The real deal

With practice sales and corporate offers, the devil is in the details.

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Owning an attractive veterinary practice that will command a high sales price carries certain bragging rights. While no one would argue that the sales price isn't important, it is only one factor in a complex deal. Here are some important considerations to ensure your ultimate satisfaction with a sale to a corporate consolidator.

1 Selling Assets Versus Stock

While this is not the most interesting detail to discuss, it can have tremendous tax consequence to you as the seller.

An asset sale — when the buyer forms a new legal business entity and transfers the veterinary practice assets into the new company — is the most common. The buyer receives tax advantages, namely the ability to take depreciation on those assets. Under this scenario, the business is acquired on a "cash free, debt free" basis, meaning the seller keeps all the cash in the bank and pays all practice liabilities from the sale proceeds. Occasionally, the buyer is willing to pay off an existing equipment loan or take on a relationship lease for laboratory equipment, but in most cases the seller pays the debt.

During a stock sale, on the other hand, the buyer acquires the practice's assets and liabilities, both on and off the books. The buyer also inherits any skeletons, including those related to past events.

Few corporate consolidators will consider buying a target hospital's stock. Those that will usually do not assume any of the practice's liabilities, requiring instead that the seller pay these from the sale proceeds.
The biggest difference between selling assets and selling stock might be the seller's income tax liability, including a potential capital-gains tax.

Always work with a tax expert when structuring and negotiating these details.

2 Timing and Method of Payment

Will you receive the purchase price in cash or will you be asked to hold a note for a large portion of the price? Will part of the price be held back for some months after the sale to allow for unforeseen expenses? Is any portion of the purchase price contingent on the hospital's future gross income or profit? Are you willing to receive a lower price in exchange for shares in a consolidator's parent company?

Each of these options has risks and potentially significant tax consequences. Consult with a tax adviser before making a final decision.

3 Guarantees to Associate Veterinarians and Other Key Employees

Corporate players understand that the seller is not the only important person in the practice. You might be required to ensure that other key employees remain with the practice, or if they leave you might have to accept a lower sales price.

With any buyers, the more they can protect the practice's revenue, the better the investment they have made. The best way for a seller to guarantee revenue is to ensure that all associate doctors remain in place. The risk of one or all leaving to start a competing practice is more than most buyers are willing to accept. Current, signed employment contracts with each associate will go a long way toward mitigating this risk. While you can't guarantee that all the doctors and staff will remain after the sale, you will be expected to do what you can to persuade them to stay. If employment contracts are not in place, do not expect top dollar for your practice.

You might find that your associates do an end run around you and try to negotiate a contract with the buyer.

4 Your Work Commitment

Rarely do corporate buyers have other veterinarians waiting to step into your practice and replace your veterinary production. Expect to remain with the practice for one to three years after the sale. For single-doctor practices, the commitment can be even longer. This means you need to sell to a corporate consolidator several years before you plan to retire.

5 Your Job Description

Smaller corporate consolidators, as well as those outside the industry, might not have the infrastructure to manage your practice from a distance. Unless the company owns several other practices in your region, there might not be an area manager available to devote time to your hospital. If this is the case, you might have to keep your current management responsibilities. If you want to get out from under these responsibilities and "just be a veterinarian again," understand whether this goal is realistic given the terms of the sale.

6 Your Compensation and Benefits

Sellers often are at a point in their careers where they can pay themselves well and enjoy company-paid benefits such as health insurance for the whole family, a personal vehicle or season tickets to the hometown team. Owners typically attend as much continuing education as they like and allow themselves plenty of vacation time. Many retirement plans are designed to allow the owners to make large contributions to their personal accounts.

Understand that your compensation and benefits after the sale are unlikely to be as generous. While both are likely negotiable, you will see a tradeoff involving the purchase price and how you are compensated after the sale.

7 Facility Rent

Corporate consolidators want to buy veterinary practices, not real estate. If you own the real estate in addition to the practice, expect to enter a long-term lease at market rate or even slightly below market rent. You might be paying yourself higher than market rate rent in order to receive personal tax advantages, but do not expect the consolidator to continue doing this. If the consolidator agrees to pay higher facility rent, it will expect a reduction in purchase price.

Final Advice

Getting a good deal for your hospital involves more than just the sales price. The sales terms could have an impact on your personal finances and lifestyle for years afterward.

If you are considering selling your veterinary practice to one of the more than four dozen consolidators active in our industry, it pays to talk with several companies to learn not only what qualities they look for in a target practice but also what expectations they place on the seller after the transaction. Whittle the list to your three top candidates and work with them to determine how well you and your practice fit into their definition of an ideal partner. Understand the differences related not only to the price but how the deal would be structured for tax purposes, and understand what contingencies are in place.

When you receive an offer, pay close attention to what is being offered beyond the sales price. While everyone wants a high sales price, the devil is in the details. Work closely with your advisers to understand the expectations and consequences of accepting an offer.

The best deal might not be with the highest bidder. ■

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