

PURCHASE MODEL VALUATION STOCK/EQUITY VALUE CALCULATION

For

Smith Dental Group Inc.
123 Main St
Ste 103
Madison WI, 53517

Valuation as of: December 31 2019

SDG Inc

PREPARED BY

TASCON's Professional Practice Valuation Team
The TASCON Group
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Middleton, WI 53562
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Report Date: February 15 2020

**THE TASCON Group**
CONSULTING



February 15 2020

Dr. Robert Smith, DDS
Smith Dental Group Inc.
123 Main St
Ste 103
Madison, WI 53517

Dear: Dr. Smith:

Thank you for contacting us. The following is the information that you requested on Smith Dental Group Inc. located at 123 Main St Ste 103, Madison, WI. Enclosed herein you will find our complete market valuation for this business.

Our evaluation is based on the premise that any going business **MUST** meet the following three criteria: 1) A business is worth that price at which it will support its structured debt service at current market rates, terms and conditions. 2) It must pay a fair market salary to the owner(s), commensurate with other similar size and type of businesses located in the same market area as the subject business. 3) It must also pay a fair market rate of return, commensurate with risk, on the owner's total investment. As you will see in the following analysis, by using the inputted market variables listed herein, there is only **ONE** price at which this business can accomplish these three criteria! This evaluation is a study that has determined that price.

We have determined the market value of this business on the basis of the use of good, commonly accepted business and accounting practices. We also used the information contained in the business financial statements and other readily available company financial information and industry standard information for similar companies of size, type and market location.

Additionally, we analyzed the current financial market variables affecting the business' current market value. We have determined that a 100% ownership interest of Smith Dental Group Inc. is \$593,920.

An anticipated investment of \$148,480 would be required as a down payment to purchase this business.

This evaluation is an accurate mathematical analysis that has determined the value necessary for this business to be properly structured in order to meet the three criteria previously explained.

Sincerely,

TASCON's Professional Practice Valuation Team

Enclosures

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BUSINESS VALUATION SUMMARY

TASCON's Professional Practice Valuation Team, has been asked by Dr. Robert Smith, to render the business valuation described below. The following information details our assignment:

Client Name:	Robert Smith
Business Name:	Smith Dental Group Inc.
Business Address:	123 Main St Ste 103 Madison, WI 53517
Type of Entity:	S Corporation
State/Province of Incorporation:	WI
In Business Since:	1986
Valuation Prepared by:	TASCON's Professional Practice Valuation Team
Business Interest Valued:	100
Effective Date of Appraisal:	December 31 2019
Date of Valuation:	February 15 2020
Purpose of Evaluation:	Purchase Model Valuation and Stock/Equity Value Calculation
Standard of Value:	Fair Market Value
Business Value:	\$593,920
Down Payment Required:	\$148,480
Additional Investment Required:	\$0
Total Investment Anticipated:	\$148,480

Summary of Value:

We have determined that a 100% ownership interest of Smith Dental Group Inc. is \$593,920.

An anticipated investment of \$148,480 would be required as a down payment to purchase this business.

The opinion of value is rendered given the variables listed above for the period listed above only. The value is offered on the basis of a 100% marketable interest as noted above.

Scope and Limitations:

In the review of all data, we have relied upon all of the referenced information without independent verification and therefore it is totally dependent upon the information provided by Smith Dental Group Inc.. Any change in the critical information that was relied upon as part of the process of this valuation would certainly justify a reassessment of the final conclusion of the fair market value.

Standard of Value:

The fair market value is defined as follows: The fair market value of a business is the value at which the business would change hands between a willing seller and a willing buyer when neither is under a compulsion and when both have reasonable knowledge of the relevant facts.

A fair market transaction must be a “win-win” for all parties concerned. The fair market value of a going business is that value at which the normalized spendable income stream of the business can accomplish three critical criteria: 1) It must be able to support the structured market debt service that would be created from a hypothetical business sale in the business’ market area. 2) It must be able to pay the owner a market rate salary as determined by the size, type and location of the business to current industry standards of a similar business within the same market area. 3) It must be able to pay the owner a market rate of return on his/her investment as determined by the current market standards.

TEST OF REASONABLENESS

To test the reasonableness of our opinion as to the fair market value of Smith Dental Group Inc., we performed a proof of valuation analysis. This analysis includes assumptions regarding the cash down payment, the terms of the purchase notes, and the Company's projected cash flows. This analysis looks at the final opinion of the fair market value and determines the functionality of the ensuing projected cash flows and anticipated financing conclusions. The assumptions regarding the terms of the hypothetical purchase are presented in the following schedule and represents the findings from our analysis.

Final determination of market value:	\$593,920
From normalized income statement:	
Net operating income (NPBT):	\$134,286
Balance available to retire monthly debt service:	\$8,716
Buyer return on investment \$ (ROI):	\$29,696

Source of Purchase Funds	Amount	Terms (yrs)	Interest	Mo. Payment
Financial Institution Financing:				
Bank Financing	\$245,000	5	6.50	\$4,794
Seller/GAP/Mezzanine Financing	\$200,440	5	6.50	\$3,922
Total	\$445,440			\$8,716

Based upon the hypothetical terms presented above, the Company's projected cash flows were estimated to ascertain whether or not they cover the hypothetical interest and principal payments. The buyer post-sale cash flow was calculated in the following manner:

1. The projected before-tax income was reduced by interest payments on hypothetical purchase notes.
2. The projected post-sale pre-tax income was reduced by an income tax factor of 0.0%.
3. All non-cash expenses were added back.
4. The principal portion of all debt instruments (re-sale and post-sale) was deducted.

Test #1:

Opinion of business value:	\$593,920
Total Down payment + Debt:	<u>\$593,920</u>
Variance (Should be "0"):	\$0

Test #2:

Balance available to retire monthly debt plus ROI:	\$11,191
Structured monthly debt service payments:	- \$8,716
Monthly Cash Flow Before Taxes (ROI)	<u>- \$2,475</u>
Variance (Should be "0"):	\$0

TEST OF REASONABLENESS (CONTINUED)

Test #3:

Net operating income (NPBT):	\$134,286
Less: Balance available to retire debt service:	<u>\$104,590</u>
Amount available for buyer ROI:	\$29,696
Buyer required return on investment \$ (ROI):	\$29,696
Amount available for buyer ROI:	<u>\$29,696</u>
Variance (Should be "0"):	\$0

Test Conclusion:

The final opinion of value for Smith Dental Group Inc. of \$593,920 passes the "test of reasonableness" because: 1) The total of all of the purchase funds created from the down payment and structured financing, equals the final opinion of value. 2) The total monthly payments of all structured financing at the hypothetical sale price, equals the total amount of the spendable cash flow available to make such payments. 3) The total amount of cash flow needed to give the buyer a fair market return on their investment equals the balance of the spendable cash flow that is made available to make such a payment. 4) The integrity of the buyer's ROI is maintained because a fair market salary was used in the normalization of income streams process and therefore does not dilute the total cash flow stream structured for the buyer.

Therefore:

Based on the above analysis, the priced cash flows are sufficient to pay the assumed interest and principle due on the hypothetical purchase notes and existing notes.

SELLER PRETAX CASH POSITION
STOCK/EQUITY VALUE CALCULATR

HYPOTHETICAL TERMS OF ASSET SALE AT CALCULATED MARKET VALUE

Cash received from sale:	
Down payment from Buyer:	\$148,480
Financial Institution Financing:	
Auto/truck	\$0
Inventory	\$0
Machinery/Equipment	\$0
Other Financing	\$245,000
Office Furniture/Fixtures	\$0
Real Estate	\$0
Other Cash/Credit:	
Existing Cash from Business:	\$16,756
Accounts Receivable Trade:	\$0
Accounts Receivable Other:	\$0
Costs in Excess of Billings:	\$0
Prepaid Expenses:	\$0
Deposits:	\$0
Notes Receivable:	\$0
Total Cash Received:	\$410,236

Less cash/credit paid out from sale:	
Accounts Payable Trade:	\$0
Accounts Payable Other:	\$0
Notes Payable Other:	\$0
Accrued Expenses:	\$0
Notes Payable Current/Long Term:	\$0
Billings in Excess of Costs:	\$0
Other Current Liabilities:	\$0
Deferred Liabilities:	\$0
Other Long Term Liabilities:	\$0
Total Cash Paid Out:	

Net Cash/Credit Received from Sale: \$410,236

*The following unlisted balance sheet line-items are considered to be contributing assets and are assumed to stay in the business with the hypothetical buyer: Other Current Assets, Other Fixed Assets, and Other Assets.
Note: The actual seller proceeds received from a sale is totally dependent upon the final purchase terms.

Plus the seller will receive the following cash payments from the buyer:

Principal balance of seller loan:	\$200,440
Monthly Payments:	\$3,922
For a term period of:	5
@ Interest Rate:	6.50

Net Cash/Credit Received from Sale:	\$410,236
Principal Balance of Seller Loan:	\$200,440
Stock/Equity Value:	\$610,676

EVALUATOR DATA

APPRAISER'S INFORMATION

Name:	TASCON's Professional Practice Valuation Team
Title:	N/A
Designation:	N/A
Company:	The TASCON Group
Address:	6326 Stonefield Rd. Middleton, WI 53562
Phone:	608-827-6349
Email:	ppvt@tasconpracticevaluations.com
Website:	www.tasconpracticevaluations.com
% of Business Being Valuated:	100
Date of Valuation:	February 15 2020
Effective Date of Appraisal:	December 31 2019
Purpose of Valuation:	Purchase Model Valuation and Stock/Equity Value Calculation
Ownership Interest Being Valuated:	100
Type of Financial Statements Used:	In-house
Type of Sale:	Asset

BUSINESS PROFILE

Business Name:	Smith Dental Group Inc.
Business Address:	123 Main St Ste 103 Madison, WI 53517
Website:	www.smithdental.com
SIC/NAICS Code:	621210
SIC/NAICS Description:	Offices of Dentists
Business Owner:	Robert Smith
Title:	DDS
Business Owner's Phone:	555-123-4567
Business Owner's Email:	rsmith@smithdental.com
Type of Entity:	S Corporation
State/Province of Incorporation:	WI
In Business Since:	1986

MARKET VARIABLES USED IN ANALYSIS

INVESTMENT CRITERIA

Down Payment (as a % of S/P):	25
Investor Required Rate of Return:	20
Subject Business NPBT (as % of Sales):	N/A
Investor Other Cash Investments:	
Deferred Maintenance	N/A
Working Capital	N/A

MARKET STANDARDS

Owner Market Salary in Dollars:	N/A
Owner Market Salary as % of Sales	N/A

FINANCING

Number of Years to Analyze Income Statement	1
Beginning Year to Analyze	2019
Ending Month of Fiscal Year	December

LOANS:

BANK

Type	Bank
Source	
Estimated Market Value	\$350,000
Loan to Value Ratio (%)	70
Amount to Finance	\$245,000
Term Length (Years)	5
Interest Rate %	6.5
Seller/GAP/Mezzanine Financing	
Assets Used as Collateral	GBSA 2 nd
Term Length (Years)	5
Interest Rate %	6.5

Year 1

INCOME STATEMENT ADJUSTMENTS SUMMARY

	%	Actual Year Ending 12-31-2019	Adjustment Year Ending 12-31-2019	%	Adjusted Year Ending 12-31-2019
INCOME:					
Sales	100	\$788,982		100	\$788,982
Total Income	100	\$788,982	\$0	100	\$788,982
Cost of Goods Sold:					
Direct Costs - Patient Refunds	0.12	\$973	\$0	0.12	\$973
Total Cost of Goods Sold	0.12	\$973	\$0	0.12	\$973
GROSS PROFIT	99.88	\$788,009	\$0	99.88	\$788,009
LESS: OPERATING COSTS					
Total Variable Costs (See detail schedule on next page)	17.62	\$139,036	\$0	17.62	\$139,036
Fixed Costs					
Total Fixed Costs (See detail schedule on next page)	64.70	\$510,465	\$4,222	65.23	\$514,687
Total Operating Expenses (Fixed Costs plus Variable Costs)	82.32	\$649,501	\$4,222	82.86	\$653,723
Other Income (Expenses)					
Total Other Income (Expenses)	0.00	\$0	\$0	0.00	\$0
NET OPERATING INCOME (NPBT) (Before Debt Service)	17.56	\$138,508	(\$4,222)	17.02	\$134,286
LESS: ANNUAL DEBT SERVICE					\$104,590
CASH FLOW AFTER DEBT SERVICE (Return on Investment ROI)				20.00	\$29,696
Earnings Before Interest, Taxes, Depreciation, Amortization (EBITDA)				18.62	\$146,909
Debt Service Coverage Ratio (DSCR)					1.28

INCOME STATEMENT ADJUSTMENTS DETAIL

	%	Actual Year Ending 12-31-2019	Adjustment Year Ending 12-31-2019	%	Adjusted Year Ending 12-31-2019
Variable Costs					
Advertising & Promotion	0.53	\$4,194	\$0	0.53	\$4,194
Bad Debt	0.16	\$1,248	\$0	0.16	\$1,248
Bank Charges	0.56	\$4,435	\$0	0.56	\$4,435
Computer Support	1.41	\$11,128	\$0	1.41	\$11,128
Employee Benefits	0.19	\$1,479	\$0	0.19	\$1,479
Laundry, Cleaning	0.23	\$1,800	\$0	0.23	\$1,800
Laboratory	4.67	\$36,833	\$0	4.67	\$36,833
Office Supplies	1.10	\$8,703	\$0	1.10	\$8,703
Professional Meetings	0.18	\$1,405	\$0	0.18	\$1,405
Supplies - Dental	6.08	\$48,009	\$0	6.08	\$48,009
Temporary Help	0.96	\$7,550	\$0	0.96	\$7,550
Travel, Lodging & Entertainment	1.55	\$12,252	\$0	1.55	\$12,252
Total Variable Costs	17.62	\$139,036	\$0	17.62	\$139,036
Fixed Costs:					
Depreciation	1.17	\$9,251	\$3,372	1.60	\$12,623
Insurance	1.16	\$9,128	\$0	1.16	\$9,128
Insurance - Health/L.T.D.	4.01	\$31,628	(\$22,150)	1.20	\$9,478
Payroll Tax - Office	3.39	\$26,782	\$0	3.39	\$26,782
Postage, Mailings	0.19	\$1,498	\$0	0.19	\$1,498
Professional Fees	2.57	\$20,257	(\$3,000)	2.19	\$17,257
Rent	4.78	\$37,703	\$0	4.78	\$37,703
Repairs & Maintenance	0.55	\$4,315	\$0	0.55	\$4,315
Salaries - Owner	19.01	\$150,000	\$36,000	23.57	\$186,000
Salaries - Office/Hygienist	26.98	\$212,854	(\$10,000)	25.71	\$202,854
Telephone	0.72	\$5,672	\$0	0.72	\$5,672
Utilities	0.17	\$1,377	\$0	0.17	\$1,377
Total Fixed Costs	64.70	\$510,465	\$4,222	65.23	\$514,687
Total Operating Costs	82.32	\$649,501	\$4,222	82.86	\$653,723

COMMENTS – ADJUSTMENTS TO INCOME STATEMENT

ADJUSTMENTS FOR YEAR: 2019

<u>Line Item Adjusted</u>	<u>Comments</u>
Depreciation	Because the depreciation expense varies with the arbitrary replacement of fixed assets, it is adjusted to the RMA industry standard of 1.6% of sales.
Insurance - Health/L.T.D.	The owner's long term disability insurance and health insurance is added back because it is considered a personal expense.
Professional Fees	Professional services fees of \$3000 are added back for exit planning services because it was an extra-ordinary expense and will not be repeated.
Salaries - Owner	Owner's salary is set to \$186,000, a level higher than the RMA industry standard of 21.7% of sales to attract buyers needing a higher salary.
Salaries - Office/Hygienist	The owner's spouse is being paid \$10,000 more per year than it would take to replace her in the market at a similar position.

Year 1

BALANCE SHEET ADJUSTMENTS SUMMARY

	Actual Year Ending 12-31-2019	Adjustment Year Ending 12-31-2019	Adjusted Year Ending 12-31-2019
CURRENT ASSETS			
Total Current Assets	\$16,756	\$0	\$16,756
FIXED ASSETS			
Total Fixed Assets	\$36,512	\$0	\$36,512
OTHER ASSETS			
Total Other Assets	\$0	\$0	\$0
TOTAL ASSETS	\$53,268	\$0	\$53,268
CURRENT LIABILITIES			
Total Current Liabilities	\$0	\$0	\$0
LONG TERM LIABILITIES			
Total Current Liabilities	\$0	\$0	\$0
TOTAL LIABILITIES	\$0	\$0	\$0
NETWORTH			
Total Net worth	\$53,268	\$0	\$53,268
TOTAL LIABILITIES AND NETWORTH	\$53,268	\$0	\$53,268

BALANCE SHEET ADJUSTMENTS DETAIL

	Actual Year Ending 12-31-2019	Adjustment Year Ending 12-31-2019	Adjusted Year Ending 12-31-2019
CURRENT ASSET ADJUSTMENTS			
Total Current Assets	\$16,756	\$0	\$16,756
FIXED ASSET ADJUSTMENTS			
Total Depreciable Assets	\$350,009	\$0	\$350,009
Net Book Value	\$36,512	\$0	\$36,512
Total Fixed Assets	\$36,512	\$0	\$36,512
OTHER ASSET ADJUSTMENTS			
Total Other Assets	\$0	\$0	\$0
TOTAL ASSET ADJUSTMENTS	\$53,268	\$0	\$53,268
CURRENT LIABILITIES ADJUSTMENTS			
Total Current Liabilities	\$0	\$0	\$0
LONG TERM LIABILITIES ADJUSTMENTS			
Total Long Term Liabilities	\$0	\$0	\$0
TOTAL LIABILITIES	\$0	\$0	\$0
NETWORTH ADJUSTMENTS			
Total Networth	\$53,268	\$0	\$53,268

COMMENTS – ADJUSTMENTS TO BALANCE SHEET

ADJUSTMENTS FOR YEAR: 2019

<u>Line Item Adjusted</u>	<u>Comments</u>
Cash	No adjustments were found to be necessary.

STRUCTURED FINANCING SUMMARY

Source of Purchase Funds	Amount	Terms (yrs)	Interest	Mo. Payment
Financial Institution Financing:				
Other Financing	\$245,000	5	6.50	\$4,794
Seller Financing	\$200,440	5	6.50	\$3,922
Total	\$445,440			\$8,716

Total Annual Debt Service: \$104,592

BUYER'S PRETAX CASH FLOW

ANTICIPATED SALARY PLUS RETURN ON INVESTMENT

Purpose of Analysis: Valuation Calculation and Stock/Equity Value Calculation

Report Date: February 15 2020

Analysis as of (Date Ending): December 31 2019

Business Market Value:	\$593,920
Down payment Required:	\$148,480
Other Cash Investment(s) Required: (Deferred Maintenance, Working Capital, Other)	\$0
Total Investment Required:	\$148,480
Cash Flow Before Taxes % (ROI %):	20.00
Cash Flow Before Taxes \$ (ROI \$):	\$29,696
Buyer's Estimated Salary:	\$186,000
Total Buyers Annual Income (while paying monthly debt service):	\$215,696
Total Buyer's Annual Income (After monthly debt service is retired):	\$320,288

DEFINITION OF MARKET VALUE

The market value is the most probable price that a business should bring in a competitive and open market under all conditions necessary for a fair sale presuming the buyer and seller each act prudently, knowledgeably, and assuming the price is not affected by undue stimuli. Implicit in this definition are the consummation of a sale as of a specified date and the transfer of title from seller to buyer under the following conditions:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised and each of them is acting in what one considers one's own best interests.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash of the same currency which the business has adopted as their accounting standard or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the business sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

A fair market transaction must be a "win-win" for all parties concerned. Consequently, included within any fair market value determination of a going business, in its specific market, is the understanding that the normalized spendable income stream of the business will have to meet three criteria:

1. It must be able to support the structured debt service that is created from the business sale.
2. It must be able to pay the owner a fair salary as determined by the size, type and location of the business to current market standards.
3. It must be able to pay the owner a fair return on their investment as determined by current market standards.

STATEMENT OF LIMITING CONDITIONS

1. The establishing of the fair market value of this business is not based in whole or in part upon: the race, color, sex or national origin of the prospective owners or occupants of the business evaluated; or upon the race, color, sex or national origin of the present owners or occupants of the businesses in the vicinity of the business evaluated.
2. This evaluation has been made in conformity with the use of good, common accepted business and accounting practices.
3. In preparing this evaluation the evaluator has relied upon the representations made to him/her by the owners and/or management of the subject business, as well as certain information that the evaluator has compiled from sources believed to be reliable. Although the evaluator has attempted to verify such information to the extent possible, there can be no guarantee that such information is true and correct. Any inaccuracies in information on which the evaluation is prepared could materially affect the valuation of the subject business.
4. The evaluator has used financial sources such as the business' tax forms to assure the accuracy of this report. These forms are signed by the owner and/or management of the business certifying to the government that it is a true and accurate representation of the financial condition of the business.
5. The evaluator has mathematically compiled the final opinion of value through the use of commonly accepted accounting practices. The evaluator assumes no liability in the determining of this value.
6. This analysis cannot be duplicated or otherwise copied in whole or in part without the permission of the evaluator.

7. It is understood that the evaluator is not required to give testimony or appear in court because of having made this evaluation with reference to the business in question, unless arrangements have been previously made.
8. This report is not an appraisal or a full fair market valuation, but rather a “calculation” of value only! Unlike a full fair market valuation, for the sake of time in its creation, certain valuation procedures were omitted that could affect its final accuracy. Only one valuation methodology, the optimization method, was used in its creation. This method is more specifically defined in the “Standard of Value” paragraph contained within the Business Valuation Summary section of this report.
9. During the recasting of the financial statement, depreciation, owner salary, employee bonuses, employee profit sharing, owner bonuses, interest and other line items disclosed by the subject company have been reviewed for adjustment during the data collection process. However, there may be line items that a full fair market valuation would adjust that this value calculation has not. Accordingly, there can be no assurance that all adjustments that would have a material impact on the calculation of value were in fact made.
10. Only one financial year may have been used for this analysis. If profitability in the one year utilized resulted from factors that were unique to that year or otherwise unlikely to occur in the future, the calculated valuation may vary substantially from the valuation that would result from use of a more “typical” year. In addition, this valuation calculation was prepared based upon certain assumptions concerning the structure of a sale or other disposition of the subject business. Differences between the assumed structure and that actually utilized could result in material differences in the value of the business.
11. Although we believe this value to be a solid representation of the fair market value because of its verifiable and objective methodology, the final calculated value may

differ with the final opinion of value that would be determined had a full market valuation been performed. Moreover, fair market valuations are subject to many variables, including unanticipated future events, which could have a material impact on the ultimate value of a business. **There is no guarantee that the estimated fair market value will in fact be a value that could be realized upon sale or other disposition of the subject business.**

APPENDICES

TAX FORMS

FINANCIAL STATEMENTS

MISCELLANEOUS SUPPORTING DOCUMENTATION