

CAN YOU STILL BUY A VETERINARY HOSPITAL?

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Buying a veterinary practice, whether it's the one you currently work for or a different hospital altogether, is much harder than it used to be. Practices with two or more doctors are receiving multiple offers, and often those offers are from corporate consolidators with deep pockets. When a consolidator aggressively negotiates to buy a practice, private veterinarians almost always have trouble competing.

That said, some veterinary hospitals are not targets for corporate takeovers. Single doctor practices, hospitals in rural locations, and those that are not profitable may not draw the interest of consolidators. If you want to own a veterinary practice and don't want to take the risk of starting one yourself, these practices may provide just the opportunity you are looking for. Small hospitals, like those with one doctor, can be great investments, as long as there is enough profit to use to pay the purchase price. This is true for practices that are profitable currently as well as for those that are considered "No-Lo Practices." What's a "No-Lo Practice"? The VetPartners Valuation Council coined the term "as a way to describe practices with no value or exceptionally low value. (For a great resource about No-Lo Practices, go to <https://www.vetpartners.org/practice-valuation-resources/>)

Before you buy a "No-Lo Practice," it is imperative that you know what the underlying issues are and what it will take to turn the practice around. When a veterinary hospital doesn't generate profit or has very low levels of profit, the cause (or causes) may be related to the way the business is managed. If no one has paid attention to inventory or updated the fee schedule recently, these issues can be addressed. Perhaps the doctor has been ready to retire for years and sees the practice more as a hobby than as a job. Advertising is minimal and the website hasn't been updated since its launch date. If any one or more of these contributes to low profits, there are tried and true methods to resolve them.

Sometimes the practice environment, both internal and external, plays a role in depressing business profits. Environmental issues are more challenging to assess and correct. What if the neighborhood surrounding the practice has become gentrified, and the property owner has implemented a significant increase in rent? If the practice is paying more in rent than it can afford, can you negotiate a lower lease rate? If not, can you generate enough new revenue to offset the increase? Perhaps the hospital is located in a strip mall that has lost its anchor stores and is rapidly declining. How easily could you attract new clients to the hospital? How visible is the practice from the street or nearby highway? Would you need to move the practice in order to grow? These are more serious problems that could be time-consuming and expensive to address.

Buying a practice can be compared to buying a house. Some buyers want a home that is "move-in ready." Others are eager to roll up their sleeves and tackle a "fixer-upper." If the foundation is strong, the "bones" are good, and the house can be improved with some strategic upgrades and a lot of elbow grease, buying it could be an excellent investment. The work you do to address the problems could result in a valuable investment to sell in the future.

On the other hand, if the foundation is crumbling or there are other major structural issues, the house may be a money pit that isn't worth the investment. If it's located in a sketchy neighborhood where the school district is underfunded, you have cause to worry about whether your investment will pay off. It's one thing if all the appliances are Harvest Gold. It's something else entirely if there is evidence of termites, water seepage, or the place was recently a meth lab. In this situation, you may be flushing your money down the toilet.

Back to buying a practice. Some No-Lo Practices represent excellent opportunities to get a high return on investment, even more so than you may get by purchasing a highly profitable hospital at a high price. If you can "buy low" and manage the business so that it becomes profitable, you could create a valuable asset that you can eventually sell and reap the profits. Other No-Lo's could be money pits that will need constant investment and never live up to your expectations.

There are plenty of veterinary hospitals to buy and many baby boomer owners who either don't want to "go corporate" or aren't going to draw corporate interest. Yes, some of these are No-Lo Practice, but many are not. Compared to starting a new practice from scratch, there are significant advantages to buying an existing practice with appointments on the books and a client base that is bonded to the practice. That said, it is imperative to consider the current quality of medicine that is being practiced and the fees that are being charged. Do clients want the best for their pets or are they looking for the lowest prices? Before you sign on the dotted line, be sure you understand the practice you are buying. As long as it is a good fit with your philosophies of practice, and you know how to maintain or increase profits, a smaller practice – even a No-Lo - can be a good investment.