



Business

MONEY MATTERS



Manage your expectations



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A variety of factors helps determine what your practice is worth and what a buyer is prepared to pay. The market today isn't all about consolidators.

I hear it time and again: "I want to sell to my associate as long as she pays me what a corporate will pay me." I hear it either from the seller, who is sincere in wishing to sell privately, or from the associate, who worries that she can't afford to pay that much.

In truth, for many veterinary practices, the price a consolidator will pay is not that different from what a private buyer can afford. But sellers' expectations are sometimes overly optimistic. While some practices sell for very high prices, most do not. And therein lies the disconnect between seller expectations and reality.

While specialty practices and referral centers historically have sold for high prices, general practices were not the darlings of corporate takeovers until now. Some owners of companion animal practices have received generous purchase prices, much higher than we would have imagined five years ago. "EBITDA" (earnings before interest, taxes, depreciation and amortization) and "multiples" have become common topics of conversation, and as stories are told and retold, the belief that every practice is now worth much more than ever before is spreading. But it just isn't true.

Yes, average sales prices are increasing, and yes, some practices become targets of consolidator bidding wars. Everyone hears about those practices. And it is natural to expect that if those prac-

tices sell high, others will sell high, too. Some will, but many others will not. Here's why.

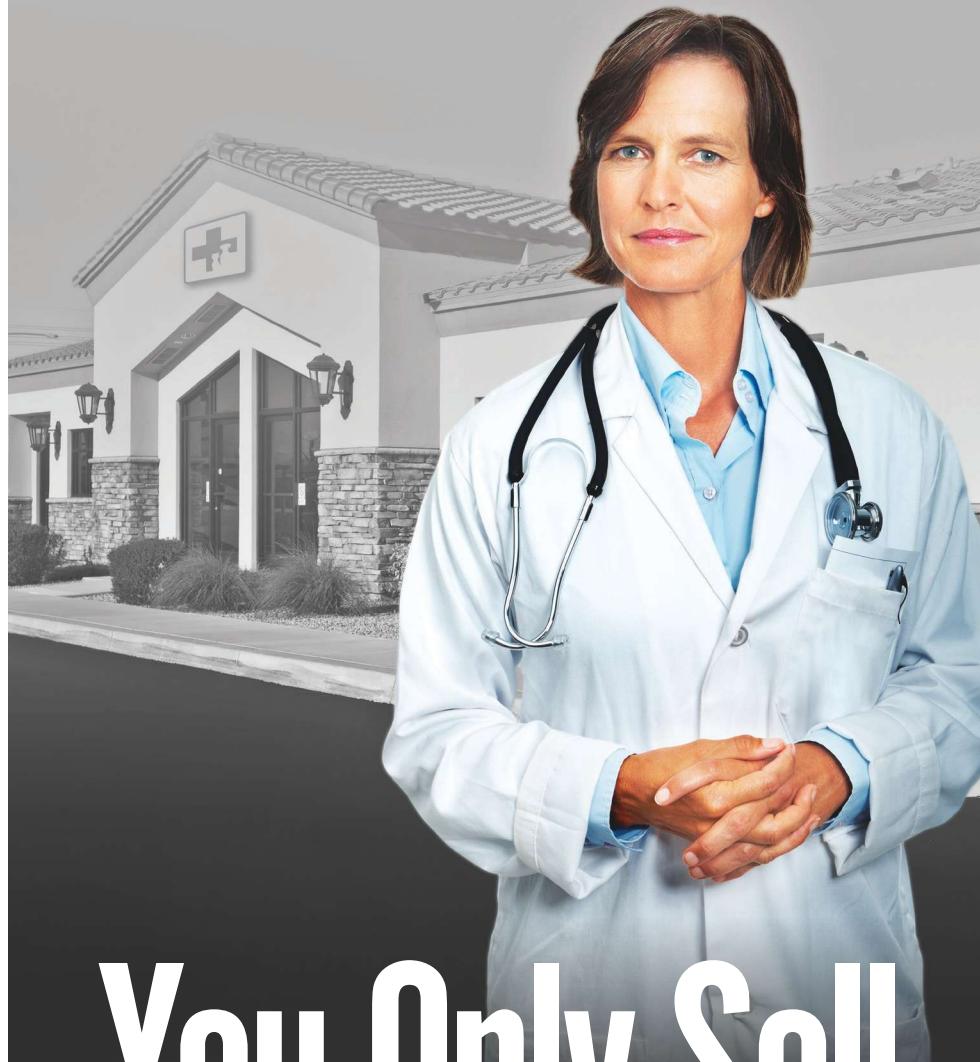
A Matter of Scale

The veterinary marketplace has two broad categories of buyers: private veterinarians wishing to buy a single practice or a few practices, and various sizes of consolidators formed to acquire multiple practices. Some consolidators plan to maintain a presence in the profession while other groups, either openly or covertly, intend to collect a group of practices large enough to flip to an even larger investment group.

Veterinary practice consolidators want both quality and quantity. They began by cherry-picking the cream of the crop. A large number of highly profitable veterinary practices have been acquired

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by consolidators over the past 10 years. The buying frenzy continues, but now fewer of the most desirable hospitals are in the hands of private owners, and competition among consolidators can be fierce for these prized practices. High sales prices for these practices are a given, though we can't predict how high the price will be.

Marquee practices, or those that have a special significance in the community, often receive generous offers or at least receive more offers than a typical hospital. As long as the marquee practice maintains the cachet after the ownership transition, many buyers will be willing to pay a premium. Celebrity practices — those seen on television shows or employing celebrity doctors — might get higher offers than the profitability would dictate, again for the prestige and attention the practice garners from the community at large. Hospitals that hold particular strategic geographic advantages for the corporation also receive high offers, too.

Other Practices

But what about all the other practices where the seller has spent a career providing services to the community and either hasn't paid close attention to finances or chose to run the practice without profit as a goal? Do buyers exist for these practices? Probably, depending on the location. Will the owners receive multiple high offers? Maybe. Will the offers be on par with what premier practices receive? Probably not.

This is the market where private individuals often prevail. While consolidators are present, the offers often are at standard fair market rates. This makes it much easier for other veterinarians to make competitive offers.

Many articles in Today's Veterinary Business, both in this column and elsewhere, have explained the relationship between historical profit and business value. Profit is an essential part of value, and private buyers, most of whom don't have a big bag of ready cash, rely on profit to finance the purchase price.

Private veterinarians work with the same lenders you see in conference exhibit halls, and they talk to the bank down the street. Those lenders typically are conservative. They will not lend more than the practice's profits will support. They also won't lend on the promise of what the hospital "could" be in the future.

In contrast, consolidators have deep pockets and borrow money from financial institutions most people have never heard of and can't access. Many consolidators are backed by investment funds that have specific goals for investor returns. In other words, these funds exist to make money for their investors. Consolidators quickly identify areas where they can reduce costs and make the practice more profitable. They might be willing to pay extra because they have the financial resources to pay now for expected higher profits down the road. They also have negotiated vendor pricing that will be applied immediately.

Private veterinarians don't have the same negotiating power, and

most won't have the management expertise to make immediate, substantive and sustained changes.

Prepare for a Sale

Many practices have the potential to be worth much more than they are now. To get the best price for a veterinary practice, no matter whom the ultimate buyer might be, hospital owners and managers must act now to make the practice as consistent and stable as possible. In other words, they must monitor profits and profitability, and actively manage the business. We have seen highly profitable hospitals lose ground swiftly when the hospital administrator or practice manager leaves, taking the expertise.

The tasks below might seem unnecessary and mundane, but taking these steps will help demonstrate practice stability to a buyer.

- Increase selected prices, especially if you haven't done so for several years, and ensure that every service provided

Did you hear the one about the veterinarian who thought ordering a compounded medication from a 503A pharmacy was the same as from a 503B pharmacy?

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¹ cGMP - Current Good Manufacturing Practices

²Varies based on individual state law. Federal law allows dispensing and administration - FDA Federal SEC. 503B, [21 U.S.C. 353b]

appears on the client invoice.

- Control the two biggest expenses: payroll and cost of professional services. Controlling these expenses does not mean minimizing them. Adequate amounts of products and supplies must be on hand, and there should be enough staff present to maintain the quality of medical care and client service.
- Recommend all appropriate services for every patient without predetermining the pet owner's willingness or ability to pay.
- Ensure doctor contracts are current and signed.
- Work with your accountant and payroll company to verify that payroll deductions are accurately portrayed on your financial statements.
- Get tardy clients on the schedule.
- Update job descriptions.
- Make sure the procedures manual is current.
- Organize documents covering equipment leases and maintenance plans. Include agreements with alarm services, landscape maintenance and website hosting.
- Verify that the hospital's website and social media accounts are active and current.
- Collect or write off old accounts receivable.
- Make necessary corrections to the inventory carried in your practice management information software. Confirm that the items and the quantities (no negatives!) are accurate.
- If you don't keep vendor addresses and account numbers in QuickBooks, begin adding them as bills are paid. Can you print a list of vendors, including contract information?

Know Your Strengths

The more readily you can provide requested information to a buyer, the more likely you are to keep their interest and demonstrate your preparedness for a sale. How do you differentiate your practice

from your competitors? Is it AAHA accredited? Fear Free certified? Cat friendly? Do you offer acupuncture, evening hours or prepaid wellness plans? Understanding why clients choose your practice — and documenting, standardizing and reinforcing those things — will help set your practice apart when you are ready to sell.

Do you deserve to get the

best possible price for your practice? Absolutely! Higher-grossing practices might receive the highest offers, but every practice has unique strengths. Be prepared to highlight your practice's strengths

and how a buyer will benefit. But understand that if a buyer needs to make substantive changes to the practice or will assume one or more equipment loans, they won't be in a position to pay a premium. ■

Money Matters columnist Leslie A. Mamalis is the owner and senior consultant at Summit Veterinary Advisors. Learn more at www.summitveterinaryadvisors.com.



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