-5	8:30-5	8:30-5	8:30-5	Closed	Closed	Closed

The Client travels often. For the last several years, the typical doctor schedule has been 6 consecutive weeks working followed by 2 consecutive weeks off for vacation, averaging between 10 to 12 weeks of vacation each year. The office admin works while the doctor is vacationing to fill patient appointments, bill & collect payments. Patient demand would support being open additional days/weeks however the Client highly values the extended vacation time at this stage in career. During vacation weeks, patient emergencies are referred to Dr. Tracy Culver in Bemus Point, NY whom she and the Client maintain a respectful professional relationship. Patient demand would support being open additional weeks if the buyer wanted to cutback the vacation schedule.

The hygienist is currently working a 1-2 day per week schedule and there is suppressed demand within the hygiene department. Patients are booking 7+ months out and there are limited recall systems. There is a major opportunity for the buyer to improve the hygiene department of the Practice without needing to expand hours or the number of weeks worked and have major increases to production and income.



Area Demographics & Competition:

The Practice is in Mayville, NY which is a small rural town in Chautauqua County New York. Mayville is located within zip code 14757 which includes approximately 3,500 residents and has a median household income of \$46,5040, which is less than the NY State median of \$60,850. Average housing costs and the cost of living index are below both the national and state averages. 90% of the adult population has high school diploma and 25% have a bachelor's degree or higher, the estimated unemployment rate was 4.9%. Chautauqua County is a primarily rural blue-collar community, the population ratio of 127:1 people per square mile is much smaller than the 239:1 NY State median (excluding New York City).

There is limited competition in the area. There are no other dental offices with 7 miles and only 2 other dental offices within 15-miles of the Practice. The Practice is the closest dental office for most residents in the following towns/zip codes.

Town	Population	Zip Code
Ashville	3,540	14710
Chautauqua	153	14722
Dewittville	1,031	14728
Mayville	3,487	14757
Panama	2,088	14767
Sherman	2,225	14781
Stockton	1,033	14784

In addition, the Practice is located 2.5 miles from Chautauqua Institution which is designated a National Historic Landmark and draws more than 100,000 visitors each summer. Chautauqua Institution attracts a highly affluent repeat visitor base with program experiences centered around arts, education, religion, and recreation. Chautauqua Institution is very unique and difficult to describe without experiencing in-person, for more information visited www.chq.org. Given the Practice's proximity and the frequency of repeat annual visitors, the Practice treats 100+ recurring and emergency patients from the population of Chautauqua Institution visitors during their nine-week summer season.

Patient and Insurance Information:

The practice has approximately 1,500 active patients. This is not to be confused with total chart count which would be meaningfully higher. The Practice is 100% fee for service. This means that although the Practice accepts insurance, it participates as an "out of network" provider and patients are responsible for the payment of the remaining charges. The front-office admin is responsible for collecting payment and arranging financial payments with the patients, the Client does offer discounts for payment in full in advance of some procedures.

There are no single employers or insurance companies which comprise more than 10% of the overall patient base.



Financial Analysis

Normalization Adjustments & Adjusted Financial Statements

Certain adjustments may be made to the financial statements to present financial information more closely reflect the Company's true economic financial position and results of operations. With the case of the Practice, there were limited adjustments. The Clients does not put personal or many discretionary expenses through the Practice.

Financial History & Cash Flow Analysis

	2014			2015			2016			% of Income
	Unadjusted Financials	Adjustments	Adjusted Financials	Unadjusted Financials	Adjustments	Adjusted Financials	Unadjusted Financials	Adjustments	Adjusted Financials	
Income	\$550,440		\$550,440	\$530,223		\$530,223	\$525,223		\$525,223	100.0%
Fixed Expenses										
Rent Expense (1)	-	30,000	30,000	-	30,000	30,000	-	30,000	30,000	5.7%
Utilities	9,588		9,588	5,918		5,918	4,027		4,027	0.8%
Insurance	5,338		5,338	6,636		6,636	3,321		3,321	0.6%
Licenses, Taxes and Permits	14,876		14,876	16,020		16,020	14,054		14,054	2.7%
Total Fixed Expenses	\$29,802	\$30,000	\$59,802	\$28,574	\$30,000	\$58,574	\$21,402	\$30,000	\$51,402	9.8%
Variable Expenses										
Lab expense	17,079		17,079	27,953		27,953	19,993		19,993	3.8%
Supplies	41,459		41,459	40,635		40,635	51,790		51,790	9.9%
Maintenance & Repairs (2)	21,848		21,848	15,669		15,669	40,132	(25,000)	15,132	2.9%
Advertising	1,911		1,911	2,462		2,462	1,898		1,898	0.4%
Professional & Legal Fees	7,056		7,056	7,426		7,426	3,589		3,589	0.7%
Other Expenses (3)	2,389	5,000	7,389	2,375	5,000	7,375	664	5,000	5,664	1.1%
Total Variable Expenses	\$91,742	\$5,000	\$96,742	\$96,520	\$5,000	\$101,520	\$118,066	(\$20,000)	\$98,066	18.7%
Payroll Expenses										
Wages	108,920		108,920	113,072		113,072	114,489		114,489	21.8%
Dentist Salary/Officers Comp (4)	-	134,858	134,858	-	129,905	129,905	-	128,680	128,680	24.5%
Pension & Profit Sharing	3,810		3,810	4,487		4,487	3,211		3,211	0.6%
Contract Labor	-		-	5,652	(5,652)	-	-		-	0.0%
Total Payroll Expenses	\$112,730	\$134,858	\$247,588	\$123,211	\$124,253	\$247,464	\$117,700	\$128,680	\$246,380	46.9%
Total Operating Expenses										
Non-Cash Expenses										
Depreciation	1,663		1,663	1,664		1,664	1,663		1,663	0.3%
Total Expenses	\$235,937	\$169,858	\$405,795	\$249,969	\$159,253	\$409,222	\$258,831	\$138,680	\$397,511	75.7%
Profit Before Taxes	\$314,503		\$144,645	\$280,254		\$121,001	\$266,392		\$127,712	24.3%
Discretionary Earnings (DE)			\$281,166			\$252,570			\$258,055	49.1%
EBITDA			\$146,308			\$122,665			\$129,375	24.6%

We made the following adjustments to the Practice's financial statements.

- Rent: The Client does not currently charge the Practice rent. We assumed a rent expense at \$2,500/month and added that to the financial statements.
- Maintenance and Repairs: We deducted \$25,000 of expenses because of the new deck installation and build out of Goose Creek Pottery as this was a discretionary cost and not related to the Practice's dental operation.
- Client does not include expenses for CE course and costs for business travel. We included \$5,000 of additional expenses each year as it related to these legitimate business expenses.
- Dentist Salary: The Client does not pay themselves a salary, so we included the approximate wages of what an associate dentist would require for the purposes of calculating EBITDA. We assumed 70% of practice collections is dentist work related, and 35% of collections would be the associate dentist salary.
- Contract Labor: We deducted this one-time cost in 2015 as it does not reflect the normal operations of the practice.



Historical Adjusted Averages

	3-year Average	% of income	5-year Average	% of income
Income	\$535,295	100.0%	\$540,597	100.0%
Fixed Expenses				
Rent Expense	30,000	5.6%	30,000	5.5%
Utilities	6,511	1.2%	6,771	1.3%
Insurance	5,098	1.0%	5,390	1.0%
Licenses, Taxes and Permits	14,983	2.8%	14,964	2.8%
Total Fixed Expenses	\$56,593	10.6%	\$57,125	10.6%
Variable Expenses				
Lab expense	21,675	4.0%	23,383	4.3%
Supplies	44,628	8.3%	48,015	8.9%
Maintenance & Repairs	17,550	3.3%	12,057	2.2%
Advertising	2,090	0.4%	1,642	0.3%
Professional & Legal Fees	6,024	1.1%	5,976	1.1%
Other Expenses	6,809	1.3%	4,849	0.9%
Total Variable Expenses	\$98,776	18.5%	\$95,922	17.7%
Payroll Expenses				
Wages	112,160	21.0%	108,442	20.1%
Dentist Salary/Officers Comp	131,147	24.5%	132,446	24.5%
Pension & Profit Sharing	3,836	0.7%	5,912	1.1%
Contract Labor	-	0.0%	-	0.0%
Total Payroll Expenses	\$247,144	46.2%	\$246,801	45.7%
Total Operating Expenses				
Non-Cash Expenses				
Depreciation	1,663	0.3%	1,663	0.3%
Total Expenses	\$404,176	75.5%	\$401,511	74.3%
Profit Before Taxes	\$131,120	24.5%	\$139,086	25.7%
Discretionary Earnings (DE)	\$263,930	49.3%	\$273,195	50.5%
EBITDA	\$132,783	24.8%	\$140,749	26.0%

Note these figures include all adjustments noted on the page above. As shown in additional detail in the *Calculation of Value* section below, we utilized the following figures for purposes of valuing the Subject Interest:

- Trailing 3-year Average Adjusted Owner's Discretionary Earnings of \$263,930.
- Trailing 3-year Average Adjusted EBITDA of \$132,783.



Balance Sheet

The Practice does not have any debt, outstanding liabilities, and all fixed assets are fully depreciated. Although Accounts Receivable are excluded from this valuation, we noted that the Practice's outstanding accounts receivable was ~\$100,000 as of 1/11/2018. The actual amount expected to be collected was closer ~\$30,000 as the total balance includes many accounts which are years old and have either sent to collections or not proactively written-off. More information regarding accounts receivable will be made available during the diligence process.

Expense Analysis

In looking at expense ratios, we considered certain industry publications from various respected sources and our own experience as a means of comparison to industry trends and activity.

Cost/Overhead Ratio Analysis						
Adjusted Practice figures					Benchmarks	
Expense Category	2014	2015	2016	3-yr Average	"Target" Range	National Average
Non-Dentist Employee Costs	20.5%	22.2%	22.4%	21.7%	25-30%	
Lab, Equipment, & Supply Costs	10.6%	12.9%	13.7%	12.4%	12-14%	
Rent	5.5%	5.7%	5.7%	5.6%	7-8%	
Other	12.4%	11.6%	9.1%	11.0%	6-8%	
Total	48.9%	52.4%	50.9%	50.7%	50-60%	73%-75%

We noted that the Practice compares favorably to the dental industry with regards to profitability metrics.

- The "Target" Range figures comes from various practice management programs, dental coaches, industry publications and our experience. If a practice can operate with "overhead" of 60% or lower, this would classify as a highly profitable practice.
- Given the inconsistency in some of the national averages and the discretionary nature associated with some of the expense category classifications, we only benchmarked the Practice on a Total "Overhead" basis to the national averages.

We judge the Practice to be a stronger and more profitable business than most others of similar size and nature within the dental industry.



Calculation of Value

As shown below, we calculated the Value of the Subject Interest using the Capitalization of Earnings method to be \$400,000 (rounded to the nearest ten-thousand) as the fair market value of the Subject Interest. The calculation of value using the Owner's Discretionary Earnings multiple method and the EBITDA Multiple method were very similar.

Discretionary Earnings Valuation	
Trailing 3-year Average Discretionary Earnings	\$263,930
Owner's Discretionary Earnings Multiple	1.70x
Subtotal	\$448,682
Discount: Decline in 2017 Collections	5%
Discounts (Dated Equipment & Technology)	5%
Capitalization of Earnings Subtotal	\$403,813
% of the Equity Valued	100%
Subject Interest Value (Rounded)	\$400,000
EBITDA Valuation	
Trailing 3-year Average EBITDA	\$132,783
EBITDA Multiple	3.33x
Subtotal	\$442,167
Discount: Decline in 2017 Collections	5%
Discounts (Dated Equipment & Technology)	5%
Capitalization of Earnings Subtotal	\$397,951
% of the Equity Valued	100%
Subject Interest Value (Rounded)	\$400,000

Single doctor dental practices, with retiring seller and stable financials, tend to sell at a multiple of 1.3x-2.1x times owner's discretionary earnings or 2.5x-5x EBITDA depending on the characteristics of the practice.

Some of the factors which drive the multiple include items specific to the individual practice (financial history, facility condition, procedure mix, etc.) and others relate to the external factors (local economy, number of dentists, etc.).

As it relates to this Practice,

- Positive practice specific factors include the stable financial history, very low overhead, large facility footprint with potential for expansion, opportunity to own the real estate, high number of weeks of vacation, excellent visibility, as well as the willingness of the seller to promote and assist the new buyer.
- Positive external factors include the proximity to Chautauqua Institution and limited competition.
- Negative practice specific factors include the decline in 2017 production, dated equipment and limited technology, weak recall system and policies in need of improvement, and low hygiene production.
- Negative external factors include the lower income levels in the area and the limited number of dentists looking for practices in Chautauqua county.

Given these factors we assigned a multiple of 1.7x Owners Discretionary Earnings and 3.3x EBITDA as the multiples which would meet the demand and the expected rate of return that a potential buyer requires to make an investment attractive.



Purchase Price Discounts

We included two purchase price discounts for the purposes of calculating the value of the Subject Interest.

- A 5% discount to the total value of the Practice to account for the investment in equipment and technology the potential buyer will likely be making upon their purchase of the Practice.
- A 5% discount to the total value of the Practice to account for the decline in the 2017 Income and Collections. Although the income and historical earnings are strong, given that we were unable to get final 2017 financials, a purchase price discount was appropriate.

