

# DSO AFFILIATION: CONSIDERATIONS FOR A SELLING PEDIATRIC DENTIST – PART 1

By Cheryl H. DeVore, Cheryl A. Cameron, and C. Scott Litch

## Introduction

There continues to be growth in the number of pediatric dental practices that are affiliated with Dental Support Organizations (DSO). It was reported that 15% of pediatric dental practices were affiliated with a DSO in 2024 as compared with 13% in 2023 and 11% in 2022.<sup>1</sup> Making the decision to sell a pediatric dental practice to a DSO should be done with thoughtful consideration and deliberation. It will be a life-changing decision and the ramifications can be both positive and negative. With careful planning, preparation, and execution the outcome of such a sale can be good for the pediatric dentist (“Seller”) both professionally and personally and good for the practice. This two-part article will present the essential start-to-finish considerations and steps the Seller of a pediatric dental practice should plan on when contemplating a DSO affiliation.

Part 1 focuses on the importance of identifying the Seller’s goals for sale, determining if a DSO buyer can align with those goals, having realistic expectations about the outcomes of the sale both for the Seller personally and the practice, and strategically preparing the practice for sale.

Part 2 will focus on topics associated with executing a sale. Attention to this comprehensive overview of considerations will support a sale that likely ends in a better result and leads to greater satisfaction with the sale for both the Seller and the DSO buyer.

## Planning for the Sale

### ESTABLISHING SELLER’S PURPOSE AND GOALS FOR THE SALE OF THEIR PEDIATRIC PRACTICE

A key requirement for any practice sale, but even more so with a DSO affiliation, is alignment of the Seller’s goals with the buyer’s goals. This alignment requires that the Seller start with a clear vision of the purpose and goals of the transaction. This requires the Seller to determine why the practice is being sold. For example, the sale could be because of Seller’s desire for:

1. immediate retirement with total departure from the practice, or
2. phased retirement (3 to 5 years) with a continued clinical or consultative role in the practice, or
3. capitalization for growth or enhanced non-clinical administrative support for the practice.

Once the purpose of the sale is clear, it is important to outline the goals, needs, and expectations of a sale – the must haves, desired but not required, and deal breakers – that align with the purpose and goals.

If immediate retirement is the reason for the sale, key considerations include the Seller’s timeline and financial goals. When considering the timeline, does the Seller have personal, family, or health issues that have some time dependency? The sale of a practice to a DSO buyer can be complex and time



consuming. How does the sale fit into the Seller's financial retirement planning. This is an important consideration because DSO buyers often do not pay the full purchase price at closing, but rather hold back some of the purchase price payment and pay the hold back portion only if the practice profitability markers warrant the payment. This can lead to the Seller not realizing the full financial payout on a sale. This may or may not be offset by the DSO buyer agreeing to pay a higher purchase price for the practice.

If phased retirement is the reason for the sale, key considerations include the Seller's employment and financial goals. When considering post-transaction employment, does the Seller expect their practice to continue more as-is after the sale (i.e., legacy practice)? If so, the DSO buyer may not be the right choice. Does the Seller need or want to work clinically post-closing? With a DSO buyer this will likely be a requirement and often for three or more years. However, the employment agreement will be subject to provisions that allow for termi-

nation of employment at the election of the buyer, which could be more likely with a DSO buyer if the Seller is not meeting production expectations and/or is not philosophically aligned with the DSO's practice operation. Another consideration with DSO employment is the likely reduction in compensation, but possible enhanced benefit package.

If capitalization for growth or enhanced non-clinical administrative support is the purpose of the sale, it is important to outline the Seller's operational (clinical and non-clinical), employment, and financial goals. If the Seller seeks to retain control of the practice and continue clinical practice, consideration could be given to the engagement of a DSO for administrative services through a management services agreement as opposed to a sale.<sup>2</sup>

Clarity of purpose and using that purpose as a guide throughout the process will structure the narrative, build credibility with potential buyers, and support more satisfactory results in the short- and long-term.<sup>3</sup>

## STRATEGIC STEPS TO PREPARE THE PEDIATRIC DENTAL PRACTICE FOR SALE

Preparing the pediatric dental practice for sale is essential and should be done strategically to optimize results. Often the planning process should begin years before a sale is executed in order to maximize the outcome and simplify the process of the sale. The following non-exhaustive list of strategic steps should be considered.

**Financial expectations of the sale.** A Seller should obtain a professional practice valuation from a reputable and experienced valuator in the industry.<sup>4</sup> If the *fair market value* (i.e., what a buyer is willing to pay in an open market without pressure to sell or buy)<sup>5</sup> of the practice does not meet the Seller's expectations or goals, the Seller will need to consider whether there is time to make operational changes that would meaningfully increase the practice's value. Examples of adjustments that may make the practice more marketable and desirable to a buyer include: adjusting fees, moving out of network with those third party payors having lower reimbursement rates (or renegotiating reimbursement rates), and increasing efficiencies through changes in scheduling or personnel.

### **Review outstanding practice debt and liens.**

Long-term debt will usually need to be paid off prior to the consummation of the practice sale. Resolving outstanding debt is important because the Seller will generally be required to warrant that all assets are sold "free and clear" of any liens and encumbrances. Long-term debt, as opposed to recurring monthly operational debt or trade payables such as payroll, rent, lab, and supply costs, can result in a lien being placed on practice assets to secure payment of the debt. For example, loans from practice renovation or equipment purchase, equipment leases, lines of credit, and judgements

against the practice (e.g., tax liens and judgements related to claims for workers compensation and unemployment benefits) are encumbrances that may result in a lien being placed on practice assets. The underlying debt will have to be paid in full for the lien to be released. Often Sellers are completely unaware that while the underlying debt was paid years prior to a sale and fully satisfied, the lien may persist on the public record. Legal counsel should assist a Seller in reviewing the public record for liens and encumbrances filed against practice assets and advise on the course of action for their removal.

**Facility lease considerations.** The terms of the Seller's facility lease will be of significant concern to a buyer. The Seller should have a valid written lease between the pediatric dental practice as the tenant and the landlord, whether an unrelated third-party landlord or a holding company owned by the Seller.

If the landlord is the Seller or related party (e.g., spouse) it is prudent to review whether the rent is fair market value for the location. Rent may have been established to specifically cover Seller's mortgage and associated costs and therefore may be greater than or under market value. Reviewing comparables for rent rates of similar real estate in reasonable proximity to the Seller's practice can be determined with the assistance of a real estate broker. Such a comparison should consider not only the location, size, and type of facility, but also the type of lease. The lease type and rent structure can result in significant variations in rent paid (e.g. gross, triple net, or modified gross leases). A gross or "full service" lease may include a higher singular rent set to cover certain related landlord expenses such as insurance, taxes, and maintenance, but not as a dollar-for-dollar coverage of all expenses. In contrast, a triple net lease (net-net-net) requires the tenant to pay a base rent plus additional rent

that includes all associated costs for maintaining and using the practice facility. If there are multiple tenants on the property, then each tenant pays their proportionate share. A modified gross lease is a hybrid of the gross and triple net leases.<sup>6,7</sup>

The Seller's tenancy interest in the current lease may be assigned or a new lease may be negotiated by the buyer. A major difference between these two options for the Seller is that buyer's execution of a new lease will end Seller's tenancy and associated obligations. Alternatively, an assignment of the Seller's lease to the buyer will often require the Seller to continue as a guarantor for tenant's performance under the lease for a specified period of time after the sale. The DSO, as a sophisticated buyer, will negotiate a new lease if commercially advantageous.

The Seller should decide whether the sale of owned real estate is a desired component of the practice sale. Considerations include how long the Seller wishes to retain ownership of the real estate and how it fits into the overall retirement goals. It may be advantageous to retain ownership of the real estate after the practice sells to ensure some recurring income. While a DSO buyer will likely require a reasonable lease just like any other buyer, the DSO may or may not be interested in purchasing Seller's real estate. A non-DSO buyer may have more interest in owning the real estate as a future investment and to control their rent rate and associated lease costs. If there is not an outright sale of the real estate, a separate contract providing for a future option to purchase the real estate (such as a buyer's right of first offer or first refusal) may be considered.<sup>8</sup>

**Staffing for the pediatric practice.** The Seller should be prepared to describe the culture of the practice including leadership and management style, employee engagement, and communication practices. Misalignment of organizational cultures between the practice and DSO could lead to untoward employment consequences such as personnel turnover and operational friction that result in under performance of the practice and failure to meet productivity goals.<sup>9</sup>

The Seller should prepare and keep an updated census report for all personnel, both front and back office staff, for a buyer's review. This should minimally include the name, date of hire, position held, rate of compensation, and benefits for each person. Additionally, it would be helpful to note if personnel are under written contracts or hired at-will, as provided for by state law.<sup>10</sup> Also identify if any personnel are engaged as independent contractors as opposed to employees of the practice.<sup>11</sup> Finally, it may be helpful to the buyer if contact information is provided, but only if the signed non-disclosure agreement (NDA) provides adequate protection against use of the information.

Prior to a sale, evaluate whether there are underperforming personnel who are not effectively contributing to the growth or overall productivity of the practice. If advised, make necessary personnel changes before beginning negotiations with a buyer. Key employees, like office managers or high producing associate dentists, need to be encouraged to stay and may need to be bonused or otherwise rewarded to ensure their continued commitment to the practice.

Securing dentist associates under written contracts that are assignable to a third party can be very desirable and often required by a DSO buyer. The Seller should seek legal advice as to the enforceability of including restrictive covenants in written contracts.<sup>12</sup>

**Compliance with federal and state laws affecting the practice and its operation.** The Seller will be asked to warrant the practice's compliance with all laws affecting its operation and conduct. Such laws include without limitation:

- Labor and employment law requirements under the Fair Labor Standards Act ("FLSA") and applicable state law. This includes hiring practices, the classification of personnel, and matters related to their employment or hire, management, and separation.
- Patient health information requirements under the Health Insurance Portability and Accountability Act (HIPAA) and applicable state law. This includes record content and retention, maintaining confidentiality of protected health information, and the transfer of that information (including a buyer's obligation to take custodial possession of the transferred records upon the sale of the practice).
- Practice requirements under state dental practice acts. This includes matters such as dentist and staff licensing, practice ownership requirements, delegation of duties and associated supervision, informed consent, patient termination, billing practices, advertising, and patient notification on sale.
- Financial requirements under federal and state law. Unclaimed funds or similar laws impact patient accounts and the refunding of patient credits. Compliance with tax laws, both federal and state, should be reviewed with the Seller's tax adviser as part of the preparation of the practice for sale.

**Review all existing practice contracts.** The Seller should identify all contracts affecting the practice, including those contracts in which the practice and/or pediatric dentist owner individually is a contracted party. In making this contract inventory,

inclusion of the commencement and termination dates of each contract is recommended. The Seller should maintain a fully executed copy of each contract. A non-exhaustive list of possible contracts include: third-party payor provider agreements, vendor agreements (e.g., IT, dental lab, equipment repair, postage machine, merchant service, janitorial, HVAC servicing, licensing contracts (e.g., dental software), staff contracts, leases for equipment or the practice facility), and credentialing arrangements with hospitals and or ambulatory surgery centers. It is important to review, for each contract, the limitations and obligations for the Seller and how they may impact the practice sale and if concerns can be addressed. For example, confirm whether the contracts are assumable by or transferable to the buyer. If not, options for early termination or a required buy-out of the remaining contract term need to be understood. Generally, a buyer will not assume any of the Seller's existing liabilities, which includes Seller's contracts, unless specifically negotiated. A DSO buyer will likely not want to assume Seller's contracts because it will already have access to many of the contracted services from its management team.

**Continue to maintain all practice assets.** The Seller should inventory, by category, all practice assets. The Seller should maintain all leasehold improvements and equipment in good working order in anticipation of a sale. Nonworking assets should be repaired if possible or otherwise disposed of and replaced as appropriate. The Seller should also maintain adequate insurance to be able to replace lost assets due to unexpected events, as the risk of loss runs with the Seller up to the closing and transfer of the Seller's assets to the buyer. Seller should also make certain that all patient records and files are complete and accurately reflect all treatment provided to each patient.

## Assembling your Professional Team

A team of knowledgeable and experienced advisors is essential for an efficient and effective transaction. The team should be committed to working collaboratively to guide the Seller in achieving their desired outcome. The following professionals should be included on the Seller's team:

An **Attorney** experienced in professional practice sales will be of greatest assistance to the Seller and should be engaged in the planning stage prior to the commencement of negotiations for sale. The attorney may take the primary role in facilitating interactions among the professional team members to support and complete the transaction. As a counselor, the Attorney helps the Seller maintain focus on their purpose, goals, needs, and priorities. It is advisable to have all legal documents prepared by or, if presented to the Seller, reviewed by Seller's attorney prior to Seller's execution of them which include without limitation: broker listing agreements, NDA's with professional team members and prospective buyers that include confidentiality provisions that survive the expiration of the NDA, letters of intent, purchase contracts, post-closing employment or independent contractor agreements, indemnification agreements, and assignment agreements. Such preparation or review of documents by Seller's attorney before they are signed helps to ensure the Seller is fully apprised of the meaning and appropriateness of the terms. In sales to a DSO, their attorney will often provide and present most if not all legal documents that support the transaction.

A **Financial adviser** familiar with the Seller's financial portfolio should be involved to advise on the impact of Seller's practice sale on such portfolio. Seller's financial adviser should be engaged in the planning stage of a sale and be included throughout the sale process. They should work collabora-

tively with the Seller's tax adviser to consider and advise as to the tax consequences of the sale and recommend strategies for Seller realizing the most financial benefit from the sale.

A **Tax adviser** experienced in professional practice acquisitions and sales should be engaged in the planning stage and continue throughout the sale process. In the planning stage, they can help minimize the tax implications that may result from the sale. For example, they may suggest a change in the legal structure of the practice (e.g., S-Corporation) to ensure a better financial and tax liability outcome.<sup>13, 14</sup> They can facilitate and prepare financial statements and provide requested tax returns for Seller's practice requested by a buyer. They can also be of great assistance in the price negotiation phase of the transaction and determination of the allocation of the purchase price for Seller's benefit.<sup>13</sup> The Seller should keep in mind that much of this requires preplanning and sufficient advance election and action before the practice is marketed. After the sale they will ensure that Seller's filed income tax returns properly report the purchase price allocation, so that Seller realizes the correct tax treatment for the net proceeds received.<sup>15</sup>

A **Broker or practice consultant**, preferably experienced in marketing and closing deals with DSO's, can be very helpful for marketing Seller's practice. Their marketing support can increase the Seller's practice exposure, expand the pool of interested buyers, assist in vetting potential buyers, and support negotiation and contract review. Broker fees are usually a percentage of the sale price whether paid at the time of closing or at a future date post-closing. Buyers and Sellers should not be represented by the same broker. The broker listing contract should be clear with a reasonable fee structure comparable to other brokers with similar focus and scope. Exclusions for buyers obtained outside of the listing agreement should be clearly expressed and the term of the listing engagement

specified. The listing contract should include provisions for its termination by either party. Additional terms may include (i) whether buyers introduced during the term of the listing engagement, but purchasing after the term ends, will invoke payment of the broker's fee and (ii) whether the listing engagement is exclusive so that no other broker may be engaged during its terms.

A **Practice valuator** should have proper credentials and experience with valuating professional practices including dentistry. Seller's other advisers will have recommendations for referrals. This adviser

will be engaged once the other advisers determine it is in the Seller's best interest to proceed and prior to marketing the practice.

A **Significant other or spouse** should be involved in the process since the sale of the practice likely impacts their lifestyle and future plans, whether or not they are a member of the practice team. It helps ensure that their expectations for the sale are recognized and met in conjunction with and as part of the Seller's goals. They can also provide support for the Seller to help ensure the Seller's personal goals are addressed.

## Summary

While a Seller's sale of their pediatric dental practice will be one of the most important transactions of their professional career, it can also be stressful and emotional, which can be elevated when negotiating with a sophisticated DSO buyer. Proper planning and engaging an experienced professional advising team can help manage, if not greatly reduce, the associated stress and ensure the best outcome for the Seller and the practice.

## REFERENCES

1. American Dental Association. *Dental Practice Modality Among U.S. Dentists. Data Reports.* <https://www.ada.org/resources/research/health-policy-institute/dental-practice-research/practice-modalities-among-us-dentists>. Accessed September 9, 2025.
2. Ludwig, R., & Rizos, E. (2024). *Management Services Organization models: Navigating key legal, structural, and operational considerations in physician practice acquisitions.* *Health Law Connections*, 5(2), 10-16.
3. McClary, T., & McDonald, B. (2025). *Happily ever after: Strategies to create lasting relationships and avoid heart-break in your M&A deals.* *Health Law Connections*, 6(2), 4-9.
4. Cascardo, D. (2016). *Pay attention to details when selling your practice.* *Journal of Medical Practice Management*, 32(1), 13-15.
5. Garner, B.A. (2024). *Black's Law Dictionary. 12th ed., Thomson West (2024).*
6. CARR. *What is a full service lease?* Retrieved November 8, 2025, from <https://carr.us/real-estate-resources/glossary/full-service-lease/>
7. Burns/Hansen. *A review of common types of commercial leases and lease terms.* Retrieved November 8, 2025 from <https://www.patrickburnslaw.com/articles/a-review-of-common-types-of-commercial-leases-and-lease-terms/>
8. See Horn Wright. *Right of first offer vs right of first refusal.* Retrieved November 8, 2025 from <https://www.hornwright.com/blog/2025/march/right-of-first-offer-vs-right-of-first-refusal/>
9. Donohoe, T.M., Adams, K., & Grandjean, B. (2025, April 3). *Workforce issues in health care transactions.* American Health Law Association. <https://www.americanhealthlaw.org/content-library/publications/briefings/d5f695e8-63f4-489a-8358-c2abe33ae0a0/workforce-issues-in-health-care-transactions?Token=e0cd0bba-e6c0-470c-9720-4436d6cfa911>