

# Consolidation and Future of Specialty Practices

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# Thank You!

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# Increased Consolidation Over Last Ten Years


- VCA
  - 83 hospitals provide referral care
  - 400+ specialists
- Blue Pearl
  - 50 locations
  - 600+ veterinarians (emergency/specialty)
- Eye Care for Animals
  - 50 locations
  - 43 specialists




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# Increased Consolidation Over Last Ten Years

- MOON Collaborative
  - 9 member practices
  - 4 merging—services in 4 markets/13 locations
- Veterinary Specialists of NA
  - Red Bank Veterinary Hospital and others
  - Quad C majority owner
- PetVet Care Centers
  - 11 specialty hospitals
  - Acquired by Ontario Teachers Pension Plan



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**What are concerns about corporate buyers?**



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## What Do You Want?

- Money
  - Will get more with corporate buyer
- Legacy
  - Must recognize will leave money on the table
  - Could be risking legacy if buyers not qualified to manage practice
- What else do you want?

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## Sale Options

- Associate: where does \$\$ come from?
  - Personal/family funds
  - Bank financing
  - Seller financing
  - Non-bank financing

- Corporate veterinary group: full/partial
- Private equity: full/partial
- Other?

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## Size Matters

- Practice revenue
  - Up to \$5 million
  - \$10 million
  - Bigger
- % sale to associates
  - Small (keep good quality people)
  - Larger (real management interest)

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## Associate Purchase: Up to \$5 Million Practice

- Conventional loan (in veterinary world)
  - Typically \$1,000,000 or less, can be more
  - Generally finance up to 85% of gross revenue
  - Can use seller note to meet 15% contribution
  - Less of an option as practices get bigger
- SBA 7(a)
  - Max limit \$5 million
  - Intangible assets (goodwill) <\$500,000 generally 90 to 100% financing available
  - Intangible assets >\$500,000 generally require 25% equity

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## Associate Purchase: Small %

- Primary goal is to keep good quality people
- 1-5%
- Issues in financing
  - Bank—almost always will require corporate guarantee or lien on assets
  - Seller—need enforceable legal documents
- Seller should retain right to sell majority and force minority owner sales
- Still have the problem of who majority owner will be
- Is there another way to keep doctors?

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## Associate Purchase of Majority Interest: Bank Financing

- Exists at all?
  - Must pursue with multiple banks
  - Likely outside the typical veterinary financing arm
  - Will be very time-consuming and complicated to put together
  - Will require down payment?
  - Would owner-financing of down payment be ok?
  - If partial purchase, will require corporate guarantee or unencumbered asset lien

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## Associate Purchase of Majority Interest: Bank Financing

- Exists at all?
  - Gets more complicated with multiple associates buying in at different times
  - Are associates interested in and groomed for management?
  - Does the practice have a management structure that will lead to associate success?
    - Management doesn't rely on current veterinary owners
    - Have professional manager and board of directors
    - New owners that can work together



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## Associate Purchase of Majority Interest: Seller Financing

- Risky!
  - Practice is collateral
- Can you get...
  - Down payment
  - Personal guarantee
  - Other collateral
- Will be very time-consuming and complicated to put together



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## Associate Purchase of Majority Interest: Seller Financing

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## Non-Bank Financing

- Provided via established companies who have capability to consistently provide funding
- No legal regulations regarding use, terms
- Financing company will have expectations
- Full or partial financing possible?



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## Non-Bank Financing: Borrower Considerations

- Interest rates can be high
  - 10-12% recently quoted
- Project must be worth the cost
  - Superior investment
  - Ability to pay off high interest loan ASAP
  - Impact on value of practice? On price borrower willing to pay?



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## Private Equity

- Lots of interest in veterinary medicine
- PE investment currently exists in specialty medicine
  - "Corporate" groups
  - "Non-corporate" groups
  - Where is the line between the two?
- Must have a strong management structure



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## Private Equity

- Partial or full purchase?
- What changes will you have to make for equity money?
  - Impacts your legacy?
- Will be complicated and time-consuming



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## Sell the Real Estate Separately

- Doesn't solve the practice sale problem but offers more options
- Need to sell to decent landlord and get long-term lease
- Don't sell separately if will impact sale of practice



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## Summary

- Corporate sale
  - Currently the most structured, easiest path
  - Purchase price will be higher than associate buy-in
  - Purchase price compared to equity?
- All other options harder and more time-consuming and may not be possible



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## What Corporate Buyers Want

- Revenue growth
- Good location
- "Successful"
- Adjusted net income (profits)—want it to be healthy or easy to fix without them looking like the bad guys
- Proximity to other practices they own can be a +
- Strong management structure or willingness of owners/management team to stay



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## What Corporate Buyers Want

- Desirable lease terms—rent may be low
  - Generally don't buy RE
- Reasonable doctor compensation and benefits
- Doctor non-competes (if allowed)
- Expectations that doctors and staff will stay following sale
- Reasonable staffing costs
- Owner willingness to negotiate a fair deal



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## What You Get from a Corporate Buyer

- Price paid will be better than sale to individual buyer
- Generally asset purchases but might purchase your C corporation
- Management structure
- Deals can be quick



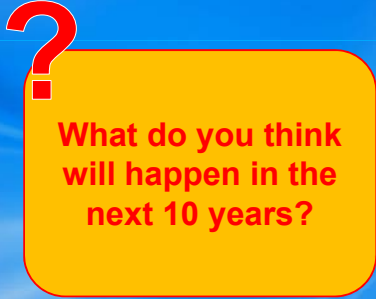
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## Cautions-Corporate Buyers

- Be sure you understand their employment provisions—usually can't leave right away
- The agreements are very complex
  - Have an attorney who understands these sales on your side and make sure you understand every word of the deal
- Will generally have to follow the corporate philosophy—this is a very hard adaptation for some sellers

**You have room to negotiate if they really want your practice**


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**What do you think will happen in the next 10 years?**

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## The End



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