

Entrances & Exits and Alternative Strategies



Why Might We Need Alternatives?

- Supply and Demand
- Too Many Facilities
- Not Enough DVM's
- Low Ownership Desire
- Baby Boomers
- Buyer (NOT SELLER) cashflow problems

Entrance Strategies

- Start Up
- Buy In
- Buy Out
- Hybrids

Exit Strategies

- % Buy-in
- 100% transfer
- Terminal date
- Merger
- Acquisition
- Hybrids

Who Can Help Me Decide How to Buy or Sell?



- Accountant
- Attorney
- Broker
- Consultant
- Lender



CONSULTING

IF YOU'RE NOT A PART OF THE SOLUTION,
THERE'S GOOD MONEY TO BE MADE IN PROLONGING THE PROBLEM.

Association of Veterinary Practice Management Consultants and Advisors

Mission Statement

“To promote excellence and ethics in veterinary consulting and advising through continuing education, communication, collaboration and collegiality, and to establish and improve business practices and standards.”

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Practice ownership



- Start up
- Buy-in
- Buy-out

Start up

- Pros

- Choose location
- Personalize
- Sole success



- Cons

- Expensive
- No cash flow
- Gamble
- Limited finance options

Start up costs

Marketing	\$5,000 – 50,000
Site selection	\$1,500 – 3,000
Construction	\$75,000 – 150,000 or more
Equipment	\$60,000 – 150,000
Inventory	\$15,000 – 35,000
Computers	\$4,000 – 20,000
Professional fees	\$3,000 – 15,000
Finance costs	\$2,000 – 6,000

Total costs for start up

\$165,000
hole in the wall

–

\$450,000
properly equipped



Alternative Solution: Look for a head-start practice

Buy In

- PROS

- Inexpensive (Practice pays for self)
- Safe (track record)
- Gain management experience

- CONS

- Slow process
- Lack of control
- “Golden handcuffs”
- Minority discount?



Should I Sell/Buy Only a Small Part of the Practice?

The Theory

- More affordable
- Keeps current owner/manager in place
= less risk of failure
- Continued profits for seller

The Great Giveaway

and why its good for you

\$1,500,000 gross income

\$1,000,000 valuation

Associate gets to by 20% with a \$20,000 down payment, financing the \$180,000 balance for 10 years at 9%.

Question:

What does it cost you to get 20% of the \$1,000,000 practice?

The Great Giveaway

and why its good for you

- Answer: \$20,000 Why??
- Assume you both receive reasonable compensation for
 - a) clinical work (\$75,000 each)
 - b) management duties (split \$20,000)
- and assume the remaining profit is \$150,000
- If you are entitled to 20% then you receive \$30,000 of total profit. Your payment on the \$180,000 balance is:
 - \$180,000 financed at 9% for 10 years = \$27,362/yr
- $\$30,000 - \$27,362 = \$2638$ (extra)

The Great Giveaway

and why its good for you

- So who pays for the practice?
- The PRACTICE DOES, not you.
- In ten years, the note is paid off, and instead of a \$2,630 yearly remainder, you'll have all \$30,000, and that's assuming the practice **never** grows in ten years!
- Pretty good deal!

The Great Giveaway

Is there a down side?

- It will take a while to transition to full ownership
- You have the “golden handcuffs” on.
- Who are you going to sell 20% of a practice to?
- What if either of you hate it?

Alternative Solution: Hybrid – partial now, bulk at specific time

Complete Buy Out

- PROS

- Financing is available
- Instant profit
- Practice buys itself
- Complete control
- Good investment (equity)

- CONS

- Large (scary) investment
- Full responsibility
- Management
- Lack of mobility
- Lack of liquidity

What About Value “Rules of Thumb”?



Rules of Thumb

- Some % of gross income?
- *Who had \$100 billion?*



The Reality:

3 - 5 times earnings

All practices are NOT equal

Don't overlook transferability, location, species



PLANNING AN EXIT

MAKE THE DECISION !



Why We Sell

- Retirement – 33%
- Career shift – 43%
- Relief, specialty, associate, management headaches, (hiring, supervising, duty hours, regulatory compliance, bad debts)
- Personal – 24%

Decision Prompters

- Quality of life
- Quality of practice issues
- Financial issues

Exit Options

- 6 Strategies to consider
 - Close the door – walk away
 - Maintain, develop, or improve
 - Merge or affiliate with others
 - Sell to corporate consolidator
 - Internal sale to associate (% or all)
 - Sell to outside DVM



Emotional Considerations

- Mentally ready?
- What's next?
- Hobbies?
- Consider using a professional to help
- Expect 1+ years



Primary Goal

Develop and maintain a facility and practice that is attractive to buyers



Primary Risk?

Holding on to a practice too long
- reduced hours, appointments, services -

Who is in the Market?

- Recent grads (loan limitations)
- 3-10 years experience
- Practice owners looking to expand
- Corporate buyers
- Technicians or support staff (legalities?)

What are Buyers Looking For?



- Small animal
- Suburbia or quaint community near city
- Emergency service or rotation
- Reasonably equipped
- Neat, odor-free, clean, orderly facility
- Growing

What Do Buyers Want?

- Gross: \$500,000 - \$1,500,000
- Profitable: 35% cash flow, 17% earnings
- Buyer's after debt income: 15-20% of gross
minimum of –
 - \$60,000 rural, central US, west
 - \$80,000 costal, urban
 - \$100,000 high-cost urban areas

Important News!

For owners of large practices > \$1 million

Private buyers are abundant

Cash is available for private sale

(100% non-owner financing)

Tremendous opportunity for an open market
sale of these practices

2 DVM SF Bay Area Practice

Seller:

Gross Income	\$900,000
Cashflow	<u>\$100,000</u>
(rent is zero)	
Seller's Salary	\$100,000

Seller thinks her practice is worth
80 % of gross

Dreamland =	\$720,000
Reality =	+/- \$400,000

Buyer:

Gross Income	\$900,000
Cashflow	\$100,000
Mortgage or Rent	\$-70,000
Practice Payment	<u>\$-30,000</u>
(\$199K @ 9%)	
Buyer's Salary	-\$90,000

Simmons & Associates have
termed these practices NO/LO
Practices

Alternative Solution: Become An Acquisition Target

What if you are Smaller?



Calculate Investment Value

- Assume fair market value for practice of \$245,000

Cash flow	\$129,219
less loan	<u>37,242</u> (9% x 10 years)
Remaining for buyer	\$ 91,976

- Now, let's assume buyer personal needs are \$110K

Cash flow	\$129,219
less buyer need	<u>110,000</u>
Remaining for loan	\$ 19,219

How much debt will the \$19,219 buy at 9% x 10 years?

\$127,000

Small Practice

Alternative Solutions:

- ✓ Be An Acquisition Target
- ✓ Give it Away (keep CRE rent/finance it)
- ✓ Aggressive Retirement Funding

Grow it?

Acquire and merge a practice in?

Ramp up production?

Example

	<u>Practice A</u>	<u>Practice B</u>
Gross income	\$310,000	\$550,000
Equipment value	\$35,000	\$60,000
Net income	\$175,000	\$125,000
Growth rate	↑ 11%	↓ 6%
Competitors in area	5	2
Emergency service	YES	NO
Geographical area	DESIRABLE	NOT DESIRABLE
Practice type	MIXED ANIMAL	SMALL ANIMAL

THE VALUE OF EQUITY BUILDUP

IF YOU SPEND THE NEXT 10 YEARS AS A WELL-PAID ASSOCIATE

Salary \$70,000 per year
Investments \$700 per month for 10 years at a return of 10%/yr

After 10 years

Savings \$143,000
Equity \$0
Net Worth **\$143,000**

IF YOU SPEND THE NEXT 10 YEARS AS THE OWNER OF TRINITY PET HOSPITAL (purchase price \$500,000)

Salary \$70,000+ per year
Investments \$700 per month for 10 years at a return of 10%/yr

After 10 years

Savings \$143,000
Equity \$740,000*
Net Worth **\$883,000**

Difference **\$740,000**

*Assuming a conservative annual 4% increase in practice value

THE VALUE OF EQUITY BUILDUP

IF YOU SPEND THE NEXT 10 YEARS AS A WELL-PAID ASSOCIATE

Salary	\$70,000 per year
Investments	\$700 per month for 10 years at a return of 10%/yr
After 10 years	
Savings	\$143,000
Equity	\$0
Net Worth	\$143,000

IF YOU SPEND THE NEXT 10 YEARS AS THE OWNER OF ABC PET HOSPITAL (purchase price \$1,500,000)

Salary	\$90,000+ per year
Investments	\$700 per month for 10 years at a return of 10%/yr
After 10 years	
Savings	\$143,000
Equity	\$1,500,000*
Net Worth	\$1,643,000
	<u>Difference</u> \$1,500,000

*Assuming no increase in practice value for 10 years!

\$ Getting Top Dollar \$

- Increase **Marketability**
- Increase **Value**

Effect of Cashflow On a Sale

• Gross Revenue	\$300,000	\$700,000	\$1.5M
• Value	\$245,000	\$610,000	\$1.3M
• Cashflow	\$129K	\$238K	\$450K
• Debt service	\$39K	\$106K	\$197K
• Buyer Income	\$90K	\$132K	\$253K
• Salary Min	\$80K	\$80K	\$80K
• Cushion	\$10K	\$52K	\$173K

STUDENT LOANS

A photograph of a pond with lily pads and a pink lotus flower. The text "Other Issues" is overlaid on the image in a white serif font, with a second "Other Issues" in a green serif font below it.

Other Issues

Other Issues

Tax Implications

- Good CPA with business experience
- Allocation of sale price
- Capital gain vs. ordinary income
- Stock vs. asset sale
- Income taxes after sale
(deferrals – 1031, owner financing)



Is Low Cashflow Haunting You?

- Clean up those financial statements
- Repair, repaint, cosmetics, signage
- Review equipment, replenish
- Non-compete and relief issues

Other Items

- Equipment leases (pre-payment or assignable)
- Facility lease (long term and assignable)
- Zoning
- Know real estate and practice values

Should I Also Sell the Real Estate with the Practice?

The theory

- Rental income
- Growing asset
- Defer taxes
- Sell only after practice sale is completed
- Not affordable

The reality

- Buyer's *really, really, really* want it
- Rental income – other property also could provide equally
- Growing investment – special use, so others likely better (1031 exchange??)
- Sell practice first, retain R.E. for security (DVMs low risk, default scenario)
- Too much cost - \$ available, mortgage payment < rent

Stray thoughts about R.E.

Expedite transaction with commercial financing for practice, carry note on R.E. with a balloon in 3-5 years.

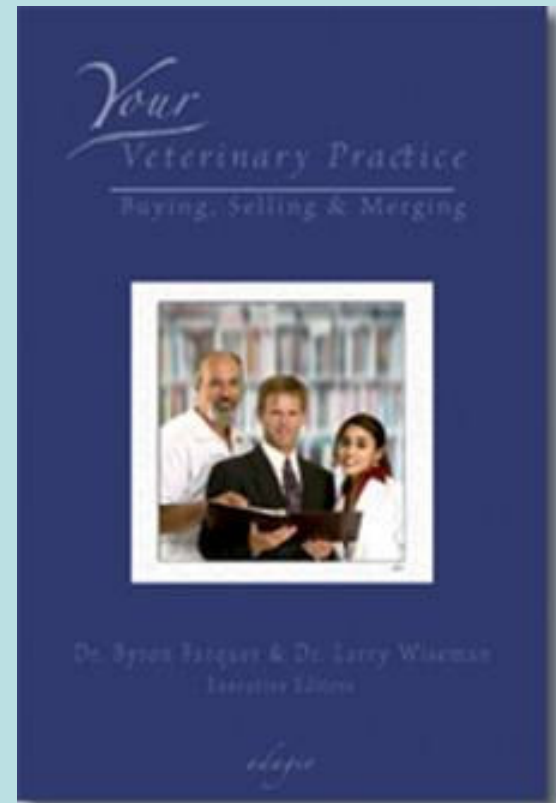
- Fast and efficient
- Fewer roadblocks (appraisals, environmental issues, etc.)
- Tax advantages

Still Confused ?



Read, Ask, Learn

- Colleagues +/-
- Seminars and Lectures
- Books and Articles
- Non-veterinary business info
- Ask Experts



Where do you find a Buyer or Seller?

- Your place of employment
- Classifieds (VIN, JAVMA, State VMA magazines)
- Pharmaceutical reps
- Conference Boards
- Pass the word around



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Thank you !

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