DOUGHERTY & COMPANY LLC
Equity Research

Health Care Services

June 24, 2018

First Choice Healthcare Solutions, Inc.

FCHS - OTCQB

Rating: Buy
Price Target: $2.50
Reason for Report: Initiating Coverage

An Innovative Model for Orthopedic Care; Initiating Coverage with Buy Rating & $2.50 Price Target

Investment Conclusion:
We are initiating coverage of First Choice Healthcare Solutions (FCHS) with a Buy rating and $2.50 Price Target, equivalent to 10x our 2019 EBITDA forecast of $7.5 million. FCHS is a regional, progressive and non-physician-owned model of care leveraging an integrated network of orthopedic surgeons, physicians, and diagnostic and therapeutic services to deliver quality orthopedic outcomes at a reasonable cost. Importantly, FCHS patients undergo fewer surgeries than the industry average, as many diagnoses can be treated with non-surgical options, driving better outcomes for the patient and lower cost. FCHS is expanding beyond Brevard County, FL to Indian River County, whereby we model 2019 EBITDA nearly doubling on a 45% increase in net patient revenue. The recent $7.5M investment by Steward Healthcare is a vote of confidence in the FCHS platform and gives the company the resources to expand beyond Florida. We advise small- and micro-cap investors to take a close look at this name.

Key Points:

- **"Break a Leg" with FCHS:** FCHS is one of the only non-physician owned integrated models for Orthopedic and Spine care, delivering diagnosis, treatment and recovery, through surgery as appropriate and ancillary services including imaging and a growing physical therapy presence.

- **We believe there is the potential for Average patient value (APV) to expand from $8,500 to as much as $10,000 over time through more comprehensive services**: APV, defined as total patient service revenues divided by number of surgeries completed, is expected to increase as FCHS adds more ancillary services like additional physical therapy and potentially lab and home health;

- **FCHS' investment from Steward presents opportunity to expand into new markets**: First Choice's strategy is to organically develop or strategically acquire practices that focus on orthopedic and spine care. The Steward channel opens opportunities in new geographies such as Indian River County with the capacity to do an additional 2,000+ surgeries over time;

- **Plan to up list to Nasdaq market upon continued execution, stock price**: Based on our model which forecasts close to $40 million in 2018 revenue and $54 million in 2019 revenue, applying an in-line multiple would drive a stock price well north of $2, enabling FCHS to up list to a national exchange;

- **Attractive valuation at just 4.5x our 2019 EBITDA forecast:** We forecast FCHS to generate $4M in EBITDA this year and nearly double to $7.5M in 2019 owing to organic growth combined with the Vero Beach expansion. Current valuation is a meaningful discount to select healthcare services comps that trade at 10x forward EBITDA. Our $2.50 target is based on a 10x EV/EBITDA multiple on 2019 estimates.

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Price	$1.26
52 Week Range	$0.90 - $1.54
Mkt Cap (MM)	$41
EV (MM)	$35
Shares Out (MM)	32.5
Avg Daily Vol (000)	12
Long-term Growth	20%

Revenues (MM)	FY 17A	FY 18E	FY 19E
Mar	$7.7	$8.8A	$12.9
Jun	$8.2	$9.0	$13.4
Sep	$7.7	$8.6	$12.8
Dec	$5.1	$12.0	$15.4
FY	$28.7	$38.4	$54.4
EV/Sales	1.2x	0.9x	0.6x

EBITDA (MM)	FY 17A	FY 18E	FY 19E
Mar	$0.5	$0.7A	$1.6
Jun	$0.4	$1.0	$1.9
Sep	$0.2	$0.9	$1.8
Dec	$(2.8)	$1.4	$2.3
FY	$(1.7)	$4.0	$7.5
EV/EBITDA	(20.6)x	8.8x	4.7x

EPS	FY 17A	FY 18E	FY 19E
Mar	$0.01	$0.01A	$0.03
Jun	$0.00	$0.02	$0.04
Sep	$(0.02)	$0.01	$0.04
Dec	$(0.13)	$0.03	$0.05
FY	$(0.15)	$0.07	$0.17
P/E	(8.4)x	18.0x	7.4x

Headquartered in Melbourne, Florida, First Choice Healthcare Solutions (FCHS) is implementing a defined growth strategy aimed at expanding its network of non-physician-owned medical centers of excellence, which concentrate on treating patients in the following specialties: Orthopedics, Spine Surgery, Interventional Pain Management, Physical Therapy and other ancillary and diagnostic services in key expansion markets throughout the U.S. Serving Florida's Space Coast, the Company's flagship integrated platform currently administers over 100,000 patient visits each year and is comprised of First Choice Medical Group, The B.A.C.K. Center and Crane Creek Surgery Center. First Choice was founded in 2010 and employs approximately 189 people.

Analyst certification and disclosures begin on page 11

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INVESTMENT THESIS

Integrated platform drives a balance and diversification of revenue streams at lower cost
The attractiveness of the First Choice business model stems in large part from the integrated nature of its platform, combining diagnostic care, therapeutic and post-acute (recovery) care, and ancillary services inclusive of imaging services and DME. First Choice believes that its work-up processes and care protocols often result in *fewer* surgeries than competitors, which incidentally is higher margin for FCHS while incurring lower healthcare costs – an aspect that is appealing to payors in a value-based care environment.

First Choice lets "Doctors be Doctors": In contrast to hospital-employed physicians who work long hours, are subject to hospital bureaucracy, and get paid largely on salary (albeit very good ones), working for First Choice gives these physicians more freedom and flexibility, a better lifestyle, and frequently, more take-home pay. Similarly, we note that independent physicians that manage their own practices are on the decline. A 2015 survey by The Physician's Foundation reported that only 35% of physicians had independent practices, vs. 62% in 2008. In fact, administrative burden is the primary cause of physician burnout (source: Medscape). Among surveyed physicians, 56 percent who are self-employed and 66 percent who are employed spent 10 or more hours a week on paperwork and administrative tasks. We believe this is due in large part to the increasing regulatory burden under the ACA, high IT costs/requirements under the Meaningful Use program, and other pain points that make a "First Choice" lifestyle a more appealing career alternative.

Focus on delivery of ancillary services drive up EBITDA exponentially: FCHS uses the metric "Average Patient Value", or APV, to demonstrate the total revenue per patient, inclusive of diagnostic and recovery services like imaging/MRI, and physical therapy, respectively. APV declined from $10,144 in 2016 to $9,296 in 2017 as a result of a write-off of $3.2 million in bad debt. Nonetheless, over time we expect APV to ramp back to the $10,000 level as FCHS delivers more ancillary and therapeutic services. As one example, Physical therapy visits were 10,000 in Q118 compared to 3,800 in the prior year quarter. We estimate that visits are trending at 1,000 visits per week in Q2, at a price of $87/visit, and the company plans to open another facility in Q3. The company has additional capabilities to expand its ancillary services in lab, home healthcare and additional diagnostics that have the potential to increase APV to as high as $10,000. Importantly, diagnostic, imaging and PT carry a higher margin than surgery (as much as 3x), which is a meaningful driver of the EBITDA expansion that we project.

Expansion into Indian River County boasts higher Medicare reimbursement: One of the benefits of expanding the First Choice Platform to Vero Beach is a Medicare reimbursement rate that is approximately 7% higher than Brevard County. As of Q1, revenue from Medicare was 36% of total. Longer term, FCHS has an opportunity to leverage the 34 other hospitals nationwide that are under Steward's ownership

FCHS will leverage Steward's GPO savings: Through its partnership with Steward, First Choice will be able to reap some of the savings through the use of Stewards' GPO, which should drive 10-15% in equipment discounts.

Attractive valuation and a material discount to comps: FCHS is on a path to meaningful revenue and EBITDA expansion as it increases surgery volumes, layers on more ancillary services, and expands into new markets like Indian River County. Meanwhile, the stock trades at less than 1x our 2019 revenue forecast and 4.5x EBITDA, a discount to comps at 1.3x and 10x, respectively.

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The Market for Orthopedic Procedures and the Steward Healthcare Investment

U.S. spending on health care increased 4.3 percent in 2016 to $3.3 trillion, or $10,348 per person (Source: Center for Medicare & Medicaid Services). Back pain alone comprised $40 billion of this statistic. There were approximately 6 million orthopedic surgeries last year, and that number is expected to grow to 6.6 million by 2020 (source: DataMonitor). The increase in surgeries corresponds with the growth in the aging population. The data suggests that the vast majority of surgeries occur among ages 45-64 years old. First Choice estimates that the total market for orthopaedics in Brevard County alone is north of $150 million.

Exhibit 1: Number of Orthopaedic Surgeries Estimated by Age

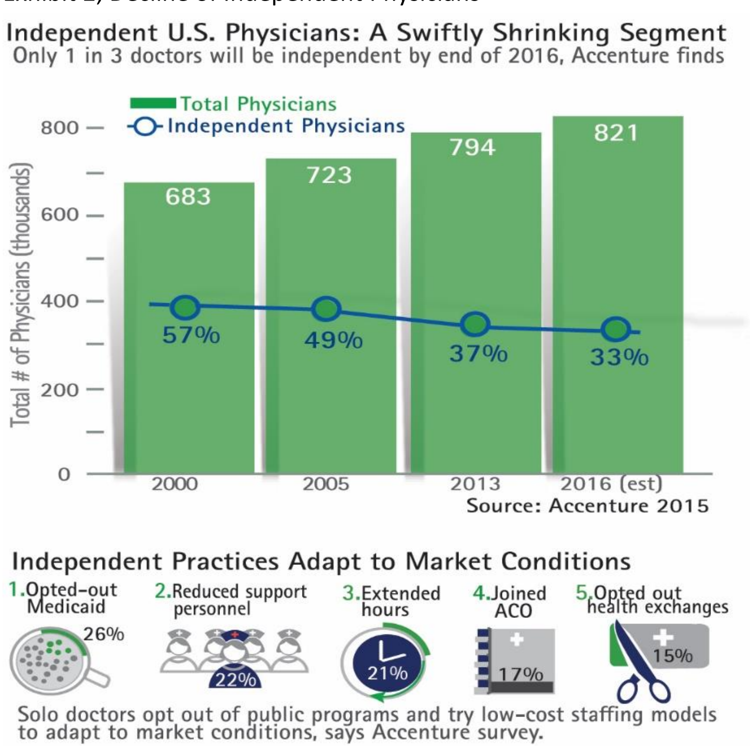
Age Range	Number Surgeries Estimated in 2020
< 15 years old	106,900
15 – 44 years old	579,300
45– 64 years old	> 44,000,000
>65 years old	3,000,000

Source: Datamonitor

Several macroeconomic tailwinds and growth drivers are working in First Choice's favor that contribute to our investment thesis. Some of these include…

1) Physicians are continuing to seek alternatives to owning and operating private practices. Accenture (ACN, Unrated) estimates that one-third of physicians operated in independent practices last year, down from nearly 60% 15 years ago.

Exhibit 2; Decline of Independent Physicians



Source: Accenture

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2) Owing to the spiraling cost of healthcare and government efforts to rein in spending, there is a secular shift of healthcare services underway to lower acuity outpatient settings, such as ambulatory surgery centers and home healthcare; and

3) The industry is being redefined by a movement to bundled and global reimbursement models, which require that providers and other stakeholders work together on innovative strategies to reduce system inefficiencies, share savings and improve the overall quality of care.

Moreover, demographic trends, namely an aging population and the desire to stay more active later in life, have provided a healthy backdrop for the Orthopedics industry. According to a 2016 Merritt Hawkins (AMN, Unrated) survey, orthopedic surgeons generate the highest amount of revenue for hospitals of any specialty. Full-time orthopedic surgeons generate an annual $2.7 million of revenue according to the survey and get paid a salary of approximately $500,000. This compares to $2.2 million in revenue generated by generalist surgeons and $1.4 million for primary care physicians. Given these economics to the hospital, It is no wonder that Steward Healthcare made a $7.5 million investment for 5 million shares of FHCS at $1.50/share for a 15% equity interest in March of 2018.

The strategic alliance with Steward affords First Choice the opportunity to expand its orthopedic and spine care delivery platform longer term into Steward's 36-hospital network nationwide. FCHS states that its platform in Florida leveraging the surgery capacity of 3 hospitals has the ability to drive $65 million of revenue at scale. Therefore, the theoretical addressable market is greater than $2 billion when one considers Steward's additional 34-hospital network and other potential markets. Presently, First Choice Medical Group (FCMG) of Brevard, a subsidiary of First Choice, utilizes two of Steward's facilities in Brevard County. Last month, FCHS announced that it is expanding its platform to Indian River County, specifically Vero Beach and Sebastian, FL, where it will utilize Sebastian River Medical Center (purchased by Steward in May of 2017) for surgeries. First Choice is presently recruiting surgeons for the Vero Beach location, and we expect that they will have three up and running by Q119. FCHS is seeking Steward's "stamp of approval" as it enters into the Vero Beach market, in which case the company may be able to expand to Steward's other geographies. Further, it is our sense that First Choice's demonstration of positive outcomes is resonating with payors, as FCHS is renegotiating certain payor contracts with more favorable economics and expanding coverage.

PRODUCTS & SERVICES

Facilities

FCHS currently operates three "Medical Centers of Excellence" - First Choice Medical Group (locations in Melbourne and Viera), The B.A.C.K. Center ("TBC" - 2 locations in Melbourne and Merritt Island), and Crane Creek Surgery Center (acquired majority ownership in Q118 and co-located with the BACK center in Melbourne). FCHS delivers medical services, including orthopedic and spine surgeries, diagnostic services including imaging (e.g. x-ray, MRI, etc) and durable medical equipment ("DME") via these locations. In addition to the below, First Choice is currently executing on its plan for an 18,000 square foot facility in Vero Beach, where it expects to open multiple physical therapy locations to service the market.

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First Choice Medical Group (FCMG)

FCID Medical is the subsidiary under which FCHS wholly owns and operates First Choice Medical Group of Brevard, LLC, its original Medical Center of Excellence located in Melbourne, Florida. FCMG specializes in the delivery of Orthopedics, Sports Medicine and Interventional Pain Medicine, as well as diagnostic and ancillary services. For the first quarter of 2018, FCMG generated $3.4 million of revenue (38% of total), up 18% over Q1 of 2017.

Brevard Orthopedic (The Back Center – "TBC")

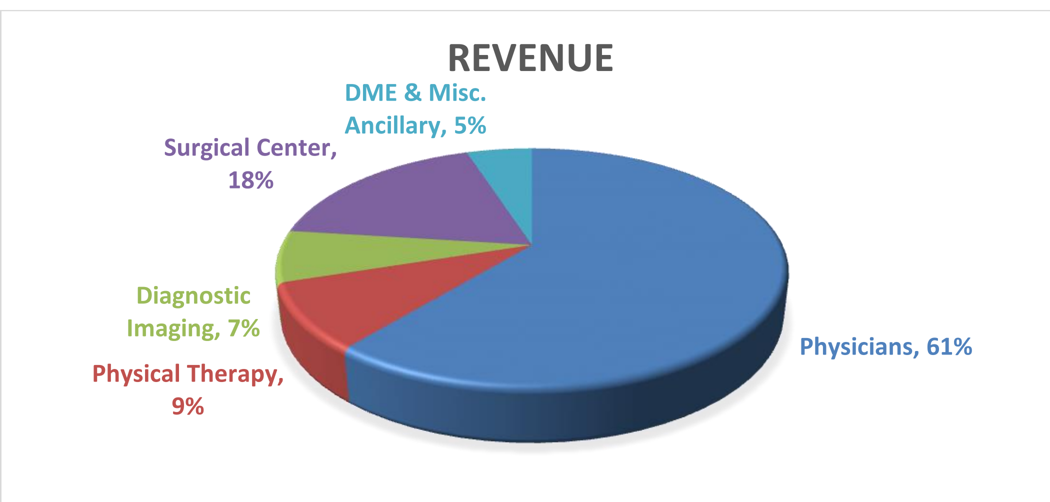
TBC Holdings of Melbourne, Inc. ("TBC Holdings") is the wholly owned subsidiary that operates and controls Brevard Orthopaedic Spine & Pain Clinic, Inc., d/b/a The B.A.C.K. Center ("TBC"). Pursuant to an Operation and Control Agreement with The B.A.C.K. Center, TBC Holdings exercises effective control over the business of the practice to treat it as a Variable Interest Entity, effective May 1, 2015. As such, FCHS includes the financial results of TBC in its consolidated financial statements. TBC specializes in Orthopedic Spine Surgery and Interventional Pain Management and generated $3.6 million, or 42% of patient services revenue in Q118, an increase of 18% Y/Y. TBC also generates about $1.3 million of annual rental revenue from the sublease of 30,000 feet of commercial office space, which comprised 4.5% of total revenue in 2017.

Crane Creek Surgery Center (CCSC)

In October of 2015, FCHS acquired 40% of CCSC and was entitled to 51% of the voting rights affecting Crane Creek. Then in Q1 of 2018, FCHS acquired an additional 25% of CCSC and now has majority voting rights. Through astute medical management and assuming control of CCSC from the prior management company, FCHS turned CCSC profitable in Q1, following losses in 2017. CCSC generated $1.2 million in Q118 revenue, 14% of total revenue, up 1% over the prior year quarter.

Via expansion of higher-margin ancillary services including physical therapy and imaging (9% and 7% of revenue respectively), First Choice entered 2018 with a diversified mix of revenue as per Table 3 below. Moreover, the diversification of FCHS' model provides some insulation from variability in reimbursement.

Exhibit 3: FCHS Revenue by Category



Source: First Choice Healthcare

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MANAGEMENT

Christian ("Chris") C. Romandetti, Chairman, President & CEO: Mr. Romandetti has served as FCHS' Chairman, President and CEO since December 2010. In this role, he is responsible for articulating the company vision and executing strategies delivering clinically superior, patient-centric care and improved clinical outcomes. Since 2003 through the present, Mr. Romandetti has been the Managing Member of Marina Towers, LLC, and the Managing Member of C&K, LLC, a property holding company. Previously, he was a founding director of Sunrise Bank, a community bank serving local businesses in Florida's Space Coast and served as an executive officer for numerous companies in the real estate, marine, automotive and construction products industries.

Phillip J. Keller, CFO: From 2014 through 2015, Mr. Keller served as Senior Vice President of Finance and Chief Financial Officer of RehabCare Inc., a provider of physical, occupational and speech-language rehabilitation services to hospitals, skilled nursing facilities and home care settings in 47 states across the United States of America. Prior to joining RehabCare Inc. in 2014, Mr. Keller served as Senior Vice President of Finance of PharMerica, Inc. (NYSE: PMC), an institutional pharmacy servicing skilled nursing and assisted living facilities, hospitals and other long term alternative care facilities. Other previous executive posts have included Senior Vice President of Finance and Principal Accounting Officer of BioScrip, Inc. (BIOS, unrated), and Vice President of Finance, Chief Financial Officer and Treasurer of DMI Furniture Inc. (NASDAQ: DMIF). In May 1991, Mr. Keller earned his Certified Public Accountant license. He began his career working as a Staff Accountant for Laventhol & Horwath after graduating from the Loyola University of Chicago with a B.S. degree in Accounting.

Kris Jones, VP of Medical Operations: Ms. Jones is responsible for daily oversight and management of the Company's Medical Centers of Excellence, ensuring that they achieve maximum efficiencies while delivering optimal patient experience. She is also charged with developing and implementing effective systems, processes and controls that are capable of being successfully scaled and replicated across our expanding clinical operations. Ms. Jones directs teams to help ensure that positive results are achieved across all fundamental business metrics, including financial performance, care quality, patient safety and satisfaction, staffing and training, and market penetration. She also conducts due diligence on prospective acquisitions, physician recruitment and credentialing, contract review and negotiations, market analysis and financial reporting. Prior to joining First Choice in October 2011, Ms. Jones served as Director of a multi-physician, multi-specialty and multi-location medical practice. Kris is a graduate of the University of Central Florida, where she earned a Bachelor of Arts degree in Communications.

FINANCIAL ANALYSIS

"If it Ain't Broke, Don't Fix It" Revenue model – Focus on Appropriateness of Surgeries and More Ancillaries

Leveraging FCHS' surgeons' deep expertise in orthopedics, the company's "work-up" protocols demonstrate that typically only one of four orthopedic patients undergoing a surgical evaluation necessitate a surgery. This concept is somewhat counter-intuitive in that more surgeries/volumes translate to more revenue. While that may be true in a traditional, fee-for-service environment, the profitability on surgeries is low relative to non-surgical procedures like physical therapy, imaging, DME, etc, which boast gross margins of 30%-50%+. Therefore, in most cases the gross profit dollars to FCHS by avoiding a surgery are equal to, or better than, the surgical option.

The upshot of this also, and what is of interest to payors, is the meaningful savings to the healthcare system that FCHS delivery by its bias not to "overutilize". We are not suggesting that FCHS is incentivized to avoid surgeries, but rather do them based on appropriateness while considering the best outcome(s) for the patient.

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Look for Average Patient Value (APV) to Increase Based on More Ancillary Services

Given First Choice's focus on the "totality" of revenue and inputs that make up a patient episode, the company introduced the term Average Patient Value ("APV"), which is essentially the average total revenue per patient inclusive of surgery and ancillary/diagnostic services like imaging, physical therapy, and durable medical equipment (DME). APV was $8,000 in 2017, down from $10,000 in 2016, due to a write-off of $3.2 million of bad debt in Q417. IN Q118, APV was trending about $8,600, which we expect to move higher this year, as the company delivers more physical therapy services. The potential to add home health, lab services and other additional ancillary services is also on the table in 2019, though that is not included in our model presently, and could potentially contribute an additional $500 of APV. The current mix of physician/ancillary services if roughly 60/40, and the ratio is expected to level out over the intermediate term to 50/50 as a higher proportion of ancillary services are delivered. In doing so, we believe that FCHS can generate an incremental 15-20% of EBITDA, owing to the increasing mix and favorable margin profile of ancillary services. For example, we model APV increasing from $8,600 in Q118 to $9,000+ in H219, and approaching $10,000 exiting 2020.

Rental Income from Marina Towers Sale/Leaseback

FCHS formerly owned the building, Marina Towers, where the FCHS Medical Group resides. The Company sold it to Global REIT for $15.45 million on March 31, 2016, grossing FCHS approximately $9 million. Additionally, FCHS' subsidiary Marina Towers, LLC, leased back the building under a 10-year Master Lease Agreement. It currently sublets 38,000 square feet, or about half the building, and receives rental income of approximately $550,000 – $575,000 per quarter.

Expecting EBITDA of $4 Million in 2018, Exiting 2019 at an $9M Annual Run Rate

FCHS generated $736,000 of EBITDA in Q1, concurrent with the successful turnaround of CCSC, and up 200bps Y/Y. Importantly, the company no longer adds its bad debt provision to get to its adjusted EBITDA number, which reflects a conservative view. We forecast close to $1 million of EBITDA in Q2, and $4M in EBITDA for the full year 2018. Next year, based on that baseline run rate and making assumptions around increased volumes and the Vero Beach expansion that should commence in January 2019 and gradually ramp, we model EBITDA of $7.5 million in 2019, exiting the year at greater than a $2.0M/quarter run rate. As we see it, the four keys to EBITDA expansion include:

1) doubling surgeries from 3,000 to 6,000+ over a period of 24 months with only modest increases in corporate overhead,
2) establishing platforms in new geographies with more favorable reimbursement dynamics (e.g. 7% higher Medicare reimbursement in Indian River County than Brevard County),
3) increasing the mix of ancillary services, and
4) cost savings through leveraging Steward's GPO for equipment and other purchases.

Valuation

Our $2.50 Price Target is based on a 10x multiple applied to our 2019 EBITDA forecast of $7.5 million, in line with the healthcare services peer group that we use to comp FCHS (see exhibit 4 below), and considers net cash of $6 million, or $0.25/share.

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Exhibit 4: Healthcare Services Comps

Healthcare Services Comps

Company	Ticker	Rating	Stock Price 6/20/18	shares out (MM)	Mkt Cap ($MM)	EV	Rev 2018E	Rev 2019E	EPS FY18E	EPS FY19E	P/E FY18E	P/E FY19E	EV/2018 Sales	EV/2019 Sales	2018 EBITDA	2019 EBITDA	EV/2018 EBITDA	EV/2019 EBITDA	2019 Rev Growth	2019 EV/Ebitda/ Growth
Envision Healthcare	EVHC	NR	44.77	120	5372	11372	8411	9000	3.59	4.05	12.5	11.1	1.4	1.3	995	1074	11.4	10.6	7.0%	1.5
MEDNAX	MD	NR	45.81	93	4260	5360	3730	3980	4.19	4.49	10.9	10.2	1.4	1.3	616	659	8.7	8.1	6.7%	1.2
Lifepoint Health	LPNT	NR	54.6	39	2129	4929	6340	6480	4.29	4.47	12.7	12.2	0.8	0.8	739	764	6.7	6.5	2.2%	2.9
Surgery Partners	SGRY	NR	16.5	49	809	2999	1762	1903	0.13	0.61	126.9	27.0	1.7	1.6	243	278	12.3	10.8	8.0%	1.3
U.S. Physical Therapy	USPH	NR	100.65	12.7	1278	1306	443	465	2.44	2.68	41.3	37.6	2.9	2.8	61	66	21.4	19.8	5.0%	4.0
Radnet	RDNT	NR	14.35	48.5	696	1246	957	994	0.38	0.61	37.8	23.5	1.3	1.3	143	162	8.7	7.7	3.9%	2.0
ApolloMed	AMEH	BUY	20.04	38	762	662	535	588	0.50	0.63	40.1	31.8	1.2	1.1	55	65	12.0	10.2	9.9%	1.0
Nobilis Health	HLTH	NR	1.25	78.2	98	215	346	384	0.2	0.26	6.3	4.8	0.6	0.6	58	65	3.7	3.3	11.0%	0.3
The Joint	JYNT	NR	7.95	14	111	108	31	38	-0.01	0.22	NM	36.1	3.5	2.9	3	6	36.1	18.1	22.6%	0.8
Median											*25.2*	*23.5*	*1.4*	*1.3*			*11.4*	***10.2***		*1.3*
Average											36.0	21.6	1.7	1.5			13.5	10.6		1.7
First Choice Healthcar	**FCHS**	**BUY**	**1.24**	**32**	**40**	**34**	**38.5**	**54**	**0.07**	**0.16**	**17.7**	**7.8**	**0.9**	**0.6**	**4.0**	**7.5**	**8.5**	**4.5**	**40.3%**	**0.1**

Source: Thomson consensus estimates and Dougherty estimates

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FCHS Consolidated Balance Sheets

BALANCE SHEET	03/31/2018A	12/31/2017A	12/31/2016A
ASSETS			
Current Assets:			
Cash (amounts related to VIE of $478,740 and $702,476)	8,474,437	2,015,534	4,593,638
Accounts receivable, net (amounts related to VIE of $4,129,865 and $4,420,605)	9,908,563	8,699,714	9,536,830
Employee Loans (amounts related to VIE of $4,129,865 and $4,420,605)	1,268,487	1,155,109	820,341
Prepaid & Other Current Assets (amounts related to VIE of $235,070 and $425,725)	630,285	676,931	422,512
Total Current Assets	20,281,772	12,547,288	15,373,321
Property, plant & equipment, net	2,519,638	2,295,163	2,544,816
Other Assets	3,824,483	3,908,781	4,227,957
TOTAL ASSETS	**26,625,893**	**18,751,232**	**22,146,094**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses (VIE of $854,018 and $1,479,075)	2,545,295	2,379,404	2,083,231
Accounts payable, related party (amount related to VIE of $0 and $251,588)	251,588	251,588	251,588
Tax payable	230,037	223,899	181,029
Line of credit, short term (amount related to VIE of $440,024)	440,024	440,024	1,539,524
Notes payable, current portion (amount related to VIE of $24,975 and $0)	49,515	29,552	519,452
Unearned revenue	44,557	44,607	26,936
Deferred rent, short term portion (amount related to VIE of $27,412 and $45,203)	81,410	105,171	237,923
Total current liabilities	3,642,426	3,474,245	4,839,683
Long-term liabilities:			
Deposits held	41,930	41,930	41,930
Line of credit, long-term	1,100,000	1,100,000	-
Notes payable, long term portion (amount related to VIE of $95,734)	149,288	60,146	14,531
Deferred Rent, long term portion (amount related to VIE of $1,975,808 and $2,510,406)	2,641,579	2,589,568	2,293,594
Total long term liabilities	3,932,797	3,791,644	2,350,055
Total Liabilities	7,575,223	7,265,889	7,189,738
Temporary Equity - 2022 Put Option (Steward Healthcare)	7,500,000	-	-
Equity			
Preferred stock, $0.01 par value: 1,000,000 authorized, Nil issued and outstanding		-	-
Common stock, $0.001 par value: 100,000,000 authorized, 32,172,389 issued	32172	27,357	24,631
Additional paid-in capital	24982457	25,185,487	24,020,610
Treasury stock		(249,265)	-
Accumulated deficit	(13709680)	(13,989,018)	(10,100,534)
Total stockholders' equity attributed to FCHS	11304949	10,974,561	13,944,707
Non-controlling interest	245721	510,782	1,011,649
Total Equity	11550670	11,485,343	14,956,356
TOTAL LIABILITIES & EQUITY	**26,625,893**	**18,751,232**	**22,146,094**

Source: Company Reports

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First Choice Healthcare Solutions (FCHS)-HISTORICAL AND PROJECTED INCOME STATEMENT

FY ends December	**FY 2016A**	Mar-17 Q1:17A	Jun-17 Q2:17A	Sep-17 Q3:17A	Dec-17 Q4:17A	**FY 2017A**	Mar-18 Q1:18A	Jun-18 Q2:18E	Sep-18 Q3:18E	Dec-18 Q4:18E	**FY 2018E**	Mar-19 Q1:19E	Jun-19 Q2:19E	Sep-19 Q3:19E	Dec-19 Q4:19E	**FY 2019E**	**FY 2020E**
Revenues																	
Patient Service Revenue	27,978,106	7,406,986	7,870,271	7,333,547	8,067,645	30,678,449	8,481,672	8,700,000	8,312,500	11,812,500	37,306,672	12,760,000	13,200,000	12,600,000	15,300,000	53,860,000	67,680,000
less: Provision for Bad Debt	(924916)	(264996)	(239354)	(206502)	(3498968)	(4209820)	(278562)	(278400)	(266000)	(378000)	(1,200,962)	(408320)	(422400)	(403200)	(489600)	(1,723,520)	(2030400)
Net Patient Service Revenue	27,053,190	7141990	7630917	7127045	4568677	26468629	8203110	8421600	8046500	11434500	36,105,710	12351680	12777600	12196800	14810400	52,136,480	65649600
y/y growth			*8.7%*	*0.6%*	*-31.7%*	*-2.2%*	*14.9%*	*10.4%*	*12.9%*	*150.3%*	*36.4%*	*50.6%*	*51.7%*	*51.6%*	*29.5%*	*44.4%*	*25.9%*
Rental revenue	2,410,892	578363	583774	561448	551833	2275418	582787	585000	570000	565000	2,302,787	575000	575000	575000	575000	2,300,000	2400000
Total Revenues	**29,464,082**	**7,720,353**	**8,214,691**	**7,688,493**	**5,120,510**	**28,744,047**	**8,785,897**	**9,006,600**	**8,616,500**	**11,999,500**	**38,408,497**	**12,926,680**	**13,352,600**	**12,771,800**	**15,385,400**	**54,436,480**	**68,049,600**
% Change yr-yr	*51.0%*		*7%*	*0%*	*-30%*	*-2.4%*	*14%*	*10%*	*12%*	*134%*	*33.6%*	*47%*	*48%*	*48%*	*28%*	*41.7%*	*25.0%*
% Change qtr-qtr																	
Operating expenses																	
Salaries & benefits	13,696,590	3,716,375	3,591,451	3,609,494	5,373,918	16,291,238	4,329,285	3,917,871	3,834,343	5159785	17,241,284	6,334,073	5,941,907	5,683,451	6,692,649	24,652,080	29,941,824
% of revenue	*46.5%*	*48.1%*	*43.7%*	*46.9%*	*104.9%*	*56.7%*	*49.3%*	*43.5%*	*44.5%*	*43.0%*	*44.9%*	49.0%	44.5%	44.5%	43.5%	*45.3%*	44.0%
Other operating expenses	9,271,684	2,529,183	2,631,823	1,855,642	3,310,786	10,327,434	2,632,786	2,611,914	2,412,620	3,359,860	11,017,180	3,360,937	3,338,150	3,192,950	3,846,350	13,738,387	17,012,400
% of revenue	*31.5%*	*32.8%*	*32.0%*	*24.1%*	*30.0%*	*35.9%*	*30.0%*	*29.0%*	*28.0%*	*28.0%*	*28.7%*	26.0%	25.0%	25.0%	25.0%	*25.2%*	25%
G&A	5,534,446	1,173,834	2,018,819	2,592,989	(191,937)	5,593,705	1,353,836	1,801,320	1,766,383	2,399,900	7,321,439	1,939,002	2,536,994	2,426,642	2,923,226	9,825,864	12,248,928
% of revenue	18.8%	15.2%	24.6%	33.7%	-3.7%	19.5%	15.4%	20.0%	20.5%	20.0%	19.1%	15%	19%	19%	19%	18.1%	18%
Litigation settlement																	
Depreciation & amortization	821709	189488	193424	361680	197,244	941836	201912	200000	200000	200000	801,912	202000	202000	202000	202000	808,000	825000
Total Operating Expenses	**29324429**	**7608880**	**8435517**	**8419805**	**8690011**	**33154213**	**8517819**	**8531105**	**8213345**	**11119545**	**35579902**	**11836012**	**12019051**	**11505043**	**13664225**	**48216331**	**60028152**
Operating Income	**139,653**	**111,473**	**(220,826)**	**(731,312)**	**(3,569,501)**	**(4,410,166)**	**268,078**	**475,495**	**403,155**	**879,955**	**2,828,595**	**1,090,668**	**1,333,549**	**1,266,757**	**1,721,175**	**6,220,149**	**8,021,448**
Operating margin %	*0.5%*	*1.4%*	*-2.7%*	*-9.5%*	*-69.7%*	*-15.3%*	*3.1%*	*5.3%*	*4.7%*	*7.3%*	*7.4%*	*8.4%*	*10.0%*	*9.9%*	*11.2%*	*11.4%*	*11.8%*
Other Income (expense):																	
Gain on sale of property	9207846	0	0	0	0	0	0	0	0	0	0					0	
Miscellaneous income/expense	278358	50102	53696	41153	-24152	120799	40322	45000	50000	50000	185,322	50000	50000	50000	50000	200,000	200,000
Amortization financing costs	-15654																
Interest Expense, net	-343161	-32074	-30107	-27625	-10178	-99984	-23512	-23500	-23500	-23500	(94,012)	-24000	-24000	-24000	-24000	(96,000)	-100000
Total Other Income (Expense)	**9127389**	**18028**	**23589**	**13528**	**-34330**	**20815**	**16810**	**21500**	**26500**	**26500**	**91310**	**26000**	**26000**	**26000**	**26000**	**104000**	**100000**
Net Income before Income Tax	9,267,042	129,501	(197,237)	(717,784)	(3,603,831)	(4,389,351)	284,888	496,995	429,655	906,455	2,117,993	1,116,668	1,359,549	1,292,757	1,747,175	5,516,149	8,121,448
Provision (benefit) for Income Taxes	0	0	0	0	0	0	0	4515	5565	5565	15645	5460	5460	5460	5460	21840	21000
Tax Rate %	0%	0%	0%	0%	0%	0%	NM	21%	21%	21%	17%	21%	21%	21%	21%	21%	21%
Net Income (loss)	9267042	129501	-197237	-717784	-3603831	-4389351	284888	492480	424090	900890	2102348	1111208	1354089	1287297	1741715	5494309	8100448
Net margin %	*31.5%*	*1.7%*	*-2.4%*	*-9.3%*	*-70.4%*	*-15.3%*	*3.2%*	*5.5%*	*4.9%*	*7.5%*	*5.5%*	*8.6%*	*10.1%*	*10.1%*	*11.3%*	*10.1%*	*11.9%*
Non-controlling interest	-92659	73018	65662	277386	84801	500867	-5550	-5000	-5000	-5000	-20550	-5000	-5000	-5000	-5000	-20000	-20000
NET INCOME ATTRIBUTABLE TO FCHS	**9174383**	**202519**	**-131575**	**-440398**	**-3519030**	**-3888484**	**279338**	**487480**	**419090**	**895890**	**2081798**	**1106208**	**1349089**	**1282297**	**1736715**	**5474309**	**8080448**
Net income per Diluted Share	**0.37**	**0.01**	**0.00**	**(0.02)**	**(0.13)**	**(0.15)**	**0.01**	**0.02**	**0.01**	**0.03**	**0.07**	**0.03**	**0.04**	**0.04**	**0.05**	**0.17**	**0.24**
Diluted Shares Outstanding	24,643,239	27,052,505	26,843,848	26,765,021	26,565,021	26,658,926	29,410,793	32,172,389	32,300,000	32,500,000	31,595,796	32500000	32700000	33100000	33400000	32,925,000	34,300,000
EBITDA	2,423,742	487,405	353,653	210,604	(2,754,179)	(1,702,517)	736,077	960,980	892,590	1,394,390	3,984,037	1,612,208	1,860,089	1,793,297	2,257,715	7,523,309	10,205,448
EBITDA margin	8.2%	6.3%	4.3%	2.7%	-53.8%	-5.9%	8.4%	10.7%	10.4%	11.6%	10.4%	12.5%	13.9%	14.0%	14.7%	13.8%	15.0%

Source: Company reports and Dougherty estimates

Eugene M. Mannheimer
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IMPORTANT DISCLOSURES

RISKS (FCHS)
Risks to the achievement of our price target include, and are not limited to:

- Acquisition Risk – As part of FCHS's growth strategy, the company considers strategic acquisitions. FCHS must be able to acquire and integrate companies in an efficient and effective manner. Failure to do so could result in increased costs, decreases in expected revenue and diversion of management's time and resources.
- Execution Risk - The addition of physicians require significant additional capital and may not generate income. FCHS intends to grow its business by adding physicians to create Medical Centers of Excellence. The company estimates that startup costs approximate $5M to $8M. If FCHS' growth strategies do not result in sufficient revenue and income, there could be a material effect on its business, operations, and financial condition.
- Regulatory Risk – The healthcare industry and physicians' medical practices are subject to extensive and complex federal, state and local laws. If FCHS does not comply with existing/new laws and regulations, the company could be subject to monetary fines, civil or administrative penalties or criminal sanctions.
- Reimbursement Risk – Changes in the rates or methods of third-party reimbursement for medical services could result in reduced demand for FCHS' services or create downward pricing pressure, resulting in a decline in revenue and harm the company's financial position.

I, Gene Mannheimer, certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

Dougherty & Company LLC has been engaged for investment banking business with FCHS during the past 12 months or anticipates such business in the next 3 months.

The ratings used in Dougherty & Company LLC research reports are defined as followed:

*Buy**: Expected to outperform the broader market and/or its sector over the next six to twelve months.***

*Neutral**: Expected to perform generally in-line to moderately below the broader market and/or its sector over the next six to twelve months.***

*Sell**: Expected to materially underperform the broader market and/or its sector over the next six to twelve months.***

RATINGS DISPERSION AND BANKING RELATIONSHIPS AS OF (June 24, 2018)

Rating	%	IB %
Buy	70.4	6.2
Neutral	27.8	0.0
Sell	1.7	0.0

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