PRECISION DENTAL ANALYTICS · PRE-DILIGENCE FIELD GUIDE

# The Defense Gap

*What a private-equity buyer will do to your practice's value the day after you sign — and the three-year window that decides how much you keep.*

**$4.2M headline offer → $3.15M in the bank.**

A $1.05M evaporation — executed with the seller's own data, inside the 90 days after the LOI.

By James DeLuca · Precision Dental Analytics · precisiondentalanalytics.com

THE PROBLEM

# The asymmetry nobody warns you about

When you sell your practice, the buyer will spend **$50,000 to $200,000** forensically auditing your numbers. You will spend, on average, **$0 preparing them**. That imbalance has a name: the Defense Gap. And it is the single most expensive thing most owners never see coming.

Here is the part the broker's pitch deck leaves out: the buyer's due diligence is not a verification exercise. **It is a value-extraction engine.** A Quality-of-Earnings (QoE) team runs algorithms against your raw practice-management data, hunting for every add-back they can disallow and every dollar of earnings they can call unsustainable. And because your price is a *multiple* of EBITDA, every dollar they strike is magnified:

**$150K × 6× = $900K**

Disallow $150K of EBITDA on a practice selling at a 6× multiple, and the purchase price doesn't fall $150K — it falls $900,000. That is the multiplier working against you.

## Two sides of the same table

| The buyer brings | The seller brings |
|---|---|
| A funded QoE team and $50K–$200K in forensic firepower | A broker paid only if the deal closes — at almost any price |
| Algorithms run against your raw PMS database | Cash-basis books optimized for tax minimization, not GAAP |
| A structural incentive to find reasons to pay less | An emotional incentive to believe the headline number |
| Months of preparation before the first data request | A scramble to assemble five years of data on demand |

THE PLAYBOOK

# The 90-day extraction, step by step

The day you sign the Letter of Intent, you also sign an exclusivity clause — surrendering your only real leverage: the ability to walk to another buyer. From that moment, the clock works for the buyer, not for you.

| Window | Phase | What is actually happening |
| --- | --- | --- |
| Days 1–14 | The Honeymoon | Champagne over the headline number. Then a 100+ item data request lands. You assume it's a formality. |
| Days 15–45 | The Black Box | Silence. The QoE team is running your raw data against benchmark databases — mapping CDT utilization, testing owner-comp add-backs, hunting Phantom EBITDA. They know what they'll cut. They wait. |
| Days 46–60 | The QoE Hit | The draft report lands. It looks nothing like the broker's deck. Add-backs reversed, utilization flagged, revenue backed out. "We're still excited — but the math has to change." |
| Days 61–75 | The Re-Trade | They don't cut the multiple. They cut the EBITDA baseline. You're 70 days into exclusivity, already retired in your head. Walking away means starting over. You fold. |
| Days 76–90 | The WC Trap | The working-capital peg is calculated, an escrow holdback is locked, and the wire hits — millions short of the headline. The escrow you expect back in 24 months is already being underwritten against you. |

THE EVIDENCE

# This is the norm — not the exception

None of the above is a worst-case story. It is the documented base rate of how lower-middle-market deals actually close. The numbers below come from the people who administer these transactions for a living.

**~85%**

of middle-market deals see a purchase-price adjustment after the buyer's QoE — and the overwhelming majority move in one direction: down.

**~90% · median 10%**

of private-target deals include an escrow or holdback; the median locks 10% of your price in a third party's account against future claims.

**7 in 10**

working-capital adjustment claims are accepted by the seller — because contesting the buyer's math costs more than the claim itself.

**Sources:** SRS Acquiom M&A Deal Terms Study (2,300+ private-target deals); American Society of Appraisers; PitchBook US Middle-Market Report. Figures are cross-industry lower-middle-market benchmarks, illustrative of the mechanics a dental seller will face.

THE ROOT CAUSE

# Why it happens to good practices

This is not a story about bad practices or careless owners. It happens to excellent, profitable practices — because the structure of the transaction is built against an unprepared seller. Four forces compound:

1. **Books built for the IRS, not a buyer.** Cash-basis statements optimized to minimize tax look like risk to a GAAP-minded acquirer. What saved you taxes for 20 years now reads as unsubstantiated earnings.

2. **Add-backs with no documentation.** The owner-salary normalization, the “one-time” expenses, the family payroll — if they aren’t backed by third-party evidence, the QoE team strikes them on sight.

3. **A broker paid to close, not to defend.** Your representation collects a success fee whether the deal closes at the headline or 25% below it. At the moment of the re-trade, their incentive is to talk you *down*, not fight.

4. **The exclusivity cage.** Once you sign the LOI, you’ve cut off every other bidder for 90–120 days. The buyer knows it. Deal fatigue and the sunk-cost fallacy do the rest.

THE SOLUTION

# The three-year window

The defense is not a better broker, and it is not a frantic cleanup in the months before you list. By then it is too late — a sudden tidy-up in your final year reads to a buyer as exactly what it is: an outlier to be discounted.

The defense is **defensible data built over time**. Remediation that is documented as it happens — SOPs written and enforced, add-backs substantiated as they occur, attribution captured in the moment, clinical notes aligned to the compliance standard — compounds into a corroborating record that reads as *governance*, not as a last-minute story. When the buyer's QoE team goes looking for variance, it's already explained, already backed by evidence.

That is why the work has to start **three to five years before you list**. Not because remediation takes that long — because the *record* has to mature. A defensible data room isn't built the year you sell. It's built in the years a buyer never sees, so that the year they *do* see it, there is nothing left to extract.

**$30K-60K vs $700K+**

A sell-side forensic audit costs a fraction of a single reversed add-back. Prevent the buyer from unwinding $100K of EBITDA at a 7× multiple and you've protected $700,000 — many times the cost of the defense.

DO THIS NOW

# The pre-diligence self-audit

Go down this list honestly. Each item is something a buyer's QoE team will test. For every one you *cannot* answer with documented evidence today, mark the box — that is a line item in your Defense Gap.

| | |
|---|---|
| ☐ | I can prove my cost of patient acquisition, by channel, with data — not estimates. |
| ☐ | My active-patient attrition rate is measured and held under control (unscheduled patients tracked). |
| ☐ | Case acceptance is tracked in raw dollars accepted vs. presented — not just patient percentage. |
| ☐ | My hygiene department's perio diagnosis rate and net production per hour are audited regularly. |
| ☐ | Associate diagnostic patterns are calibrated against an objective standard, not left to comfort level. |
| ☐ | Every owner add-back is supported by third-party documentation (e.g., a market comp study for owner pay). |
| ☐ | New-patient attribution is documented — and not dangerously concentrated on the owner-doctor. |
| ☐ | My CDT/utilization mix can be defended against national benchmarks and a payor audit. |
| ☐ | AR, credit balances, and escheatment exposure are reconciled and clean. |
| ☐ | Core operations are documented in SOPs and run without my daily intervention. |
| ☐ | Clinical notes support the procedures billed at the compliance standard. |
| ☐ | I have a working-capital posture that won't trigger a six-figure true-up at close. |
| ☐ | If a buyer asked for five years of clean, organized data tomorrow, I could deliver it. |
| ☐ | My remediation is documented as it happens — a record that compounds, not a last-minute cleanup. |

| Boxes marked | What it means |
|---|---|
| 0 – 2 | Strong. You're defending your number. Tighten the documentation trail and hold the line. |
| 3 – 6 | Exposed. A buyer's QoE will find real value to extract. You have runway — use it now. |
| 7 + | Wide-open Defense Gap. If an LOI arrived this year, you would lose the gap between headline and realized value. Start the clock today. |

THE NEXT STEP

# Close the gap before a buyer finds it

Knowing the gap exists is the first move. The next is putting a number on yours — and building the years of defensible data that make it disappear before a buyer ever opens your data room.

| Put a number on it | Map your runway |
|---|---|
| **Score your exposure in minutes.** Run the EBITDA Leakage Calculator and the Valuation Calculator to see, against a 2,500-practice benchmark, where your margin and your multiple are leaking today. | **Talk to the people who build the defense.** Request a confidential pre-diligence orientation. We'll map your exit horizon and what a defensible data room would take for your practice — no pitch, no obligation. |

## Precision Dental Analytics

The data layer between your practice and an institutional buyer. We find what they'll find — then help you fix it before they do.

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