MONEY MATTERS

Your Ownership Choices

Consolidator money is chasing multidoctor practices. If you don't want to start a clinic from scratch, consider buying an overlooked hospital or obtaining a small stake in a corporate transaction.

BY LESLIE A. MAMALIS, MBA, MSIT, CVA CVA

The situation is all too common. You were promised — or you at least expected — the opportunity to become a partner in the veterinary practice where you work, only to be outbid by a corporate consolidator. Is this the end of your dream to own a veterinary hospital? It doesn't have to be. Let's look at some of the options still available to you.

Work for a Corporate Owner

Corporate consolidators offer stability and the potential option to relocate. If you aren't ready to own a practice immediately, you can keep your job and possibly receive greater fringe benefits in a corporate setting. Read your employment contract carefully and have an attorney review it before you sign. Ideally, hire an attorney experienced in veterinary consolidator contracts. Consolidators can afford better lawyers, so make sure you fully understand any noncompete agreement and its time and geographic restrictions. When you are ready to branch out on your own, you will need to be outside the specified geographical range and beyond the time limit referenced in your contract.

istockphoto.com/Visual Generation

Be a Corporate Buyer's Minority Partner

Independent practice owners have long had the option of retaining a minority interest when they sell to a consolidator. Some consolidators initially offered this model to differentiate themselves from competitors, and now nearly everyone will consider such a setup. The selling veterinarian retains a minority stake in the practice, and the consolidator owns the controlling interest. The arrangement allows the veterinarian owner to offload much of the management burden and receive a portion of the practice's profits. Ideally, when the veterinarian is ready to sell the minority interest, the practice has grown and is more profitable, increasing the sales price.

What does this scenario have to do with you as an associate veterinarian? Corporate purchases provide much more flexibility than in the past. Practice owners who want their associates to share in the advantages of a corporate sale have lobbied for opportunities benefiting their doctors. Now, in many cases, associates can buy a minority interest of their own when their employer sells to a corporate group. Sometimes, they can step into the seller's shoes as the only minority owner. Other times, the practice owner sells a minority interest to the associate and the remaining interest to the consolidator. If this arrangement appeals to you, discuss it with the practice owner early in the process.

If you buy a minority interest from the consolidator, the company might offer to finance the deal. Understand that the terms might not be as competitive as a loan from a commercial lender. Again, an attorney must review any sales contract before you sign it. Often, limits will be placed on the price you will receive when you sell your interest. For example, if you buy your interest at seven times earnings, you will receive the same 7X multiplier when you sell.

Buy a Different Practice

Whether you want to stay close to home or get out of Dodge, other private practices are on the market. Review the clinics posted on veterinary broker websites. If you don't see anything nearby, you aren't out of luck. Call the broker, who likely knows of practices expected to list soon. One of them might fit your criteria.

Corporate consolidators connect with practice owners through mass mailings and cold calls. The tactic works for them and can work for you. If you don't wish to relocate, look at the independent practices around you as potential targets. An owner close to retirement age and in a single-doctor practice might be very interested in meeting you. Single-doctor practices aren't corporate magnets. Consolidators are more interested in larger, multidoctor practices. Smaller practices often don't draw the same level of interest or high sales prices, but they often are just as profitable as their larger counterparts.

Also, consider a no-lo practice — a hospital of very low value. Does that seem a ludicrous idea? Not if the profits are low because the owner treats the practice more as a hobby than a business. Think about it. If you have been practicing for 40 years without an associate, you might be ready to take more time off, work fewer days a week or fewer hours a day. If client demand is high and the practice is in a growing area, you, as the new owner, could increase profits quickly by having longer operating hours.

If a no-lo hospital appeals to you, be sure you understand why the business isn't profitable. Expanding the hours is easy, but if the clinic and equipment were neglected and patient records were transferred to competitors, there is no quick fix. Time and money will be needed to turn around the business.

Start a Practice

Opening a hospital is a dream of many veterinarians. If you have an entrepreneurial spirit, nothing is quite as exciting (and terrifying) as building a business from scratch. And given the surge in demand for veterinary appointments, now might be the time to venture out on your own.

The difference between buying an existing veterinary practice and starting a new one is enormous. In a practice acquisition, part of what you buy is the appointments on the books, the client list and the patient records. The business supports you from Day 1, meaning you can pay yourself immediately. With a start-up, the first paycheck likely will be months away.

You might have heard that practice owners earn significantly more than associate doctors. That's true, but getting there takes time. Initially, the money your startup practice brings in will pay your employees, the landlord and vendors. The practice needs to grow and become profitable before enough extra cash is generated for you personally. You will make more money as the owner, but you'll have to wait. TVB

WHO'S WHO

Veterinary Integration Solutions tracks dozens of animal hospital consolidators. Read the company's report, "Veterinary Consolidators: North American Market Analysis," at bit.ly/3xaXSdo.

LESLIE A. MAMALIS
The Money Matters columnist is the owner and senior consultant at Summit Veterinary Advisors. She is co-chair of the VetPartners Valuation Council. Learn more at summitveterinaryadvisors.com.

THE NEXT STEP

Consider why you want to be a practice owner. Are you looking for control and the ability to create the ideal environment, or is your desire more about financial gain? Are you willing to take on higher risk in exchange for potentially greater rewards?

The easiest path is to seek a minority interest in a corporate-owned practice. You will have a minor management role and can receive an enhanced financial return without a huge investment.

The highest rewards can come from starting a practice, but this option carries the most risk and will take the longest time to see a return on your investment.

With an established hospital, you pay for the current operations — the better the practice, the higher the price. A clinic suffering from poor operations will cost less but will take more work to make profitable.

Everything comes down to your tolerance for risk and the desired reward.

Many ownership paths are available to you. Decide what is most important and choose the path that will help you achieve your goals.