



Buying a Dental Practice: Where Buyers Get Burned—and How to Avoid It

Newton's Law PA



Buying a Dental Practice

- **BUYERS FOCUS ON GROWTH AND SPEED**

Risk hides in diligence and structure, and problems surface after closing

- **REPS ARE NOT INSURANCE**

Enforcement is costly and practical recovery is limited

- **OVERSTATED EBITDA**

Compliance failures and staff/associate instability

- **COLLECTIONS VS PRODUCTION**

Hygiene sustainability and payor mix assumptions

- **SELLER OPTIMISM VS BUYER REALITY**

One-time vs recurring items and sustainability over explanations

- **CORPORATE PRACTICE OF DENTISTRY**

Supervision and delegation issues, and incomplete or informal compliance

- **ASSOCIATE NON-COMPETES**

Compensation misalignment and post-closing turnover risk

- **ACCOUNTING VS LEGAL RISK**

Operational reality gaps and missing documentation

- **VAGUE DILIGENCE RIGHTS**

Over-broad seller discretion and poorly structured economics

- **WHAT YOU ASK FOR MATTERS**

Timing affects leverage and late discoveries cost more

Why Buyer Risk Is Often Underestimated



BUYERS FOCUS ON GROWTH AND SPEED

Buyers are often more interested in rapidly expanding their portfolio of dental practices rather than taking the time to thoroughly vet each acquisition.



RISK HIDES IN DILIGENCE AND STRUCTURE

The true risks of a dental practice acquisition may not be apparent during the due diligence process, and can be hidden in the legal structure of the deal.



PROBLEMS SURFACE AFTER CLOSING

Issues with the acquired dental practice often do not become apparent until after the transaction has closed, when it is too late for the buyer to back out.

BUYERS MUST STRIKE A BALANCE BETWEEN GROWTH AND CAUTION, TAKING THE TIME TO UNCOVER POTENTIAL RISKS DURING THE DUE DILIGENCE PROCESS IN ORDER TO AVOID COSTLY PROBLEMS DOWN THE LINE.

The Myth of "Seller Representations"



REPS ARE NOT INSURANCE

Seller representations do not provide buyers with true protection or recourse after closing.



ENFORCEMENT IS COSTLY

Pursuing claims under seller reps is a lengthy and expensive legal process with uncertain outcomes.



PRACTICAL RECOVERY IS LIMITED

Even if successful, buyers often struggle to actually recover meaningful damages from sellers.

BUYER RELIANCE ON SELLER REPRESENTATIONS IS A MISPLACED STRATEGY - THEY PROVIDE LIMITED PRACTICAL PROTECTION AND SHOULD NOT BE SEEN AS INSURANCE AGAINST TRANSACTION RISK.

Where Buyers Actually Lose Money



OVERSTATED EBITDA

Buyers often struggle to validate the seller's EBITDA claims, leading to inflated purchase prices.



COMPLIANCE FAILURES

Inadequate diligence into regulatory compliance issues, such as corporate practice of dentistry rules, can result in costly post-closing problems.



STAFF AND ASSOCIATE INSTABILITY

Underestimating the impact of employee turnover, compensation misalignment, and associate non-compete issues can disrupt the practice post-acquisition.

BUYERS MUST CAREFULLY EXAMINE EBITDA, COMPLIANCE, AND STAFFING FACTORS TO AVOID OVERPAYING AND INHERITING SIGNIFICANT POST-CLOSING RISKS.

Financial Diligence Blind Spots



COLLECTIONS VS PRODUCTION

Actual cash collections may differ significantly from reported production figures, creating hidden risk.



HYGIENE SUSTAINABILITY

Reliance on high-volume hygiene revenue may not be sustainable, especially with staff turnover.



PAYOR MIX ASSUMPTIONS

Changes in payor mix, including the impact of corporate insurance networks, can erode revenues.

CAREFUL ANALYSIS OF FINANCIAL METRICS AND OPERATIONAL REALITIES IS CRITICAL TO UNCOVER HIDDEN RISKS IN DENTAL PRACTICE ACQUISITIONS.

Add-Back Risk From a Buyer Perspective



SELLER OPTIMISM

Sellers often take an optimistic view of one-time or non-recurring items, inflating EBITDA.



ONE-TIME VS. RECURRING

Distinguishing between true one-time items and recurring expenses is critical for accurate valuation.



SUSTAINABILITY OVER EXPLANATIONS

Buyers should focus on the long-term sustainability of the practice's profitability, not just seller explanations.

CAREFULLY SCRUTINIZE SELLER-PROPOSED ADD-BACKS TO ENSURE THE PRACTICE'S FINANCIALS ARE REALISTICALLY PRESENTED AND SUSTAINABLE FOR THE BUYER.

Compliance Risks Buyers Miss



CORPORATE PRACTICE OF DENTISTRY

Buyers may miss issues around the corporate practice of dentistry, which can lead to compliance problems and liability.



SUPERVISION AND DELEGATION ISSUES

Buyers often overlook the legal requirements for supervision and delegation of dental procedures, which can create compliance risks.



INCOMPLETE OR INFORMAL COMPLIANCE

Dental practices may have incomplete or informal compliance programs, leaving buyers exposed to undiscovered issues.

BUYERS NEED TO CAREFULLY SCRUTINIZE A DENTAL PRACTICE'S COMPLIANCE PROGRAMS AND PROCEDURES TO IDENTIFY AND ADDRESS POTENTIAL RISKS.

Employment and Staffing Pitfalls



ASSOCIATE NON-COMPETES

Navigating the complex legal landscape of non-compete agreements for acquired associates



COMPENSATION MISALIGNMENT

Aligning compensation structures to retain and incentivize key staff post-acquisition



POST-CLOSING TURNOVER RISK

Mitigating the risk of staff and associate departures after the deal has closed

ADDRESSING EMPLOYMENT AND STAFFING ISSUES IS CRITICAL TO ENSURING THE LONG-TERM SUCCESS OF A DENTAL PRACTICE ACQUISITION.

Why "Clean Books" Aren't Enough



ACCOUNTING VS LEGAL RISK

Financial statements may look clean, but underlying legal issues can still pose major risks.



OPERATIONAL REALITY GAPS

Discrepancies between documented practices and actual day-to-day operations can hide problems.



MISSING DOCUMENTATION

Lack of thorough records around compliance, contracts, and operations creates uncertainty.

CLEAN BOOKS ALONE DO NOT GUARANTEE A HEALTHY PRACTICE. BUYERS MUST DIG DEEPER TO UNCOVER OPERATIONAL AND LEGAL RISKS.

LOI Mistakes That Hurt Buyers



VAGUE DILIGENCE RIGHTS

Unclear definition of buyer's diligence access and timeline can weaken leverage



OVER-BROAD SELLER DISCRETION

Allowing sellers to make broad operational changes during diligence can create post-closing issues



POORLY STRUCTURED ECONOMICS

Ill-defined purchase price adjustments, holdbacks, and contingent payments can hurt buyer value

CAREFULLY CRAFTING THE LOI'S DILIGENCE, SELLER CONSTRAINTS, AND ECONOMIC TERMS CAN SET BUYERS UP FOR A STRONGER NEGOTIATING POSITION AND BETTER POST-CLOSING OUTCOMES.

Diligence Scope Drives Outcomes



WHAT YOU ASK FOR MATTERS

Diligence requests set the scope of what is examined. Narrow requests miss key risks.



TIMING AFFECTS LEVERAGE

Early diligence gives buyers more control over the process and information flow.



LATE DISCOVERIES COST MORE

Issues found after closing require costly renegotiation or write-offs.

BUYERS MUST CAREFULLY PLAN DILIGENCE SCOPE AND TIMING TO UNCOVER RISKS BEFORE CLOSING, MITIGATING THE FINANCIAL IMPACT OF LATE DISCOVERIES.

How Deals Break After Closing



RETRADES COME TOO LATE

Attempts to renegotiate the deal terms after closing are often unsuccessful due to lack of leverage.



INTEGRATION FAILURES

Misaligned systems, cultures, and processes prevent successful blending of the acquired practice.



LITIGATION VS WRITE-OFFS

Disputes over the deal terms or post-closing issues often lead to costly litigation instead of practical solutions.

DEALS CAN BREAK DOWN AFTER CLOSING DUE TO A LACK OF PROACTIVE PLANNING, MISALIGNED EXPECTATIONS, AND INSUFFICIENT LEGAL PROTECTIONS FOR THE BUYER.

Private Buyer vs DSO Risk Profiles



DIFFERENT TOLERANCE FOR EXPOSURE

Private buyers may have a lower risk appetite and less access to capital to withstand issues, compared to DSOs with deeper pockets.



DIFFERENT DILIGENCE PRIORITIES

Private buyers often focus more on financial metrics, while DSOs prioritize operational integration and compliance.



DIFFERENT STRUCTURAL PROTECTIONS

DSOs can leverage their scale and resources to negotiate more favorable deal terms and enforcement mechanisms.

THE RISK PROFILES AND DEAL STRUCTURING APPROACHES CAN VARY SIGNIFICANTLY BETWEEN PRIVATE BUYERS AND DSOS, REQUIRING TAILORED STRATEGIES TO ADDRESS THEIR UNIQUE NEEDS AND CONCERNS.

Integration Is a Legal Problem Too



EMPLOYMENT ENFORCEMENT

Ensuring post-acquisition enforcement of employment agreements, non-competes, and restrictive covenants



COMPLIANCE ALIGNMENT

Integrating and standardizing regulatory compliance across acquired practices



GOVERNANCE BREAKDOWNS

Avoiding conflicts and miscommunications in post-merger practice management and decision-making

SUCCESSFUL INTEGRATION REQUIRES CAREFUL LEGAL PLANNING TO ENFORCE EMPLOYMENT TERMS, ALIGN COMPLIANCE, AND ESTABLISH CLEAR GOVERNANCE STRUCTURES.

How Buyers Should Structure Protection



ESCROWS AND HOLDBACKS

Use escrow accounts and holdbacks to fund potential claims after closing



INDEMNITY CAPS AND SURVIVAL

Negotiate reasonable limits on seller liability and duration of survival periods



WALK-AWAY RIGHTS

Retain the ability to terminate the deal if material issues are discovered during diligence

BY STRUCTURING THE DEAL WITH APPROPRIATE RISK MITIGATION TOOLS, BUYERS CAN PROTECT THEMSELVES FROM POTENTIAL PROBLEMS THAT MAY ARISE AFTER THE TRANSACTION CLOSES.

Why Speed Often Destroys Value



DEAL FATIGUE

Buyers become exhausted from drawn-out negotiations, leading to rushed decision-making and overlooked issues.



SHORTCUT DILIGENCE

Compressed timelines force buyers to skip important steps in the due diligence process, leaving blind spots.



FALSE URGENCY

Sellers create a false sense of time pressure, causing buyers to make decisions without fully evaluating the risks.

SPEED AND HASTE IN THE ACQUISITION PROCESS OFTEN LEAD TO DISASTROUS CONSEQUENCES FOR BUYERS, AS THEY OVERLOOK CRITICAL ISSUES AND FAIL TO PROPERLY EVALUATE AND MITIGATE THE RISKS.

Role of Buyer-Side Legal Counsel



RISK TRANSLATION

Interpret legal risks in business terms to help buyers understand exposure



STRUCTURAL PROTECTION

Design contractual provisions to allocate risk, mitigate liabilities, and preserve buyer remedies



DOWNSIDE PLANNING

Anticipate deal breakdowns and develop strategies to minimize losses if things go wrong

BUYER-SIDE LEGAL COUNSEL PLAYS A CRITICAL ROLE IN TRANSLATING RISKS, STRUCTURING PROTECTIVE DEAL TERMS, AND PLANNING FOR DOWNSIDE SCENARIOS TO HELP BUYERS AVOID GETTING BURNED.

What a Buyer-Protective Deal Looks Like



REALISTIC VALUATION

Deals are priced based on sustainable, buyer-verified EBITDA rather than seller projections.



DEFINED RISK ALLOCATION

Buyer and seller responsibilities are clearly outlined, with appropriate indemnity, escrow, and holdback structures.



ENFORCEABLE PROTECTIONS

Representations, warranties, and covenants are crafted to be specific, measurable, and practically enforceable.

A BUYER-PROTECTIVE DEAL BALANCES GROWTH AMBITION WITH REALISTIC RISK MITIGATION, RESULTING IN A TRANSACTION THAT CAN WITHSTAND THE CHALLENGES THAT OFTEN ARISE POST-CLOSING.



BUYERS SHOULD SLOW DOWN, CAREFULLY IDENTIFY RISKS, AND STRUCTURE DEALS WITH STRONG LEGAL PROTECTIONS TO AVOID COMMON PITFALLS WHEN ACQUIRING DENTAL PRACTICES. BY TAKING A THOUGHTFUL, BUYER-CENTRIC APPROACH, YOU CAN NAVIGATE THE COMPLEXITIES OF DENTAL PRACTICE ACQUISITIONS AND EMERGE WITH A SUCCESSFUL, SUSTAINABLE INVESTMENT.



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