

Meridian QoE Advisory

Quality of Earnings Report

Northshore Family Dental Group | Proposed SBA 7(a) Change-of-Ownership Financing

Target	Northshore Family Dental Group, PLLC: general dentistry practice with three offices in the northern suburbs of a Midwest metro area
Prepared for	Mock Community Bank (SBA Lending Department)
Engagement scope	Focused-scope lender QoE for a smaller transaction
Periods reviewed	FY2023, FY2024, FY2025 and trailing twelve months (TTM) ended August 31, 2026
Transaction	Asset purchase by an associate dentist of the practice; selling owner remains for a 12-month clinical transition
Report date	October 6, 2026

\$4.29M	\$802K	\$732K	46%	1.40x
TTM revenue	TTM Adjusted EBITDA	Pro forma Adj. EBITDA	Owner share of production	Est. DSCR (illustrative)

1. Executive Summary

We performed focused-scope quality of earnings procedures on Northshore Family Dental Group (the "Practice") at the request of the lender. Reported TTM EBITDA was \$663K. After adjustments, Adjusted EBITDA is \$802K (18.7% margin), and Pro Forma Adjusted EBITDA is \$732K after a known insurance fee reduction and a hygiene wage increase. The \$3,200K purchase price implies 4.0x Adjusted EBITDA and 4.4x Pro Forma Adjusted EBITDA.

Collections tie to bank deposits within 0.3%. The books are kept on the cash basis, which we converted to accrual for receivables, payroll and patient credit balances. Key considerations are owner dependence, insurance payer concentration and a related-party lease that must be replaced at closing (Section 9).

2. Sources and Uses (\$000s) and Scope

Sources	Amount	%	Uses	Amount
SBA 7(a) term loan	2,880	84.3%	Purchase price (asset purchase)	3,200
Seller note (24-mo full standby)	180	5.3%	Working capital funding	120
Buyer cash equity	355	10.4%	SBA guaranty fee, closing & transaction costs	95
Total sources	3,415	100.0%	Total uses	3,415

Provided by the lender for context only. Financing structure was not within the scope of our procedures.

- Reconciled monthly P&L to tax returns (FY2023 to FY2025) and to bank deposits for all 44 months.
- Tested collections by payer against the practice management system, insurance remittances and deposit detail.
- Reviewed owner and family payroll, related-party rent, patient credit balances and a sample of 40 Medicaid claims for documentation.
- Converted cash-basis balances to accrual, prepared a summary balance sheet and identified debt-like items.
- Interviewed the owner dentist, the office manager and the outside bookkeeper. This is not an audit or review, and no opinion is expressed.

3. Adjusted EBITDA and Earnings Bridge (\$000s)

	FY2023	FY2024	FY2025	TTM Aug-26
Revenue (net collections)	3,540	3,810	4,120	4,290
Net income	380	410	452	488
Interest expense	31	28	25	23
Income taxes (state/entity)	12	14	15	16
Depreciation & amortization	118	124	131	136
Reported EBITDA	541	576	623	663
Reported EBITDA margin	15.3%	15.1%	15.1%	15.5%
A1 Owner and spouse compensation normalized to market	105	112	118	125
A2 Owner personal expenses	28	31	27	24
A3 Related-party rent adjusted to market	(36)	(36)	(36)	(36)
A4 Non-recurring practice management system conversion	-	-	-	41
A5 Unapplied patient credit balances recorded as revenue	(9)	(12)	(14)	(15)
A6 Employee Retention Credit recorded as other income	(74)	-	-	-
Total diligence adjustments	14	95	95	139
Adjusted EBITDA	555	671	718	802
Adjusted EBITDA margin	15.7%	17.6%	17.4%	18.7%
PF1 Payer A fee schedule reduction effective Jan-2027				(48)
PF2 Hygienist wage increase effective Jul-2026, annualized				(22)
Pro Forma Adjusted EBITDA (TTM)				732

Amounts in thousands of US dollars. Parentheses indicate reductions to EBITDA. Pro forma adjustments apply to the TTM period only.

A1. The owner dentist and spouse (office manager) received combined W-2 compensation of \$535K to \$545K in the TTM period. Market replacement cost for an associate-level clinical dentist and an office manager is estimated at \$415K fully loaded. The adjustment adds back the excess.

A2. Personal vehicle, family phones and non-business travel identified in the general ledger and confirmed by the owner.

A3. Office A is leased from an entity owned by the seller at below-market rent. The adjustment reflects the market-rate lease the buyer expects to sign at closing.

A4. Data migration, training and duplicate licensing costs for the Mar-2026 practice management system conversion. Non-recurring.

A5. Insurance overpayments and unapplied patient credits were recognized as revenue when received. The adjustment removes the annual increase.

A6. ERC refund received in FY2023 and recorded in other income. Removed as non-operating and non-recurring.

PF1. Payer A notified the Practice of a 4% fee schedule reduction effective Jan-2027. **PF2.** Hygienist wages rose about 7% in Jul-2026.

4. Revenue Quality and Concentration

Collections by payer (\$000s)	TTM	% of total
PPO dental insurance	2,488	58.0%
Fee-for-service and self-pay	1,030	24.0%
Medicaid and CHIP	386	9.0%
In-house membership plan	386	9.0%
Total	4,290	100.0%

Collections by office (\$000s)	TTM	% of total
Office A (flagship, related-party building)	1,880	43.8%
Office B	1,410	32.9%
Office C (opened 2021)	1,000	23.3%
Total	4,290	100.0%

Revenue grew 7.6% in FY2024 and 8.1% in FY2025. The largest PPO payer (Payer A) is 27% of collections, and the top three payers are 51%. The owner dentist produced 46% of TTM collections; two associate dentists produced 31%, and hygiene produced 23%.

5. Proof of Cash (TTM, \$000s)

Item	Amount
Total revenue per P&L	4,290
Less: increase in patient and insurance receivables	(34)
Add: increase in membership prepayments	8
Expected deposits	4,264
Actual practice deposits per bank statements	4,251
Unexplained variance	(13) (0.3%)

Variance is within our 1% tolerance. Owner contributions and transfers between Practice accounts were excluded.

6. Net Working Capital Trend (monthly average, \$000s)

Component	FY2023	FY2024	FY2025	TTM Aug-26
Patient and insurance receivables	290	312	338	352
Clinical supplies	52	57	61	64
Prepaid expenses	22	24	26	28
Accounts payable	(96)	(104)	(112)	(118)
Accrued payroll	(114)	(125)	(136)	(142)
Patient credit balances and membership prepayments	(51)	(58)	(66)	(71)
Normalized net working capital	103	106	111	113
NWC as % of revenue	2.9%	2.8%	2.7%	2.6%

Accrual-basis balances prepared by us from the practice management system and payroll records. TTM days in receivables averaged 30 days. A peg near the TTM average of \$113K is suggested.

7. Summary Balance Sheet and Debt-Like Items (\$000s)

Balance sheet at August 31, 2026 (accrual-adjusted)		Amount
Cash		286
Patient and insurance receivables		361
Clinical supplies		66
Prepaid expenses		31
Dental equipment and imaging, net		612
Leasehold improvements, net		248
Total assets		1,604
Accounts payable		121
Accrued payroll		149
Patient credit balances		74
Equipment loans		286
Total liabilities		630
Owner's equity		974
Total liabilities and equity		1,604

Debt and debt-like item	Aug-31-26	Treatment
Equipment loans	286	Repaid at closing
Patient credit balances (refund obligations)	74	Debt-like; seller to fund
Accrued PTO (not recorded)	38	Debt-like; negotiate
Deferred replacement of two operatory chairs and a sterilizer	45	Debt-like capex catch-up
Related-party lease for Office A	-	Replace with market lease (A3)

Maintenance capital expenditures averaged \$85K per year, mainly imaging, chairs and sterilization equipment.

8. Accounting Policies

- **Basis of accounting.** Cash basis, kept by an outside bookkeeper. Tax returns are filed on the cash basis. We converted receivables, payroll accruals and patient credit balances to the accrual basis for this report.
- **Revenue.** Recognized when collected. Insurance write-offs are posted when remittances are received. Membership plan fees are collected monthly or annually in advance.
- **Departures from GAAP.** Cash-basis revenue, credit balances recorded as revenue (A5), unrecorded PTO, and equipment under \$5,000 expensed when purchased.
- **Compliance.** Our sample of 40 Medicaid claims found no documentation exceptions. This was not a billing compliance audit.

9. Key Findings, Risk Assessment and DSCR

- **Earnings quality: moderate to high.** Collections tie to deposits within 0.3%, and adjustments are documented and largely non-recurring.
- **Owner dependence.** The owner produced 46% of collections. The 12-month clinical transition and retention of both associates are important.
- **Payer concentration.** Payer A is 27% of collections, and its Jan-2027 fee reduction is reflected in PF1.
- **Lease risk.** Adjusted EBITDA assumes a new market-rate lease for Office A (A3). Final terms should be confirmed before closing.
- **Staffing.** Hygiene wages are rising across the market (PF2). Two of five hygienists have been with the Practice under two years.

Illustrative debt service coverage (\$000s)	Annual
Pro Forma Adjusted EBITDA (TTM)	732
Less: maintenance capital expenditures	(85)
Cash available for debt service	647
SBA 7(a) loan: \$2,880K, 10 years, 10.25% (illustrative)	462
Debt service coverage ratio	1.40x

Illustrative only. Rate, term and coverage calculations are the lender's responsibility.

10. Limitations

This is a fictional sample report published by FindSBAQoE.com to illustrate the format of a focused-scope, lender-engaged Quality of Earnings report. Meridian QoE Advisory, Northshore Family Dental Group, Mock Community Bank, and all figures and findings are fictitious. It does not describe any real company or engagement and must not be relied upon for any credit, investment or transaction decision.