

Veterinary Practice Seller's Guide

By Blake Dawson CPA, CMA, CBV



- **Timeline: Preparation is Helpful**
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We are a veterinary consulting and valuation resource serving companion animal practices across Canada for over 15 years. With the view to helping veterinarians make the right choices to meet their professional and personal goals, we have made it our business to understand the complexities. This means over 30 years of successful practice management, extensive education in the business, accounting, and valuation fields, and the right reputation within the veterinary community.

We can help you achieve increased value in this important transition.

Blake Dawson CPA, CMA, CBV
Broker of Record, BD Valuation Inc. Brokerage
Direct: 705-292-5477
Direct Email: bdawson@bdvaluation.com
www.bdvaluation.com

About Us



Blake Dawson CPA, CMA, CBV

Broker of Record, BD Valuation Inc. and Appraiser at Vet Help

- Graduated with Distinction from Wilfrid Laurier in Honours Business Administration, with Accounting Specialization and Economics Minor
- Chartered Professional Accountant (CPA, CMA)
- Chartered Business Valuator (CBV)
- Performed multi-million dollar corporate acquisitions from initial contact, valuation, right to ,merger implementation
- Licensed sales representative (required by law to broker in businesses)

Contact:

Direct Phone: 705-292-5477

Direct Email: bdawson@bdvaluation.com

Website: www.bdvaluation.com

Ross Dawson, DVM, MBA

- Graduated OVC in 1977
- Over 30 Years of Practice Ownership
- Received his MBA in 1999
- Completed a number of Valuation Specific Courses
- Participating Member of the Steering Committee that founded the Golden Triangle Veterinary Academy, The Veterinary Emergency Clinic of Waterloo, and the Waterloo Regional Veterinary Association
- Has sat on the Economics Committee for OVMA
- Currently operates a companion animal practice in Milton Ontario.
- Founder of Vet Help Inc.

Contact:

Phone: 905-878-2345

Email: rdawson@vethelpconsulting.com

Website: www.vethelpconsulting.com



TIMING: PREPARATION IS HELPFUL

The time required to transition a practice surprises some practitioners. Most expect the process to be more expedited and require less personal time commitment. There are instances of quick transactions, but a practitioner should assume this is the exception and not the rule. Although the preliminary stages can sometimes move quite quickly, the process of moving through the negotiating, due diligence, and closing can take longer. Also, keep in mind that a buyer may back out along the way leaving you having to start the process over again. As an example, it is not uncommon for a year to pass from the start of the selling process to final closing.

There are some things that can be done in advance that can help speed up the process, as well as add value to your practice:

Formal Exit Strategy

Writing a formal exit strategy 3 to 5 years in advance can help you work towards your goal, so that, when the time comes, you are better prepared. Some of the items to consider when writing this plan are:

Known Buyer

If it is possible with your practice, having a buyer in mind with intimate knowledge of the practice can expedite the sale as well as increase its value.

Key Transition Employees

Having the right employees in place that can affect a smooth transition will be attractive to a potential buyer. Their retention and non-compete status can also be value drivers as explained later.

Ownership Structure

Some ownership structures are more easily transferred than others and can have favourable tax treatments upon sale (ex. Corporate vs. Sole Proprietorship and Partnership). Involve your accountant in the plan.

Business matters

One mistake that many owners make in the last years of ownership is “slowing down”. If done improperly this can cause a decrease in the value of the business you’re planning to sell.

Valuation

Getting a formal valuation will let you know if you’re on target with your transition goals. Too many practitioners are surprised, at the eleventh hour, that the value of their business is less than they counted on for their retirement goals. Remember, there are no reliable rule of thumb value determinants (ex. multiples of revenue). These determinants have repeatedly proven inconsistent. Preferably a valuation should be done years in advance of the transition.

Leases and Real Estate

Have a plan for the transition of your facility, especially if it is leased. The sale process will go much smoother if the lease is both transferable and there is an adequate remaining life/renewal period. Specifically, read the lease to determine these two criteria, and consider working with your landlord to correct any shortcomings.

STEPS IN THE PROCESS

This section reviews the steps in a typical sale situation. Later in the guide you will find how we can help in the entire process or parts thereof.

Obtain a Valuation

As discussed above, a valuation is the first step in the process of sale. Many practitioners have a value in their mind of what their practice is worth and use this as the basis to advertise their practice for sale. This price could be too low or too high to the detriment of value.

- *If the asking price is too low:*
The practitioner risks losing some of the value in the practice upon transition. It also can signify to potential buyers that there could be underlying issues in the practice, giving the false appearance that the practice may be undesirable.

- *If the asking price is too high:* Potential buyers, who would have otherwise considered your practice, will not engage in pursuing the purchase. This causes less interest in the practice which can inevitably drive down the price. One solution many practitioners use is to start with a high asking price, then when they don't get the interest they require they lower it. Lowering the price can, again, signify to buyers that there may be underlying issues in the practice, again giving the false appearance that the practice may be undesirable.

Buyers may have to finance all or the majority of the purchase. Most lending institutions will require a valuation as well. If the valuation is less than the asking price, the potential buyer will be significantly less likely to obtain financing. This can lead to a breakdown in the negotiating process, making the significant sale efforts undertaken to date in vain.

Having a solid valuation to determine the asking price will enable the seller to list the practice in a way that will garner more interest from potential buyers, a more timely transition, less uncertainty for the practice staff, and significantly decrease the personal burden on the seller. All of which will often lead to a higher offer price.

Market The Practice

Once the ask price is determined, the next important step is to garner maximum interest through effective marketing of the practice. For some who have an associate or known potential buyer this process can be significantly eased. However, this is not always an option for sellers.

The goal of a marketing campaign is to be able to reach the maximum number of interested potential buyers. This is an important consideration. If some potential buyers are not aware of the sale they will be unable to express interest which could mean the seller loses some of the value in their practice.

Also integral to this process is to have the right materials a potential buyer will likely want and require. These are generally feature sheets or information packages, financial statements, and a valuation. As discussed in the "Qualify the Buyers" it is important to limit this sensitive information to only legitimate buyers and to ensure its confidentiality

Later in this guide you will find information on how we can help you in the marketing process.

Qualify the Buyers

One goal of a potential sale is to ensure time and effort is not wasted on potential buyers that do not legitimately have the ability or will to purchase. A seller will want to ensure they are dealing with only legitimate potential buyers and limit the amount of information and time consumed by "tire kickers". These "tire kickers" can cost a seller unnecessary effort and expense. It cannot be stressed enough how important it is to qualify a buyer and ensure confidentiality is maintained.

Negotiate and Close the Deal

After interested, legitimate, and qualified buyers are identified and the relevant information disseminated negotiations are likely to follow. It is important to pay attention to the terms and conditions as well as the price. Many practitioners focus too much attention on "price" alone and lose value due to the other terms and conditions.

It is important that the practitioner enlist the aid of the right support during this time.

- *Accountant:* Should be involved before the practice is offered for sale. Your accountant can help advise on tax planning, the differing financial consequences of competing offers, and ensure your financial statements are ready to be scrutinized by potential buyers.

- *Lawyer:*
Your lawyer will help you review the terms and conditions of the Purchase and Sale Agreement to ensure you do not expose yourself to undue liability and that the legal terms are enforceable and not overly vague. Careful selection of your lawyer is critical. One criticism Vet Help has is that some lawyers are not pragmatic enough and focus too intensely on smaller details to the detriment of the larger goal.
- The representative is in a position to give you advice.
- The representative can give you the framework of the purchase and sale agreement, thereby removing the cost or large effort of having to recreate it.
- The representative understands the financial, legal, and future consequences of the terms of the offer.

- *Negotiating Representative:*
Veterinarians are often not comfortable with the negotiating process. Why should they be? They are trained and educated in providing excellent veterinary medicine, not in understanding legal and accounting terms. A practitioner can enlist the help of someone who is better able to negotiate on their behalf. One important reason why this should be considered is to ensure there is no “badwill” between the buyer and seller which is discussed next.

The goal of the negotiation should be a win-win scenario, where both the buyer and seller are pleased with the outcome. Too often people believe that in the negotiating process in order to “win” the other party has to “lose”. This is not the case, and ill advised negotiating can lead to the breakdown of a transaction.

The question is whether to do it yourself or enlist representation. In some instances you may be very comfortable with the negotiating process and familiar with all aspects of the financial, legal, and future personal consequences as well as have the time to devote a significant personal time commitment. However, all too often, practitioners, not appreciating the scope of the commitment, take the negotiating on themselves to their detriment. Some of the reasons to enlist help could include:

- Ensuring no “badwill” is created between the buyer and seller. Negotiating through third parties removes the emotional aspect to allow a smooth relationship between buyer and seller.

CONSIDERATIONS IN VALUE

When an appraiser analyzes your business for a possible sale, there are a number of factors that are considered. Careful attention to some, or all, of these can ensure you are deriving maximum value. A valuation in brief is an analysis of the risk vs return of the business. Factors that lower the risk or increase the return generally result in a higher valuation.

Risk Considerations

- *Sale to an Associate:*
When the potential seller is an associate or another known buyer with an intimate knowledge of the practice, the value tends to be higher. This is due to the fact that such a buyer would have a lower investment risk than a new comer. The lower risk is due to the fact that the known buyer would understand the operations of the practice, the staff, and clientele. There are, however, some constraints of some practices that make taking on an associate more onerous, or even not possible at all.
- *Retention of Staff:*
One of the concerns of many buyers is whether the key staff of the practice will remain to allow for a smoother transition. Since key staff are familiar with the operation, a potential buyer will find such a practice more attractive compared to a practice where there is a higher risk of losing the key staff.

There is no “one right way” to ensure retention. This will require good management practices by the seller. However, one consideration a potential buyer will benefit from is valid non-compete contracts with the key staff. This will ensure immediate competition in the area is minimized. Care should be taken when drafting such agreements, as the courts stipulate that they must not be for an unreasonable length of time, or geography. If these agreements are deemed to be too broad the court will not alter them to be reasonable; they will consider the entire clause removed. You should speak to your lawyer when drafting such agreements.

- *Seller Willing to Stay On During Transition:*
In some situations the buyer will want the seller to remain at the practice for a period of time after the transition of ownership. The theory is that this will aid in a smooth transition of the practice since the owner is seen to have some “personal goodwill”. Not all buyers would be interested in this however. The value of such an arrangement is debatable, but the discussion of this goes beyond this guide.
- *Leases:*
If the practice facility is leased, a potential buyer, as well as the banks, might be concerned with the transferability of the lease and the remaining term and renewals. If the lease is easily transferred and the remaining term/renewals extend an adequate time this risk is mitigated. In some instances this would involve the seller working out a new agreement with the landlord, or helping the buyer to do so. The cost of the lease is also a concern, however this is an expense control consideration, and is discussed later.

Return Considerations

- *Growth:*
The income approach to valuation (this appraiser’s opinion of the best method for valuing most veterinary practices) considers the future cash flow of the operation when assigning value. Although other factors are considered when analyzing growth, a large indicator is the recent past growth performance. The appraiser will be looking for growth above inflation and fee guide increases to determine if there is real growth in the practice. One of the observations when practitioners “slow down” before selling is that the real growth in the practice often does as well, effectively eroding some of its value.
- *Expense Control:*
Good expense control is crucial to the profitability of a practice, and therefore is often an important determinant of value. With the income approach the appraiser will apply some form of capitalization rate to the profitability of the practice often using some prior year, or years, as the baseline. To put this into prospective, given the normal capitalization rates, \$1 in additional expense will decrease the value of practice between \$3 to \$5 dollars.

Preparation Considerations

- *Business Structure:*
In the recent years a common trend has been to incorporate veterinary practices. Some of the reasons to do so are:
 - o Limited liability of ownership
 - o More easily transferred
 - o Can gain from favourable tax treatment through the capital gains exemption and lower corporate tax rate

If your practice is not already incorporated you should speak with your accountant to discuss the benefits of doing so. Depending on your situation it may be more or less advantageous. Some caveats to consider when incorporating related to valuations are:

- Additional restrictions placed on an eventual transfer can make a transition more difficult
- Particular attention should be paid to the terms in the articles of incorporation, the by-laws, and resolutions. Your accountant and lawyer should be able to help you manage these

Incorporating is not difficult. It will however cost some money as well as effort to ensure it is done correctly. Be careful not to underestimate the time commitment.

- *Equipment:*

One consideration in value is the state of the equipment of a practice. Over the years equipment becomes dated, and although its function may be adequate, some capital investment is sometimes needed to bring it up to the standard a purchaser would desire.

This is a careful balancing act, as one common mistake sellers make is to over invest in capital prior to sale to appear more sophisticated, while the return from these assets would not justify their expense. The potential purchaser will be more interested in the earnings the assets create or may have preferred different assets or models. Ill advised purchases will not recoup a congruent value in the practice.

- *General Upkeep:*

As is often with the purchase of houses, potential buyers will be more attracted to practices that are in "move in condition". A potential seller should walk through the practice themselves as if they were a potential buyer to attempt to determine areas in need of attention.

When practicing in a facility for a long period areas in need of immediate attention often go unnoticed, as they evolved slowly. Examples of this are chipped paint, small holes or cracks in flooring, and worn or torn seating.

The identified areas should be fixed/maintained, but it is usually unwise to completely remodel. The expense may not be recouped since a potential buyer might have different tastes.

HOW TO PROCEED

One decision that has to be made when proceeding with the transition of a practice is what help is needed, and whether enlisting a representative is the right choice for you.

A practice is often the single largest investment most practitioners have, so the transitioning of the practice is an important undertaking.

We are confident we add value to the process and that you will be pleased with the quality of our work.

A representative can help in the following areas:

- *Ensuring Confidentiality:*
When a representative is in contact with a potential buyer the confidentiality of the practice remains until the buyer is qualified by the representative. When buyers or even inquisitive individuals speak to the practice owner it is often immediately apparent what practice is for sale. This can be detrimental to value in certain situations.
- *Allows the Practitioner to Continue to Focus on the Management of the Practice:*
If a practitioner chooses to sell on their own, it is often a large time commitment. The practitioner will have to first understand, then implement successful marketing, buyer qualification, negotiating and closing. Enlisting a representative will allow the practitioner to remain focused on the management of their practice. Remember that a decrease in earnings typically has a three to five fold effect on value. This can often more than offset the cost of having proper representation.
- *Removes Emotion from the Negotiation:*
Emotions can lead to a breakdown of an, otherwise, beneficial deal. When a representative is involved in the negotiations they will act as a buffer to ensure both parties can continue to enjoy a smooth professional relationship. The end goal of any negotiations should be a win-win scenario.
- *Buyer Expectation:*
As with buying houses, buyers will often expect to obtain a lower price due to the “savings” of a practitioner who decides to sell on their own. Also, buyers will sometimes perceive a seller without representation as being a target for aggressive bargaining.

- *Understanding the Process and Implications:*
It is the representative’s job to ensure that he/she understands the process and implications of certain choices. The representative can help you by ensuring you understand and to look out for your best interest. After the fact, and sometimes when it is too late, it is not uncommon for us to see instances where a practitioner will ask for advice where they are not completely familiar with what is being presented to them from the other side’s representatives. There is no reason to apologize for this, veterinarians are trained to practice solid veterinary medicine, not understand legal and accounting terms.

HOW WE CAN HELP

Due to the Real Estate and Business Broker’s Act 2002 you should know the following:

- Only a registered sales person or registered broker under the act may trade in real estate or trade in businesses themselves (there are a few exceptions).
- Any advertisement or publication related to such activities must clearly name the brokerage who will be the agent for the transaction. In this publication all services relating to the trade in real estate, specifically veterinary businesses, are advertised through HomeLife Power Realty Inc. Brokerage. Blake Dawson, BBA, CMA is a sales representative of this brokerage.

During these sale transitions we (the brokerage) offer three types of services that can be tailored to your situation.

[1] Full Listing And Representation

When you list with us we will look out for your best interests, weed out the “tire kickers”, market your practice effectively, and allow you to focus the majority of your attention on the continued successful management of your practice.

Listing your Practice Includes the following. However, each transition is different and we will tailor our services to individually accommodate.

- Perform a professional practice valuation (appraisal)
- Market your practice including all costs to do so, while ensuring confidentiality
 - o Compiling and preparing all marketing material including feature sheet, photos, and information packages
 - o Listing on the BD Valuation website
 - o Advertise in industry publications
 - o Actively pursue potential buyers from our database
- Negotiate on your behalf
 - o We will explain every step along the way
 - o Ensure negotiations proceed in a positive manner
- Assist the buyer in obtaining financing
 - o We have contact with lenders specifically familiar with the veterinary industry
 - o We do not derive any compensation from any lenders at any time
- Provide a sample contract for lawyer review and modification
- Aid in structuring the transaction
- Give expert advice from initial contact to closing

[2] Facilitation When You Are Selling to a Familiar Buyer

- Perform a professional practice valuation (appraisal)
- Facilitate the negotiations between the parties
- Provide a sample contract for lawyer review and modification
- Assist the buyer in obtaining financing
- Aid in structuring the transaction
- Give expert advice from initial contact to closing

[3] Professional Practice Valuation

Despite the avenue you decide to pursue after establishing a price, be that list through us or on your own, we can help by providing you with a professional valuation by an appraiser with significant experience and qualifications.

QUESTIONS

If you have questions on anything contained in this guide or would like to speak with us regarding your specific situation please feel free to contact us at the below.

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