

The Dental Transition

N E W S L E T T E R

In this issue

Page 1

Are Solo Buyers a Thing of the Past?
Not so Fast...

Page 2

Understanding Cash Flow Analysis:
Hidden Risks for Buyers and Sellers

Are Solo Buyers a Thing of the Past? Not so Fast....

With so much focus on the DSO industry reshaping the landscape of dentistry, it's no wonder that potential sellers worry there may not be enough solo dentists looking to buy practices.

As a dental practice broker, I find the truth is much more nuanced than the DSO industry would have you believe and that the solo prospects are, in fact, plentiful.

While the DSO industry has done a remarkably good job of convincing practice owners that private practice is fading due to management difficulties, high operating costs, and inefficiencies, the substantial funding behind this advertising/marketing campaign has overstated one aspect of the full picture. In reality, DSO growth has cooled due to higher borrowing costs (higher interest rates), some DSO failures, and many unhappy DSO sellers. According to the latest ADA figures, in New York, only 9%, and in New Jersey, only 13% of dentists are affiliated with DSOs. This compares with a national figure of just over 16%.

At the other end of the spectrum, DSOs have successfully persuaded dental school students that their future lies in corporate dentistry. But after several years of this trend, these young dentists have realized that they can earn much more money owning their own practice. The pattern has become a new trend of working for a DSO for several years as a new dentist, then buying your own practice. This is really no different from the past, where dentists worked for a group private practice before purchasing their own.

Here's what the numbers reveal about evolving buyer-pool trends, according to the latest analysis from the ADA's The U.S. Dentist Workforce - 2025 Update:

- Dental school enrollment is up. First-year enrollment was 7,013 in 2024, up from 6,708 the prior year.
- The supply of dentists is projected to increase through 2040, driven in part by the opening of new dental schools. In 2024, there was a record number of dental school graduates. Over the last two decades, the number of graduates has increased by 58%.
- Since 2001, 21 new dental schools have opened in the U.S., bringing the total to 75 as of 2025.
- In 2024, 26.5% of early-career dentists (up to 10 years out of dental school) started their careers working for a DSO.
- Practice ownership appears delayed among recent graduates, but most dentists eventually become practice owners. Among 2011-2015 dental graduates, practice ownership jumped from 33% to 58% in just a five-year span.
- Dentists can earn more income by working for themselves. In 2024, the average inflation-adjusted income for practice owners was \$217,781 compared to \$160,891 for non-owners.*

Continued on Page 2

PRACTICE SALES + APPRAISALS + TRANSITION CONSULTING

Brought to you by



Are Solo Buyers a Thing of the Past? Not so Fast....

Continued from page 1

With rising healthcare costs for employees and difficulties in finding hygienists, dental assistants, and administrative staff, private practice will become increasingly challenging. But practice owners who are high producers and learn to maximize technology and leverage social media to attract new patients will continue to thrive. Potential buyers—a large pool of them coming from their start at DSOs and looking for the challenge and rewards of private practice—know this and will seek to buy a profitable practice like yours.

In summary, the narrative of the young dentist has changed, but the result has not; the endgame is still private

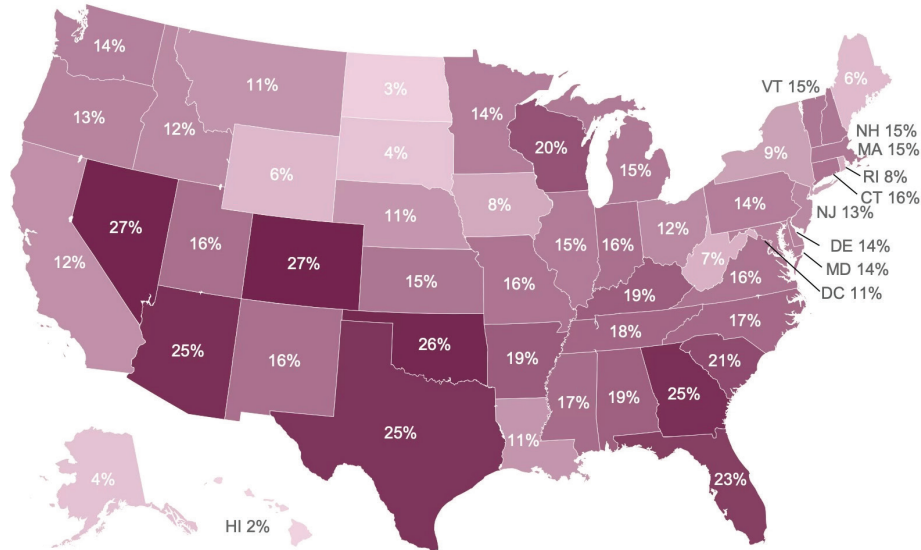
practice. And with the dental industry growing robustly, there will be more and more dentists entering the buyer pool. In fact, I believe the future of dentistry will be 25% of dentists affiliated with DSOs and 75% in private practice.

For sellers and the industry alike, the message is clear: solo dentists are not disappearing—they are still actively and confidently buying into private practice dentistry.

**(Trends in Dentists' Income, Revenue, and Hours Worked, Update based on the ADA Health Policy Institute's 2025 Survey of Dental Practice and other sources)*

DSO Affiliation Varies Considerably by State

Share of Dentists Affiliated with a DSO, 2024



Understanding Cash Flow Analysis: Hidden Risks for Buyers and Sellers

When evaluating a business or practice acquisition, the business's cash flow is the variable of consideration that carries the greatest weight in determining fair market value. Most financial statements, at first glance, will look underwhelming due to the fact that most business owners try to show as little profit as possible to pay less in taxes each year. The seller's goal when having a cash flow analysis conducted is to review their general ledger and inform the advisor of any personal or one-time, non-recurring expenses. In our industry, we call these adjustments "add-backs"; examples are outlined below. The buyer's goal is to verify that the adjustments are accurate, justified, and consistent with the facts. We will discuss several warning signs and pitfalls that buyers and sellers should identify before proceeding with a purchase or sale.

Understanding Cash Flow Analysis: Hidden Risks for Buyers and Sellers

Continued from page 2

Examples of One-Time Non-Recurring Expenses:	Examples of Personal Expenses:
<ul style="list-style-type: none"> • Replacement of HVAC unit • Replacement of large dental equipment • Office renovations • Severance pay or signing bonus • Building a new website 	<ul style="list-style-type: none"> • Travel • Salaries & Wages for family members who do not work at the practice • Auto expenses • Meals & entertainment • Personal cell phone • Country club fees

When evaluating a business or practice acquisition, the business's cash flow is the variable of consideration that carries the greatest weight in determining fair market value. Most financial statements, at first glance, will look underwhelming due to the fact that most business owners try to show as little profit as possible to pay less in taxes each year. The seller's goal when having a cash flow analysis conducted is to review their general ledger and inform the advisor of any personal or one-time, non-recurring expenses. In our industry, we call these adjustments "add-backs"; examples are outlined below. The buyer's goal is to verify that the adjustments are accurate, justified, and consistent with the facts. We will discuss several warning signs and pitfalls that buyers and sellers should identify before proceeding with a purchase or sale.

The Basics

As noted above, terms such as cash flow analysis, seller's discretionary earnings, or net earnings all refer to the same core concept: the amount a buyer is expected to take home before taxes, depreciation, amortization, and interest, after removing the seller's personal and one-time expenses. In simple terms, it reflects how much money a buyer would earn if they operated the practice with the same revenue and expense structure as the seller, before factoring in loan payments for the acquisition or income taxes.

A common mistake among first-time buyers, especially without proper guidance, is taking a financial statement at face value. The profit shown on paper is often misleading and, by itself, largely meaningless. An accountant's role is to help the owner minimize reported income to reduce tax liability, and the degree to which this is done can vary widely from one business and accountant to another.

Why This Is Important for a Seller

For a seller, engaging a broker or accounting firm to analyze cash flow allows for the proper identification of expenses that can be adjusted, or "added back," such as vehicle costs, travel, and officer compensation. In many cases, sellers also treat personal purchases as office expenses, utilities, or repairs and maintenance. These are common items that often go unnoticed unless specifically reviewed and discussed.

The seller's objective is to accurately present the highest defensible level of cash flow. As a general rule, practices are valued at approximately 2.25 times each dollar of profit. For example, overlooking \$10,000 in personal expenses can result in approximately \$22,500 in unrealized practice value.

Pro tip: If you try to go by memory, you will forget something. We suggest obtaining a copy of your general ledger for the period under analysis and reviewing it line by line.

Another pitfall is when sellers make estimations. Since you will need to be definitive at some point in the process, we highly recommend doing the work on the front end, as it will pay dividends for several reasons. What if, during due diligence, a buyer determines that you thought your wife's salary was \$70,000 in the trailing twelve-month period being analyzed, but when a buyer asks for the payroll report, it is actually only \$40,000? Now you are working backward because this would reduce the practice's profitability by \$30,000, which would likely be deemed material and could prompt a buyer to adjust their offer. Furthermore, when a buyer receives a clean, current, and accurate package of information, it builds trust and streamlines the process. We see it all the time: a buyer requests a document, but the seller takes weeks to put it together. Buyers often begin to question whether you're withholding information, which can slow down or jeopardize the deal.

Continued on Page 4

EPSTEIN

PRACTICE BROKERAGE LLC

96 Park Street • Montclair, NJ 07042
1159 2nd Avenue • New York, NY 10065

A Member of



Scan this with your phone's camera for more information on EPB

ARTICLES INSIDE:

Are Solo Buyers a Thing of the Past? Not so Fast...

*Understanding Cash Flow Analysis:
Hidden Risks for Buyers and Sellers*

WWW.PRACTICE-BROKER.COM

PRACTICE SALES + APPRAISALS + TRANSITION CONSULTING

Understanding Cash Flow Analysis: Hidden Risks for Buyers and Sellers

Continued from page 3

Why This is Important for a Buyer

For a buyer, it is critical to validate the larger claimed expense adjustments to confirm it is accurate and supportable. Request source documentation and detailed reports to substantiate what is being represented. As noted earlier, reliance on a seller's estimates or memory is often where discrepancies arise and diligence issues begin.

By way of example, if a seller's office expenses are \$40,000 but the seller claimed an adjustment of \$20,000 because he estimated that 50% of this expense category was personal Amazon purchases, you will want to ask for a list of the seller's Amazon purchases for the time period being examined to verify. What if you determine that there was only \$5,000 in personal expenses instead of \$20,000? This would result in a \$15,000 reduction in the practice's profitability.

Another issue we see is that some brokers will simply adjust items such as dental labs or dental supplies to industry norms when certain expenses are above

average, inflating the practice's profitability. This approach is often used to artificially inflate perceived profitability and is not appropriate in most cases. If a seller uses a top-tier, expensive lab in a cosmetic-driven practice, that lab could be a key contributor to the practice's performance and reputation. Normalizing or removing it can distort the true operating model and fundamentally alter the practice's character.

Key Takeaway

Cash flow is the foundation of practice value, yet it is also one of the most overlooked elements in transactions among buyers, sellers, and brokers. We reviewed how sellers can maximize value by properly identifying personal and one-time expenses, while on the flip side, highlighted why buyers must carefully verify the larger adjustments through documentation rather than estimates. As I tell all our sellers, make sure your financial statements are clean, current, and accurate.

Contact us TODAY to schedule a free consultation!



Mark Epstein