



# Selling Your Dental Practice

An introductory slide about the topic of selling a  
dental practice



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Most value is lost before buyers  
engage

Preparation sets the leverage for the sale  
process



Preparation sets leverage

LOIs reflect existing weaknesses in the  
practice



LOIs reflect existing weaknesses

Buyers diligence the practice, not just  
marketing materials

Proper pre-LOI planning is crucial to maximizing the value and optionality of a dental practice sale.

# Why Pre-LOI Preparation Matters



## Most value is lost before buyers engage

The majority of a practice's value is determined by factors that are established before the buyer even gets involved.



## Preparation sets leverage

Taking the time to properly position your practice before negotiations begin gives you more control over the process.



## LOIs reflect existing weaknesses

The initial offer from a buyer will reveal the areas of your practice that need improvement, so you should address them first.

Proper pre-LOI planning is crucial to maximizing the value of your dental practice and maintaining leverage throughout the sales process.

# "Broker-Ready" vs "Deal-Ready"



## Brokers market

Brokers focus on presenting a practice in the best light to attract interest, but may gloss over issues.



## Buyers diligence

Buyers thoroughly investigate a practice to uncover potential risks and weaknesses, not just the surface-level metrics.



## Clean numbers ≠ defensible numbers

Having tidy financial records is not enough - buyers need to see the full picture and understand the sustainability of the practice's performance.



## Surprises surface later

Issues that were not properly addressed during pre-LOI preparation often come back to haunt sellers during the due diligence process, leading to price cuts or deal collapse.

Being 'broker-ready' is not the same as being 'deal-ready'. Practices must go beyond surface-level presentation to withstand the rigorous diligence of potential buyers.

# Common Pre-LOI Mistakes



## Poor financial normalization

Sellers often fail to properly adjust their financial statements to remove nonrecurring and personal expenses, leading to an inflated EBITDA.



## Weak documentation

Lacking organized records and formal agreements for key aspects of the business creates uncertainty and undermines the seller's credibility.



## Unrealistic expectations

Sellers often overestimate the value of their practice and are unwilling to make the necessary adjustments to meet buyer requirements, causing deals to fall apart.

Careful pre-LOI preparation, including financial normalization, comprehensive documentation, and a realistic assessment of value, can significantly improve a seller's leverage and negotiation position.

# Financial Missteps Before a Sale



## EBITDA confusion

Buyers scrutinize EBITDA calculations, requiring adjustments that can reduce the headline value.



## Inconsistent reporting

Varying financial statements and tax returns undermine credibility and make it harder to support value claims.



## Personal expenses in the business

Buyers will normalize and remove discretionary expenses, reducing the apparent profitability.

Proactively addressing these financial issues before buyer diligence is critical to maximizing value and leverage.

# Add-Backs Are Not Guaranteed



## Buyers accept sustainability, not explanations

Buyers are more interested in the long-term viability and profitability of the practice than temporary or one-time adjustments. They will scrutinize add-backs carefully to ensure they reflect truly sustainable earnings.



## Aggressive add-backs hurt credibility

Overstating add-backs or including questionable expenses can undermine the seller's credibility and negotiating position. Buyers will be less likely to trust the financial information if it appears inflated.



## Overstated EBITDA weakens leverage

If the seller's EBITDA is seen as artificially inflated, it can reduce the practice's perceived value and weaken the seller's negotiating leverage. Buyers will adjust the EBITDA to their own assessments, often leading to lower offers.

Sellers must be cautious and conservative with add-backs, ensuring they can be clearly justified and reflect sustainable, verifiable earnings. Aggressive or unsupported add-backs can backfire and diminish the seller's leverage in the negotiation process.

# Owner Compensation Errors



## Above-market pay distorts value

Owners often compensate themselves above market rate, which can distort the true profitability of the practice and lead to lower valuations from buyers.



## Buyers normalize compensation

Buyers will adjust owner compensation to market levels during their due diligence, which can significantly reduce the apparent value of the practice.



## Ignoring this leads to retrades

If owners fail to address compensation issues before an LOI, buyers will often use this as leverage to renegotiate the deal terms, leading to a retrade that reduces the sale price.

Proper pre-LOI planning around owner compensation is critical to maintaining leverage and avoiding unpleasant surprises during the sale process.

# Operational Gaps Buyers Flag



## Staffing instability

High turnover, unfilled positions, and inconsistent staffing can raise concerns about the practice's operational readiness.



## Weak associate agreements

Incomplete or non-existent associate contracts can make it difficult to retain key providers and ensure a smooth transition.



## Informal systems

Lack of documented processes, policies, and procedures can create uncertainty about the practice's ability to function smoothly under new ownership.

Buyers closely examine a practice's operational stability and preparedness, as these factors can significantly impact the practice's value and the ease of integration under new ownership.

# Compliance Issues That Spook Buyers



## Corporate practice concerns

Buyers wary of arrangements that violate corporate practice of dentistry laws



## Supervision and hygiene risks

Lack of clear protocols for clinical oversight and infection control pose liability concerns



## Missing documentation

Informal agreements, undocumented policies, and incomplete records raise red flags

Buyers carefully scrutinize compliance to ensure long-term stability and avoid legal risks after closing.

# Timing the Sale Poorly



## Burnout reduces leverage

Dental practice owners who try to sell while burned out have less negotiating power. Burnout signals desperation and reduces the owner's ability to walk away from a deal.



## Declining metrics invite discounts

If practice metrics like revenue, profitability, and patient volume are on a downward trend, buyers will demand a lower purchase price to account for the risk.



## Timing affects options

The timing of a practice sale has a big impact on the available buyer pool and deal structures. Owners who wait too long or sell at the wrong time may have fewer options.

The timing of a dental practice sale can have a big impact on the owner's leverage and the available deal options. Burnout, declining metrics, and poor timing can all reduce the owner's negotiating power and invite lower offers from buyers.

# How Buyers Interpret Red Flags



## Buyers price risk, not stories

Buyers focus on quantifying and mitigating risks in the business, not listening to the seller's narrative or explanations.



## Silence $\neq$ acceptance

Buyers may stay quiet about issues during diligence, but they will resurface later as price cuts or deal terms.



## Issues resurface as price cuts

Problems that were overlooked or downplayed during early discussions will often come back to haunt the seller as the buyer demands concessions on price or structure.

Buyers are primarily focused on de-risking the acquisition, not simply accepting the seller's version of events. Issues that are not properly addressed upfront will continue to impact the transaction and reduce the seller's leverage.

# Misreading the Buyer Market



## DSO vs private buyer priorities differ

DSO buyers prioritize scale, brand, and cash flow. Private buyers focus more on practice culture, autonomy, and long-term growth.



## Same practice, different outcomes

The same dental practice can fetch vastly different offers and deal structures depending on the type of buyer.



## Buyer type drives structure

The buyer's strategic goals dictate the deal structure, including purchase price, earnouts, and post-closing expectations.

Misunderstanding the priorities and motivations of different buyer types can significantly impact the outcome of a dental practice sale.

# Ignoring Post-Closing Reality



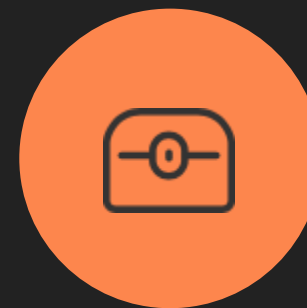
## Employment expectations

Buyers may require owners to stay on in certain roles, limiting future options



## Loss of autonomy

Sellers may face reduced control over practice operations and decision-making post-close



## Restrictive covenants

Buyers often impose non-compete, non-solicitation, and other restrictive terms

Ignoring the post-closing reality can lead to unpleasant surprises for sellers. Understanding employment terms, autonomy changes, and restrictive covenants is critical before signing an LOI.

# Incomplete Records Kill Deals



## Missing contracts

Lack of formal, written agreements for key arrangements like leases, supplier relationships, and associate employment



## Informal arrangements

Reliance on handshake deals and undocumented verbal agreements that create uncertainty for buyers



## Undocumented practices

Failure to maintain records of important business activities like hiring, vendor management, and patient care processes

Incomplete or informal business records create major red flags for buyers, undermining confidence in the practice's operations and value.

# Valuation Expectations vs Reality



## Headline multiples mislead

Multiples published in the media or by brokers often don't reflect the true value captured by the seller. They can obscure the impact of deal structure.



## Structure matters more than price

The actual net proceeds a seller receives depends heavily on the deal structure, including earnouts, holdbacks, restrictive covenants, and other terms.



## Net proceeds tell the truth

When all is said and done, the only number that matters is the actual cash the seller walks away with. This is the true measure of a successful transaction.

Sellers need to look beyond headline multiples and consider the full impact of deal structure on their net financial outcome. The actual cash received is what determines if a sale was truly successful.

# Why Sellers Lose Leverage Early



## Poor preparation

Lack of financial normalization, operational assessments, and risk mitigation lead to weak positioning with buyers.



## Over-disclosure

Sharing confidential information or operational details too early in the process undermines the seller's negotiating power.



## Rushing to LOI

Skipping critical pre-LOI planning and positioning steps leaves sellers vulnerable to one-sided terms and loss of optionality.

Proper pre-LOI preparation, selective disclosure, and strategic pacing are key to maintaining leverage as a seller.

# What Proper Pre-LOI Planning Looks Like



## Financial normalization

Ensure EBITDA and other financial metrics are accurately represented and defensible



## Risk identification

Proactively address potential compliance, operational, and contractual issues that could concern buyers



## Strategic positioning

Determine the optimal buyer type and structure the transaction to maximize leverage and net proceeds

Proper pre-LOI planning helps sellers maintain control of the sale process and secure the best possible outcome.

# How Newton's Law PA Helps



## Pre-LOI readiness review

Evaluate the practice's financial, operational, and compliance readiness for a successful sale process



## Deal strategy planning

Develop a strategic plan to position the practice and maximize leverage with prospective buyers



## Buyer-specific positioning

Tailor the practice's story and positioning to the unique needs and priorities of the target buyer type

Our comprehensive approach helps dental practice owners navigate the pre-LOI phase and set the stage for a successful transaction.



Preparing your dental practice for a successful sale requires strategic planning well before the Letter of Intent. By addressing common pre-LOI mistakes and taking a proactive approach, you can maximize your leverage and ensure a favorable outcome. Reach out to a legal advisor like Newton's Law PA to start your pre-sale planning and position your practice for the best possible deal.

