

SAMPLE
REPORT



Practice Purchase Analysis

Prepared exclusively for:

JOHN SMITH DDS

General Dental Office

Draper, UT

Practice Summary

OPINION OF VALUE COMPLETION DATE	January 15, 2024
ASKING PRICE	\$814,194
OPINION OF VALUE	\$855,313
GROSS COLLECTIONS	2023 - \$985,501 2022 - \$857,721 2021 - \$719,857 2020 - \$701,455 (<i>Reported</i>) \$634,456 (<i>Covid loan deducted</i>)
ADJUSTED NET INCOME	\$310,049
OVERHEAD PERCENTAGE	61.2%
TRANSITION TYPE	Practice Purchase
CURRENT PRACTICE OWNER	John Smith, DDS
BUSINESS ENTITY	Schedule C
FACILITY OWNED BY SELLER?	No
SELLER OWNS MULTIPLE LOCATIONS?	Unknown
FACILITY	5 operatories Approximately 2,200 square feet
IN NETWORK WITH DELTA PREMIER?	No
PATIENT BASE	Fee For Service – 40% Insurance – 60%
	New Patients – Average 23 per month



QUESTION 1:
**IS THIS A GOOD
PRACTICE TO BUY?**

QUESTION 2:
**WHAT IS A FAIR
PRICE TO PAY FOR
THIS PRACTICE?**

QUESTION 3:
**HOW MUCH MONEY
WILL I MAKE?**

Pros – Cons - Open Questions – Adjustments

Pros:

- The purchase price is very reasonable relative to common valuation methods. Often this is indicative of a reasonable seller who places a high value on the smooth transition from seller to buyer. This offers a buyer a lot of flexibility to make a good rate of return on their investment.
- High collections. This is a sign of a well-run business with excellent goodwill, a strong staff with training and a solid reputation around the community. This shows a healthy patient base, decent demographics and a good reputation and location generally speaking. It should also be noted that the collections in 2023 is higher than previous years.
- Adjusted overhead is below the averages at 61.2% compared to the national average of 61.7%. This is an extremely positive sign of a well-run practice. Practices with lower than average overhead typically have above-average owners and above-average staff. Typically, they will have policies and procedures to follow with the most important elements of successfully running a profitable dental practice, increasing the value of goodwill to a buyer.
- Adjusted staff costs (including wages, payroll taxes and benefits) are well-managed at 24.2% compared to nationwide averages for well-run offices that run 28-30% of collections on average. This is particularly important for a buyer as it's the largest expense of any dental practice. Additionally, staff costs are a difficult expense to change in the short- or even medium-term as most buyers seek to minimize change, especially around staffing, during a transition.
- Lab and supply expenses are extremely well managed at 12.9% of total collections, in-line with high-performing practices which keep that number between 11-12% of collections. Often if the ordering of supplies and labs is well-managed, then other financial and clinical processes are also well-managed.
- The practice has achieved its results with only 1.5% of collections spent on advertising – indicating that new patient flow is relatively sustainable, and the practice isn't likely to be dependent on high advertising budgets or gimmicky sales techniques to bring new patients in the door. This makes it marginally more likely that a new owner could increase new patient metrics by simply investing slightly more in marketing and advertising and seeing a good return on dollars invested. Practices that spend <1% of collections on advertising are generally considered to be in "maintenance mode" with respect to reputation and attracting new patients. Practices spending between 1-4% are a little more aggressive with new patient acquisition, with practices spending more than 4% considered "very aggressive" in bringing new patients into the practice.
- Building and upkeep is obviously a source of pride for Dr. Smith with the practice showing well. While individual tastes differ, this is a 'pro' as relative to the average owner's investment in the building it appears that some effort has been made to stay modern.
- Outstanding accounts receivable are in-line with averages for practices this size and indicate that the front desk has established and managed routines for collecting payments and reimbursements well and in a timely way, in general.
- The practice currently has a true 4-day workweek schedule, increasing flexibility for a buyer relative to other acquisition options who can choose to continue that attractive lifestyle choice or grow the practice by expanding days/hours.
- Patient age range looks fairly typical and follows a roughly normal distribution and is not skewed towards one age demographic or another.
- Average monthly new patients' number, while not phenomenal, is strong and indicates a solid reputation among the population and also indicates a seller who hasn't completely given up on running the business prior to selling. Pending verification of new patient numbers.
- Online visibility (at least as important as physical visibility) is good overall, with 202/205 positive Google reviews, and a handful of positive Health Grades and other reviews. Additionally, the website looks to be at least average to above average in quality. This is generally a positive for a buyer who can maintain online presence and visibility with limited investment.

Cons:

- Total facility costs including rent, utilities, repairs and other miscellaneous building-related expenses are 10.9%, above the average of 7-8% of collections most dental practices in the US pay. While facility costs are the most geography-specific expenses of any dental practice, this rule of thumb holds surprisingly constant when compared to the amount of space dentist need in any given city. Additionally, this expense line is important as it's nearly impossible to *decrease* and will in fact almost certainly *increase* year after year as rents and real estate taxes increase – assuming the practice remains in the same location.
- Though 2,200 sq/ft and 5 ops is a decent size for a single provider, the office is currently “overpaying” for space compared to other offices collecting in the same range.
- Hygiene production is 19% of total practice production, an indicator that the selling doctor is diagnosing more dentistry per patient than the average practice. This increases the relative risk for a buyer who may or may not have the same treatment philosophy or case acceptance skills of a seller. A buyer should always verify which procedures are coded to hygiene during due diligence to check the validity of these conclusions.
- The current production mix already includes some specialty procedures, reducing buyer flexibility grow the practice by keeping some procedure referrals in house. This also increases perceived risk by bank underwriters who will wonder whether a buyer will be compatible with the seller's skills and case acceptance relative to these procedures, potentially complicating financing.
- An active patient count of 1,367 people is a lower-than-average number for offices this size. It should be noted that definitions of "active" patients are notoriously difficult to define, and should be verified by a buyer during in-practice due diligence. Comparing the active patient count to the financial results of this practice is also an indicator of low patient retention.
- Staff tenure shows a strong bias towards more-tenured team members, a possible indicator of an overall tougher office culture and decreasing the amount of staff goodwill transferred to a buyer while increasing the likelihood that a buyer will have a hurdle in changing behavior, if desired. Buyers typically find one of two types of staff difficult to manage in a transition - first, offices where everyone on staff has been in that office 15+ years and basically run everything without the input of the doctor, or second, offices where staff are all basically new and don't know much about active patients and aren't well-trained in high standards and procedures.
- This office has average to below-average signage and visibility for patients who pass by, decreasing the relative reputation and top-of-mind awareness of patients. Visibility and signage don't show up directly in a valuation of numbers but can affect a patient's and buyer's perception of professionalism and value. Buyer improvements to visibility and signage are always possible but require an investment of time and money.
- Speaking directly as someone who has reviewed thousands of dentist's financial records, the quality and overall organization of the information provided is generally low overall and worse than average. While it's possible this is the work of one disorganized person and everything else is organized well, it's more frequent to find that a practice with the financial information unorganized has *everything else* in the practice unorganized as well – hiring practices, procedures & training, time-off procedures, marking, etc.

Open Questions *(to be answered prior to due diligence)*

- Are there more than \$100,000 needed in updates or equipment in the practice?
- Can we get the cost of goods breakdown in the 2021 tax returns? We estimated the breakdown of these in the dental supplies and Lab services in 2021.
- Can we get clarification for what the “Commissions and Fees” expenses are referring to for \$9,975 in 2020, \$11,875 in 2021, and \$14,100 in 2022?
- Are we correct in assuming that the “Other income” in 2020 is Covid relief loans?
- Can we get clarification for the “Outside services” are in 2020 for \$2,596 and in 2021 for \$2,619?

Due Diligence Open Questions

- Are there existing debts of the practice? If so, will these debts be paid off prior to the practice transition, or will these debts be assumed by the buyer? If applicable, please provide a list of debts with current balances that pertain to any applicable items.
- Is the owner a Delta Premier provider? If so, what is the percentage of the patients that are Delta Premier? This is a very important step for due diligence as a buyer might not receive the same Delta Premier reimbursement rates as the seller.
- How far out is the doctor booked out on the schedule? How far out is hygiene booked on the schedule?
- How many columns are running at a time on a typical day in this office?
- Has an equipment rep catalogued and valued the current office equipment recently? Can we see the report?
- What is your comfort level with the current office layout and floorplan?
- We recommend getting the W2's to verify office salaries and payroll taxes. The payroll taxes are much higher in 2023 compared to previous years at \$49,292.

Adjustment Notes

- Collections (2020) – Adjustment reflects the deduction of “Other Income” originating from Covid-19 relief payments, as this is not a true representation of office income.
- General Wages (2020-2023) – Adjustment reflects the wages normalized to be around \$160,000 per year to be in-line with typical offices of this size.
- Lease (2020-2023) – Adjustment reflects the estimated lease price of \$6,151.86 per month, as per the practice profile.
- Accounting and Legal (2020, 2021, 2023) – Adjustment reflects the accounting and legal fees to be normalized to be in-line with typical offices of this size.
- All other deductions are Seller-specific expenses a buyer may not be responsible for.

P&L Adjustment Worksheet

The purpose of this page is to compare annual financial results of the practice year over year. Additionally, the worksheet provides an opportunity to "back out" the tax-related expenses and get a true sense of profitability of the office.

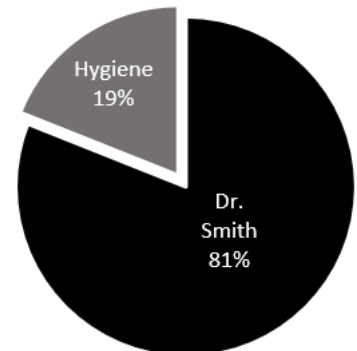
	2020		2021		2022		2023		2023		% of	
	Stated	Adjustment	Stated	Adjustment	Stated	Adjustment	Stated	Adjustment	Average	% of		
Doctor Production	-		-		735,389		805,921		805,921	770,655		
Associate Production									-	-		
Hygiene Production					168,606		188,633		188,633	178,620		
TOTAL PRODUCTION	-	-	-	-	903,995	-	994,555	-	994,555	949,275		
Collection Percentage	N/A		N/A		95%		99%					
PRACTICE COLLECTIONS	701,455	(66,999)	719,857	-	857,721	-	985,501	-	985,501	799,384	100.0%	
Employee Expenses												
General Wages	117,207	42,793	136,098	23,902	169,672	-9,672	134,380	25,620	160,000	160,000	20.0%	
Associate Employees									0	0	0.0%	
Payroll Taxes	11,795		12,798		14,547		49,292		49,292	22,108	2.8%	
Employee Benefit Plan	23,031	-11,516	21,650	-10,825	27,917	-13,959	19,949	-9,975	9,975	11,568	1.4%	
Doctor(s)									0	0	0.0%	
TOTAL EMPLOYEE EXPENSES	152,033	31,278	170,546	13,077	212,136	-23,631	203,621	15,645	219,267	193,676	24.2%	
Supplies and Labs												
Dental and Clinical Supplies	39,818		41,314		37,231		22,962		22,962	35,331	4.4%	
Lab Services	33,919		39,128		49,321		56,406		56,406	44,694	5.6%	
Office Supplies	33,798		28,487		29,235				0	22,880	2.9%	
Printing, Postage, Delivery	680		323		274		32		32	327	0.0%	
TOTAL SUPPLIES & LABS	108,215	0	109,252	0	116,061	0	79,400	0	79,400	103,232	12.9%	
Facility Costs												
Lease	65,444	8,378	70,973	2,849	75,605	-1,783	77,078	-3,256	73,822	73,822	9.2%	
Building Repair, Maint, and Impr.	2,164		2,022		1,868		2,618		2,618	2,168	0.3%	
Utilities	8,735		9,562		10,786				0	7,271	0.9%	
Other Facility Costs	6,876		5,382		2,107				0	3,591	0.4%	
TOTAL FACILITY COSTS	83,219	8,378	87,939	2,849	90,366	-1,783	79,696	-3,256	76,440	86,852	10.9%	
Other Expenses												
Accounting and Legal	4,602	5,000	4,422	5,000	9,191		2,493	7,500	9,993	9,552	1.2%	
Advertising and Promotion	16,398		12,075		11,631		9,311		9,311	12,354	1.5%	
Bank Charges	14,030		26,472		25,204		28,761		28,761	23,617	3.0%	
Credit Card Fees									0	0	0.0%	
Computer Expense	25,820		33,801		30,166		14,589		14,589	26,094	3.3%	
Consultant	2,596		2,619		1,479				0	1,674	0.2%	
Continuing Education	1,561		175		473		119		119	582	0.1%	
Depreciation & Amort	14,653	-14,653	14,653	-14,653	16,193	-16,193			0	0	0.0%	
Dr Auto	453	-453			4,757	-4,757			0	0	0.0%	
Dr Personal Insurance									0	0	0.0%	
Dr Meals & Entertainment/Other									0	0	0.0%	
Dues and Subscriptions	652		713		1,997				0	841	0.1%	
Equipment Lease					533				0	133	0.0%	
Gifts									0	0	0.0%	
Insurance	21,267		21,090		21,288		6,053		6,053	17,425	2.2%	
Interest Expense (and/or loan payments)	1,711	-1,711	2,375	-2,375	2,358	-2,358			0	0	0.0%	
License, Registration, and Taxes							882		882	221	0.0%	
Miscellaneous	9,975		11,875		14,100				0	8,988	1.1%	
Payroll Processing							788		788	197	0.0%	
Pension Administration			225						0	56	0.0%	
Phone and Internet	7,190		4,349		3,246		514		514	3,825	0.5%	
Staff Meetings									0	0	0.0%	
Travel and Lodging									0	0	0.0%	
Uniforms							74		74	19	0.0%	
Waste Disposal Services									0	0	0.0%	
TOTAL OTHER EXPENSES	120,908	-11,817	134,844	-12,028	142,616	-23,308	63,583	7,500	71,083	105,574	13.2%	
TOTAL OVERHEAD	464,375	27,839	502,581	3,898	561,179	-48,722	426,300	19,890	446,190	489,335	61.2%	
EBTIDA (OPERATING INCOME)	237,080	-94,838	217,276	-3,898	296,542	48,722	559,201	-19,890	539,311	310,049	38.8%	

Profit & Loss Analysis

	2020	2021	2022	2023	Average	
Collections	634,456	719,857	857,721	985,501	799,384	
Employee Costs	183,311	183,623	188,506	219,267	193,676	24.2%
Supplies & Lab Costs	108,215	109,252	116,061	79,400	103,232	12.9%
Facility Costs	91,597	90,788	88,583	76,440	86,852	10.9%
Other Fixed Costs	109,091	122,816	119,308	71,083	105,574	13.2%
Operating Income	142,243	213,378	345,264	539,311	310,049	38.8%
Operating Profit Margin	22.4%	29.6%	40.3%	54.7%	38.8%	



Provider Production	2023
Dr. Smith	\$ 805,921.19
Hygiene	\$ 188,633.34
Total	\$ 994,554.53



Hygiene Percentage 19%

Collection Percentage 99%

Top 10 Production Codes	Procedure Code	Production	% of Production
2023			
1	D2740	\$ 182,873.75	18.3%
2	Composite	\$ 159,964.93	16.0%
3	D0120	\$ 65,935.88	6.6%
4	D8090	\$ 65,685.00	6.6%
5	Individual PA images	\$ 54,696.16	5.5%
6	D4910	\$ 51,609.20	5.2%
7	D0274	\$ 44,273.32	4.4%
8	SRP	\$ 33,126.00	3.3%
9	D1110	\$ 32,090.76	3.2%
10	D3330	\$ 20,924.00	2.1%
Total Production		\$ 997,142.53	

A/R AGING ANALYSIS

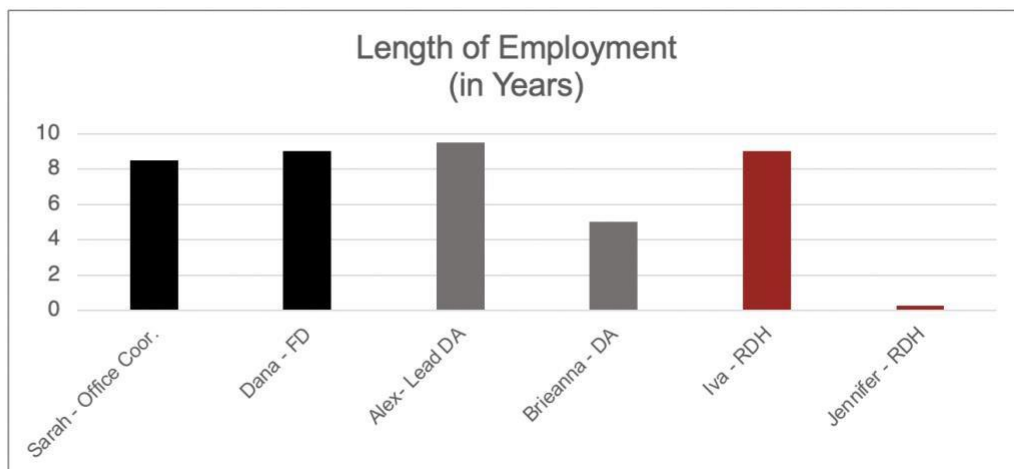
Aging	Amount	Rate	Price	Discount
Current	\$39,999	85%	\$33,999	\$6,000
30 Days	\$7,719	75%	\$5,789	\$1,930
60 Days	\$5,062	50%	\$2,531	\$2,531
90+ Days	-\$2,194	10%	-\$219	-\$1,975
Total	\$50,585		\$42,100	\$8,486

OFFICE HOURS

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	8:00AM-5:00PM	9:00AM-6:00PM	7:00AM-4:00PM	9:00AM-6:00PM	Closed	Closed

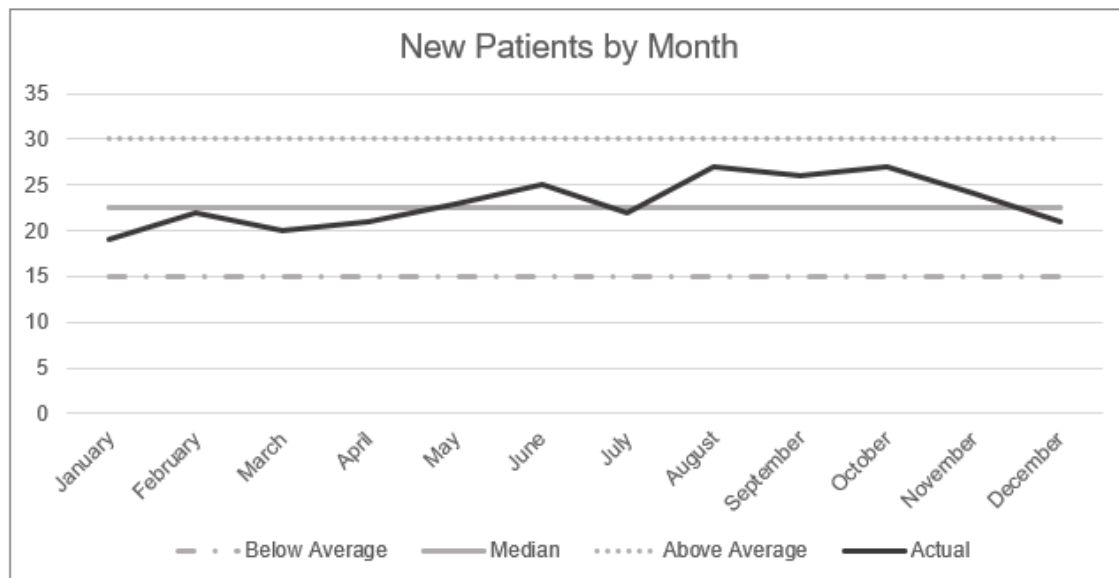
STAFF TENURE

Position	Length of Employment (in Years)
Sarah - Office Coord.	8.5
Dana - FD	9
Alex- Lead DA	9.5
Brieanna - DA	5
Iva - RDH	9
Jennifer - RDH	0.25



New Patients Per Month

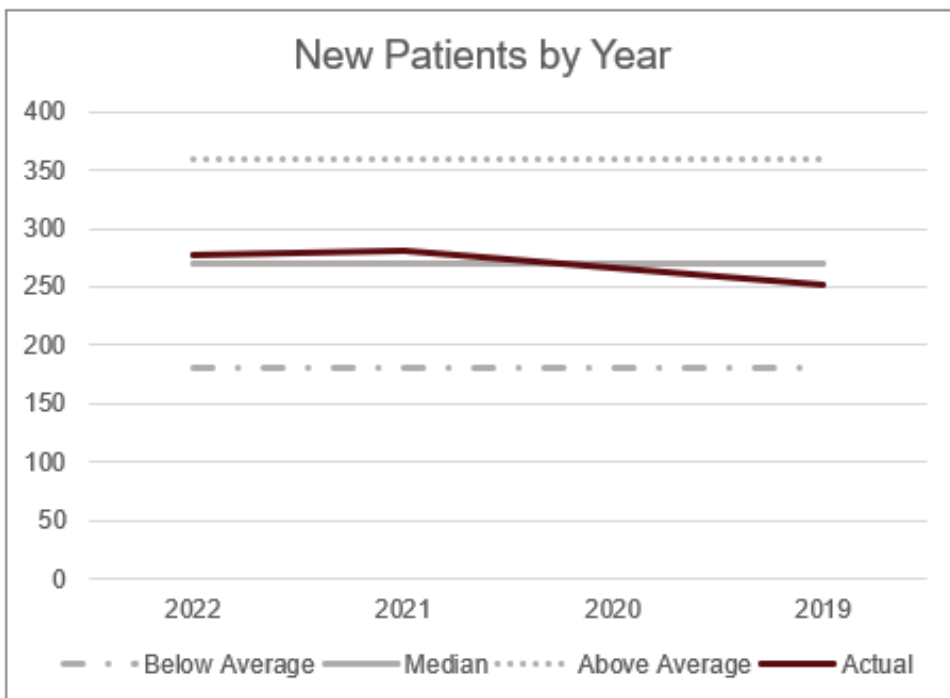
Month	New Patients
January	19
February	22
March	20
April	21
May	23
June	25
July	22
August	27
September	26
October	27
November	24
December	21
Below Average	15
Median	22.5
Above Average	30



New Patients Per Year

Year	New Patients
2022	277
2021	281
2020	267
2019	251
Below Average	180
Median	270
Above Average	360

Year	Monthly Average
2022	23
2021	23
2020	22
2019	21



How Would a Patient Perceive This Practice Online?

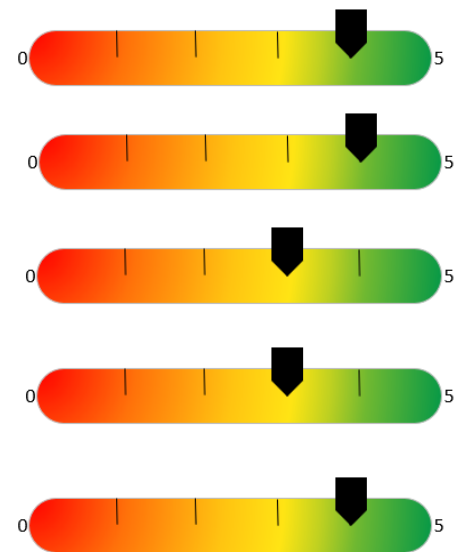
No analysis of a practice would be complete without an assessment of the single most common way a practice is going to be looked at by patients - online. Location, accessibility, the street-side view of a practice, parking and other physical aspects of a practice are all important. But increasingly they are piling in comparison to the first thing a patient does to interact with your practice - pull out their phone or type you into their computer browser.

Overall Website Evaluation: 3.7/5



Subcategory Website Evaluation:

1. First Impression - First impressions, done right, have the power to set the mood for the rest of the site. It draws them in rather than turns them away.
2. Ease of Use - There's nothing more annoying about a website than not being able to find the basics. Similarly, if the difference between the desktop and mobile versions of the website is jarring patients may just move on.
3. Human Connection - Data pulled from dentists' websites show that the number one clicked page is the "about us" page. People buy from people. Is there anything candid or that shows the personality of the office?
4. Images of the Practice - What your practice looks like can be the driving factor behind whether or not a patient comes through your door. No one wants to be surprised. The pictures need to match reality.
5. Personal Invitation - Possibly the most overlooked element of a great site is the simple act of inviting a patient into the practice. Does this website have a warm and sincere invitation prominent?



Online Reviews:



Online reviews are the embodiment of the psychological principle of 'social proof' or that we as humans tend to do the same thing other humans do, as it's perceived to be the safe choice. A large number of positive online reviews is obviously a good thing. A low number (or none whatsoever) of online reviews could be either a positive or negative - negative in that patients haven't had a lot to say about this office online and/or the staff isn't trained to ask (or care!) what patients think about the practice. Positive in that it's an increased amount of goodwill that's transferring to a buyer, and it could be relatively easy to grow the practice with some focus on growing these numbers:

- *Google Reviews:* 202/205 reviews
- *Can I book an appointment online?* No, but appointment request is available.
- *Can I pay a bill online?* No

How Can I Grow This Practice?


Practice analyses and projections directly show how the office in question has performed historically and how it will continue to perform should it continue to run in the same manner. However, each doctor is different. You each have different goals, priorities and thought processes. There is no such thing as a cookie cutter, one-size fits all practice. When you own your own practice, things will be different. Therefore, we feel it's important to acknowledge and address how the practice you are looking at could do better under your direction and how it aligns with your goals. Truth be told, many dentists are not savvy business-owners. To excel, all you need to do is be mediocre! If you implement even just one new technique, you will be far above your colleagues. You can do this!


		YES	NO	N/A	UNKNOWN	COMMENTS
Increase Collections - (Existing Patients) Additional Procedures						
Implant Placement		✓				
Posterior Endo					✓	Though already included in the "Top 10 Procedures", it is unclear if there is room for additional procedures.
Orthodontics	Includes both traditional and clear aligners				✓	
Sedation		✓				
Increase Collections - (New Patients) Business Development						
General Marketing	Any General Marketing Techniques: print mailers, radio, promotions, incentive program, VIVO referral cards, etc.		✓			The office is currently using 1.5% of collections for advertising with fair results. The office could benefit from a 0.5-1% increase to achieve more favorable results.
Web Development	SEO	✓				
	Social Media	✓				Though the office has a Facebook page, it has not been updated since 2022.
	General Web Development	✓				The office would benefit by updating the website to include staff profiles, pictures of the office and online scheduling and bill pay options.
	Reviews	✓				An owner should be in constant pursuit of up-to-date, positive reviews.
Physical Office	Signage, Visibility - Is it obvious & noticeable?		✓			
	Interior- Is it modern, up-to-date?	✓				
Decrease Overhead - Are These Cost Savings Opportunities?						
Staff Expenses	Cut Back Number of Staff		✓			For morale purposes, It is not often recommended to reduce the salary, benefits or number of existing staff members.
	Cut Back on Staff Pay		✓			
	Cut Back Staff Benefits		✓			
	Terminate associate			✓		
Dental Supplies	Well-run Offices Spend ~6% of Collections		✓			
Lab Expenses	Well-run Offices Spend 5-6% of Collections		✓			
Accounting	Typical expenses is between 1-1.5% of collections		✓			
Collections Costs	The Typical Office Spends ~1.5% of Collections, Depending on PPO/FFS Payment Mix	✓				Costs likely included in expenses categorized as "Bank Charges".
Phone/Internet	Offices Are Consistently Around \$4-6,000/year for Phone/Internet + Doctor/Family Cell Phones	✓				

Demographics on Demand

1111 DRAPER PARKWAY, DRAPER, UTAH 84020
GENERAL DENTIST

 Population
216,014

 Practices
99

 Saturation
2,182

 Household Income
\$103,235

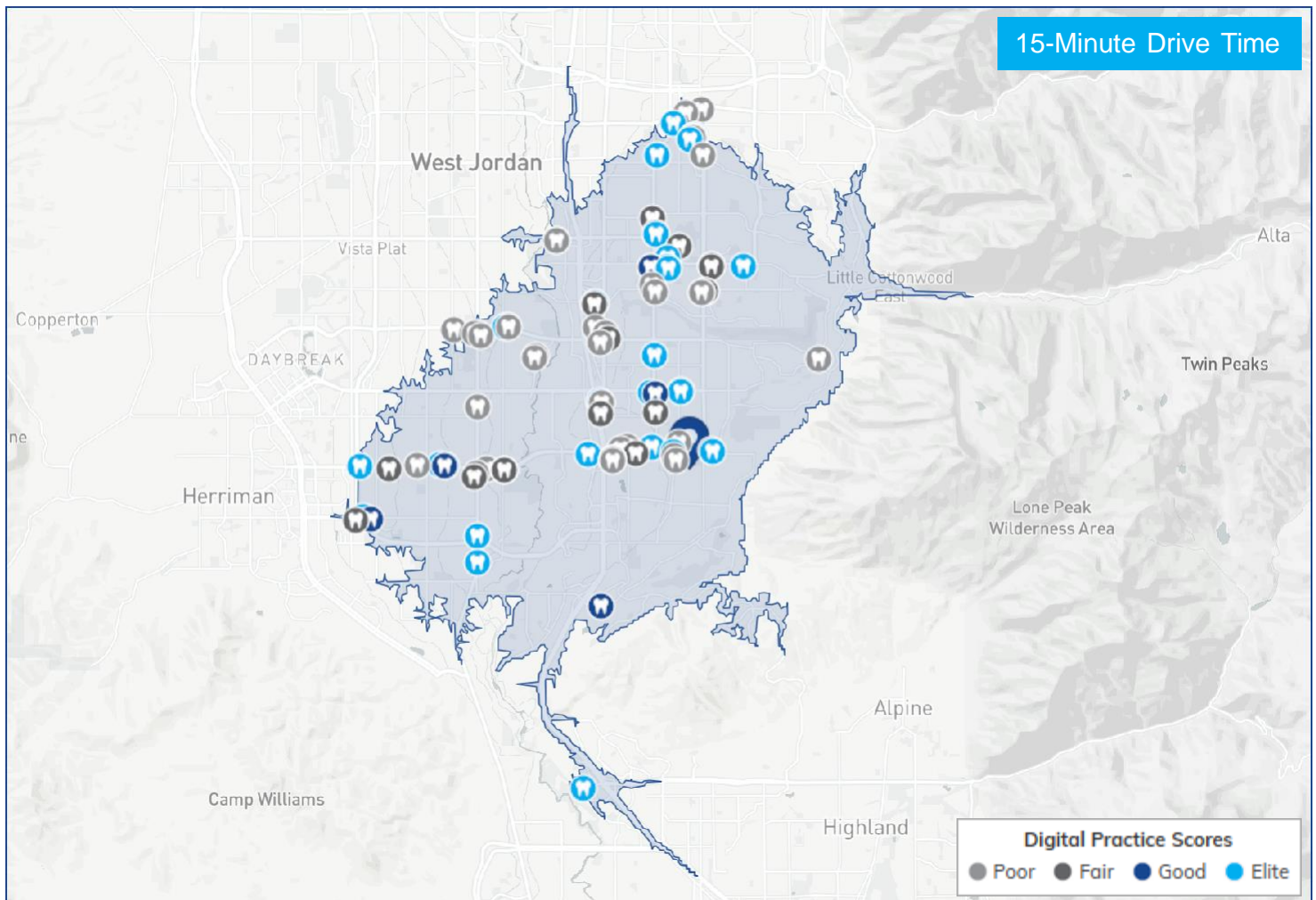
 Median Age
32.3

 Home ownership
78%

 observed Growth
13.2%

 Fee Index
\$ \$ \$ \$ \$

 Search Index
Q Q Q Q Q



Who Lives in this Area

Soccer Moms (17.6%)

An affluent, family-oriented market with a country flavor. Residents are partial to new housing away from the bustle of the city, but close enough to commute to professional job centers. Life in this suburban wilderness offsets the hectic pace of two working parents with growing children. They favor time-saving devices, like banking online or housekeeping services, and family-oriented pursuits.

Savvy Suburbanites (17.4%)

These residents are well educated, well read, and well capitalized. Families include empty nesters and empty nester wannabes, who still have adult children at home. Located in older neighborhoods outside the urban core, their suburban lifestyle includes home remodeling and gardening plus the active pursuit of sports and exercise.

Home Improvement (11.0%)

Married-couple families occupy well over half of these suburban households. Most Home Improvement residences are single-family homes that are owner occupied, with only one fifth of the households occupied by renters. Education and diversity levels are similar to the US as a whole. These families spend a lot of time on the go and therefore tend to eat out regularly. When at home, weekends are consumed with home improvement and remodeling projects.

Up and Coming Families (8.4%)

This segment is a market in transition - younger, more ethnically diverse and mobile than the previous generation. Up and Coming Families are ambitious, working hard to get ahead, willing to take some risks to achieve their goals. The recession has impacted their financial well-being, but they are optimistic. Their homes are new; their families are young. And this is one of the fastest-growing markets in the country.

Bright Young Professionals (8.1%)

This large market is primarily located in urban outskirts of large metropolitan areas. These communities are home to young, educated, working professionals. one out of three householders is under the age of 35. Bright Young Professionals are slightly more diverse and couples dominate this market, with more renters than homeowners. over two-fifths of households are single-family dwellings; over a third reside in 5+ unit buildings. Labor force participation is high, generally white collar work, with a mix of food service and part-time jobs (among the college students). Median household income, median home value and average rent are close to the US values.



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Valuation Background

The objective of this report is to provide an opinion of value for Dr. John Smith, DDS practice. The purpose and use of the valuation is in preparation for, Dr. Joe Young, a dentist who will buy out completely the current owner. Dental Buyer Advocates (DBA), under the direction of Dr. Young, has obtained information and background needed to complete this report. DBA does not have any present or future interest in the value of the practice, any personal relationship with the parties involved or any other interest or relationship which might bias the valuation assignment in any way. DBA's compensation for completion of this report is not contingent upon any action or event resulting from the use of this report.

Fair Market Value

According to IRS Rev. Rule 59-60, 1959-1 C.B. 237 the fair market value is defined as the price at which a property would change between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, with both parties having reasonable knowledge of the relevant fact.

The fair market value of every professional practice is affected by various financial, economic, and geographic considerations. Ultimately, the fair market value will be determined by the marketplace and is subject to the forces of supply and demand.

Considerations:

To perform a proper report and opinion of the value of a professional practice, it was necessary to review, analyze and adjust relevant practice data for its most recent and prior years. This information was supplied by Dr. Young. The following information was taken into consideration in determining a fair market value of the practice:

- Historical financial information on the practice, including but not limited to expenses, earnings, accounts receivable, fee schedule, etc.
- Assets and liabilities of the practice
- The condition, type and amount of equipment, furniture, and supplies
- Practice systems and management
- Location of the practice
- Economic factors affecting the practice
- Status of office ownership and amount of available space
- Type of practice
- Status and history of staff and/or associates

The following indicated assets are included in the opinion of value:

- Clinical and office equipment
- Furniture and fixtures
- Instruments
- Telephone Number
- Patient records
- Owner goodwill
- Work-in-progress, if applicable

The following assets are not included in the appraisal:

- Automobiles
- Real estate
- Cash on hand
- Checking or savings account
- Marketable securities
- Accounts receivable

Balance Sheet

The balance sheet for a practice reflects the book value of the practice assets. Book value has little relevance for determining practice value since it does not include the anticipated remaining life and use of the assets or the future anticipated revenue stream based on relationships, referrals or reputation. In addition, supply inventories are not usually entered on the balance sheet, since they are expenses upon purchase.

Moreover, since all the assets included in the sale of the dental practice are assumed to be sold "free and clear" of any liens, encumbrances, and liabilities, the liabilities, and owner equity portions of the balance sheet are of little relevance or use. To accurately reflect the fair market value of the practice, the values of the assets are adjusted to reflect their fair market value based on a combination of current market value as of the report date.

Valuation Approaches

Several valuation methods are generally accepted among professional appraisers. Each method involves a different approach and possesses at least some element of subjectivity applied by the evaluator. As a general rule, most valuation methods can be classified into one of the following three categories:

1. Asset Based
2. Market Based
3. Income Based

Asset Based

The asset-based approach will not be used in this report.

An asset-based approach to value consists of independently appraising the various assets of the practice being sold and then adding the individual values together to reach a total value. Dental practice assets can be classified into one of the following: 1) tangible personal property; 2) intangible assets; 3) financial assets, and 4) tenant improvements.

The asset-based approach is particularly useful when applied to practices that may have an abnormally large investment in tangible property, such as dental equipment or to practices that may not be operating at a level of production commensurate with the level of dental assets it

contains. Start-up practices (practices which have been in operation less than 3 to 5 years), or practices similar to a start-up often fall into this category and may be accurately valued using an asset-based approach.

Market Based

The market-based approach will be used in this report.

The market-based approach relies exclusively on the analysis of actual sales of comparable practices in the marketplace local to the subject practice. This method is most widely used and commonly known for real estate appraisals where the value is determined by comparing to similar assets recently bought and sold in an area.

In market-based practice valuations, the subject practice is compared to other similar practices in the area which have recently sold. The appraiser determines whether, in their opinion, the subject practice is more or less desirable than recently sold comparable practices. The appraiser will consider such practice characteristics, assets and data as are listed above when making his determination. The value of the subject practice is then assigned by adjusting the average selling prices of the comparable properties either upward or downward depending on how the subject practice compares.

The basis database to compare against is key to the accuracy of this method. Several sources of historical data can be gleaned from a few reputable sources, include: 1) The Institute of Business Appraiser; 2) Pratt's Stats; and 3) the Goodwill Registry. However, given the nuances that often exist from one market to another, the appraiser has supplemented reputable sources with his own personal knowledge of more than 250 general and orthodontic dental practices listed for sale each year in this and similar markets. These sales are researched to provide the appropriate basis for comparison. Comparability in practices can be determined based upon calculations involving the gross and net incomes of practices that have sold in that area. The most popular and widely used tool for comparison is the price to revenue ratio. This ratio is derived by dividing the sales price by the practice's most recent gross annual collections figures.

Income based

The income-based approach will be used in this report.

Using an income-based approach to value a practice will focus primarily on the income stream of the practice, more specifically the net income stream after paying all normal and necessary operating expenses. Subjective measures are then applied to this approach to account for the forecasted earnings of the practice and the level of certainty around those forecasts.

This approach assumes that the current operations and trends of the practice are indicative of its future operations. The method tends to reflect more the value of the assembled office and equipment, the availability and existence of trained employees, the existence of systems in the practice and the patient and referral base.

The capitalized earning method is considered by many appraisers to be the most reliable method of valuing professional practices. The results of this method help demonstrate the feasibility of a potential buyer to pay the fair market value and still be able to retire the debt in a reasonable period while drawing a reasonable salary.

After a weighted average of the earnings is determined, the capitalization method involves dividing the average by a capitalization rate. The capitalization rate can be compared to the rate of return a purchaser might expect from purchasing the practice and is determined by the appraiser based on their analysis of comparable investment opportunities and relevant risk factors associated with the practice.

Market Based Approach

Year	Multiplier	Practice Collections*	Weighted Value
2023	x3	\$ 985,501	\$ 2,956,502
2022	x2	\$ 857,721	\$ 1,715,442
2021	x1	\$ 719,857	\$ 719,857
			\$ 5,391,801
Divided by Sum of Weighted Factors			6
Total Average Weighted Value			\$ 898,633
Average Practice Sales Price as a Percentage of Collections			82.50%
Opinion of Value Based on Average Practice Sales + Mitigations			\$ 741,373

*2021-2023 financial information is based on broker-provided P&L data

Income Based Approach

Year	Gross Revenues	Adjusted Expenses	Doctor's Comp (30%)	Profit/Earnings	Weight Factor	Weighted Value
2023	\$ 985,501	- \$ 446,190	\$ 248,346	\$ 290,965	x3	= \$ 872,895
2022	\$ 857,721	- \$ 512,458	\$ 216,146	\$ 129,118	x2	= \$ 258,236
2021	\$ 719,857	- \$ 506,479	\$ 181,404	\$ 31,974	x1	= \$ 31,974
Sum of Weighted Factors					6	\$ 1,163,104

Weighted Value	\$ 193,851
Capitalization Rate	20.00%
Fair Market Value	\$ 969,254

Notes on income-based approach:

- 1) 2021-2023 financial information is based on broker provided info.
- 2) Doctor's compensation is 30% of doctor collections, an estimate of what an associate would be paid.
- 3) The capitalization rate of 20.0% is in line with similar valuations of general dental practices sold in the last several years in this and similar markets.

Merging Of Approaches

Because different methodologies yield different results and are in some way affected by subjectivity a blending of the methodologies used typically leads to a result that accounts for the various strengths of each method.

In this case, both methods are weighted equally. The market-based approach takes into consideration other practices sold and only takes top line revenue into account. The income-based approach considers the profitability of the practice, and thus the take-home pay of the owners of the business, the presumed reason to own the business. Both approaches take into consideration the size, location, regional competitors, talent availability, management skill of current owners, etc.

	Valuation	Multiplier	Weighted Value
Market-based	\$ 741,373	50%	\$ 370,686
Income-based	\$ 969,254	50%	\$ 484,627
			\$ 855,313

This puts the total opinion of value at **\$855,313**.

So. how does this number compare to other practices sold?

Market-Based (Collections) Approach

The market-based approach relies exclusively on the analysis of actual sales of comparable practices in the marketplace local to the subject practice. This method looks solely at collections and divides asking price by collections for a ratio.

In plain English, this method asks: "How much are you willing to pay for a dollar of collections?"

In practical terms, what this means is that dental practice are treated more or less equally and the underlying assumption is that looking solely at collections will tell you most of what you need to know about the practice including size, location, regional competitors, talent availability and the management skill of current owners.

A typical range for Asking Price as a % of Weighted Value is between 70%-95% depending on specialty and a variety of factors.

Since many sellers are accustomed to speaking about their practice in terms of collections, and many are unfamiliar with their actual adjusted overhead numbers, this method tends to be weighted more heavily by sellers.

Practice Collections	Year	Weighted Factor	Profit / Earnings	Weighted Value
	2023	x3	\$ 985,501	\$ 2,956,502
	2022	x2	\$ 857,721	\$ 1,715,442
	2021	x1	\$ 719,857	\$ 719,857
				\$ 5,391,801
Divided by Sum of Weighted Factors				6
Total Average Weighted Value				\$ 898,633
Asking Price				\$ 814,194

Asking Price as a % of Weighted Value

90.60%

SAMPLE
REPORT

Income-Based (Profit) Approach

Using an income-based approach to value a practice will focus primarily on the income stream of the practice, more specifically the net income stream after paying all normal and necessary operating expenses. Subjective measures are then applied to this approach to account for the expenses that are allowed by the IRS, but not considered essential for business operations.

It's common for different valuations to apply different measures and logic to what should be "backed out" of a practice's listed expenses. This method is more of a commentary on the management and cost containment skill of the specific owner(s) and resulting cash flow.

In plain English, this method asks: "How much are you willing to pay for a dollar of profit?"

A typical range for Asking Price as a % of Weighted EBITDA is
1.50 - 2.75 depending on specialty and a variety of factors.

Since, presumably, a primary reason to take on the risk and stress of practice ownership is to benefit from the profits of the business this method tends to be weighted more heavily by buyers.

EBITDA	Year	Weighted Factor	Profit / Earnings	Weighted Value
	2023	x3	\$ 539,311	\$ 1,617,933
	2022	x2	\$ 345,264	\$ 690,527
	2021	x1	\$ 213,378	\$ 213,378
				\$ 2,521,838
Divided by Sum of Weighted Factors				6
Total Average Weighted EBITDA				\$ 420,306
Asking Price				\$ 814,194

Asking Price as a % of Weighted Value

1.94



QUESTION 1:
IS THIS A GOOD
PRACTICE TO BUY?

QUESTION 2:
WHAT IS A FAIR
PRICE TO PAY FOR
THIS PRACTICE?

QUESTION 3:
HOW MUCH MONEY
WILL I MAKE?

Estimate of Income as Full Owner

Below are TWO methods to estimate take-home income as a full owner of this dental practice.

The first looks at the most recent years' data to estimate income. This view is useful because a practice's most recent expenses are the most likely to be accurate. This is especially true for some of the larger expenses like staff and rent.

The second looks at an average of all years' data that we have access to. This view is useful because it smooths out one-time expenses (or skipped expenses, like repairs) that might skew one year's data up or down.

Use both numbers to orient yourself around a projection and get a feel for how the numbers might shake out when you take over and are running the practice yourself.

Please note that the numbers below are not in any way a guarantee of income. These numbers are assumptions piled on top of other assumptions. They will almost certainly be NOT correct. However, as they are the best information, we have we use them for illustration purposes. These numbers, although it represents your take-home pay, is not a salary. Your compensation as the owner is the "income," whatever is left over after paying the overhead expenses and debt service of the practice.

Assumes the Following:

- Offer price of \$814,194
- Interest rate of 6.75% fixed
- 10-year fixed payment
- Add \$75k for working capital
- Life and Disability insurance rates an estimate only

Projection Using Last Year's Data

New Owner Estimated Income - Summary

	Annual	Monthly	5% Patient Attrition	10% Patient Attrition	10% Patient Growth
Projected Collections	\$ 985,501	\$ 82,125	\$ 936,226	\$ 886,950	\$ 1,084,051
Less Expenses:					
Employee Costs	\$ (219,267)	\$ (18,272)	\$ (219,267)	\$ (219,267)	\$ (219,267)
Supplies & Labs	\$ (79,400)	\$ (6,617)	\$ (75,430)	\$ (71,460)	\$ (87,340)
Facility Costs	\$ (76,440)	\$ (6,370)	\$ (76,440)	\$ (76,440)	\$ (76,440)
Other Expenses	\$ (71,083)	\$ (5,924)	\$ (71,083)	\$ (71,083)	\$ (71,083)
Gross Profit from Practice	\$ 539,311	\$ 44,943	\$ 494,006	\$ 448,701	\$ 629,921
New Expenses:					
Practice Purchase Loan	\$ (122,521)	\$ (10,210)	\$ (122,521)	\$ (122,521)	\$ (122,521)
Disability Insurance	\$ (3,200)	\$ (267)	\$ (3,200)	\$ (3,200)	\$ (3,200)
Life Insurance	\$ (1,100)	\$ (92)	\$ (1,100)	\$ (1,100)	\$ (1,100)
Cash Flow Before Taxes	\$ 412,490	\$ 34,374	\$ 367,185	\$ 321,880	\$ 503,100

The **RED** line is the amount of income an owner will take home from this business. The best comparison to this number is how much a dentist would make as an associate.

The **GRAY** line is the amount of income an owner will take home from this business after the loan payment and a few (relatively small, but usually required) additional expenses related to buying a business. A new owner would want to know this number because this is how much they'll have to live on for the period of time the loan is in place.

Projected Cash Flow - Details

Last Year (Monthly)

PRACTICE COLLECTIONS	985,501	82,125
Employee Expenses		
General Wages	160,000	13,333
Associate Employees	0	0
Payroll Taxes	49,292	4,108
Employee Benefit Plan	9,975	831
Total Employee Expenses	219,267	18,272
Supplies and Labs		
Dental and Clinical Supplies	22,962	1,913
Lab Services	56,406	4,701
Office Supplies	0	0
Printing, Postage, Delivery	32	3
Total Supplies and Labs	79,400	6,617
Facility Costs		
Lease	73,822	6,152
Building Repair, Maint. and Impr.	2,618	218
Utilities	0	0
Other Facility Costs	0	0
Total Facility Costs	76,440	6,370
Other Expenses		
Accounting and Legal	9,993	833
Advertising and Promotion	9,311	776
Bank Charges	28,761	2,397
Collection Costs	0	0
Computer Expense	14,589	1,216
Consultant	0	0
Continuing Education	119	10
Depreciation & Amort	0	0
Dr Auto	0	0
Dr Personal Insurance	0	0
Dr Meals & Entertainment/Other	0	0
Dues and Subscriptions	0	0
Equipment Lease	0	0
Gifts	0	0
Insurance	6,053	504
Interest Expense	0	0
License, Registration, and Taxes	882	74
Miscellaneous	0	0
Pension Administration	788	66
Payroll Processing	0	0
Phone and Internet	514	43
Staff Meetings	0	0
Travel and Lodging	0	0
Uniforms	74	6
Waste Disposal Services	0	0
Total Other Expenses	71,083	5,924
TOTAL OVERHEAD	446,190	37,182
Gross Profit from Practice (EBTIDA)	539,311	44,943

Projection Using Average Year's Data

New Owner Estimated Income - Summary

	Annual	Monthly	5% Patient Attrition	10% Patient Attrition	10% Patient Growth
Projected Collections	\$ 799,384	\$ 66,615	\$ 759,414	\$ 719,445	\$ 879,322
Less Expenses:					
Employee Costs	\$ (193,676)	\$ (16,140)	\$ (193,676)	\$ (193,676)	\$ (193,676)
Supplies & Labs	\$ (103,232)	\$ (8,603)	\$ (98,070)	\$ (92,909)	\$ (113,555)
Facility Costs	\$ (86,852)	\$ (7,238)	\$ (86,852)	\$ (86,852)	\$ (86,852)
Other Expenses	\$ (105,574)	\$ (8,798)	\$ (105,574)	\$ (105,574)	\$ (105,574)
Gross Profit from Practice	\$ 310,049	\$ 25,837	\$ 275,241	\$ 240,434	\$ 379,664
New Expenses:					
Practice Purchase Loan	\$ (122,521)	\$ (10,210)	\$ (122,521)	\$ (122,521)	\$ (122,521)
Disability Insurance	\$ (3,200)	\$ (267)	\$ (3,200)	\$ (3,200)	\$ (3,200)
Life Insurance	\$ (1,100)	\$ (92)	\$ (1,100)	\$ (1,100)	\$ (1,100)
Cash Flow Before Taxes	\$ 183,228	\$ 15,269	\$ 148,420	\$ 113,612	\$ 252,843

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Projected Cash Flow - Details

Ave. Year (Monthly)

PRACTICE COLLECTIONS	799,384	66,615
Employee Expenses		
General Wages	160,000	13,333
Associate Employees	0	0
Payroll Taxes	22,108	1,842
Employee Benefit Plan	11,568	964
Total Employee Expenses	193,676	16,140
Supplies and Labs		
Dental and Clinical Supplies	35,331	2,944
Lab Services	44,694	3,724
Office Supplies	22,880	1,907
Printing, Postage, Delivery	327	27
Total Supplies and Labs	103,232	8,603
Facility Costs		
Lease	73,822	6,152
Building Repair, Maint, and Impr.	2,168	181
Utilities	7,271	606
Other Facility Costs	3,591	299
Total Facility Costs	86,852	7,238
Other Expenses		
Accounting and Legal	9,552	796
Advertising and Promotion	12,354	1,029
Bank Charges	23,617	1,968
Collection Costs	0	0
Computer Expense	26,094	2,174
Consultant	1,674	139
Continuing Education	582	49
Depreciation & Amort	0	0
Dr Auto	0	0
Dr Personal Insurance	0	0
Dr Meals & Entertainment/Other	0	0
Dues and Subscriptions	841	70
Equipment Lease	133	11
Gifts	0	0
Insurance	17,425	1,452
Interest Expense	0	0
License, Registration, and Taxes	221	18
Miscellaneous	8,988	749
Pension Administration	197	16
Payroll Processing	56	5
Phone and Internet	3,825	319
Staff Meetings	0	0
Travel and Lodging	0	0
Uniforms	19	2
Waste Disposal Services	0	0
Total Other Expenses	105,574	8,798
TOTAL OVERHEAD	489,335	40,778
Gross Profit from Practice (EBTIDA)	310,049	25,837