

Feasibility Study

Cat & Dog Animal Hospital

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Executive Summary

The feasibility study conducted for a proposed new companion animal veterinary practice in Someplace, Ontario consists of: an analysis of the potential market for companion animal veterinary services and proforma balance, income and cash flow statements for the proposed practice.

Census data for the town of Someplace identified a market of substantial size. Estimates of market penetration were prepared that in turn were utilized to project revenues for the proposed practice over the first 60 months of operation. Estimates of expenses were derived from industry data as well as extrapolations of data from similar practices and, where possible, local market experience.

Proforma income statements, balance sheets and cash flow statements were prepared for both a conservative and a very conservative estimate of market penetration. This data is summarized both numerically and graphically.

The conservative estimate of market penetration forecasts substantial net income and positive cash flow by the 20th month of operation. The more conservative estimate of market penetration forecasts positive cash flow by the 27th month of operation.

Conservative projections of market penetration predict that the proposed practice in Someplace will be financially successful. Diligence paid to business and professional management will create significant earnings over many years and will eventuate substantial worth in the value of the proposed practice.



Feasibility Study

Companion Animal Veterinary Practice in Someplace Ontario

The feasibility study conducted for a proposed new companion animal veterinary practice in Someplace, Ontario consists of two basic components:

- 1.) An analysis of the potential market for companion animal veterinary services
- 2.) Proforma balance, income and cash flow statements for the proposed practice

Market Analysis

Census Data Analysis

A census data analysis utilized 1996 data for those census tracts that would represent the potential market for the proposed companion animal practice. The map of the census tracts can be found in the section of the study labeled market analysis.

The census tracts were categorized as those central to the anticipated market, those adjacent to the anticipated market and those distant to the anticipated market. This categorization of the census tracts permitted forecasts of differing market penetration for each category. Details of the census information for each tract as well as the aggregate information for the tract groupings can be found in the section of the report labeled market analysis. The census attribute of greatest interest is the number of households contained within each census tract grouping.

Market Penetration

The feasibility study for the proposed companion animal hospital utilizes two scenarios for market penetration upon which proforma financial data has been prepared.

1. A conservative estimated of market penetration
2. A very conservative estimate of market penetration



The following assumptions are common to each scenario of market penetration.

1. A conservative estimate that 40% of the households have pets (dog or cat).
2. Market penetration at a consistent rate over a three-year period, with no attempt to factor in the seasonality of small animal veterinary revenues.
3. Market research identifies that 90% of pets receive veterinary services each year. ¹ Both scenarios of market penetration conservatively use an estimate of 70% annual visitation.
4. An average annual client expenditure of \$350. The Ontario average annual veterinary client expenditure is \$320.
5. Historical growth data (1991 to 1996 census data) was utilized to bring the 1996 data to a 2000 estimated market size. The same growth data was utilized to project market size for the following 5 years.

Conservative Estimate of Market Penetration

Definitive market penetration is difficult to estimate. A conservative estimate of market share was felt to be 60% of the veterinary clients within the central census tracts, 40% of the adjacent market and 20% of the distant market. This data was used in the conservative estimate of market penetration and identifies the present potential market is 1,307 households and would expand to 1,589 households by the end of the fifth year of operation.

Percentage of Households With Pets	40.0%
Percentage of Pets Visiting Veterinarians	85.0%
Market Share in Central Tracts	60.0%
Market Share in Adjacent Tracts	40.0%
Market Share in Distant Tracts	20.0%

1 Ralston Purina/Ontario Veterinary Medical Association, *A study of the Attitudes of Consumers of Veterinary Services in Ontario*, Ontario Veterinary Medical Association, December 1995.



1996 Census Data

	Central	Adjacent	Distant	Total
Number of Households	3,000	2,500	2,000	7,500
Number of Households with Pets	1,200	1,000	800	3,000
Number of Households Visiting Vets	960	800	640	2,400
Market Penetration	576	320	128	1,024
Growth Rate	5.0%	5.0%	5.0%	

Projected Households from Census Data

				Market Size
Year 1	735	408	163	1,307
Year 2	772	429	172	1,372
Year 3	810	450	180	1,441
Year 4	851	473	189	1,513
Year 5	894	496	199	1,589

Very Conservative Estimate of Market Penetration

The conservative estimate of market penetration represents a realistic and expected market penetration. A scenario of greater penetration was not developed, as incremental profits and cash flows represent greater than anticipated returns. However, a very conservative estimate of market penetration scenario was developed. This very conservative scenario was used to ensure that financial viability existed at this level of market penetration.

The very conservative estimate projects penetration of 50% of the veterinary clients within the central census tracts, 30% of the adjacent market and 10% of the distant market. This data was used in the very conservative estimate of market penetration and identifies the present potential market is 1,001 households and would expand to 1,216 households by the end of the fifth year of operation.

Percentage of Households With Pets	40.0%
Percentage of Pets Visiting Veterinarians	85.0%
Market Share in Central Tracts	50.0%
Market Share in Adjacent Tracts	30.0%
Market Share in Distant Tracts	10.0%



1996 Census Data

	Central	Adjacent	Distant	Total
Number of Households	3,000	2,500	2,000	7,500
Number of Households with Pets	1,200	1,000	800	3,000
Number of Households Visiting Vets	960	800	640	2,400
Market Penetration	480	240	64	784
Growth Rate	5.0%	5.0%	5.0%	

Projected Households from Census Data

				Market Size
Year 1	613	306	82	1,001
Year 2	643	322	86	1,051
Year 3	675	338	90	1,103
Year 4	709	355	95	1,158
Year 5	745	372	99	1,216



Proforma

The proforma data was prepared on the assumption that the new practice would be an incorporated entity. Taxes were approximated at 22% of net income.

Gross Revenue

The market data was utilized to estimate the number of new and existing clients for each of the 60 months of the proforma. The average Ontario companion animal practice generates \$320 of annual revenue for each existing client. It was further estimated that each new client would generate first month's revenue of \$100.

Expenses

Cost of goods sold (variable expenses) were estimated to be comparable to industry standards at 25% of gross revenue.

Fixed expenses were estimated on a month-by-month basis. Most expenses (Insurance, utilities, telephone, office/computer, bank charges, repairs and supplies, accounting and bad debt) were estimated using extrapolations from known expenses of other veterinary facilities.

A similar estimate was made for marketing expenses with the exception of a \$5,000 expense over the first three months of operation to create market awareness.

Rental expenses, consistent with the anticipated needs of approximately 2,100 square feet and estimated market rent at \$22 per square were used for the first year and increased by a rate of 5% per year thereafter.

It was assumed that the rental expenses included property but no business taxes. A monthly expense, evenly distributed throughout the year, was utilized in the proforma for business tax. In reality, this expense would occur less evenly than projected.

The most difficult expense to manage in small animal practice, and also the most difficult expense to estimate is that of salaries. It was estimated that a minimum of a single salary would have to be paid, regardless of the revenue generated. Once this salary represented a dollar amount less than 20% of the gross revenue, the salary expense of 20% of gross revenue was utilized to estimate salaries.



Owner compensation is estimated for the first year at a pretax level of \$50,000 and increased annually by the estimated rate of inflation.

Proforma income statements for both market penetration scenarios follow.

Income Statement	Year	Year	Year	Year	Year
Revenue	1	2	3	4	5
Sales	\$113,447	\$271,593	\$437,645	\$556,842	\$590,069
Cost of Sales	\$28,362	\$67,898	\$109,411	\$139,211	\$147,517
Gross Profit	\$85,085	\$203,695	\$328,234	\$417,632	\$442,552
Operating Expenses					
Salary / Benefits	\$26,500	\$54,319	\$87,529	\$111,368	\$117,729
Rent	\$46,200	\$47,586	\$49,014	\$51,464	\$54,037
Business Taxes	\$4,200	\$4,326	\$4,456	\$4,679	\$5,725
Insurance	\$800	\$824	\$849	\$874	\$874
Utilities	\$3,000	\$3,090	\$3,090	\$3,090	\$3,090
Telephone	\$3,550	\$3,708	\$3,819	\$3,819	\$3,819
Office / Computer Supplies	\$3,600	\$3,708	\$3,819	\$3,819	\$3,819
Bank Charges	\$1,800	\$1,854	\$1,910	\$1,910	\$1,910
Professional Dues	\$900	\$900	\$900	\$900	\$900
Continuing Education	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Marketing	\$6,800	\$2,472	\$2,546	\$2,546	\$2,546
Repairs & Supplies	\$1,200	\$1,236	\$1,273	\$1,273	\$1,273
Accounting	\$0	\$2,000	\$2,060	\$2,122	\$2,185
Bad Accounts	\$116	\$201	\$270	\$246	\$206
Owner's Compensation	\$30,000	\$35,000	\$40,000	\$50,000	\$60,000
Total Operating Expenses	\$129,866	\$162,423	\$202,735	\$239,310	\$259,314
Operating Profit	-\$44,781	\$41,271	\$125,499	\$178,321	\$183,237
Interest	\$20,675	\$18,596	\$11,279	\$7,022	\$2,556
Net Inc. Before Depreciation	-\$65,456	\$22,675	\$114,220	\$171,300	\$180,681
Depreciation	\$43,600	\$43,600	\$43,600	\$43,600	\$43,600
Net Income Before Tax	-\$109,056	-\$20,925	\$70,620	\$127,700	\$137,081
Corporate Taxes	\$0	\$0	\$0	\$15,034	\$30,158
Net Income	-\$109,056	-\$20,925	\$70,620	\$112,665	\$106,923
Cash Flow	-\$78,089	\$38,513	\$166,586	\$251,669	\$253,582

Proforma Income Statements for Conservative Estimate of Market Penetration



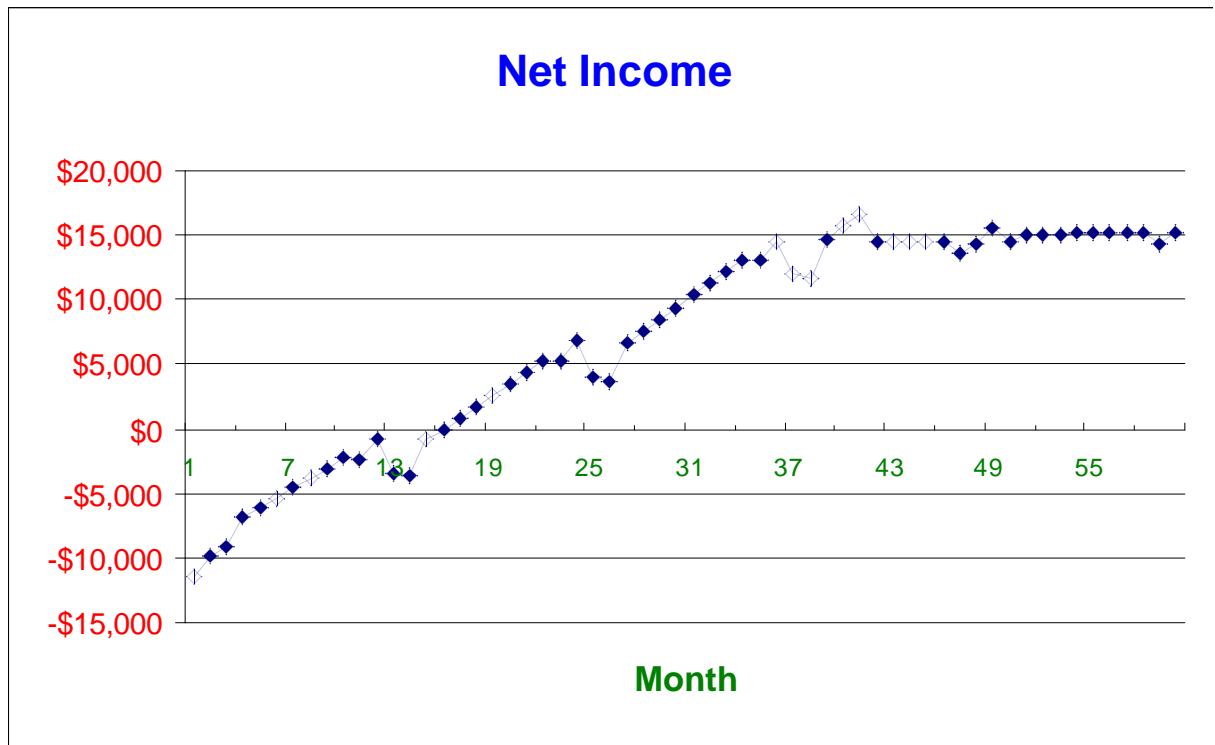
Income Statement	Year	Year	Year	Year	Year
Revenue	1	2	3	4	5
Sales	\$86,858	\$207,938	\$335,072	\$426,333	\$451,771
Cost of Sales	\$21,715	\$51,985	\$83,768	\$106,583	\$112,943
Gross Profit	\$65,144	\$155,954	\$251,304	\$319,749	\$338,829
Operating Expenses					
Salary / Benefits	\$26,500	\$41,588	\$67,014	\$85,267	\$90,136
Rent	\$46,200	\$47,586	\$49,014	\$51,464	\$54,037
Business Taxes	\$4,200	\$4,326	\$4,456	\$4,679	\$5,725
Insurance	\$800	\$824	\$849	\$874	\$874
Utilities	\$3,000	\$3,090	\$3,090	\$3,090	\$3,090
Telephone	\$3,550	\$3,708	\$3,819	\$3,819	\$3,819
Office / Computer Supplies	\$3,600	\$3,708	\$3,819	\$3,819	\$3,819
Bank Charges	\$1,800	\$1,854	\$1,910	\$1,910	\$1,910
Professional Dues	\$900	\$900	\$900	\$900	\$900
Continuing Education	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Marketing	\$6,800	\$2,472	\$2,546	\$2,546	\$2,546
Repairs & Supplies	\$1,200	\$1,236	\$1,273	\$1,273	\$1,273
Accounting	\$0	\$2,000	\$2,060	\$2,122	\$2,185
Bad Accounts	\$89	\$154	\$207	\$188	\$158
Owner's Compensation	\$30,000	\$35,000	\$40,000	\$50,000	\$60,000
Total Operating Expenses	\$129,839	\$149,645	\$182,157	\$213,151	\$231,673
Operating Profit	-\$64,695	\$6,308	\$69,148	\$106,599	\$107,155
Interest	\$21,410	\$22,583	\$16,329	\$7,117	\$2,556
Net Inc. Before Depreciation	-\$86,105	-\$16,275	\$52,818	\$99,481	\$104,599
Depreciation	\$43,600	\$43,600	\$43,600	\$43,600	\$43,600
Net Income Before Tax	-\$129,705	-\$59,875	\$9,218	\$55,881	\$60,999
Corporate Taxes	\$0	\$0	\$0	\$0	\$0
Net Income	-\$129,705	-\$59,875	\$9,218	\$55,881	\$60,999
Cash Flow	-\$105,295	-\$13,532	\$81,276	\$148,408	\$158,289

Proforma Income Statements for Very Conservative Estimate of Market Penetration

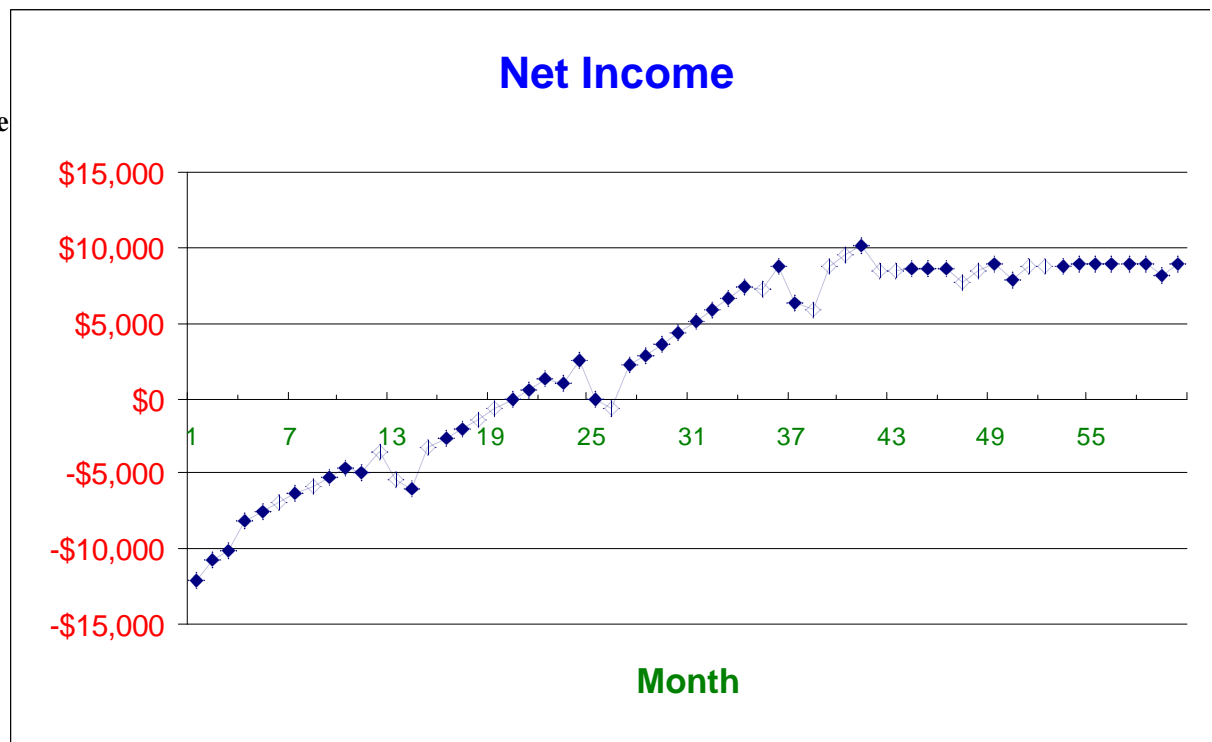


Estimates of monthly net income were derived for the first sixty months of operation of the new practice. These estimates are illustrated graphically below for both market penetration scenarios.

Monthly net income less depreciation for conservative market penetration



Monthly net income less depreciation for very conservative market penetration

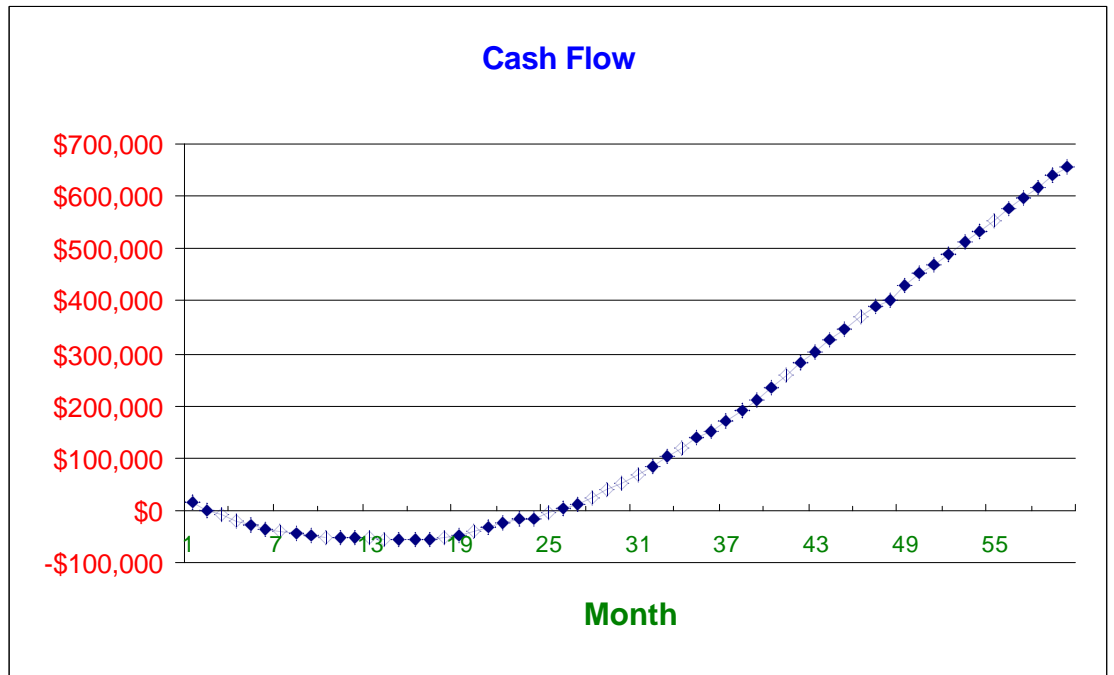




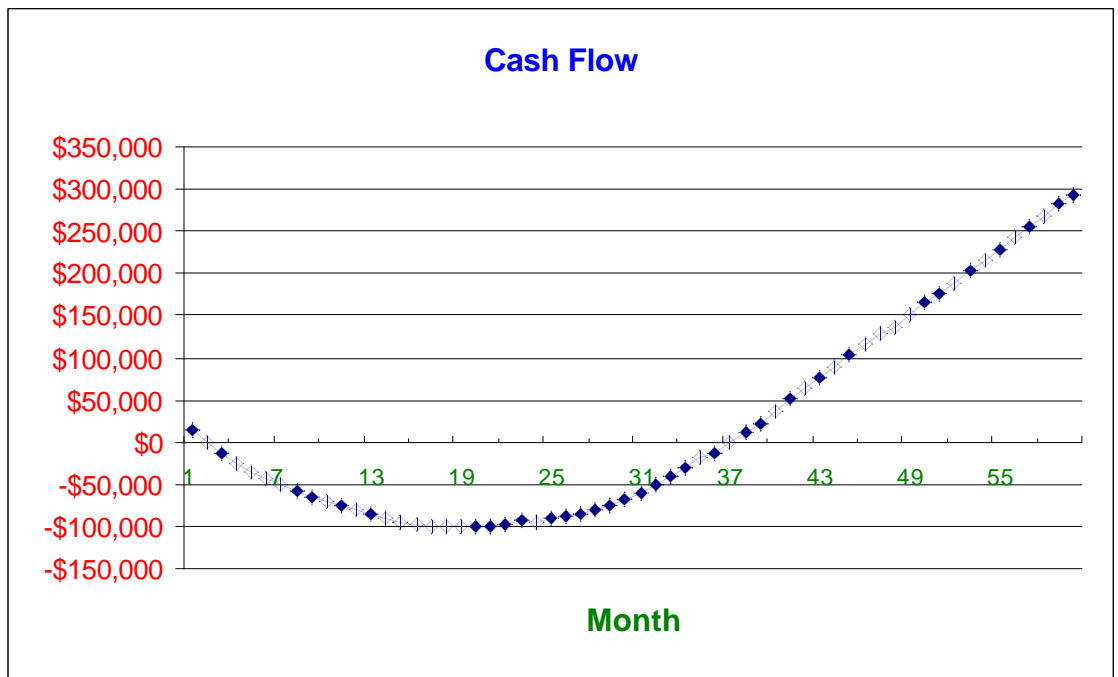
Cash Flow

After covering all cash expenses, including interest and principal on long term debt and interest on the operating loan, it is estimated that the proposed practice will experience the following accumulative net cash flow patterns relative to the two market penetration scenarios.

Accumulative net free cash flow for conservative market penetration



Accumulative net free cash flow for very conservative market penetration





Capital Expenditures

Inventory

Regardless of the gross revenue of the proposed practice, it was felt that a minimum of \$8,000 in inventory would be imperative to operate the practice. As revenues increase, an inventory amount representing 6% of annual sales was utilized.

Leasehold Improvements

An estimate of 2,100 square feet is needed to house the proposed practice. A figure of \$80 per square foot of renovation costs was utilized in the proforma data. It is felt that this is a minimal expense per square foot. However, the expense can be maintained at this level by not finishing the entire area initially and/or attempting to optimize the quality of the renovations.

Equipment

The cost to equip a small animal practice in the startup stage could quite conservatively be done with \$100,000. Significant savings may be realized by acquiring used equipment.

Following are the projected balance sheets using the two market penetration scenarios.



Someplace Feasibility Study

Balance Sheet

	Beginning	Year End 1	Year End 2	Year End 3	Year End 4	Year End 5
Current Assets						
Cash	\$24,000	\$0	\$0	\$151,010	\$402,679	\$656,261
Inventory	\$8,000	\$8,000	\$16,296	\$26,259	\$33,411	\$35,404
Accounts Receivable		\$384	\$640	\$850	\$924	\$975
Total Current Assets	\$32,000	\$8,384	\$16,936	\$178,119	\$437,014	\$692,641
Equipment						
Cost	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Depreciation this Period		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Accumulated Depreciation		\$10,000	\$20,000	\$30,000	\$40,000	\$50,000
Depreciated Value		\$90,000	\$80,000	\$70,000	\$60,000	\$50,000
Leasehold Improvements						
Cost	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000
Depreciation this Period		\$33,600	\$33,600	\$33,600	\$33,600	\$33,600
Accumulated Depreciation		\$33,600	\$67,200	\$100,800	\$134,400	\$168,000
Depreciated Value		\$134,400	\$100,800	\$67,200	\$33,600	\$0
Total Fixed Assets	\$268,000	\$224,400	\$180,800	\$137,200	\$93,600	\$50,000
Total Assets	\$300,000	\$232,784	\$197,736	\$315,319	\$530,614	\$742,641
Current Liabilities						
Accounts Payable	\$0	\$1,750	\$1,800	\$1,843	\$1,861	\$1,956
Salaries Payable	\$0					
Current Portion of Long Term Operating Loan	\$42,360	\$45,876	\$49,684	\$53,807	\$58,273	\$0
Total Current Liabilities	\$42,360	\$101,714	\$67,059	\$55,650	\$60,135	\$1,956
Long Term Debt	\$207,640	\$161,764	\$112,081	\$58,273	\$0	\$0
Equity	\$50,000	-\$30,694	\$18,597	\$201,396	\$470,479	\$740,684
Total Liabilities + Equity	\$300,000	\$232,784	\$197,736	\$315,319	\$530,614	\$742,641

Proforma Balance Sheets for Conservative Market Penetration Scenario



Someplace Feasibility Study

Balance Sheet

	Beginning	Year End 1	Year End 2	Year End 3	Year End 4	Year End 5
Current Assets						
Cash	\$24,000	\$0	\$0	\$0	\$134,857	\$293,146
Inventory	\$8,000	\$8,000	\$12,476	\$20,104	\$25,580	\$27,106
Accounts Receivable		\$294	\$490	\$651	\$707	\$747
Total Current Assets	\$32,000	\$8,294	\$12,967	\$20,755	\$161,144	\$320,999
Equipment						
Cost	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Depreciation this Period		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Accumulated Depreciation		\$10,000	\$20,000	\$30,000	\$40,000	\$50,000
Depreciated Value		\$90,000	\$80,000	\$70,000	\$60,000	\$50,000
Leasehold Improvements						
Cost	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000	\$168,000
Depreciation this Period		\$33,600	\$33,600	\$33,600	\$33,600	\$33,600
Accumulated Depreciation		\$33,600	\$67,200	\$100,800	\$134,400	\$168,000
Depreciated Value		\$134,400	\$100,800	\$67,200	\$33,600	\$0
Total Fixed Assets	\$268,000	\$224,400	\$180,800	\$137,200	\$93,600	\$50,000
Total Assets	\$300,000	\$232,694	\$193,767	\$157,955	\$254,744	\$370,999
Current Liabilities						
Accounts Payable	\$0	\$1,750	\$1,800	\$1,843	\$1,861	\$1,956
Salaries Payable	\$0					
Current Portion of Long Term Operating Loan	\$42,360	\$45,876	\$49,684	\$53,807	\$58,273	\$0
Total Current Liabilities	\$42,360	\$128,921	\$146,310	\$69,201	\$60,135	\$1,956
Long Term Debt	\$207,640	\$161,764	\$112,081	\$58,273	\$0	\$0
Equity	\$50,000	-\$57,991	-\$64,624	\$30,481	\$194,609	\$369,042
Total Liabilities + Equity	\$300,000	\$232,694	\$193,767	\$157,955	\$254,744	\$370,999

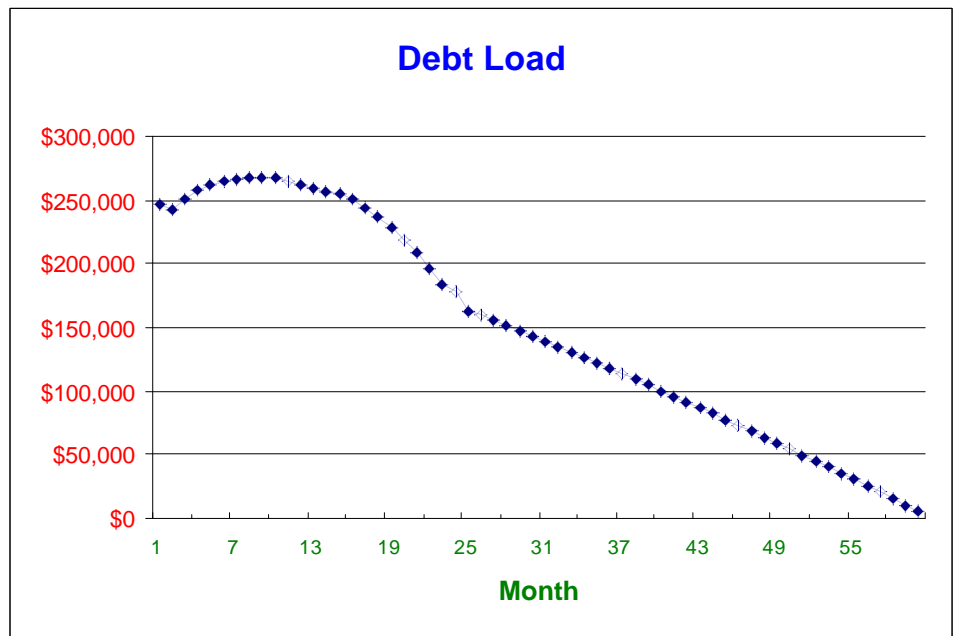
Proforma Balance Sheets for Very Conservative Market Penetration Scenario



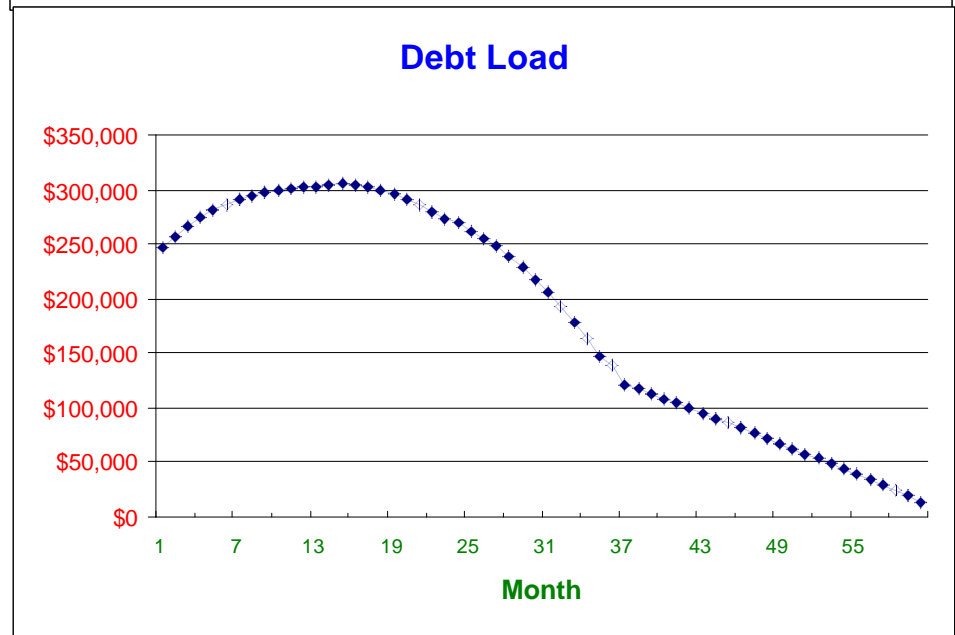
Financing

The total setup costs (inventory, leaseholds and equipment) are estimated to be \$276,000. The owner proposes to inject \$50,000 of capital and finance the remainder, plus initial operating cash, through bank financing of \$250,000 over five years at an estimated rate of interest of 8%. An operating loan to cover shortfalls in cash flow would be arranged at an estimated rate of 8%. The following graphs illustrate the dollar values of both the operating loan and the total indebtedness.

Estimation of operating loan for conservative market penetration scenario

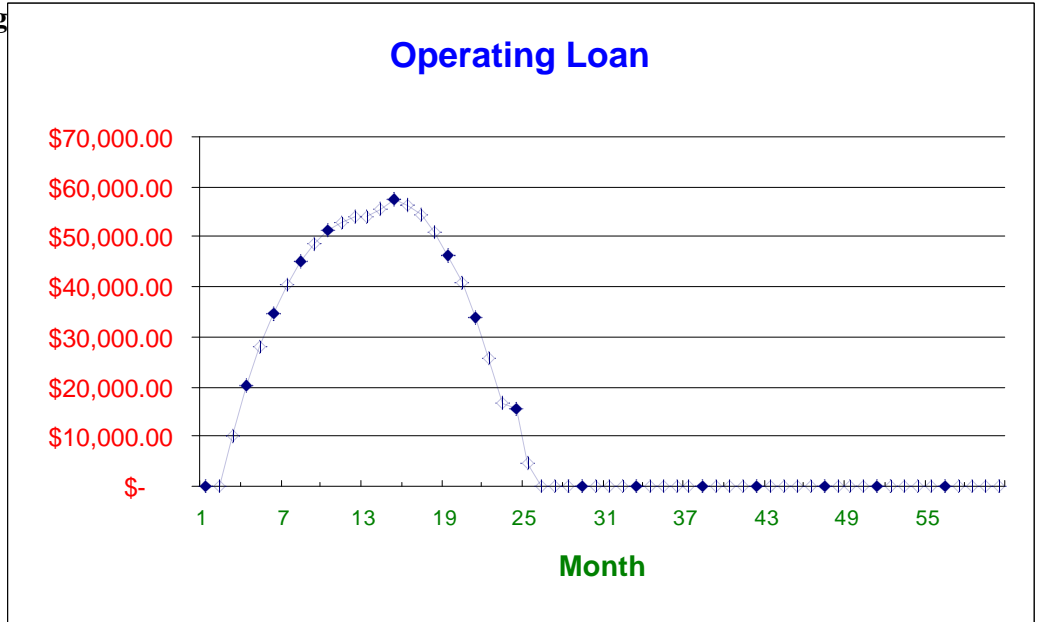


Estimation of total indebtedness for conservative market penetration scenario





Estimation of operating loan for very conservative market penetration scenario



Estimation of total indebtedness for very conservative market penetration scenario





Comparison to Industry Data

As a reality check, the expenses and profitability of the fifth year of operation were compared to practice data collected by the Ontario Veterinary Medical Association (OVMA) during their 1998 economic study of veterinary practices in Ontario.² Practices in the OVMA data were quartiled relative to profitably.

The financial projections for the conservative estimate of market penetration would place the proposed practice in the second most profitable quartile relative to other surveyed Ontario practices.

The financial projections for the very conservative estimate of market penetration would place the proposed practice in the third most profitable quartile relative to other surveyed Ontario practices.

Comparison of conservative market penetration scenario to Ontario Veterinary Medical Association data collected in the 1998 Economic Survey

	Proposed Hospital Year 5		OVMA Data			
			Least Efficient	Inefficient	Efficient	Most Efficient
Gross Income	\$590,069		\$484,985.00	\$545,260.00	\$824,561.00	\$658,852.00
Drugs and Supplies	\$147,517	25.00%	26.70%	20.80%	23.10%	16.90%
Wages and Benefits	\$117,729	19.95%	24.00%	20.70%	17.60%	14.70%
Rent/Occ. Cost	\$60,637	10.28%	8.70%	7.60%	6.10%	4.80%
Prof. Serv./Locum	\$0	0.00%	6.20%	2.60%	1.60%	1.30%
Office	\$3,819	0.65%	3.20%	4.10%	0.30%	2.30%
Bank Chrg / Interest	\$4,466	0.76%	2.80%	2.60%	1.90%	1.10%
Utilities/Phone	\$6,909	1.17%	2.20%	2.50%	1.60%	1.30%
Lab Fees/X-ray	\$0	0.00%	1.80%	1.30%	0.90%	1.20%
Repairs	\$1,273	0.22%	1.60%	2.10%	1.30%	0.90%
Other	\$2,185	0.37%	1.60%	1.00%	1.10%	0.70%
Profess Dues		0.00%	1.30%	1.40%	0.90%	1.10%
Advertising	\$2,546	0.43%	1.00%	0.90%	0.80%	0.50%
Vehicle	\$0	0.00%	0.90%	0.70%	0.20%	0.20%
Equipment Rental		0.00%	0.50%	0.60%	0.50%	0.30%
Bad Debts	\$206	0.03%	0.50%	0.60%	0.50%	0.30%
Grooming	\$0	0.00%	0.20%	0.10%	0.00%	0.20%
Total Expenses	\$347,287	58.86%	87.80%	72.00%	63.00%	48.70%

2 Arhtur Anderson Business Consulting, *The 1998 OVMA Economic Survey*, Ontario Veterinary Medical Association, December 1998



Comparison of very conservative market penetration scenario to Ontario Veterinary Medical Association data collected in the 1998 Economic Survey

	Proposed Hospital Year 5		OVMA Data			
			Least Efficient	Inefficient	Efficient	Most Efficient
Gross Income	\$ 451,771.45		\$484,985.00	\$545,260.00	\$824,561.00	\$658,852.00
Drugs and Supplies	\$ 112,942.86	25.00%	26.70%	20.80%	23.10%	16.90%
Wages and Benefits	\$ 90,136.10	19.95%	24.00%	20.70%	17.60%	14.70%
Rent/Occ. Cost	\$ 60,636.53	13.42%	8.70%	7.60%	6.10%	4.80%
Prof. Serv./Locum	\$ -	0.00%	6.20%	2.60%	1.60%	1.30%
Office	\$ 3,819.24	0.85%	3.20%	4.10%	0.30%	2.30%
Bank Chrg / Interest	\$ 4,465.55	0.99%	2.80%	2.60%	1.90%	1.10%
Utilities/Phone	\$ 6,909.24	1.53%	2.20%	2.50%	1.60%	1.30%
Lab Fees/X-ray	\$ -	0.00%	1.80%	1.30%	0.90%	1.20%
Repairs	\$ 1,273.08	0.28%	1.60%	2.10%	1.30%	0.90%
Other	\$ 2,185.45	0.48%	1.60%	1.00%	1.10%	0.70%
Profess Dues		0.00%	1.30%	1.40%	0.90%	1.10%
Advertising	\$ 2,546.16	0.56%	1.00%	0.90%	0.80%	0.50%
Vehicle	\$ -	0.00%	0.90%	0.70%	0.20%	0.20%
Equipment Rental		0.00%	0.50%	0.60%	0.50%	0.30%
Bad Debts	\$ 157.89	0.03%	0.50%	0.60%	0.50%	0.30%
Grooming	\$ -	0.00%	0.20%	0.10%	0.00%	0.20%
Total Expenses	\$ 285,072.11	63.10%	87.80%	72.00%	63.00%	48.70%

Summary

Diligence paid to professional and business management will result in significant market share for a new practice within the town of Someplace. Conservative projections of market penetration predict that the proposed practice will be financially successful, and create significant earnings over many years as well as substantial worth in the value of the proposed practice.