

TAKE ME OUT TO THE BALL GAME, BUT DON'T GIVE ME A BALLPARK VALUE FOR MY PRACTICE!

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As business valuers, we are often asked, "Can you give me a ballpark figure of the value of my practice?" This usually makes us wince because, as you know, a ballpark is a pretty large venue with several different viewpoints.

I can be sitting in the nosebleed seats eating my fifth hotdog and drinking my third beer, hollering for my favorite major league baseball team. Or, I could be the star pitcher about to throw the winning strike. Both are "in the ballpark" but obviously at entirely different levels.

The value of any business is based on the specific characteristics of that business. Be wary of ballpark figures! The practice that is sitting in the nosebleed section does not have the same value as an MVP practice on the field. There are many, many factors that go into coming up with a proper business value. Without knowing the financial condition and operational specifics of your practice and without taking the time to assess and calculate the appropriate adjusted earnings along with a thorough risk analysis, it's extremely difficult to determine exactly where your practice is in the stadium.

Similar to ballpark figures are "Rules of Thumb". Be very prudent using rule of thumb figures to get an idea of the value of your practice. In the veterinary industry, a rule of thumb is derived from actual practices sales, along with a healthy dose of hearsay, an average of one or more variables and comparing that average to the sales price. In other words, a rule of thumb would apply to an "average" practice. When have you ever thought your practice is average?

There are a number of problems using rules of thumb, particularly in our profession where most practice sales are private (meaning it's difficult to get information on those sales). Instead, many people use values reported "through the grapevine" to come up with these "rules". The inability to compare similar practices in veterinary medicine make the rule of thumb approach an unreliable way of valuing your practice.

Furthermore, if the rule of thumb depends on a multiple of earnings, there is no formal agreement on how those earnings are calculated and what they do and do not include. The adjustments used to calculate earnings make a huge difference in the outcome of the value! If we rely on a rule of thumb based on earnings, it is imperative to know whether each practice was priced using those same calculations.

Getting a ballpark figure or using a rule of thumb that is not a true reflection of your practice could lead you to believe that your practice is the next World Series winner, when in reality, you have a middle reliever. This could lead to heartache and financial ruin especially if you are planning on selling your practice soon. The opposite could also be true. You could sell yourself short thinking you only belong in the stands as a spectator, but your practice actually has the potential to make it to the World Series!

The most serious concerns of using ballpark figures and rules of thumb relate to establishing a selling price that is much lower or higher than the true fair market value of the practice. We have seen sellers lose tens of thousands of dollars in sales price because they or their advisors did not take the time to get a formal appraisal. On the other side, if a buyer overpays for a practice, it could result in a situation where the buyer cannot afford to make the payments.

No ballpark figure nor rule of thumb is sophisticated enough to cover the wide variation of veterinary practices, modalities, facilities, specialties, geographic locations, economic situations, equipment availability and condition, staff training, and all the other intricacies of veterinary medicine and your practice specifically.

There are, however, a few advantages in using ballpark figures and rules of thumb. They are typically free of charge; which can be a huge plus in comparison to a formal valuation, which will cost several thousand dollars. They are also easy to apply and figure. Anyone with access to financial information about your practice can apply a rule of thumb multiplier to a gross revenue figure or net operating income and come up with a ballpark figure. Additionally, ballpark values and rules of thumb provide immediate results, where an official calculated valuation will take a minimum of several weeks to complete. They can also help attest to the reasonableness of a selling/purchasing price or provide a sanity check for a calculated value.

Using ballpark figures and rules of thumb to value a practice is an oversimplification of a very intricate and complicated process. They should *never* (and we repeat, **never**) be used as a primary method of valuation or to base important business decisions on! Because of the vague nature, they should only be used for reasonableness checks.

If you are working on a strategic plan for your practice, or if you are getting ready to sell all or part of your practice, don't strike out on the value! Which point of view in the stadium do you currently have? Where do you want to be? Getting a professional, credentialed, formulated, defensible valuation will help you answer those questions and understand the true value of your practice. A formal business appraisal will give you the proper value to use when making those important decisions. Then you can be in the best place to enjoy the game!